

Downgrades to North American economic growth

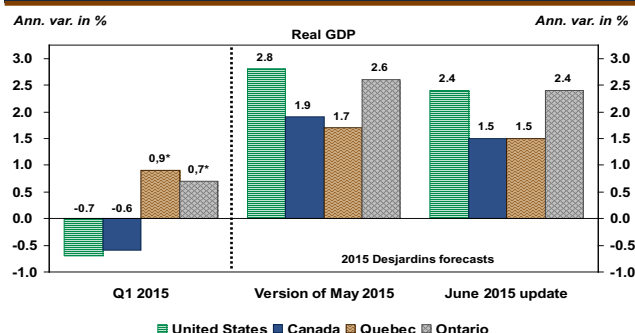
HIGHLIGHTS

- The U.S. economy experienced a number of problems in the first quarter. It is expected to rebound following the real GDP contraction. The weakness early in the year will still have a big impact on economic growth: an increase of just 2.4% is now forecast for 2015. Faster growth of 3.0% is expected next year. Global economic growth will also be slower than anticipated this year (+3.3%), with an acceleration expected for 2016 (+3.9%).
- The target range for U.S. federal funds should not go up before September's meeting; after that, key rates will rise very slowly. As Canada's economic difficulties seem to be worse than previously anticipated, the Bank of Canada (BoC) should not initiate monetary firming until the very end of 2016. The BoC could adopt a more concerned tone shortly; this would put downside pressure on the loonie and Canadian bond yields. The BoC could even make a surprise move to lower its key rates again.
- Given that Canadian real GDP pulled back in the first quarter, growth could be just 1.5% in 2015, rather than the previously forecast 1.9%. The energy sector's difficulties will take the three producer provinces into recession this year, while a number of others will capitalize on the upswing in manufacturing. Growth should pick up to 2.2% in 2016, once the adverse effects of the drop in oil prices have waned further.
- In Quebec, despite some weak statistics at the start of the year, real GDP should tick up in the first quarter. The fairly slow start should then give way to faster growth. Real GDP growth will be just 1.5% in 2015, rather than the previously forecast 1.7%. The economy will hit 1.7% in 2016, when investment finally starts to rise.
- Ontario should benefit from a real GDP increase of 2.4% in 2015. The manufacturing sector will make a significant contribution to growth. The economy should maintain a good pace in 2016, while a 2.5% increase in real GDP is anticipated.

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First-quarter weakness in North America prompts downgrades for 2015



* Quebec and Ontario forecasts, results will be available soon.
Sources: Datastream, Institut de la statistique du Québec, Ontario's Ministry of Finance, Statistics Canada and Desjardins, Economic Studies

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Table 1
World GDP growth (adjusted for PPP*) and inflation rate

Country or zone	Weight** (%)	Real GDP growth (%)			Inflation rate (%)		
		2014	2015f	2016f	2014	2015f	2016f
Advanced economies	40.8	1.7	2.0	2.4	1.4	0.5	1.8
United States	16.5	2.4	2.4	3.0	1.6	0.4	2.3
Canada	1.5	2.4	1.5	2.2	2.0	1.0	1.9
Quebec	0.4	1.3	1.5	1.7	1.4	1.3	1.9
Ontario	0.7	2.2	2.4	2.5	2.4	1.1	2.1
Japan	4.5	-0.1	1.3	1.4	2.7	0.6	1.0
United Kingdom	2.3	2.8	2.2	2.5	1.5	0.3	1.6
Euro zone	12.1	0.9	1.5	1.7	0.4	0.2	1.2
Germany	3.4	1.6	1.8	2.0	0.9	0.4	1.6
France	2.4	0.2	1.3	1.4	0.5	0.2	1.1
Italy	2.0	-0.4	0.7	1.1	0.2	0.1	0.9
Other countries	4.2	1.4	1.3	1.5	1.0	0.7	1.3
Australia	1.0	2.7	2.7	3.0	2.5	1.8	2.7
Emerging and developing economies	59.2	4.5	4.2	4.9	5.1	5.3	4.7
North Asia	23.7	7.1	6.9	6.9	2.8	2.0	2.5
China	15.9	7.4	6.9	6.8	2.0	1.4	1.9
India	6.7	7.1	7.5	7.5	7.3	5.3	5.5
South Asia	5.0	4.3	4.8	5.2	4.1	3.2	3.5
Latin America	7.1	1.2	0.6	2.2	10.3	13.9	10.2
Mexico	2.0	2.1	2.8	3.4	4.0	3.0	3.4
Brazil	3.0	0.2	-1.2	1.2	6.3	8.0	5.5
Eastern Europe	7.7	1.6	-0.5	2.0	6.0	8.7	5.5
Russia	3.4	0.6	-3.6	0.4	7.8	12.3	6.8
Other countries	15.6	3.4	3.5	3.9	7.5	5.6	6.8
South Africa	0.7	1.5	2.1	2.7	6.4	4.7	5.8
World	100.0	3.3	3.3	3.9	2.9	2.5	3.0

f: forecasts; * Purchasing power parities: Exchange rate that equates the costs of a broad basket of goods and services across countries; ** 2013.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

RISKS INHERENT IN OUR SCENARIOS

The recent weakness in emerging economies remains a source of concern. A decline or extended stagnation by Europe's economy and persisting geopolitical risks, including the risk of a default on payment of Greece's debt, could also throw a monkey wrench into the global economy. In the United States, the situation is vulnerable to downside factors, as the economy contracted in early 2015. Consumer caution, the adverse effects of the drop in oil sector investment and the strong U.S. dollar could keep real GDP from rebounding. Partisan conflict over federal budget policy could arise as of the fall. In Canada, economic growth could be further impacted by the adverse consequences of the drop in oil prices. The rise by non-energy exports could also run out of steam, especially if the U.S. economy fails to strengthen. The real estate market remains troubling, and households

are still carrying large debt loads. In Quebec, business confidence remains low; this could delay the return by investment. Also, weak economic growth in the first quarter may not pick up speed as expected, resulting in another disappointment for 2015. As for the financial markets, the Greek matter and uncertainty about the evolution of U.S. monetary policy could keep volatility high. The negotiations surrounding Iran's nuclear program constitute a big downside risk for oil prices.


Table 2
Summary of the financial forecasts

End of period in % (except if indicated)	2014		2015				2016			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50
Canada	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00
Euro zone	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
United States – Federal bonds										
2-year	0.56	0.63	0.54	0.70	1.00	1.20	1.30	1.50	1.65	1.80
5-year	1.77	1.64	1.37	1.70	1.90	2.00	2.05	2.20	2.30	2.45
10-year	2.51	2.17	1.93	2.35	2.45	2.50	2.55	2.65	2.75	2.90
30-year	3.21	2.75	2.54	3.10	3.15	3.15	3.20	3.25	3.30	3.35
Canada – Federal bonds										
2-year	1.12	1.01	0.50	0.60	0.75	0.90	1.00	1.10	1.25	1.45
5-year	1.63	1.34	0.76	0.95	1.25	1.45	1.55	1.65	1.80	2.00
10-year	2.15	1.79	1.36	1.80	1.90	1.90	1.95	2.05	2.20	2.40
30-year	2.67	2.34	1.98	2.40	2.50	2.55	2.60	2.65	2.70	2.75
Currency market										
Canadian dollar (USD/CAD)	1.12	1.16	1.27	1.25	1.28	1.27	1.25	1.23	1.22	1.19
Canadian dollar (CAD/USD)	0.89	0.86	0.79	0.80	0.78	0.79	0.80	0.81	0.82	0.84
Euro (EUR/USD)	1.26	1.21	1.07	1.10	1.04	1.05	1.06	1.09	1.11	1.14
British pound (GBP/USD)	1.62	1.56	1.48	1.53	1.48	1.48	1.51	1.55	1.56	1.56
Yen (USD/JPY)	110	120	120	122	125	125	126	127	128	127
Stock markets* (level and growth)										
United States (S&P 500)	2,059			Target: 2,200 (+6.9%)			Target: 2,330 (+5.9%)			
Canada (S&P/TSX)	14,632			Target: 15,400 (+5.2%)			Target: 16,600 (+7.8%)			
Commodities (annual average)										
WTI** oil (US\$/barrel)	93 (53**)			54 (60**)			68 (75**)			
Gold (US\$/ounce)	1,266 (1,186**)			1,190 (1,150**)			1,100 (1,050**)			

f: forecasts; * End of year; ** West Texas Intermediate.

Sources: Datastream and Desjardins, Economic Studies

FINANCIAL FORECASTS

Following a lull, bond yields started to trend up sharply in early June. The German 10-year yield recently closed in on 1.00%, while its U.S. counterpart hit 2.50%. Although Canada's GDP posted a worrisome retreat, Canadian bond yields have also shot up. Trends in the stock and currency markets have been fuzzier recently, with investors responding to the evolving negotiations between Greece and its creditors.

The recent spike in bond yields is not based on rising oil prices, which are still around US\$60/barrel. Rather, good U.S. economic data is now putting upside pressure on bond yields by increasing the likelihood that the Federal Reserve will kick off monetary firming before the end of the year. We therefore continue to expect two 0.25% key rate increases in the United States by the end

of 2015, probably starting with the September meeting. This should foster further greenback appreciation, which could sap commodity prices. As Canada's economic difficulties seem to be worse than previously anticipated, the Bank of Canada (BoC) should not initiate monetary firming until the very end of 2016. The BoC could adopt a more concerned tone shortly; this would put downside pressure on the loonie and Canadian bond yields. The BoC could even make a surprise move to lower its key rates again.

OVERSEAS

The euro zone's economy is gradually accelerating

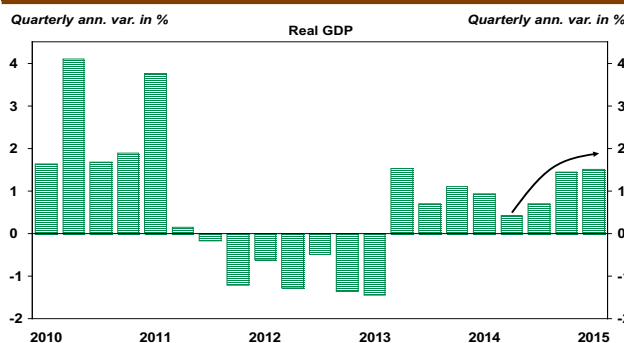
Forecasts: The drop in oil prices did not give the global economy as much stimulus as expected; soft U.S. growth at the start of the year was another disappointing factor. However, Euroland's economy is doing better, showing some modest signs of accelerating from quarter to quarter. Inflation there is on the rise and negative interest rates are scarcer. We have raised our annual growth forecasts for the euro zone's real GDP. For its part, Britain's economy is less lively. In Japan, growth was surprisingly strong in the first quarter, and the forecasts have been upgraded. Among the primary emerging countries, India is in the lead, while China continues to slow and the economies are contracting in Brazil and Russia. The world's real GDP should expand 3.3% in 2015, down from our previous forecasts, and 3.9% in 2016.

ADVANCED ECONOMIES

In the euro zone, growth has been improving steadily over the last several quarters. In Q3 2014, annualized real GDP growth was 0.7%; it doubled to 1.4% last fall, and rose to 1.5% in the first quarter of 2015 (graph 1). Several components of real GDP supported growth at the start of the year. Consumption advanced 1.9%, similar to the previous three quarters. In particular, investment posted its best growth since the spring of 2013, while government expenditures made their biggest contribution since 2009. The change in inventories also supported first-quarter growth after making negative or zero contributions for five straight quarters. Among the euro zone nations, growth in France and Italy has picked up speed, while Germany has slowed following last fall's solid performance. Greece seems to be sliding back into recession, a situation that will not be helped by the ongoing uncertainty about the negotiations over the financial assistance Greece still needs.

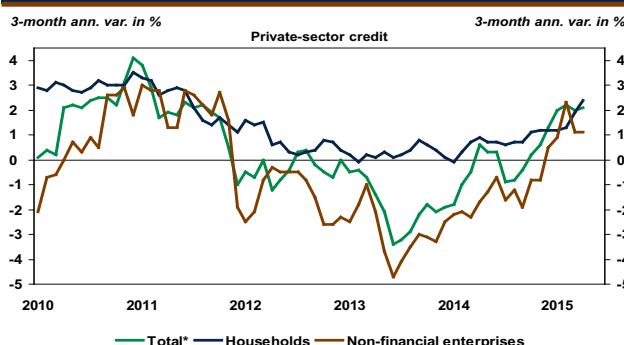
Of the factors reflecting the better situation in the euro zone, credit is still rising (graph 2). Inflation is also back in positive territory after having dropped below zero for several months. The fears of persistent deflation are becoming more remote and markets are more energized after having posted negative yields on several bond maturities in a variety of countries. It seems like the euro zone's economy will continue its modest improvement. The PMI indexes have been flat for several months but are not dropping. The jobless rate remains high, but is slowly coming down. The trade balance improvement seems to be getting back on tracks (graph 3). We expect real GDP growth of 1.5%

Graph 1 – Economic growth is showing modest signs of improvement in the euro zone



Sources: Eurostat and Desjardins, Economic Studies

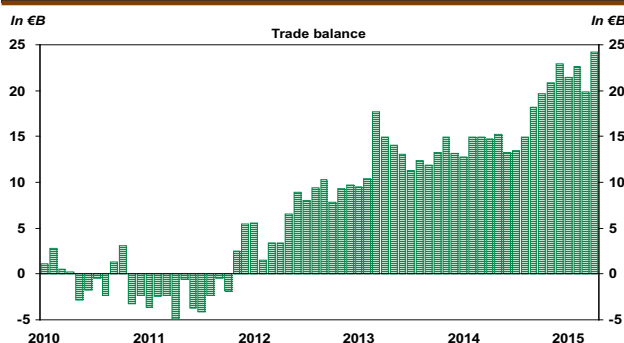
Graph 2 – Credit accelerates further in the euro zone



* Includes non-bank financial institutions.

Sources: European Central Bank and Desjardins, Economic Studies

Graph 3 – After pausing, Euroland's trade balance has started to improve again



Sources: Eurostat and Desjardins, Economic Studies



in 2015 and 1.7% in 2016, better than forecast before the results for the first quarter were released.

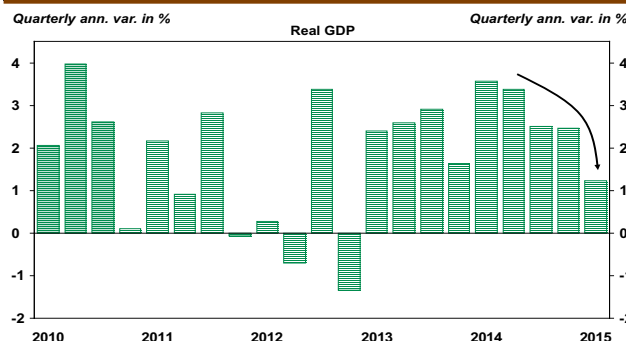
In the United Kingdom, real GDP growth slowed somewhat in the first quarter, rising by just 1.2% (annualized), half of the growth posted in the previous two quarters and quite distant from the nearly 3.5% recorded at the start of 2014 (graph 4). The pound's appreciation has had a hand in the slower performance, with net exports taking a 3.1 percentage point bite out of growth. However, the domestic economy, especially retail sales and industrial output, is doing better and the unemployment rate is falling steadily. The forecast for 2015's real GDP growth has been trimmed to 2.2%, with a 2.5% increase forecast for 2016.

Japan's economy picked up speed at the start of 2015. Its annualized 3.9% real GDP growth contrasts with the short recession that arose last year after the sales tax increase and the weak 1.2% growth seen in the fall of 2014 (graph 5). Although the yen has depreciated, net exports are not responsible for the growth, which mainly comes from better investment growth—promising for the next few quarters. After declining 0.1% in 2014, real GDP should grow 1.3% in 2015 and 1.4% in 2016.

EMERGING ECONOMIES

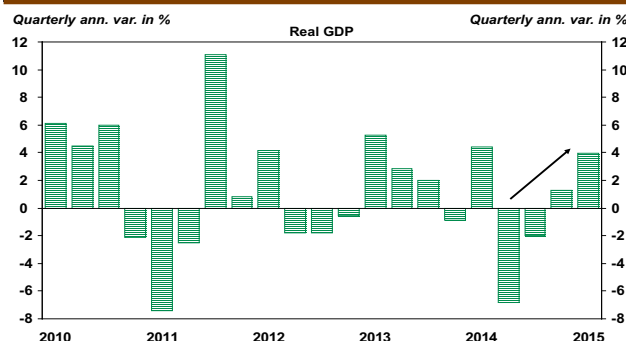
Once again, India is leading the major emerging countries. Growth there should be around 7.5% this year and next. China is still slowing. Monetary authorities are trying to curb the weakness through a variety of monetary policy stimulus measures. The easing is particularly affecting the Chinese stock markets, which have heated up recently since the beginning of the year (graph 6). Growth by Chinese retail sales and industrial output seems to have stabilized in the last few months. The situation remains difficult in Brazil and Russia, which both posted real GDP contractions in the first quarter.

Graph 4 – The British economy slows



Sources: Office for National Statistics and Desjardins, Economic Studies

Graph 5 – Japan's economy improved in early 2015



Sources: Office for National Statistics and Desjardins, Economic Studies

Graph 6 – China's stock market is surging despite slower economic growth



Sources: Datastream and Desjardins, Economic Studies



UNITED STATES

A spring rebound is possible

Forecasts: The U.S. economy ran into a number of problems in the first quarter, recording an astonishing real GDP contraction. However, the situation seems to be improving and growth is expected to rebound for the spring. The weakness early in the year will still have a big impact on real GDP growth: an increase of just 2.4% is now forecast for 2015 as a whole. Faster growth of 3.0% is still expected next year.

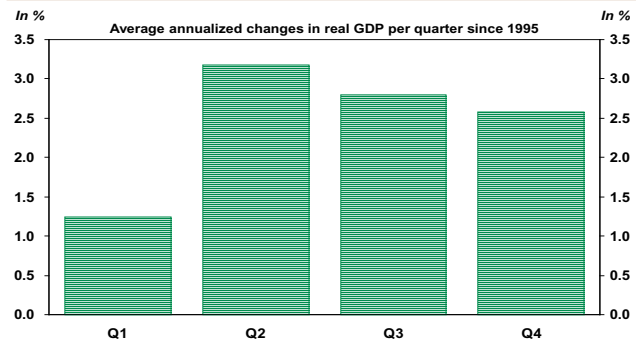
Several factors impacted real GDP growth in the first quarter. The harsh weather, the labour dispute at West Coast ports that ran from December to the end of February, the greenback's rise and sharp drop in oil sector investment all hurt the economy, bringing real GDP down by 0.7% (annualized). This is the second winter in a row the U.S. economy has contracted. In fact, growth is generally weaker in the first quarter of every year (graph 7). The body that publishes the national accounts is aware of the divergence; the annual revision to the national accounts, which takes place at the end of July, is expected to introduce some changes there.

Thankfully, the situation promises to be better for the spring. A number of the figures for March and April remained disappointing, but the first signs for May are much more promising. For example, auto sales hit their highest point since July 2005 (graph 8). Job growth has also strengthened since March's passing weakness and April's fairly tepid rebound. Until the start of the spring, consumers were opting to save the money freed up by lower gas prices. They could now be more inclined to spend.

One of the factors that hurt growth the most at the start of the year was the erosion of net exports. Taking a double-barrel hit from the labour dispute at the ports and the greenback's rise, foreign trade took 1.9 percentage points out of real GDP growth in the first quarter. Initially, the end of the labour dispute made imports spike in March, but they pulled back as of April, while exports were up (graph 9). If the trend does not change too much in the coming months, we can expect foreign trade to make a good contribution to real GDP growth in Q2.

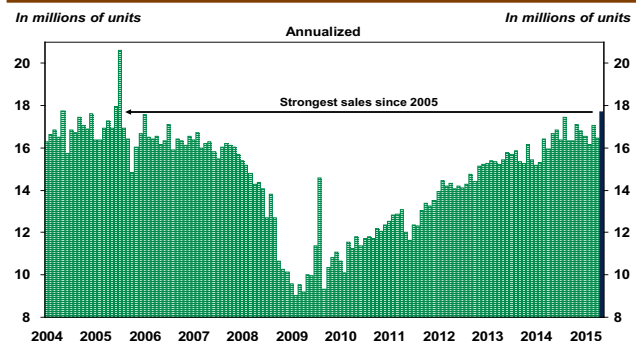
Another sector that should help is the housing market, which seems to be coming out of hibernation. Housing

Graph 7 – U.S. real GDP growth is usually weaker in the first quarter



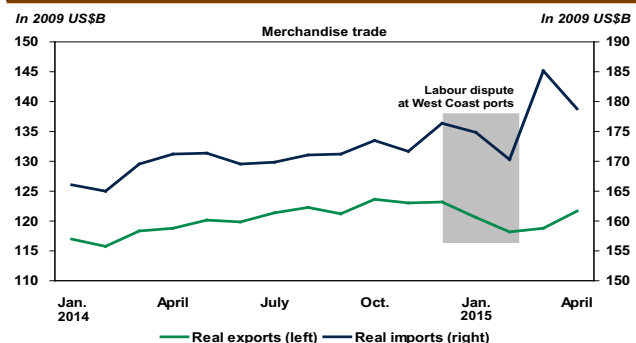
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 8 – U.S. new motor vehicle sales jumped in May



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 9 – Imports spiked temporarily after the labour dispute at U.S. West Coast ports was resolved



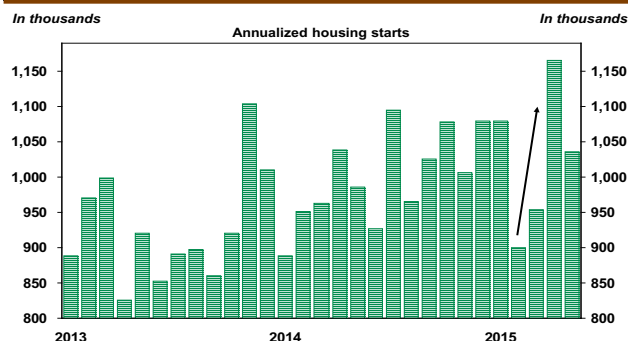
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

starts shot up in April (graph 10) and home sales are also doing fairly well, with existing home prices rising steadily over the last few months. Residential investment could rise by an annualized 20% in the second quarter.

For business investment, the situation is more uncertain, with the signals still mixed. The non-manufacturing ISM remains high, but the manufacturing ISM is fairly weak, although it improved that month. In the United States, drilling is still down sharply, signalling that the oil sector will continue to curb investment growth.

In the United States, inflation seems to have hit bottom. The annual change in the consumer price index dropped to -0.2% in April, and should now rise, boosted by the recent increase in gas prices. Core inflation remains fairly weak, however, reined in by the greenback's upswing, among other things. This factor, combined with the economic contraction at the start of the year and ongoing modest wage growth, will prompt the Federal Reserve to assess the situation over the summer. The target range for federal funds should not go up before September's meeting; after that, key rates will rise very slowly.

Graph 10 – In the United States, housing starts rebounded after the harsh winter



Sources: U.S. Census Bureau and Desjardins, Economic Studies

Table 3
United States: major economic indicators

	2014		2015				Annual average			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	2013	2014	2015f	2016f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	5.0	2.2	-0.7	3.1	3.7	3.5	2.2	2.4	2.4	3.0
Personal cons. expenditures	3.2	4.4	1.8	2.8	3.0	2.9	2.4	2.5	2.9	2.8
Residential construction	3.3	3.8	4.9	24.0	13.6	14.9	11.9	1.6	9.9	9.1
Business fixed investment	8.9	4.7	-2.8	-0.4	9.1	8.0	3.0	6.3	3.3	6.3
Inventory change (\$B)	82.2	80.0	95.0	80.0	75.0	75.0	63.6	70.6	81.3	70.0
Public expenditures	4.4	-1.9	-1.1	2.0	1.4	1.2	-2.0	-0.2	0.6	1.5
Exports	4.6	4.5	-7.6	10.0	3.5	3.0	3.0	3.2	2.5	3.5
Imports	-0.9	10.4	5.6	5.0	3.5	3.5	1.1	4.0	5.4	4.1
Final domestic demand	4.1	3.3	0.8	2.9	3.8	3.6	1.9	2.5	2.8	3.2
Other indicators										
Nominal gross domestic product	6.4	2.4	-0.9	4.3	5.3	4.7	3.7	3.9	3.2	4.8
Real disposable personal income	2.4	3.7	5.8	2.5	2.5	2.1	-0.2	2.5	3.5	2.5
Employment (establishments)	2.2	2.5	2.2	1.8	1.9	1.7	1.7	1.9	2.1	1.7
Unemployment rate (%)	6.1	5.7	5.6	5.5	5.4	5.4	7.4	6.2	5.5	5.2
Housing starts (1)	1,029	1,055	978	1,142	1,128	1,138	928	1,001	1,097	1,196
Corporate profits** (2)	1.4	-0.2	3.7	-2.0	-2.0	1.0	4.2	-0.8	0.1	8.0
Personal saving rate (%)	4.8	4.6	5.5	5.5	5.4	5.3	4.9	4.9	5.4	5.3
Total inflation rate (2)	1.8	1.2	-0.1	0.0	0.3	1.2	1.5	1.6	0.4	2.3
Core inflation rate*** (2)	1.8	1.7	1.7	1.8	1.8	1.8	1.8	1.7	1.8	2.1
Current account balance (\$B)	-391.6	-412.6	-453.3	-429.9	-433.8	-440.3	-376.8	-389.5	-439.3	-468.9

f: forecasts; * 2005 US\$; ** Before taxes; *** Excluding food and energy; (1) Thousands of units on an annualized basis; (2) Annual change.

Sources: Datastream and Desjardins, Economic Studies

CANADA

The problems are larger than anticipated

Forecasts: Given the first half's disappointing results, the 2015 growth forecast for Canada's economy has been trimmed again, from 1.9% to 1.5%. Next year, growth is forecast to be 2.2%, similar to the previous projection.

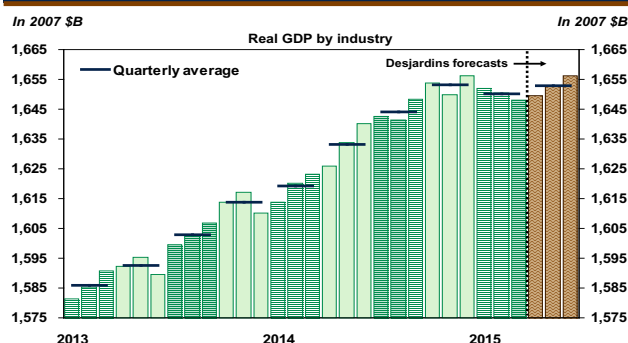
Real GDP fell by a quarterly annualized 0.6% in Q1 of 2015, much more than expected. Non-residential investment plunged on the troubles in the energy sector; in addition, consumer spending was hit by a sharp retreat by durable goods purchasing. Exports also edged down as numerous temporary issues hampered U.S. demand.

Although expected to get back into positive territory in the second quarter, the outlook is not very good. For one thing, the carryover is low due to the decline in real GDP by industry in the early months of 2015 (graph 11). For another, the energy sector's troubles are not over, even though crude prices have stabilized in the last few months. Under the circumstances, it will be difficult for economic growth to exceed the 1% mark in the second quarter.

The outlook for real GDP growth is higher for the second half of 2015, however. U.S. demand should start to trend up again after overcoming last winter's one-off difficulties. As a result, exports should once again start making a substantial contribution to Canadian economic growth (graph 12). Consumer spending should also rise substantially in the months to come. Household income is on the upswing, and consumer confidence is fairly good, holding close to its historic average. Oil prices are expected to rise gradually; although slow, this should enable some stabilization in energy production. For non-residential investment, the coming months are more uncertain. In the energy sector, low oil prices will continue to impact capital spending for several months; however, manufacturing could eventually boost investment as numerous manufacturers will be dealing with improved demand.

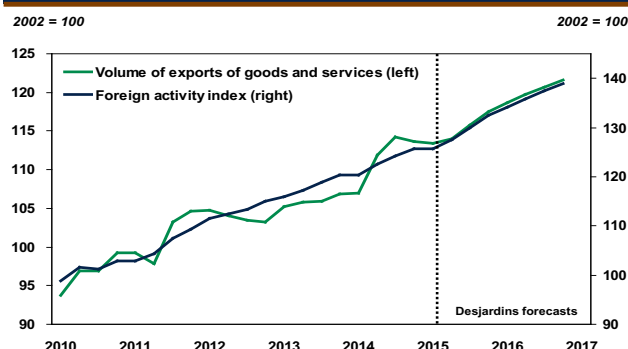
The first quarter's real GDP contraction and downside revision to the growth forecast for spring mean we are lowering our forecast for 2015 as a whole. Canada's real GDP may only grow 1.5% in 2015, rather than the previously forecast 1.9%. Growth should pick up to 2.2% in 2016, once the adverse effects of the drop in oil prices have waned further.

Graph 11 – Very small carryover for the second quarter in Canada



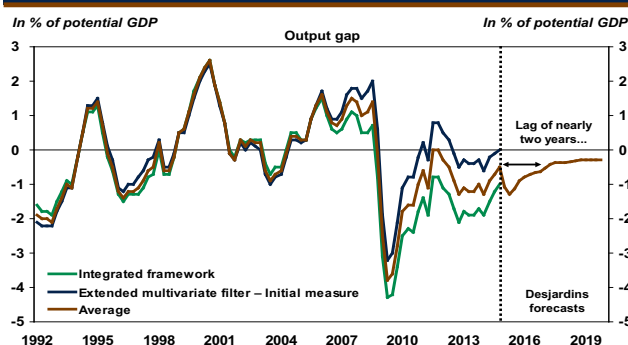
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 12 – The trend for Canadian exports should stay fairly good



Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

Graph 13 – The return to full capacity is delayed in Canada



Sources: Bank of Canada, Statistics Canada and Desjardins, Economic Studies



The disappointing economic results for the first half of 2015 will also affect excess production capacity for the entire Canadian economy. The Bank of Canada's estimate for potential output is 1.8% for 2015, so the output gap will widen. According to our estimates, it will take about two years to recoup the ground lost in the first half of 2015 and get back to the level recorded at the end of 2014 (graph 13 on page 8).

The existence of greater surplus production capacity will ease inflationary pressure in Canada somewhat. This has prompted a downside revision to our inflation forecast, particularly for 2016, when the turbulence associated with the blips in oil prices will be behind us. Monetary authorities will thus have some leeway to wait several quarters before starting to raise key interest rates. In the meantime, the possibility of a further BoC interest rate cut before the end of 2015 cannot be entirely ruled out if there are further disappointments from economic growth.

Table 4
Canada: major economic indicators

	2014		2015				Annual average			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	2013	2014	2015f	2016f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	3.2	2.2	-0.6	0.8	2.5	2.7	2.0	2.4	1.5	2.2
Final consumption expenditure [of which:]	1.7	1.8	0.1	2.1	1.7	1.8	1.9	2.0	1.5	1.7
Household consumption expenditure	2.7	2.1	0.4	3.2	2.4	2.3	2.5	2.7	2.1	2.1
Governments consumption expenditure	-0.9	1.0	-0.8	-0.5	0.0	0.5	0.4	0.2	-0.1	0.7
Gross fixed capital formation [of which:]	5.7	1.0	-7.0	-3.4	-0.3	2.2	0.4	0.2	-1.5	2.4
Residential structures	11.8	0.3	4.0	-0.6	-1.4	-1.0	-0.4	2.7	2.7	-0.7
Non-residential structures	0.9	-1.7	-19.7	-10.0	0.0	4.0	5.0	-0.1	-7.1	4.0
Machinery and equipment	10.2	-2.5	-7.4	-5.0	-2.5	4.0	-1.7	1.0	-2.0	4.7
Intellectual property products	7.1	13.1	-21.2	8.0	4.0	4.5	-4.6	-2.7	-2.4	3.9
Governments gross fixed capital formation	-0.7	5.9	8.0	0.0	1.0	1.5	-1.6	-2.7	3.0	0.9
Investment in inventories (2007 \$B)	1.2	8.5	11.5	9.5	9.0	8.5	12.4	7.5	9.6	8.8
Exports	8.4	-1.7	-1.1	2.5	6.5	6.0	2.0	5.4	3.2	4.3
Imports	4.2	1.6	-1.5	1.0	2.0	3.0	1.3	1.8	1.7	2.9
Final domestic demand	2.6	1.6	-1.6	0.8	1.3	1.9	1.5	1.6	0.8	1.9
Other indicators										
Nominal gross domestic product	4.4	0.4	-2.9	1.3	4.5	5.7	3.4	4.3	1.3	5.0
Real disposable personal income	2.2	1.9	6.2	1.5	3.0	2.5	2.5	1.5	3.0	2.4
Employment	0.7	1.6	0.7	0.7	0.4	0.8	1.5	0.6	0.8	0.9
Unemployment rate (%)	7.0	6.7	6.7	6.8	6.9	6.8	7.1	6.9	6.8	6.6
Housing starts (1)	199	184	175	192	185	178	188	189	182	180
Corporate profits** (2)	9.7	6.2	-10.8	-8.0	-7.0	-2.0	-0.6	8.8	-6.9	7.7
Personal saving rate (%)	3.7	3.6	5.0	4.6	4.7	4.8	5.2	4.0	4.8	5.1
Total inflation rate (2)	2.1	1.9	1.1	0.8	1.0	1.4	0.9	2.0	1.0	1.9
Core inflation rate*** (2)	2.0	2.2	2.2	2.2	2.1	2.2	1.3	1.8	2.1	1.9
Current account balance (\$B)	-9.0	-13.1	-17.5	-16.5	-14.0	-11.0	-56.3	-41.5	-59.0	-39.0

f: forecasts; * 2007 \$; ** Before taxes; *** Excluding the eight most volatile; (1) Thousands of units on an annualized basis; (2) Annual change.

Sources: Datastream and Desjardins, Economic Studies

QUEBEC

The economy is taking its time in accelerating

Forecasts: Despite some weak economic statistics at the start of the year, real GDP should tick up in the first quarter. The fairly slow start should then give way to faster growth. Real GDP growth will be just 1.5% in 2015, rather than the previously forecast 1.7%. The economy should hit 1.7% in 2016, when investment finally starts to rise.

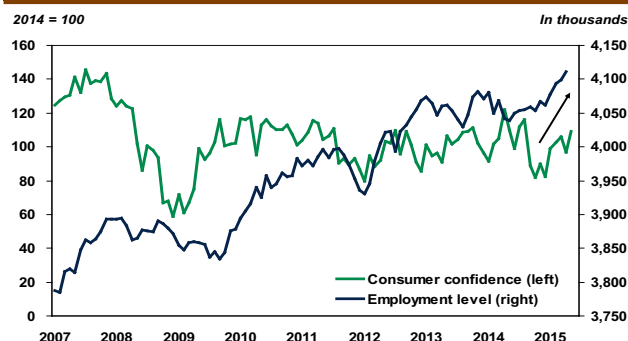
The first quarter looks fairly weak for Quebec's economy. The harsh winter had a negative impact on some statistics, particularly housing starts and retail sales. The rise by electricity output saved the day. Economic activity grew 0.3% in January, then ticked down 0.1% in February. This means the carryover is positive and the annualized change in real GDP should go near 1.0% in the first quarter.

At last, the statistics are better for consumers. The confidence index has slowly risen close to its historic average, buoyed by strong job creation (graph 14). The number of workers dropped slightly in May after four straight monthly gains. However, nearly 50,000 jobs have been added since the start of the year, primarily full-time. These figures wipe out last year's labour market hesitations and strengthen the foundation for consumers. Although they got the year off to a disappointing start, retail sales should firm up over the next few quarters. Growth will be fairly modest, however, as households are still in a shaky financial situation.

The housing sector was sluggish early in the year due to the intense cold, which kept many sites from breaking ground. This magnified the existing downtrend in new construction; however, the situation is starting to settle out. Existing home sales also started 2015 fairly slowly, but then picked up. Home prices are tending to stabilize, as the provincial market has a slight surplus. The situation is an issue for condos, with the number of recently completed but unsold units up in several parts of Greater Montreal (graph 15). For some projects, launches had to be cancelled or postponed due to inadequate presales. Housing starts on condos should keep dropping until market conditions are back to normal.

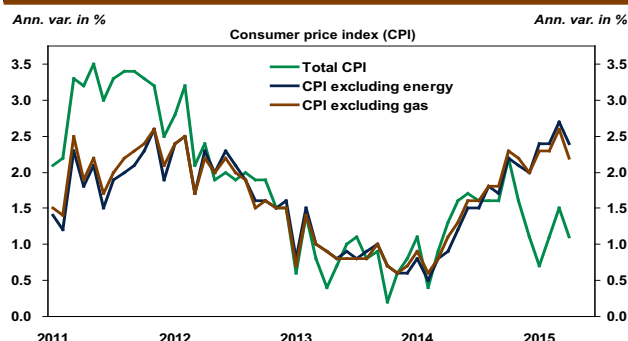
A lot of hope is being placed on business to fire up faster economic growth. In the first quarter, Quebec's exports were disrupted by several factors and the uptrend should be back shortly. However, investment is taking its time in increasing (graph 16). The index of Quebec business

Graph 14 – The recent upswing by employment and Quebec confidence is encouraging



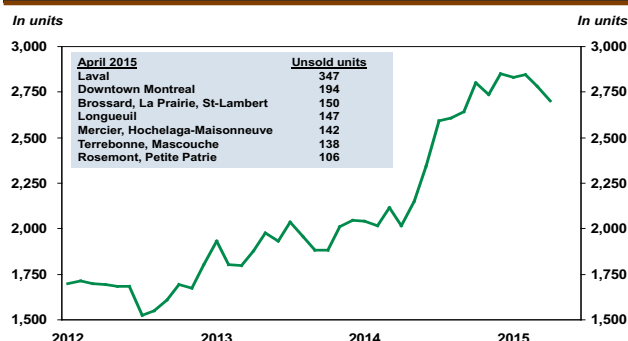
Sources: Statistics Canada, Conference Board of Canada and Desjardins, Economic Studies

Graph 15 – Weak energy prices are helping keep Quebec inflation low



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 16 – Number of new completed, unsold condos in the Montreal CMA*



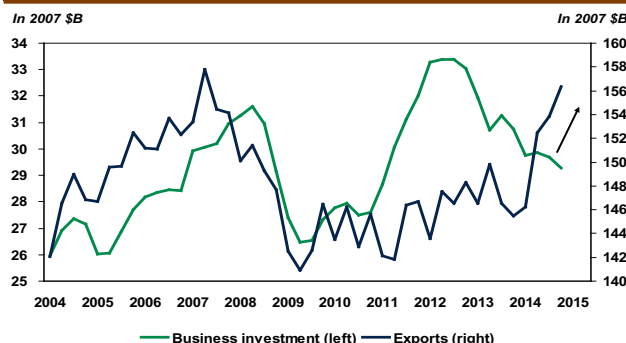
* Census metropolitan area.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies



confidence, published by the Canadian Federation of Independent Business, is also sagging. We will likely have to wait until next year for non-residential construction to improve. However, the rise by imports of machinery and equipment suggests that this type of investment is starting to increase. Overall, business investment will be stable this year; an increase of 3.3% is expected next year.

Quebec's weak inflation is also a focus. The annual change in the consumer price index (CPI) has been around 1% for several months now. Low prices for energy, especially gas, are helping moderate CPI growth (graph 17). The inflation rate should be just 1.3% in 2015, rising close to 2% in 2016 when oil prices come up.

Graph 17 – The upswing by Quebec exports should lead to a rise by investment



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 5
Quebec: major economic indicators

	2012	2013	2014	2015f	2016f
Annual average in % (except if indicated)					
Real gross domestic product*	1.5	1.0	1.3	1.5	1.7
Final consumption expenditure [of which:]	1.0	1.5	1.6	1.5	1.3
Household consumption expenditure	1.1	2.0	2.0	2.2	2.3
Governments consumption expenditure	0.7	0.6	0.4	-0.4	-1.3
Gross fixed capital formation [of which:]	4.1	-3.7	-3.0	-0.7	0.8
Residential structures	1.3	-3.7	-0.5	-1.4	-2.1
Non-residential structures	23.5	-5.9	-10.1	-3.6	3.3
Machinery and equipment	3.7	-7.6	-1.1	2.4	4.5
Intellectual property products	-3.5	-5.1	-1.1	1.5	1.5
Governments gross fixed capital formation	-2.7	1.5	-2.2	-0.4	0.3
Investment in inventories (2007 \$M)	1,908	1,836	1,105	2,775	1,775
Exports	1.5	0.4	3.5	4.7	4.2
Imports	1.7	-1.0	2.1	3.9	2.7
Final domestic demand	1.6	0.4	0.6	1.1	1.2
Other indicators					
Nominal gross domestic product	3.4	1.5	3.0	3.2	3.6
Real disposable personal income	2.6	0.5	0.6	1.1	1.6
Weekly earnings	2.4	1.3	2.1	2.2	2.1
Employment	0.8	1.4	0.0	1.1	0.9
Unemployment rate (%)	7.7	7.6	7.7	7.3	7.0
Personal saving rate (%)	4.1	2.7	1.4	1.5	2.2
Retail sales	1.2	2.5	1.7	1.3	3.5
Housing starts (1)	47.4	37.8	38.8	33.0	35.0
Total inflation rate	2.1	0.7	1.4	1.3	1.9

f: forecasts; * 2007 \$; (1) Thousands of units on an annualized basis.

Sources: Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

ONTARIO AND OTHER PROVINCES

Some provinces may be in recession

Forecasts: Ontario, British Columbia and Manitoba have the strongest growth outlooks in the country for 2015, primarily thanks to spinoffs from improved manufacturing. The Maritime Provinces should also benefit from livelier manufacturing. Alberta, Saskatchewan and Newfoundland and Labrador will not be able to avoid recession in 2015 as the problems in the energy sector are increasingly apparent.

ONTARIO

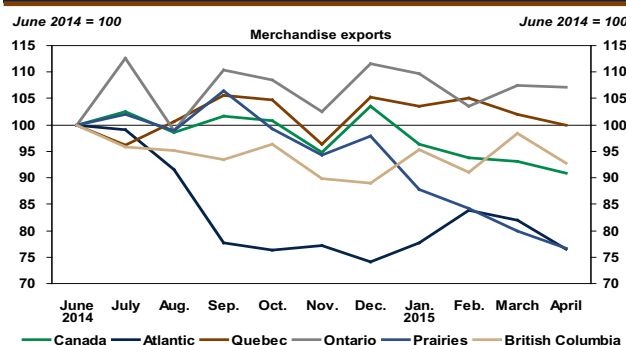
While the overall Canadian economy has had some major difficulties in the last few months, Ontario has been more resilient. For example, the province's retail sales were less hurt by the recent slowdown. Growth by housing starts is also much faster in Ontario than it is in most of the other provinces. Lastly, Ontario's increase in the value of merchandise exports has been the strongest in Canada since June 2014, while many regions are coping with a major slowdown, particularly the Prairies and Atlantic Canada (graph 18).

Under the circumstances, growth by Ontario's economy will continue to outpace the national average in the coming quarters. Real GDP in Ontario could even tick up in the first quarter of 2015, although it pulled back for Canada as a whole. Overall, Ontario should see growth of 2.4% in 2015, much better than Canada's (1.5%). Manufacturing will be one sector making a big contribution to the province's economic growth. Ontario's economy should maintain a good pace in 2016, with real GDP growth of 2.5% anticipated.

WESTERN PROVINCES

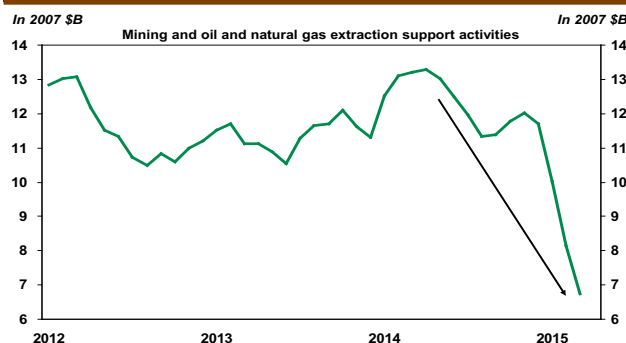
The economies in Alberta and Saskatchewan are especially hard hit by the problems in the energy sector. As shown by the cumulative movement by the various economic indicators over the last few months, Alberta and Saskatchewan are at the epicentre of the slowdown and, in some cases, contraction. The energy sector's output retreated 6.5% (quarterly annualized) in the first quarter of 2015, based on Canada's real GDP by industry. Support activities for mining and oil and natural gas extraction fell 76% last winter (graph 19), a good illustration of the ripple effects of the drop in oil prices. Given the circumstances,

Graph 18 – Exports are stronger in Ontario



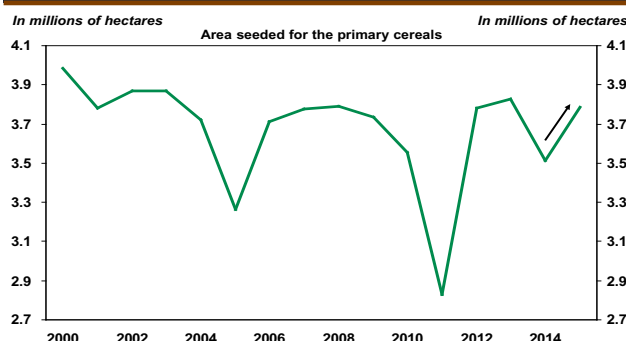
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 19 – The drop in oil prices is having a big impact in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 20 – Manitoba's agricultural sector should rebound in 2015



Sources: Statistics Canada and Desjardins, Economic Studies



the Alberta and Saskatchewan economies are expected to go into recession in 2015. They are forecast to recover slightly in 2016 on the slow comeback by oil prices.

In Manitoba, the forecast improvement in the manufacturing sector should allow economic growth to beat the national average in 2015. For several cereals, seeding areas have also increased substantially in 2015 in Manitoba (graph 20 on page 12), apparently a prelude to a substantial advance by agricultural sector output for the year.

In British Columbia, the recent movement by economic indicators is encouraging. The province's manufacturing was not as affected by the recent problems seen elsewhere in Canada. British Columbia's retail sales gained 2.1% in the first quarter of 2015; the only province to see them in positive territory. British Columbia consumer confidence is also the highest compared with its historic average. The real estate market there is still quite lively and the province is also feeling the impacts of renewed homebuilding in the United States. British Columbia should therefore be among

the strongest in Canada for economic growth in 2015 and 2016.

ATLANTIC PROVINCES

With its real GDP by industry down 2.9% in 2014, the economy of Newfoundland and Labrador went into recession last year and everything suggests this will persist in 2015 and 2016. Given the weight of the energy sector there, Newfoundland and Labrador is, of course, heavily affected by the drop in oil prices. The forecasts are more optimistic for the Maritimes, which will get more out of the improvement in manufacturing.

Table 6
Ontario: major economic indicators

	2012	2013	2014	2015 ^f	2016 ^f
Annual average in % (except if indicated)					
Real gross domestic product*	1.7	1.3	2.2	2.4	2.5
Final consumption expenditure [of which:]	1.6	1.7	1.9	1.8	1.7
Household consumption expenditure	1.5	2.1	2.5	2.4	2.1
Governments consumption expenditure	1.6	0.6	0.7	0.3	0.4
Gross fixed capital formation [of which:]	0.8	-4.5	-0.5	1.8	2.2
Residential structures	4.7	-2.3	0.7	3.4	-0.6
Non-residential structures	7.8	-5.2	-1.8	-0.8	5.5
Machinery and equipment	-2.8	-8.2	0.7	2.8	5.6
Intellectual property products	-1.3	-3.4	-2.1	-0.4	3.3
Governments gross fixed capital formation	-7.0	-5.8	-2.1	1.0	0.8
Investment in inventories (2007 \$M)	3,449	3,713	4,427	5,313	5,875
Exports	3.3	1.8	3.5	4.4	4.7
Imports	1.8	0.1	2.1	3.4	3.5
Final domestic demand	1.4	0.4	1.4	1.8	1.8
Other indicators					
Nominal gross domestic product	3.2	2.4	3.6	3.0	4.9
Real disposable personal income	1.3	1.4	1.0	2.8	2.3
Weekly earnings	1.4	1.6	2.0	3.4	2.7
Employment	0.7	1.8	0.8	0.7	1.3
Unemployment rate (%)	7.9	7.6	7.3	6.7	6.6
Personal saving rate (%)	5.3	4.6	3.2	3.6	3.8
Retail sales	1.6	2.3	5.0	3.2	4.3
Housing starts (1)	76.7	61.1	59.1	68.4	64.6
Total inflation rate (2)	1.4	1.0	2.4	1.1	2.1

f: forecasts; * 2007 \$; (1) Thousands of units on an annualized basis; (2) Annual change.

Sources: Statistics Canada, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Table 7
Canada: major economic indicators by provinces

	2012	2013	2014	2015 ^f	2016 ^f
Annual average in % (except if indicated)					
Real GDP growth – Canada	1.9	2.0	2.4	1.5	2.2
Atlantic	-1.5	2.2	-0.4	0.6	1.2
Quebec	1.5	1.0	1.3	1.5	1.7
Ontario	1.7	1.3	2.2	2.4	2.5
Manitoba	3.3	2.2	1.2	2.3	2.2
Saskatchewan	3.1	5.0	1.5	0.3	1.8
Alberta	4.5	3.8	4.6	-0.3	2.2
British Columbia	2.4	1.9	2.7	2.3	2.5
Total inflation rate – Canada	1.5	0.9	2.0	1.0	1.9
Atlantic	1.9	1.2	1.7	0.2	1.9
Quebec	2.1	0.7	1.4	1.3	1.9
Ontario	1.4	1.0	2.4	1.1	2.1
Manitoba	1.6	2.2	1.9	1.2	1.8
Saskatchewan	1.6	1.5	2.4	1.8	1.5
Alberta	1.1	1.4	2.6	0.7	1.5
British Columbia	1.1	-0.1	1.0	0.7	2.0
Employment growth – Canada	1.3	1.5	0.6	0.8	0.9
Atlantic	1.1	-0.1	-0.9	-0.2	0.3
Quebec	0.8	1.4	0.0	1.1	0.9
Ontario	0.7	1.8	0.8	0.7	1.3
Manitoba	1.6	0.7	0.1	1.5	1.0
Saskatchewan	2.4	3.1	1.0	0.4	0.3
Alberta	3.5	2.5	2.2	1.0	0.5
British Columbia	1.6	0.1	0.6	0.5	0.8
Unemployment rate – Canada	7.3	7.1	6.9	6.8	6.6
Atlantic	10.3	10.2	10.0	10.4	10.1
Quebec	7.7	7.6	7.7	7.3	7.0
Ontario	7.9	7.6	7.3	6.7	6.6
Manitoba	5.3	5.4	5.4	5.7	5.5
Saskatchewan	4.7	4.1	3.8	4.8	4.7
Alberta	4.6	4.6	4.7	5.6	5.5
British Columbia	6.8	6.6	6.1	6.1	5.9
Retail sales growth – Canada	2.5	3.2	4.6	2.0	3.7
Atlantic	1.4	2.6	3.1	1.3	3.3
Quebec	1.2	2.5	1.7	1.3	3.5
Ontario	1.6	2.3	5.0	3.2	4.3
Manitoba	1.3	3.9	4.3	2.8	4.0
Saskatchewan	7.4	5.1	4.6	-0.5	3.0
Alberta	7.0	6.9	7.5	-0.3	2.8
British Columbia	1.9	2.4	5.6	3.5	3.8
Housing starts – Canada (thousands of units)	214.8	187.9	189.3	182.3	180.4
Atlantic	12.6	10.3	8.0	6.9	7.1
Quebec	47.4	37.8	38.8	33.0	35.0
Ontario	76.7	61.1	59.1	68.4	64.6
Manitoba	7.2	7.5	6.2	5.0	6.5
Saskatchewan	10.0	8.3	8.3	4.5	5.2
Alberta	33.4	36.0	40.6	32.5	34.0
British Columbia	27.5	27.1	28.4	32.0	28.0

f: forecasts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies