

A new trend is beginning

HIGHLIGHTS

- Quebec's real GDP growth should rise by 1.8% in 2014. Quebec's economy will only return to a cruising speed of over 2.0% in 2015, at 2.1%, the best performance since 2010.
- Canada's economy is still expected to grow 1.7% in 2013. A 2.3% gain is expected for 2014, upgraded slightly from our previous scenario. 2015 should end with real GDP growth of 2.6%.
- After fairly modest gains in 2013, growth will pick up slightly for most provinces in 2014. Ontario's real GDP should rise 1.4% in 2013 and 2.1% in 2014. Alberta and Saskatchewan will remain in the lead in 2014, with respective real GDP increases of 3.2% and 2.5%.
- The budget impasse seems to have done less damage to the U.S. economy than anticipated. After gaining 1.7% in 2013, real GDP should grow 2.9% next year and 3.0% in 2015.
- The euro zone is still showing signs of fragility, but should continue to show weak growth. The United Kingdom is doing well, requiring an upward change to the growth forecast. Overall, global real GDP should grow 2.8% in 2013 and 3.7% in 2014. For 2015, a 3.8% rise is expected.

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Editorial

All in all, 2013 was rather disappointing in several respects. In particular, economic activity in most industrialized nations was soft, and emerging economies came in below expectations. In fact, economic growth has slowed since 2010 in both industrialized and emerging countries. This trend should change in 2014, leading to widespread and accelerating growth, which will allow many countries to gradually return to full production capacity over the coming years. This bodes well for the future, but the journey ahead is still littered with obstacles.

The congressional committee responsible for drafting a government spending plan submitted its report in mid-December. The discussions led to a 2014–2015 agreement between the Republicans and Democrats. This agreement, if passed, would substantially reduce the automatic spending cuts planned for those two years, implying stronger economic growth. This could also quickly strengthen economic agent confidence, which is already showing some signs of improvement. However, the debt ceiling issue has yet to be officially resolved—the law being suspended until February 7—still casting a shadow of uncertainty.

The end of the conflict takes a thorn out of the U.S. economy's side, and could produce the spark needed to take the recovery to the next level. Real GDP could therefore rise 2.9% in 2014 and 3.0% in 2015, compared with an increase of approximately 1.7% for 2013. Nevertheless, do not expect exhilaration as households will have to be cautious for a while, despite the improvement to their balance sheets. We cannot, as well, overlook the fact that the Federal Reserve will taper its securities purchases in early 2014, a situation that could trigger a rise in bond yields and thus retail rates. Residential construction will maintain its momentum in spite of the mortgage rate hikes, and business investment will grow—both direct results of increased confidence.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Gagnéux
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

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The stronger global economy will be felt in industrialized nations, with growth going from 1.0% in 2013 to 2.1% in 2014. Emerging nations will have to fight to keep their foreign capital, though, a situation that will limit their expansion. The euro zone will also firm up, even though real GDP growth will remain weak in 2014, at 0.9%. Austerity plans are still weighing heavily on Euroland's economy, but the greater financial stability is solidifying confidence. On the other hand, the banking system remains fragile and financial risks are still high, especially as the European Central Bank gets closer to conducting stress tests. Soft demand in this region is a drag on inflation, whose downtrend is a concern for the monetary authorities.

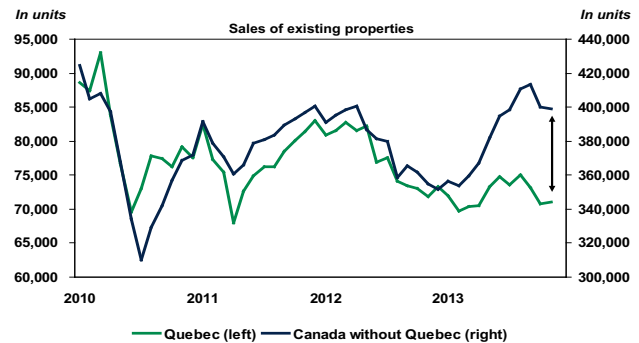
Weak inflation is fairly widespread. It can be felt not only in the euro zone, but also in the United States and Canada. As central banks base their key rate decisions on inflation, monetary policies could remain expansionary, even if economic growth accelerates. It is thus difficult to envision key rate hikes in the United States and Canada before September 2015; we can therefore rule out this threat to recovery.

Canada will benefit from better global economic growth, as domestic demand remains sapped by lingering imbalances. Exports should grow 3.4% in 2014 and 5.4% in 2015, well above the 1.3% expected for 2013. At the same time, the housing market will decline as a result of excess construction these past few years. Current public administration expenditures and investments will remain slow, impacted by the federal and provincial governments' goals to balance budgets. Household consumption will be limited by record debt levels and real personal disposable income growth nearing just 2.0% in 2014. In this context, we cannot ask consumers to reduce their debt, while asking them to spend more. Businesses, however, should be more inclined to invest. Major projects in the energy and transportation sectors are also on the drawing board for Canada.

The western provinces will continue to lead the pack in terms of growth in 2014, largely due to the production of energy and other commodities. Alberta will come in first, with growth of 3.2% in 2014, followed by Saskatchewan with 2.5%. Ontario should see its real GDP rise 2.1% in 2014 and 2.7% in 2015, as the improving U.S. economy should stimulate international exports. The provinces east of Ontario will fail to match Canada's growth in 2014 and 2015.

Quebec's real GDP should go up 1.8% in 2014, below the Canadian average of 2.3%. Unlike other provinces, the real estate market cooled substantially in 2013 (graph 1), but it will stabilize in 2014. As confidence has been rattled

Graph 1 – Quebec's real estate market has been lagging since 2013



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

in the business community and profits are down, the solid performance by non-residential investment should wane in 2014, primarily due to ongoing underutilization of production capacity. As for public administrations, persisting deficits will put downside pressure on current spending and investments.

François Dupuis

Vice-President and Chief Economist

Yves St-Maurice

Senior Director and Deputy Chief Economist



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

Country or zone	Weight** (%)	Real GDP growth (%)			Inflation rate (%)		
		2013f	2014f	2015f	2013f	2014f	2015f
Advanced economies	44.6	1.0	2.1	2.2	1.3	1.8	2.0
United States	18.2	1.7	2.9	3.0	1.5	1.7	2.2
Canada	1.7	1.7	2.3	2.6	1.0	1.6	1.8
Quebec	0.4	1.2	1.8	2.1	0.9	1.7	1.9
Ontario	0.7	1.4	2.1	2.7	1.0	1.4	1.7
Japan	5.2	1.6	1.6	1.2	0.2	2.3	1.3
United Kingdom	2.7	1.4	2.3	2.2	2.7	2.6	2.6
Euro zone	14.0	-0.4	0.9	1.3	1.4	1.3	1.6
Germany	3.9	0.6	2.0	2.1	1.6	1.8	2.1
France	2.8	0.2	1.0	1.4	1.0	1.4	1.6
Italy	2.3	-1.9	0.1	0.7	1.3	1.4	1.7
Other countries	3.0	1.9	2.6	2.6	1.4	1.9	2.2
Emerging and developing economies	55.4	4.2	4.8	5.0	5.1	5.0	4.8
North Asia (China, Hong Kong, India and South Korea)	22.9	6.2	6.4	6.5	3.7	3.8	3.7
China	14.5	7.7	7.5	7.3	2.6	3.1	3.1
India	5.6	3.8	5.0	5.7	9.3	7.6	7.0
South Asia (Indonesia, Malaysia, Thailand and Philippines)	3.6	4.9	5.1	5.5	4.4	4.4	4.1
Latin America	8.1	2.6	3.1	3.5	8.1	7.4	6.9
Eastern Europe	8.5	2.1	3.0	3.5	4.9	4.7	4.9
Other countries	12.2	2.9	4.1	4.0	5.9	5.7	5.2
World	100.0	2.8	3.7	3.8	2.9	3.2	3.2

f: forecasts; * Purchasing power parities: Exchange rate that equates the costs of a broad basket of goods and services across countries; ** 2011.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

Table 2
Summary of the financial forecasts

End of period in % (except if indicated)	2013		2014				2015			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Euro zone	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-year federal bonds										
United States	2.62	2.90	3.10	3.20	3.35	3.50	3.60	3.65	3.70	3.80
Canada	2.54	2.70	2.95	3.10	3.25	3.40	3.50	3.55	3.60	3.65
Currency market										
Canadian dollar (USD/CAD)	1.03	1.07	1.08	1.07	1.06	1.05	1.05	1.04	1.03	1.02
Euro (EUR/USD)	1.35	1.34	1.31	1.32	1.33	1.32	1.31	1.30	1.28	1.28
Euro (EUR/CAD)	1.40	1.43	1.41	1.41	1.41	1.39	1.38	1.35	1.32	1.31
Commodities (annual average)										
WTI* oil (US\$/barrel)	98 (96**)		97 (100**)				100 (100**)			
Gold (US\$/ounce)	1,415 (1,260**)		1,250 (1,200**)				1,175 (1,150**)			
Stock markets** (level and growth)										
United States (S&P 500)	1,775		Target: 1,880 (+5.9%)				Target: 2,030 (+8.0%)			
Canada (S&P/TSX)	13,150		Target: 14,330 (+9.0%)				Target: 15,760 (+10.0%)			

f: forecasts; * West Texas Intermediate; ** End of year.
Sources: Datastream and Desjardins, Economic Studies

OVERSEAS

Euroland's economy remains fragile

Forecasts: The euro zone is still showing signs of fragility, but should continue to show weak growth. The United Kingdom is doing well, requiring an upward change to the growth forecast. In contrast, Japan's revised third quarter real GDP growth did not live up to the first estimate, prompting a downward revision to the annual growth forecasts for 2013 and 2014. Overall, global real GDP should grow 2.8% this year and 3.7% next year. For 2015, a 3.8% rise is expected.

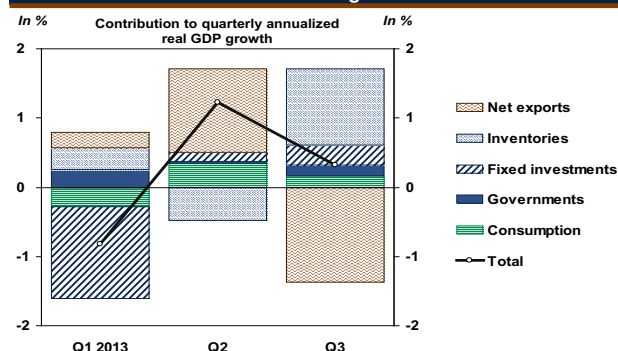
EUROPE AND ADVANCED NATIONS

In the euro zone, the details on the third quarter's 0.3% annualized real GDP growth show how fragile the economy is. Consumption slowed and net exports plunged. Conversely, business inventories rose substantially, a situation that generally does not last (graph 2) and could cause a pullback. However, exports have ticked up in recent months and the trade balance has improved (graph 3), while the confidence indexes suggest that spending and investments are continuing to recover. Euroland's economy is therefore likely to show soft gains of about 1% over the coming quarters. Some countries remain fragile, however, including France; even Germany is raising doubts, as industrial output there contracted for three of the last four months. Government efforts to repair their budgets should also be expected to harm growth in some countries.

Euroland inflation recovered slightly in November, with the annual change to the consumer price index going from 0.7% to 0.9% (graph 4). Weak credit, which continues to contract, and the fact that the banking sector is still at risk in some countries are also keeping the European Central Bank (ECB) on high alert, even though the ECB slightly upgraded its growth forecast for the zone's real GDP to 1.1% for 2014. Our forecast calls for gains of 0.9%, following 2013's 0.4% contraction. The modest recovery should persist in 2015, with real GDP growth of 1.3%. Weak growth will not allow GDP to return to capacity quickly; as a result, inflation will remain subdued. Failing another shock to confidence, however, it would be surprising to see Euroland's inflation move into negative territory.

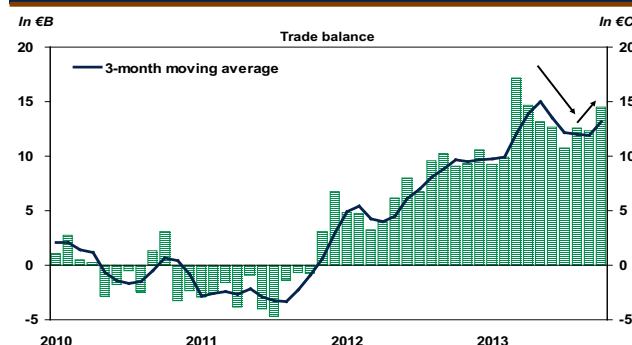
In the United Kingdom, indicators still point to solid economic growth. While inventories also contributed significantly to the third quarter's 3.2% real GDP growth, consumption and investment also accelerated. The strong

Graph 2 – Inventories were primarily responsible for the euro zone's real GDP growth over the summer



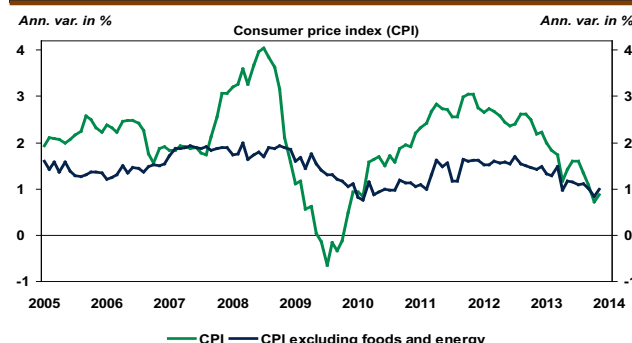
Sources: Eurostat and Desjardins, Economic Studies

Graph 3 – The euro zone's trade balance has started to rise



Sources: Eurostat and Desjardins, Economic Studies

Graph 4 – The inflation rate has edged up, but remains very low in the euro zone



Sources: Eurostat and Desjardins, Economic Studies



PMI indexes remain encouraging for the quarters to come, but weak exports, hurt by the pound's appreciation, are cause for concern (graph 5). The growth outlooks for Britain's economy have nevertheless been revised upwards, and real GDP should grow 1.4% in 2013 and 2.3% in 2014. A 2.3% rise is also expected for 2015.

In Japan, the second estimate of third quarter real GDP growth was disappointing. The annualized gains are down to just 1.1% from the initially published 1.9%. The contrast with last spring's 3.6% growth is therefore even larger. However, inflation is clearly up—the total price indexes and those that exclude food and energy are now all in positive territory (graph 6). Because of the revision, the real GDP growth forecasts have been trimmed to 1.6% for 2013 and 2014. A rise of 1.2 % is expected for 2015.

BRIC COUNTRIES (BRAZIL, RUSSIA, INDIA AND CHINA)

In China, November's acceleration by retail sales and slight cooling by industrial output show on a small scale the changes that are taking place in the economy, where consumption must gradually take up slack from industrial production. However, China's growth remains highly dependent on foreign demand, so November's sharp annual 12.7% rise by exports is good news (graph 7). Our forecasts for 2013 and 2014 remain unchanged, at 7.7% and 7.5% respectively. Real GDP growth of 7.3% is expected for 2015.

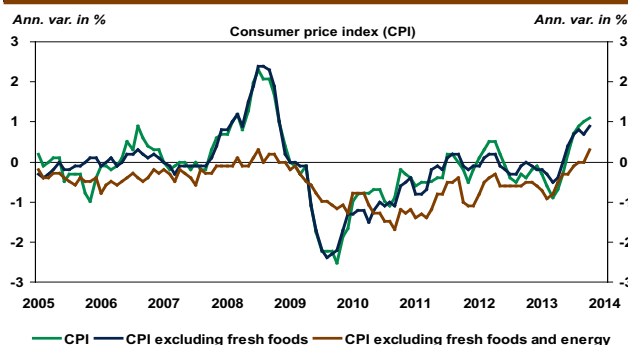
India's real GDP growth, which has been trending down for two years, edged up slightly in the third quarter. In Brazil, the second quarter surge by real GDP did not last, with a net pullback materializing over the summer. Finally, in Russia, several indicators point to weaker growth, and the government recently revised its forecasts downwards.

Graph 5 – Britain's pound is high



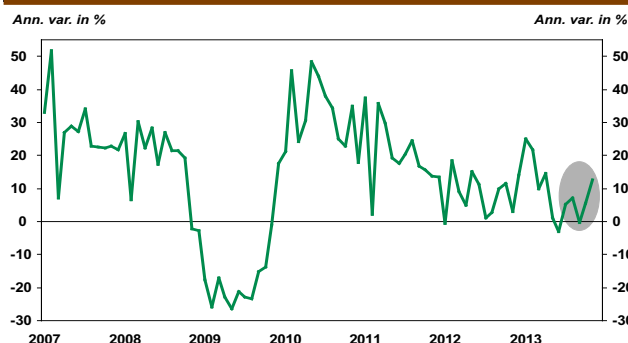
Sources: Datastream and Desjardins, Economic Studies

Graph 6 – Japan's inflation is back in positive territory



Sources: Datastream and Desjardins, Economic Studies

Graph 7 – Exports advance slightly faster in China



Sources: National Bureau of Statistics and Desjardins, Economic Studies



UNITED STATES

An end to budget cuts?

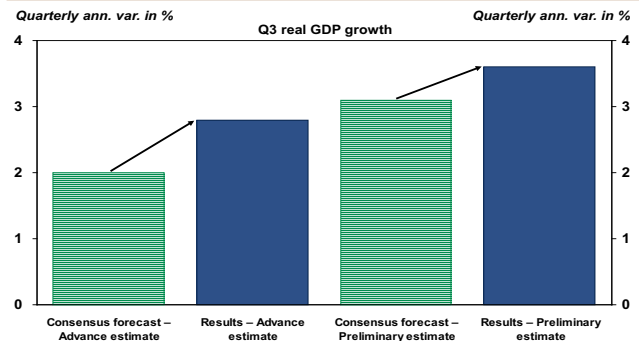
Forecasts: The budget impasse seems to have done less damage to the U.S. economy than anticipated. All the same, growth will be slower in the final quarter of 2013, though more robust growth can be expected for 2014 and 2015, when the main austerity measures will likely have ended. As a result of the bipartisan budget agreement announced on December 10, we have revised our growth forecast upwards for 2014. After gaining 1.7% in 2013, real GDP should grow 2.9% next year and 3.0% in 2015. The jobless rate will continue to fall in the coming quarters.

Once again, real GDP growth beat expectations for the third quarter. This time, it was the preliminary estimate of the national accounts that came as a surprise. Thanks to inventory growth that was even stronger than initially estimated, real GDP growth is now at an annualized 3.6%, a remarkable gain when compared with last spring's growth (2.5%), the official advance estimate (2.8%) or even the consensus forecast (3.1%) (graph 8).

The fact that nearly half of the 3.6% growth stems from inventory change, however, conceals some weakness. Businesses seem to have overestimated the strength of demand. This type of movement often reverses in subsequent quarters, and inventories will surely bring a negative contribution to the final quarter of 2014. This factor, combined with the major consequences of October's shutdown, could be quite damaging. However, the budget impasse did not have any dramatic effects on economic activity in general. In October, real consumption posted its highest growth since November 2012. The private sector added a total of 410,000 jobs in October and November. The jobless rate fell to its lowest point since November 2008. Consumer confidence is clearly up, according to the preliminary data for December (graph 9). These factors, in conjunction with October's acceleration by real exports and a rebound by new auto sales in November (graph 10), mean the forecast for final domestic demand can be upgraded, thus offsetting the negative contributions from inventories and federal government spending.

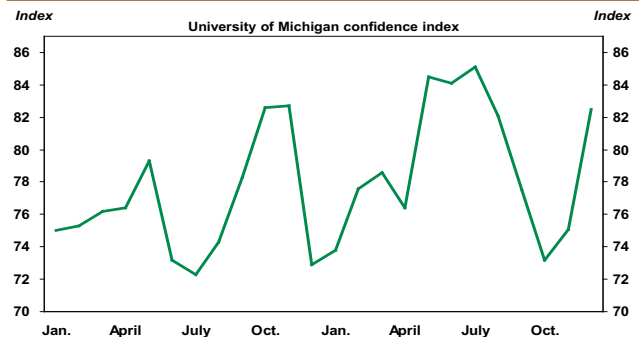
For 2014, the U.S. economy's strength will be broadly dependent on the outcome of the political discussions. The budget compromise announced on December 10 is therefore very good news, as it eliminates the possibility of any further shutdowns for almost two years, a situation

Graph 8 – U.S. real GDP growth outstripped expectations



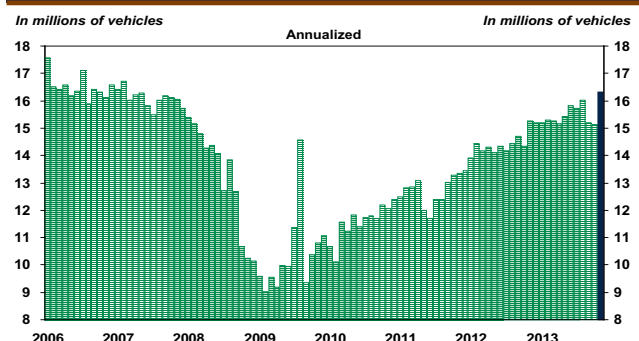
Sources: Bloomberg, Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 9 – U.S. consumer confidence looks up after tumbling due to the budget impasse



Sources: University of Michigan and Desjardins, Economic Studies

Graph 10 – U.S. motor vehicle sales rebounded in November

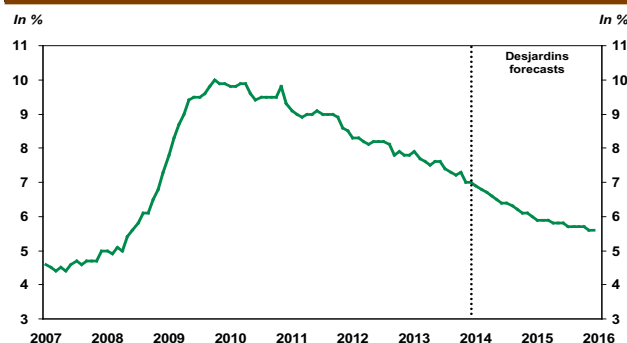


Sources: Bureau of Economic Analysis and Desjardins, Economic Studies



that can only help confidence recover. The agreement does away with the nearly US\$20B in defence cuts that were to have happened in 2014, while raising non-military federal spending from its level in fiscal 2013. As the financing of the agreement is spread over 10 years, the net near-term effect is largely positive, and federal public spending will contribute positively to growth, rather than taking a bite from it as it has since 2011. For 2015, spending is expected to stay relatively stable in current dollars, but slight quarterly drops can be anticipated in real terms. The only dark spot in the picture is that the unemployment benefits extension does not seem to be renewed, which will limit household disposable income in early 2014.

For 2015, we expect the factors that continue to rein in private sector growth to wane a bit, particularly for households. Housing will maintain its slow ascent, finally reaching more “normal” levels. However, housing prices could still come back to haunt the consumer price index, and inflation could move above 2.0%. In the meantime, the jobless rate will continue to fall and should drop below 6.0% in 2015 (graph 11). Meanwhile, the Federal Reserve should announce a start to its tapering of securities purchases in early 2014, withdrawing them completely by the end of the year. No rate hike is expected before September 2015.

Graph 11 – The jobless rate will keep sliding in the United States


Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Table 3
United States: major economic indicators

	2013		2014				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2012	2013f	2014f	2015f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	3.6	1.6	3.4	2.7	3.3	3.2	2.8	1.7	2.9	3.0
Personal cons. expenditures	1.4	2.9	2.2	2.2	2.6	2.4	2.2	1.9	2.3	2.5
Residential construction	13.0	7.0	16.3	18.6	18.1	21.3	12.9	13.6	15.0	14.7
Business fixed investment	3.5	2.7	8.2	7.3	6.7	5.8	7.3	2.4	5.8	5.7
Inventory change (\$B)	116.5	92.0	85.0	70.0	70.0	70.0	57.6	76.8	73.8	70.0
Public expenditures	0.4	-0.9	2.5	1.3	1.2	1.1	-1.0	-2.0	0.9	1.0
Exports	3.7	5.3	4.0	4.5	5.2	5.5	3.5	2.4	4.8	4.8
Imports	2.7	4.3	2.5	3.5	4.0	4.2	2.2	1.6	3.6	3.8
Final domestic demand	1.8	2.3	3.4	3.1	3.2	3.1	2.4	1.5	2.8	2.9
Other indicators										
Real disposable personal income	2.9	2.3	1.2	2.5	1.5	1.9	2.0	0.8	2.1	2.2
Employment (establishments)	1.4	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.7	1.6
Unemployment rate (%)	7.3	7.1	6.9	6.6	6.4	6.2	8.1	7.4	6.5	5.9
Housing starts (1)	896	957	1,005	1,065	1,128	1,213	783	920	1,103	1,285
Corporate profits*** (2)	5.6	4.0	6.5	4.0	3.0	4.0	7.0	4.0	4.3	4.1
Personal saving rate (%)	5.0	4.9	4.6	4.8	4.5	4.4	5.6	4.7	4.6	4.5
Total inflation rate (2)	1.6	1.2	1.2	1.5	1.8	2.4	2.1	1.5	1.7	2.2
Core inflation rate** (2)	1.7	1.9	1.6	1.5	1.7	2.2	2.1	1.8	1.9	2.2
Current account balance (\$B)	-393.4	-393.2	-389.1	-388.1	-386.8	-385.2	-440.4	-400.5	-387.3	-384.2

f: forecasts; * 2005 US\$; ** Excluding food and energy; *** Before taxes; (1) Thousands of units on an annualized basis; (2) Annual change; (3) National accounts.

Sources: Datastream and Desjardins, Economic Studies

CANADA

Risks remain substantial, despite improving outlooks

Forecasts: Canada's economy is still expected to grow 1.7% in 2013. A 2.3% gain is now expected for 2014, upgraded slightly from our previous scenario. 2015 should end with real GDP growth of 2.6%.

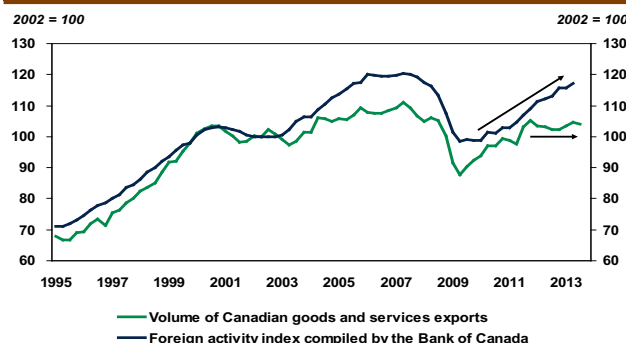
The real GDP rose an annualized 2.7% in the third quarter of 2013, in line with expectations. This quarterly gain, the largest in two years, is mainly due to the return to normal after the flooding in Alberta and the construction strike in Quebec.

However, this seemingly good news conceals two worrisome factors. First, non-residential investment by businesses only went up 2.2%, although expectations were fairly high. Second, exports of goods and services pulled back 2.0%. Clearly, Canada's economy has not managed to benefit from the gradual improvement to global demand for several quarters (graph 12). These results are very disappointing given that a lot of hope rests on international trade and non-residential investment to support Canada's economic growth.

Apparently, a variety of difficulties will continue to rein in export growth in the short term. Exports of energy products are plagued by transportation problems as the Keystone XL pipeline has yet to be approved. The mining sector is also experiencing difficulties caused by disappointing global demand and an elevated international supply. Finally, the manufacturing sector has been lagging for several quarters, raising concerns about a resurgence of Canadian businesses' competitiveness problems. It is also hard for Canadian businesses to break into the U.S. market, given the lively competition generated by the excess production capacity south of the border. All in all, improving global demand and an end to the uncertainty surrounding U.S. public finances should certainly prompt a rise by Canadian exports in the coming quarters, but substantial downside risks remain.

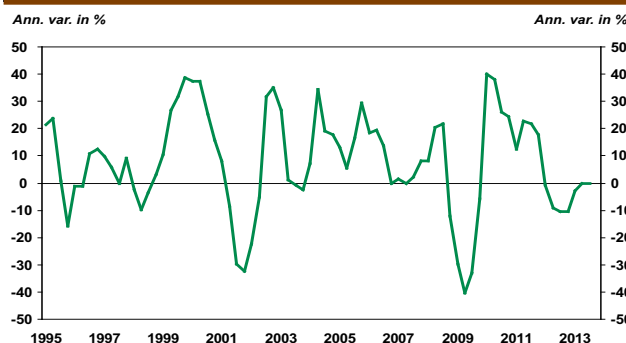
For domestic demand, the outlook remains subdued for the coming quarters. In the near term, the conditions are still not very conducive to substantial acceleration by non-residential investment growth. The annual change to non-financial corporations' operating profits is still in negative territory (graph 13), and a 17% drop was recorded by manufacturing. What's more, business confidence is still being affected by the uncertain global climate.

Graph 12 – Canadian exports are no longer following the rise by international demand



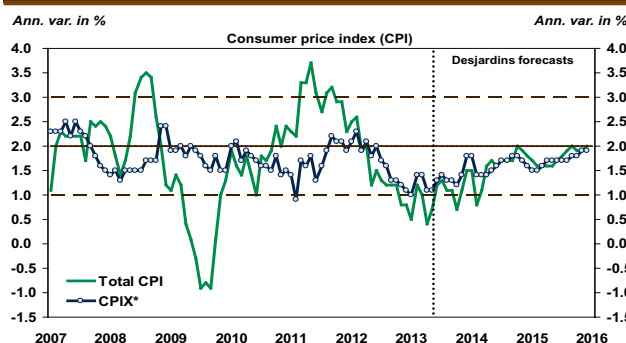
Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

Graph 13 – Operating profits for non-financial corporations remain anaemic in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 14 – Canadian inflation will not show a lasting return to 2% until 2015



* Bank of Canada's core index.
Sources: Statistics Canada and Desjardins, Economic Studies



The housing market is starting to show signs of cooling in several regions, an adjustment that should become more widespread in 2014. Not only should new residential construction continue to lose some ground, but the resale market should also stabilize. Government spending growth will also remain anaemic in the coming quarters, as governments continue to battle budget deficits. Finally, the rise by household consumption should stay in line with moderate income growth.

All in all, there will be quite a few obstacles in the coming quarters, and Canada's economic growth will remain modest. The output gap might not close until the end of 2015. Until then, inflation pressures will be subdued. Total inflation, which fell below the lower target (1%) in October, should quickly return to the BoC's target range. A lasting return to the mid-point target (2%), however, is not expected before 2015 (graph 14 on page 8).

Table 4
Canada: major economic indicators

	2013		2014				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2012	2013f	2014f	2015f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	2.7	2.3	2.5	1.6	2.4	2.6	1.7	1.7	2.3	2.6
Final consumption expenditure [of which:]	1.7	1.8	1.6	1.6	1.7	1.8	1.6	1.8	1.8	1.9
Household consumption expenditure	2.8	2.7	1.7	1.7	2.0	2.2	2.4	1.9	2.0	2.2
Governments consumption expenditure	0.4	0.5	1.0	1.0	0.8	0.8	1.1	0.8	0.8	1.0
Gross fixed capital formation [of which:]	2.4	1.2	1.0	1.7	2.3	2.9	4.3	0.6	1.5	3.5
Residential structures	2.4	-0.7	-2.9	-3.1	-3.2	-2.6	6.1	0.2	-1.3	-0.7
Non-residential structures	2.1	3.0	3.5	5.0	6.0	7.0	6.9	2.1	3.7	6.9
Machinery and equipment	2.5	3.5	4.0	6.0	7.0	8.0	5.2	1.5	4.5	7.8
Intellectual property products	3.2	1.0	1.5	1.5	2.0	2.0	-1.5	-3.0	0.9	2.3
Governments gross fixed capital formation	2.7	-0.5	0.5	0.5	1.0	1.0	0.5	-0.2	0.3	1.6
Investment in inventories (2007 \$B)	10.2	11.8	12.8	10.0	9.5	9.0	6.8	9.4	10.3	7.5
Exports	-2.0	2.5	4.5	4.5	5.0	5.5	1.5	1.3	3.4	5.4
Imports	-1.4	1.8	2.0	2.0	2.5	3.0	3.1	0.9	1.6	3.4
Final domestic demand	1.8	1.7	1.5	1.7	1.9	2.1	2.3	1.5	1.7	2.3
Other indicators										
Real disposable personal income	2.7	1.5	2.0	2.0	2.5	2.5	2.5	2.7	2.0	2.4
Employment	0.8	1.4	1.3	1.5	1.9	2.2	1.2	1.3	1.4	1.8
Unemployment rate (%)	7.1	6.9	7.0	7.0	6.9	6.7	7.2	7.1	6.9	6.6
Housing starts (1)	193.4	194.5	189.3	183.5	177.7	171.9	214.8	188.0	180.6	178.1
Corporate profits** (2)	-1.1	1.0	2.0	3.5	4.0	5.5	-4.9	-4.8	3.8	8.5
Personal saving rate (%)	5.4	5.2	5.2	5.2	5.4	5.4	5.0	5.5	5.3	5.4
Total inflation rate (2)	1.1	1.1	1.1	1.6	1.7	1.9	1.5	1.0	1.6	1.8
Core inflation rate*** (2)	1.3	1.4	1.5	1.5	1.7	1.7	1.7	1.3	1.6	1.7
Current account balance (\$B)	-15.5	-15.0	-14.5	-14.0	-13.5	-13.0	-62.2	-61.2	-55.0	-42.0

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

Worries easing in spite of weak growth

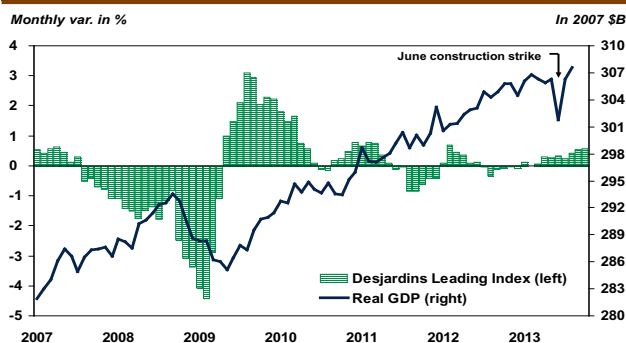
Forecasts: The latest statistics allow us to maintain our forecast for economic growth at 1.2% for 2013. However, the forecast for next year has been trimmed slightly, as it will take some time for the pace to pick up. The forecast for 2014's real GDP growth now stands at 1.8%. Quebec's economy will only return to a cruising speed of just over 2.0% in 2015, the best performance since 2010.

Last spring was a tough time for Quebec's economy and the summer's statistics were hardly more reassuring. Economic activity wavered and the labour market eroded significantly. Fortunately, the situation has since turned around. The impact of June's construction strike quickly dissipated, and the return to real GDP growth and the upswing by employment put an end to this gloomy period. The Desjardins Leading Index has firmed up, raising hopes that Quebec's economy will slowly improve in the next six months (graph 15).

The shift in international trade will help Quebec's economy accelerate in 2014 and 2015. The province's trade deficit even started to go down this year. Exports to the United States have turned around, exports to Europe are no longer tumbling, and exports to Asia have stabilized, marking a turning point. 2013 will see a 3.4% rise in the volume of Quebec exports, the biggest increase since the 2008–2009 recession (graph 16). As imports have slowed due to weak domestic demand, the trade balance can finally improve. Contributions to economic growth will still be low next year, but will be more substantial in 2015 (graph 17). This is a critical point for our scenario.

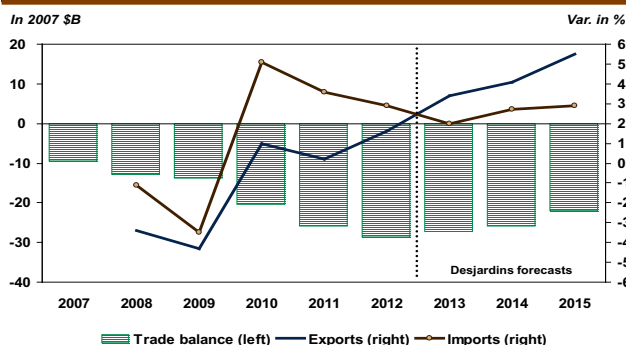
Little hope is focused on consumer spending. Retail sales have been crawling since the start of 2013, and will continue to do so. While real GDP growth is firming up, prompting stronger job creation, several factors have a role to play. The high debt rate will make consumers cautious. The heavy tax burden and the precarious state of public finances in the province will probably keep consumer confidence from rising to a more comfortable level. The target date for balancing the budget has been postponed by two years, and it will take substantial effort to get there. Even if the government focuses on tighter control over spending, the goal of finding an additional \$1B for fiscal 2015–2016 is a daring one.

Graph 15 – The rise by the Desjardins Leading Index should augur well for Quebec's real GDP



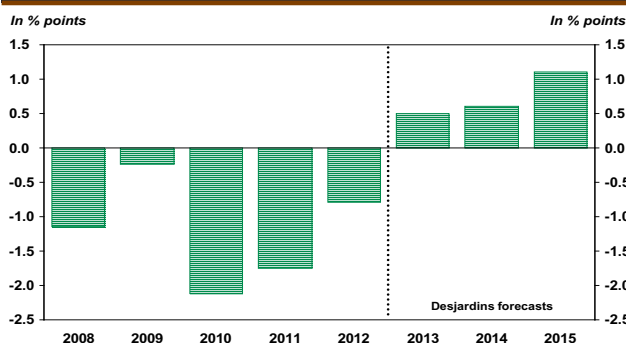
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 16 – Quebec's trade deficit will wane, thanks to faster export growth



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 17 – International trade's contribution to Quebec's real GDP growth becomes positive



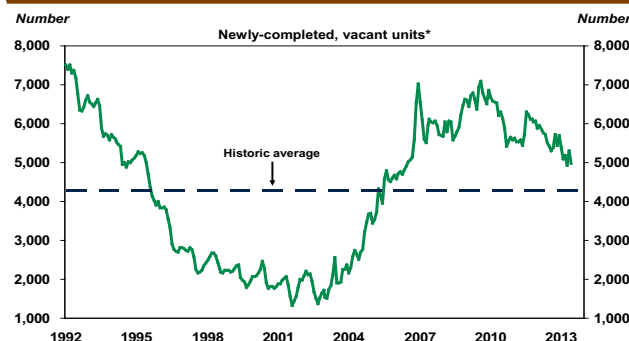
Sources: Statistics Canada and Desjardins, Economic Studies



For over six months, housing starts have oscillating between 35,000 and 40,000 units in Quebec. Despite this stability, they will have fallen nearly 25% in 2013. The slower pace is affecting all market segments, especially condominiums, which pulled back around 30% this year¹. The total inventory of new units has gone down considerably, nearing its historic average (graph 18). The adjustment period is therefore well underway, which should keep housing starts at 37,000 units next year. 2015 will see an upswing, when the condo market is ready to take off again.

Business investment, which had been the main pillar of growth, should wane starting next year. Several signals, such as lower small and mid-sized business confidence and the pullback by business profits, indicate that the environment is less favourable for new projects. Investments in non-residential work should rise 2.8% in 2014, slower than the 5.7% pace recorded in 2013.

Graph 18 – The new housing inventory declines: Quebec's adjustment period is underway



* In Quebec's six census metropolitan areas.

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

¹ Desjardins, Economic Studies, *Spotlight on Housing*, "Quebec's residential sector has cooled more than in Ontario", November 27, 2013, www.desjardins.com/ressources/pdf/zoom1127-e.pdf?resVer=1385579039000.

Table 5
Quebec: major economic indicators

	2011	2012	2013f	2014f	2015f
Annual average in % (except if indicated)					
Real gross domestic product*	1.8	1.5	1.2	1.8	2.1
Final consumption expenditure [of which:]	1.5	0.9	1.4	1.4	1.3
Household consumption expenditure	1.9	1.2	1.8	2.1	2.1
Governments consumption expenditure	0.5	0.2	0.3	-0.2	-0.5
Gross fixed capital formation [of which:]	1.8	6.6	1.1	2.0	2.9
Residential structures	-0.6	1.4	-8.5	-0.5	1.5
Non-residential structures	10.1	16.3	5.7	2.8	4.8
Machinery and equipment	3.2	13.5	10.0	6.2	7.3
Intellectual property products	4.5	-3.0	5.0	2.0	2.2
Governments gross fixed capital formation	-2.2	7.1	4.3	2.5	1.2
Investment in inventories (2007 \$M)	5,835	6,199	3,900	2,500	500
Exports	0.2	1.6	3.4	4.4	5.4
Imports	3.6	2.9	2.0	2.7	2.9
Final domestic demand	1.5	2.0	1.3	1.5	1.7
Other indicators					
Real disposable personal income	2.4	1.9	1.2	1.5	1.7
Weekly earnings	2.5	2.5	1.6	2.1	2.5
Employment	1.0	0.8	1.1	1.2	1.5
Unemployment rate (%)	7.8	7.8	7.6	7.3	6.8
Personal saving rate (%)	2.9	3.1	3.0	3.2	3.3
Retail sales	3.0	1.1	1.7	2.7	3.0
Housing starts (1)	48.4	47.4	37.0	37.0	41.0
Total inflation rate	3.0	2.1	0.9	1.7	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

The western provinces continue to have an advantage

Forecasts: After fairly modest gains in 2013, growth will pick up slightly for most provinces in 2014. Ontario's real GDP should rise 1.4% in 2013 and 2.1% in 2014. Alberta and Saskatchewan will remain in the lead in 2014, with respective real GDP increases of 3.2% and 2.5%. British Columbia and Manitoba will be closer to the national average next year. In general, the outlooks for the Atlantic Provinces are worse than those for other areas of the country.

ONTARIO

Ongoing difficulties in the manufacturing and export sectors continue to sharply curb the province's economic growth. Among other things, Canadian data shows that production of new automobiles and parts remained anaemic in the third quarter. Note that Ontario's automobile product plants are gradually losing their market share to Mexico, where output is up (graph 19).

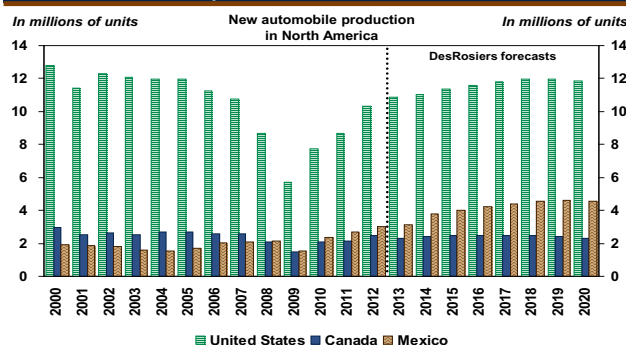
Canada's weak investment in machinery and equipment is having a particular impact on Ontario's manufacturers. The gradual recovery by global demand should boost Canadian business confidence, however, which should eventually result in faster investment in the coming quarters. Improved global economic conditions should also enable a fairly widespread recovery by Ontario's exports throughout 2014.

However, the province's economic growth over the next few quarters should be hampered by the budget deficit battle, as well as the cooling housing market. Signs of a downturn are already starting to appear. According to the Canadian Real Estate Association, the reference price for existing properties peaked in Toronto over the last few months. What's more, some Ontario regions are already seeing existing property sales slow or even contract. That being said, Ontario's real estate market is still sending out mixed signals. For example, the province's housing starts started growing again in mid-2013.

WESTERN PROVINCES

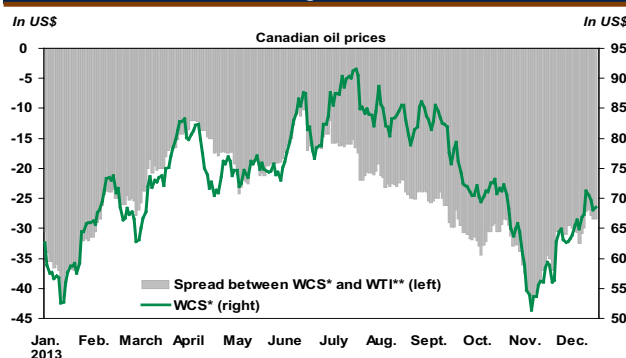
After a difficult spring, Canada's energy output bounced back last summer, a situation that should benefit Alberta and Saskatchewan. Nevertheless, market conditions remain somewhat less favourable than in the past. The delivery problems are making themselves felt increasingly, as the

Graph 19 – Most of the rise by demand will be met by increased production from Mexico



Sources: DesRosiers Automotive Consultants and Desjardins, Economic Studies

Graph 20 – The spread between Canadian and U.S. oil prices widened again in the fall



* Western Canada Select; ** West Texas Intermediate.
Sources: Bloomberg and Desjardins, Economic Studies

United States has not yet approved the Keystone XL pipeline project. The negative spread between Canadian and U.S. oil prices widened further in recent months (graph 20). Two other pipeline projects are also planned to deliver western oil to eastern Canada. The project to reverse the flow in the 9A and 9B pipelines is going well. Installation of a pipeline between Alberta and New Brunswick is currently under study. Of course, these projects will not resolve the transportation problems in the near term. All the same, the gradual rise by global energy demand should be beneficial for Alberta and Saskatchewan. Under these conditions, the two provinces' economic growth should continue to beat the national average in the years to come.



Overall, the growth forecast for Manitoba's real GDP for the coming years is not very different from the national average. The agricultural sector's solid performance will be partially offset by the anaemic recovery in manufacturing. That being said, the province's manufacturing sector should also benefit from the slow improvement to global demand.

In British Columbia, the mining sector still faces heavy international competition, in a context in which the rise by demand remains disappointing. What's more, the province's housing sector, one of Canada's hottest, should feel the slowdown expected throughout the country. Nevertheless, British Columbia should benefit from sustained demand from Asia and the expansion by homebuilding in the United States. All in all, the province's economic growth should be somewhat above the national average. Also note that British Columbia currently has the lowest inflation rate in the country, -0.3%, as opposed to +0.7% nationally, due to the negative impacts of the return to the old provincial sales tax last April. This gap should gradually close in 2014.

few years. Public administration and manufacturing are relatively important to their economies, and will limit potential for growth. Nova Scotia could do a little better, due to some development projects in the natural gas sector. Newfoundland and Labrador could have more normal growth rates, after the considerable rebound expected in 2013.

ATLANTIC PROVINCES

Overall, the Maritime Provinces should continue to post real GDP growth below the national average in the next

Table 6
Ontario: major economic indicators

	2011	2012	2013f	2014f	2015f
Annual average in % (except if indicated)					
Real gross domestic product*	2.2	1.3	1.4	2.1	2.7
Final consumption expenditure [of which:]	1.5	1.4	0.9	1.6	2.0
Household consumption expenditure	1.8	1.4	1.4	2.1	2.4
Governments consumption expenditure	0.8	1.4	-0.4	0.3	0.9
Gross fixed capital formation [of which:]	2.4	1.1	0.2	0.3	1.8
Residential structures	4.2	4.7	0.7	-3.1	-2.2
Non-residential structures	18.0	-1.6	-1.0	3.1	6.8
Machinery and equipment	5.7	2.0	-0.9	4.0	6.1
Intellectual property products	4.2	-1.7	-2.5	1.0	2.3
Governments gross fixed capital formation	-11.7	-1.5	2.7	0.3	0.9
Investment in inventories (2007 \$M)	3,778	4,289	8,000	8,500	7,500
Exports	6.0	1.7	1.1	2.9	5.0
Imports	5.6	2.0	1.1	1.6	3.2
Final domestic demand	1.7	1.3	0.8	1.3	2.0
Other indicators					
Real disposable personal income	1.1	1.4	1.7	1.9	2.4
Weekly earnings	1.4	1.5	1.6	2.1	3.4
Employment	1.8	0.8	1.5	1.4	1.8
Unemployment rate (%)	7.8	7.8	7.5	7.4	7.1
Personal saving rate (%)	4.4	4.3	4.6	4.4	4.4
Retail sales	3.6	1.6	2.5	3.2	3.7
Housing starts (1)	67.8	76.7	61.1	57.4	53.0
Total inflation rate (2)	3.1	1.4	1.0	1.4	1.7

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

	2011	2012	2013f	2014f	2015f
Annual average in % (except if indicated)					
Real GDP growth – Canada	2.5	1.7	1.7	2.3	2.6
Atlantic	1.2	-1.5	2.3	1.7	2.2
Quebec	1.8	1.5	1.2	1.8	2.1
Ontario	2.2	1.3	1.4	2.1	2.7
Manitoba	1.7	2.6	1.7	2.0	2.2
Saskatchewan	5.0	1.9	2.5	2.5	2.7
Alberta	5.2	3.8	2.8	3.2	3.0
British Columbia	2.7	1.5	1.7	2.3	2.5
Total inflation rate – Canada	2.9	1.5	1.0	1.6	1.8
Atlantic	3.6	1.9	1.2	1.4	1.6
Quebec	3.0	2.1	0.9	1.7	1.9
Ontario	3.1	1.4	1.0	1.4	1.7
Manitoba	3.0	1.6	2.2	1.2	1.8
Saskatchewan	2.8	1.6	1.4	1.6	2.0
Alberta	2.4	1.1	1.3	1.8	2.2
British Columbia	2.4	1.1	-0.1	1.6	1.8
Employment growth – Canada	1.6	1.2	1.3	1.4	1.8
Atlantic	0.3	0.7	0.2	1.0	1.3
Quebec	1.0	0.8	1.1	1.2	1.5
Ontario	1.8	0.8	1.5	1.4	1.8
Manitoba	0.8	0.9	0.6	1.5	1.9
Saskatchewan	0.3	2.1	3.4	2.0	2.3
Alberta	3.8	2.7	2.9	2.3	2.8
British Columbia	0.8	1.7	-0.2	1.6	1.9
Unemployment rate – Canada	7.4	7.2	7.1	6.9	6.6
Atlantic	10.0	10.3	10.3	10.1	9.9
Quebec	7.8	7.8	7.6	7.3	6.8
Ontario	7.8	7.8	7.5	7.4	7.1
Manitoba	5.4	5.3	5.4	5.2	5.1
Saskatchewan	5.0	4.7	4.0	3.9	3.9
Alberta	5.5	4.6	4.7	4.4	4.2
British Columbia	7.5	6.7	6.6	6.4	6.2
Retail sales growth – Canada	4.1	2.5	2.7	3.7	4.1
Atlantic	4.5	1.4	2.3	3.2	3.4
Quebec	3.0	1.1	1.7	2.7	3.0
Ontario	3.6	1.6	2.5	3.2	3.7
Manitoba	4.5	1.6	2.0	3.5	3.8
Saskatchewan	7.5	7.6	3.1	4.5	5.0
Alberta	6.8	6.9	6.5	6.5	7.0
British Columbia	3.2	1.9	1.5	3.8	4.0
Housing starts – Canada (thousands of units)	194.0	214.8	188.0	180.6	178.1
Atlantic	12.5	12.6	10.4	9.8	9.8
Quebec	48.4	47.4	37.0	37.0	41.0
Ontario	67.8	76.7	61.1	57.4	53.0
Manitoba	6.1	7.2	7.9	7.7	7.3
Saskatchewan	7.0	10.0	8.3	8.2	8.0
Alberta	25.7	33.4	36.5	35.5	36.0
British Columbia	26.4	27.5	26.8	25.0	23.0

f: forecasts

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