

Plummeting oil prices are affecting the financial markets and stimulating many economies

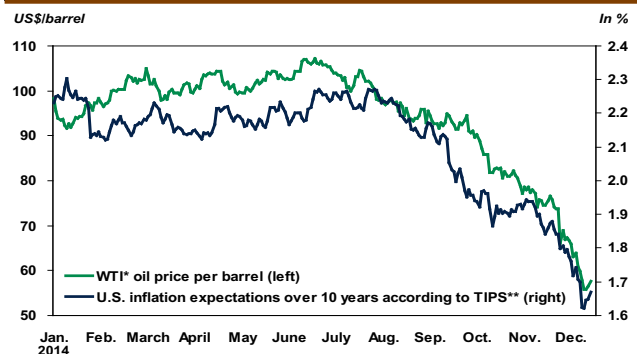
HIGHLIGHTS

- The global economy should benefit from plunging oil prices, but the gains will be concentrated mainly in the advanced countries, especially the United States. However, growth will remain very weak in the euro zone, and the lower gasoline prices will heighten the risk of deflation. Growth will remain slow in China and in Brazil. Russia finds itself in a very difficult position, aggravated by the slide in oil prices and also by the ruble crisis. Global real GDP growth should come in at 3.5% in 2015 and 3.7% in 2016.
- Even though falling prices for petroleum products will temporarily produce low inflation, Federal Reserve officials believe that the gasoline price slump is a positive development. An increase of 3.2% in real GDP is expected for 2015, followed by 3.0% in 2016. We are still calling for a hike in the U.S. key interest rates starting in June 2015, along with a gradual climb in bond yields.
- The tumbling oil prices arouse more concern in Canada, but a 2.4% advance in real GDP is expected in 2015. The economy's good growth and rising concerns about household debt should convince the Bank of Canada to begin monetary tightening in the fall of 2015. This should enable the Canadian dollar to climb near US\$0.90.
- Modest gains are expected for the S&P/TSX, while the U.S. stock market's bull run could continue into next year.
- The slump in commodity prices will slow production in those provinces where the focus is on natural resources. Those provinces where the manufacturing sector is very important will benefit from the improvement in U.S. demand, the loonie's depreciation and lower oil prices. In fact, Ontario's real GDP growth should exceed the national average in 2015 and 2016.
- In Quebec, the pace of the economy will be influenced by many opposing forces. The faster growth in international exports and the funds freed up by lower energy costs will lessen the impact of the public sector's austerity regime. Real GDP growth of 1.7% is now anticipated in 2015, down from the rate of 1.8% that was formerly predicted. In 2016, the pace of growth will be limited to 1.5%.

CONTENTS

Highlights	1
Risks inherent in our scenarios.....	2
Financial forecasts	3
Economic forecasts	
Overseas	4
United States.....	6
Canada	8
Quebec.....	10
Ontario and other provinces.....	12

Tumbling oil prices and the ruble crisis are bringing inflation expectations down



* West Texas Intermediate; ** Treasury Inflation Protected Securities.
Sources: Bloomberg and Desjardins, Economic Studies

François Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Mathieu D'Anjou
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

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

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

Country or zone	Weight** (%)	Real GDP growth (%)			Inflation rate (%)		
		2014f	2015f	2016f	2014f	2015f	2016f
Advanced economies	44.6	1.7	2.3	2.3	1.4	0.9	2.0
United States	18.2	2.3	3.2	3.0	1.6	0.9	2.4
Canada	1.7	2.4	2.4	2.3	1.9	1.3	2.2
Quebec	0.4	1.5	1.7	1.5	1.4	1.3	2.2
Ontario	0.7	2.2	2.7	2.4	2.3	1.4	2.3
Japan	5.2	0.2	1.1	1.0	2.7	1.4	1.8
United Kingdom	2.7	3.0	2.8	2.5	1.5	1.2	2.2
Euro zone	14.0	0.8	1.3	1.5	0.4	0.4	1.3
Germany	3.9	1.5	1.6	1.8	0.9	1.0	1.9
France	2.8	0.4	1.1	1.3	0.5	0.3	1.3
Italy	2.3	-0.4	0.7	1.0	0.1	0.1	1.2
Other countries	3.0	2.4	2.6	2.7	1.4	1.2	2.1
Australia	1.2	3.1	3.1	3.2	2.5	1.9	2.7
Emerging and developing economies	55.4	4.2	4.4	4.9	5.6	5.1	4.9
North Asia (China, Hong Kong, India and South Korea)	22.9	6.4	6.7	6.6	2.9	2.7	3.4
China	14.5	7.4	7.3	7.0	2.0	2.0	2.8
India	5.6	5.6	6.6	6.7	7.3	6.1	6.2
South Asia (Indonesia, Malaysia, Thailand and Philippines)	3.6	4.3	5.4	5.3	4.1	3.9	4.0
Latin America	8.1	1.2	1.9	3.3	11.5	10.8	9.4
Mexico	2.3	2.3	3.7	4.0	3.9	3.2	3.5
Brazil	2.7	0.2	0.8	2.2	6.3	6.0	5.6
Eastern Europe	8.5	1.0	0.5	2.0	6.2	5.2	5.0
Russia	3.9	0.1	-2.0	0.0	8.1	6.4	5.8
Other countries	12.3	3.8	3.8	4.0	7.6	7.1	6.0
South Africa	0.7	1.5	2.7	3.9	6.2	5.7	4.9
World	100.0	3.1	3.5	3.7	3.2	2.8	3.3

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

RISKS INHERENT IN OUR SCENARIOS

The recent sluggishness of the **emerging economies** remains a subject of concern. These countries may no longer be able to play the role of economic driver that they performed in recent years. A pullback or prolonged stagnation in the European economy and persistent geopolitical risks could also throw the global economy out of kilter. In the **United States**, despite improving economic conditions, new disappointments are still possible, and there is a risk that the outcome of the mid-term elections could bring partisan conflicts over federal budget policy back to haunt us. In **Canada**, economic growth could be harder hit if the slump in commodity prices were to continue. On top of that, the recent upturn in exports could run out of steam, and the acceleration in non-residential investments could take time to materialize. The real estate market situation is still an area of concern, and

households are still carrying plenty of debt. Therefore, a faster and less orderly correction of the housing sector could occur. In **Quebec**, the achievement of a balanced budget in 2015–2016 will put a drain on the economy, which should be partly offset by falling oil prices and a depreciating loonie. Household and business confidence will have to turn the corner in order for the economy to keep up. As for the **financial markets**, more periods of strong volatility could occur, given that the international situation is still very uncertain, and oil prices are continuing to plummet. The beginning of monetary tightening in the United States could be deferred if inflation expectations remain too weak.

Table 2
Summary of the financial forecasts

End of period in % (except if indicated)	2014		2015				2016			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	0.25	0.25	0.25	0.50	1.00	1.25	1.25	1.25	1.50	2.00
Canada	1.00	1.00	1.00	1.00	1.00	1.50	1.50	1.50	1.75	2.00
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	0.75	1.00	1.25	1.50	1.50	1.50
United States – Federal bonds										
2-year	0.56	0.65	0.90	1.10	1.40	1.60	1.65	1.75	1.90	2.00
5-year	1.77	1.70	1.85	2.10	2.20	2.30	2.35	2.45	2.55	2.60
10-year	2.51	2.30	2.50	2.80	2.90	3.00	3.05	3.10	3.20	3.25
30-year	3.21	2.90	3.00	3.25	3.35	3.40	3.40	3.45	3.50	3.55
Canada – Federal bonds										
2-year	1.12	1.05	1.20	1.30	1.50	1.70	1.75	1.85	2.00	2.05
5-year	1.63	1.45	1.60	1.85	1.95	2.05	2.10	2.20	2.30	2.35
10-year	2.15	1.95	2.15	2.40	2.50	2.60	2.65	2.70	2.80	2.85
30-year	2.67	2.45	2.55	2.75	2.85	2.90	2.95	3.00	3.05	3.10
Currency market										
Canadian dollar (USD/CAD)	1.12	1.16	1.16	1.15	1.14	1.12	1.11	1.10	1.10	1.10
Canadian dollar (CAD/USD)	0.89	0.87	0.86	0.87	0.88	0.89	0.90	0.91	0.91	0.91
Euro (EUR/USD)	1.26	1.24	1.22	1.20	1.19	1.18	1.16	1.15	1.13	1.12
British pound (GBP/USD)	1.62	1.57	1.57	1.58	1.60	1.61	1.62	1.61	1.60	1.59
Yen (USD/JPY)	110	120	120	121	123	125	125	128	130	128
Stock markets** (level and growth)										
United States (S&P 500)	2,050		Target: 2,220 (+8.3%)				Target: 2,350 (+5.9%)			
Canada (S&P/TSX)	14,400		Target: 15,200 (+5.6%)				Target: 16,400 (+7.9%)			
Commodities (annual average)										
WTI* oil (US\$/barrel)	93 (58**)		75 (84**)				88 (92**)			
Gold (US\$/ounce)	1,265 (1,200**)		1,150 (1,100**)				1,100 (1,000**)			

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

FINANCIAL FORECASTS

The oil price plunge accelerated at the end of November, after the decision by the Organization of the Petroleum Exporting Countries not to cut its production quotas. The energy sector of the Canadian stock market has pulled back about 30% since the summer, and investors are beginning to worry about the possibility of contagion towards the financial sector. The correction in oil prices has recently had an adverse effect on all risky assets, as the situation in Russia is rapidly deteriorating, driving the ruble down. The erosion in gasoline prices has also driven inflation expectations down, putting new downward pressure on bond yields.

The collapse in oil prices appears to be exaggerated, but indications are that prices will remain low in 2015. Motorists and many industries will benefit from the lower

cost of petroleum products. The U.S. stock market could therefore continue its bull run into next year, but gains in the S&P/TSX are expected to be modest. Even though it will temporarily produce low inflation, Federal Reserve officials believe that the gasoline price slump is a positive development. Thus we are still calling for a hike in the U.S. key interest rates starting in June 2015, along with a gradual climb in bond yields. The slide in oil prices is more worrisome in Canada, but the good performance of the economy and rising concerns about household debt should convince the Bank of Canada to begin monetary tightening in the fall of 2015. This will tend to push up the Canadian dollar near US\$0.90.

OVERSEAS

The oil price slump is not a panacea for everyone

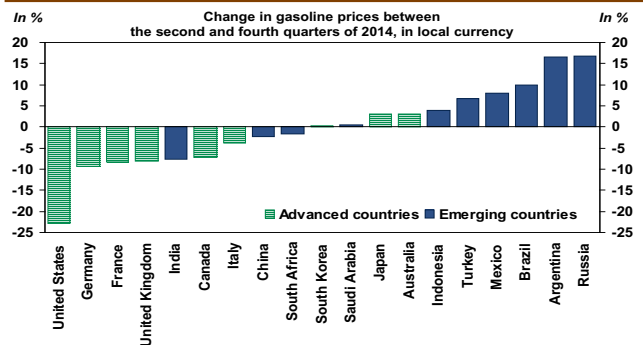
Forecasts: The global economy should benefit from the significant slump in oil prices, but the gains will be concentrated mainly in the advanced countries, especially the United States. However, growth will remain weak in the euro zone, and the lower gasoline prices will heighten the risk of deflation. Japan should pull out of recession in the fourth quarter, supported by foreign trade. Growth will remain slow in China and in Brazil. Russia finds itself in a very difficult position, aggravated by the oil price plunge and also by the ruble crisis. Global real GDP growth should come in at 3.1% in 2014, and 3.5% in 2015. A slightly stronger gain of 3.7% is forecast for 2016.

The most noteworthy development in recent international economic conditions is, without argument, the falling oil prices, which have plummeted by near 50% since mid-June. Obviously, the lower prices will help those countries where oil consumption is high. However, the effects will vary from place to place. In some cases, currency movements have partly counterbalanced the effect of the lower oil prices expressed in U.S. dollars. In other cases, gasoline prices do not necessarily keep step with international prices because of subsidies, government controls or variations in taxes. Finally, countries that are net exporters of oil will suffer the repercussions of this price slump on their terms of trade and on investments linked to the oil industry. From consumers' point of view, it is mainly the advanced countries, first and foremost the United States, that will benefit from the lower gasoline prices (graph 1). The effect in many emerging countries is far more neutral. The big losers are mainly Russia and Brazil.

EUROPE

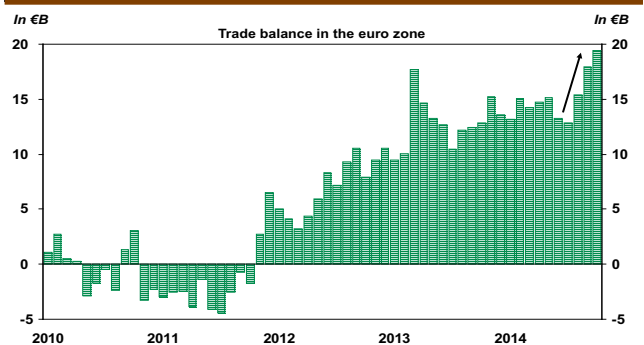
The falling oil and gasoline prices will give a bit of support to economic growth in the euro zone. However, the disappointing data from the third quarter, and the lacklustre indicators released since then, are hinting at a downward revision of predictions for 2015. The benefits from oil will basically offset the more negative factors. The euro zone economy will also profit from the depreciation of the euro. Already, exports have recently posted noteworthy growth (graph 2). However, the PMI indexes are still low and do not herald any generalized rebound in production. Furthermore, the lower gasoline prices present an additional risk that low inflation might cross over into deflation (graph 3). If the lower prices prove to be lasting, they could pull salaries

Graph 1 – Changes in gasoline prices vary from place to place in the G-20 countries



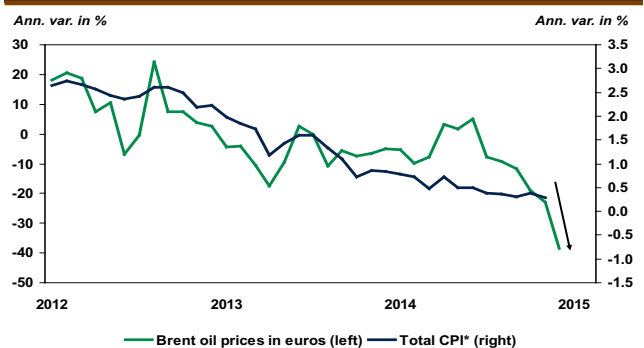
Sources: Bloomberg and Desjardins, Economic Studies

Graph 2 – Net exports from the euro zone are benefiting from a weaker euro



Sources: Eurostat and Desjardins, Economic Studies

Graph 3 – The oil price collapse could bring down euro zone inflation in negative territory



* Consumer price index. Sources: Eurostat, Datastream and Desjardins, Economic Studies

down, which would generate additional problems for the European Central Bank. It should announce new measures in January, given that its recent actions have not had much effect on its balance sheet. After an estimated increase of 0.8% in 2014, the euro zone's real GDP should grow sluggishly, by 1.3% in 2015 and by 1.5% in 2016.

In the United Kingdom, economic outlooks are still bright, even though industrial production contracted in October. The PMI indexes are still high. Our forecasts for British real GDP growth are 3.0% in 2014 and 2.8% in 2015. A slightly more modest gain of 2.5% is predicted for 2016.

JAPAN

The already disappointing third-quarter annualized quarterly change in real GDP has been revised downward: the contraction widened from 1.6% to 1.9%, after a tumble of 6.7% in the spring. It should be noted that some indicators have improved since then; this is true of retail sales, industrial production and, to a greater extent, exports (graph 4), which seem to be benefiting from the further depreciation of the yen. Real GDP growth of just 0.2% is expected for 2014, followed by gains of 1.1% next year and 1.0% in 2016.

EMERGING ECONOMIES

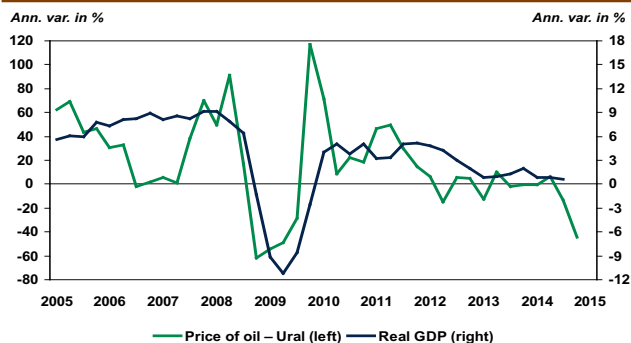
In Brazil and especially in Russia, the oil price slump is one more test in an already difficult economic environment. Russia's real GDP is very closely tied to oil price trends (graph 5) and their slide, combined with sanctions and the strong depreciation of the ruble, call for us to review our growth forecasts downward. Accordingly, real GDP should contract in 2015, after stagnating in 2014. In Brazil, the situation is not so grim; the economy should grow by 0.8% next year. In China, the improvement in exports is encouraging (graph 6), but the slowdown is nevertheless likely to continue. With a more accommodating monetary policy, the People's Bank of China is attempting to mitigate risks of a more abrupt decline. After 7.4% growth in 2014, a gain of 7.3% is anticipated for 2015, followed by 7.0% in 2016. As for the Indian economy, it should pick up steam, given that the Modi government is making efforts to stimulate private investment.

Graph 4 – Japanese exports have surged recently



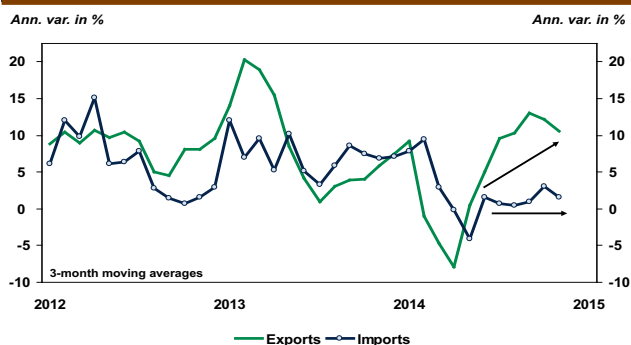
Sources: Bank of Japan and Desjardins, Economic Studies

Graph 5 – Plunging oil prices are doing important damage to the Russian economy



Sources: Datastream, Federal State Statistics Service and Desjardins, Economic Studies

Graph 6 – Chinese exports are beginning again to head up a little faster



Sources: National Bureau of Statistics of China and Desjardins, Economic Studies

UNITED STATES

Oil: extra support for growth that is already encouraging

Forecasts: The U.S. economy has been maintaining a good pace of growth since the spring. A lull seemed to take hold in the fourth quarter, but the stronger trend should reassert itself soon. The lower gasoline prices will give more support to domestic demand, although this will be offset by a weaker contribution from foreign trade caused by the strong U.S. dollar. Real GDP growth for 2014 as a whole should come to 2.3%. Expansion of 3.2% is expected for 2015, followed by a gain of 3.0% in 2016.

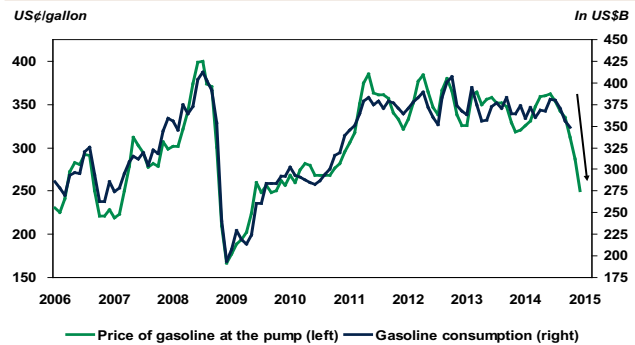
Already stronger than initially expected, the annualized change in real GDP in the third quarter has been revised upward in the second estimate of national accounts. The gain has risen from 3.5% to 3.9%, boosted by better numbers in consumption, investment and change in inventories. Keep in mind that this growth comes on the heels of a remarkable surge of 4.6% in the spring. Thus, despite the harsh winter that started off 2014, average growth since the summer of 2013 now stands at close to 3%. Between 2010 and the spring of 2013, the average was merely 2%.

The U.S. economy will also be supported by the tumbling oil prices. The price of gasoline now stands as US\$2.50 per gallon, whereas it surpassed US\$3.60 per gallon at the end of June. This decline of 30% is obviously a very positive development for consumers. It should save them around US\$100B on their nominal gasoline consumption (graph 7), freeing up some of their disposable income for other types of consumption. Businesses that use oil products will also benefit from this “windfall.” On the other hand, the investments that generated an explosion in U.S. oil production in recent years are expected to slow. However, even assuming broad multiplier effects, that negative impact is nowhere near the same order of magnitude as the benefit that the rest of the economy will reap.

Stimulated by lower gasoline prices and strong job growth, American households are becoming more confident. We note a better performance in retail sales this autumn, after the relatively disappointing numbers reported over the summer (graph 8). Real consumption growth should close in on the 3% mark during 2015.

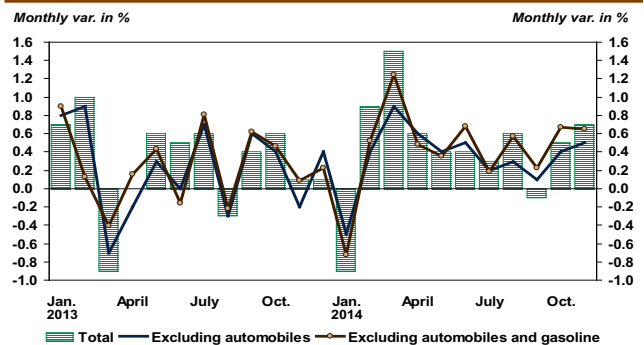
The expansion in hirings is not the only sign of improved business confidence. The very strong performance by the ISM indexes, especially in the components linked with new orders, is encouraging for business investment (graph 9).

Graph 7 – Lower gasoline prices benefit U.S. consumers



Sources: Energy Information Administration, Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 8 – Retail sales growth is now stronger in the United States



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

Graph 9 – The ISM indexes are suggesting very strong business investment growth in the United States



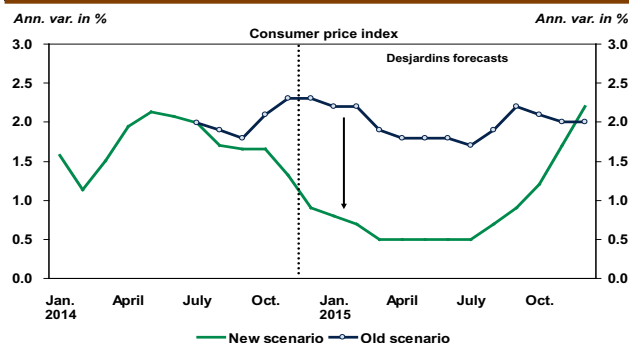
Sources: Institute for Supply Management, Bureau of Economic Analysis and Desjardins, Economic Studies

The main cloud on the horizon comes from the strong appreciation of the U.S. dollar. It has risen by more than 10% against the major currencies since mid-2014. Growth of that magnitude has the potential to drive net exports down. The effects could be significant enough to partly offset the benefits of lower gasoline prices on real GDP growth.

Congress has managed, in extremis, to avoid a partial stoppage of government operations by adopting a financing bill for the rest of the budget year, i.e. until September 2015. Despite some flaws, this law was better than another shutdown. However, tensions are still high between the White House and the Republican majority in Congress. The immigration issue is likely to haunt budget policy next year. The debt ceiling must also be renewed by the end of the winter. Government spending should head up next year, but this is mainly thanks to improved growth at the state and local levels.

The lower gasoline prices will drive the price index trends down in 2015. Inflation will fall below the 1% threshold (graph 10). Under these conditions, the Federal Reserve will remain cautious, but will probably still decide on an initial key interest rate hike in June. The top of the federal funds target range should probably end the year 2015 at 1.25% and 2016 at 2.00%.

Graph 10 – Falling gasoline prices herald much weaker inflation in the United States



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Table 3
United States: major economic indicators

	2014		2015				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2013	2014f	2015f	2016f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	3.9	2.4	3.6	2.8	2.8	2.9	2.2	2.3	3.2	3.0
Personal cons. expenditures	2.2	2.9	3.7	2.8	2.8	2.8	2.4	2.3	3.0	2.8
Residential construction	2.7	10.7	8.4	5.7	8.1	6.4	11.9	1.9	7.4	6.9
Business fixed investment	7.1	6.5	7.2	5.8	6.3	5.9	3.0	6.2	6.7	5.4
Inventory change (\$B)	79.1	67.5	65.0	65.0	60.0	60.0	63.6	66.7	62.5	60.0
Public expenditures	4.2	0.5	1.2	1.3	1.1	1.2	-2.0	-0.0	1.4	1.4
Exports	4.9	2.3	2.3	3.2	3.2	3.2	3.0	3.1	3.5	3.6
Imports	-0.7	5.0	3.5	4.0	3.8	3.5	1.1	3.7	3.8	3.6
Final domestic demand	3.2	3.1	3.8	3.0	3.1	3.0	1.9	2.3	3.3	3.0
Other indicators										
Real disposable personal income	2.3	3.0	4.5	2.5	2.8	2.1	-0.2	2.4	3.1	2.5
Employment (establishments)	2.1	2.3	2.1	1.9	1.6	1.5	1.7	1.8	2.0	1.4
Unemployment rate (%)	6.1	5.8	5.8	5.7	5.6	5.6	7.4	6.2	5.7	5.4
Housing starts (1)	1,030	1,038	1,067	1,082	1,115	1,130	930	994	1,098	1,190
Corporate profits*** (2)	1.0	3.0	15.0	8.5	6.5	5.5	4.2	-0.1	8.7	5.3
Personal saving rate (%)	5.0	5.0	5.2	5.2	5.2	5.1	4.9	5.0	5.2	5.0
Total inflation rate (2)	1.8	1.3	0.7	0.5	0.7	1.7	1.5	1.6	0.9	2.4
Core inflation rate** (2)	1.8	1.8	1.8	1.7	1.7	1.7	1.8	1.8	1.7	1.9
Current account balance (\$B)	-401.0	-418.0	-427.5	-435.9	-443.2	-448.8	-400.3	-405.3	-438.9	-456.3

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

Better-than-expected growth

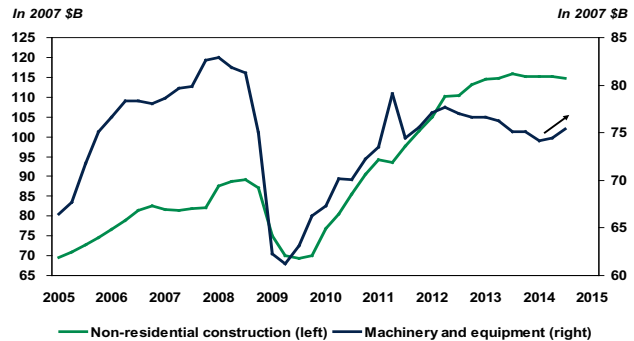
Forecasts: Even though fourth-quarter growth may be affected by the slump in commodity prices, the strong performance by the Canadian economy during the previous quarters calls for a slight upward revision to our forecast of real GDP growth in 2014, from 2.3% to 2.4%. A gain of 2.4% is expected in 2015, and a slight downturn is predicted for 2016, when stabilization in the real estate market and slower growth in consumer spending will make themselves felt to a greater extent.

The good news keeps on coming as far as the Canadian economy is concerned. After the upward revision of real GDP growth between the first quarter of 2011 and the second quarter of 2014, the number for the third quarter of 2014 proved to be far higher than expected: an annualized quarterly gain of 2.8%.

Not only did exports keep expanding thanks to the vitality of U.S. demand, but more positive signs were observed in non-residential investment (graph 11). Growth in machinery and equipment investments accelerated over the summer, and investment intentions are still good, according to the latest survey by the Bank of Canada (BoC). In addition, consumer spending was still vigorous, stimulated by sustained growth in automobile sales, higher income and employment, and fairly high confidence. Residential investment also kept increasing, especially in certain parts of the country (graph 12), fueling worries about high household debt levels. Indeed, the BoC has expressed increasing concern about this situation in recent months. However, many regions are already showing a cooldown in the real estate market, and our scenario calls for this phenomenon to become more generalized in 2015 and in 2016.

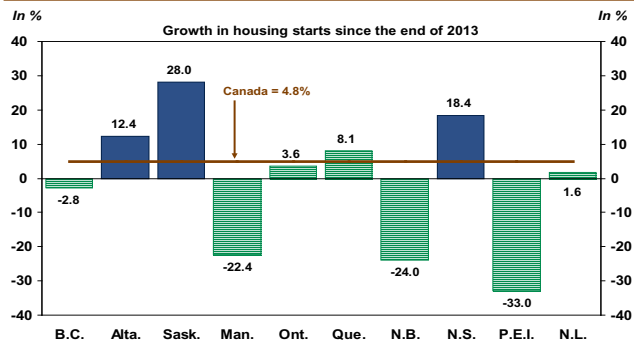
Consumer spending should also adopt a pace more in line with the growth in household income. Under these conditions, the Canadian economy could decelerate somewhat in 2016. In 2015, lower commodity prices could certainly curb Canada's real GDP growth slightly, but what will be more affected is the distribution of growth among the provinces. But given the favourable base effects stemming from the strong results of recent months, combined with a contribution by exports and non-residential investment, especially in the manufacturing sector, real GDP should manage to grow by around 2.4% next year.

Graph 11 – Investments in machinery and equipment are showing signs of improvement in Canada



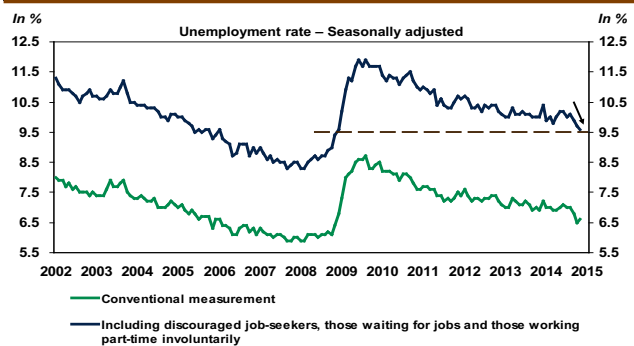
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 12 – Homebuilding is still particularly robust in Western Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 13 – Alternative measurements of unemployment are also improving in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

The upward revision to the economic growth of recent years and the fairly quick pace of growth in recent quarters raises some questions about what is happening to excess capacity in this country. In all likelihood, it has shrunk much faster than expected. Our preliminary estimates show that the Canadian economy may be on the verge of reaching its full potential, if this was not already accomplished in the third quarter of 2014. We will have to wait for the next issue of the *Monetary Policy Report*, in January 2015, to find out the BoC's most recent estimate in this regard.

The downward trend in the unemployment rate that has been observed in the past few months confirms this greater use of production capacity. At 6.6% last November, the unemployment rate now stands well below the 7.1% that was recorded in June. If we add in discouraged job-seekers, those waiting for jobs to start and those who are working part-time involuntarily, this alternative measurement of unemployment reached 9.6% in November (seasonally adjusted), compared with 10.2% last June (graph 13 on page 8).

Despite the downward pressure from gasoline prices, the total annual inflation rate climbed from 2.0% in September to 2.4% in October, while the annual change in the core index rose to 2.3%. However, the lower gasoline prices of recent weeks, combined with the subsiding of certain temporary upward effects, should favour a low inflation in the next months. Thus, the annual rate of total inflation fell to 2.0% in November.

Table 4
Canada: major economic indicators

	2014		2015				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2013	2014f	2015f	2016f
Quarterly annualized variation in % (except if indicated)										
Real gross domestic product*	2.8	2.4	2.1	2.2	2.5	2.7	2.0	2.4	2.4	2.3
Final consumption expenditure [of which:]	2.0	1.7	1.8	2.0	2.1	2.1	1.9	2.0	2.0	1.8
Household consumption expenditure	2.8	2.0	2.1	2.4	2.4	2.4	2.5	2.8	2.4	2.1
Governments consumption expenditure	-0.1	0.8	1.0	1.0	1.2	1.2	0.4	0.1	0.9	1.0
Gross fixed capital formation [of which:]	5.3	1.6	0.8	0.8	1.7	3.9	0.4	0.4	2.0	3.1
Residential structures	12.5	1.5	-0.4	-1.0	-1.4	-1.0	-0.4	2.6	1.9	-0.7
Non-residential structures	-1.9	1.5	1.5	2.0	3.5	8.0	5.0	-0.0	1.7	6.1
Machinery and equipment	5.2	2.5	1.0	1.0	4.0	8.0	-1.7	-1.1	2.6	6.9
Intellectual property products	15.9	5.0	4.0	3.5	4.0	4.5	-4.6	0.2	4.7	3.2
Governments gross fixed capital formation	2.4	-0.5	-0.3	0.0	0.2	0.2	-1.6	-1.3	0.3	0.2
Investment in inventories (2007 \$B)	0.6	2.2	2.0	1.8	1.8	2.0	12.4	5.2	1.9	2.0
Exports	6.9	4.0	5.0	5.0	5.3	4.5	2.0	5.6	5.8	4.2
Imports	4.0	2.8	3.0	3.0	3.5	4.0	1.3	1.7	3.6	3.5
Final domestic demand	2.8	1.7	1.5	1.7	2.0	2.5	1.5	1.6	2.0	2.1
Other indicators										
Real disposable personal income	2.8	2.5	2.0	2.2	2.5	2.5	2.5	1.7	2.1	2.3
Employment	1.4	1.9	0.6	1.0	1.1	1.3	1.3	0.8	1.1	1.1
Unemployment rate (%)	6.9	6.6	6.7	6.7	6.7	6.5	7.1	6.9	6.6	6.4
Housing starts (1)	199	190	190	187	184	181	188	190	186	184
Corporate profits** (2)	10.3	8.0	6.0	5.0	5.0	6.0	-0.6	9.5	5.5	6.5
Personal saving rate (%)	3.9	4.0	3.9	3.9	3.9	3.9	5.2	4.2	3.9	4.2
Total inflation rate (2)	2.1	2.0	1.1	0.8	1.3	1.9	0.9	1.9	1.3	2.2
Core inflation rate*** (2)	2.0	2.2	1.9	1.6	1.5	1.6	1.3	1.8	1.7	2.0
Current account balance (\$B)	-8.4	-12.0	-11.0	-9.0	-8.0	-7.0	-56.3	-41.6	-35.0	-21.5

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 will face many headwinds

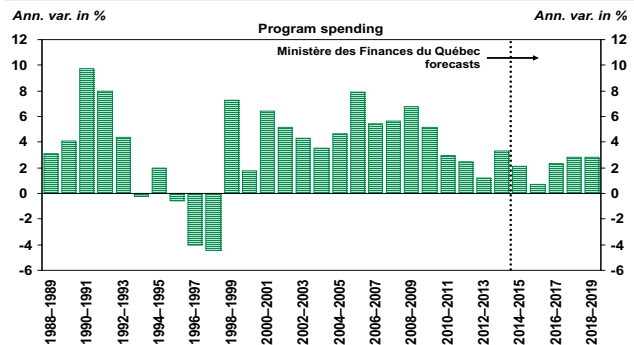
Forecasts: Although the forecast of 1.5% real GDP growth appears set to pan out for the year 2014, the pace of the economy in 2015 and 2016 will be influenced by many opposing forces. The decline in the price of oil and the depreciation of the Canadian dollar will be stimulating for households and businesses, while the provincial government's budget-cutting measures will have a slightly dampening effect. Real GDP growth of 1.7% is now anticipated in 2015, down from the rate of 1.8% that was formerly predicted. In 2016, the pace of growth will be limited to 1.5%.

Efforts to reform Quebec's public finances will make it possible to return to a balanced budget by 2015–2016. So far, approximately 85% of the amounts required to reach that goal by next year have been identified. The actions that have been announced are mainly designed to exercise stricter control over government spending (graph 14) and, to a lesser extent, to extract additional revenue from individuals and businesses through various tax and rate increases. The revamping of the funding of daycare services, putting an end to the universal fee of \$7 per day and adjusting it according to household income, is one example. The increase in the gasoline tax of ¢2 per litre and the raising of vehicle registration fees are others. However, some relief measures have been granted to SMEs in order to stimulate the economy, while at the same time tax assistance for businesses has been reduced.

On the spending side of the ledger, the Quebec government's goal is to contain the increase in its payroll. The public service will shrink by 2% in 2015, because the workers who take retirement from government departments and agencies will not be replaced. A total of 1,150 jobs should thus be eliminated next year. According to the Québec Infrastructure Plan, investments will also be lowered from \$11.5B in 2014 to \$9.6B in 2015, and then to \$8.5B in the following year. Thus the government's contribution to the economy will be reduced in many respects.

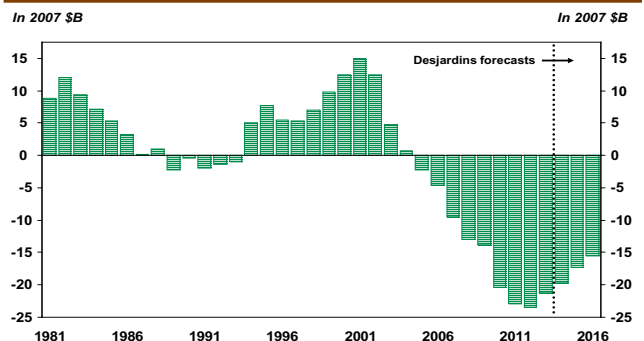
In this situation, the decline in the price of oil and the value of the Canadian dollar, and the improvement in the U.S. and Ontario economies, come at just the right time, since these factors will stimulate real GDP, in particular on the exports front. The turnaround in shipments outside Quebec

Graph 14 – Growth in the Quebec government's program spending will be weaker next year



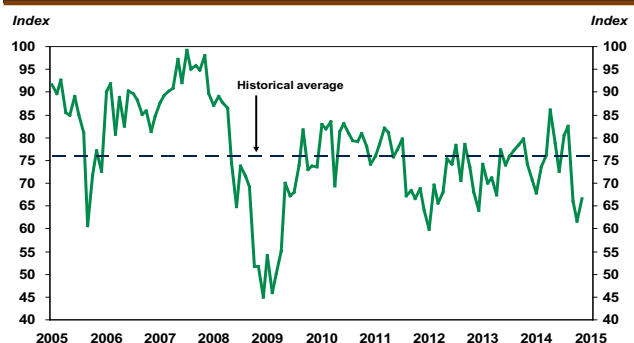
Source: Ministère des Finances du Québec

Graph 15 – Quebec's trade deficit will keep narrowing in 2015 and in 2016



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

Graph 16 – A significant pullback in Quebecers' confidence



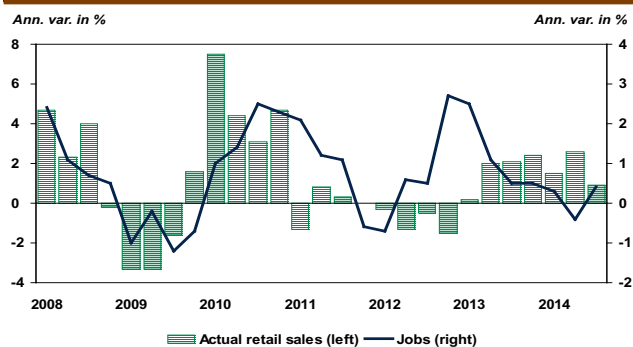
Sources: Conference Board of Canada and Desjardins, Economic Studies

accelerated in 2014, and another boost is expected in 2015. This will ease the trade deficit (graph 15 on page 10) and thus support economic growth.

In itself, the gasoline price slump generates a potential saving of around \$2B per year for Quebec households, businesses and the public sector. Consumers really need this respite: their confidence is low (graph 16 on page 10), job creation has been poor in 2014, and retail sales in real terms are slack (graph 17). Despite the tax cuts that the federal government will be granting to families in 2015, Quebec's budget situation will encourage households to be cautious. Consequently, their rate of spending will continue to hover around 2% for the next two years.

The headwinds that are affecting the economy will also be reflected in the labour market. The boom in factory shipments will stimulate hiring in the manufacturing sector, while the government will implement staff cuts. On the brighter side, employment should start growing again in the upcoming quarters, with the addition of 25,000 jobs in 2015 and 20,000 workers in 2016.

Graph 17 – Retail sales growth is fairly limp, given the trend in Quebec's job figures



Sources: Statistics Canada and Desjardins, Economic Studies

All told, the faster growth in international exports and the funds freed up by the lower energy costs will mitigate the negative impacts of the public sector's austerity regime.

Table 5
Quebec: major economic indicators

	2012	2013	2014f	2015f	2016f
Annual average in % (except if indicated)					
Real gross domestic product*	1.5	1.0	1.5	1.7	1.5
Final consumption expenditure [of which:]	1.0	1.5	1.8	1.0	1.0
Household consumption expenditure	1.1	2.0	2.1	2.0	2.2
Governments consumption expenditure	0.7	0.6	0.7	-1.5	-2.0
Gross fixed capital formation [of which:]	4.1	-3.7	-0.9	1.6	0.9
Residential structures	1.3	-3.7	0.2	4.2	1.6
Non-residential structures	23.5	-5.9	-9.5	-0.0	4.2
Machinery and equipment	3.7	-7.6	0.5	3.6	2.9
Intellectual property products	-3.5	-5.1	5.4	1.3	1.3
Governments gross fixed capital formation	-2.7	1.5	1.8	-1.8	-4.4
Investment in inventories (2007 \$M)	1,908	1,836	1,112	1,900	1,900
Exports	1.5	0.4	2.8	5.3	4.7
Imports	1.7	-1.0	1.6	3.3	3.2
Final domestic demand	1.6	0.4	1.2	1.1	1.0
Other indicators					
Real disposable personal income	2.6	0.5	1.2	1.7	1.9
Weekly earnings	2.5	1.4	2.0	2.2	2.3
Employment	0.8	1.2	0.0	0.6	0.5
Unemployment rate (%)	7.8	7.6	7.8	7.7	7.5
Personal saving rate (%)	4.1	2.7	1.8	2.3	2.2
Retail sales	1.2	2.5	3.0	3.2	3.7
Housing starts (1)	47.4	37.8	39.0	40.0	38.0
Total inflation rate	2.1	0.7	1.4	1.3	2.2

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

Ontario and the other manufacturing provinces will reap benefits

Forecasts: There is quite a contrast between the economic outlooks of the various provinces. On one hand, those where the manufacturing sector carries a good deal of weight will benefit from the improvement in U.S. demand, the depreciation of the loonie and the lower oil prices. Furthermore, Ontario's real GDP growth should exceed the national average in 2015 and 2016. On the other hand, the slump in commodity prices will slow production in the provinces where the focus is on natural resources, such as Alberta, Saskatchewan and Newfoundland and Labrador.

ONTARIO

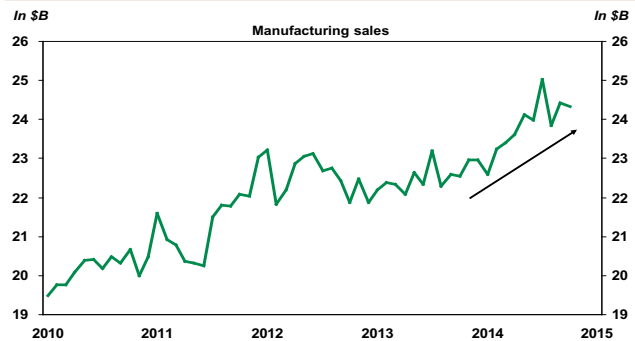
Ontario is at the forefront of the improvement that is being observed in the country's economic conditions. For example, manufacturing sales in that province shot up by an annualized rate of 15.2% in the second quarter, and by 9.0% in the third quarter (graph 18), while merchandise exports have expanded by 13.8% since the beginning of 2014. The improvement in U.S. demand and the depreciation of the Canadian dollar that have occurred in recent months obviously have something to do with these strong results. Ontario enjoyed the creation of 83,400 jobs in the first 11 months of 2014, and the unemployment rate has dropped from 7.9% in December 2013 to 7.0% last November.

Ontario is also one of the provinces that will reap the most benefit from the current slide in oil prices. Since it is not a major producer of fossil fuels, the lower prices will generate gains for Ontario consumers as well as for businesses that use oil, like the manufacturing sector. This could result in greater growth in non-energy consumer spending and faster profit growth for some businesses. Ontario's economic growth should therefore continue to accelerate and exceed the national average. After a gain of 1.3% in 2013, real GDP growth of 2.2% is expected for 2014, followed by growth of 2.7% in 2015. For 2016, an increase of 2.4% is forecast.

WESTERN PROVINCES

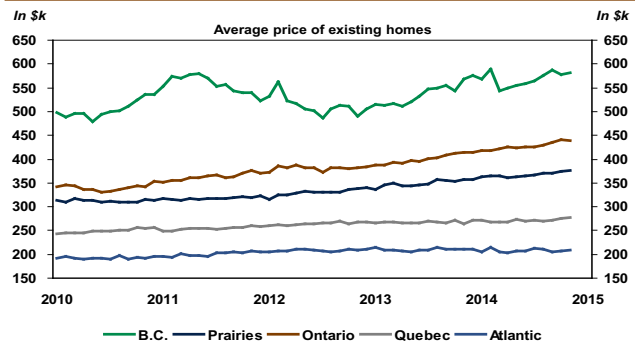
Generally speaking, the Western provinces are still showing economic results above the national average. However, lower commodity prices and, more importantly, the slump in crude oil prices will inevitably have a negative effect on Alberta and Saskatchewan. Not only could the wealth effect suffer, curbing the enthusiasm of consumers, but business investment in the energy sector will likely feel the effects of shrinking profitability for certain projects. But

Graph 18 – Ontario manufacturers are enjoying an upswing



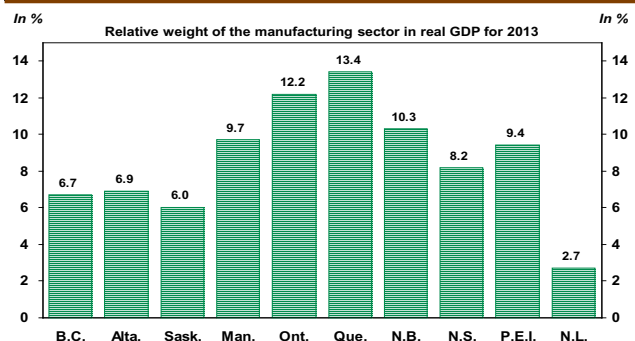
Sources: Statistics Canada and Desjardins, Economic Studies

Graph 19 – The housing market is still strong out West and in Ontario



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Graph 20 – The relative size of the manufacturing sector is very small in Newfoundland and Labrador



Sources: Statistics Canada and Desjardins, Economic Studies

this impact might be less pronounced than one might think, given that many projects have already been postponed due to the persistent problems of transporting oil and gas. Nevertheless, we should still expect the economic growth of Alberta and Saskatchewan to be less than was originally thought. Therefore, growth closer to the national average is now expected for these provinces in 2015.

In Manitoba, growth will be less in 2014 due to a slowdown in agricultural production; but improvement in the manufacturing sector should generate some acceleration in the province's real GDP in 2015 and 2016.

In British Columbia, the housing market could cool in the upcoming quarters, given that growth in sales and in the average price of existing properties in British Columbia are still among the highest in the country (graph 19 on page 12). In addition, the Asian countries are likely to see weaker economic growth compared with recent years, which could have repercussions on the province's international trade in particular. That said, improvement in the U.S. homebuilding industry should be favourable for the forestry sector.

ATLANTIC PROVINCES

Due to the substantial relative weight of the energy sector in its economy, Newfoundland and Labrador will be particularly hard hit by the recent oil price slump. Moreover, since its manufacturing sector is the smallest—in terms of its weight in total production—of all the Canadian provinces (graph 20 on page 12), Newfoundland and Labrador will reap the least benefit from the improvement in demand from south of the border. On the other hand, New Brunswick and Nova Scotia will enjoy a better performance from the manufacturing sector. As for Prince Edward Island, the improvement in the federal government's financial position is good news, considering how important government spending is to its economy.

Table 6
Ontario: major economic indicators

	2012	2013	2014f	2015f	2016f
Annual average in % (except if indicated)					
Real gross domestic product*	1.7	1.3	2.2	2.7	2.4
Final consumption expenditure [of which:]	1.6	1.7	1.8	2.0	1.7
Household consumption expenditure	1.5	2.1	2.4	2.5	2.0
Governments consumption expenditure	1.6	0.6	0.2	0.8	1.0
Gross fixed capital formation [of which:]	0.8	-4.5	-0.5	1.7	2.4
Residential structures	4.7	-2.3	1.1	-0.6	-0.3
Non-residential structures	7.8	-5.2	-2.0	3.3	4.5
Machinery and equipment	-2.8	-8.2	1.6	7.2	8.5
Intellectual property products	-1.3	-3.4	-2.0	2.9	3.3
Governments gross fixed capital formation	-7.0	-5.8	-3.4	-0.5	0.0
Investment in inventories (2007 \$M)	3,352	3,647	6,000	4,500	4,800
Exports	3.3	1.8	2.7	4.8	4.2
Imports	1.8	0.1	1.8	3.0	3.3
Final domestic demand	1.4	0.4	1.3	2.0	1.8
Other indicators					
Real disposable personal income	1.3	1.3	1.3	1.9	2.2
Weekly earnings	1.4	1.5	2.0	2.3	2.7
Employment	0.8	1.4	0.8	1.3	1.1
Unemployment rate (%)	7.8	7.5	7.2	6.6	6.4
Personal saving rate (%)	5.0	4.6	3.5	3.6	3.9
Retail sales	1.6	2.3	4.7	4.8	4.3
Housing starts (1)	76.7	61.1	57.9	55.0	62.7
Total inflation rate (2)	1.4	1.0	2.3	1.4	2.3

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	2014f	2015f	2016f
Annual average in % (except if indicated)					
Real GDP growth – Canada	1.9	2.0	2.4	2.4	2.3
Atlantic	-1.5	2.2	1.3	1.6	1.5
Quebec	1.5	1.0	1.5	1.7	1.5
Ontario	1.7	1.3	2.2	2.7	2.4
Manitoba	3.3	2.2	2.3	2.5	2.2
Saskatchewan	3.1	5.0	2.0	2.4	2.5
Alberta	4.5	3.8	3.8	2.6	2.8
British Columbia	2.4	1.9	2.4	2.5	2.5
Total inflation rate – Canada	1.5	0.9	1.9	1.3	2.2
Atlantic	1.9	1.2	1.7	1.0	1.6
Quebec	2.1	0.7	1.4	1.3	2.2
Ontario	1.4	1.0	2.3	1.4	2.3
Manitoba	1.6	2.2	1.8	1.2	2.0
Saskatchewan	1.6	1.5	2.4	1.5	2.5
Alberta	1.1	1.4	2.4	1.7	2.5
British Columbia	1.1	-0.1	1.0	1.0	1.7
Employment growth – Canada	1.2	1.3	0.8	1.1	1.1
Atlantic	0.7	0.2	-0.9	1.1	0.5
Quebec	0.8	1.2	0.0	0.6	0.5
Ontario	0.8	1.4	0.8	1.3	1.1
Manitoba	0.9	0.5	0.1	0.8	1.0
Saskatchewan	2.1	3.4	1.9	1.3	1.5
Alberta	2.7	2.9	3.1	1.6	2.2
British Columbia	1.7	-0.2	0.9	1.2	1.0
Unemployment rate – Canada	7.2	7.1	6.9	6.6	6.4
Atlantic	10.3	10.1	10.0	9.8	9.5
Quebec	7.8	7.6	7.8	7.7	7.5
Ontario	7.8	7.5	7.2	6.6	6.4
Manitoba	5.3	5.4	5.4	5.2	5.1
Saskatchewan	4.7	4.0	3.8	3.9	3.8
Alberta	4.6	4.6	4.6	4.7	4.6
British Columbia	6.7	6.6	6.1	5.8	5.7
Retail sales growth – Canada	2.5	3.2	4.9	4.4	4.1
Atlantic	1.4	2.6	3.5	3.4	3.1
Quebec	1.2	2.5	3.0	3.2	3.7
Ontario	1.6	2.3	4.7	4.8	4.3
Manitoba	1.3	3.9	4.0	4.2	4.0
Saskatchewan	7.4	5.1	5.4	4.7	4.5
Alberta	7.0	6.9	8.3	5.0	5.2
British Columbia	1.9	2.4	5.8	4.5	4.0
Housing starts – Canada (thousands of units)	214.8	187.9	190.3	185.5	184.1
Atlantic	12.6	10.3	8.4	8.4	7.9
Quebec	47.4	37.8	39.0	40.0	38.0
Ontario	76.7	61.1	57.9	55.0	62.7
Manitoba	7.2	7.5	6.3	7.0	6.5
Saskatchewan	10.0	8.3	8.7	8.6	8.0
Alberta	33.4	36.0	4.5	39.0	35.0
British Columbia	27.5	27.1	28.5	27.5	26.0

f: forecasts

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