

# ECONOMIC & FINANCIAL OUTLOOK

## Signs of an Economic Slowdown Are Spreading in Certain Regions

### HIGHLIGHTS

- ▶ Although growth in many advanced economies turned out slightly stronger than expected, we believe the sting of repeated interest rate hikes will be felt more sharply over the next few months. Meanwhile our forecast for China has been revised downward. After a disappointing second quarter, a number of weak indicators suggest that conditions in China aren't really improving, and deflationary signals are multiplying (though this could be good news for most other countries).
- ▶ In the United States, real GDP growth proved fairly robust in the first quarter and is expected to remain strong in the third quarter, especially on the consumer spending side. Confidence is up, but the recent spike in gasoline prices should keep exuberance in check. Meanwhile credit conditions are still tight and are expected to eventually curb consumer spending and investment.
- ▶ Canada's economy has generally outperformed downbeat expectations over the past few quarters. But more recent economic indicators have pointed to a broad-based slowing in growth. Everything from international trade and housing to real GDP and core CPI inflation have started to trend lower, suggesting that rate hikes by the Bank of Canada are having their intended impact. As a result, we continue to expect a recession to start before the end of 2023 and continue through the first half of 2024. Falling goods consumption, residential investment and exports are likely to be the primary drivers of the weakness. The unemployment rate should track higher, pushing wage and income growth lower as a consequence. This should prompt the Bank of Canada to ultimately begin cutting interest rates from their current level early next year, prompting a rebound in growth in the second half of 2024.
- ▶ Signs of weakness in [Quebec's economy](#) have been flashing for several months. Wholesale and retail sales have had a difficult few months, suggesting that consumers are pulling back. The business climate is also deteriorating, with manufacturing sales and goods exports cooling. This is showing up in the employment data. Employment has posted four monthly declines in the past six months, while unemployment ticked up to 4.5% in July, even further away from its 3.9% low. We continue to expect real GDP to contract in Quebec, with the downturn exacerbated by this summer's wildfires.

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### RISKS INHERENT IN OUR SCENARIOS

While inflation is showing signs of slowing, it remains high around the world and sticky in some countries. It's prompted central banks to announce further interest rate increases, with the potential for more to come. Rates may then have to stay higher for longer. The impact of monetary tightening, including the lagged effects of earlier rate hikes, could prove to be a bigger drag on growth than expected. Breaking points may be tested, with unforeseeable spillover effects on other sectors. The situation in China is worrying, as growth remains muted, deflationary signals are spreading and the property market is once again raising red flags. If things get more difficult for the global economy, Canada could see weaker exports and a sudden worsening of terms of trade. Higher unemployment and interest rates could also mean a bigger housing market correction in Canada. The recent US banking turmoil could resurface, spelling much tighter credit conditions for all economic agents and aggravating existing challenges. More US financial institutions could see lower credit ratings and higher borrowing costs. The financial turmoil could also spill across the border. A deeper economic slowdown could result in more bankruptcies and steeper price corrections in a number of asset classes. From a currency standpoint, if the global economy deteriorates dramatically, risks are tilted more to a sharp appreciation of the US dollar, especially against the currencies of countries considered more economically and financially fragile. This could increase some vulnerabilities and spark foreign debt crises. Finally, we can't rule out the possibility of more volatility from extreme weather events that are adding to today's already uncertain macroeconomic environment.

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

%	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
		2022	2023f	2024f	2022	2023f	2024f
<b>Advanced economies</b>	<b>38.7</b>	<b>2.6</b>	<b>1.5</b>	<b>0.9</b>	<b>7.1</b>	<b>4.6</b>	<b>2.5</b>
United States	15.7	2.1	2.2	1.0	8.0	4.1	2.4
Canada	1.4	3.4	1.6	0.3	6.8	3.8	2.4
<i>Quebec</i>	0.3	2.6	0.6	0.2	6.7	4.0	2.4
Japan	3.7	1.0	2.2	0.9	2.5	2.9	1.7
United Kingdom	2.3	4.1	0.4	0.4	9.1	7.4	3.2
Eurozone	11.9	3.4	0.6	0.7	8.4	5.4	2.4
<i>Germany</i>	3.3	1.9	-0.2	0.4	6.9	5.9	2.6
<i>France</i>	2.3	2.5	0.7	0.7	5.2	5.1	2.5
<i>Italy</i>	1.8	3.8	0.8	0.5	8.2	6.1	2.5
Other countries	4.2	2.9	1.0	1.3	5.8	4.5	2.5
<i>Australia</i>	1.0	3.7	1.4	1.0	6.6	5.7	3.2
<b>Emerging and developing economies</b>	<b>61.3</b>	<b>3.8</b>	<b>3.5</b>	<b>3.7</b>	<b>8.4</b>	<b>8.1</b>	<b>5.5</b>
North Asia	26.8	4.0	5.0	4.7	4.1	3.2	3.3
<i>China</i>	18.6	3.0	5.0	4.3	2.0	1.0	2.1
<i>India</i>	7.0	7.0	5.7	6.2	6.7	4.9	4.8
South Asia	5.1	5.4	4.1	4.5	4.8	3.6	2.7
Latin America	5.8	3.4	2.1	1.8	9.1	5.3	3.9
<i>Mexico</i>	1.8	3.0	2.4	1.6	7.9	4.8	3.8
<i>Brazil</i>	2.3	3.0	2.3	1.6	9.5	5.4	4.1
Eastern Europe	8.1	1.0	1.6	2.3	27.0	16.6	11.8
<i>Russia</i>	3.3	-2.1	1.0	1.3	13.8	5.0	4.8
Other countries	15.5	3.9	1.9	2.9	10.4	17.9	10.3
<i>South Africa</i>	0.6	1.9	0.4	1.4	7.0	5.9	4.9
<b>World</b>	<b>100.0</b>	<b>3.3</b>	<b>2.7</b>	<b>2.6</b>	<b>7.9</b>	<b>6.7</b>	<b>4.3</b>

f: forecasts; PPP: Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; \* 2021.  
 Sources: World Bank, Consensus Forecasts and Desjardins Economic Studies

## FINANCIAL FORECASTS

Sovereign yields moved higher throughout the summer, approaching cycle highs in many jurisdictions. A part of that increase has been due to better-than-expected economic data, which has prompted central banks to deliver another round of tightening. Although economic activity has remained resilient, it is expected to slow into the latter half of the year. Core inflation has also moderated somewhat, easing the pressure on central banks to continue raising rates. As such, we expect the Bank of Canada and the US Federal Reserve to remain on hold for the remainder of the year and begin cutting policy rates early next year. However, risks remain skewed towards further tightening, including by maintaining rates at elevated levels for longer. Risk sentiment has held in well, but headwinds remain. Quantitative tightening continues to drain liquidity from the system and is expected to have a more pronounced effect going forward as the ownership of sovereign securities shifts from central banks to private hands at a faster pace.

**TABLE 2**  
**Summary of financial forecasts**

END OF PERIOD IN % (UNLESS OTHERWISE INDICATED)	2022		2023				2024			
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	3.25	4.50	5.00	5.25	5.50	5.50	5.25	4.75	4.25	3.75
Canada	3.25	4.25	4.50	4.75	5.00	5.00	4.75	4.25	3.75	3.25
Eurozone	1.25	2.50	3.50	4.00	4.50	4.50	4.50	4.00	3.50	3.00
United Kingdom	2.25	3.50	4.25	5.00	5.50	5.75	5.75	5.50	5.00	4.50
<b>Federal bonds</b>										
<u>United States</u>										
2-year	4.26	4.54	4.15	4.94	4.70	4.20	3.80	3.50	3.10	2.90
5-year	4.08	3.97	3.62	4.12	4.30	4.00	3.50	3.20	2.95	2.90
10-year	3.80	3.83	3.48	3.81	4.20	3.90	3.50	3.25	3.15	3.10
30-year	3.76	3.94	3.66	3.84	4.25	3.90	3.60	3.35	3.25	3.20
<u>Canada</u>										
2-year	3.79	4.06	3.74	4.58	4.50	4.10	3.70	3.30	2.90	2.60
5-year	3.32	3.41	3.02	3.68	3.90	3.70	3.20	2.90	2.65	2.55
10-year	3.16	3.30	2.90	3.26	3.75	3.55	3.20	2.95	2.85	2.80
30-year	3.09	3.28	3.02	3.09	3.50	3.30	3.05	2.85	2.85	2.75
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.38	1.36	1.35	1.32	1.35	1.37	1.35	1.32	1.30	1.30
Canadian dollar (CAD/USD)	0.72	0.74	0.74	0.76	0.74	0.73	0.74	0.76	0.77	0.77
Euro (EUR/USD)	0.98	1.07	1.09	1.09	1.08	1.07	1.09	1.12	1.13	1.14
British pound (GBP/USD)	1.12	1.20	1.24	1.27	1.26	1.26	1.28	1.33	1.34	1.35
Yen (USD/JPY)	145	131	133	144	140	135	127	120	117	115
<b>Stock markets (level and growth)*</b>										
United States – S&P 500	3,840				Target: 4,100 (+6.8%)				Target: 4,300 (+4.9%)	
Canada – S&P/TSX	19,385				Target: 18,500 (-4.6%)				Target: 20,000 (+8.1%)	
<b>Commodities (annual average)</b>										
WTI oil (US\$/barrel)	95 (80*)				76 (74*)				84 (85*)	
Gold (US\$/ounce)	1,800 (1,815*)				1,910 (1,870*)				1,740 (1,670*)	

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

**TABLE 3**  
**United States: Major economic indicators**

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2022		2023				ANNUAL AVERAGE			
	Q3	Q4	Q1	Q2	Q3f	Q4f	2021	2022	2023f	2024f
Real GDP (2012 US\$)	3.2	2.6	2.0	2.4	3.5	-0.8	5.9	2.1	2.2	1.0
Personal consumption expenditures	2.3	1.0	4.2	1.6	2.9	-0.7	8.3	2.7	2.3	0.7
Residential construction	-27.1	-25.1	-4.0	-4.2	3.3	-2.5	10.7	-10.6	-11.7	1.0
Business fixed investment	6.2	4.0	0.6	7.7	0.5	-0.9	6.4	3.9	3.1	0.9
Inventory change (US\$B)	38.7	136.5	3.5	9.3	40.0	20.0	-19.4	125.0	18.2	-3.8
Public expenditures	3.7	3.8	5.0	2.6	2.0	1.4	0.6	-0.6	3.1	1.3
Exports	14.6	-3.7	7.8	-10.8	2.0	-1.0	6.1	7.1	1.7	-0.5
Imports	-7.3	-5.5	2.0	-7.8	-1.0	-1.1	14.1	8.1	-3.1	-1.6
Final domestic demand	1.5	0.7	3.5	2.3	2.5	-0.5	6.7	1.7	1.9	0.9
<b>Other indicators</b>										
Nominal GDP	7.7	6.6	6.1	4.7	6.5	2.0	10.7	9.2	6.1	3.4
Employment <sup>1</sup>	3.4	2.5	2.5	1.8	1.3	0.2	2.9	4.3	2.2	-0.1
Unemployment rate (%)	3.6	3.6	3.5	3.6	3.6	3.8	5.4	3.7	3.6	4.8
Housing starts <sup>2</sup> (thousands of units)	1,446	1,405	1,385	1,443	1,426	1,363	1,606	1,551	1,404	1,434
Total inflation rate*	8.3	7.1	5.8	4.1	3.5	3.1	4.7	8.0	4.1	2.4
Core inflation rate* <sup>3</sup>	6.3	6.0	5.6	5.2	4.4	3.9	3.6	6.1	4.8	2.7

f: forecasts; \* Annual change; <sup>1</sup> According to the establishment survey; <sup>2</sup> Annualized basis; <sup>3</sup> Excluding food and energy.  
Sources: Datastream and Desjardins Economic Studies

**TABLE 4**  
**Canada: Major economic indicators**

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2022		2023				ANNUAL AVERAGE			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	2021	2022	2023f	2024f
<b>Real GDP</b> (2012 \$)	2.3	-0.1	3.1	1.3	0.8	-0.3	5.0	3.4	1.6	0.3
Final consumption expenditure [of which:]	1.5	1.4	3.7	1.4	2.1	1.4	5.4	4.0	2.3	1.5
Household consumption expenditure	0.3	1.1	5.7	1.9	1.4	1.0	5.1	4.8	2.8	1.2
Government consumption expenditure	4.7	2.3	-1.5	-0.6	3.9	2.7	6.4	2.0	1.0	2.6
Gross fixed capital formation [of which:]	-8.5	-3.9	-0.9	5.8	0.9	-0.8	7.4	-1.5	-1.6	0.3
Residential structures	-18.4	-9.9	-14.6	9.2	-1.2	-2.0	14.9	-11.2	-9.1	-0.5
Non-residential structures	6.5	11.6	8.7	3.2	-1.0	-2.1	0.8	8.3	6.0	-0.9
Machinery and equipment	-7.8	-28.6	-9.6	3.3	1.7	-2.6	9.9	7.4	-7.7	-0.5
Intellectual property products	-9.6	1.2	19.3	9.2	5.4	2.0	4.0	0.7	6.3	2.9
Government gross fixed capital formation	-5.3	10.6	13.8	1.8	5.7	3.5	0.9	2.1	5.7	3.2
Investment in inventories (2012 \$B)	53.3	24.3	12.6	3.3	-3.5	-8.4	-4.1	39.5	1.0	-12.0
Exports	11.3	2.2	10.1	1.9	0.6	-1.2	1.4	2.8	5.1	-0.6
Imports	-2.3	-12.6	0.9	0.0	0.0	-0.3	7.8	7.5	-1.0	0.6
Final domestic demand	-0.9	0.2	2.6	2.4	1.8	0.9	5.8	2.7	1.4	1.3
<b>Other indicators</b>										
Nominal GDP	-2.5	-3.0	4.2	0.6	2.3	1.5	13.6	10.9	1.6	2.4
Employment	-1.3	2.2	4.7	1.6	0.6	-0.1	5.0	4.0	2.2	0.3
Unemployment rate (%)	5.1	5.1	5.0	5.2	5.7	6.2	7.5	5.3	5.5	7.0
Housing starts <sup>1</sup> (thousands of units)	281	259	223	249	230	215	271	262	229	214
Total inflation rate*	7.2	6.7	5.1	3.5	3.6	3.0	3.4	6.8	3.8	2.4
Core inflation rate* <sup>2</sup>	5.4	5.4	4.8	4.0	3.3	3.1	2.3	5.0	3.8	2.8

f: forecasts; \* Annual change; <sup>1</sup> Annualized basis; <sup>2</sup> Excluding food and energy.  
Sources: Datastream and Desjardins Economic Studies

**TABLE 5**  
**Quebec: Major economic indicators**

ANNUAL AVERAGE % CHANGE (UNLESS OTHERWISE INDICATED)	2020	2021	2022	2023f	2024f
<b>Real GDP (2012 \$)</b>	<b>-5.0</b>	<b>6.0</b>	<b>2.6</b>	<b>0.6</b>	<b>0.2</b>
Final consumption expenditure [of which:]	-3.3	5.9	3.6	3.0	1.4
<i>Household consumption expenditure</i>	-5.7	5.4	4.7	4.1	1.2
<i>Government consumption expenditure</i>	2.0	7.3	1.5	0.4	1.7
Gross fixed capital formation [of which:]	-1.0	7.2	-4.0	-7.5	0.3
<i>Residential structures</i>	2.8	12.9	-11.5	-15.6	0.3
<i>Non-residential structures</i>	0.6	-1.5	1.2	-1.8	-3.5
<i>Machinery and equipment</i>	-15.1	20.3	1.0	-10.7	-2.6
<i>Intellectual property products</i>	0.1	7.1	-1.2	0.6	1.1
<i>Government gross fixed capital formation</i>	0.5	-3.5	1.7	1.6	4.4
Investment in inventories (2012 \$M)	-6,550	-431	6,442	-1,467	500
Exports	-7.8	2.9	4.2	-0.3	-0.8
Imports	-7.9	6.8	6.5	-0.4	1.4
Final domestic demand	-2.9	6.2	1.9	0.8	1.2
<b>Other indicators</b>					
Nominal GDP	-1.9	11.8	9.6	2.5	1.3
Real disposable personal income	7.2	1.9	1.6	-1.8	0.4
Weekly earnings	7.9	2.9	4.1	2.7	2.1
Employment	-5.4	4.3	3.0	1.9	-0.7
Unemployment rate (%)	8.9	6.1	4.3	4.5	6.1
Personal savings rate (%)	17.4	14.6	11.4	4.0	1.9
Retail sales	0.7	14.4	8.5	3.9	2.3
Housing starts <sup>1</sup> (thousands of units)	54.1	67.8	57.1	35.5	37.0
Total inflation rate	0.8	3.8	6.7	4.0	2.4

f: forecasts; <sup>1</sup> Annualized basis.

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

**TABLE 6**  
**Major medium-term economic and financial indicators**

% (UNLESS OTHERWISE INDICATED)	ANNUAL AVERAGE							AVERAGES	
	2021	2022	2023f	2024f	2025f	2026f	2027f	2018–2022	2023–2027f
<b>United States</b>									
Real GDP (% change)	5.9	2.1	2.2	1.0	2.4	2.4	2.1	2.1	2.0
Total inflation rate (% change)	4.7	8.0	4.1	2.4	2.3	2.2	2.1	3.6	2.6
Unemployment rate	5.4	3.7	3.6	4.8	5.1	4.8	4.5	4.9	4.6
S&P 500 index (% change) <sup>1</sup>	26.9	-19.4	6.8	4.9	6.3	4.5	4.5	9.3	5.4
Federal funds rate	0.25	1.86	5.20	4.80	3.05	2.95	3.00	1.37	3.80
Prime rate	3.25	4.86	8.20	7.80	6.05	5.95	6.00	4.37	6.80
Treasury bills – 3-month	0.05	2.09	5.15	4.20	2.80	3.00	3.00	1.32	3.63
Federal bonds – 10-year	1.43	2.96	3.85	3.35	3.00	3.10	3.10	2.07	3.28
– 30-year	2.05	3.12	3.90	3.45	3.10	3.20	3.20	2.48	3.37
WTI oil (US\$/barrel)	68	95	74	82	82	80	78	65	79
Gold (US\$/ounce)	1,800	1,803	1,920	1,740	1,605	1,600	1,600	1,607	1,693
<b>Canada</b>									
Real GDP (% change)	5.0	3.4	1.6	0.3	1.8	1.7	1.8	1.6	1.5
Total inflation rate (% change)	3.4	6.8	3.8	2.4	1.9	2.0	2.0	3.0	2.4
Employment (% change)	5.0	4.0	2.2	0.3	1.7	1.6	1.5	1.4	1.4
Employment (thousands)	903	750	431	54	337	336	305	260	293
Unemployment rate	7.5	5.3	5.5	7.0	6.6	6.1	5.8	6.8	6.2
Housing starts (thousands of units)	217	271	229	214	235	241	235	234	231
S&P/TSX index (% change) <sup>1</sup>	21.7	-8.7	-4.6	8.1	7.0	5.0	5.0	4.5	4.1
Exchange rate (USD/CAD)	0.80	0.77	0.74	0.76	0.77	0.76	0.77	0.77	0.76
Overnight funds	0.25	1.95	4.75	4.25	2.50	2.25	2.50	1.18	3.25
Prime rate	2.45	4.14	6.95	6.45	4.70	4.45	4.70	3.38	5.45
Mortgage rate – 1-year	2.80	4.43	6.90	6.45	5.20	5.00	5.15	3.52	5.74
– 5-year	4.79	5.64	6.65	6.95	6.65	6.60	6.65	5.18	6.70
Treasury bills – 3-month	0.11	2.18	4.65	3.75	2.35	2.20	2.50	1.15	3.09
Federal bonds – 2-year	0.48	2.90	4.25	3.30	2.55	2.70	2.85	1.49	3.13
– 5-year	0.95	2.78	3.55	2.95	2.55	2.70	2.90	1.60	2.93
– 10-year	1.36	2.77	3.35	3.05	2.70	2.80	2.95	1.75	2.97
– 30-year	1.85	2.81	3.20	2.95	2.65	2.75	2.90	2.01	2.89
<u>Yield spreads (Canada – United States)</u>									
Treasury bills – 3-month	0.06	0.09	-0.50	-0.45	-0.45	-0.80	-0.50	-0.17	-0.54
Federal bonds – 10-year	-0.07	-0.19	-0.50	-0.30	-0.30	-0.30	-0.15	-0.32	-0.31
– 30-year	-0.20	-0.31	-0.70	-0.50	-0.45	-0.45	-0.30	-0.48	-0.48
<b>Quebec</b>									
Real GDP (% change)	6.0	2.6	0.6	0.2	1.6	1.6	1.5	1.9	1.1
Total inflation rate (% change)	3.8	6.7	4.0	2.4	1.9	2.0	2.0	3.0	2.5
Employment (% change)	4.3	3.0	1.9	-0.7	1.9	1.6	1.1	1.1	1.2
Employment (thousands)	177	130	82	-30	84	75	52	49	52
Unemployment rate	6.1	4.3	4.5	6.1	5.3	4.6	4.0	6.0	4.9
Retail sales (% change)	14.4	8.5	3.9	2.3	4.5	4.2	4.0	5.7	3.8
Housing starts (thousands of units)	68	57	36	37	46	51	53	55	45

f: forecasts; WTI: West Texas Intermediate; <sup>1</sup> Changes are based on end-of-period data.

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