

# ECONOMIC & FINANCIAL OUTLOOK

## Major Economies Continue to Rebalance

### HIGHLIGHTS

- ▶ Most major advanced economies continue to see flat growth, with economic indicators rising or falling modestly. According to preliminary data, German real GDP contracted 0.1% in 2023 and posted a quarterly decline in Q4. Eurozone real GDP is also expected to come in lower for Q4, with further drops likely in the first half of 2024. In China, real GDP growth slowed in the last quarter of 2023, bringing the annual rate to 5.2% on the strength of the Q1 rebound. China's economy will probably continue to cool in 2024.
- ▶ Meanwhile the US economy continues to hold up, though real GDP growth likely slowed sharply in the fourth quarter from the 4.9% annualized pace recorded in Q3. We expect GDP to come in near 2% for Q4, with more weakness ahead in the first half of 2024 as consumer spending eases. Look for the labour market to show more signs of softening and inflation to continue coming down as well.
- ▶ After a drop in Canadian real GDP in Q3 2023, the final quarter of the year is shaping up to eke out a modest advance. However, even if that occurs, we don't think the reprieve from recession chatter will last for long. We continue to expect Canada's economy to fall into a short and shallow recession in the first half of 2024. The weakness should be broad based, with declines in consumption and residential investment resulting from households feeling the sustained squeeze of higher interest rates. Net exports are also likely to suffer due to a milder slowdown in the US. As the pace of hiring falls consistently below still solid population growth, the unemployment rate in Canada should steadily rise as well. The slump in economic activity is likely to prompt the Bank of Canada to begin cutting interest rates next spring. While this should spur a recovery in the second half of this year, any recovery will be capped by ongoing mortgage renewals at higher rates.
- ▶ Quebec's real GDP fell an annualized 0.8% in the third quarter following a 1.5% decline in Q2. That means the province is in a technical recession, narrowly defined as two straight quarters of negative real GDP growth. But it's hard to talk about a real recession when domestic demand continues to grow as it did in the third quarter. However, Quebec's economic woes likely worsened in the fourth quarter amid strikes in the healthcare and education sectors. The economy should pick back up in the first quarter as things return to normal, but growth will probably remain anemic throughout the first half of the year. A more meaningful improvement is expected in the second half as interest rates gradually start to come down.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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## RISKS INHERENT IN OUR SCENARIOS

Inflation has come down, though it remains above target in most countries. The odds of additional interest rate hikes have dropped significantly, but they're not zero. Further progress on inflation could take longer and delay interest rate cuts. And other inflationary shocks aren't out of the question, especially with the ongoing Red Sea shipping disruptions. There's also a great deal of uncertainty surrounding the effect of today's high interest rates on economic growth. GDP has stalled in Canada, but not in the US. We could see sustained headwinds in the coming quarters. As mortgages taken out at low interest rates during the pandemic are being renewed, many Canadian borrowers could feel the squeeze. And if the global economy gets stuck in a major rut, Canada could see its exports fall and terms of trade deteriorate dramatically. Higher unemployment and interest rates could also mean a bigger housing market correction in Canada. Then there's the risk of renewed banking sector turmoil that could make matters worse by further tightening credit conditions. This could lead to more bankruptcies and sharper price corrections in several asset classes. The US presidential election in November could be an inflection point that adds even more uncertainty while inflaming partisan tensions and undermining trust. From a currency perspective, if the global economy falls off a cliff, the greenback will likely surge. The situation in China remains worrisome as well. Worsening geopolitical tensions could also spell instability for the global economy, financial markets and commodity prices, particularly as the Israeli–Palestinian conflict escalates.

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

%	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
		2023f	2024f	2025f	2023f	2024f	2025f
<b>Advanced economies</b>	<b>38.7</b>	<b>1.5</b>	<b>1.1</b>	<b>1.8</b>	<b>4.6</b>	<b>2.7</b>	<b>2.2</b>
United States	15.7	2.5	1.6	1.9	4.1	2.7	2.5
Canada	1.4	1.1	0.2	2.0	3.9	2.6	2.0
<i>Quebec</i>	0.3	-0.2	0.7	1.4	4.5	2.8	2.0
Japan	3.6	1.7	0.9	1.0	3.2	2.3	1.4
United Kingdom	2.3	0.3	0.4	1.5	7.4	3.1	2.3
Eurozone	11.9	0.5	0.5	1.7	5.5	2.4	1.9
<i>Germany</i>	3.3	-0.1	0.3	1.5	6.0	2.6	2.1
<i>France</i>	2.3	0.8	0.6	1.6	4.9	2.4	1.9
<i>Italy</i>	1.9	0.7	0.5	1.6	5.7	2.2	1.8
Other countries	4.2	1.2	1.5	2.2	4.7	2.8	2.2
<i>Australia</i>	1.0	1.8	1.4	2.4	5.7	3.6	2.7
<b>Emerging and developing economies</b>	<b>61.3</b>	<b>3.8</b>	<b>3.7</b>	<b>3.8</b>	<b>8.7</b>	<b>7.2</b>	<b>4.9</b>
North Asia	26.9	5.4	4.8	4.6	2.9	2.7	3.0
<i>China</i>	18.5	5.2	4.4	4.1	0.2	1.4	1.9
<i>India</i>	7.2	6.6	6.2	6.5	5.7	4.7	4.6
South Asia	5.2	4.1	4.5	4.5	3.4	2.8	2.7
Latin America	5.7	2.5	1.9	2.6	5.1	3.9	3.6
<i>Mexico</i>	1.7	3.3	2.2	2.4	5.6	3.9	3.7
<i>Brazil</i>	2.3	3.0	1.6	2.7	4.2	3.9	3.9
Eastern Europe	8.2	2.5	2.3	2.7	19.4	16.5	9.1
<i>Russia</i>	3.2	2.6	1.7	1.5	5.9	5.1	4.7
Other countries	15.3	2.3	2.9	2.7	19.8	16.2	10.0
<i>South Africa</i>	0.6	0.8	1.4	1.2	5.9	5.0	5.1
<b>World</b>	<b>100.0</b>	<b>2.9</b>	<b>2.7</b>	<b>3.0</b>	<b>7.1</b>	<b>5.5</b>	<b>3.9</b>

f: forecast; PPP: Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; \* 2022.  
 World Bank, Consensus Forecasts and Desjardins Economic Studies

## FINANCIAL FORECASTS

Some central banks, including the Bank of Canada, will likely start cutting interest rates this spring. They won't need to wait for inflation to return to target. Falling inflation will put upward pressure on real interest rates, prompting central banks to lower interest rates to keep them from becoming too restrictive. Ongoing softening of the economy and labour market will also push central banks to start cutting. We expect six 25-basis-point cuts to Canada's overnight rate this year. The US federal funds rate may not come down quite as much, as the economy should remain in better shape in the US than in Canada.

Weaker economic data in several countries should weigh on stocks in the coming months. Oil prices will likely remain depressed, and prices for many commodities could fall in the near term. But stock and commodity prices should rebound later in the year once investors think we've reached the bottom of the economic cycle. And while lower interest rates in Canada and the tougher environment for commodities will likely hurt the Canadian dollar in the short term, the loonie should rebound later in the year.

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

END OF PERIOD IN % (UNLESS OTHERWISE INDICATED)	2023		2024				2025			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	3.00
Canada	5.00	5.00	5.00	4.50	4.00	3.50	3.00	2.50	2.25	2.25
Eurozone	4.50	4.50	4.50	4.25	3.75	3.25	2.75	2.50	2.25	2.25
United Kingdom	5.25	5.25	5.25	5.25	4.75	4.25	3.75	3.25	3.00	2.75
<b>Federal bonds</b>										
<u>United States</u>										
2-year	5.14	4.33	4.35	4.05	3.70	3.40	3.20	3.00	3.00	3.00
5-year	4.64	3.86	4.10	3.80	3.50	3.25	3.10	3.10	3.10	3.10
10-year	4.57	3.87	4.20	4.00	3.75	3.55	3.40	3.30	3.30	3.30
30-year	4.70	4.02	4.35	4.15	3.90	3.65	3.50	3.35	3.35	3.35
<u>Canada</u>										
2-year	4.87	3.88	3.80	3.30	2.95	2.70	2.50	2.35	2.30	2.30
5-year	4.25	3.17	3.35	3.05	2.75	2.65	2.60	2.55	2.50	2.50
10-year	4.03	3.10	3.30	3.10	2.90	2.80	2.75	2.70	2.65	2.65
30-year	3.81	3.02	3.20	3.05	2.85	2.80	2.75	2.70	2.70	2.75
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.36	1.32	1.37	1.37	1.35	1.33	1.32	1.32	1.32	1.33
Canadian dollar (CAD/USD)	0.74	0.75	0.73	0.73	0.74	0.75	0.76	0.76	0.76	0.75
Euro (EUR/USD)	1.06	1.10	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16
British pound (GBP/USD)	1.22	1.27	1.25	1.27	1.28	1.30	1.32	1.33	1.34	1.35
Yen (USD/JPY)	149	141	142	138	135	132	130	128	126	125
<b>Stock markets (level and growth)*</b>										
United States – S&P 500	0		Target: 4,800 (+0.6%)				Target: 4,970 (+3.5%)			
Canada – S&P/TSX	0		Target: 20,600 (-1.7%)				Target: 21,670 (+5.2%)			
<b>Commodities (annual average)</b>										
WTI oil (US\$/barrel)	78 (72*)		82 (85*)				83 (82*)			
Gold (US\$/ounce)	1,940 (2,030*)		1,830 (1,750*)				1,710 (1,700*)			

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

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

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2023		2024				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
Real GDP (2017 US\$)	4.9	2.0	0.8	0.1	1.4	2.2	1.9	2.5	1.6	1.9
Personal consumption expenditures	3.1	2.4	1.5	-0.1	1.4	1.8	2.5	2.2	1.5	1.7
Residential construction	6.7	3.4	2.4	-1.3	0.5	3.9	-9.0	-10.6	2.0	1.9
Business fixed investment	1.4	2.2	-0.1	0.3	1.4	1.9	5.2	4.4	1.4	1.9
Inventory change (US\$B)	77.8	45.0	15.0	15.0	15.0	20.0	128.1	41.2	16.2	25.0
Public expenditures	5.8	2.5	1.3	1.3	1.3	1.2	-0.9	3.9	2.2	1.7
Exports	5.4	0.5	-1.6	-1.0	0.0	1.5	7.0	2.3	-0.4	1.4
Imports	4.2	-0.3	-1.5	-0.5	-0.5	-0.6	8.6	-1.8	-0.6	0.6
Final domestic demand	3.5	2.5	1.3	0.1	1.3	1.8	1.7	2.2	1.7	1.8
<b>Other indicators</b>										
Nominal GDP	8.3	4.7	3.3	2.1	4.1	4.3	9.1	6.3	4.1	2.8
Employment <sup>1</sup>	1.5	1.3	1.1	0.3	0.6	0.8	4.3	2.3	1.0	0.7
Unemployment rate (%)	3.7	3.7	4.0	4.2	4.3	4.2	3.6	3.6	4.2	4.1
Housing starts <sup>2</sup> (thousands of units)	1,371	1,454	1,407	1,382	1,410	1,435	1,551	1,415	1,409	1,478
Total inflation rate*	3.6	3.2	2.8	2.6	2.6	2.8	8.0	4.1	2.7	2.5
Core inflation rate* <sup>3</sup>	4.4	4.0	3.6	3.1	3.0	2.8	6.1	4.8	3.1	2.4

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

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

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2023		2024				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
<b>Real GDP</b> (2012 \$)	<b>-1.1</b>	<b>0.5</b>	<b>-0.2</b>	<b>-0.7</b>	<b>1.5</b>	<b>2.1</b>	<b>3.8</b>	<b>1.1</b>	<b>0.2</b>	<b>2.0</b>
Final consumption expenditure [of which:]	2.1	2.0	0.8	0.4	1.3	1.7	4.5	2.1	1.2	1.7
Household consumption expenditure	0.1	1.7	-0.2	-0.4	1.0	1.7	5.1	2.1	0.4	1.6
Government consumption expenditure	7.3	2.8	3.5	2.6	2.3	2.0	3.2	1.8	3.3	2.0
Gross fixed capital formation [of which:]	-1.3	-0.3	-0.5	-1.0	2.4	3.2	-2.4	-2.4	0.2	2.6
Residential structures	8.3	-2.3	-1.2	-0.9	2.3	3.4	-12.1	-10.0	0.3	3.1
Non-residential structures	-7.7	-0.4	-1.8	-3.6	2.7	3.1	6.7	5.2	-1.0	2.1
Machinery and equipment	-14.4	-1.1	-1.7	-3.4	3.3	5.6	-0.3	-5.5	-1.4	3.9
Intellectual property products	-1.4	1.3	2.1	2.0	2.0	2.0	6.0	1.6	1.3	2.0
Government gross fixed capital formation	2.4	3.7	2.7	2.5	2.4	2.3	4.2	4.4	2.5	2.1
Investment in inventories (2012 \$B)	25.4	13.7	11.1	10.2	9.1	8.2	55.3	25.5	9.6	8.9
Exports	-5.1	1.7	-0.5	-2.1	2.1	2.8	3.2	4.7	-0.1	2.9
Imports	-0.6	-3.3	-0.3	-0.4	1.6	2.0	7.6	0.7	-0.3	2.6
Final domestic demand	1.3	1.5	0.5	0.1	1.6	2.1	2.8	1.0	1.0	2.0
<b>Other indicators</b>										
Nominal GDP	6.4	1.6	0.3	0.9	3.7	3.5	11.8	2.3	2.2	3.0
Employment	1.5	1.8	0.3	0.1	1.8	2.8	4.0	2.4	1.1	2.3
Unemployment rate (%)	5.5	5.7	6.2	6.9	7.0	6.8	5.3	5.4	6.8	6.5
Housing starts <sup>1</sup> (thousands of units)	256	244	225	212	218	220	262	242	219	235
Total inflation rate*	3.7	3.2	3.3	2.6	2.2	2.2	6.8	3.9	2.6	2.0
Core inflation rate* <sup>2</sup>	3.4	3.4	3.6	3.0	2.7	2.4	5.0	3.9	2.9	2.0

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

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

ANNUAL AVERAGE % CHANGE (UNLESS OTHERWISE INDICATED)	2021	2022	2023f	2024f	2025f
<b>Real GDP (2012 \$)</b>	<b>6.7</b>	<b>2.5</b>	<b>-0.2</b>	<b>0.7</b>	<b>1.4</b>
Final consumption expenditure [of which:]	15.6	-7.5	0.8	2.0	1.7
<i>Household consumption expenditure</i>	7.1	8.4	2.6	1.5	1.9
<i>Government consumption expenditure</i>	9.3	7.6	3.2	3.0	1.5
Gross fixed capital formation [of which:]	11.1	-2.7	-7.1	0.1	3.5
<i>Residential structures</i>	13.7	-11.7	-17.8	-0.7	4.2
<i>Non-residential structures</i>	5.1	6.1	-1.1	-2.1	2.7
<i>Machinery and equipment</i>	22.6	-4.9	-6.5	-0.7	2.3
<i>Intellectual property products</i>	3.4	2.1	1.3	0.8	3.0
<i>Government gross fixed capital formation</i>	4.5	7.4	1.2	3.2	4.0
Investment in inventories (2012 \$M)	-462	11,097	1,293	1,500	3,000
Exports	5.6	0.5	2.0	0.1	2.9
Imports	8.4	6.0	0.6	1.5	4.6
Final domestic demand	7.1	2.5	-0.3	1.5	2.1
<b>Other indicators</b>					
Nominal GDP	11.6	8.4	3.5	3.2	3.3
Real disposable personal income	1.9	1.6	-0.7	1.6	2.0
Weekly earnings	2.9	4.1	3.4	2.3	2.0
Employment	4.3	3.0	2.4	0.5	1.9
Unemployment rate (%)	6.1	4.3	4.4	5.6	5.3
Personal savings rate (%)	107.0	112.9	90.7	11.5	11.3
Retail sales	14.4	8.5	3.6	2.6	4.0
Housing starts <sup>1</sup> (thousands of units)	67.8	57.1	39.0	45.2	54.0
Total inflation rate	3.8	6.7	4.5	2.8	2.0

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

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	
	2022	2023	2024f	2025f	2026f	2027f	2028f	2018–2022	2023–2028f
<b>United States</b>									
Real GDP (% change)	1.9	2.5	1.6	1.9	2.2	2.0	2.0	2.2	2.0
Total inflation rate (% change)	8.0	4.1	2.7	2.5	2.2	2.2	2.0	3.6	2.6
Unemployment rate	3.6	3.6	4.2	4.1	3.9	3.8	3.8	4.9	3.9
S&P 500 index (% change) <sup>1</sup>	-19.4	24.2	0.6	3.5	4.8	4.8	4.9	9.3	7.2
Federal funds rate	1.86	5.20	5.25	3.60	3.00	3.00	3.00	1.37	3.84
Prime rate	4.86	8.20	8.25	6.60	6.00	6.00	6.00	4.37	6.84
Treasury bills – 3-month	2.09	5.28	4.90	3.25	3.00	3.00	3.00	1.32	3.74
Federal bonds – 10-year	2.96	3.96	3.90	3.35	3.30	3.20	3.20	2.07	3.49
– 30-year	3.12	4.09	4.05	3.45	3.35	3.25	3.25	2.48	3.57
WTI oil (US\$/barrel)	95	78	82	82	80	78	78	65	80
Gold (US\$/ounce)	1,803	1,920	1,790	1,710	1,700	1,625	1,625	1,607	1,728
<b>Canada</b>									
Real GDP (% change)	3.8	1.1	0.2	2.0	1.9	2.0	1.9	1.6	1.5
Total inflation rate (% change)	6.8	3.9	2.6	2.0	1.9	2.0	2.0	3.0	2.4
Employment (% change)	4.0	2.4	1.1	2.3	2.1	2.2	1.9	1.4	2.0
Employment (thousands)	750	479	227	479	434	473	420	260	419
Unemployment rate	5.3	5.4	6.8	6.5	6.2	5.9	5.7	6.8	6.1
Housing starts (thousands of units)	217	271	219	235	242	234	232	234	239
S&P/TSX index (% change) <sup>1</sup>	-8.7	8.1	-1.7	5.2	5.0	5.2	5.2	4.5	4.5
Exchange rate (USD/CAD)	0.77	0.74	0.74	0.76	0.75	0.77	0.77	0.77	0.75
Overnight funds	1.95	4.74	4.45	2.65	2.25	2.50	2.50	1.18	3.18
Prime rate	4.14	6.94	6.65	4.85	4.45	4.70	4.70	3.38	5.38
Mortgage rate – 1-year	4.43	7.14	6.95	5.30	5.10	5.10	5.05	3.52	5.77
– 5-year	5.64	6.68	6.90	6.35	6.25	6.40	6.45	5.18	6.51
Treasury bills – 3-month	2.18	4.74	4.20	2.45	2.20	2.50	2.50	1.15	3.10
Federal bonds – 2-year	2.90	4.27	3.35	2.40	2.45	2.65	2.70	1.49	2.97
– 5-year	2.78	3.57	3.00	2.55	2.60	2.90	2.95	1.60	2.93
– 10-year	2.77	3.36	3.05	2.70	2.75	3.05	3.10	1.75	3.00
– 30-year	2.81	3.28	3.00	2.75	2.80	2.95	3.00	2.01	2.96
<u>Yield spreads (Canada – United States)</u>									
Treasury bills – 3-month	0.09	-0.54	-0.70	-0.80	-0.80	-0.50	-0.50	-0.17	-0.64
Federal bonds – 10-year	-0.19	-0.60	-0.85	-0.65	-0.55	-0.15	-0.10	-0.32	-0.48
– 30-year	-0.31	-0.81	-1.05	-0.70	-0.55	-0.30	-0.25	-0.48	-0.61
<b>Quebec</b>									
Real GDP (% change)	2.5	-0.2	0.7	1.4	1.6	1.5	1.4	1.9	1.1
Total inflation rate (% change)	6.7	4.5	2.8	2.0	2.1	2.0	2.0	3.0	2.6
Employment (% change)	3.0	2.4	0.5	1.9	1.6	1.1	0.9	1.1	1.4
Employment (thousands)	130	107	23	88	76	53	44	49	65
Unemployment rate	4.3	4.4	5.6	5.3	4.5	3.9	3.7	6.0	4.6
Retail sales (% change)	8.5	3.6	2.6	4.0	4.2	4.0	3.9	5.7	3.7
Housing starts (thousands of units)	57	39	45	54	51	53	57	55	50

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

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