

# ECONOMIC & FINANCIAL OUTLOOK

## The Extent of the Slowdown Will Vary from One Economy to Another

### HIGHLIGHTS

- ▶ Increasingly, the world’s major economies appear to be on divergent paths. While the US economy has been performing above expectations recently, the eurozone and United Kingdom are showing more signs of slowing. Japan saw solid growth in the first half of 2023, but the next few quarters are likely to be more challenging. In China, real GDP grew 1.3% (non-annualized) in the third quarter. This reflects an economic situation that is improving more quickly than expected after the difficulties of recent months, partly helped by the government’s support measures. However, a lack of inflation indicates that domestic demand, which is affected by the real estate market, remains fragile.
- ▶ In the United States, there are several indicators pointing to a resilient economy, starting with the 336,000 jobs added in September. The ISM indexes have also improved. Annualized real GDP growth is expected to come in around 5% in the third quarter before starting to slow. But it looks like the US might just pull off a soft landing, seeing inflation come down further and avoiding a recession. We’ve upgraded our economic growth forecasts for 2023 and 2024 accordingly.
- ▶ Canada’s economy continues to flirt with recession, as the forces of elevated interest rates and surging population growth compete for dominance in driving activity. While the final quarters of 2023 are stacking up to be broadly flat, we believe sustained high rates will push the Canadian economy into a short, shallow recession in the first half of 2024. Accompanying labour market weakness should put downward pressure on inflation and prompt the Bank of Canada to cut the policy rate around of the spring of 2024. The ensuing rebound should be broad based and tee up a solid pace of real GDP growth after 2024. But the risks to our baseline outlook remain tilted to the downside, primarily coming from the impact that elevated borrowing costs has on households. As mortgages are renewed at high rates, Canadians will feel the weight of this on their pocketbooks, likely slashing spending to keep a roof over their heads. This will, at a minimum, ensure the recovery is subdued even as interest rates come down.
- ▶ Quebec’s economy took an abrupt turn for the worse in the second quarter. While it’s still too early to call, this may be the start of an economic contraction lasting into early 2024. After expanding 1.4% in the first quarter, real GDP contracted an annualized 1.9% in Q2. Household consumption expenditure was down for the first time since the pandemic started, the housing sector continued to weaken and business investment also deteriorated. Economic conditions are likely to remain challenging over the next few quarters, with the restrictive effects of high interest rates taking a toll. The labour market, which had held up well so far, is expected to weaken. The unemployment rate is forecast to climb from September’s 4.4% to roughly 5.5% by spring.

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## RISKS INHERENT IN OUR SCENARIOS

Although inflation has come down, it remains above the target range in many countries. Central banks still can't declare victory, and several are leaving the option of further hikes on the table. Even if the status quo prevails, there's also the risk that central banks will keep interest rates 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. At the same time, bond yields have reached levels not seen in more than a decade. Many Canadian borrowers will be in for a shock when the time comes to renew the low-interest mortgages they took out during the pandemic. And if things take a turn for the worse in the global economy, Canada could suffer a fall in exports and considerably worse terms of trade. Higher unemployment and interest rates could also mean a bigger housing market correction in Canada. The effects of the banking turmoil we saw in the United States in early spring could continue to be felt, spelling much tighter credit conditions for all economic agents and aggravating existing challenges. More financial institutions could see lower credit ratings and higher borrowing costs. A deeper economic slowdown could result in more bankruptcies and steeper price corrections in a number of asset classes. The risk of another federal shutdown in the United States could also destabilize the outlook, as could further labour disputes in a number of industries. 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. The situation in China also remains a concern, with growth being sluggish, signs of deflation growing stronger and fresh warning signs emerging for the real estate market. Worsening geopolitical tensions could also spell instability for the global economy, financial markets and commodity prices, particularly with the escalation of the Israeli–Palestinian conflict. 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>1.1</b>	<b>7.1</b>	<b>4.6</b>	<b>2.6</b>
United States	15.7	1.9	2.4	1.5	8.0	4.2	2.7
Canada	1.4	3.4	1.1	0.1	6.8	3.8	2.5
<i>Quebec</i>	0.3	2.6	0.3	0.0	6.7	4.5	2.6
Japan	3.7	1.0	1.9	0.9	2.5	3.1	2.0
United Kingdom	2.3	4.3	0.3	0.4	9.1	7.4	3.1
Eurozone	11.9	3.4	0.5	0.6	8.4	5.5	2.5
<i>Germany</i>	3.3	1.9	-0.3	0.4	6.9	6.0	2.7
<i>France</i>	2.3	2.5	0.8	0.7	5.2	5.0	2.7
<i>Italy</i>	1.8	3.9	0.6	0.5	8.2	6.0	2.4
Other countries	4.2	3.0	1.0	1.5	5.8	4.6	2.5
<i>Australia</i>	1.0	3.7	1.6	1.3	6.6	5.5	3.2
<b>Emerging and developing economies</b>	<b>61.3</b>	<b>3.8</b>	<b>3.8</b>	<b>3.7</b>	<b>8.4</b>	<b>8.5</b>	<b>6.0</b>
North Asia	26.8	3.9	5.5	4.8	4.1	3.1	3.0
<i>China</i>	18.6	3.0	5.5	4.4	2.0	0.7	1.8
<i>India</i>	7.0	7.0	6.2	6.2	6.7	5.5	4.7
South Asia	5.1	5.4	4.2	4.4	4.8	3.5	2.7
Latin America	5.8	3.7	2.4	1.8	9.1	5.1	3.8
<i>Mexico</i>	1.8	3.9	2.9	1.8	7.9	4.7	3.8
<i>Brazil</i>	2.3	3.0	2.9	1.6	9.5	4.9	4.0
Eastern Europe	8.1	1.0	2.0	2.2	27.0	18.7	14.3
<i>Russia</i>	3.3	-2.1	2.0	1.5	13.8	5.7	4.6
Other countries	15.5	3.9	2.1	2.9	10.4	19.3	12.0
<i>South Africa</i>	0.6	1.9	0.6	1.4	7.0	5.9	4.8
<b>World</b>	<b>100.0</b>	<b>3.3</b>	<b>2.9</b>	<b>2.7</b>	<b>7.9</b>	<b>7.0</b>	<b>4.7</b>

f: forecast; 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

Good economic data in the US suggests that policy rates could be kept at high levels for longer. This coupled with the prospect of higher issuance is providing a major boost to US bond yields. Canadian rates are following closely behind. There is also an increase in premiums to convince investors to opt for longer terms. If the economy slows down as we expect, bond yields should resume a downward trend. This trend would accelerate in the first half of 2024, with several economies possibly officially in recession. This would help reduce inflation and prompt several central banks to initiate a cycle of monetary easing. In Canada, the first key rate cut is scheduled for April 2024, followed by 5 further cuts over the course of the year. It will probably be summer before the Federal Reserve begins its sequence of rate cuts.

The expected deterioration in economic data should keep stock markets in retreat for several months yet. Growing geopolitical risk could also fuel volatility. On the currency front, the US dollar is benefiting from high interest rates in the US and lower risk aversion. We expect the greenback to remain strong, but some currencies could benefit from lower US bond yields. The situation is likely to remain difficult for the loonie, with commodity prices set to remain relatively low over the coming months, while Canadian bond yields should continue to follow the trend in US yields fairly closely.

**TABLE 2**  
Summary of financial forecasts

END OF PERIOD IN % (UNLESS OTHERWISE INDICATED)	2022		2023				2024			
	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50
Canada	3.25	4.25	4.50	4.75	5.00	5.00	5.00	4.50	4.00	3.50
Eurozone	1.25	2.50	3.50	4.00	4.50	4.50	4.50	4.25	3.75	3.25
United Kingdom	2.25	3.50	4.25	5.00	5.25	5.50	5.50	5.50	5.00	4.50
<b>Federal bonds</b>										
<u>United States</u>										
2-year	4.26	4.54	4.15	4.94	5.14	4.85	4.30	3.75	3.50	3.30
5-year	4.08	3.97	3.62	4.12	4.64	4.50	4.00	3.45	3.25	3.15
10-year	3.80	3.83	3.48	3.81	4.57	4.60	4.10	3.60	3.50	3.40
30-year	3.76	3.94	3.66	3.84	4.70	4.70	4.20	3.70	3.60	3.45
<u>Canada</u>										
2-year	3.79	4.06	3.74	4.58	4.87	4.50	3.90	3.30	2.95	2.70
5-year	3.32	3.41	3.02	3.68	4.25	4.10	3.55	2.95	2.75	2.65
10-year	3.16	3.30	2.90	3.26	4.03	4.05	3.50	3.00	2.90	2.80
30-year	3.09	3.28	3.02	3.09	3.81	3.90	3.40	2.90	2.85	2.75
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.38	1.36	1.35	1.32	1.36	1.37	1.39	1.37	1.35	1.33
Canadian dollar (CAD/USD)	0.72	0.74	0.74	0.76	0.74	0.73	0.72	0.73	0.74	0.75
Euro (EUR/USD)	0.98	1.07	1.09	1.09	1.06	1.06	1.06	1.07	1.09	1.11
British pound (GBP/USD)	1.12	1.20	1.24	1.27	1.22	1.22	1.23	1.25	1.28	1.30
Yen (USD/JPY)	145	131	133	144	149	145	140	132	129	127
<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*)		79 (82*)				82 (85*)			
Gold (US\$/ounce)	1,800 (1,815*)		1,920 (1,880*)				1,790 (1,720*)			

f: forecast; 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 (2017 US\$)	2.7	2.6	2.2	2.1	5.0	1.4	5.8	1.9	2.4	1.5
Personal consumption expenditures	1.6	1.2	3.8	0.8	4.1	2.2	8.4	2.5	2.3	1.5
Residential construction	-26.4	-24.9	-5.3	-2.2	-0.5	-1.9	10.7	-9.0	-11.7	0.5
Business fixed investment	4.7	1.7	5.7	7.4	1.7	2.0	5.9	5.2	4.4	1.3
Inventory change (US\$B)	70.7	151.9	27.2	14.9	40.0	10.0	12.5	128.1	23.0	2.5
Public expenditures	2.9	5.3	4.8	3.3	2.7	2.1	-0.3	-0.9	3.5	1.5
Exports	16.2	-3.5	6.8	-9.3	6.0	-2.0	6.3	7.0	2.3	-0.8
Imports	-4.8	-4.3	1.3	-7.6	-2.0	-1.4	14.5	8.6	-2.6	-1.8
Final domestic demand	0.7	0.7	3.8	2.0	3.4	2.0	6.6	1.7	2.1	1.4
<b>Other indicators</b>										
Nominal GDP	7.2	6.5	6.3	3.8	7.9	4.3	10.7	9.1	6.2	4.0
Employment <sup>1</sup>	3.4	2.5	2.5	1.7	1.7	1.5	2.9	4.3	2.4	0.9
Unemployment rate (%)	3.6	3.6	3.5	3.6	3.7	3.9	5.4	3.7	3.7	4.3
Housing starts <sup>2</sup> (thousands of units)	1,446	1,405	1,385	1,450	1,359	1,368	1,606	1,551	1,391	1,399
Total inflation rate*	8.3	7.1	5.8	4.1	3.6	3.4	4.7	8.0	4.2	2.7
Core inflation rate* <sup>3</sup>	6.3	6.0	5.6	5.2	4.4	4.0	3.6	6.1	4.8	2.9

f: forecast; \* 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	Q2	Q3f	Q4f	2021	2022	2023f	2024f
<b>Real GDP</b> (2012 \$)	2.3	-0.1	2.6	-0.2	0.4	0.0	5.0	3.4	1.1	0.1
Final consumption expenditure [of which:]	1.5	1.4	2.4	1.0	2.1	1.1	5.4	4.0	1.9	1.0
Household consumption expenditure	0.3	1.1	4.7	0.2	1.5	0.7	5.1	4.8	2.2	0.5
Government consumption expenditure	4.7	2.3	-3.7	2.5	3.2	2.0	6.4	2.0	0.9	2.4
Gross fixed capital formation [of which:]	-8.5	-3.9	-2.7	1.2	-0.1	-1.7	7.4	-1.5	-3.0	-0.1
Residential structures	-18.4	-9.9	-19.1	-8.2	-2.3	-3.8	14.9	-11.2	-13.4	-1.6
Non-residential structures	6.5	11.6	8.8	9.9	-1.9	-2.3	0.8	8.3	7.1	-0.8
Machinery and equipment	-7.8	-28.6	0.3	11.1	1.8	-2.5	9.9	7.4	-4.0	0.0
Intellectual property products	-9.6	1.2	7.5	2.6	2.8	2.2	4.0	0.7	2.0	2.2
Government gross fixed capital formation	-5.3	10.6	10.2	-0.8	4.4	3.1	0.9	2.1	4.2	2.7
Investment in inventories (2012 \$B)	53.3	24.3	16.1	11.1	6.1	5.7	-4.1	39.5	9.7	1.1
Exports	11.3	2.2	10.2	0.4	-0.9	-1.0	1.4	2.8	4.6	-0.5
Imports	-2.3	-12.6	0.7	1.9	-0.1	0.0	7.8	7.5	-0.7	0.3
Final domestic demand	-0.9	0.2	1.2	1.0	1.6	0.4	5.8	2.7	0.8	0.8
<b>Other indicators</b>										
Nominal GDP	-2.5	-3.0	3.1	2.7	4.8	2.5	13.6	10.9	2.1	2.4
Employment	-1.3	2.2	4.7	1.6	1.5	1.3	5.0	4.0	2.4	0.3
Unemployment rate (%)	5.1	5.1	5.0	5.2	5.5	5.9	7.5	5.3	5.4	6.8
Housing starts <sup>1</sup> (thousands of units)	281	259	223	249	256	235	271	262	241	223
Total inflation rate*	7.2	6.7	5.1	3.5	3.7	3.0	3.4	6.8	3.8	2.5
Core inflation rate* <sup>2</sup>	5.4	5.4	4.8	4.0	3.4	3.0	2.3	5.0	3.8	2.8

f: forecast; \* 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>0.3</b>	<b>0.0</b>
Final consumption expenditure [of which:]	-3.3	5.9	3.6	2.0	1.0
<i>Household consumption expenditure</i>	-5.7	5.4	4.7	2.9	0.7
<i>Government consumption expenditure</i>	2.0	7.3	1.5	-0.2	1.7
Gross fixed capital formation [of which:]	-1.0	7.2	-4.0	-8.4	-0.5
<i>Residential structures</i>	2.8	12.9	-11.5	-18.8	-1.7
<i>Non-residential structures</i>	0.6	-1.5	1.2	-1.5	-3.5
<i>Machinery and equipment</i>	-15.1	20.3	1.0	-8.0	-2.6
<i>Intellectual property products</i>	0.1	7.1	-1.2	-0.6	0.6
<i>Government gross fixed capital formation</i>	0.5	-3.5	1.7	1.7	4.4
Investment in inventories (2012 \$M)	-6,550	-431	6,442	-1,538	500
Exports	-7.8	2.9	4.2	2.6	-0.3
Imports	-7.9	6.8	6.5	0.0	1.0
Final domestic demand	-2.9	6.2	1.9	-0.2	0.7
<b>Other indicators</b>					
Nominal GDP	-1.9	11.8	9.6	3.1	2.0
Real disposable personal income	7.2	1.9	1.6	-0.9	1.2
Weekly earnings	7.9	2.9	4.1	3.5	2.3
Employment	-5.4	4.3	3.0	2.4	0.4
Unemployment rate (%)	8.9	6.1	4.3	4.3	5.3
Personal savings rate (%)	17.4	14.6	11.4	6.8	6.0
Retail sales	0.7	14.4	8.5	3.6	2.7
Housing starts <sup>1</sup> (thousands of units)	54.1	67.8	57.1	38.1	39.0
Total inflation rate	0.8	3.8	6.7	4.5	2.6

f: forecast; <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)	5.8	1.9	2.4	1.5	1.9	2.2	2.0	2.2	2.0
Total inflation rate (% change)	4.7	8.0	4.2	2.7	2.3	2.2	2.2	3.6	2.7
Unemployment rate	5.4	3.7	3.7	4.3	4.3	4.0	3.9	4.9	4.0
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	5.25	3.60	3.00	3.00	1.37	4.01
Prime rate	3.25	4.86	8.20	8.25	6.60	6.00	6.00	4.37	7.01
Treasury bills – 3-month	0.05	2.09	5.25	4.90	3.25	3.00	3.00	1.32	3.88
Federal bonds – 10-year	1.43	2.96	4.00	3.80	3.30	3.30	3.20	2.07	3.52
– 30-year	2.05	3.12	4.10	3.90	3.40	3.35	3.25	2.48	3.60
WTI oil (US\$/barrel)	68	95	77	82	82	80	78	65	80
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	1.1	0.1	2.1	1.9	2.1	1.6	1.5
Total inflation rate (% change)	3.4	6.8	3.8	2.5	2.0	2.1	2.0	3.0	2.5
Employment (% change)	5.0	4.0	2.4	0.3	2.1	1.9	2.0	1.4	1.7
Employment (thousands)	903	750	473	63	417	400	420	260	355
Unemployment rate	7.5	5.3	5.4	6.8	6.5	6.3	6.0	6.8	6.2
Housing starts (thousands of units)	217	271	241	223	237	242	235	234	235
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	0.74	0.76	0.75	0.77	0.77	0.75
Overnight funds	0.25	1.95	4.75	4.45	2.65	2.25	2.50	1.18	3.32
Prime rate	2.45	4.14	6.95	6.65	4.85	4.45	4.70	3.38	5.52
Mortgage rate – 1-year	2.80	4.43	7.05	6.75	5.20	4.90	5.10	3.52	5.80
– 5-year	4.79	5.64	6.75	7.25	6.70	6.65	6.80	5.18	6.83
Treasury bills – 3-month	0.11	2.18	4.75	4.20	2.45	2.20	2.50	1.15	3.22
Federal bonds – 2-year	0.48	2.90	4.35	3.45	2.40	2.45	2.65	1.49	3.06
– 5-year	0.95	2.78	3.65	3.15	2.55	2.60	2.90	1.60	2.97
– 10-year	1.36	2.77	3.45	3.20	2.70	2.75	3.05	1.75	3.03
– 30-year	1.85	2.81	3.35	3.10	2.70	2.80	2.95	2.01	2.98
<u>Yield spreads (Canada – United States)</u>									
Treasury bills – 3-month	0.06	0.09	-0.50	-0.70	-0.80	-0.80	-0.50	-0.17	-0.66
Federal bonds – 10-year	-0.07	-0.19	-0.55	-0.60	-0.60	-0.55	-0.15	-0.32	-0.49
– 30-year	-0.20	-0.31	-0.75	-0.80	-0.70	-0.55	-0.30	-0.48	-0.62
<b>Quebec</b>									
Real GDP (% change)	6.0	2.6	0.3	0.0	1.5	1.6	1.5	1.9	1.0
Total inflation rate (% change)	3.8	6.7	4.5	2.6	1.9	2.0	2.0	3.0	2.6
Employment (% change)	4.3	3.0	2.4	0.4	2.0	1.6	1.1	1.1	1.5
Employment (thousands)	177	130	107	20	90	75	55	49	69
Unemployment rate	6.1	4.3	4.3	5.3	4.7	3.9	3.3	6.0	4.3
Retail sales (% change)	14.4	8.5	3.6	2.7	4.5	4.2	4.0	5.7	3.8
Housing starts (thousands of units)	68	57	38	39	45	51	53	55	45

f: forecast; 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