ECONOMIC AND FINANCIAL OUTLOOK

When Constraints Return

By Jimmy Jean, Vice-President, Chief Economist and Strategist

For more than a decade, investors, businesses and households operated in an environment where economic constraints seemed to be fading. Inflation was low, interest rates remained structurally depressed, and central banks had considerable latitude to support the economy when growth weakened or markets came under pressure. Governments could borrow cheaply, globalization helped compress business costs, and falling discount rates provided a powerful tailwind to asset valuations. That environment has not disappeared entirely, but it is increasingly a poor description of the world we are in today.

Perhaps the defining feature of the current environment is the simultaneous return of constraints that had come to seem secondary. Energy has regained strategic importance as overlapping geopolitical tensions expose vulnerabilities in global supply. US protectionism has reintroduced frictions that decades of trade integration had reduced. Population aging is weighing on labour supply, business succession, and public finances. And already highly indebted governments must find the resources to fund defence, infrastructure, the energy transition and the fiscal costs of aging. Each of these challenges might be manageable in isolation. Taken together, they force trade-offs that the economic environment of the past decade and a half had largely allowed policymakers to avoid.

The shift is particularly visible in bond markets. For a long time, understanding long-term yields was largely an exercise in anticipating the path of policy rates. That is no longer enough. Investors must also decide how much compensation they require to commit capital for ten, twenty or thirty years in a world where inflation is less predictable and governments are issuing considerably more debt. The return of a higher term premium is the financial-market expression of this change in regime.

The US provides the most striking illustration. In the early 2000s, official projections could still contemplate a gradual decline in federal debt. Today, debt held by the public exceeds 100% of GDP and remains on an upward trajectory. It does not take a fiscal crisis for this to matter. When the supply of government bonds rises persistently, they need to find someone to hold them. If demand does not increase at the same pace, the market-clearing mechanism is a higher yield. Governments may still be able to postpone difficult fiscal choices, but doing so is becoming increasingly expensive.

This is happening just as the global economy is entering a phase that could require enormous amounts of capital. Artificial intelligence is perhaps the clearest example. Capital expenditures by major technology companies are expected to reach US$700 billion to US$800 billion this year, roughly twice their 2025 level, with a growing share of that investment financed through debt. This surge in private financing needs is therefore arriving alongside already substantial government borrowing requirements. AI may ultimately expand the productive capacity of the economy, but in the meantime it is intensifying competition for capital, electricity and infrastructure. And between the initial investment and the eventual productivity payoff lie adoption, organizational change and labour-market adjustment. Just as importantly, there is the question of which investments will ultimately prove productive and which will not.

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Canada enters this environment from an ambiguous position. The trade conflict with the US represents a clear negative shock for an economy so deeply integrated with its largest trading partner. Tariffs and counter-tariffs reduce trade, disrupt supply chains and weigh on profit margins and investment in the most exposed sectors. They also create an unusual challenge for the Bank of Canada: the same shock can weaken economic activity while raising some prices. When supply and demand are affected simultaneously, the appropriate monetary policy response becomes inherently less straightforward.

Yet this uncertainty does not necessarily make Canadian assets less attractive. Canada combines several characteristics that have become relatively scarce: public finances that remain stronger overall than in many other advanced economies, a bond market that continues to attract foreign capital, and abundant natural resources and energy that are increasingly sought after in a more fragmented world with substantial investment needs. For investors, the relevant question is therefore not simply how quickly Canada is growing, but how Canada compares with the alternatives in the global environment now taking shape.

Trade diversification should be viewed through a similar lens, although we need to be careful not to overstate what it can achieve. A decade ago, roughly one-quarter of Canadian exports went to markets outside the US; today, that share is approaching one-third. That is meaningful progress, but it remains a long way from economic independence. Geography, infrastructure and decades of industrial integration will continue to make the US Canada's dominant trading partner. Diversification can therefore broaden Canada's markets more quickly than it can reduce the economy's vulnerability to the US.

More broadly, Canada's experience illustrates why there is no necessary contradiction between an economy facing significant headwinds and assets that may become more attractive to investors. Markets ultimately price relative risks, returns and constraints. An economy can grow slowly while still offering assets for which global demand is increasing. Conversely, a faster-growing economy can become less attractive if valuations, imbalances or financing requirements rise even more quickly. In a world of tighter constraints, relative starts to matter again.

For all its turbulence, the current environment does not necessarily point to a severe economic crisis. Rather, it marks the end of a period in which several economic objectives appeared achievable simultaneously without imposing particularly painful trade-offs. Governments could support demand without paying

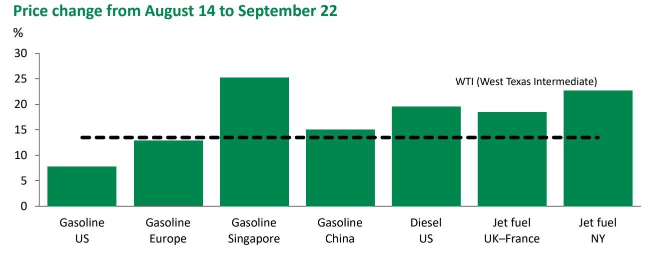
BOX
Oil Prices: Key Assumptions

After negotiations broke down between the United States and Iran, the Strait of Hormuz closed and new conflicts emerged in the Red Sea. Energy markets and the global economy are once again being put to the test. The Houthis are now threatening Saudi vessels in the Red Sea and near the Bab al Mandab Strait, disrupting access to the Suez Canal. Saudi Arabia's East-West pipeline, which allows oil exports to bypass the Strait of Hormuz, has also been compromised, with attacks on pumping facilities forcing a temporary closure.

Initial estimates suggest that 8 to 12 million barrels per day have been removed from the market, while Ukrainian strikes on Russian infrastructure further tighten fuel supplies. Oil reserves have helped absorb the shock thus far, but they're being depleted rapidly, further fuelling price increases. We expect energy prices to remain high and volatile over the coming months. While price increases are expected across the board, they are likely to be sharper in some regions and for certain petroleum products, especially in Europe and Asia and in the diesel and jet fuel markets (graph A).

Graph A
Petroleum Product Prices Have Risen More Sharply in Europe and Asia

Price change from August 14 to September 22



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Although tensions could remain elevated for several more weeks, we anticipate a partial agreement that would gradually restore access to the Strait of Hormuz and Red Sea trade routes by year-end. A lasting agreement to end the conflict is unlikely to be reached before 2027, if it is reached at all. As a result, oil export channels in the Middle East are likely to experience repeated closures and reopenings over the coming months. The main risk is that the conflict broadens and persists, cutting off the alternative shipping routes in the Red Sea. Until recently, these have played a critical role in limiting global supply losses and keeping price increases in check.

much attention to the cost of servicing their debt. Central banks could cut rates without immediately worrying about a resurgence of inflation. Businesses could optimize supply chains primarily for cost rather than security. And investors could rely on declining interest rates to provide a persistent tailwind to valuations.

That is changing. Increasing spending in one area now more often means giving something up elsewhere. Funding defence, infrastructure, the energy transition and aging populations all require capital. Reshoring supply chains can make them more resilient, but often at a higher cost. Preserving fiscal credibility limits the extent to which governments can repeatedly use their balance sheets as shock absorbers. And massive investment in AI may lay the groundwork for tomorrow's productivity gains while increasing today's competition for capital, electricity and infrastructure.

For financial markets, the challenge is precisely that no single scenario dominates all others. Several forces are operating simultaneously, sometimes in opposing directions, making selectivity increasingly important. In a world where capital is no longer close to free, not all debt is created equal, not all investments will generate adequate returns and not all jurisdictions will have the same room to manoeuvre. After a long period in which abundant liquidity often allowed economic constraints to be deferred or obscured, an older reality is reasserting itself: when resources become scarce, trade-offs become unavoidable.

RISKS INHERENT IN OUR SCENARIOS

The global geopolitical situation remains complicated. The main risk to our scenarios is still that the conflict with Iran becomes more prolonged or more directly spreads to other countries. Furthermore, the war between Ukraine and Russia could intensify pressures on the global supply of petroleum products. If this were to occur, energy prices could be even higher than our central assumption, and supply chains could be further disrupted. This could lead to markedly stronger inflation and a collapse in consumer and business confidence, which could ultimately result in subdued economic growth, if not a global recession. Beyond the Middle East, tensions remain elevated. Diplomatic and economic relations between the United States and other advanced economies are fragile. The prospect of additional tariffs continues to fuel tensions, as evidenced by the recent escalating trade war between the United States and Canada. Central banks may need to accelerate their tightening cycles if inflation picks up considerably due to spillover from higher energy prices, new tariffs or further supply chain disruptions. The focus is also now on the US midterm elections as well as on budget negotiations, which could disrupt the economy. The erosion of institutions in the United States may prompt some global investors to further reduce their exposure to US assets in an accelerated or disorderly fashion. A sharp correction in the stock market, which has benefited substantially from the AI boom, could shake confidence and trigger a wealth effect shock.

Table 1
Global GDP Growth (Adjusted for PPP) and Inflation Rates

	Weight*	Real GDP growth			Inflation rate		
%		2025	2026f	2027f	2025	2026f	2027f
Advanced economies	**36.9**	**1.6**	**1.6**	**1.8**	**2.4**	**3.2**	**2.3**
United States	14.8	2.1	2.2	2.4	2.7	3.4	2.5
Canada	1.4	1.9	0.9	1.9	2.1	2.9	2.5
Quebec	*0.3*	*0.6*	*0.3*	*1.0*	*2.4*	*3.0*	*2.1*
Ontario	*0.5*	*1.3*	*0.5*	*1.7*	*1.9*	*2.2*	*2.0*
Japan	3.2	1.2	0.9	0.9	3.2	1.9	2.1
United Kingdom	2.1	1.3	1.3	1.1	3.4	3.7	2.6
Eurozone	11.5	1.3	1.0	1.3	2.1	3.4	2.2
Germany	*3.1*	*0.3*	*1.0*	*1.2*	*2.2*	*3.3*	*2.2*
France	*2.1*	*0.9*	*0.4*	*0.9*	*0.9*	*2.7*	*1.7*
Italy	*1.8*	*0.7*	*0.9*	*0.8*	*1.5*	*3.4*	*2.0*
Other countries	3.8	1.6	2.4	2.0	2.0	3.2	2.1
Australia	*1.0*	*2.0*	*1.8*	*1.7*	*2.8*	*4.6*	*2.8*
Emerging and developing economies	**63.1**	**4.7**	**3.8**	**4.1**	**5.1**	**5.9**	**4.7**
Emerging Asia	33.7	5.6	4.7	4.8	0.9	2.4	2.2
China	*19.3*	*5.1*	*4.2*	*4.3*	*0.1*	*1.0*	*1.1*
India	*8.2*	*7.7*	*6.4*	*6.5*	*2.2*	*4.9*	*4.3*
Latin America	5.7	2.1	1.8	2.0	4.2	5.2	3.7
Mexico	*1.7*	*0.5*	*1.0*	*1.9*	*3.8*	*4.5*	*3.7*
Brazil	*2.4*	*2.6*	*2.0*	*1.7*	*4.8*	*5.6*	*3.9*
Eastern Europe	8.2	2.3	1.8	2.3	14.1	12.4	9.0
Russia	*3.5*	*1.0*	*0.7*	*1.1*	*8.7*	*6.8*	*4.5*
Other countries	15.4	5.0	4.0	4.0	12.0	14.0	12.0
South Africa	*0.5*	*1.4*	*1.2*	*1.5*	*3.2*	*4.8*	*3.6*
World	**100.0**	**3.5**	**3.0**	**3.3**	**4.1**	**4.9**	**3.8**

f: forecast; PPP: Purchasing Power Parities, exchange rates that equate the cost of a broad basket of goods and services across countries; * 2024.
World Bank, Consensus Forecasts and Desjardins Economic Studies

FINANCIAL FORECAST

Oil prices have become the main driver of the North American monetary policy outlook. Assuming energy prices gradually normalize over the coming year, we continue to believe markets are pricing in too many Fed rate hikes. Softer inflation dynamics have given Canadian policymakers more time to assess the pass-through from higher energy costs, but the risks of a near-term rate increase can't be completely dismissed. Equity markets have pulled back over the past month, weighed down by weakness in US technology and industrial stocks and Canadian financials. Despite this recent soft patch, expectations remain for solid earnings and economic fundamentals to support valuations through year-end. We continue to expect the TSX to outperform the S&P 500 in 2026. The broad US dollar has traded within a relatively narrow range over the past month, supported by growing expectations for additional Fed tightening. We see two-sided risks for the Canadian dollar through year-end but maintain a constructive outlook for 2027. Improving domestic growth prospects and increased demand for Canadian assets should provide support for a stronger loonie over time.

Table 2
Summary of Financial Forecasts

End of period in %	2025		2026				2027			
(unless otherwise indicated)	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	4.25	3.75	3.75	3.75	4.00	4.00	4.00	4.00	3.75	3.75
Canada	2.50	2.25	2.25	2.25	2.25	2.25	2.50	2.75	2.75	2.75
Eurozone	2.00	2.00	2.00	2.00	2.25	2.25	2.25	2.25	2.25	2.50
United Kingdom	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.25	3.25	3.25
Federal bonds										
United States										
2-year	3.65	3.49	3.83	4.16	4.55	4.00	3.85	3.75	3.70	3.65
5-year	3.72	3.70	3.94	4.20	4.65	4.15	4.00	3.90	3.90	3.95
10-year	4.13	4.14	4.31	4.44	4.85	4.60	4.50	4.45	4.45	4.50
30-year	4.73	4.84	4.91	4.94	5.20	5.20	5.20	5.20	5.20	5.20
Canada										
2-year	2.47	2.58	2.82	2.74	3.15	2.90	2.80	2.80	2.80	2.80
5-year	2.74	2.96	3.09	3.01	3.45	3.20	3.10	3.05	3.05	3.05
10-year	3.17	3.42	3.46	3.38	3.75	3.60	3.55	3.50	3.50	3.50
30-year	3.61	3.85	3.88	3.77	4.15	4.15	4.20	4.20	4.20	4.15
Currency market										
Canadian dollar (USD/CAD)	1.39	1.37	1.39	1.42	1.39	1.38	1.36	1.35	1.35	1.35
Canadian dollar (CAD/USD)	0.72	0.73	0.72	0.70	0.72	0.72	0.74	0.74	0.74	0.74
Euro (EUR/USD)	1.18	1.17	1.15	1.14	1.17	1.18	1.18	1.16	1.15	1.15
British pound (GBP/USD)	1.35	1.35	1.32	1.33	1.37	1.39	1.37	1.35	1.35	1.35
Yen (USD/JPY)	148	157	159	163	160	160	158	155	152	150
Stock markets (level and growth)*										
United States – S&P 500	6,800 (16.4%)		Target: 8,100 (+18.1%)				Target: 8,900 (+9.7%)			
Canada – S&P/TSX	31,700 (28.2%)		Target: 37,800 (+19.1%)				Target: 41,200 (+9.2%)			
Commodities (annual average)										
WTI oil (US$/barrel)	65 (58*)		85 (80*)				72 (70*)			
Gold (US$/ounce)	3,440 (4,310*)		4,550 (4,500*)				4,500 (4,500*)			

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

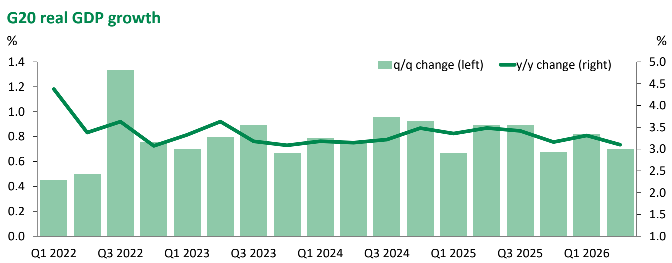
Overseas

The Global Economy Continues to Withstand Repeated Shocks

FORECAST
The global economy is holding up well. That said, higher energy prices and oil supply constraints will have an increasingly greater impact as the conflict in Iran continues. This comes on top of the marked increase in bond yields and lingering concerns about waves of US tariffs. Global economic growth is therefore expected to remain relatively slow. After gains of 3.5% in 2025, we anticipate global real GDP growth of 3.0% in 2026 and 3.3% in 2027. Inflation outlooks have been revised upward.

The global economy is once again being tested by a series of shocks, most notably the sharp increase in energy prices triggered by the start of the conflict in Iran. So far in 2026, it has shown considerable resilience in the face of these headwinds. Though economies worldwide were hit by a sudden surge in inflation, real GDP growth generally held up in the second quarter of 2026. G20 real GDP expanded by 0.7% (non-annualized) in the spring. This is only marginally slower than the 0.8% gain in the first quarter and in line with the 0.7% increase recorded in Q4 2025 (graph 1).

Graph 1
Global Growth Has Been Slow but Relatively Stable

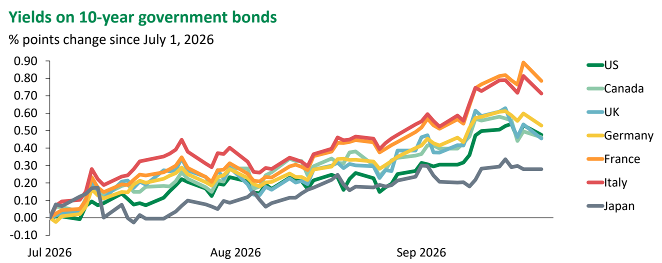


Organisation for Economic Co-operation and Development and Desjardins Economic Studies

It remains to be seen how the economy will react to the new jump in energy prices. While households and businesses can generally absorb a temporary shock, a more persistent increase will require more significant adjustments. The impact now extends well beyond the direct effect that fluctuating oil prices have on prices at the pump. A particularly sharp increase in diesel and jet fuel prices is putting pressure on trucking and agriculture, as well as on maritime and air transport costs. In light of these developments, we've upgraded our inflation forecasts for the remainder of 2026.

Renewed inflation concerns are also putting pressure on global bond markets. At the same time, persistently large fiscal deficits and rising demand for private and public investment are keeping financing needs high. Taken together, these factors are pushing long-term yields up significantly across many economies (graph 2). These tighter financial conditions will limit economic growth.

Graph 2
Bond Yields Have Increased



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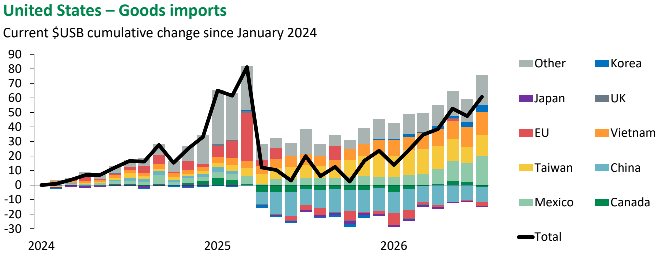
On the trade front, US protectionist policies have eased somewhat over the past few months, outside the escalating dispute with Canada. In July, the actual effective tariff rate of the United States decreased to 6.45%, its lowest since March 2025. The temporary Section 122 tariffs have now been replaced by more permanent, anti-forced labour tariffs imposed under Section 301. But while the legal basis for the tariffs is new, very little is actually changing for most affected countries. Further tariff measures will need to be monitored, particularly those targeting manufacturing overproduction, as will the outcome of legal challenges to the tariffs already in place. Will the Trump administration suffer further legal setbacks? In the meantime, global trade and US imports both continue to expand, driven in part by strong US demand for tech goods, with Asian economies being the main beneficiaries (graph 3 on page 7).

Graph 3
Technology Demand Is Fuelling US Import Growth Despite the Tariffs

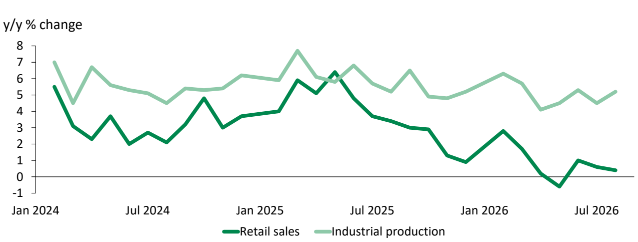


EU: European Union
U.S. Census Bureau and Desjardins Economic Studies

Japan is among the countries benefiting from artificial-intelligence-related demand, and for a third consecutive quarter, net exports have contributed positively to the change in real GDP. Real GDP growth was 0.4% (non-annualized) in Q2, a slightly lower growth rate than in Q1. Consumer spending stalled this spring, but July's data suggest a stronger performance in the third quarter. Against a backdrop of persistent inflation, a weak yen and bond yields at their highest levels since the mid-1990s, the Bank of Japan is expected to continue increasing its policy rate.

China's economy continues to run at two speeds. The external sector, buoyed by manufacturing output and exports, remains resilient in the face of rising energy prices and the trade war with the United States. Industrial production also fared well in August, posting annual gains of 5.2% (graph 4), thanks to high-technology manufacturing. Domestic demand, on the other hand, continues to soften. Average home prices have now fallen a cumulative 40% since the start of the property crisis in 2021 and housing starts have dropped more than 75%. China has managed to contain the energy price shock caused by the conflict in Iran, limiting exports of petroleum products and drawing on its strategic reserves. However, the recent escalation is once again clouding the outlook for the Chinese economy.

Graph 4
In China, Industrial Production Continues to Outperform Retail Sales



National Bureau of Statistics of China and Desjardins Economic Studies

In the **eurozone**, economic growth proved to be surprisingly strong in the second quarter. Its non-annualized real GDP gain of 0.6% was the highest seen since spring of 2024. However, this headline number should be taken with a grain of salt. The eurozone's strong performance was given an outsize boost by Ireland's non-annualized gain of 10.2%. Excluding this performance, growth in the eurozone would have been "just" 0.2%. This is in line with the quarterly results for major eurozone countries, including 0.3% for Germany, 0.0% for France and 0.2% for Italy. Eurozone PMIs held up well in July and August, while confidence indicators remained broadly stable, an encouraging sign for the second half of 2026. However, as elsewhere, rising energy prices could weigh on the outlook. The European Central Bank has raised its key rates and continues to maintain a rather hawkish tone.

In the **United Kingdom**, the 0.4% (non-annualized) growth recorded in the second quarter was stronger than anticipated. It was then followed by a 0.4% gain in monthly GDP in July, giving the economy significant momentum heading into the third quarter. However, recent disappointing labour market data, rising inflation, and an increase in bond yields (already the highest among G7 countries) have cast a shadow over the outlook. Economic growth could therefore turn out to be lower. It remains unclear how far the new prime minister, Andy Burnham, will alter the course of government policy. Expectations are particularly high for infrastructure investment, housing and regional development, but the government's capacity to deliver remains constrained by the fragile state of the public finances.

United States

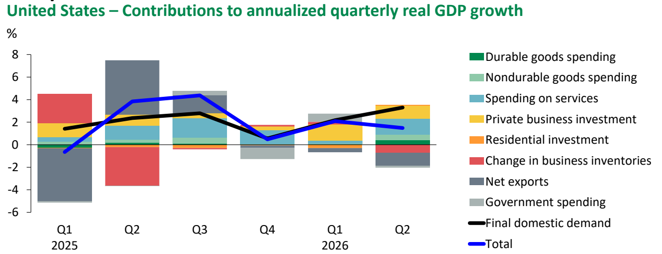
Will Slow Growth and Rising Inflation Fuel Voter Anger?

FORECAST

US domestic demand remained robust in the second quarter. The labour market is showing signs of improvement after an early-summer soft patch, and real GDP is expected to post fairly strong third-quarter and year-end growth. However, soaring energy prices pose a challenge to households and businesses, and inflation forecasts have had to be revised upward. Against this backdrop, the high cost of living has become a key issue ahead of the midterms.

At first glance, it seemed like real GDP slowed in the second quarter, with growth coming in at only 1.5% at an annualized rate. But that figure masks the strongest quarterly gain in final domestic demand since the third quarter of 2024. It climbed 3.3%, driven by a rebound in real consumption and continued strength in business investment (graph 5). Real GDP appeared to slow because that demand was partly filled by a drawdown of business inventories and another spike in real goods imports.

Graph 5
Domestic Demand Strengthened, but Inventories and Imports Dampened GDP Growth
United States – Contributions to annualized quarterly real GDP growth



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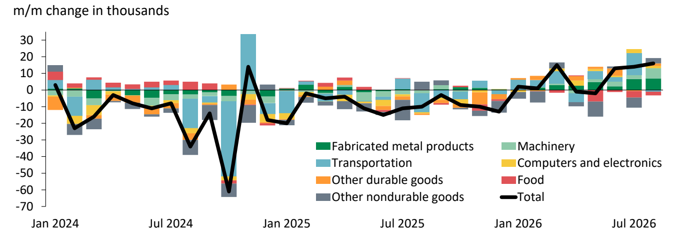
Consumer spending surged in the second quarter, contrasting sharply with the plunge in consumer confidence after the start of the Iran war and the reduction in real disposable income caused in part by soaring energy prices. This once again reflected consumers' resilience, as they chose to cut back on savings instead of curbing their spending. The decline in oil prices from their May peaks offered some hope that these concerns would be short-lived. However, renewed tensions and rising gasoline prices could cloud the outlook. Growth in real consumer spending on goods is expected to slow in the third quarter.

One noteworthy development in recent months has been the improvement in the manufacturing sector. First, in July, the ISM Manufacturing index reached its highest level since May 2022, before slipping back modestly afterward. New goods orders have also climbed sharply over the past few months. In the second quarter, growth in real business investment in equipment became less focused on AI development and rollout. Investments in computers and peripherals even decreased for the first time since 2024. However, continued robust growth in investment in communications equipment, software and data centre construction more than compensated for what appears to be a temporary pullback. Furthermore, imports represent a large share of AI-related investment, limiting its contribution to GDP growth. We'll have to keep an eye on growing concerns about inadequately regulated AI development, which could discourage investment. There is also the risk that expectations of outsized revenues will eventually fade.

Another bright spot for manufacturing was the addition of 43,000 jobs in this sector from June to August (graph 6). Excluding the post-pandemic rebound, this was the largest three-month increase since early 2019. Overall, the labour market is in better shape than it was a few months ago, but we'll need to see additional solid job gains over the coming months to be certain employment is trending upward. Luckily, recent readings for weekly jobless claims have remained low, indicating that this is the case. The unemployment rate is expected to remain broadly stable over the next few quarters.

Graph 6
While Modest Overall, Job Gains Have Picked Up in Manufacturing

United States – Manufacturing sector jobs



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Meanwhile, the housing market is a sector to watch closely. Activity is already fairly weak. While home sales continue to fluctuate from month to month, the broader trend is one of stagnation, and inventories of new single-family homes are particularly high. Rising medium- and long-term federal bond yields could push mortgage rates higher and further dampen home-buying intentions.

Moreover, higher interest rates could fuel more discontent among consumers—including voters, as the high cost of living is one of their main concerns for the midterms. We've raised our inflation forecasts as oil and gasoline prices have begun climbing again. The national average price of diesel fuel has even reached a record high, which could affect transportation costs and non-energy prices. Headline inflation is expected to exceed 3.5% as early as September while remaining below the 4% seen in May.

A growing number of Americans believe that the Trump administration isn't doing enough to rein in the rising cost of living. This could heavily influence the outcome of the November 3 elections. Their belief is also driven by concerns over the data centre build-out (especially its impact on the cost and quality of utilities), the prolonged war with Iran and, to a lesser extent, the president's trade policy. It remains to be seen whether this discontent will be enough to flip the House of Representatives and the Senate from red to blue. In any case, even as a lame duck, the US President would retain substantial authority over foreign policy, including trade policy, while a Democratic-controlled Congress would have only limited means of constraining his actions. Like other promises that have not been fulfilled, President Trump's recent pledge to pay a US$5,000 "dividend" to every American adult has not been included in our scenario.

Table 3
United States: Major Economic Indicators

Quarterly annualized % change	2025		2026				Annual average			
(unless otherwise indicated)	Q3	Q4	Q1	Q2	Q3f	Q4f	2024	2025	2026f	2027f
Real GDP (2017 US$)	**4.4**	**0.5**	**2.1**	**1.5**	**2.8**	**2.7**	**2.8**	**2.1**	**2.2**	**2.4**
Personal consumption expenditures	3.5	1.9	0.5	3.4	3.1	2.3	2.9	2.6	2.2	2.5
Residential construction	-7.1	-1.7	-7.8	1.3	-3.5	0.3	3.2	-2.2	-3.7	2.1
Business fixed investment	3.2	2.4	10.6	8.5	7.0	5.5	2.9	4.1	6.7	4.2
Inventory change (2017 US$B)	-23.9	-15.6	-16.7	-53.1	25.0	10.0	43.5	28.5	-8.7	17.5
Public expenditures	2.2	-5.6	4.4	-1.0	1.5	1.6	3.8	1.1	0.4	1.4
Exports	9.6	-3.2	10.9	4.5	-5.9	2.9	3.6	1.6	3.3	1.1
Imports	-4.4	-1.0	11.8	12.5	9.2	-1.0	5.8	2.7	3.1	3.0
Final domestic demand	2.8	0.6	2.2	3.3	3.1	2.5	3.1	2.4	2.3	2.5
Other indicators										
Nominal GDP	8.3	4.2	5.8	8.0	5.6	5.5	5.3	5.0	6.2	5.4
Real disposable personal income	1.0	-0.9	0.9	-1.5	3.8	2.2	2.9	1.7	0.6	2.5
Employment[1]	0.1	-0.2	0.3	0.7	0.5	0.6	1.2	0.5	0.3	0.6
Unemployment rate (%)	4.3	4.5	4.3	4.3	4.1	4.1	4.0	4.3	4.2	4.1
Housing starts[2] (thousands of units)	1,347	1,323	1,418	1,337	1,303	1,343	1,370	1,356	1,350	1,384
Corporate profits*[3]	9.3	9.6	12.8	22.8	19.0	13.5	5.1	7.3	17.0	6.0
Personal savings rate (%)	4.4	3.8	3.9	2.8	2.9	2.9	5.5	4.6	3.1	3.1
Total inflation rate*	2.9	2.8	2.7	3.8	3.4	3.6	3.0	2.7	3.4	2.5
Core inflation rate*[4]	3.1	2.8	2.5	2.7	2.5	2.5	3.4	2.9	2.6	2.4
Current account balance (US$B)	-1,051	-884	-907	-1,030	-1,151	-1,123	-1,199	-1,177	-1,053	-1,147

f: forecast; * Annual change; [1] According to the establishment survey; [2] Annualized basis; [3] Before taxes; [4] Excluding food and energy.
Datastream and Desjardins Economic Studies

Canada

Escalating Trade Tensions Take a Jab at the Economy

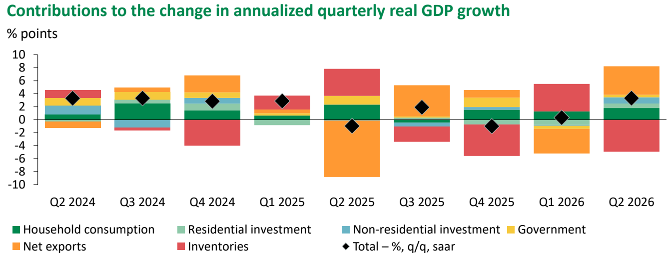
FORECAST

Canada's economy closed the first half of 2026 with solid momentum after annualized growth of 3.3% in Q2. Consumption and investment should remain supportive in Q3. Beyond the near term, escalating Canada–US tariffs threaten economic growth while retaliatory measures and elevated energy prices could intensify domestic price pressures. Fiscal policy provides an important offset through ongoing spending and investment measures. Nevertheless, persistent trade tensions, slowing population growth and rising longer-term interest rates remain key downside risks. Given this uneven outlook, the Bank of Canada is expected to keep policy unchanged until 2027.

Canada's economy advanced at 3.3% q/q annualized in Q2 2026, well above the Bank of Canada's expectations of 2.5% growth. This growth was underpinned by a sharp rebound in exports which saw their largest quarterly advance since Q1 2023 (15.1%). Real investment and household spending also saw notable gains in the quarter. Meanwhile, Q1 2026 real GDP growth was revised higher to 0.3% from -0.1% at the prior release (graph 7). This development should dismiss any discussion of a recession in Canada, supporting our previously stated view.

Graph 7
Net Exports Were a Significant Boost to Growth in Q2 2026

Contributions to the change in annualized quarterly real GDP growth



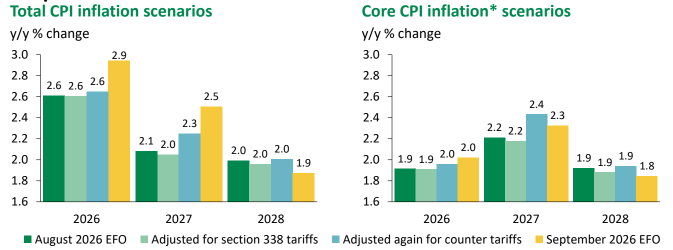
Statistics Canada and Desjardins Economic Studies

Looking to Q3 2026, consumption should again contribute positively to growth, especially as job numbers likely improved in the quarter. Sizeable federal transfers to low- and middle-income households will probably be another tailwind to household spending in Q3. Private investment may see some sustained growth on the back of solid residential investment. However, rising trade tensions starting in mid-July may weigh on non-residential investment in the quarter. Trade and inventories remain wildcards, although early signs point to this being a source of drag on Q3 output.

As we approach the final quarter of 2026, the trade conflict between Canada and the United States has intensified. We estimate that the average effective tariff rate on US imports from Canada will rise to 4.9% from 2.9%. As noted in our research, if maintained, higher US tariffs are likely to weigh on economic growth and push up unemployment while creating a modest drag on our inflation outlook. That said, the introduction of retaliatory tariffs could more than offset this disinflationary effect and add more inflationary pressure, with Canada's average effective tariff rate on imports from the United States rising to 6.4% from 2.8%. Elevated energy prices could also pour more fuel to the inflation fire as the conflict in the Middle East persists (graph 8). At the same time, government spending continues to provide significant support to the outlook. At the federal level, an improved fiscal picture has been complemented by a torrent of previously unplanned announcements. Higher provincial operating and capital expenditures are another extra source of economic growth.

Graph 8
Counter-Tariffs and Elevated Energy Prices Should Push Inflation Higher in Spite of Weaker Growth

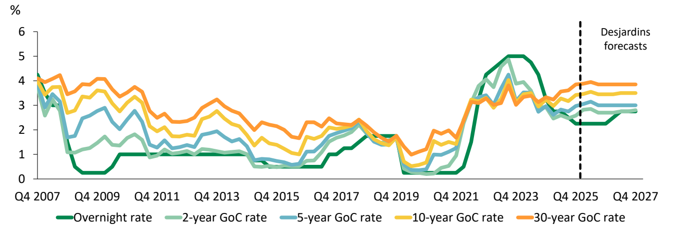
Total CPI inflation scenarios — Core CPI inflation* scenarios



CPI: Consumer price index; EFO: Economic and Financial Outlook
* Refers to total CPI inflation excluding food and energy.
Desjardins Economic Studies

Nevertheless, the outlook remains subject to several significant headwinds. First, US trade policy. Our assumptions assume that trade tensions will persist at least until early 2027, though their duration and intensity remain highly uncertain. Second, slowing population growth and an aging workforce are expected to weigh on the labour supply in Canada. Third, higher long-term interest rates should continue to exert upward pressure on borrowing costs for households, businesses, and governments (graph 9). Given these downside risks to the forecast, we maintain the view that the Bank of Canada will leave its policy rate unchanged until 2027, despite higher underlying inflation.

Graph 9
We Expect Longer-Term Yields to Stay Elevated Even as the Bank Remains on Hold
Policy rate and GoC bond yields



GoC: Government of Canada
Bank of Canada and Desjardins Economic Studies

Table 4
Canada: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2025		2026				Annual average			
	Q3	Q4	Q1	Q2	Q3f	Q4f	2024	2025	2026f	2027f
Real GDP (2017 $)	**1.9**	**-1.0**	**0.3**	**3.3**	**1.0**	**1.1**	**2.0**	**1.9**	**0.9**	**1.9**
Final consumption expenditure [of which:]	-1.1	2.7	1.7	3.5	2.9	1.7	2.6	2.4	2.2	2.2
Household consumption expenditure	*-0.8*	*2.9*	*2.4*	*3.3*	*2.7*	*1.4*	*2.2*	*2.4*	*2.4*	*1.9*
Government consumption expenditure	*-2.1*	*2.3*	*-0.1*	*3.9*	*3.4*	*2.8*	*3.8*	*2.4*	*1.7*	*3.0*
Gross fixed capital formation [of which:]	1.6	2.8	-6.0	5.3	1.7	1.4	0.7	1.6	0.5	2.5
Residential structures	*4.4*	*-9.4*	*-10.6*	*10.4*	*1.3*	*1.8*	*-0.2*	*0.5*	*-1.9*	*2.4*
Non-residential structures	*-0.9*	*-1.1*	*-11.8*	*6.5*	*1.8*	*-0.7*	*-1.7*	*1.7*	*-1.5*	*2.5*
Machinery and equipment	*-14.2*	*8.7*	*11.5*	*22.6*	*0.4*	*-0.4*	*-1.0*	*-2.4*	*5.3*	*2.0*
Intellectual property products	*-2.0*	*9.4*	*8.8*	*-2.3*	*2.9*	*2.9*	*2.2*	*0.4*	*3.5*	*2.5*
Government gross fixed capital formation	*15.5*	*24.6*	*-9.8*	*-11.0*	*2.6*	*4.1*	*6.1*	*7.2*	*2.3*	*3.0*
Investment in inventories (2017 $B)	13.7	-12.6	10.0	-16.1	-20.3	-18.2	6.5	7.4	-11.1	-23.5
Exports	4.1	6.7	1.3	15.1	-0.3	-12.0	0.9	-1.4	2.2	1.2
Imports	-10.9	2.0	13.1	1.1	2.3	-8.5	0.7	-0.3	2.0	0.7
Final domestic demand	-0.5	2.7	-0.1	3.9	2.6	1.7	2.2	2.2	1.8	2.3
Other indicators										
Nominal GDP	6.3	3.0	5.5	13.8	1.4	1.6	4.8	4.4	5.4	3.1
Real disposable personal income	-0.3	-0.7	2.2	5.0	0.0	-2.1	4.8	1.5	1.1	1.0
Employment	0.0	2.4	-1.0	0.5	1.2	-1.3	1.9	1.4	0.4	0.1
Unemployment rate (%)	7.0	6.7	6.6	6.7	6.5	6.7	6.4	6.8	6.6	6.5
Housing starts[1] (thousands of units)	273.0	255.5	241.7	255.6	236.1	244.5	245.4	259.0	244.5	244.5
Corporate profits*[2]	6.6	4.5	5.6	26.3	23.4	17.0	-2.3	6.2	18.0	1.4
Personal savings rate (%)	4.4	3.7	3.3	3.7	2.9	2.1	5.0	4.4	3.0	2.1
Total inflation rate*	2.0	2.2	2.2	2.9	3.2	3.5	2.4	2.1	2.9	2.5
Core inflation rate*[3]	2.5	2.5	2.1	1.6	2.1	2.3	2.6	2.5	2.0	2.3
Current account balance ($B)	-5.1	-1.0	-8.3	8.8	-7.4	-7.4	-15.0	-30.8	-14.4	-33.9

f: forecast; * Annual change; [1] Annualized basis; [2] Before taxes; [3] Excluding food and energy.
Datastream and Desjardins Economic Studies

Quebec

Constraints Extend Beyond the Cycle

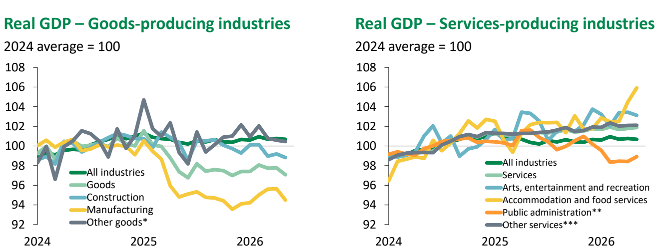
FORECAST

Economic growth in Quebec is expected to remain among the softest in the country, increasing by just 0.3% in 2026 before edging up to 1.0% in 2027. The economy continues to benefit from resilient service-sector activity, infrastructure spending and stronger domestic tourism. However, these supportive factors only partially offset the prevailing headwinds. Demographic pressures, persistent weakness in the manufacturing sector and trade-related uncertainty continue to dampen growth, and the latest US tariffs have created additional risks for the economy, which was already burdened by growing structural constraints.

After several months of treading water, Quebec's economy shows few signs of lasting improvement. Real GDP continued to fluctuate in the second quarter, but economic activity has ultimately remained flat since the start of 2025. What's more, first-quarter performance was supported exclusively by inventory buildup, a source of growth whose contribution will dissipate rapidly. More broadly, Quebec's economy has yet to regain the momentum it had before trade tensions with the United States intensified.

Quebec's economy is a study in contrast: services-producing industries are holding up, while goods-producing industries continue to struggle. Trade-exposed sectors, led by manufacturing, remain under pressure as a result of the geopolitical environment. And conversely, service sectors linked to tourism, recreation and domestic spending have proven far more resilient, as more Quebecers and Canadians chose to spend their summers at home (graph 10). Employment data and early industry reports point to a solid summer for these activities, with hotels and restaurants benefiting from the shift in travel spending. However, this strength isn't broad-based enough to lift the economy as a whole, which is projected to keep growing below its estimated potential rate of just under 1.5%.

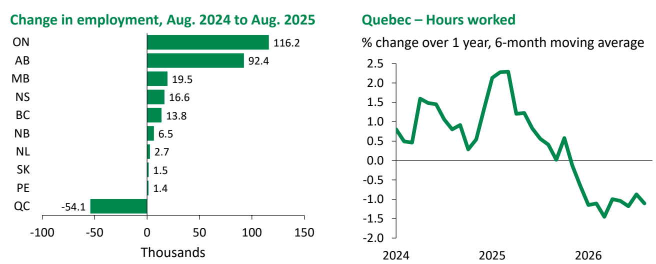
Graph 10
Tourism-Related Industries Are Leading the Way



* Agriculture, natural resources and utilities; ** Education, healthcare and public administration; *** Wholesale and retail trade, transportation and warehousing, information, finance and insurance, real estate services, professional services, other services.
Institut de la statistique du Québec and Desjardins Economic Studies

Beyond the sectors highlighted above, the labour market is also showing signs of weakness. Though conditions improved briefly in early summer, the job losses reported in August are a reminder that the economic slowdown is far from over. Quebec is now the only province to show a year-over-year decline in employment, and hours worked are also below last year's level (graph 11). The upward revision to Canada's early-year GDP figures should give Quebec's results a boost when the economic accounts are released this Wednesday, as reflected in the small upward adjustments to our forecasts.

Graph 11
Employment and Hours Worked Are Down in Quebec



Statistics Canada and Desjardins Economic Studies

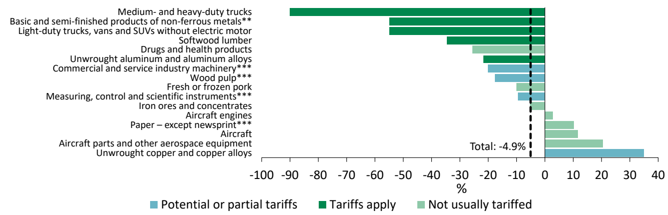
It should be noted that demographic factors are preventing a sharper deterioration in labour market indicators. The working-age population is shrinking at a pace never before seen in modern data, meaning that very few new jobs are required to maintain balance. While this may keep the unemployment rate in check, it's also cutting off the province's growth potential. However, this trend does not determine the trajectory of living standards on its own. In the medium term, a key factor will also be Quebec's ability to boost productivity and real GDP per capita. Better-targeted investments, the adoption of new technologies, and improved labor allocation could thus offset some of the demographic drag and support the growth of real incomes.

Nor will the external environment offer much support. The latest US tariff barriers could deepen the challenges faced by Quebec's manufacturing sector, which has already been grappling with uncertainty for more than a year. The province is particularly vulnerable to these measures. Manufacturing plays a significant role in many of its regions and sector-specific tariffs have a disproportionate impact on its export base (graph 12). While the magnitude of these effects is still unclear, trade tensions are clouding the economic outlook by weighing on both exports and investment intentions.

In short, Quebec's challenges go beyond the cyclical slowdown. Demographics limit overall growth in most realistic scenarios, yet Quebec has levers at its disposal to improve its standard of living: productivity, automation, modernization, training, and trade diversification. Effectively leveraging these factors will be crucial to sustaining real GDP per capita and gradually narrowing the standard-of-living gap with other Canadian provinces.

Graph 12
Quebec Export Volumes of Tariffed Products Have Fallen Sharply

Change in Quebec's merchandise exports between Q1 2024* and Q1 2026, in constant 2017 $, by product



* Top 16 exported products in the first six months of 2024, before the trade dispute;
** Includes copper wires, subject to tariffs since August 2025; *** Additional tariffs as of August 22, 2026.
Desjardins Economic Studies

Table 5
Quebec: Major Economic Indicators

Annual average % change (unless otherwise indicated)	2023	2024	2025	2026f	2027f
Real GDP (2017 $)	**0.7**	**1.7**	**0.6**	**0.3**	**1.0**
Final consumption expenditure [of which:]	1.4	2.7	1.9	0.2	0.8
Household consumption expenditure	*1.9*	*2.5*	*1.8*	*0.6*	*1.1*
Government consumption expenditure	*0.2*	*3.2*	*1.9*	*-0.6*	*0.0*
Gross fixed capital formation [of which:]	-2.9	4.4	2.4	0.4	1.3
Residential structures	*-14.6*	*5.9*	*6.6*	*-1.2*	*0.6*
Non-residential structures	*4.8*	*9.4*	*-0.7*	*-1.2*	*1.5*
Machinery and equipment	*-3.2*	*3.6*	*-2.4*	*0.7*	*2.1*
Intellectual property products	*5.4*	*2.6*	*0.7*	*4.8*	*1.8*
Government gross fixed capital formation	*8.8*	*-1.0*	*4.0*	*1.6*	*1.2*
Investment in inventories (2017 $B)	4.5	1.2	0.2	0.0	0.5
Exports	3.9	0.5	-1.2	-1.1	1.1
Imports	0.6	1.8	1.5	-0.6	1.1
Final domestic demand	0.5	3.1	1.9	0.3	0.9
Other indicators					
Nominal GDP	4.7	5.9	4.7	3.4	2.1
Real disposable personal income	0.1	4.3	1.0	-0.4	0.8
Weekly earnings	3.6	4.5	4.1	2.7	3.1
Employment	2.9	0.9	1.7	-0.9	0.0
Unemployment rate (%)	4.5	5.3	5.6	5.7	5.9
Personal savings rate (%)	6.3	8.3	7.9	6.9	6.8
Retail sales	3.7	2.1	3.4	4.0	3.0
Housing starts[1] (thousands of units)	38.9	48.7	59.9	61.7	61.9
Total inflation rate	4.5	2.3	2.4	3.0	2.1

f: forecast; [1] Annualized basis.
Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Ontario

A Recovery Is Taking Shape, but Headwinds Persist

FORECAST

Ontario's economy started 2026 on weak footing as declining exports and residential investment drove a second consecutive quarterly contraction. A firmer labour market, resilient household spending and early signs of improvement in housing and exports should support a modest recovery. Still, tariffs, manufacturing weakness, demographic challenges and elevated energy costs will keep growth subdued through 2026 before improving gradually in 2027.

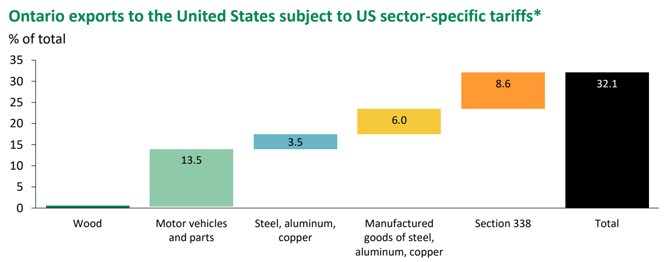
Ontario's economy contracted for a second consecutive quarter in Q1 2026. The largest drag was from net exports, partly reflecting weaker motor vehicle shipments amid US tariffs. Interprovincial trade provided a partial offset. Domestic demand also softened, reflecting lower spending on durable and semi-durable goods. Business investment was more resilient, as gains in machinery, equipment and intellectual property outweighed continued weakness in non-residential structures.

The downturn remained concentrated in goods-producing industries, particularly manufacturing and construction. Activity elsewhere held up relatively well, as nearly half of industries continued to expand, with services making gains in finance and insurance, retail trade and transportation. Ontario is especially well positioned in services exports, which account for a larger share of its economy than in any other province and provide a less tariff-exposed source of growth. Meanwhile, household spending, employee compensation and corporate operating surpluses increased. These indicators point to a mild downturn centred on trade-exposed and interest-sensitive sectors, rather than a broad-based recession.

Growth appears to have regained momentum as the year progressed through Q2 2026. Ontario has led Canada's job gains, while its unemployment rate has fallen considerably from last year's highs. Retail sales have strengthened, and early signs of stabilization in the resale market should support housing-related activity. Trade may provide less of a drag as well, with motor vehicle and parts exports beginning to recover from their early-year slump alongside stronger consumer goods shipments.

Nevertheless, Ontario remains one of the provinces most exposed to escalating US trade tensions. Nearly a third of its US-bound exports are now subject to sector-specific tariffs (graph 13), while the latest duties could push the province's effective tariff rate above 8%. The impact extends beyond autos and steel to electrical equipment, industrial machinery, plastics, lighting products and precious metals. Canadian counter-tariffs also affect almost 5% of Ontario's imports, raising input costs for manufacturers. This two-sided exposure will weigh on exports and business investment while adding to costs. Ontario is making progress on export diversification, but the gains so far have been concentrated in mining.

Graph 13
Nearly a Third of Ontario's US-Bound Exports Face Sector-Specific Tariffs



* Based on July 2025 to July 2026 data.
Statistics Canada, White House, Global Affairs Canada and Desjardins Economic Studies

The auto sector faces a particularly difficult adjustment despite a second-quarter pickup in production. Several investments have been delayed or suspended, some models have been discontinued in Canada and the future of certain plants remains uncertain. Announced production plans point to a gradual recovery over the next two years, but output is expected to remain over 25% below pre-pandemic levels. Potential further tariff escalation in January 2027 presents an additional downside risk that is not incorporated into our baseline.

Mining should provide a source of support as Ontario's tariff-exposed metal industries adjust. Steel exports have declined sharply under US tariffs, while aluminum has held up better given limited US capacity to replace Canadian supply. Meanwhile, elevated gold and industrial metal prices are supporting production, export values and investment, particularly in Northern Ontario, including Agnico Eagle Mines' planned $14 billion investment over the next five years.

Housing construction should gradually become less of a drag, but the recovery will come from a very low base. Purpose-built rental construction is filling part of the gap left by weaker condominium activity, and the new-home HST rebate and lower development charges should improve project economics and support new-home demand. But financing costs remain high, softer rents and rising vacancies are pressuring builders, and homeownership remains expensive. Housing starts are therefore likely to stay subdued.

Table 6
Ontario: Major Economic Indicators

Annual average % change (unless otherwise indicated)	2023	2024	2025	2026f	2027f
Real GDP (2017 $)	**2.4**	**1.6**	**1.3**	**0.5**	**1.7**
Final consumption expenditure [of which:]	2.1	2.7	2.6	1.6	2.0
Household consumption expenditure	*2.0*	*2.2*	*2.5*	*1.8*	*1.7*
Government consumption expenditure	*2.2*	*4.2*	*2.9*	*1.1*	*2.9*
Gross fixed capital formation [of which:]	-0.9	0.0	0.5	0.2	2.4
Residential structures	*-7.9*	*-4.8*	*-3.7*	*-4.6*	*2.4*
Non-residential structures	*12.9*	*0.5*	*2.3*	*0.0*	*2.3*
Machinery and equipment	*-0.6*	*3.4*	*-5.6*	*4.8*	*1.9*
Intellectual property products	*3.6*	*2.7*	*0.8*	*4.4*	*2.4*
Government gross fixed capital formation	*-0.2*	*6.4*	*7.6*	*1.7*	*3.1*
Investment in inventories (2017 $B)	3.5	0.8	3.3	-5.5	-9.3
Exports	5.1	-0.6	-0.6	1.4	0.8
Imports	1.1	-0.3	1.2	1.3	0.8
Final domestic demand	1.4	2.1	2.4	1.4	2.1
Other indicators					
Nominal GDP	6.9	5.1	4.1	3.8	3.6
Real disposable personal income	6.3	8.3	3.8	3.1	3.8
Weekly earnings	3.2	5.0	3.7	3.4	3.1
Employment	3.1	1.7	1.0	0.4	0.6
Unemployment rate (%)	5.6	7.0	7.7	7.2	7.0
Personal savings rate (%)	0.5	4.0	3.6	2.3	1.9
Retail sales	0.7	4.2	3.1	5.2	4.1
Housing starts[1] (thousands of units)	358.9	297.9	260.8	245.8	264.3
Total inflation rate	3.8	2.4	1.9	2.2	2.0

f: forecast; [1] Annualized basis.
Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Medium-Term Forecast

A Wave of Structural Transformations

Several major transformations will have reshaped the global economy by 2030. These include the spread of artificial intelligence, climate adaptation, increased investment in energy and infrastructure, the restructuring of global trade and population aging. The United States is expected to maintain its lead in innovation and productivity, which suggests real GDP growth could hover around 2% annually over the medium term. Canada is struggling to close the gap with its southern neighbour, but it has significant investment potential. We see Canadian GDP growth coming in at around 1.7%. In Quebec, weaker expansion of the labour force is expected to keep economic growth below 1.5%.

AI Should Boost Productivity

The AI rollout could help improve productivity in many countries. This can already be seen in the United States, which is further along in terms of investment and adoption. However, by making it easier to automate a wider range of tasks, AI could weaken certain segments of the labour market, especially for some recent graduates. And that doesn't even take into account the other risks related to AI, some of which could have been lifted straight out of a sci-fi movie. Our economic forecasts assume that this new technology will be adopted gradually, mitigating the risks and preventing a structural increase in unemployment. As with past innovations, AI could open up new opportunities for workers. Continuing education and reskilling will be required to maximize the likelihood of an orderly labour market transition.

Energy Transition and Climate Adaptation

AI won't be the only source of economic growth. Substantial investment is expected in many areas. There will be a particularly high need for investment in energy and electrical grids. AI will drive up demand for electricity, but so will the electrification of transport and of certain industrial processes.

The recent run-up in oil prices provides a strong incentive to seek alternative energy sources. Although electric vehicles are still more expensive to buy than gasoline-powered cars, near-record-high fuel prices make them much more attractive to consumers. Current conditions have also driven home the importance of investing in public transit, which is less energy-intensive than single-occupancy vehicles.

Even More Investment Is Needed

A major investment summit was held in Toronto on September 14 and 15, spotlighting the wide range of projects that could be launched in Canada in the coming years. They include a number of projects in the energy sector, as well as in mining, defence and infrastructure.

Residential construction is expected to remain one of the main focuses of investment in Canada. Although demographic growth has recently slowed, the need for housing remains high in Canada, especially in large centres. The existing housing shortage, smaller household sizes and affordability challenges require a sustained increase in supply.

It's unlikely that all of the proposed projects will be launched by 2030. The scarcity of construction workers will be a constraint, as will the availability of capital. Interest rates are expected to remain significantly higher than the averages recorded in the 2010s, when demand for capital was lower. We expect the Bank of Canada to maintain the overnight rate at 2.75% over the medium term. We also see the yield on 10-year Canadian bonds hovering around 3.50%.

Global Trade Dynamics Will Continue to Evolve

The Trump administration is still flooding the zone with protectionist measures, which continue to disrupt trade flows. Our medium-term forecasts assume that some current tariffs will remain in place and that the Canada-United States-Mexico Agreement (CUSMA) will be maintained, but the situation could remain unpredictable in the coming years.

US policy may become more open to free trade again in two years, but there are no guarantees. As a result, businesses that export to the United States would be well advised to keep diversifying their markets and redirecting production toward more profitable segments. This type of shift normally takes several years. Ultimately, tariffs are imposing costs on a global economy that is expected to become increasingly fragmented.

Table 7

Major Medium-Term Economic and Financial Indicators

% (unless otherwise indicated)	Annual average 2024	2025	2026f	2027f	2028f	2029f	2030f	Averages 2021–2025	2026–2030f
United States									
Real GDP (% change)	2.8	2.1	2.2	2.4	2.2	2.2	2.0	3.3	2.2
Total inflation rate (% change)	3.0	2.7	3.4	2.5	2.1	2.0	2.0	4.5	2.4
Unemployment rate	4.0	4.3	4.2	4.1	4.0	4.0	4.0	4.2	4.0
S&P 500 index (% change)[1]	23.3	16.4	18.1	9.7	9.0	9.0	9.0	14.3	11.0
Federal funds rate	5.31	4.37	3.88	3.88	3.75	3.50	3.50	3.40	3.70
Prime rate	8.31	7.37	6.88	6.88	6.75	6.50	6.50	6.40	6.70
Treasury bills – 3-month	5.18	4.21	3.86	3.69	3.60	3.35	3.35	3.36	3.57
Federal bonds – 10-year	4.21	4.28	4.55	4.48	4.50	4.40	4.40	3.37	4.46
– 30-year	4.41	4.78	5.06	5.20	5.20	5.20	5.20	3.69	5.17
WTI oil (US$/barrel)	77	77	85	72	70	70	70	79	73
Gold (US$/ounce)	2,385	3,440	4,560	4,500	4,375	4,250	4,250	2,274	4,387
Canada									
Real GDP (% change)	2.0	1.9	0.9	1.9	1.9	1.8	1.7	2.7	1.6
Total inflation rate (% change)	2.4	2.1	2.9	2.5	1.9	2.0	2.0	3.7	2.3
Employment (% change)	1.9	1.4	0.4	0.1	0.7	1.1	1.2	3.1	0.7
Employment (thousands)	386.3	295.7	81.5	16.2	148.0	239.8	262.7	254.9	149.6
Unemployment rate	6.4	6.8	6.6	6.5	6.4	6.4	6.3	6.3	6.4
Housing starts (thousands of units)	245.4	259.0	244.5	244.5	242.1	249.9	256.5	256.6	247.5
S&P/TSX index (% change)[1]	18.0	28.2	19.1	9.2	8.0	8.0	8.0	13.5	10.5
Exchange rate (US$/C$)	0.73	0.72	0.72	0.74	0.76	0.79	0.80	0.75	0.76
Overnight rate	4.59	2.95	2.25	2.69	2.75	2.75	2.75	2.90	2.64
Prime rate	6.75	4.90	4.45	4.89	4.95	4.95	4.95	5.04	4.84
Mortgage rate – 1-year	7.64	6.30	5.55	5.20	5.10	5.10	5.10	5.66	5.21
– 5-year	6.73	6.23	5.75	5.60	5.40	5.40	5.40	6.01	5.51
Treasury bills – 3-month	4.37	2.58	2.28	2.66	2.75	2.75	2.75	2.80	2.64
Federal bonds – 2-year	3.67	2.61	2.90	2.80	2.80	2.80	2.80	2.79	2.82
– 5-year	3.30	2.83	3.19	3.06	3.05	3.00	3.00	2.69	3.06
– 10-year	3.34	3.24	3.55	3.51	3.50	3.50	3.50	2.81	3.51
– 30-year	3.33	3.57	3.99	4.19	4.15	4.15	4.15	2.97	4.13
Yield spreads (Canada–United States)									
Treasury bills – 3-month	-0.81	-1.63	-1.58	-1.03	-0.85	-0.60	-0.60	-0.57	-0.93
Federal bonds – 10-year	-0.87	-1.04	-1.00	-0.97	-1.00	-0.90	-0.90	-0.55	-0.95
– 30-year	-1.08	-1.21	-1.07	-1.01	-1.05	-1.05	-1.05	-0.72	-1.05
Quebec									
Real GDP	1.7	0.6	0.3	1.0	1.4	1.3	1.3	3.0	1.1
Total inflation rate	2.3	2.4	3.0	2.1	2.0	2.0	2.0	3.9	2.2
Employment	0.9	1.7	-0.9	0.0	0.6	0.7	0.6	2.6	0.2
Employment (thousands)	40.6	77.9	-40.9	-0.7	28.8	32.3	26.2	111.0	9.1
Unemployment rate (%)	5.3	5.6	5.7	5.9	5.5	5.1	4.8	5.2	5.4
Retail sales	2.1	3.4	4.0	3.0	2.5	2.6	2.6	6.6	2.9
Housing starts (thousands of units)	48.7	59.9	61.7	61.9	62.1	62.3	63.8	54.8	62.4
Ontario									
Real GDP	1.6	1.3	0.5	1.7	1.8	1.8	1.8	3.2	1.5
Total inflation rate	2.4	1.9	2.2	2.0	1.9	2.0	2.0	3.7	2.0
Employment	1.7	1.0	0.4	0.6	0.9	1.2	1.4	3.2	0.9
Employment (thousands)	135.0	80.0	29.7	47.1	71.8	102.4	116.6	235.7	73.5
Unemployment rate (%)	7.0	7.7	7.2	7.0	6.8	6.7	6.4	6.8	6.8
Retail sales	4.2	3.1	5.2	4.1	3.6	3.5	3.5	5.7	4.0
Housing starts (thousands of units)	297.9	260.8	245.8	264.3	282.4	295.3	304.3	340.6	278.4

f: forecast; WTI: West Texas Intermediate; [1] Changes are based on end-of-period data.
Datastream, Statistics Canada, Canada Mortgage and Housing Corporation, Institut de la statistique du Québec and Desjardins Economic Studies