

ECONOMIC & FINANCIAL OUTLOOK

The Global Economy Contracts More under the Magnitude of the “Great Lockdown”

HIGHLIGHTS

- ▶ The spread of COVID-19 seems to be slowing in many parts of the world, and a number of countries have started to gradually relax the lockdown measures or will be doing so in the near future. Even with a spike in economic activity in the second half of 2020, a full recovery will be slow and will take several quarters. COVID-19 is likely to leave permanent scars on some sectors as well.
- ▶ The consequences of the COVID-19 pandemic are increasingly apparent in the economic indicators. In terms of annualized quarterly variation, China’s real GDP fell by 33.8% in the first quarter. However, it is expected to rebound as of the second quarter and to show growth of 1.0% for 2020 as a whole. In the euro zone, real GDP posted an annualized drop of 14.4% in the first quarter, with a more serious contraction expected for the spring. Growth is forecast to be back in the third quarter. Throughout the world, real GDP should retreat 2.9% in 2020 and then climb 5.2% in 2021.
- ▶ In the United States, real GDP started the year with an annualized quarterly variation of -4.8%. The pullback comes from the plunge in activity that only started in mid-March, suggesting that the second quarter will be even more negative, with a contraction a bit more than 35% expected. The unemployment rate should go up considerably, reflecting a loss of millions of jobs. The loosening of some of the lockdown measures should lead to good growth in the third and fourth quarters, but real GDP should decrease 4.7% for 2020 as a whole. A gain of 4.2% is expected for next year.
- ▶ Statistics Canada recently took the unusual step of releasing preliminary estimates of the change in real GDP in March and in the first quarter of 2020. They indicate that Canada’s real GDP fell by about 9% between February and March. For the first quarter as a whole, real GDP dropped around 2.6%, close to a quarterly annualized 10%. According to our estimates, the decline in real GDP could be four times larger in the second quarter. In addition to the adverse impacts of the lockdown measures, there will be problems in the energy sector resulting from the plunge in oil prices. However, the gradual lockdown lifting across Canada gives reason to believe that real GDP could return to positive territory as of May.
- ▶ The Quebec economy was hard hit by the broad lockdown measures that were imposed earlier in the province than elsewhere in Canada. Household confidence fell further, and the unemployment rate jumped from 4.5% in February to 8.1% in March, the largest increase of any province. The damage should be greater in April, given that non-essential activities were halted for a longer period than in March, but the economy is expected to rebound as of May. The recovery will be gradual, however, depending on plans for reopening. The activity level will be lower than it was pre-crisis until the end of 2021.
- ▶ The lockdown measures are also hitting Ontario hard. On Monday, the Ford government announced a gradual plan to reopen the economy, but no specific date was given for rolling out the three phases. That being said, Ontario’s state of sanitary emergency will remain in place until at least May 12.

CONTENTS

Highlights and Main Changes.....	1	Risks Inherent in our Scenarios	2	Financial Forecasts.....	3
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RISKS INHERENT TO OUR SCENARIOS

The evolving COVID-19 pandemic remains the main uncertainty surrounding the economic and financial outlooks. Growth in the number of infections will be the key factor in the authorities' decision as to whether to pursue gradual lockdown lifting or to keep the health measures in place. If progress against the disease is consistent, the economy could slowly emerge from its current state of hibernation. If not, and particularly if the pandemic sees another wave of growth, the constraints on the economy would persist or be reinstated. The adverse effects on corporate earnings and the stock markets would be more severe as a result, and the risk of a financial crisis would increase. There are other uncertainties as to what will happen after the pandemic. Once the main restrictions are lifted, activity might not catch up as hoped. Some sectors could be affected by the current setbacks in consumption, production and trade for a long time to come. The long-term consequences of the budgetary and fiscal measures could also disrupt outlooks beyond this year. In Canada, it could be harder to get back to normal after the COVID-19 pandemic. The plunge in oil prices will have serious negative repercussions on the energy sector, and the extent of the long-term effects on the industry is difficult to predict. In addition, the cut in key interest rates to the effective lower bound could potentially heighten concerns over high household debt if rates remain low for too long. Similarly, the robust stimulus plans announced by governments could cast doubt on public finances and put upward pressure on bond yields, especially if the economic crisis persists. In Quebec and Ontario, the lockdown measures are more widespread than elsewhere in the country, increasing the risk associated with gradually reopening the economy.

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

IN %	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
		2019	2020f	2021f	2019	2020f	2021f
Advanced economies	37.8	1.7	-5.7	3.9	1.4	0.7	1.3
United States	15.1	2.3	-4.7	4.2	1.8	1.1	1.6
Canada	1.3	1.6	-6.4	5.2	1.9	0.6	2.1
<i>Quebec</i>	<i>0.3</i>	<i>2.7</i>	<i>-4.9</i>	<i>5.1</i>	<i>2.1</i>	<i>0.7</i>	<i>2.0</i>
<i>Ontario</i>	<i>0.5</i>	<i>1.6</i>	<i>-5.1</i>	<i>5.0</i>	<i>1.9</i>	<i>0.5</i>	<i>2.1</i>
Japan	4.0	0.7	-6.3	3.1	0.5	-0.1	0.2
United Kingdom	2.2	1.4	-5.9	3.5	1.8	0.7	1.5
Euro zone	11.6	1.2	-6.8	3.6	1.2	0.3	1.1
<i>Germany</i>	<i>3.3</i>	<i>0.6</i>	<i>-6.2</i>	<i>3.8</i>	<i>1.4</i>	<i>0.5</i>	<i>1.2</i>
<i>France</i>	<i>2.2</i>	<i>1.3</i>	<i>-8.5</i>	<i>4.0</i>	<i>1.1</i>	<i>0.4</i>	<i>1.0</i>
<i>Italy</i>	<i>1.8</i>	<i>0.3</i>	<i>-9.0</i>	<i>2.9</i>	<i>0.6</i>	<i>0.0</i>	<i>0.7</i>
Other countries	3.9	1.1	-3.2	2.4	0.9	0.4	0.8
<i>Australia</i>	<i>0.9</i>	<i>1.8</i>	<i>-4.5</i>	<i>4.0</i>	<i>1.6</i>	<i>1.0</i>	<i>1.7</i>
Emerging and developing economies	62.2	3.6	-1.3	6.0	3.8	3.0	3.1
North Asia	27.6	5.6	1.2	7.7	3.2	2.7	2.6
<i>China</i>	<i>18.6</i>	<i>6.1</i>	<i>1.0</i>	<i>8.0</i>	<i>2.9</i>	<i>2.4</i>	<i>1.9</i>
<i>India</i>	<i>7.7</i>	<i>5.0</i>	<i>2.0</i>	<i>7.3</i>	<i>3.7</i>	<i>3.3</i>	<i>4.0</i>
South Asia	5.4	4.2	-0.8	6.3	1.9	1.2	2.1
Latin America	5.9	1.0	-4.6	3.6	3.5	2.9	3.2
<i>Mexico</i>	<i>1.8</i>	<i>-0.1</i>	<i>-5.6</i>	<i>2.9</i>	<i>3.6</i>	<i>3.1</i>	<i>3.3</i>
<i>Brazil</i>	<i>2.5</i>	<i>1.1</i>	<i>-4.4</i>	<i>3.7</i>	<i>3.8</i>	<i>3.0</i>	<i>3.5</i>
Eastern Europe	7.5	2.2	-4.0	4.0	6.6	5.1	4.9
<i>Russia</i>	<i>3.0</i>	<i>1.3</i>	<i>-4.8</i>	<i>3.0</i>	<i>4.5</i>	<i>3.6</i>	<i>3.5</i>
Other countries	15.9	1.6	-3.6	4.4	6.8	5.2	5.8
<i>South Africa</i>	<i>0.6</i>	<i>0.1</i>	<i>-5.1</i>	<i>2.9</i>	<i>4.1</i>	<i>3.9</i>	<i>4.5</i>
World	100.0	2.9	-2.9	5.2	2.9	2.2	2.4

f: forecasts; PPP : Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; * 2018.

Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

FINANCIAL FORECASTS

The panic that blew through financial markets in March has given way to a degree of optimism in recent weeks. This is primarily due to the unprecedented actions taken by governments and central banks to limit the financial consequences of COVID-19. In addition to making massive purchases of government bonds and ensuring the financial system has enough liquidity, central banks are directly supporting demand for a number of riskier assets, including corporate bonds. These decisive actions suggest that bond yields will remain very low and have convinced investors that a major financial crisis would be staved off. After taking one of the most violent plunges in their history, the main North American stock indexes have thus jumped by about 30% from their March 23 low. Rebounding investor confidence has also been supported by the reopening plans announced by a number of governments. This optimism about the future stands in contrast with the spectacular plunge in economic activity in the first half of 2020, which is hitting global demand for oil hard, among other things. The potential for further gains by the stock markets seems fairly limited over the near term, as uncertainty over where the pandemic is going and about economic recovery remains quite high. Stock markets and the Canadian dollar could still end the year a little higher than where they are now if our scenario for a gradual economic recovery in the coming months does materialize.

TABLE 2
Summary of the financial forecasts

END OF PERIOD IN % (EXCEPT IF INDICATED)	2019		2020				2021			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Federal bonds										
<u>United States</u>										
2-year	1.66	1.58	0.25	0.25	0.30	0.40	0.45	0.50	0.50	0.55
5-year	1.54	1.68	0.36	0.40	0.45	0.55	0.60	0.65	0.65	0.70
10-year	1.67	1.92	0.67	0.65	0.75	0.85	0.90	0.95	1.00	1.05
30-year	2.11	2.39	1.32	1.25	1.35	1.40	1.45	1.50	1.50	1.55
<u>Canada</u>										
2-year	1.58	1.69	0.42	0.35	0.40	0.45	0.50	0.55	0.55	0.60
5-year	1.40	1.68	0.60	0.50	0.55	0.60	0.65	0.70	0.70	0.75
10-year	1.37	1.70	0.71	0.65	0.70	0.80	0.85	0.90	0.90	0.95
30-year	1.53	1.76	1.32	1.25	1.30	1.35	1.35	1.40	1.40	1.45
Currency market										
Canadian dollar (USD/CAD)	1.32	1.30	1.41	1.41	1.39	1.38	1.37	1.35	1.33	1.33
Canadian dollar (CAD/USD)	0.76	0.77	0.71	0.71	0.72	0.73	0.73	0.74	0.75	0.75
Euro (EUR/USD)	1.09	1.12	1.10	1.08	1.08	1.09	1.10	1.11	1.12	1.12
British pound (GBP/USD)	1.23	1.32	1.24	1.23	1.24	1.25	1.25	1.25	1.26	1.26
Yen (USD/JPY)	108	109	108	106	107	108	110	110	111	111
Stock markets (level and growth)*										
United States – S&P 500	3,231		Target: 2,950 (-8.7%)				Target: 3,400 (+15.3%)			
Canada – S&P/TSX	17,063		Target: 15,500 (-9.2%)				Target: 18,000 (+16.1%)			
Commodities (annual average)										
WTI oil (US\$/barrel)	57 (61*)		32 (35*)				45 (50*)			
Gold (US\$/ounce)	1,393 (1,521*)		1,620 (1,600*)				1,535 (1,500*)			

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

TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2019		2020				ANNUAL AVERAGE			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
Real GDP (2012 US\$)	2.1	2.1	-4.8	-35.2	27.9	10.5	2.9	2.3	-4.7	4.2
Personal consumption expenditures	3.1	1.8	-7.6	-45.3	42.2	14.4	3.0	2.6	-6.6	5.1
Residential construction	4.6	6.5	21.0	-15.0	19.0	51.8	-1.5	-1.5	8.6	18.1
Business fixed investment	-2.3	-2.4	-8.6	-34.8	9.5	5.0	6.4	2.1	-9.1	1.2
Inventory change (US\$B)	69.4	13.1	-16.3	-90.0	-60.0	-45.0	48.1	67.0	-52.8	-5.0
Public expenditures	1.7	2.5	0.7	2.3	2.0	-1.7	1.7	2.3	1.7	0.7
Exports	0.9	2.1	-8.7	-20.0	10.0	5.0	3.0	0.0	-4.7	2.4
Imports	1.8	-8.4	-15.3	-17.0	20.0	10.0	4.4	1.0	-6.0	4.8
Final domestic demand	2.2	1.5	-5.4	-34.8	30.3	11.7	3.0	2.3	-4.4	4.7
Other indicators										
Nominal GDP	3.8	3.5	-3.5	-34.7	29.5	11.2	5.4	4.1	-3.4	5.6
Employment according to establishments	1.5	1.7	1.0	-43.7	34.9	9.2	1.6	1.4	-5.4	3.5
Unemployment rate (%)	3.6	3.5	3.8	14.4	9.6	8.0	3.9	3.7	8.9	7.1
Housing starts ¹ (thousands of units)	1,282	1,441	1,466	933	1,270	1,333	1,250	1,298	1,251	1,408
Total inflation rate*	1.8	2.0	2.1	0.6	0.9	0.6	2.4	1.8	1.1	1.6
Core inflation rate* ³	2.3	2.3	2.2	2.0	1.7	1.2	2.1	2.2	1.8	1.0

f: forecasts; * Annual change; ¹ Annualized basis; ² Before taxes; ³ Excluding food and energy.
Sources: Datastream and Desjardins, Economic Studies

TABLE 4
Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2019		2020				ANNUAL AVERAGE			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2018	2019	2020f	2021f
Real GDP (2012 \$)	1.1	0.3	-10.0	-40.0	42.0	12.0	2.0	1.6	-6.4	5.2
Final consumption expenditure [of which:]	1.7	1.8	-6.5	-30.8	40.7	10.5	2.4	1.8	-2.9	5.4
Household consumption expenditure	2.0	2.0	-12.2	-52.6	49.6	12.8	2.2	1.6	-10.0	5.6
Governments consumption expenditure	1.2	1.3	8.0	25.0	20.0	5.0	3.0	2.1	9.8	1.9
Gross fixed capital formation [of which:]	8.1	-3.1	-16.0	-53.5	19.1	11.7	1.2	-0.7	-14.3	2.6
Residential structures	13.0	1.1	-5.0	-45.4	26.8	17.7	-1.6	-0.6	-6.2	6.2
Non-residential structures	11.2	-1.7	-28.0	-80.0	12.0	10.0	-0.6	0.9	-28.6	-4.8
Machinery and equipment	-2.6	-13.5	-35.0	-80.0	10.0	10.0	4.7	-1.4	-34.6	-5.0
Intellectual property products	3.7	-3.0	-10.0	-50.0	15.0	4.0	3.9	-4.7	-12.5	0.6
Governments gross fixed capital formation	7.0	-3.6	-5.0	-10.0	25.0	8.0	5.2	-0.7	-0.3	6.2
Investment in inventories (2012 \$B)	7.1	10.5	19.0	20.5	22.0	19.0	13.0	14.7	20.1	15.7
Exports	-0.6	-5.1	-25.0	-50.0	60.0	30.0	3.1	1.2	-12.1	11.2
Imports	-0.2	-2.5	-15.0	-35.0	40.0	23.2	2.6	0.3	-7.0	9.7
Final domestic demand	3.1	0.7	-8.4	-35.1	36.8	10.7	2.1	1.2	-5.0	5.0
Other indicators										
Nominal GDP	1.3	4.5	-15.0	-60.0	57.0	27.0	3.9	3.6	-11.6	7.2
Employment	1.1	0.5	-5.8	-32.0	25.0	6.0	1.3	2.1	-5.0	2.8
Unemployment rate (%)	5.6	5.7	6.3	11.2	8.8	7.8	5.8	5.7	8.5	7.4
Housing starts ¹ (thousands of units)	223	202	207	147	174	186	213	209	179	198
Total inflation rate*	1.9	2.1	1.8	0.1	0.3	0.1	2.3	1.9	0.6	2.1
Core inflation rate* ³	2.2	1.9	1.8	1.6	1.1	1.1	1.9	2.0	1.5	1.3

f: forecasts; * Annual change; ¹ Annualized basis; ² Before taxes; ³ Excluding food and energy.
Sources: Datastream and Desjardins, Economic Studies

TABLE 5
Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019	2020f	2021f
Real GDP (2012 \$)	2.8	2.5	2.7	-4.9	5.1
Final consumption expenditure [of which:]	2.9	2.3	2.0	-3.7	4.2
Household consumption expenditure	3.3	2.2	1.7	-7.2	4.6
Governments consumption expenditure	2.3	2.5	2.9	1.9	2.0
Gross fixed capital formation [of which:]	7.5	3.5	2.7	-5.2	2.8
Residential structures	7.3	4.0	3.9	-0.9	4.4
Non-residential structures	1.1	-0.9	4.3	-23.0	-2.9
Machinery and equipment	19.0	-1.6	1.0	-12.4	0.8
Intellectual property products	3.7	4.6	-2.4	-0.2	1.5
Governments gross fixed capital formation	8.2	9.4	2.8	2.1	4.8
Investment in inventories (2012 \$B)	562	1,984	3,698	5,750	4,500
Exports	0.8	4.2	1.4	-5.5	6.6
Imports	6.0	2.8	0.1	-4.0	3.8
Final domestic demand	3.8	2.5	2.2	-4.0	4.0
Other indicators					
Nominal GDP	5.0	4.8	4.4	-4.6	7.0
Real disposable personal income	4.3	2.8	3.6	-1.9	2.8
Weekly earnings	2.8	3.2	3.5	-0.4	2.3
Employment	2.2	0.9	1.8	-5.0	2.7
Unemployment rate (%)	6.1	5.5	5.1	8.5	7.2
Personal saving rate (%)	5.7	6.2	8.0	13.2	11.0
Retail sales	5.5	2.9	1.9	-6.3	7.4
Housing starts ¹ (thousands of units)	46.5	46.9	48.0	45.0	40.0
Total inflation rate	1.0	1.7	2.1	0.7	2.0

f: forecasts; ¹ Annualized basis.

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

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019	2020f	2021f
Real GDP (2012 \$)	2.9	2.2	1.6	-5.1	5.0
Final consumption expenditure [of which:]	3.5	2.8	2.2	-2.3	5.0
Household consumption expenditure	4.1	2.5	2.2	-7.9	5.4
Governments consumption expenditure	2.0	3.7	2.2	9.2	1.4
Gross fixed capital formation [of which:]	4.4	2.0	-1.0	-8.5	4.5
Residential structures	0.6	-3.3	-0.4	-5.0	5.7
Non-residential structures	3.2	1.0	-4.9	-15.2	2.5
Machinery and equipment	13.9	11.5	-0.4	-20.7	2.3
Intellectual property products	1.9	2.9	-2.8	-9.6	2.4
Governments gross fixed capital formation	7.9	6.2	3.6	0.1	6.1
Investment in inventories (2012 \$B)	7,306	7,424	6,878	7,293	2,905
Exports	0.4	0.9	2.0	-8.8	12.6
Imports	3.1	1.6	1.1	-5.5	11.0
Final domestic demand	3.7	2.6	1.5	-3.5	4.9
Other indicators					
Nominal GDP	4.6	3.7	3.9	-5.1	8.0
Real disposable personal income	3.6	2.7	2.9	-0.5	3.4
Weekly earnings	1.9	2.9	2.8	-0.1	4.1
Employment	1.8	1.6	2.9	-4.0	3.3
Unemployment rate (%)	6.0	5.6	5.6	8.1	6.8
Personal saving rate (%)	-0.6	-0.6	-0.1	7.5	5.6
Retail sales	7.7	4.4	2.8	-3.7	5.3
Housing starts ¹ (thousands of units)	79.1	78.7	69.0	65.4	72.7
Total inflation rate*	1.7	2.4	1.9	0.5	2.1

f: forecasts; * Annual change; ¹ Annualized basis.

Sources: Statistics Canada, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies