ECONOMIC & FINANCIAL OUTLOOK

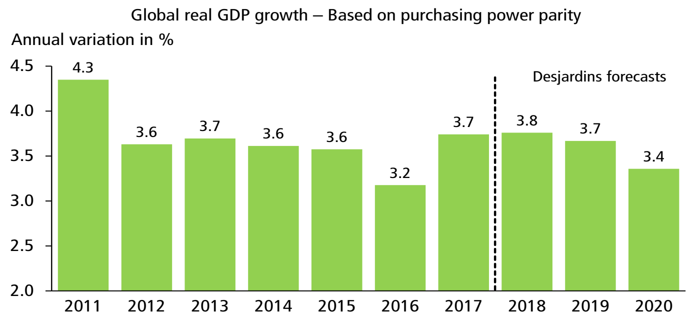
FOCUS ECONOMICS ANALYST FORECAST AWARDS 2017
FOCUS ECONOMICS ANALYST FORECAST AWARDS 2018
#1 BEST OVERALL FORECASTER - CANADA

The Global Economy Continues to Expand in Spite of Numerous Tensions

HIGHLIGHTS

- Concerns regarding the strength of the global economy recently had a negative impact on financial markets. Nevertheless, global real GDP growth is expected to reach 3.7% in 2019, and then 3.4% in 2020 (graph 1).
- The political tensions in the euro zone are highlighting the economic difficulties of some countries. The European Central Bank may begin hiking its key rates later than anticipated.
- The outcome of Brexit remains unclear and hurts the British economy, which is going through a period of weak growth.
- The Chinese economy continues to slow down, as trade tensions with the United States persist. Real GDP growth in China is expected to reach 6.3% in 2019, and 5.9% in 2020.
- The economic outlook in the United States remains favourable. Despite the harmful consequences of protectionism, real GDP is expected to grow 2.7% in 2019, before slowing to 2.0% in 2020. A December monetary tightening is still expected in the United States, followed by three additional key rate hikes in 2019. Bond yields should therefore resume an upward trend in the near future.
- The challenges faced by the energy sector are restraining economic growth in the short term in Canada, but the labour market is in very good shape. The elimination of the uncertainty concerning trade relations with the United States should encourage investment and exports. The next key rate hike will not be ordered before the spring of 2019.

GRAPH 1
The growth of the global economy will remain strong in 2019 before slowing further in 2020



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

- Ontario and British Columbia should maintain growth slightly higher than the national average despite the stabilization of the housing market. Alberta will be severely hampered by the low price for Canadian oil and the limited number of transportation options for moving the oil.
- Quebec's economy grew more than 2.5% in 2018, but will slow to roughly 2.0% in 2019 and 1.5% in 2020. The contribution of households will lessen as a result of the cumulative key interest rate hikes applied since mid-2017.

CONTENTS

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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

RISKS INHERENT IN OUR SCENARIOS

A number of factors could cause a faster and more severe reversal of the economic situation than anticipated. Recent concerns regarding the strength of the global economy had a negative impact on markets, and on the stock market in particular, and other downward trends could rattle household and business confidence. The protectionist escalation is also intensifying the uncertainty felt around the globe. However, for Canada, the new trade agreement between Canada, the United States and Mexico (CUSMA) has significantly reduced the risks. Geopolitical issues continue to weigh on the global economy. Financial imbalances are still a consideration in a number of regions, especially in Europe and in emerging economies like China's. Brexit remains unresolved, and the risks of a non-negotiated exit have become more significant. In the United States, the policies of the Trump administration could cause the situation to deviate from our scenarios, either positively or negatively. Political uncertainty fed by doubts about the administration's integrity and partisan divisions in Congress could also affect the markets. The financial difficulties of emerging countries could worsen and could have very adverse effects on North American markets. Negative sentiment on markets could persist if financial conditions become much less favourable. Inflation that is stronger or weaker than forecast would have major consequences, especially on the bond market. The outbreak of a major conflict in the Middle East could drive international oil prices even higher. In Canada, the rise in interest rates is intensifying concerns over high household debt. Signs of overvaluation in the Toronto and Vancouver real estate markets are high, and Montreal just became overheated, making the market more vulnerable to a potential correction. If this persists, the sharp drop in Canadian oil prices could have a negative impact on certain provinces.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2018f	2019f	2020f	2018f	2019f	2020f
Advanced economies	**38.3**	**2.2**	**2.1**	**1.6**	**2.0**	**1.8**	**1.4**
United States	15.2	2.9	2.7	2.0	2.4	2.1	1.7
Canada	1.3	2.1	1.8	1.7	2.3	1.7	1.8
Quebec	*0.3*	*2.6*	*2.0*	*1.5*	*1.7*	*1.7*	*1.5*
Ontario	*0.5*	*2.2*	*2.0*	*1.6*	*2.3*	*1.7*	*1.9*
Japan	4.3	0.9	0.9	0.3	1.0	1.1	1.0
United Kingdom	2.2	1.3	1.3	0.9	2.5	2.2	1.6
Euro zone	11.7	1.9	1.8	1.6	1.8	1.7	1.2
Germany	*3.3*	*1.6*	*1.6*	*1.6*	*1.9*	*1.9*	*1.3*
France	*2.3*	*1.6*	*1.7*	*1.3*	*2.0*	*1.7*	*1.1*
Italy	*1.9*	*1.0*	*0.8*	*0.9*	*1.3*	*1.4*	*0.8*
Other countries	3.9	1.7	1.4	1.3	1.1	1.1	0.8
Australia	0.9	3.3	2.8	2.7	2.0	2.2	1.8
Emerging and developing economies	**61.7**	**4.7**	**4.6**	**4.4**	**5.3**	**5.0**	**3.6**
North Asia	26.9	6.7	6.5	6.2	2.9	3.1	2.3
China	*18.3*	*6.6*	*6.3*	*5.9*	*2.1*	*2.3*	*1.7*
India	*7.4*	*7.4*	*7.5*	*7.2*	*4.7*	*4.9*	*4.3*
South Asia	5.3	5.0	4.8	4.4	2.6	2.9	2.5
Latin America	6.0	1.9	2.4	2.4	4.1	3.8	3.2
Mexico	*1.8*	*2.1*	*2.1*	*2.1*	*4.6*	*3.7*	*3.1*
Brazil	*2.5*	*1.3*	*2.4*	*2.4*	*4.3*	*4.2*	*3.6*
Eastern Europe	7.4	2.9	1.9	2.2	6.3	6.9	4.8
Russia	*3.0*	*1.8*	*1.6*	*1.5*	*3.7*	*4.5*	*3.5*
Other countries	16.0	3.1	3.4	2.9	12.7	9.3	6.9
South Africa	*0.6*	*0.8*	*1.9*	*1.4*	*4.7*	*5.3*	*4.7*
World	**100.0**	**3.8**	**3.7**	**3.4**	**3.7**	**3.5**	**2.6**

f: forecasts; PPP : Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; * 2017.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

FINANCIAL FORECASTS

Volatility remains the watchword on the financial markets. Disappointing international data, the trade tensions between China and the United States, and the drop in oil prices, as the WTI (West Texas Intermediate) oil price fell to around US$50 per barrel, have stoked investor concerns. The perception of deteriorating economic outlooks and inflation put major downside pressures on bond yields. The Bank of Canada (BoC) opted for the status quo in December, highlighting in its statement a number of downside risks that the economy is facing. This change in tone on the part of the BoC, as well as a more negative short-term outlook for the Canadian economy, seems to suggest that the next monetary tightening policy will not be ordered before the spring of 2019. However, two increases of the Canadian key rates are still expected next year. The economic outlook in the United States remains more positive, and we are still counting on monetary tightening in December followed by three additional increases of the U.S. key rates in 2019. However, the Federal Reserve may pause its monetary tightening a little sooner than we previously anticipated. In our view, investors' fears, as well as the recent drops on the stock markets, in bond yields and in oil prices, are exaggerated, and a major turnaround should happen in the coming months. This should help the loonie regain some of the ground lost recently.

TABLE 2
Summary of the financial forecasts

	2018		2019				2020			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.25	2.50	2.75	2.75	3.00	3.25	3.50	3.50	3.50	3.25
Canada	1.50	1.75	1.75	2.00	2.25	2.25	2.50	2.50	2.50	2.25
Euro zone	0.00	0.00	0.00	0.00	0.00	0.05	0.25	0.25	0.50	0.50
United Kingdom	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Federal bonds										
United States										
2-year	2.82	2.85	3.05	3.10	3.25	3.40	3.50	3.50	3.30	3.00
5-year	2.95	2.90	3.15	3.20	3.35	3.50	3.60	3.60	3.35	3.00
10-year	3.06	3.00	3.25	3.35	3.50	3.60	3.70	3.70	3.45	3.15
30-year	3.21	3.25	3.45	3.55	3.70	3.75	3.80	3.80	3.60	3.30
Canada										
2-year	2.21	2.05	2.25	2.40	2.50	2.65	2.80	2.80	2.60	2.30
5-year	2.33	2.15	2.35	2.50	2.65	2.80	2.90	2.90	2.65	2.30
10-year	2.42	2.20	2.45	2.65	2.80	2.90	3.05	3.05	2.80	2.55
30-year	2.41	2.35	2.55	2.75	2.95	3.05	3.15	3.15	2.95	2.70
Currency market										
Canadian dollar (USD/CAD)	1.29	1.33	1.32	1.30	1.29	1.30	1.28	1.27	1.29	1.32
Canadian dollar (CAD/USD)	0.77	0.75	0.76	0.77	0.78	0.77	0.78	0.79	0.78	0.76
Euro (EUR/USD)	1.16	1.14	1.16	1.17	1.18	1.20	1.22	1.24	1.25	1.24
British pound (GBP/USD)	1.30	1.27	1.30	1.31	1.33	1.35	1.38	1.40	1.41	1.40
Yen (USD/JPY)	114	113	114	115	115	114	112	110	105	105
Stock markets (level and growth)*										
United States – S&P 500	2,700		Target: 2,900 (+7.4%)				Target: 2,750 (-5.2%)			
Canada – S&P/TSX	15,400		Target: 16,900 (+9.7%)				Target: 16,000 (-5.3%)			
Commodities (annual average)										
WTI oil (US$/barrel)	65 (52*)		64 (68*)				61 (48*)			
Gold (US$/ounce)	1,270 (1,225*)		1,205 (1,200*)				1,200 (1,230*)			

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

Overseas

The Global Economy: Slowing Down but Not Going Backwards!

FORECASTS

The growth of the global economy slowed in Q3. Contraction of real GDP in Germany and Japan, and stagnation in Italy, were even noted. One of the sources of the slowdown is the slower pace of global trade, which remains a victim of rising protectionism. The volatility of the financial markets is also a negative factor, especially for emerging nations. However, the continued positive growth of the U.S. economy and the recent drop in oil prices should, overall, support growth in 2019. Still, the slowdown may be more noticeable beginning in 2020. The growth in real GDP worldwide is expected to decline from 3.8% in 2018 to 3.7% in 2019 and 3.4% in 2020.

Is the global economy slowing down? Many economic observers are asking themselves this very question. It is clear that there are more worries about the health of the economy today than there were a year ago. In the second quarter of 2017, real GDP for all of the countries of the Organisation for Economic Co-operation and Development (OECD) recorded an average annual change of 2.8%. It fell to 2.4% in the summer of 2018. The potential growth for the OECD countries as a whole is estimated at 1.9%. Despite the slowdown, the growth in the global economy continues to outpace its potential, and going forward it will be normal to see GDP gradually reach this long-term pace (graph 2).

The global economy has also had to adjust to two destabilizing factors: the rise in protectionism and the ongoing, even accelerating, normalization of interest rates. The first factor has caused global trade to slow down. The primary threat now is that the number of trade restrictions could rise further. The OECD estimates that the increase in U.S. tariffs and their extension to all U.S. imports from China would reduce global trade by 2% and growth in global GDP by 0.8% between now and 2021 (graph 3). As for interest rates, the impact has been especially noticeable internationally, with financial markets becoming increasingly volatile and with a degree of fragility in emerging economies. Still, the fears surrounding economic growth recently served to slow down interest rate hikes and helped relieve some fears for a number of emerging countries.

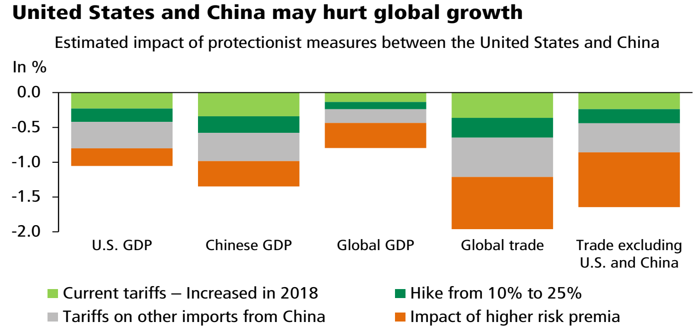
EURO ZONE

Since the beginning of 2018, a number of economic indicators in the euro zone have deteriorated noticeably. The situation is not yet catastrophic, and household and business confidence suggest that economic growth will remain in place, but the slower pace of euroland GDP over the last few quarters will continue. Some issues continue to cause concern. The slowdown in global trade is hurting Germany, which recorded its first contraction in real GDP since the winter of 2015. Germany is much more dependent on international trade than most of the world's other major economies (graph 4 on page 5). The fact that the value of the euro has declined since mid-2018 is, however, a positive factor for the coming quarters. Nonetheless, the German automotive sector remains at the mercy of a new round of U.S. protectionism. The Italian political situation is still a source of concern, and the conditions in France will require monitoring, as the social unrest there could upset growth (graph 5 on page 5).

GRAPH 2
Growth in advanced countries is expected to reach its potential

OECD: Organisation for Economic Co-operation and Development
Sources: OECD and Desjardins, Economic Studies

GRAPH 3
Continued escalation of protectionism between the United States and China may hurt global growth



Sources: Organisation for Economic Co-operation and Development and Desjardins, Economic Studies

GRAPH 4
Germany is more dependent on international trade

OECD: Organisation for Economic Co-operation and Development
Sources: OECD and Desjardins, Economic Studies

After rising 2.5% in 2017, real GDP in the euro zone should reach 1.9% in 2018, 1.8% in 2019, and 1.6% in 2020. The European Central Bank may begin to hike its key rates later than initially anticipated.

UNITED KINGDOM

Brexit continues to influence the British economic situation. At the time of writing, nothing had been decided, since the agreement negotiated between the May government and the European Union is trapped in a parliamentary deadlock. The threat of a Brexit without an agreement remains high. All the same, we are counting on a short-term agreement (that would include a transition period until the end of 2020) where the uncertainty persist regarding the long-term relationship between the United Kingdom and the European Union. If this were the case, the expectation would be for real GDP to grow 1.3% in 2018 and 2019 and then rise 0.9% in 2020.

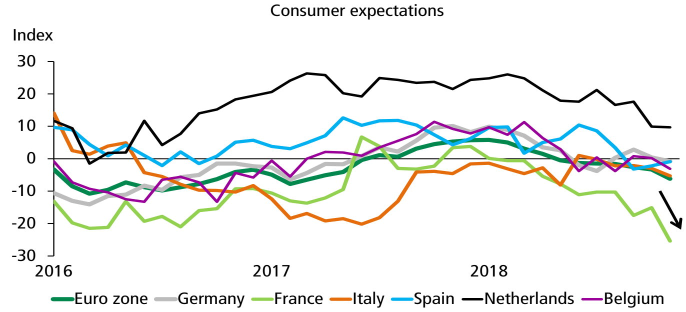
JAPAN

Real GDP in Japan declined 2.5% (annualized) in Q3. This follows on the heels of a 2.8% increase in the spring, preceded by a 1.3% decrease in Q1 (graph 6). Real GDP is expected to perform better starting in Q4 of 2018. GDP is expected to remain volatile in 2019, while the government still intends to move forward with an increase (from 8% to 10%) in the consumption tax in October. After 1.7% growth in 2017, annual gains in real GDP of 0.9% in 2018 and 2019 are expected, followed by a more modest 0.3% growth in 2020.

CHINA

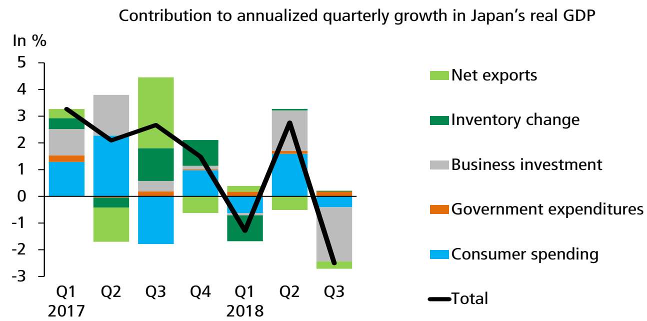
The most important issue for the Chinese economy in 2019 will be U.S. protectionism, as the United States has made China its primary target (graph 7). After gaining 6.9% in 2017, real GDP growth in China is expected to reach 6.6% in 2018, 6.3% in 2019, and 5.9% in 2020.

GRAPH 5
Confidence plunged recently in France



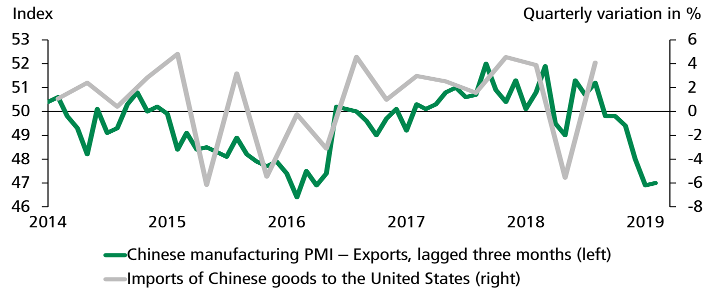
Sources: European Commission and Desjardins, Economic Studies

GRAPH 6
Real GDP in Japan contracted once again in Q3



Sources: Cabinet Office and Desjardins, Economic Studies

GRAPH 7
Chinese exports to the United States are at risk



Sources: Datastream, Bureau of Economic Analysis and Desjardins, Economic Studies

United States

Signs of a Slowdown Are Still Rare

FORECASTS

After a 4.2% increase in the spring, real GDP posted a 3.5% rise in Q3. Another significant rise in real GDP is expected in the last quarter of 2018. Furthermore, despite some renewed concerns, especially among the financial markets, growth should remain strong in 2019. However, for this to happen, some areas of weakness, especially investment, will have to recover soon. The harmful consequences of the Trump administration's protectionism will also have to be monitored. All told, we are still forecasting that real GDP will grow 2.9% in 2018 and 2.7% in 2019, before slowing to 2.0% in 2020.

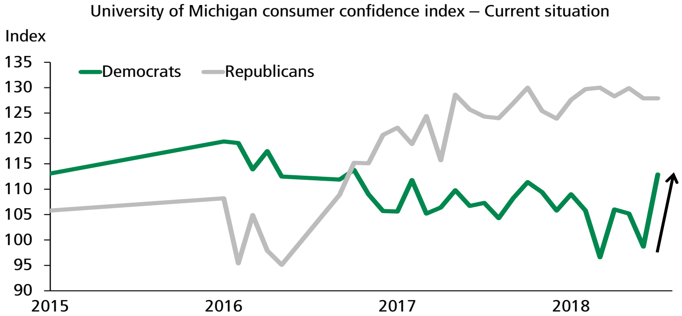
The more than 10% drop in the S&P 500 since the beginning of October highlighted concerns surrounding the strength of the U.S. economy. Yet there are very few signs relating to the real economy that would support these fears. The ISM manufacturing and non-manufacturing indexes rose in November, with both suggesting that current production and investment levels, and the economy in general, are growing well. In addition, household confidence is still extremely high, still near recent cyclical peaks. Moreover, the University of Michigan confidence index is showing an increase in confidence among Democratic supporters, whereas that of Republican supporters remains relatively stable (graph 8). The first indications concerning real consumption in Q4 are positive, as retail sales excluding gasoline and motor vehicles recorded strong results in October and November.

That being said, the rise in real GDP forecast for Q4 in 2018 is quite a bit slower than the 4.2% and 3.5% gains recorded in Q2 and Q3 respectively. An annualized increase below 3% is anticipated. Once again, net exports, affected by the escalating protectionism started by the Trump administration, are expected to contribute negatively to growth. The announcement regarding an increase in tariffs from 10% to 25% on US$200B worth of goods imported from China to take effect on January 1st (now pushed back 90 days), and the fears surrounding the rise in tariffs on an additional US$267B worth of goods, have caused imports to jump in anticipation of these tariffs. On the export side, the retaliatory measures are hurting U.S. businesses and producers, with the most striking example being the 77% plunge in total soybean exports. As a result, in October the trade deficit reached its highest level in ten years (graph 9) despite the clear improvement in the petroleum products sector.

If growth is to be fairly good both in Q4 of 2018 and in 2019, there will have to be more robust investment, especially in construction. Private, non-residential investment rose no more than 2.5% in Q3, a mediocre performance considering lower taxes, higher profits and the difficulty in filling vacant jobs should encourage businesses to invest more. Fortunately, the recent strong performance of the ISM indexes associated with new orders is a good omen for investment in equipment. The drop in oil prices, however, poses a new threat to non-residential construction, related to that sector.

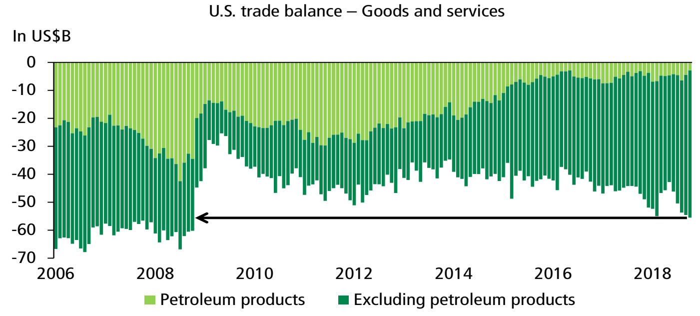
The primary concern regarding the U.S. economy is the weakness of the housing sector. Residential investment has declined in five of the previous six quarters (graph 10 on page 7). Sales of new homes and resale homes are clearly falling. Evident in this decline

GRAPH 8
The confidence of Democratic supporters has risen since the mid-term elections



Sources: University of Michigan and Desjardins, Economic Studies

GRAPH 9
The worst trade deficit since the recession



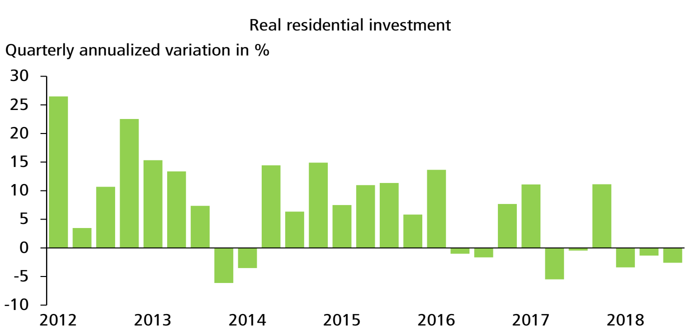
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018		2019				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2017	2018f	2019f	2020f
Real GDP (2012 US$)	**3.5**	**2.7**	**1.8**	**3.1**	**2.4**	**2.1**	**2.2**	**2.9**	**2.7**	**2.0**
Personal consumption expenditures	3.6	3.5	2.1	3.4	2.5	2.2	2.5	2.7	3.0	2.2
Residential construction	-2.6	2.0	5.3	5.1	3.3	2.5	3.3	0.2	2.8	1.0
Business fixed investment	2.5	4.7	3.9	3.7	4.0	3.8	5.3	6.9	4.2	2.8
Inventory change (US$B)	86.6	70.0	50.0	50.0	50.0	50.0	22.5	37.5	50.0	38.8
Public expenditures	2.6	1.9	1.4	1.7	1.7	1.6	-0.1	1.6	1.8	1.9
Exports	-4.4	1.8	1.5	1.5	1.5	1.5	3.0	4.0	1.3	1.4
Imports	9.2	4.0	2.5	2.5	2.5	2.5	4.6	4.7	3.4	2.3
Final domestic demand	3.1	3.3	2.3	3.2	2.6	2.3	2.5	3.0	2.9	2.2
Other indicators										
Nominal GDP	5.0	4.8	3.9	5.0	4.6	4.3	4.2	5.2	4.7	4.1
Real disposable personal income	2.4	2.9	3.0	2.8	2.0	2.5	2.6	2.8	2.6	2.2
Employment according to establishments	1.7	1.6	1.5	1.5	1.2	1.3	1.6	1.6	1.5	1.1
Unemployment rate (%)	3.8	3.7	3.6	3.5	3.5	3.5	4.4	3.9	3.5	3.7
Housing starts[1] (thousands of units)	1,225	1,263	1,295	1,308	1,318	1,327	1,208	1,266	1,312	1,287
Corporate profits*[2]	10.3	8.0	7.0	4.5	1.5	1.5	3.2	7.9	3.6	-0.5
Personal saving rate (%)	6.3	6.3	6.5	6.5	6.4	6.5	6.7	6.6	6.5	6.6
Total inflation rate*	2.6	2.2	2.0	2.1	2.1	2.3	2.1	2.4	2.1	1.7
Core inflation rate*[3]	2.2	2.2	2.1	2.2	2.3	2.3	1.8	2.1	2.2	2.1
Current account balance (US$B)	-480	-494	-502	-510	-517	-525	-449	-467	-514	-545

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

GRAPH 10
Residential investment is in trouble in the United States



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

is the effect of the mortgage rate hikes even though the strong economic conditions, including the high degree of confidence and extremely low unemployment rate, should lead to an increase in demand for homes. Instead, what is noticeable is that the inventory-to-sales ratio for single-family new homes has risen substantially and that the confidence of builders is rapidly deteriorating. One can hope that sales and housing starts will stabilize or even rise, but disappointment remains a significant possibility.

If the negative risks do not materialize in the short term, the increase in real GDP in the United States will remain relatively strong (i.e., above potential growth estimated at 2.0%) in the next few quarters. However, it should be remembered that the last recession ended in June 2009 and that the current cycle could very well be the longest ever recorded in the United States, potentially exceeding that of the 1990s. Sooner or later, the economy will show signs of waning, possibly in late 2020. Until then, inflation is expected to continue to hover just above 2%.

Canada

The Energy Sector Will Weigh Heavily on Economic Growth

FORECASTS

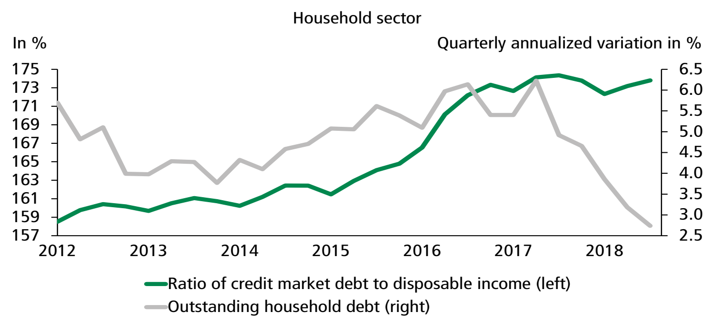
Due to a very low carryover, the entire Q4 of 2018 could end with a rise in real GDP of around 1.5% (annualized). With the anticipated drop in oil production in Alberta, growth should remain fairly weak at the beginning of the new year. As a result, a gain of only 1.8% is now forecast for all of 2019, preceded by a 2.1% increase in 2018. Further growth of 1.7% is expected for 2020.

The past few weeks have been busy ones for the Canadian economy. First, the good news: The North American Free Trade Agreement (NAFTA) was renewed as the Canada–United States–Mexico Agreement (CUSMA), the Canadian government introduced tax measures to promote business investment, a natural gas megaproject was announced in British Columbia, and the labour market smashed two historic records (i.e., the strongest monthly job creation and the lowest unemployment rate since 1976). The bad news is that domestic demand appeared to be running out of steam in Q3 and the energy sector encountered significant challenges. All of these factors are impacting the growth forecasts for the Canadian economy. Globally, however, the negative effects could prevail in the short term to such an extent that we revised our forecast for 2019 downward, from 2.1% to 1.8%.

The slowdown in domestic demand noted in the third quarter is especially worrisome (graph 11). Not only did consumer spending decline, but residential and non-residential investment lost ground during the quarter. The gradual rise in interest rates over the past few months has had something to do with this result. However, the scale and speed of the adjustments the Canadian economy will have to make in response to higher interest rates remain unclear, as the high debt of Canadian households is muddying the waters (graph 12). That being said, the outlook for consumer spending is still positive. Even though interest rates are higher, the conditions remain favourable, as the labour market is in good shape, with the unemployment rate sitting at a historic low (graph 13) and consumer confidence still high.

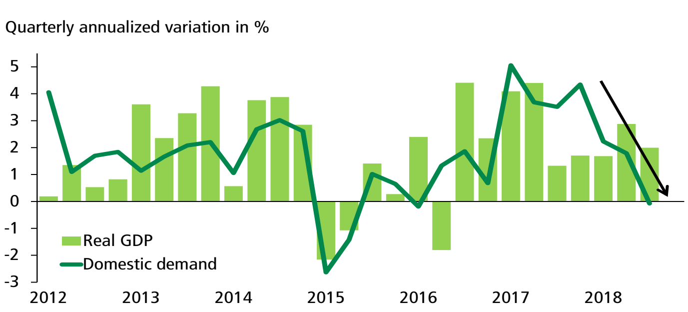
As for residential investment, the interest rate hikes can be added to the restrictive measures on mortgages. Although demand is fairly strong in a number of regions due to a marked increase in population and a low jobless rate, the stabilization of the housing market is likely to continue during the coming quarters. As for non-residential investments, the drop in Q3 is expected to

GRAPH 12
Household credit growth slows in Canada



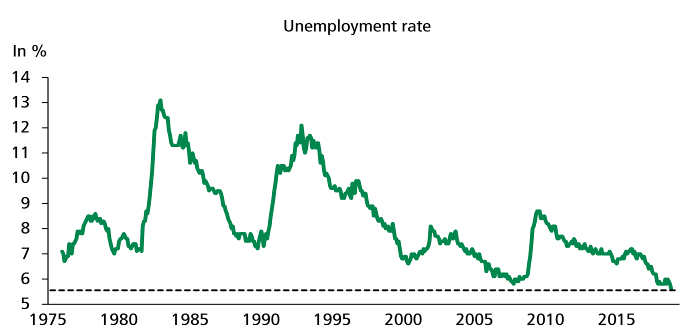
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 11
Domestic demand is waning in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 13
The unemployment rate is at an all-time low in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 4

Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018		2019				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2017	2018f	2019f	2020f
Real GDP (2012 $)	**2.0**	**1.5**	**1.4**	**2.5**	**1.7**	**1.8**	**3.0**	**2.1**	**1.8**	**1.7**
Final consumption expenditure [of which:]	1.4	2.4	2.1	2.0	1.8	1.7	3.1	2.4	2.0	1.6
Household consumption expenditure	*1.2*	*2.1*	*1.9*	*1.9*	*1.7*	*1.6*	*3.6*	*2.3*	*1.8*	*1.5*
Governments consumption expenditure	*1.8*	*3.0*	*2.5*	*2.2*	*2.2*	*2.0*	*2.1*	*2.9*	*2.4*	*1.9*
Gross fixed capital formation [of which:]	-5.0	0.5	0.6	1.2	1.8	2.3	3.0	2.6	0.1	2.2
Residential structures	*-5.9*	*-1.2*	*-2.3*	*-1.5*	*-0.9*	*-0.4*	*2.4*	*-1.1*	*-2.0*	*0.0*
Non-residential structures	*-5.2*	*1.5*	*2.5*	*3.0*	*3.5*	*4.0*	*1.1*	*3.2*	*1.5*	*3.5*
Machinery and equipment	*-9.8*	*2.0*	*3.0*	*3.5*	*4.0*	*5.0*	*4.7*	*7.7*	*1.4*	*4.2*
Intellectual property products	*-5.6*	*-4.0*	*-3.0*	*-1.0*	*1.5*	*3.0*	*1.2*	*3.1*	*-2.1*	*2.8*
Governments gross fixed capital formation	*2.5*	*3.0*	*3.0*	*3.0*	*2.5*	*2.0*	*6.3*	*4.2*	*2.2*	*2.1*
Investment in inventories (2007 $B)	6.6	6.0	5.0	9.3	9.8	8.5	17.6	10.7	8.1	7.8
Exports	0.9	1.5	2.2	2.5	2.0	2.5	1.1	3.2	2.6	2.1
Imports	-7.8	2.5	2.7	2.7	2.5	2.0	4.2	3.3	1.4	2.1
Final domestic demand	-0.1	2.0	1.8	1.8	1.8	1.9	3.1	2.5	1.6	1.8
Other indicators										
Nominal GDP	5.0	2.5	2.9	4.3	3.9	3.8	5.6	4.1	3.6	3.4
Real disposable personal income	1.2	2.0	2.5	2.2	2.0	2.0	3.4	2.1	2.1	1.8
Employment	1.3	1.9	0.9	1.2	1.1	1.1	1.9	1.3	1.2	1.0
Unemployment rate (%)	5.9	5.7	5.8	5.7	5.6	5.7	6.3	5.8	5.7	5.6
Housing starts[1] (thousands of units)	197	209	203	201	198	196	220	212	200	197
Corporate profits*[2]	8.8	0.5	2.5	2.0	1.0	7.5	20.1	2.7	3.2	3.4
Personal saving rate (%)	0.8	0.8	1.0	1.1	1.2	1.3	1.6	1.0	1.1	1.4
Total inflation rate*	2.7	1.9	1.4	1.7	1.5	2.1	1.6	2.3	1.7	1.8
Core inflation rate*[3]	2.1	1.9	1.5	1.8	1.5	1.7	1.6	1.9	1.6	1.7
Current account balance ($B)	-10	-12	-12	-13	-13	-11	-60	-56	-48	-40

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

be nothing more than a bump in the road. Remember that the uncertainty surrounding the renewal of NAFTA was extremely high last summer, no doubt causing a number of businesses to postpone some investment projects. Still, the CUSMA should be ratified in the first half of 2019, which will significantly reduce the uncertainty. The federal government also announced tax measures this fall to allow accelerated amortization of certain investments, which could lead to a jump in capital expenditures by businesses. Furthermore, the full utilization of production capacity should still encourage increased investment in the non-energy sectors in the coming quarters. With the drop in oil prices, the transportation problems, and the cuts to crude oil production announced by Alberta, the investment outlook for the energy sector is nevertheless sluggish. That being said, the start of the natural gas megaproject in northern British Columbia may gradually stimulate investment in this sector beginning in 2019. If it actually goes ahead as planned, the 325,000-barrel per day cut to oil production in Alberta as of January 1st, 2019, could also have a significant impact on real GDP in Canada in Q1.

Finally, exports are expected to continue to follow an upward trajectory over the coming months. Even if the energy sector experiences difficulties due to the production cuts, the other sectors may benefit from the rise in foreign demand, from the United States in particular.

Quebec

Economic Growth Will Slow Down Starting in 2019

FORECASTS

The period of sustained economic growth continues in Quebec. The rise in real GDP should exceed 2.5% for the second year in a row in 2018, before slowing to around 2.0% in 2019 and then 1.5% in 2020. The contribution of households will fall as a result of the cumulative key interest rate hikes applied since mid-2017. The elimination of the uncertainty concerning trade relations with the United States should encourage business investment and exports.

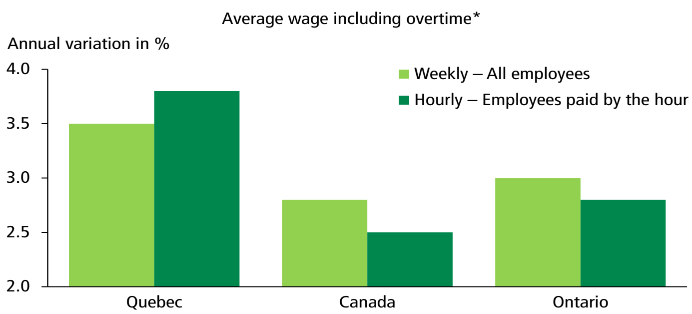
Consumer spending has already begun to slow after two years of significant growth (graph 14). Growth in retail sales slowed in 2018, especially in areas sensitive to the cost of credit. Sales of motor vehicles, furniture and household appliances rose more slowly, which is usually the first sign of overall consumption running out of steam. Household confidence, which had reached a historic high a few months earlier, recently fell.

The unemployment rate reached 5.4% in November and remains near the monthly historic low of 5.0%. Employment rebounded this fall after a series of successive decreases in 2018. Many businesses are having difficulty hiring workers despite the pressing need. Replacing workers at a time of massive retirements is proving difficult, since the number of replacement workers is not enough to fill all the available jobs.

According to the Canadian Federation of Independent Business (CFIB), close to 120,000 jobs remain unfilled in Quebec's private sector and, at 4.1%, the rate of vacant positions is the highest in the country, leading to higher wage increases (graph 15). Overall, incomes have risen more quickly over the last two years in Quebec, but the rise in interest rates is starting to affect household purchases. The tax breaks for families and seniors announced by the provincial government on December 3rd, to total $350M a year starting in 2019, will have a positive effect on individual incomes. Despite this, consumer spending will continue to slow.

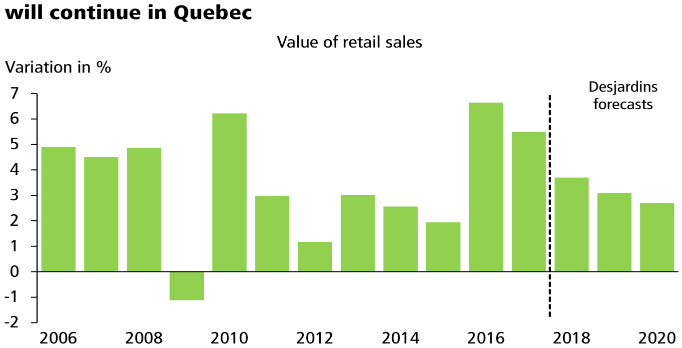
Residential construction fell during the summer of 2018 after a period of significant activity (graph 16). The annualized level of housing starts, which was hovering at around 50,000 units at the beginning of the year, dropped to around 40,000 during the summer. Yet the market for existing condominiums and rental apartments remains tight in Montreal, which should encourage

GRAPH 15
Wages are rising faster in Quebec



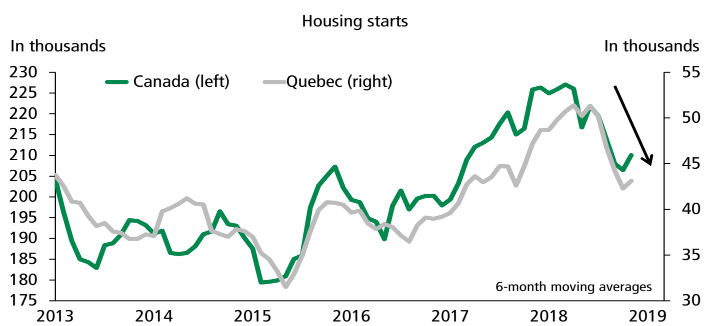
* Data for the first nine months of 2018 compared to the same period in 2017.
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 14
The slowdown in spending on goods is already under way and will continue in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 16
Residential construction is far from the cyclical peak in Quebec and in Canada



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

TABLE 5

Quebec: Major economic indicators

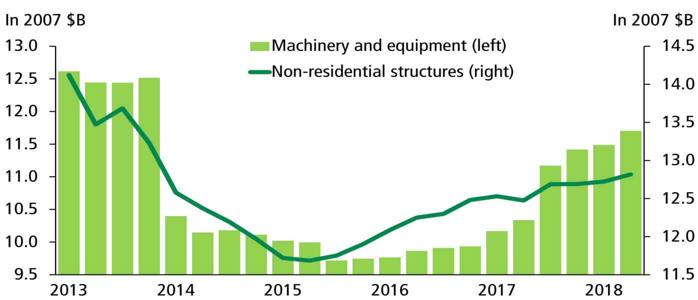
ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018f	2019f	2020f
Real GDP (2012 $)	**1.4**	**2.8**	**2.6**	**2.0**	**1.5**
Final consumption expenditure [of which:]	2.8	2.9	2.6	2.0	1.5
Household consumption expenditure	*2.4*	*3.2*	*2.4*	*1.9*	*1.4*
Governments consumption expenditure	*3.5*	*2.2*	*3.2*	*2.5*	*2.0*
Gross fixed capital formation [of which:]	-1.4	5.1	5.1	1.2	0.1
Residential structures	*3.2*	*7.3*	*6.1*	*-3.1*	*-4.2*
Non-residential structures	*-1.6*	*-4.8*	*0.5*	*1.0*	*0.8*
Machinery and equipment	*4.1*	*10.7*	*9.0*	*6.3*	*2.8*
Intellectual property products	*-2.4*	*4.9*	*7.9*	*3.8*	*3.5*
Governments gross fixed capital formation	*-10.9*	*6.8*	*3.4*	*3.5*	*3.0*
Investment in inventories (2007 $B)	874	3,715	3,500	3,000	2,500
Exports	0.4	1.2	2.7	2.9	1.9
Imports	2.1	3.9	3.0	1.9	1.1
Final domestic demand	2.0	3.3	3.1	1.9	1.3
Other indicators					
Nominal GDP	2.8	5.0	4.5	3.7	3.2
Real disposable personal income	2.0	3.5	2.5	1.8	1.3
Weekly earnings	1.2	2.8	3.8	4.3	4.5
Employment	0.9	2.2	1.0	0.8	0.5
Unemployment rate (%)	7.1	6.1	5.4	5.1	5.0
Personal saving rate (%)	5.0	5.5	5.0	4.9	5.3
Retail sales	6.6	5.5	3.7	3.1	2.7
Housing starts[1] (thousands of units)	38.9	46.5	45.5	43.0	40.0
Total inflation rate	0.7	1.0	1.7	1.7	1.5

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

the construction of new projects. Housing starts rose to around 43,000 units (annualized) this fall and should remain near this level in 2019.

Although the economic environment is good for businesses, they are faced with higher costs, especially due to the rapid rise in wages in a number of sectors. Unless they make significant gains in productivity, the financial health of businesses may deteriorate.[1] Therefore, it is becoming even more important to increase investments, especially in advanced technology. The federal and provincial government budget updates in the fall contained tax measures to speed up business investment. The recovery, which is already under way (graph 17), should continue at a good pace in 2019.

GRAPH 17
Business investment in Quebec has been climbing since 2017



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

[1] *Upward Pressure on Business Costs in Quebec*, Desjardins, Economic Studies, *Economic Viewpoint*, November 29, 2018, 4 p.

Ontario and Other Provinces

Crude Oil Transportation Constraints Are Hitting Alberta

FORECASTS

Differences among the forecasts for the various provinces are becoming clearer than initially thought. On the one hand, Ontario and British Columbia should be able to maintain growth slightly above the national average despite the stabilization of the housing market. On the other hand, Alberta will be severely hampered by new challenges in the energy sector. As for the other provinces, Saskatchewan and Manitoba could fare a little better, whereas the Atlantic provinces will remain affected by weaker growth potential and the end of certain investment projects.

ONTARIO

The growth of the Ontario economy remained slightly higher than the national average in the first six months of 2018. Still, the province could lose a little momentum in the second half of the year, as the stabilization of the housing market is felt in the Toronto area in particular. Furthermore, the uncertainty associated with the renewal of the North American Free Trade Agreement (NAFTA) may have caused Ontario businesses to temporarily slow down investment in Q3 of 2018, echoing what it did in Canada as a whole.

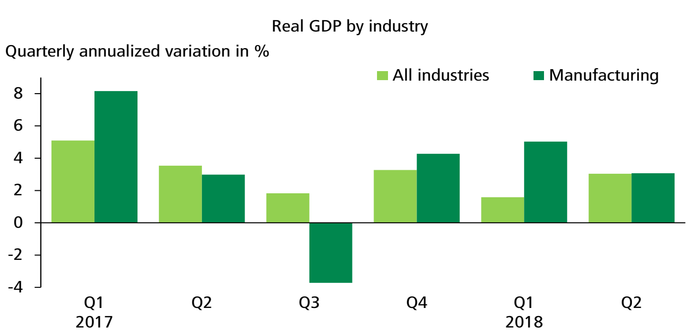
Despite these difficulties, the growth outlook remains relatively good for the Ontario economy. It is true that the province was spared the negative effects of the energy sector affecting other regions. Furthermore, the manufacturing sector is doing well, with a number of industries experiencing growth (graph 18). The announcement about the closing of the GM plant in Oshawa by the end of 2019 is certainly bad news, especially for the immediate area, but the impact on the Ontario economy as a whole should be fairly limited when all is said and done. Remember that production at this plant has been declining for a number of years. As a result, the expected loss of approximately 2,500 jobs will represent no more than a fraction of the jobs normally created every month in the province. In the end, Ontario should be able to maintain average growth just above the national average in 2018 and 2019.

WESTERN PROVINCES

In Alberta, all eyes are clearly focused on the problems in the energy sector. With the development of new production capacity in recent years, the constraints around the transportation of crude oil are becoming increasingly significant. Along with the temporary closures of some U.S. refineries that use Canadian oil, this has led to a sharp drop in the price of WCS (Western Canadian Select). To resolve the situation, the Alberta government is thinking of purchasing additional railway cars and imposing a cut in oil production as of January 1st, 2019. At the time of writing, the gap between the prices of Canadian and U.S. oil has narrowed, compared to the level posted in the fall (graph 19). Even if oil production were to gradually return to normal during 2019, the reduction at the beginning of the year would have significant negative consequences for Alberta's economic growth for 2019 as a whole.

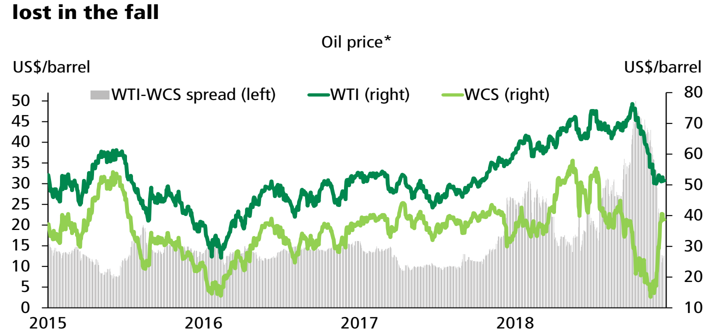
In Saskatchewan, the rise in real GDP could be similar to the national average in 2018 and next year. Not only will the province not be affected by the drop in oil production in Alberta, but a

GRAPH 18
The manufacturing sector is relatively healthy in Ontario



Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

GRAPH 19
The price of Canadian oil recently recovered some of the ground lost in the fall



WTI: West Texas Intermediate; WCS: Western Canadian Select; * As of December 17, 2018.
Sources: Bloomberg and Desjardins, Economic Studies

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018f	2019f	2020f
Real GDP (2012 $)	**2.3**	**2.8**	**2.2**	**2.0**	**1.6**
Final consumption expenditure [of which:]	2.2	3.4	2.3	2.0	1.8
Household consumption expenditure	*2.7*	*3.9*	*2.3*	*2.0*	*1.8*
Governments consumption expenditure	*0.5*	*2.0*	*2.3*	*2.1*	*1.7*
Gross fixed capital formation [of which:]	0.2	3.3	3.0	0.4	2.0
Residential structures	*7.5*	*1.0*	*-3.5*	*-2.2*	*-0.5*
Non-residential structures	*-7.9*	*1.7*	*8.1*	*2.5*	*4.3*
Machinery and equipment	*-4.2*	*7.9*	*6.2*	*1.8*	*5.0*
Intellectual property products	*-3.3*	*2.3*	*6.0*	*0.9*	*2.9*
Governments gross fixed capital formation	*-0.7*	*6.3*	*7.3*	*2.4*	*1.9*
Investment in inventories (2007 $B)	1,214	9,329	7,000	5,000	2,000
Exports	2.7	1.8	1.0	2.2	2.5
Imports	1.3	5.1	0.7	1.2	2.1
Final domestic demand	1.8	3.4	2.4	1.7	1.8
Other indicators					
Nominal GDP	4.4	4.1	3.9	4.0	2.4
Real disposable personal income	1.0	3.6	2.4	2.0	2.2
Weekly earnings	1.1	1.9	2.6	2.7	2.9
Employment	1.1	1.8	1.5	1.3	1.0
Unemployment rate (%)	6.5	6.0	5.6	5.5	5.4
Personal saving rate (%)	2,4	2,2	2.3	2.7	1.8
Retail sales	6.9	7.7	3.9	3.7	3.0
Housing starts[1] (thousands of units)	75.0	79.1	79.4	72.3	70.5
Total inflation rate*	1.8	1.7	2.3	1.7	1.9

f: forecasts; * Annual change; [1] Annualized basis.
Sources: Statistics Canada, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

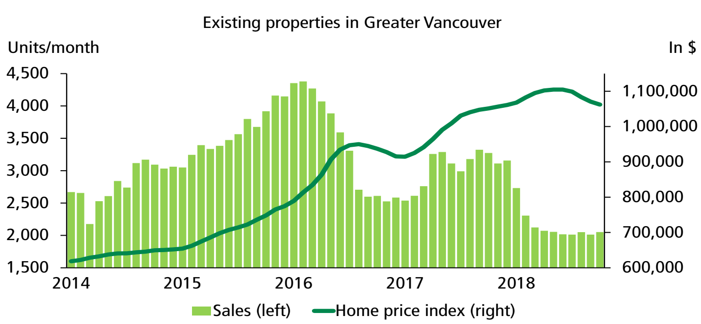
number of industries stand out. Chief among them is potash, which has experienced phenomenal growth since the beginning of 2018. In Manitoba, the outlook is a little less favourable due in particular to anemic agricultural production.

In British Columbia, the stabilization currently under way in the housing market is expected to translate into slightly weaker economic growth in 2018 and 2019 (graph 20). However, the launch of a major natural gas investment project in the north of the province should eventually be felt in positive growth of real GDP.

ATLANTIC PROVINCES

Overall, the forecasts for real GDP in the Atlantic provinces remain below the national average for 2018 to 2020. Not only is the growth potential lower in this part of the country, but the end of certain investment projects in the energy sector is expected to curb the growth of real GDP in Newfoundland and Labrador.

GRAPH 20
The housing market is stabilizing in Vancouver



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 7

Canada: Major economic indicators by provinces

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018f	2019f	2020f
Real GDP growth – Canada	**1.1**	**3.0**	**2.1**	**1.8**	**1.7**
Atlantic	1.6	1.5	0.8	1.2	1.0
Quebec	1.4	2.8	2.6	2.0	1.5
Ontario	2.3	2.8	2.2	2.0	1.6
Manitoba	1.6	3.2	1.8	1.7	1.6
Saskatchewan	-0.4	2.2	2.0	1.9	1.8
Alberta	-4.2	4.4	2.3	1.3	2.0
British Columbia	3.2	3.8	2.2	2.0	1.8
Total inflation rate – Canada	**1.4**	**1.6**	**2.3**	**1.7**	**1.8**
Atlantic	1.9	1.9	2.0	1.6	1.5
Quebec	0.7	1.0	1.7	1.7	1.5
Ontario	1.8	1.7	2.3	1.7	1.9
Manitoba	1.3	1.6	2.4	1.9	2.0
Saskatchewan	1.1	1.7	2.2	1.7	1.9
Alberta	1.1	1.6	2.3	1.5	2.0
British Columbia	1.8	2.1	2.6	1.9	1.8
Employment growth – Canada	**0.7**	**1.9**	**1.3**	**1.2**	**1.0**
Atlantic	-0.7	-0.2	1.0	0.9	0.6
Quebec	0.9	2.2	1.0	0.8	0.5
Ontario	1.1	1.8	1.5	1.3	1.0
Manitoba	-0.4	1.7	0.6	1.3	0.8
Saskatchewan	-0.9	-0.2	0.4	1.1	0.8
Alberta	-1.6	1.0	2.0	0.9	2.2
British Columbia	3.2	3.7	1.1	1.4	1.2
Unemployment rate – Canada	**7.0**	**6.3**	**5.8**	**5.7**	**5.6**
Atlantic	9.9	9.7	9.1	9.0	8.8
Quebec	7.1	6.1	5.4	5.1	5.0
Ontario	6.5	6.0	5.6	5.5	5.4
Manitoba	6.1	5.4	5.9	5.8	5.7
Saskatchewan	6.3	6.3	6.1	6.0	5.8
Alberta	8.1	7.8	6.6	7.0	6.5
British Columbia	6.0	5.1	4.7	4.6	4.6
Retail sales growth – Canada	**5.2**	**7.1**	**3.1**	**3.4**	**3.0**
Atlantic	3.0	6.2	1.5	2.4	2.1
Quebec	6.6	5.5	3.7	3.1	2.7
Ontario	6.9	7.7	3.9	3.7	3.0
Manitoba	3.7	7.8	1.5	3.0	2.8
Saskatchewan	1.5	4.1	0.5	3.5	3.3
Alberta	-1.1	7.1	2.8	3.0	3.5
British Columbia	7.7	9.3	2.0	4.0	3.6
Housing starts – Canada (thousands of units)	**197.9**	**219.8**	**212.5**	**199.6**	**196.6**
Atlantic	7.6	8.6	9.9	9.3	8.7
Quebec	38.9	46.5	45.5	43.0	40.0
Ontario	75.0	79.1	79.4	72.3	70.5
Manitoba	5.3	7.5	7.4	7.2	7.0
Saskatchewan	4.8	4.9	3.7	4.6	4.4
Alberta	24.5	29.5	27.0	26.0	30.0
British Columbia	41.8	43.7	39.6	37.2	36.0

f: forecasts
Sources: Statistics Canada, Institut de la statistique du Québec, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Medium-Term Issues and Forecasts

The Markets Are Trying to Predict the End of the Economic Cycle but Appear to Be Too Early

The current turmoil on the stock markets and the low long-term bond yields reflect investor pessimism regarding the continuation of the economic cycle. That being said, there are several good reasons to believe that the pace of economic growth in most of the major economies will remain good in 2019. A slowdown could start to be felt in 2020, but it may be more obvious in 2021 in particular. This would be accompanied by a return to monetary easing policies, thereby helping the economy regain momentum in 2022 and 2023. All the same, this scenario comes with a high degree of uncertainty, whether upward or downward.

Difficulty in Remaining above the Potential

The markets are concerned that economic growth is decreasing; in fact, it is unrealistic to hope that growth will continue at around 3% per year in the United States and Canada. This pace is much higher than the potential economic growth, which is essentially determined by higher production capacity and more hours worked, as well as by productivity gains. Economies can grow more when there is excess production capacity and a lot of available workers. Conversely, this becomes more difficult when production capacity and the number of available workers become scarce, as is the case currently. Potential growth is estimated at approximately 2% in the United States, around 1.8% in Canada, and close to 1.5% in Quebec. Quebec's slower pace is due to more pronounced aging of the population, which is accentuating the labour shortage.

The Real Slowdown Is Expected to Come Later

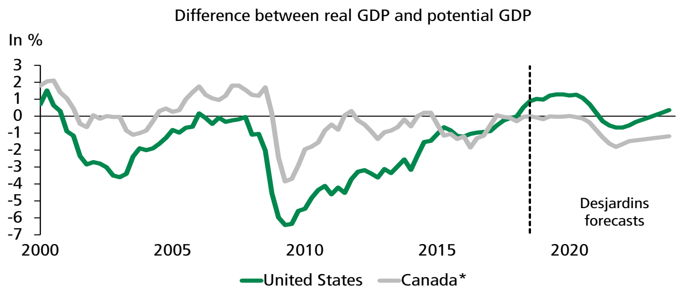
It is always difficult to predict when economic activity will truly slow down, thereby leading to the end of an economic cycle. A number of different factors, many of them unpredictable, can speed up the process. For the moment, the United States is heading towards the longest cycle ever recorded there. The record of 120 months of expansion between 1991 and 2001 will probably be beaten next summer.

The number of investors who think we are running on borrowed time may climb after that. Other periods of stock market turmoil, like the ones we experienced at the beginning of 2018 and this fall, should therefore be expected. Eventually, household and business confidence may begin to erode around the world, including in Quebec and Canada. Higher interest rates are also expected to have more of an effect in a couple of years, especially since monetary tightening should become more common around the world. A slump in U.S. demand also appears likely when the stimulus from lower taxes and higher government spending in the United States wears off. This is another factor that could potentially dampen household and business confidence.

Factors That Could Exacerbate the Situation

For now, the slowdown included in our medium-term scenario is rather moderate. Still, it would move the economy slightly below its potential, indicating that excess production capacity would be reappearing (graph 21). This would be enough to prompt a number of central banks to lower their key rates, in Canada and the United States in particular. The economy would then benefit from renewed momentum.

GRAPH 21
The anticipated slowdown may not cause GDP to deviate very much from its long-term potential



* Average based on the two potential GDP measurements published by the Bank of Canada.
Sources: Statistics Canada, Bank of Canada, Bureau of Economic Analysis, Congressional Budget Office and Desjardins, Economic Studies

The reality could turn out to be more optimistic than our projections, but the opposite would also be possible. Some structural weaknesses are clearly evident, including high government, household or business debt, depending on the country. The economic situation also threatens to remain challenging for a number of emerging countries dealing with financial imbalances. Still, protectionism appears to pose the biggest threat. The risk of escalating tariff barriers remains high and could significantly slow down the global economy.

TABLE 8

Medium-term major economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE 2017	2018f	2019f	2020f	2021f	2022f	2023f	AVERAGES 2013–2017	2018–2023f
United States									
Real GDP (var. in %)	2.2	2.9	2.7	2.0	0.6	1.9	2.5	2.2	2.1
Total inflation rate (var. in %)	2.1	2.4	2.1	1.7	0.4	1.9	2.0	1.3	1.8
Unemployment rate	4.4	3.9	3.5	3.7	4.8	5.1	5.0	5.6	4.3
S&P 500 index (var. in %)[1]	19.4	1.0	7.4	-5.2	0.0	10.0	8.0	13.8	3.5
Federal funds rate	1.10	1.90	2.80	3.45	2.15	1.80	2.25	0.47	2.39
Prime rate	4.10	4.90	5.80	6.45	5.15	4.80	5.25	3.47	5.39
Treasury bills – 3-month	0.95	1.95	2.80	3.20	1.85	1.65	2.15	0.28	2.27
Federal bonds – 10-year	2.33	2.85	3.40	3.50	2.70	2.80	3.15	2.23	3.07
– 30-year	2.89	3.10	3.60	3.65	2.85	3.00	3.35	3.02	3.26
WTI oil (US$/barrel)	51	65	64	61	43	51	58	67	57
Gold (US$/ounce)	1,258	1,270	1,205	1,200	1,250	1,250	1,240	1,269	1,236
Canada									
Real GDP (var. in %)	3.0	2.1	1.8	1.7	0.5	1.7	2.0	2.0	1.6
Total inflation rate (var. in %)	1.6	2.3	1.7	1.8	0.3	1.5	1.8	1.4	1.6
Employment (var. in %)	1.9	1.3	1.2	1.0	0.1	0.7	1.0	1.1	0.9
Employment (thousands)	337	237	231	191	25	131	186	196	167
Unemployment rate	6.3	5.8	5.7	5.6	6.5	6.4	6.1	6.8	6.0
Housing starts (thousands of units)	220	212	200	197	180	195	210	198	199
S&P/TSX index (var. in %)[1]	6.0	-5.0	9.7	-5.3	0.0	12.0	7.0	5.9	3.1
Exchange rate (US$/C$)	0.77	0.77	0.77	0.78	0.75	0.78	0.80	0.84	0.78
Overnight funds	0.70	1.40	2.05	2.45	1.45	1.25	1.65	0.77	1.71
Prime rate	2.90	3.60	4.25	4.65	3.65	3.45	3.85	2.88	3.91
Mortgage rate – 1-year	3.16	3.45	4.20	4.50	3.50	3.40	3.70	3.10	3.79
– 5-year	4.76	5.25	5.65	5.85	5.15	5.15	5.50	4.84	5.43
Treasury bills – 3-month	0.69	1.35	2.10	2.40	1.40	1.30	1.65	0.72	1.70
Federal bonds – 2-year	1.09	1.95	2.45	2.65	1.60	1.60	2.25	0.87	2.08
– 5-year	1.37	2.15	2.60	2.70	1.85	2.05	2.55	1.23	2.32
– 10-year	1.78	2.25	2.70	2.85	2.25	2.40	2.75	1.81	2.53
– 30-year	2.28	2.35	2.85	3.00	2.40	2.60	2.85	2.40	2.68
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.26	-0.60	-0.70	-0.80	-0.45	-0.35	-0.50	0.44	-0.57
Federal bonds – 10-year	-0.55	-0.60	-0.70	-0.65	-0.45	-0.40	-0.40	-0.43	-0.53
– 30-year	-0.61	-0.75	-0.75	-0.65	-0.45	-0.40	-0.50	-0.62	-0.58
Quebec									
Real GDP (var. in %)	2.8	2.6	2.0	1.5	0.3	1.2	1.8	1.6	1.6
Total inflation rate (var. in %)	1.0	1.7	1.7	1.5	0.3	1.3	1.7	1.0	1.4
Employment (var. in %)	2.2	1.0	0.8	0.5	0.0	0.3	0.5	1.1	0.5
Employment (thousands)	90	40	35	20	0	15	25	43	23
Unemployment rate	6.1	5.4	5.1	5.0	5.5	5.2	4.9	7.2	5.2
Retail sales (var. in %)	5.5	3.7	3.1	2.7	1.0	2.5	3.0	3.9	2.7
Housing starts (thousands of units)	46	46	43	40	35	38	40	40	40
Ontario									
Real GDP (var. in %)	2.8	2.2	2.0	1.6	0.3	1.5	2.0	2.3	1.6
Total inflation rate (var. in %)	1.7	2.3	1.7	1.9	0.5	1.5	1.9	1.6	1.6
Employment (var. in %)	1.8	1.5	1.3	1.0	0.1	0.8	1.0	1.2	1.0
Employment (thousands)	128	109	93	77	7	59	75	85	70
Unemployment rate	6.0	5.6	5.5	5.4	6.3	6.2	6.1	6.8	5.9
Retail sales (var. in %)	7.7	3.9	3.7	3.0	2.0	4.5	5.0	5.7	3.7
Housing starts (thousands of units)	79	79	72	70	68	74	76	69	73

f: forecasts; WTI : West Texas Intermediate; [1] Variations are based on observation of the end of period.
Sources: Datastream, Statistics Canada, Institut de la statistique du Québec, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies