ECONOMIC & FINANCIAL OUTLOOK

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

Will the Slowdown in the Canadian Economy Be Temporary?

Central Banks Are Less Confident

HIGHLIGHTS

- Global trade is still slowing down, reflecting the weaker growth seen in some parts of the world. This is particularly evident in the euro zone. China should continue to slow gradually, but the ongoing trade negotiations with the United States seem encouraging. Global real GDP growth should be 3.4% in 2019 and in 2020, compared with the 3.6% estimated for 2018.

- In the United States, real GDP posted growth of 2.9% in 2018, the strongest gain since 2015. However, the first quarter of 2019 should reflect some of the difficulties the U.S. economy has been dealing with since December, although a rebound is expected this spring. Real GDP growth of 2.5% is expected for 2019 as a whole, with a 2.2% increase expected for 2020. The Federal Reserve could wait until mid-2020 before raising U.S. key rates again.

- In Canada, the results for the fourth quarter of 2018 came in below expectations, which were already low. Clearly, the third-quarter drop in demand was more than a fluke. Given the additional weakness forecast for the start of 2019, we are downgrading our outlook for 2019 as a whole. Real GDP growth could be just 1.4% in 2019, followed by a 1.7% gain in 2020. These growth outlooks suggest that Canadian key rates will remain steady throughout 2019.

- In Quebec, strong real GDP growth gave way to a more moderate pace in 2018. It should continue to flag, as the contributions from households and businesses will wane. In Quebec, real GDP should increase 1.7% in 2019 and 1.3% in 2020, below the 2.3% pace estimated for 2018.

- The adjustment in the housing market will cause economic growth to slow in Ontario and British Columbia. A number of positive factors remain, however, and so real GDP growth in these provinces could hold close to the national average. In Western Canada, the drop in oil output will lead to weaker economic growth in Alberta.

- Our medium-term scenario (see page 15 and 16) has been amended to align with the changes to our short-term forecasts. Growth could begin to slow during 2021, with a spillover into 2022.

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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 serious reversal of the economic situation than anticipated. The recent revival of optimism on the markets could quickly evaporate if worries about the robustness of the global economy intensify or if central banks begin to signal a tightening of monetary policy again. The escalating protectionism is also intensifying the uncertainty felt around the globe. However, for Canada, the new trade agreement with 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. The Brexit issue has not been settled yet even if a delay beyond March 29 seems acquired. The uncertain conclusion of this issue could be negative for the economy and the markets. In the United States, the policies of the Trump administration could see the situation deviate from our scenarios—positively or negatively. Political uncertainty fed by doubts about the administration's integrity and partisan divisions in Congress could also affect financial markets. The negative sentiment that washed over the markets in late 2018 could return with a vengeance and lead to tighter financial conditions. Inflation that is stronger or weaker than forecast would have major consequences, especially for the bond market. The outbreak of a major conflict in the Middle East could drive international oil prices even higher. In Canada, concerns over high household debt are still present. The signs of overvaluation in the real estate market are present in Toronto and Vancouver. Montreal and Ottawa are overheated, making these markets more vulnerable to a potential correction. If the difficulties in the Canadian oil sector persist, some provinces could feel the effects more sharply.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2018	2019f	2020f	2018	2019f	2020f
Advanced economies	**38.3**	**2.2**	**1.7**	**1.6**	**1.9**	**1.6**	**1.8**
United States	15.2	2.9	2.5	2.2	2.4	1.9	2.2
Canada	1.3	1.8	1.4	1.7	2.3	1.6	1.7
Quebec	*0.3*	*2.3*	*1.7*	*1.3*	*1.7*	*1.6*	*1.8*
Ontario	*0.5*	*2.3*	*1.7*	*1.7*	*2.4*	*1.7*	*1.8*
Japan	4.3	0.8	0.6	0.3	1.0	0.8	1.1
United Kingdom	2.2	1.4	1.2	1.0	2.5	2.0	2.0
Euro zone	11.7	1.8	1.1	1.3	1.8	1.4	1.4
Germany	*3.3*	*1.5*	*1.0*	*1.2*	*1.7*	*1.7*	*1.6*
France	*2.3*	*1.5*	*1.2*	*1.2*	*1.9*	*1.3*	*1.4*
Italy	*1.9*	*0.8*	*0.1*	*0.7*	*1.1*	*0.9*	*1.2*
Other countries	3.9	1.5	1.2	1.2	1.1	1.0	1.1
Australia	*0.9*	*2.8*	*2.6*	*2.5*	*1.9*	*1.9*	*2.2*
Emerging and developing economies	**61.7**	**4.5**	**4.4**	**4.5**	**4.7**	**4.7**	**4.1**
North Asia	26.9	6.6	6.4	6.2	2.7	2.8	2.9
China	*18.3*	*6.6*	*6.2*	*6.0*	*2.1*	*2.2*	*2.1*
India	*7.4*	*7.0*	*7.2*	*7.1*	*4.0*	*4.2*	*4.7*
South Asia	5.3	4.9	4.7	4.5	2.4	2.5	2.7
Latin America	6.0	1.8	2.3	2.3	3.3	3.7	3.6
Mexico	*1.8*	*2.0*	*1.7*	*1.7*	*4.9*	*3.9*	*3.6*
Brazil	*2.5*	*1.1*	*2.4*	*2.5*	*2.9*	*3.9*	*3.9*
Eastern Europe	7.4	3.3	1.5	2.3	5.9	6.6	5.4
Russia	*3.0*	*2.3*	*1.3*	*1.6*	*2.9*	*4.7*	*4.0*
Other countries	16.0	2.3	3.1	3.3	10.9	8.6	7.7
South Africa	*0.6*	*0.7*	*1.6*	*1.8*	*4.5*	*5.0*	*5.0*
World	**100.0**	**3.6**	**3.4**	**3.4**	**3.4**	**3.3**	**3.1**

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

Overall, sentiment has been positive on financial markets in recent weeks. Trade negotiations between China and the United States continue, but nothing has been permanently resolved. While stock markets continue to do well, bond yields have decrease, as economic numbers remain mixed and central banks are signalling that highly accommodative monetary policy will continue. The Federal Reserve (Fed) is only weakly signalling that further rate hikes could be announced, and it expects to stop reducing its bond holdings next September. The European Central Bank announced a new long-term lending program, in addition to signalling that it would keep its key rates where they are at least until the end of 2019. A less favourable economic situation here forced the Bank of Canada (BoC) to take a much more neutral tone, as well as placing the Canadian dollar at a disadvantage. In its latest statement, the BoC stressed that it will need time to gauge the current situation before contemplating further key rate increases. North American monetary policies should therefore be on hold throughout 2019. A better economic environment should, however, persuade the Fed and the BoC to start raising their key rates again around mid-2020.

TABLE 2
Summary of the financial forecasts

	2018		2019				2020			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.75	3.00
Canada	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05
United Kingdom	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Federal bonds										
United States										
2-year	2.82	2.51	2.35	2.45	2.50	2.55	2.70	2.80	2.85	3.00
5-year	2.95	2.49	2.30	2.40	2.50	2.60	2.80	2.85	2.95	3.05
10-year	3.06	2.69	2.50	2.60	2.70	2.85	3.00	3.05	3.10	3.15
30-year	3.21	3.02	2.95	3.05	3.10	3.20	3.25	3.30	3.35	3.35
Canada										
2-year	2.21	1.86	1.55	1.65	1.70	1.75	1.85	1.95	2.05	2.10
5-year	2.33	1.88	1.50	1.60	1.70	1.80	1.95	2.00	2.10	2.15
10-year	2.42	1.96	1.65	1.75	1.85	1.95	2.10	2.15	2.20	2.25
30-year	2.41	2.18	1.95	2.05	2.10	2.20	2.25	2.30	2.35	2.40
Currency market										
Canadian dollar (USD/CAD)	1.29	1.36	1.34	1.33	1.33	1.33	1.32	1.30	1.32	1.33
Canadian dollar (CAD/USD)	0.77	0.73	0.75	0.75	0.75	0.75	0.76	0.77	0.76	0.75
Euro (EUR/USD)	1.16	1.14	1.13	1.13	1.13	1.14	1.15	1.15	1.17	1.20
British pound (GBP/USD)	1.30	1.27	1.32	1.32	1.33	1.35	1.36	1.36	1.38	1.41
Yen (USD/JPY)	114	110	111	111	112	113	113	112	110	108
Stock markets (level and growth)*										
United States – S&P 500	2,507		Target: 2,900 (+15.7%)				Target: 3,050 (+5.2%)			
Canada – S&P/TSX	14,323		Target: 16,600 (+15.9%)				Target: 17,400 (+4.8%)			
Commodities (annual average)										
WTI oil (US$/barrel)	65 (45*)		59 (63*)				60 (58*)			
Gold (US$/ounce)	1,269 (1,280*)		1,300 (1,280*)				1,240 (1,220*)			

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

Overseas

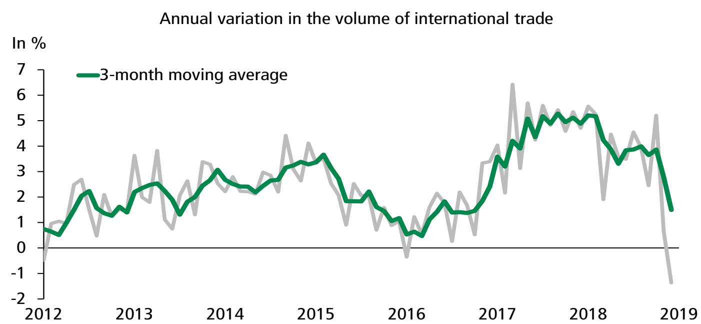
Growth Is Less Lively, Especially in Europe

FORECASTS

Global trade slowing down, reflecting the weaker growth seen in some parts of the world. This is particularly evident in the euro zone, although indicators are now suggesting that stabilization is beginning. The euroland GDP growth forecasts for 2018 and 2019 have been downgraded again. In the United Kingdom, economic development remains dependent on what happens with Brexit and how confidence will be affected by the continuing uncertainty in this complex matter. Japan's economy continues to seesaw, and its growth forecast has been downgraded as well. Gradual slowing should persist in China. Global real GDP growth should be 3.4% in 2019 and in 2020, compared with the 3.6% estimated for 2018.

One of the factors that characterized the 2018 economy was slowing global trade. This slowdown steepened at the end of the year, with the annual change in the volume of global trade slipping into negative territory (graph 1). Decreases are fairly rare and reflect weaker global economic growth, as in the recent cases of the 2015 plunge in oil prices and the 2012 European debt crisis. Some indicators, such as commodity prices and transport activity, are starting to show small signs of stabilizing (graph 2), but the trend remains negative for now. It will no doubt take a resurgence in global economic growth, helped by at least a partial reversal of the protectionist measures implemented in 2018, before we can hope for true improvement. At least the ongoing trade negotiations between China and the United States are a step in the right direction.

GRAPH 1
Global trade has slowed sharply

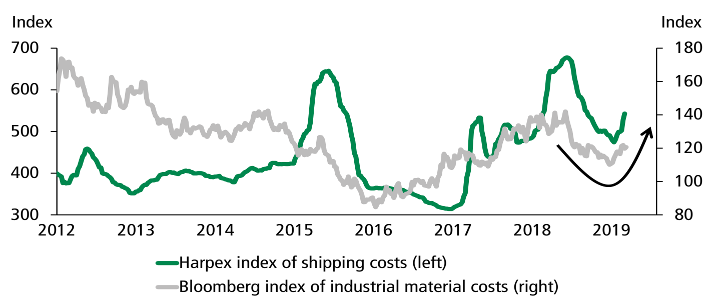


Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

EURO ZONE

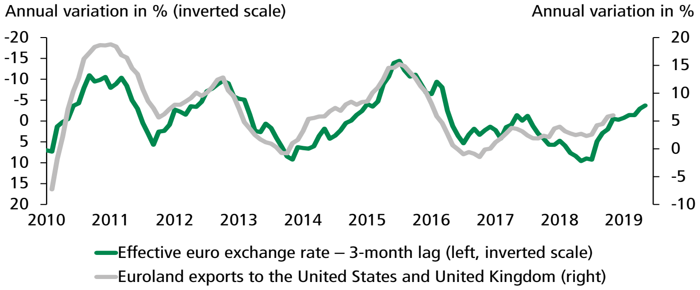
One of the countries hit hardest by the problems in global trade is Germany. After South Korea, Germany is the advanced nation whose manufacturing sector has the biggest weight in the overall economy. Germany's PMI manufacturing index fell throughout 2018, dropping below the 50 mark in the first three months of 2019. In contrast with the euro zone as a whole, German industrial output fell again in January 2019. Clearly, until the zone's leading economy strengthens, it will be hard for the Euroland economy to pick up speed again. A ray of hope may come from the currency's weakness, which could allow exports to rise again, to the United States and the United Kingdom in particular (graph 3 on page 3). In the meantime, confidence remains relatively low in the euro zone. We must also keep an eye on Italy, which is already in a technical recession following two consecutive declines in real GDP in the second half of 2018. In short, the growth outlooks for real GDP growth in Euroland in 2019 and 2020 have been downgraded again. We now expect it to gain just 1.1% in 2018 and 1.3% in 2020. For its part, the European Central Bank is showing some concern and recently announced a new measure to support the banking sector. It should also refrain from raising its key rates (still negative) in 2019.

GRAPH 2
Some indicators seem to suggest that the decline in global trade could be winding up



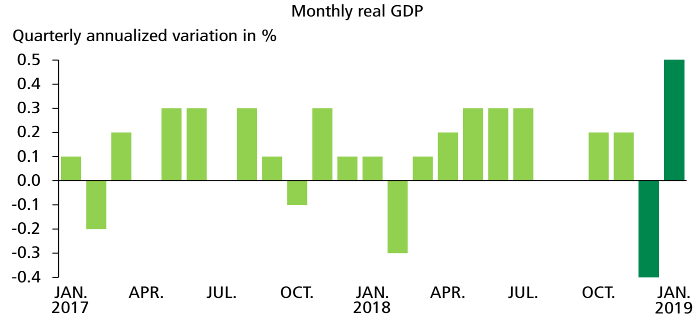
Sources: Datastream and Desjardins, Economic Studies

GRAPH 3
The euro's decline should soon help exports



Sources: European Central Bank, Eurostat and Desjardins, Economic Studies

GRAPH 4
After plunging in December, monthly real GDP started 2019 up sharply in the United Kingdom



Sources: Office for National Statistics and Desjardins, Economic Studies

UNITED KINGDOM

In the United Kingdom, the headlines are steadily focused on Brexit. A series of "meaningful votes" by Britain's Parliament did not yield a clear answer to the question. Subsequent to multiple rejections of the agreement negotiated with the European Union, Theresa May's government had to bring itself to request a postponement of the official date, March 29. With respect to the U.K. economy's short-term health, the worrisome tumble taken by monthly real GDP in December was followed by an impressive rebound in January (graph 4). Real GDP growth of 1.2% is forecast for Britain in 2019, followed by a gain of 1.0% next year.

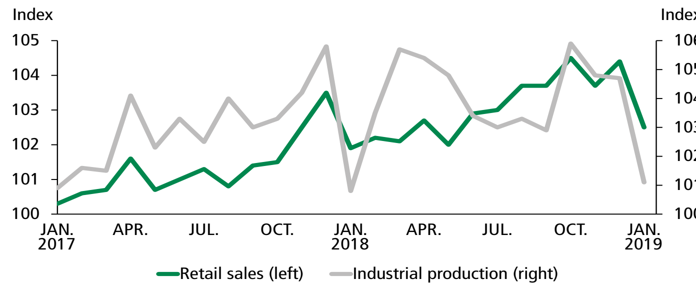
JAPAN

Japan's economy saw annualized real GDP decline by 2.4% last summer and then grew 1.9% in the last quarter of 2018. Another decline is possible in early 2019, with retail sales and industrial output posting sharp contractions (graph 5). We then expect it to improve before the consumption tax increase scheduled for next fall. Japan should see real GDP growth of just 0.6% and 0.3% in 2019 and 2020.

CHINA

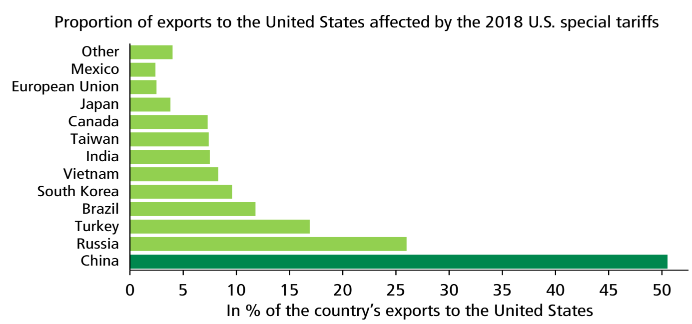
China's economy posted annual growth of 6.6% in 2018, its slowest since 1990, and should slow again in 2019. The government has also issued a new target for real GDP growth, taking it from 6.5% to "between 6.0% and 6.5%." We are expecting the annual change in real GDP to be 6.2% in 2019. Clearly, this will be heavily dependent on the ongoing trade negotiations between China and the United States. A new volley of U.S. protectionist measures could only hurt the Chinese economy, with 50.5% of the Chinese products exported to the United States already affected by the various tariffs implemented in 2018 (graph 6).

GRAPH 5
In Japan, sales and production fell sharply in January



Sources: Japanese Ministry of Economy, Trade and Industry and Desjardins, Economic Studies

GRAPH 6
U.S. tariffs mainly affect China



Sources: Peterson Institute for International Economics and Desjardins, Economic Studies

United States

A Tough Start to the Year

FORECASTS

Real GDP in the United States posted growth of 2.9% in 2018, the strongest gain since 2015. However, the first quarter of 2019 should reflect the various difficulties the U.S. economy has been subject to since December; for now, we are expecting annualized growth of less than 1% this winter. The upswing in confidence and the stabilization of other indicators are nevertheless encouraging, and a rebound is expected this spring. Real GDP growth of 2.5% is expected for 2019 as a whole, with a 2.2% increase expected for 2020.

The indicators have been fairly volatile in the United States since the end of 2018. Added to that was the disruption to the publication schedule caused by the federal government shutdown. It is therefore difficult to get a clear picture of the U.S. economy's current strength. Real GDP growth was nonetheless slightly better than anticipated in the last quarter of 2018, posting an annualized rise of 2.6%. Better performance by business investment compensated for a slowdown in real consumption (graph 7).

The fall 2018 slowdown in consumer spending happened mainly in December, when real consumption posted its worst decline since 2009. Surprisingly, personal income was rebounding sharply at that time, supported by special factors such as a special dividend and enhanced federal assistance to farmers. However, this extra income was saved rather than spent (graph 8).

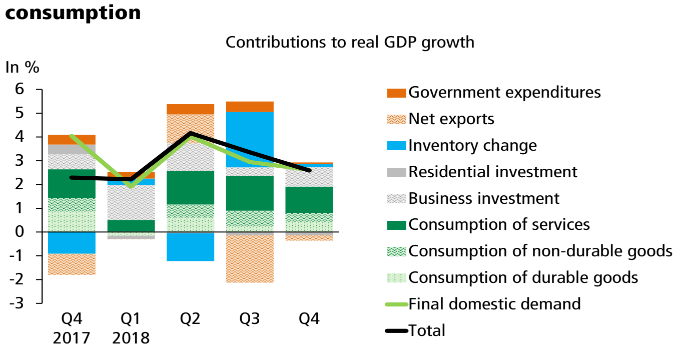
A drop in retail sales had pointed to the decline in consumption. Thankfully, they rebounded sharply in January, signalling that consumption could follow the same positive path. However, some pockets of weakness remain. New motor vehicle sales dropped sharply in January and fell further in February. The higher gas prices seen in recent weeks could also eat into income. That being said, the household confidence indexes have improved. All in all, we expect consumption to be relatively weak in the first quarter.

One of the factors that seem to have affected household spending as well as the overall situation is the partial U.S. federal government shutdown between December 22nd, 2018 and January 25, 2019. This, the longest shutdown on record, is also being felt in the federal government's real non-military expenditures, which fell an annualized 5.6% in the fourth quarter of 2018. We expect this spending to decline again in the first quarter of 2019 and then rebound in the second quarter. Compiling all of the shutdown's projected impacts, the Congressional Budget Office estimates the event will lop 0.4% off the winter's annualized real GDP growth and then add 1.0% to it in the spring. Negotiations between Congress and the White House have prevented another shutdown until the end of September 2019. However, an impasse could loom again next fall, when the matter of the statutory debt ceiling will be added to the political issues.

Also with respect to federal politics, we may wonder whether the tax cuts ordered at the end of 2017 will continue to have a positive impact in 2019. In 2018, the net effect was already mixed. Much of the reduction in the tax burden went into savings. Somewhat of an echo is being hoped for in 2019,

GRAPH 7

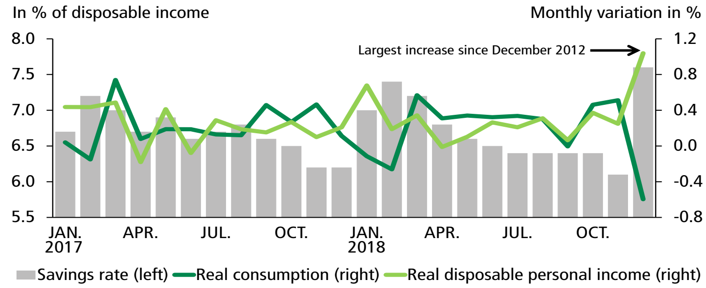
An acceleration in U.S. business investment offset a slowdown in consumption



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 8

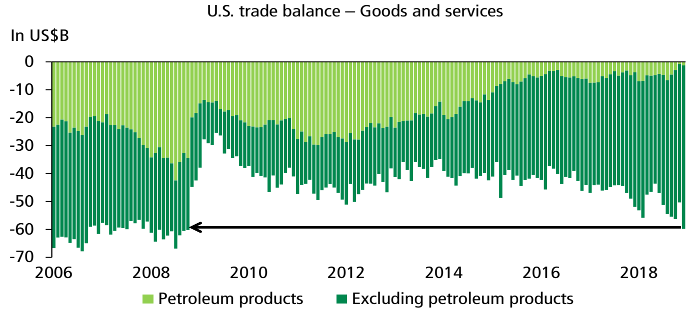
U.S. real consumption fell despite a sharp increase in personal income



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies especially in the second quarter. However, the tax refunds have not been living up to expectations so far. It remains to be seen whether the tax payments submitted with the annual returns will be lower than last year. In that case, the net effect could be positive, but that would also mean that wealthier households (which save the most) will benefit.

The Trump administration's other major policy is the increases to numerous tariffs in 2018. These tariffs played a part in slowing global trade but also had negative impacts domestically. Recent studies show that U.S. import prices were hit hard and that it ultimately hurts Americans, by up to 0.4% of GDP.[1] These factors, including retaliation by other countries, also affect U.S. businesses. Moreover, the U.S. trade balance has also deteriorated; recently, it posted its worst deficit since the Great Recession, even though the oil sector improved (graph 9). Net exports are not expected to contribute positively to growth in 2019 or 2020, even though trade negotiations with China seem to be going well.

GRAPH 9
The worst U.S. trade deficit since the recession... despite the oil sector and tariffs



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

[1] Pablo D. FAJGELBAUM et al., *The Return to Protectionism*, National Bureau of Economic Research, NBER Working Paper No. 25638, March 2019.

TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018 Q3	2018 Q4	2019 Q1f	2019 Q2f	2019 Q3f	2019 Q4f	ANNUAL AVERAGE 2017	2018	2019f	2020f
Real GDP (2012 US$)	**3.4**	**2.6**	**0.8**	**3.4**	**2.6**	**2.3**	**2.2**	**2.9**	**2.5**	**2.2**
Personal consumption expenditures	3.5	2.8	1.0	3.2	2.5	2.3	2.5	2.6	2.5	2.4
Residential construction	-3.6	-3.5	5.3	11.3	7.7	3.1	3.3	-0.2	3.3	3.0
Business fixed investment	2.5	6.2	2.3	3.1	3.7	4.1	5.3	7.0	3.9	3.5
Inventory change (US$B)	89.8	97.1	70.0	70.0	70.0	70.0	22.5	45.1	70.0	50.0
Public expenditures	2.6	0.4	0.7	3.3	1.6	1.6	-0.1	1.5	1.6	2.0
Exports	-4.9	1.6	2.5	1.5	1.5	1.5	3.0	3.9	1.4	1.7
Imports	9.3	2.7	2.0	2.5	2.5	2.5	4.6	4.6	3.0	2.6
Final domestic demand	2.9	2.6	1.3	3.5	2.7	2.4	2.5	2.9	2.6	2.5
Other indicators										
Nominal GDP	4.9	4.6	2.1	5.6	4.7	4.4	4.2	5.2	4.4	4.5
Real disposable personal income	2.6	4.2	2.5	2.5	2.0	2.5	2.6	2.9	2.7	2.4
Employment according to establishments	1.8	1.7	1.6	1.4	1.4	1.3	1.6	1.7	1.6	1.3
Unemployment rate (%)	3.8	3.8	3.9	3.8	3.7	3.6	4.4	3.9	3.7	3.6
Housing starts[1] (thousands of units)	1,234	1,151	1,263	1,297	1,313	1,317	1,208	1,241	1,298	1,313
Corporate profits*[2]	10.4	8.0	7.0	5.0	2.5	3.5	3.2	7.9	4.5	3.5
Personal saving rate (%)	6.4	6.7	7.2	7.1	7.0	7.1	6.7	6.8	7.1	7.3
Total inflation rate*	2.6	2.2	1.7	1.8	2.0	2.2	2.1	2.4	1.9	2.2
Core inflation rate*[3]	2.2	2.2	2.1	2.2	2.3	2.3	1.8	2.1	2.2	2.3
Current account balance (US$B)	-499	-506	-507	-514	-522	-530	-449	-474	-518	-550

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

Canada

The Problems in Domestic Demand Hamper Growth

FORECASTS

With the drop in real GDP by industry in November and December, the carryover for the first quarter of 2019 is very small, with temporary problems in the oil industry adding to weak domestic demand. Real GDP could go up by just 0.5% (annualized) in the first quarter. It is expected to rebound this spring, as the oil industry slowly gets back to normal. Due to the soft economy at the end of 2018 and in early 2019, we are nevertheless downgrading our forecast for 2019 as a whole. Real GDP growth could be just 1.4% in 2019, followed by a 1.7% gain in 2020.

The results for the fourth quarter of 2018 came in below expectations, which were already low. Real GDP rose by just 0.4% (annualized quarterly); most significantly, domestic demand fell 1.5%. Clearly, the 0.5% decrease in domestic demand in the third quarter was more than just a fluke, and the situation continued to worsen in late 2018.

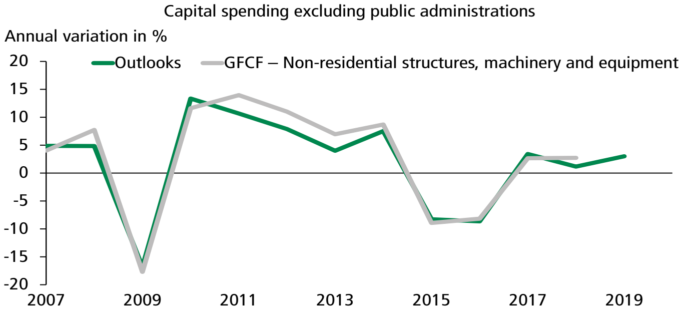
The difficulties with domestic demand are due to slower growth in household consumption spending and a net pullback in investment. What's more, in the fourth quarter, residential investment posted its worst decline since the Great Recession of 2008–2009, confirming that the housing market is continuing to adjust. The restrictions on mortgage credit and the rise in interest rates are no doubt responsible for the slowdown. There is every reason to believe that these limiting effects will continue to be felt in the coming quarters. However, demand remains fairly strong due to relatively high population growth and a low unemployment rate. Under these conditions, even if residential investment were to keep contracting for a few more quarters, the contraction would likely be less abrupt than it was at the end of 2018.

The fourth-quarter drop in non-residential investment is fairly disappointing. Given that uncertainty lessened in response to the signing of a new free trade agreement between Canada, the United States and Mexico, we had hoped for somewhat of an upturn in investment in non-energy sectors. Instead, it seems that businesses remain cautious. We can still expect an increase in 2019, but the recent Statistics Canada survey on the outlook for capital expenditures suggests the gain will be subdued on the whole (graph 10). Note that the slowdown in economic growth triggered a drop in the industrial capacity utilization rate, lessening the need to make certain investments.

Finally, investments by public administrations fell 14.1% in the fourth quarter. The pullback is hard to explain, and there is every reason to believe that this component will be back in positive territory by early 2019.

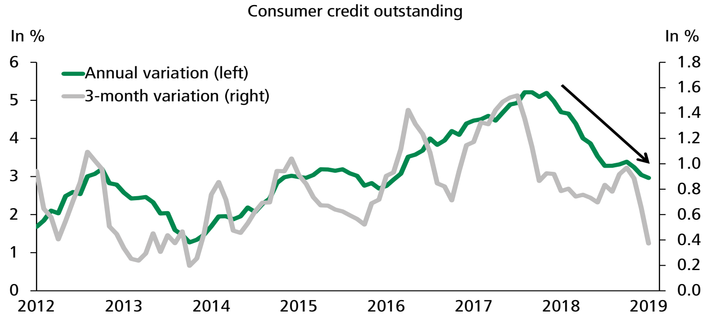
As for consumption spending, the weakness comes mainly from durable goods, which pulled back for a third straight quarter. The higher interest rates have something to do with this adjustment by consumers. Consumer credit growth remained sluggish in recent months (graph 11). However, other factors are also involved. For one thing, a slowdown in the housing market inevitably leads to a drop in furniture sales. For another, several years of strong growth preceded the drop in motor vehicle sales recorded in the last few months. The auto sector's

GRAPH 10
Non-residential investments should continue to climb at a moderate pace in Canada



GFCF: Gross fixed capital formation
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 11
Canadian consumer credit growth is slowing



Sources: Statistics Canada and Desjardins, Economic Studies current difficulties can also be partially attributed to a degree of temporary consolidation.

Ultimately, our scenario assumes that past interest rate increases will continue to have an impact in the coming quarters. However, job creation remains lively, to the point that households' disposable income will keep rising. This should allow consumer spending to keep growing in the coming quarters. Given the very low households savings rate, the pace of consumer spending growth will be fairly moderate, however, at around 1.5% on average. Since household consumption accounts for nearly 60% of Canada's total real GDP, its modest growth will have major repercussions for growth for the Canadian economy as a whole.

Our scenario for foreign trade has not altered much. The upward trend in foreign demand should continue to favour a rise in exports, while weak domestic demand will keep the brakes on imports. The trade balance should therefore improve in 2019, making a positive contribution to the change in real GDP.

TABLE 4

Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018		2019				ANNUAL AVERAGE			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2017	2018	2019f	2020f
Real GDP (2012 $)	**2.0**	**0.4**	**0.5**	**2.5**	**1.7**	**1.6**	**3.0**	**1.8**	**1.4**	**1.7**
Final consumption expenditure [of which:]	1.4	1.1	1.6	1.6	1.8	1.6	3.1	2.2	1.5	1.7
Household consumption expenditure	*1.3*	*0.7*	*1.4*	*1.5*	*1.5*	*1.3*	*3.6*	*2.1*	*1.3*	*1.5*
Governments consumption expenditure	*1.6*	*2.0*	*2.0*	*2.0*	*2.5*	*2.5*	*2.1*	*2.5*	*2.1*	*2.2*
Gross fixed capital formation [of which:]	-6.7	-10.3	0.4	1.7	1.3	2.0	3.0	0.8	-2.3	1.9
Residential structures	*-5.5*	*-14.7*	*-2.9*	*-1.5*	*-1.0*	*-0.5*	*2.4*	*-2.3*	*-4.7*	*-0.2*
Non-residential structures	*-8.0*	*-15.0*	*1.0*	*3.5*	*2.0*	*4.0*	*1.1*	*-0.9*	*-2.9*	*3.2*
Machinery and equipment	*-14.7*	*-4.8*	*0.0*	*4.0*	*2.0*	*3.0*	*4.7*	*5.8*	*-1.7*	*3.2*
Intellectual property products	*-7.1*	*26.6*	*-2.0*	*3.0*	*4.0*	*4.0*	*1.2*	*4.1*	*4.4*	*3.6*
Governments gross fixed capital formation	*1.8*	*-14.1*	*8.0*	*2.5*	*2.5*	*2.0*	*6.3*	*3.4*	*-0.2*	*2.1*
Investment in inventories (2007 $B)	5.4	13.4	8.0	9.5	10.0	9.5	17.6	13.9	9.3	9.3
Exports	3.3	-0.2	1.7	4.0	2.0	2.5	1.1	3.3	2.8	2.4
Imports	-8.6	-1.1	1.0	2.0	2.0	2.5	4.2	2.9	0.0	2.4
Final domestic demand	-0.5	-1.5	1.4	1.7	1.7	1.7	3.1	1.9	0.7	1.7
Other indicators										
Nominal GDP	4.4	-2.7	3.5	4.3	3.9	4.1	5.6	3.6	2.7	3.5
Real disposable personal income	-0.7	1.8	1.2	1.5	1.8	1.5	3.4	1.8	1.3	1.5
Employment	1.3	2.2	2.9	0.5	0.6	0.8	1.9	1.3	1.6	1.0
Unemployment rate (%)	5.9	5.6	5.8	5.6	5.7	5.8	6.3	5.8	5.7	5.7
Housing starts[1] (thousands of units)	197	217	192	194	192	191	220	213	192	190
Corporate profits*[2]	6.9	-5.8	0.5	1.0	0.0	13.0	20.1	0.5	3.4	3.5
Personal saving rate (%)	0.7	1.1	1.1	1.1	1.2	1.2	1.6	1.1	1.1	1.2
Total inflation rate*	2.7	2.0	1.5	1.7	1.5	1.8	1.6	2.3	1.6	1.7
Core inflation rate*[3]	2.1	2.0	2.0	2.2	1.9	2.0	1.6	1.9	2.0	1.6
Current account balance ($B)	-10	-15	-15	-13	-13	-12	-60	-59	-52	-49

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

Quebec

The Economy Is Already Slowing

FORECASTS
In Quebec, strong real GDP growth fell to a more moderate pace in 2018. It should continue to flag, as the contribution from both households and business will diminish. For one thing, the cumulative interest rate increases ordered since mid-2017 will continue to temper consumer spending. For another, export growth should be slower due to economic difficulties in Europe and the anticipated slowing in the U.S. economy. Quebec's real GDP should grow 1.7% in 2019 and 1.3% in 2020, slower than the estimated 2.3% for 2018.

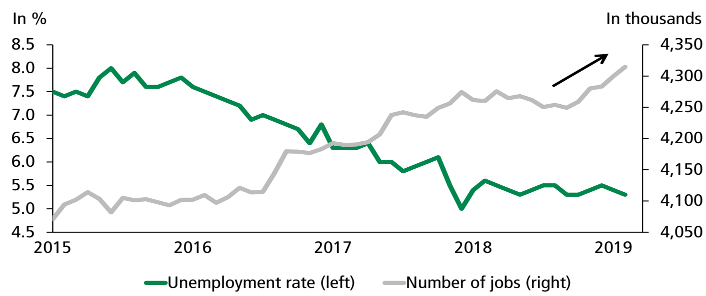
Shaken at the end of 2018 by such things as the stock market correction and the many uncertainties around the world, household confidence quickly regained the ground it had lost (graph 12). The stock market dispelled some concerns by rebounding sharply in early 2019. More favourable statistics on job creation in Quebec probably helped boost household confidence as well.

In February, employment posted its fifth consecutive monthly rise, wiping out previous losses. Employment is therefore trending up again after a lengthy period of weakness (graph 13). The unemployment rate continues to fall, hitting 5.3% in February. Many businesses are grappling with an ongoing labour shortage, however, which in some cases compromises their ability to expand or even maintain production. Yet many of the vacant positions require little education and less than one year of experience. The accommodation and food services sector has the highest job vacancy rate, followed by the mining and manufacturing sectors.[1]

Although some household concerns have dissipated, consumer spending has already begun to slow following a period of sharp growth. Retail sales growth lost steam in 2018, particularly in areas more sensitive to the cost of credit, such as motor vehicles and furniture. Although interest rate increases have been on hold for some time, rates are higher than they were two years ago, which will continue to curb consumption. Household spending should grow 1.8% this year, and then 1.6% next year, a slower pace than last year (2.5%).

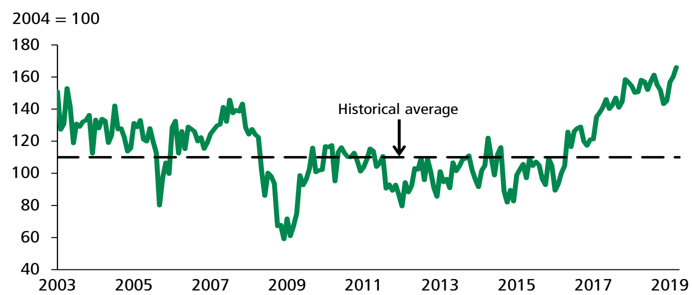
The housing market has yet to slow, however (graph 14 on page 11). It continues to boom, according to the statistics for January and February. Sales are trending upward, and the annual average price increase is around 4%. Despite this outstanding start, a lull is expected in 2019. Home sales should therefore be somewhat weaker in 2019 and price increases will be more modest, but the level of activity will remain high from a historical perspective.

GRAPH 12
Quebec job creation has started to move up again after a lengthy weakness



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 13
Quebecers' confidence was shaken at the end of 2018, then recouped the lost ground



Sources: Conference Board of Canada and Desjardins, Economic Studies

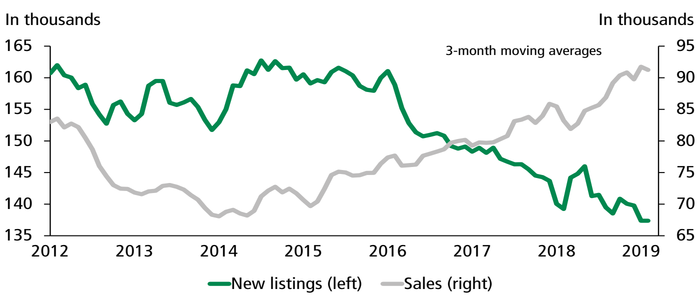
[1] *Labour Shortages in Quebec and Ontario: Which Regions and Economic Sectors are Most Affected?*, Desjardins, Economic Studies, *Economic Viewpoint*, March 13, 2019, 5 p.

TABLE 5
Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018f	2019f	2020f
Real GDP (2012 $)	**1.4**	**2.8**	**2.3**	**1.7**	**1.3**
Final consumption expenditure [of which:]	2.8	2.9	2.6	1.9	1.6
Household consumption expenditure	*2.4*	*3.2*	*2.5*	*1.8*	*1.6*
Governments consumption expenditure	*3.5*	*0.5*	*4.5*	*2.0*	*1.7*
Gross fixed capital formation [of which:]	-1.4	5.1	3.5	0.5	-0.3
Residential structures	*3.2*	*7.3*	*4.4*	*-1.6*	*-4.0*
Non-residential structures	*-1.6*	*-4.8*	*0.3*	*1.0*	*1.1*
Machinery and equipment	*4.1*	*10.7*	*8.7*	*3.2*	*3.2*
Intellectual property products	*-2.4*	*4.9*	*4.0*	*2.7*	*2.2*
Governments gross fixed capital formation	*-10.9*	*6.8*	*1.0*	*0.2*	*0.9*
Investment in inventories (2007 $B)	874	1,688	3,023	4,000	4,000
Exports	0.4	1.2	3.0	2.6	1.3
Imports	2.1	3.9	3.3	1.9	1.2
Final domestic demand	2.0	3.3	2.7	1.6	1.3
Other indicators					
Nominal GDP	2.8	5.0	4.5	3.6	2.8
Real disposable personal income	2.0	3.5	2.3	1.6	1.4
Weekly earnings	1.2	2.8	3.2	3.5	4.0
Employment	0.9	2.2	0.9	0.9	0.5
Unemployment rate (%)	7.1	6.1	5.5	5.2	5.1
Personal saving rate (%)	5.0	5.5	4.9	4.2	3.8
Retail sales	6.6	5.5	3.3	2.3	2.1
Housing starts[1] (thousands of units)	38.9	46.5	46.9	44.5	40.0
Total inflation rate	0.7	1.0	1.7	1.6	1.8

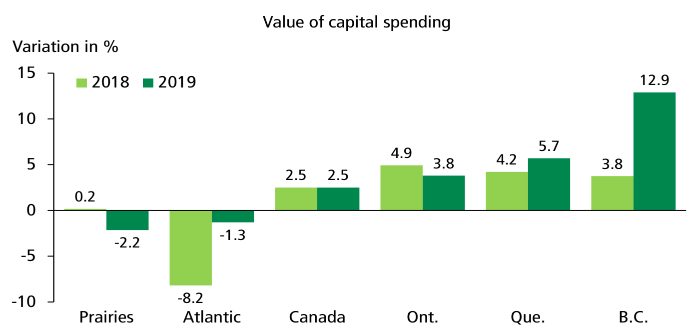
f: forecasts; [1] Annualized basis.
Sources: Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

GRAPH 14
In Quebec, property sales are showing no signs of flagging despite the smaller selection



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 15
Quebec's investment outlook is one of the best in the country



Sources: Statistics Canada and Desjardins, Economic Studies

The fall 2018 federal and provincial budget updates contained tax measures designed to stimulate business investment. The upswing already under way should continue at a good pace. The Statistics Canada survey of investment intentions also shows that Quebec will do well in 2019, ranking second among the provinces after British Columbia (graph 15). Export growth in Quebec will be weaker starting this year. The problems in Canada's economy will slow shipments to other provinces, while the loss of momentum in the global economy, including the U.S. economy, will impact international exports.

Ontario and Other Provinces

Ontario Is Withstanding the Economic Slowdown Better

FORECASTS

The housing market adjustment will cause economic growth to slow in Ontario and British Columbia. Several positive factors persist, however, so these provinces' real GDP growth could hold close to the national average. In Western Canada, the drop in oil output will lead to weaker economic growth in Alberta. Thanks to better industrial diversification, the growth outlooks are better for Saskatchewan and Manitoba. In Atlantic, growth should remain below the national average.

ONTARIO

For a fifth straight quarter, Ontario's economic growth beat the national average in the third quarter of 2018. Among other things, Ontario stands out for its domestic demand, which posted growth of 1.1% (annualized quarterly) in the third quarter, while Canada as a whole saw a 0.5% decline. There is every indication that Ontario will continue to stand out in the coming quarters.

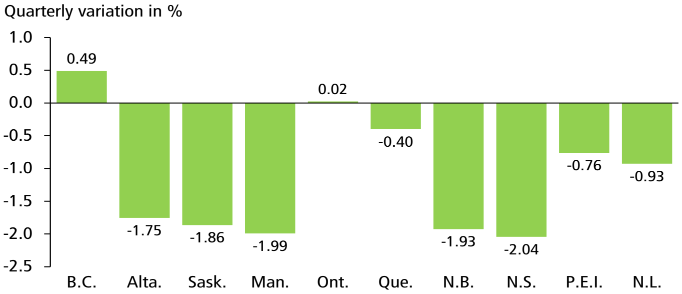
For one thing, the problems in the energy sector that are affecting some other regions are having little impact in Ontario. For another, consumer spending is showing greater resilience in Ontario than in most of the other provinces. For example, the value of retail sales remained virtually unchanged in the fourth quarter of 2018 in Ontario, whereas a drop of more than 3% (annualized) was recorded in the other provinces (graph 16). Note that Ontario saw stronger employment growth in 2018, which is partially offsetting the limiting effects of the rise in interest rates. Lastly, it seems that the housing market adjustments will not be as sharp as expected: sales of existing properties and housing starts have stabilized somewhat recently. Nonetheless, the downtrend should persist in the coming quarters as the impacts of previous interest rate increases will continue to be felt; however, the pullback may not be as significant as initially anticipated.

Under these conditions, although Ontario's real GDP growth should slow in 2019, it should remain above the national average. Ontario's real GDP probably rose 2.3% in 2018, to be followed by a gain of 1.7% in 2019. Growth of 1.7% is also projected for 2020.

WESTERN PROVINCES

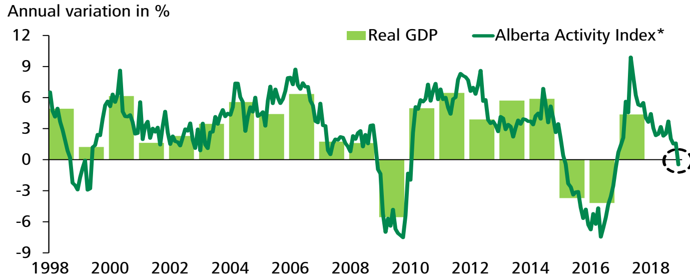
Alberta is, of course, at the heart of the difficulties in the energy sector. Since September 2018, the province has lost a total of 10,000 jobs. In comparison, the other provinces have seen a total of 279,600 jobs created during the same period. The annual change in the Alberta Activity Index, compiled by the province's ministry of finance, recently slipped into negative territory, suggesting slower real GDP growth (graph 17). Under these circumstances, Alberta's real GDP growth will be much lower in the coming years. That being said, oil production has not dropped as much as initially believed. The Alberta government has already announced two increases to the limit on oil production since the start of 2019. Alberta's total output

GRAPH 16
Ontario and British Columbia are less affected by the drop in consumer spending



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 17
The Alberta Activity Index slid into negative territory due to the problems in the energy sector



* Corresponds to a combination of several economic indicators.
Sources: Statistics Canada, Treasury Board and Finance 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**	**2.3**	**1.7**	**1.7**
Final consumption expenditure [of which:]	2.2	3.4	2.8	1.9	1.7
Household consumption expenditure	*2.7*	*3.9*	*2.7*	*1.7*	*1.6*
Governments consumption expenditure	*0.5*	*2.0*	*2.8*	*2.2*	*2.0*
Gross fixed capital formation [of which:]	0.2	3.3	3.1	-1.3	2.0
Residential structures	*7.5*	*1.0*	*-4.5*	*-5.3*	*-0.4*
Non-residential structures	*-7.9*	*1.7*	*8.1*	*2.4*	*4.1*
Machinery and equipment	*-4.2*	*7.9*	*8.3*	*-0.1*	*4.1*
Intellectual property products	*-3.3*	*2.3*	*8.5*	*1.5*	*3.0*
Governments gross fixed capital formation	*-0.7*	*6.3*	*5.9*	*0.7*	*2.1*
Investment in inventories (2007 $B)	1,214	9,329	4,741	2,825	1,438
Exports	2.7	1.8	2.5	2.4	2.7
Imports	1.3	5.1	2.3	1.1	2.4
Final domestic demand	1.8	3.4	2.8	1.2	1.8
Other indicators					
Nominal GDP	4.4	4.1	3.8	3.9	3.7
Real disposable personal income	1.0	3.6	3.1	2.0	1.6
Weekly earnings	1.1	1.9	2.9	3.4	2.7
Employment	1.1	1.8	1.6	2.0	1.2
Unemployment rate (%)	6.5	6.0	5.6	5.6	5.6
Personal saving rate (%)	0,3	0,1	0.1	0.3	0.3
Retail sales	6.9	7.7	3.9	2.8	2.7
Housing starts[1] (thousands of units)	75.0	79.1	78.7	68.2	65.8
Total inflation rate*	1.8	1.7	2.4	1.7	1.8

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

could hit 3.66 million barrels per day as of April, a total increase of 100,000 barrels per day from the limit of early January.

The recent difficulties have had much less of an impact on Saskatchewan's energy sector. In fact, better economic diversification there will allow the province's real GDP to maintain growth of around 1.5% in the coming years. In Manitoba, similar to the projections for Canada as a whole, real GDP growth should slow in the years to come, while staying close to the national average.

In British Columbia, the housing market slowed in 2018 due to the combined impact of the gradual interest rate hikes and restrictions on mortgage credit; it continues to trend downward at the start of 2019. Among other things, the index of average prices for existing homes in the Greater Vancouver Area went from a peak of $1,104,600 in May 2018 to $1,016,600 in February 2019, an 8.0% decline. Under these circumstances, British Columbia will see economic growth slow in 2018, 2019 and 2020. British Columbia's real GDP growth could therefore return to the Canadian average.

ATLANTIC PROVINCES

Our scenario for Atlantic has not changed much. The completion of some investment projects combined with weaker growth potential should put real GDP growth below the national average in the region.

TABLE 7

Canada: Major economic indicators by provinces

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018	2019f	2020f
Real GDP growth – Canada	**1.1**	**3.0**	**1.8**	**1.4**	**1.7**
Atlantic	1.6	1.5	0.8	0.9	1.0
Quebec	1.4	2.8	2.3	1.7	1.3
Ontario	2.3	2.8	2.3	1.7	1.7
Manitoba	1.6	3.2	1.8	1.5	1.6
Saskatchewan	-0.4	2.2	1.5	1.3	1.8
Alberta	-4.2	4.4	1.6	1.0	2.2
British Columbia	3.2	3.8	1.9	1.6	1.8
Total inflation rate – Canada	**1.4**	**1.6**	**2.3**	**1.6**	**1.7**
Atlantic	1.9	1.9	2.0	1.5	1.6
Quebec	0.7	1.0	1.7	1.6	1.8
Ontario	1.8	1.7	2.4	1.7	1.8
Manitoba	1.3	1.6	2.5	1.7	1.7
Saskatchewan	1.1	1.7	2.3	1.7	1.8
Alberta	1.1	1.6	2.4	1.2	1.9
British Columbia	1.8	2.1	2.7	1.8	1.8
Employment growth – Canada	**0.7**	**1.9**	**1.3**	**1.6**	**1.0**
Atlantic	-0.7	-0.2	1.0	1.2	0.8
Quebec	0.9	2.2	0.9	0.9	0.5
Ontario	1.1	1.8	1.6	2.0	1.2
Manitoba	-0.4	1.7	0.6	0.8	0.8
Saskatchewan	-0.9	-0.2	0.4	0.5	0.7
Alberta	-1.6	1.0	1.9	1.9	1.5
British Columbia	3.2	3.7	1.1	1.4	1.2
Unemployment rate – Canada	**7.0**	**6.3**	**5.8**	**5.7**	**5.7**
Atlantic	9.9	9.7	9.1	8.6	8.5
Quebec	7.1	6.1	5.5	5.2	5.1
Ontario	6.5	6.0	5.6	5.6	5.6
Manitoba	6.1	5.4	6.0	5.3	5.5
Saskatchewan	6.3	6.3	6.1	5.7	5.6
Alberta	8.1	7.8	6.6	7.2	6.8
British Columbia	6.0	5.1	4.7	4.5	4.6
Retail sales growth – Canada	**5.2**	**7.1**	**2.7**	**2.1**	**2.8**
Atlantic	3.0	6.2	0.6	2.1	2.5
Quebec	6.6	5.5	3.3	2.3	2.1
Ontario	6.9	7.7	3.9	2.8	2.7
Manitoba	3.7	7.8	0.3	2.2	3.0
Saskatchewan	1.5	4.1	-0.5	0.5	3.5
Alberta	-1.1	7.1	1.7	1.0	3.8
British Columbia	7.7	9.3	2.0	2.0	3.0
Housing starts – Canada (thousands of units)	**197.9**	**219.8**	**212.8**	**192.1**	**189.5**
Atlantic	7.6	8.6	9.3	8.5	8.5
Quebec	38.9	46.5	46.9	44.5	40.0
Ontario	75.0	79.1	78.7	68.2	65.8
Manitoba	5.3	7.5	7.4	7.2	7.1
Saskatchewan	4.8	4.9	3.6	3.7	3.6
Alberta	24.5	29.5	26.1	23.5	27.5
British Columbia	41.8	43.7	40.9	36.5	37.0

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

Will This Cycle Be Different?

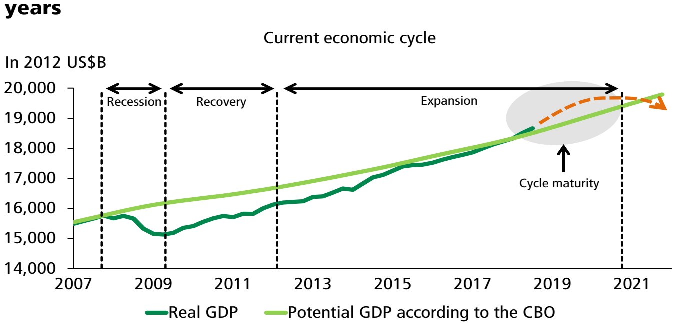
Our medium-term scenario has been altered to align with the changes made to our short-term forecasts. A slowdown in growth could emerge during 2021 and spill over into 2022. This would follow more sustained economic growth in the second half of 2019 and 2020, helped among other things by caution over monetary tightening on the part of the central banks. This scenario remains marked by a big dose of uncertainty on both the upside and the downside.

A Very Long U.S. Cycle

The population is not the only thing that is ageing: the economic cycle is ageing as well! In June, the current cycle will have matched the longevity record set in the United States, when the cycle ran from 1990 to 2000. According to our forecasts, it could then continue for a few more years.

This might seem like an overly optimistic scenario, but we should note that the current cycle was marked by a recovery that took a long time to take hold. It also took a long time to absorb the excess production capacity. This happens when real GDP outstrips potential output. Once this level has been surpassed, the economic cycle can be said to be maturing. This period lasts approximately three years on average. In the United States, potential GDP was surpassed in the spring of 2018, meaning that we can reasonably hope to see the cycle last until 2021 (graph 18). Nevertheless, this scenario entails a substantial margin of error. For example, real GDP did not really have time to surpass its potential before the 2008–2009 recession began. The economy could also keep expanding for a longer period.

GRAPH 18
The economic cycle is in its last phase, but it could last a few years



CBO: Congressional Budget Office
Sources: Bureau of Economic Analysis, CBO and Desjardins, Economic Studies

The Weight of Services Makes the Economy Less Volatile

Structurally, today's economies, in the advanced countries in particular, are built more on services than on manufacturing goods. This has a significant impact on economic volatility. For example, slowdowns caused by inventory reduction phases are less likely. The consumption of services is also generally more stable over time than the consumption of goods, one more argument that could be used to justify this cycle's longevity.

Not All of the Dangers Have Been Eliminated

A number of factors, which are often hard to predict, can precipitate the end of an economic cycle. We are not yet living in a crisis-free world. In Canada, high levels of household debt appear to point to a serious imbalance whose consequences become more clear as interest rates rise. Over the medium term, we also need to keep an eye on trends in confidence. A growing number of investors could start to think we're living on borrowed time. We can also expect more periods of stock market turbulence like we saw in 2018. Eventually, household and business confidence could erode substantially around the world, including in Quebec and Canada, and then lead to a drop in consumption and investment.

Let's Hope Inflation Does Not Spike

One of the main assumptions in our scenario is that inflationary pressure will remain relatively weak in the coming years. This can be justified by globalization and the emergence of a number of new technologies. We do not expect oil prices to surge either.

In this context, we are now anticipating fewer central bank interest rate increases in 2019 and 2020. We are even expecting rate cuts in 2021 in response to slowing economic growth. Key interest rates would therefore not return to neutral over the medium term. The scenario would be different in the event of stronger inflationary pressure that would put central banks in a tougher position.

TABLE 8

Medium-term major economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE							AVERAGES	
	2017	2018	2019f	2020f	2021f	2022f	2023f	2014–2018	2019–2023f
United States									
Real GDP (var. in %)	2.2	2.9	2.5	2.2	1.4	1.1	2.2	2.4	1.9
Total inflation rate (var. in %)	2.1	2.4	1.9	2.2	1.5	1.1	1.6	1.5	1.7
Unemployment rate	4.4	3.9	3.7	3.6	4.1	4.9	5.0	4.9	4.3
S&P 500 index (var. in %)[1]	19.4	-6.2	15.7	5.2	-8.0	10.0	7.0	6.7	6.0
Federal funds rate	1.10	1.90	2.50	2.65	2.50	1.75	1.95	0.80	2.27
Prime rate	4.10	4.90	5.50	5.65	5.50	4.75	4.95	3.80	5.27
Treasury bills – 3-month	0.95	1.97	2.45	2.65	2.30	1.60	1.90	0.66	2.18
Federal bonds – 10-year	2.33	2.91	2.65	3.10	2.40	2.05	2.70	2.35	2.58
– 30-year	2.89	3.11	3.10	3.30	2.65	2.40	3.15	2.96	2.92
WTI oil (US$/barrel)	51	65	59	60	46	45	53	60	53
Gold (US$/ounce)	1,258	1,269	1,300	1,240	1,250	1,275	1,270	1,240	1,267
Canada									
Real GDP (var. in %)	3.0	1.8	1.4	1.7	1.2	1.0	2.0	1.9	1.5
Total inflation rate (var. in %)	1.6	2.3	1.6	1.7	1.4	1.2	1.6	1.7	1.5
Employment (var. in %)	1.9	1.3	1.6	1.0	0.8	0.3	1.0	1.1	0.9
Employment (thousands)	337	241	295	183	156	49	192	193	175
Unemployment rate	6.3	5.8	5.7	5.7	6.1	6.5	6.3	6.6	6.1
Housing starts (thousands of units)	220	213	192	190	188	185	200	203	191
S&P/TSX index (var. in %)[1]	6.0	-11.6	15.9	4.8	-12.0	10.0	9.0	5.9	5.5
Exchange rate (US$/C$)	0.77	0.77	0.75	0.76	0.74	0.75	0.76	0.80	0.75
Overnight funds	0.70	1.40	1.75	1.85	1.75	1.25	1.30	0.77	1.58
Prime rate	2.90	3.61	3.95	4.05	3.95	3.45	3.50	2.88	3.78
Mortgage rate – 1-year	3.16	3.47	3.80	3.90	3.85	3.50	3.50	3.18	3.71
– 5-year	4.76	5.26	5.25	5.25	5.25	5.00	5.05	4.85	5.16
Treasury bills – 3-month	0.69	1.37	1.65	1.85	1.65	1.20	1.35	0.80	1.54
Federal bonds – 2-year	1.09	1.99	1.65	2.00	1.70	1.30	1.60	1.05	1.65
– 5-year	1.37	2.15	1.65	2.05	1.70	1.45	1.85	1.34	1.74
– 10-year	1.78	2.28	1.85	2.20	1.75	1.60	2.10	1.81	1.90
– 30-year	2.28	2.36	2.10	2.35	1.90	1.85	2.40	2.31	2.12
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.26	-0.60	-0.80	-0.80	-0.65	-0.40	-0.55	0.13	-0.64
Federal bonds – 10-year	-0.55	-0.63	-0.80	-0.90	-0.65	-0.45	-0.60	-0.54	-0.68
– 30-year	-0.61	-0.75	-1.00	-0.95	-0.75	-0.55	-0.75	-0.65	-0.80
Quebec									
Real GDP (var. in %)	2.8	2.3	1.7	1.3	1.0	0.7	1.5	1.8	1.2
Total inflation rate (var. in %)	1.0	1.7	1.6	1.8	1.5	1.2	1.6	1.2	1.5
Employment (var. in %)	2.2	0.9	0.9	0.5	0.3	0.1	0.5	1.0	0.4
Employment (thousands)	90	39	35	20	15	5	20	40	19
Unemployment rate	6.1	5.5	5.2	5.1	5.0	5.2	4.9	6.8	5.1
Retail sales (var. in %)	5.5	3.3	2.3	2.1	1.8	1.0	2.5	4.0	2.0
Housing starts (thousands of units)	46	47	45	40	38	35	40	42	39
Ontario									
Real GDP (var. in %)	2.8	2.3	1.7	1.7	1.5	1.2	1.8	2.5	1.6
Total inflation rate (var. in %)	1.7	2.4	1.7	1.8	1.5	1.5	2.0	1.9	1.5
Employment (var. in %)	1.8	1.6	2.0	1.2	0.5	0.8	1.0	1.2	1.1
Employment (thousands)	128	114	147	87	37	60	76	84	82
Unemployment rate	6.0	5.6	5.6	5.6	6.3	6.2	6.1	6.4	6.0
Retail sales (var. in %)	7.7	3.9	2.8	2.7	3.0	2.5	5.0	5.9	3.2
Housing starts (thousands of units)	79	79	68	66	64	67	72	72	67

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