ECONOMIC & FINANCIAL OUTLOOK

A Swell of Uncertainty: The Federal Reserve Changes Course

HIGHLIGHTS

- The U.S. monetary authorities have opened the door to an imminent decrease in key rates at their June 19 meeting. We are now counting on two key rate cuts of 0.25% each in the United States, with one in July and one in September, which would help bond yields maintain their current position near rock-bottom levels. The primary aim of the Federal Reserve's (Fed) gestures would be to respond to market pressure and to reaffirm its determination to hold inflation anticipation close to the 2% target. It would be surprising for the Bank of Canada to follow suit, especially since monetary tightening is not as far along in Canada. Therefore, we continue to count on key rates in Canada staying at their current level for a long time as the scenario of a temporary slowdown in the Canadian economy followed by a rebound seems to be coming true even as international threats are on the rise. The favourable change in interest rate spreads could cause the Canadian dollar to appreciate slightly in the coming months.

- Global trade is showing the first signs of stabilizing. Still, the situation is a delicate one, and new trade tensions could easily make the situation worse. Moreover, the PMI manufacturing indexes are noticeably very low in many countries. The Chinese economy continues to slow despite government efforts to jump start it. Overall, global real GDP growth should be 3.3% in 2019 and 2020.

- U.S. real GDP rose 3.1% (annualized) in the first quarter of 2019, far faster than anticipated. Still, this rapid increase is obscuring some less convincing factors, in particular the slowdown in final domestic demand. Real GDP growth should be lower for all of spring at around 2.3%. The anticipated increase for 2019 remains 2.6%, while a gain of 2.1% is expected for 2020. However, this would require that some of the cracks beginning to show don't become too large or the trade tensions with China, Mexico and Europe don't deteriorate further.

- In Canada, economic growth is expected to accelerate in the second quarter as the adverse effects of the slowdown in oil production will gradually fade. The increase in real GDP could be weaker than thought however for subsequent quarters, since economic conditions worldwide have worsened somewhat. When all is said and done, the anticipated increase in Canadian real GDP has been trimmed to 1.3% for 2019 compared with the 1.4% initially forecast. The expected gain for 2020 has dipped from 1.7% to 1.6%.

- Economic growth in Quebec has clearly outpaced the national rate since mid-2018. The province stands out because of its solid residential real estate market and because it was spared the difficulties of the oil industry. The hike in Quebec's real GDP should approach 2.0% in 2019 and slow down to less than 1.5% next year.

- Most of the provinces will see lower growth in 2019. The trade tensions will have negative repercussions on many economic areas, including manufacturing and agriculture. In addition, there are the adjustments to the housing market in some regions and the troubles in the energy sector.

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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 escalating protectionism is further intensifying the uncertainty felt around the globe. However, in Canada, the Canada–United States–Mexico (CUSMA) Agreement has lowered the risks even though it remains unclear when the political authorities will adopt it. Still, the elimination of tariffs on steel and aluminum is encouraging. 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. A new deadline for Brexit was granted, but the uncertainty about how this situation will end could prove to have a negative impact on the economy and the markets. In the United States, the Trump administration's policies could see the situation deviate from our scenarios—positively or negatively. The political uncertainty, fed by doubts about the administration's integrity, partisan divisions in Congress and the President's pressure on the Federal Reserve (Fed), could also affect the financial markets. The negative sentiment on the markets seen at the end of 2018 could come back and lead to a significant tightening of financial conditions, especially if the Fed decides not to lower key rates or if trade tensions heighten further. Higher-than-expected inflation would have major consequences on financial markets. The outbreak of a major conflict in the Middle East could drive international oil prices even higher. In Canada, the concerns linked to high household debt refuse to go away. The downward correction in the housing market could deepen in Toronto and Vancouver. Montreal and Ottawa are overheated, making these markets more vulnerable to a potential correction. The difficulties in the Canadian oil sector could suddenly reappear and affect certain provinces once again.

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**	**1.8**	**1.5**	**1.9**	**1.5**	**1.6**
United States	15.2	2.9	2.6	2.1	2.4	1.8	2.0
Canada	1.3	1.9	1.3	1.6	2.3	1.8	1.6
Quebec	*0.3*	*2.1*	*1.9*	*1.4*	*1.7*	*1.7*	*1.6*
Ontario	*0.5*	*2.2*	*1.5*	*1.7*	*2.4*	*1.7*	*1.6*
Japan	4.3	0.8	0.7	0.2	1.0	0.6	0.8
United Kingdom	2.2	1.4	1.4	1.0	2.5	2.0	1.9
Euro zone	11.7	1.8	1.2	1.2	1.8	1.4	1.3
Germany	*3.3*	*1.5*	*0.8*	*1.1*	*1.7*	*1.5*	*1.5*
France	*2.3*	*1.7*	*1.3*	*1.2*	*1.9*	*1.2*	*1.4*
Italy	*1.9*	*0.7*	*0.2*	*0.7*	*1.1*	*0.9*	*1.1*
Other countries	3.9	1.6	1.1	1.2	1.1	0.9	1.0
Australia	*0.9*	*2.8*	*2.1*	*2.4*	*1.9*	*1.6*	*2.0*
Emerging and developing economies	**61.7**	**4.5**	**4.3**	**4.4**	**4.7**	**4.6**	**4.1**
North Asia	26.9	6.5	6.3	6.1	2.7	2.8	2.9
China	*18.3*	*6.6*	*6.2*	*6.0*	*2.1*	*2.3*	*2.1*
India	*7.4*	*6.8*	*6.9*	*6.9*	*4.0*	*3.9*	*4.7*
South Asia	5.3	4.9	4.6	4.4	2.4	2.2	2.6
Latin America	6.0	1.8	2.0	2.2	3.4	3.6	3.6
Mexico	*1.8*	*2.0*	*1.6*	*1.6*	*4.9*	*3.6*	*3.5*
Brazil	*2.5*	*1.1*	*1.9*	*2.4*	*2.9*	*4.0*	*4.0*
Eastern Europe	7.4	3.3	1.6	2.2	5.9	6.4	5.3
Russia	*3.0*	*2.3*	*1.5*	*1.6*	*2.9*	*4.6*	*4.0*
Other countries	16.0	2.3	2.7	3.1	10.9	8.5	7.5
South Africa	*0.6*	*0.7*	*1.2*	*1.6*	*4.5*	*4.6*	*5.0*
World	**100.0**	**3.6**	**3.3**	**3.3**	**3.4**	**3.1**	**3.0**

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 relatively high on financial markets since China and the United States resumed trade hostilities in early May. Yet a last-minute deal between the Mexican and U.S. leaders to improve border security helped for now avoid opening a new front in the trade wars. Investor sentiment also improved after the Chair of the Federal Reserve (Fed) confirmed that he was monitoring the situation closely and that he would act in an appropriate manner to ensure continued economic growth. The U.S. monetary authorities have opened the door to an imminent decrease in key rates at their June 19 meeting. We are now counting on two key rate cuts of 0.25% each in the United States, with one in July and one in September, which would help bond yields maintain their current position near rock-bottom levels. The primary aim of the Fed's gestures would be to respond to market pressure and to reaffirm its determination to hold inflation anticipation close to the 2% target. It would be surprising for the Bank of Canada to follow suit, especially since monetary tightening is not as far along in Canada. Therefore, we continue to count on key rates in Canada staying at their current level for a long time as the scenario of a temporary slowdown in the Canadian economy followed by a rebound seems to be coming true even as international threats are on the rise. The favourable change in interest rate spreads could cause the Canadian dollar to appreciate slightly in the coming months.

TABLE 2
Summary of the financial forecasts

	2018		2019				2020			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.25	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00
Canada	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Federal bonds										
United States										
2-year	2.82	2.51	2.29	1.75	1.65	1.80	1.90	1.95	2.00	2.00
5-year	2.95	2.49	2.23	1.75	1.65	1.80	1.95	2.00	2.05	2.05
10-year	3.06	2.69	2.41	2.05	1.95	2.05	2.10	2.15	2.20	2.20
30-year	3.21	3.02	2.82	2.55	2.45	2.50	2.55	2.60	2.60	2.60
Canada										
2-year	2.21	1.86	1.55	1.40	1.30	1.45	1.55	1.65	1.70	1.70
5-year	2.33	1.88	1.52	1.35	1.30	1.45	1.60	1.70	1.75	1.75
10-year	2.42	1.96	1.62	1.50	1.45	1.55	1.65	1.75	1.80	1.80
30-year	2.41	2.18	1.90	1.70	1.60	1.70	1.80	1.90	1.95	1.95
Currency market										
Canadian dollar (USD/CAD)	1.29	1.36	1.33	1.32	1.31	1.32	1.31	1.32	1.32	1.32
Canadian dollar (CAD/USD)	0.77	0.73	0.75	0.76	0.77	0.76	0.77	0.76	0.76	0.76
Euro (EUR/USD)	1.16	1.14	1.12	1.13	1.14	1.14	1.15	1.16	1.17	1.17
British pound (GBP/USD)	1.30	1.27	1.30	1.27	1.28	1.30	1.33	1.34	1.36	1.37
Yen (USD/JPY)	114	110	111	109	109	110	111	112	111	110
Stock markets (level and growth)*										
United States – S&P 500	2,507		Target: 3,000 (+19.7%)				Target: 3,150 (+5.0%)			
Canada – S&P/TSX	14,323		Target: 16,750 (+16.9%)				Target: 17,550 (+4.8%)			
Commodities (annual average)										
WTI oil (US$/barrel)	65 (45*)		57 (58*)				56 (55*)			
Gold (US$/ounce)	1,269 (1,280*)		1,320 (1,320*)				1,280 (1,240*)			

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

Overseas

Trade Tensions Are Hurting the Global Manufacturing Sector

FORECASTS

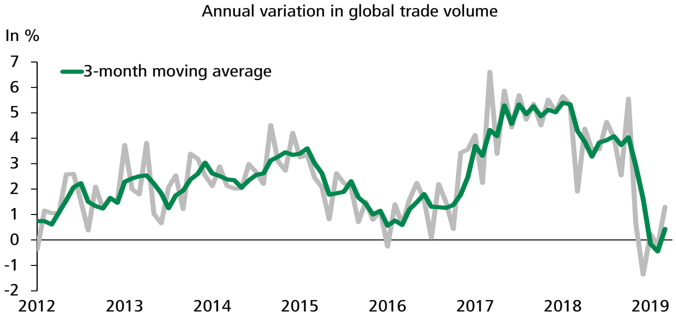
Global trade is showing the first signs of stabilizing. Still, the situation is a delicate one, and new trade tensions could easily make the situation worse. Moreover, the PMI manufacturing indexes are noticeably very low in many countries. Nevertheless, many advanced economies have seen robust growth in real GDP in the first quarter of 2019 in contrast to the poor performances at the end of 2018. However, we do not expect a sustainable acceleration for a long period of time, and, generally, the second quarter will show slower growth. This is true for the euro zone, the United Kingdom and Japan. The Chinese economy continues to slow despite government efforts to jump start it. Overall, global real GDP growth should be 3.3% in 2019 and 2020.

Annual growth in global trade remained very low in early 2019 (graph 1). The good news is that the few negative readings were one-offs. This stabilization is largely coming out of some of Asia's emerging countries, the same ones behind most of the previous declines. Therefore, while the situation doesn't look like it's really improving, it is no longer deteriorating either. Still, this economic situation remains fragile, and the global manufacturing sector continues to show signs of weakness. We see it in the PMI indexes, which have generally continued to decline in recent months. The global PMI manufacturing index even slipped below 50 for the first time since early 2016 when it hit 49.8 in May (graph 2). If it continues to nosedive, it could signal that industrial output worldwide will see negative growth. The trade tensions between China and the United States, U.S. threats against Mexico and potentially greater protectionism relating to the auto sector are placing the global manufacturing sector at particular risk.

EURO ZONE

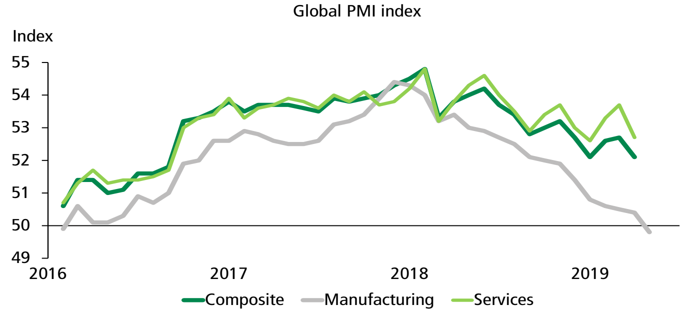
One of the places where the PMI manufacturing index is especially low is Germany (graph 3). This pillar of the euro zone has experienced good growth of its real GDP in the first quarter, but many indicators remain low. Spared until now, the German labour market is beginning to sputter. According to the German government, the economic outlook for the second quarter of 2019 remains muted, and it looks like it will be for the rest of the year, too.

GRAPH 1
Global trade seems to have stabilized



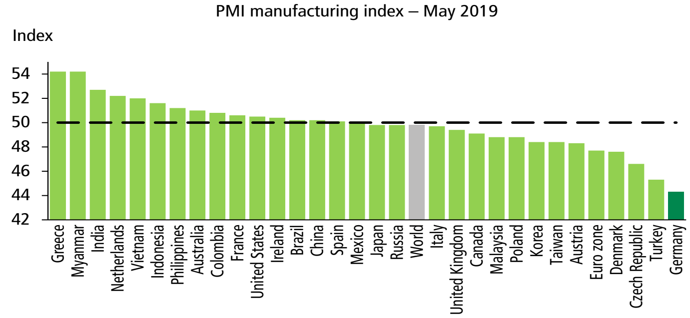
Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

GRAPH 2
A difficult economic situation for the global manufacturing sector



Sources: Datastream, IHS Markit and Desjardins, Economic Studies

GRAPH 3
The manufacturing PMI is the lowest in Germany



Sources: Datastream, IHS Markit and Desjardins, Economic Studies

As a result, growth is not expected to continue unabated throughout the entire euro zone either. As in the case of Germany, Euroland GDP growth was stronger than forecast in the first quarter, but several indicators continue to point to slow economic growth. Real GDP is expected to grow 1.2% in the euro zone in 2019 and 2020. This outlook, combined with low inflation, will mean that the European Central Bank won't be able to begin raising its key rates any time soon and may even ease its policy if necessary.

UNITED KINGDOM

Real GDP growth also accelerated in the United Kingdom in the first quarter. The gain was supported by a significant variation in inventories as a result of the preparations for a Brexit that failed to materialize. A major pullback is now anticipated for the second quarter. Moreover, real monthly GDP in the United Kingdom fell in March (-0.1%) and April (-0.4%) (graph 4). Real GDP is forecast to grow 1.4% for all of 2019 followed by a 1.0% hike in 2020. Clearly, this outlook depends on what happens with Brexit, which is now scheduled to take place on October 31. For the time being, attention has turned instead to the race to replace Prime Minister Theresa May.

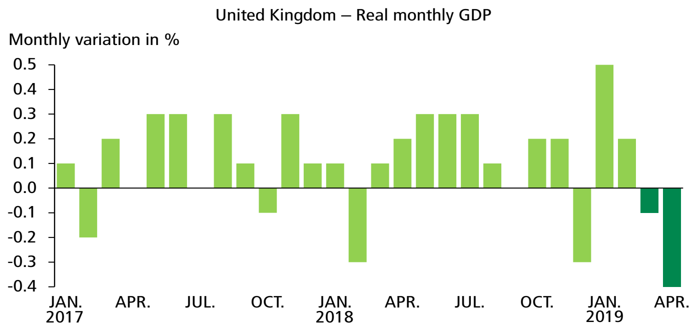
JAPAN

Real GDP in Japan increased 2.2% (annualized) in the first quarter despite stagnant domestic demand. The GDP growth was essentially due to a jump in inventories and a drop in imports (graph 5). Relatively low growth is expected in the coming quarters. Japanese real GDP should rise 0.7% in 2019 and 0.2% in 2020.

EMERGING ECONOMIES

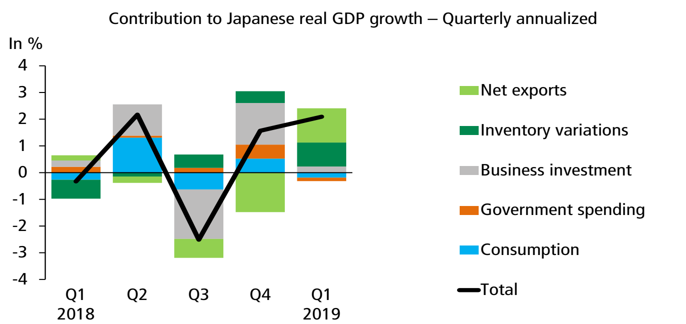
The Chinese economy continues to steadily slow, weighed down by situational factors. Moreover, the weakness in some monthly indicators is being felt, especially in terms of industrial production and motor vehicle sales (graph 6). In the first case, it's clear that the worsening trade tensions between China and the United States are having an impact. The Chinese government is attempting to stabilize growth by implementing several expansionist measures. Nevertheless, the slowdown is expected to continue. After rising 6.6% in 2018, real GDP in China should grow 6.2% in 2019 and 6.0% in 2020. In India, the economic results for the first few months of 2019 failed to meet expectations. Our forecasts for real GDP in India were revised down from 7.2% to 6.9% in 2019 and 7.1% to 6.9% in 2020.

GRAPH 4
Real monthly GDP in Britain fell in March and April



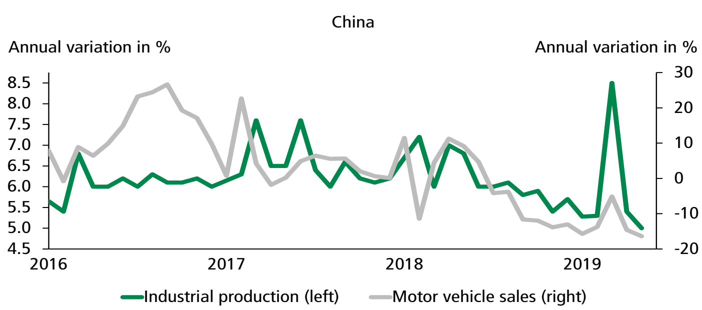
Sources: Office for National Statistics and Desjardins, Economic Studies

GRAPH 5
The Japanese economy grew more than forecast despite low domestic demand



Sources: Cabinet Office and Desjardins, Economic Studies

GRAPH 6
Despite the spurt in March, Chinese indicators continue to fall



Sources: National Bureau of Statistics of China, China Association of Automobile Manufacturers and Desjardins, Economic Studies

United States

Positive Effects of Tax Cuts Have Already Evaporated

FORECASTS

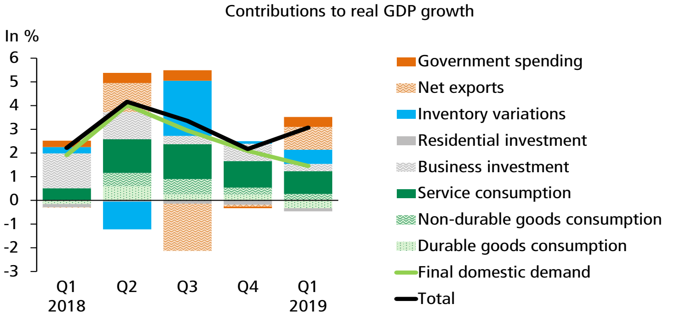
U.S. real GDP rose 3.1% (annualized) in the first quarter of 2019, far faster than anticipated. Still, this rapid increase is obscuring some less convincing factors, in particular the slowdown in final domestic demand. Real GDP growth should be lower for all of spring at around 2.3%. The anticipated increase for 2019 remains 2.6%, while a gain of 2.1% is expected for 2020. However, this would require that some of the cracks beginning to show don't become too large or the trade tensions with China, Mexico and Europe don't deteriorate further. Despite the hike in tariffs, inflation remains low, even too low for the Federal Reserve (Fed), which may go ahead and lower key rates.

The 3.1% (annualized) increase in real GDP in the first quarter of 2019 was surprising as the consensus expected a much lower rate. However, the positive contributions of the inventory variation and net exports hid a weaker final domestic demand (graph 7). There is a marked slowdown in consumption (lowest growth in a year) and investment (lowest growth since fall 2015). In 2018, these two sectors were underpinned by personal and business tax cuts, but it seems that the effect has already worn off. The shutdown of some federal departments at the start of the year led to a noticeable drop in non-military spending by the federal government, but this contraction was more than offset by a sharp increase in state and municipal spending.

Despite the strong growth in real GDP in the first quarter, fears of an imminent recession have intensified. It is true that the current economic cycle has lasted a long time. At the end of the month, it will have reached 120 months and join the cycle of the 1990s as the longest in U.S. history. Among the vulnerable sectors, manufacturing is the one suffering the most from the trade war and the sluggish global economy. The ISM manufacturing index fell from its cyclical peak of 60.8 less than a year ago to only 52.1 in May. Despite an uptick in May, vehicle assembly is down sharply since the beginning of the year, and the number of layoffs announced in this industry are on the rise. Manufacturers are openly worried about trade issues. The abrupt announcement about tariff hikes against Mexico (now averted) and China cast a shadow over the investment outlook. Moreover, we expect that the slowdown in real investment will continue in the second quarter, and that the inventory variation will prove to be lower than in the first quarter. Since the start of the trade war in winter 2018, real exports have almost stagnated, probably as a result of the greenback's appreciation and the retaliatory measures of other countries, especially China. On the other hand, imports are continuing to trend up (graph 8). Nevertheless, both exports and imports are expected to be down in the second quarter. The elimination of the special tariffs on Canadian and Mexican steel and aluminum (and the end of the retaliatory measures) is, however, good news.

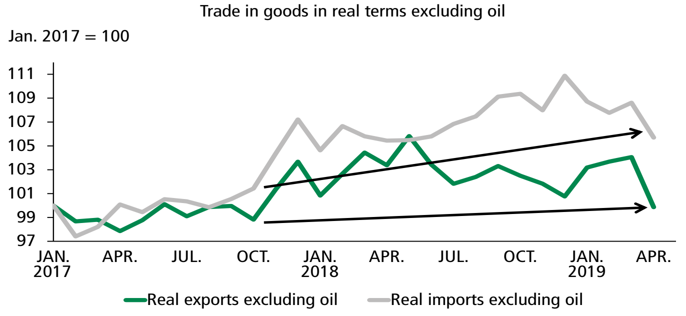
Another disturbing factor in recent economic news was the low number of hires in May. The gain of 75,000 jobs was well below the consensus. Normally, one month alone doesn't make a trend, but there is a sense that job creation is sputtering. The six-month average for private-sector job creation has slowed down since the beginning of the year, declining from 227,000 in January to 169,000 in May. It's not catastrophic, but the change

GRAPH 7
U.S. real GDP growth remained robust, but domestic demand moderated



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 8
Imports are trending more positively than exports



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

TABLE 3
United States: Major economic indicators

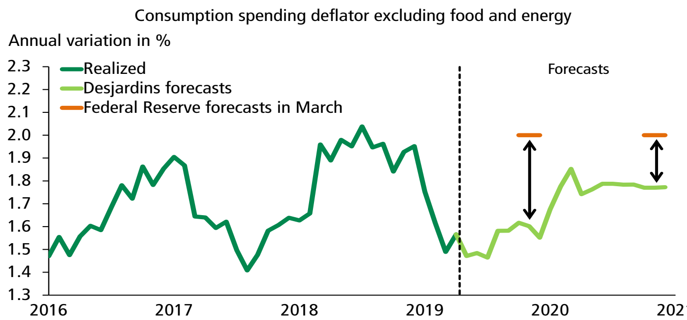
QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018		2019				ANNUAL AVERAGE			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	2017	2018	2019f	2020f
Real GDP (2012 US$)	**3.4**	**2.2**	**3.1**	**2.3**	**1.8**	**2.1**	**2.2**	**2.9**	**2.6**	**2.1**
Personal consumption expenditures	3.5	2.5	1.3	3.6	2.1	2.3	2.5	2.6	2.5	2.2
Residential construction	-3.6	-4.7	-3.5	0.0	5.5	2.0	3.3	-0.3	-1.5	1.9
Business fixed investment	2.5	5.4	2.3	1.5	3.8	4.1	5.3	6.9	3.4	3.7
Inventory change (US$B)	89.8	96.8	125.5	75.0	50.0	40.0	22.5	45.0	72.7	32.5
Public expenditures	2.6	-0.4	2.5	3.2	0.7	1.6	-0.1	1.5	1.8	1.9
Exports	-4.9	1.8	4.8	-6.0	-1.0	1.0	3.0	4.0	0.2	0.5
Imports	9.3	2.0	-2.5	-5.0	-1.0	2.0	4.6	4.5	-0.2	1.3
Final domestic demand	2.9	2.1	1.5	3.1	2.2	2.4	2.5	2.9	2.4	2.3
Other indicators										
Nominal GDP	4.9	4.1	3.6	4.5	3.8	4.3	4.2	5.2	4.3	4.2
Real disposable personal income	2.6	3.2	2.2	1.4	2.2	2.0	2.6	2.8	2.3	2.1
Employment according to establishments	1.8	1.7	1.7	1.2	1.3	1.3	1.6	1.7	1.6	1.3
Unemployment rate (%)	3.8	3.8	3.9	3.6	3.6	3.5	4.4	3.9	3.6	3.4
Housing starts[1] (thousands of units)	1,233	1,185	1,213	1,273	1,263	1,267	1,209	1,250	1,254	1,273
Corporate profits*[2]	10.4	7.4	3.1	3.0	0.0	2.0	3.2	7.8	2.0	4.5
Personal saving rate (%)	6.4	6.5	6.7	6.2	6.2	6.2	6.7	6.7	6.3	6.3
Total inflation rate*	2.6	2.2	1.6	1.8	1.7	1.9	2.1	2.4	1.8	2.0
Core inflation rate*[3]	2.2	2.2	2.1	2.0	2.0	2.1	1.8	2.1	2.1	2.1
Current account balance (US$B)	-503	-576	-522	-520	-519	-525	-440	-491	-521	-540

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

in pace is noticeable and could continue in the next few quarters. Wage growth, which finally rose in 2018, now appears to have plateaued. Helped by the surge in motor vehicle sales, household spending should still rebound in the second quarter. After the anemic 1.3% increase this winter, we forecast a 3.6% gain. After that, any increases should more often be in the order of 2% or so. Lower mortgage rates are expected to provide additional support to the residential sector, which suffered in 2018.

The drop in market interest rates has been part of the pressure on the Fed since the beginning of the year. In addition, there was the harmful impact of the trade tensions on the U.S. economy and the stock market, the weakness of some of the economic indicators and, last but not least, an inflation rate that remains stubbornly low compared to the Fed leaders' forecast (graph 9). These factors have opened the door to the first decrease in key rates since 2008.

GRAPH 9
Despite a possible rise, core inflation should remain below the Federal Reserve's previous forecasts



Sources: Bureau of Economic Analysis, Federal Reserve Board and Desjardins, Economic Studies

Canada

Domestic Demand Rebounded despite Low Real GDP

FORECASTS

Economic growth is expected to accelerate in the second quarter as the adverse effects of the slowdown in oil production will gradually fade. Moreover, real GDP by industry ended the first quarter on a high note with a 0.5% gain in March, which produced an approximate 1% carryover into the second quarter. As a result, we continue to forecast a roughly 2% hike for the spring. The increase in real GDP could be weaker than thought however for subsequent quarters, since economic conditions worldwide have worsened somewhat. When all is said and done, the anticipated increase in Canadian real GDP has been trimmed to 1.3% for 2019 compared with the 1.4% initially forecast. The expected gain for 2020 has dipped from 1.7% to 1.6%.

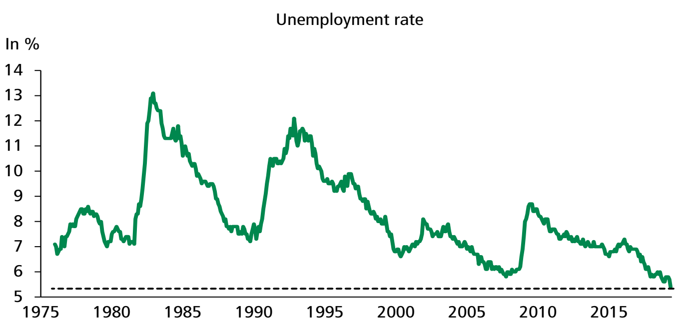
The Canadian economy remained weak in early 2019. After gaining no more than 0.3% (quarterly annualized) in the last quarter of 2018, Q1 2019 ended with a 0.4% increase. Still, what appears initially to be a disappointing result is, in fact, good news: domestic demand rebounded in the first quarter thanks to a 3.4% hike, thereby putting an end to two consecutive quarters of declines. In other words, a significantly worsening trade balance is behind the problems of real GDP. Not only have exports dropped, primarily due to the cuts in oil production imposed by the Alberta government, but imports have risen sharply thanks to the rise in domestic demand.

Increased household spending is more sustained, in particular on durable goods. This suggests that the restrictive effect of previous interest rate hikes is starting to fade. In addition, the growth in the average hourly wage has accelerated in recent months, and the labour market remains very robust. At 5.4%, the unemployment rate even reached a new historic low in May (graph 10). Therefore, consumer confidence has recovered in recent months. All of these factors are very encouraging. As a result, consumer spending should still contribute significantly to economic growth in future quarters.

Recent developments in residential investment are also more positive. This component definitely declined in the first quarter, but existing property sales and housing starts have been benefiting lately from a certain stability (graph 11). It is true that interest rates have stopped climbing, and demand remains very strong largely because of the sustained population growth in some regions and a low unemployment rate. Therefore, residential investment should stop being a drag on economic growth in the next few quarters.

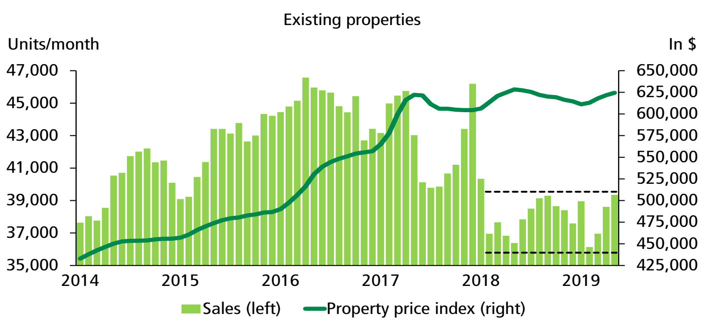
After declining three quarters in a row, business investment is up again in the first quarter thanks to the 39.5% increase in machinery and equipment. Still, the growth outlook for non-residential investment remains relatively low for future quarters. On the one hand, transportation limitations in the energy sector will continue to hamper several development projects. On the other, uncertainty still prevails among businesses in non-energy sectors. Global trade tensions continue to run high, and the Canada–United States–Mexico (CUSMA) Agreement is far from being a done deal. Moreover, business confidence deteriorated significantly in early 2019 (graph 12 on page 9).

GRAPH 10
The unemployment rate is at an all-time low in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 11
The Canadian housing market has remained consistent in recent months



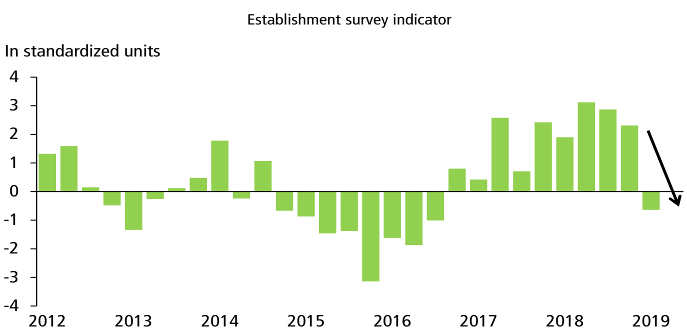
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 4
Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2018 Q3	2018 Q4	2019 Q1	2019 Q2f	2019 Q3f	2019 Q4f	ANNUAL AVERAGE 2017	2018	2019f	2020f
Real GDP (2012 $)	**2.1**	**0.3**	**0.4**	**2.1**	**1.5**	**1.7**	**3.0**	**1.9**	**1.3**	**1.6**
Final consumption expenditure [of which:]	1.7	1.3	3.2	1.7	2.2	2.1	3.1	2.3	2.1	2.0
Household consumption expenditure	*1.3*	*1.0*	*3.5*	*1.6*	*2.1*	*1.9*	*3.6*	*2.1*	*2.0*	*1.9*
Governments consumption expenditure	*2.7*	*2.1*	*2.2*	*2.0*	*2.5*	*2.5*	*2.1*	*2.9*	*2.4*	*2.2*
Gross fixed capital formation [of which:]	-6.1	-8.9	4.1	0.0	0.7	1.3	3.0	1.2	-1.5	1.6
Residential structures	*-3.2*	*-10.4*	*-6.1*	*0.1*	*0.6*	*1.0*	*2.4*	*-1.5*	*-3.8*	*1.2*
Non-residential structures	*-8.6*	*-14.2*	*-2.6*	*-1.5*	*0.0*	*0.5*	*1.1*	*-0.9*	*-5.1*	*1.2*
Machinery and equipment	*-16.3*	*-2.3*	*39.5*	*-3.0*	*0.0*	*1.0*	*4.7*	*6.1*	*5.5*	*1.8*
Intellectual property products	*-3.1*	*12.7*	*-4.5*	*3.0*	*2.0*	*3.0*	*1.2*	*4.4*	*1.7*	*2.7*
Governments gross fixed capital formation	*1.7*	*-13.1*	*6.4*	*3.5*	*2.0*	*2.5*	*6.3*	*3.6*	*-0.3*	*2.2*
Investment in inventories (2007 $B)	7.2	13.9	17.7	18.5	17.5	17.5	17.6	12.7	17.8	14.4
Exports	0.8	0.3	-4.1	3.5	1.5	2.0	1.1	3.2	0.8	2.1
Imports	-8.9	-0.7	7.7	1.5	2.0	2.5	4.2	2.9	1.6	2.3
Final domestic demand	-0.1	-1.0	3.4	1.4	1.9	1.9	3.1	2.0	1.3	1.9
Other indicators										
Nominal GDP	4.3	-3.1	5.0	3.9	3.5	3.7	5.6	3.6	2.8	3.3
Real disposable personal income	-1.4	3.8	2.4	2.0	1.8	1.5	3.4	2.1	1.9	1.7
Employment	1.3	2.2	2.9	3.1	1.0	0.7	1.9	1.3	2.1	1.1
Unemployment rate (%)	5.9	5.6	5.8	5.5	5.6	5.6	6.3	5.8	5.6	5.5
Housing starts[1] (thousands of units)	197	217	187	212	198	195	220	213	198	199
Corporate profits*[2]	6.9	-5.7	-4.4	-3.0	-2.0	5.0	20.1	0.5	-1.2	4.2
Personal saving rate (%)	0.9	1.4	1.1	1.2	1.1	1.0	1.6	1.4	1.1	0.9
Total inflation rate*	2.7	2.0	1.6	2.2	1.7	1.9	1.6	2.3	1.8	1.6
Core inflation rate*[3]	2.1	2.0	1.9	2.3	2.2	2.1	1.6	1.9	2.1	1.6
Current account balance ($B)	-10	-17	-17	-15	-17	-18	-60	-59	-67	-65

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

GRAPH 12
Business confidence is down in Canada



Sources: Bank of Canada and Desjardins, Economic Studies

Lastly, external trade may contribute rather little on average to the variation in real GDP during the coming quarters. With oil production gradually returning to normal, exports should trend up again along with the rise in international demand in future quarters. Still, the latter may be lower than anticipated as global economic conditions deteriorate. In contrast, imports should also rise in tandem with the anticipated growth in domestic demand.

Quebec

Strong Economy, but Less than Rosy Business Outlook

FORECASTS

Economic growth in Quebec has clearly outpaced the national rate since mid-2018. The province stands out because of its solid residential real estate market and because it was spared the difficulties of the oil industry. The hike in Quebec's real GDP should approach 2.0% in 2019 and slow down to less than 1.5% next year. The less-than-robust global economy and trade-related pitfalls are already affecting exports and business investment. However, households, boosted by a very favourable labour market, will help get through this turbulent period largely intact.

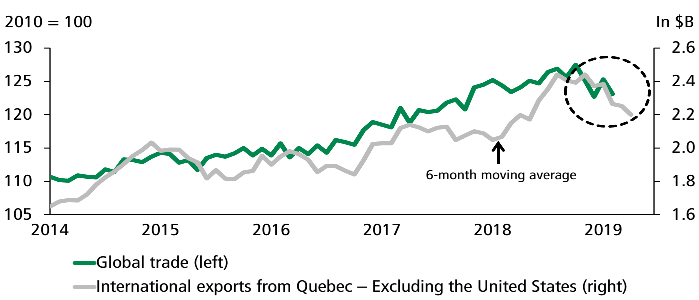
The slowdown in global trade, made worse by the many tariffs in effect between the United States and several countries, especially China, is gradually hitting all of Quebec's international exports. Shipments abroad, which had soared in recent years, first began to stabilize a few months ago before embarking on a downtrend recently (graph 13). Exports to Europe are sliding even more due to the weak economy, whereas those to Asia are beginning to nosedive.

Shipments to the United States are tending to plateau despite good economic growth. The U.S. tariffs on steel and aluminum in effect from May 2018 to May 2019 restricted exports from Quebec to the United States. It remains to be seen if lifting these will have a positive impact, since Quebec producers have lost market share in the United States. The ratification of the Canada–United States–Mexico (CUSMA) Agreement, which would remove the uncertainty, is not a sure thing. Consequently, the outlook for Quebec's exports is less rosy than before.

The current situation is also having repercussions on business investment. A period of hesitation has replaced the rise in business investment (graph 14). SME confidence has been shaken somewhat since its peak in 2018, and profits have been stuck for a few quarters. Business investment intentions will probably be trimmed because of the prevailing uncertainty. This represents one more risk for the Quebec economy.

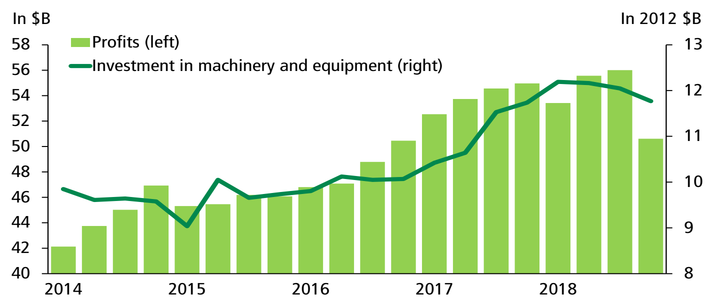
The household situation looks brighter. The level of confidence is near historic highs, and the labour market is strong. The unemployment rate even fell to 4.9% in April, a new low since monthly statistics began in 1976 (graph 15). Even if the rate rose

GRAPH 13
Quebec's overseas exports are feeling the effects of the slowdown in global trade



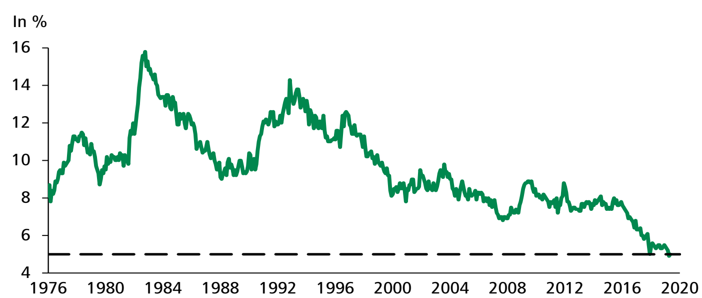
Sources: CPB - Netherlands Bureau for Economic Policy Analysis, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 14
Business profits and investment in Quebec have been sluggish for the past year



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

GRAPH 15
A first in more than 40 years: Quebec's unemployment rate falls below 5% in April

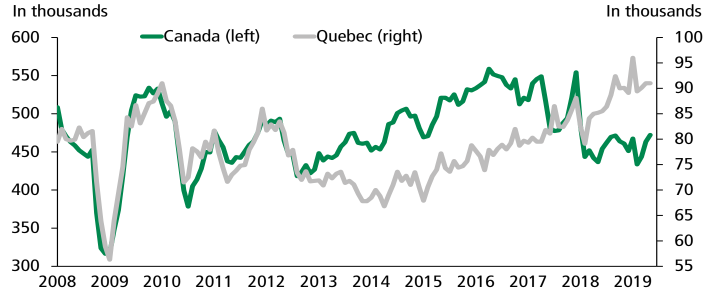


Sources: Statistics Canada and Desjardins, Economic Studies again to 5.0% in May, it is still very low. Job creation is trending up thanks to the sharp increase in the number of full-time positions.

Furthermore, annual wage growth is continuing to hover around 3%, which is helping boost household income. Moreover, retail sales have been up since the beginning of the year. All of these positive factors have enhanced the outlook for consumer spending. It should grow 2.1% in real terms this year, then 1.6% next year. The slowdown that began in 2018 will continue albeit gradually.

The residential real estate market in Quebec continues to surprise by its strength in stark contrast to the weakness seen in the rest of Canada (graph 16). Sales of existing properties are even on track to hit a new high in 2019. The annual hike in the average price remains around 5%, and almost all regions in Quebec are experiencing growth. The pace of new construction is also holding steady thanks to the rental market. Still, house and condominium construction are down, which will cause total housing starts to fall slightly this year.

GRAPH 16
Sales of existing properties remain high in Quebec, whereas the rest of Canada is undergoing a correction



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 5
Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018	2019f	2020f
Real GDP (2012 $)	**1.4**	**2.8**	**2.1**	**1.9**	**1.4**
Final consumption expenditure [of which:]	2.8	2.9	2.3	2.0	1.6
Household consumption expenditure	*2.4*	*3.2*	*2.3*	*2.1*	*1.6*
Governments consumption expenditure	*3.5*	*2.2*	*2.4*	*1.9*	*1.7*
Gross fixed capital formation [of which:]	-1.4	5.1	3.1	0.7	0.5
Residential structures	*3.2*	*7.3*	*3.4*	*0.8*	*-1.9*
Non-residential structures	*-1.6*	*-4.8*	*-2.7*	*-0.6*	*1.5*
Machinery and equipment	*4.1*	*10.7*	*8.7*	*0.7*	*3.2*
Intellectual property products	*-2.4*	*4.9*	*3.5*	*2.7*	*2.2*
Governments gross fixed capital formation	*-10.9*	*6.8*	*3.4*	*-0.1*	*0.9*
Investment in inventories (2007 $B)	874	1,688	2,661	3,000	3,250
Exports	0.4	1.2	3.1	2.0	1.4
Imports	2.1	3.9	3.4	1.7	1.5
Final domestic demand	2.0	3.3	2.5	1.8	1.4
Other indicators					
Nominal GDP	2.8	5.0	4.2	3.5	2.9
Real disposable personal income	2.0	3.5	2.2	1.9	1.5
Weekly earnings	1.2	2.8	3.2	3.0	3.3
Employment	0.9	2.2	0.9	1.2	0.5
Unemployment rate (%)	7.1	6.1	5.5	5.1	4.9
Personal saving rate (%)	5.0	5.5	5.4	4.3	4.0
Retail sales	6.6	5.5	2.9	2.7	2.1
Housing starts[1] (thousands of units)	38.9	46.5	46.9	45.5	43.0
Total inflation rate	0.7	1.0	1.7	1.7	1.6

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

Ontario and Other Provinces

Widespread Slowdown in 2019

FORECASTS
Most provinces will see lower economic growth in 2019. The trade tensions will have negative repercussions on many economic areas, including manufacturing and agriculture. In addition, there are the adjustments to the housing market in some regions and the troubles in the energy sector. Under these circumstances, the provinces' real GDP should grow between 0.8% and 1.9% in 2019. Still, many of these factors should gradually fade away such that the outlook for growth next year is up slightly in most of the provinces.

ONTARIO

After keeping pace with Quebec's economic growth in 2017 and 2018, Ontario could easily see itself slightly outpaced in 2019. It goes without saying that Ontario is currently undergoing several corrections, which are hindering growth for the moment. Even if it appears to be stable these days, the housing market is clearly down from past levels. Furthermore, the province's manufacturing sector is still feeling the effects of the auto industry's difficulties. In addition, the heightened uncertainty relating to global trade tensions is affecting business investment and the potential growth of exports.

That being said, Ontario's economy is highly diversified and able to count on a solid foundation to support growth. Furthermore, several service sectors are posting sustained growth, and the labour market is doing very well. Since early 2017, Ontario has created 14,000 jobs per month on average. As a result, the unemployment rate dropped to 5.2% last May, the lowest level since November 1989 (graph 17). Under these circumstances, Ontario's real GDP could maintain 1.5% growth this year. This is down slightly from our previous estimate. A gain of 1.7% is still expected for next year.

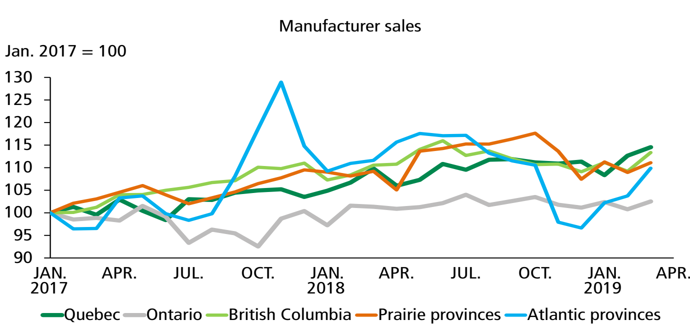
WESTERN PROVINCES

In Alberta, oil production appears to be gradually returning to normal after the cuts imposed by the provincial government at the beginning of the year (graph 18). That being said, the limits on transporting crude oil will continue to hinder investment in the energy sector for some time to come. The province's real GDP should slow significantly in 2019 as a result. The situation is expected to improve next year when the measures to increase the capacity to move crude oil, especially by rail, are expected to pay off.

Growth in Saskatchewan and Manitoba should stay just below the national average in 2019 and 2020. Furthermore, the agriculture sector in these two provinces may suffer from the tensions with China.

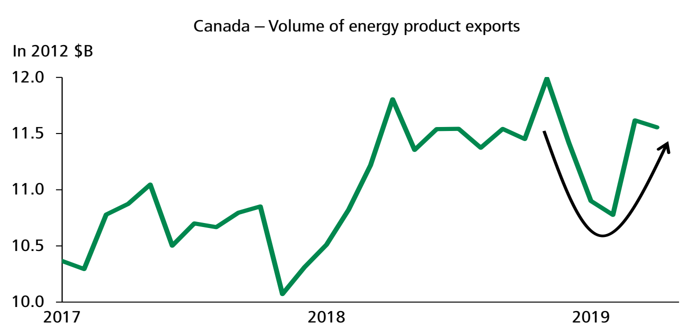
In British Columbia, the housing market is still undergoing a downward correction, which will slow economic growth in 2019 (graph 19 on page 13). British Columbia is also the Canadian province that depends the most on trade ties with China. Therefore, heightened tensions between the two countries could hit the region especially hard. Still, the province should benefit from major investments in several natural gas projects.

GRAPH 17
The Ontario manufacturing sector is lagging



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 18
The energy sector seems to be gradually picking up



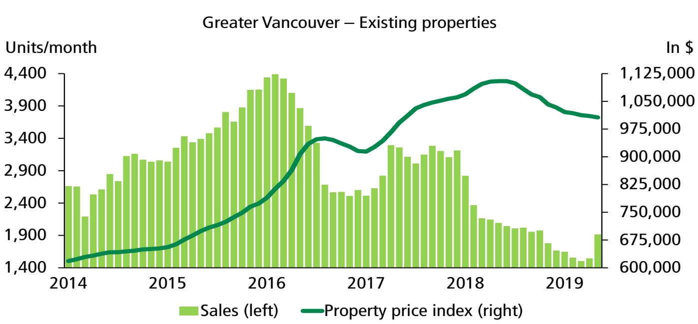
Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2016	2017	2018	2019f	2020f
Real GDP (2012 $)	**2.3**	**2.8**	**2.2**	**1.5**	**1.7**
Final consumption expenditure [of which:]	2.2	3.4	2.7	2.4	2.2
Household consumption expenditure	*2.7*	*3.9*	*2.8*	*2.3*	*2.1*
Governments consumption expenditure	*0.5*	*2.0*	*2.6*	*2.6*	*2.2*
Gross fixed capital formation [of which:]	0.2	3.3	0.9	-2.3	1.5
Residential structures	*7.5*	*1.0*	*-4.7*	*-5.3*	*0.5*
Non-residential structures	*-7.9*	*1.7*	*-3.4*	*-5.5*	*1.5*
Machinery and equipment	*-4.2*	*7.9*	*8.6*	*1.6*	*2.2*
Intellectual property products	*-3.3*	*2.3*	*8.0*	*2.4*	*3.0*
Governments gross fixed capital formation	*-0.7*	*6.3*	*4.7*	*0.0*	*2.3*
Investment in inventories (2007 $B)	1,214	9,329	6,520	15,813	13,425
Exports	2.7	1.8	2.3	0.8	2.4
Imports	1.3	5.1	1.7	2.2	2.4
Final domestic demand	1.8	3.4	2.4	1.4	2.0
Other indicators					
Nominal GDP	4.4	4.1	3.4	3.4	3.7
Real disposable personal income	1.0	3.6	3.0	2.0	2.1
Weekly earnings	1.1	1.9	2.9	2.8	2.7
Employment	1.1	1.8	1.6	2.6	1.3
Unemployment rate (%)	6.5	6.0	5.6	5.6	5.4
Personal saving rate (%)	0,3	0,1	0,2	0.1	0.1
Retail sales	6.9	7.7	4.4	1.1	2.7
Housing starts[1] (thousands of units)	75.0	79.1	78.7	68.4	70.0
Total inflation rate*	1.8	1.7	2.4	1.7	1.6

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

GRAPH 19
The housing market correction continues in British Columbia



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

ATLANTIC PROVINCES

Based on real GDP by industry, Newfoundland and Labrador output fell 2.7% in 2018 primarily because of the problems in the energy sector. Nonetheless, the latest oil extraction data show some improvement, which should help the province return to positive territory as early as 2019. In New Brunswick, real GDP came up empty in 2018 with practically nil growth. A slight improvement is forecast starting in 2019, but the potential for growth remains limited because of its unfavourable demographic make-up. Demographic changes are somewhat more positive in Nova Scotia and Prince Edward Island, which is reflected in their economic growth outlook.

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**	**1.9**	**1.3**	**1.6**
Atlantic	1.6	1.5	-0.2	1.0	0.9
Quebec	1.4	2.8	2.1	1.9	1.4
Ontario	2.3	2.8	2.2	1.5	1.7
Manitoba	1.6	3.2	1.3	1.1	1.3
Saskatchewan	-0.4	2.2	1.6	1.0	1.4
Alberta	-4.2	4.4	2.3	0.8	2.2
British Columbia	3.2	3.8	2.4	1.4	1.9
Total inflation rate – Canada	**1.4**	**1.6**	**2.3**	**1.8**	**1.6**
Atlantic	1.9	1.9	2.0	1.3	1.5
Quebec	0.7	1.0	1.7	1.7	1.6
Ontario	1.8	1.7	2.4	1.7	1.6
Manitoba	1.3	1.6	2.5	2.2	1.7
Saskatchewan	1.1	1.7	2.3	1.9	1.7
Alberta	1.1	1.6	2.4	1.9	1.8
British Columbia	1.8	2.1	2.7	2.0	1.8
Employment growth – Canada	**0.7**	**1.9**	**1.3**	**2.1**	**1.1**
Atlantic	-0.7	-0.2	1.0	2.1	0.8
Quebec	0.9	2.2	0.9	1.2	0.5
Ontario	1.1	1.8	1.6	2.6	1.3
Manitoba	-0.4	1.7	0.6	1.2	0.5
Saskatchewan	-0.9	-0.2	0.4	1.5	0.7
Alberta	-1.6	1.0	1.9	0.8	1.8
British Columbia	3.2	3.7	1.1	3.3	1.5
Unemployment rate – Canada	**7.0**	**6.3**	**5.8**	**5.6**	**5.5**
Atlantic	9.9	9.7	9.1	8.3	8.3
Quebec	7.1	6.1	5.5	5.1	4.9
Ontario	6.5	6.0	5.6	5.6	5.4
Manitoba	6.1	5.4	6.0	5.2	5.2
Saskatchewan	6.3	6.3	6.1	5.3	5.3
Alberta	8.1	7.8	6.6	6.8	6.6
British Columbia	6.0	5.1	4.7	4.5	4.5
Retail sales growth – Canada	**5.2**	**7.1**	**2.9**	**1.8**	**2.8**
Atlantic	3.0	6.2	0.3	2.7	2.5
Quebec	6.6	5.5	2.9	2.7	2.1
Ontario	6.9	7.7	4.4	1.1	2.7
Manitoba	3.7	7.8	2.9	0.5	2.2
Saskatchewan	1.5	4.1	-0.3	2.0	3.0
Alberta	-1.1	7.1	2.0	1.9	3.8
British Columbia	7.7	9.3	2.0	2.5	3.0
Housing starts – Canada (thousands of units)	**197.9**	**219.8**	**212.8**	**198.1**	**199.2**
Atlantic	7.6	8.6	9.3	7.4	7.8
Quebec	38.9	46.5	46.9	45.5	43.0
Ontario	75.0	79.1	78.7	68.4	70.0
Manitoba	5.3	7.5	7.4	8.0	7.0
Saskatchewan	4.8	4.9	3.6	2.5	3.0
Alberta	24.5	29.5	26.1	24.0	28.0
British Columbia	41.8	43.7	40.9	42.3	40.4

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

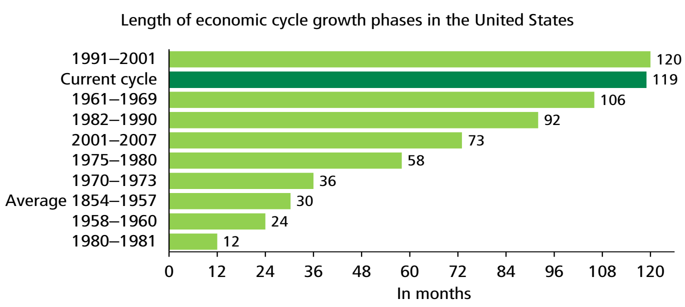
Towards an Extended Period of Economic Weakness

Economic growth will remain weak in several countries in the coming quarters, and this weakness threatens to last longer, even intensify, in the medium term. The skepticism about the U.S. economic cycle continuing should increase in the coming years, which is expected to translate into stronger volatility on the financial markets and cause business and household confidence to plummet. Interest rates will have to decline further around 2021 and 2022 to boost economic growth in 2023. Still, this scenario is tinged with a big dose of uncertainty. Current risks may precipitate the economic underperformance forecast and force the central banks to intervene much earlier.

A Very Long U.S. Cycle

At the end of June, the current economic cycle in the United States will have matched the record for the longest cycle at 120 months that ran from 1991–2001 (graph 20). Therefore, the continued economic growth forecast for the coming quarters means that a new record for longevity will be set.

GRAPH 20
The current growth cycle will be the longest ever recorded in the United States



Sources: National Bureau of Economic Research and Desjardins, Economic Studies

Even if the interest rate decreases forecast in the United States in 2019 help extend the cycle, it is hard to imagine that it will go on forever. On the contrary, the signs of a slowdown may become more numerous. The historically low unemployment rate, and the fact that many businesses are already operating at full capacity, is already making any noteworthy and sustainable increase in economic growth difficult. Consequently, growth should mainly centre on its potential rate, which is currently roughly 2% in the United States, and a little less in most of the other advanced economies. At these lower levels of growth, there is less room to manoeuvre and shocks can more easily move the economy into a severe slowdown, even a recession.

No Shortage of Risks

In the fall of 2018, the turbulence on the financial markets helped decelerate the economy due to the effect of negative wealth and reduced confidence. This kind of turbulence could happen again in the next few years. The Federal Reserve will not always be able to soften monetary policy to satisfy the markets.

On a more basic level, the international situation appears to be very precarious. Trade tensions remain high and threaten to persist for years to come. In addition, many emerging countries, including China, are experiencing difficulties relating not only to weak trade, but also to internal and structural problems. In the short term, support measures should help, especially in China, but the picture could look much bleaker in a few years. Europe still needs to be monitored. Rising populism, Brexit and high government debt are risk factors that won't disappear in the blink of an eye.

All of these factors are likely to feed waves of concern and volatility on the financial markets. Were Europe to slow down significantly, the markets could also question the ability of governments and central banks to act as their room to manoeuvre seems rather narrow.

Interest Rates Will Stay Historically Low

Our economic scenario calls for lower interest rates in 2019 in the United States, then other, widespread easing among a larger number of countries in the coming years. The federal funds rate in the United States should return to 1.50% by the end of 2021, whereas the 10-year rate should drop back below 2.00%. In Canada, we are counting on the overnight rate to return to 1.25% and the 10-year rate to reach 1.50%. Inflation should remain near its target, but signs of any escalation in protectionism that could translate into major price increases for consumers will have to be monitored.

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	2.6	2.1	1.4	1.1	2.2	2.4	1.9
Total inflation rate (var. in %)	2.1	2.4	1.8	2.0	1.5	1.2	1.6	1.5	1.6
Unemployment rate	4.4	3.9	3.6	3.4	4.1	4.9	5.0	4.9	4.2
S&P 500 index (var. in %)[1]	19.4	-6.2	19.7	5.0	-8.0	10.0	7.0	6.7	6.7
Federal funds rate	1.10	1.90	2.30	2.00	1.75	1.50	1.70	0.80	1.85
Prime rate	4.10	4.90	5.30	5.00	4.75	4.50	4.70	3.80	4.85
Treasury bills – 3-month	0.95	1.97	2.15	1.90	1.60	1.35	1.60	0.66	1.72
Federal bonds – 10-year	2.33	2.91	2.20	2.15	1.85	1.80	2.30	2.35	2.06
– 30-year	2.89	3.11	2.70	2.60	2.25	2.20	2.70	2.96	2.49
WTI oil (US$/barrel)	51	65	57	56	43	45	53	60	51
Gold (US$/ounce)	1,258	1,269	1,320	1,280	1,250	1,250	1,240	1,240	1,268
Canada									
Real GDP (var. in %)	3.0	1.9	1.3	1.6	1.2	1.0	2.0	1.9	1.4
Total inflation rate (var. in %)	1.6	2.3	1.8	1.6	1.4	1.2	1.6	1.7	1.5
Employment (var. in %)	1.9	1.3	2.1	1.1	0.8	0.3	1.0	1.1	1.1
Employment (thousands)	337	241	391	208	146	60	193	193	200
Unemployment rate	6.3	5.8	5.6	5.5	6.1	6.5	6.3	6.6	6.0
Housing starts (thousands of units)	220	213	198	199	188	185	200	203	194
S&P/TSX index (var. in %)[1]	6.0	-11.6	16.9	4.8	-12.0	10.0	9.0	5.9	5.7
Exchange rate (US$/C$)	0.77	0.77	0.76	0.76	0.74	0.75	0.76	0.80	0.75
Overnight funds	0.70	1.40	1.75	1.75	1.55	1.25	1.30	0.77	1.52
Prime rate	2.90	3.61	3.95	3.95	3.75	3.45	3.50	2.88	3.72
Mortgage rate – 1-year	3.16	3.47	3.65	3.65	3.60	3.50	3.50	3.18	3.58
– 5-year	4.76	5.26	5.25	5.10	5.05	5.00	5.05	4.85	5.09
Treasury bills – 3-month	0.69	1.37	1.65	1.70	1.45	1.20	1.35	0.80	1.47
Federal bonds – 2-year	1.09	1.99	1.55	1.65	1.40	1.30	1.55	1.05	1.49
– 5-year	1.37	2.15	1.50	1.70	1.45	1.45	1.80	1.34	1.58
– 10-year	1.78	2.28	1.65	1.75	1.60	1.55	1.95	1.81	1.70
– 30-year	2.28	2.36	1.80	1.90	1.75	1.70	2.10	2.31	1.85
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.26	-0.60	-0.50	-0.20	-0.15	-0.15	-0.25	0.13	-0.25
Federal bonds – 10-year	-0.55	-0.63	-0.55	-0.40	-0.25	-0.25	-0.35	-0.54	-0.36
– 30-year	-0.61	-0.75	-0.90	-0.70	-0.50	-0.50	-0.60	-0.65	-0.64
Quebec									
Real GDP (var. in %)	2.8	2.1	1.9	1.4	1.0	0.7	1.5	1.7	1.3
Total inflation rate (var. in %)	1.0	1.7	1.7	1.6	1.4	1.2	1.6	1.2	1.5
Employment (var. in %)	2.2	0.9	1.2	0.5	0.3	0.1	0.5	1.0	0.5
Employment (thousands)	90	39	50	20	15	5	20	40	22
Unemployment rate	6.1	5.5	5.1	4.9	4.8	5.2	4.9	6.8	5.0
Retail sales (var. in %)	5.5	2.9	2.7	2.1	1.8	1.0	2.5	3.9	2.0
Housing starts (thousands of units)	46	47	46	43	38	35	40	42	40
Ontario									
Real GDP (var. in %)	2.8	2.2	1.5	1.7	1.5	1.2	1.8	2.5	1.6
Total inflation rate (var. in %)	1.7	2.4	1.7	1.6	1.5	1.5	2.0	1.9	1.7
Employment (var. in %)	1.8	1.6	2.6	1.3	0.5	0.8	1.0	1.2	1.2
Employment (thousands)	128	114	188	99	38	61	76	84	92
Unemployment rate	6.0	5.6	5.6	5.4	6.0	6.3	6.1	6.4	5.9
Retail sales (var. in %)	7.7	4.4	1.1	2.7	3.0	2.5	5.0	6.0	2.9
Housing starts (thousands of units)	79	79	68	70	64	67	72	72	68

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