ECONOMIC & FINANCIAL OUTLOOK

Trade Tensions Have Eased, but Uncertainty Remains

HIGHLIGHTS

- A number of signs seem to suggest that global economic growth remained slow in late 2019. Still, the situation does not appear to have deteriorated too much. With the election of a majority Conservative government to the British parliament and the phase one trade agreement between China and the United States, the worst-case scenarios involving Brexit and the trade war can be put aside.
- In the United States, growth remains stable, as household consumption is holding up and the job market remains strong. There has nevertheless been a decrease in business investment, which has undoubtedly been affected by the trade uncertainty. However, the trade deal between China and the United States should provide a boost, thereby moderately lifting the growth scenario for 2020 and 2021.
- In Canada, while a number of favourable factors remain in place, among them the hike in consumer spending and the rebound in the housing market, the economy will still have to contend with a number of challenges in the quarters ahead. The harmful effects of the trade tensions will persist, international demand will be weaker, and the difficulties of the oil industry will remain very real.
- In Quebec, the gain in real GDP is on its way to hitting 2.6% in 2019, far ahead of Ontario's, British Columbia's and the national average, which will advance less than 2%. Quebec stands out due to the stronger contribution on the part of households: the residential housing market continues to grow, and consumer spending is moving along at a solid clip.
- Despite some positive elements, such as the return to an upward trend in the housing market, economic growth was weaker in 2019 in most of the other provinces. Global uncertainty, the energy sector's difficulties, and the auto industry's recurring problems are all being felt.
- The Federal Reserve and the Bank of Canada seem very comfortable with the current level of their key rates. The outlook for growth or inflation would have to take a serious turn for the worse to convince them to ease their monetary policy. On the other side, it would take a clear and sustained acceleration of inflation to convince them to quickly tighten their monetary policy. Recent events are thus supporting our scenario in which key rates in North America will stay unchanged for a long time to come.
- As we still anticipate international uncertainty to remain relatively high, North American bond yields should be fairly stable in the quarters ahead. Limited economic growth globally and an abundant supply of oil are expected to cause the price of WTI (West Texas Intermediate) to gradually return near US$50 per barrel. The Canadian dollar should continue to fluctuate just above US$0.75.

CONTENTS

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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. Despite an initial agreement between China and the United States, the continuing trade tensions are contributing to the high degree of uncertainty around the world, including in Canada. Geopolitical issues continue to weigh on the global economy. Financial imbalances are still a consideration in a number of regions, including Europe, and in emerging economies like China's. Meanwhile, in the United Kingdom, despite Boris Johnson's new majority in parliament, a possible Hard-Brexit cannot be ruled out completely, with potentially negative impacts on the economy and the markets. In the United States, the Trump administration's policies could cause the situation to diverge from our scenarios—either positively or negatively. The political uncertainty fuelled by the process to impeach President Donald Trump and by the approaching November 2020 elections could also affect the markets. Negative investors' sentiment could return and tighten financial conditions significantly, especially if the trade tensions and fears of a recession were to return in full force. Higher-than-expected inflation would have major consequences for all financial markets. International oil prices could jump further if a major conflict were to break out in the Middle East, the likelihood of which has increased in light of the attacks on Saudi facilities. In Canada, concerns over high household debt loads intensified recently, as the housing market began trending up again. In some areas, such as Montreal and Ottawa, are overheating, with sales and prices spiking. The sharp rise in the number of bidding wars in many areas on the Island of Montreal is also a source of concern.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2019f	2020f	2021f	2019f	2020f	2021f
Advanced economies	**37.8**	**1.7**	**1.3**	**1.1**	**1.4**	**1.4**	**1.2**
United States	15.1	2.3	1.8	1.5	1.8	1.7	1.4
Canada	1.3	1.7	1.6	1.3	1.9	1.7	1.4
Quebec	*0.3*	*2.6*	*1.7*	*1.2*	*2.0*	*1.6*	*1.4*
Ontario	*0.5*	*1.8*	*1.6*	*1.3*	*1.8*	*1.6*	*1.5*
Japan	4.0	1.1	0.2	0.2	0.6	0.6	0.4
United Kingdom	2.2	1.0	0.8	0.0	1.9	1.8	1.8
Euro zone	11.6	1.1	0.7	0.6	1.2	1.1	0.9
Germany	*3.3*	*0.6*	*0.6*	*0.8*	*1.4*	*1.4*	*1.2*
France	*2.2*	*1.3*	*0.9*	*0.7*	*1.2*	*1.2*	*1.1*
Italy	*1.8*	*0.2*	*0.2*	*0.1*	*0.7*	*0.8*	*0.9*
Other countries	3.9	1.0	0.9	0.9	0.9	0.9	0.7
Australia	*0.9*	*1.8*	*2.0*	*2.1*	*1.6*	*1.8*	*1.4*
Emerging and developing economies	**62.2**	**3.7**	**3.9**	**4.0**	**3.9**	**3.6**	**2.8**
North Asia	27.6	5.6	5.8	5.7	3.0	3.0	2.6
China	*18.6*	*6.1*	*5.9*	*5.7*	*2.7*	*2.6*	*2.0*
India	*7.7*	*5.0*	*6.0*	*6.3*	*3.5*	*3.8*	*4.0*
South Asia	5.4	4.3	4.0	4.2	2.1	2.4	2.4
Latin America	5.9	1.1	1.4	1.5	3.2	3.3	3.2
Mexico	*1.8*	*0.4*	*0.8*	*1.0*	*3.1*	*3.4*	*3.2*
Brazil	*2.5*	*0.9*	*1.2*	*1.3*	*3.4*	*3.6*	*3.5*
Eastern Europe	7.5	1.8	2.0	2.1	6.5	5.5	5.1
Russia	*3.0*	*1.1*	*1.3*	*1.4*	*3.9*	*3.8*	*3.7*
Other countries	15.9	2.1	2.3	2.3	7.4	6.4	4.2
South Africa	*0.6*	*0.6*	*0.8*	*0.8*	*4.3*	*4.7*	*4.0*
World	**100.0**	**3.0**	**2.9**	**2.9**	**3.0**	**2.8**	**2.2**

f: forecasts; PPP : Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; * 2018.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

FINANCIAL FORECASTS

The progressing trade negotiations between China and the United States and relatively encouraging economic data have generally preserved a positive sentiment on the markets in recent weeks. As a result, the stock markets continued to rise, and a number of indexes reached new heights. Bond yields rose a little but remain much lower than they were a year ago. This contrasting trend in stock markets and bond yields was very good for investors in 2019. More limited returns on the main asset classes are to be expected next year. The Federal Reserve and the Bank of Canada seem very comfortable with the current level of their key rates; the outlook for growth or inflation would have to take a serious turn for the worse to convince them to ease their monetary policy. That said, it would take a clear and sustained acceleration of inflation to convince them to quickly tighten their monetary policy. Recent events are thus supporting our scenario in which key rates in North America will stay unchanged for a long time to come. Given this situation, and as we still anticipate international uncertainty to remain relatively high, North American bond yields should be fairly stable in the quarters ahead. Limited economic growth globally and an abundant supply of oil are expected to cause the price of WTI (West Texas Intermediate) to gradually return near US$50 per barrel. The Canadian dollar should continue to fluctuate slightly above US$0.75.

TABLE 2
Summary of the financial forecasts

	2019		2020				2021			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.00	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25
Canada	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.75	0.75	0.75	0.50	0.50	0.50	0.25	0.25	0.25	0.25
Federal bonds										
United States										
2-year	1.66	1.65	1.70	1.75	1.75	1.65	1.35	1.20	1.20	1.20
5-year	1.54	1.70	1.75	1.80	1.80	1.65	1.35	1.25	1.30	1.35
10-year	1.67	1.90	1.95	2.00	2.00	1.85	1.50	1.40	1.45	1.50
30-year	2.11	2.30	2.35	2.40	2.40	2.25	1.95	1.90	1.95	2.00
Canada										
2-year	1.58	1.70	1.75	1.75	1.75	1.70	1.45	1.30	1.25	1.25
5-year	1.40	1.65	1.75	1.75	1.75	1.65	1.35	1.25	1.25	1.30
10-year	1.37	1.65	1.75	1.80	1.80	1.65	1.35	1.30	1.35	1.40
30-year	1.53	1.75	1.85	1.90	1.90	1.80	1.55	1.50	1.55	1.60
Currency market										
Canadian dollar (USD/CAD)	1.32	1.32	1.31	1.30	1.30	1.32	1.33	1.33	1.32	1.32
Canadian dollar (CAD/USD)	0.76	0.76	0.77	0.77	0.77	0.76	0.75	0.75	0.76	0.76
Euro (EUR/USD)	1.09	1.12	1.12	1.11	1.11	1.10	1.08	1.09	1.10	1.11
British pound (GBP/USD)	1.23	1.30	1.30	1.29	1.29	1.28	1.25	1.25	1.28	1.30
Yen (USD/JPY)	108	110	110	110	109	108	106	106	108	109
Stock markets (level and growth)*										
United States – S&P 500	3,200		Target: 3,350 (+4.7%)				Target: 3,125 (-6.7%)			
Canada – S&P/TSX	17,100		Target: 18,000 (+5.3%)				Target: 16,600 (-7.8%)			
Commodities (annual average)										
WTI oil (US$/barrel)	57 (59*)		53 (48*)				46 (49*)			
Gold (US$/ounce)	1,392 (1,470*)		1,365 (1,350*)				1,360 (1,370*)			

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

Overseas

The Global Economy Is Stabilizing, but with No Rebound in Sight

FORECASTS

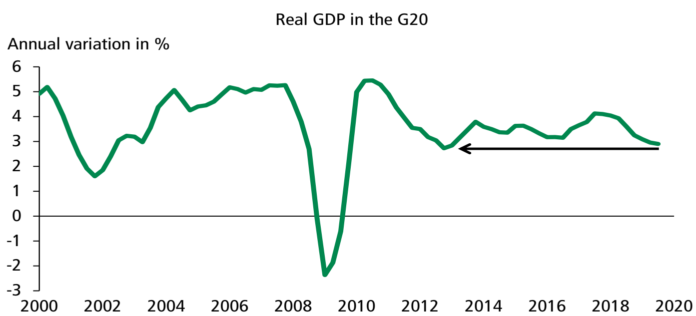
A number of signs suggest that global economic growth remained slow in late 2019. Still, the situation does not appear to be deteriorating too much. In Europe, Germany and the United Kingdom were able to avoid a technical recession in the third quarter after each country's real GDP declined in the spring. Additionally, with the election of a huge majority Conservative government to the British parliament and the phase one trade agreement between China and the United States, the worst-case scenarios involving Brexit and the trade war can be put aside. Nevertheless, the global economic situation is expected to remain precarious in 2020, and we do not anticipate a rebound in growth. After an estimated 3.0% hike in 2019, real GDP worldwide should grow 2.9% in 2020 and 2021.

Global trade has continued to deteriorate since the summer. Its annual variation is now stuck in negative territory, reflecting both the heightened trade tensions for the better part of the year and the weak growth in a number of countries. Moreover, according to the Organisation for Economic Co-operation and Development (OECD), the annual variation in real GDP for the G20 countries as a whole was just 2.9% in the third quarter of 2019: the lowest rate of growth since winter 2013 (graph 1). The manufacturing sector is suffering the most from the trade and global economic challenges. Still, there is a feeling that things are stabilizing somewhat in this regard. In November, the global PMI manufacturing index returned to above the 50 mark after six consecutive months below this threshold (graph 2). With the truce in the trade war between China and the United States and the transition period for Brexit in 2020, there is reason to believe that the uncertainty that overwhelmed the global economy in 2019 has eased somewhat. This good news could help the manufacturing sector, but it would be surprising if it were enough to jump start growth in general.

As for the euro zone, Germany in particular was able to avoid a technical recession (graph 3 on page 5). Germany's annualized growth in real GDP reached 0.3% this summer. This weak growth is still better than the 1.0% pullback in the spring. That said, the German economy is not yet out of the woods. Industrial output recorded another major setback in October and the German PMI manufacturing index remains extremely low at 43.4. France is sitting in a more enviable position. Since early 2018, the growth in the French economy has been more than twice as strong (+2.1%) as that of the German economy (+0.9%).

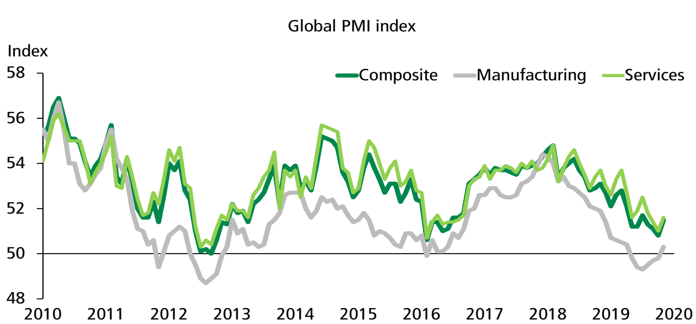
In general, international and domestic trade within the euro zone were down. Clearly, this is a reflection of the difficulties that Germany and Italy are experiencing in addition to the slowdown in the other countries. The uncertainty caused by Brexit is also a factor. Another factor was the trade tensions between the United States and the European Union, which ratcheted up

GRAPH 1
The major economies have grown the most slowly since 2013



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

GRAPH 2
The global PMI manufacturing index is back above the 50 mark



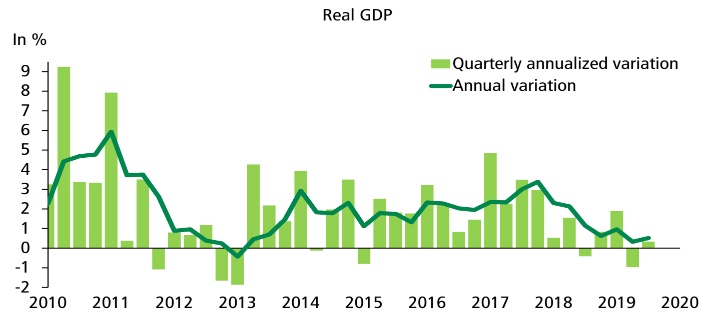
Sources: IHS/Markit, Datastream and Desjardins, Economic Studies this fall with the introduction of U.S. tariffs on $7.5B worth of European goods in retaliation for the preferential treatment accorded to Airbus. President Donald Trump also threatened to impose tariffs of 100% on some French goods. However, the United States did not go ahead and impose tariffs on European cars, much to Germany's relief.

After an annualized drop of 0.9% in real GDP in the second quarter, the British economy avoided a recession, gaining 1.2% in the summer. Still, the monthly GDP results point to a degree of weakness in the fall (graph 4). Without a doubt, this is linked to the uncertainty surrounding Brexit. In that regard, Boris Johnson's gamble was generously rewarded with a majority government following the December 12 election. He now has the latitude to have parliament pass his agreement with the European Union and make Brexit official on January 31, 2020. This new state of affairs clearly rules out a divorce with no agreement, yet it does not completely set aside the risk of a Hard Brexit. The British and the European Union will have until December 31, 2020, to reach a free trade agreement, i.e., until the end of the transition period set out in the agreement. The scope —still unknown—of this free trade agreement will really determine what Brexit's impact on the economy will be. Therefore, a level of uncertainty threatens to remain in 2020, and a modest contraction of the British economy could occur in early 2021.

Real GDP growth in Japan was just 1.8% (annualized) in the third quarter. Taking into account the increase in the consumption tax introduced on October 1, GDP should display a major pullback in the last quarter of this year. The impact is already visible, with retail sales plunging 14.2% in October. The situation is expected to stabilize in 2020, especially as the Japanese government has announced stimulus measures.

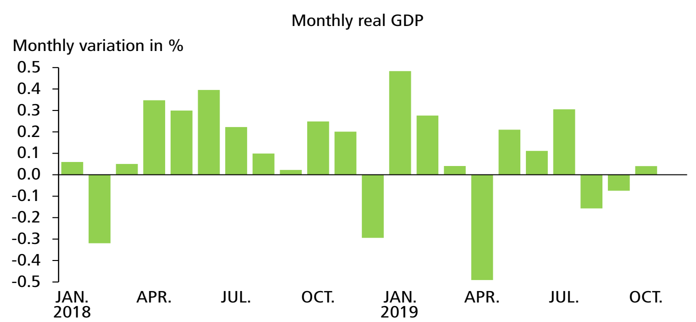
China's economy is still showing signs of slowing. The 6.1% annual variation in real GDP in the third quarter is the slowest noted since 1992, when this figure first began to be released (graph 5). Clearly, the trade war between China and the United States has played a part in this slowdown. The phase one agreement reached between these two countries should soften the negative impact of this dispute, especially given that the U.S. tariffs scheduled for December 15 will not be introduced. Still, the fact that the 25% tariffs rolled out in May 2019 on US$250B worth of Chinese goods remain in place and that those introduced in September (15% on US$120B worth of goods) were only cut in half has reduced the possibility of a real rebound of the Chinese economy.

GRAPH 3
In Germany, growth remains slow, but there is no technical recession



Sources: Federal Statiscal Office and Desjardins, Economic Studies

GRAPH 4
British monthly GDP fell in August and September and remained weak in October



Sources: Office for National Statistics and Desjardins, Economic Studies

GRAPH 5
Chinese growth slowed to below the 2008 rate

Sources: National Bureau of Statistics and Desjardins, Economic Studies

United States

Growth Remains Steady

FORECASTS

Growth remains stable in the United States, with real GDP up 2.1% (annualized) in the third quarter after rising 2.0% in the spring. A similar increase is expected in late 2019. Household consumption is holding up, and the job market remains strong. There has nevertheless been a decrease in business investment, which has undoubtedly been affected by the trade uncertainty. The new trade agreement between China and the United States should help in this regard but will not solve all of the problems. Although, it makes it possible to slightly lift the growth scenario for 2020 and 2021.

Real GDP growth in the third quarter of 2019 provides insight into the various tensions that are plaguing the U.S. economy (graph 6). For one thing, we can see fairly strong growth in consumption, with an annualized gain of 2.9%. That said, business investment shrank 2.7%, with the biggest declines in non-residential construction and equipment investments. We also note the negative contributions of net exports and variation in business inventories. These developments should continue for the most part in 2020.

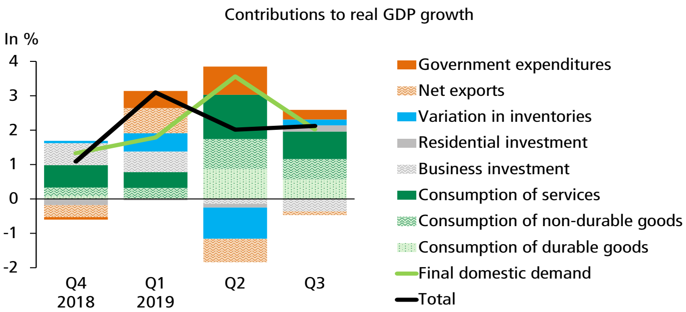
While fears of a recession increased during the year, the 2.1% in annualized growth in the third quarter signals that the U.S. economy is clearly not contracting. A variety of indicators used by the National Bureau of Economic Research to date the economic cycles confirm this. Of the four main indicators that are monitored, only industrial output has been trending downward, following its recent high in December 2018. Employment, real sales and income continue to trend positively.

However, other indicators are not as convincing. This is true of the Conference Board's leading indicator, which has just seen three consecutive months of decline, suggesting a more pronounced slowdown in real GDP. The ISM indexes are also painting a gloomier picture of the situation. The ISM manufacturing index has been stuck below 50 since August. The ISM non-manufacturing index remains higher, but it is trending downward, and the combination of the two indexes points to lower growth for the U.S. economy (graph 7).

The low ISM indexes reflect the sense of unease that is visible among U.S. businesses, especially those associated with the manufacturing sector. It is clearly being adversely affected by the trade war between China and the United States, but also by the widespread weakness in the economy and global trade. These tensions are causing the business uncertainty to climb. Businesses have responded by cutting back on their investments in the last two quarters. This could persist in the short term until the positive impact of the new Sino-U.S. trade agreement makes itself felt.

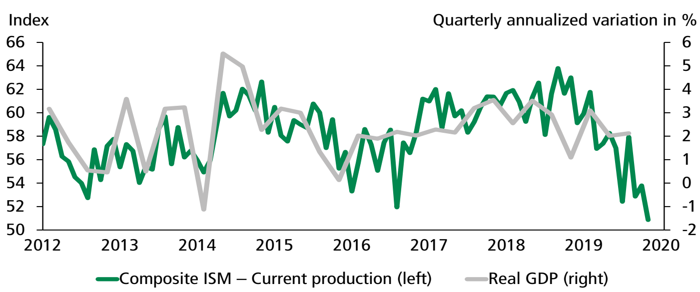
This initial agreement should reassure businesses, households and the markets a little. It will help avoid the 15% tariff increase on US$160B worth of goods that had been announced for December 15, and it cuts the tariffs rolled out on September 1 from 15% to 7.5% on US$120B worth of goods. Still, the 25% tariffs slapped on US$250B worth of goods last May remain in

GRAPH 6
Consumption is contributing significantly to U.S. real GDP growth, but investment has declined



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 7
The ISM indexes are signalling a slowdown of real GDP in the United States



Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies place. Some elements of the agreement will present a major challenge, especially with respect to the US$200B minimum hike (compared to the 2017 level) on Chinese imports of U.S. goods and services over the next two years (graph 8). Some of the uncertainty could therefore persist, especially if the goals of the agreement prove difficult to reach or the phase two negotiations are difficult and drawn out. And then there are the trade tensions with the European Union and the weakening of the World Trade Organization.

GRAPH 8
The hike in Chinese imports of U.S. goods under the trade agreement is very ambitious

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Businesses cut their investments in 2019, but hiring remains a positive factor for households. In fact, there were 266,000 hires in November, and the unemployment rate fell back to its recent low of 3.5%, its lowest rate since 1969. Most of the consumer confidence indexes have declined since the summer, but the drop is limited and confidence levels are still high. Nonetheless, the expectation is that household spending will rise a little more slowly in 2020.

One of the positive factors for the U.S. economy has been the housing market's response to the interest rate cuts. Residential real estate experienced difficulties in 2018 under the weight of the rate hikes, but the bond market's turnaround and the Federal Reserve's key rate cuts have brought back a positive trend for home sales and housing starts. Last summer, residential investment saw its first quarterly increase since 2017. The quarters ahead should continue to be positive.

TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2019		2020				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2018	2019f	2020f	2021f
Real GDP (2012 US$)	**2.1**	**1.8**	**1.7**	**1.8**	**1.9**	**1.6**	**2.9**	**2.3**	**1.8**	**1.5**
Personal consumption expenditures	2.9	2.2	1.9	2.1	2.0	1.7	3.0	2.6	2.3	1.5
Residential construction	5.1	9.6	7.0	3.4	-0.8	-1.9	-1.5	-1.3	4.3	-0.7
Business fixed investment	-2.7	-0.9	1.9	2.1	3.2	2.1	6.4	2.1	0.8	2.5
Inventory change (US$B)	79.8	55.0	40.0	20.0	10.0	5.0	48.1	80.0	18.7	1.2
Public expenditures	1.6	1.1	1.7	1.9	1.8	1.7	1.7	2.2	1.8	1.6
Exports	0.9	-0.7	2.0	3.0	2.5	3.0	3.0	-0.2	1.2	2.7
Imports	1.5	-3.0	2.2	2.5	2.0	2.5	4.4	1.3	1.0	2.3
Final domestic demand	2.0	1.8	2.0	2.1	2.0	1.6	3.0	2.3	2.1	1.6
Other indicators										
Nominal GDP	3.8	3.6	3.8	3.3	4.2	3.6	5.4	4.1	3.7	3.4
Real disposable personal income	2.9	2.2	2.4	3.0	1.5	2.3	4.0	3.0	2.4	2.0
Employment according to establishments	1.4	1.6	1.3	1.6	0.7	1.0	1.7	1.6	1.3	0.9
Unemployment rate (%)	3.6	3.5	3.6	3.5	3.5	3.6	3.9	3.7	3.5	3.8
Housing starts[1] (thousands of units)	1,282	1,358	1,367	1,367	1,337	1,322	1,250	1,277	1,348	1,305
Corporate profits*[2]	-0.8	0.5	4.5	2.0	1.0	1.0	3.4	-0.3	2.1	1.1
Personal saving rate (%)	7.9	7.8	8.0	8.2	8.1	8.3	7.7	8.0	8.2	8.7
Total inflation rate*	1.8	2.1	2.2	1.6	1.7	1.3	2.4	1.8	1.7	1.4
Core inflation rate*[3]	2.3	2.3	2.2	2.1	1.9	1.9	2.1	2.2	2.0	1.8
Current account balance (US$B)	-517	-505	-508	-508	-508	-508	-491	-520	-508	-510

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

Canada

Despite Stronger Domestic Demand, a Number of Problems Remain

FORECASTS

Except for the second quarter, which ended with real GDP rising 3.5% (annualized), the Canadian economy has grown rather modestly since the end of 2018. The third quarter of 2019 was no exception to the rule, with a gain of merely 1.3%. Despite the continuation of a number of favourable factors, such as the hike in consumer spending and the pickup in the housing market, the Canadian economy will still have to contend with some challenges in the quarters ahead. Moreover, the harmful effects of the trade disputes will still be felt despite encouraging developments, international demand will be weaker, and the difficulties in the oil industry will persist. Under these circumstances, the rise in real GDP will remain moderate in the coming quarters. Consequently, 2019 could end with a 1.7% gain followed by a 1.6% increase in 2020 and a mere 1.3% rise in 2021, as the effects of the global economic slowdown are felt even more.

As forecast, the growth in the Canadian economy slowed during the summer, falling from 3.5% (annualized) in the second quarter to only 1.3% in the third. This lacklustre result is nevertheless hiding some good news: the 3.2% uptick in domestic demand. Household consumption spending and government expenditures continued to climb, while the rebound in residential investment intensified. Non-residential investment by businesses also grew during the quarter, a surprising result given the ongoing trade tensions and low business confidence (graph 9). However, these solid results were partially wiped out by a deteriorating trade balance and a major negative contribution due to inventory variations.

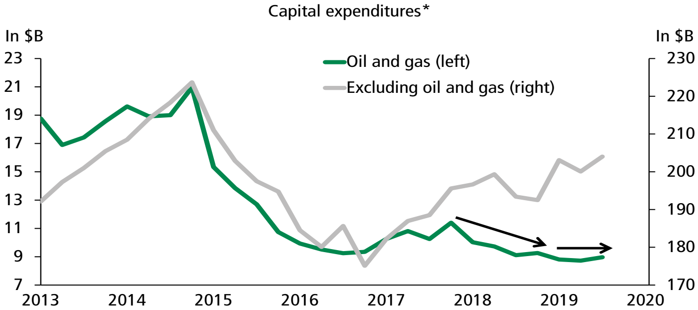
From a sectoral point of view, the mining and oil and gas extraction industry played a decisive role in the third-quarter results (graph 10). According to our estimates, it sliced roughly 1% off the annualized quarterly growth in real GDP. The upcoming quarters are likely to remain difficult. Moreover, oil output could be subject to the negative impact of the closing of the Keystone pipeline in North Dakota from the end of October to November 11 as a result of a leak.

Generally, although the recent developments between China and the United States are encouraging, the rise in foreign demand will be weaker in the coming quarters. That said, the Canada–United States–Mexico Agreement (CUSMA) should in all likelihood be ratified soon, which will help ease uncertainty among businesses. Some businesses could end up increasing their investments, especially given the current labour shortage.

That said, the Canadian economy will still be able to rely on a number of positive factors in the quarters ahead. Household consumer spending will continue to be underpinned by a healthy labour market while the unemployment rate remains near a historic low. Rapidly rising wages are also impacting household disposable income (graph 11 on page 9), which will also benefit from the small decrease in federal taxes beginning in 2020. Additionally, the housing market is expected to remain strong in 2020. Not only will interest rates stay low, but demand will remain strong owing to favourable demographics, a low unemployment rate and a sustained rise in household income.

GRAPH 9

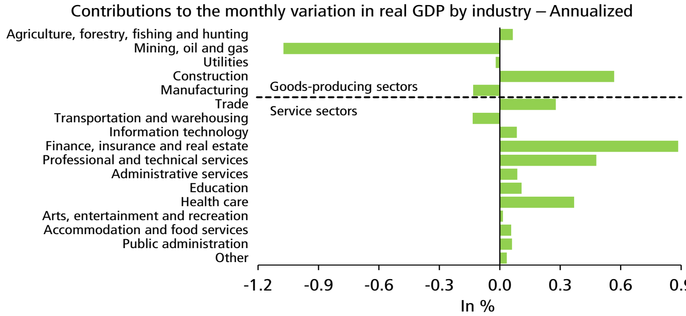
Investments are increasing in Canada excluding in the oil and gas sectors



* Non-residential structures, and machinery and equipment.
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 10

The mining, oil and gas sector slowed the Canadian economy in the third quarter



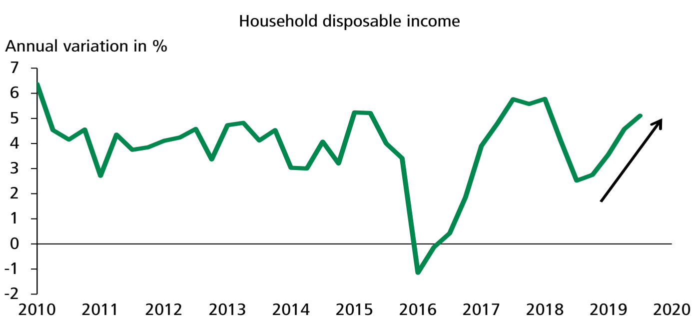
Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 4
Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2019 Q3	2019 Q4f	2020 Q1f	2020 Q2f	2020 Q3f	2020 Q4f	ANNUAL AVERAGE 2018	2019f	2020f	2021f
Real GDP (2012 $)	**1.3**	**1.7**	**1.5**	**1.6**	**1.3**	**1.1**	**2.0**	**1.7**	**1.6**	**1.3**
Final consumption expenditure [of which:]	1.4	1.8	1.8	1.7	1.6	1.4	2.4	1.8	1.7	1.6
Household consumption expenditure	*1.6*	*1.6*	*1.7*	*1.6*	*1.3*	*0.9*	*2.2*	*1.6*	*1.5*	*1.3*
Governments consumption expenditure	*0.8*	*2.5*	*2.0*	*2.0*	*2.5*	*2.5*	*3.0*	*2.3*	*2.1*	*2.3*
Gross fixed capital formation [of which:]	9.9	1.6	2.0	1.7	2.1	1.9	1.2	-0.2	2.6	1.6
Residential structures	*13.3*	*3.2*	*3.0*	*2.2*	*2.2*	*1.6*	*-1.6*	*-0.5*	*4.1*	*1.7*
Non-residential structures	*11.1*	*0.0*	*0.5*	*1.0*	*2.0*	*1.0*	*-0.6*	*1.0*	*2.2*	*0.9*
Machinery and equipment	*7.0*	*0.0*	*0.5*	*1.5*	*2.5*	*3.5*	*4.7*	*0.9*	*0.2*	*1.8*
Intellectual property products	*6.0*	*2.5*	*3.5*	*3.5*	*3.0*	*2.0*	*3.9*	*-3.9*	*3.6*	*2.2*
Governments gross fixed capital formation	*6.9*	*2.0*	*3.0*	*1.0*	*1.5*	*2.0*	*5.2*	*-0.5*	*2.0*	*2.0*
Investment in inventories (2012 $B)	4.2	5.2	4.7	5.7	5.2	5.2	13.0	10.7	5.2	5.1
Exports	-1.5	0.8	1.7	2.0	1.0	0.5	3.1	2.0	1.7	1.2
Imports	0.1	1.5	2.6	2.8	2.0	1.5	2.6	0.6	1.6	2.1
Final domestic demand	3.2	1.8	1.9	1.7	1.7	1.5	2.1	1.4	1.8	1.6
Other indicators										
Nominal GDP	1.6	2.2	3.2	3.6	2.5	2.1	3.9	3.5	3.1	2.6
Real disposable personal income	2.7	2.0	3.0	1.8	1.5	1.2	2.0	2.8	2.3	1.7
Employment	1.2	0.6	0.7	1.4	1.2	1.0	1.3	2.1	1.1	0.6
Unemployment rate (%)	5.6	5.7	5.8	5.5	5.7	5.7	5.8	5.7	5.7	6.1
Housing starts[1] (thousands of units)	223	206	217	219	222	224	213	210	220	192
Corporate profits*[2]	-5.6	-1.5	0.0	0.0	8.0	3.0	2.5	-1.8	2.7	1.7
Personal saving rate (%)	3.2	3.3	3.6	3.6	3.7	3.8	1.8	2.9	3.7	4.1
Total inflation rate*	1.9	2.0	1.9	1.5	1.6	1.8	2.3	1.9	1.7	1.4
Core inflation rate*[3]	2.2	1.8	1.6	1.6	1.4	1.7	1.9	2.0	1.6	1.8
Current account balance ($B)	-10	-11	-10	-9	-8	-7	-55	-44	-34	-30

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

GRAPH 11
Household income growth in Canada is accelerating



Sources: Statistics Canada and Desjardins, Economic Studies

In the end, the growth in real GDP is expected to maintain a moderate pace in the quarters ahead. Although a number of positive factors will be in place, the Canadian economy will inevitably be affected by the ongoing global trade tensions, the persistent difficulties in the oil and gas industry and less rapid growth in foreign demand. Moreover, the hike in real GDP should be lower in 2021 as the harmful effects of the anticipated slowdown in the global economy really hit home.

Quebec

The Pace of the Economy Has Been Holding until Now

FORECASTS

Quebec has been experiencing a fairly exceptional surge, with real GDP growth sitting at 2.5% to 3.0% for the last three years. The strength of the domestic market has helped maintain the pace, even though Quebec's international exports fell in 2019. The persisting difficulties worldwide and an increasingly sluggish U.S. economy will have negative consequences for exports and investments by Quebec businesses. Therefore, real GDP will rise more slowly: 1.7% in 2020, and then 1.2% in 2021.

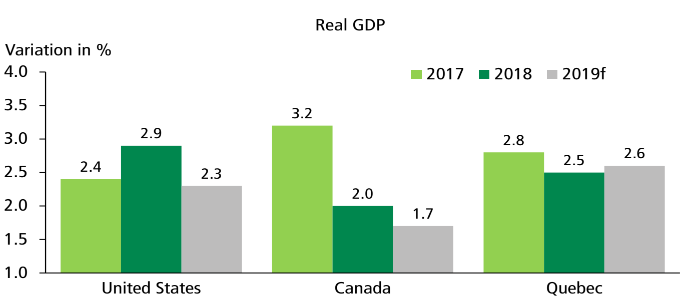
The pace of the Quebec economy, in contrast to that of the United States and Canada, did not slow in 2019 (graph 12). Growth even significantly outpaced that of the other provinces. The gain in real GDP in Quebec is on its way to hitting 2.6% in 2019, far ahead of Ontario's, British Columbia's and the national average, which will advance less than 2%. Quebec stands out due to the stronger contribution on the part of households: the residential housing market continues to grow, and consumer spending is moving along at a solid clip. Moreover, Quebecers' confidence is sitting at a significantly higher level than that of other Canadians (graph 13).

The significant improvement in the labour market in recent years has made the difference. Job creation was almost twice as fast in 2019 as in the previous year, with roughly 70,000 additional workers on average. The unemployment rate—approximately 5% for 2019 as a whole—even hit its lowest level in 50 years (graph 14).

Aside from gains in employment, demographic trends will continue to bring the unemployment rate down. The number of working-age people is hardly rising and does not meet the labour needs during this time of strong economic growth. However, the increase in real GDP, like the rise in employment, should be less sustained starting next year. The unemployment rate will also decline more slowly.

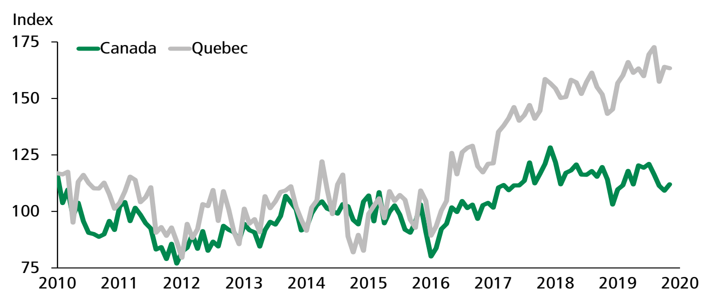
Although it is the buoyancy of residential real estate in Montreal that regularly makes the headlines, the surge is occurring throughout the province. Sales of existing properties are on track to hit a new high this year. The average price will increase

GRAPH 12
The economic slowdown in North America has not yet hit Quebec



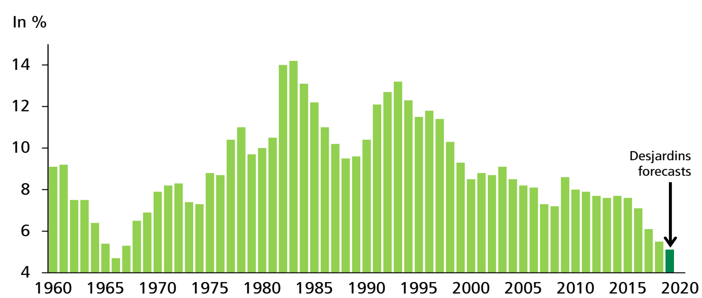
f: Desjardins forecasts
Sources: U.S. Bureau of Economic Analysis, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 13
Household confidence is up significantly in Quebec



Sources: Conference Board of Canada and Desjardins, Economic Studies

GRAPH 14
Unemployment rate in Quebec is at its lowest point since the 1960s



Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 5
Quebec: Major economic indicators

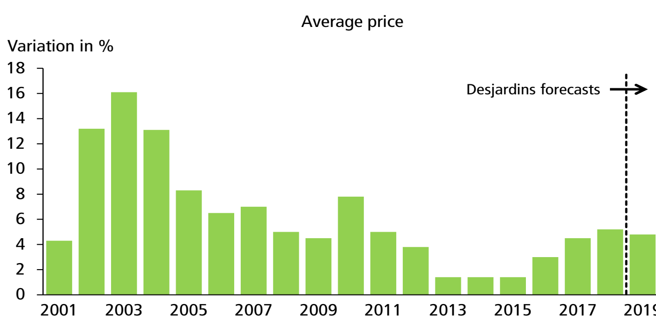
ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019f	2020f	2021f
Real GDP (2012 $)	**2.8**	**2.5**	**2.6**	**1.7**	**1.2**
Final consumption expenditure [of which:]	2.9	2.3	2.3	1.9	1.6
Household consumption expenditure	*3.3*	*2.2*	*2.0*	*1.7*	*1.2*
Governments consumption expenditure	*2.3*	*2.5*	*3.0*	*2.5*	*2.5*
Gross fixed capital formation [of which:]	7.5	3.5	2.5	0.9	-2.1
Residential structures	*7.3*	*4.0*	*3.8*	*0.5*	*-5.2*
Non-residential structures	*1.1*	*-0.9*	*-1.0*	*0.8*	*-2.0*
Machinery and equipment	*19.0*	*-1.6*	*1.3*	*0.1*	*-2.3*
Intellectual property products	*3.7*	*4.6*	*3.8*	*1.5*	*1.2*
Governments gross fixed capital formation	*8.2*	*9.4*	*3.5*	*2.0*	*1.5*
Investment in inventories (2012 $B)	4,986	2,780	3,000	2,500	1,000
Exports	0.8	4.2	1.3	0.7	0.1
Imports	6.0	2.8	0.5	0.5	-0.5
Final domestic demand	3.8	2.5	2.3	1.7	0.9
Other indicators					
Nominal GDP	5.0	4.8	4.9	3.8	3.2
Real disposable personal income	4.3	2.8	2.7	2.1	1.7
Weekly earnings	2.8	3.2	3.1	3.2	2.7
Employment	2.2	0.9	1.7	0.9	0.5
Unemployment rate (%)	6.1	5.5	5.1	4.7	5.0
Personal saving rate (%)	5.7	6.2	6.5	6.6	6.1
Retail sales	5.5	2.9	2.2	1.8	1.0
Housing starts[1] (thousands of units)	46.5	46.9	50.0	47.0	38.0
Total inflation rate	1.0	1.7	2.0	1.6	1.4

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

roughly 5% for the third year in a row (graph 15). The growth in the residential market should continue next year because international concerns will extend the period of low interest rates. Still, the improvement will be more modest than in 2019 owing to the economic slowdown and slower job creation. The number of sales in Quebec could rise 5% in 2020 compared to roughly 10% in 2019. Average price increases may top out at 3.0% next year.

International exports from Quebec were impacted by the slowdown in international trade in 2019. The U.S. tariffs on steel and aluminum, which were eliminated in May, as well as the complete closure of the Chinese market to Canadian meat from the end of June to early November, also threw a wrench into the works. Shipments abroad from Quebec fell during the year, but exports to the rest of Canada increased roughly 3% in 2019. Overall, total exports from Quebec grew slightly. Growth should slow in 2020 and 2021 as U.S. demand runs out of steam and that of other countries continues to drop. Shipments to the other provinces will rise, but more slowly.

GRAPH 15
More moderate rise in Quebec's residential property prices in 2020



Sources: Quebec Professional Association of Real Estate Brokers through the Centris system and Desjardins, Economic Studies

Ontario and Other Provinces

Slower Growth Is Expected to Affect Most of the Provinces

FORECASTS

Despite some positive elements, such as the return to an upward trend in the housing market, economic growth was weaker in most provinces in 2019. Moreover, global uncertainty, the difficulties in the energy sector, and the auto industry's recurring difficulties are all being felt. Real GDP growth is expected to continue to slow in 2020 and 2021 in most provinces as the harmful effects of lower international demand will be even more evident. Still, Alberta and Saskatchewan could benefit from a slight improvement starting in 2020 thanks to the positive fallout from the expansion of a pipeline.

ONTARIO

The rebound in the housing market is continuing in Ontario, with existing property sales and average prices both up. It must be said that conditions are very favourable thanks to a strong labour market and low interest rates. Additionally, demand is very strong in Ontario, as shown by the 3.7% annual variation in the population aged 25 to 34 (which is usually an indicator of new households formed). This is a significantly higher demographic gain than that of nearly all of the other provinces (graph 16). Therefore, there is every indication that economic growth in Ontario will continue to benefit from a major contribution by the housing market in the quarters ahead. The strong rise in employment and wages, as well as low interest rates, will also stoke the upward trend in consumer spending.

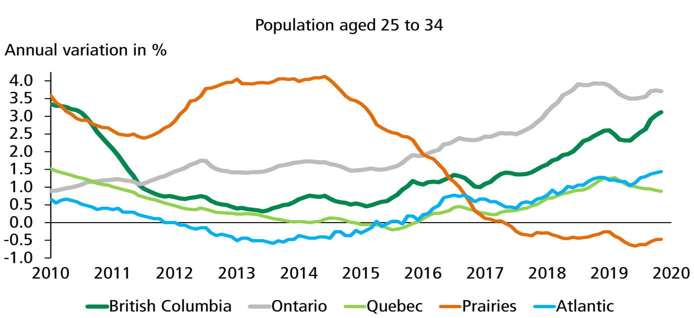
Although trade tensions around the world remain high in spite of the encouraging development between the United States and China, the province should enjoy an easing of the uncertainty associated with the imminent ratification of the Canada–United States–Mexico Agreement (CUSMA). That said, the auto industry's challenges remain very real and will continue to hamper the province's manufacturing sector. Furthermore, international trade will inevitably be affected by the anticipated slowdown in global economic growth, in 2021 in particular. Under these circumstances, gains in real GDP in Ontario should gradually slow to reach 1.8% in 2019, 1.6% in 2020 and only 1.3% in 2021.

WESTERN PROVINCES

Economic growth in Alberta is still hampered by the troubles of the oil and gas sector (graph 17). The growth in the province's real GDP should therefore remain below the national average for 2019 to 2021. These problems are having an effect on the province's public finances in particular, with significant budget deficits forecast for the fiscal years ahead. The start of construction on the Trans Mountain pipeline expansion should however be good for the province over time. This will not only raise non-residential investments, but also increase the capacity to ship oil once the project has been completed

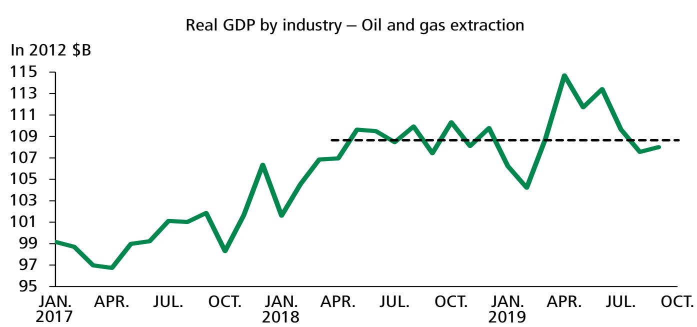
In Saskatchewan and Manitoba, the trend for real GDP is also expected to remain below the Canadian average in the coming years. Moreover, the natural resources sectors are experiencing

GRAPH 16
The growth of new households is especially high in Ontario



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 17
Canada's oil and gas industry growth is anemic

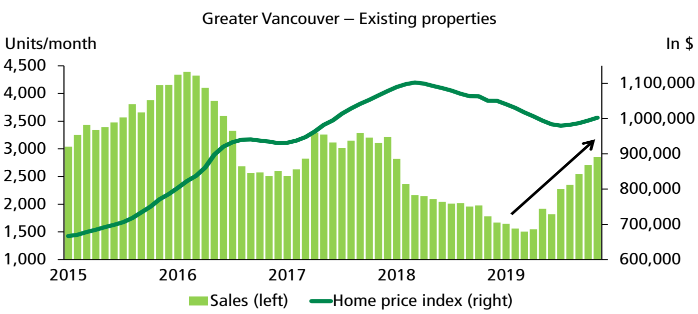


Sources: Statistics Canada and Desjardins, Economic Studies

difficulties and the recent upturn in the agriculture industry seems to be running out of steam.

In British Columbia, real GDP growth should continue to surpass the average for the provinces as a whole in the coming years. For one thing, the housing market is likely to continue its ascent thanks to a number of favourable factors (graph 18). At the same time, non-residential investments will swell through some major, large-scale projects, such as the liquefied natural gas terminal and the Trans Mountain pipeline expansion.

GRAPH 18
The Vancouver real estate market has resumed an upward trend



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

ATLANTIC PROVINCES

After a 3.5% drop in real GDP in 2018, Newfoundland and Labrador's economy should return to positive territory starting in 2019. Moreover, the energy sector is on the upswing thanks to increased output at the Hebron oil field. Any gains in real GDP in the Maritime provinces should remain below the national average due to less than favourable fundamentals. Nonetheless, Nova Scotia could enjoy faster growth starting in 2021 when a liquefied natural gas development project will be launched.

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019f	2020f	2021f
Real GDP (2012 $)	**2.9**	**2.2**	**1.8**	**1.6**	**1.3**
Final consumption expenditure [of which:]	3.5	2.8	2.1	2.1	1.9
Household consumption expenditure	*4.1*	*2.5*	*2.1*	*2.1*	*1.7*
Governments consumption expenditure	*2.0*	*3.7*	*2.1*	*2.2*	*2.2*
Gross fixed capital formation [of which:]	4.4	2.0	-1.7	1.8	1.4
Residential structures	*0.6*	*-3.3*	*-3.0*	*2.7*	*1.2*
Non-residential structures	*3.2*	*1.0*	*-3.8*	*1.7*	*1.3*
Machinery and equipment	*13.9*	*11.5*	*-0.4*	*-0.7*	*1.2*
Intellectual property products	*1.9*	*2.9*	*1.8*	*2.7*	*1.6*
Governments gross fixed capital formation	*7.9*	*6.2*	*0.0*	*1.9*	*2.0*
Investment in inventories (2012 $B)	7,306	7,424	5,500	500	250
Exports	0.4	0.9	2.8	2.0	0.7
Imports	3.1	1.6	1.2	1.6	1.5
Final domestic demand	3.7	2.6	1.3	2.0	1.8
Other indicators					
Nominal GDP	4.6	3.7	4.0	3.7	2.7
Real disposable personal income	3.5	2.8	2.0	2.3	2.0
Weekly earnings	1.9	2.9	2.4	2.3	2.3
Employment	1.8	1.6	2.8	1.5	0.7
Unemployment rate (%)	6.0	5.6	5.6	5.5	6.2
Personal saving rate (%)	-0.6	-0.6	0.1	0.3	0.5
Retail sales	7.7	4.4	2.9	2.6	2.2
Housing starts[1] (thousands of units)	79.1	78.7	70.3	79.8	68.0
Total inflation rate*	1.7	2.4	1.8	1.6	1.5

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

TABLE 7
Canada: Major economic indicators by provinces

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019f	2020f	2021f
Real GDP growth – Canada	**3.2**	**2.0**	**1.7**	**1.6**	**1.3**
Atlantic	1.6	-0.1	1.5	0.9	1.0
Quebec	2.8	2.5	2.6	1.7	1.2
Ontario	2.9	2.2	1.8	1.6	1.3
Manitoba	3.1	1.3	1.2	1.4	1.2
Saskatchewan	1.7	1.3	0.7	1.4	1.3
Alberta	4.8	1.6	0.7	1.5	1.2
British Columbia	3.7	2.6	1.8	1.8	1.6
Total inflation rate – Canada	**1.6**	**2.3**	**1.9**	**1.7**	**1.4**
Atlantic	1.9	2.0	1.4	1.5	1.3
Quebec	1.0	1.7	2.0	1.6	1.4
Ontario	1.7	2.4	1.8	1.6	1.5
Manitoba	1.6	2.5	2.2	1.7	1.4
Saskatchewan	1.7	2.3	1.8	1.7	1.5
Alberta	1.6	2.4	1.7	1.8	1.5
British Columbia	2.1	2.7	2.3	2.0	1.7
Employment growth – Canada	**1.9**	**1.3**	**2.1**	**1.1**	**0.6**
Atlantic	-0.2	1.0	1.6	0.7	0.5
Quebec	2.2	0.9	1.7	0.9	0.5
Ontario	1.8	1.6	2.8	1.5	0.7
Manitoba	1.7	0.6	0.9	0.6	0.5
Saskatchewan	-0.2	0.4	1.7	0.6	0.5
Alberta	1.0	1.9	0.5	0.9	0.8
British Columbia	3.7	1.1	2.7	1.4	1.0
Unemployment rate – Canada	**6.3**	**5.8**	**5.7**	**5.7**	**6.1**
Atlantic	9.7	9.1	8.6	8.8	9.3
Quebec	6.1	5.5	5.1	4.7	5.0
Ontario	6.0	5.6	5.6	5.5	6.2
Manitoba	5.4	6.0	5.4	5.5	6.0
Saskatchewan	6.3	6.1	5.4	5.6	6.0
Alberta	7.8	6.6	6.9	6.8	7.2
British Columbia	5.1	4.7	4.7	4.7	5.1
Retail sales growth – Canada	**7.1**	**2.9**	**1.8**	**2.5**	**2.1**
Atlantic	6.2	0.3	2.3	2.2	1.9
Quebec	5.5	2.9	2.2	1.8	1.0
Ontario	7.7	4.4	2.9	2.6	2.2
Manitoba	7.8	2.9	2.0	2.2	2.0
Saskatchewan	4.1	-0.3	0.0	2.5	2.2
Alberta	7.1	2.0	-0.5	2.6	2.8
British Columbia	9.3	2.0	0.8	3.2	2.9
Housing starts – Canada (thousands of units)	**219.8**	**212.8**	**209.9**	**220.4**	**192.3**
Atlantic	8.6	9.3	9.4	9.1	7.5
Quebec	46.5	46.9	50.0	47.0	38.0
Ontario	79.1	78.7	70.3	79.8	68.0
Manitoba	7.5	7.4	6.8	7.0	6.4
Saskatchewan	4.9	3.6	2.3	2.5	2.3
Alberta	29.5	26.1	26.0	28.0	27.9
British Columbia	43.7	40.9	45.0	47.0	42.2

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

Medium-Term Issues and Forecasts

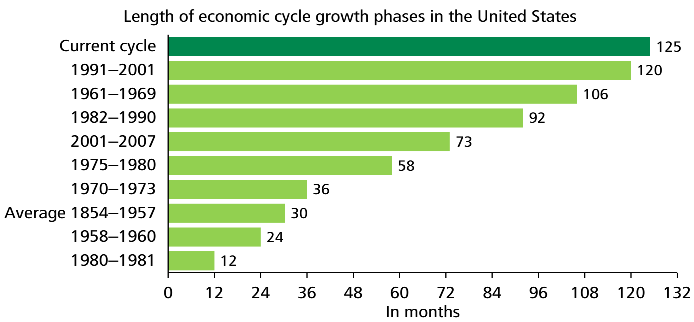
The Low Interest Rate Period Is Expected to Go On

Since the 2008–2009 financial crisis, interest rates have generally stayed low. There have been a few increases, in 2017 and 2018 in particular, but they proved to be both limited and fleeting. All indications are that this low interest rate period will continue in the short to medium term. Economic growth is not strong enough to accelerate inflation to the point where the central banks would have to quickly raise their key rates. In addition, numerous risks and structural problems are working towards keeping rates low.

Fears That the Cycle Will End Are Likely to Persist

Even if the trade tensions were to ease in the near future, fears of a more marked economic slowdown, or even the end of the cycle, threaten to persist in the years ahead. The current growth cycle will be the longest ever recorded in the United States (graph 19). Consequently, many investors are expected to have doubts that it can go on, even though cycles do not in fact die automatically of old age.

GRAPH 19
The current economic cycle is the longest ever recorded in the United States



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

It usually takes a shock to end an economic cycle. However, the fact remains that there is no shortage of reasons for concern that could lead to this kind of shock. The situation in Europe and some emerging countries continues to be a concern. For example, China was already showing signs of trouble before the trade war with the United States. Among other things, the country is facing problems due to overinvestment in some sectors, extremely high business debt loads, and issues with the profitability of its banking sector. In economies that are doing better, like Quebec's, the reduction in excess production capacity will inevitably limit growth. Business may also hesitate to invest owing to the challenge in hiring workers. Lastly, high debt levels continue to be a latent problem in a number of countries. Bond yields could quickly rebound and bring back fears about the housing market or the financial health of some households, businesses and governments.

Central Banks Were Caught off Guard

There are likely to be numerous reasons for the central banks to keep interest rates extremely low in the coming years. Some of them could even have difficulty providing additional stimulus to the economy if necessary. It appears that monetary policy may be reaching the limits of its effectiveness.

Europe and Japan are both good examples where the central banks appear to have little room to manoeuvre and are struggling to reach the official inflation targets. Negative interest rates are expected to remain a part of the European and Japanese financial landscapes for many years to come. However, not all are in favour of these negative rates, with the Bank of Sweden indicating its desire to end them. In exchange, it would rather maintain key rates near zero for an extended period of time. In either case, we will still find ourselves in a situation in which interest rates will stay very low.

A Neutral Rate That Is Constantly Revised Down

Even when the economy seems to standing on more solid ground, it would be surprising for the central banks to quickly come back with key rates near the levels reached in previous cycles. Renewed monetary tightening is expected to take shape in Canada and the United States in a few years, but this will probably be very gradual and extremely limited in scope.

The estimate for the neutral interest rate may be revised down even further, for a number of reasons. This is the theoretical interest rate which keep the economy at its full potential and inflation at its target. Structural problems such as high debt loads, but also lower productivity gains or demographic changes, suggest that neutral rates will not rise within our forecast horizon.

TABLE 8

Medium-term major economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE 2018	2019f	2020f	2021f	2022f	2023f	2024f	AVERAGES 2014–2018	2019–2024f
United States									
Real GDP (var. in %)	2.9	2.3	1.8	1.5	2.0	2.4	2.1	2.5	2.0
Total inflation rate (var. in %)	2.4	1.8	1.7	1.4	1.6	1.8	1.6	1.5	1.6
Unemployment rate	3.9	3.7	3.5	3.8	4.1	4.0	3.9	4.9	3.8
S&P 500 index (var. in %)[1]	-6.2	27.7	4.7	-6.7	8.0	7.0	7.0	6.7	7.9
Federal funds rate	1.90	2.30	1.75	1.35	1.25	1.55	2.25	0.80	1.74
Prime rate	4.90	5.30	4.75	4.35	4.25	4.55	5.25	3.80	4.74
Treasury bills – 3-month	1.97	2.10	1.65	1.20	1.15	1.50	2.15	0.66	1.63
Federal bonds – 10-year	2.91	2.15	1.95	1.45	1.70	2.20	2.65	2.35	2.02
– 30-year	3.11	2.60	2.35	1.95	2.15	2.55	2.90	2.96	2.42
WTI oil (US$/barrel)	65	57	53	46	52	55	56	60	53
Gold (US$/ounce)	1,269	1,392	1,365	1,360	1,335	1,270	1,260	1,240	1,330
Canada									
Real GDP (var. in %)	2.0	1.7	1.6	1.3	1.7	2.1	1.9	1.9	1.7
Total inflation rate (var. in %)	2.3	1.9	1.7	1.4	1.6	1.8	2.0	1.7	1.7
Employment (var. in %)	1.3	2.1	1.1	0.6	1.2	1.3	1.5	1.1	1.3
Employment (thousands)	241	389	192	113	234	251	304	193	247
Unemployment rate	5.8	5.7	5.7	6.1	6.0	5.8	5.6	6.6	5.8
Housing starts (thousands of units)	213	210	220	192	198	205	215	203	207
S&P/TSX index (var. in %)[1]	-11.6	19.4	5.3	-7.8	9.0	8.0	7.0	1.6	6.8
Exchange rate (US$/C$)	0.77	0.75	0.77	0.75	0.77	0.78	0.80	0.80	0.77
Overnight funds	1.40	1.75	1.75	1.45	1.25	1.30	1.80	0.85	1.55
Prime rate	3.61	3.95	3.95	3.65	3.45	3.50	4.00	3.00	3.75
Mortgage rate – 1-year	3.47	3.65	3.65	3.60	3.50	3.50	3.85	3.18	3.63
– 5-year	5.26	5.25	5.20	5.05	4.95	5.00	5.30	4.85	5.13
Treasury bills – 3-month	1.37	1.65	1.70	1.35	1.20	1.35	1.85	0.80	1.52
Federal bonds – 2-year	1.99	1.60	1.75	1.30	1.30	1.60	2.00	1.05	1.59
– 5-year	2.15	1.55	1.75	1.30	1.40	1.75	2.10	1.34	1.64
– 10-year	2.28	1.60	1.75	1.35	1.55	1.85	2.15	1.81	1.71
– 30-year	2.36	1.80	1.85	1.55	1.75	2.05	2.35	2.31	1.89
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.60	-0.45	0.05	0.15	0.05	-0.15	-0.30	0.13	-0.11
Federal bonds – 10-year	-0.63	-0.55	-0.20	-0.10	-0.15	-0.35	-0.50	-0.54	-0.31
– 30-year	-0.75	-0.80	-0.50	-0.40	-0.40	-0.50	-0.55	-0.65	-0.53
Quebec									
Real GDP (var. in %)	2.5	2.6	1.7	1.2	1.5	1.8	1.7	1.9	1.7
Total inflation rate (var. in %)	1.7	2.0	1.6	1.4	1.6	1.8	2.0	1.2	1.7
Employment (var. in %)	0.9	1.7	0.9	0.5	0.6	0.8	0.9	1.0	0.9
Employment (thousands)	39	70	40	20	25	35	40	40	38
Unemployment rate	5.5	5.1	4.7	5.0	4.7	4.5	4.2	6.8	4.7
Retail sales (var. in %)	2.9	2.2	1.8	1.0	1.8	2.5	2.7	3.9	2.0
Housing starts (thousands of units)	47	50	47	38	40	42	42	42	43
Ontario									
Real GDP (var. in %)	2.2	1.8	1.6	1.3	1.8	2.0	2.2	2.5	1.8
Total inflation rate (var. in %)	2.4	1.8	1.6	1.5	1.7	1.9	2.1	1.9	1.8
Employment (var. in %)	1.6	2.8	1.5	0.7	1.2	1.3	1.6	1.2	1.5
Employment (thousands)	114	203	133	52	92	100	125	84	118
Unemployment rate	5.6	5.6	5.5	6.2	6.0	5.8	5.5	6.4	5.8
Retail sales (var. in %)	4.4	2.9	2.6	2.2	3.0	3.5	4.0	6.0	3.0
Housing starts (thousands of units)	79	70	80	68	75	77	80	72	75

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