ECONOMIC & FINANCIAL OUTLOOK

The Economy Is Recovering, but Worries Persist…

HIGHLIGHTS

- The global economy was hard hit by COVID-19 and the measures instituted to curb the pandemic. That said, the worst of the crisis is over. As of May, numerous economic indicators started to climb quickly in tandem with the easing of the main lockdown measures in many countries.
- Global real GDP should decline 4.6% in 2020 and advance 5.1% in 2021. The risk is still focused on the possibility of a second wave, which would require public health measures to be reinstated, once again hobbling economic growth.
- In the United States, real GDP should rebound sharply in the third quarter. We then expect its pace to moderate; it will take time for both economic activity and employment to catch up completely. Over 2020 as a whole, real GDP should post a contraction of 4.2%, which should be followed by a 3.3% gain next year.
- In Canada, real GDP could grow about 10% (about 45% annualized) in the third quarter compared to the second. Canada's economic growth should then slow to a more moderate pace. All in all, as a whole, 2020 could end with a 5.5% decline in real GDP, followed by a 5.0% rebound in 2021.
- As of May, Quebec's economy bounced back quickly thanks to the gradual reopening of establishments that were closed during the lockdown. Some economic indicators are nearly back at pre-pandemic levels. However, real GDP should be slow to fully recover. After tumbling 6.1% this year because of last spring's dismal results, real GDP will rise 5.1% in 2021.
- Ontario was the last province to lift its lockdown, and has done so the most gradually, with the result that its economic recovery is more modulated than in the other provinces. Growth in Alberta and Saskatchewan will be sapped by weak oil industry investment.
- The potential for a further increase in North American bond yields seems low in the coming months, as uncertainty remains elevated and the Federal Reserve and Bank of Canada will continue to make massive bond purchases.
- The post-COVID-19 era should be characterized by major changes and the economy will feel the pandemic's effects over the medium term. Governments will have to cope with much higher debt. The central banks will struggle to raise key interest rates without putting the economy at risk, and it will be hard for them to normalize their balance sheets. Given the high level of government and central bank intervention, inflation pressure could intensify in the coming years. The large-scale adoption of teleworking, the acceleration of online commerce and the upheavals to the tourism industry are also consequences of the pandemic that could prove to be lasting (see "Medium-Term Issues and Forecasts" on page 15).

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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 TO OUR SCENARIOS

The evolving COVID-19 pandemic remains the main uncertainty surrounding the economic and financial outlooks. The risk is still focused on the possibility of a second wave, which would require public health measures to be reinstated, further hobbling economic growth. The adverse effects on corporate earnings and the stock markets would be more severe as a result, and the risk of a financial crisis would increase. There are other uncertainties as to what will happen after the pandemic. Some sectors could be affected by the current setbacks in consumption, production and trade for a long time to come. The long-term consequences of the budgetary and fiscal measures could also disrupt outlooks beyond this year. If they lead to a change of governance or, worse, a political crisis, the results of the U.S. election on November 3 could affect negatively or positively the scenarios. In the United Kingdom, Brexit and the negotiations for a trade agreement with the European Union are not still settled and they could come back to haunt the economy. In Canada, replacing the Canada Emergency Response Benefit (CERB) and Canada Emergency Student Benefit (CESB) with an Employment Insurance enhancement could trigger a sharper than anticipated decrease in some households' income, impacting the evolution of consumer spending. In addition, the cut in key interest rates to the effective lower bound could potentially heighten concerns over high household debt if rates remain low for too long. Similarly, the robust stimulus plans announced by governments could cast doubt on public finances and put upward pressure on bond yields, especially if the economic crisis persists. Some provinces, and their economies, could be more fragile with a second wave of COVID-19 cases.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2019	2020f	2021f	2019	2020f	2021f
Advanced economies	**37.8**	**1.6**	**-5.9**	**3.3**	**1.4**	**0.6**	**1.3**
United States	15.1	2.2	-4.2	3.3	1.8	1.1	1.7
Canada	1.3	1.7	-5.5	5.0	1.9	0.6	1.6
Quebec	*0.3*	*2.6*	*-6.1*	*5.1*	*2.1*	*0.8*	*2.0*
Ontario	*0.5*	*1.7*	*-5.2*	*4.9*	*1.9*	*0.6*	*1.7*
Japan	4.0	0.7	-4.8	3.1	0.5	-0.1	0.2
United Kingdom	2.2	1.5	-11.0	3.0	1.8	0.7	1.4
Euro zone	11.6	1.3	-7.9	4.3	1.2	0.4	1.1
Germany	*3.3*	*0.6*	*-5.4*	*3.2*	*1.4*	*0.5*	*1.6*
France	*2.2*	*1.5*	*-10.9*	*4.3*	*1.1*	*0.5*	*1.0*
Italy	*1.8*	*0.3*	*-10.2*	*3.9*	*0.6*	*0.0*	*0.5*
Other countries	3.9	1.1	-2.8	1.7	0.9	0.3	0.7
Australia	*0.9*	*1.8*	*-4.0*	*2.9*	*1.6*	*0.7*	*1.5*
Emerging and developing economies	**62.2**	**3.5**	**-3.9**	**6.1**	**3.8**	**3.0**	**3.1**
North Asia	27.6	5.3	-1.5	7.7	3.2	3.2	2.7
China	*18.6*	*6.1*	*1.1*	*7.9*	*2.9*	*2.7*	*2.0*
India	*7.7*	*4.2*	*-8.0*	*7.8*	*3.7*	*4.6*	*4.3*
South Asia	5.4	4.2	-3.8	5.6	1.9	0.9	2.1
Latin America	5.9	0.9	-8.0	4.7	3.5	2.5	3.1
Mexico	*1.8*	*-0.3*	*-9.0*	*4.4*	*3.6*	*3.5*	*3.4*
Brazil	*2.5*	*1.1*	*-7.5*	*4.0*	*3.8*	*2.0*	*3.2*
Eastern Europe	7.5	2.0	-5.3	4.5	6.6	5.4	5.1
Russia	*3.0*	*1.3*	*-6.0*	*3.6*	*4.5*	*3.7*	*3.6*
Other countries	15.9	1.6	-6.6	4.9	6.8	4.4	5.5
South Africa	*0.6*	*0.1*	*-8.1*	*3.4*	*4.1*	*3.2*	*4.0*
World	**100.0**	**2.9**	**-4.6**	**5.1**	**2.9**	**2.1**	**2.4**

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

FINANCIAL FORECASTS

Stock exchanges continued their spectacular comeback in August. Last month's 7% gain by the S&P 500 index was the fifth straight monthly gain following the correction that occurred in February and March. Commodity prices also continued to rebound rapidly, with the supply struggling to keep pace with the demand rebound in some cases. Volatility surged back into the markets in early September, however, with the stock markets and oil prices stumbling suddenly. This recent stock index pullback primarily seems to reflect profit taking following the spectacular gains posted in the last few months, particularly for technology securities. Long-term bond yields climbed somewhat in August, with the markets' inflation expectations rising. Note that the Federal Reserve (Fed) officially changed its monetary policy framework to signal it could tolerate higher inflation after a period of softness. Yet the potential for a further increase in North American bond yields seems very low in the coming months, as uncertainty remains elevated and the Fed and Bank of Canada will continue to make massive bond purchases. The Fed's determination to support the recovery continued to put downside pressure on the U.S. dollar, particularly against European currencies. The Canadian dollar also benefited, climbing back above US$0.75. However, we expect the greenback to tick up in the coming months as investors reassess the risks.

TABLE 2
Summary of the financial forecasts

	2019		2020				2021			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Federal bonds										
United States										
2-year	1.66	1.58	0.25	0.17	0.15	0.15	0.15	0.20	0.25	0.35
5-year	1.54	1.68	0.36	0.28	0.30	0.30	0.30	0.35	0.40	0.50
10-year	1.67	1.92	0.67	0.65	0.65	0.70	0.70	0.75	0.80	0.90
30-year	2.11	2.39	1.32	1.41	1.40	1.45	1.45	1.45	1.50	1.55
Canada										
2-year	1.58	1.69	0.42	0.28	0.30	0.30	0.30	0.30	0.35	0.40
5-year	1.40	1.68	0.60	0.36	0.40	0.40	0.40	0.40	0.45	0.50
10-year	1.37	1.70	0.71	0.52	0.60	0.65	0.65	0.70	0.75	0.80
30-year	1.53	1.76	1.32	0.99	1.15	1.15	1.15	1.15	1.20	1.25
Currency market										
Canadian dollar (USD/CAD)	1.32	1.30	1.41	1.36	1.32	1.34	1.33	1.32	1.31	1.30
Canadian dollar (CAD/USD)	0.76	0.77	0.71	0.74	0.76	0.75	0.75	0.76	0.77	0.77
Euro (EUR/USD)	1.09	1.12	1.10	1.12	1.18	1.16	1.17	1.18	1.19	1.20
British pound (GBP/USD)	1.23	1.32	1.24	1.24	1.29	1.27	1.28	1.30	1.32	1.34
Yen (USD/JPY)	108	109	108	108	105	105	106	107	109	110
Stock markets (level and growth)*										
United States – S&P 500	3,231		Target: 3,400 (+5.2%)				Target: 3,600 (+5.9%)			
Canada – S&P/TSX	17,063		Target: 17,000 (-0.4%)				Target: 18,500 (+8.8%)			
Commodities (annual average)										
WTI oil (US$/barrel)	57 (61*)		39 (42*)				47 (50*)			
Gold (US$/ounce)	1,393 (1,521*)		1,790 (1,900*)				1,835 (1,780*)			

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

Overseas

A Rapid Recovery… So Far

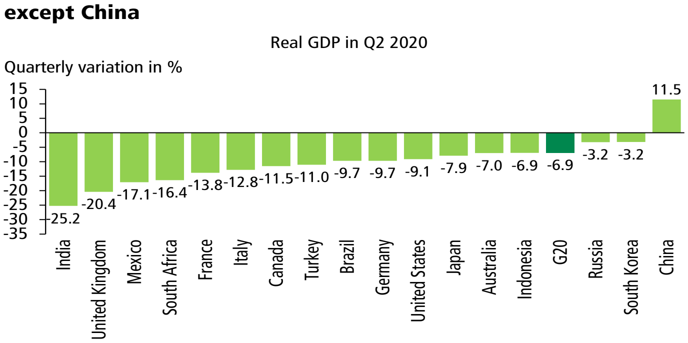
FORECASTS

After their GDPs tumbled last spring, most countries are seeing much better performances from their main economic indicators. In the euro zone, the uptrend that started in May persists, despite the new spike in COVID-19 cases; it should see strong GDP growth of near 10% (more than 45% annualized) in the third quarter compared to the second. A drop of 7.9% is forecast for the year as a whole, followed by a gain of 4.3% next year. The summer rebound was probably also very sharp in the United Kingdom. However, new public health restrictions have been introduced and the Brexit issue is once again looming over the political, economic and financial situation. China's economy continued its growth that began in the second quarter, but its real GDP should post a gain of only 1.1% for 2020 as a whole. In many other emerging nations, however, the economic and epidemiological situations are more challenging, particularly in South America and India. Overall, global real GDP should decline 4.6% in 2020 and advance 5.1% in 2021.

The global economy was hard hit by COVID-19 and the measures instituted to curb the epidemic. The G20 real GDP fell 6.9% (-24.9% annualized) in the second quarter compared to the first, the worst decline since data was first compiled. In 2009, the steepest quarterly pullback was -1.6% (-6.1% annualized). Moreover, the collapse was partially minimized by the Chinese economy's growth, which was already rebounding last spring. Without the Chinese growth, real GDP would have contracted 11.8% (-39.5% annualized) in the second quarter. The biggest declines came in India, the United Kingdom and Mexico (graph 1).

That said, the worst of the crisis is over. As of May, numerous economic indicators started to climb quickly in tandem with the easing of the main lockdown measures in many countries. The global composite PMI index, which went as low as 26.2 in April, is now at 52.4, its highest point since March 2019. Note also that world trade is strengthening after crumbling as of January, when COVID-19 started to impact Chinese production. The volume of global trade jumped 7.6% in June, after declining a total of 17.2% over five straight months. The shortfall remains substantial, but the situation is now on the right track.

GRAPH 1
All G20 nations saw their GDPs decline in the second quarter… except China



Sources: Datastream and Desjardins, Economic Studies

Note, however, that the risk is substantial, with a second wave of the pandemic emerging in many countries. It happened in the United States this summer, and it is now also happening in Western Europe: COVID-19 cases have risen again, particularly in Spain, France and the United Kingdom. Substantial accelerations are also occurring in Eastern Europe (Czech Republic, Hungary…). The uptrend remains steep in India, and new case numbers are still very high in South America. The COVID 19 fight is far from over, and the fallout for global economic activity levels will persist over the near term.

EURO ZONE

Euroland's economy contracted 11.8% (-39.4% annualized) in the second quarter compared to the first; the worst declines were recorded in Greece, Spain, Portugal and France. All components of Euroland's real GDP also plunged drastically. The easing of public health and lockdown measures as of May, however, allowed economic activity to accelerate. By June, Euroland's retail sales had completely wiped out all of the 21.2% tumble recorded in March and April. Industrial production still lags behind its pre-pandemic peak, but its 29.3% increase from May to July reflects the industrial sector's new uptrend. Note, however, that many indicators' most recent movements are weaker than those seen in the initial push. Retail sales even declined in July, as did August's Euroland PMI indexes (graph 2 on page 5). This means there are signs that Euroland's economy will tend toward slower growth after the summer jump is over, a situation that could be exacerbated by the spike in COVID-19 cases in several zone countries.

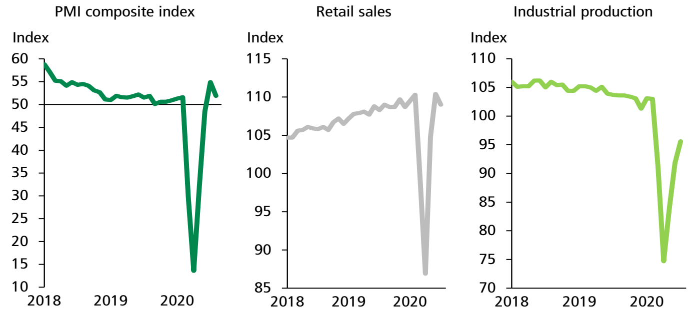
UNITED KINGDOM

U.K.'s real GDP fell 20.4% (-59.8% annualized) in the second quarter compared to the first, the worst performance in the G20 after India. The British government was slower to impose lockdown measures, so their impact was more focused in April, when monthly GDP plunged 20.1% (after declining 6.9% in March). The monthly GDP then jumped 18.6% from April to July (graph 3). Growth thus promises to be very good for the third quarter. That said, new COVID-19 cases have accelerated in the United Kingdom, prompting the British government to tighten certain public health measures, particularly for gatherings, which could slow the recovery. Note also that the Brexit issue is unresolved. Negotiations with the European Union to reach a trade agreement by year's end do not seem to be conclusive, so the risk of a Hard-Brexit remains very real. The U.K.'s real GDP is projected to decline 11.9% for 2020, followed by a gain of 4.0% in 2021.

CHINA

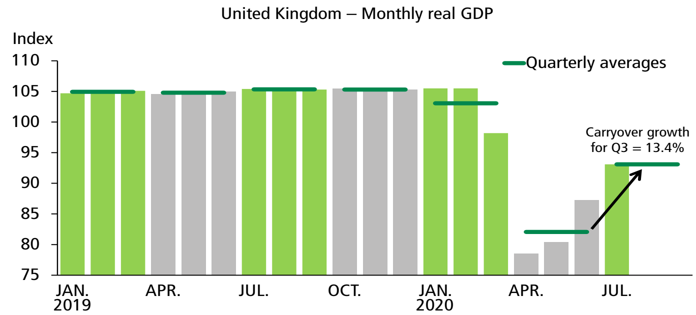
China's cycle is currently one quarter ahead of those of most other economies. The main decline in real GDP therefore came in the first quarter, rather than the second. The spring saw quaterly growth of 11.5% instead, putting it above pre-pandemic levels (graph 4). Another fairly strong gain is anticipated for the third quarter, in keeping with the good retail sales and industrial output growth recorded in July and August. For the moment, the major flooding that hit the southern part of the country seems to have had a bigger impact on food prices than on overall production. China's economy should grow 1.1% in 2020 and almost 8% in 2021.

GRAPH 2
The indicators have improved in the euro zone, but growth now seems to be slowing



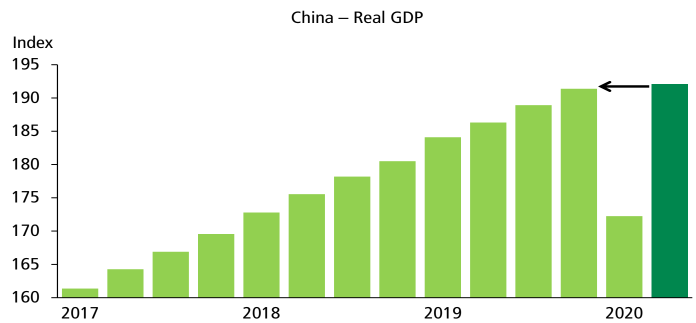
Sources: Markit, Eurostat, Datastream and Desjardins, Economic Studies

GRAPH 3
The U.K.'s monthly real GDP suggests strong growth for the entire third quarter



Sources: Office for National Statistics and Desjardins, Economic Studies

GRAPH 4
China's real GDP has already recouped all of the GDP lost to COVID-19



Sources: Office of National Statistics of China and Desjardins, Economic Studies

United States

A Fragile, Uneven Recovery

FORECASTS

As widely anticipated, the U.S. economy underwent a major collapse in the second quarter. Quarterly real GDP plunged 9.1% (-31.7% annualized). Since then, most indicators have posted sizable increases; real GDP should rebound 6.4% (+28.1% annualized) in the third quarter compared to the second. We expect this pace of growth to moderate; it will take time for both economic activity and employment to catch up completely. Over 2020 as a whole, real GDP should post a contraction of 4.2%, which should be followed by a 3.3% gain next year.

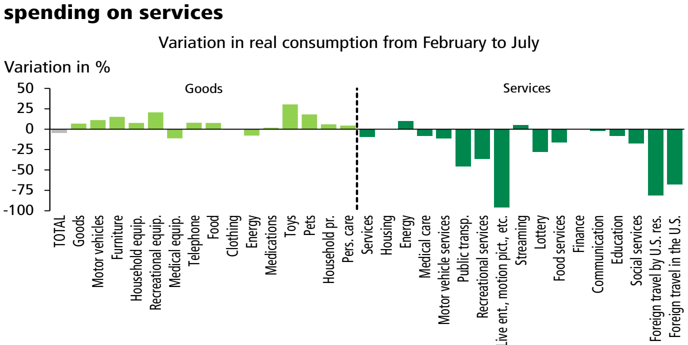
Last spring, the shutdown required by the public health and lockdown measures led to the worst quarterly real GDP contraction since the national accounts were introduced. More than three quarters of the decline came from the implosion in real consumption, particularly of services. However, the crisis also had a heavy impact on business investment, the change in business inventories, homebuilding, state and municipal expenditures, and exports and imports (although the drop in the trade deficit made a positive contribution to GDP growth).

That being said, this collapse primarily reflects what happened in March and April. Since May, most of the economic indicators are showing improvements. 10,611,000 jobs have been created since May (out of the total 22,160,000 jobs lost in March and April). Real consumption has climbed 16.4% from its low and, in July, home sales were at their highest point since 2006. These gains reflect the rapid meeting of the demand pent up during the confinement period. However, they mask an economic situation that remains fragile.

The bounceback by consumption from April's lows is especially uneven. The sense is that consumer spending primarily recovered in goods, but much less so in services (graph 5). Real consumption of motor vehicles, recreational equipment and household equipment was higher than pre-pandemic levels. This was probably bolstered by the federal government aid programs, particularly the US$1,200 awarded to each adult (up to a certain income level) and US$500 per child. These amounts primarily went out in April and May. The added jobless assistance—up to US$600 per week until the end of July—also supported disposable income and household spending. In terms of the consumption of services, the lags in the recovery are primarily coming in sectors where activities are difficult to reconcile with the public health measures that are still required. These include public transportation, entertainment and sports events, recreational services and tourism. These sectors should keep curbing the recovery by total consumption for some time to come.

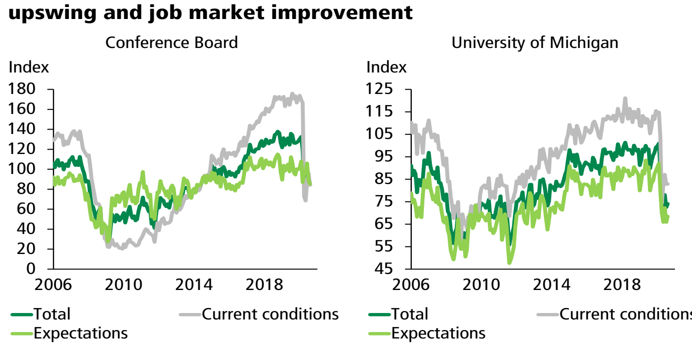
Note that household confidence also remains very low (graph 6). The acceleration by COVID-19 cases early in the summer in several U.S. states was a reminder that uncertainty surrounding the pandemic's evolution remains high. There are also anxieties over federal assistance to the unemployed. The US$600 per week enhancement wound up at the end of July. Since then, a replacement program decreed by President Donald Trump has

GRAPH 5
U.S. household spending on goods has rebounded more than spending on services



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 6
U.S. consumer confidence remains low despite the economic upswing and job market improvement



Sources: Conference Board, University of Michigan and Desjardins, Economic Studies

TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2020				2021		ANNUAL AVERAGE			
	Q1	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2018**	**2019**	**2020f**	**2021f**
Real GDP (2012 US$)	**-5.0**	**-31.7**	**28.1**	**2.9**	**4.0**	**3.1**	**3.0**	**2.2**	**-4.2**	**3.3**
Personal consumption expenditures	-6.9	-34.1	38.2	1.7	2.7	2.4	2.7	2.4	-4.4	3.2
Residential construction	19.0	-37.9	35.0	15.0	14.9	2.2	-0.6	-1.7	1.6	8.5
Business fixed investment	-6.7	-26.0	0.2	6.8	5.1	4.5	6.9	2.9	-6.5	2.2
Inventory change (US$B)	-80.9	-286	-100	-25.0	25.0	50.0	53.4	48.5	-123	43.7
Public expenditures	1.3	2.8	-6.7	-1.6	-0.1	1.8	1.8	2.3	0.9	-0.4
Exports	-9.5	-63.2	42.0	5.0	5.0	3.0	3.0	-0.1	-14.5	0.8
Imports	-15.0	-54.0	45.0	10.0	4.5	2.0	4.1	1.1	-13.4	3.2
Final domestic demand	-4.6	-27.7	25.5	2.4	3.1	2.5	3.0	2.3	-3.3	2.9
Other indicators										
Nominal GDP	-3.4	-33.3	32.9	4.1	5.9	4.7	5.5	4.0	-3.1	4.9
Real disposable personal income	2.6	47.0	-22.0	-4.0	2.5	2.5	3.6	2.2	5.3	-0.1
Employment according to establishments	0.4	-40.0	22.8	8.4	5.4	2.7	1.6	1.4	-5.6	3.0
Unemployment rate (%)	3.8	13.0	9.0	7.7	6.9	6.6	3.9	3.7	8.4	6.6
Housing starts[1] (thousands of units)	1,484	1,079	1,465	1,340	1,367	1,392	1,248	1,296	1,342	1,408
Corporate profits*[2]	-6.7	-25.0	-17.0	-16.0	-2.5	20.0	6.1	0.3	-16.3	9.4
Personal saving rate (%)	9.6	26.0	14.5	13.3	13.3	13.3	7.9	7.6	15.8	13.3
Total inflation rate*	2.1	0.4	1.2	0.9	1.1	2.3	2.4	1.8	1.1	1.7
Core inflation rate*[3]	2.2	1.3	1.6	1.4	1.2	1.9	2.1	2.2	1.6	1.4
Current account balance (US$B)	-446	-682	-650	-600	-550	-548	-450	-480	-595	-550

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

been instituted, but it only allocates US$300 in most states, and is time limited. The drop in federal assistance, end of the US$1,200 cheques, high unemployment and political uncertainty over the November 3 election are all factors keeping the main confidence indicators low.

The job market's evolution obviously has an impact on household sentiment and will also affect voters' decisions in November. Employment growth has been good in recent months, but a large shortfall remains: 11,549,000 jobs compared with February. Note that weekly jobless claims remain stubbornly high. We still expect the jobless rate to keep falling. It went from 14.7% in April to 8.4% in August. It is expected to be around 6.5% at the end of 2021.

The situation for business is also improving. The ISM indexes are now well above 50, boosted by an influx of new orders after they tumbled during the worst of the crisis. For now, businesses seem to be filling orders with existing inventory. They could remain hesitant to invest and hire back, particularly if the pandemic situation remains uncertain. Non-residential construction could continue to struggle.

The drop in economic activity and the assistance awarded have caused a substantial erosion in the federal government's finances. The Congressional Budget Office now expects the deficit for fiscal 2020, which ends September 30, to hit US$3,311B, or 16.0% of GDP. The situation should improve next year, but the heavier debt will no doubt be a constraint for whoever wins the November election, whether it is Donald Trump or Joe Biden.

Canada

Many Difficulties Persist despite a Lively Comeback

FORECASTS

According to Statistics Canada, the preliminary data indicates that real GDP by industry rose about 3% in July. Factoring in the sharp increases posted in May (+4.8%) and June (+6.5%) provides for a very large carryover for the whole of the third quarter. According to our latest projections, real GDP could grow about 10% (about 45% annualized) in the third quarter compared to the second. Once the ongoing impacts of COVID-19 are more perceptible, the Canadian economy's growth should become more subdued as of the fall. All in all, as a whole, 2020 could end with a 5.5% decline in real GDP, followed by a 5.0% rebound in 2021.

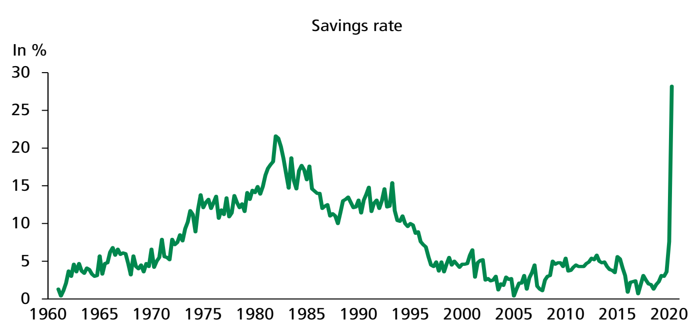
As anticipated, the March and April lockdown triggered a historic plunge by economic activity in Canada. In particular, it prompted real GDP to decline 11.5% (-38.7% annualized) in the second quarter compared to the first. Domestic demand was heavily impacted, with consumption spending and investment declining sharply. With many businesses partially or completely shut down during the lockdown, the inventory variation was heavily negative in the second quarter, which also put the brakes on real GDP growth. In contrast, the trade balance improved, making a positive contribution to the quarterly variation in real GDP growth, as imports fell more steeply than exports.

With the publication of the second quarter's results, we can now believe the worst is behind us. The focus is now on the gradual deconfinement initiated in May, and the Canadian economy's recovery. Here, there are several encouraging factors.

Even though they were very costly for the public finances, the support measures introduced by the federal government made a big difference. Overall, the financial situation of households stood up to the upheaval associated with COVID-19 fairly well. Among other things, the increase in government transfers to individuals such as the Canada Emergency Response Benefit (CERB) and Canada Emergency Student Benefit (CESB) more than offset the decline in employee remuneration resulting from the many job losses and cuts to working hours. As a result, not only did disposable household income not decline, as could have been expected, it actually posted its biggest quarterly increase, gaining 10.8%. Factoring in the 13.7% decrease in household spending, the household savings rate rose sharply from 7.6% to 28.2%—a new all-time high (graph 7). Clearly, households' solid financial situation will allow them to participate fully in the Canadian economy's recovery. The recent movement by retail sales is very revealing there. After tumbling 10% in March and 25% in April, the value of retail sales bounced back quickly in May and June. All of the ground lost during the lockdown was recouped in just two months, which was much faster than expected.

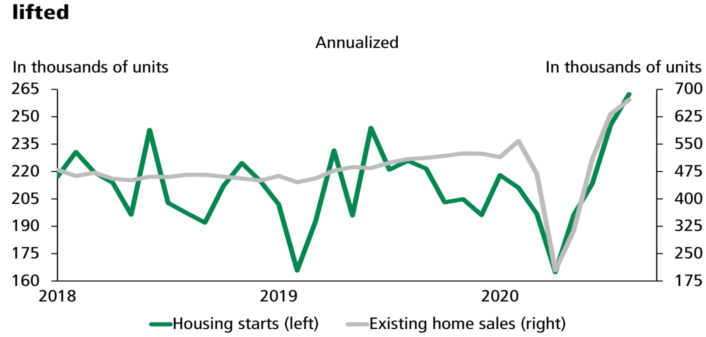
Note that the pent up demand accumulated during the lockdown is no doubt inflating the results for several sectors of the economy. This is particularly true for some consumption expenditures, as well as for the housing market, with sales of existing homes and housing starts very high for several months (graph 8). However, some indicators suggest that the pent up demand has now been almost fully met. The evolution of consumer spending and the housing market should therefore soon close in on their underlying trends. The latter could

GRAPH 7
The Canadian household savings rate shot up last spring



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 8
Canada's housing market has been lively since the lockdown lifted



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 4

Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2020 Q1	2020 Q2	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	ANNUAL AVERAGE 2018	2019	2020f	2021f
Real GDP (2012 $)	**-8.2**	**-38.7**	**45.0**	**7.0**	**4.5**	**3.2**	**2.0**	**1.7**	**-5.5**	**5.0**
Final consumption expenditure [of which:]	-9.3	-34.9	42.5	7.6	4.4	4.2	2.4	1.8	-4.8	5.3
Household consumption expenditure	*-12.4*	*-43.0*	*56.3*	*8.7*	*5.4*	*5.0*	*2.2*	*1.6*	*-6.7*	*6.4*
Governments consumption expenditure	*-1.1*	*-10.4*	*8.0*	*5.0*	*2.0*	*2.0*	*3.0*	*2.1*	*-0.5*	*2.1*
Gross fixed capital formation [of which:]	-1.1	-45.6	26.6	9.0	6.0	3.7	1.2	-0.4	-7.5	3.3
Residential structures	*-3.0*	*-47.6*	*42.9*	*12.4*	*9.0*	*5.0*	*-1.6*	*-0.6*	*-5.1*	*6.3*
Non-residential structures	*6.9*	*-51.5*	*20.0*	*8.0*	*5.0*	*3.0*	*-0.6*	*0.7*	*-7.4*	*1.2*
Machinery and equipment	*-17.2*	*-64.6*	*20.0*	*8.0*	*5.0*	*3.0*	*4.7*	*-0.1*	*-22.5*	*-0.9*
Intellectual property products	*1.9*	*-27.7*	*20.0*	*10.0*	*5.0*	*4.0*	*3.9*	*-4.8*	*-3.7*	*4.7*
Governments gross fixed capital formation	*5.0*	*-17.9*	*15.0*	*5.0*	*3.0*	*3.0*	*5.2*	*-0.3*	*0.0*	*3.1*
Investment in inventories (2012 $B)	4.3	-37.9	-6.4	3.6	7.6	8.1	13.0	15.1	-9.1	8.8
Exports	-8.6	-55.6	34.6	17.6	12.4	15.6	3.1	1.3	-12.1	8.0
Imports	-9.9	-64.1	35.7	24.8	15.0	17.7	2.6	0.6	-15.7	8.6
Final domestic demand	-7.5	-37.4	39.3	7.9	4.8	4.1	2.1	1.3	-5.3	4.9
Other indicators										
Nominal GDP	-9.9	-41.5	48.0	8.5	6.0	5.2	3.9	3.6	-5.6	6.3
Real disposable personal income	3.6	55.3	-25.0	-10.0	3.0	2.5	2.0	2.8	6.3	-1.3
Employment	-5.8	-38.4	36.9	8.1	3.2	2.6	1.3	2.1	-5.5	4.1
Unemployment rate (%)	6.3	13.0	10.3	9.2	8.9	8.8	5.8	5.7	9.7	8.7
Housing starts[1] (thousands of units)	209	191	253	220	202	204	213	209	218	205
Corporate profits*[2]	-6.1	-35.1	-20.0	-10.0	0.0	22.0	2.5	-0.1	-18.1	21.6
Personal saving rate (%)	7.6	28.2	13.2	8.9	8.3	7.8	1.8	3.0	14.5	7.8
Total inflation rate*	1.8	0.0	0.3	0.5	0.9	2.2	2.3	1.9	0.6	1.6
Core inflation rate*[3]	1.8	1.0	0.6	0.9	0.7	1.1	1.9	2.0	1.1	0.9
Current account balance ($B)	-13	-9	-10	-10	-11	-12	-55	-47	-41	-44

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

be slightly weaker in the coming quarters, as it appears the unemployment rate will take some time to drop back to its pre-pandemic level. That being said, the federal government announced an enhancement to the employment insurance program to partially deal with the upcoming end to the CERB and CESB. Households still affected by the pandemic's adverse impacts will therefore continue to get financial support from the federal government, which will certainly help the Canadian economy in the coming quarters.

More generally, after last summer's substantial rebound by economic activity following the gradual lifting of lockdown measures, we can assume that the Canadian economy will enter into a more subdued phase as of this fall. The ongoing effects of COVID-19 will then become more perceptible. Many restrictive measures persist and several sectors will keep struggling in the coming quarters. Under these conditions, it will take several more quarters for real GDP to return to its pre-COVID-19 level.

The risks also remain very high. The possibility of a second wave of the pandemic cannot be ruled out, which could create new difficulties for the Canadian economy, although not as extensive as last spring. Moreover, it is hard to know when Canadians will have access to a vaccine, and how quickly a potential vaccine could be distributed to the public.

Quebec

The Economic Recovery Is Already Well Underway

FORECASTS
As of May, Quebec's economy bounced back quickly thanks to the gradual reopening of establishments that were closed during the lockdown. Some economic indicators are nearly back at pre-pandemic levels, but it should take several more quarters for real GDP and employment to bounce back completely. The economic rebound will give way to a slower improvement, as some sectors will continue to be hard hit by social distancing measures.

The labour market's unprecedented deterioration in March and April was followed by a rise in employment and pullback by the unemployment rate. It hit 17.0% in April, then gradually slid to 8.7% in August. The post-reopening tumble will be followed by a slower decline. The unemployment rate could drop below 8% at the end of 2020, then be around 7% a year later. It is not expected to return to its pre-pandemic level—February's 4.5%—in the short or medium range.

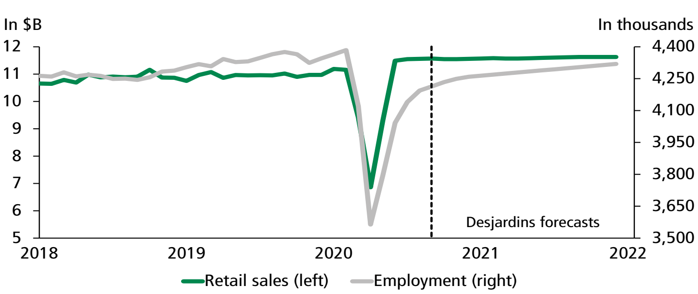
Following the 820,500 positions lost over two months, the lifting of restrictions allowed 630,200 people to get back to work from May to August, about three quarters of the jobs lost during Quebec's lockdown. The rise did not ripple into all activity sectors, particularly accommodation and food services, and the entertainment and recreation industries, which only recouped a small portion of the jobs lost. Overall, the ground recovered is remarkable in the context, but future gains will be hindered by the ongoing struggles in industries penalized by the guidelines designed to limit the virus's spread.

Although the job market has not yet entirely recovered, retail sales rebounded sharply as of April (graph 9), partially thanks to the federal government's support programs. Overall, the Canada Emergency Response Benefit (CERB), at $2,000 per month, and Canada Emergency Student Benefit (CESB), at $1,250 per month, more than offset the loss of earned income. Some got less than prior to the pandemic, but some received more, propelling income and therefore retail sales.

The extension of the CERB until the end of September, to be followed by a gradual transition to less generous employment insurance benefits, and the end of the CESB in August will have an impact as of this fall. The return of many employees to work will fuel earned income, but the transition of government programs will impact personal incomes. In short, more subdued employment growth and more targeted emergency assistance will result in limited growth by consumer spending in the second half of 2020.

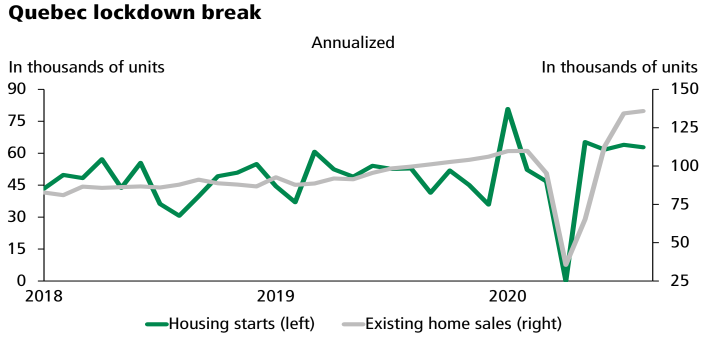
The housing market recovered extremely quickly after last spring's pause (graph 10). The number of properties sold beat the pre-pandemic peak and the annual increase in prices accelerated to more than 10% over the summer. The low number of homes and condos on the market rules out the possibility that prices will drop in the coming quarters. Housing starts are also astoundingly strong, buoyed by a resale market that is not completely meeting buyer need. Now that the spring's catch-up period seems to

GRAPH 9
In Quebec, retail sales and employment came up quickly, but future growth will be slower



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 10
Housing starts and property sales have rebounded since the Quebec lockdown break



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

TABLE 5

Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019	2020f	2021f
Real GDP (2012 $)	**2.8**	**2.5**	**2.6**	**-6.1**	**5.1**
Final consumption expenditure [of which:]	2.9	2.3	2.1	-5.6	5.5
Household consumption expenditure	*3.3*	*2.2*	*1.6*	*-7.7*	*7.0*
Governments consumption expenditure	*2.3*	*2.5*	*3.1*	*-2.3*	*0.9*
Gross fixed capital formation [of which:]	7.5	3.5	3.0	-4.9	1.4
Residential structures	*7.3*	*4.0*	*3.9*	*-7.1*	*-0.9*
Non-residential structures	*1.1*	*-0.9*	*4.2*	*-2.8*	*1.9*
Machinery and equipment	*19.0*	*-1.6*	*2.7*	*-15.9*	*0.3*
Intellectual property products	*3.7*	*4.6*	*-2.5*	*-5.3*	*0.0*
Governments gross fixed capital formation	*8.2*	*9.4*	*3.3*	*1.9*	*4.3*
Investment in inventories (2012 $B)	562	1,984	3,698	-2,267	2,000
Exports	0.8	4.2	1.7	-8.4	5.7
Imports	6.0	2.8	0.8	-8.8	4.2
Final domestic demand	3.8	2.5	2.3	-5.4	4.7
Other indicators					
Nominal GDP	5.0	4.8	4.5	-4.6	6.2
Real disposable personal income	4.3	2.8	3.7	6.8	-2.5
Weekly earnings	2.8	3.2	3.5	5.1	0.2
Employment	2.2	0.9	1.8	-4.8	4.0
Unemployment rate (%)	6.1	5.5	5.1	9.1	7.5
Personal saving rate (%)	5.7	6.2	8.3	21.1	13.7
Retail sales	5.5	3.6	0.9	-2.1	8.1
Housing starts[1] (thousands of units)	46.5	46.9	48.0	53.0	47.0
Total inflation rate	1.0	1.7	2.1	0.8	2.0

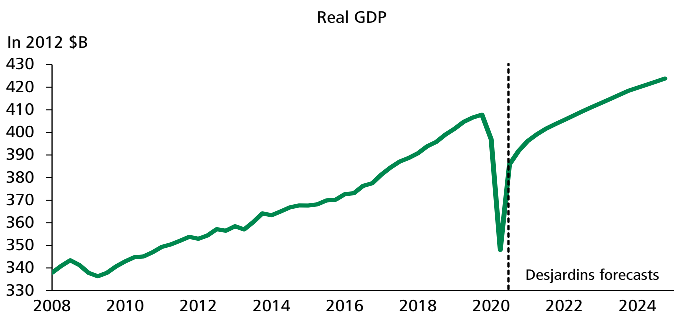
f: forecasts; [1] Annualized basis.
Sources: Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

be over, demand should flag somewhat, especially as future improvement in the employment market will trickle in.

Quebec's international exports have started to rise, but the recovery is not nearly as advanced as it is in the statistics on households. Although world trade has started to turn around, the province's shipments abroad will have a hard time returning to pre-pandemic levels. The prolonged problems in the aerospace industry, which ranks second after aluminium in terms of the value of exports, will curb their recovery, and therefore the economy's. It could therefore take until mid-2022 for real GDP to bounce back completely (graph 11). After tumbling 6.1% this year because of last spring's dismal results, real GDP will grow 5.1% in 2021.

GRAPH 11

Quebec's economic activity is swinging up after its plunge, but has not completely recovered



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

Ontario and Other Provinces

The Provinces See a General Upswing

FORECASTS

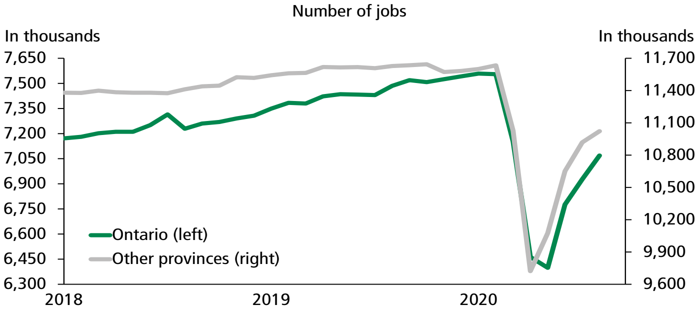
While all the provinces were quick to introduce lockdown measures last spring, the gradual resumption of activity has been more divergent within the provinces as of May. Clearly, this will have a big influence on the pace of recovery for them. That said, all provinces have been seeing production and employment rise for several months now. Real GDP is nonetheless expected to pull back in 2020 for all provinces. Alberta, Saskatchewan and Newfoundland and Labrador could see more difficulties because of the ongoing problems in the oil industry. All provinces are expected to be back in positive territory in 2021.

ONTARIO

Ontario was the last province to lift its lockdown, and has done so the most gradually, with the result that its economic recovery is more modulated than in the other provinces. For example, Ontario was the only province to see employment retreat again in May, whereas the other provinces posted sharp increases. In Ontario, only 58% of the jobs lost during the lockdown had been recovered in August, which is well below the other provinces, at 68% (graph 12).

Although tardier, Ontario's economic recovery has been well entrenched since the summer. A number of sectors have even been posting exceptional growth for several months, such as the housing market and manufacturing. For one thing, Ontario's manufacturing sector has been getting a big boost from the resumption of auto industry activities since May. As elsewhere in the country, Ontario's real GDP should therefore rebound in the third quarter, but its pace should be slightly below the national average. On the other hand, the Ontario economy's comeback could remain more robust in the fourth quarter. All in all, our scenario calls for Ontario's real GDP to decline 5.2% for 2020 as a whole, followed by a 4.9% gain in 2021.

GRAPH 12
Ontario's employment market recovery is lagging slightly



Sources: Statistics Canada and Desjardins, Economic Studies

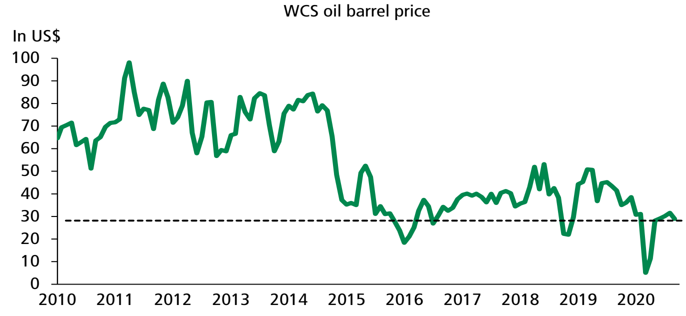
WESTERN PROVINCES

The economic upswing is underway in Alberta and Saskatchewan, as elsewhere in Canada. However, global demand for petroleum products remains anaemic due to ongoing restrictions in many countries, and low demand for air transportation. While Canadian oil prices have come up from last spring's trough, they remain fairly low historically (graph 13). Under these conditions, investment in the oil industry will remain very soft in the coming quarters, which will undermine economic growth in both provinces.

Manitoba's recovery seems to be beating the Canadian average. Its retail sales are surging and, in August, the province posted one of the country's lowest unemployment rates. Agriculture is a proportionally larger industry in Manitoba and the fallout from the lockdown did not really affect it, which of course helps the province's economy.

British Columbia's housing market has been very lively since the lockdown ended. Both housing starts and existing property resales are up. That said, the recovery seems slower in many other sectors. From April's low point, total hours worked in British Columbia's economy are posting the slowest growth of all provinces (graph 14 on page 13).

GRAPH 13
Oil prices remain relatively low in Canada



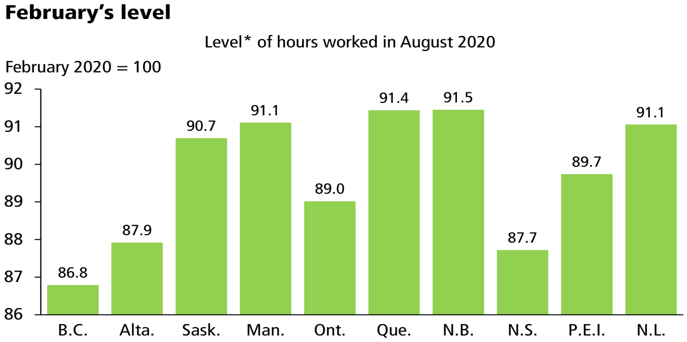
WCS: Western Canadian Select
Sources: Bloomberg and Desjardins, Economic Studies

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019	2020f	2021f
Real GDP (2012 $)	**2.9**	**2.2**	**1.7**	**-5.2**	**4.9**
Final consumption expenditure [of which:]	3.5	2.8	2.2	-3.9	4.9
Household consumption expenditure	*4.1*	*2.5*	*2.2*	*-5.5*	*6.7*
Governments consumption expenditure	*2.0*	*3.7*	*2.4*	*-0.9*	*-1.2*
Gross fixed capital formation [of which:]	4.4	2.0	-0.7	-2.2	5.3
Residential structures	*0.6*	*-3.3*	*-0.3*	*1.5*	*7.4*
Non-residential structures	*3.2*	*1.0*	*-5.0*	*-5.3*	*2.6*
Machinery and equipment	*13.9*	*11.5*	*0.5*	*-12.0*	*3.5*
Intellectual property products	*1.9*	*2.9*	*-2.9*	*-4.6*	*3.4*
Governments gross fixed capital formation	*7.9*	*6.2*	*4.1*	*2.2*	*5.2*
Investment in inventories (2012 $B)	7,306	7,424	7,149	-7,887	-4,199
Exports	0.4	0.9	2.0	-13.5	9.4
Imports	3.1	1.6	1.4	-12.9	10.6
Final domestic demand	3.7	2.6	1.6	-3.6	5.0
Other indicators					
Nominal GDP	4.6	3.7	3.9	-3.8	6.3
Real disposable personal income	3.6	2.7	3.2	6.0	-1.3
Weekly earnings	1.9	2.9	2.8	4.1	-1.1
Employment	1.8	1.6	2.9	-5.4	4.3
Unemployment rate (%)	6.0	5.6	5.6	9.8	9.0
Personal saving rate (%)	-0,6	-0,6	0,2	13.7	3.9
Retail sales	7.7	4.4	2.9	-3.9	7.7
Housing starts[1] (thousands of units)	79.1	78.7	69.0	83.7	77.7
Total inflation rate*	1.7	2.4	1.9	0.6	1.7

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 14
In British Columbia, total hours worked remain well below February's level



* Seasonally adjusted.
Sources: Statistics Canada and Desjardins, Economic Studies

ATLANTIC PROVINCES

Eastern Canada was essentially cut off from the rest of the country this summer, with the creation of the Atlantic bubble that included New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Although there has been somewhat of a boom in local visitors, tourism should be particularly hurt by this restriction. Moreover, except for Nova Scotia, manufacturing in the Atlantic provinces is well behind the national average in terms of its recovery.

TABLE 7

Canada: Major economic indicators by provinces

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2017	2018	2019	2020f	2021f
Real GDP growth – Canada	**3.2**	**2.0**	**1.7**	**-5.5**	**5.0**
Atlantic	1.6	-0.1	1.5	-4.8	4.0
Quebec	2.8	2.5	2.6	-6.1	5.1
Ontario	2.9	2.2	1.7	-5.2	4.9
Manitoba	3.1	1.3	1.0	-4.5	4.0
Saskatchewan	1.7	1.3	-0.8	-6.0	4.5
Alberta	4.8	1.6	-0.6	-7.0	5.4
British Columbia	3.7	2.6	2.8	-4.7	5.0
Total inflation rate – Canada	**1.6**	**2.3**	**1.9**	**0.6**	**1.6**
Atlantic	1.8	2.0	1.5	0.0	1.2
Quebec	1.0	1.7	2.1	0.8	2.0
Ontario	1.7	2.4	1.9	0.6	1.7
Manitoba	1.6	2.5	2.2	0.4	1.5
Saskatchewan	1.7	2.3	1.7	0.5	1.3
Alberta	1.6	2.4	1.8	0.8	1.4
British Columbia	2.1	2.7	2.3	0.6	1.6
Employment growth – Canada	**1.9**	**1.3**	**2.1**	**-5.5**	**4.1**
Atlantic	-0.2	1.0	1.5	-4.6	2.9
Quebec	2.2	0.9	1.8	-4.8	4.0
Ontario	1.8	1.6	2.9	-5.4	4.3
Manitoba	1.7	0.6	0.9	-3.3	3.5
Saskatchewan	-0.2	0.4	1.8	-4.7	3.0
Alberta	1.0	1.9	0.5	-7.2	3.5
British Columbia	3.7	1.1	2.6	-6.7	4.8
Unemployment rate – Canada	**6.3**	**5.8**	**5.7**	**9.7**	**8.7**
Atlantic	9.7	9.1	8.5	10.6	9.7
Quebec	6.1	5.5	5.1	9.1	7.5
Ontario	6.0	5.6	5.6	9.8	9.0
Manitoba	5.4	6.0	5.3	7.9	7.2
Saskatchewan	6.3	6.1	5.4	8.4	7.8
Alberta	7.8	6.6	6.9	11.3	10.5
British Columbia	5.1	4.7	4.7	9.7	8.7
Retail sales growth – Canada	**7.1**	**2.9**	**1.6**	**-2.0**	**7.2**
Atlantic	6.2	0.3	1.9	1.4	3.1
Quebec	5.5	3.6	0.9	-2.1	8.1
Ontario	7.7	4.4	2.9	-3.9	7.7
Manitoba	7.8	2.9	1.2	3.0	4.0
Saskatchewan	4.1	-0.3	-0.5	1.1	6.0
Alberta	7.1	2.0	-0.9	-1.9	7.5
British Columbia	9.3	2.0	0.6	-0.6	6.7
Housing starts – Canada (thousands of units)	**219.8**	**212.8**	**208.7**	**218.2**	**205.4**
Atlantic	8.6	9.3	10.1	9.7	8.6
Quebec	46.5	46.9	48.0	53.0	47.0
Ontario	79.1	78.7	69.0	83.7	77.7
Manitoba	7.5	7.4	6.9	6.0	6.0
Saskatchewan	4.9	3.6	2.4	3.0	3.4
Alberta	29.5	26.1	27.3	20.8	24.2
British Columbia	43.7	40.9	44.9	42.0	38.5

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

Medium-Term Issues and Forecasts

Will the Post-COVID-19 Era Be Characterized by Major Changes?

The economy will feel the effects of the pandemic over the medium range. Complete recovery will take time and unemployment rates should remain above pre-pandemic levels for several years. Governments will have to cope with much higher debt. The central banks will have a hard time raising key interest rates without putting the economy at risk, and balance sheet normalization will be a struggle. Several other changes and issues loom on the horizon as well. Considering everything, it seems more realistic to be cautious about the pace of economic growth in the coming years.

Public Debt Is Up Sharply

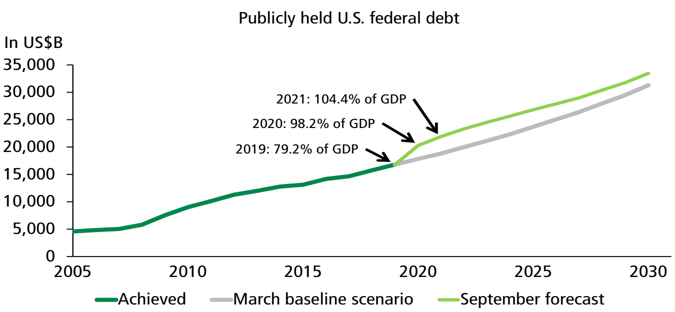
The public health measures, including forced business shutdowns and the lockdowns we experienced last spring, have major adverse impacts on the economy. To compensate, the governments of numerous nations unhesitatingly increased their expenditures to support businesses and households. In the United States, publicly held federal government debt is now in the neighbourhood of US$20,000B; it will continue to rise at a faster pace than economic growth for some time. In 2021, federal public debt should be over 100% of the U.S. GDP, according to the latest Congressional Budget Office projections (graph 15). It was just under 80% in 2019.

Low Interest Rates May Help, but…

Currently, the good news is that interest rates are very low, thanks to aggressive central bank intervention. This helps governments get financing. Their debt load may be higher, but their interest charges do not necessarily go up. In the years to come, keeping interest rates low enough will certainly make the job easier for governments, which will have less need to look for new revenue or cut spending. This would, in turn, benefit the economy.

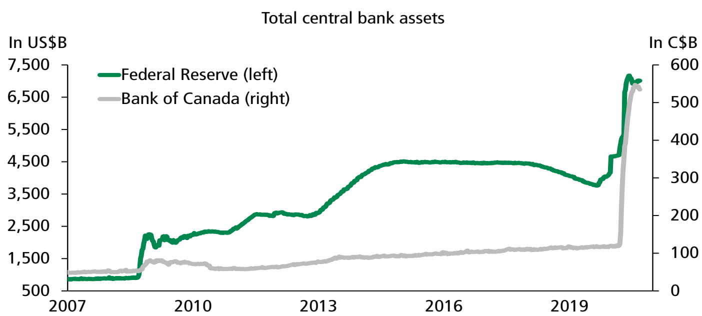
On the other hand, central bank interventions encourage households to take on more debt, which could become a source of financial instability in the years to come. The value of many assets also tends to be stimulated by the current monetary policies. This could eventually lead to corrections. There is also reason to wonder how much wiggle room central banks have left to deal with other shocks. In Canada, the central bank's balance sheet has already approximately quadrupled, and now totals about C$550B, close to 25% of 2019 GDP. In the United States, the growth has been proportionally smaller, but the starting point was higher (graph 16). The Federal Reserve now holds assets totalling around US$7,000B, equivalent to nearly one third of the 2019 GDP.

GRAPH 15
The programs to combat the pandemic and its fallout are making public debt balloon



Sources: Congressional Budget Office and Desjardins, Economic Studies

GRAPH 16
It will be hard to trim central banks' balance sheets over the medium term



Sources: Datastream, Banque du Canada and Desjardins, Economic Studies

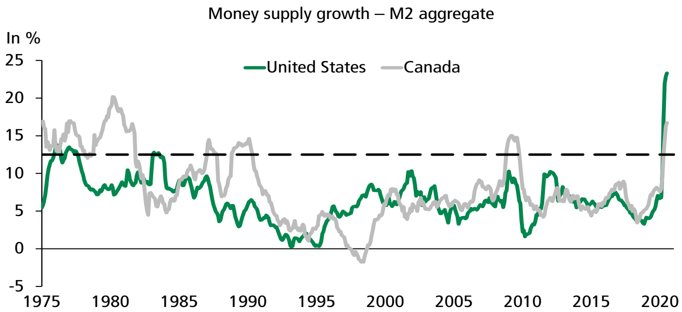
In the short term, government intervention clearly helps the economy but, sooner or later, the bill must be paid. Around the world, governments may have tough decisions to make to maintain investor confidence in the years to come. This is reminiscent of the sovereign debt crisis that hit several European nations between 2010 and 2012. We can assume that there will be heavy pressure on governments to find new revenue or curb spending growth. Either way, this could reduce economic growth potential.

What Will Inflation Do?

Inflation is an even more fundamental issue. Given the high level of government and central bank intervention, inflation pressure should intensify in the coming years. As long as it does not stray too far from official inflation targets, there will not be a problem. However, too much inflation could require faster monetary policy firming. Simultaneously, this would likely force greater budgetary discipline on governments.

For now, our economic scenario calls for inflation to remain under control in the major advanced nations. That said, keep a close eye on certain indicators, such as monetary growth, which has often been a precursor for price adjustments. In Canada, growth in the money supply is now what was seen at the end of the 1970s and early 1980s. It is even higher in the United States (graph 17)!

GRAPH 17
Monetary growth is very strong and could result in more inflation over the medium term



Sources: Datastream and Desjardins, Economic Studies

Reassuringly, it is normal during times of crisis and great uncertainty for households and businesses to hold more cash or highly liquid assets. The surge in the money supply could therefore turn around on its own once the uncertainty ebbs. Nonetheless, we cannot deny that the central banks have created a lot of money in the last few months to help finance government programs. A lot of this cash has gone into savings, which was also boosted by the drop in consumption during the lockdown. Consumption could now be very lively because of all the savings that have been accumulated, but prices could also adjust upward if businesses aren't able to meet demand. Our forecasts assume that a significant share of this should stay in savings in the coming years, or go toward paying off debt. This should help contain inflation pressure.

Numerous Changes Could Also Disrupt How Our Economies Work

We live in a constantly changing world and our economies tend to adjust to change gradually. The pandemic could nonetheless precipitate some changes, which would force the economy to adjust more quickly. On one hand, this could be an incentive to increase investment in some sectors but, at the same time, it could destabilize other sectors and decrease the value of some assets.

One frequently mentioned potential change is the large-scale adoption of teleworking. If telework remains very widespread after the pandemic, it would slash demand for offices in urban centres. The entire downtown economic ecosystem could be affected, along with planning for public transit. More people working from home would mean greater traffic for neighbourhood businesses, however. The suburbs and even more remote areas, which more people could want to live in, could benefit.

The pandemic also disrupted purchasing habits. Online trade was already posting good growth prior to the pandemic, but the trend has accelerated in the last few months. Many retailers who were already planning to transition to online business must now do so faster. The coming years could be more difficult for some shopping malls. Other habits may also have changed. Have households taken a liking to cooking more and eating out less? Will long hair be more fashionable? Will masks remain in heavy use? Hard to predict, but we cannot avoid the fact that adjustments will be needed in a number of sectors.

We can picture various scenarios for tourism, for example. Will people want to travel as much now? After September 11, 2001, in the end, travellers quickly went back to their old habits, but changes still occurred in the industry, such as increased security at airports. Public health measures could remain present in the years to come. This could mean some additional costs that could be passed on to travellers.

Moreover, a number of other sectors could have to abide by certain rules to limit the spread of various viruses or bacteria. Governments could see this as a way to reduce costs for the health system. There is also reason to wonder how public authorities will react when other viruses emerge. They could react more quickly and aggressively to minimize the chance of another public health crisis like this one.

TABLE 8

Medium-term major economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE 2018	2019	2020f	2021f	2022f	2023f	2024f	AVERAGES 2015–2019	2020–2024f
United States									
Real GDP (var. in %)	3.0	2.2	-4.2	3.3	2.7	2.5	2.0	2.5	1.3
Total inflation rate (var. in %)	2.4	1.8	1.1	1.7	1.8	1.8	1.9	1.6	1.7
Unemployment rate	3.9	3.7	8.4	6.6	6.2	5.8	5.6	4.4	6.5
S&P 500 index (var. in %)[1]	-6.2	28.9	5.2	5.9	6.0	7.0	6.0	10.2	6.0
Federal funds rate	1.90	2.28	0.55	0.25	0.25	0.45	1.10	1.21	0.52
Prime rate	4.90	5.28	3.55	3.25	3.25	3.45	4.10	4.21	3.52
Treasury bills – 3-month	1.97	2.10	0.35	0.10	0.15	0.50	1.05	1.08	0.43
Federal bonds – 10-year	2.91	2.14	0.85	0.80	1.10	1.60	1.95	2.27	1.26
– 30-year	3.11	2.58	1.50	1.50	1.70	2.10	2.40	2.81	1.84
WTI oil (US$/barrel)	65	57	39	47	54	56	56	53	50
Gold (US$/ounce)	1,269	1,393	1,790	1,835	1,728	1,630	1,600	1,266	1,717
Canada									
Real GDP (var. in %)	2.0	1.7	-5.5	5.0	2.2	2.3	1.9	1.7	1.2
Total inflation rate (var. in %)	2.3	1.9	0.6	1.6	1.7	1.8	1.9	1.7	1.5
Employment (var. in %)	1.3	2.1	-5.5	4.1	1.7	1.5	1.3	1.4	0.6
Employment (thousands)	241	398	-1,053	739	315	292	248	251	108
Unemployment rate	5.8	5.7	9.7	8.7	7.4	6.4	6.2	6.3	7.7
Housing starts (thousands of units)	213	209	218	205	205	209	215	207	211
S&P/TSX index (var. in %)[1]	-11.6	19.1	-0.4	8.8	8.0	7.0	6.0	4.0	5.9
Exchange rate (US$/C$)	0.77	0.75	0.74	0.76	0.77	0.77	0.79	0.77	0.77
Overnight funds	1.40	1.75	0.55	0.25	0.25	0.30	0.80	1.00	0.43
Prime rate	3.61	3.95	2.75	2.45	2.45	2.50	3.00	3.19	2.63
Mortgage rate – 1-year	3.47	3.64	3.20	2.45	2.40	2.45	2.80	3.28	2.66
– 5-year	5.26	5.27	4.95	4.15	4.15	4.35	4.75	4.93	4.47
Treasury bills – 3-month	1.37	1.65	0.45	0.25	0.25	0.35	0.80	0.95	0.42
Federal bonds – 2-year	1.99	1.59	0.50	0.35	0.55	0.80	1.10	1.16	0.66
– 5-year	2.15	1.54	0.60	0.45	0.70	1.00	1.35	1.33	0.82
– 10-year	2.28	1.59	0.75	0.75	0.95	1.30	1.60	1.68	1.07
– 30-year	2.36	1.80	1.20	1.20	1.40	1.80	1.95	2.11	1.51
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.60	-0.45	0.10	0.15	0.10	-0.15	-0.25	-0.13	-0.01
Federal bonds – 10-year	-0.63	-0.55	-0.10	-0.05	-0.15	-0.30	-0.35	-0.59	-0.19
– 30-year	-0.75	-0.78	-0.30	-0.30	-0.30	-0.30	-0.45	-0.69	-0.33
Quebec									
Real GDP (var. in %)	2.5	2.6	-6.1	5.1	2.1	1.8	1.5	2.1	0.9
Total inflation rate (var. in %)	1.7	2.1	0.8	2.0	1.8	1.8	1.9	1.3	1.6
Employment (var. in %)	0.9	1.8	-4.8	4.0	1.3	1.1	0.7	1.0	0.5
Employment (thousands)	39	78	-210	165	60	50	30	48	19
Unemployment rate	5.5	5.1	9.1	7.5	6.9	6.1	5.8	6.3	7.1
Retail sales (var. in %)	3.6	0.9	-2.1	8.1	4.5	4.0	3.5	3.8	3.6
Housing starts (thousands of units)	47	48	53	47	42	41	41	44	45
Ontario									
Real GDP (var. in %)	2.2	1.7	-5.2	4.9	2.4	2.6	2.0	2.3	1.3
Total inflation rate (var. in %)	2.4	1.9	0.6	1.7	1.8	2.0	2.1	1.8	1.6
Employment (var. in %)	1.6	2.9	-5.4	4.3	1.7	1.5	1.3	1.6	0.7
Employment (thousands)	114	210	-401	302	125	112	99	115	47
Unemployment rate	5.6	5.6	9.8	9.0	7.7	6.3	6.0	6.1	7.8
Retail sales (var. in %)	4.4	2.9	-3.9	7.7	3.5	4.0	3.0	5.4	2.9
Housing starts (thousands of units)	79	69	84	78	78	79	80	74	80

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