ECONOMIC & FINANCIAL OUTLOOK

As the Global Recovery Continues, Inflationary Pressures Will Remain High

HIGHLIGHTS

- Many countries saw economic activity decline in the winter of 2021 with the second and third waves of COVID-19 but, in the G20 countries, the situation generally improved in the second quarter.
- However, few industrialized economies have recouped all the ground lost since the pandemic began. The countries with the best progress on vaccination seem to be hurting less from the spread of the Delta variant.
- For now, the post-COVID-19 surge in inflation is mainly a North American phenomenon, but the pressures on consumer prices could spread to the rest of the world.
- North American businesses are faced with supply problems, delivery delays, and higher commodity costs. Moreover, the labour shortages are starting to put upside pressure on wages.
- In the United States, real GDP finally beat its pre-pandemic level in the second quarter. As anticipated, easing public health restrictions and government help from March's stimulus plan gave U.S. consumption strong support.
- In Canada, many of the recent economic problems are due to certain production bottlenecks, not insufficient demand. Most of these obstacles are temporary, and the growth outlooks are fairly good for the coming quarters.
- Ontario could stand out with production contracting more than the national average in the second quarter due to supply problems, particularly in the automotive industry.
- Quebec's economy has bounced back nicely from the shock of the pandemic. Its real GDP was back at its pre-pandemic level as of March 2021. The province is advanced in the cycle and ranking well internationally. Certain sectors still have a long way to go, however. Real GDP's lively comeback will ebb to a slower pace in the coming quarters.
- In September, the Federal Reserve (Fed) again opted for the status quo. However, its statement stresses that a moderation in the pace of asset purchases may soon be warranted. Fed officials are also signalling more key rate increases in the medium term, starting towards the end of 2022.
- The Bank of Canada seems to want to stabilize its bond holdings soon. The first increase in Canadian key rates is still expected in October 2022. Gradual monetary policy normalization and the major upside risks to inflation should make bond yields rise in the coming quarters.

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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 spread of the Delta variant confirms that the pandemic is not over and that its development remains the main risk factor that could affect our economic scenarios. The slow pace of vaccination campaigns in some countries, lower-than-expected vaccine efficacy and the spread of new variants could affect the economic situation, forcing the extension or reintroduction of restrictive health measures. This would also affect the financial markets by eroding profit outlooks and investor optimism. The many supply and demand imbalances, including new production constraints stemming from the pandemic and supply problems, could make inflation surge more than anticipated. That said, economic growth, still supported by budgetary and monetary policies, could be stronger than expected. The surplus savings stockpiled during the pandemic could be spent rapidly, leading to robust demand and sustained growth in consumer prices. In the United States, the passing and implementation of President Joe Biden's ambitious infrastructure and family assistance plans could lead to stronger economic growth in the medium term. However, political uncertainty fueled by partisan divisions in Congress threatens to affect the economy and markets. The improved economic outlook and rapid rise in prices are making things harder for the central banks. Maintaining overly stimulating monetary policies or other highly aggressive budgetary measures could lead to a much bigger surge in inflation expectations and make bond yields rise. On the other hand, tightening monetary policies too abruptly could also trigger a negative reaction from markets. A major financial crisis in China could also worry international investors. In Canada, including Quebec, the boom in the residential real estate market is waning, but the risks of a price correction down the road persist.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2020	2021f	2022f	2020	2021f	2022f
Advanced economies	**39.8**	**-4.8**	**5.0**	**3.8**	**0.7**	**3.0**	**2.1**
United States	15.8	-3.4	5.9	3.8	1.2	4.3	2.8
Canada	1.4	-5.3	5.1	4.1	0.7	3.1	2.6
Quebec	*0.3*	*-5.3*	*7.0*	*2.7*	*0.8*	*3.4*	*2.5*
Ontario	*0.5*	*-5.1*	*4.5*	*4.2*	*0.7*	*3.2*	*2.7*
Japan	4.0	-4.7	2.7	2.5	0.0	0.5	0.6
United Kingdom	2.4	-9.8	6.2	5.1	0.9	2.6	2.8
Euro zone	12.4	-6.5	5.0	4.5	0.3	2.5	1.6
Germany	*3.4*	*-4.9*	*3.1*	*4.4*	*0.5*	*3.2*	*2.0*
France	*2.4*	*-8.0*	*6.2*	*4.0*	*0.5*	*1.9*	*1.4*
Italy	*2.0*	*-8.9*	*5.9*	*4.3*	*-0.1*	*1.8*	*1.3*
Other countries	4.2	-1.5	2.6	2.0	0.4	1.4	1.0
Australia	*1.0*	*-2.4*	*4.5*	*3.4*	*0.9*	*2.8*	*2.1*
Emerging and developing economies	**60.2**	**-2.6**	**6.4**	**4.9**	**3.0**	**3.8**	**3.5**
North Asia	25.5	-0.4	8.3	5.8	3.6	3.1	3.1
China	*17.3*	*2.3*	*8.4*	*5.5*	*2.5*	*1.8*	*2.4*
India	*7.1*	*-7.3*	*8.8*	*6.8*	*6.6*	*5.9*	*5.0*
South Asia	5.3	-4.6	3.4	5.4	0.9	2.5	2.4
Latin America	5.9	-6.4	5.7	2.9	3.1	5.6	3.7
Mexico	*1.9*	*-8.3*	*5.9*	*3.0*	*3.4*	*5.9*	*3.7*
Brazil	*2.4*	*-4.4*	*4.9*	*2.3*	*3.6*	*6.6*	*4.0*
Eastern Europe	8.0	-2.1	4.4	3.6	5.3	8.0	5.9
Russia	*3.2*	*-3.0*	*3.3*	*2.7*	*3.4*	*6.0*	*4.2*
Other countries	15.4	-4.4	6.0	4.7	4.2	5.1	5.5
South Africa	*0.6*	*-6.4*	*4.0*	*2.7*	*3.2*	*4.7*	*4.6*
World	**100.0**	**-3.5**	**5.9**	**4.5**	**2.1**	**3.5**	**3.0**

f: forecasts; PPP : Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; * 2019.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

FINANCIAL FORECASTS

After performing remarkably well since the start of the year, stock markets have been more volatile since early September. The financial difficulties facing Chinese giant Evergrande Real Estate Group and some edginess in the run up to September's Federal Reserve (Fed) meeting made the S&P 500 retreat over 4%. Stocks rebounded afterwards, but volatility is likely to remain high in the short term. In the end, the Fed once again opted for the status quo in September. However, its statement stresses that a moderation in the pace of asset purchases may soon be warranted. Fed officials are also signalling more key rate increases in the medium term, starting toward the end of 2022. This caused bond yields to jump. For its part, the Bank of Canada (BoC) is contemplating stabilizing its bond holdings soon. Gradual monetary policy normalization and the major upside inflation risks mean we expect bond yields to continue to rise in the coming quarters. Concerns over China recently gave the U.S. dollar a boost. The situation merits close monitoring, but the Canadian dollar could regain a little ground to end the year at around US$0.80. The loonie is expected to make further gains next year, as the BoC should start raising its key rates slightly ahead of the Fed.

TABLE 2
Summary of the financial forecasts

	2020		2021				2022			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Canada	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Federal bonds										
United States										
2-year	0.13	0.13	0.16	0.24	0.30	0.45	0.60	0.75	0.90	1.15
5-year	0.27	0.35	0.92	0.86	1.00	1.10	1.20	1.35	1.50	1.70
10-year	0.68	0.91	1.75	1.44	1.55	1.70	1.85	2.05	2.20	2.35
30-year	1.45	1.64	2.42	2.07	2.05	2.20	2.35	2.55	2.70	2.85
Canada										
2-year	0.25	0.20	0.22	0.45	0.50	0.65	0.75	0.90	1.05	1.30
5-year	0.36	0.39	0.99	0.97	1.10	1.20	1.30	1.50	1.65	1.85
10-year	0.57	0.67	1.55	1.39	1.50	1.60	1.75	1.95	2.10	2.25
30-year	1.11	1.21	1.97	1.84	1.95	2.05	2.15	2.30	2.40	2.55
Currency market										
Canadian dollar (USD/CAD)	1.33	1.27	1.26	1.24	1.27	1.25	1.25	1.23	1.22	1.21
Canadian dollar (CAD/USD)	0.75	0.79	0.80	0.81	0.79	0.80	0.80	0.81	0.82	0.83
Euro (EUR/USD)	1.17	1.22	1.18	1.19	1.17	1.18	1.19	1.19	1.18	1.17
British pound (GBP/USD)	1.29	1.37	1.38	1.38	1.37	1.38	1.39	1.40	1.40	1.41
Yen (USD/JPY)	105	103	111	111	110	110	111	111	112	112
Stock markets (level and growth)*										
United States – S&P 500	3,756		Target: 4,500 (+19.8%)				Target: 4,800 (+6.7%)			
Canada – S&P/TSX	17,433		Target: 21,000 (+20.5%)				Target: 22,500 (+7.1%)			
Commodities (annual average)										
WTI oil (US$/barrel)	39 (48*)		65 (66*)				66 (67*)			
Gold (US$/ounce)	1,771 (1,898*)		1,790 (1,740*)				1,665 (1,610*)			

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

Overseas

Inflationary Pressure Could Become Widespread

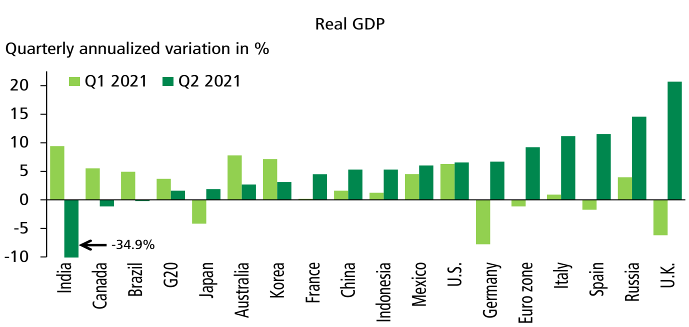
FORECASTS

The economy continues to recover. The regions that saw real GDP decline in early 2021 are now showing strong growth rates. This is especially true for the euro zone and the United Kingdom, which posted strong GDP gains in the second quarter of 2021. Some flagging was seen this summer, however, probably as a result of the wave of COVID-19's generated by the Delta variant. We expect Euroland's real GDP to rise 5.0% in 2021, with a gain of 6.2% in the United Kingdom. In China, while there are numerous signs of slowing, foreign trade is doing fairly well. Inflationary pressure is also materializing in an increasing number of economies, although price increases in Europe and Asia are not as steep as they are in North America.

While many countries' economies contracted in the winter of 2021 on the heels of the second and third waves of COVID-19, in the G20 countries, the situation generally improved in the second quarter (graph 1). The main blot on the picture is India, where a late third wave had a big impact on the country's growth. The spring recovery was mainly due to most of the restrictive public health measures being lifted after COVID-19 cases dropped and, in particular, to the progress of the vaccination campaign. The countries with the best progress on vaccination also seem to be hurting less from the surge in COVID-19 cases due to the spread of the Delta variant. The negative economic impact is fairly small among the indicators published so far. For example, many countries' PMI indexes recently posted dips, but are well above 50 in general, signalling continued growth (graph 2).

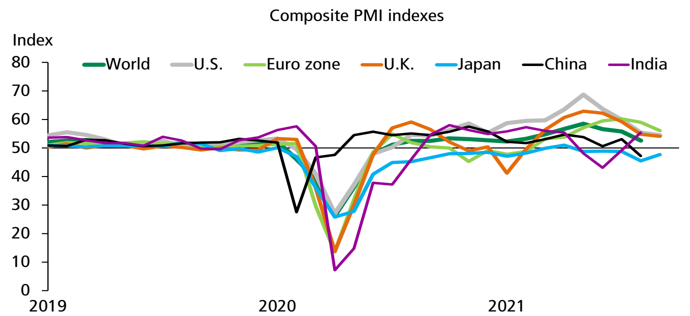
The new wave of COVID-19 cases has consequences beyond those triggered by stricter public health measures and consumer fears. By forcing plant closures and slowdowns in production or shipping, the new wave is exacerbating existing problems in many industries that have seen their supply chains hobble since the pandemic began. This is in addition to the pressures from higher commodity prices, the increase in transportation costs, the scarcity of some parts, and labour shortages. For now, the post-COVID-19 inflation surge is primarily a North American phenomenon (graph 3), but the pressures on consumer prices could still spread. There are signs of this in the United Kingdom and Germany.

GRAPH 1
Solid second-quarter growth in most OECD nations



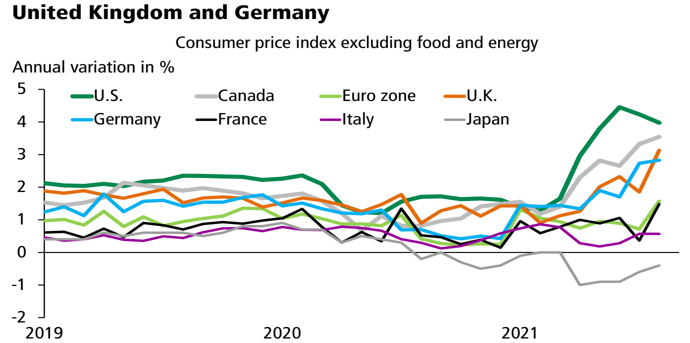
OECD: Organisation for Economic Co-operation and Development
Sources: OECD and Desjardins, Economic Studies

GRAPH 2
The PMI indexes are showing recent signs of moderating in many countries



Sources: IHS/Markit and Desjardins, Economic Studies

GRAPH 3
Inflation's recent acceleration is also showing up in the United Kingdom and Germany

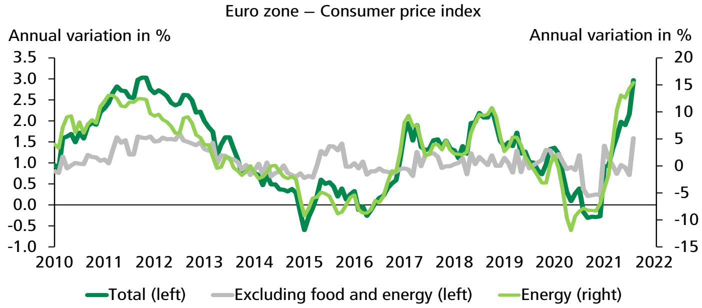


Sources: Datastream and Desjardins, Economic Studies

EURO ZONE

After declining 1.7% (annualized) at the end of 2020 and dropping 1.1% in the first quarter of 2021, real GDP rebounded 9.2% in the spring. It is still 2.5% below its peak, reached in the fourth quarter of 2020. However, movement in European indicators was muddier over the summer. Industrial production and retail sales fell, while some confidence indexes eroded slightly. However, these movements are not pronounced enough to suggest that the euro zone's economy is pulling back again. We expect Euroland's real GDP to grow 5.0% in 2021, followed by a 4.5% rise in 2022. We need to keep an eye on inflation, of course, but for now the situation seems to be under control, as the recent acceleration mainly comes from the rise in energy prices (graph 4).

GRAPH 4
Europe's inflation comes mainly from the rebound in energy prices

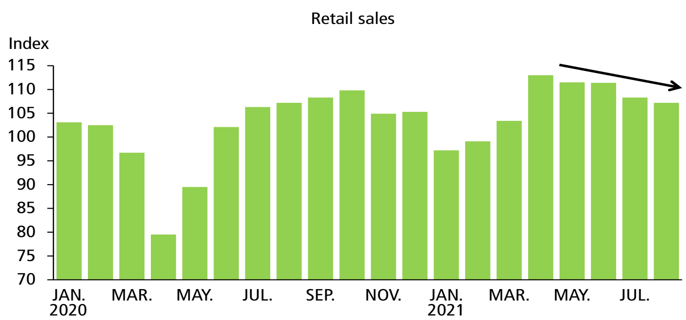


Sources: Eurostat and Desjardins, Economic Studies

UNITED KINGDOM

Last spring, the U.K.'s economy posted the strongest real GDP growth of the G20. Relaxing the public health measures after the drastic measures taken at the start of the year gave economic activity substantial momentum. Note, however, that some flagging is materializing, partly triggered by the wave of COVID-19's Delta variant. After surging from February to April, retail sales posted four straight monthly declines from May to August (graph 5). Britain's monthly real GDP stagnated in July. Growth should be somewhat more subdued in the third quarter than the annualized 20.7% gain posted by the U.K.'s real GDP in the spring.

GRAPH 5
Retail sales are down in the United Kingdom

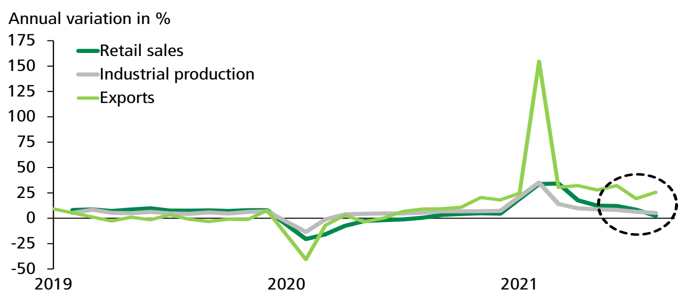


Sources: Office for National Statistics and Desjardins, Economic Studies

CHINA

For the last few months, China's economy has been showing several signs that it is slowing. However, it is hard to untangle indicator movements that are owing to base effects (compared with last year's sharp growth) from movements that could tell us that the situation is actually deteriorating. However, the annual variations in retail sales and industrial production have risen more slowly than the consensus forecast. China's composite PMI also recently dropped below 50. China' net exports seem solid, however, providing solid support for Chinese growth (graph 6). Also to watch is the problematic situation with Evergrande Real Estate Group, a huge corporation that primarily operates in real estate; its troubles could undermine the financial sector and the confidence of economic agents in China and abroad. Given the government's muscle, however, we are not expecting a major negative impact on the economic situation.

GRAPH 6
Chinese sales and production are slowing down, but exports are doing better



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

United States

Inflation Will Remain Very High in the Near Future

FORECASTS

U.S. real GDP growth was 6.6% on an annualized basis in the second quarter of 2021, similar to the first quarter's 6.3% but lower than anticipated. Growth should be fairly rapid in the third quarter, although July's retail sales and August's consumer confidence and job creation were disappointing. Real GDP is expected to record a quarterly annualized gain of 5.3% for the summer. U.S. real GDP should rise 5.9% in 2021 and 3.8% in 2022. However, keep an eye on price growth, which has accelerated quickly over the last few quarters.

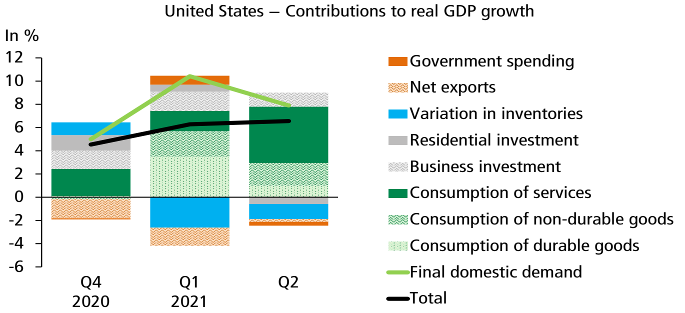
U.S. real GDP finally beat its pre-pandemic level (by 0.8%) thanks to its second-quarter increase. As anticipated, easing public health restrictions and government help from March's stimulus plan gave real consumption strong support in the United States, particularly in services, which jumped 11.3% on an annualized basis. The resulting strong growth came with solid increases in business investment in equipment and intellectual property. However, these favourable factors were partially offset by a striking decline in residential investment, a decrease in public spending, another erosion in the trade balance and, in particular, by substantial destocking by businesses (graph 7).

The shrinking inventories reflect the problems businesses raised in several surveys: they are facing supply problems, delivery delays, increases in commodity costs and labour shortages. So far, they have managed to cope with the recovery in customer demand by selling off inventory. But the shelves are emptying and starting to impact economic growth. The automotive sector is a good example of the problem. While demand remains high, production can no longer keep up because some parts are scarce. The small number of vehicles available is now curbing new vehicle sales, which have dropped 28.7% since April (graph 8). This decline should hit durable goods consumption hard in the third quarter.

The quarter will also be affected by movements in U.S. households' income. Disposable income jumped at the end of the winter on a new wave of US$1,600 special allowances from the federal government. An enhanced tax credit for families provided additional support over the summer. However, these measures' initial impact is now behind us. Moreover, Americans who were depending on special unemployment insurance relief will no longer be able to count on this income, as funding of federal enhancements was halted in September. Growth could therefore be affected by the end of this aid. Two factors should mitigate the negative impact, however. Firstly, the savings accumulated should support consumption (the savings rate should drop below its pre-pandemic trend). Secondly, the job market should keep recovering[1] at a solid pace, given the record number of job vacancies.

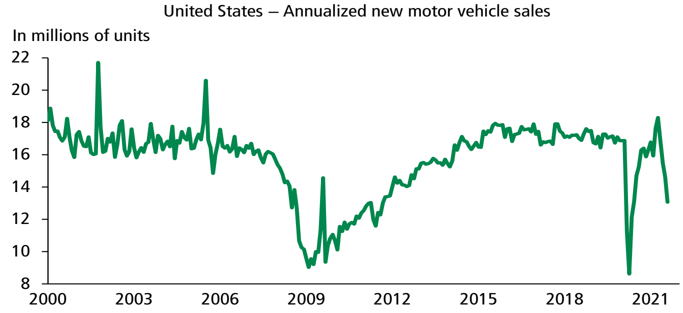
[1] For more details, see: The U.S. Job Market: A Recovery Where Underemployment and Labour Shortage Coexist, Desjardins, Economic Studies, *Economic Viewpoint*, September 24, 2021, 8 p.

GRAPH 7
The end of the lockdown made consumption of services rebound, but inventories fell again



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 8
Motor vehicle sales are down again



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

TABLE 3

United States: Major economic indicators

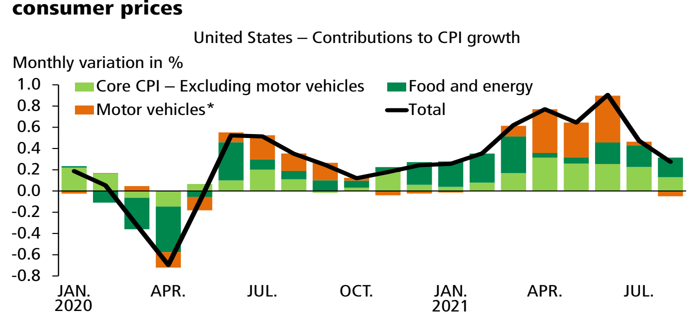
QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2021				2022		ANNUAL AVERAGE			
	Q1	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2019**	**2020**	**2021f**	**2022f**
Real GDP (2012 US$)	**6.3**	**6.6**	**5.3**	**4.8**	**3.2**	**2.8**	**2.3**	**-3.4**	**5.9**	**3.8**
Personal consumption expenditures	11.4	11.9	2.6	5.3	2.9	2.3	2.2	-3.8	8.1	3.6
Residential construction	13.3	-11.5	1.1	1.6	2.3	3.1	-0.9	6.8	10.5	1.4
Business fixed investment	12.9	9.3	4.6	8.8	7.4	6.5	4.3	-5.3	8.2	7.1
Inventory change (US$B)	-88.3	-169	0.0	20.0	30.0	40.0	75.1	-42.3	-59.4	42.5
Public expenditures	4.2	-1.9	1.7	1.2	1.5	2.2	2.2	2.5	0.8	1.5
Exports	-2.9	6.6	1.5	5.0	6.0	6.0	-0.1	-13.6	4.2	5.4
Imports	9.3	6.7	4.5	7.0	6.5	6.5	1.2	-8.9	13.2	6.3
Final domestic demand	10.4	7.9	2.7	4.9	3.3	2.9	2.4	-2.5	6.9	3.6
Other indicators										
Nominal GDP	10.9	13.2	10.5	7.2	5.3	4.8	4.1	-2.2	9.8	6.6
Real disposable personal income	54.7	-31.0	-8.0	-2.0	-0.2	1.5	2.3	6.2	1.4	-3.2
Employment according to establishments	2.1	4.8	6.6	5.3	3.1	2.4	1.3	-5.7	2.8	3.7
Unemployment rate (%)	6.2	5.9	5.2	4.7	4.6	4.5	3.7	8.1	5.5	4.3
Housing starts[1] (thousands of units)	1,599	1,588	1,593	1,603	1,617	1,638	1,296	1,396	1,596	1,640
Corporate profits*[2]	17.6	43.4	15.0	15.5	10.5	2.0	2.7	-5.2	21.9	4.0
Personal saving rate (%)	20.5	10.3	7.7	6.1	5.2	5.1	7.7	16.4	11.1	5.1
Total inflation rate*	1.9	4.8	5.2	5.4	4.8	3.0	1.8	1.2	4.3	2.8
Core inflation rate*[3]	1.4	3.7	4.1	4.3	4.5	3.0	2.2	1.7	3.4	3.0
Current account balance (US$B)	-758	-761	-784	-806	-819	-832	-472	-616	-777	-834

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

Another factor hurting growth by real disposable income is prices, which have been skyrocketing since last winter. The annual variation in the consumer price index (CPI) went from just 1.4% in January to a peak of 5.4% in July; it then edged down to 5.3% in August. Much of this rise came from energy prices, where the annual variation went from -3.8% in January to +24.9% in August. But several other categories of prices are also showing substantial increases, such as new and used cars, which have contributed heavily to the monthly (graph 9) and annual increases in the CPI since last spring. Base effects, ongoing high gasoline prices, and general pressure on business costs will keep inflation very high in the months to come. The annual variations in the CPI and core CPI, which excludes food and energy, should only really start to come down at the end of next winter. We expect CPI growth to hit 4.3% in 2021 and 2.8% in 2022.

GRAPH 9

The auto industry significantly contributed to the variation in consumer prices



CPI: Consumer price index; * New vehicles, used vehicles, parts and equipment, rentals, repair services, insurance and fees.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Canada

Towards a Rebound in Growth after the Spring Difficulties

FORECASTS

Canada's economy overcame numerous obstacles last spring, including the introduction of new public health measures to combat the third wave of COVID-19. Major supply problems also curbed production in some sectors. Many of the Canadian economy's recent difficulties therefore stem from supply restrictions, not from insufficient demand. Most of these obstacles are temporary, and the growth outlooks for the coming quarters are fairly good, particularly as the vaccination campaign is now almost completely wrapped up, and a vaccine passport is being introduced across the country. While some volatility should persist, real GDP should be back in positive territory as of the third quarter, and keep rising after that. 2021 could end with a 5.1% gain, followed by a 4.1% increase in 2022.

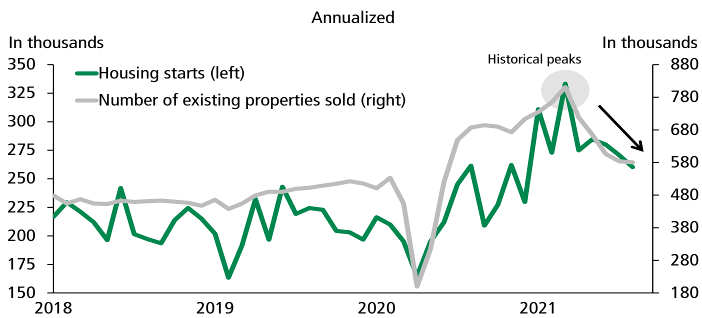
While Statistics Canada's preliminary results indicated real GDP growth of about 2.4% (annualized) from the first to the second quarter, the data in the economic accounts suggest that it contracted 1.1% instead. Note that the numerous public health measures introduced to combat the third wave of COVID-19 reined in some activities last spring. Domestic demand therefore only advanced 0.7% during that period, much less than in the previous quarters. On one hand, the rebound in household spending on services was offset by a reduction in goods consumption. On the other hand, the benefits of the increase in non-residential business investment were wiped out by a drop in the housing sector. Moreover, real GDP was hit by a deterioration in the international trade balance with a much bigger drop in exports than imports.

With respect to the weakness in exports, supply problems hit some sectors hard. This is particularly true for the automotive products industry, where the world shortage of semiconductor chips is really hurting. The energy sector also saw its exports plunge in the second quarter, when numerous producers did maintenance work. Theoretically, these difficulties should wane in the coming quarters.

The second-quarter drop in residential investment does not come as a surprise. After peaking in March, sales of existing properties and housing starts began to decline last spring (graph 10). Everything suggests they will continue to slow in the coming quarters, particularly because affordability has eroded due to the surge in prices. However, sales and new construction should still remain fairly high, historically speaking.

Two factors go a long way toward explaining the second-quarter struggles in consumer spending on goods. First, the housing market has slowed from the record peaks seen in March, impacting some spending associated with shelter. For example, purchases of tools and other materials for home and garden have plunged, along with spending on other shelter-related goods and services. As the housing market should keep trending down, everything suggests this type of spending could still be affected in the coming quarters. Second, the lifting of certain public health measures triggered some adjustments in consumer spending. Among other things, spending on groceries fell sharply, while spending on food services jumped, simultaneously boosting consumption of services at the expense of goods consumption.

GRAPH 10
Canada's housing market is down from last March's peaks



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

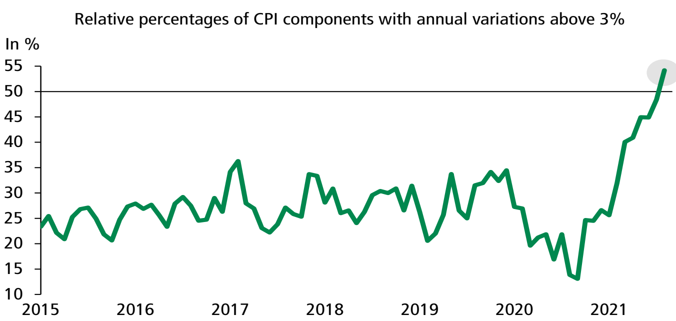
Lastly, inflation will have to be monitored over the next few months. The annual variation in the consumer price index (CPI) rose to 4.1% in August, its highest point in the last 18 years. Note that some temporary factors are still pushing inflation up; oil prices, for example, are compared with last year's lower levels. That said, the acceleration in price growth is becoming increasingly widespread. Based on our estimates, 54.2% of total CPI basket components (graph 11 on page 9) saw annual price growth above the Bank of Canada's upper target (3%) in August. Clearly, the imbalances between supply and demand for many goods and services are making themselves felt. According to our projections, the annual inflation rate could nonetheless peak within a few months, then gradually pull back, as the

TABLE 4
Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2021 Q1	2021 Q2	2021 Q3f	2021 Q4f	2022 Q1f	2022 Q2f	ANNUAL AVERAGE 2019	2020	2021f	2022f
Real GDP (2012 $)	**5.5**	**-1.1**	**4.0**	**6.6**	**4.7**	**3.6**	**1.9**	**-5.3**	**5.1**	**4.1**
Final consumption expenditure [of which:]	3.6	2.0	8.2	6.8	5.4	1.6	1.7	-4.4	5.2	4.2
Household consumption expenditure	*2.6*	*0.2*	*9.6*	*9.5*	*7.6*	*3.0*	*1.6*	*-6.0*	*4.9*	*5.9*
Governments consumption expenditure	*6.9*	*6.1*	*5.0*	*-0.3*	*-0.2*	*-2.0*	*2.0*	*-0.3*	*6.0*	*0.1*
Gross fixed capital formation [of which:]	16.6	-3.2	-4.3	1.2	3.4	5.2	0.3	-3.7	8.1	3.5
Residential structures	*42.1*	*-12.4*	*-15.4*	*-7.0*	*-3.8*	*-4.1*	*-0.2*	*4.1*	*16.4*	*-6.0*
Non-residential structures	*1.9*	*5.1*	*6.0*	*4.4*	*8.5*	*14.2*	*1.1*	*-11.3*	*-4.2*	*8.1*
Machinery and equipment	*-16.7*	*24.9*	*-8.0*	*2.2*	*7.7*	*15.7*	*1.0*	*-17.4*	*4.8*	*7.3*
Intellectual property products	*18.7*	*3.3*	*-13.1*	*4.5*	*8.8*	*14.7*	*-1.9*	*-3.5*	*5.4*	*5.6*
Governments gross fixed capital formation	*8.1*	*-7.7*	*12.5*	*12.1*	*6.3*	*1.0*	*0.3*	*4.1*	*6.7*	*5.0*
Investment in inventories (2012 $B)	-5.8	8.3	-4.0	5.0	4.3	8.9	18.8	-15.9	0.9	9.0
Exports	3.3	-15.0	11.5	9.8	13.4	15.1	1.3	-10.0	2.3	10.1
Imports	4.3	-0.1	8.6	11.7	14.0	14.1	0.4	-11.2	7.8	10.5
Final domestic demand	6.5	0.7	5.3	5.5	4.9	2.4	1.4	-4.3	5.7	3.7
Other indicators										
Nominal GDP	18.6	7.9	7.5	9.5	4.8	4.6	3.6	-4.6	12.8	5.9
Real disposable personal income	6.3	6.1	-3.4	-15.9	3.9	5.4	2.2	9.5	0.4	-1.0
Employment	1.0	2.5	6.8	4.1	2.7	2.4	2.2	-5.2	4.6	3.3
Unemployment rate (%)	8.4	8.0	7.2	6.7	6.3	6.1	5.7	9.5	7.6	6.1
Housing starts[1] (thousands of units)	306	280	263	253	245	238	209	218	275	234
Corporate profits*[2]	48.2	68.1	10.0	10.0	10.0	8.0	0.6	-4.0	30.8	7.8
Personal saving rate (%)	13.0	14.2	11.3	5.2	4.3	4.9	1.4	14.5	10.9	4.6
Total inflation rate*	1.4	3.3	4.0	3.9	3.5	3.0	1.9	0.7	3.1	2.6
Core inflation rate*[3]	1.0	2.1	3.0	2.7	2.8	2.2	2.0	1.1	2.2	2.0
Current account balance ($B)	1.8	3.6	3.4	4.3	1.3	-0.4	-47.4	-40.1	13.2	-1.2

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

GRAPH 11
More than half of CPI basket components saw inflation above 3% in Canada



CPI: Consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

upward pressure from certain temporary factors subsides. However, the risks tied to this forecast are markedly upside.

Quebec

The Economy's Recovery Will Make Way for More Subdued Growth

FORECASTS

Quebec's economy has bounced back nicely from the shock of the pandemic. Its real GDP was back at its pre-pandemic level as of March 2021, before public health measures were gradually lifted starting in May. Certain sectors still have a long way to go, however. Real GDP's lively comeback will ebb to a slower pace in the coming quarters. The loss of steam in the housing market will help rein the economy in. The economy will still grow 7.0% this year, then 2.7% in 2022. Although Quebec was hit with a fourth wave, further closures should likely be avoided due to the introduction of the vaccine passport on September 1. The next few quarters look promising for the economy, although there's still some uncertainty over how the pandemic will unfold.

Few industrialized economies have finished recovering so far. Only a few G20 countries have managed it, including the United States. Hampered by supply problems in the automotive sector, Ontario and Canada have not yet seen real GDP come back completely. In Quebec, the second quarter's 3.4% annualized economic growth confirms that it is doing well. The province is advanced in the cycle and ranking well internationally. Real GDP growth will be higher than most advanced economies in 2021 but will slow more next year.

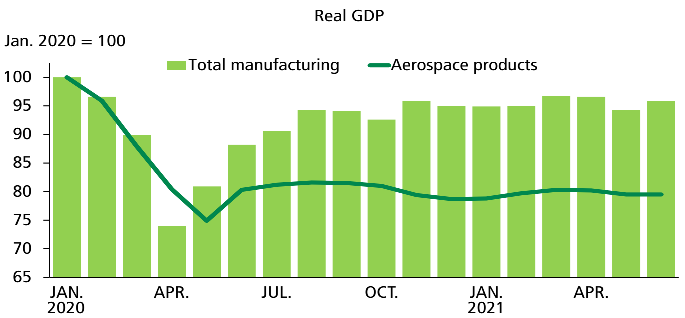
Quebec's broad industrial diversification helped the economy to start rebounding in the summer of 2020 and maintain a good pace since then. Despite the weight of the aerospace industry, its tumble did not stop total manufacturing production from recovering almost completely (graph 12). Several sectors that have seen sustained demand since the start of the pandemic, particularly lumber, mineral products and aluminum, accelerated the economy's recovery.

The boom in residential construction, which has given way to a lull in recent months, will curb these industries' momentum. In August, Quebec's housing starts fell to an annualized 57,323 units, far below the historic peak of 113,548 hit in January. The drop to a more sustainable level was expected; our 2021 forecast, which calls for 69,000 housing starts, therefore holds. High new home prices will cut construction further next year. The resale market for existing properties is also flagging. The surge in prices is stabilizing somewhat, and sales continue to trend down (graph 13).

Spending on goods is going much stronger than prior to the pandemic, now that some sectors have rebounded. Merchants selling materials, furnishings and decorative items as well as sporting goods stores have done very well. A slowdown is expected due to the lull in the residential sector and lifting of restrictions on most recreational activities. The situation will remain challenging for clothing and footwear, as they are still being pummelled by telework.

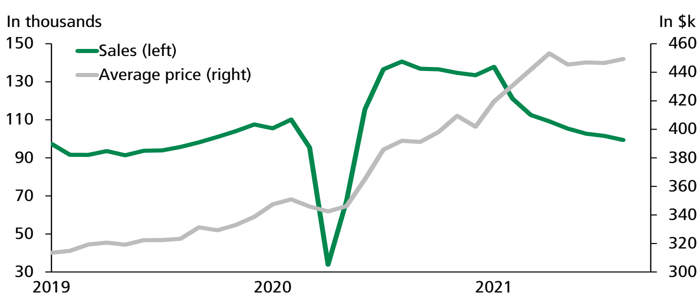
Shutdowns for some types of businesses hit spending on services hard (graph 14 on page 11). They have a long road ahead, even though the summer was good. Spending on accommodation, food services and entertainment has rebounded, even with no international tourists. Spending on services has a long way to go to catch up completely, however.

GRAPH 12
Quebec manufacturing has almost completely recovered despite problems in the aerospace sector



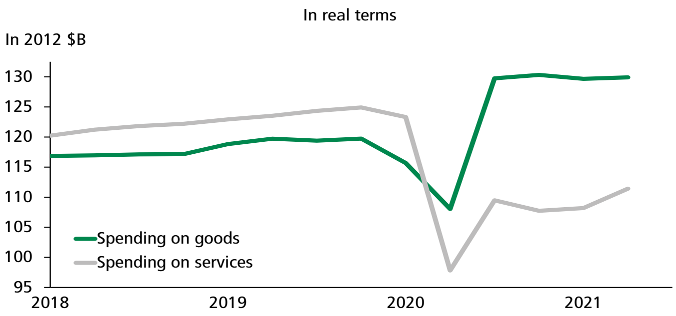
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 13
Existing home sales soften in Quebec and prices are relatively stable



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 14
Quebecers' spending on services still has a long way to go



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

Quebecers have a lot of leeway on consumption given the substantial savings at their disposal. The savings rate peaked at 30.4% in the spring of 2020 and was still high at 16.1% in the second quarter of 2021. It should slowly come down, as households will be spending more of their after-tax income on services, particularly entertainment.

The unemployment rate, which hit a 17.6% peak in April 2020 during the Great Lockdown, fell to 5.8% in August. It is closing in on the 4.5% low reached in February 2020. The structural factors that helped bring the unemployment rate down so much before the pandemic are still with us.[1] The unemployment rate fell quickly, putting the labour shortage back at centre stage.

[1] For more details, see: *How Has the Equilibrium Unemployment Rate Evolved in the Administrative Regions of Quebec?*, Desjardins, Economic Studies, *Economic Viewpoint*, September 2, 2021, 9 p.

TABLE 5
Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2018	2019	2020	2021f	2022f
Real GDP (2012 $)	**2.9**	**2.7**	**-5.3**	**7.0**	**2.7**
Final consumption expenditure [of which:]	2.4	2.1	-4.1	5.5	4.6
Household consumption expenditure	*2.7*	*2.1*	*-5.5*	*5.5*	*5.6*
Governments consumption expenditure	*1.7*	*2.2*	*-0.3*	*5.6*	*2.6*
Gross fixed capital formation [of which:]	4.0	3.2	-1.7	8.4	1.0
Residential structures	*3.9*	*3.7*	*2.9*	*17.7*	*-3.0*
Non-residential structures	*3.0*	*6.3*	*-4.1*	*-0.6*	*2.0*
Machinery and equipment	*-0.4*	*7.3*	*-15.1*	*-5.4*	*3.0*
Intellectual property products	*3.9*	*-0.6*	*-3.1*	*14.2*	*2.7*
Governments gross fixed capital formation	*8.2*	*-0.9*	*1.4*	*3.6*	*4.5*
Investment in inventories (2012 $B)	2,202	4,066	-5,120	445	3,500
Exports	3.8	1.7	-11.7	4.1	4.5
Imports	2.4	1.9	-13.0	6.1	7.3
Final domestic demand	2.7	2.3	-3.6	6.1	3.9
Other indicators					
Nominal GDP	5.4	4.3	-4.1	11.1	5.1
Real disposable personal income	2.8	3.5	9.5	0.8	1.1
Weekly earnings	3.2	3.5	7.8	3.7	3.0
Employment	1.5	2.0	-4.8	4.1	2.9
Unemployment rate (%)	5.5	5.1	8.9	6.3	5.1
Personal saving rate (%)	5.3	6.8	18.9	15.1	10.8
Retail sales	3.6	0.9	-0.2	12.5	3.6
Housing starts[1] (thousands of units)	46.9	48.0	54.1	69.0	58.0
Total inflation rate	1.7	2.1	0.8	3.4	2.5

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

Ontario and Other Provinces

An Uneven Recovery That Is Littered with Obstacles

FORECASTS

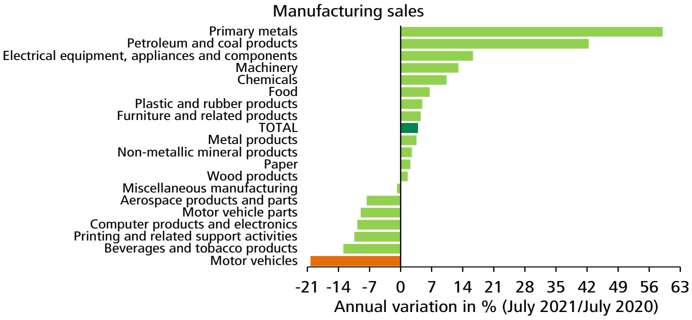
The fourth wave of COVID-19 is affecting the provinces very differently. With the vaccination campaign almost completed and a vaccine passport being introduced in all the provinces, the country should avoid further lockdowns. The economy should keep growing in all provinces in the coming quarters, although unevenly. Ontario could stand out with production contracting more than the national average in the second quarter, as the province will be hard hit by the supply problems, particularly in the automotive industry.

ONTARIO

The main factors that triggered the Canadian economy's pullback in the second quarter were especially present in Ontario. The third wave of COVID-19 was very big in the province, forcing Ontario to impose particularly harsh public health measures. The gradual recovery of activities in Ontario was also later than in other provinces. In terms of supply problems, the automotive industry was one of the hardest hit sectors; this will have a major impact on Ontario's production (graph 15). Under these circumstances, the second quarter should wrap up with Ontario's real GDP declining more than Canada's.

These factors should, however, largely resolve in the coming quarters, making growth outlooks relatively good. The public health restrictions have been eased substantially, and a vaccine passport is being introduced, which should make it possible to avoid further restrictions despite a fourth wave of COVID-19. Supply problems could still trigger some volatility in the coming quarters, but most of the negative effects are probably a thing of the past, as some manufacturers have started to adjust. However, real GDP growth could still be slowed in the coming quarters by the downward trend in the housing market since the historical highs in March. All in all, our scenario now calls for real GDP to grow 4.5% for 2021, followed by a 4.2% gain in 2022.

GRAPH 15
Ontario's automotive industry is struggling



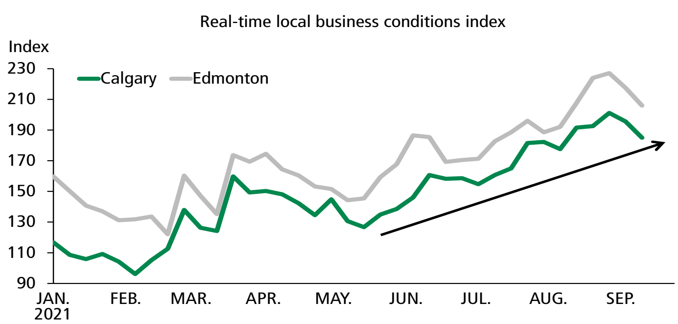
Sources: Statistics Canada and Desjardins, Economic Studies

WESTERN PROVINCES

As shown by a number of economic indicators, the Alberta and Saskatchewan economies have been posting growth above the national average since the start of the year. After five months, the two provinces' activity indexes are posting the highest carryovers in the country for 2021. Statistics Canada's new real-time local business conditions index has also risen sharply since mid-May in Calgary and Edmonton (graph 16). Note that public health measures were generally less stringent in this part of the country. However, the number of COVID-19 cases has shot up in Alberta and Saskatchewan in the last few weeks, prompting them to follow the lead of most other provinces in introducing a vaccine passport.

Overall, Manitoba's growth outlook is also very good. The province has one of the country's lowest unemployment rates and growth in retail sales has been fairly sustained since the year began. The province is also benefiting from the fact that the pandemic did not negatively impact the crop production sector (graph 17 on page 13).

GRAPH 16
Alberta's economic activity seems to have accelerated since May



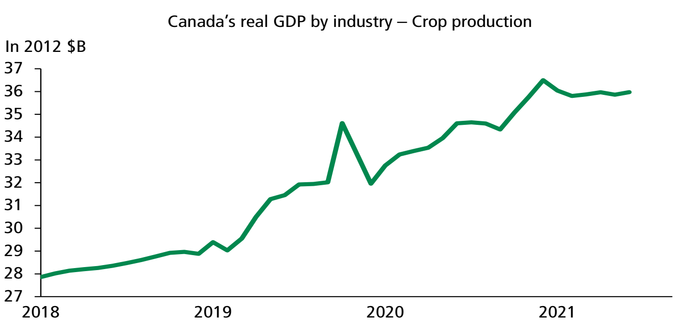
Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2018	2019	2020	2021f	2021f
Real GDP (2012 $)	**2.8**	**2.1**	**-5.1**	**4.5**	**4.2**
Final consumption expenditure [of which:]	3.2	1.8	-4.6	4.4	4.7
Household consumption expenditure	*2.9*	*1.9*	*-6.0*	*3.5*	*5.8*
Governments consumption expenditure	*4.0*	*1.4*	*-0.6*	*6.8*	*1.3*
Gross fixed capital formation [of which:]	4.3	-0.7	-1.2	13.9	1.9
Residential structures	*-3.6*	*0.5*	*8.5*	*21.8*	*-5.2*
Non-residential structures	*19.8*	*-4.3*	*-11.1*	*-1.7*	*7.3*
Machinery and equipment	*6.5*	*-0.6*	*-15.1*	*13.7*	*6.9*
Intellectual property products	*6.2*	*-1.1*	*-3.3*	*7.8*	*7.2*
Governments gross fixed capital formation	*6.1*	*0.8*	*0.3*	*4.0*	*3.4*
Investment in inventories (2012 $B)	7,613	8,728	-5,753	-4,378	-4,899
Exports	1.1	2.1	-8.4	3.6	9.5
Imports	2.3	0.6	-9.5	7.8	9.1
Final domestic demand	3.4	1.2	-3.9	6.6	4.1
Other indicators					
Nominal GDP	4.1	3.8	-4.6	9.8	6.4
Real disposable personal income	2.7	2.6	9.8	1.3	-0.4
Weekly earnings	2.9	2.7	7.3	4.9	3.3
Employment	1.7	2.8	-4.8	4.6	3.6
Unemployment rate (%)	5.7	5.6	9.6	8.2	6.8
Personal saving rate (%)	-1,0	-0,6	13,2	11.0	5.9
Retail sales	4.5	2.3	-3.5	8.0	7.2
Housing starts[1] (thousands of units)	78.7	69.0	81.3	100.3	84.4
Total inflation rate*	2.4	1.9	0.7	3.2	2.7

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 17
The pandemic did not really disrupt the crop production sector



Sources: Statistics Canada and Desjardins, Economic Studies

In British Columbia, economic growth is getting a boost from the surge in forestry and logging in recent months. The province's merchandise exports are also up sharply since the start of the year. What remains to be seen is how much the recent forest fires will hamper the province's production.

ATLANTIC PROVINCES

Overall, the Atlantic provinces are seeing a gradual comeback. Newfoundland and Labrador stands out on several points, however, with more robust growth since the start of 2021. Note that 2020's problems hit the province hard, resulting in more ground to recoup. In August, Newfoundland and Labrador's unemployment rate dropped below its pre-pandemic level for the first time.

TABLE 7

Canada: Major economic indicators by provinces

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2018	2019	2020	2021f	2022f
Real GDP growth – Canada	**2.4**	**1.9**	**-5.3**	**5.1**	**4.1**
Atlantic	-0.1	2.7	-3.9	2.9	3.0
Quebec	2.9	2.7	-5.3	7.0	2.7
Ontario	2.8	2.1	-5.1	4.5	4.2
Manitoba	1.5	0.6	-4.8	4.0	4.0
Saskatchewan	1.2	-0.7	-5.2	5.3	4.5
Alberta	1.9	0.1	-8.2	5.9	4.8
British Columbia	2.7	2.7	-3.8	4.9	4.8
Total inflation rate – Canada	**2.3**	**1.9**	**0.7**	**3.1**	**2.6**
Atlantic	2.0	1.5	0.2	3.7	3.1
Quebec	1.7	2.1	0.8	3.4	2.5
Ontario	2.4	1.9	0.7	3.2	2.7
Manitoba	2.5	2.2	0.5	3.0	2.5
Saskatchewan	2.3	1.7	0.6	2.3	1.9
Alberta	2.4	1.8	1.1	3.1	2.6
British Columbia	2.7	2.3	0.8	2.6	2.1
Employment growth – Canada	**1.6**	**2.2**	**-5.2**	**4.6**	**3.3**
Atlantic	1.3	1.7	-4.1	3.6	2.3
Quebec	1.5	2.0	-4.8	4.1	2.9
Ontario	1.7	2.8	-4.8	4.6	3.6
Manitoba	1.1	1.0	-3.7	3.4	2.0
Saskatchewan	0.5	1.9	-4.7	2.6	2.0
Alberta	1.9	0.7	-6.6	5.0	4.0
British Columbia	1.4	3.0	-6.6	6.6	4.2
Unemployment rate – Canada	**5.9**	**5.7**	**9.5**	**7.6**	**6.1**
Atlantic	9.2	8.7	10.8	9.4	7.6
Quebec	5.5	5.1	8.9	6.3	5.1
Ontario	5.7	5.6	9.6	8.2	6.8
Manitoba	6.0	5.3	8.0	6.5	5.2
Saskatchewan	6.2	5.6	8.4	6.9	5.5
Alberta	6.7	7.0	11.4	8.6	6.9
British Columbia	4.7	4.7	8.9	6.6	5.3
Retail sales growth – Canada	**3.0**	**1.2**	**-1.3**	**11.1**	**5.9**
Atlantic	0.2	1.9	0.1	13.3	5.5
Quebec	3.6	0.9	-0.2	12.5	3.6
Ontario	4.5	2.3	-3.5	8.0	7.2
Manitoba	2.2	0.8	0.8	14.5	5.0
Saskatchewan	-0.5	0.3	-1.1	10.5	5.0
Alberta	1.8	-0.8	-2.3	12.5	6.5
British Columbia	1.9	0.6	2.4	13.5	6.0
Housing starts – Canada (thousands of units)	**212.8**	**208.7**	**217.8**	**275.4**	**233.8**
Atlantic	9.3	10.1	10.3	10.4	10.7
Quebec	46.9	48.0	54.1	69.0	58.0
Ontario	78.7	69.0	81.3	100.3	84.4
Manitoba	7.4	6.9	7.3	8.2	6.6
Saskatchewan	3.6	2.4	3.1	3.8	4.2
Alberta	26.1	27.3	24.0	33.2	27.9
British Columbia	40.9	44.9	37.7	50.5	42.0

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

Medium-Term Issues and Forecasts

Numerous Challenges on the Horizon

In most countries, economic growth will be softer after 2022, when the economic cycle will be entering into a more mature phase. The pandemic should be over, but the global economy will still face several other challenges, which could also limit the pace of growth. Among them, many governments will have to cope with heavy debt without losing sight of ambitious environmental targets. The next few years should also see interest rates rise slowly to keep inflation at about 2% per year. Higher interest rates should also limit the rise in the value of some asset classes, particularly the stock market.

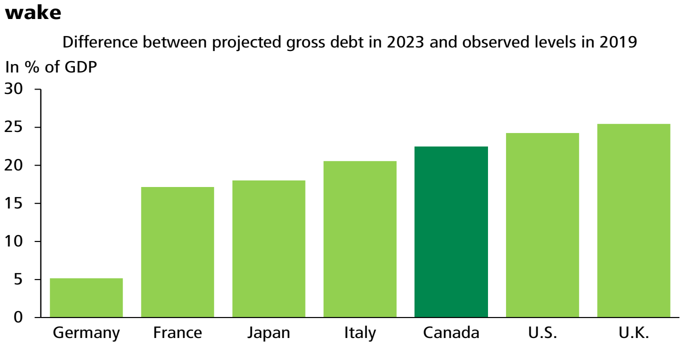
Rapid Return to Full Potential

The sustained economic growth expected in the near term suggests a rapid return to the long-term trend for real GDP, particularly in the United States, Canada and Quebec. This long-term trend is also called potential GDP. Potential GDP is an estimation of what the economy can produce by using the available production capacities and labour normally, not to excess. Such a fast return to potential GDP is fairly rare after a recession. However, the recession at the start of the pandemic was atypical, and much of the economic activity lost has now been recouped after many public health constraints were removed.

A Pricey Economic Recovery

The low interest rates applied by the central banks and the many government assistance programs are also helping the economy to bounce back quickly. This will leave scars over the medium term, particularly higher government debt loads. According to International Monetary Fund (IMF) projections, the additional burden on G7 countries' debt will hover around an average of 20% of GDP in 2023 (graph 18). Germany is likely the country that will come out of it the best.

GRAPH 18
The pandemic will leave a major increase in public debt in its wake



Sources: International Monetary Fund and Desjardins, Economic Studies

Many governments will probably want to reduce their debt burden either by cutting back on expenses or increasing revenue. Both of these moves would limit economic growth. However, governments will also have to deal with ambitious environmental commitments, particularly to reduce greenhouse gases. Substantial sums of money will be needed over the next few years to meet these goals. Reconciling all of this will not be easy.

Toward More Lasting Inflationary Pressure

Another scar left by aggressive government and central bank intervention is inflation. A livelier economy generates more inflationary pressure. Some of the current inflation stems from temporary supply chain disruptions. More lasting factors should nonetheless take root in the coming years. Among other things, inflation will arise from the elimination of excess production capacity and increasingly scarce labour. Another issue for inflation is the pace at which the surplus savings accumulated during the pandemic will be spent. If the money is released too quickly, it will increase inflationary pressure.

Monetary Tightening Could Curb Inflation

Whatever happens, central banks can rein in inflation. Monetary policies can be adjusted to curb demand and keep inflation close to official targets. In our scenario, we expect the Federal Reserve to start raising its key rates at the end of 2022 and the top of the target range for federal funds should reach 2.50% at the end of 2024. In Canada, key rates should start to go up in October 2022. They will probably rise about 25 basis points per quarter, bringing the overnight rate to a plateau of 2.00% in the summer of 2024.

Higher interest rates combined with a reduction in the liquidity being injected by central banks should also limit inflation in assets. The stock market is expected to make smaller gains over the medium term. The housing market should also keep moderating.

TABLE 8

Medium-term major economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE 2019	2020	2021f	2022f	2023f	2024f	2025f	AVERAGES 2016–2020	2021–2025f
United States									
Real GDP (var. in %)	2.3	-3.4	5.9	3.8	2.3	1.9	1.6	1.1	3.1
Total inflation rate (var. in %)	1.8	1.2	4.3	2.8	2.5	2.2	2.1	1.8	2.8
Unemployment rate	3.7	8.1	5.5	4.3	4.0	3.8	3.7	5.0	4.3
S&P 500 index (var. in %)[1]	28.9	16.3	19.8	6.7	5.0	4.0	4.0	13.6	7.9
Federal funds rate	2.28	0.54	0.25	0.25	0.90	1.90	2.50	1.27	1.16
Prime rate	5.28	3.54	3.25	3.25	3.90	4.90	5.50	4.27	4.16
Treasury bills – 3-month	2.10	0.37	0.05	0.20	0.90	1.90	2.40	1.14	1.09
Federal bonds – 10-year	2.14	0.89	1.45	2.10	2.65	3.00	3.10	2.02	2.46
– 30-year	2.58	1.56	2.15	2.60	3.10	3.40	3.50	2.55	2.95
WTI oil (US$/barrel)	57	39	65	66	64	63	61	51	64
Gold (US$/ounce)	1,393	1,771	1,790	1,665	1,630	1,600	1,600	1,388	1,657
Canada									
Real GDP (var. in %)	1.9	-5.3	5.1	4.1	2.4	1.8	1.6	0.6	3.0
Total inflation rate (var. in %)	1.9	0.7	3.1	2.6	2.2	1.9	2.0	1.6	2.4
Employment (var. in %)	2.2	-5.2	4.6	3.3	1.7	1.3	1.0	0.3	2.4
Employment (thousands)	418	-986	834	621	336	256	209	41	451
Unemployment rate	5.7	9.5	7.6	6.1	5.7	5.3	4.9	6.9	5.9
Housing starts (thousands of units)	209	218	275	234	220	218	215	211	232
S&P/TSX index (var. in %)[1]	19.1	2.2	20.5	7.1	6.0	3.0	3.0	6.6	7.9
Exchange rate (US$/C$)	0.75	0.75	0.80	0.81	0.83	0.82	0.81	0.76	0.81
Overnight funds	1.75	0.56	0.25	0.30	1.05	1.80	2.00	0.98	1.08
Prime rate	3.95	2.75	2.45	2.50	3.25	4.00	4.20	3.18	3.28
Mortgage rate – 1-year	3.64	3.25	2.80	2.80	3.35	4.00	4.10	3.33	3.41
– 5-year	5.27	4.95	4.80	5.00	5.50	5.75	5.80	4.98	5.37
Treasury bills – 3-month	1.65	0.44	0.15	0.30	1.10	1.80	2.00	0.93	1.07
Federal bonds – 2-year	1.59	0.51	0.40	1.00	1.75	2.15	2.20	1.15	1.50
– 5-year	1.54	0.60	0.90	1.55	2.05	2.30	2.35	1.28	1.83
– 10-year	1.59	0.75	1.40	2.00	2.40	2.65	2.65	1.53	2.22
– 30-year	1.80	1.21	1.85	2.35	2.70	2.95	3.00	1.92	2.57
Yield spreads (Canada—United States)									
Treasury bills – 3-month	-0.45	0.07	0.10	0.10	0.20	-0.10	-0.40	-0.21	-0.02
Federal bonds – 10-year	-0.55	-0.14	-0.05	-0.10	-0.25	-0.35	-0.45	-0.49	-0.24
– 30-year	-0.78	-0.35	-0.30	-0.25	-0.40	-0.45	-0.50	-0.63	-0.38
Quebec									
Real GDP (var. in %)	2.7	-5.3	7.0	2.7	1.9	1.6	1.4	1.0	2.9
Total inflation rate (var. in %)	2.1	0.8	3.4	2.5	2.2	1.9	2.0	1.3	2.4
Employment (var. in %)	2.0	-4.8	4.1	2.9	1.5	1.2	1.0	0.4	2.2
Employment (thousands)	86	-209	170	125	65	55	45	-6	92
Unemployment rate	5.1	8.9	6.3	5.1	4.9	4.7	4.5	6.6	5.1
Retail sales (var. in %)	0.9	-0.2	12.5	3.6	4.0	3.5	3.0	3.3	5.3
Housing starts (thousands of units)	48	54	69	58	47	44	41	47	52
Ontario									
Real GDP (var. in %)	2.1	-5.1	4.5	4.2	2.5	2.0	1.7	0.9	3.0
Total inflation rate (var. in %)	1.9	0.7	3.2	2.7	2.3	2.0	2.0	1.7	2.4
Employment (var. in %)	2.8	-4.8	4.6	3.6	1.7	1.4	1.1	0.5	2.5
Employment (thousands)	204	-355	320	268	129	108	86	35	182
Unemployment rate	5.6	9.6	8.2	6.8	6.2	5.3	4.8	6.7	6.3
Retail sales (var. in %)	2.3	-3.5	8.0	7.2	4.0	3.5	3.0	3.6	5.1
Housing starts (thousands of units)	69	81	100	84	82	80	78	77	85

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