

# ECONOMIC & FINANCIAL OUTLOOK

## Strong Inflation, Supply Issues and New Pandemic Fears: Major Uncertainties Heading into 2022

### HIGHLIGHTS

- ▶ The world's economy has improved in the last few quarters, but the pandemic is clearly not over yet and its economic impacts are very much with us. Supply problems along with significant increases in energy and commodity prices contributed to an almost general surge in inflation worldwide.
- ▶ U.S. real GDP growth disappointed in the third quarter of 2021, but better growth is forecast for the year's final quarter. In the United States, inflation should remain high in the near term and real GDP growth is expected to reach 3.5% in 2022.
- ▶ In Canada, economic growth in the fourth quarter of 2021 appears to be off to an encouraging start but flooding in British Columbia has exacerbated supply issues. Annualized real GDP growth for the fourth quarter could still come in at around 4%. On average, 2021 could see expansion of 4.5%, followed by gains of 3.9% in 2022 and 3.1% in 2023. Imbalances between supply and demand are expected to continue exerting upward price pressure on many goods and services.
- ▶ Quebec's real GDP has been seesawing since it finished recovering last March. As elsewhere, supply problems, the scarcity of labour, and increased costs for businesses will curb economic activity over the coming quarters.
- ▶ After deep contractions in 2020, provincial economies are recovering unevenly. Alberta is expected to stand out as its energy sector bounces back. Faced with challenges from supply issues and recent flooding, Ontario and British Columbia could see real GDP growth slightly trail the national average in 2021 but are expected to outperform again starting in 2022.
- ▶ The major spike in European COVID-19 cases and emergence of the Omicron variant pummeled financial markets at the end of November. We still expect the Federal Reserve and Bank of Canada to start gradually raising their key rates in the second quarter of 2022; bond yields should shortly start to trend up again.
- ▶ Economic growth will slow over the medium range in the United States and Canada, but inflation pressure should be felt more than in the previous economic cycle. This will combine with other challenges, such as the energy transition, debt load and financial stability.
- ▶ Another wave of the pandemic and the spread of the Omicron variant could hurt the economic situation in the near term, further disrupt supply chains, and intensify inflationary pressure.

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### RISKS INHERENT TO OUR SCENARIOS

The pandemic isn't over, as shown by the onset of the Omicron variant and the rise in cases, hospitalizations and deaths in several countries in Europe. COVID-19 therefore remains an important risk factor that can still affect our economic scenarios. Another wave of the pandemic and spread of the new variant (vaccine efficacy against it is not yet known) could hurt the economic situation, making it necessary to prolong or bring back restrictive public health measures. They would also affect the financial markets by sapping earnings outlooks and investor optimism. The many supply and demand imbalances, including production constraints stemming from the pandemic and supply problems, have made inflation accelerate, and this could persist, particularly if the pressures on wages and housing costs strengthen. That said, economic growth, still supported by fiscal and monetary policies, could be stronger than expected. The surplus savings amassed during the pandemic could be spent rapidly, leading to robust demand and sustained consumer price growth. 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, the political uncertainty fuelled by the partisan divide in Congress may affect the economy and the markets. The risks of more persistent inflation are making things hard for the central banks. Maintaining overly stimulative monetary policies or other demand-boosting fiscal 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 the markets. A major financial crisis in China could worry international investors. In Canada and Quebec, the risks of an eventual housing price correction persist.

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

IN %	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
		2021f	2022f	2023f	2021f	2022f	2023f
<b>Advanced economies</b>	<b>40.0</b>	<b>4.8</b>	<b>3.3</b>	<b>2.4</b>	<b>3.1</b>	<b>3.1</b>	<b>1.6</b>
United States	15.9	5.5	3.5	2.9	4.6	4.1	1.9
Canada	1.4	4.5	3.9	3.1	3.4	3.3	2.1
<i>Quebec</i>	0.3	6.7	2.8	2.0	3.8	3.2	2.1
<i>Ontario</i>	0.5	4.3	3.9	3.2	3.5	3.4	2.2
Japan	4.0	1.7	1.9	1.8	-0.2	0.9	0.5
United Kingdom	2.4	6.8	4.2	2.2	2.6	4.1	2.3
Euro zone	12.5	5.0	3.7	1.9	2.6	2.7	1.3
<i>Germany</i>	3.4	2.8	3.5	1.9	3.2	2.9	1.6
<i>France</i>	2.5	6.7	3.6	1.9	2.1	2.2	1.1
<i>Italy</i>	2.0	6.1	3.8	1.4	2.0	2.3	1.1
Other countries	4.2	2.2	1.8	1.6	1.4	1.4	0.9
<i>Australia</i>	1.0	3.4	3.2	3.1	2.8	2.7	1.9
<b>Emerging and developing economies</b>	<b>60.0</b>	<b>6.5</b>	<b>4.3</b>	<b>4.5</b>	<b>3.7</b>	<b>3.9</b>	<b>3.0</b>
North Asia	25.7	8.0	5.3	5.6	2.6	3.2	2.8
<i>China</i>	17.5	7.9	4.7	5.4	1.0	2.3	2.0
<i>India</i>	7.1	8.7	6.8	6.3	5.6	5.2	4.6
South Asia	5.3	3.2	4.7	5.1	1.9	2.6	2.5
Latin America	5.9	6.2	2.2	2.5	7.0	4.3	3.4
<i>Mexico</i>	1.9	6.0	2.5	2.3	6.4	4.1	3.4
<i>Brazil</i>	2.4	4.9	1.4	2.3	8.9	4.9	3.7
Eastern Europe	8.0	5.0	3.0	3.2	8.6	7.2	5.3
<i>Russia</i>	3.2	3.7	1.9	2.2	6.8	4.9	3.9
Other countries	15.0	6.8	3.9	3.9	4.9	5.9	4.5
<i>South Africa</i>	0.6	4.8	1.9	1.9	4.5	4.9	4.0
<b>World</b>	<b>100.0</b>	<b>5.8</b>	<b>3.9</b>	<b>3.7</b>	<b>3.5</b>	<b>3.6</b>	<b>2.5</b>

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

Financial markets quickly regained confidence following a tough September. Helped by good corporate results, North American stock markets shot up in October and early November, hitting new historic highs. Bond yields also trended up, particularly in Canada, while persisting inflation pressure is forcing central banks to contemplate faster monetary tightening. The yield on Canadian 5-year bonds even went back above 1.55% in mid-November, returning to a level similar to pre-pandemic levels. The major spike in COVID-19 cases in Europe and the emergence of the Omicron variant, however, pummeled financial markets at the end of November, triggering a major slide in stock indexes and bond yields. Oil's pullback was especially spectacular: the price of WTI (West Texas Intermediate) went from nearly US\$80 per barrel to under US\$70, impacting the Canadian dollar. Some caution about the emergence of the new variant may be justifiable, but it is too early to know whether it will have notable, lasting effects on the economy and markets. New constraints on production and international trade could even make the inflation problems worse. In this context, the Federal Reserve (Fed) will probably accelerate the reduction of its asset purchases. The Fed and the Bank of Canada should start gradually raising their key rates in the second quarter of 2022; and bond yields should soon resume an upward trend.

**TABLE 2**  
**Summary of the financial forecasts**

END OF PERIOD IN % (EXCEPT IF INDICATED)	2021		2022				2023			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	0.25	0.25	0.25	0.50	0.75	1.00	1.00	1.25	1.50	1.75
Canada	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50	1.50
Euro zone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25
United Kingdom	0.10	0.10	0.25	0.50	0.50	0.50	0.75	0.75	1.00	1.00
<b>Federal bonds</b>										
<u>United States</u>										
2-year	0.26	0.70	0.90	1.10	1.30	1.45	1.65	1.85	2.05	2.20
5-year	0.98	1.30	1.50	1.65	1.80	1.90	2.00	2.15	2.30	2.40
10-year	1.53	1.60	1.90	2.15	2.30	2.40	2.50	2.60	2.70	2.80
30-year	2.09	1.95	2.25	2.50	2.70	2.80	2.90	3.00	3.10	3.20
<u>Canada</u>										
2-year	0.53	1.05	1.20	1.30	1.40	1.50	1.65	1.85	2.05	2.15
5-year	1.11	1.45	1.60	1.75	1.90	1.95	2.05	2.15	2.25	2.25
10-year	1.51	1.65	1.95	2.15	2.25	2.30	2.40	2.45	2.50	2.50
30-year	1.98	1.95	2.20	2.40	2.50	2.55	2.65	2.70	2.75	2.80
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.27	1.27	1.24	1.23	1.23	1.25	1.25	1.25	1.26	1.27
Canadian dollar (CAD/USD)	0.79	0.79	0.81	0.81	0.81	0.80	0.80	0.80	0.80	0.79
Euro (EUR/USD)	1.16	1.13	1.12	1.12	1.14	1.16	1.17	1.18	1.19	1.20
British pound (GBP/USD)	1.35	1.34	1.36	1.37	1.37	1.38	1.39	1.40	1.41	1.42
Yen (USD/JPY)	111	113	114	115	116	116	116	115	114	113
<b>Stock markets (level and growth)*</b>										
United States – S&P 500	4,700		Target: 4,950 (+5.3%)				Target: 5,200 (+5.1%)			
Canada – S&P/TSX	21,500		Target: 23,000 (+7.0%)				Target: 24,400 (+6.1%)			
<b>Commodities (annual average)</b>										
WTI oil (US\$/barrel)	68 (75*)		72 (70*)				66 (65*)			
Gold (US\$/ounce)	1,800 (1,800*)		1,745 (1,700*)				1665 (1610*)			

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

# Overseas

## The Pandemic Is Still Being Felt

### FORECASTS

The world's economy has improved substantially in the last few quarters, but the pandemic is clearly not over yet and its economic impacts are very much with us. The new wave of COVID-19 should limit real GDP growth in the final quarter of 2021, particularly in Europe. For now, the expected fallout is modest, as few countries are resorting to drastic sector shutdowns. The new wave, which could be amplified by the Omicron variant, should also further hamper supply chains. This could amplify the heavy inflation seen in many countries, although the pressures on oil prices could wane. We expect global real GDP growth of 5.8% in 2021, followed by gains of 3.9% in 2022 and 3.7% in 2023. Inflation accelerated substantially in 2021, but should ease in the second half of next year.

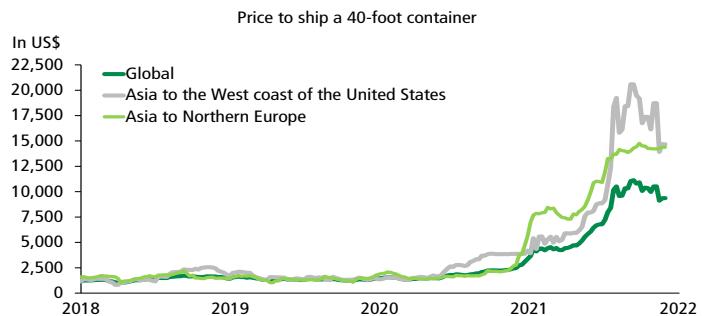
Most of the world's major advanced economies saw good real GDP growth in the third quarter of 2021, especially in the euro zone, although less in Asia (graph 1). Thanks to vaccination and vaccine passport mandates, it was possible to relax public health measures as of last spring, but the benefits were also felt during the summer. This allowed the service sector and to a lesser extent tourism to start recovering.

The solid economic growth came despite the supply problems haunting manufacturing and other sectors. Moreover, international merchandise shipping costs have risen a lot, particularly for merchandise from Asia (graph 2). This contributed to a slowdown in global trade after several months of catching up following the pandemic's first wave (graph 3).

Growth in global demand and supply problems along with significant increases in energy and commodity prices contributed to an almost general surge in inflation worldwide. The effects materialized in North America first, but some euro zone nations and the United Kingdom are also seeing consumer prices shoot up (graph 4 on page 5). Inflation is forecast to remain high in the near term, but should start to wane as of mid 2022.

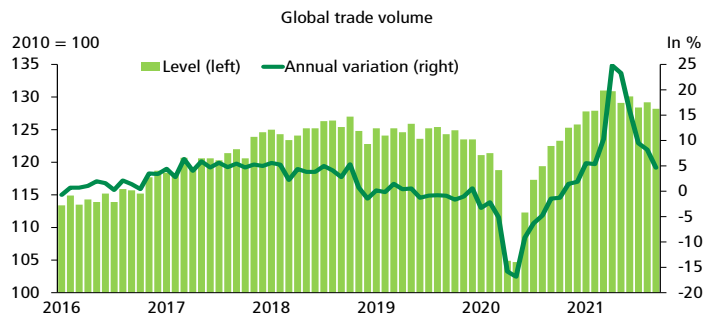
The new COVID-19 wave, seen in Eastern Europe as well as the euro zone, could slow the global supply chain normalization process by triggering new disruptions in the most affected countries. This could amplify the inflation problem. The arrival of the Omicron variant is also a disruptive factor. As a potential drag on production, it further complicates supply issues. It could

**GRAPH 2**  
Container transportation costs increased significantly in 2021



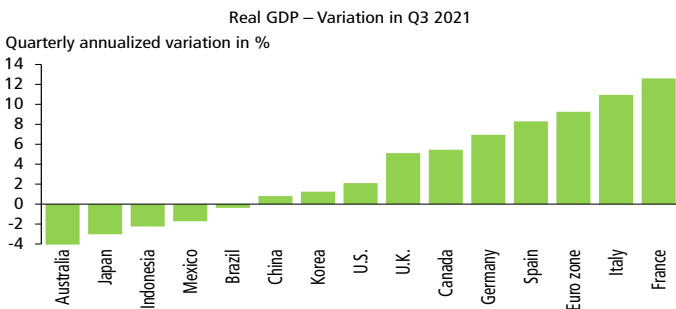
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 3**  
Global merchandise trade remains high, but has stagnated since last spring



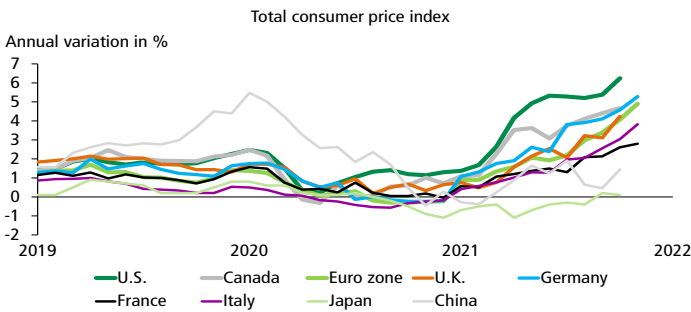
Sources: CPB Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

**GRAPH 1**  
Economic growth was especially strong in Europe in the third quarter



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

**GRAPH 4**  
Inflation has accelerated almost everywhere, but less in Asia



Sources: Datastream and Desjardins, Economic Studies

also hamper demand if its spread makes governments tighten public health measures or increases consumers' fears and erodes confidence.

Oil prices are expected to see a lull after surging in 2021. The price per barrel of WTI (West Texas Intermediate) shot up over the year, going from US\$47 a barrel in early January to US\$84 in November. However, the surge in COVID-19 cases recently pulled it below US\$70 a barrel. Although prices are likely to rebound somewhat, the uncertainty surrounding demand could limit gains by oil prices. Given that several increases in supply were expected, an inadequate response from producers could even accentuate the drop in prices.

**EURO ZONE**

With annualized real GDP growth of 9.3% in the third quarter, the euro zone is getting closer and closer to its pre-pandemic level. It is now only 0.5% from hitting its real GDP for the fourth quarter of 2019. The pace of Euroland's real GDP growth should be slower in the fourth quarter. Some zone countries have already firmed up public health measures in response to the new wave of cases that mainly emerged in Eastern Europe. The PMI indexes have been declining for several months and household and business confidence have stopped rising. Inflation is also more aggressive, including skyrocketing energy prices. We expect Euroland's real GDP to grow 5.0% in 2021, followed by gains of 3.7% in 2022 and 1.9% in 2023.

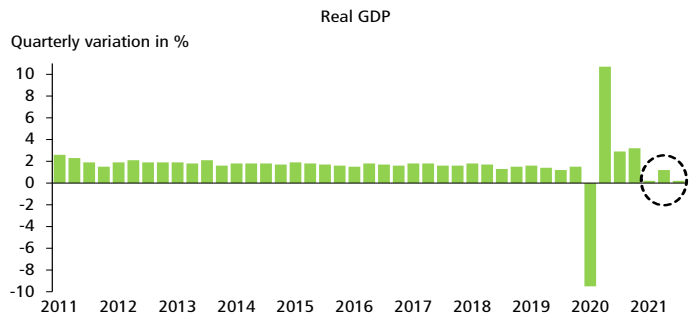
**UNITED KINGDOM**

After rebounding 23.9% on an annualized basis in the second quarter, Britain's real GDP rose 5.1% in the third quarter. It is now 2.1% below where it was at the end of 2019. The United Kingdom is also being hobbled by supply chain and merchandise transportation issues, exacerbated by additional post-Brexit complications. The U.K.'s real GDP growth should be 6.8% in 2021, 4.2% in 2022, and 2.2% in 2023.

**CHINA**

China's economy continues to show signs of slowing. Real GDP grew by only 0.2% in the third quarter (0.8% annualized). Excluding the beginning of 2020, when the first wave of the pandemic was raging, and the identical result for the first quarter of 2021, this is the weakest variation since quarterly data started being published in 2010 (graph 5). Constraints on energy production and the struggling real estate sector will continue to limit growth in 2022. We expect China's economy to grow 7.9% in 2021, with probable real GDP gains of 4.7% in 2022 and 5.4% in 2023.

**GRAPH 5**  
Real GDP growth has slowed sharply in China



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

# United States

## Supply Problems: Is the Worst behind Us?

### FORECASTS

U.S. GDP growth was disappointing in the third quarter of 2021, gaining just 2.1%. The economy was particularly hard hit by supply problems, especially in the auto industry. However, better growth is forecast for the year's last quarter, with an annualized gain of 5.1%. Inflation should remain high in the near term, and the supply issues should stay in the headlines for some of 2022, then ease. U.S. real GDP should rise 5.5% in 2021, 3.5% in 2022, and 2.9% in 2023.

The supply problems dogging the global and U.S. economies were still affecting U.S. real GDP growth in the third quarter. They are especially noticeable in the auto industry, where this sector GDP fell 38.4% on an annualized basis. This led to declines in durable goods consumption, investment in equipment, foreign trade, and business inventories. Excluding the automotive sector, quarterly annualized real GDP growth was 3.5% rather than 2.1%.

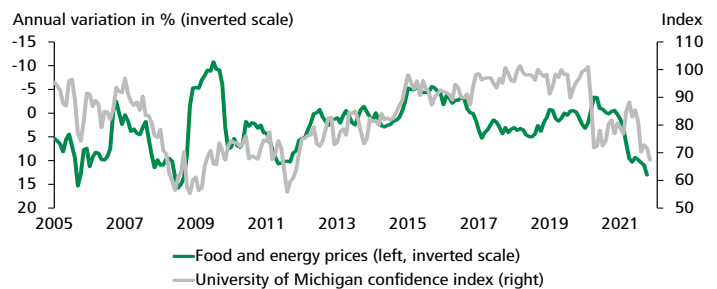
Thankfully, the automotive industry seems to be starting to improve in recent months. After climbing 5.5% in October, new car sales were down a modest 0.7% in November. Light vehicle assembly also reflects these early steps forward, gaining 19.4% in October. These signs are very tentative and are no guarantee that the supply problems are resolved (we even expect them to keep plaguing the U.S. economy for much of 2022), but they suggest that the worst may be over. Other supply chain bottlenecks are also showing signs of nascent improvement, particularly the ports on the west coast.

Better U.S. economic growth is expected in the fourth quarter than in the third, unless, of course, the Omicron variant disrupts the holidays. Real consumption did well in August (0.7%), September (0.3%) and October (0.7%), yielding a good carryover for the year's last quarter. Caution is warranted, however, since the recent movement in confidence indexes is fairly negative. In November, the University of Michigan confidence index fell to its lowest point since the fall of 2011 (graph 6). The erosion is partly due to higher inflation, particularly in energy and food. For its part, the recovery of the labour market remains uneven. Job creation was good in October, but disappointed in November. The job market's shortfall from February 2020 is now 3,912,000 jobs; we expect the gap to close entirely in the fall of 2022.

The inflation situation will still be a serious issue in the short-term in the United States. The annual variation in the total consumer price index (CPI) hit 6.6% in October, the highest total inflation since November 1990. The rise in prices is stronger and also

### GRAPH 6

**The drop in U.S. household confidence seems primarily due to the rise in gas and food prices**



Sources: Bureau of Labor Statistics, University of Michigan and Desjardins, Economic Studies

more generalized,<sup>1</sup> with over 85% of the goods and services basket recording an increase above the 2% inflation that the Federal Reserve traditionally targets. Inflation should remain elevated in the coming months, as comparisons with last year will support the annual CPI variation despite the expected lull in oil prices. Core inflation, which excludes food and energy, should only peak in the winter of 2022. Inflation should drop back to 3% next fall, then get closer to 2% in 2023 (graph 7 on page 7).

At the time of writing, Congress had still not approved the Biden administration's social investment project, the *Build Back Better Act*. Some of the White House's agenda—the bipartisan agreement on infrastructure (*Infrastructure Investment and Jobs Act*)—has already been passed, but the amounts committed are fairly low. The part still awaiting a decision from Congress is more ambitious, although its short-term impacts should be modest and its positive consequences, for the labour supply, for example, will probably materialize later (graph 8 on page 7). The question of renewing the debt ceiling could also be back at centre stage shortly.

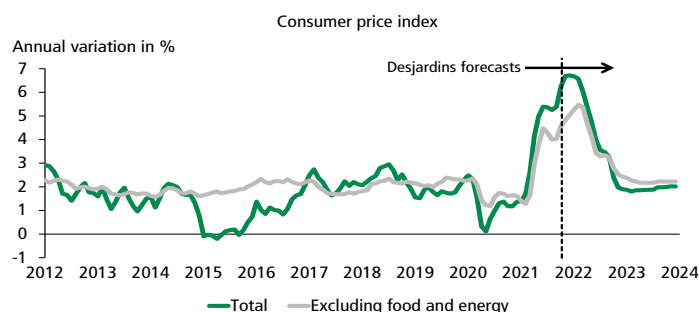
<sup>1</sup> For more details, see: [Is Higher Inflation Widespread in the United States?](#), Desjardins, Economic Studies, *Economic Viewpoint*, November 12, 2021, 5 p.

**TABLE 3**  
**United States: Major economic indicators**

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2021		2022				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2020	2021f	2022f	2023f
Real GDP (2012 US\$)	2.1	5.1	2.6	3.2	3.3	2.7	-3.4	5.5	3.5	2.9
Personal consumption expenditures	1.7	4.9	2.4	2.8	3.5	2.2	-3.8	8.0	3.6	2.5
Residential construction	-8.3	-0.2	4.6	5.5	3.3	1.4	6.8	9.0	0.7	1.9
Business fixed investment	1.5	5.0	6.5	6.1	7.6	6.0	-5.3	7.5	5.8	5.7
Inventory change (US\$B)	-73.2	-25	-15.0	0.0	15.0	25.0	-42.3	-88.7	6.3	50.0
Public expenditures	0.9	0.9	1.3	1.9	1.9	1.9	2.5	0.7	1.2	1.9
Exports	-3.0	9.0	2.0	4.0	4.5	4.5	-13.6	4.1	3.8	4.6
Imports	5.8	6.0	5.0	5.0	9.0	4.0	-8.9	13.4	5.8	4.7
Final domestic demand	1.1	4.0	2.8	3.2	3.7	2.6	-2.5	6.7	3.3	2.8
<b>Other indicators</b>										
Nominal GDP	8.1	9.7	5.6	5.5	5.4	4.8	-2.2	9.7	7.0	5.1
Real disposable personal income	-4.0	-4.0	0.0	2.6	2.1	1.2	6.2	2.3	-2.7	1.6
Employment according to establishments	6.7	3.3	2.8	2.9	3.2	1.7	-5.7	2.7	3.5	1.6
Unemployment rate (%)	5.1	4.4	4.3	4.2	3.9	3.8	8.1	5.4	4.0	3.7
Housing starts <sup>1</sup> (thousands of units)	1,555	1,568	1,627	1,643	1,650	1,647	1,396	1,578	1,642	1,661
Corporate profits* <sup>2</sup>	20.7	16.0	11.5	2.5	0.5	5.0	-5.2	24.0	4.7	3.4
Personal saving rate (%)	9.6	7.4	6.8	6.8	6.5	6.3	16.4	12.1	6.6	6.4
Total inflation rate*	5.3	6.6	6.4	4.7	3.4	2.1	1.2	4.6	4.1	1.9
Core inflation rate* <sup>3</sup>	4.1	4.8	5.4	4.1	3.3	2.6	1.7	3.5	3.8	2.2
Current account balance (US\$B)	-803	-796	-820	-834	-872	-877	-616	-779	-851	-886

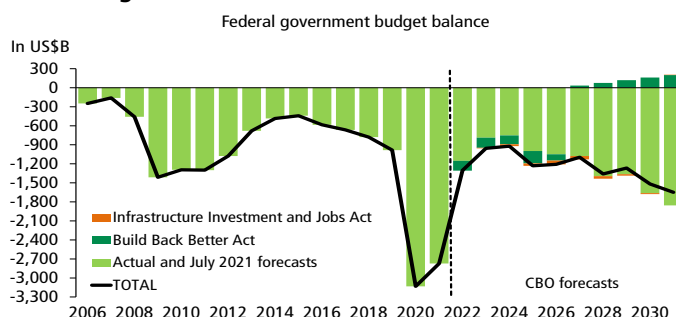
f: forecasts; \* Annual change; <sup>1</sup> Annualized basis; <sup>2</sup> Before taxes; <sup>3</sup> Excluding food and energy.  
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 7**  
**U.S. inflation will remain high in the first half of 2022**



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

**GRAPH 8**  
**The net fiscal costs of the Biden administration's new programs are not huge**



CBO: Congressional Budget Office  
Sources: CBO and Desjardins, Economic Studies

# Canada

## Consumption Is Fuelling Growth... but Several Obstacles Persist

### FORECASTS

According to Statistics Canada's interim results, real GDP by industry increased about 0.8% in October. This suggests that the fourth quarter of 2021 will begin on a positive note. Still, November looks more challenging, and a slight decline in real GDP is likely because of the flooding in British Columbia, which worsened supply-chain issues. The repercussions for transportation infrastructure seem to be dissipating fairly quickly, so that production is forecast to return in positive territory in December. As a whole, the fourth quarter could therefore end with annualized growth of about 4%. On average, 2021 could end with a gain of 4.5%, followed by growth of 3.9% in 2022 and 3.1% in 2023.

After retreating 3.2% (quarterly annualized) in the second quarter, real GDP rebounded in the third quarter, rising 5.4% and beating expectations. Among other things, household consumption spending rose 17.9% over the quarter due to a net acceleration in services when some activities resumed after the third COVID-19 wave. For example, a little more than one third of the increase in household consumption spending came from accommodation and food services. Despite this good news, a number of obstacles persist, which could impact the Canadian economy in the near term.

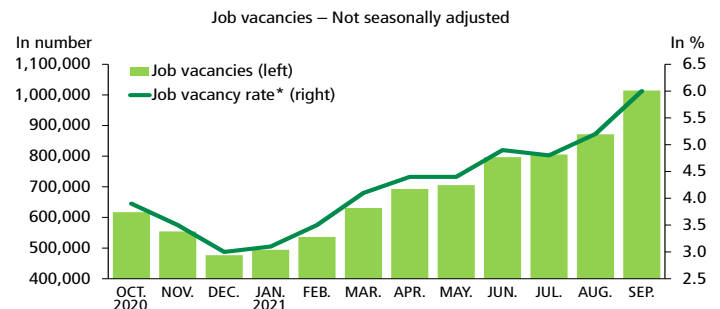
In terms of the pandemic, several parts of the country are seeing cases spike, and the potential spread of the Omicron variant is raising concerns. That being said, hospitalizations remain relatively low and public health measures are not really being tightened for now.

The pandemic has created substantial supply and demand imbalances for some goods and services. Several industries are reporting supply problems in the context of lively demand as the economy reopens. In Canada, the recent floods in British Columbia temporarily paralyzed merchandise transportation between western and eastern Canada. Note that the Port of Vancouver is a very important freight forwarding hub for the entire Canadian economy. These difficulties have amplified the existing supply problems.

Added to this are the labour shortages. They were already present in some sectors and regions before the pandemic, but with the economic recovery, the scarcity of workers is hitting even harder. Since September, the number of jobs is higher than it was before the pandemic. However, the labour force participation rate (that is, the ratio between the number of people with jobs or looking for jobs in relation to the total population 15 years of age and over) is slightly lower than it was before the pandemic, showing that some imbalances persist. Moreover, a Bank of Canada [survey](#) on businesses shows that government pandemic measures and the absenteeism associated with the pandemic have exacerbated the labour

shortage, already impacted by structural problems stemming from demographics and heavy cyclical competition for labour. The number of vacant positions exceeded the one-million mark last September (graph 9). The problem is affecting the accommodation and food services sector and the construction industry in particular.

**GRAPH 9**  
Job vacancies on the rise in Canada



\* Corresponds to the number of job vacancies relative to all (vacant and occupied) positions.  
Sources: Statistics Canada and Desjardins, Economic Studies

Substantial efforts are currently in place to resolve the supply problems and labour shortage. Among other things, the Bank of Canada survey of businesses shows that a large proportion of plan to increase their investments in machinery and equipment in the next 12 months. However, it will take several more months for the situation to improve.

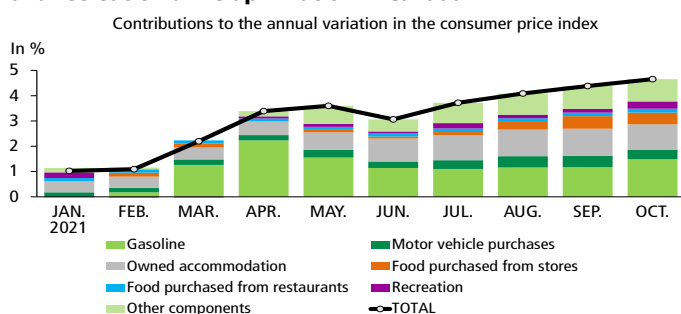
In the meantime, the supply and demand imbalances should keep upside pressure on prices for many goods and services. Canada's total annual inflation rate was 4.7% in October, a level not seen since 2003. Gas, motor vehicle purchases, owned accommodation, food and recreation are the components making particularly large contributions to the annual variation in the consumer price index (graph 10 on page 9). Inflation should peak within the next few months, followed by gradual slowing as some imbalances should fade.

**TABLE 4**  
**Canada: Major economic indicators**

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2021		2022				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2020	2021f	2022f	2023f
<b>Real GDP (2012 \$)</b>	<b>5.4</b>	<b>4.4</b>	<b>2.9</b>	<b>5.3</b>	<b>5.0</b>	<b>3.4</b>	<b>-5.2</b>	<b>4.5</b>	<b>3.9</b>	<b>3.1</b>
Final consumption expenditure [of which:]	12.1	6.8	4.2	6.1	1.9	1.0	-4.5	5.4	5.2	2.2
Household consumption expenditure	17.9	9.3	5.3	8.2	3.1	2.1	-6.2	5.7	7.2	3.8
Governments consumption expenditure	-0.7	0.6	1.7	1.0	-0.9	-1.8	0.0	4.9	0.6	-1.5
Gross fixed capital formation [of which:]	-13.7	2.9	2.8	4.0	4.4	1.7	-2.8	8.1	3.5	3.5
Residential structures	-31.3	-6.2	-4.9	-3.3	-3.5	-1.2	4.3	14.1	-8.8	0.5
Non-residential structures	-1.1	9.4	7.2	9.9	11.3	3.1	-10.0	-4.8	7.1	4.3
Machinery and equipment	-0.7	6.1	5.5	9.9	12.0	3.7	-15.4	6.8	8.1	4.5
Intellectual property products	-5.7	9.8	7.4	10.2	11.7	3.2	-3.3	3.1	6.7	4.4
Governments gross fixed capital formation	8.7	8.8	10.0	5.5	4.0	4.1	6.2	4.7	6.3	3.4
Investment in inventories (2012 \$B)	-8.3	0.7	0.7	2.8	11.6	15.9	-18.7	-2.2	7.7	8.4
Exports	8.0	5.1	11.1	12.1	10.1	7.2	-9.7	1.1	7.4	6.0
Imports	-2.3	15.0	14.4	14.6	7.0	2.1	-10.8	7.1	9.8	3.4
Final domestic demand	5.4	5.8	3.9	5.5	2.5	1.1	-4.1	5.5	4.1	2.3
<b>Other indicators</b>										
Nominal GDP	8.9	7.6	2.4	7.9	6.7	4.6	-4.5	12.4	6.1	4.5
Real disposable personal income	2.7	-15.8	1.9	6.1	4.2	2.9	8.4	0.5	-0.4	3.0
Employment	7.4	6.0	3.2	2.7	2.7	2.2	-5.2	4.8	4.0	1.9
Unemployment rate (%)	7.2	6.2	6.0	5.7	5.5	5.4	9.5	7.5	5.7	5.3
Housing starts <sup>1</sup> (thousands of units)	262	233	228	226	223	221	218	270	225	212
Corporate profits* <sup>2</sup>	12.6	10.0	2.0	8.0	8.0	7.0	-1.9	30.8	6.2	5.0
Personal saving rate (%)	11.0	4.8	4.0	3.5	3.7	3.9	14.5	10.7	3.8	2.9
Total inflation rate*	4.1	4.7	4.6	4.0	2.8	1.8	0.7	3.4	3.3	2.1
Core inflation rate* <sup>3</sup>	3.0	3.1	3.2	2.8	2.1	1.8	1.1	2.3	2.5	1.8
Current account balance (\$B)	1.4	-4.8	-11.9	-13.8	-13.5	-11.9	-39.4	-0.4	-51.0	-46.9

f: forecasts; \* Annual change; <sup>1</sup> Annualized basis; <sup>2</sup> Before taxes; <sup>3</sup> Excluding food and energy.  
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 10**  
**Gasoline, motor vehicle purchases, owned accommodation, food and recreation drive up inflation in Canada**



Sources: Statistics Canada and Desjardins, Economic Studies

erosion of affordability due to surging prices, the downtrend should persist in the coming quarters. However, there is a risk the housing market will show unexpected resilience, as indicated by the increase in the number of existing properties sold in September and October.

Lastly, the housing market, long a major driver in Canada's economic growth, is continuing the downtrend started last spring. Residential investment fell an annualized 31.3% in the third quarter. Given the expected rise in interest rates and

# Quebec

## The Economy's Rebound Gives Way to a Slower Pace

### FORECASTS

Quebec's economy completed its recovery period in March, and some signs of flagging are materializing. Real GDP has been seesawing for the last few months, although the public health restrictions have gradually been lifted. The economy slowed in the third quarter following the sharp growth that characterized the catch-up period. As elsewhere, supply problems, the scarcity of labour, and increased costs for businesses will curb economic activity over the coming quarters. In this context, real GDP will increase 6.7% this year, instead of the 7.0% previously expected. Growth is forecast to be 2.8% in 2022 and 2.0% in 2023.

Employment has completely recovered, but intensifying labour shortages are hampering more and more businesses. Quebec hit a peak of nearly 280,000 unfilled jobs in September. In Quebec, 7.3% of positions are vacant, compared with 6.0% in Canada. Recruiting problems will strengthen as Quebec's unemployment rate will continue to drop, nearing 4.0% at the end of 2023.

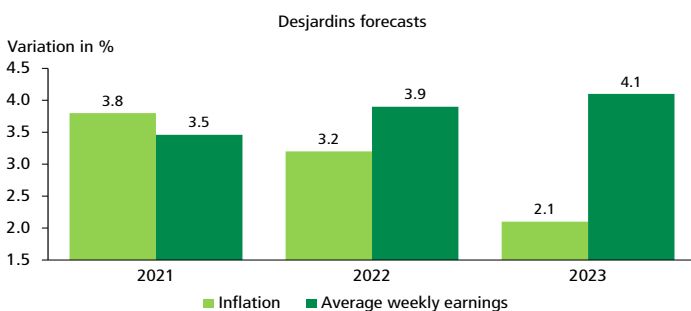
The upward pressures on wages are already intensifying, particularly in the sectors hardest hit by the labour shortage, like accommodation and food services, as well as construction. The rise in labour costs is one more challenge for both the private and public sectors. This fall, the Quebec government awarded substantial wage increases targeted at the health and education sectors. Together, these factors will push up Quebec's total weekly earnings' growth. They will advance about 4.0% as of 2022 compared with this year's 3.5%. The coming increases should be higher than the inflation rate (graph 11).

As elsewhere, inflation has been accelerating since the start of 2021. In Quebec, the annual increase in the consumer price index even hit 5.3% in October, the biggest variation since the start of the 1990s. The province's economy bounced back quickly, heightening pressures on prices, so that inflation is

growing more rapidly than in Canada as a whole (graph 12). The faster pace is based on most goods and services. Price pressures are very widespread and could persist a few more months, before starting to wane in 2022. The inflation rate should reach 3.2% next year, compared with 3.8% this year.

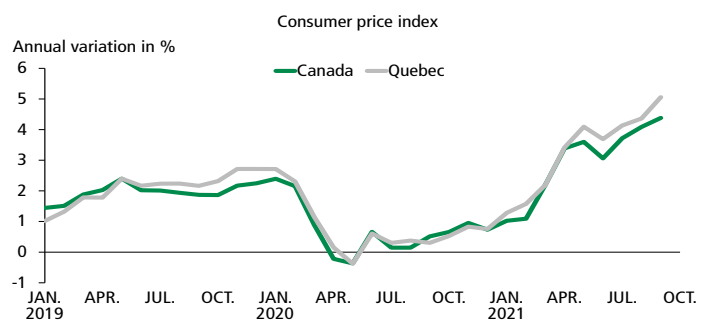
While the jump in the cost of living will eat into some of the increase in household income, households will be able to draw on the surplus savings accumulated since the pandemic began. The rebound in spending on services, which was delayed by the public health restrictions and late opening of the borders, should therefore pick up speed in the coming quarters. The tourism season was relatively good thanks to relaxed public health measures and extensive travel by Quebecers in the province. However, the scarcity of international tourists continued to plague many merchants and the hotel industry, particularly in Quebec City and Montreal. Activity increased in the accommodation and food services sector, and the arts, entertainment and recreation industry, but they are nowhere near a full recovery. The further loosening of measures in the fall, allowing entertainment venues and restaurants to return to full capacity, should stimulate spending on services. For a while, spending on goods could be hampered by low auto dealer

**GRAPH 11**  
In Quebec, inflation will take a bite out of wage increases



Source: Desjardins, Economic Studies

**GRAPH 12**  
Quebec's inflation rate has exceeded Canada's since last spring



Sources: Statistics Canada and Desjardins, Economic Studies

**TABLE 5**  
**Quebec: Major economic indicators**

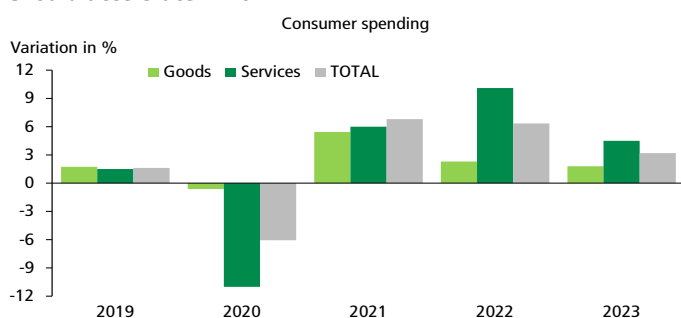
ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2019	2020	2021f	2022f	2023f
<b>Real GDP (2012 \$)</b>	<b>2.8</b>	<b>-5.5</b>	<b>6.7</b>	<b>2.8</b>	<b>2.0</b>
Final consumption expenditure [of which:]	2.2	-4.1	6.3	5.1	2.8
Household consumption expenditure	1.6	-6.1	6.8	6.3	3.2
Governments consumption expenditure	3.5	0.5	5.6	2.6	2.0
Gross fixed capital formation [of which:]	2.2	-2.9	8.1	-2.2	-0.6
Residential structures	3.7	3.1	17.0	-11.5	-8.0
Non-residential structures	10.2	-8.0	0.5	1.0	3.0
Machinery and equipment	-1.0	-16.0	-4.8	2.5	5.0
Intellectual property products	-1.4	-2.1	12.3	2.1	3.8
Governments gross fixed capital formation	-2.3	-0.3	6.5	5.5	3.0
Investment in inventories (2012 \$B)	3,005	-5,328	450	3,500	2,000
Exports	2.7	-7.9	4.1	4.4	3.2
Imports	0.5	-8.5	4.0	5.8	3.2
Final domestic demand	2.2	-3.8	6.7	3.7	2.1
<b>Other indicators</b>					
Nominal GDP	4.7	-2.4	10.6	6.4	4.2
Real disposable personal income	3.2	8.5	1.0	1.7	1.5
Weekly earnings	3.5	7.8	3.5	3.9	4.1
Employment	2.0	-4.8	4.2	3.2	1.7
Unemployment rate (%)	5.1	8.9	6.1	4.6	4.2
Personal saving rate (%)	7.0	19.4	14.0	9.5	7.7
Retail sales	0.9	-0.2	13.3	3.9	3.5
Housing starts <sup>1</sup> (thousands of units)	48.0	54.1	70.5	53.0	48.0
Total inflation rate	2.1	0.8	3.8	3.2	2.1

f: forecasts; <sup>1</sup> Annualized basis.

Sources: Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

inventories and inventories of some types of appliances and electronics. Overall, household spending will keep up a good pace in 2022 thanks to the acceleration in services, then slow in 2023 (graph 13).

**GRAPH 13**  
**Unlike spending on goods, Quebecers' spending on services should accelerate in 2022**



Sources: Statistics Canada and Desjardins, Economic Studies

Quebec's economic growth has already started to soften and will be slower next year. The housing market boom, which contributed heavily to real GDP growth in 2021 is now over. The production and sale of various building materials have also dropped sharply since the spring. High home prices and rising interest rates will further rein in construction and the resale market. The surge in prices has already given way to stabilization since last summer in Quebec. There are fewer bidding wars and multiple offers in the greater Montreal area and neighbouring regions, and prices can be expected to adjust slightly.

# Ontario and Other Provinces

## Alberta May Outperform Other Provinces

### FORECASTS

All provinces experienced real GDP pull back sharply in 2020 due to the adverse effects of the pandemic. Each is pegged to return to expansion as early as 2021, yet the economic recovery is uneven. Driven by a rebounding energy sector, above-average real GDP growth is expected to set Alberta apart. The outlook is not as rosy for Manitoba and Saskatchewan, where droughts weighed heavily on the agricultural sector in 2021. Due to challenges sparked by supply issues and recent flooding, Ontario and British Columbia could report real GDP growth slightly below the national average in 2021 but are expected to outperform starting in 2022. Growth in the Atlantic provinces should be below the national average.

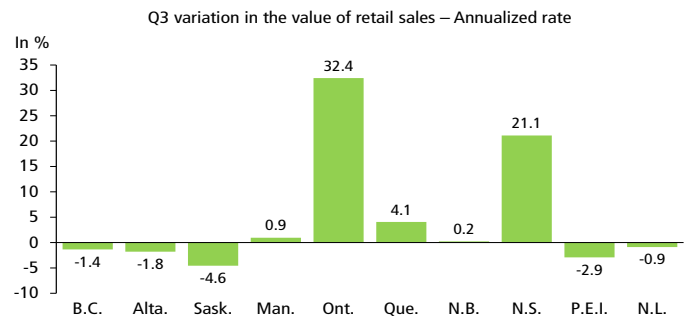
### ONTARIO

Particularly hard hit by difficulties from the pandemic's third wave in spring 2021, the Ontario economy has been pushed to the fore of supply issues, particularly in the automotive industry. According to Canadian real GDP data by industry, motor vehicle manufacturing saw its fourth consecutive quarterly decline last summer (graph 14). There is every reason to believe these difficulties will persist for a few more months before a return to normal. In addition, as in most provinces, labour shortages have resurfaced in Ontario, impairing some businesses' ability to meet increased demand. The job vacancy rate in Ontario rose from 3.3% in February to 5.6% in September, but was still slightly below the provincial average. Since the beginning of 2021, international immigration has started growing again in Ontario, after a very slow year in 2020, which is likely helping to fill some unmet labour needs.

Sharply higher household spending nationwide in the third quarter is welcome news for Ontario's economy. As the province was coming out of lockdown during the period, spending in certain areas is expected to be markedly higher. For instance, Ontario saw the third quarter retail sales soar 32.4% (in

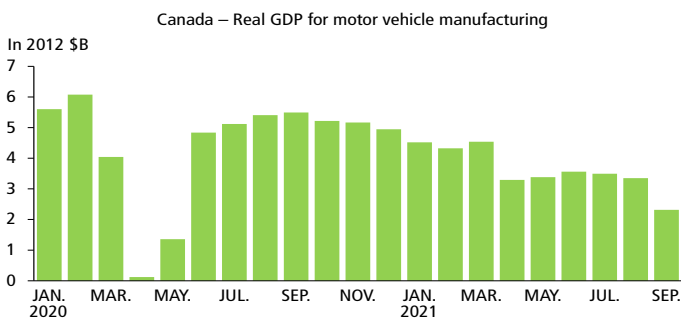
annualized values), the highest growth in Canada (graph 15). In these conditions, Ontario real GDP is pegged to be back in the black in the third quarter, after contracting at an annualized 3.0% in the spring. Ultimately, our scenario now calls for real GDP to grow 4.3% in 2021, followed by gains of 3.9% in 2022 and 3.2% in 2023.

**GRAPH 15**  
Consumer spending particularly strong in Ontario this summer



Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 14**  
The auto industry is still facing stiff challenges



Sources: Statistics Canada and Desjardins, Economic Studies

### WESTERN PROVINCES

According to Canadian real GDP by industry data, crop sector production fell for the 13th consecutive month in September (graph 16 on page 13), owing in part to harsh weather conditions with major droughts hitting the Prairies last summer. Saskatchewan and Manitoba have been particularly affected.

Alberta is also impacted by problems in its agricultural sector. On the other hand, a rebounding oil industry is helping drive the province's economic recovery. Indeed, oil export volumes were up sharply in the third quarter. The local business conditions index has improved significantly in the Calgary area since the beginning of 2021, although there has been a slight downturn

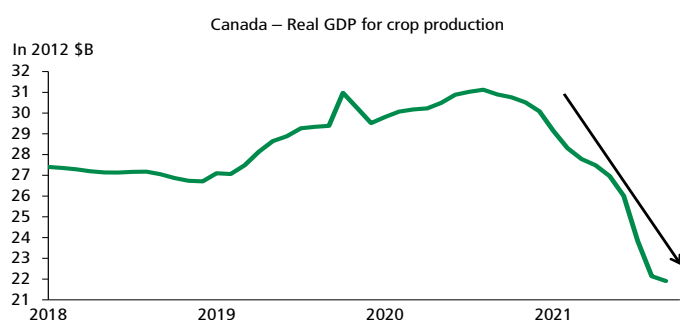
**TABLE 6**  
**Ontario: Major economic indicators**

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2019	2020	2021f	2022f	2023f
<b>Real GDP</b> (2012 \$)	<b>2.0</b>	<b>-5.1</b>	<b>4.3</b>	<b>3.9</b>	<b>3.2</b>
Final consumption expenditure [of which:]	1.5	-5.8	5.2	5.4	2.4
Household consumption expenditure	1.6	-7.8	5.1	7.0	3.8
Governments consumption expenditure	1.0	-0.2	5.5	0.9	-1.5
Gross fixed capital formation [of which:]	-0.7	1.3	11.8	0.3	2.8
Residential structures	0.3	6.8	19.1	-9.7	0.7
Non-residential structures	1.4	-0.1	-2.6	8.1	5.0
Machinery and equipment	-0.5	-12.6	13.2	8.7	4.9
Intellectual property products	-2.4	1.0	7.6	5.5	3.6
Governments gross fixed capital formation	-3.9	3.1	3.8	5.9	3.5
Investment in inventories (2012 \$B)	8,922	-5,283	5,000	8,000	7,000
Exports	2.3	-7.3	-1.6	6.0	5.0
Imports	0.6	-8.9	5.1	8.1	3.5
Final domestic demand	1.0	-4.3	6.9	4.4	2.5
<b>Other indicators</b>					
Nominal GDP	3.7	-2.8	11.1	6.2	4.8
Real disposable personal income	3.2	9.4	1.4	-1.3	2.8
Weekly earnings	2.7	7.3	3.8	2.3	2.3
Employment	2.8	-4.8	4.9	4.8	1.9
Unemployment rate (%)	5.6	9.6	8.0	6.0	5.6
Personal saving rate (%)	0.1	15.4	7.5	2.6	1.6
Retail sales	2.3	-3.5	7.6	6.3	6.0
Housing starts <sup>1</sup> (thousands of units)	69.0	81.3	98.8	82.3	78.4
Total inflation rate*	1.9	0.7	3.5	3.4	2.2

f: forecasts; \* Annual change; <sup>1</sup> Annualized basis.

Sources: Statistics Canada, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

**GRAPH 16**  
**Crop production hit by droughts**



Sources: Statistics Canada and Desjardins, Economic Studies

recently, and Alberta boasted the highest growth gain for 2021 of any province according to the economic activity index.

In British Columbia, the focus is obviously on the recent flooding, which will cause major economic disruptions in November. However, a gradual return to normal is expected to begin in December.

## ATLANTIC PROVINCES

Overall, economic growth in the Atlantic provinces is set to continue underperforming the national average in the next few years. Oil production continues to trend lower in Newfoundland and Labrador. In the Maritimes, hardships continue in the tourism sector, despite foreign tourists being replaced in part by visitors from other provinces.

**TABLE 7**  
**Canada: Major economic indicators by provinces**

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2019	2020	2021f	2022f	2023f
<b>Real GDP growth – Canada</b>	<b>1.9</b>	<b>-5.2</b>	<b>4.5</b>	<b>3.9</b>	<b>3.1</b>
Atlantic	2.7	-3.5	2.6	3.0	2.0
Quebec	2.8	-5.5	6.7	2.8	2.0
Ontario	2.0	-5.1	4.3	3.9	3.2
Manitoba	0.4	-4.6	3.3	3.0	2.7
Saskatchewan	-1.1	-4.9	3.0	4.0	3.0
Alberta	-0.1	-7.9	4.9	5.5	4.0
British Columbia	3.1	-3.4	3.9	4.5	3.5
<b>Total inflation rate – Canada</b>	<b>1.9</b>	<b>0.7</b>	<b>3.4</b>	<b>3.3</b>	<b>2.1</b>
Atlantic	1.5	0.2	4.0	3.8	2.5
Quebec	2.1	0.8	3.8	3.2	2.1
Ontario	1.9	0.7	3.5	3.4	2.2
Manitoba	2.2	0.5	3.3	3.1	2.0
Saskatchewan	1.7	0.6	2.6	2.7	1.9
Alberta	1.8	1.1	3.2	3.1	2.2
British Columbia	2.3	0.8	2.8	2.7	2.0
<b>Employment growth – Canada</b>	<b>2.2</b>	<b>-5.2</b>	<b>4.8</b>	<b>4.0</b>	<b>1.9</b>
Atlantic	1.7	-4.1	3.7	1.6	1.3
Quebec	2.0	-4.8	4.2	3.2	1.7
Ontario	2.8	-4.8	4.9	4.8	1.9
Manitoba	1.0	-3.7	3.5	2.6	1.8
Saskatchewan	1.9	-4.7	2.5	2.0	1.5
Alberta	0.7	-6.6	5.0	4.0	2.5
British Columbia	3.0	-6.6	6.6	4.5	2.2
<b>Unemployment rate – Canada</b>	<b>5.7</b>	<b>9.5</b>	<b>7.5</b>	<b>5.7</b>	<b>5.3</b>
Atlantic	8.7	10.8	9.6	7.5	7.0
Quebec	5.1	8.9	6.1	4.6	4.2
Ontario	5.6	9.6	8.0	6.0	5.6
Manitoba	5.3	8.0	6.5	5.0	4.6
Saskatchewan	5.6	8.4	6.7	5.1	4.7
Alberta	7.0	11.4	8.8	6.7	6.2
British Columbia	4.7	8.9	6.6	5.0	4.6
<b>Retail sales growth – Canada</b>	<b>1.2</b>	<b>-1.3</b>	<b>11.1</b>	<b>6.0</b>	<b>5.1</b>
Atlantic	1.9	0.1	13.8	7.1	4.0
Quebec	0.9	-0.2	13.3	3.9	3.5
Ontario	2.3	-3.5	7.6	6.3	6.0
Manitoba	0.8	0.8	14.0	7.5	5.0
Saskatchewan	0.3	-1.1	10.5	5.5	4.0
Alberta	-0.8	-2.3	12.5	6.5	5.0
British Columbia	0.6	2.4	13.2	7.0	6.0
<b>Housing starts – Canada (thousands of units)</b>	<b>208.7</b>	<b>217.8</b>	<b>270.1</b>	<b>224.6</b>	<b>212.2</b>
Atlantic	10.1	10.3	12.3	9.8	8.8
Quebec	48.0	54.1	70.5	53.0	48.0
Ontario	69.0	81.3	98.8	82.3	78.4
Manitoba	6.9	7.3	7.6	6.3	6.0
Saskatchewan	2.4	3.1	4.1	3.7	3.5
Alberta	27.3	24.0	31.1	28.5	27.5
British Columbia	44.9	37.7	45.7	41.0	40.0

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

## Many Challenges on the Horizon

Economic growth will slow over the medium term, likely dropping below 2% in the United States and Canada. This pace would be consistent with potential GDP growth, which will continue to be hobbled by the labour shortage. Inflationary pressures should be more visible than in the previous economic cycle, and they will combine with other challenges, such as the energy transition, debt loads and financial stability.

### Beware of Inflation

Given the labour shortage, it will be easier for the unemployment rate to stay low over the coming years. On the other hand, inflation could become more visible. Firstly, the labour shortage itself could be a vector for inflation by resulting in faster wage growth than in the previous economic cycle, and in higher costs for businesses. Businesses will also have a hard time meeting demand if they can't hire all the staff they need. However, productivity gains could be achieved, which would help curb inflation pressure.

The surplus savings accumulated during the pandemic is a short-term issue for inflation, but one that could persist over the medium term. It is hard to predict how the savings will be released into the economy, and the extent to which it could push up demand and inflationary pressure in the coming years. A wealth effect fueled by the strong increase in the value of many assets over the last two years could also come into play. People whose wealth has increased could push up their consumption.

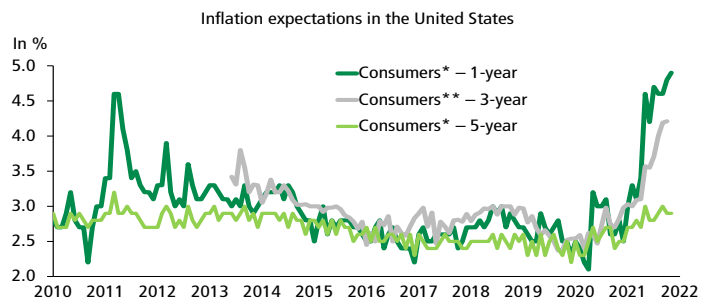
Lastly, inflation expectations could also affect the pace of price increases for goods and services. Price adjustments will tend to be bigger if consumer and business expectations are higher. So far, most inflation expectation indicators are fairly stable for the medium and long term. However, a Federal Reserve Bank of New York indicator recently raised some concern, showing a strong increase in inflation expectations over a three-year horizon (graph 17).

### Higher Interest Rates Necessary

The central banks will certainly not want to let above-target inflation settle in on a lasting basis. This is why several interest rate increases have been incorporated into the short-term scenario, with additional increases forecast for the medium term. This will curb demand growth and keep inflation expectations entrenched. The top of the target range for the U.S. federal funds rate should be at 2.50% in 2024. In Canada, we expect the overnight rate to be 2.00%.

Higher interest rates combined with a reduction in the liquidity being injected into the financial markets should also limit

**GRAPH 17**  
Keep an eye on rising inflation expectations



\* University of Michigan consumer confidence index; \*\* Federal Reserve Bank of New York.  
Sources: University of Michigan, Federal Reserve Bank of New York and Desjardins, Economic Studies

inflation in assets. The stock market is expected to make smaller gains over the medium term. The housing market should also keep moderating. Home prices are likely to decrease slightly in some markets.

### A Shakier Economy

In comparison with previous periods of high inflation, the forecast increases in interest rates remain small. Our medium-term forecasts take the economy's weaknesses into consideration. In particular, there are issues with debt. Many households and businesses are carrying a lot of debt and could have trouble handling more interest rate increases. Governments also have a debt issue, particularly after all the expenses incurred during the pandemic. The pressure on public finances will also be heavy because of the investments that will have to be made to really tackle the energy transition. Lastly, there is also a risk from the perspective of financial stability. Overly forceful interest rate increases could cause asset values to correct sharply and put the economy back in a tough position.

**TABLE 8**  
**Medium-term major economic and financial indicators**

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE							AVERAGES	
	2020	2021f	2022f	2023f	2024f	2025f	2026f	2016–2020	2021–2026f
<b>United States</b>									
Real GDP (var. in %)	-3.4	5.5	3.5	2.9	2.1	1.6	1.7	1.1	2.9
Total inflation rate (var. in %)	1.2	4.6	4.1	1.9	2.2	2.1	2.0	1.8	2.8
Unemployment rate	8.1	5.4	4.0	3.7	3.7	3.7	3.5	5.0	4.0
S&P 500 index (var. in %) <sup>1</sup>	16.3	25.1	5.3	5.1	3.0	3.0	5.0	13.6	7.8
Federal funds rate	0.54	0.25	0.45	1.20	2.00	2.50	2.50	1.27	1.48
Prime rate	3.54	3.25	3.45	4.20	5.00	5.50	5.50	4.27	4.48
Treasury bills – 3-month	0.37	0.05	0.45	1.20	2.00	2.40	2.40	1.14	1.42
Federal bonds – 10-year	0.89	1.45	2.20	2.65	3.00	3.05	3.05	2.02	2.57
– 30-year	1.56	2.05	2.55	3.05	3.35	3.40	3.40	2.55	2.97
WTI oil (US\$/barrel)	39	68	72	66	65	64	60	51	66
Gold (US\$/ounce)	1,771	1,800	1,745	1,665	1,600	1,600	1,600	1,388	1,668
<b>Canada</b>									
Real GDP (var. in %)	-5.2	4.5	3.9	3.1	1.9	1.6	1.7	0.7	2.8
Total inflation rate (var. in %)	0.7	3.4	3.3	2.1	2.3	2.0	2.1	1.6	2.5
Employment (var. in %)	-5.2	4.8	4.0	1.9	1.5	1.0	1.2	0.3	2.4
Employment (thousands)	-986	854	654	390	294	211	240	41	440
Unemployment rate	9.5	7.5	5.7	5.3	5.2	4.9	4.8	6.9	5.5
Housing starts (thousands of units)	218	270	225	212	218	215	220	211	227
S&P/TSX index (var. in %) <sup>1</sup>	2.2	23.3	7.0	6.1	4.0	4.0	5.0	6.6	8.2
Exchange rate (US\$/C\$)	0.75	0.79	0.81	0.80	0.79	0.78	0.78	0.76	0.79
Overnight funds	0.56	0.25	0.55	1.30	1.90	2.00	2.00	0.98	1.33
Prime rate	2.75	2.45	2.75	3.50	4.10	4.20	4.20	3.18	3.53
Mortgage rate – 1-year	3.25	2.80	3.00	3.55	4.05	4.10	4.10	3.33	3.60
– 5-year	4.95	4.80	5.20	5.60	5.75	5.75	5.75	4.98	5.48
Treasury bills – 3-month	0.44	0.10	0.60	1.35	1.94	2.00	2.00	0.93	1.33
Federal bonds – 2-year	0.51	0.50	1.35	1.95	2.20	2.20	2.20	1.15	1.73
– 5-year	0.60	0.95	1.80	2.15	2.30	2.30	2.30	1.28	1.97
– 10-year	0.75	1.35	2.15	2.45	2.60	2.60	2.60	1.53	2.29
– 30-year	1.21	1.85	2.40	2.75	2.90	2.90	2.90	1.92	2.62
<u>Yield spreads (Canada—United States)</u>									
Treasury bills – 3-month	0.07	0.05	0.15	0.15	-0.06	-0.40	-0.40	-0.21	-0.09
Federal bonds – 10-year	-0.14	-0.10	-0.05	-0.20	-0.40	-0.45	-0.45	-0.49	-0.28
– 30-year	-0.35	-0.20	-0.15	-0.30	-0.45	-0.50	-0.50	-0.63	-0.35
<b>Quebec</b>									
Real GDP (var. in %)	-5.5	6.7	2.8	2.0	1.7	1.4	1.6	0.9	2.7
Total inflation rate (var. in %)	0.8	3.8	3.2	2.1	2.2	2.0	2.1	1.3	2.6
Employment (var. in %)	-4.8	4.2	3.2	1.7	1.5	1.0	1.1	0.4	2.1
Employment (thousands)	-209	170	140	75	65	45	50	-6	91
Unemployment rate	8.9	6.1	4.6	4.2	4.0	3.8	3.6	6.6	4.4
Retail sales (var. in %)	-0.2	13.3	3.9	3.5	3.5	3.0	3.0	3.3	5.0
Housing starts (thousands of units)	54	71	53	48	44	41	42	47	50
<b>Ontario</b>									
Real GDP (var. in %)	-5.1	4.3	3.9	3.2	1.9	1.7	1.8	1.1	2.8
Total inflation rate (var. in %)	0.7	3.5	3.4	2.2	2.4	2.1	2.1	1.7	2.6
Employment (var. in %)	-4.8	4.9	4.8	1.9	1.4	1.1	1.2	0.5	2.6
Employment (thousands)	-355	337	331	158	110	88	97	35	187
Unemployment rate	9.6	8.0	6.0	5.6	5.2	4.8	4.7	6.7	5.7
Retail sales (var. in %)	-3.5	7.6	6.3	6.0	4.5	3.7	4.0	3.6	5.4
Housing starts (thousands of units)	81	99	82	78	80	78	78	77	83

f: forecasts; WTI : West Texas Intermediate; <sup>1</sup> 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