

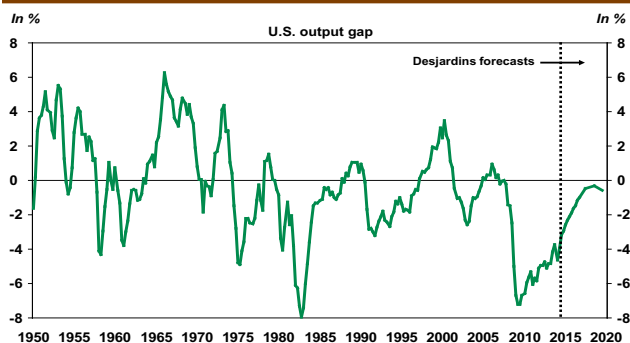
Medium-term issues and forecasts Getting used to a more moderate pace of economic growth

After some challenging years of rebalancing, the economic situation looks better for several countries. We can expect real GDP to grow annually slightly more than its potential in several economies to return to closer-to-normal capacity utilization rates. Nevertheless, the potential for growth will diminish as a consequence of demographic changes and other structural factors. At the end of the day, real GDP growth rates should therefore converge on lower levels than seen in previous expansion cycles. As such, the central banks will not need to raise interest rates as much to ensure price stability, which will ripple through all market interest rates. Stock market returns should also be more moderate.

INTERNATIONAL ISSUES

In the United States, the increasingly favourable outlook should continue to improve in the medium term. There is still a question of whether the current growth cycle, which started in summer 2009, will last into the next decade. At the end of 2019, economic expansion will have lasted 126 months, while the average since the 1960s has been 71 months. The weakness of the recovery between 2009 and 2013 still leaves hope that the current episode will be longer. If we use the measure of potential real GDP calculated by the Congressional Budget Office, the output gap will not yet be completely closed in 2019 (graph 1), also arguing for a longer-than-normal expansion cycle. Between now and then, financial markets could still begin positioning

Graph 1 – It will be another several years before U.S. output returns to full capacity



Sources: Congressional Budget Office and Desjardins, Economic Studies

themselves for the end of the cycle, which could manifest as a more pronounced flattening of the yield curve.

The imbalance that has affected the euro zone should be largely resolved in five years from now. However, the growth potential for Euroland's economy will continue to be weak, at a little less than 1% due predominantly to stronger demographic changes. The main risk in the euro zone is to undergo "Japanese" low growth, which is characterized by a long period of deflation and the inability to cease monetary easing measures.

Many emerging countries experienced difficulties in 2013 and 2014, but better prospect are expected for the coming years with improving outlook for the United States and other advanced countries. There will still be exceptions, such as China. Domestic adjustments, which have resulted in slowing the Chinese economy for the last few years, will continue in the medium term. China is particularly struggling with weak growth in its population aged 15 to 64, rather unusual for an emerging country.

CANADIAN ISSUES

The improvement in manufacturing and international trade, combined with a strong contribution from non-residential investments, will translate into economic growth of just above 2% by 2016. The energy sector could encounter certain difficulties in the short term due to the recent fall in oil prices, but the outlook remains relatively positive in the

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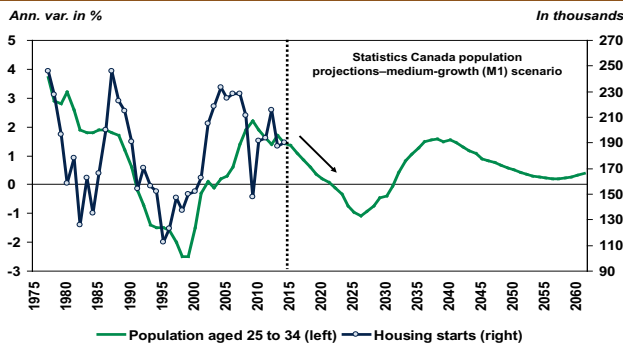
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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medium term in light of expected growth in global demand. Progress in projects to build new oil pipelines will be a determining factor for the industry in the years to come.

After 2016, real GDP should approach potential output and economic growth will pass under the 2% mark. Progress in the housing market should slow, further coinciding with long-term demographic trends (graph 2).

Graph 2 – Less favourable demographics should hamper residential construction in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

therefore hold steady above the national average in 2015 and 2016. Growth slightly below the national average, which will be inflated by faster growth in the resource provinces, is expected starting in 2017.

Quebec will also benefit from the rebound in manufacturing and greater non-residential investments. However, demographic factors less favourable than elsewhere in North America will further hamper economic growth in the province in the coming years.¹ Starting in 2016, the population aged 15 to 64, which represents the majority of the labour force, will start to shrink in Quebec. As a consequence, real GDP growth will slow to around 1.25% on average for the next five years.

The precariousness of Quebec’s public finances will also impact the economy in short- and medium-term. The provincial government will exercise strict control over its expenses and thoroughly examine the role of its program together with their financing. The return to a balanced budget, which is expected for 2015–2016, is only a first step in light of the major challenges faced by the province.

The future absorption of excess production capacity across the country will drive the Bank of Canada to normalize monetary policy. A gradual increase in key interest rates is therefore expected, promoting stabilization, or improvement, in Canadian household debt levels.

Ontario will find itself in the midst of a recovery in manufacturing. The province should also benefit from major investments in machinery and equipment once certain manufacturers want to increase their production capacity and productivity. The province’s real GDP growth could

¹ Desjardins, Economic Studies, *Economic Viewpoint*, “Quebec’s more optimistic demographic outlook does not reverse the forecast for economic growth”, December 16, 2014, www.desjardins.com/ressources/pdf/pv141216-e.pdf?resVer=1418747408000.

Table 1
United States: medium-term major economic and financial indicators

In % (except if indicated)	Annual average							Average	
	2013	2014	2015f	2016f	2017f	2018f	2019f	2006-2013	2014-2019f
Real GDP (var. in %)	2.2	2.4	3.3	3.0	2.9	2.5	2.0	1.3	2.7
Total inflation rate (var. in %)	1.5	1.6	0.3	2.8	2.0	2.1	1.6	2.2	1.7
Unemployment rate	7.4	6.2	5.6	5.3	5.0	4.8	4.8	7.3	5.3
S&P 500 index (var. in %)*	29.6	11.4	7.8	5.9	5.0	5.0	0.0	7.2	5.8
Federal funds rate	0.25	0.25	0.55	1.25	2.15	3.05	3.50	1.67	1.79
Prime rate	3.25	3.25	3.55	4.25	5.15	6.05	6.50	4.67	4.79
Treasury bills—3-month	0.06	0.03	0.45	1.15	2.05	2.95	3.30	1.40	1.66
Federal bonds—10-year	2.34	2.53	2.45	2.95	3.25	3.55	3.45	3.30	3.03
Federal bonds—30-year	3.45	3.34	2.95	3.35	3.60	3.75	3.60	4.07	3.43
WTI** oil (US\$/barrel)	98	93	58	78	88	92	85	83	82
Gold (US\$/ounce)	1,411	1,266	1,175	1,100	1,050	1,000	1,050	1,128	1,107

f: forecasts; * The variations are based on observation of the end of period; ** West Texas Intermediate.

Sources: Datastream and Desjardins, Economic Studies

Table 2
Canada: medium-term major economic and financial indicators

In % (except if indicated)	Annual average							Average	
	2013	2014	2015f	2016f	2017f	2018f	2019f	2006-2013	2014-2019f
Real GDP (var. in %)	2.0	2.5	2.3	2.4	2.0	1.7	1.3	1.7	2.0
Total inflation rate (var. in %)	0.9	1.9	0.8	2.9	2.0	1.8	1.7	1.7	1.8
Employment (var. in %)	1.3	0.8	1.0	1.1	0.9	0.8	0.6	1.2	0.9
Employment (K)	224	141	177	202	171	154	140	201	164
Unemployment rate	7.1	6.9	6.6	6.3	6.2	6.0	5.9	7.1	6.3
Housing starts (K)	188	189	185	184	190	180	175	200	184
S&P/TSX* index (var. in %)	9.6	7.4	3.9	7.9	8.0	6.0	0.0	4.3	5.5
Canadian dollar (US\$/C\$)	0.97	0.91	0.85	0.89	0.91	0.92	0.90	0.95	0.90
Overnight funds	1.00	1.00	1.05	1.50	2.15	2.80	2.95	1.93	1.91
Prime rate	3.00	3.00	3.05	3.50	4.15	4.80	4.95	3.84	3.91
Mortgage rate									
1-year	3.08	3.14	3.25	3.80	4.45	5.05	5.05	4.65	4.12
5-year	5.23	4.89	4.90	5.00	5.40	5.95	5.85	5.99	5.33
Treasury bills—3-month	0.97	0.91	1.00	1.60	2.20	2.85	3.00	1.78	1.93
Federal bonds									
2-year	1.11	1.06	1.15	1.75	2.25	2.95	3.00	2.16	2.03
5-year	1.63	1.58	1.55	2.00	2.45	3.05	3.05	2.65	2.28
10-year	2.26	2.23	2.00	2.55	2.90	3.20	3.10	3.19	2.66
30-year	2.83	2.77	2.45	2.90	3.10	3.35	3.20	3.61	2.96
Canada/U.S. rate spreads									
Treasury bills—3-month	0.91	0.88	0.55	0.45	0.15	-0.10	-0.30	0.38	0.27
Federal bonds—10-year	-0.07	-0.30	-0.45	-0.40	-0.35	-0.35	-0.35	-0.11	-0.37
Federal bonds—30-year	-0.62	-0.57	-0.50	-0.45	-0.50	-0.40	-0.40	-0.46	-0.47

f: forecasts; * The variations are based on observation of the end of period.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Table 3
Quebec and Ontario: medium-term major economic indicators

Var. in % (except if indicated)	Annual average							Average	
	2013	2014f	2015f	2016f	2017f	2018f	2019f	2006-2013	2014-2019f
Quebec									
Real GDP	1.0	1.5	1.7	1.5	1.3	1.1	0.9	1.4	1.3
Total inflation rate	0.7	1.4	0.7	2.7	2.1	1.9	1.7	1.6	1.8
Employment	1.2	-0.1	0.6	0.5	0.5	0.4	0.2	1.1	0.4
Employment (K)	48	-2	25	20	20	15	10	41	15
Unemployment rate (%)	7.6	7.7	7.5	7.3	7.1	6.6	6.1	7.8	7.1
Retail sales	2.5	2.9	2.4	4.1	3.4	2.9	2.5	3.3	3.0
Housing starts (K)	38	39	39	38	35	33	30	47	36
Ontario									
Real GDP	1.3	2.3	2.8	2.5	1.9	1.6	1.4	1.0	2.1
Total inflation rate	1.0	2.3	1.0	2.8	2.0	1.8	1.6	1.8	1.9
Employment	1.4	0.8	1.0	1.1	1.0	0.9	0.7	1.0	0.9
Employment (K)	96	54	70	80	71	64	51	64	65
Unemployment rate (%)	7.5	7.3	6.7	6.6	6.2	6.0	6.0	7.5	6.5
Retail sales	2.3	4.8	4.2	4.2	4.0	3.5	3.3	2.8	4.0
Housing starts (K)	61	59	56	63	65	65	60	67	61

f: forecasts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies