ECONOMIC VIEWPOINT

A Look Back at 2019

The Trade War Triggers a Synchronized Slowdown

Now is the time to assess the year 2019. Here are the main aspects that caught our attention.

The global economy continued to slow in 2019. One factor putting the brakes on was the escalating protectionism between China and the United States. Global real GDP growth likely fell to 3.0% in 2019, after reaching 3.6% in 2018.

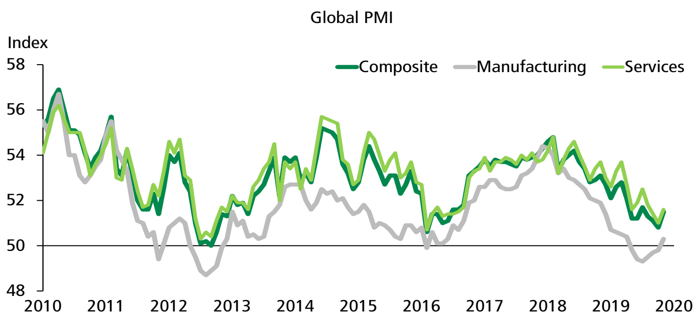
Uncertainty remained a key theme in 2019, with the Global Economic Policy Uncertainty Index hitting a peak. Diplomatic relations between the United States and several nations deteriorated as protectionist measures were introduced. On the political front, lengthy and sometimes violent demonstrations broke out in Asia, Latin America and the Middle East.

The manufacturing sector was the most affected by the drop in global trade. **Several countries' PMI manufacturing indexes dropped below 50 in 2019**, as did the global index (graph 1). One of the hardest hit countries, Germany, came close to a recession.

The **Brexit** issue continued to grab some headlines in 2019. Initially scheduled for the end of March 2019, **the deadline was pushed back several times** and the risks of a no-deal Brexit with the European Union temporarily went up. Although it does not eliminate all the risks, **Boris Johnson's convincing December 12 election win** simplifies the situation.

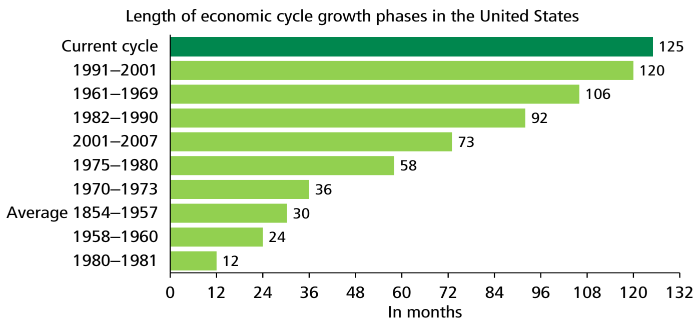
Since July 2019, **the United States has been enjoying its longest period of economic expansion**. The current cycle is now over ten years old (graph 2).

GRAPH 1
The global PMI manufacturing index dropped below 50 in 2019



Sources: IHS/Markit, Datastream and Desjardins, Economic Studies

GRAPH 2
The current economic cycle will be the longest ever recorded in the United States



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

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The United States saw intense political tension in 2019, contributing to the high uncertainty level. The year began with the longest government shutdown and is ending with the proceedings to impeach the President. The vagaries of the Trump administration's protectionist policy have muddied the outlook for businesses, which have also reined in their investments. Recession fears surged during the year, despite good performances from the job market (the jobless rate hit 3.5%, its lowest point since 1969) and household spending.

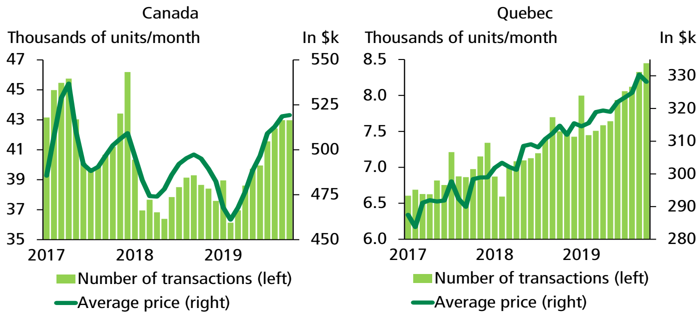
In Canada, the problems in the oil and gas sector continued in 2019. Early in the year, the Alberta government imposed **temporary restrictions on crude oil output** to combat the negative impacts caused by the transportation problems. Moreover, **global trade tensions** continued to hamper most of the other industrial sectors of Canada and Quebec's economy. Despite the **positive developments** at the end of the year, the **Canada–United States–Mexico Agreement (CUSMA) still had not been ratified by Canada and the United States** at the time of writing.

The **Canadian housing sector regained strength in most markets** in 2019 after an adjustment following the introduction of new mortgage credit restriction measures. The number of transactions and average price rebounded during the year (graph 3). **Quebec's housing sector continued to climb.** The number of properties sold hit a new peak, as did the average price, which rose about 5% in 2019. Growth was widespread across the province. **The property market overheating intensified in Montreal, with bidding wars proliferating.** However, the Montreal market is not nearly as problematic as Toronto's was two years ago, and the level of overvaluation remains low.

Unlike Canada, which saw its economy slow in 2019, **Quebec maintained strong growth**. Real GDP growth was at 2.5% and over for a third year straight. **In 2019, Quebec even posted the best provincial performance in Canada**, followed by Ontario and British Columbia (graph 4). Quebec did well for the following reasons: its economy was not affected by the upheaval in the oil sector, the real estate market remained strong, and the unemployment rate fell rapidly, under demographic factors. At about 5% in 2019, the latter posted one of the lowest rates among Canadian provinces (graph 5).

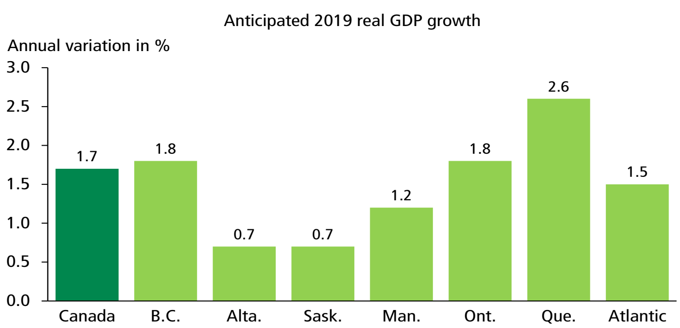
Lastly, the improvement in the public finances in recent years gives the Quebec government some fiscal and budgetary leeway, making it possible to stimulate economic growth. Several other provinces are projecting balanced or surplus budgets for fiscal year 2019–2020. In contrast, Ontario and Alberta are expecting major deficits.

GRAPH 3
The existing property market was strong in 2019



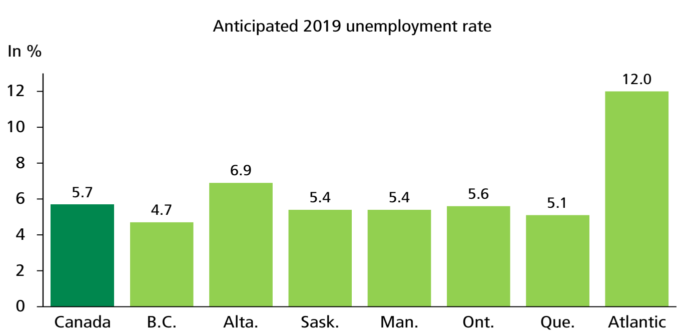
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 4
Quebec should lead on growth for 2019



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 5
Quebec has one of the lowest unemployment rates



Sources: Statistics Canada and Desjardins, Economic Studies

An excellent year for investors. Despite slowing growth in several countries and the many international uncertainties, the main asset classes recorded a very good year in 2019. After the first 11 months of the year, a typical Canadian investor portfolio was posting a return of more than 15%, making it the best year since 2009 (graph 6). The stock markets' rebound, after its plunge at the end of 2018, contributed to this remarkable performance.

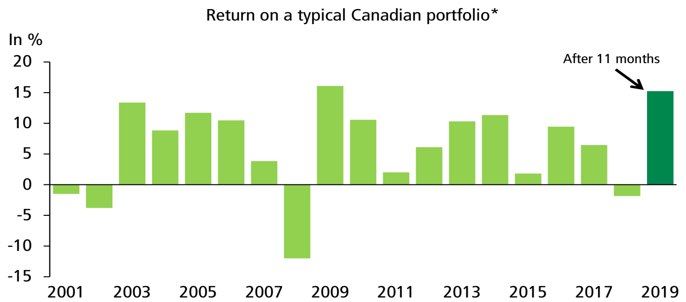
The Federal Reserve (Fed) backtracks. The asset classes' excellent performance also received support from central bankers. The Fed raised its rates four times in 2018, then changed its stance at the start of 2019 to try to reassure investors. Faced with the increase in downside risks, it went into action in the second half of the year cutting its key rates by 75 basis points, as well as starting once again to expand its balance sheet to ensure the smooth operation of the money market. Several other central banks also softened their monetary policies, but the Bank of Canada deemed it more prudent to opt for the status quo.

The negative interest rate phenomenon has intensified in Europe. Several new lows were set this year (graph 7). This is a good reflection of investors' strong risk aversion, as well as the stimulus in monetary policies worldwide. Although it has very little leeway, the European Central Bank took its deposit rate further into negative territory, and reactivated its asset purchasing program. The odd man out, the Bank of Sweden has started to reverse its negative rate policy at the end of October.

Benefiting from its safe-haven role, **the U.S. dollar rose against several currencies**. The Canadian dollar rebounded somewhat at the start of the year, and since then has essentially stabilized at between US$0.75 and US$0.76. Oil price volatility is having less impact on the Canadian exchange rate than previously. The favourable change in interest rate spreads also did not translate into a surge by the loonie, which is primarily being penalized by the ambient uncertainty.

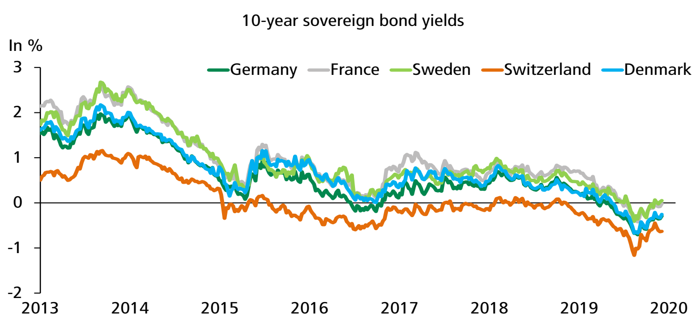
The United States recorded net oil exports in 2019, consolidating its position in the global market (graph 8). Faced with this growing competition, the Organization of Petroleum Exporting Countries curbed its output. Oil prices were resilient, with elevated tensions in the Middle East partially offsetting the impact of uncertainties and abundant supply. **It was a tumultuous year for Canadian oil**, with the spread between WTI (West Texas Intermediate) and WCS (Western Canadian Select) going from about US$6 a barrel to US$20 during the year. The transportation problems of Western Canada's crude oil remain an obstacle for the industry, even though capacity has been added.

GRAPH 6
2019 will have been a very good year for investors



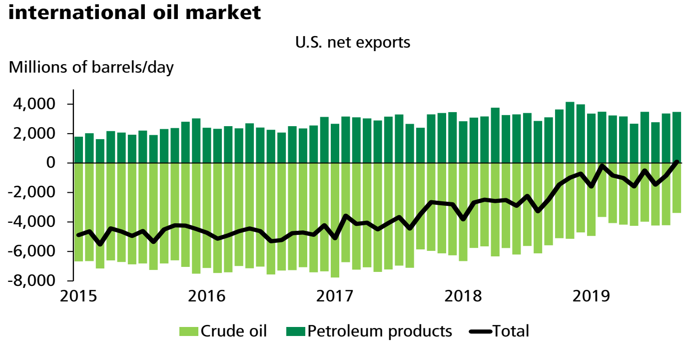
* 35% Canadian equity, 15% U.S. equity, 45% Canadian bonds, 5% cash.
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 7
Several bond yields hit new lows in negative territory



Sources: Datastream and Desjardins, Economic Studies

GRAPH 8
The United States is strengthening its position in the international oil market



Sources: Energy Information Administration and Desjardins, Economic Studies