ECONOMIC & FINANCIAL OUTLOOK

The Global Recession Is at Our Doorstep

HIGHLIGHTS

- Some of the supply chain snarls that have been hampering economic growth and fuelling inflation appear to be easing. However, there are a number of signs that the global economy will dip into a recession next year. We expect real GDP to contract as early as Q4 2022 in the eurozone as energy uncertainty continues to keep inflation high. The same is true in the United Kingdom, where real GDP fell in the third quarter.
- In the US, the situation is expected to deteriorate in 2023 as interest rate hikes and other factors really start to bite. The economy may dip into a recession next year, posting three quarters of GDP contraction, job losses and rising unemployment.
- Recent Canadian economic data have come in much better than we anticipated when we released our last forecast in October. But we think it's a bit of a head fake. Our outlook for next year continues to be for a short and shallow recession, albeit one that could stretch into the third quarter. Risks to the outlook also continue to be tilted to the downside, as households are increasingly coming up against the reality of higher costs of servicing their mortgages.
- The rate hike announced by the Bank of Canada on December 7 should be the last of the tightening cycle, and we forecast rate cuts starting at the end of next year. In the US, we expect the Federal Reserve will raise rates further in the first quarter of 2023.
- According to a number of indicators, Quebec's economy is heading for a major downturn. While real GDP has posted three sharp declines since March, it's too soon to say whether the province is already in a recession. But it will be eventually. It looks like 2023 will be a tough year, as households and businesses really start to feel the pinch of higher interest rates.
- A housing-led Canadian economic downturn will have the worst effects on provinces most reliant on real estate. By contrast, net oil-producing provinces should benefit from relatively little exposure to real estate, solid commodity production and prices, and major project activity.
- Persistent inflation remains the biggest risk to the global economy, as it would force many central banks to raise interest rates to higher-than-expected levels. Moreover, the global economic slowdown could be worse than expected if more countries are dragged into recession. High inflation and rising borrowing costs could further chill consumer and business demand. If households adjusted to higher debt servicing costs by reducing their expenditures more significantly, growth would suffer more. Canada could be hit hard if the global economy takes a dive, hurting exports and terms of trade. A bigger jump in unemployment and interest rates could also mean a steeper housing correction in Canada.

CONTENTS

Jimmy Jean, Vice-President, Chief Economist and Strategist
Royce Mendes, Managing Director and Head of Macro Strategy • Randall Bartlett, Senior Director of Canadian Economics
Tiago Figueiredo, Associate – Macro Strategy • Hélène Bégin, Principal Economist • Marc Desormeaux, Principal Economist
Benoit P. Durocher, Principal Economist • Francis Généreux, Principal Economist • Hendrix Vachon, Principal Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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 IN OUR SCENARIOS

Persistent inflation remains the biggest risk to the global economy, as it would force many central banks to raise interest rates to higher-than-expected levels. And if central banks don't respond forcefully enough, high inflation could become even more entrenched and difficult to tame in the medium term, requiring even more aggressive monetary policy. The global economic slowdown could be worse than expected if more countries are pulled into recession. High inflation and rising borrowing costs could further chill consumer and business demand. Canada could be hit hard if the global economy takes a dive, hurting exports and terms of trade. A bigger jump in unemployment and interest rates could also mean a steeper housing correction in Canada. Europe's economy is especially vulnerable due to sky-high energy prices and potential energy supply shortages from the war in Ukraine. Although prices for oil, some foods and other commodities have moderated, the war in Ukraine remains a major source of uncertainty in our forecast. We'll also need to continue to keep a close eye on China, where the country's zero-COVID policy and resulting business closures could again disrupt global supply chains and cause further domestic unrest. Then there are the risks to financial stability. A deeper economic downturn could mean more bankruptcies and sharper corrections in risky assets. Investors could demand higher risk premiums and be more critical of government decisions that could worsen the state of public finances or undermine the work of central banks. The US dollar could also continue to appreciate, particularly against the currencies of countries considered more economically and financially fragile, in turn exacerbating these vulnerabilities.

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

	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
IN %		2022f	2023f	2024f	2022f	2023f	2024f
Advanced economies	**38.7**	**2.5**	**0.0**	**1.8**	**7.3**	**4.3**	**2.0**
United States	15.7	2.0	0.1	2.0	8.1	3.3	2.2
Canada	1.4	3.6	0.2	1.0	6.9	3.2	2.0
Quebec	*0.3*	*2.9*	*-0.2*	*1.2*	*6.5*	*3.1*	*2.1*
Ontario	*0.5*	*3.4*	*-0.3*	*1.0*	*7.0*	*3.1*	*2.0*
Japan	3.7	1.1	1.1	1.4	2.2	1.6	0.7
United Kingdom	2.3	4.3	-1.5	1.2	8.9	6.4	3.1
Euro zone	11.9	3.2	-0.7	1.4	8.7	6.3	2.2
Germany	*3.3*	*1.7*	*-1.5*	*1.2*	*8.5*	*7.3*	*2.5*
France	*2.3*	*2.4*	*-0.8*	*1.5*	*5.8*	*4.5*	*1.8*
Italy	*1.8*	*3.7*	*-0.6*	*1.2*	*8.0*	*5.5*	*1.6*
Other countries	4.2	2.9	0.9	2.5	5.9	4.1	2.0
Australia	*1.0*	*3.9*	*1.6*	*2.5*	*6.5*	*4.6*	*2.5*
Emerging and developing economies	**61.3**	**3.2**	**3.3**	**4.5**	**8.2**	**6.0**	**4.0**
North Asia	26.8	3.9	4.8	5.4	4.3	3.7	3.0
China	*18.6*	*2.9*	*4.7*	*5.2*	*2.5*	*2.5*	*2.2*
India	*7.0*	*6.8*	*5.4*	*6.3*	*6.9*	*5.2*	*4.8*
South Asia	5.1	4.9	3.9	4.8	5.2	4.2	2.8
Latin America	5.8	2.8	0.8	2.6	8.2	5.0	3.6
Mexico	*1.8*	*2.1*	*0.9*	*2.5*	*8.8*	*4.8*	*3.7*
Brazil	*2.3*	*2.6*	*0.6*	*2.4*	*6.2*	*5.1*	*3.7*
Eastern Europe	8.1	-1.4	-0.2	3.0	26.5	16.1	9.3
Russia	*3.3*	*-4.6*	*-3.1*	*1.7*	*12.9*	*6.5*	*5.2*
Other countries	15.5	3.6	3.0	4.1	9.7	8.6	6.0
South Africa	*0.6*	*1.6*	*1.0*	*2.1*	*6.9*	*5.9*	*4.7*
World	**100.0**	**3.0**	**2.0**	**3.5**	**7.8**	**5.3**	**3.2**

f: forecasts; PPP: Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; * 2021.
Sources: World Bank, Consensus Forecasts and Desjardins Economic Studies

FINANCIAL FORECASTS

Global sovereign yields have moved lower, reflecting some early indications that inflation across most jurisdictions is moderating. Risks to financial stability and uncertainty around the lags in monetary policy are enough motivation to slow down the pace of rate hikes. Policy makers have offset their communications regarding slower rate increases by also conveying a desire to keep rates higher for longer. We now expect the Bank of Canada to pause its hiking cycle at the end of this year and have forecast rate cuts starting at the end of next year. Although the Canadian curve remains inverted, we expect the curve to gradually steepen in 2023 and 2024. In the US, we expect the Federal Reserve will raise rates further in the first quarter of 2023 before pausing and cutting rates at the end of the year. Risk assets have moved higher over the period, reflecting the decline in global yields. However, they are likely to remain on the backfoot given that inflation, rate hikes and weaker economic growth will likely weigh on earnings growth. US dollar weakness has lifted currencies, but the Canadian dollar continues to lag relative to global peers, reflecting the view that the Bank of Canada will be unable to raise rates as high as the Federal Reserve.

TABLE 2
Summary of financial forecasts

	2022		2023				2024			
END OF PERIOD IN % (EXCEPT IF INDICATED)	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	3.25	4.50	5.00	5.00	5.00	4.75	3.75	3.00	2.50	2.50
Canada	3.25	4.25	4.25	4.25	4.25	3.75	3.25	2.75	2.25	2.25
Euro zone	1.25	2.75	3.25	3.25	3.25	3.00	2.50	2.00	1.50	1.50
United Kingdom	2.25	3.50	4.00	4.00	4.00	3.75	3.25	2.75	2.25	2.00
Federal bonds										
United States										
2-year	4.26	4.45	4.20	4.00	3.65	3.40	2.85	2.65	2.50	2.50
5-year	4.08	3.85	3.75	3.60	3.50	3.15	2.70	2.60	2.60	2.60
10-year	3.80	3.65	3.55	3.40	3.25	3.10	2.70	2.65	2.65	2.65
30-year	3.76	3.65	3.55	3.40	3.25	3.05	2.85	2.85	2.85	2.85
Canada										
2-year	3.79	3.85	3.60	3.45	3.15	2.90	2.45	2.30	2.25	2.20
5-year	3.32	3.10	3.00	2.95	2.90	2.85	2.45	2.30	2.30	2.25
10-year	3.16	2.85	2.75	2.70	2.65	2.60	2.45	2.40	2.35	2.35
30-year	3.09	2.85	2.80	2.70	2.65	2.60	2.45	2.40	2.35	2.35
Currency market										
Canadian dollar (USD/CAD)	1.38	1.37	1.39	1.39	1.37	1.33	1.30	1.28	1.27	1.27
Canadian dollar (CAD/USD)	0.72	0.73	0.72	0.72	0.73	0.75	0.77	0.78	0.79	0.79
Euro (EUR/USD)	0.98	1.03	0.99	1.00	1.03	1.05	1.07	1.09	1.11	1.13
British pound (GBP/USD)	1.12	1.19	1.14	1.15	1.18	1.21	1.23	1.25	1.27	1.30
Yen (USD/JPY)	145	136	132	127	122	118	114	112	111	110
Stock markets (level and growth)*										
United States – S&P 500	3,700		Target: 3,750 (+1.4%)				Target: 4,000 (+6.7%)			
Canada – S&P/TSX	18,800		Target: 19,250 (+2.4%)				Target: 20,600 (+7.0%)			
Commodities (annual average)										
WTI oil (US$/barrel)	95 (83*)		78 (80*)				85 (84*)			
Gold (US$/ounce)	1,795 (1,730*)		1,730 (1,680*)				1,615 (1,560*)			

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

Overseas

Supply Chain Issues Are Easing, but the Global Economy Won't Escape a Recession

FORECASTS

Some of the supply chain snarls that have been hampering economic growth and fuelling inflation appear to be easing. However, there are a number of signs that the global economy will dip into a recession next year. We expect real GDP to contract as early as Q4 2022 in the eurozone as energy uncertainty continues to keep inflation high. The same is true in the United Kingdom, where real GDP fell in the third quarter. Even China's economy is slated to shrink at the end of this year as authorities continue to grapple with the pandemic and the country's zero-COVID policy disrupts economic activity. World GDP is expected to post anemic growth of just 2.0% in 2023—a level compatible with a global recession. The world economy should then bounce back in 2024, growing by 3.5%.

Supply Chain Issues Have Eased

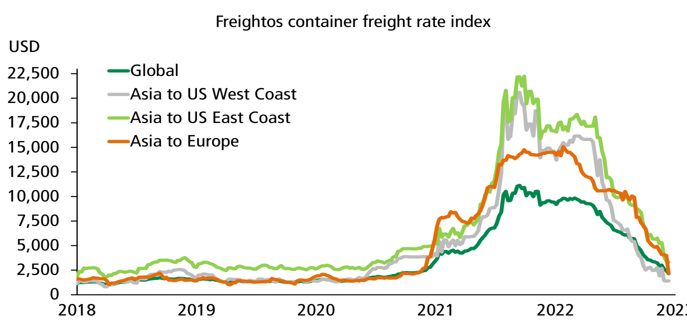
One of the biggest economic impacts of the pandemic has been supply chain problems. They've created an imbalance between supply and demand for goods and—most importantly—sky-high inflation throughout most of the world. It seems that some of these problems are going away, however. After spiking during the pandemic, freight costs are almost back to normal, especially for container shipping between Asia and the US West Coast (graph 1). Yes, we could still see hiccups like the latest round of COVID lockdowns in China that could disrupt supply chains again. But prices for some commodities are falling, and demand for goods is coming back into balance in advanced economies, which should improve the functioning of global markets. If inflation is going to come down, global supply pressures have to let up, and until just recently they were (graph 2).

We expect commodity price pressures to continue to ease as well. And as the global economy slows and demand for oil weakens, oil prices should fall. However, low government inventories and uncertainty around production by OPEC+ and other producers could partially offset this downward pressure. Prices for a number of other commodities such as metals and agricultural products are also expected to decline in the coming months as the global recession takes hold. European natural gas prices have come off their spring highs due to elevated inventories and mild weather in recent months. But the situation could change quickly if Europe gets hit with a cold winter.

China Is Still Grappling with COVID-19

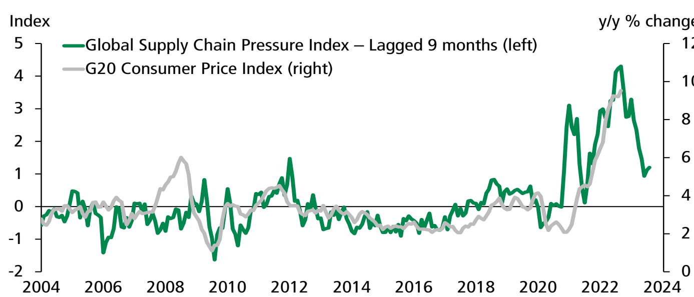
More and more countries are lifting their remaining public health measures and moving on from the pandemic. But not China. The country saw a record number of cases recently as Chinese authorities vacillate over their zero-COVID policy (graph 3 on page 5). After lifting a few lockdowns, they had to reinstate some. That said, Chinese authorities appear to be bending to protester demands, and COVID restrictions are being eased. Against this uncertain backdrop, China's

GRAPH 1
International container shipping costs have fallen dramatically



Sources: Freightos, Datastream and Desjardins Economic Studies

GRAPH 2
Resolving supply chain issues should slow global inflation



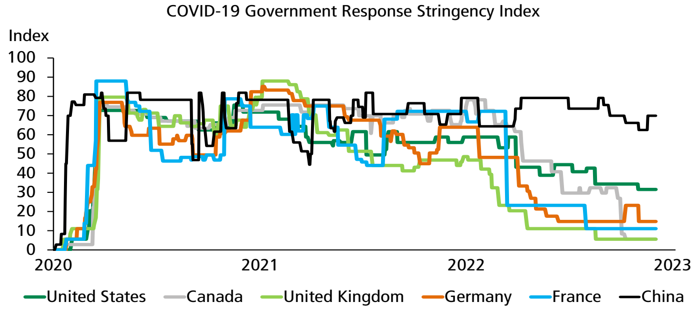
Sources: Federal Reserve Bank of New York, Organisation for Economic Co-operation and Development, and Desjardins Economic Studies manufacturing PMI fell to 48.0 in November and the non-manufacturing index dipped to 46.7 (graph 4). Meanwhile retail sales were down 0.5% year-over-year in October—the first decline since spring—and the real estate market continues to correct. Global spending on goods is also expected to drop, further darkening China's economic outlook. China's real GDP will likely contract in the fourth quarter this year, bringing annual GDP growth to 2.9%. We forecast growth of 4.7% in 2023 and 5.2% in 2024.

The Eurozone and the United Kingdom: The Recession Is Already Here

Despite being hobbled by the war in Ukraine, Europe's economy fared well through the third quarter. It posted annualized real GDP growth of 0.8% in Q3, and its labour market is holding up. (Unemployment is lower than in June.) But there's a sense that everything is about to change. A number of leading indicators already suggest the economy is contracting significantly. Consumer and business confidence is low, as are purchasing managers' indexes. Germany's ifo index is down, and the OECD's leading indicator for the eurozone has plummeted (graph 5). Everything points to imminent declines in real GDP or its major components. Inflation also remains very high in the eurozone, forcing the European Central Bank to continue raising interest rates despite the recession and ongoing energy crisis. We expect the recession to last until at least Q3 2023.

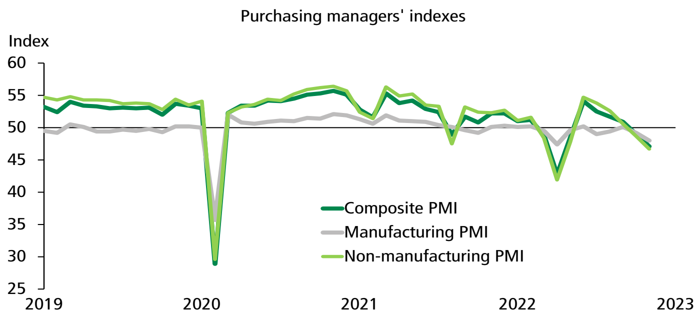
Meanwhile UK real GDP contracted an annualized 0.7% in the third quarter, and it looks like the slide has just begun. The cost of living crisis, political uncertainty, higher interest rates and Brexit are already weakening the economy and causing the UK to lag behind other countries. And the government of new Prime Minister Rishi Sunak is taking a rather restrictive approach to fiscal policy. We therefore expect the recession to last until the second half of 2023 in the United Kingdom as well.

GRAPH 3
Public health measures are much stricter in China



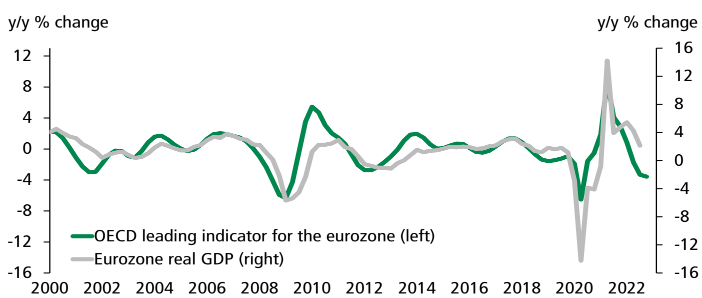
Sources: University of Oxford, Datastream and Desjardins Economic Studies

GRAPH 4
China's PMIs have started to fall again



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

GRAPH 5
Leading indicators point to imminent declines in eurozone real GDP



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

United States

The US Economy Is About to Enter a Rough Patch

FORECASTS

After contracting in the first half of 2022, US real GDP grew by a robust 2.9% in the third quarter. While further growth is expected the rest of this year, the situation is expected to deteriorate in 2023 as interest rate hikes and other factors really start to bite. The US economy may dip into a recession next year, posting three quarters of GDP contraction, job losses and rising unemployment. This should continue to bring down inflation. We predict the economy will begin to recover in late 2023 and bounce back strong in 2024.

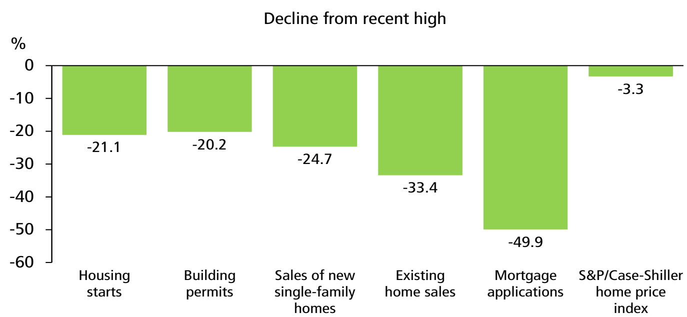
After falling 1.6% in Q1 and 0.6% in Q2, US real GDP finally entered positive territory in the third quarter, rising at an annualized rate of 2.9%. While these declines were due to negative contributions from international trade and business inventories respectively, the Q3 gain came on the back of improved net exports, stronger business investment and resilient real consumption.

Other economic data paints a gloomier near-term picture, however. The Conference Board and most other leading indicators have been trending lower for several months and are now consistent with declines in US real GDP. But we're not talking catastrophe here, especially not in the short term. The fourth quarter is off to a strong start after robust retail sales and real consumption in October. It looks as though post-Thanksgiving sales numbers were pretty solid, though we'll have to see more official data before we know for sure. Consumer confidence has also picked up after the summer doldrums, helped by lower gas prices and the gradual letup in inflation.

But the Federal Reserve's (Fed) aggressive monetary tightening means the US economy will likely contract next year. Rising interest rates are already having an effect, especially in the housing sector. Since peaking after the first wave of COVID-19, real residential investment has fallen 15.6% over the past six quarters. That's a lot, but it's probably not over yet. Housing starts are off 21.1% from their high. Existing home sales are down 31.7%, and sales of new single-family homes are lower by 24.7%. With 30-year mortgage rates temporarily over 7%, mortgage applications have plummeted 49.9%. Existing home prices have also started to fall, though as of the latest data from September, they're down just 3.3% from their June high (graph 6). We expect this price slide to continue over the next year.

Higher interest rates should also take a bite out of real consumption. Spending on durable goods was already down in the second and third quarters of this year. Expect a temporary rebound in the fourth quarter due to improved car dealer inventories and discounts from other businesses looking to reduce elevated inventory levels. But it will likely get more

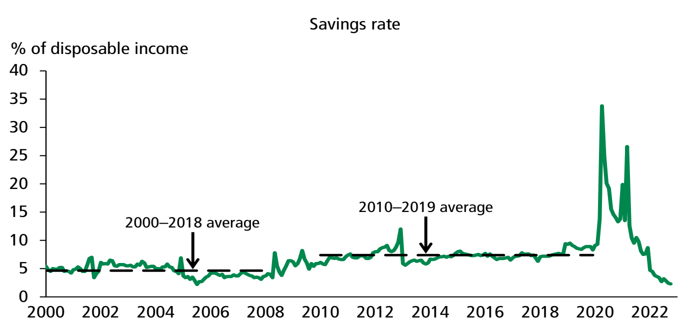
GRAPH 6
Most US housing market indicators are down sharply



Sources: U.S. Census Bureau, National Association of Realtors, Mortgage Bankers Association, Standard & Poor's and Desjardins Economic Studies

difficult after that. Households are slowly whittling away at the financial cushion they built up during the pandemic. The savings rate recently fell to just 2.3%, the lowest level since 2005 (graph 7). Accumulated savings are supporting consumption, but they won't last forever. That's because inflation is eating away at personal income and, more importantly, the labour market is expected to slow or contract next year. We also see the unemployment rate rising nearly 2 percentage points from its 3.5% cyclical low.

GRAPH 7
Americans are saving less



Sources: Bureau of Economic Analysis and Desjardins Economic Studies

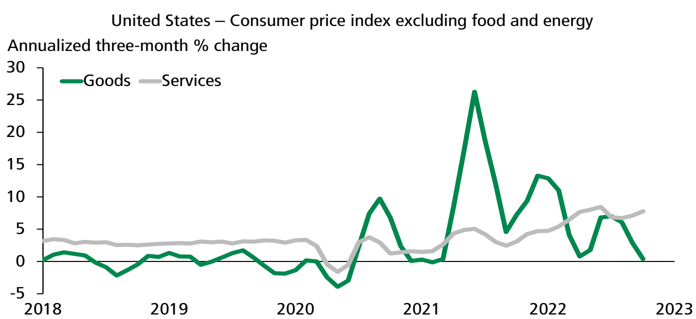
TABLE 3
United States: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2022		2023				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
Real GDP (2012 US$)	**2.9**	**1.7**	**-0.6**	**-2.0**	**-0.6**	**1.7**	**5.9**	**2.0**	**0.1**	**2.0**
Personal consumption expenditures	1.7	3.8	0.5	-1.5	-0.3	1.3	8.3	2.8	0.9	1.7
Residential construction	-26.8	-11.7	-9.4	-7.9	-4.9	-0.8	10.7	-9.7	-11.6	0.5
Business fixed investment	5.1	4.5	-0.1	-1.6	-0.7	2.6	6.4	3.8	1.2	3.2
Inventory change (US$B)	49.6	40.0	0.0	-50.0	-75.0	-50.0	-19.4	103.5	-43.8	6.2
Public expenditures	3.0	1.0	0.7	0.7	0.7	0.7	0.6	-0.8	0.9	0.7
Exports	15.3	-1.5	-1.5	-1.5	-1.5	2.0	6.1	7.3	1.6	1.9
Imports	-7.3	5.0	-2.0	-4.0	-3.0	2.0	14.1	8.8	-1.4	1.5
Final domestic demand	0.9	2.7	0.0	-1.5	-0.4	1.3	6.7	1.7	0.4	1.7
Other indicators										
Nominal GDP	7.3	5.5	1.4	-1.0	1.5	3.6	10.7	9.1	3.0	4.0
Real disposable personal income	0.9	1.7	0.2	-1.5	-1.0	0.5	1.9	-6.5	0.0	1.6
Employment according to establishments	3.1	2.1	0.6	-0.9	-1.2	-0.5	2.8	4.1	0.8	0.3
Unemployment rate (%)	3.6	3.7	4.0	4.5	5.0	5.3	5.4	3.7	4.7	5.3
Housing starts[1] (thousands of units)	1,458	1,402	1,327	1,270	1,255	1,260	1,605	1,557	1,278	1,302
Corporate profits*[2]	4.4	3.0	0.0	-7.5	-7.0	-6.0	22.6	6.4	-5.2	3.2
Personal saving rate (%)	2.8	2.2	2.4	2.4	2.2	2.0	11.9	3.1	2.6	2.2
Total inflation rate*	8.3	7.3	5.9	3.4	2.4	1.9	4.7	8.1	3.3	2.2
Core inflation rate*[3]	6.3	6.1	5.1	3.8	2.7	1.9	3.6	6.2	3.4	1.8
Current account balance (US$B)	-888	-924	-918	-899	-886	-890	-846	-987	-898	-899

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

As economic conditions deteriorate, inflation will to continue to moderate. The US consumer price index was up 7.7% year-over-year in October. That's still very high, but it's down from June's 9.1% peak. The improvement is mostly coming from the goods side for now, as the inflationary effects of supply chain issues and changes in consumer habits during the pandemic are increasingly becoming a thing of the past (graph 8). Inflation should be back near the Fed's 2% target by the end of 2023, allowing the Fed to start cutting interest rates. In 2024, US real GDP growth should therefore strengthen on the rebalancing of economic conditions and lower inflation and interest rates.

GRAPH 8
Pressure has eased on goods prices but not service prices



Sources: Bureau of Labor Statistics and Desjardins Economic Studies

Canada

Economic Outlook: The Calm Before the Economic Storm

FORECASTS
Recent Canadian economic data have come in much better than we anticipated when we released our last forecast in October. But we think it's a bit of a head fake. Our outlook for next year continues to be for a short and shallow recession, albeit one that could stretch into the third quarter. Risks to the outlook also continue to be tilted to the downside, as households are increasingly coming up against the reality of higher costs of servicing their mortgages. This said, we are more optimistic about 2024, as eventual interest rate cuts spur renewed activity.

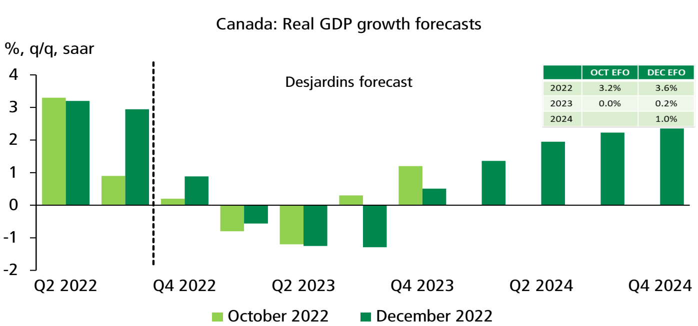
The Canadian economy never ceases to surprise. What looked like a sure bet on rapidly decelerating growth going into the end of 2022 has proven to be less of a certainty than we had earlier anticipated. Indeed, the third quarter outperformed our earlier expectations, and the fourth quarter looks on track to do the same. So, with real GDP growth in the second half of 2022 having come in stronger than expected in October, we've had to revise up our outlook for the year (graph 9). This has also helped to set a more positive tone going into next year, as the "handoff" to 2023—the impact that quarterly growth this year has on the annual rate of growth next year—is higher as well.

But take a look under the recent real GDP numbers, and it is clear that the Canadian economy is rapidly cooling. For instance, domestic demand contracted in the third quarter of this year as a result of declines in both consumption and investment. And as we outlined recently, we think positive data so far in the fourth quarter have likely been a bit of a head fake. As such, we anticipate this recent bout of good economic news to be the calm before the storm. Indeed, we continue to expect a recession in 2023 that is just as deep, if not deeper, than we were forecasting back in October (graph 9).

This moribund outlook for 2023 reflects broad-based weakness (graph 10). However, it is primarily the result of higher interest rates weighing on interest-rate sensitive parts of the Canadian economy, notably housing and consumption. The Bank of Canada is acutely aware of the long and variable lags with which monetary policy impacts the economy, and has been increasingly highlighting this in recent speeches and research. Indeed, the potential non-linear impacts of higher interest rates on the economy pose a meaningful downside risk to the outlook. We touched on this in a recent note which considered what a 1990s-style scenario could look like, where households slash consumption to ensure they can meet their higher mortgage costs. And it doesn't look good. While we don't think the outlook is likely to develop along the lines of this downside scenario, it does reinforce the notion that risks to our baseline forecast are tilted to the downside.

However, the outlook isn't all doom and gloom. In providing "inflation relief," federal and provincial governments have given income support to Canadians, with the general lean toward lower-income households. This should somewhat buttress the economy against the impending downturn. And with Canada ending 2022 having a tight labour market and consumers

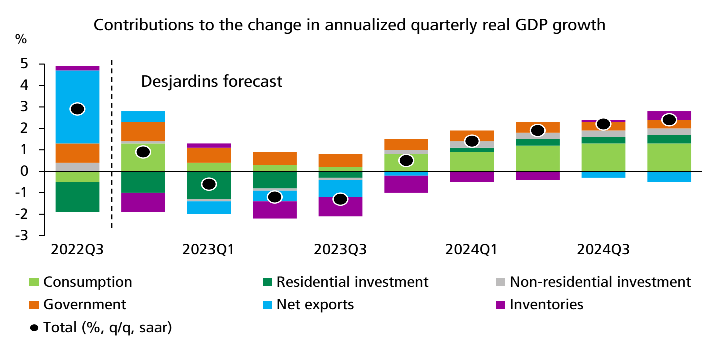
GRAPH 9
We continue to expect a recession in Canada in 2023



	OCT EFO	DEC EFO
2022	3.2%	3.6%
2023	0.0%	0.2%
2024		1.0%

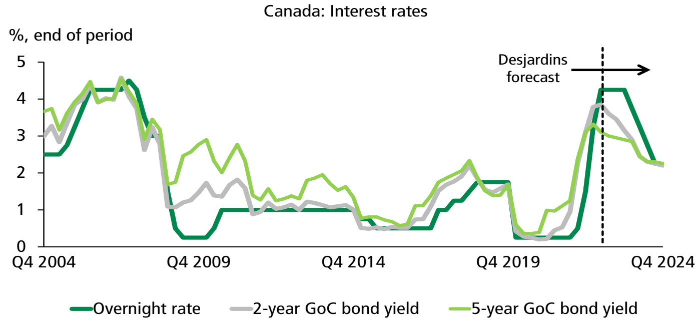
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 10
Economic weakness should be increasingly broad-based in 2023



Sources: Statistics Canada and Desjardins Economic Studies with savings in the bank, there is good reason to expect the slowdown in 2023 will be short lived. Elevated levels of immigration, particularly of economic immigrants, should also support higher growth over the medium term (see our recent note here). Further, inflation looks to be past its peak, and as such we expect the Bank of Canada to settle in for a prolonged pause. But as inflation cools on the back of slowing domestic and global demand, markets will anticipate that central banks will take their feet off the brake (graph 11). This will cause longer-term bond yields to move lower, helping to spur renewed growth in Canada and beyond, thereby underpinning a rebound in 2024.

GRAPH 11
This current hiking cycle is expected to come to an end in December



Sources: Bank of Canada and Desjardins Economic Studies

TABLE 4
Canada: Major economic indicators

QUARTERLY ANNUALIZED VARIATION IN % (EXCEPT IF INDICATED)	2022		2023				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
Real GDP (2012 $)	**2.9**	**0.9**	**-0.6**	**-1.2**	**-1.3**	**0.5**	**5.0**	**3.6**	**0.2**	**1.0**
Final consumption expenditure [of which:]	0.8	2.8	1.4	1.1	0.8	1.6	5.4	3.9	1.7	1.7
Household consumption expenditure	*-1.0*	*2.4*	*0.7*	*0.5*	*0.2*	*1.5*	*5.1*	*4.8*	*1.3*	*1.7*
Governments consumption expenditure	*5.3*	*3.8*	*2.9*	*2.6*	*2.1*	*1.8*	*6.4*	*1.6*	*2.8*	*1.8*
Gross fixed capital formation [of which:]	-4.8	-3.4	-5.3	-3.6	-1.1	0.9	7.4	-0.9	-3.9	1.5
Residential structures	*-15.4*	*-10.5*	*-13.2*	*-8.9*	*-3.0*	*-0.3*	*14.9*	*-10.7*	*-11.7*	*0.8*
Non-residential structures	*11.7*	*3.3*	*-1.4*	*-1.2*	*-1.2*	*1.0*	*0.8*	*11.6*	*2.1*	*1.4*
Machinery and equipment	*-7.6*	*-2.8*	*-1.7*	*-2.8*	*-1.8*	*1.8*	*9.9*	*7.7*	*-1.3*	*2.9*
Intellectual property products	*1.0*	*2.1*	*2.0*	*2.0*	*2.0*	*2.0*	*4.0*	*0.1*	*2.2*	*2.1*
Governments gross fixed capital formation	*-4.0*	*1.5*	*1.4*	*2.1*	*2.3*	*2.4*	*0.9*	*0.1*	*0.7*	*2.4*
Investment in inventories (2012 $B)	56.4	51.0	52.3	47.9	42.8	38.5	-4.1	45.5	45.4	34.7
Exports	8.6	2.4	-2.7	-3.3	-2.1	1.1	1.4	2.6	0.4	1.6
Imports	-1.7	0.7	-0.9	-1.9	0.5	1.7	7.8	8.2	1.1	2.4
Final domestic demand	-0.6	1.3	-0.2	0.0	0.4	1.4	5.8	2.7	0.4	1.7
Other indicators										
Nominal GDP	-2.7	3.8	0.3	-1.0	1.6	2.9	13.6	11.5	1.6	2.9
Real disposable personal income	0.3	3.2	-1.5	1.1	-1.0	-0.9	1.2	-0.2	0.0	1.7
Employment	-1.3	2.3	-0.3	-0.9	0.3	0.9	4.8	3.7	0.2	1.2
Unemployment rate (%)	5.2	5.3	5.7	6.3	7.0	7.2	7.4	5.3	6.5	6.7
Housing starts[1] (thousands of units)	283	245	203	187	183	180	271	261	188	178
Corporate profits*[2]	16.3	1.9	-8.5	-23.0	-16.0	-11.3	35.8	11.4	-15.0	-0.7
Personal saving rate (%)	5.7	5.8	5.3	5.5	5.2	4.5	10.9	6.3	5.1	5.1
Total inflation rate*	7.2	6.9	5.4	2.9	2.6	2.1	3.4	6.9	3.2	2.0
Core inflation rate*[3]	5.4	5.3	4.8	3.3	2.6	2.3	2.3	5.0	3.2	2.1
Current account balance ($B)	-11.1	-4.8	-6.0	-7.4	-7.7	-8.4	-6.7	-12.3	-29.5	-36.6

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

Quebec

Is Quebec Already on the Brink of a Recession?

FORECASTS

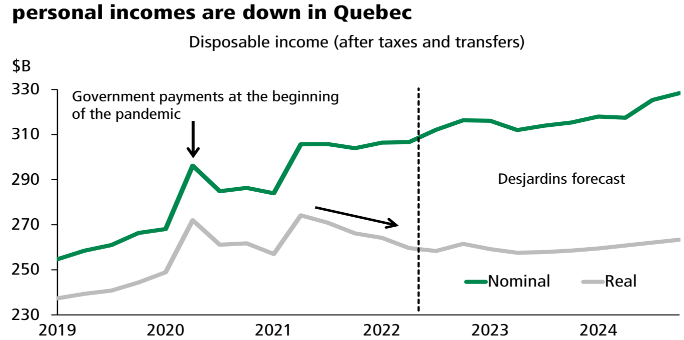
According to a number of indicators, Quebec's economy is heading for a major downturn. While real GDP has posted three sharp declines since March, it's too soon to say whether the province is already in a recession. But it will be eventually. It looks like 2023 will be a tough year, as households and businesses really start to feel the pinch of higher interest rates. The real estate market was hit first, and consumption is expected to start cooling shortly despite the government's fiscal support measures. The global economic downturn should also slow exports and business investment. The labour market has proved resilient so far, limiting the economic damage. But it's already shaky, and a few quarters of real GDP declines are likely. However, the economic recovery should begin in late 2023 and pick up steam in 2024.

Consumers are being squeezed by high inflation, which is reducing real income (graph 12) despite a number of relief measures from the Quebec government. This year, individuals in the province received $740 million in January, $3.2 billion in the spring and $3.5 billion in early December. In 2023, Québec Pension Plan benefits will go up 6.5%, and certain government fee increases will be capped at 3%. These measures and others announced by the federal and provincial governments are intended to help households contend with the rising cost of living and higher interest rates.

Consumer spending remained strong in the first half of this year. But durable goods purchases are showing signs of slowing and are expected to decline in the coming quarters. Less than 10% of Quebecers think it's a good time to make a major purchase (graph 13), a 20-year low. The recent string of interest rate hikes has been especially painful as it has driven up the cost of buying goods on credit. Other types of goods spending and service spending stand to slow as well. Overall household spending is expected to grow between 1.5% and 2.0% in 2023 compared to nearly 5% in 2022. Consumer spending will likely be slightly stronger in 2024 as lower interest rates fuel the economic recovery.

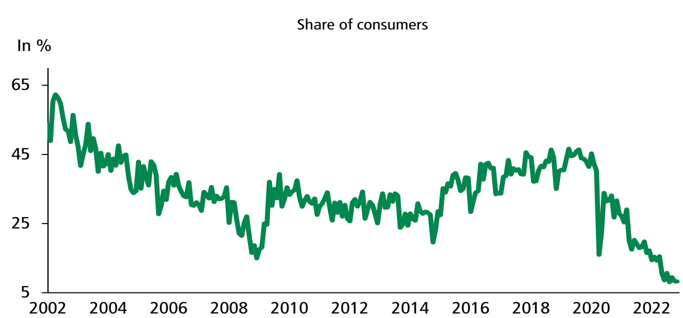
During Quebec's last recession in 2008–2009, excluding the 2020 pandemic shock, consumer spending fell about 2% on an annualized basis for two straight quarters. Consumers should fare better this time around as the labour market remains tight and the savings rate hovers around 10%. Quebec employers added 28,100 jobs in November, and the jobless rate hit a record low of 3.8%. But deteriorating economic conditions will push unemployment up to around 6% by the end of 2023 (graph 14 on page 11). Even if real GDP weakens for a few quarters, we should see limited job losses as there aren't enough workers to meet demand. In this tight job market, most businesses with the financial wherewithal will try to hold on to staff and hire any workers who become available. We're already seeing this in the

GRAPH 12
Despite government payments to individuals in 2022, real personal incomes are down in Quebec



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

GRAPH 13
Durable goods are about to take a hit as not many consumers in Quebec think it's a good time to make a major purchase



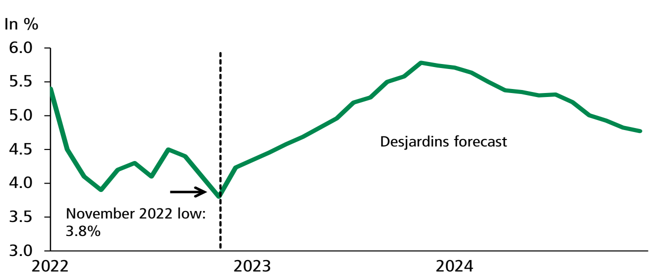
Sources: Conference Board of Canada and Desjardins Economic Studies

TABLE 5
Quebec: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2020	2021	2022f	2023f	2024f
Real GDP (2012 $)	**-5.0**	**6.0**	**2.9**	**-0.2**	**1.2**
Final consumption expenditure [of which:]	-3.3	5.9	3.9	2.1	2.0
Household consumption expenditure	*-5.7*	*5.4*	*4.5*	*1.8*	*2.0*
Governments consumption expenditure	*2.0*	*7.3*	*2.6*	*2.7*	*2.0*
Gross fixed capital formation [of which:]	-1.0	7.2	-0.3	-5.2	-0.2
Residential structures	*2.8*	*12.9*	*-10.3*	*-13.8*	*-2.0*
Non-residential structures	*0.6*	*-1.5*	*6.5*	*-3.0*	*-2.0*
Machinery and equipment	*-15.1*	*20.3*	*10.0*	*-3.0*	*-1.0*
Intellectual property products	*0.1*	*7.1*	*2.1*	*3.8*	*3.8*
Governments gross fixed capital formation	*0.5*	*-3.5*	*5.5*	*3.0*	*3.0*
Investment in inventories (2012 $M)	-6,550	-431	9,000	6,000	5,000
Exports	-7.8	2.9	2.5	0.0	2.3
Imports	-7.9	6.8	2.0	1.2	2.5
Final domestic demand	-2.9	6.2	3.0	0.5	1.5
Other indicators					
Nominal GDP	-1.9	11.8	10.3	2.8	3.3
Real disposable personal income	8.5	1.9	-1.5	-1.0	2.0
Weekly earnings	7.9	2.9	4.2	4.1	3.7
Employment	-4.8	4.1	2.6	0.6	1.3
Unemployment rate (%)	8.9	6.1	4.3	5.1	5.2
Personal saving rate (%)	17.6	14.6	8.9	6.0	5.8
Retail sales	0.4	14.4	8.0	3.1	3.8
Housing starts[1] (thousands of units)	53.4	67.8	60.0	47.0	49.0
Total inflation rate	0.8	3.8	6.5	3.1	2.1

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

GRAPH 14
Quebec's unemployment rate will likely rise in 2023 before gradually coming down in 2024



Sources: Statistics Canada and Desjardins Economic Studies

construction industry, where employment has been fairly stable so far despite a significant drop in activity.

Quebec's housing market continues to cool. Existing home sales are down, and the average sale price is already 6.7% off its April peak. The frenzy is over, and bidding wars have become less common. The share of homes selling at least 10% above list has fallen from about 30% in April to less than 5% in October.[1] In areas that saw the most bidding wars through this spring, especially near the Island of Montreal and the Outaouais, prices are correcting sharply. Prices are holding up better in eastern and central Quebec. Provincewide, the average price is expected to decline by 17% by the end of 2023. The slowdown in new construction is also far from over. Housing starts are down nearly 10% this year and will likely drop by about 20% in 2023. But residential investment is expected to gradually bounce back in 2024, supporting the overall economic recovery.

[1] According to the Quebec Professional Association of Real Estate Brokers.

Ontario and Other Provinces

Inflation Relief Measures Offer Some Relief from Recession, If Not from Inflation

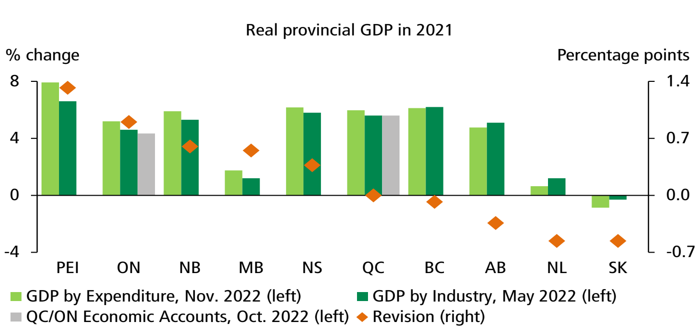
FORECASTS

A housing-led Canadian economic downturn will have the worst effects on provinces most reliant on real estate. By contrast, net oil-producing provinces should benefit from relatively little exposure to real estate, solid commodity production and prices, and major project activity. Affordability measures laid out since the spring budgets should boost national growth by about 0.1 ppts in 2022. Higher national immigration targets should support growth in all provinces, with the greatest gains to those with better economic prospects and ability to integrate newcomers into the labour market.

As the effects of this year's rate hikes work their way through the economy, we still expect Canada's largest province to see the most pronounced slowdown. Ontario's underperformance continued in the third quarter of this year. Home prices are further below their peak than in any other province. Total employment is almost 40k lower than the May 2022 high despite two consecutive monthly gains in October and November. The risk of a housing market spillover into the financial sector remains omnipresent. And national automobile output and motor vehicles and parts exports fell in Q3, which does not bode well for Ontario's principal export industry. Vehicle production is set to rise next year, but softer domestic demand in the US will hold back gains in external shipments from all provinces.

However, it's not all bad news for Canada's most populous province. Upward revisions to historical GDP mean positive handoff effects for growth rates this year. As in Canada's Q3 2022 economic accounts, Statistics Canada revised the 2021 expansion significantly higher in Ontario. Real GDP growth in 2021 was also revised substantially better for Prince Edward Island (PEI) and moderately improved in New Brunswick, Manitoba and Nova Scotia (graph 15).

GRAPH 15
Historical revisions should boost Ontario, PEI growth



Sources: Statistics Canada, Ontario Ministry of Finance, Institut de la Statistique du Québec, and Desjardins Economic Studies

Commodity prices are poised to stay high and continue to propel expansions in Canada's natural resources-producing regions. Alberta drilling activity is trending higher and at some of its highest levels since before the 2014–15 oil price correction. The government recently raised its production forecasts for 2023 and 2024, particularly for conventional oil. Saskatchewan has also lifted projections for crude output. In the potash sector, it should continue to benefit from rising production, high prices, and the ongoing Janssen mine construction. Newfoundland and Labrador's Terra Nova offshore oil field is scheduled to come back online next year. And in BC, still-high prices for metals and natural gas should offset some of the drag from housing. However, China's new lockdown measures do not bode well for base metals demand or trade in Canada's westernmost province.

The strength of commodity prices has also bolstered government revenues (alongside better-than-expected economic growth and inflation) and enabled new measures to address affordability challenges. We estimate that the sum of provincial household transfers (including those in Quebec) announced since the spring budget season make up 0.4% of nominal GDP in FY2023 (with impacts between 0.1% and 1% at the provincial level). That should boost the national annual growth rate by about 0.1 ppts in 2022. The risk remains that these measures exacerbate or prolong inflationary pressures. See our commentary on the Alberta and Ontario mid-year updates and our Ontario recession report for details.

In the Maritimes, expectations that interprovincial in-migration will ease towards historical averages still underpin the economic slowdown forecast for the next two years. Infrastructure outlays to meet the needs of growing populations and rebuilding after Hurricane Fiona are also key. The question is whether projects can progress on schedule amid elevated input costs and acute labour shortages. Nova Scotia's Q1 fiscal update cut building infrastructure spending plans by $130M (17%), primarily due to health sector project delays.

Higher national immigration targets should boost all provinces' expansions, but the strength of the effect will vary by region. For one thing, newcomers to the Prairies have tended to fare better in the labour market than those who settle elsewhere. That trend could well continue given the strong economic prospects in Alberta, Saskatchewan and Manitoba versus other provinces. Moreover, recessions tend to have lagged and lasting impacts on where newcomers settle. For instance, the portion of immigrants who landed in Alberta dropped during and after the 2015–16 provincial downturn; Ontario's share then surged. By contrast, during the severe 1990s recession, Ontario's share stagnated, to the benefit of BC.

TABLE 6
Ontario: Major economic indicators

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2020	2021	2022f	2023f	2024f
Real GDP (2012 $)	**-4.7**	**5.2**	**3.4**	**-0.3**	**1.0**
Final consumption expenditure [of which:]	-5.7	5.0	4.7	0.7	1.8
Household consumption expenditure	*-7.9*	*4.4*	*5.6*	*0.1*	*1.8*
Governments consumption expenditure	*0.2*	*1.3*	*2.1*	*1.8*	*1.7*
Gross fixed capital formation [of which:]	3.4	8.8	-4.9	-6.3	2.3
Residential structures	*8.9*	*14.3*	*-14.3*	*-16.0*	*2.0*
Non-residential structures	*0.8*	*2.3*	*7.6*	*-2.1*	*1.6*
Machinery and equipment	*-11.7*	*12.8*	*3.8*	*-1.1*	*3.7*
Intellectual property products	*1.4*	*3.7*	*-1.9*	*1.2*	*2.1*
Governments gross fixed capital formation	*6.9*	*6.8*	*1.1*	*0.4*	*2.4*
Investment in inventories (2012 $M)	-7,749	3,462	10,955	10,250	9,000
Exports	-7.7	1.3	4.8	1.9	0.4
Imports	-8.3	5.7	5.2	0.4	1.9
Final domestic demand	-3.7	5.9	2.3	-0.8	1.9
Other indicators					
Nominal GDP	-2.9	10.3	10.3	0.8	2.7
Real disposable personal income	8.8	1.3	-0.8	-1.5	1.7
Weekly earnings	8.0	1.6	4.7	4.9	2.6
Employment	-4.7	4.9	4.2	0.0	1.1
Unemployment rate (%)	9.5	8.0	5.7	7.2	7.4
Personal saving rate (%)	15.0	12.4	7.1	5.4	5.3
Retail sales	-3.5	9.3	11.7	1.5	2.2
Housing starts[1] (thousands of units)	81.3	99.6	91.9	64.0	58.0
Total inflation rate*	0.6	3.5	7.0	3.1	2.0

f: forecasts; * Annual change; [1] Annualized basis.
Sources: Statistics Canada, Ontario's Ministry of Finance, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

TABLE 7
Canada: Major economic indicators by province

ANNUAL AVERAGE IN % (EXCEPT IF INDICATED)	2020	2021	2022f	2023f	2024f
Real GDP growth – Canada	**-5.2**	**5.0**	**3.6**	**0.2**	**1.0**
Atlantic	-3.5	4.6	1.8	0.4	0.5
Quebec	-5.0	6.0	2.9	-0.2	1.2
Ontario	-4.7	5.2	3.4	-0.3	1.0
Manitoba	-4.4	1.8	2.2	0.7	0.8
Saskatchewan	-4.8	-0.9	5.2	1.2	1.1
Alberta	-8.0	4.8	4.9	1.3	1.3
British Columbia	-3.0	6.1	3.9	-0.1	1.2
Total inflation rate – Canada	**0.7**	**3.4**	**6.9**	**3.2**	**2.0**
Atlantic	0.2	4.0	7.2	3.4	2.1
Quebec	0.8	3.8	6.5	3.1	2.1
Ontario	0.6	3.5	7.0	3.1	2.0
Manitoba	0.5	3.2	7.9	3.7	2.1
Saskatchewan	0.6	2.6	6.8	3.7	2.1
Alberta	1.1	3.2	6.6	3.4	2.0
British Columbia	0.8	2.8	7.0	3.4	2.0
Employment growth – Canada	**-5.1**	**4.8**	**3.7**	**0.2**	**1.2**
Atlantic	-4.1	3.9	3.2	0.2	0.0
Quebec	-4.8	4.1	2.6	0.6	1.3
Ontario	-4.7	4.9	4.2	0.0	1.1
Manitoba	-3.7	3.5	2.5	0.2	1.0
Saskatchewan	-4.6	2.6	3.3	0.4	1.2
Alberta	-6.5	5.2	5.0	0.4	1.3
British Columbia	-6.5	6.6	3.1	0.4	1.2
Unemployment rate – Canada	**9.6**	**7.4**	**5.3**	**6.5**	**6.7**
Atlantic	10.8	9.6	7.7	8.4	8.7
Quebec	8.9	6.1	4.3	5.1	5.2
Ontario	9.5	8.0	5.7	7.2	7.4
Manitoba	8.0	6.4	4.6	5.6	5.8
Saskatchewan	8.3	6.5	4.6	6.0	6.3
Alberta	11.5	8.6	5.7	6.9	7.2
British Columbia	9.0	6.5	4.7	5.7	5.9
Retail sales growth – Canada	**-1.3**	**11.8**	**8.3**	**2.5**	**3.5**
Atlantic	0.0	14.1	6.6	2.1	2.9
Quebec	0.4	14.4	8.0	3.1	3.8
Ontario	-3.5	9.3	11.7	1.5	2.2
Manitoba	-0.3	13.3	7.9	3.0	4.2
Saskatchewan	0.3	14.6	6.9	4.0	5.4
Alberta	-2.1	11.5	6.8	4.2	6.0
British Columbia	1.2	12.6	3.2	2.7	3.8
Housing starts – Canada (thousands of units)	**216.7**	**271.2**	**261.1**	**188.5**	**178.2**
Atlantic	10.3	12.1	12.2	8.1	8.1
Quebec	53.4	67.8	60.0	47.0	49.0
Ontario	81.3	99.6	91.9	64.0	58.0
Manitoba	7.3	8.0	8.0	5.5	4.8
Saskatchewan	3.1	4.2	4.4	3.5	3.0
Alberta	24.0	31.9	38.9	28.0	26.0
British Columbia	37.7	47.6	44.9	32.0	29.0

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

What Will Be the New Normal for the Economy?

In 2023 and 2024, many countries will fall into a recession, then recover. After that, economic growth should return to its potential pace, which is determined by structural factors such as demographic trends and productivity. For some economies, this may mean slower average growth than in the previous economic cycle. But other factors could also play a role. These include a more challenging global environment with a high risk of conflict and the possibility of less trade globalization. The energy transition should become a greater focus as well. And after falling in 2024, interest rates should stabilize, but at higher levels than before the pandemic.

Lower Potential Growth

Slower demographic trends in many countries are expected to limit potential economic growth over the medium to long term. With more immigrants arriving in Canada, the nation's worker pool could maintain a good pace of growth. Quebec will have a harder time on this front, however. We could see productivity—a key variable of economic growth—accelerate and partially offset today's labour shortages, but that's still a big maybe. Productivity has been pretty disappointing for many years.

Unfortunately, there's no magic formula for boosting productivity. But economists do agree that it can be stimulated through productive investments and new technologies that add value to economic growth. Workforce training and education are also key. Optimizing the various regulatory constraints to reduce unwanted economic impacts could help, too.

Ultimately, we estimate that economic growth will be just shy of 2% in Canada by 2027. We expect it to be closer to 1.5% in Quebec and around 2% in the United States. Despite growth rates lower than previous economic cycles, workers should maintain the upper hand in the job market, especially in Quebec. Because of the province's anemic labour force growth, Quebec's unemployment rate could be back around 4% in the medium term.

Other Thoughts on the Next Cycle

Unfortunately, the global geopolitical balance has shifted. For proof, look no further than the war in Ukraine and tensions with China. The end of the Cold War, German reunification and China's opening to the West all contributed to the economic boom of the 1990s and early 2000s. At the same time, we saw increased globalization, when many economies benefitted from lower trade barriers and greater capital mobility. We expect very few gains in this area over the next few years, and we could even see declines.

The KOF Swiss Economic Institute publishes indexes of major globalization trends. According to the institute, heightened tension among world powers and greater US protectionism had already slowed globalization sharply before the pandemic (graph 16). More limited access to certain international markets could not only hurt economic growth, but also eventually make inflation a bit tougher to control. This argues for keeping interest rates higher than they were in the previous economic cycle.

GRAPH 16
The pace of globalization has already slowed considerably

Sources: KOF Swiss Economic Institute and Desjardins Economic Studies

The world needs to make the energy transition, but it could also make it harder to keep inflation on target. The energy transition will require huge investments. While this will likely have a positive impact on economic growth, it could also create inflationary pressure. This could be a problem, especially if the transition happens faster than production capacities and resources can handle. On the other hand, if the transition doesn't happen fast enough, climate change could be even costlier.

TABLE 8
Major medium-term economic and financial indicators

IN % (EXCEPT IF INDICATED)	ANNUAL AVERAGE 2021	2022f	2023f	2024f	2025f	2026f	2027f	AVERAGES 2017–2021	2022–2027f
United States									
Real GDP (var. in %)	5.9	2.0	0.1	2.0	3.0	2.4	2.1	2.1	1.9
Total inflation rate (var. in %)	4.7	8.1	3.3	2.2	2.2	2.0	2.0	2.5	3.3
Unemployment rate	5.4	3.7	4.7	5.3	4.9	4.5	4.2	5.1	4.6
S&P 500 index (var. in %)[1]	26.9	-22.4	1.4	6.7	6.0	4.0	4.0	17.0	-0.1
Federal funds rate	0.25	1.85	4.95	3.25	2.50	2.50	2.50	1.21	2.93
Prime rate	3.25	4.85	7.95	6.25	5.50	5.50	5.50	4.21	5.93
Treasury bills – 3-month	0.05	2.05	4.60	2.90	2.35	2.35	2.35	1.09	2.77
Federal bonds – 10-year	1.43	2.90	3.40	2.70	2.65	2.65	2.65	1.94	2.83
– 30-year	2.05	3.05	3.40	2.90	2.85	2.85	2.85	2.44	2.98
WTI oil (US$/barrel)	68	95	78	85	82	80	78	56	83
Gold (US$/ounce)	1,800	1,797	1,720	1,615	1,565	1,605	1,645	1,499	1,658
Canada									
Real GDP (var. in %)	5.0	3.6	0.2	1.0	2.1	1.8	1.7	1.4	1.7
Total inflation rate (var. in %)	3.4	6.9	3.2	2.0	2.0	2.0	2.0	2.0	3.0
Employment (var. in %)	4.8	3.7	0.2	1.2	2.0	1.6	1.3	1.1	1.7
Employment (thousands)	867	690	31	234	406	318	265	191	324
Unemployment rate	7.4	5.3	6.5	6.7	5.9	5.7	5.7	7.0	6.0
Housing starts (thousands of units)	217	271	188	178	194	213	224	226	211
S&P/TSX index (var. in %)[1]	21.7	-11.4	2.4	7.0	6.0	5.0	5.0	7.5	2.3
Exchange rate (US$/C$)	0.80	0.77	0.73	0.78	0.78	0.77	0.77	0.77	0.77
Overnight funds	0.25	1.90	4.20	2.80	2.25	2.25	2.25	0.93	2.61
Prime rate	2.45	4.10	6.40	5.00	4.45	4.45	4.45	3.13	4.81
Mortgage rate – 1-year	2.80	4.45	6.50	5.15	4.60	4.50	4.30	3.26	4.92
– 5-year	4.79	5.65	6.75	6.25	5.90	5.80	5.70	5.01	6.01
Treasury bills – 3-month	0.11	2.15	4.10	2.65	2.25	2.20	2.20	0.85	2.59
Federal bonds – 2-year	0.48	2.85	3.40	2.40	2.20	2.20	2.20	1.13	2.54
– 5-year	0.95	2.70	2.95	2.40	2.25	2.25	2.25	1.32	2.47
– 10-year	1.36	2.70	2.70	2.40	2.35	2.35	2.35	1.55	2.48
– 30-year	1.85	2.75	2.70	2.40	2.35	2.35	2.35	1.90	2.48
Yield spreads (Canada—United States)									
Treasury bills – 3-month	0.06	0.10	-0.50	-0.25	-0.10	-0.15	-0.15	-0.24	-0.18
Federal bonds – 10-year	-0.07	-0.20	-0.70	-0.30	-0.30	-0.30	-0.30	-0.39	-0.35
– 30-year	-0.20	-0.30	-0.70	-0.50	-0.50	-0.50	-0.50	-0.54	-0.50
Quebec									
Real GDP (var. in %)	6.0	2.9	-0.2	1.2	2.1	1.7	1.5	1.9	1.5
Total inflation rate (var. in %)	3.8	6.5	3.1	2.1	2.0	2.0	2.0	1.9	2.9
Employment (var. in %)	4.1	2.6	0.6	1.3	2.0	1.4	1.2	1.1	1.5
Employment (thousands)	169	112	25	55	90	65	55	13	67
Unemployment rate	6.1	4.3	5.1	5.2	4.5	4.2	3.9	6.3	4.5
Retail sales (var. in %)	14.4	8.0	3.1	3.8	5.5	5.2	5.0	4.9	5.1
Housing starts (thousands of units)	68	60	47	49	51	52	53	53	52
Ontario									
Real GDP (var. in %)	5.2	3.4	-0.3	1.0	2.5	2.3	1.7	1.5	1.8
Total inflation rate (var. in %)	3.5	7.0	3.1	2.0	2.1	2.0	2.0	2.0	3.0
Employment (var. in %)	4.9	4.2	0.0	1.1	1.7	1.7	1.4	1.3	1.7
Employment (thousands)	343	311	0	88	132	130	112	89	129
Unemployment rate	8.0	5.7	7.2	7.4	7.0	6.6	6.4	7.0	6.7
Retail sales (var. in %)	9.3	11.7	1.5	2.2	4.4	3.8	3.8	4.0	4.6
Housing starts (thousands of units)	100	92	64	58	65	73	78	81	72

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