

## Economic and Financial Outlook

# Overall Conditions Still Support the Start of Rate Cuts in the Next Few Months

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### Highlights

Annualized real GDP contracted in Germany (-1.1%), France (-0.1%), the United Kingdom (-1.4%) and Japan (-0.4%), indicating that the global economy clearly continued to struggle in the fourth quarter of 2023. Growth is expected to remain relatively weak in early 2024. In addition, [shipping disruptions in the Red Sea](#) could potentially lead to higher-for-longer inflation, although the effects are likely to be less severe than in 2021–2022. In contrast, China's economy is becoming increasingly bogged down in deflation, with consumer prices falling 0.8% year-over-year in January.

In the United States, economic activity continues to hold up rather well. Although some indicators, such as retail sales, disappointed in January, we expect Q4 2023's 3.3% annualized real GDP gain to be followed by an increase of about 2% in early 2024. Job creation was fairly strong at the start of the year, and several price indexes have begun climbing again. Expected inflation rates were also revised upward, in part due to the potential impacts of higher transportation costs.

In Canada, economic data have surprised to the upside since we published our last forecast. Households have been unexpectedly resilient given the high interest rate environment, with retail sales—particularly of autos—remaining



healthy. The housing market also showed renewed signs of life around the turn of the year. The sustained surge in population growth has been providing a tailwind to domestic demand as growth in real GDP and consumption per capita have languished. The ongoing strength of the US economy also supported net exports in Q4 2023, and that momentum is likely to moderate but remain supportive to growth this year. Taken together, this has caused us to revise up our outlook for real GDP growth modestly in 2024. But growth is still expected to be sluggish overall, as ongoing mortgage renewals will continue to act as a headwind to growth. As a result, the Bank of Canada should begin cutting interest rates around the spring.

In Quebec, strikes in the education and healthcare sectors likely caused economic disruption in late 2023 and early 2024. Real GDP probably fell again in the fourth quarter of 2023—echoing the declines of the previous two quarters—due to the number of hours of work lost in November and December. As the healthcare and education sectors return to normal, we're likely to see an economic rebound in the first quarter of 2024. Beyond this temporary upheaval, Quebec's economy will remain sluggish until mid-2024. However, we should begin to see an improvement in the second half as the Bank of Canada starts to gradually cut interest rates this spring.

## **Risks Inherent in Our Scenarios**

Inflation has come down, though it remains above target in most countries. The odds of additional interest rate hikes have dropped significantly, but interest rate cuts could be delayed if progress on inflation stalls. And other inflationary shocks aren't out of the question, especially amid the ongoing Red Sea shipping disruptions. There's also a great deal of uncertainty surrounding the lagged effect of higher interest rates on economic growth. Economic activity materially slowed in Canada and other developed countries in 2023, but not in the US. We could see sustained headwinds in the coming quarters. As mortgages taken out at low interest rates during the pandemic come up for renewal, many Canadian borrowers could feel the squeeze. And if the global economy gets stuck in a major rut, Canada could see its exports fall and terms of trade deteriorate dramatically. Higher unemployment and interest rates could also mean a bigger housing market correction in Canada. Then there's the risk of additional banking sector turmoil as commercial real estate loans sour. This could make matters worse by further tightening credit conditions. This could mean an increase in bankruptcies and

sharper price corrections across several asset classes. The US presidential election in November could be an inflection point that adds even more uncertainty while inflaming partisan tensions and undermining confidence. Fiscal deterioration in the US and elsewhere could prompt credit ratings downgrades and possibly push longer-term interest rates higher. This would work at cross-purposes with the expected normalization of monetary policy. The situation in China remains worrisome as well. Worsening geopolitical tensions could spell instability for the global economy, financial markets and commodity prices, particularly as the Israeli-Palestinian conflict escalates. From a currency perspective, if the global economy falls off a cliff, many investors may park their assets in US dollars, sending the greenback soaring.

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

%	WEIGHT*	REAL GDP GROWTH			INFLATION RATE		
		2023f	2024f	2025f	2023	2024f	2025f
<b>Advanced economies</b>	<b>38.7</b>	<b>1.6</b>	<b>1.3</b>	<b>1.8</b>	<b>4.6</b>	<b>2.6</b>	<b>2.2</b>
United States	15.7	2.5	2.1	1.8	4.1	3.1	2.3
Canada	1.4	1.1	0.3	2.0	3.9	2.4	2.3
<i>Quebec</i>	<i>0.3</i>	<i>0.1</i>	<i>0.3</i>	<i>1.6</i>	<i>4.5</i>	<i>2.8</i>	<i>2.0</i>
Japan	3.6	1.9	0.2	1.0	3.3	2.2	1.5
United Kingdom	2.3	0.1	0.1	1.5	7.4	2.6	2.3
Eurozone	11.9	0.5	0.6	1.6	5.5	2.2	2.0
<i>Germany</i>	<i>3.3</i>	<i>-0.1</i>	<i>0.3</i>	<i>1.5</i>	<i>6.0</i>	<i>2.5</i>	<i>2.1</i>
<i>France</i>	<i>2.3</i>	<i>0.9</i>	<i>0.7</i>	<i>1.6</i>	<i>4.9</i>	<i>2.5</i>	<i>1.9</i>
<i>Italy</i>	<i>1.9</i>	<i>0.7</i>	<i>0.6</i>	<i>1.6</i>	<i>5.7</i>	<i>2.0</i>	<i>1.8</i>
Other countries	4.2	1.2	1.4	2.2	4.7	2.8	2.2
<i>Australia</i>	<i>1.0</i>	<i>1.8</i>	<i>1.4</i>	<i>2.3</i>	<i>5.6</i>	<i>3.5</i>	<i>2.7</i>
<b>Emerging and developing economies</b>	<b>61.3</b>	<b>3.8</b>	<b>3.7</b>	<b>3.9</b>	<b>8.7</b>	<b>6.9</b>	<b>4.7</b>
North Asia	26.9	5.5	4.8	4.7	2.9	2.3	2.6
<i>China</i>	<i>18.5</i>	<i>5.2</i>	<i>4.4</i>	<i>4.1</i>	<i>0.2</i>	<i>0.6</i>	<i>1.7</i>
<i>India</i>	<i>7.2</i>	<i>6.9</i>	<i>6.3</i>	<i>6.6</i>	<i>5.7</i>	<i>4.8</i>	<i>4.6</i>
South Asia	5.2	4.1	4.3	4.4	3.5	2.7	2.6
Latin America	5.7	2.4	1.9	2.4	5.2	3.9	3.6
<i>Mexico</i>	<i>1.7</i>	<i>3.2</i>	<i>2.4</i>	<i>2.3</i>	<i>5.6</i>	<i>3.9</i>	<i>3.7</i>
<i>Brazil</i>	<i>2.3</i>	<i>3.0</i>	<i>1.6</i>	<i>2.3</i>	<i>4.2</i>	<i>3.9</i>	<i>3.9</i>
Eastern Europe	8.2	2.5	2.5	2.7	19.5	16.5	9.1
<i>Russia</i>	<i>3.2</i>	<i>2.6</i>	<i>2.2</i>	<i>1.3</i>	<i>5.9</i>	<i>5.1</i>	<i>4.7</i>
Other countries	15.3	2.3	2.8	3.4	19.9	15.8	9.7
<i>South Africa</i>	<i>0.6</i>	<i>0.8</i>	<i>1.3</i>	<i>1.9</i>	<i>6.1</i>	<i>5.0</i>	<i>4.6</i>
<b>World</b>	<b>100.0</b>	<b>3.0</b>	<b>2.8</b>	<b>3.1</b>	<b>7.1</b>	<b>5.3</b>	<b>3.8</b>

f: forecast; PPP: Purchasing Power Parities, exchange rate that equates the costs of a broad basket of goods and services across countries; \* 2022.  
 World Bank, Consensus Forecasts and Degardins Economic Studies

## Financial Forecast

Given the strength of some economic data, most major central banks may prefer to wait another few months before cutting their policy interest rates. Remember that inflation doesn't have to return to target before monetary easing begins. Any progress will be enough to increase real interest rates, which will make rate cuts warranted to prevent them from becoming too restrictive. Softening of the economy and labour market over the coming months could also push central banks to start cutting. We expect five 25-basis-point cuts to the Canadian and US overnight rates this year, with further easing likely to follow in 2025.

Weaker economic data in several countries should curb the recent stock market rally. Prices for oil and several other commodities are likely to remain weak in the short term. But stock and commodity prices should rebound later in the year once investors think global economic growth is starting to accelerate again. And while lower interest rates in Canada and the tougher environment for commodities will likely hurt the Canadian dollar in the short term, the loonie should rebound a little later in the year.

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

END OF PERIOD IN % (UNLESS OTHERWISE INDICATED)	2023		2024				2025			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	3.00	3.00
Canada	5.00	5.00	5.00	4.75	4.25	3.75	3.25	2.75	2.50	2.25
Eurozone	4.50	4.50	4.50	4.25	3.75	3.25	2.75	2.50	2.25	2.25
United Kingdom	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	2.75
<b>Federal bonds</b>										
<u>United States</u>										
2-year	5.14	4.33	4.15	3.95	3.70	3.40	3.20	3.00	3.00	3.00
5-year	4.64	3.86	3.90	3.80	3.55	3.30	3.15	3.10	3.10	3.10
10-year	4.57	3.87	4.00	3.90	3.75	3.55	3.40	3.30	3.30	3.30
30-year	4.70	4.02	4.20	4.15	3.90	3.65	3.50	3.35	3.35	3.35
<u>Canada</u>										
2-year	4.87	3.88	3.85	3.60	3.35	3.00	2.65	2.35	2.30	2.30
5-year	4.25	3.17	3.40	3.45	2.95	2.80	2.70	2.55	2.50	2.50
10-year	4.03	3.10	3.35	3.30	3.20	3.00	2.85	2.70	2.65	2.65
30-year	3.81	3.02	3.30	3.15	3.10	2.95	2.80	2.70	2.70	2.75
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.36	1.32	1.35	1.35	1.33	1.32	1.32	1.32	1.33	1.33
Canadian dollar (CAD/USD)	0.74	0.75	0.74	0.74	0.75	0.76	0.76	0.76	0.75	0.75
Euro (EUR/USD)	1.06	1.10	1.08	1.08	1.10	1.11	1.12	1.13	1.14	1.15
British pound (GBP/USD)	1.22	1.27	1.27	1.27	1.29	1.30	1.32	1.33	1.34	1.35
Yen (USD/JPY)	149	141	146	142	138	134	132	130	128	126
<b>Stock markets (level and growth)*</b>										
United States – S&P 500	4,770		Target: 4,800 (+0.6%)				Target: 4,970 (+3.5%)			
Canada – S&P/TSX	20,958		Target: 21,500 (+2.6%)				Target: 22,700 (+5.6%)			
<b>Commodities (annual average)</b>										
WTI oil (US\$/barrel)	78 (72*)		82 (85*)				83 (82*)			
Gold (US\$/ounce)	1,940 (2,030*)		1,830 (1,750*)				1,710 (1,700*)			

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

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

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2023		2024				ANNUAL AVERAGE			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2022	2023	2024f	2025f
Real GDP (2017 US\$)	4.9	3.3	1.9	0.4	1.1	2.0	1.9	2.5	2.1	1.8
Personal consumption expenditures	3.1	2.8	2.5	0.4	1.4	1.8	2.5	2.2	1.9	1.8
Residential construction	6.7	1.1	1.6	-1.2	1.1	4.1	-9.0	-10.7	1.4	2.0
Business fixed investment	1.4	1.9	0.6	0.9	1.3	1.7	5.2	4.4	1.6	1.7
Inventory change (2017 US\$B)	77.8	82.7	55.0	35.0	20.0	20.0	128.1	50.6	32.5	25.0
Public expenditures	5.8	3.3	2.4	2.3	1.9	2.0	-0.9	4.0	2.9	2.0
Exports	5.4	6.3	2.5	0.5	0.0	1.5	7.0	2.7	2.0	1.3
Imports	4.2	1.9	1.2	0.5	0.5	1.0	8.6	-1.7	0.9	1.1
Final domestic demand	3.5	2.7	2.2	0.7	1.4	1.9	1.7	2.2	2.0	1.8
<b>Other indicators</b>										
Nominal GDP	8.3	4.8	4.7	2.8	3.7	3.7	9.1	6.3	4.6	2.6
Employment <sup>1</sup>	1.7	1.6	2.1	0.7	0.6	0.8	4.3	2.3	1.4	0.7
Unemployment rate (%)	3.7	3.7	3.8	4.0	4.1	4.0	3.6	3.6	4.0	3.9
Housing starts <sup>2</sup> (thousands of units)	1,371	1,454	1,392	1,382	1,410	1,435	1,551	1,415	1,405	1,478
Total inflation rate*	3.6	3.2	3.2	3.1	3.0	3.0	8.0	4.1	3.1	2.3
Core inflation rate* <sup>3</sup>	4.4	4.0	3.8	3.4	3.3	2.9	6.2	4.8	3.3	2.3

f: forecast; \* Annual change; <sup>1</sup> According to the establishment survey; <sup>2</sup> Annualized basis; <sup>3</sup> Excluding food and energy.  
Datastream and Desjardins Economic Studies

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

QUARTERLY ANNUALIZED % CHANGE (UNLESS OTHERWISE INDICATED)	2023		2024				ANNUAL AVERAGE			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
<b>Real GDP (2017 \$)</b>	<b>-1.1</b>	<b>0.5</b>	<b>0.2</b>	<b>-0.5</b>	<b>1.5</b>	<b>2.1</b>	<b>3.8</b>	<b>1.1</b>	<b>0.3</b>	<b>2.0</b>
Final consumption expenditure [of which:]	2.1	2.0	1.7	0.7	1.3	1.7	4.5	2.1	1.5	1.7
Household consumption expenditure	0.1	1.6	1.0	0.0	1.0	1.7	5.1	2.1	0.8	1.6
Government consumption expenditure	7.3	2.7	3.6	2.7	2.3	2.0	3.2	1.8	3.3	2.0
Gross fixed capital formation [of which:]	-1.3	-1.3	0.0	-1.5	2.1	3.0	-2.4	-2.4	0.0	2.4
Residential structures	8.3	-3.9	0.6	-1.3	2.2	3.5	-12.1	-10.1	0.4	3.2
Non-residential structures	-7.7	-3.0	-3.5	-3.6	2.7	3.1	6.7	5.0	-1.9	2.1
Machinery and equipment	-14.4	0.4	1.5	-3.4	3.3	5.6	-0.3	-5.4	-0.3	3.9
Intellectual property products	-1.4	1.3	-0.8	-1.4	-1.3	-1.0	6.0	1.6	-0.7	-0.7
Government gross fixed capital formation	2.4	3.7	2.7	2.5	2.4	2.3	4.2	4.4	2.5	2.1
Investment in inventories (2017 \$B)	25.4	12.4	8.4	6.4	5.7	5.0	55.3	25.2	6.4	5.9
Exports	-5.1	4.7	2.0	-1.0	2.1	2.8	3.2	4.8	1.3	2.9
Imports	-0.6	-2.2	2.3	-0.4	1.6	2.0	7.6	0.8	0.6	2.6
Final domestic demand	1.3	1.2	1.3	0.2	1.5	2.1	2.8	1.0	1.2	1.9
<b>Other indicators</b>										
Nominal GDP	6.4	1.6	0.9	1.2	4.0	3.7	11.8	2.3	2.5	3.4
Employment	1.7	1.9	0.7	0.4	1.7	1.6	4.0	2.4	1.2	2.2
Unemployment rate (%)	5.5	5.8	6.0	6.7	6.9	6.9	5.3	5.4	6.6	6.5
Housing starts <sup>1</sup> (thousands of units)	256	244	225	212	218	220	262	242	219	235
Total inflation rate*	3.7	3.2	3.1	2.5	2.1	2.1	6.8	3.9	2.4	2.3
Core inflation rate* <sup>2</sup>	3.4	3.4	3.3	3.0	2.7	2.2	5.0	3.9	2.8	2.0

f: forecast; \* Annual change; <sup>1</sup> Annualized basis; <sup>2</sup> Excluding food and energy.  
Datastream and Desjardins Economic Studies

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

ANNUAL AVERAGE % CHANGE (UNLESS OTHERWISE INDICATED)	2021	2022	2023f	2024f	2025f
<b>Real GDP (2017 \$)</b>	<b>6.7</b>	<b>2.5</b>	<b>0.1</b>	<b>0.3</b>	<b>1.6</b>
Final consumption expenditure [of which:]	6.0	4.1	1.9	1.3	1.9
<i>Household consumption expenditure</i>	5.5	4.9	2.4	1.0	2.1
<i>Government consumption expenditure</i>	7.3	2.2	0.4	2.0	1.5
Gross fixed capital formation [of which:]	11.1	-2.7	-7.1	1.1	4.0
<i>Residential structures</i>	13.7	-11.7	-18.0	1.0	5.5
<i>Non-residential structures</i>	5.1	6.1	-0.8	-1.2	2.7
<i>Machinery and equipment</i>	22.6	-4.9	-6.2	0.2	2.3
<i>Intellectual property products</i>	12.0	2.3	2.3	1.9	3.0
<i>Government gross fixed capital formation</i>	4.5	7.4	1.2	3.2	4.0
Investment in inventories (2017 \$M)	-462	11,097	1,293	1,500	3,000
Exports	5.6	0.5	2.1	1.0	3.0
Imports	8.4	6.0	0.6	2.7	4.6
Final domestic demand	7.1	2.5	0.0	1.3	2.4
<b>Other indicators</b>					
Nominal GDP	11.6	8.4	3.8	2.8	3.6
Real disposable personal income	1.9	1.6	-0.9	-0.2	2.4
Weekly earnings	2.9	4.1	3.4	2.3	2.0
Employment	4.3	3.0	2.4	0.5	1.9
Unemployment rate (%)	6.1	4.3	4.5	5.6	5.3
Personal savings rate (%)	14.8	12.6	11.7	10.5	10.5
Retail sales	14.4	8.5	4.1	2.6	4.0
Housing starts <sup>1</sup> (thousands of units)	67.8	57.1	38.4	45.4	55.0
Total inflation rate	3.8	6.7	4.5	2.8	2.0

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

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

**TABLE 6****Major medium-term economic and financial indicators**

% (UNLESS OTHERWISE INDICATED)	ANNUAL AVERAGE							AVERAGES	
	2022	2023	2024f	2025f	2026f	2027f	2028f	2018–2022	2023–2028f
<b>United States</b>									
Real GDP (% change)	1.9	2.5	2.1	1.8	2.1	2.0	2.0	2.2	2.1
Total inflation rate (% change)	8.0	4.1	3.1	2.3	2.2	2.2	2.0	3.6	2.7
Unemployment rate	3.6	3.6	4.0	3.9	3.9	3.8	3.8	4.9	3.8
S&P 500 index (% change) <sup>1</sup>	-19.4	24.2	0.6	3.5	4.8	4.8	4.9	9.3	7.2
Federal funds rate	1.86	5.20	5.15	3.45	3.00	3.00	3.00	1.37	3.80
Prime rate	4.86	8.20	8.15	6.45	6.00	6.00	6.00	4.37	6.80
Treasury bills – 3-month	2.09	5.28	4.90	3.25	3.00	3.00	3.00	1.32	3.74
Federal bonds – 10-year	2.96	3.96	3.85	3.35	3.30	3.20	3.20	2.07	3.48
– 30-year	3.12	4.09	4.05	3.45	3.35	3.25	3.25	2.48	3.57
WTI oil (US\$/barrel)	95	78	82	83	80	80	78	65	80
Gold (US\$/ounce)	1,802	1,943	1,899	1,800	1,700	1,625	1,600	1,607	1,761
<b>Canada</b>									
Real GDP (% change)	3.8	1.1	0.3	2.0	1.9	2.0	1.9	1.7	1.5
Total inflation rate (% change)	6.8	3.9	2.4	2.3	2.0	1.9	2.0	3.0	2.4
Employment (% change)	4.0	2.4	1.2	2.2	1.8	2.2	1.9	1.4	2.0
Employment (thousands)	750	475	249	446	375	464	418	260	404
Unemployment rate	5.3	5.4	6.6	6.5	6.2	5.9	5.8	6.8	6.1
Housing starts (thousands of units)	217	271	219	235	242	234	232	235	239
S&P/TSX index (% change) <sup>1</sup>	-8.7	8.1	2.6	5.6	5.0	5.3	5.6	4.5	5.4
Exchange rate (USD/CAD)	0.77	0.74	0.75	0.75	0.75	0.77	0.77	0.77	0.76
Overnight funds	1.95	4.74	4.60	2.85	2.25	2.50	2.50	1.18	3.24
Prime rate	4.14	6.94	6.80	5.05	4.45	4.70	4.70	3.38	5.44
Mortgage rate – 1-year	4.43	7.14	7.15	5.35	5.05	5.15	5.05	3.52	5.81
– 5-year	5.64	6.68	6.80	6.30	6.20	6.35	6.40	5.18	6.46
Treasury bills – 3-month	2.18	4.74	4.40	2.70	2.20	2.50	2.50	1.15	3.17
Federal bonds – 2-year	2.90	4.27	3.60	2.50	2.45	2.65	2.70	1.49	3.03
– 5-year	2.78	3.57	3.25	2.60	2.60	2.90	2.95	1.60	2.98
– 10-year	2.77	3.36	3.25	2.75	2.75	3.05	3.10	1.75	3.04
– 30-year	2.81	3.28	3.15	2.75	2.80	2.95	3.00	2.01	2.99
<u>Yield spreads (Canada – United States)</u>									
Treasury bills – 3-month	0.09	-0.54	-0.50	-0.55	-0.80	-0.50	-0.50	-0.17	-0.57
Federal bonds – 10-year	-0.19	-0.60	-0.60	-0.60	-0.55	-0.15	-0.10	-0.32	-0.43
– 30-year	-0.31	-0.81	-0.90	-0.70	-0.55	-0.30	-0.25	-0.48	-0.59
<b>Quebec</b>									
Real GDP (% change)	2.5	0.1	0.3	1.6	1.6	1.5	1.4	1.9	1.1
Total inflation rate (% change)	6.7	4.5	2.8	2.0	2.1	2.0	1.9	3.0	2.5
Employment (% change)	3.0	2.4	0.5	1.9	1.6	1.1	0.9	1.1	1.4
Employment (thousands)	130	105	24	88	76	53	13	49	60
Unemployment rate	4.3	4.5	5.6	5.3	4.5	4.0	6.4	6.0	5.0
Retail sales (% change)	8.5	4.1	2.6	4.0	4.2	4.0	4.9	5.7	4.0
Housing starts (thousands of units)	57	38	45	55	51	53	57	55	50

f: forecast; WTI: West Texas Intermediate; <sup>1</sup> Changes are based on end-of-period data.

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