Economic and Financial Outlook

Donald Trump's Return to the White House Heightens Global Uncertainty

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Highlights

We've revised our US forecast now that Donald Trump has been re-elected. The new administration should be eager to move ahead with his proposals of more tax cuts, deregulation (of the energy sector in particular), higher tariffs and less immigration. This could have some positive effects on growth in 2025, but we assume that the more negative impacts, especially as a result of higher tariffs, will probably start being felt in 2026. In addition, these measures will probably push inflation higher than expected. For now, the US economy remains in fairly good shape, aside from a few disruptions: Real GDP growth remained relatively robust in the third quarter, with an annualized gain of 2.8%. But growth could come in weaker in the fourth quarter, particularly due to the impact of hurricanes. In combination with the strike in the aerospace industry, hurricanes led to a slowdown in hiring in October.

As America's neighbour to the north, it won't be long before Canada's economy feels the impact of the US election. Trade is the most important channel by which protectionist and isolationist policies south of the border will be transmitted northward, with the promise of significant tariffs featuring prominently in the campaign.

Our research External link. suggests the impact on Canada could be swift and severe, potentially risking a recession in the worst-case scenario.

The downside risk to the Canadian economic outlook is further compounded by the recently announced plan by Canada's government to reduce the target for permanent resident admissions. This is in addition to a previously planned reduction in non-permanent residents. Add to this the impending squeeze on household budgets from the wall of mortgage renewals in 2025 and 2026, and we have been forced to revise our outlook for the Canadian economy meaningfully lower starting in 2026. We expect the Bank of Canada will do the same.

After relatively strong gains in the first half of 2024 following the resumption of certain activities, Quebec's economy is expected to grow more slowly in the second half of the year. Despite the positive impact of multiple interest rate cuts, the province will face a number of challenges, which will likely hold back the economic recovery in 2025 and 2026. The Trump administration will probably impose new trade barriers, and the Canadian government is introducing new restrictions on immigration, which will slow population growth. In light of the above, we've revised our real GDP forecast for Quebec downward, just as we did for Canada as a whole.

Elsewhere in the world, the eurozone economy revved up in the third quarter, posting non-annualized real GDP growth of 1.5%, the biggest jump in two years. Even Germany returned to expansion, with real GDP up by 0.7%. But German growth remains fragile, and industrial production fell sharply in September. The new UK government delivered a budget that combined new spending, more investment and tax hikes. In the short term, it could stimulate real GDP growth and fuel inflation, but this will probably be partially offset by slightly higher interest rates. Over the next few years, economies all over the world, especially China's, could be affected by higher tariffs imposed by the United States (and possibly retaliatory measures by other countries). Most of the negative impact will only start being felt in 2026.

Risks Inherent in Our Scenarios

Donald Trump's return to the White House significantly heightens global uncertainty. How severe will the trade barriers be and when will they come into effect? Could there be exceptions? And how will other countries respond? How much will a potential trade war affect inflation? How will currencies adjust? Will the

Fed remain independent? How will the US government's public finances change? Even though we've already revised our forecasts, further adjustments will be needed as we get more clarity. As for inflation, some risks remain, even though it's below target in many countries. In addition, labour disputes could multiply, especially in Canada and the United States. This would disrupt economic activity and put even more upward pressure on wages and inflation. Also, there is still a great deal of uncertainty over the lagged effect of higher interest rates on economic growth. It's therefore quite possible that some central banks may be forced to cut rates faster, while some others may have to slow down. This could lead to a lot of volatility on foreign exchange markets. The potential rise in US bond yields could also mean Canadian bond yields won't fall as much as expected. That would result in less attractive mortgage rates that could make it harder for Canadian homeowners to renew their mortgages. Some borrowers may have trouble making payments, and the number of active listings could soar. Tenants are also under increasing pressure Furthermore, there could be a spike in layoffs, which would increase unemploymen and have unwanted repercussions on the housing market and credit in general. The worsening (and widening) conflict in the Middle East has caused broad swings in oi prices that could get even bigger. The global economy, financial markets and commodity prices could adopt an even more unstable trajectory if the geopolitical and economic climate deteriorates further. Even if we ignore these risk factors, financial markets seem ripe for a correction after the exuberance that pushed the valuations of many risk assets to extreme levels this year.

Table 1

Global GDP Growth (Adjusted for PPP) and Inflation Rates

	Weight*	Real GDP growth			Inflation rate		
%		2023	2024f	2025f	2023	2024f	2025f
Advanced economies	**38.7**	**1.7**	**1.6**	**1.9**	**4.6**	**2.6**	**2.1**
United States	15.7	2.9	2.7	2.3	4.1	2.9	2.1
Canada	1.4	1.2	1.1	2.2	3.9	2.3	2.0
Quebec	*0.3*	*0.2*	*1.4*	*1.8*	*4.5*	*2.3*	*1.8*
Japan	3.6	1.7	-0.1	1.3	3.3	2.6	2.1
United Kingdom	2.3	0.3	0.9	1.2	7.4	2.6	2.2
Eurozone	11.9	0.5	0.8	1.4	5.5	2.4	1.8
Germany	*3.3*	*-0.1*	*-0.1*	*0.9*	*6.0*	*2.3*	*1.8*
France	*2.3*	*1.1*	*1.2*	*1.2*	*4.9*	*2.2*	*1.5*
Italy	*1.9*	*0.8*	*0.5*	*1.0*	*5.7*	*1.2*	*1.6*
Other countries	4.2	1.3	1.7	2.1	4.7	2.6	1.9
Australia	*1.0*	*2.0*	*1.3*	*2.2*	*5.6*	*3.4*	*2.8*
Emerging and developing economies	**61.3**	**4.0**	**4.0**	**4.1**	**8.7**	**7.5**	**4.8**
North Asia	26.9	5.8	5.3	5.1	2.9	2.2	2.2
China	*18.5*	*5.2*	*4.8*	*4.5*	*0.2*	*0.5*	*1.1*
India	*7.2*	*8.2*	*6.9*	*6.7*	*5.7*	*4.5*	*4.3*
South Asia	5.2	4.0	4.6	4.8	3.4	2.2	2.2
Latin America	11.5	2.4	2.4	2.2	5.2	4.3	3.5
Mexico	*1.7*	*3.2*	*1.6*	*1.7*	*5.6*	*4.4*	*3.6*
Brazil	*2.3*	*2.9*	*3.0*	*2.2*	*4.2*	*4.3*	*3.7*
Eastern Europe	8.2	3.2	3.2	2.7	19.5	18.8	10.8
Russia	*3.2*	*3.6*	*3.5*	*1.6*	*5.9*	*7.5*	*5.1*
Other countries	9.5	2.2	2.6	3.6	19.9	17.2	10.3
South Africa	*0.6*	*0.7*	*1.1*	*2.1*	*6.1*	*4.7*	*4.0*
World	**100.0**	**3.1**	**3.1**	**3.3**	**7.1**	**5.7**	**3.8**

f: forecast; PPP: Purchasing Power Parities, exchange rates that equate the cost of a broad basket of goods and services across countries; * 2022.
World Bank, Consensus Forecasts and Desjardins Economic Studies

Financial Forecast

For now, equity markets are welcoming Trump's election with significant optimism. In the short term, some of his proposals could have positive effects on the economy and corporate profits, especially in the United States. However, investors are also expecting mounting inflationary pressures and fiscal deterioration in the US. These factors have pushed up bond yields. The US dollar has also strengthened against most other currencies.

We've made several adjustments to our financial market forecasts. First, we expect there to be less room for interest rate cuts in the United States. In contrast, we're predicting more rate cuts in Canada in response to bigger economic challenges. Taking Canada's policy rate down further than previously expected would help limit the rise in Canadian bond yields and resultant tightening of financial conditions. As a result, the Canadian dollar will probably continue to be adversely affected by widening spreads between Canadian and US interest rates. Many other currencies face a similar fate. Finally, we also revised our forecasts for commodity prices downward as global demand appears to be weaker than expected, while supply will probably ramp up due to increased production in the United States, especially with respect to oil. We also think the more uncertain global economic outlook may cause stock markets to lose their upward momentum in 2025.

Forecast Tables

Table 2

Summary of Financial Forecasts

End of period in % (unless otherwise indicated)	2023		2024				2025			
	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	5.50	5.50	5.50	5.50	5.00	4.50	4.25	3.75	3.50	3.25
Canada	5.00	5.00	5.00	4.75	4.25	3.50	3.00	2.75	2.50	2.25
Eurozone	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.25	2.00	1.75
United Kingdom	5.25	5.25	5.25	5.25	5.00	4.75	4.25	3.75	3.25	2.75
Federal bonds										
United States										
2-year	5.14	4.33	4.70	4.77	3.68	4.15	3.90	3.75	3.60	3.40
5-year	4.64	3.86	4.23	4.36	3.56	4.20	4.00	3.85	3.70	3.50
10-year	4.57	3.87	4.21	4.37	3.78	4.35	4.15	4.05	3.90	3.75
30-year	4.70	4.02	4.35	4.54	4.13	4.55	4.30	4.20	4.05	3.90
Canada										
2-year	4.87	3.88	4.17	3.99	2.91	3.10	2.90	2.75	2.55	2.35
5-year	4.25	3.17	3.51	3.51	2.73	3.10	2.95	2.85	2.70	2.50
10-year	4.03	3.10	3.45	3.50	2.95	3.25	3.10	3.05	2.85	2.70
30-year	3.81	3.02	3.34	3.39	3.13	3.30	3.15	3.10	2.90	2.75
Currency market										
Canadian dollar (USD/CAD)	1.36	1.32	1.35	1.37	1.35	1.39	1.37	1.37	1.39	1.41
Canadian dollar (CAD/USD)	0.74	0.75	0.74	0.73	0.74	0.72	0.73	0.73	0.72	0.71
Euro (EUR/USD)	1.06	1.10	1.08	1.07	1.12	1.07	1.08	1.08	1.07	1.05
British pound (GBP/USD)	1.22	1.27	1.26	1.26	1.34	1.28	1.29	1.29	1.27	1.25
Yen (USD/JPY)	149	141	151	161	144	152	148	148	150	152
Stock markets (level and growth)*										
United States – S&P 500	4,770		Target: 6,250 (+31.0%)				Target: 6,400 (+2.4%)			
Canada – S&P/TSX	20,958		Target: 25,000 (+19.3%)				Target: 25,130 (+0.5%)			
Commodities (annual average)										
WTI oil (US$/barrel)	78 (72*)		77 (70*)				71 (72*)			
Gold (US$/ounce)	1,940 (2,030*)		2,375 (2,500*)				2,575 (2,650*)			

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)	2024				2025		Annual average			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	2022	2023	2024f	2025f
Real GDP (2017 US$)	**1.6**	**3.0**	**2.8**	**2.0**	**2.2**	**2.4**	**2.5**	**2.9**	**2.7**	**2.3**
Personal consumption expenditures	1.9	2.8	3.7	2.3	2.4	2.6	3.0	2.5	2.6	2.5
Residential construction	13.7	-2.8	-5.1	1.9	5.4	4.9	-8.6	-8.3	3.9	2.2
Business fixed investment	4.5	3.9	3.3	3.3	3.6	4.0	7.0	6.0	3.9	3.6
Inventory change (2017 US$B)	17.7	71.7	60.2	35.0	60.0	100.0	119.1	33.1	46.1	68.8
Public expenditures	1.8	3.1	5.0	2.2	1.8	2.1	-1.1	3.9	3.3	2.4
Exports	1.9	1.0	8.9	2.0	1.5	1.7	7.5	2.8	3.3	2.3
Imports	6.1	7.6	11.2	1.0	8.0	10.0	8.6	-1.2	5.6	5.8
Final domestic demand	2.7	2.8	3.5	2.4	2.6	2.8	2.3	2.7	3.0	2.6
Other indicators										
Nominal GDP	4.7	5.6	4.7	4.4	4.7	4.8	9.8	6.6	5.2	4.6
Employment[1]	2.0	1.5	1.1	0.9	1.0	1.1	4.3	2.3	1.6	1.0
Unemployment rate (%)	3.8	4.0	4.2	4.1	4.2	4.0	3.6	3.6	4.0	4.0
Housing starts[2] (thousands of units)	1,407	1,340	1,326	1,370	1,397	1,415	1,552	1,421	1,361	1,408
Total inflation rate*	3.2	3.2	2.6	2.6	2.5	2.1	8.0	4.1	2.9	2.1
Core inflation rate*[3]	3.8	3.4	3.2	3.2	2.9	2.7	6.2	4.8	3.4	2.6

f: forecast; * Annual change; [1] According to the establishment survey; [2] Annualized basis; [3] Excluding food and energy.
Datastream and Desjardins Economic Studies

Table 4

Canada: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024				2025		Annual average			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2022	2023	2024f	2025f
Real GDP (2017 $)	**1.8**	**2.1**	**0.9**	**2.5**	**2.4**	**2.6**	**3.8**	**1.2**	**1.1**	**2.2**
Final consumption expenditure [of which:]	3.6	2.1	2.8	2.3	1.3	0.7	4.5	1.7	2.3	1.6
Household consumption expenditure	*3.6*	*0.6*	*3.0*	*2.6*	*1.2*	*0.7*	*5.1*	*1.7*	*2.2*	*1.5*
Government consumption expenditure	*3.3*	*6.0*	*2.5*	*1.7*	*1.7*	*1.0*	*3.2*	*1.6*	*2.5*	*1.9*
Gross fixed capital formation [of which:]	1.3	3.5	-1.9	2.3	2.7	2.4	-2.4	-3.2	-0.5	2.2
Residential structures	*-0.1*	*-7.3*	*-2.7*	*1.1*	*4.0*	*3.7*	*-12.1*	*-10.3*	*-1.2*	*2.4*
Non-residential structures	*3.7*	*2.0*	*-5.0*	*2.6*	*3.2*	*1.6*	*6.7*	*2.6*	*-3.2*	*1.2*
Machinery and equipment	*0.0*	*28.8*	*-8.3*	*4.2*	*2.1*	*3.9*	*-0.3*	*-6.4*	*-0.3*	*3.1*
Intellectual property products	*7.6*	*1.1*	*2.3*	*2.6*	*1.6*	*0.4*	*6.0*	*0.3*	*2.2*	*1.5*
Government gross fixed capital formation	*-1.7*	*11.0*	*6.8*	*3.1*	*1.6*	*1.3*	*4.2*	*5.4*	*3.2*	*3.1*
Investment in inventories (2017 $B)	25.4	25.7	23.8	19.8	18.8	15.7	55.3	38.9	23.7	17.3
Exports	2.0	-1.8	0.3	6.3	6.9	9.4	3.2	5.4	1.0	4.6
Imports	0.1	-0.5	1.5	2.6	4.0	2.5	7.6	0.9	0.8	2.1
Final domestic demand	3.1	2.4	1.8	2.4	1.7	1.1	2.8	0.5	1.7	1.8
Other indicators										
Nominal GDP	0.3	7.1	0.7	2.8	4.6	3.1	11.8	2.8	3.7	3.4
Employment	1.5	2.4	0.7	1.6	1.9	2.3	4.0	2.4	1.7	1.7
Unemployment rate (%)	5.9	6.3	6.5	6.7	6.6	6.4	5.3	5.4	6.3	6.4
Housing starts[1] (thousands of units)	245	250	238	234	231	232	262	242	242	236
Total inflation rate*	2.8	2.7	2.0	1.7	2.3	1.9	6.8	3.9	2.3	2.0
Core inflation rate*[2]	2.9	2.8	2.5	1.9	2.4	2.1	5.0	3.9	2.5	2.2

f: forecast; * Annual change; [1] Annualized basis; [2] Excluding food and energy.
Datastream and Desjardins Economic Studies

Table 5

Quebec: Major Economic Indicators

Annual average % change (unless otherwise indicated)	2021	2022	2023	2024f	2025f
Real GDP (2017 $)	**6.7**	**2.5**	**0.2**	**1.4**	**1.8**
Final consumption expenditure [of which:]	6.0	4.1	1.1	2.1	1.7
Household consumption expenditure	*5.5*	*4.9*	*2.0*	*2.2*	*1.7*
Government consumption expenditure	*7.3*	*2.2*	*-1.1*	*1.9*	*1.8*
Gross fixed capital formation [of which:]	11.1	-2.7	-7.7	-1.8	2.8
Residential structures	*13.7*	*-11.7*	*-17.1*	*-3.0*	*6.2*
Non-residential structures	*5.1*	*6.1*	*-0.3*	*-1.0*	*0.1*
Machinery and equipment	*22.6*	*-4.9*	*-6.6*	*-0.3*	*1.5*
Intellectual property products	*12.0*	*2.3*	*1.4*	*2.2*	*0.7*
Government gross fixed capital formation	*4.5*	*7.4*	*-3.3*	*-3.5*	*2.1*
Investment in inventories (2017 $M)	-462	11,097	9,262	3,027	-256
Exports	5.6	0.5	2.8	2.3	3.0
Imports	8.4	6.0	0.0	0.8	2.6
Final domestic demand	7.1	2.5	-0.8	1.3	1.9
Other indicators					
Nominal GDP	11.6	8.4	3.7	4.5	3.8
Real disposable personal income	1.1	3.0	1.2	2.9	1.3
Weekly earnings	2.9	4.1	3.6	4.3	3.4
Employment	4.3	3.0	2.4	0.5	1.2
Unemployment rate (%)	6.1	4.3	4.5	5.4	5.2
Personal savings rate (%)	14.8	12.6	12.0	13.1	12.5
Retail sales	14.4	8.5	3.7	1.5	4.3
Housing starts[1] (thousands of units)	67.8	57.1	38.9	45.2	47.2
Total inflation rate	3.8	6.7	4.5	2.3	1.8

f: forecast; [1] Annualized basis.

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