ECONOMIC AND FINANCIAL OUTLOOK

Don't Panic, but Buckle Up

By Jimmy Jean, Vice-President, Chief Economist and Strategist

To make sense of 2025, we must first examine the forces that defined 2024. In the US, the arduous "last mile" of disinflation lived up to its reputation, with progress coming in fits and starts. Even so, the Federal Reserve (Fed) made some progress towards its target—core PCE inflation has dipped below 3%—and the Fed managed to bring inflation down while limiting the rise in the unemployment rate, which remained low at 4.2% as of November. This accomplishment validated the "soft landing" thesis—aside from a brief mid-summer scare—and gave a significant boost to US equities. As of this writing, the S&P 500 is on course for a gain that will rank safely among the top 10 performances since 1950.

Yet beneath the exuberance in equity markets, the story is more complex. The lingering weight of price increases since 2021 has left consumer sentiment bruised. The stark disconnect between financial market exuberance and the economic struggles experienced by many US households played a decisive role in November's election outcome.

The Trump administration's agenda introduces significant uncertainty into the economic outlook. Chief among these is the possibility of tariffs on trading partners, with threats having taken various forms since election day. Even our assumption of a 10% universal tariff (but with key exemptions) would have a measurable negative effect on US economic growth and drive inflation higher.

We assume such tariffs to be applied only in late 2025, but anything more aggressive in terms of scope and/or timing would make a recession hard to avoid for countries that trade extensively with the US. Additionally, tighter immigration policies are likely to constrain US labour supply growth, and the anticipated extension of Trump-era tax cuts could push the federal deficit north of 7% of GDP. Deregulation is usually supply-side-friendly, but that supposes there isn't a critical mass of headwinds otherwise impeding business investment.

The Fed faces the challenging task of navigating these dynamics. We anticipate a continued but slightly more measured easing cycle, with rates likely reaching the 3.50%–3.75% range by September. There may be some noise around the question of whether the Fed sustains a cautious pace of easing amid potential political pressure for more aggressive easing, although we think there is a very high bar for the Fed to become politicized.

Meanwhile in Canada, it isn't a cliché to say that the economy is at a crossroads. Despite welcoming immigrants at a breakneck pace (with population growth exceeding 3%), the economy has been spinning its wheels. GDP per person age 15 or older and above has fallen by 3.5% since its mid-2022 peak. For the Bank of Canada (BoC), there has been no room for second thoughts from the moment it began its easing cycle in June.

But the outlook is about to grow even more complex. There is of course the tariff threat, which we cover extensively in the Canada section of this *Economic and Financial Outlook*. Our baseline forecast builds on our previous work, and we will also be publishing a report exploring downside and upside alternative tariff scenarios and their impact on Canada. (See Alternative Scenarios on page 2.)

CONTENTS

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Senior Director of Canadian Economics
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Maëlle Boulais-Préseault, Economist • Francis Généreux, Principal Economist • Marc-Antoine Dumont, Senior Economist
Lorenzo Tessier-Moreau, 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

ALTERNATIVE SCENARIOS

Uncertainty has spiked since Donald Trump won re-election. As we saw recently, one social media post from the president-elect can set off an economic and financial tsunami. Multi-year forecasting in such an environment is extremely challenging. That's why we've decided to take a more flexible approach that incorporates the range of possible events over the coming months. The economic and financial outlook presented in this note is our baseline scenario, and we discuss its underlying assumptions throughout the report. But given today's heightened uncertainty, we've also included both an optimistic and pessimistic scenario for Canada as regards a few economic variables. These scenarios demonstrate the potential impact of policy moves not included in our baseline scenario because of their lower likelihood. In our optimistic scenario, we assume that the Canada–United States–Mexico Agreement (CUSMA) remains intact. In our pessimistic scenario, we assume that the US imposes a new 25% tariff on all Canadian goods and services entering the US and that Canada responds with retaliatory tariffs of its own. See our alternative scenarios.

But in addition to the tariffs, Canada's immigration-driven population boom, which arguably helped the country stave off an outright recession, is poised to be deliberately scaled back. The government's new target of 395,000 permanent residents for 2025 marks a notable reduction from the prior level of 500,000. We expect the immigration cooldown to relieve pressures on essentials like rents and public services and to make GDP per capita grow again.

It still raises the question: what will drive growth in an economy already struggling to regain its footing? With the mortgage renewal wall, a trade sector likely to face tariffs and persistent uncertainty weighing heavily on the outlook, the path forward seems increasingly fraught. Yet our 2025 growth forecast is far from gloomy for Canada. There are four main reasons behind this. First, recently announced temporary fiscal stimulus measures will soon hit consumers' pocketbooks. Second, the introduction of 30-year mortgage terms and the increase in the mortgage insurance limit should uplift housing market activity. Third, the lagged effects of recent rate cuts, combined with the additional easing from the BoC that we expect in 2025, will provide further support to growth—loonie depreciation included. Lastly, our assumption that tariffs only take effect late in 2025 suggests a temporary mechanical boost to growth during the year, as exporters benefit from front-loaded demand. Of course, this gain comes at the expense of 2026, when we anticipate a significant reversal, but the key point is that there are enough tailwinds to avoid losing sleep over the near-term outlook.

This doesn't mean that we're bullish about Canada's underlying fundamentals. Challenges won't just be economic but also political. Canada faces a federal election that could reshape its own economic and fiscal policies. The current Liberal government appears to have made some progress in identifying areas that merit spending cuts. It may well be a new government implementing them. Should the Conservatives topple Liberals and secure a majority government in 2025, they might interpret it as a strong mandate to pursue such measures. Meanwhile, the Quebec government needs to chart a path to dig itself out of the record $10.8B deficit it expects for this fiscal year, and multiple expense lines may be on the chopping block. Simply put, a shift to fiscal austerity by some governments after the largesse of the first half of the decade is a risk we firmly keep on our radar. These things take time to unfold, however, and therefore might also be more of a story for 2026 than 2025. Indeed, if we have one piece of advice for navigating 2025, it's don't panic, but buckle up.

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? Will there be any exceptions? And how will other countries respond? How much will a potential trade war affect inflation? How will currencies react? Will the Fed remain independent? Will there really be mass deportations of immigrants? How will US public finances change? Even though we've revised our forecasts and sketched out some alternative scenarios, 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 US. This would temporarily disrupt economic activity and put even more upward pressure on wages and inflation. There's 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 others may have to slow down. Many governments around the world have been hit by political crises, which could further weaken confidence and economic conditions while straining public finances. The deepening conflict in the Middle East could trigger more oil price volatility. Trends in the global economy, financial markets and commodity prices could become increasingly unstable if the geopolitical backdrop and economic environment deteriorate further.

Table 1
Global GDP Growth (Adjusted for PPP) and Inflation Rates

	Weight*	Real GDP growth			Inflation rate		
%		2024f	2025f	2026f	2024f	2025f	2026f
Advanced economies	**37.7**	**1.6**	**1.8**	**1.1**	**2.6**	**2.0**	**2.2**
United States	14.8	2.8	2.3	1.3	2.9	2.2	2.6
Canada	1.3	1.3	2.2	1.3	2.4	2.1	2.2
Quebec	*0.3*	*1.5*	*1.9*	*1.0*	*2.3*	*1.8*	*1.8*
Japan	3.4	-0.3	1.1	0.4	2.6	2.1	1.8
United Kingdom	2.2	0.9	1.2	1.0	2.6	2.2	2.1
Eurozone	11.9	0.8	1.4	0.9	2.4	1.8	2.0
Germany	*3.2*	*-0.2*	*0.6*	*0.6*	*2.3*	*1.8*	*2.0*
France	*2.3*	*1.1*	*1.1*	*0.7*	*2.2*	*1.5*	*1.9*
Italy	*1.9*	*0.5*	*1.0*	*0.7*	*1.2*	*1.6*	*1.8*
Other countries	4.1	1.7	2.1	1.7	2.6	1.9	2.1
Australia	*1.0*	*1.3*	*2.2*	*1.9*	*3.4*	*2.8*	*2.8*
Emerging and developing economies	**62.3**	**4.0**	**4.1**	**3.3**	**7.6**	**4.8**	**4.1**
Emerging Asia	32.8	5.2	5.1	4.1	2.2	2.2	2.7
China	*18.8*	*4.8*	*4.5*	*3.5*	*0.5*	*1.1*	*1.5*
India	*7.9*	*6.8*	*6.7*	*6.0*	*4.5*	*4.3*	*4.6*
Latin America	5.8	2.4	2.1	1.6	4.3	3.5	3.6
Mexico	*1.8*	*1.5*	*1.7*	*0.9*	*4.4*	*3.6*	*3.6*
Brazil	*2.4*	*3.1*	*2.0*	*1.7*	*4.3*	*3.7*	*3.8*
Eastern Europe	8.5	3.3	2.6	2.2	19.0	11.0	7.6
Russia	*3.5*	*3.5*	*1.3*	*0.7*	*7.5*	*5.1*	*4.5*
Other countries	15.2	2.6	3.6	2.6	17.2	10.3	8.2
South Africa	*0.5*	*1.1*	*2.1*	*1.1*	*4.7*	*4.0*	*5.0*
World	**100.0**	**3.1**	**3.3**	**2.5**	**5.7**	**3.8**	**3.4**

f: forecast; PPP: Purchasing Power Parities, exchange rates that equate the cost of a broad basket of goods and services across countries; * 2023.
World Bank, Consensus Forecasts and Desjardins Economic Studies

FINANCIAL FORECASTS

Stock markets have been on a tear since Donald Trump was re-elected. Credit spreads on corporate bonds are also low, suggesting that investors don't see much short-term economic and financial risk. However, exchange rates have shifted considerably, especially the Canadian dollar, which is trading at close to C$1.41/US$. This is mostly due to the broad strength of the US dollar, which has been lifted by rising US bond yields in anticipation of sustained economic growth and the possible inflationary effects of Trump's policies.

We believe market bullishness will fade as global economic prospects dim, which we expect to happen by the end of 2025. The US dollar will probably remain strong. We expect bond yields to shrink as a result of continued rate cuts by the major central banks. But the Fed may lag behind, with fewer interest rate cuts. In Canada, the overnight rate will likely go down to 2.00% by early 2026 in response to an economy held back by a number of headwinds.

Table 2
Summary of Financial Forecasts

End of period in %	2024		2025				2026			
(unless otherwise indicated)	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	5.00	4.50	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Canada	4.25	3.25	3.00	2.75	2.50	2.25	2.00	2.00	2.00	2.00
Eurozone	3.50	3.00	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.75
United Kingdom	5.00	4.75	4.25	3.75	3.25	2.75	2.50	2.50	2.50	2.50
Federal bonds										
United States										
2-year	3.68	4.15	3.90	3.75	3.60	3.40	3.20	3.15	3.10	3.10
5-year	3.56	4.15	4.00	3.85	3.70	3.50	3.35	3.30	3.25	3.20
10-year	3.78	4.30	4.15	4.05	3.90	3.75	3.60	3.55	3.55	3.50
30-year	4.13	4.50	4.30	4.20	4.05	3.90	3.75	3.70	3.70	3.65
Canada										
2-year	2.91	2.95	2.90	2.75	2.55	2.35	2.10	2.15	2.20	2.35
5-year	2.73	2.90	2.95	2.85	2.70	2.50	2.40	2.40	2.45	2.50
10-year	2.95	3.10	3.10	3.05	2.85	2.70	2.65	2.65	2.70	2.70
30-year	3.13	3.20	3.15	3.10	2.90	2.75	2.70	2.70	2.75	2.75
Currency market										
Canadian dollar (USD/CAD)	1.35	1.41	1.39	1.39	1.41	1.42	1.43	1.43	1.42	1.41
Canadian dollar (CAD/USD)	0.74	0.71	0.72	0.72	0.71	0.71	0.70	0.70	0.71	0.71
Euro (EUR/USD)	1.12	1.05	1.06	1.06	1.05	1.04	1.03	1.03	1.04	1.05
British pound (GBP/USD)	1.34	1.27	1.27	1.26	1.25	1.24	1.23	1.23	1.25	1.26
Yen (USD/JPY)	144	150	144	143	142	144	143	142	141	139
Stock markets (level and growth)*										
United States – S&P 500	6,200 (+30.0%)		Target: 6,400 (+3.2%)				Target: 6,660 (+4.1%)			
Canada – S&P/TSX	25,750 (+22.9%)		Target: 25,900 (+0.6%)				Target: 26,820 (+3.6%)			
Commodities (annual average)										
WTI oil (US$/barrel)	77 (70*)		70 (68*)				68 (68*)			
Gold (US$/ounce)	2,380 (2,600*)		2,725 (2,800*)				2,785 (2,760*)			

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

Overseas

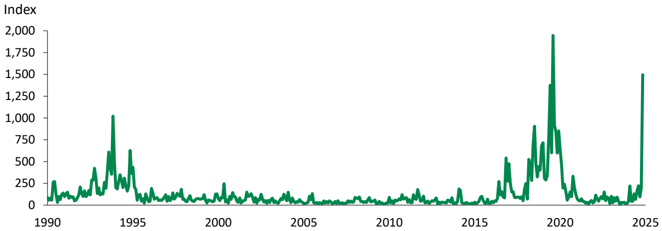
The Global Economy Will Need to Adjust to a Second Trump Term

FORECASTS

The global economy is continuing to grow at a fairly modest pace. While real GDP for some nations had accelerated earlier this year, that momentum is already flagging. Our baseline scenario, however, calls for a spike in trade at the start of 2025 as importers rush to get orders in before Trump's threatened tariff increases take effect. Yet we expect conditions to change again once tariffs officially take effect, which our scenario assumes will happen in the last quarter of 2025. This means global economic growth will probably slow in 2026. The economy will nevertheless get a bit of a boost from lower interest rates, since major central banks are expected to continue easing monetary policy. All things considered, global real GDP growth is expected to come in at 3.1% for 2024, accelerating to 3.3% for 2025 and then slowing to 2.5% for 2026.

The global economy could be volatile over the next few years. US voters re-elected Donald Trump on his promise to implement blatantly protectionist policy. What he'll actually do remains to be seen, but the uncertainty surrounding US trade policy is already approaching record highs (graph 1). The first salvos of what may turn out to be a new trade war have already been fired. Many of the people that the president-elect has nominated for positions in his new administration support his protectionist goals. China, Canada, Mexico and the European Union (EU) were quick to claim that they would take retaliatory measures if the US really does raise tariffs. This kind of protectionist climate would obviously have a negative impact on the economy. As the chief economist of the Organisation for Economic Co-operation and Development (OECD) recently noted, "rising trade tensions and further moves towards protectionism might disrupt supply chains, raise consumer prices, and negatively impact growth." Our economic scenario expects US tariffs to increase in the fall of 2025. It assumes a tariff of 10% on all imports (with some exceptions) from most countries, and 60% for imports from China. Ironically, this should boost trade in the very short term, as US companies and their foreign suppliers rush their orders before the new tariffs come into effect. But the pendulum will swing back in late 2025 and 2026, slowing down global economic growth.

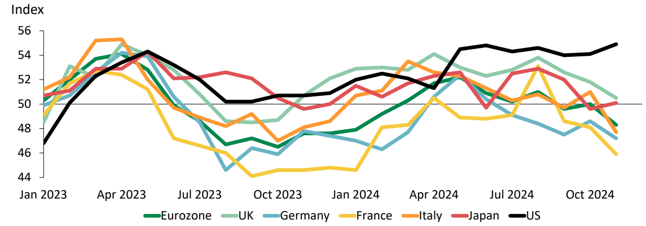
Graph 1
Uncertainty Surrounding US Trade Policy Is Now Approaching the Peak Levels Seen During Donald Trump's First Term
United States – Economic uncertainty index for trade policy



Datastream, Economic Policy Uncertainty and Desjardins Economic Studies

On top of all that, current economic conditions already seem fragile. And PMIs show some real differences between the US and other major economies (graph 2). Of course, there are other factors to consider. Recent political crises in France, Germany and South Korea—along with the change in governments in the UK, Mexico and Japan—are weighing on confidence. Then there are the ongoing wars in Ukraine and the Middle East.

Graph 2
Most PMIs Fell in November—Except in the US
Composite PMIs



S&P Global, Datastream and Desjardins Economic Studies

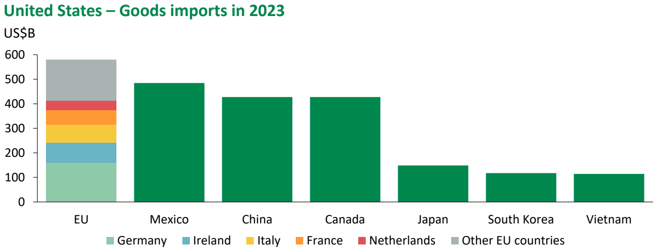
Oil prices have also been impacted by all this. Weaker prospective demand and abundant supply have reined in oil prices. West Texas Intermediate (WTI) was almost US$85 per barrel in July, but has plunged to around US$70 per barrel at the time of writing. The Organization of the Petroleum Exporting Countries and its partners (OPEC+) has once again pushed back a planned increase in production, from December to April. But that doesn't mean the market won't be flooded with excess supply. As mentioned in a recent *Economic Viewpoint*, the sharp mismatch between expected supply and demand for oil in 2025 increases the risk of a price correction.

In Europe, the prospect of a colder winter, along with recent events in the war in Ukraine, have raised fears of another energy crisis. But it looks like European countries have secured enough natural gas to get them through the winter. The situation will nevertheless need to be closely monitored. It's also worth pointing out that national economies within the eurozone are growing at different speeds. This situation could continue into 2025 and even be exacerbated by trade tensions with North America. In 2024, Germany's real GDP may have gone down for the second year in a row. Its industrial sector, especially the auto industry, could keep struggling in 2025 and 2026. France is doing better, at least so far. But its PMIs have been down recently, especially the services component. The Barnier government's sudden collapse could further complicate the situation. The EU may experience a run-up in trade with the US in early 2025. Overall, it is the main source of US imports (graph 3). This situation is expected to deteriorate once tariffs are actually implemented. Given all this uncertainty, the European Central Bank (ECB) will probably keep cutting key interest rates.

The Bank of England is also expected to continue monetary easing. But it may show more caution than the ECB, as rather expansionary policy set out in the budget proposed by Keir Starmer's new government could boost growth and inflation.

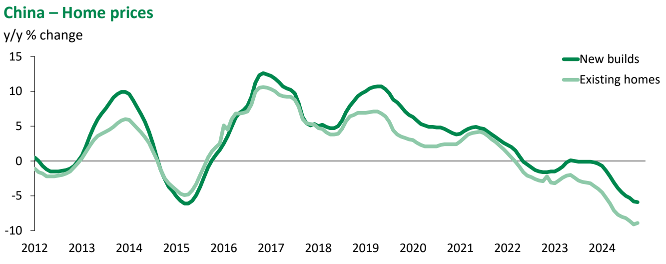
In China, real GDP growth will probably total 4.8% for 2024 as a whole, compared to 5.2% for 2023. The economy is mostly being driven by the strength of its exports, whereas domestic conditions remain challenging. Those problems are widespread, but the epicentre is still the property market. In addition, the average home price has plummeted more than 5% since the year began (graph 4), while sales and housing starts haven't fared much better. The government has stepped up its stimulus measures. However, so far they haven't offered much more than a temporary boost, nor do they address the fundamental problems of the Chinese economy. Given that Trump has specifically targeted China, its external sector, which is the main driver of its economy, is at risk. We expect Chinese real GDP growth to amount to 4.5% in 2025 and just 3.5% in 2026.

Graph 3
The European Union Is the Largest Source of US Goods Imports



EU: European Union
Bureau of Economic Analysis and Desjardins Economic Studies

Graph 4
Property Prices Continue to Fall



National Bureau of Statistics of China, Datastream and Desjardins Economic Studies

United States

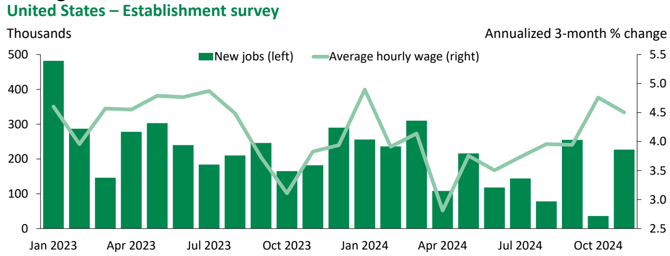
The Economy Is Expected to Keep Growing—Until the New Tariffs Take Effect

FORECASTS

The US economy continues to hum along. Annual real GDP growth is expected to come in at 2.8% for 2024, just shy of the 2.9% gain recorded in 2023. And we believe the economy will remain robust for the first quarters of 2025, buoyed by a frenzy of activity as businesses try to get ahead of the Trump administration's impending tariffs. However, the economic tides will likely turn once the levies are applied. Lower interest rates, coupled with additional tax cuts taking effect in early 2026, will help offset the negative effects of Washington's protectionist policies and slower immigration. We see real GDP growth advancing 2.3% in 2025, then slowing to 1.3% in 2026.

According to the second estimate, real GDP grew at an annualized rate of 2.8% in the third quarter. Consumer spending rose at its fastest quarterly rate since the beginning of 2023. And final domestic demand growth hasn't dipped below 2.5% since the end of 2022. All this leaves no doubt about the strength of the US economy. The fourth quarter is off to a respectable start as well. While hurricanes may have put a temporary damper on spending growth (0.1% in October versus 0.5% in September), real disposable income posted its biggest monthly increase since January. It's also promising that the labour market rebounded in November with 227,000 new hires (graph 5). For the fourth quarter of 2024, we expect real GDP growth of nearly 2.5%.

Graph 5
The Job Market Rebounded in November and Wage Growth Remains Strong
United States – Establishment survey



Bureau of Labor Statistics and Desjardins Economic Studies

However, the country's strong economic showing didn't stop Donald Trump from leveraging voter discontent. Throughout the campaign, voters expressed their disappointment in the [Biden administration's economic record](), with inflation being a particularly sore spot.

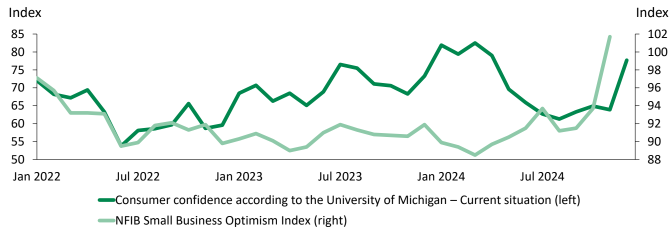
With a decisive victory and majorities (albeit slim ones) in both the Senate and the House of Representatives, Donald Trump should have no trouble implementing most of his campaign promises when he returns to the Oval Office on January 20. This means we should expect a more protectionist trade policy, an extension of the 2018 tax cuts, additional tax cuts for businesses and households, decreased regulation (especially for energy) and a slowdown in immigration. Our baseline scenario takes these factors into account, but we don't expect all of the changes to be implemented in late January. Plus, various parliamentary, legal and operational constraints are sure to limit what the new Trump administration can actually accomplish.

We Expect the US Economy to Perform Well in Early 2025

We foresee a surge in confidence that could drive both consumer spending and investment. This view is supported by the strength of the financial markets and improvements in some confidence indexes since the presidential election (graph 6). In addition, certain aspects of Donald Trump's platform could be rolled out quickly, especially those related to deregulation and the energy sector. Oil and gas prices are expected to remain relatively low. A run-up in trade before the implementation of tariffs could boost economic activity. According to the University of Michigan's December consumer confidence survey, consumers think now is a good time to make major purchases because they anticipate prices rising sharply once new tariffs take effect.

Graph 6
Some Confidence Indexes Are Improving

United States



University of Michigan, National Federation of Independent Business and Desjardins Economic Studies

This situation is expected to become more complicated once tariffs are actually implemented. Our baseline scenario assumes the new US trade policy will push tariffs on most imported goods to 10% and 60% on those from China, but with many exceptions as is the case right now. According to the rules that allow the president to levy tariffs without Congress's approval, it would take several months for higher tariffs to actually apply. Our expectation is that they won't take effect until the fall of 2025. While the president could use other emergency mechanisms to raise tariffs faster, we've only included this possibility in our alternative scenarios. The negative effects of tariffs—and the resulting retaliation from other countries—will start to weigh on the US economy in late 2025. That said, we don't believe the country will slide into a recession, as the economy will start to benefit from new tax cuts in early 2026. Our scenario doesn't account for mass deportations of illegal immigrants. It does, however, factor in a significant reduction in incoming migrants, which will hamper population growth, something that has been a boon to the economy in recent years.

We anticipate the US economy losing steam in 2026, with real GDP growing a mere 1.3%. This would be the weakest expansion since the recession of 2008–2009, excluding the pandemic period. Tariffs will likely fan the flames of inflation in 2026, which could limit the Fed's options.

Table 3
United States: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024		2025				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
Real GDP (2017 US$)	**2.8**	**2.5**	**2.3**	**2.2**	**2.5**	**0.7**	**2.9**	**2.8**	**2.3**	**1.3**
Personal consumption expenditures	3.5	2.8	2.5	2.6	2.5	1.7	2.5	2.7	2.7	1.6
Residential construction	-5.0	0.9	5.2	5.3	3.4	0.3	-8.3	3.8	2.1	-1.1
Business fixed investment	3.8	2.9	3.7	4.2	2.9	3.4	6.0	4.0	3.6	2.9
Inventory change (2017 US$B)	64.1	60.0	85.0	110.0	140.0	0.0	33.1	53.4	83.8	-98.7
Public expenditures	5.0	2.2	2.0	2.1	1.9	1.6	3.9	3.3	2.5	1.6
Exports	7.5	-0.5	1.5	1.7	1.0	0.0	2.8	3.0	1.7	-2.7
Imports	10.2	0.5	8.0	10.0	5.0	-10.0	-1.2	5.4	5.6	-5.5
Final domestic demand	3.5	2.6	2.7	2.8	2.5	1.8	2.7	3.0	2.7	1.7
Other indicators										
Nominal GDP	4.7	5.3	4.8	4.7	3.9	3.3	6.6	5.3	4.7	3.8
Real disposable personal income	0.8	2.8	1.6	3.0	3.2	1.3	5.1	2.8	2.1	1.6
Employment[1]	1.1	1.1	1.1	1.1	0.9	0.7	2.3	1.6	1.1	0.4
Unemployment rate (%)	4.2	4.2	4.2	4.0	3.9	3.9	3.6	4.0	4.0	4.0
Housing starts[2] (thousands of units)	1,331	1,357	1,397	1,415	1,422	1,398	1,421	1,359	1,408	1,322
Corporate profits*[3]	6.1	4.5	7.5	4.3	5.0	1.0	6.9	7.3	4.4	-0.3
Personal savings rate (%)	4.3	4.2	3.9	4.1	4.3	4.1	3.4	4.7	4.1	4.1
Total inflation rate*	2.6	2.7	2.5	2.1	2.1	2.1	4.1	2.9	2.2	2.6
Core inflation rate*[4]	3.2	3.3	2.9	2.7	2.6	2.5	4.8	3.4	2.7	3.0
Current account balance (US$B)	-1,136	-1,143	-1,193	-1,258	-1,292	-1,193	-905	-1,078	-1,234	-1,117

f: forecast; * Annual change; [1] According to the establishment survey; [2] Annualized basis; [3] Before taxes; [4] Excluding food and energy.
Datastream and Desjardins Economic Studies

Canada

"Events, My Dear Boy, Events"

FORECASTS

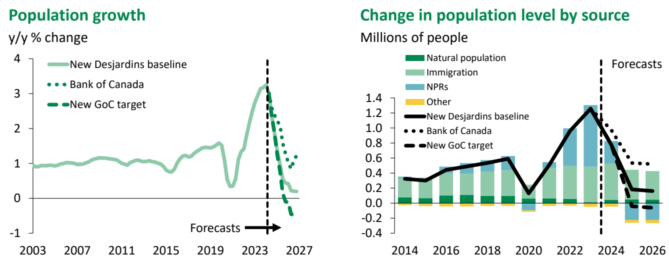
Events keep popping up that influence our Canadian economic outlook. The first to arrive will be the GST holiday and cheques to consumers starting before the end of the 2024 holiday season. But there isn't much good news after that. Slower population growth and the upcoming wall of mortgage renewals will weigh on growth starting next year. But the most important event shaping the economic outlook for Canada is the re-election of President Trump. With the threat of tariffs looming large on the horizon, the Canadian economy is likely to be subject to major trade disruptions, leading to lower output, higher unemployment and stickier inflation.

As the British Prime Minister Harold Macmillan famously replied when asked what the greatest challenge is a statesman faces, our outlook for the Canadian economy keeps evolving due to "events, my dear boy, events." The most important of these has been the US presidential election, where President Trump and the Republican Party swept the White House and both houses of Congress. This has added substantial uncertainty into our forecast. But there have been domestic developments in the last couple of months that will also have a material impact on the outlook, including the reduction in federal immigration targets and the planned holiday gifts for consumers from various levels of government.

Looking first to the near term, real GDP growth in the final quarter of 2024 is expected to get a late-stage boost from the federal government's recently passed GST holiday. That should persist in providing a tailwind to consumption into Q1 2025, at a total cost of at least $1.6B. In the first quarter of next year, the Government of Ontario also plans to send $3B in cheques to every eligible man, woman and child in the province—a transfer so big it is likely to further accelerate consumption at the national level at the start of next year. This will be topped off by another federal payment to Canadians in Q2 2025, which could be even larger than the $4.7B currently planned. Our research suggests this $9.3B or more in goodies announced just in time for the holidays should boost 2025 real GDP growth by about 0.2 percentage points over what we would otherwise have forecast.

But that is generally where the good news ends. The federal government plans to reduce the share of non-permanent residents in Canada's population to 5% over the next three years, from 7.3% in Q2 2024. In late October, it also announced its intention to reduce the target for permanent resident admissions from 500,000 per year to less than 400,000. If this plan comes to pass, population growth could turn negative in Canada for the first time since at least World War II. With this in mind, we think the federal government is unlikely to reach its goal. In fact, the Bank of Canada's population projections suggest it doesn't take the federal plan seriously at all (graph 7). The other headwind we've spoken to many times is the upcoming mortgage renewal wall in 2025 and 2026, as 5-year fixed and variable rate mortgages come up for renewal.

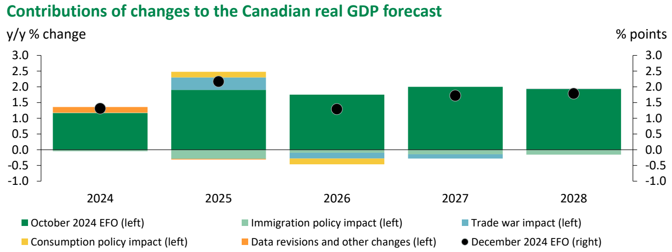
Graph 7
Population Growth Is Set to Slow, but Nobody Knows by How Much



NPRs: Non-permanent residents; GoC: Government of Canada
Note: Annual population is presented on a calendar-year basis.
Government of Canada, Statistics Canada, Bank of Canada and Desjardins Economic Studies

And if this wasn't enough, along came Trump. During the election campaign, he threatened to apply 10% tariffs on all imports to the US. And that's what we've assumed in our baseline forecast presented here, albeit subject to uncertain timing, extent and breadth of application. We've also assumed exceptions will be made for Canadian energy and auto exports. Growth should pick up substantially before tariffs come into effect as US companies try to beat the higher cost by building up inventories. Canadian exporters should benefit from this surge in external demand (graph 8 on page 10). But uncertainty about the outlook is likely to keep businesses from investing in productivity-enhancing technologies, instead hiring to meet the likely short-term boost in sales. Combined with the impact of the expected population growth slowdown on labour force growth, this should have the unemployment rate tracking lower next year. However, once tariffs are in place and reciprocal tariffs are applied to Canadian imports from the US, growth in the

Graph 8
There Have Been a Lot of Changes to the Real GDP Growth Outlook



EFO: *Economic and Financial Outlook*
Statistics Canada, Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

Great White North will likely slow sharply while inflation and joblessness should move higher.

Table 4
Canada: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024		2025				Annual average			
	Q3	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2023**	**2024f**	**2025f**	**2026f**
Real GDP (2017 $)	**1.0**	**2.3**	**2.3**	**2.6**	**2.5**	**1.3**	**1.5**	**1.3**	**2.2**	**1.3**
Final consumption expenditure [of which:]	3.7	3.0	2.6	1.0	-0.2	0.6	2.0	2.2	2.0	1.1
Household consumption expenditure	*3.5*	*3.7*	*3.1*	*1.0*	*-0.7*	*0.3*	*1.8*	*2.0*	*2.1*	*0.9*
Government consumption expenditure	*4.5*	*1.4*	*1.7*	*1.0*	*1.4*	*1.7*	*2.2*	*2.6*	*1.9*	*1.7*
Gross fixed capital formation [of which:]	-1.9	2.4	1.4	1.5	2.1	2.6	-1.6	-0.5	1.5	2.2
Residential structures	*3.0*	*3.1*	*2.0*	*3.0*	*4.5*	*5.4*	*-8.5*	*-1.7*	*2.4*	*3.8*
Non-residential structures	*0.2*	*1.8*	*0.8*	*0.4*	*0.4*	*0.9*	*3.2*	*-1.5*	*1.3*	*1.0*
Machinery and equipment	*-27.7*	*1.5*	*1.0*	*1.0*	*1.5*	*1.8*	*-2.7*	*-2.8*	*-1.8*	*1.5*
Intellectual property products	*5.9*	*3.1*	*1.6*	*0.4*	*0.7*	*0.9*	*4.0*	*1.0*	*2.0*	*1.2*
Government gross fixed capital formation	*6.5*	*2.6*	*1.6*	*1.3*	*1.7*	*2.3*	*4.8*	*4.4*	*2.8*	*2.7*
Investment in inventories (2017 $B)	17.3	11.3	6.6	6.9	8.8	18.2	25.5	17.1	10.1	22.1
Exports	-1.1	5.4	6.7	6.8	4.5	-6.9	5.0	0.8	3.5	-4.9
Imports	-0.4	3.5	3.9	2.4	-0.9	-2.0	0.3	0.5	1.7	-2.8
Final domestic demand	2.4	2.9	2.3	1.1	0.4	1.1	1.1	1.6	1.9	1.3
Other indicators										
Nominal GDP	3.4	2.2	3.8	2.5	3.8	2.9	2.9	4.2	3.3	2.6
Real disposable personal income	7.6	1.3	-0.1	7.2	7.7	-1.3	1.6	4.4	3.7	1.3
Employment	0.7	2.7	2.7	2.8	1.7	1.1	2.4	1.8	2.2	1.0
Unemployment rate (%)	6.5	6.7	6.6	6.2	5.9	5.9	5.4	6.3	6.2	6.2
Housing starts[1] (thousands of units)	237	234	231	232	236	245	242	242	236	255
Corporate profits*[2]	-6.4	-9.4	2.4	0.4	5.4	6.7	-14.8	-5.6	3.7	7.5
Personal savings rate (%)	7.1	6.5	5.7	7.1	8.9	8.6	3.7	6.1	7.6	7.9
Total inflation rate*	2.0	1.9	2.4	1.9	2.1	2.2	3.9	2.4	2.1	2.2
Core inflation rate*[3]	2.5	2.0	2.4	2.0	2.1	2.4	3.9	2.5	2.2	2.4
Current account balance ($B)	-3.2	-6.9	-7.4	-6.7	-5.3	-11.2	-18.4	-16.3	-30.6	-68.5

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

Quebec

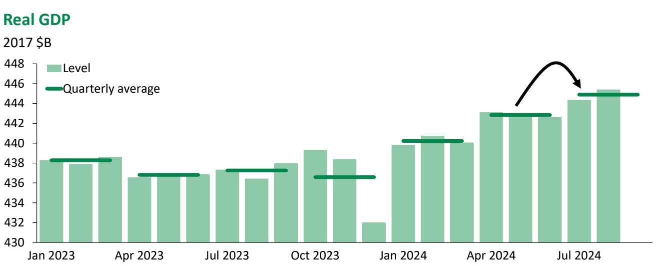
Growth That's Above the National Average … for Now

FORECASTS

Quebec's economic growth has been outpacing the national average since early 2024. After annualized real GDP gains of 3.6% and 2.7% for the first two quarters of the year, preliminary results for the third quarter point to an annualized increase of 2.2%. Canada as a whole posted annualized real GDP growth of just 1.0% over the summer. But a few clouds have appeared on the horizon, and Quebec's economy will most likely lose steam in the quarters ahead, falling closer to the national average—or even dropping below it. Quebec's real GDP is expected to rise 1.5% in 2024, followed by a 1.9% gain in 2025. Growth could fall to 1.0% in 2026.

Quebec's real GDP by industry rose 0.4% in July and 0.2% in August, meaning the province entered the third quarter with significant carry-over growth (graph 9). This could result in annualized gains of more than 2%, a result that would outstrip the Canadian average once again—remember, Canada's real GDP advanced just 1.0% over the summer. Beyond the upheavals associated to the strike in education and healthcare, Quebec's economy continued to rally and seems to have been less impacted by the cooling effects of the cumulative rate hikes in 2022 and 2023. Consumer confidence also fell comparatively less since 2022. Additionally, Quebecers are still posting a higher savings rate, giving them a little more breathing room.

Graph 9
Quebec's Economy Continues to Firm Up



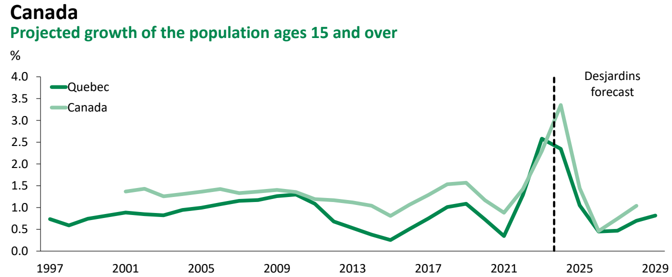
Institut de la statistique du Québec and Desjardins Economic Studies

Over the next few months, Quebec's economic growth will begin to align with the Canadian average. As interest rates continue to fall, their restrictive effects, which are more pronounced in other provinces, will gradually dissipate and help narrow the gap with Quebec. Ultimately, Quebec's real GDP growth is expected to slip below the Canadian average in the coming quarters, dragged down by less favourable demographics and greater damage from trade barriers with the US.

Quebec Will Be at the Forefront of the Population Slowdown

Quebec's population growth is expected to slow over the coming years, largely due to the various government measures announced in recent months. The number of non-permanent residents entering the province should begin falling in 2025, and immigration rules may tighten further in 2026 and 2027. Since Quebec has welcomed fewer non-permanent residents than other parts of the country, the changes to immigration will have a less pronounced effect. Even so, the province's demographic growth will remain below the Canadian average in the years ahead since the population is older in Quebec than elsewhere in the country (graph 10).

Graph 10
Population Growth Will Remain Weaker in Quebec than in the Rest of Canada



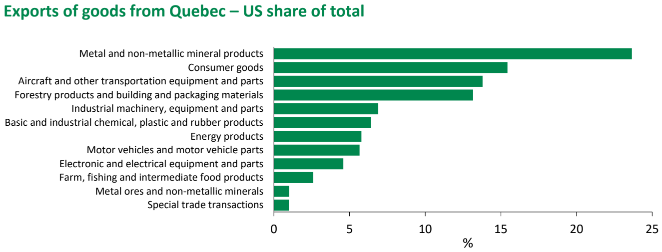
Institut de la statistique du Québec and Desjardins Economic Studies

Recently downgraded population estimates will also have an impact on overall economic growth. Population growth has been a major driver of economic progress in recent years. Conversely, slower population growth will restrict Quebec's economic growth potential in the years ahead.

Quebec Will Be Affected by Trade Disputes with the United States

Because Quebec's international goods exports and imports are less reliant on the US, one might think the province would be shielded from the worst effects of a trade war with our neighbours. Unfortunately, this may not be the case. Our baseline scenario assumes that the automotive and energy sectors will be exempt from tariffs imposed by the US. Neither sector has a strong presence in Quebec, which means the province won't benefit as much from these exemptions. Quebec's economic growth could therefore take a bigger hit than the national average. Moreover, exports in several key sectors could be affected, including metal and non-metallic mineral products, consumer goods, aircraft and other transportation equipment and parts, and forestry products and building and packaging materials (graph 11).

Graph 11
Breakdown of Trade in Goods with the United States



Statistics Canada and Desjardins Economic Studies

Table 5
Quebec: Major Economic Indicators

Annual average % change (unless otherwise indicated)	2022	2023	2024f	2025f	2026f
Real GDP (2017 $)	**2.5**	**0.2**	**1.5**	**1.9**	**1.0**
Final consumption expenditure [of which:]	4.1	1.1	2.2	1.7	1.5
Household consumption expenditure	*4.9*	*2.0*	*2.2*	*1.5*	*1.3*
Government consumption expenditure	*2.2*	*-1.1*	*2.2*	*2.6*	*2.0*
Gross fixed capital formation [of which:]	-2.7	-7.7	-1.8	1.8	1.6
Residential structures	*-11.7*	*-17.1*	*-2.8*	*3.1*	*6.0*
Non-residential structures	*6.1*	*-0.3*	*-1.1*	*-0.1*	*-2.5*
Machinery and equipment	*-4.9*	*-6.6*	*-0.3*	*1.3*	*-2.6*
Intellectual property products	*2.3*	*1.4*	*2.3*	*0.7*	*-1.5*
Government gross fixed capital formation	*7.4*	*-3.3*	*-3.5*	*2.6*	*3.0*
Investment in inventories (2017 $M)	11,097	9,262	3,246	246	249
Exports	0.5	2.8	2.4	3.1	-3.3
Imports	6.0	0.0	1.0	2.9	-1.3
Final domestic demand	2.5	-0.8	1.4	1.7	1.5
Other indicators					
Nominal GDP	8.4	3.7	4.6	3.9	3.4
Real disposable personal income	3.0	1.2	2.9	1.3	1.7
Weekly earnings	4.1	3.6	4.4	3.5	2.3
Employment	3.1	2.3	0.6	1.4	0.5
Unemployment rate (%)	4.3	4.5	5.4	5.3	5.2
Personal savings rate (%)	12.6	12.0	13.0	12.7	12.8
Retail sales	8.5	3.7	1.0	2.9	2.6
Housing starts[1] (thousands of units)	57.1	38.9	47.4	50.7	52.1
Total inflation rate	6.7	4.5	2.3	1.8	1.8

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

Medium-Term Issues and Forecasts

Reason Should Ultimately Prevail

With Donald Trump's impending return to the White House, economic uncertainty is running high. From an economic perspective, many of his proposed policies are absurd and would cause more harm than good—for the US economy as well as our own. That said, we believe reason and logic should ultimately win out. We expect an economic slowdown by 2026 as Trump pushes many of his controversial policies through, but our forecasts for the following years are still fairly optimistic.

Another Four Years, No More—and Maybe Even Less

Why do we believe that clearer heads will prevail in the medium term? First, because the 78-year-old president-elect has been elected for his second term, and the US Constitution prohibits him from taking office a third time. That means we're probably facing at most four years of uncertainty. What's more, there are midterm elections coming up in two years. At that point, if the US economy is struggling and Americans have seen no improvement in their standard of living—especially the working class—Democrats could win back a number of seats in Congress. They would then be able to block Trump's policies in the second half of his term. That's what happened the last time he was in office.

Companies might also pressure elected officials to return to reason and apply less punishing measures. Business leaders who are harmed by Trump's policies will most likely lobby for change in the next few years. Pressure should also come from the financial markets. Their initial rush of optimism may be followed by concern if the economy is harmed by Trump's poor policy decisions. This would eventually force him to change course in the second half of his term.

The Economy Will Eventually Adapt

Time heals all wounds—including economic ones. After a shock, the economy generally finds a way to recover. Lower interest rates and currency depreciation will help to jump-start the economy in Canada, but there are a number of structural factors to consider as well. Not all businesses struggle equally when times are tough. Some stand out, take advantage of new opportunities and help usher in a new wave of prosperity. The most productive companies are often the ones that come out ahead. And in turn, this boosts economic productivity, which is beneficial in the long term.

American protectionism also shows us why it's important to have diverse trading partners. Right now, Canada relies heavily on the US market. But it's worth mentioning that Canada has also signed several free trade agreements and has the potential to expand its trade with other countries. Obviously, this type of change doesn't happen overnight, but it means that in the long term, Canadian businesses have room to grow their international markets.

And We Shouldn't Underestimate Domestic Demand

There are currently a lot of concerns about foreign demand, but domestic demand will continue to benefit from some positive developments. At least that's the case in Canada. At the top of the list, we're still expecting residential construction to gradually accelerate and alleviate the housing crisis. There are also major infrastructure needs across the country. Weaker population growth is expected to hurt domestic demand in the short term, but some recovery is expected after 2027. And if there are fewer available workers in the future, this could encourage businesses to reduce their dependency on cheap labour and instead invest in productivity increases.

Domestic demand will also be fuelled by climate change adaptation and the energy transition. Donald Trump's return to power may raise doubts about how swiftly required investments will be made, but it doesn't make them any less necessary. The transition is already underway in several countries, and it will be difficult to stop. The electric vehicle market has exploded over the last few years, with Europe and China leading the pack. Growth in electric vehicle sales is also strong in Quebec, where we also expect to see accelerated investment in electricity generation.

Table 6
Major Medium-Term Economic and Financial Indicators

% (unless otherwise indicated)	Annual average 2023	2024f	2025f	2026f	2027f	2028f	2029f	Averages 2019–2023	2024–2029f
United States									
Real GDP (% change)	2.9	2.8	2.3	1.3	1.5	1.8	2.0	2.4	2.0
Total inflation rate (% change)	4.1	2.9	2.2	2.6	2.7	2.1	2.0	4.0	2.4
Unemployment rate	3.6	4.0	4.0	4.0	4.3	4.3	4.2	4.9	4.2
S&P 500 index (% change)[1]	24.2	30.0	3.2	4.1	4.5	4.7	6.0	15.4	8.8
Federal funds rate	5.20	5.30	4.10	3.30	3.20	3.00	3.00	2.03	3.65
Prime rate	8.20	8.30	7.10	6.30	6.20	6.00	6.00	5.03	6.65
Treasury bills – 3-month	5.28	5.20	3.90	3.25	3.00	3.00	3.00	1.98	3.56
Federal bonds – 10-year	3.96	4.20	4.05	3.60	3.35	3.30	3.30	2.28	3.63
– 30-year	4.09	4.40	4.20	3.75	3.60	3.60	3.60	2.68	3.86
WTI oil (US$/barrel)	78	77	71	70	68	68	68	67	70
Gold (US$/ounce)	1,943	2,373	2,575	2,713	2,775	2,738	2,665	1,742	2,640
Canada									
Real GDP (% change)	1.5	1.3	2.2	1.3	1.7	1.8	1.8	2.3	1.7
Total inflation rate (% change)	3.9	2.4	2.1	2.2	2.0	2.0	2.0	3.3	2.1
Employment (% change)	2.4	1.8	2.2	1.0	1.4	1.6	1.5	1.6	1.6
Employment (thousands)	475	353	456	208	302	341	322	290	330
Unemployment rate	5.4	6.3	6.2	6.2	6.3	6.3	6.3	6.7	6.3
Housing starts (thousands of units)	242	242	236	255	263	267	267	240	255
S&P/TSX index (% change)[1]	8.1	22.9	0.6	3.6	5.5	5.6	5.8	8.5	7.3
Exchange rate (US$/C$)	0.74	0.73	0.71	0.70	0.73	0.74	0.75	0.76	0.73
Overnight rate	4.74	4.55	2.65	2.00	2.35	2.75	2.75	1.85	2.84
Prime rate	6.94	6.75	4.85	4.20	4.55	4.95	4.95	4.05	5.04
Mortgage rate – 1-year	7.14	7.60	5.45	4.50	4.75	4.95	4.95	4.25	5.37
– 5-year	6.68	6.70	6.15	5.85	5.90	5.95	5.95	5.47	6.08
Treasury bills – 3-month	4.74	4.40	2.65	1.95	2.40	2.70	2.70	1.82	2.80
Federal bonds – 2-year	4.27	3.65	2.70	2.20	2.60	2.80	2.80	1.95	2.79
– 5-year	3.57	3.30	2.80	2.45	2.65	2.80	2.80	1.89	2.80
– 10-year	3.36	3.35	3.00	2.70	2.80	2.85	2.85	1.97	2.93
– 30-year	3.28	3.30	3.05	2.75	2.85	2.90	2.90	2.19	2.96
Yield spreads (Canada–United States)									
Treasury bills – 3-month	-0.54	-0.80	-1.25	-1.30	-0.60	-0.30	-0.30	-0.15	-0.76
Federal bonds – 10-year	-0.60	-0.85	-1.05	-0.90	-0.55	-0.45	-0.45	-0.31	-0.71
– 30-year	-0.81	-1.10	-1.15	-1.00	-0.75	-0.70	-0.70	-0.49	-0.90
Quebec									
Real GDP (% change)	0.2	1.5	1.9	1.0	1.5	1.6	1.6	1.5	1.5
Total inflation rate (% change)	4.5	2.3	1.8	1.8	1.7	2.0	1.9	3.6	1.9
Employment (% change)	2.3	0.6	1.4	0.5	0.7	0.9	1.0	1.2	0.9
Employment (thousands)	105	26	64	21	35	42	49	51	39
Unemployment rate	4.5	5.4	5.3	5.2	4.8	4.5	4.0	5.8	4.9
Retail sales (% change)	3.7	1.0	2.9	2.6	3.5	3.9	4.0	5.8	3.0
Housing starts (thousands of units)	39	47	51	52	55	56	57	53	53

f: forecast; WTI: West Texas Intermediate; [1] Changes are based on end-of-period data.
Datastream, Statistics Canada, Canada Mortgage and Housing Corporation, Institut de la statistique du Québec and Desjardins Economic Studies