

Economic Outlook

Benoit P. Durocher, Director and Principal Economist
Desjardins Group

November 21, 2023



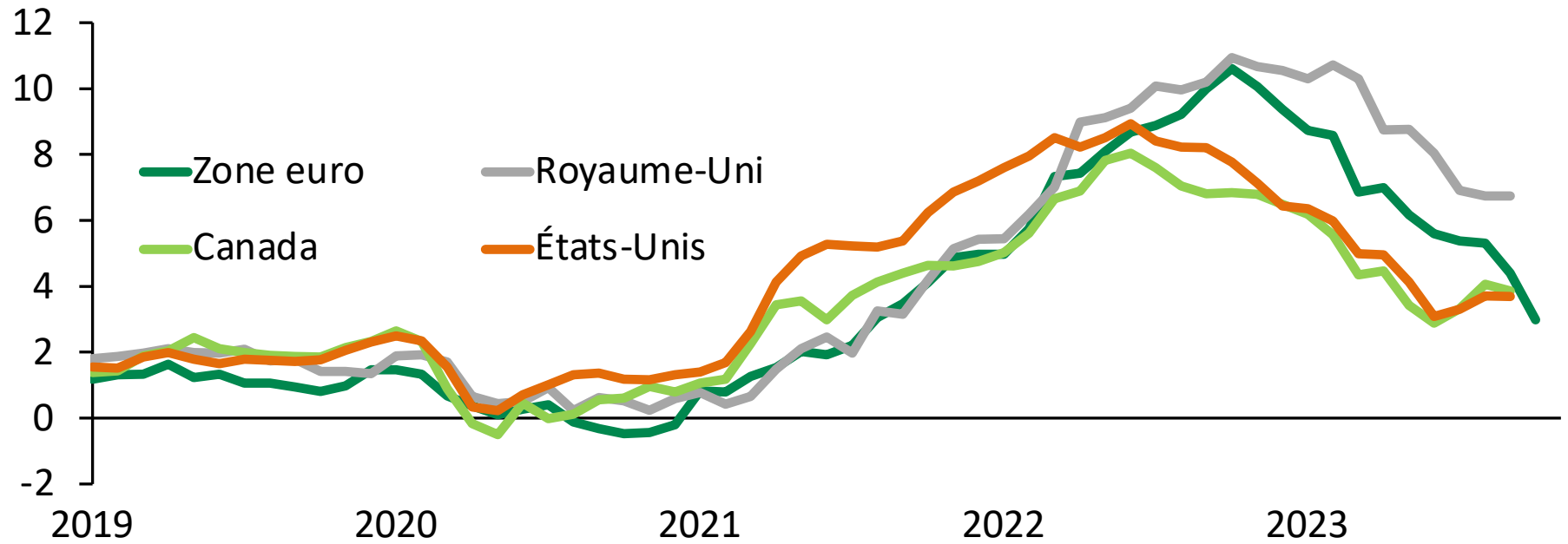
#1 BEST OVERALL FORECASTER – CANADA

WORLD ECONOMY

The worst of the inflation seems to be over almost everywhere

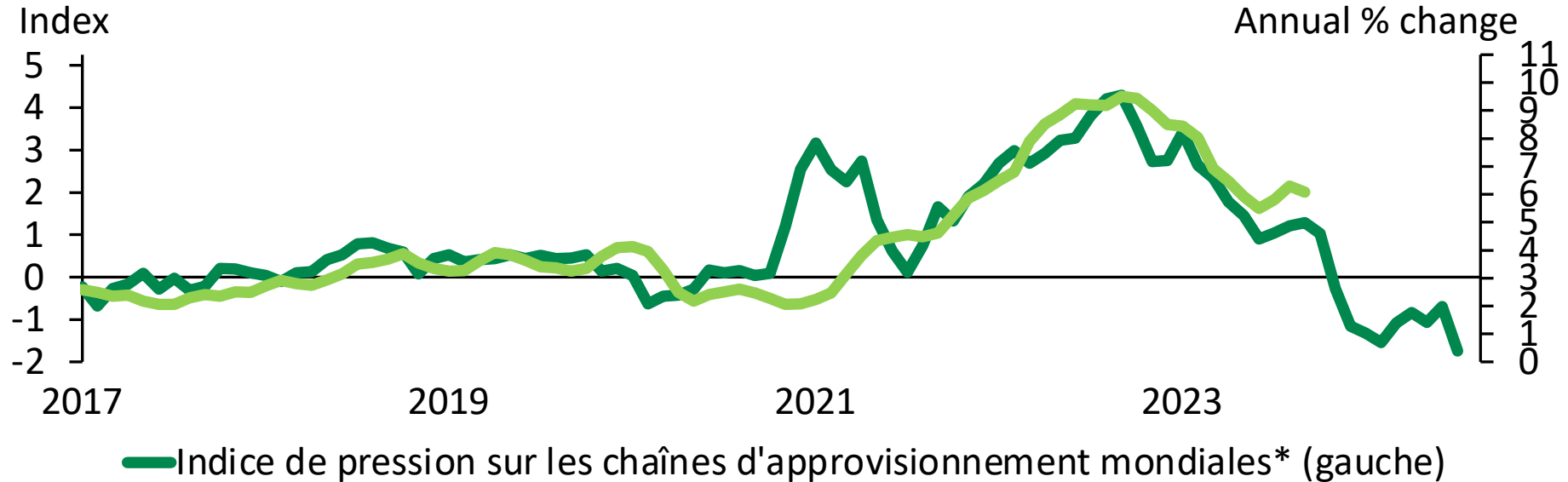
Total consumer price index

Annual % change



WORLD ECONOMY

Easing pressure on supply chains is good news for global inflation

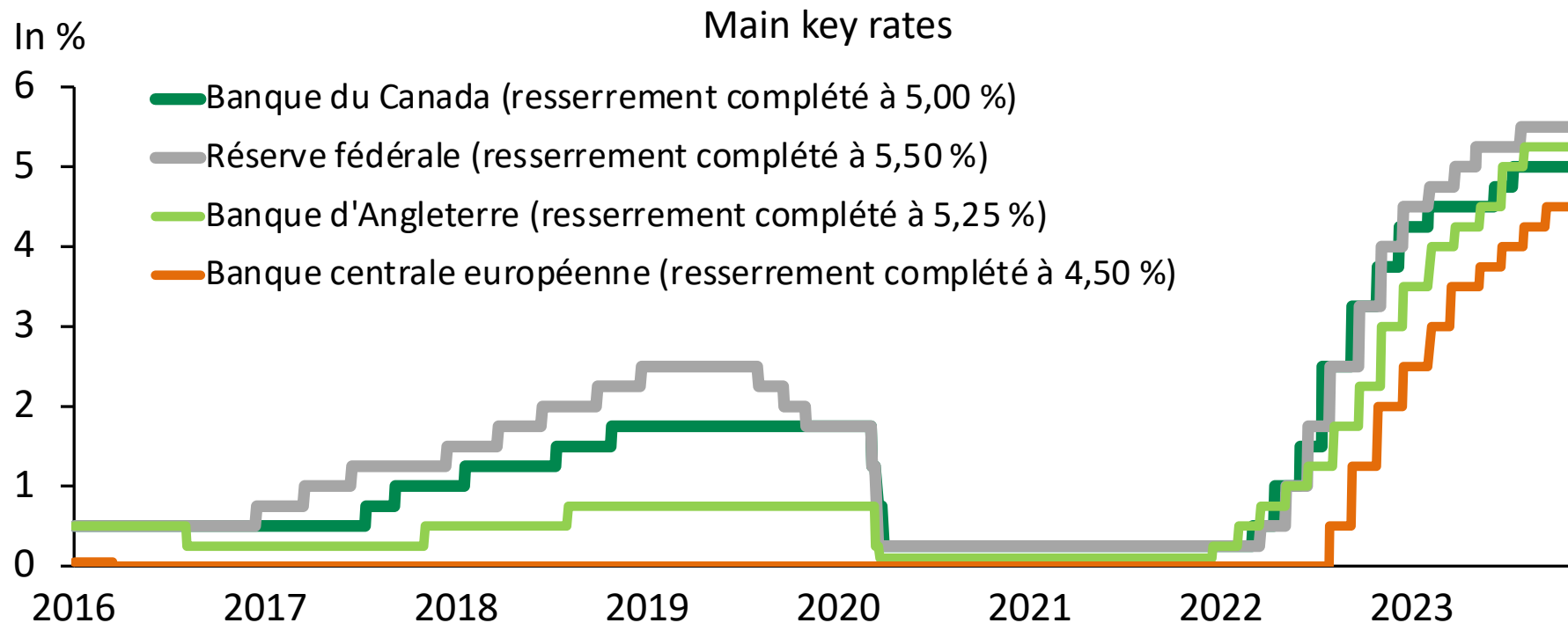


* 9 months ahead.

Sources: New York Federal Reserve, Organisation for Economic Co-operation and Development and Desjardins, Economic Studies

WORLD ECONOMY

The peak of monetary tightening appears to have been reached for most of the major central banks

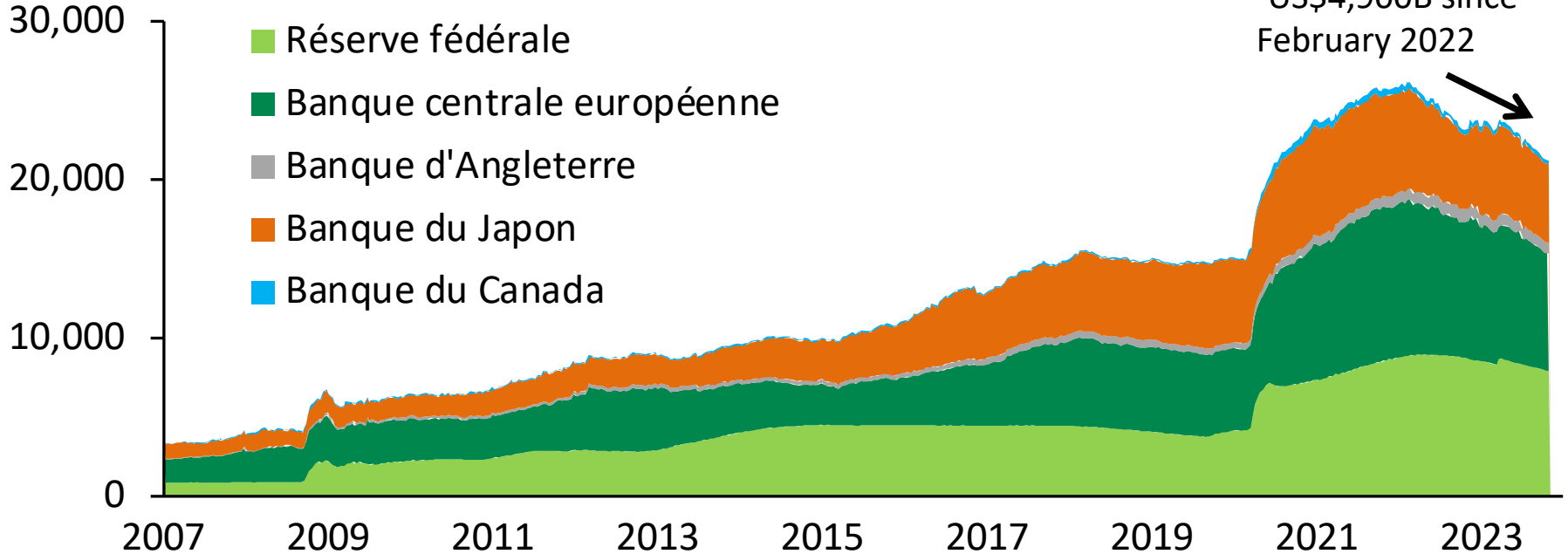


WORLD ECONOMY

Liquidity is becoming scarcer in the financial system

Combined assets of the major central banks

In US\$B

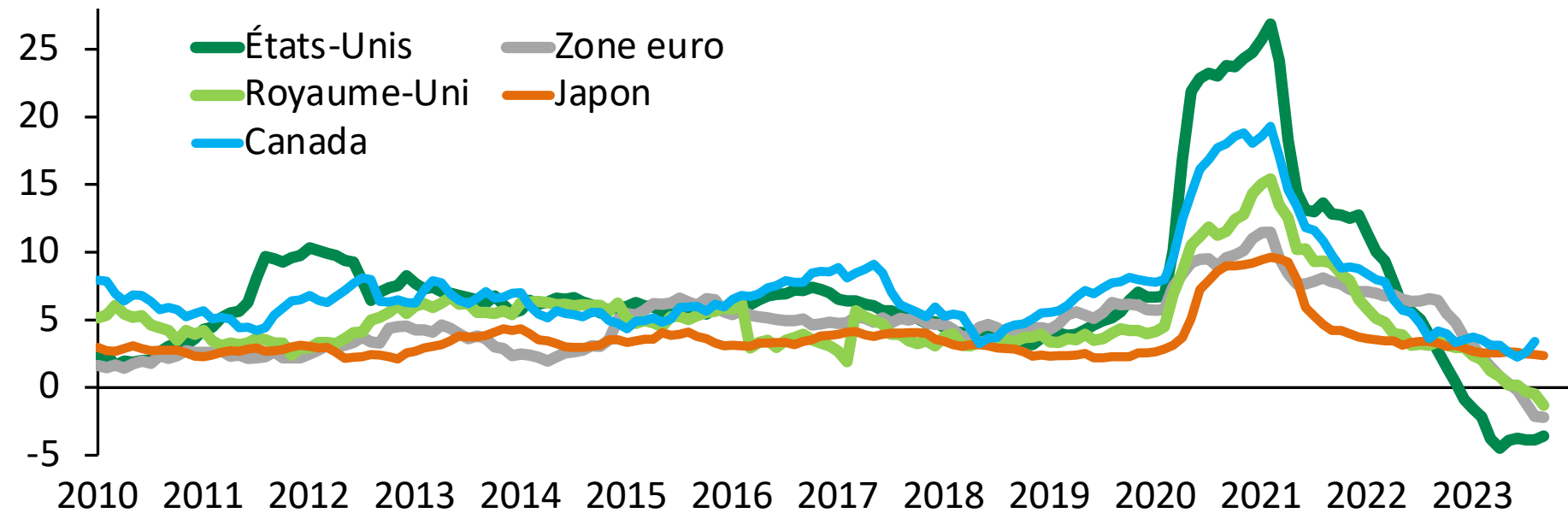


CENTRAL BANKS

Significant slowdown in monetary growth

M2 monetary aggregate

Annual % change



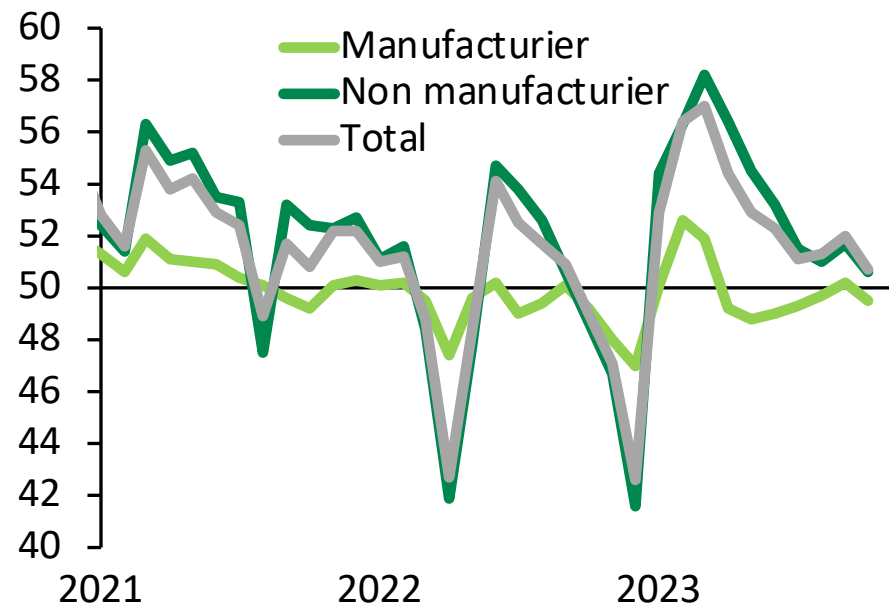
CHINA

The impetus for the reopening quickly ran out of steam

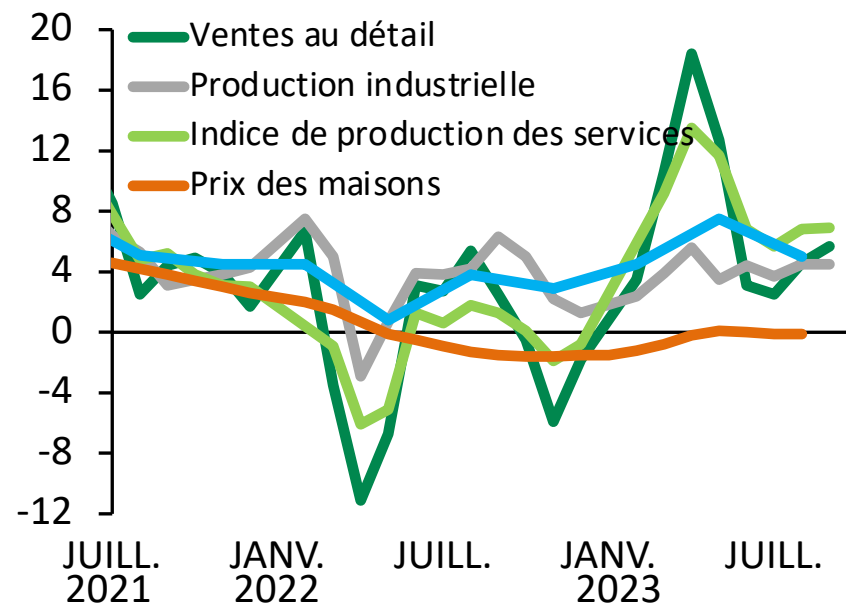
PMI indexes

Chinese indicators

Index (<50 = contraction)



Annual % change

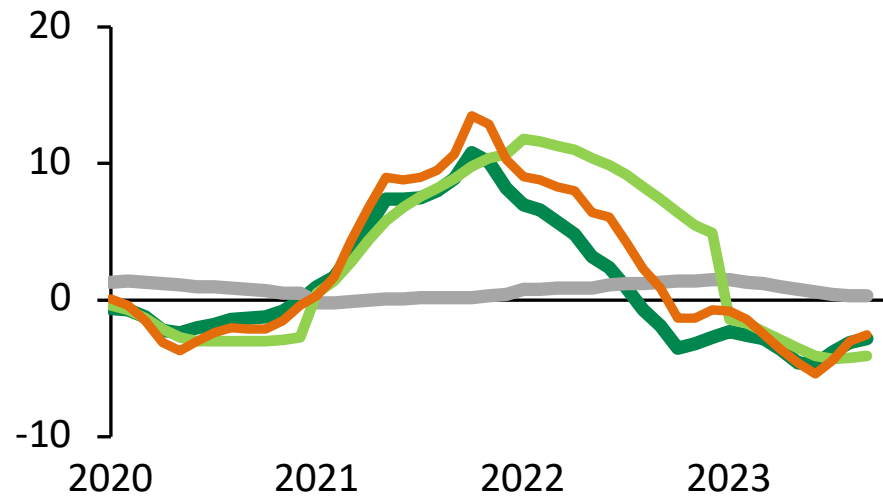


CHINA

Production costs have begun to fall in China

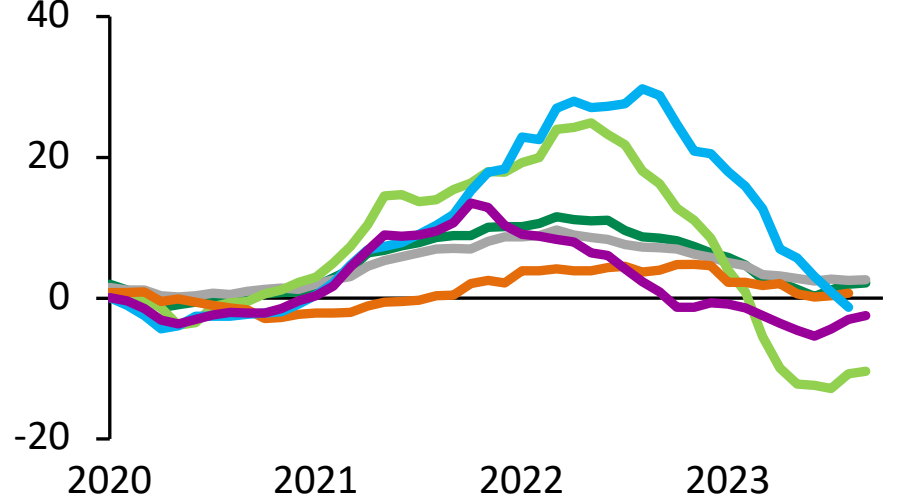
Producer price index – China

Annual % change



Producer price index – World

Annual % change



- Manufacturier
- Biens de consommation
- Biens intermédiaires
- Total

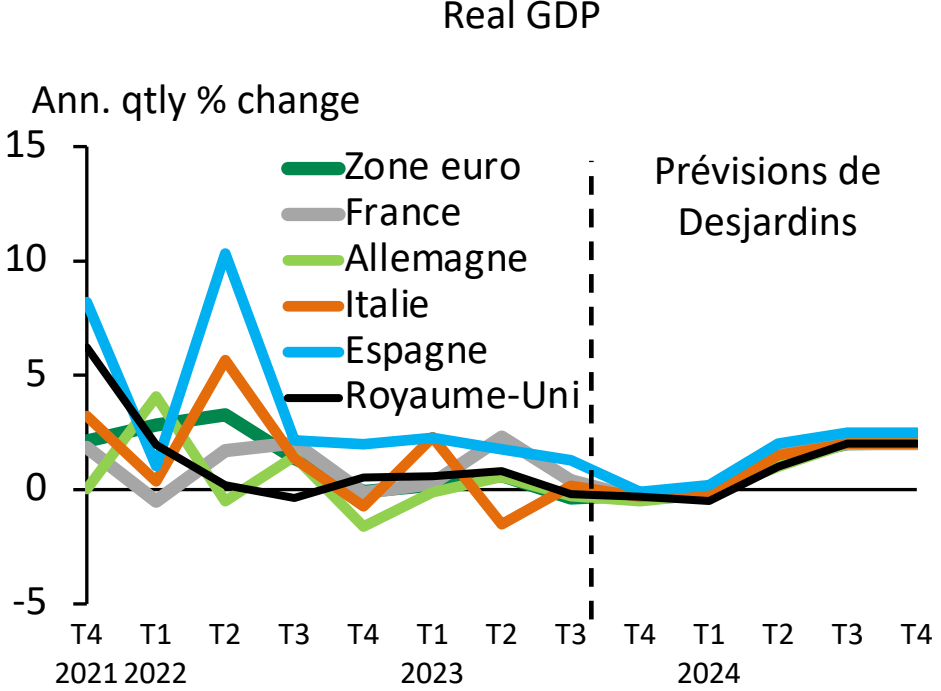
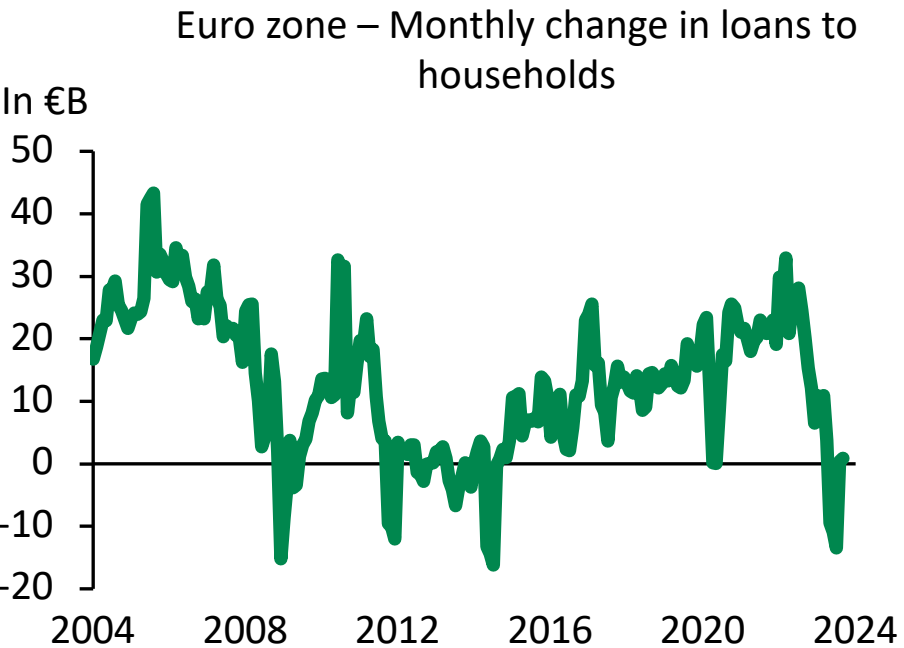
- États-Unis
- France
- Allemagne
- Japon
- Canada
- Chine

Sources: Datastream and Desjardins, Economic Studies



EUROPE

Household credit contraction equivalent to recessionary intensity



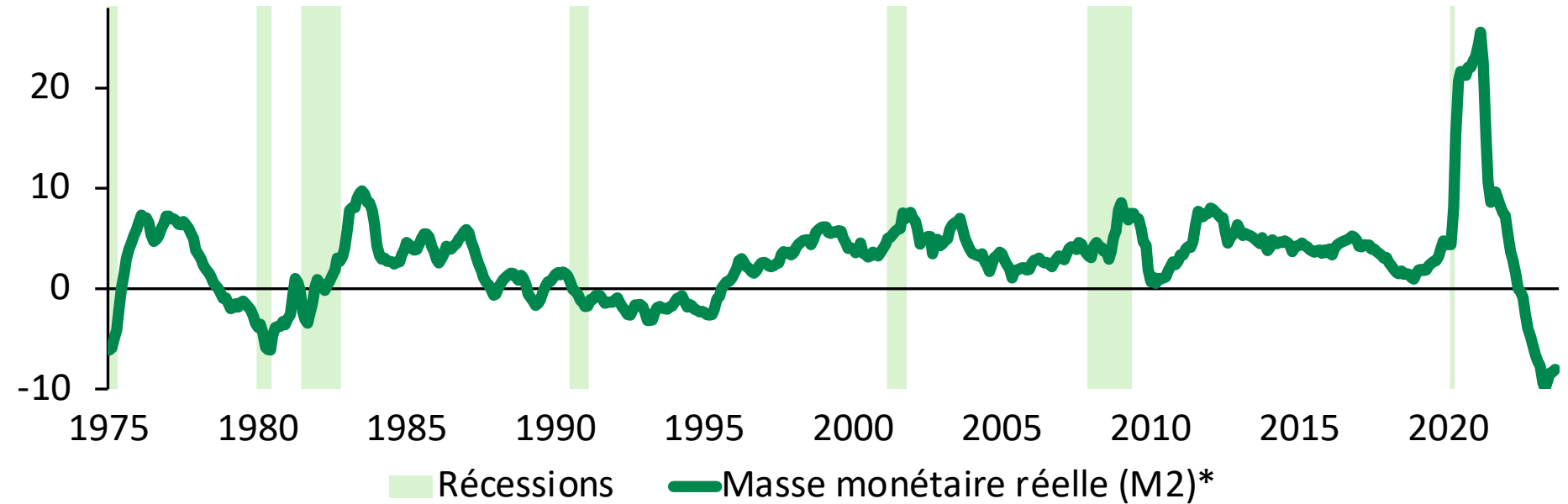
Sources: European Central Bank and Datastream and Desjardins, Economic Studies



UNITED STATES

A historic fall in money supply

Annual % change



*Adjusted to the consumer price index excluding food and energy

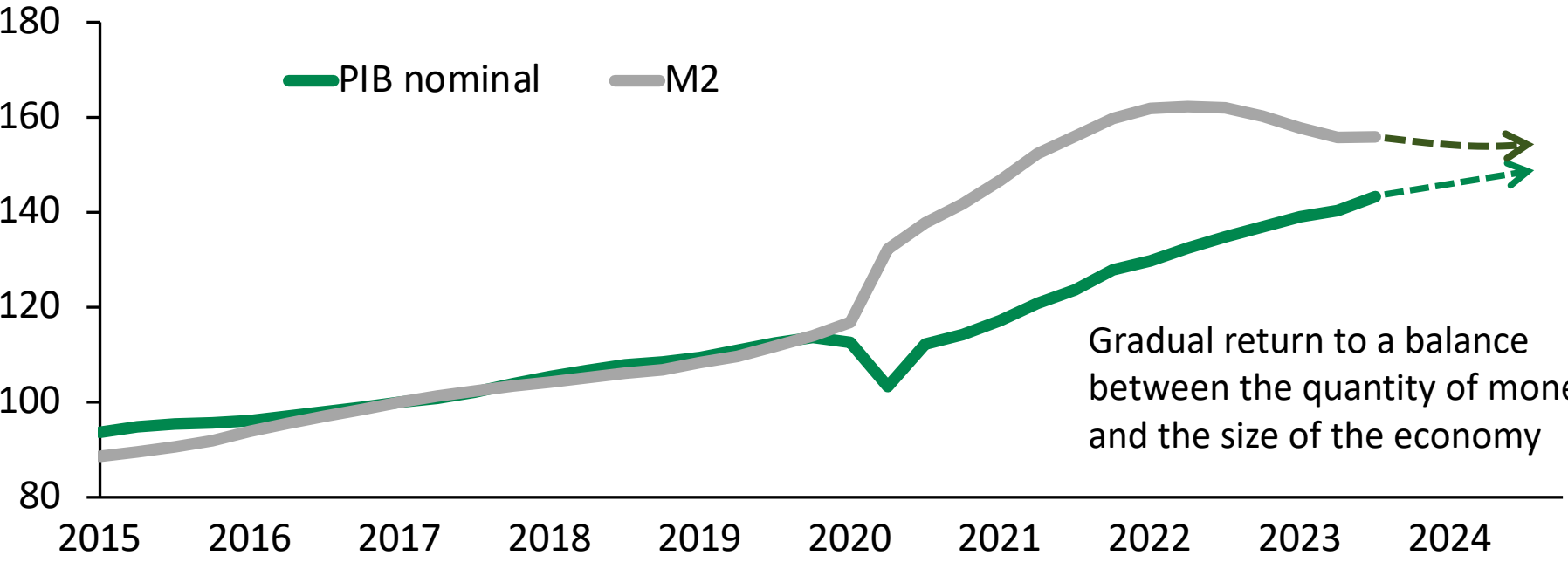
Sources: Datastream and Desjardins, Economic Studies

UNITED STATES

Excess money relative to nominal GDP is declining

Quantity theory of money (long-term neutrality of money)

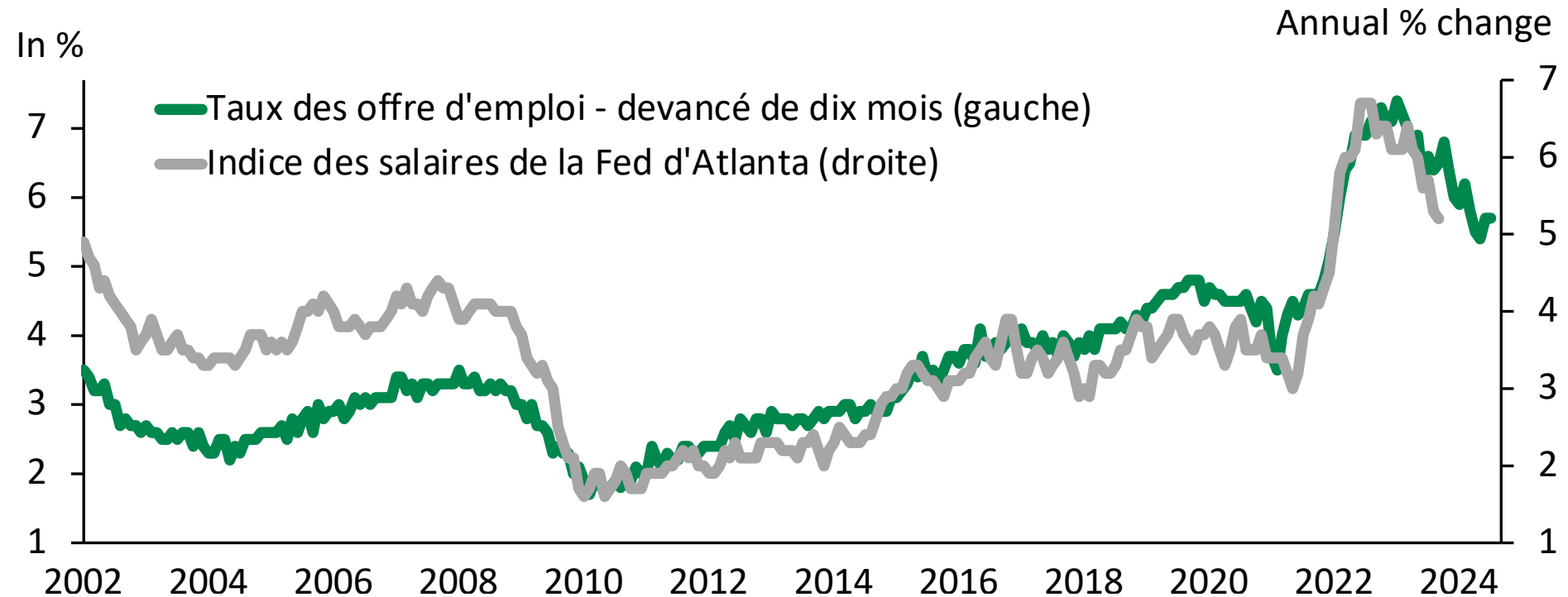
Index (2017=100)



Gradual return to a balance between the quantity of money and the size of the economy

UNITED STATES

Salary growth has slowed

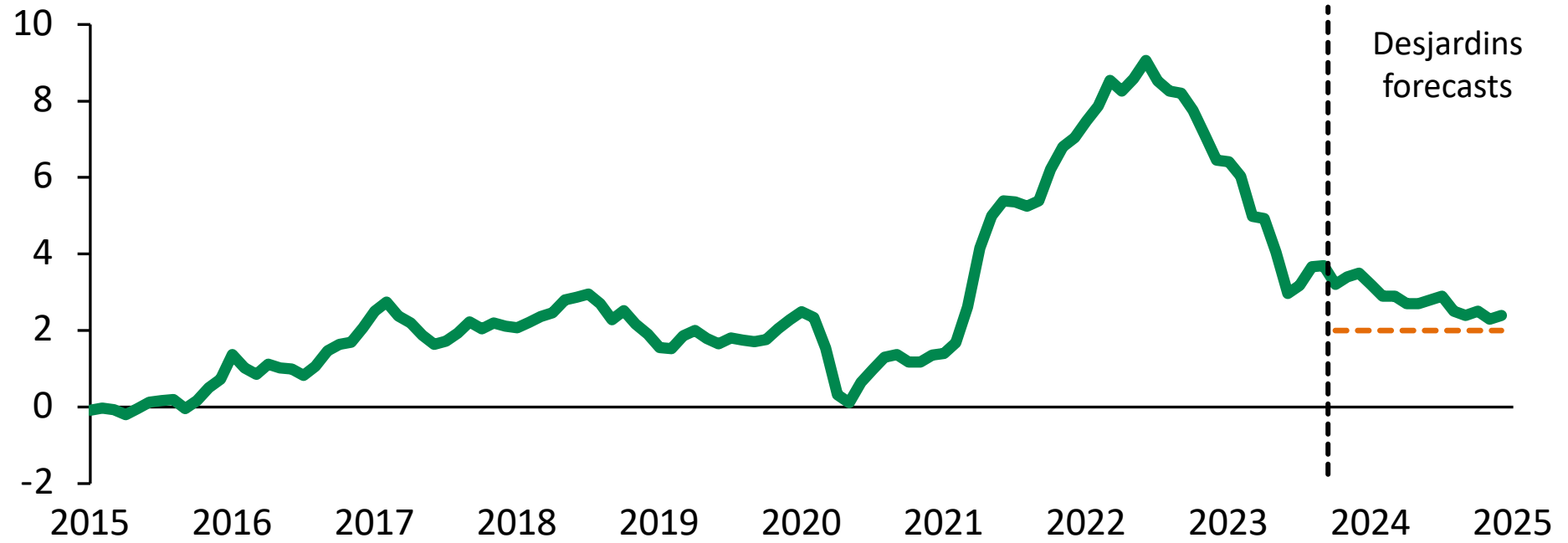


UNITED STATES

Total inflation closer to 2% target in 2024

Total consumer price index

Annual % change



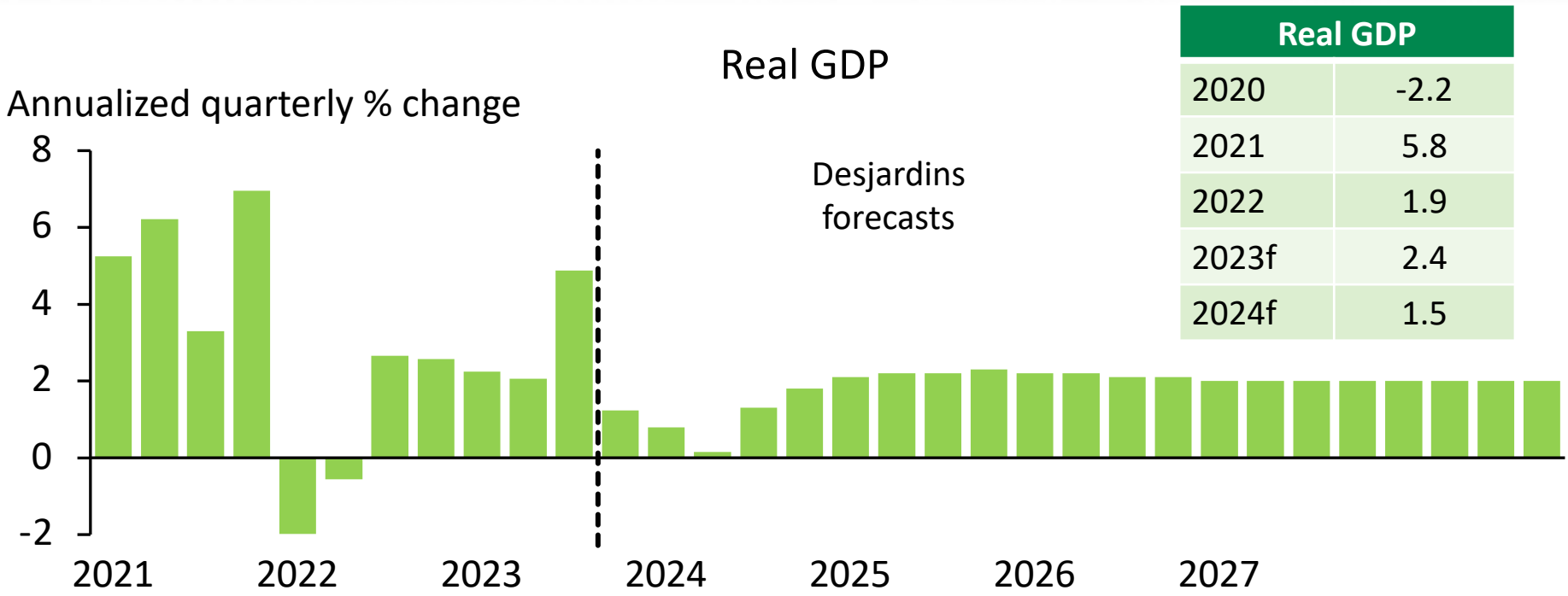
Desjardins forecasts

Sources: Bureau of Labor Statistics and Desjardins, Economic Studies



UNITED STATES

Recession scenario now discarded

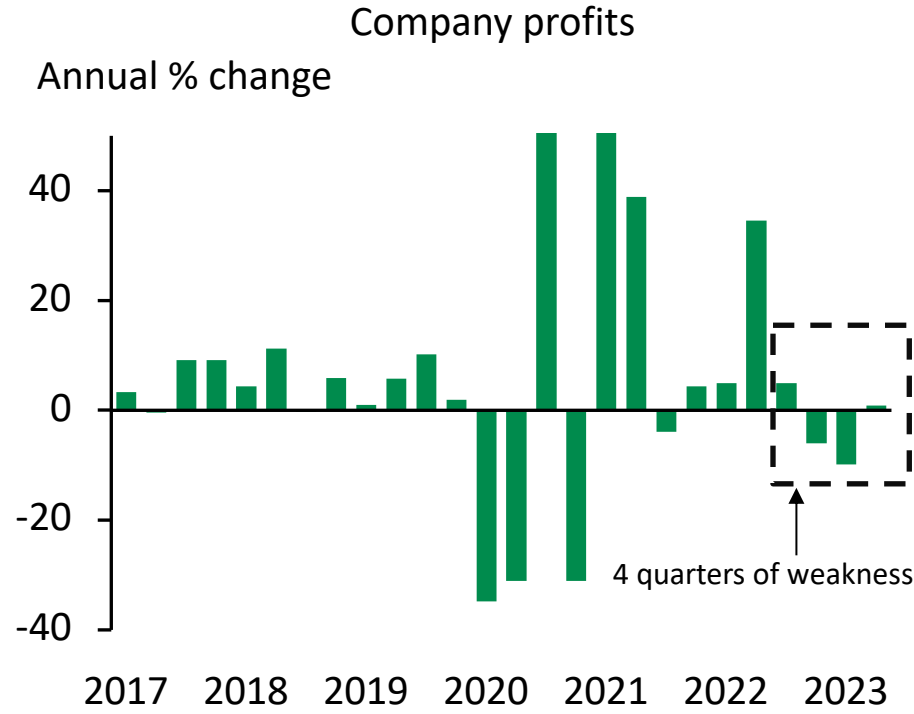
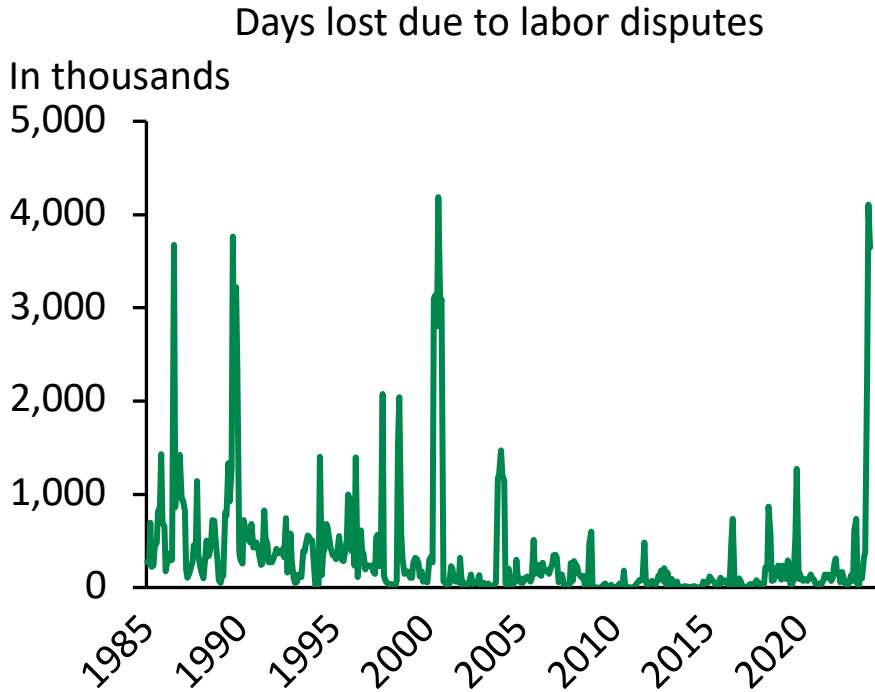


Sources: Bureau of Economic Analysis and Desjardins, Economic Studies



UNITED STATES

Workers want to make up for lost ground, but are less likely to succeed when profits are low

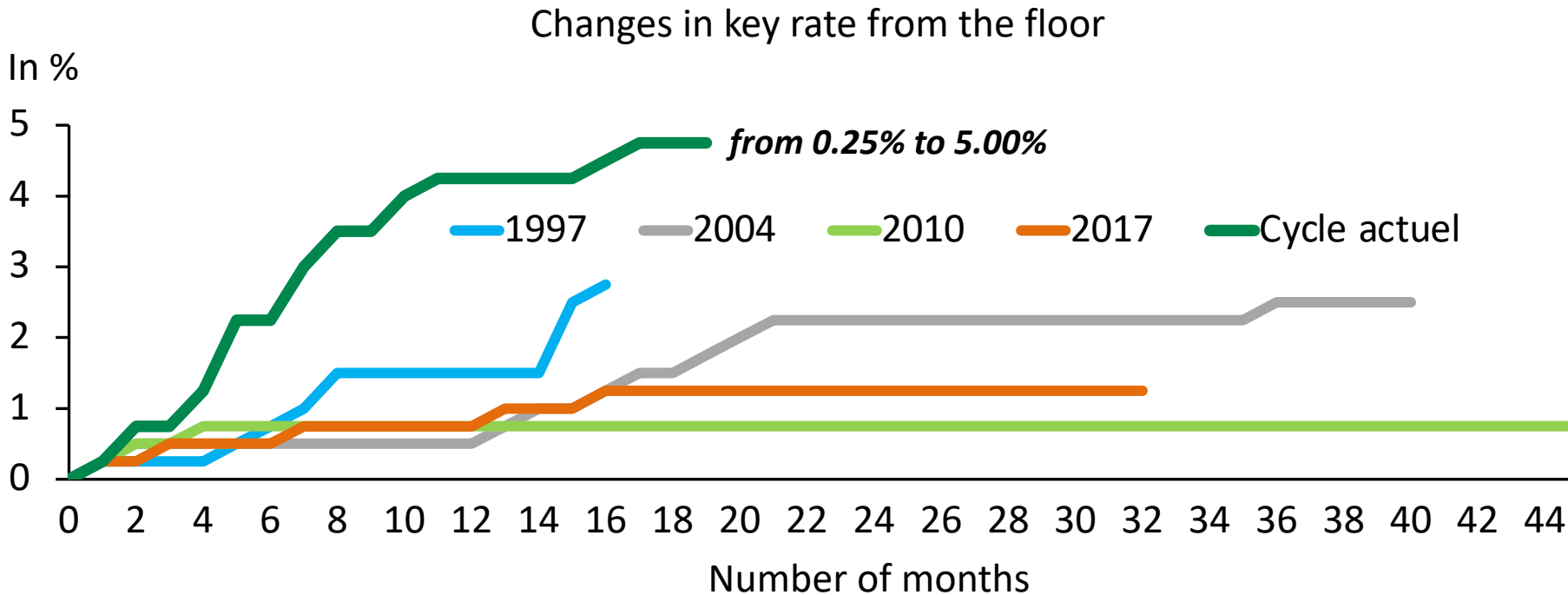


Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and Desjardins, Economic Studies



CANADA

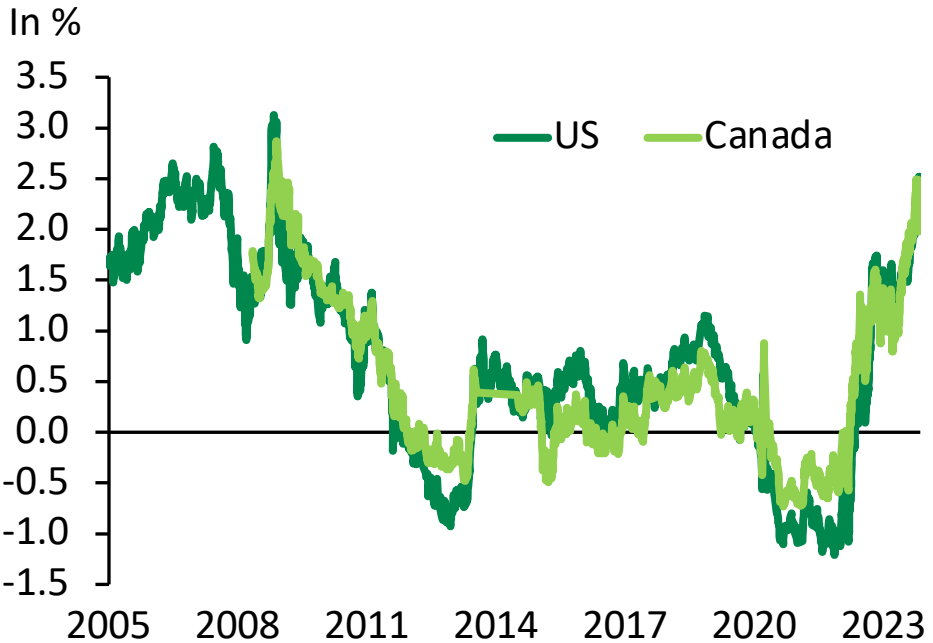
Bank of Canada rate hike is very aggressive



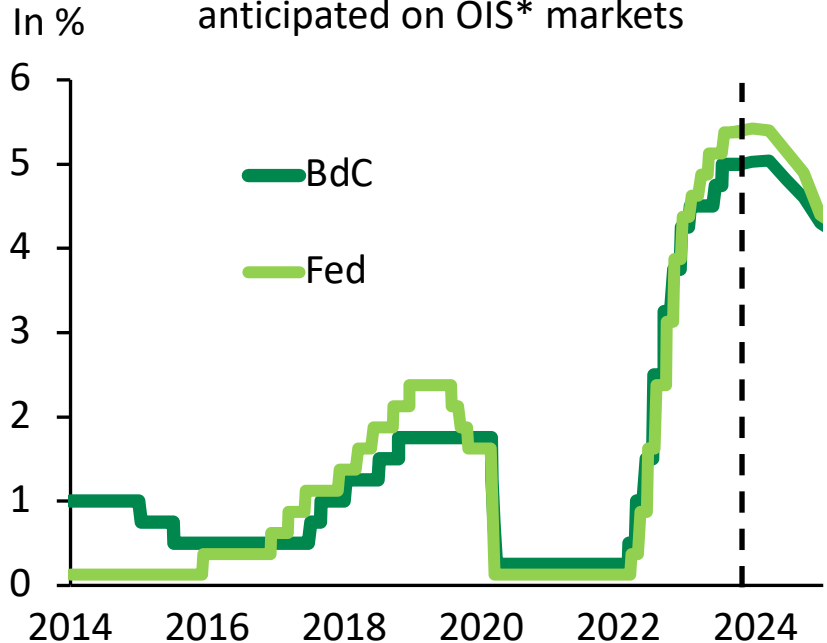
INTEREST RATES

Real interest rates at their worst levels in 15 years: markets see little downward movement on the horizon

10-year real bond yields



Key rate paths anticipated on OIS* markets



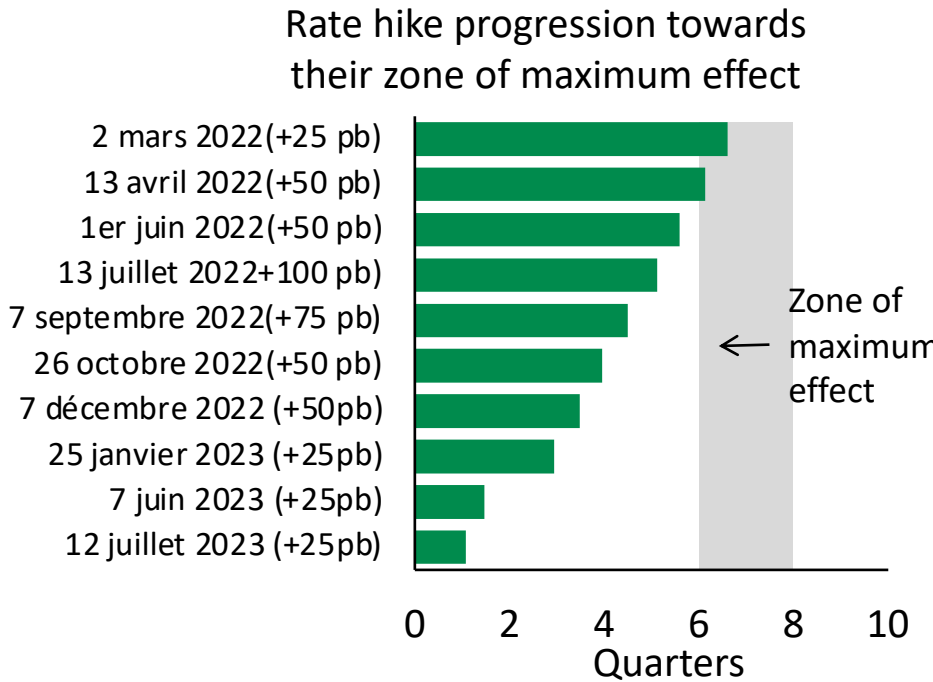
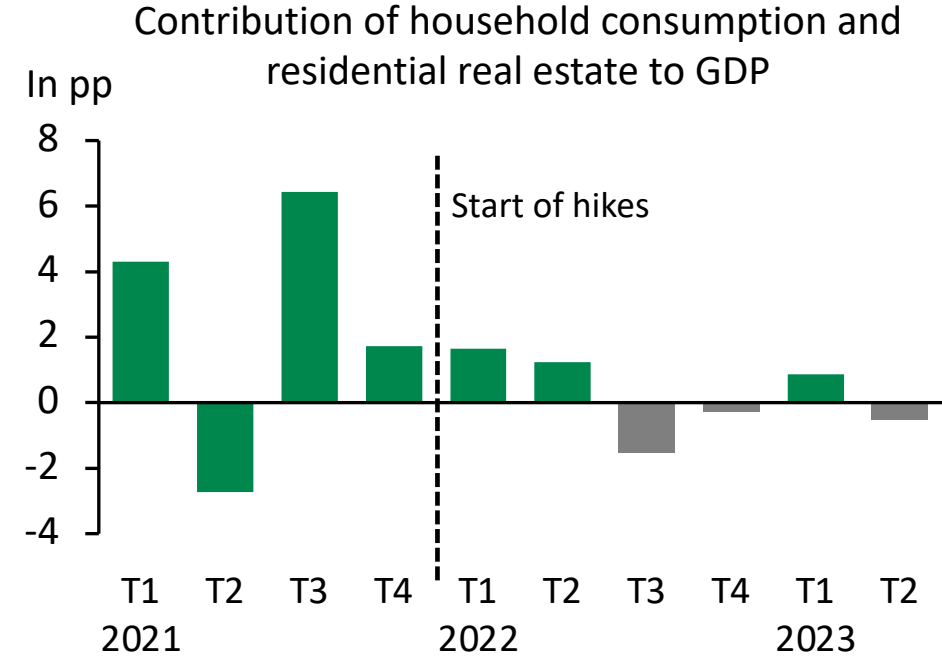
* As at November 6.

Sources: Bloomberg and Desjardins, Economic Studies



CANADA

The effect of rate hikes is already undeniable, but not yet maximum

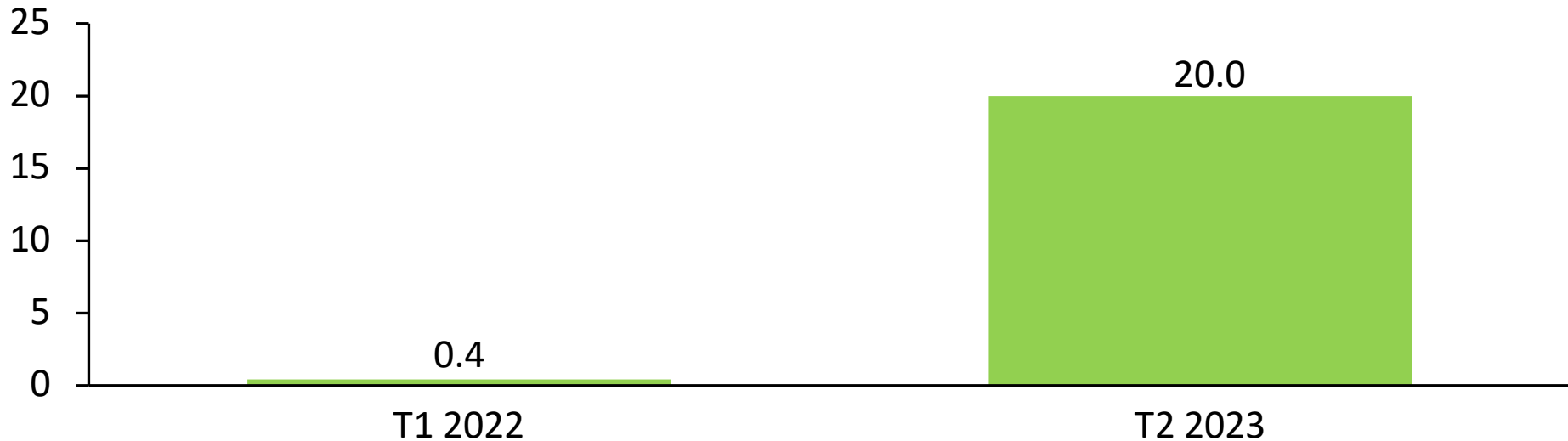


Sources: Statistics Canada and Desjardins, Economic Studies

A sharp increase in amortization for certain variable rate mortgages

Average Canadian residential mortgages
with an amortization period of more than 30 years*

As a % of outstanding mortgages



*Weighted average of the outstanding mortgages of the six largest commercial banks.

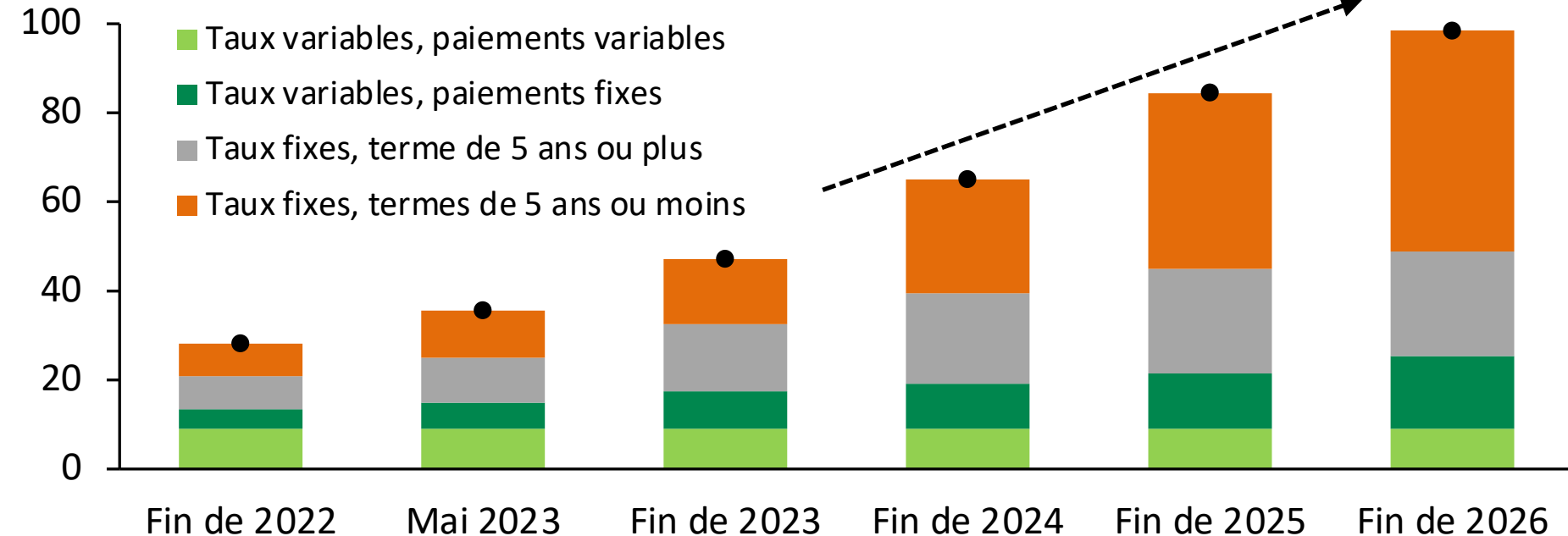
Sources: Commercial bank financial documents, Bank of Canada and Desjardins, Economic Studies

CANADA – MORTGAGE MARKET

A wave of mortgage renewals at higher rates

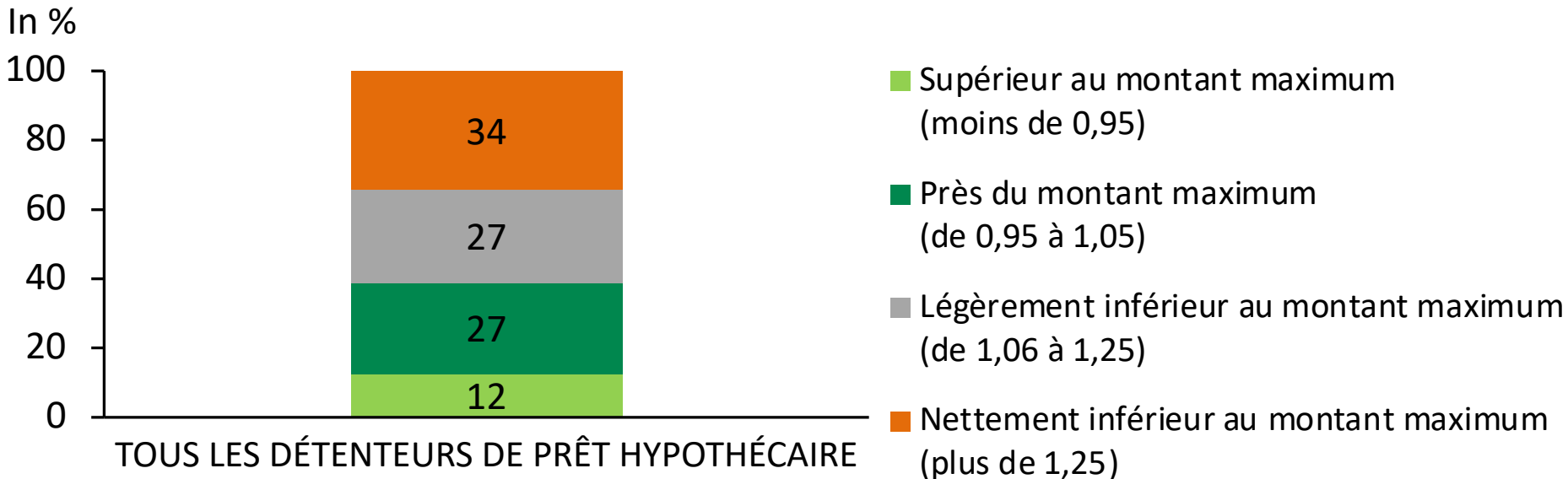
Cumulative proportion of mortgages renewing at higher rates

In % (starting point: February 2022)



High interest rates affect borrowers

What is your regular mortgage payment?



Note: The ratio represents the maximum mortgage payment the borrower can afford, divided by the current payment. A ratio of 1 means that the borrower can make a higher payment, while a ratio of less than 1 means that the payment exceeds the amount the borrower considers affordable.

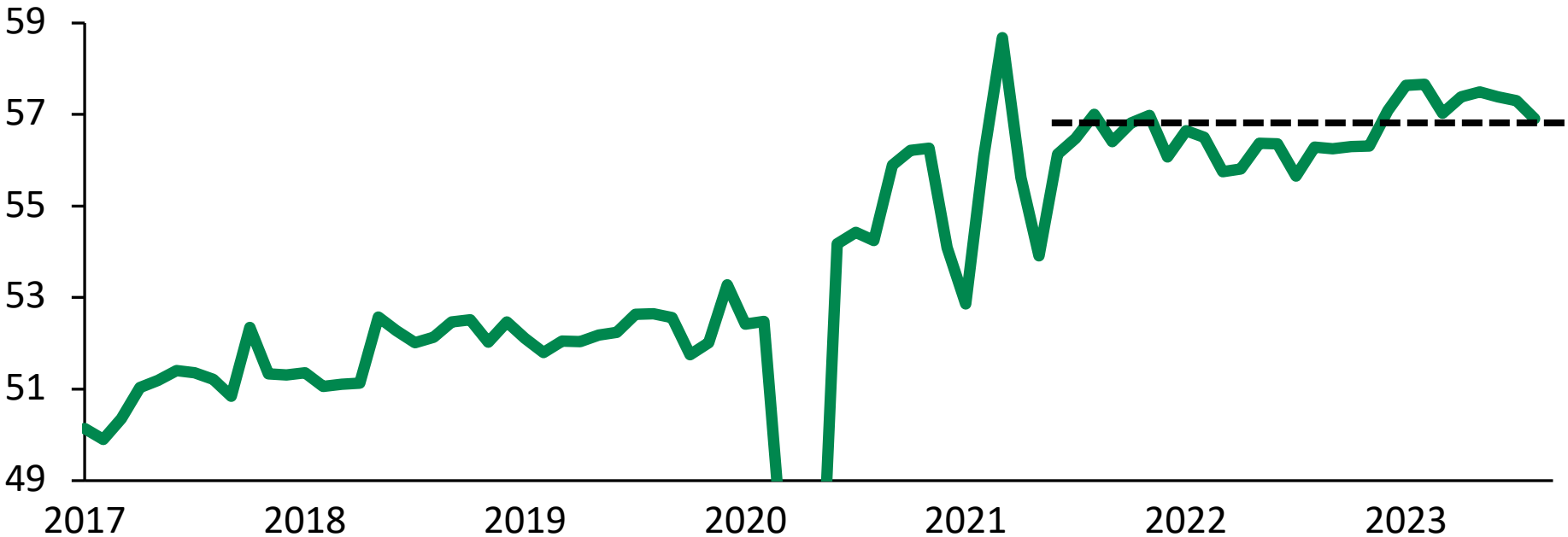
Sources: Bank of Canada and Desjardins, Economic Studies

CANADA

Retail sales stagnate

Retail sales in real terms

In 2012 \$B

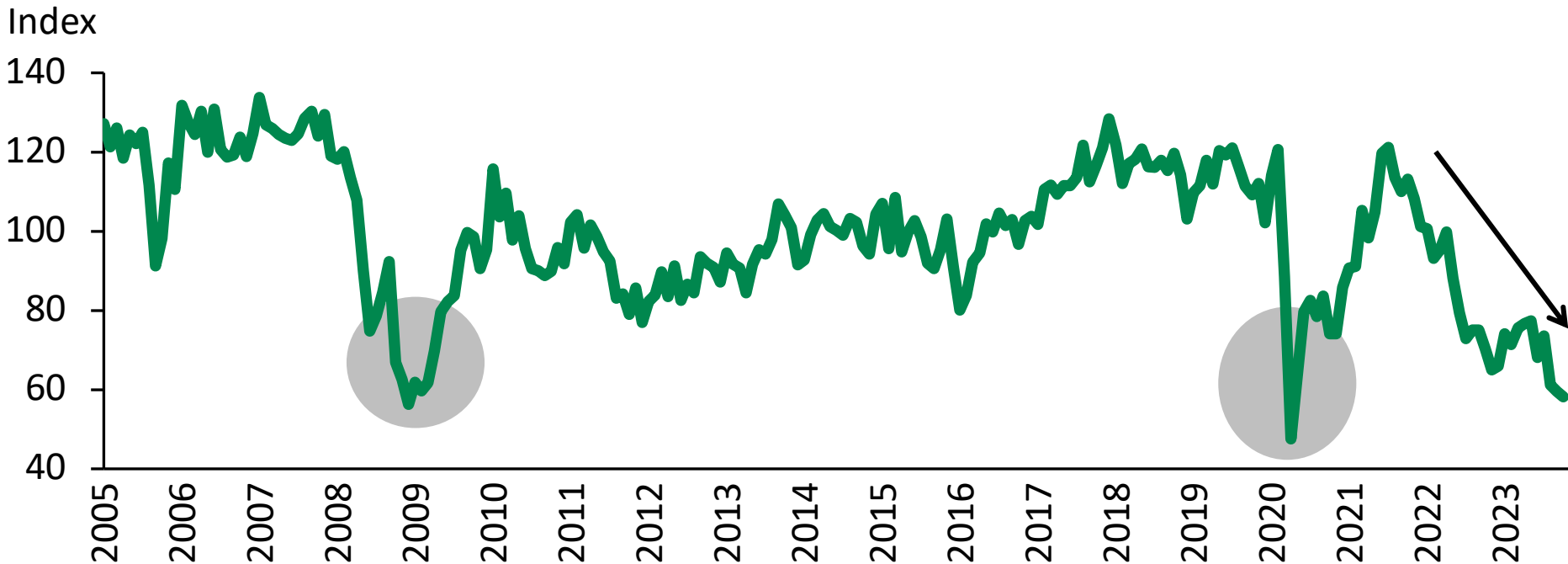


Sources: Statistics Canada and Desjardins, Economic Studies

CANADA

Consumer confidence is very low

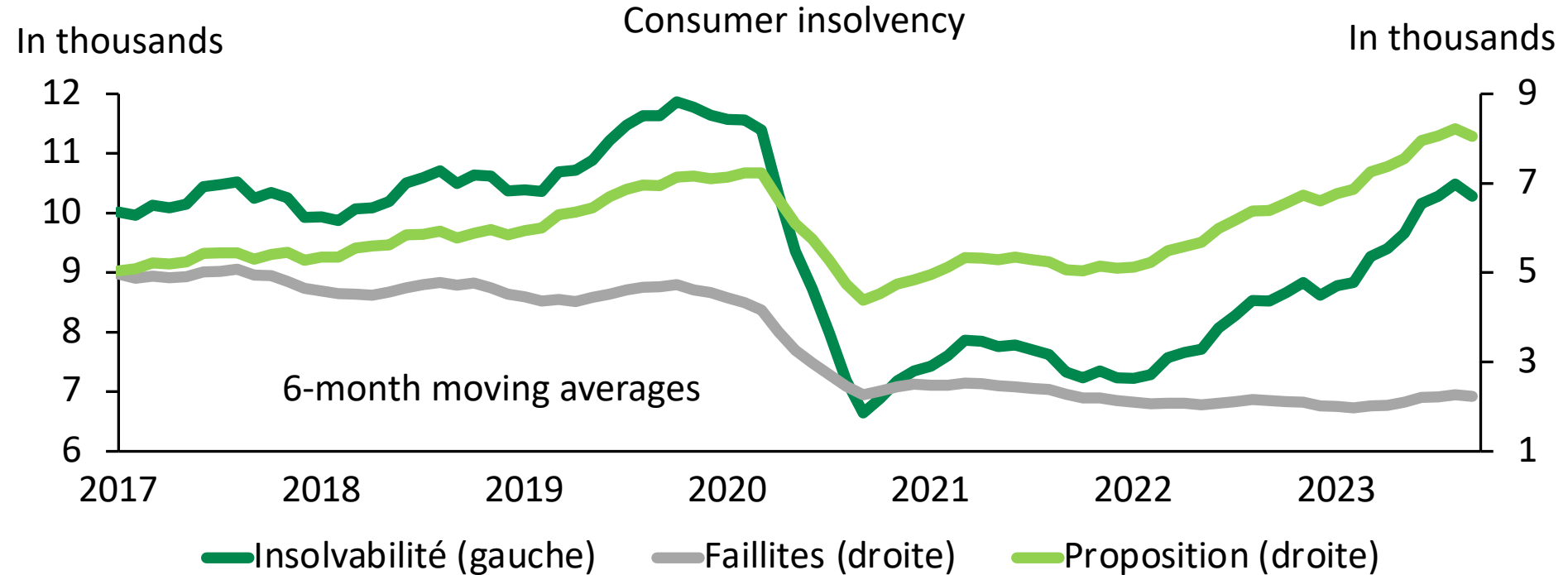
Consumer confidence



Sources: Conference Board of Canada and Desjardins, Economic Studies

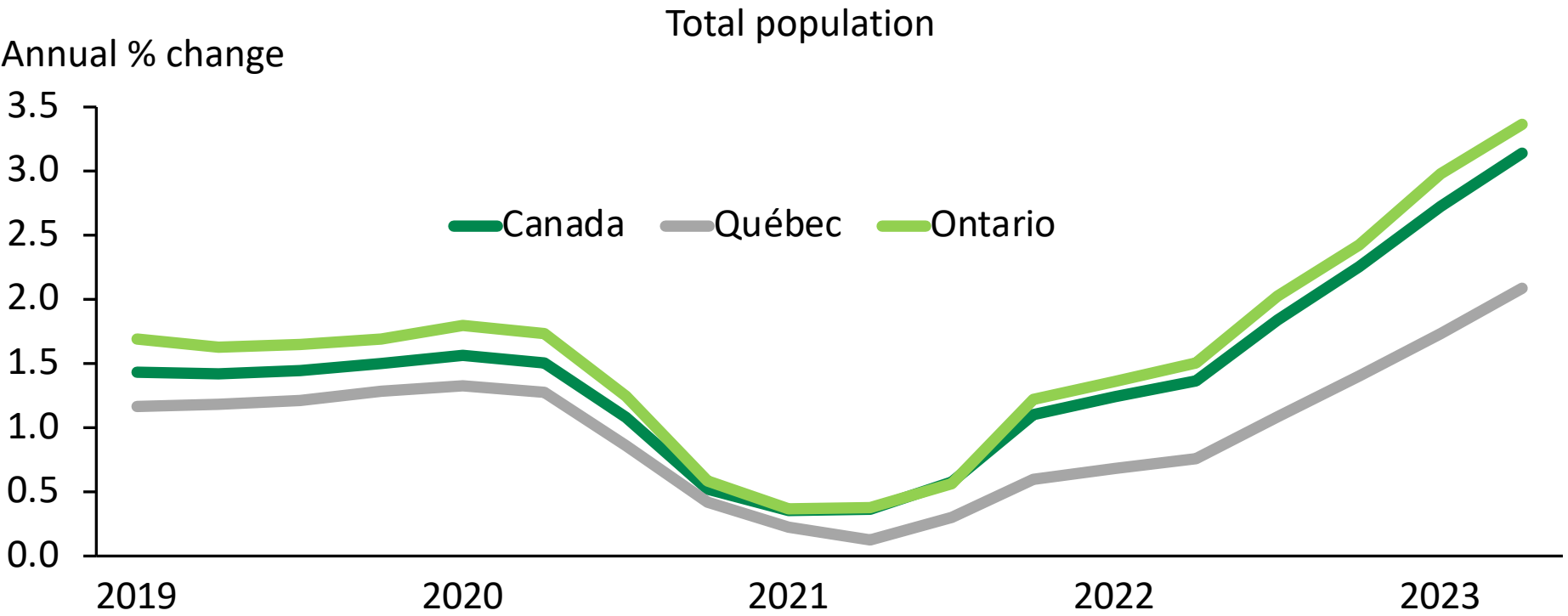
CANADA

After plummeting at the start of the pandemic, consumer insolvency is on the rise again



CANADA/QUEBEC

Population growth has accelerated sharply

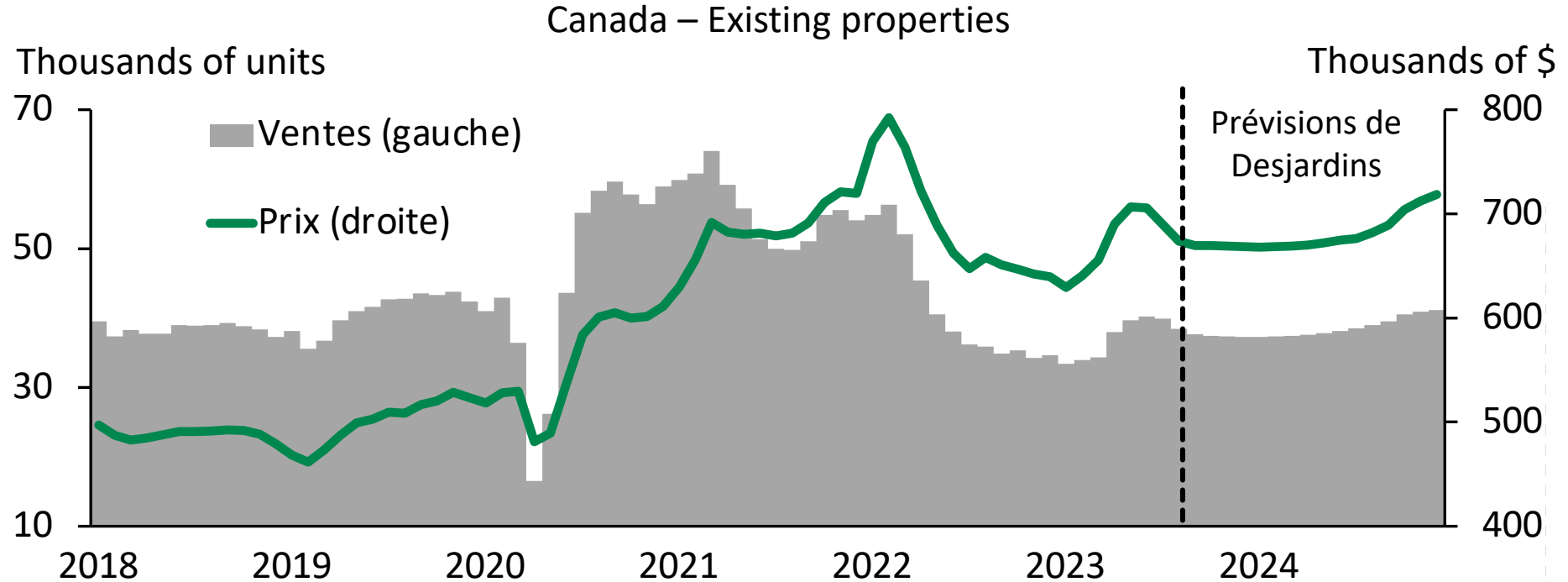


Sources: Statistics Canada and Desjardins, Economic Studies



CANADA

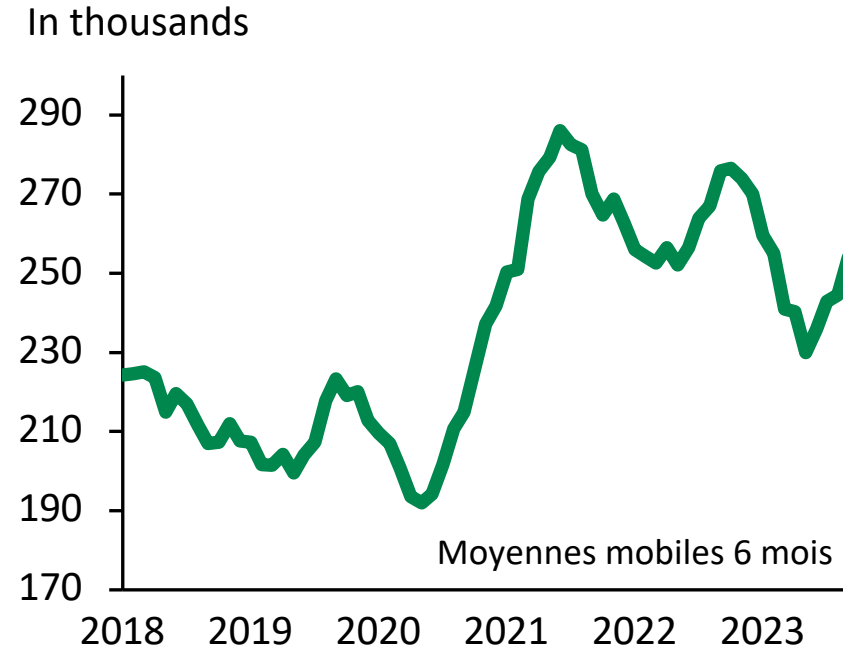
Housing market adjustments are not over yet



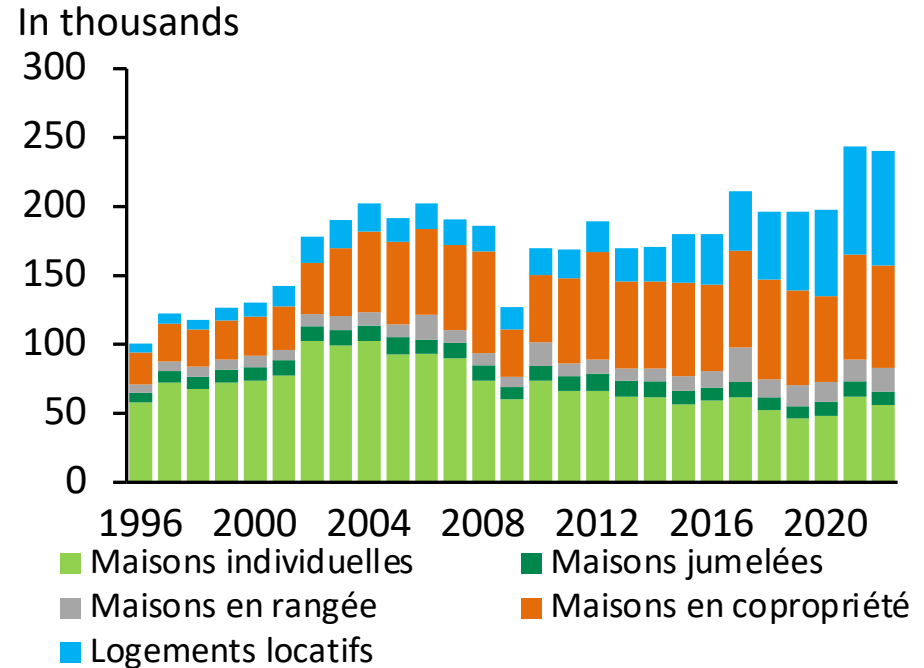
CANADA

Residential construction is less vigorous

Housing starts

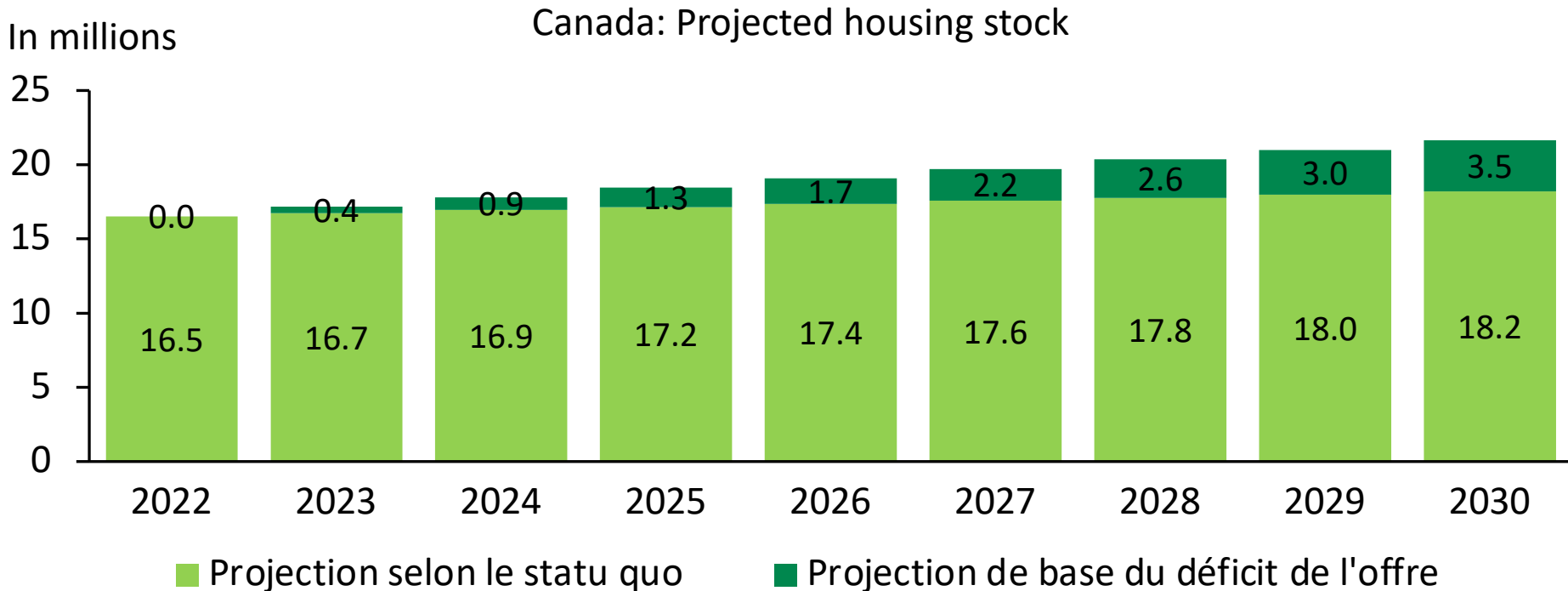


Canada – Housing starts by type



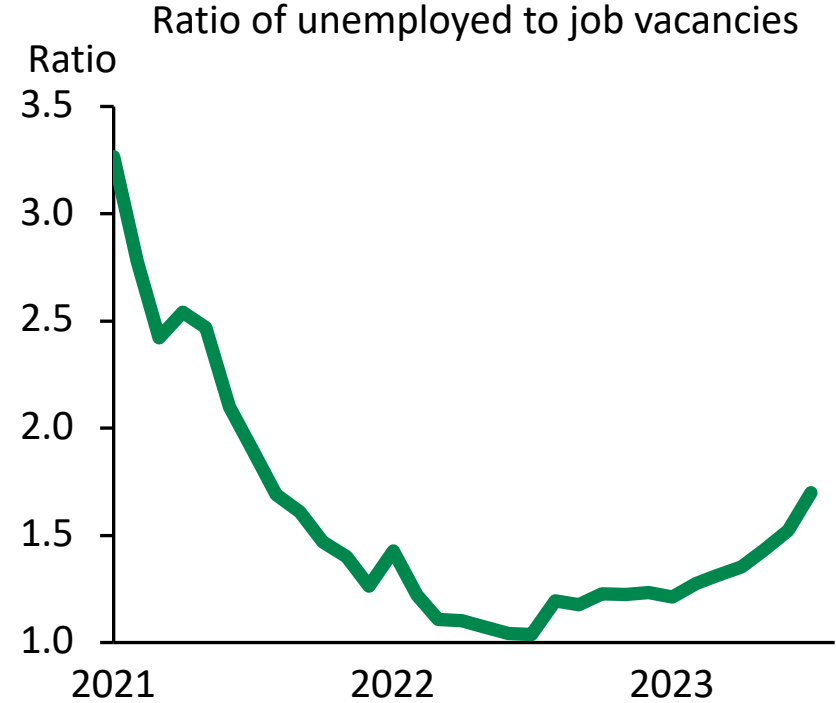
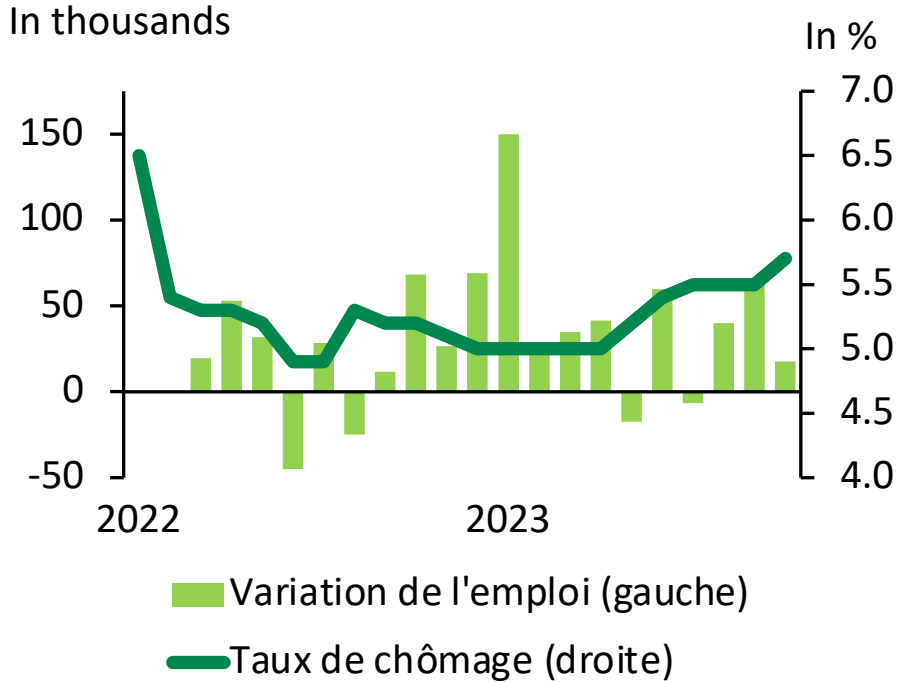
CANADA

The housing stock must increase considerably to restore affordability



CANADA

A less dynamic labour market

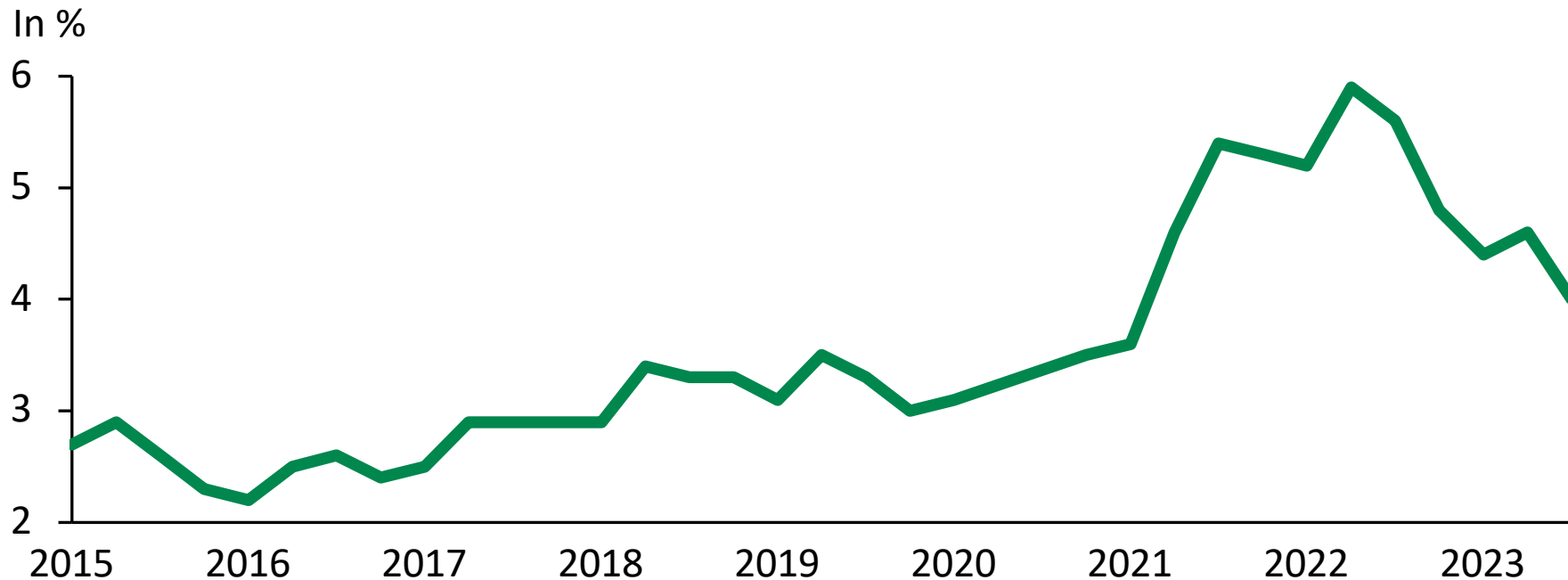


Sources: Statistics Canada and Desjardins, Economic Studies

CANADA

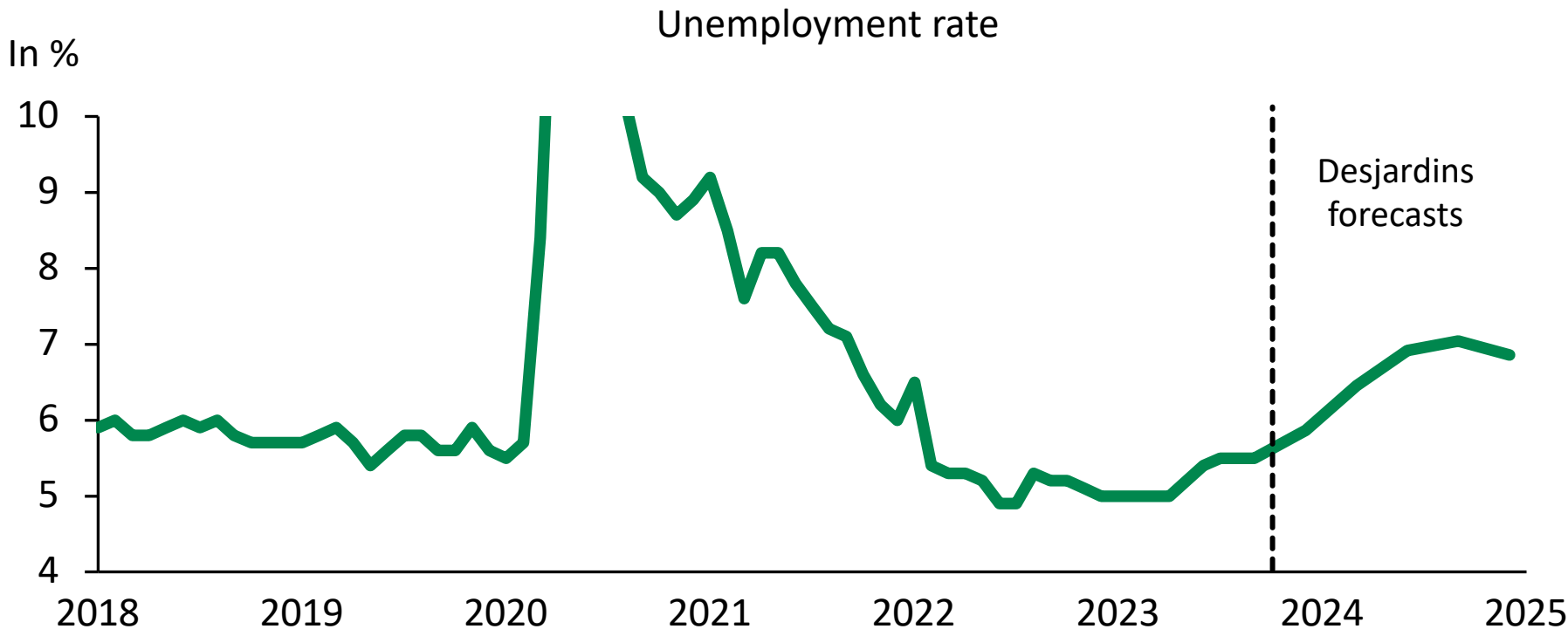
Post-pandemic labour shortage is largely resolved

Vacancy rates in Canada



CANADA

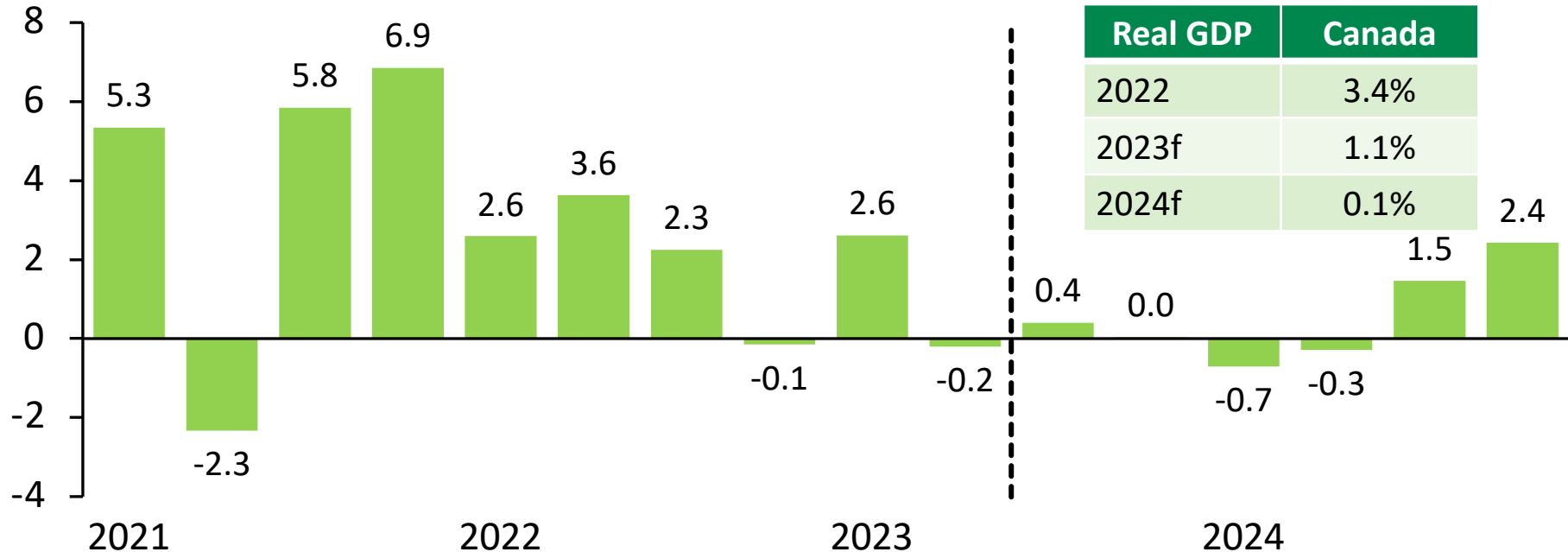
Heading for a slight deterioration in the labour market?



CANADA

Real GDP growth is already slower: a slight recession is expected

Annualized quarterly % change



Desjardins forecasts

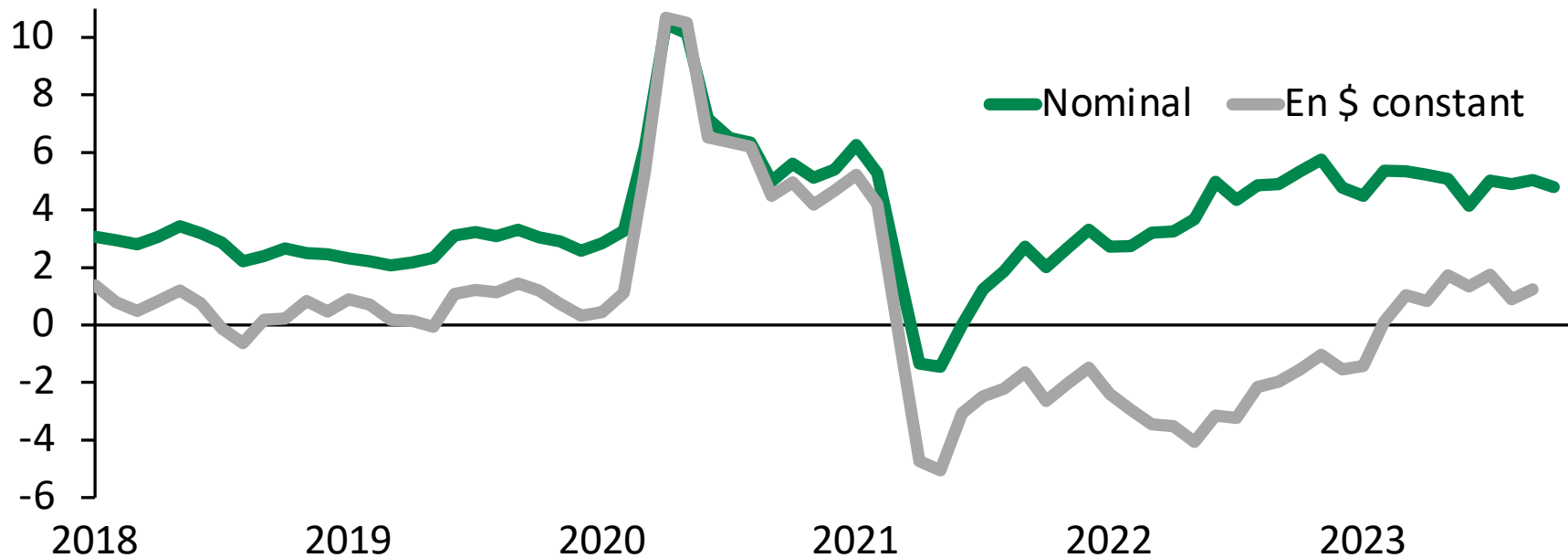
Real GDP	Canada
2022	3.4%
2023f	1.1%
2024f	0.1%

CANADA

Wage growth stabilizes

Average hourly wage

Annual % change

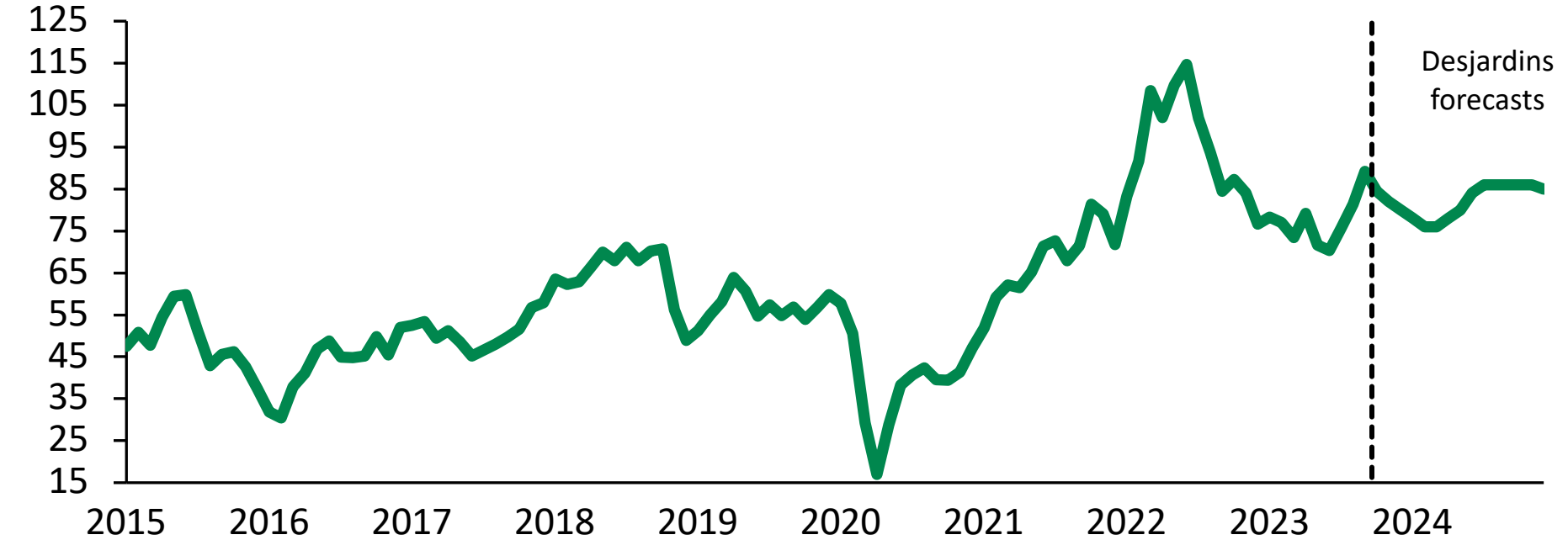


OIL

Few fluctuations, but risks are high given the situation in the Middle East

WTI oil price – Monthly average

US\$/barrel



WTI: West Texas Intermediate

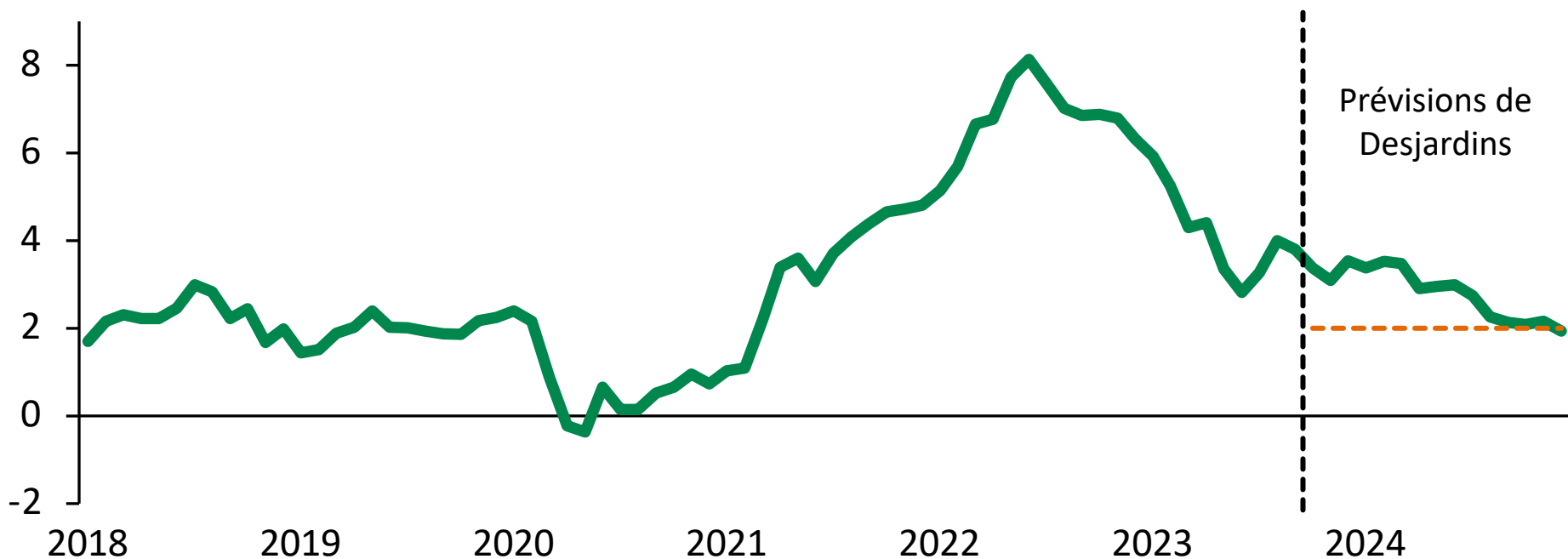
Sources: Datastream and Desjardins, Economic Studies

CANADA

Inflation is still a little too persistent

Inflation measured by the total consumer price index (CPI)

Annual % change

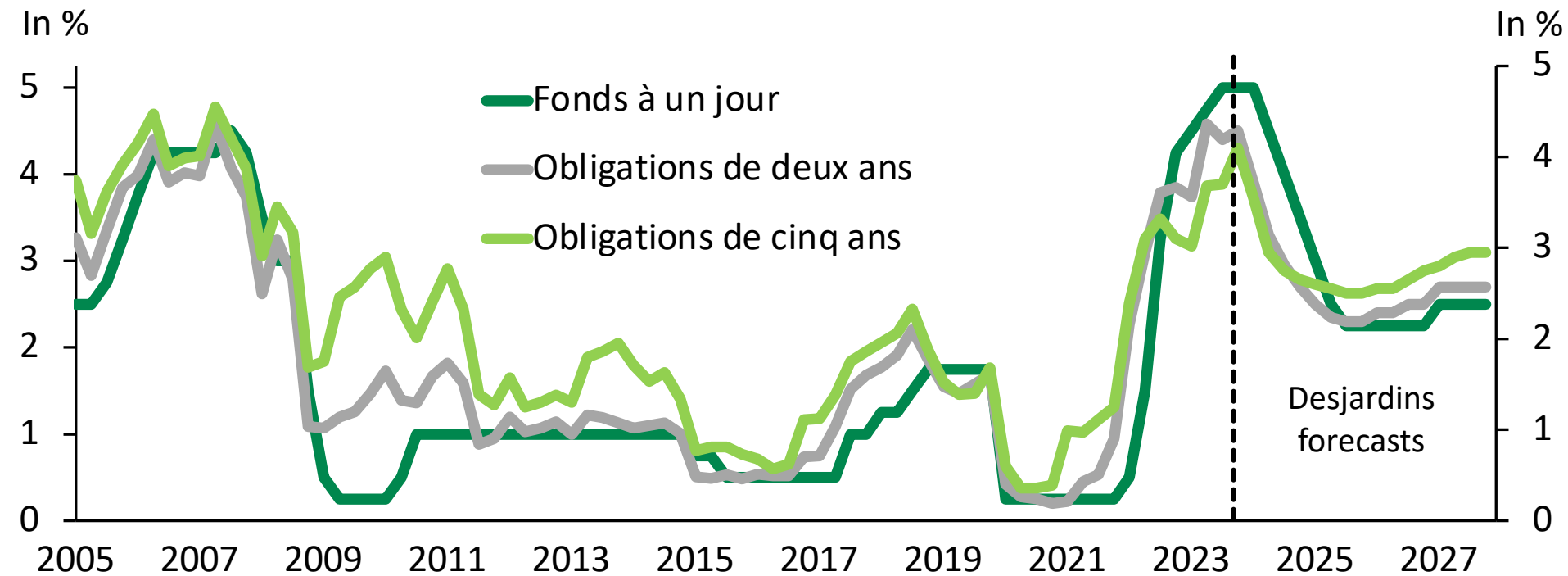


Prévisions de
Desjardins

CANADA

BoC to start easing monetary policy next year, but very low rates are a thing of the past

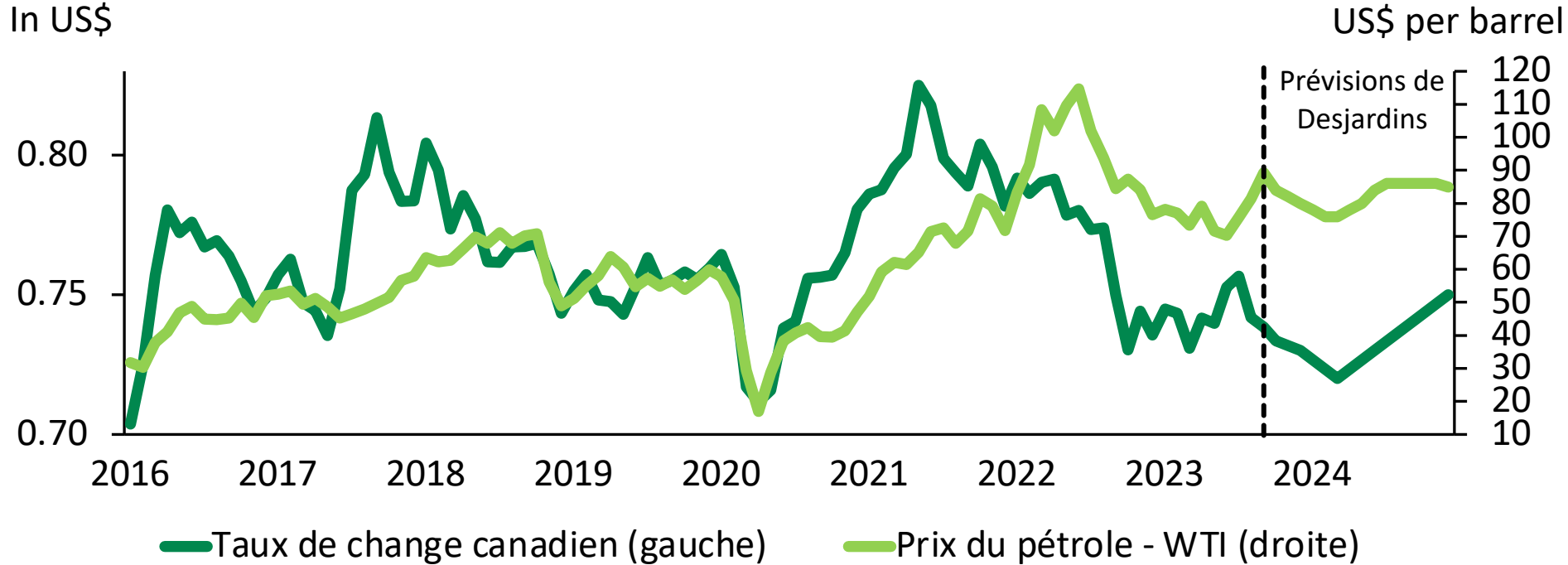
Canada – Interest rates



EXCHANGE RATE

Still difficult times for the loonie over the coming months

Canadian exchange rate

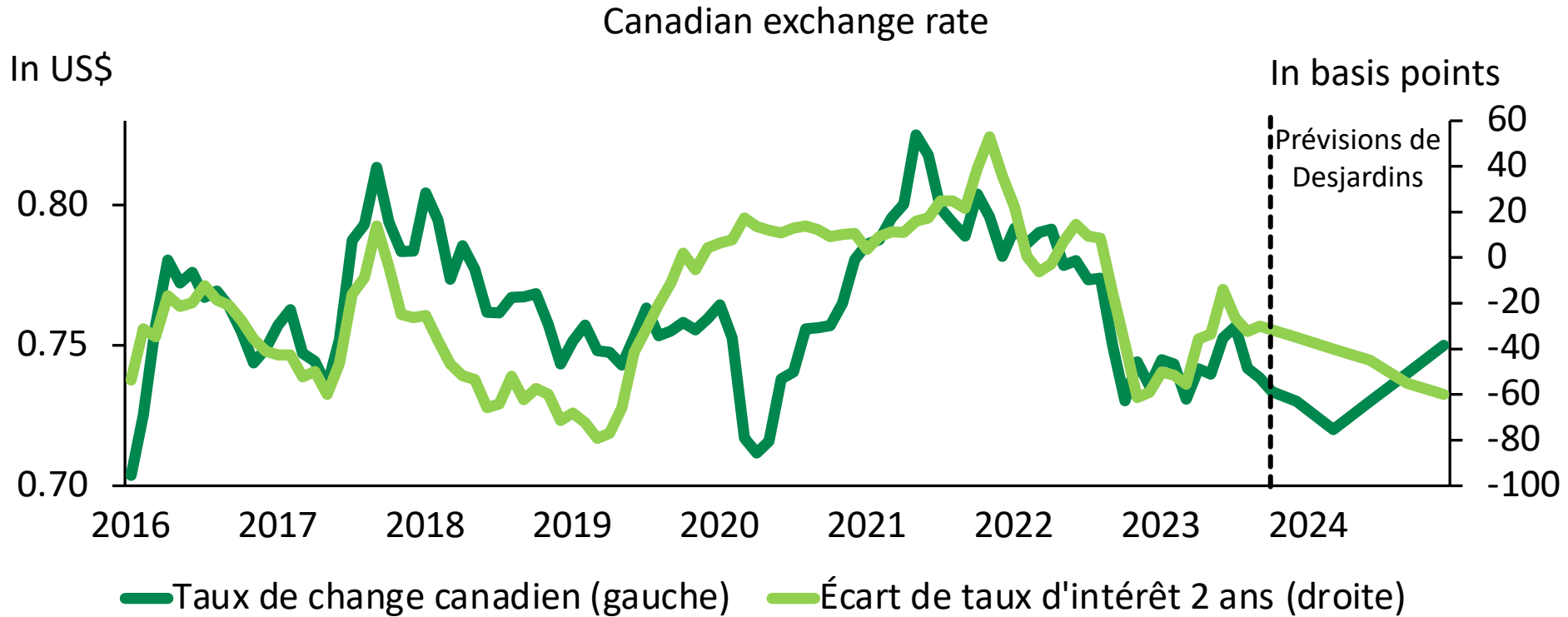


Sources: Datastream and Desjardins, Economic Studies



EXCHANGE RATE

Unfavourable interest rate trends could limit the loonie's rebound

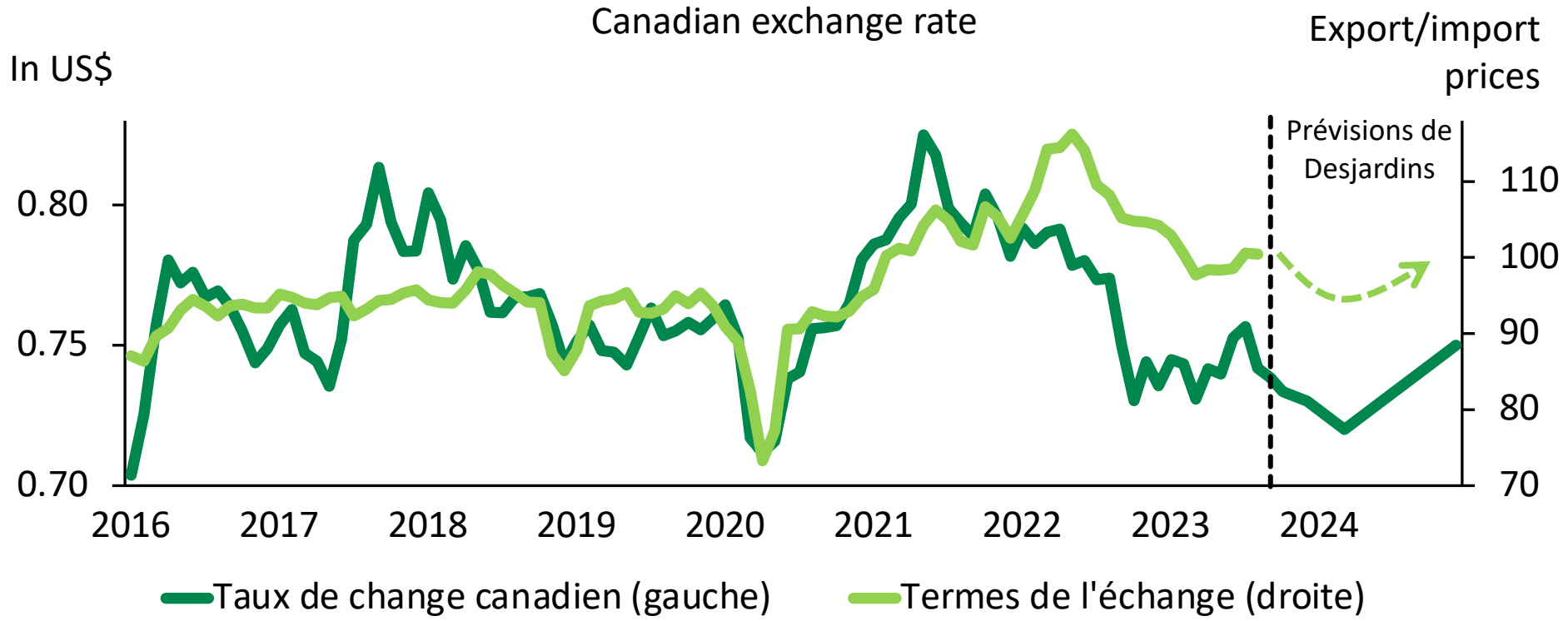


Sources: Datastream and Desjardins, Economic Studies



EXCHANGE RATE

The loonie's value has drifted away from certain fundamentals



Sources: Datastream and Desjardins, Economic Studies

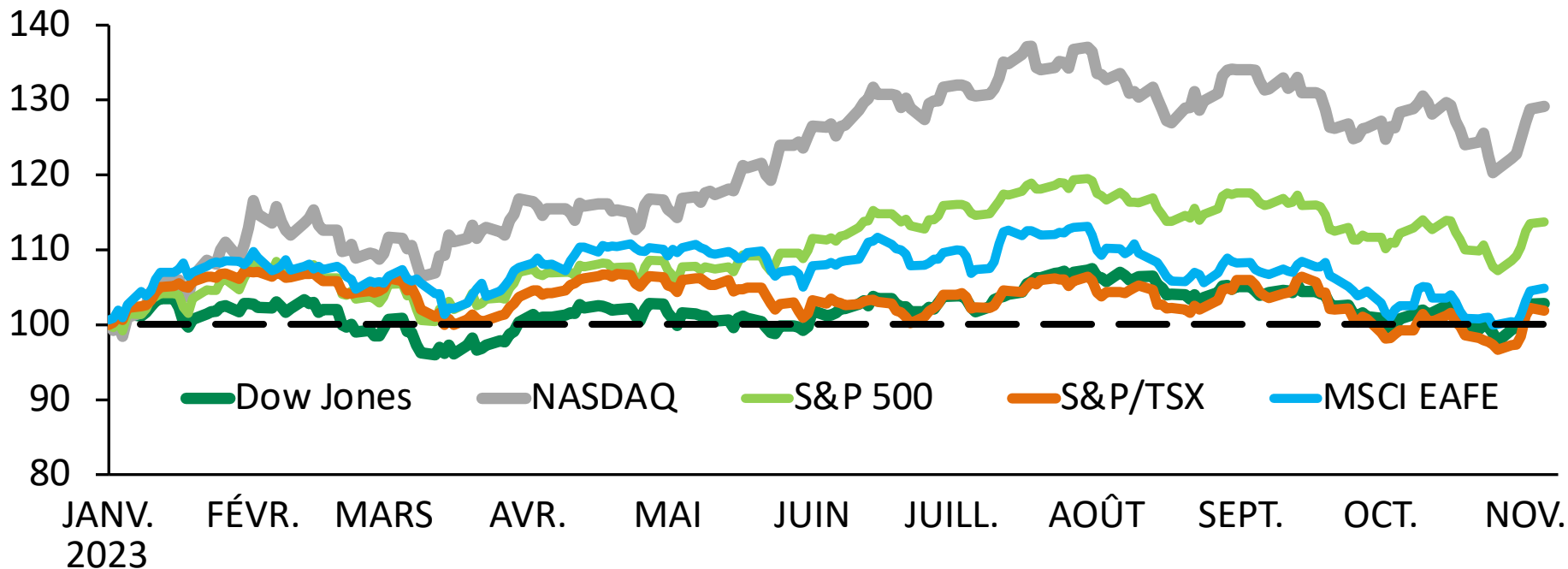


FINANCIAL MARKETS

Small gains except for NASDAQ and S&P 500

Stock market indexes

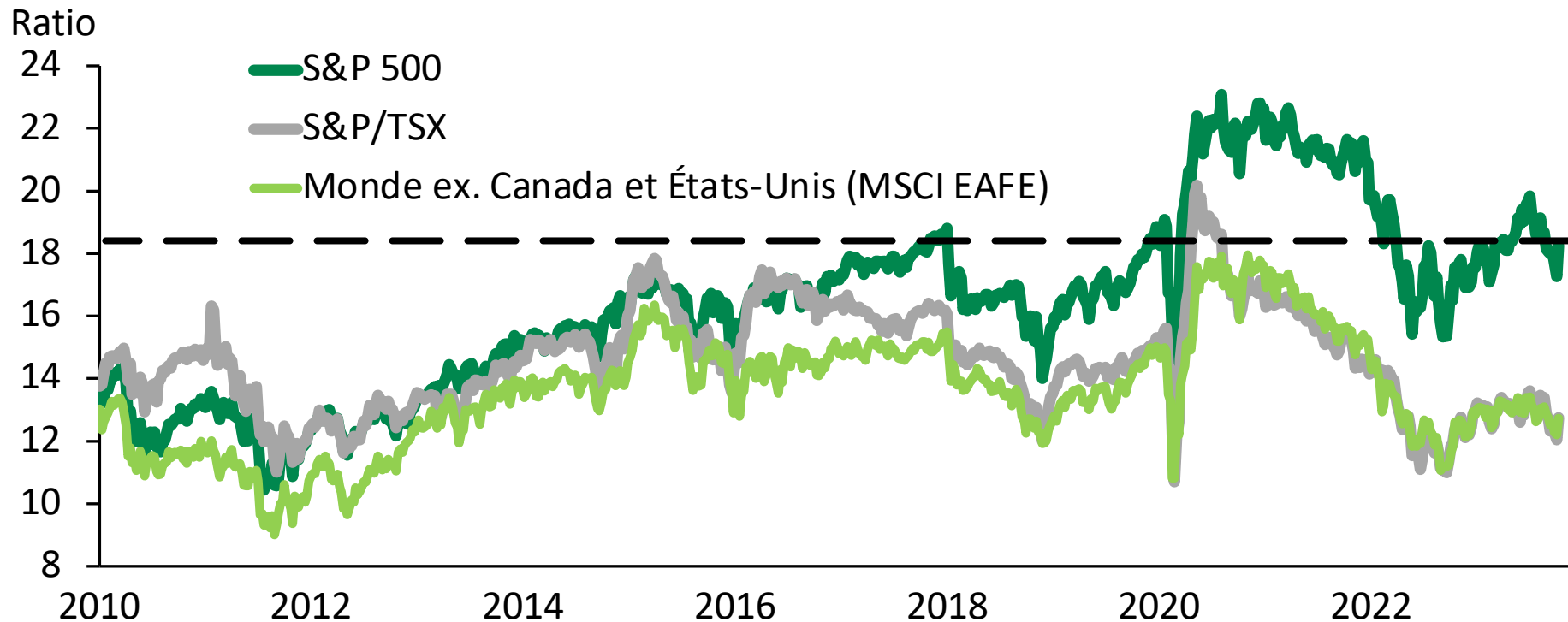
December 31, 2022 = 100



FINANCIAL MARKETS

Valuations are lower, but not for the S&P 500

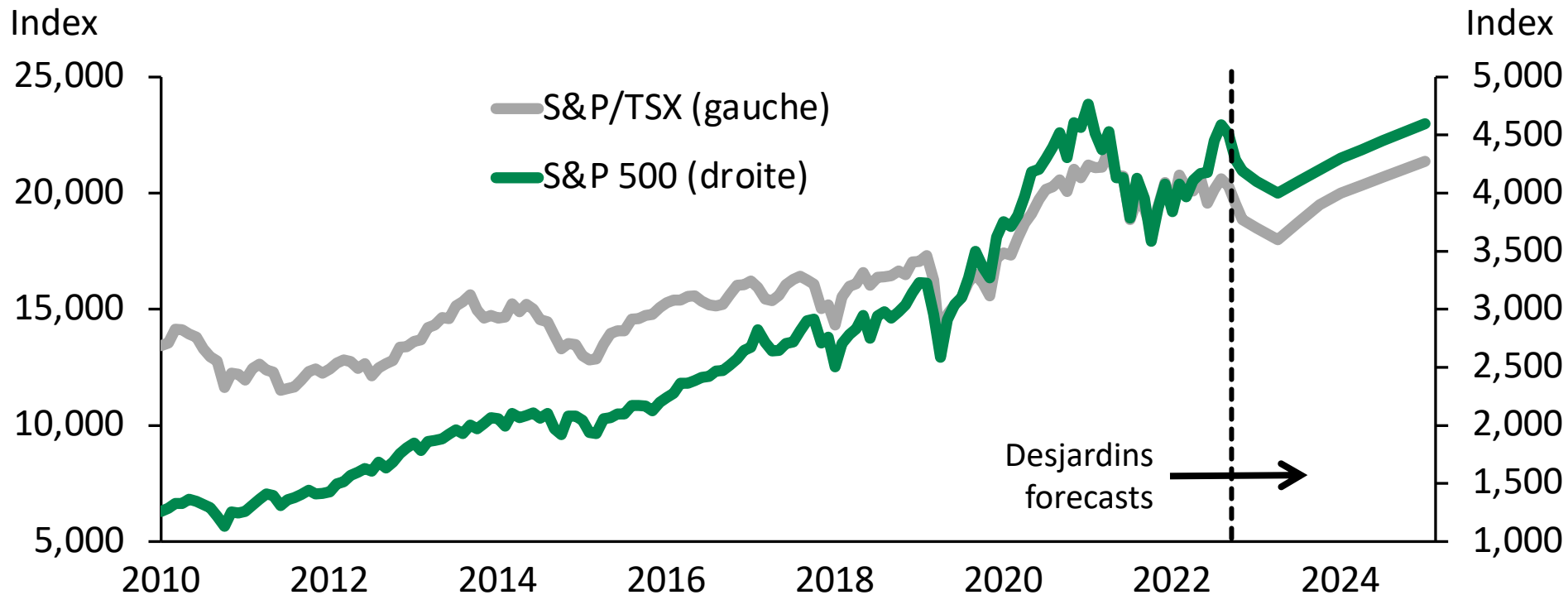
Average price/earnings ratio – Expected earnings over the next 12 months



FINANCIAL MARKETS

The economic slowdown could cause another setback

Canadian and US stock market indexes





Thank you very much!

Our website: www.desjardins.com/economie

Our email: desjardins.economie@desjardins.com