

Economic, Fiscal and Financial Outlook

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Desjardins Economic Studies

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#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA



#1 BEST OVERALL FORECASTER – CANADA

ECONOMIC AND FINANCIAL OUTLOOK

Key messages

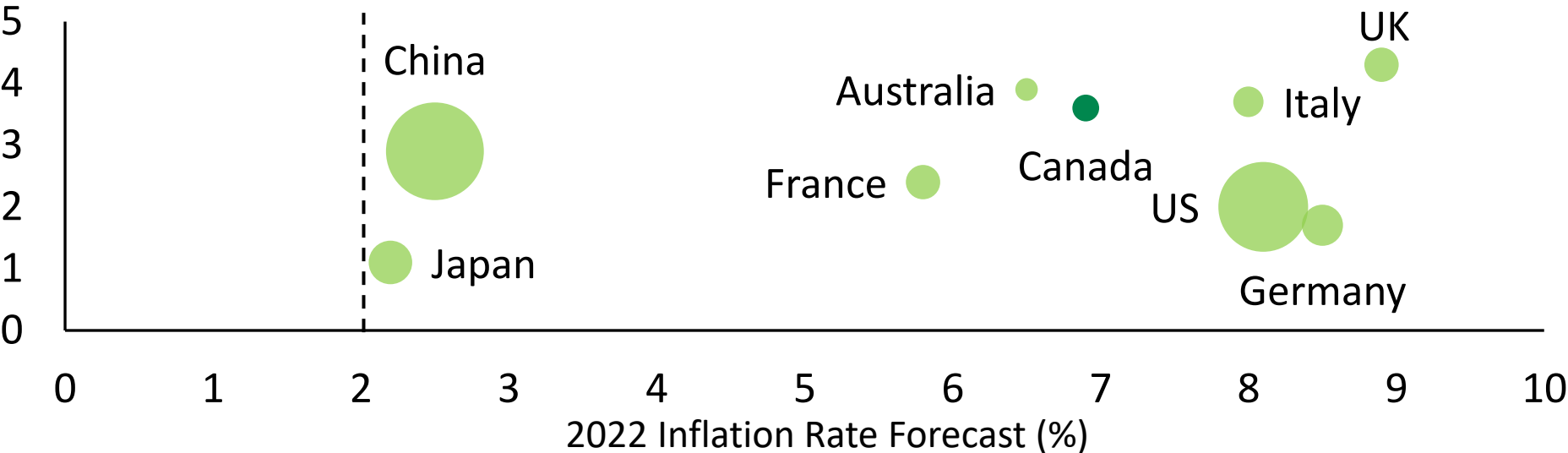
- Inflation is high and central banks are raising rates to tame it
- Higher borrowing costs have caused the housing market to cool
- Canada's economy is expected to experience a recession in 2023
- The outlook will improve in 2024 as interest rates and inflation fall
- Against this economic backdrop, government deficits will increase

GLOBAL ECONOMIC OUTLOOK

Inflation is well outpacing growth across major economies

2022 Real GDP Growth vs CPI Inflation Forecasts

2022 Real GDP Growth Forecast (%)

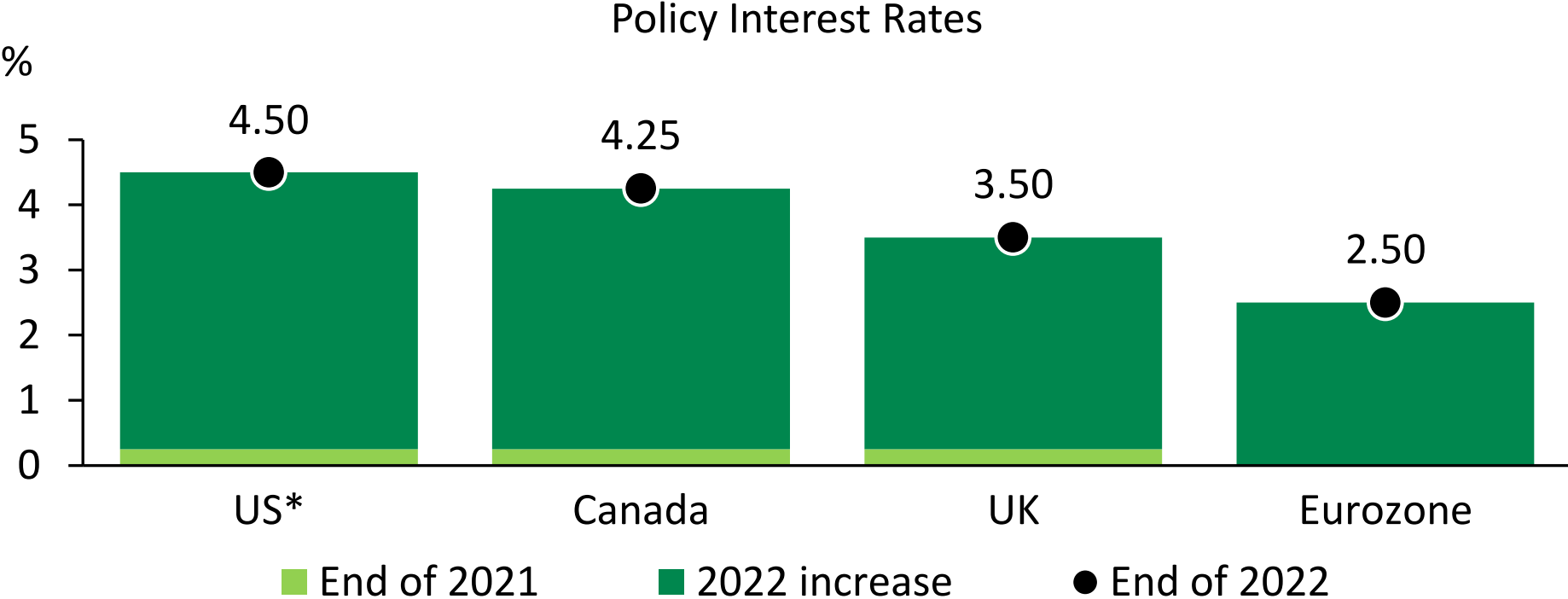


Note: Bubble size is relative share of global GDP

Sources: World Bank, Consensus Forecasts and Desjardins Economic Studies

GLOBAL ECONOMIC OUTLOOK

Major central banks have hiked rates aggressively to combat inflation

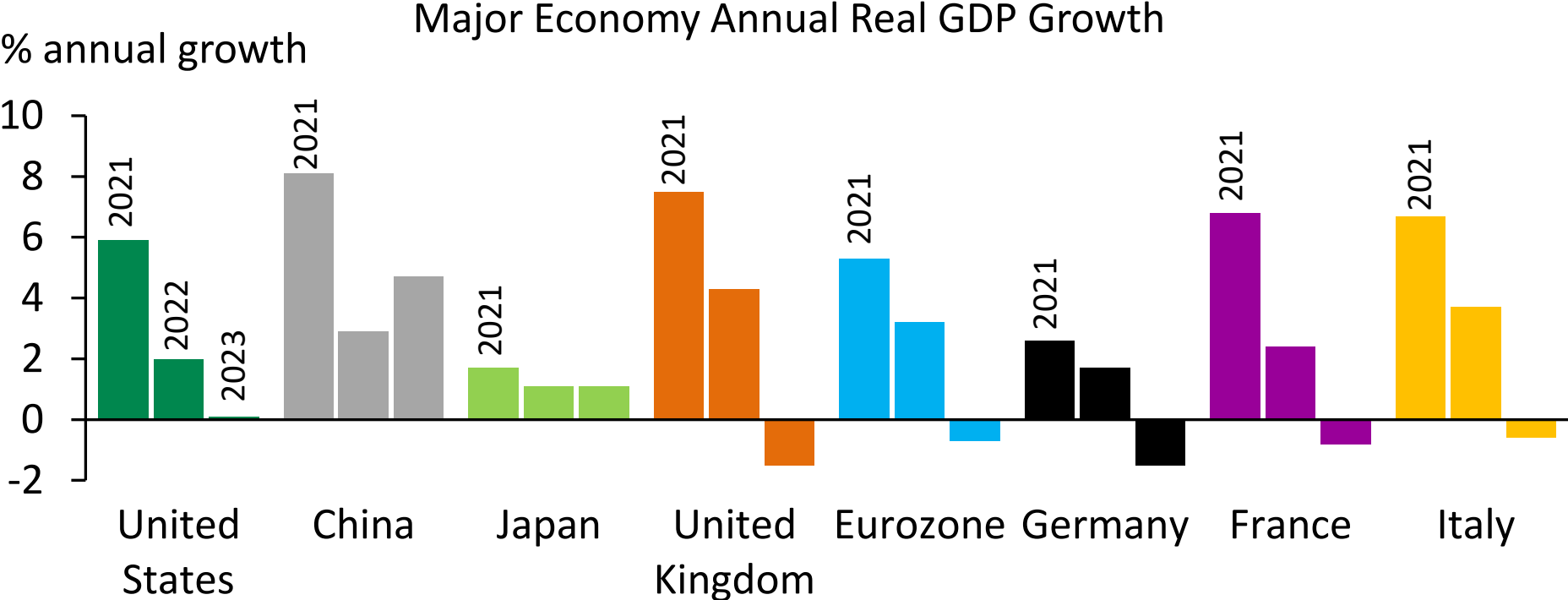


* Upper bound of the target range for the federal funds rate

Sources: Datastream and Desjardins Economic Studies

GLOBAL ECONOMIC OUTLOOK

Growth is anticipated to be weak across major economies



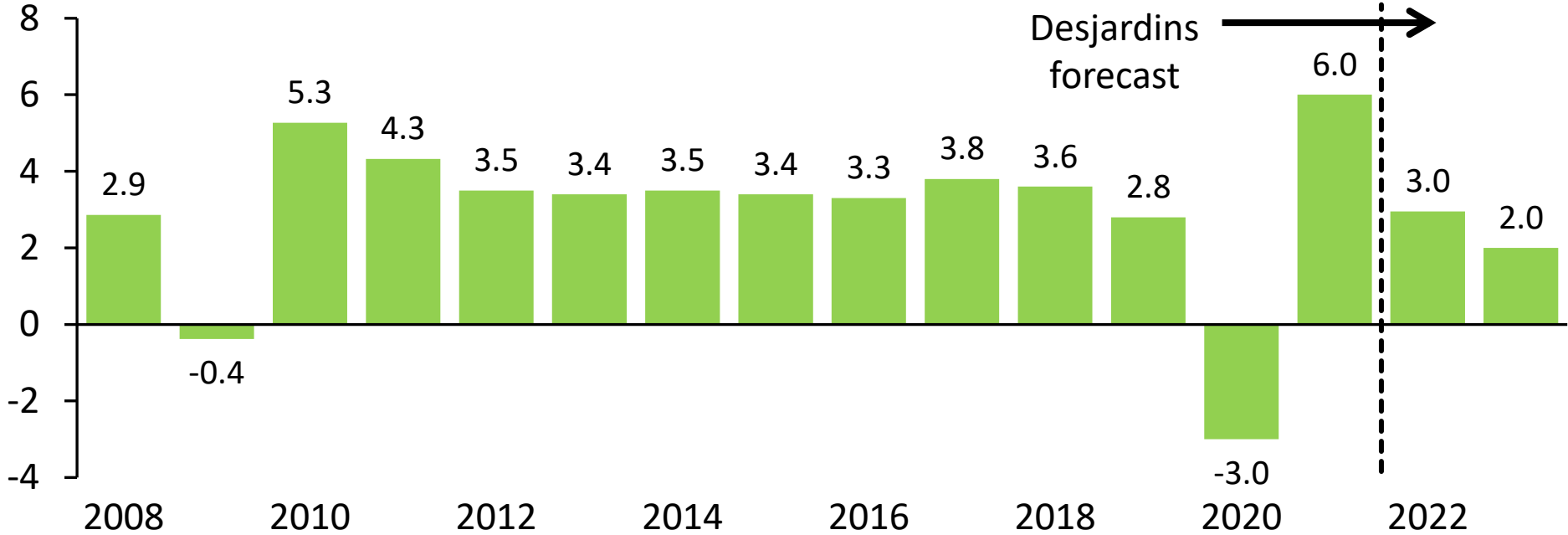
Sources: Datastream and Desjardins Economic Studies

GLOBAL ECONOMIC OUTLOOK

Global growth is likely to come in at or below 3% this year and next

World Real GDP Growth

% annual growth



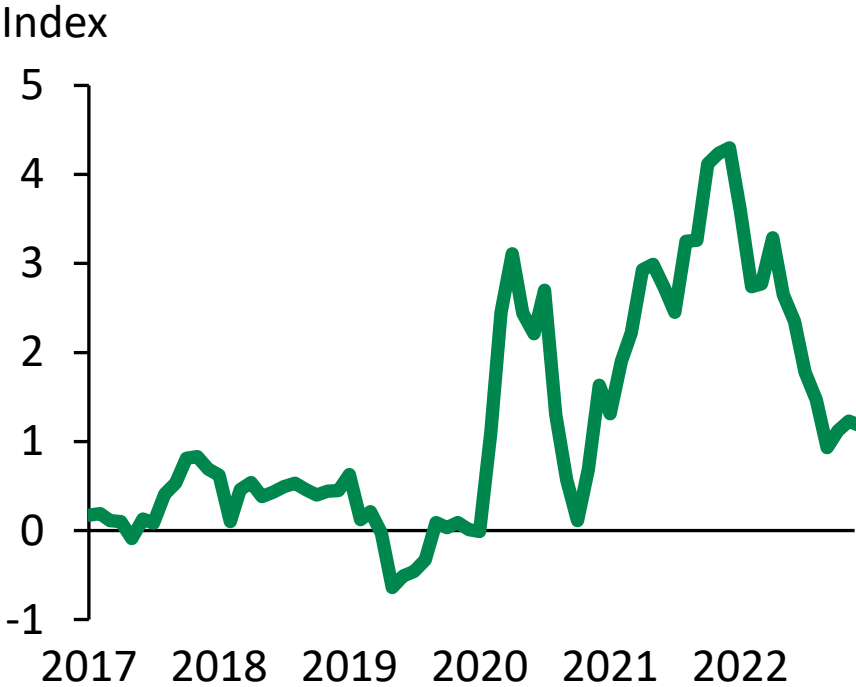
Sources: World Bank, Consensus Forecasts and Desjardins Economic Studies



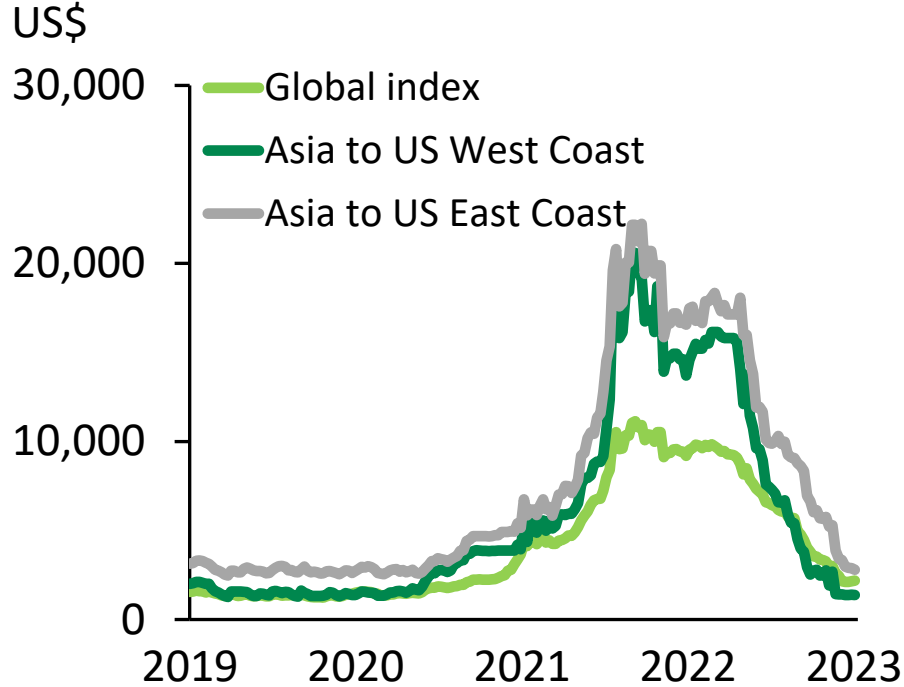
SUPPLY CHAINS

Weaker global demand for goods is reducing supply chain pressures

Global Supply Chain Pressure Index



Freightos Container Shipping Cost index



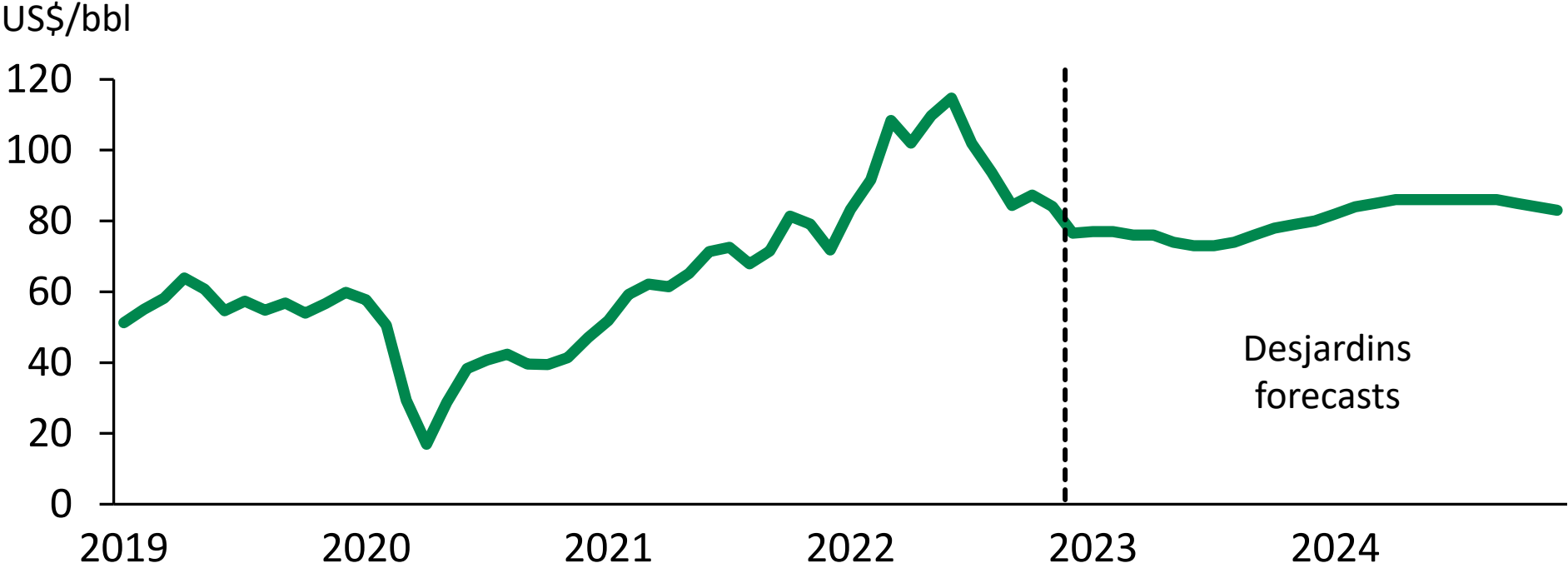
Sources: Federal Reserve Bank of New York, Datastream and Desjardins Economic Studies



OIL PRICES

Oil prices have fallen but are set to stabilize and remain elevated

West Texas Intermediate Price



Desjardins forecasts

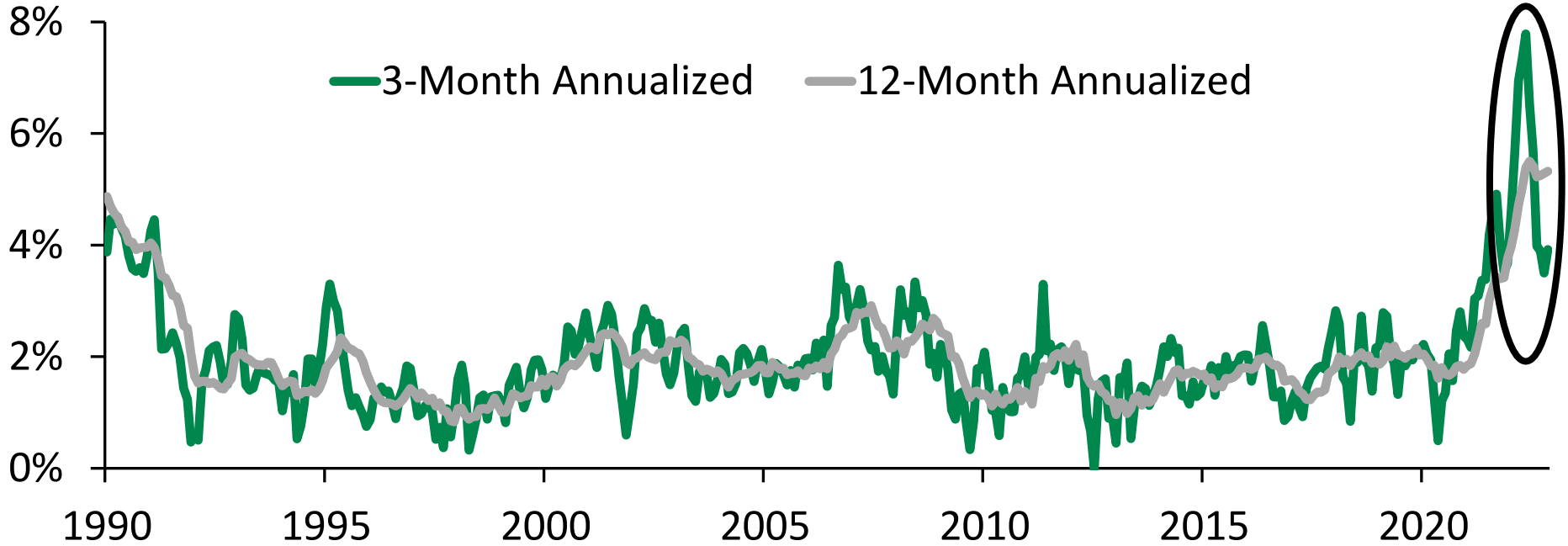
Sources: Statistics Canada and Desjardins Economic Studies



INFLATION

Recent core inflation in Canada appears to show a deceleration

Canada: Bank of Canada's Trim Core Measure



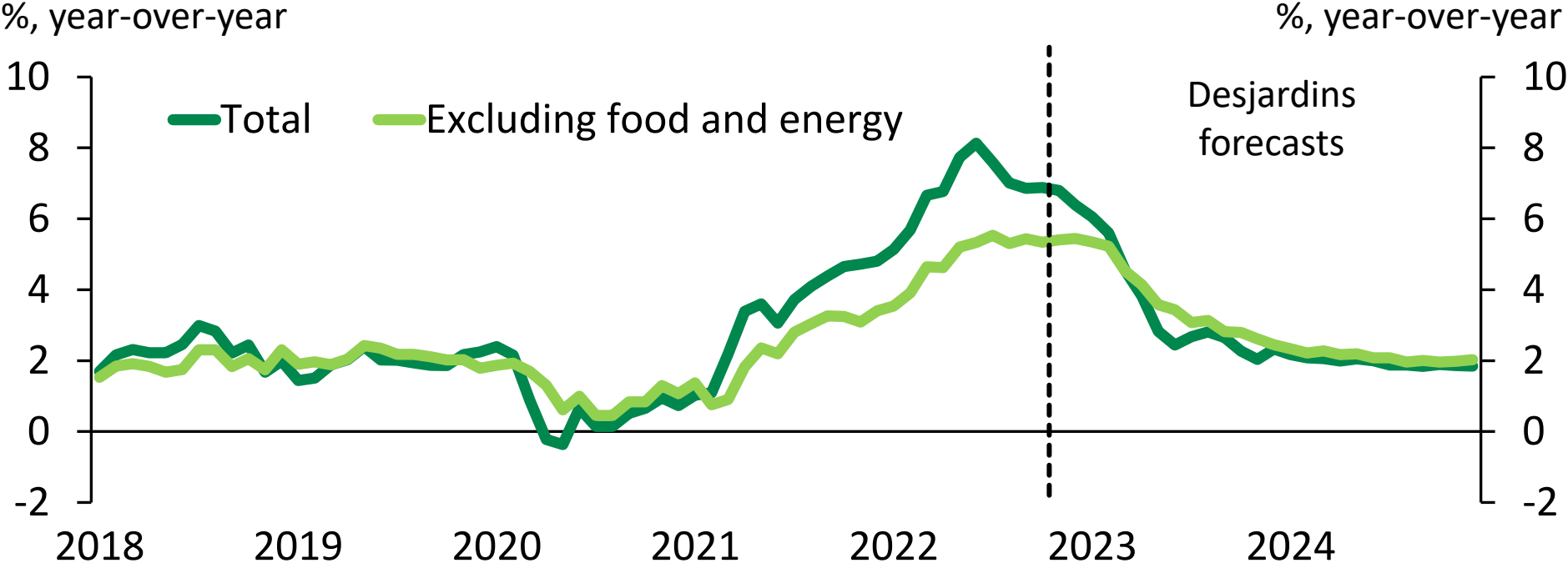
Sources: Bank of Canada, Statistics Canada and Desjardins Capital Markets



INFLATION

Inflation looks to have peaked in Canada and should slow quickly

Canada: Consumer Price Index Inflation

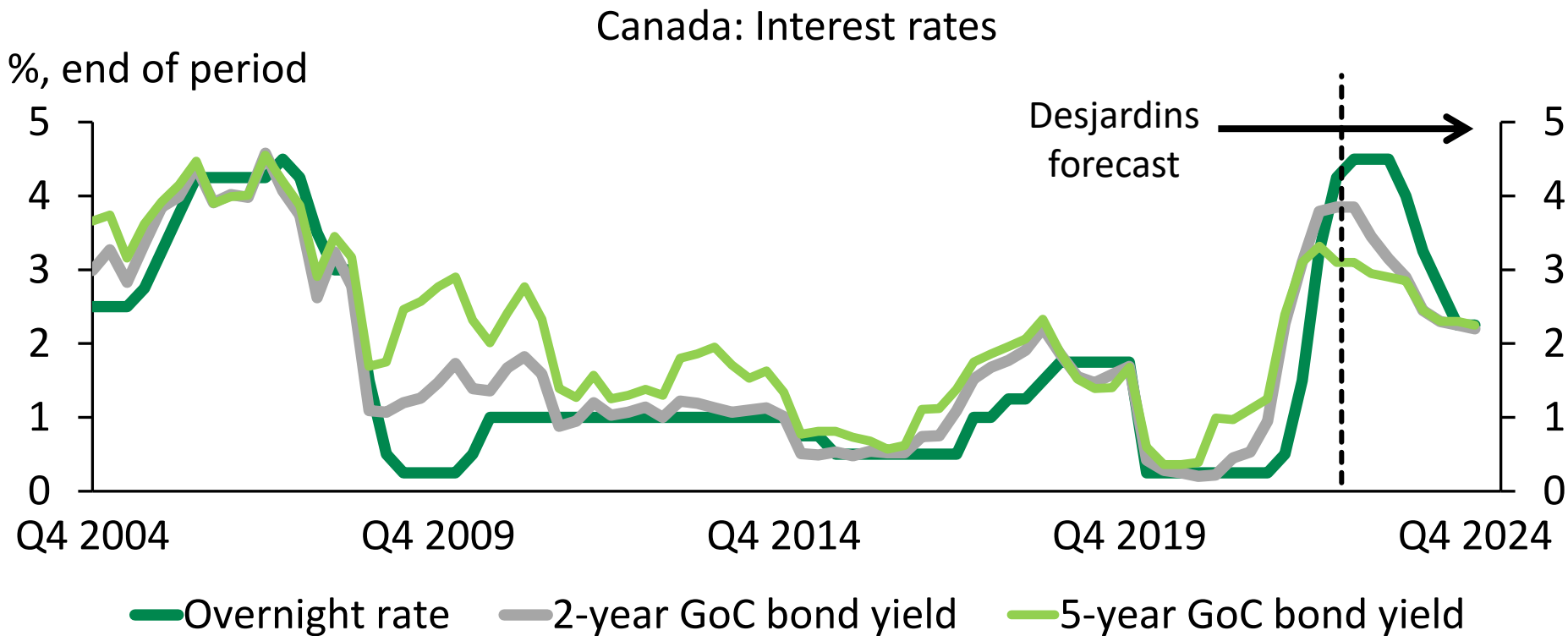


Sources: Statistics Canada and Desjardins Economic Studies



INTEREST RATES

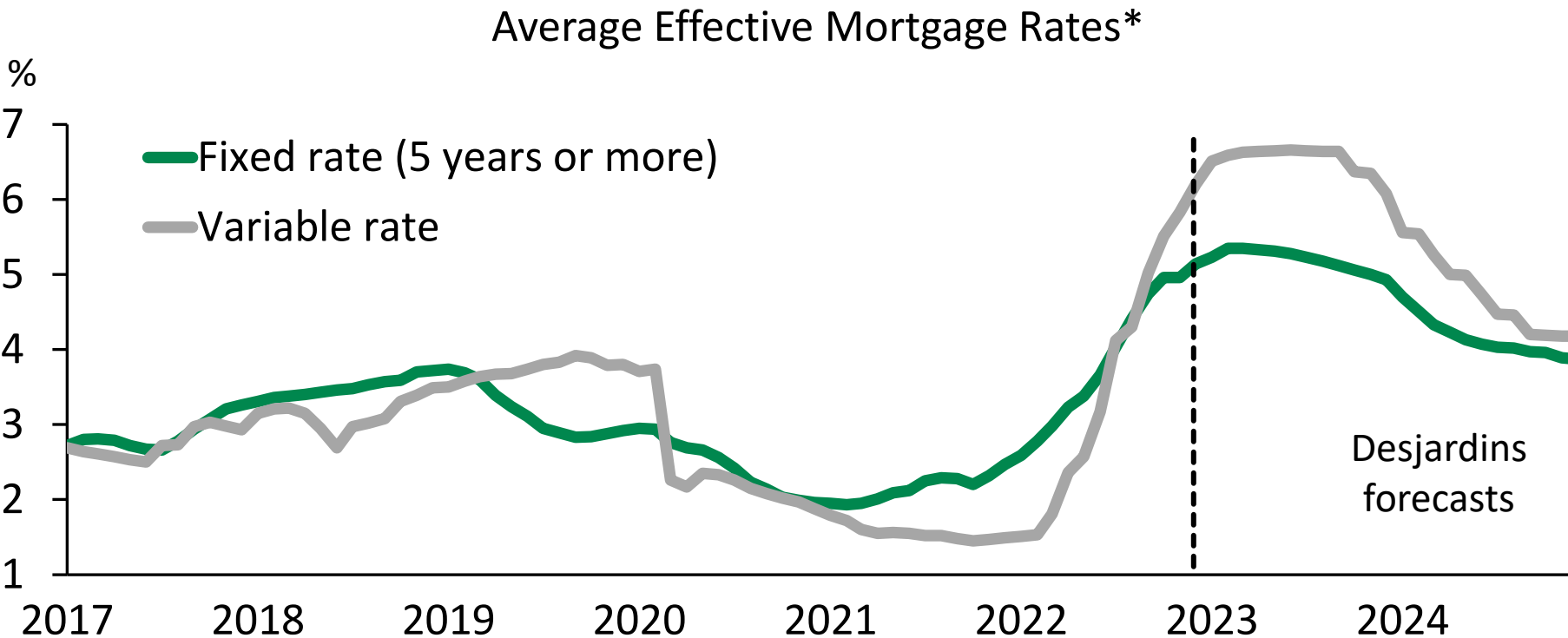
The Bank of Canada is nearly done hiking rates



Sources: Bank of Canada and Desjardins Economic Studies

INTEREST RATES

Borrowing costs are on the rise and are likely to peak soon



* Weighted by the size of cash advances.

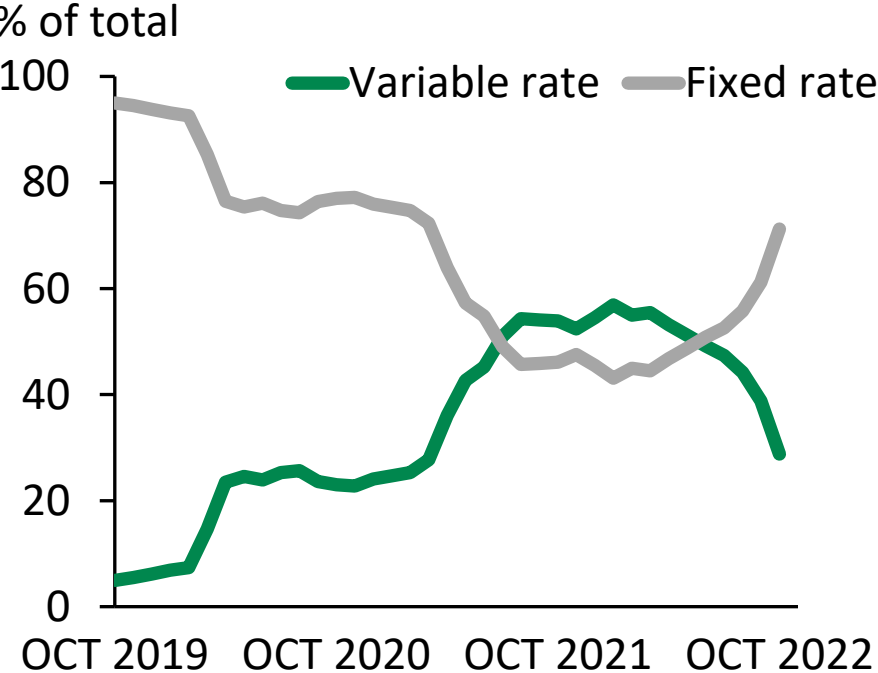
Sources: Bank of Canada and Desjardins Economic Studies



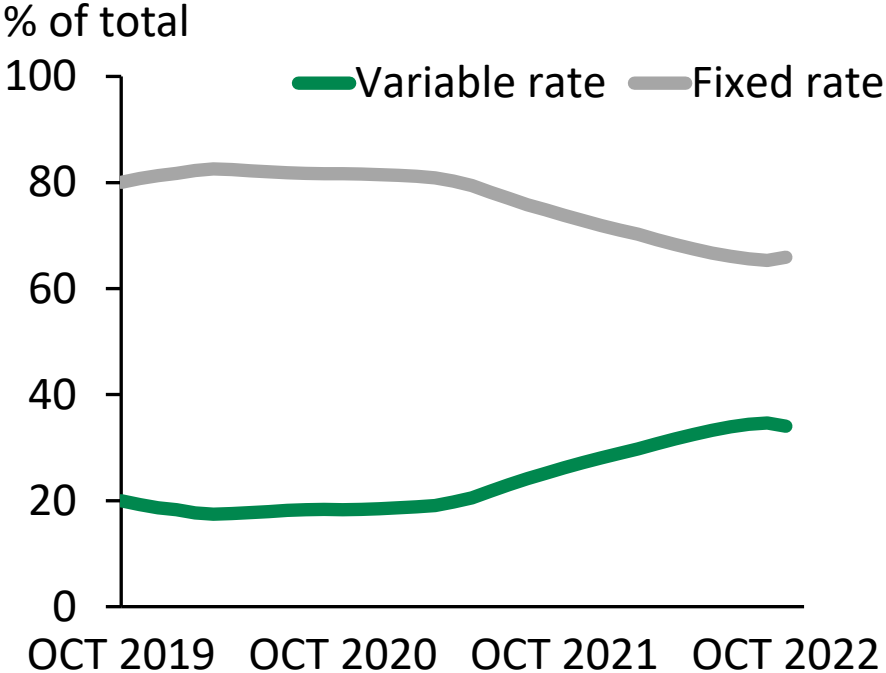
RESIDENTIAL REAL ESTATE

Variable rate mortgage lending are playing an unprecedented role

Residential Mortgage Funds Advanced



Residential Mortgage Outstanding Balance

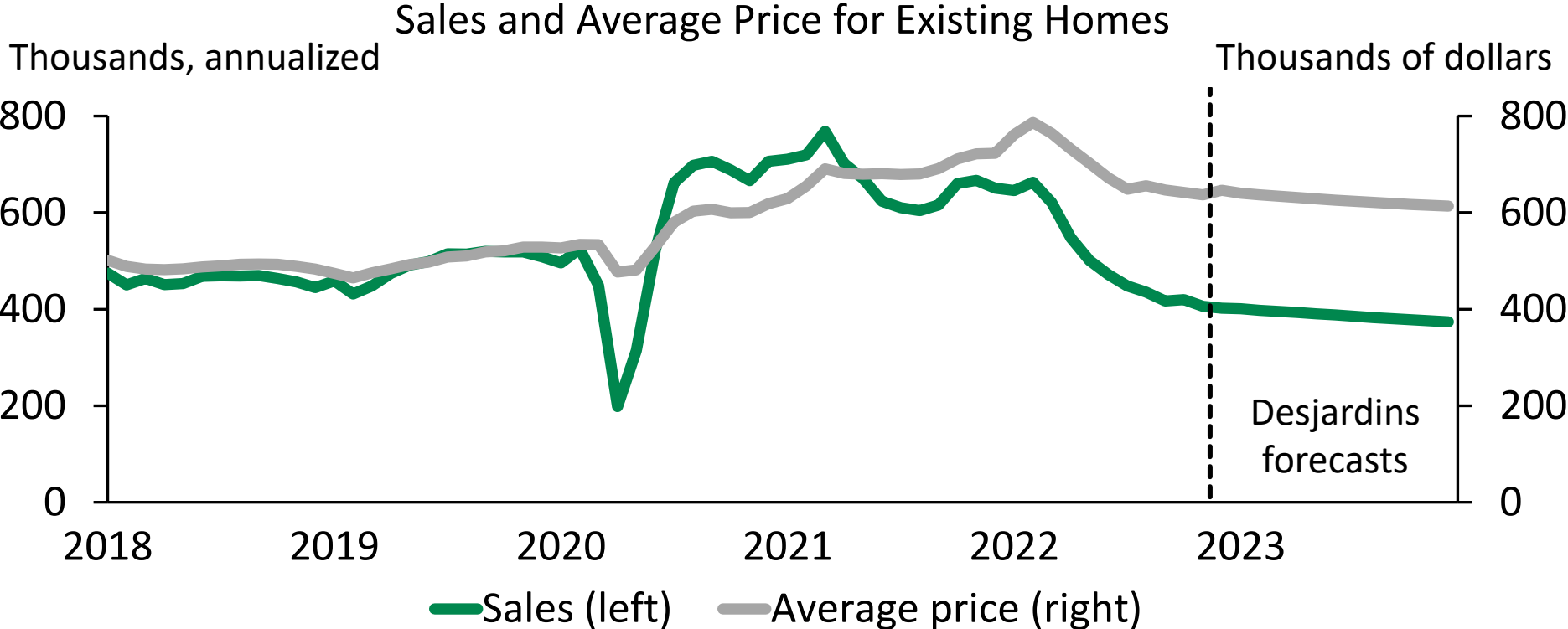


Sources: Bank of Canada and Desjardins Economic Studies



RESIDENTIAL REAL ESTATE

The housing market has corrected but should stabilize from here in

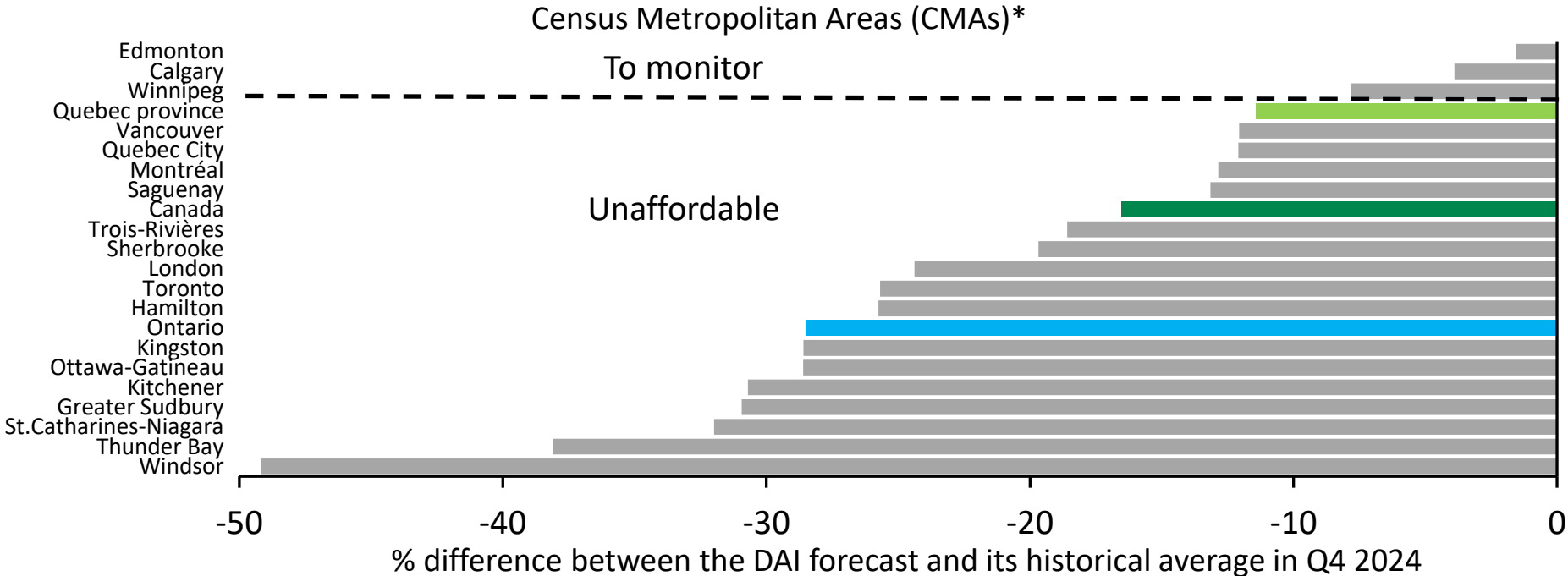


Sources: Canadian Real Estate Association and Desjardins Economic Studies



RESIDENTIAL REAL ESTATE

Affordability will remain below its pre-COVID average through 2024



*A CMA refers to one or more adjacent municipalities centred on a population centre.

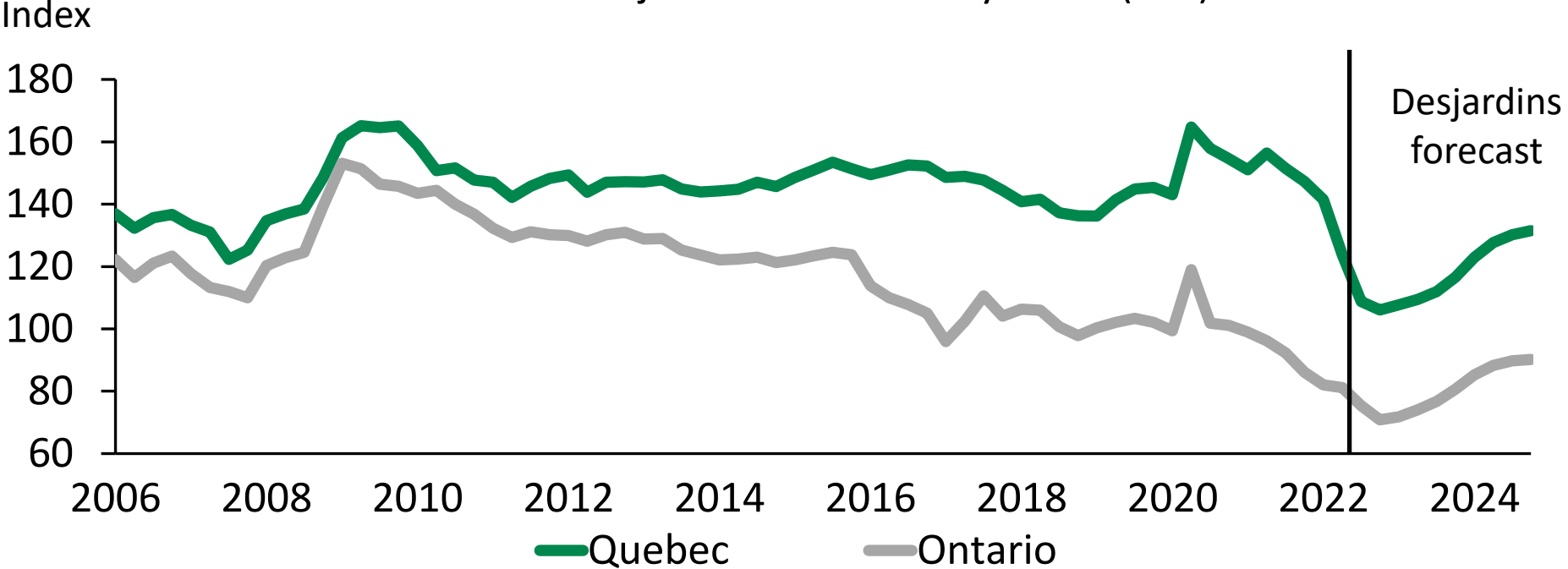
Sources: Statistics Canada, Canadian Real Estate Association, JLR Land Title Solutions, Equifax Corporation, Conference Board of Canada and Desjardins, Economic Studies



RESIDENTIAL REAL ESTATE

Quebec will continue to be much more affordable than Ontario

Provincial Desjardins Affordability Index (DAI)



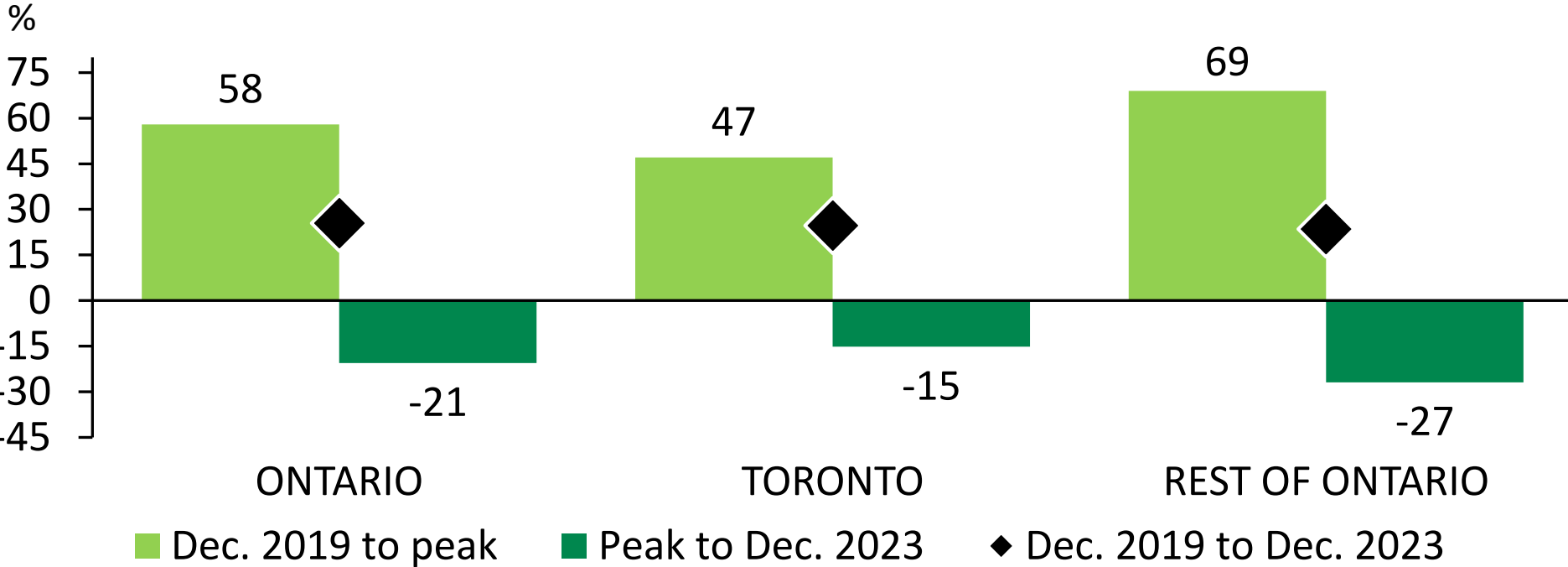
Sources: Statistics Canada, Canadian Real Estate Association, JLR Land Title Solutions, Equifax Corporation, Conference Board of Canada and Desjardins Economic Studies



RESIDENTIAL REAL ESTATE

The biggest price swings in Ontario will continue to be outside the GTA

Change in average Ontario home price: Before, during and after the pandemic



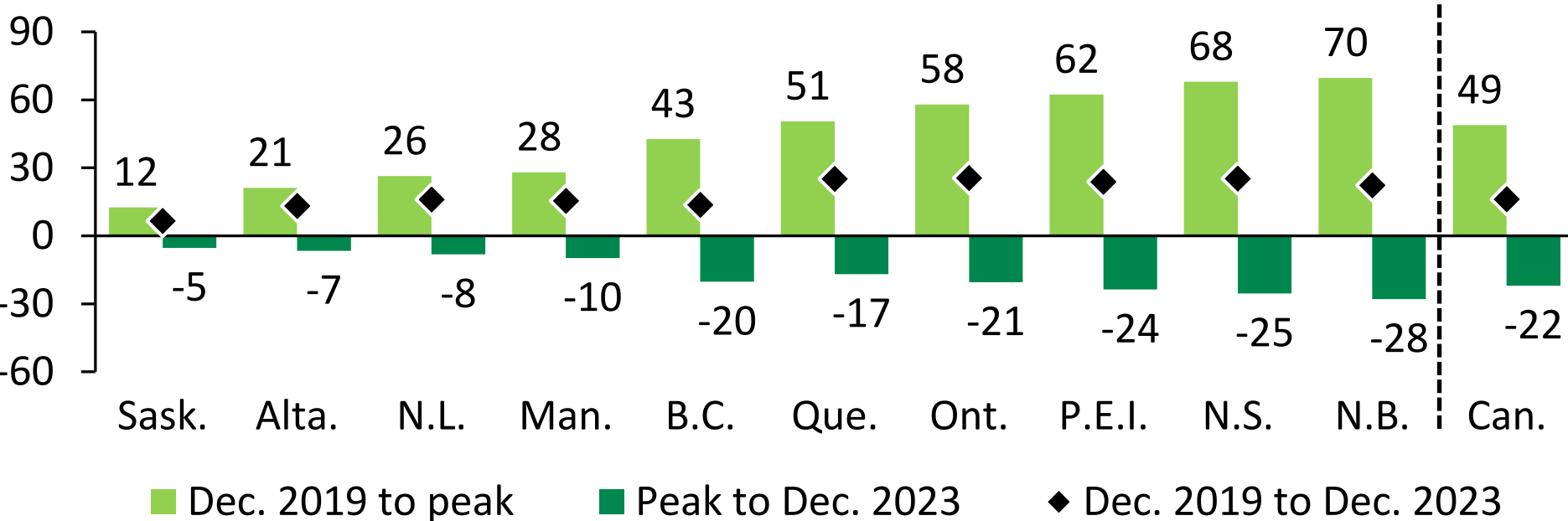
Sources: Canadian Real Estate Association and Desjardins Economic Studies



RESIDENTIAL REAL ESTATE

The provincial markets with the largest price gains should correct most

Home Price Growth by Province:
Before, During and After the Pandemic



Sources: Canadian Real Estate Association and Desjardins Economic Studies

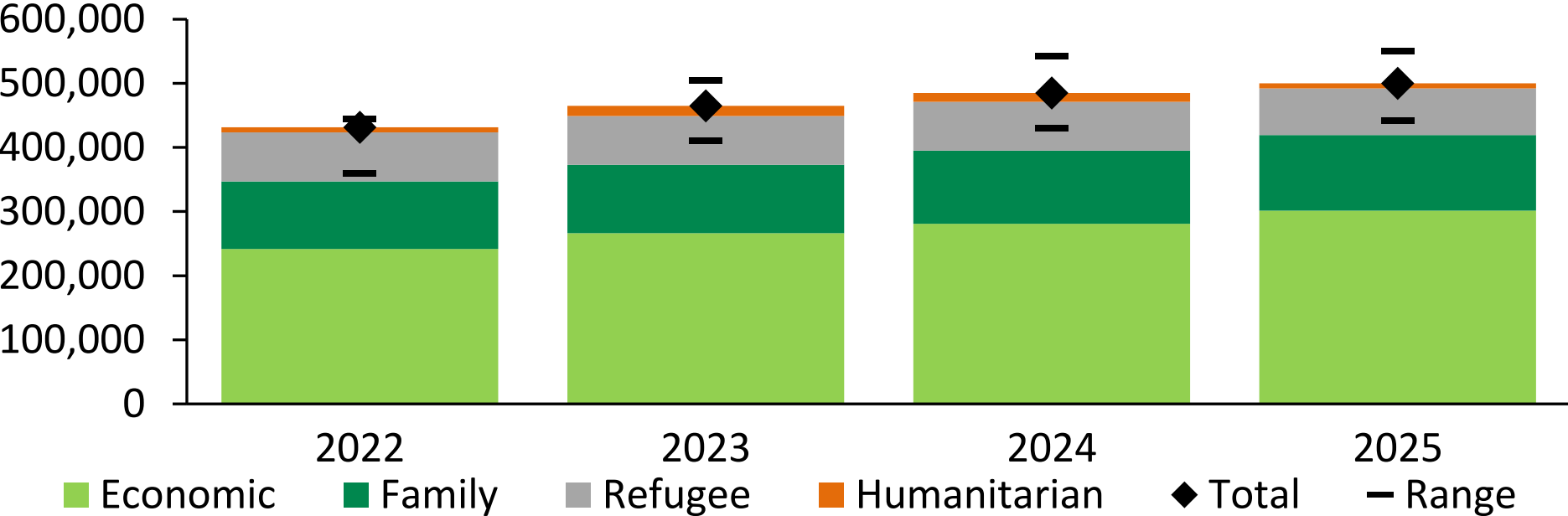


INTERNATIONAL IMMIGRATION

Immigration to Canada is expected to keep setting new records

Planned Admissions by Immigrant Category

Number of people

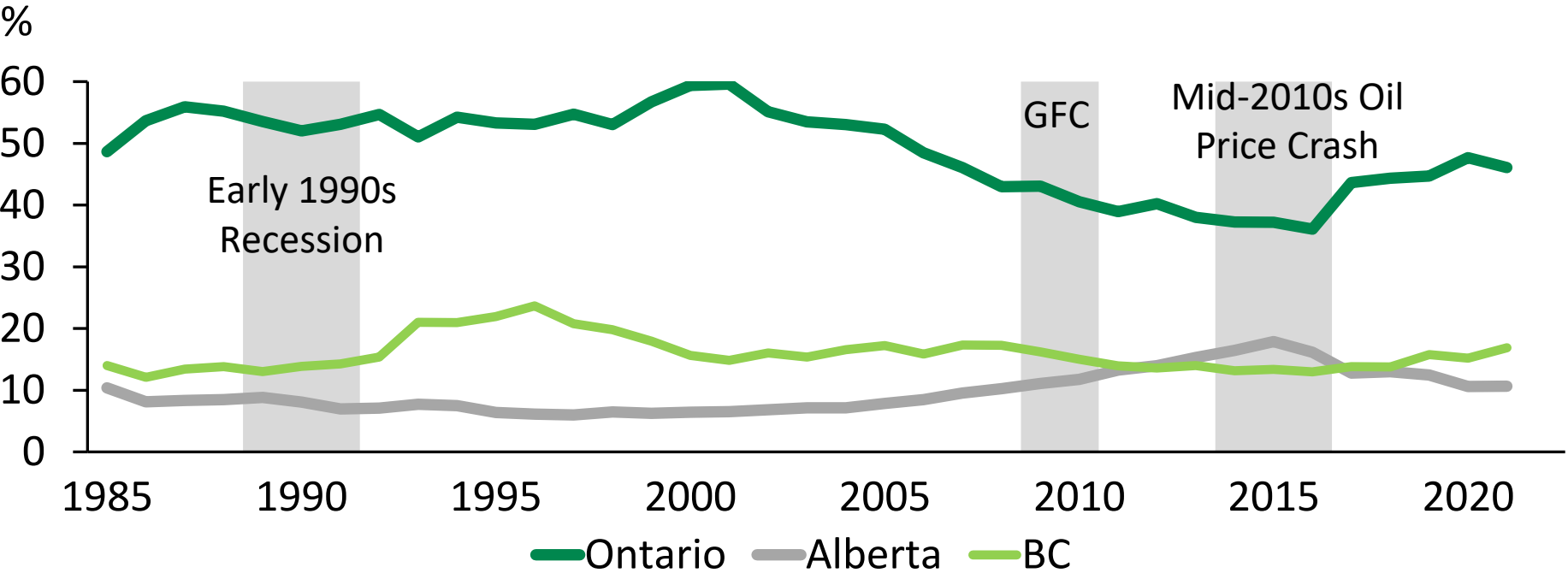


Sources: Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

INTERNATIONAL IMMIGRATION

In the past, recessions changed where immigrants settled

Share of Canadian Immigration by Province



Sources: Immigration, Refugees, and Citizenship Canada, and Desjardins Economic Studies

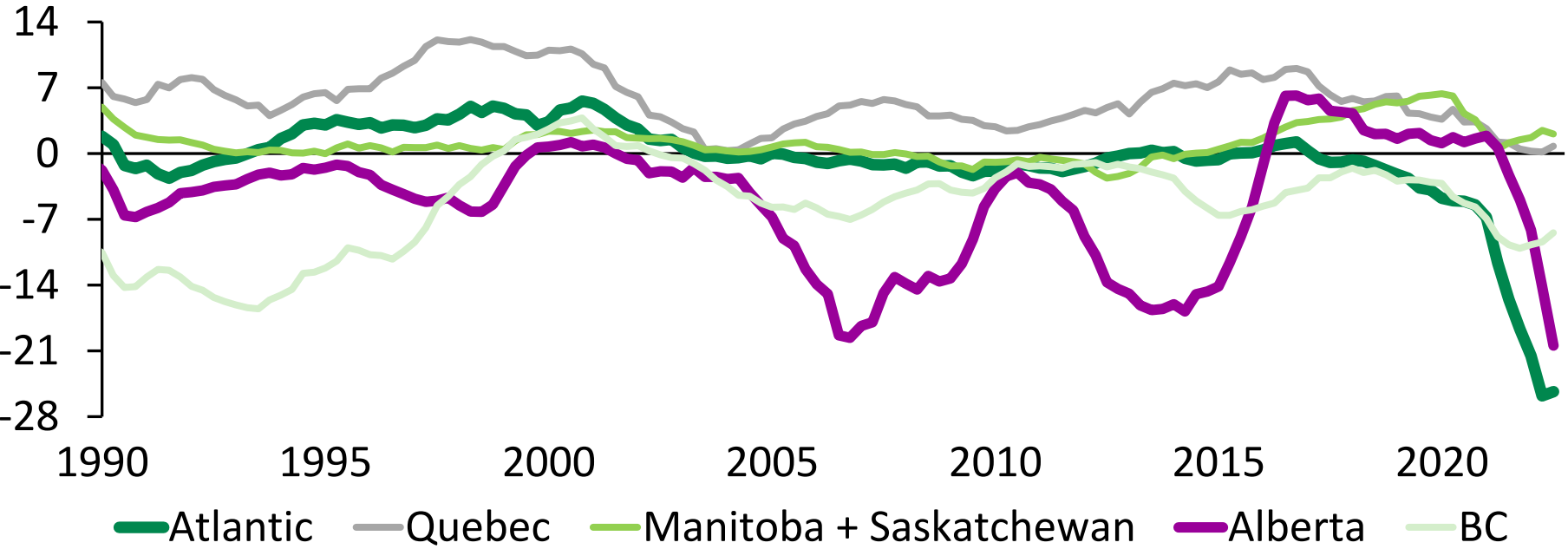


INTERPROVINCIAL MIGRATION

Recent Ontario-Atlantic movement likely isn't sustainable

Net Migration to Ontario by Province

Thousands, 4-quarter moving sum

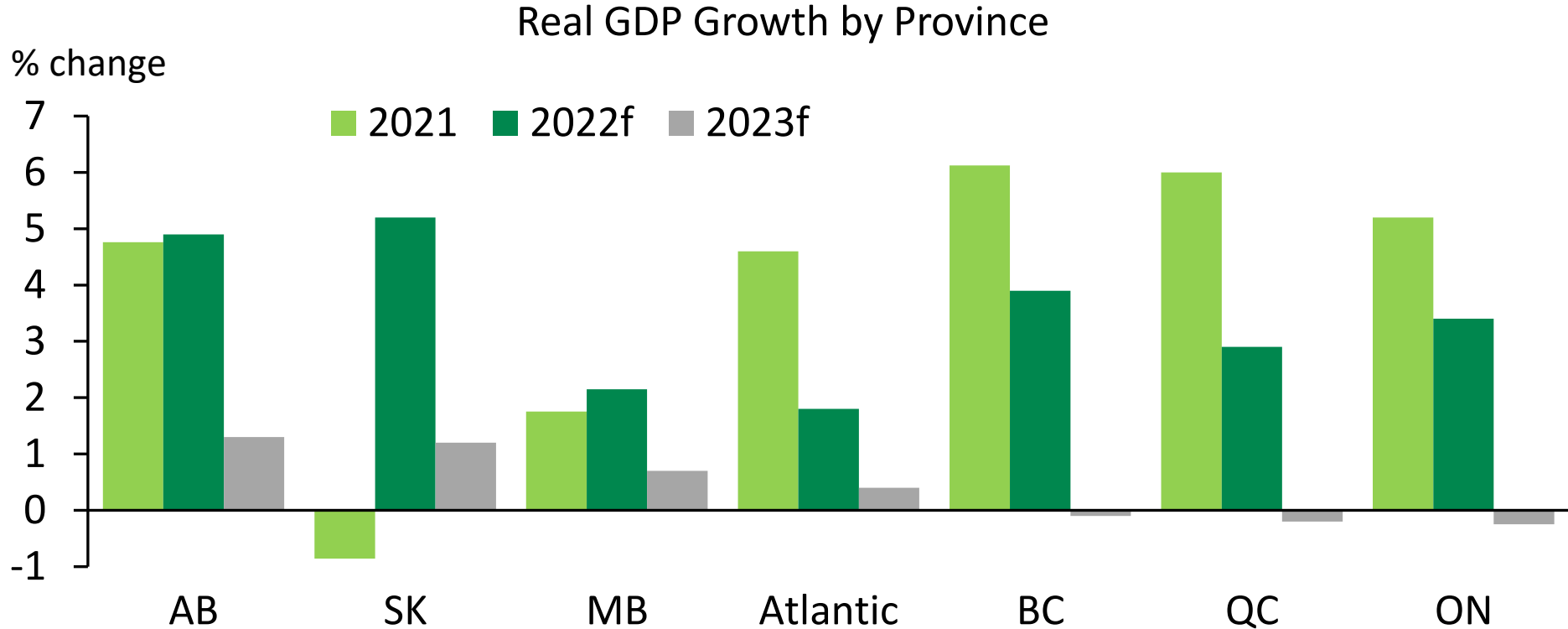


Sources: Statistics Canada and Desjardins Economic Studies



REAL GDP GROWTH

The Prairies should experience the mildest economic slowdown

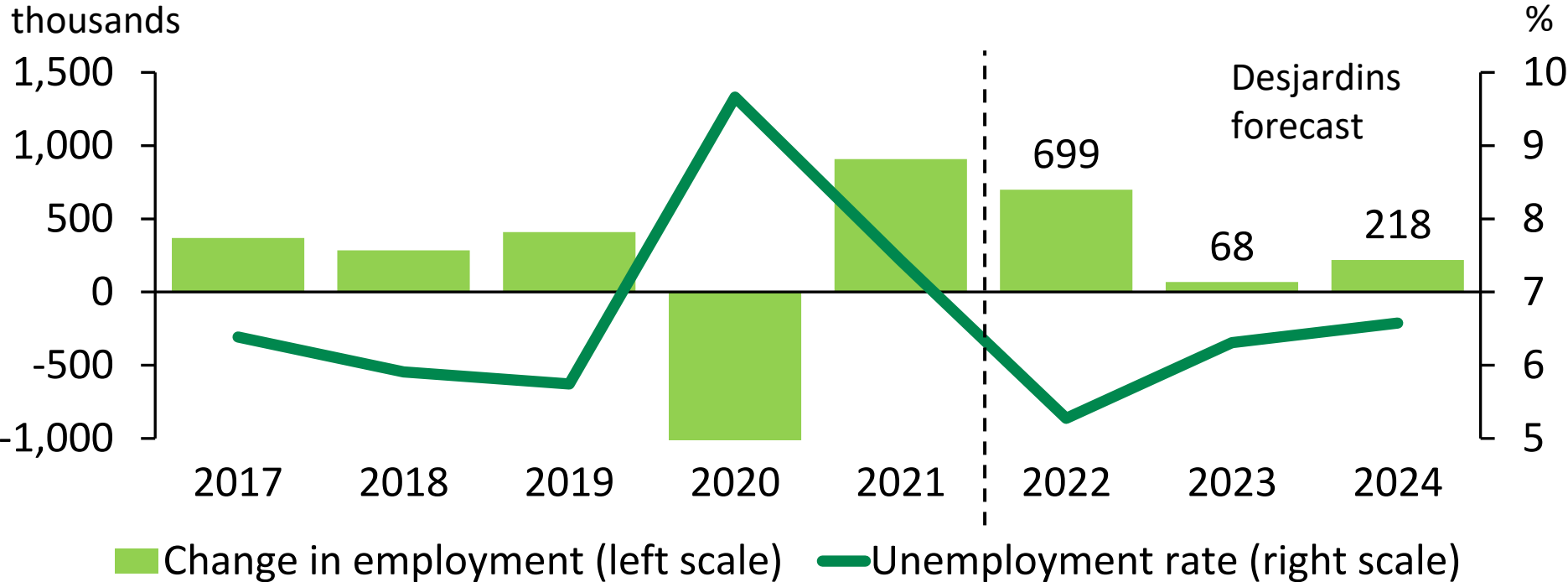


Sources: Statistics Canada and Desjardins, Economic Studies

LABOUR MARKET

The job market will cool as economic activity slows

Canada: Change in Employment versus the Unemployment rate

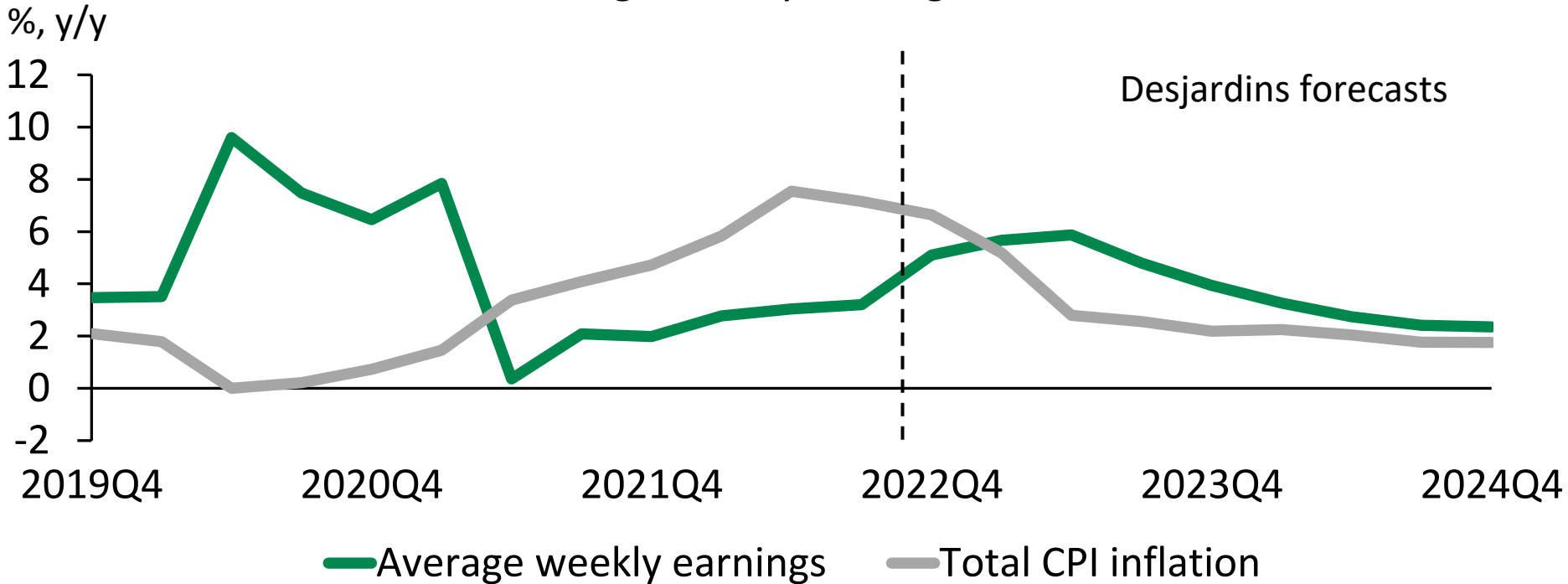


Sources: Statistics Canada and Desjardins Economic Studies

LABOUR MARKET

Wage growth should eventually surpass inflation but not by much

Canada: Growth in Average Weekly Earnings versus Total CPI Inflation

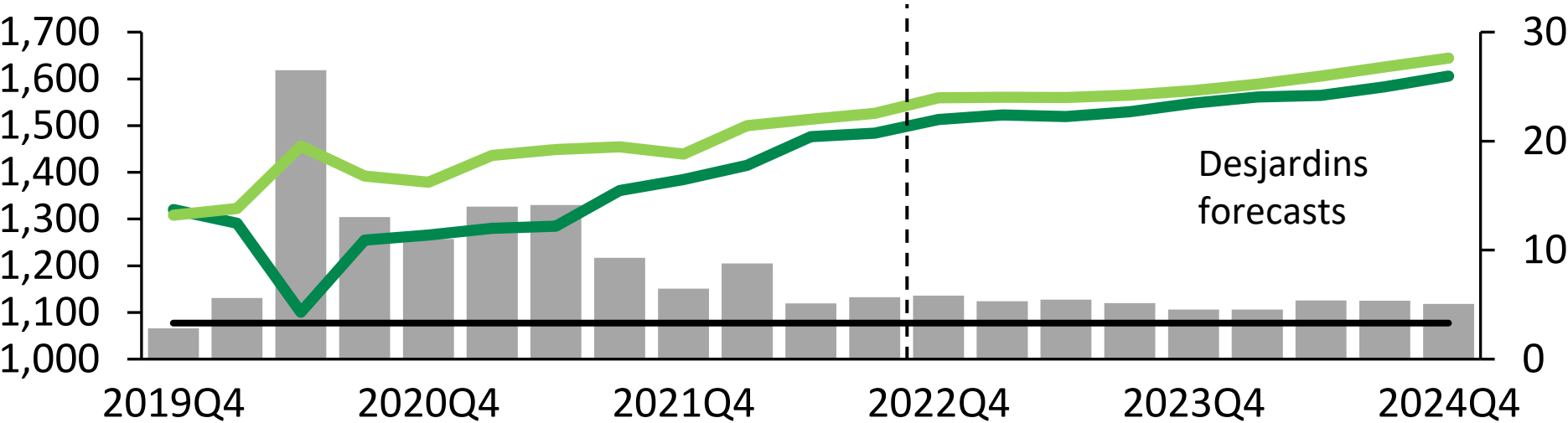


HOUSEHOLD SPENDING AND SAVING

Income is expected to outpace spending, supporting ongoing savings

Canada: Disposable Income, Consumption and Savings

Billions of dollars



Desjardins forecasts

- Savings rate (right scale)
- Household consumption (left scale)
- Household disposable income (left scale)
- Average savings rate (2000-19) (right scale)

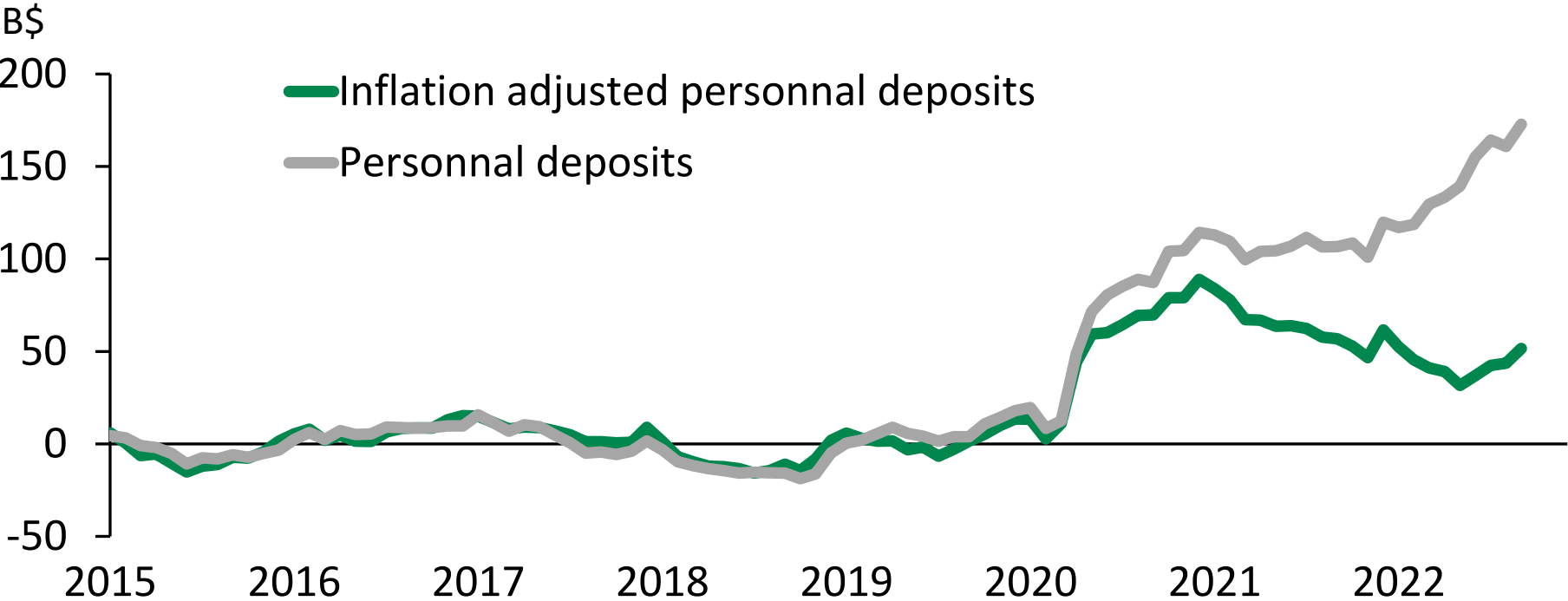
Sources: Statistics Canada and Desjardins, Economic Studies



HOUSEHOLD SAVINGS

Pandemic-era savings are still high but are being eroded by inflation

Surplus Compared to Prepandemic Trend (2015-2019)



Sources : Bank of Canada and Desjardins Economic Studies

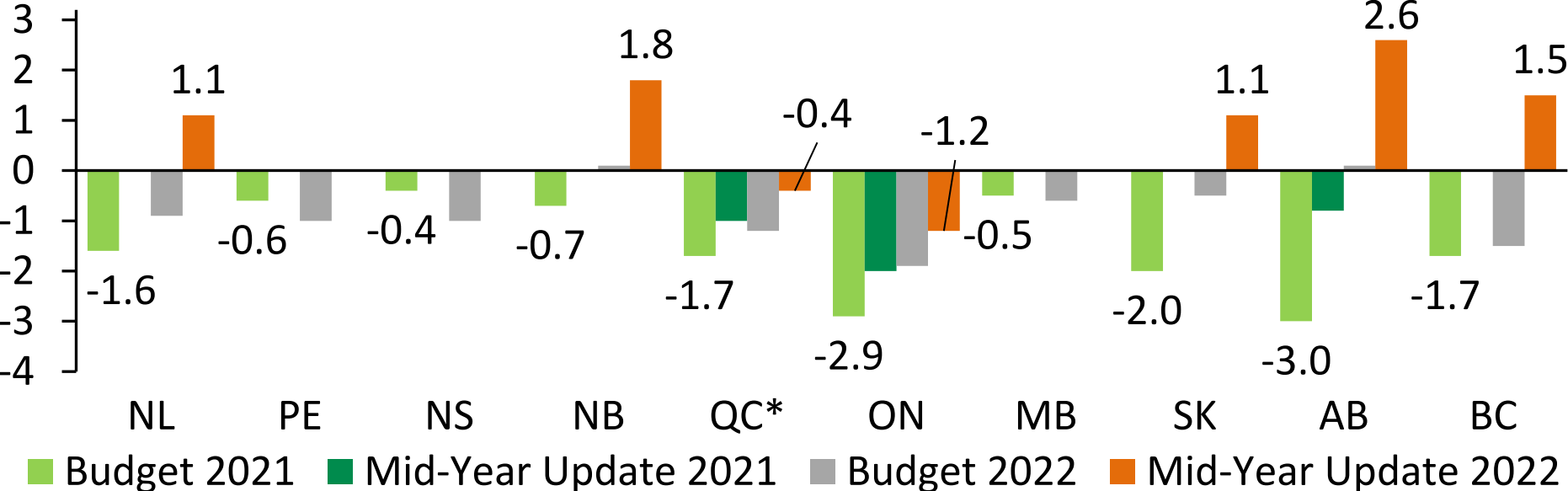


FISCAL POLICY

Provincial government fiscal positions have improved substantially

FY2023 Budget Balance Projections by Province

% of nominal GDP



* Before Deposits into the Generations Fund, use of Stabilization Reserve

Sources: Provincial budget documents and Desjardins Economic Studies

FISCAL POLICY

Improved fiscal positions were used to fund affordability measures

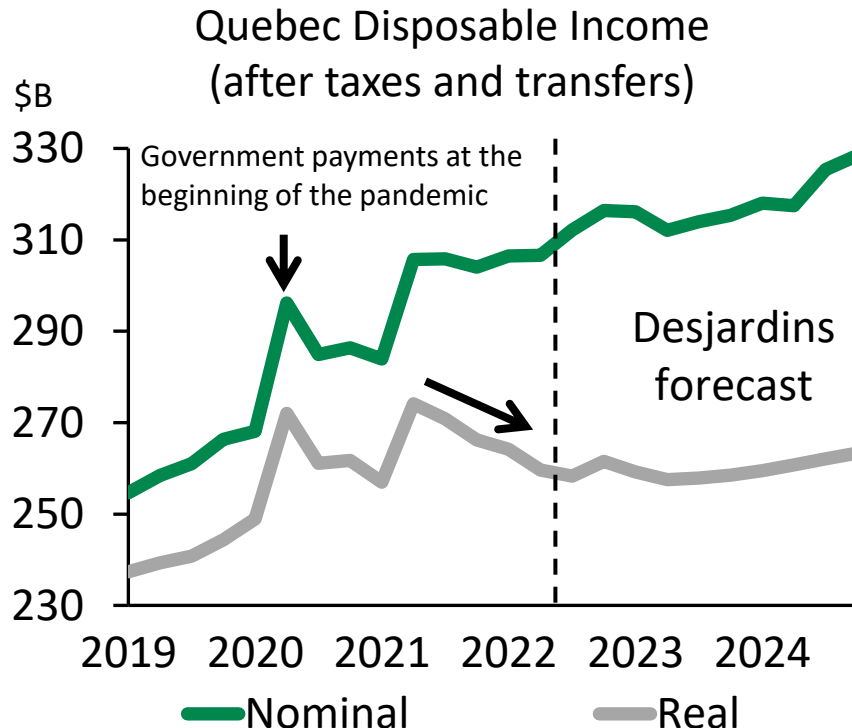
FY2023 Affordability Measures Announced since Budget 2022

Province	FY2023 Amount (\$ M)	% Nominal GDP	Description
NL	194	0.5	\$500 for those earning ≤ \$125k
New Brunswick	140	0.3	<ul style="list-style-type: none"> ➤ Broad-based income tax cuts ➤ Tax cut for non-owner-occupied properties
Quebec	5,091	1.0	<ul style="list-style-type: none"> ➤ New household transfers ➤ 3% cap on tax rate inflation indexation ➤ Increase in payments to seniors 70+
Ontario	735	0.1	<ul style="list-style-type: none"> ➤ School catchup payments ➤ Gas tax cut extension
Saskatchewan	450	0.5	\$500 to every resident aged 18 or older
Alberta	2,287	0.5	<ul style="list-style-type: none"> ➤ Electricity rate rebates ➤ Income tax bracket re-indexation ➤ Transfers for households earning ≤ \$180k
BC*	1,100	0.3	<ul style="list-style-type: none"> ➤ Temporary hydro rate reduction ➤ One-time tax credit, phased out @ \$79k
TOTAL	9,997	0.4	

* Does not include \$800M for public sector wage increases

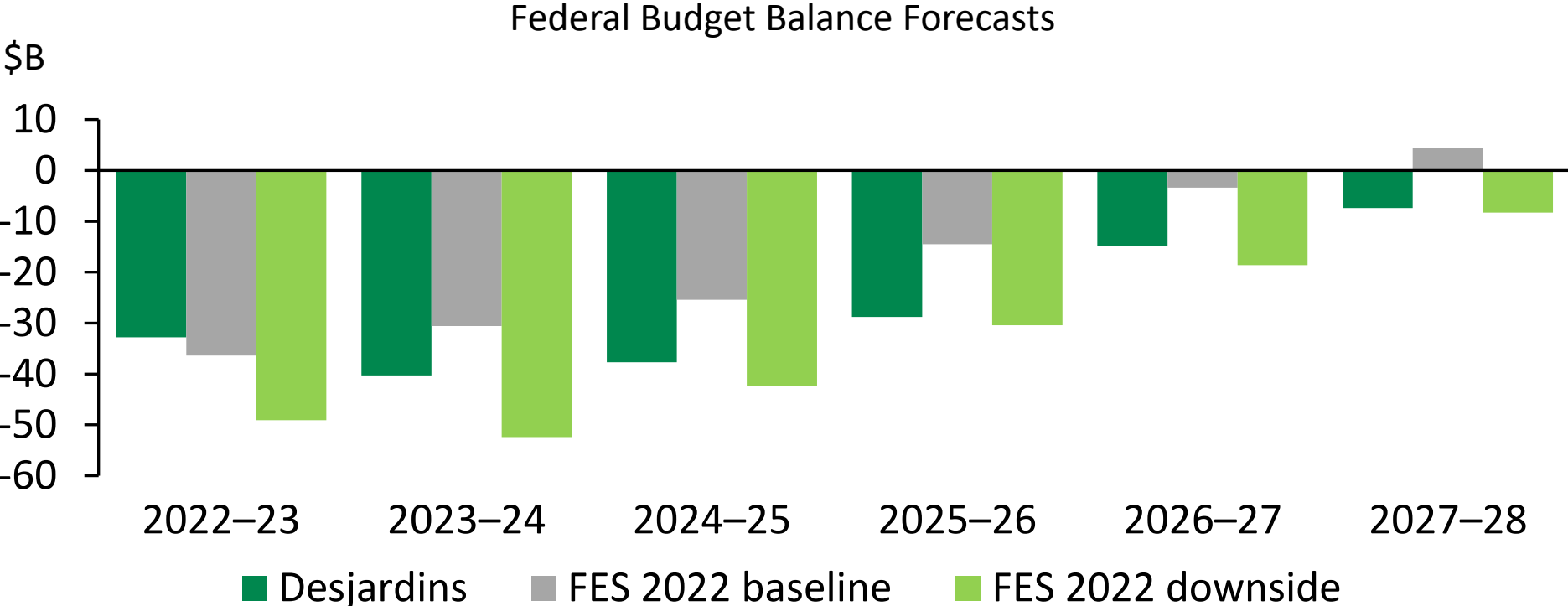
* Before Deposits into the Generations Fund, use of Stabilization Reserve

Sources: Statistics Canada, provincial budget documents and Desjardins Economic Studies



FISCAL POLICY

While boosted by revenues, the federal fiscal outlook is challenged

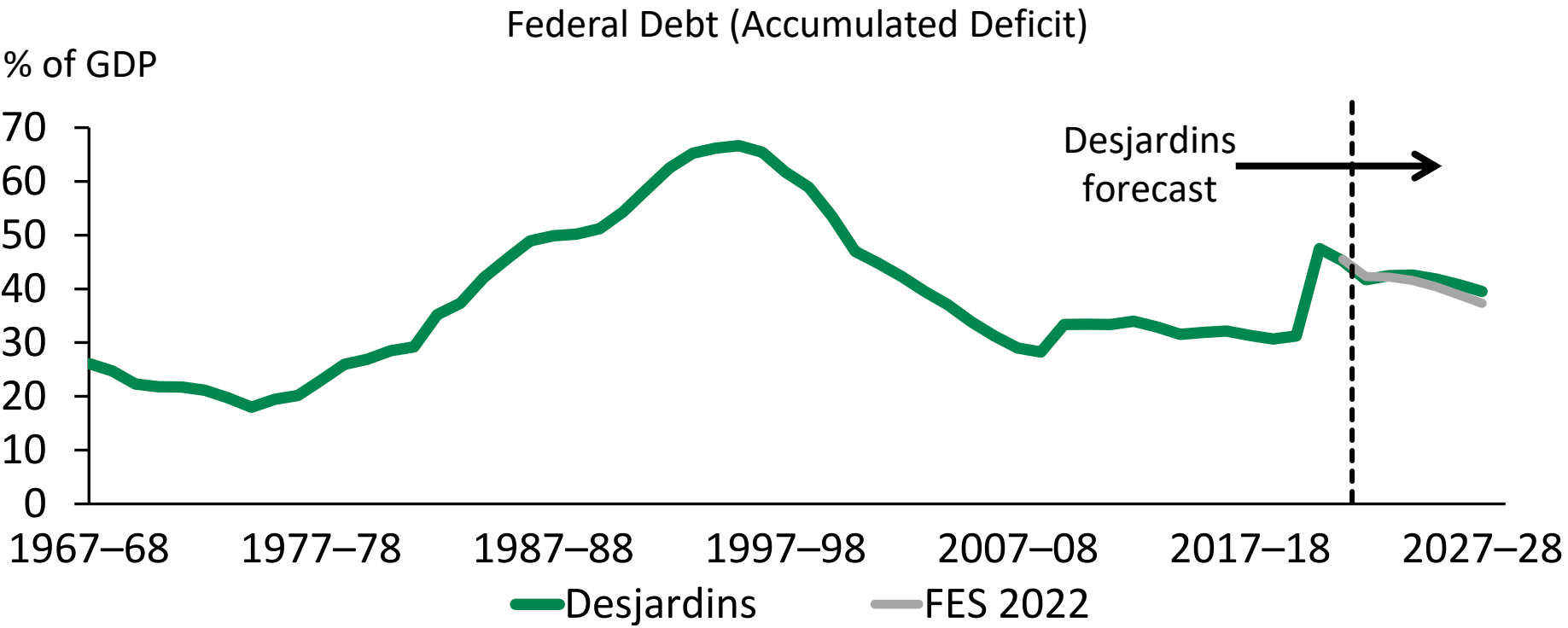


FES: Fall Economic Statement

Sources: Finance Canada and Desjardins Economic Studies

FISCAL POLICY

Federal debt is still expected to broadly decline as a share of GDP



FES: Fall Economic Statement

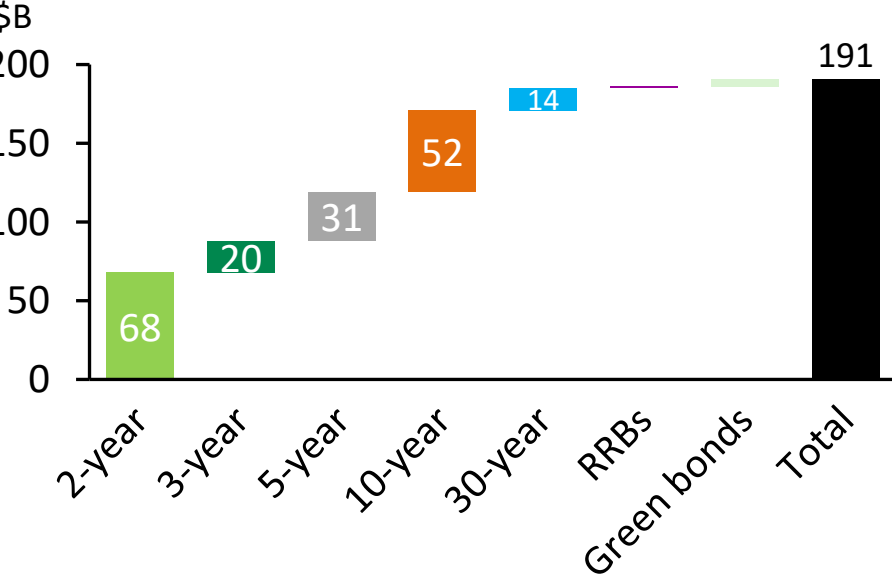
Sources: Finance Canada and Desjardins Economic Studies



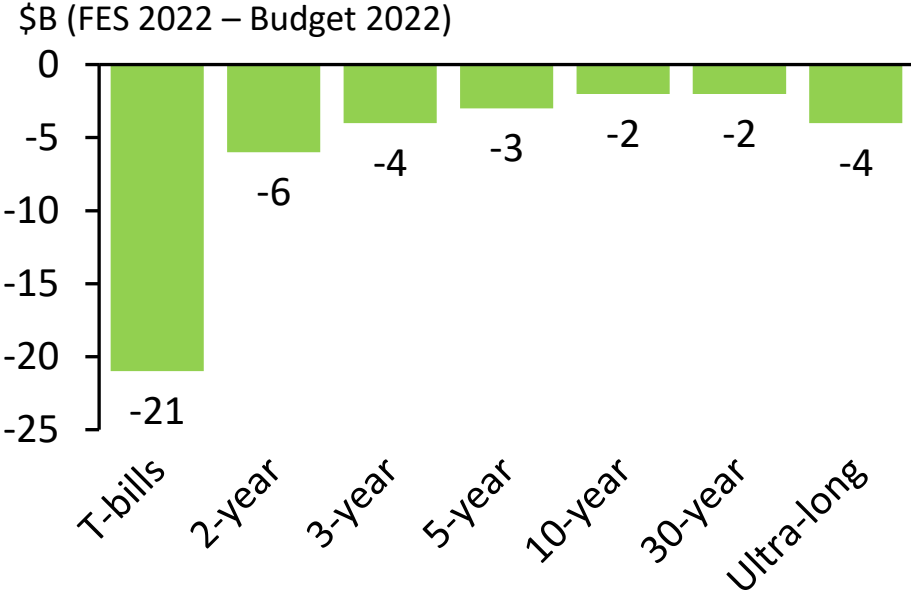
FISCAL POLICY

The trend in federal debt issuance has been increasingly long term

Projected Gross Issuance of Bonds for 2022-23



Change in Projected Gross Issuance of Bonds and Bills for 2022-23



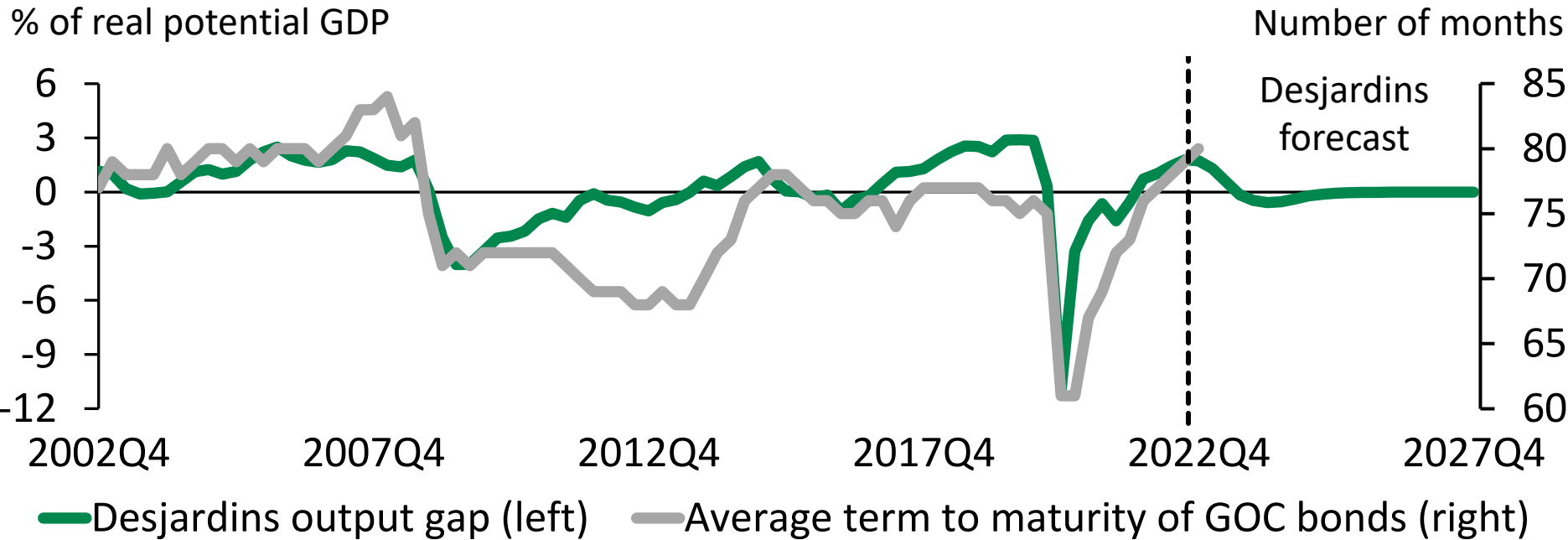
FES: Fall Economic Statement

Sources: Finance Canada and Desjardins Economic Studies

FISCAL POLICY

Federal debt should become shorter term as the economy weakens

Canada: Output Gap vs. Average Term to Maturity of GOC Bonds



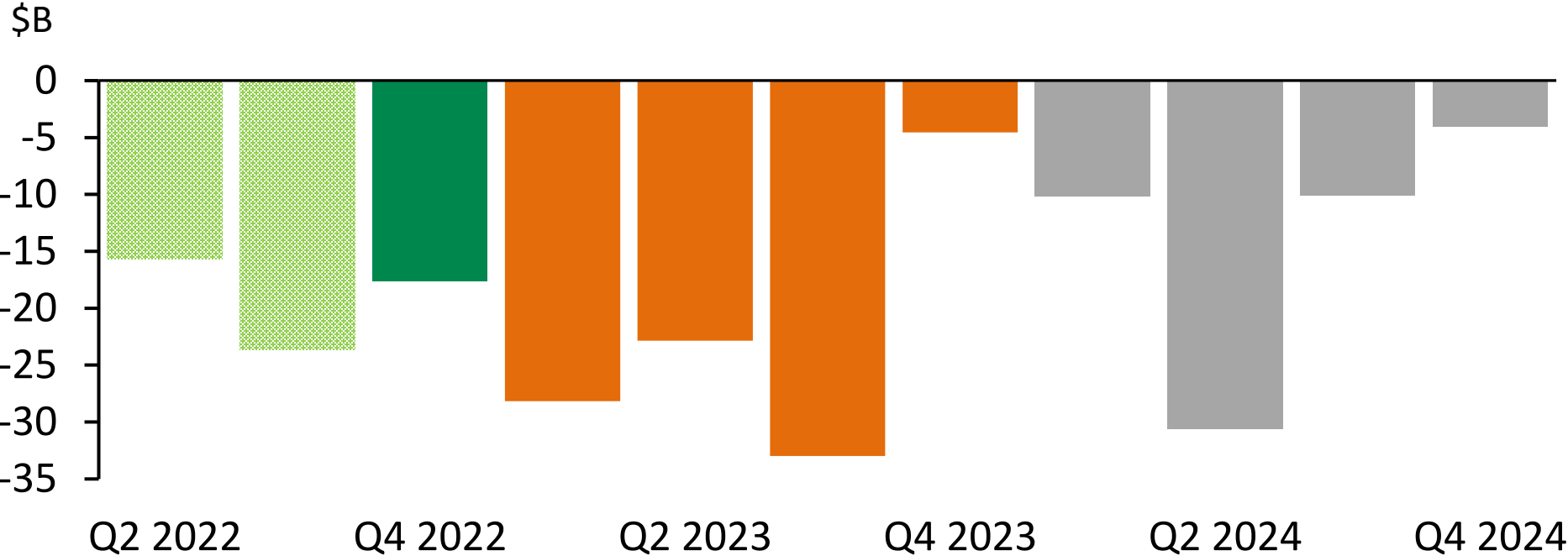
GOC: Government of Canada; EFO: Economic and Financial Outlook
Sources: Bank of Canada and Desjardins Economic Studies



MONETARY POLICY

Quantitative tightening to pick up pace in 2023 in Canada

Government of Canada bonds maturing and rolling off the BoCs balance sheet



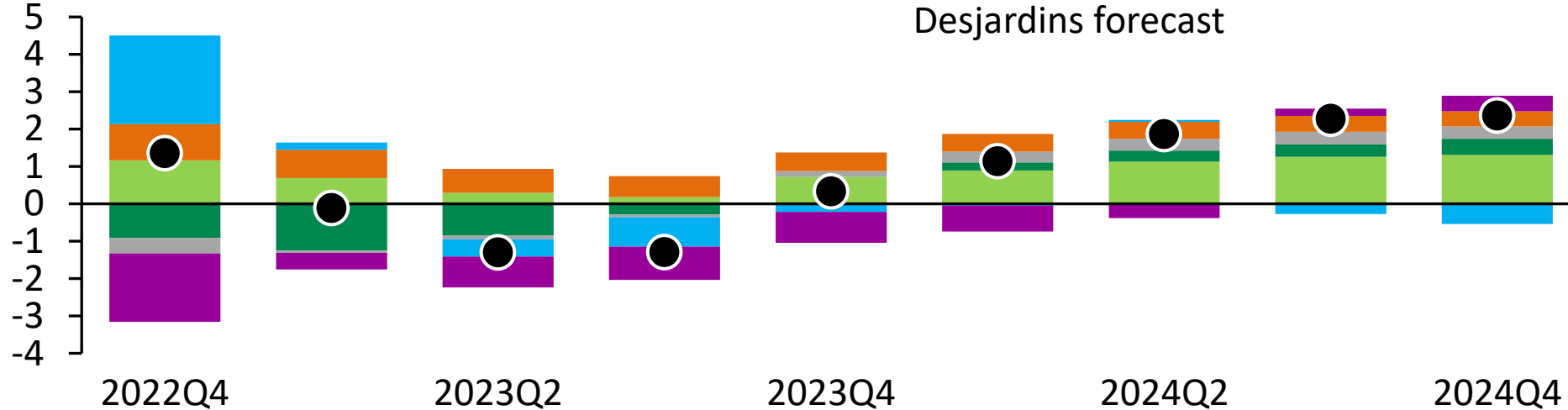
Sources: Bank of Canada and Desjardins Capital Markets

CANADA REAL GDP GROWTH

Interest-rate sensitive sectors are likely to push Canada into recession

Contributions to the Change in Annualized Quarterly Real GDP Growth

Percentage points



- Consumption
- Residential investment
- Non-residential investment
- Government
- Net exports
- Inventories
- Total (% , q/q, saar)

Sources: Statistics Canada and Desjardins Economic Studies

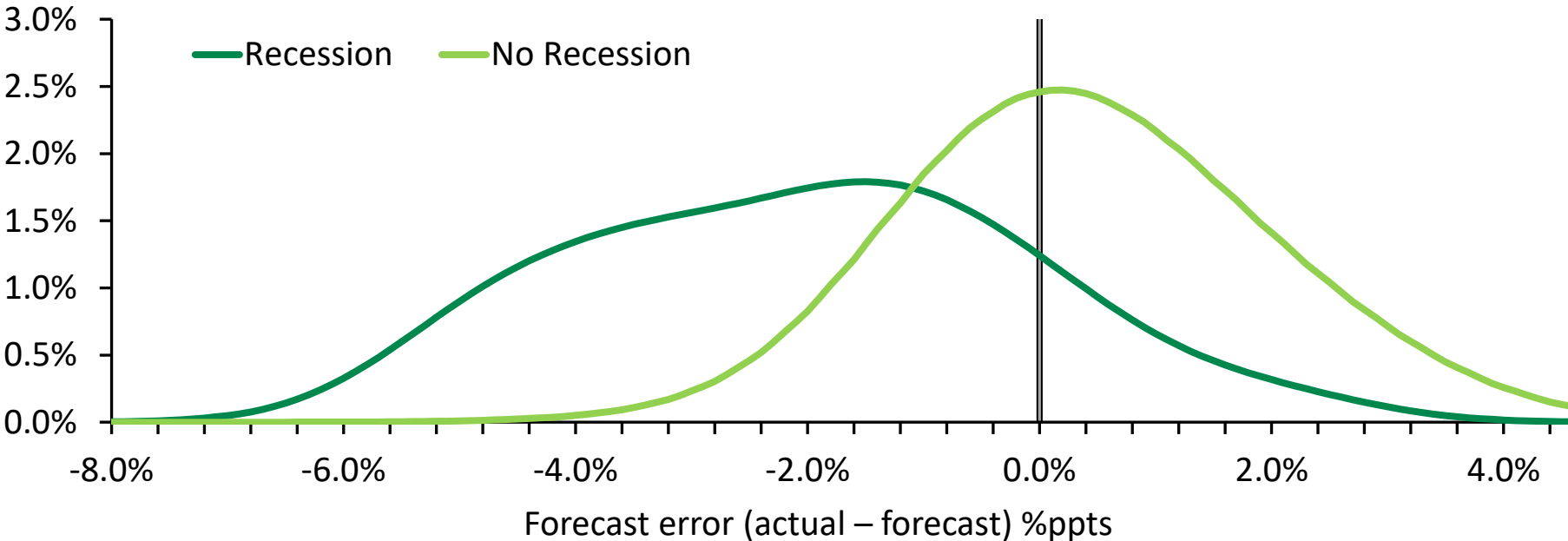


REAL GDP GROWTH

Forecasters tend to underestimate the severity of recessions

Forecast Errors of US real GDP Growth

Frequency of observations as a share of total

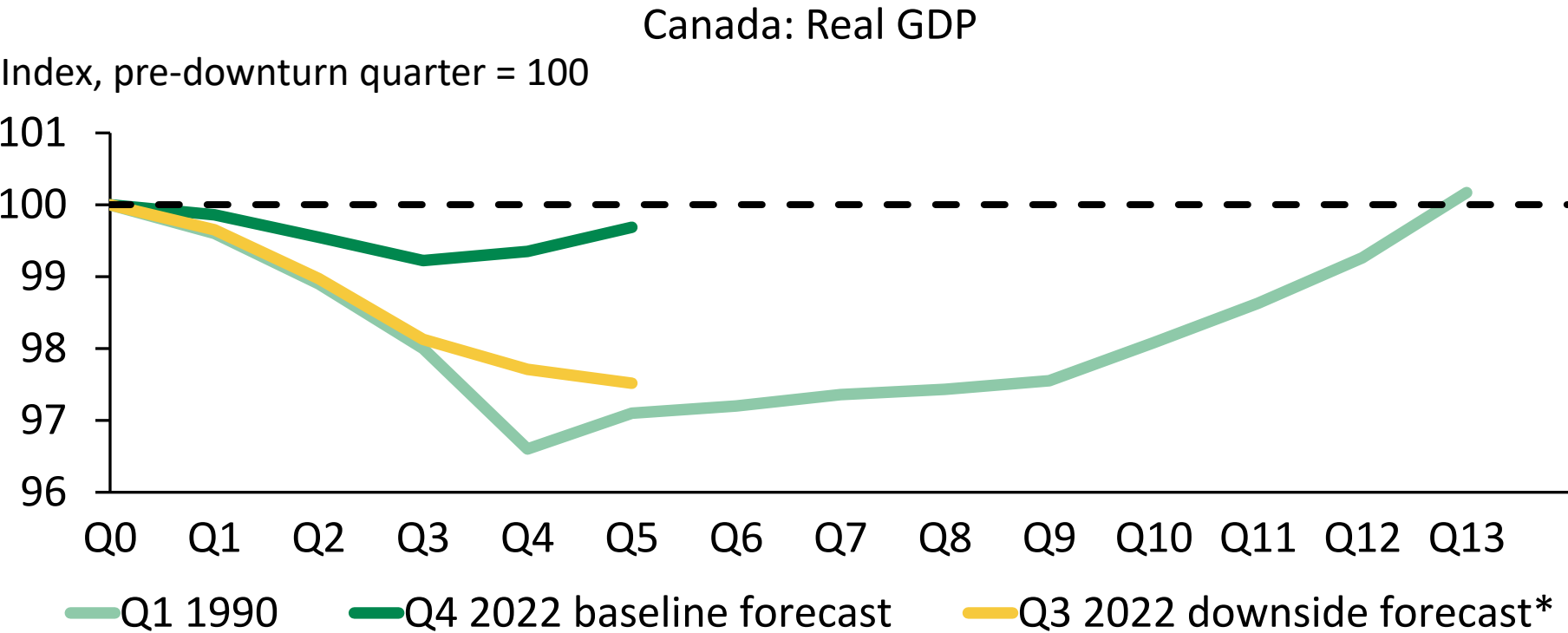


Sources: Survey of Professional Forecasters and Desjardins Capital Markets



REAL GDP GROWTH

Our downside scenario points to a deep and prolonged downturn



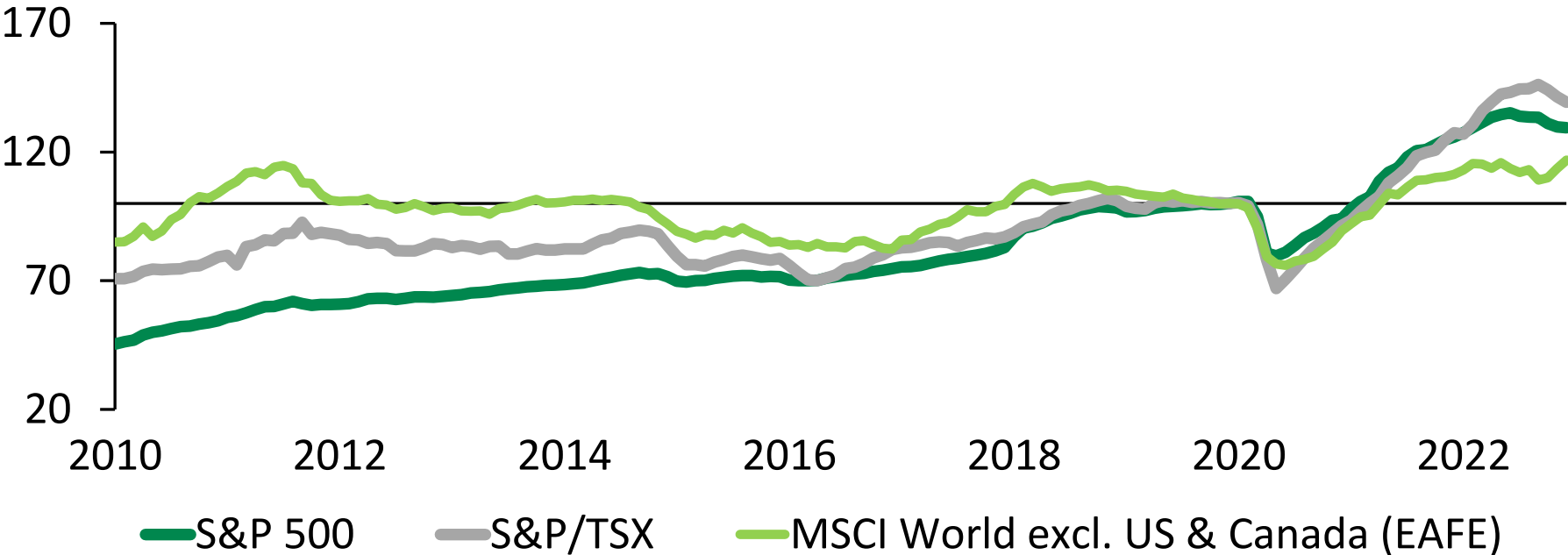
*The recession in the downside scenario starts a quarter earlier than in the baseline forecast

FINANCIAL MARKETS

Projected earnings remain high for now but are starting to turn

Average earnings per share projected over the next 12 months

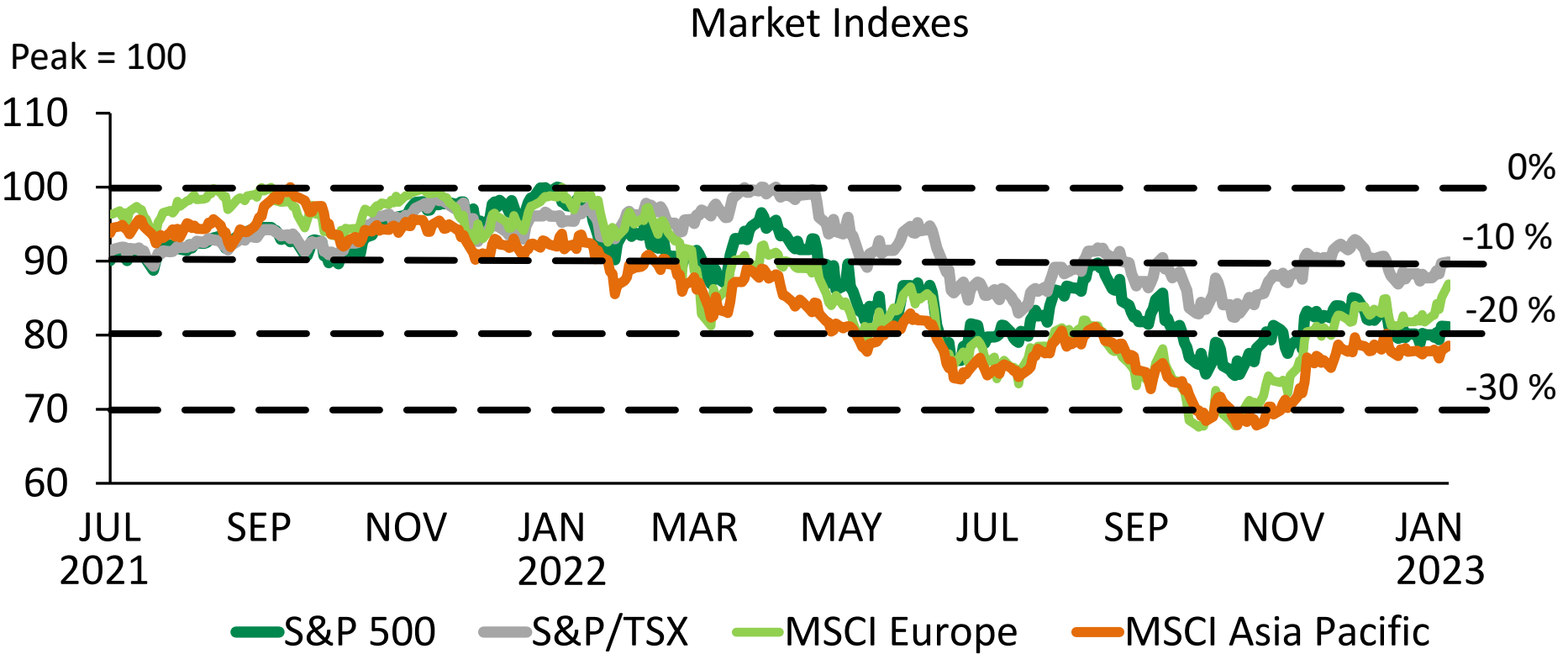
December 2019 = 100



Sources: Datastream and Desjardins Economic Studies

FINANCIAL MARKETS

Canadian equity losses have been less pronounced than other markets



Sources: Datastream and Desjardins Economic Studies



FINANCIAL MARKETS

Changes in bond yields explain a large part of recent equity volatility

S&P 500 index and Inverted US Bond Yields



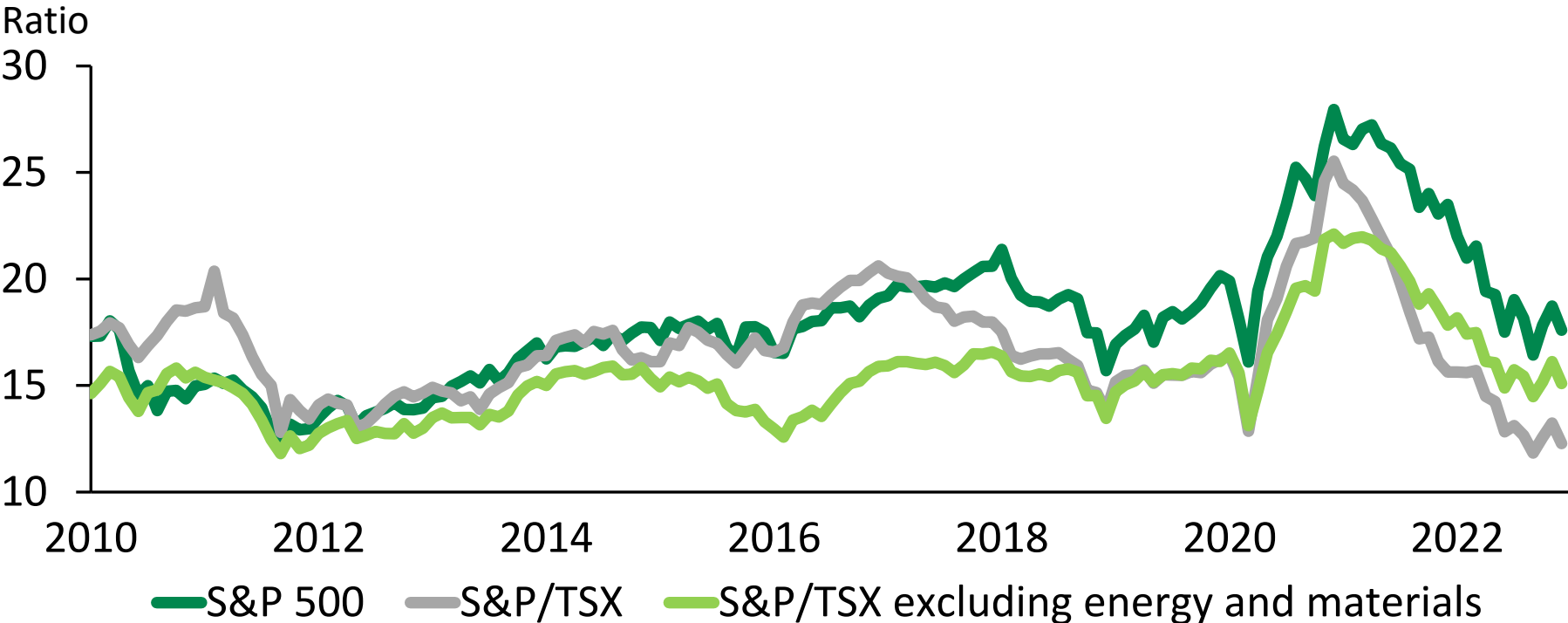
Sources: Datastream and Desjardins Economic Studies



FINANCIAL MARKETS

Markets are less overvalued but the correction could persist

Average Price-to-Earnings Ratios (earnings for the last 12 months)



Sources: Datastream and Desjardins Economic Studies



ASSET CLASS RETURNS

After a tough 2022, financial asset returns are set to improve in 2023

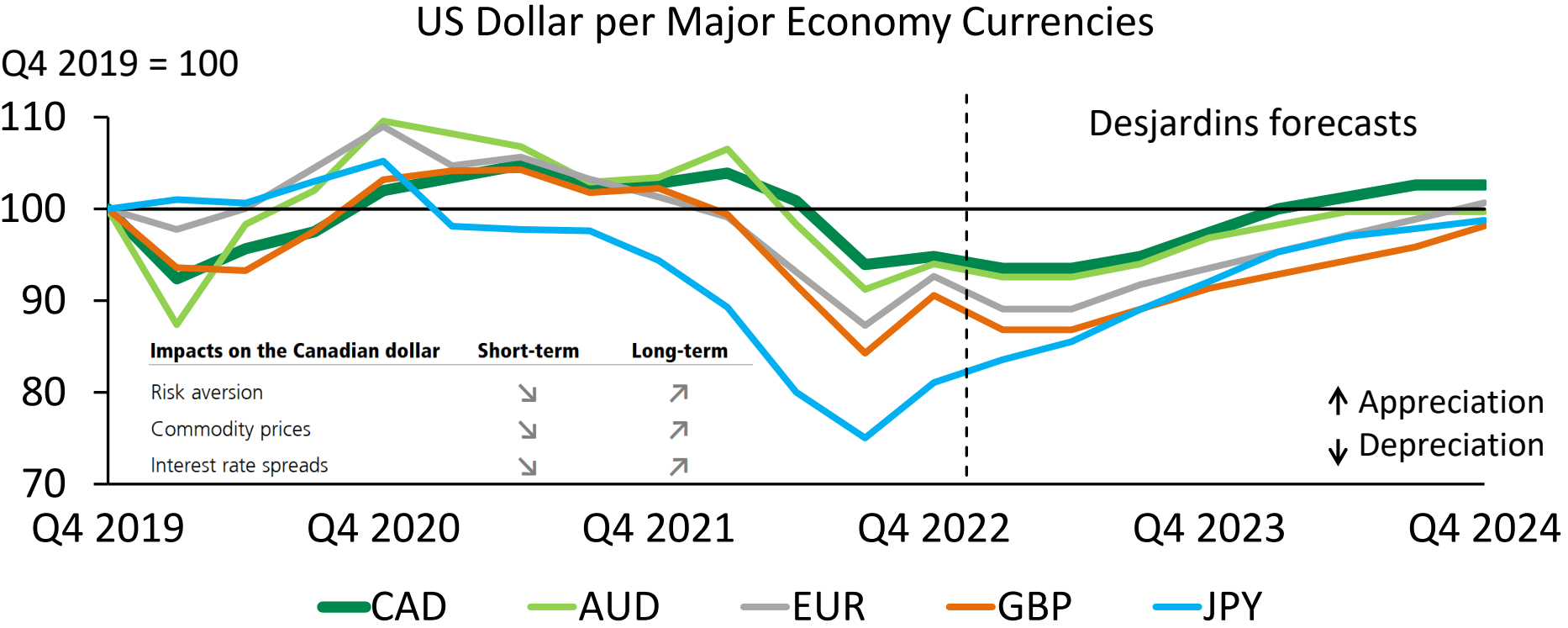
Asset Classes Percentage Return

END OF YEAR IN % (EXCEPT IF INDICATED)	CASH	BONDS	CANADIAN STOCKS	US STOCKS	INTERNATIONAL STOCKS	EXCHANGE RATE
	3-month T-Bill	Bond index ¹	S&P/TSX index ²	S&P 500 index (US\$) ²	MSCI EAFE index (US\$) ²	C\$/US\$ (variation in %) ³
2011	1.0	9.7	-8.7	2.1	-11.7	2.3
2012	1.0	3.6	7.2	16.0	17.9	-2.7
2013	1.0	-1.2	13.0	32.4	23.3	7.1
2014	0.9	8.8	10.6	13.7	-4.5	9.4
2015	0.6	3.5	-8.3	1.4	-0.4	19.1
2016	0.5	1.7	21.1	12.0	1.5	-2.9
2017	0.6	2.5	9.1	21.8	25.6	-6.4
2018	1.4	1.4	-8.9	-4.4	-13.4	8.4
2019	1.6	6.9	22.9	31.5	22.7	-4.8
2020	0.9	8.7	5.6	18.4	8.3	-2.0
2021	0.2	-2.5	25.1	28.7	11.8	-0.8
2022f	target: 1.8	target: -9.6	target: -8.4	target: -20.4	target: -16.2	target: 8.4 (US\$0.73)
range	1.7 to 1.9	-11.6 to -7.6	-11.9 to -2.9	-23.9 to -16.9	-19.7 to -10.7	6.9 to 9.9
2023f	target: 4.4	target: 4.3	target: 5.9	target: 3.4	target: 6.2	target: -2.7 (US\$0.75)
range	3.7 to 5.1	-0.7 to 9.3	-8.6 to 16.4	-12.1 to 12.9	-8.3 to 16.7	-6.4 to 1.4

f: forecasts; ¹ FTSE Canada Universe Bond index; ² Dividends included; ³ Negative = appreciation, positive = depreciation.
Sources: Datastream and Desjardins, Economic Studies

EXCHANGE RATES

The CAD is expected to outperform other currencies against the USD



Sources: Datastream and Desjardins Economic Studies



ECONOMIC AND FINANCIAL OUTLOOK

Key messages

- Inflation is high and central banks are raising rates to tame it
- Higher borrowing costs have caused the housing market to cool
- Canada's economy is expected to experience a recession in 2023
- The outlook will improve in 2024 as interest rates and inflation fall
- Against this economic backdrop, government deficits will increase

The background features a light green and white color scheme with various financial data visualizations. On the left, there are vertical bar charts of varying heights. In the center, there are line graphs with data points connected by thin lines. On the right, there are larger, semi-transparent icons of a percentage sign and a bar chart. The overall aesthetic is clean and professional, typical of a financial or economic report.

Thank you!

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Our email: desjardins.economie@desjardins.com