

Montreal Real Estate Forum

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Economic Outlooks for 2015

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Cooperating in building the future

Outline

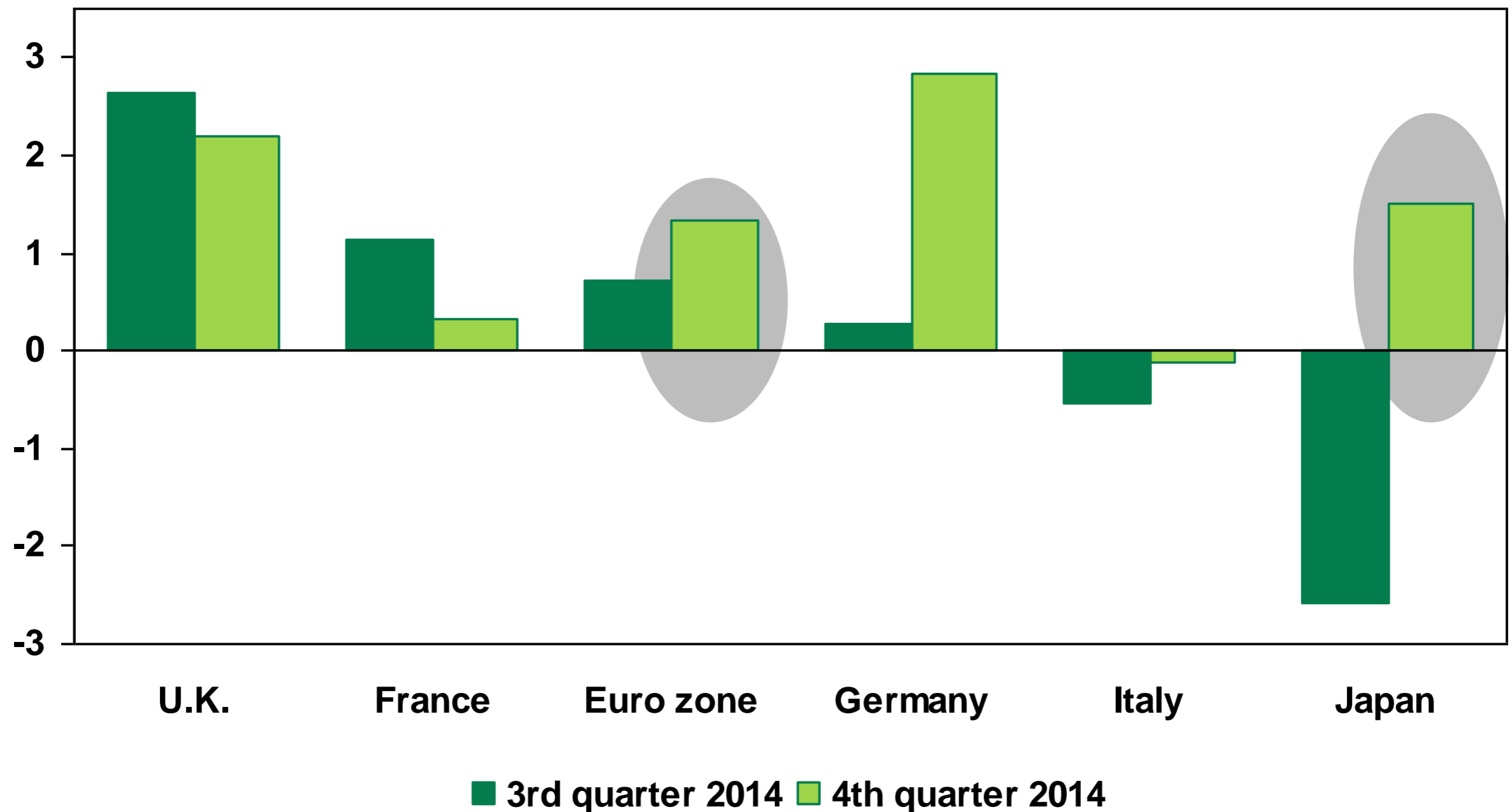
- **The global economy and oil**
- **The North American economy**
- **Interest rates and the Canadian dollar**
- **The Quebec economy**
- **Appendix : Risks to watch out for**

The Global Economy and Oil

The global economy – Better economic growth in the Euro zone and in Japan at the end of 2014

In %

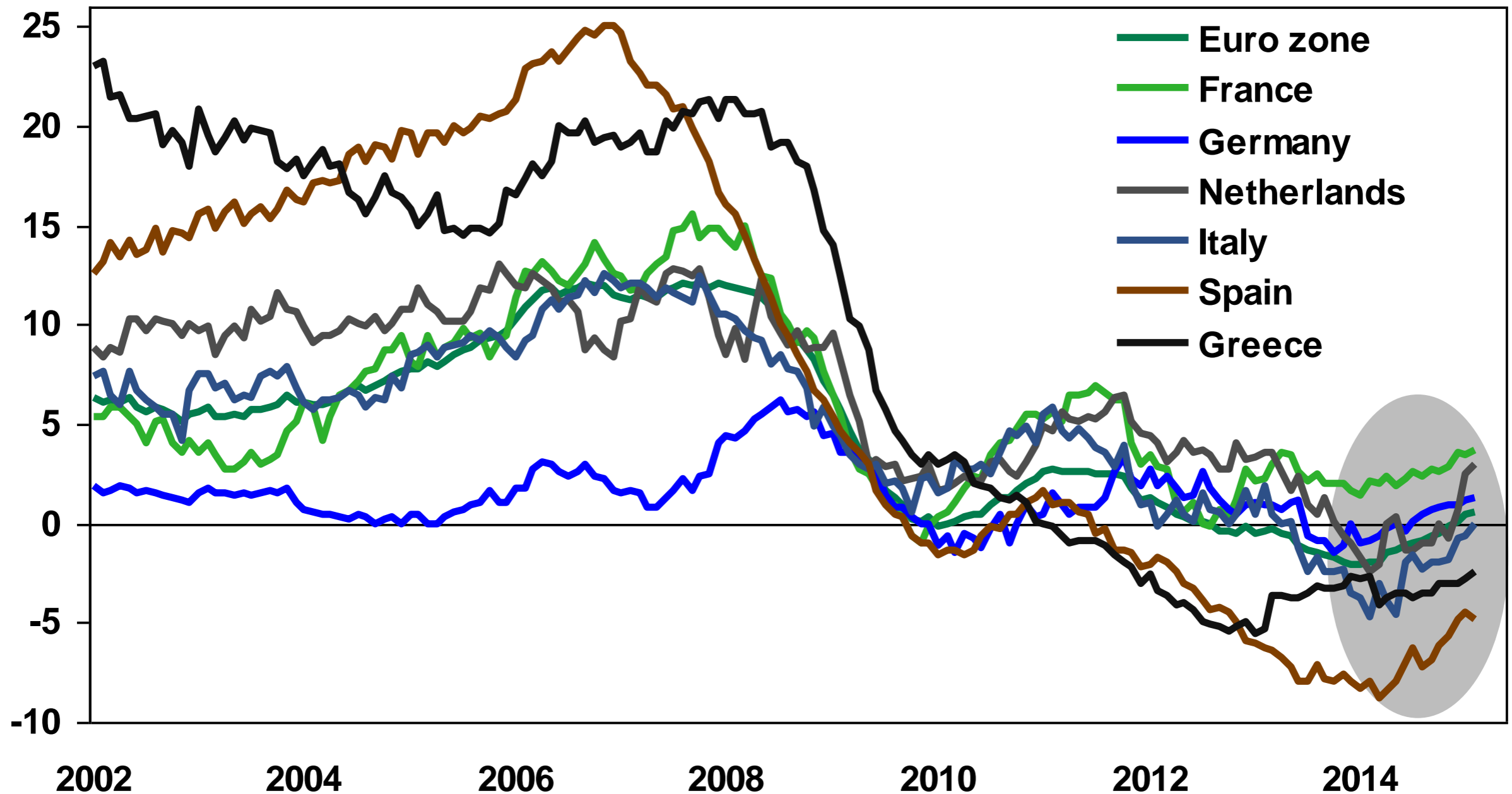
Real GDP growth



Euro zone – An upturn in bank credit is seen generally throughout the zone

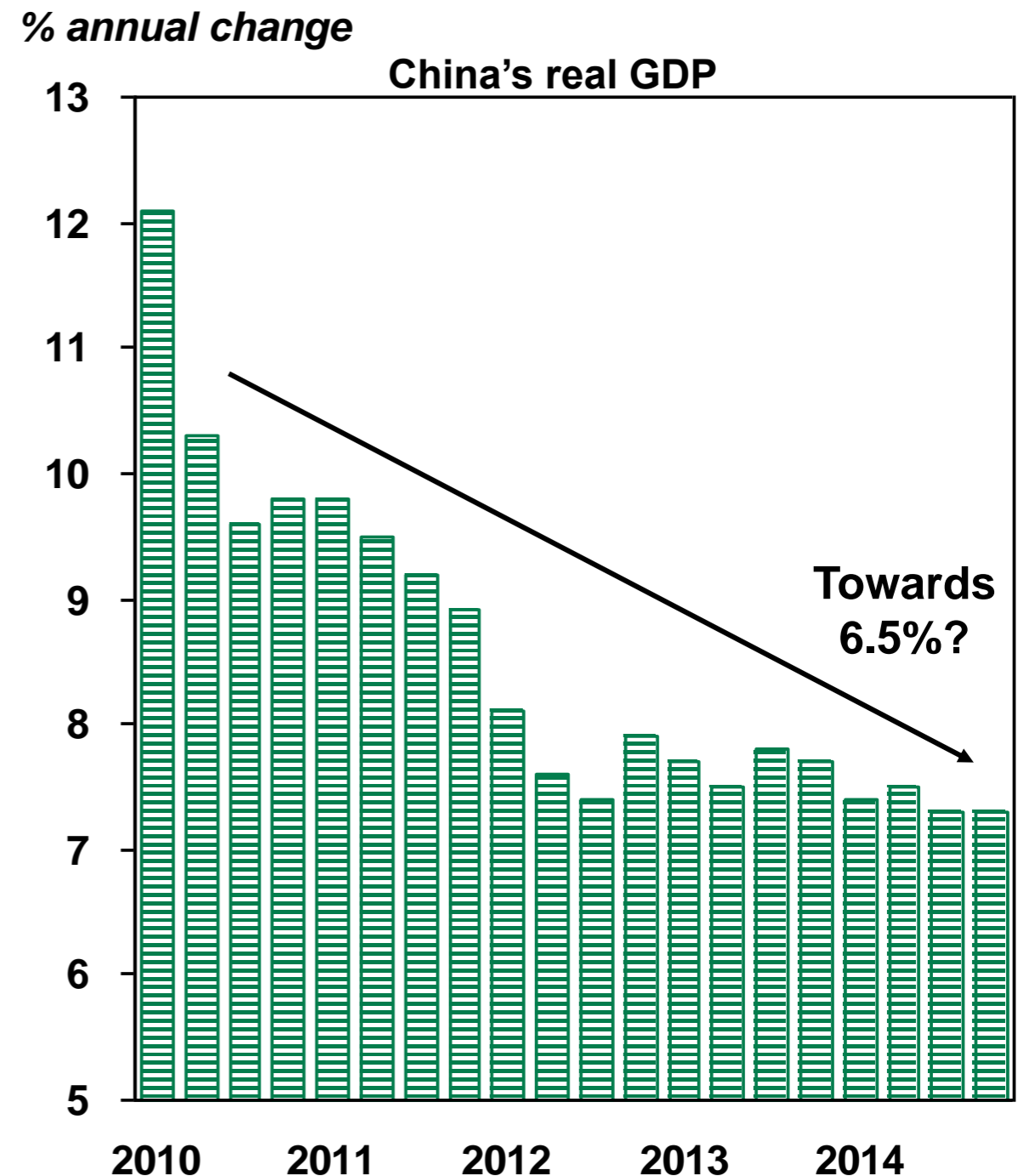
% annual change

Outstanding credit in the private sector

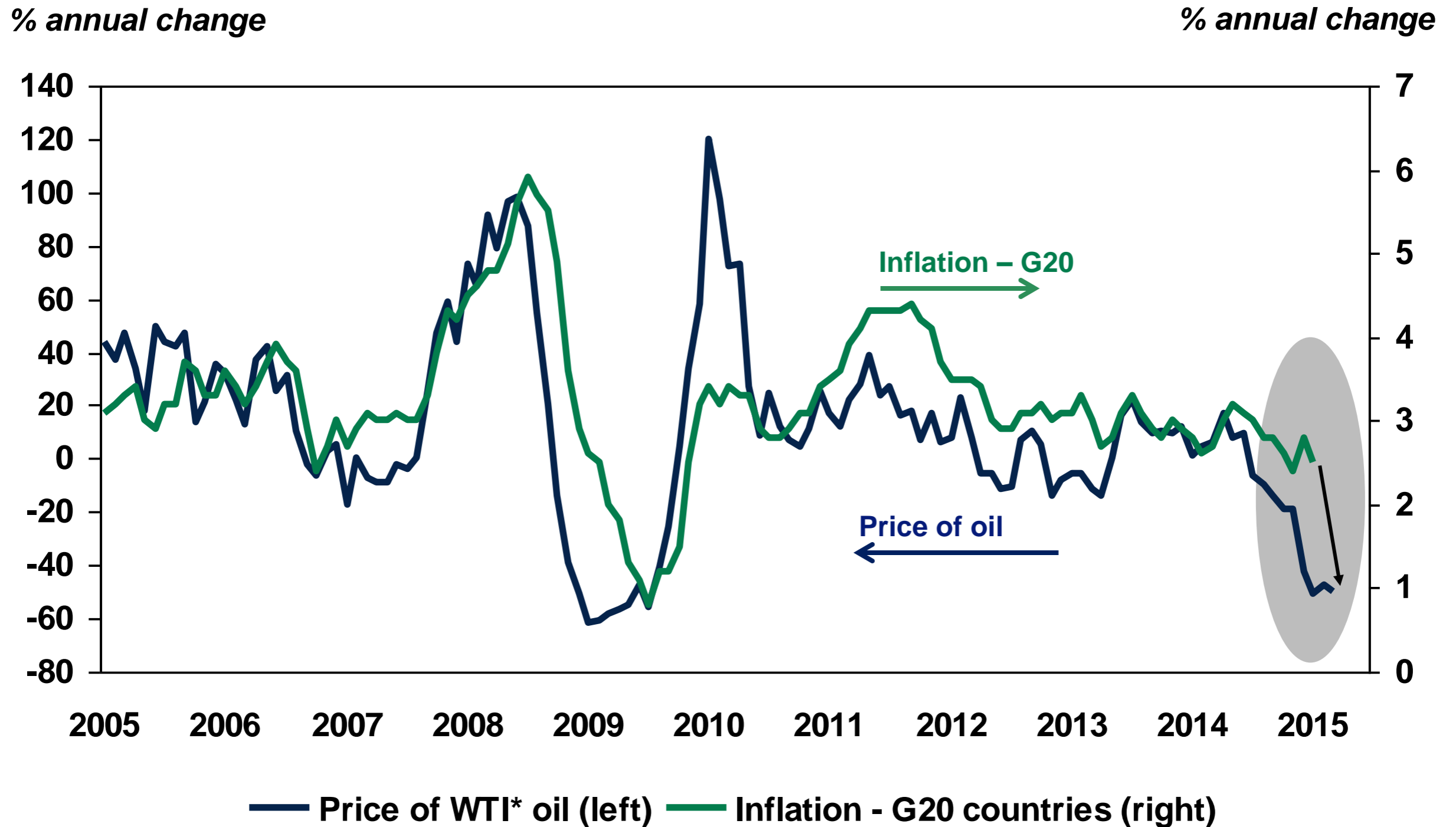


Emerging countries – Many concerns, but no disaster

- An arduous economic shift in China
- Difficulties in Brazil
- Hope in India
- A tense situation in Eastern Europe (Russia-Ukraine)



Oil – The spectacular plunge in oil prices amplifies disinflation



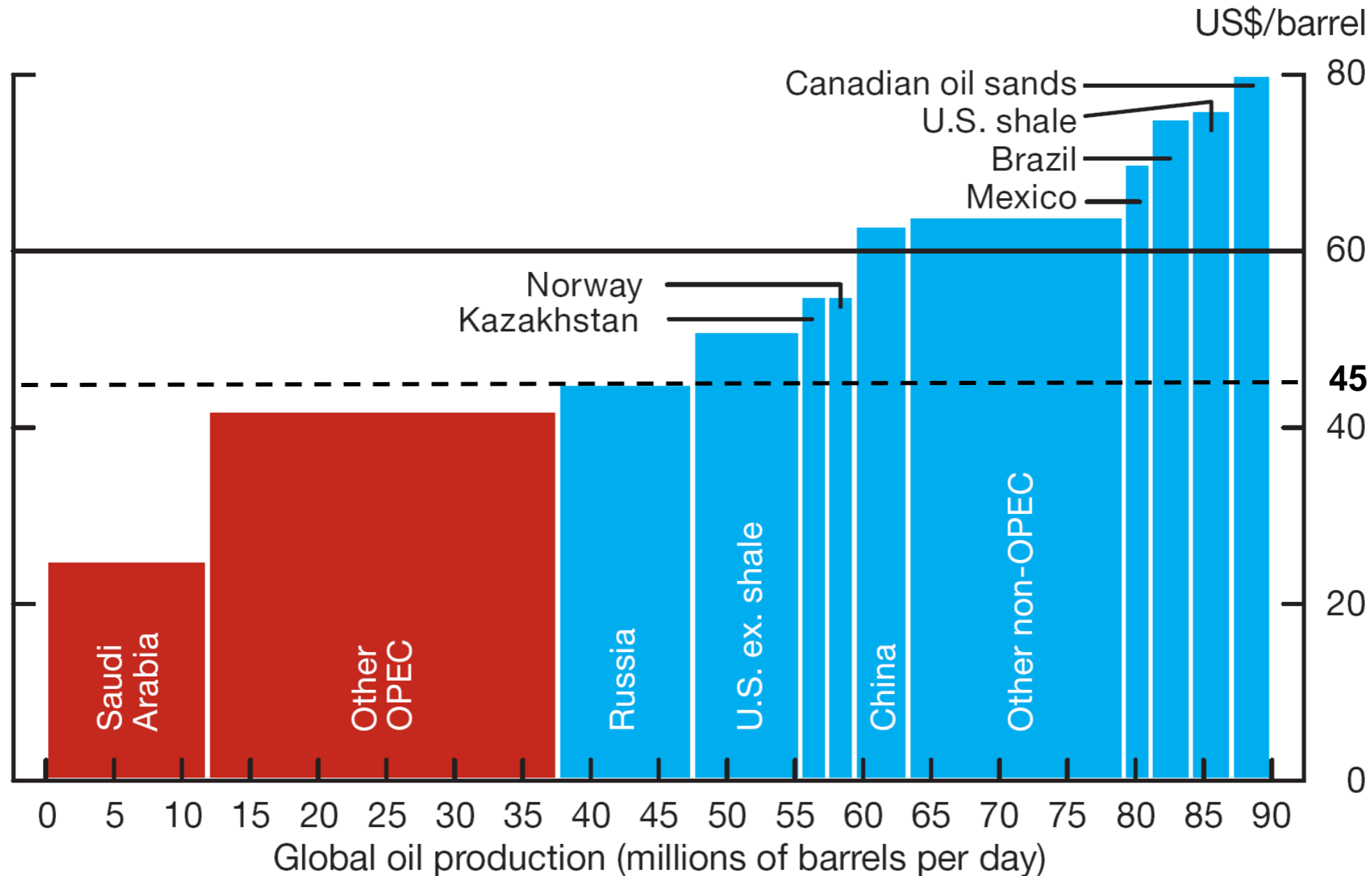
* West Texas Intermediate

Sources: Datastream, Organization for Economic Cooperation and Development and Desjardins, Economic Studies

Oil – Prices have fallen far enough to curb investment

Roughly one-third of current oil production could be uneconomical if prices stay around US\$60 per barrel

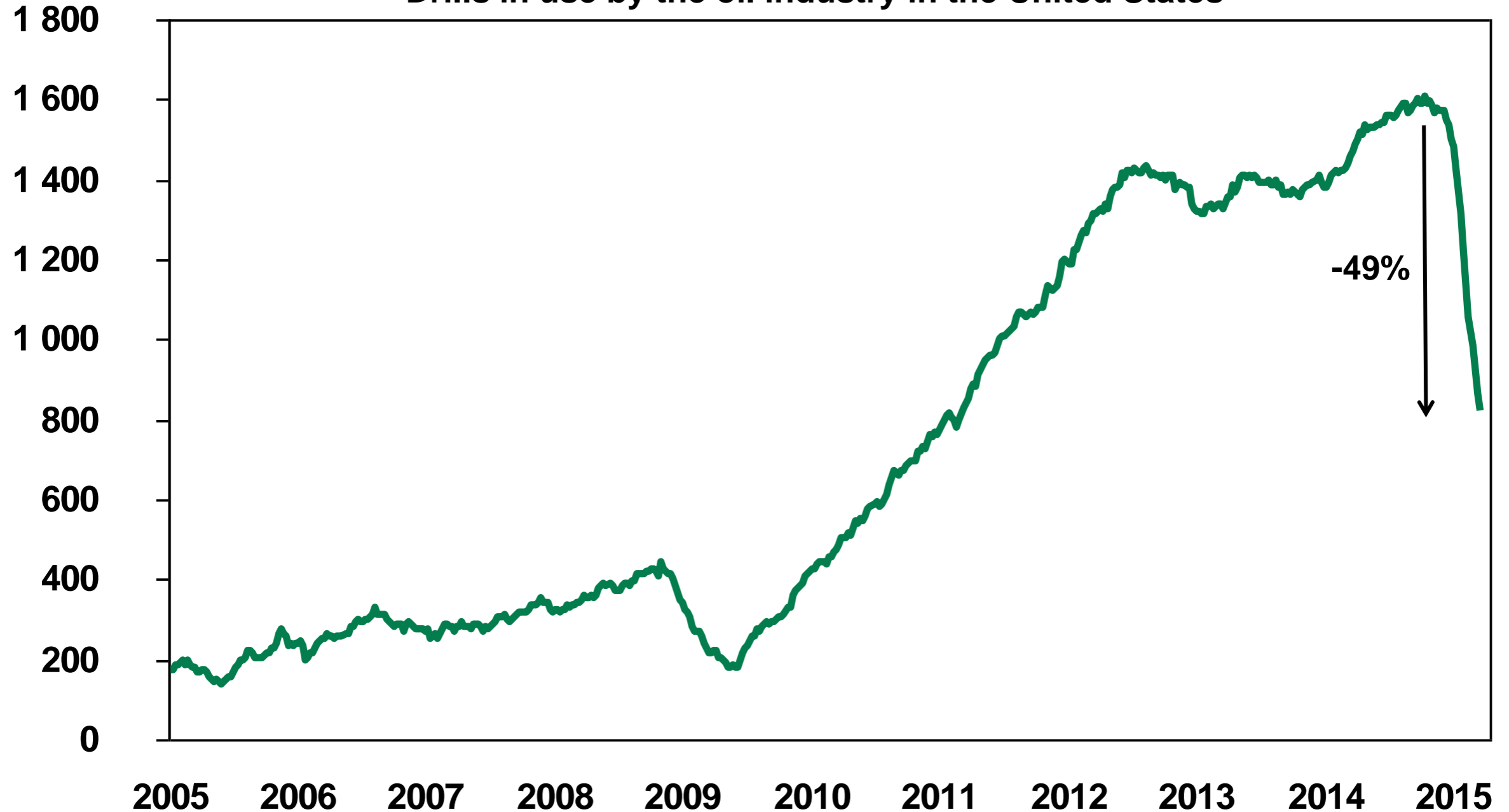
Average of full-cycle costs less dividends and interest payments



Oil – The industry is starting to slow down its activities

Number

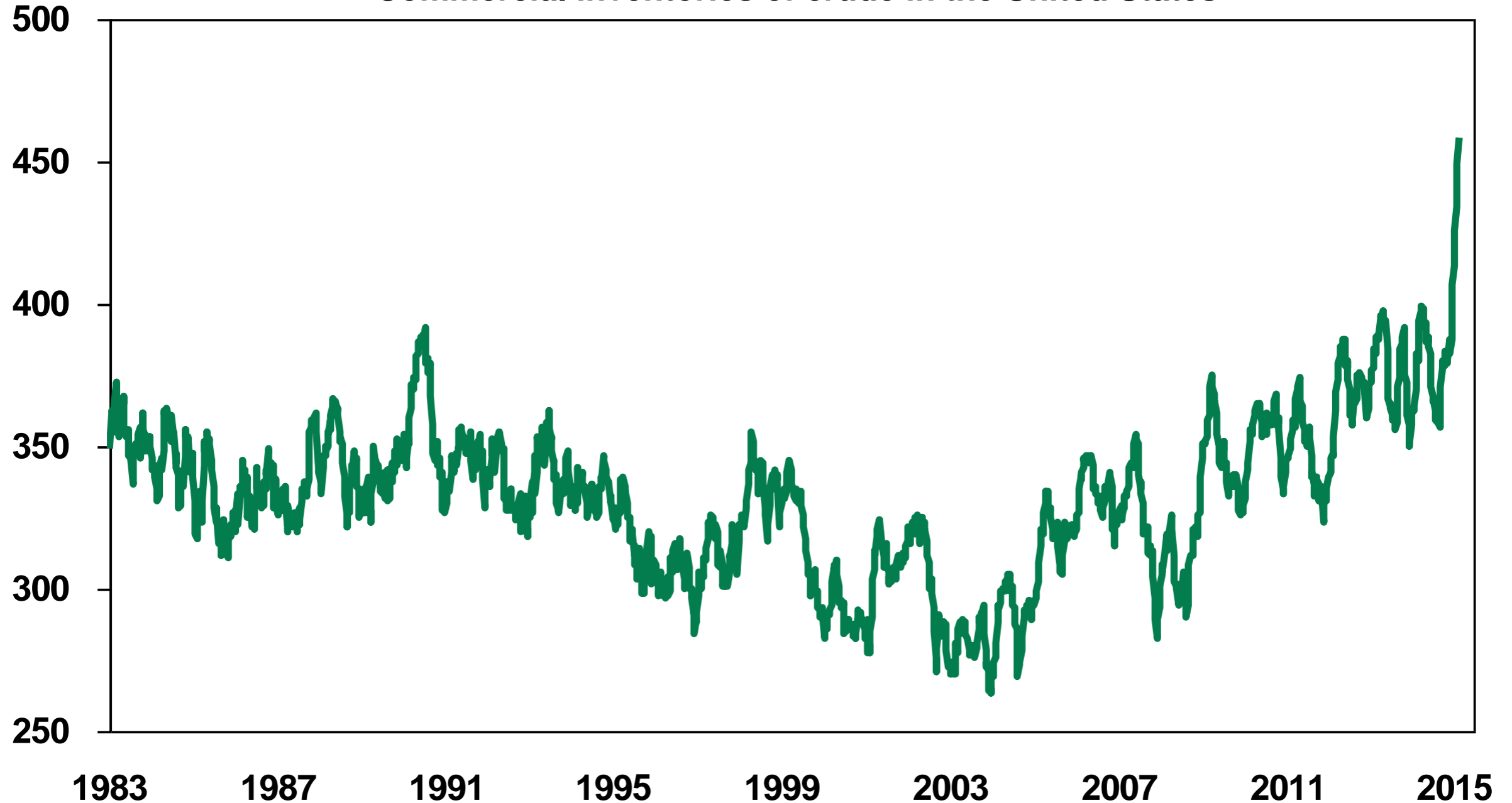
Drills in use by the oil industry in the United States



Oil – U.S. oil inventories are exploding

In millions of barrels

Commercial inventories of crude in the United States



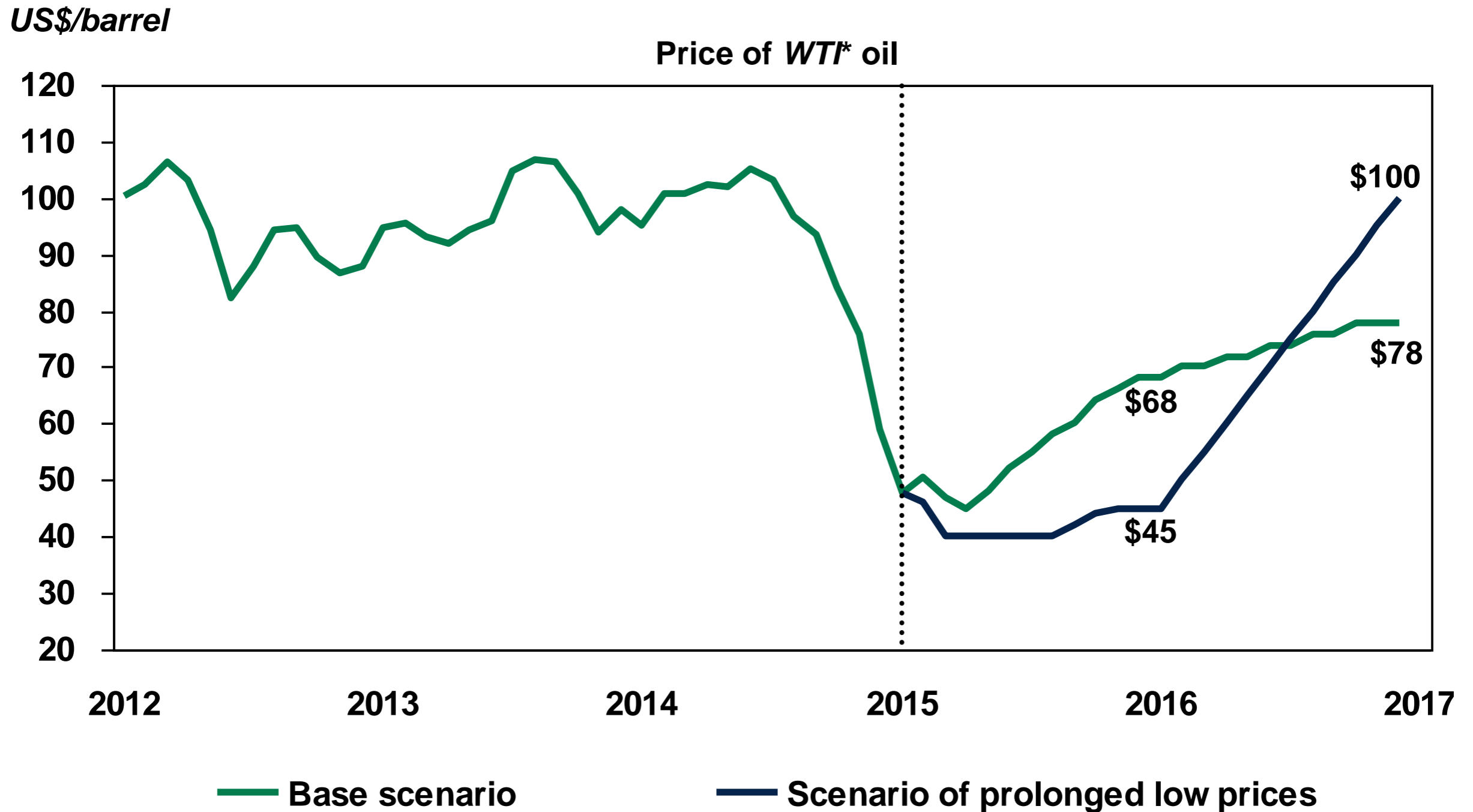
Oil – Non-economic factors

- Change of attitude on the part of **Saudi Arabia**



- Negotiations on **Iran's nuclear program**
- Chaos in **Libya** and in **Yemen**
- Conflict in **Iraq**
- Tensions between **Russia** and the West

Oil – Two scenarios considered

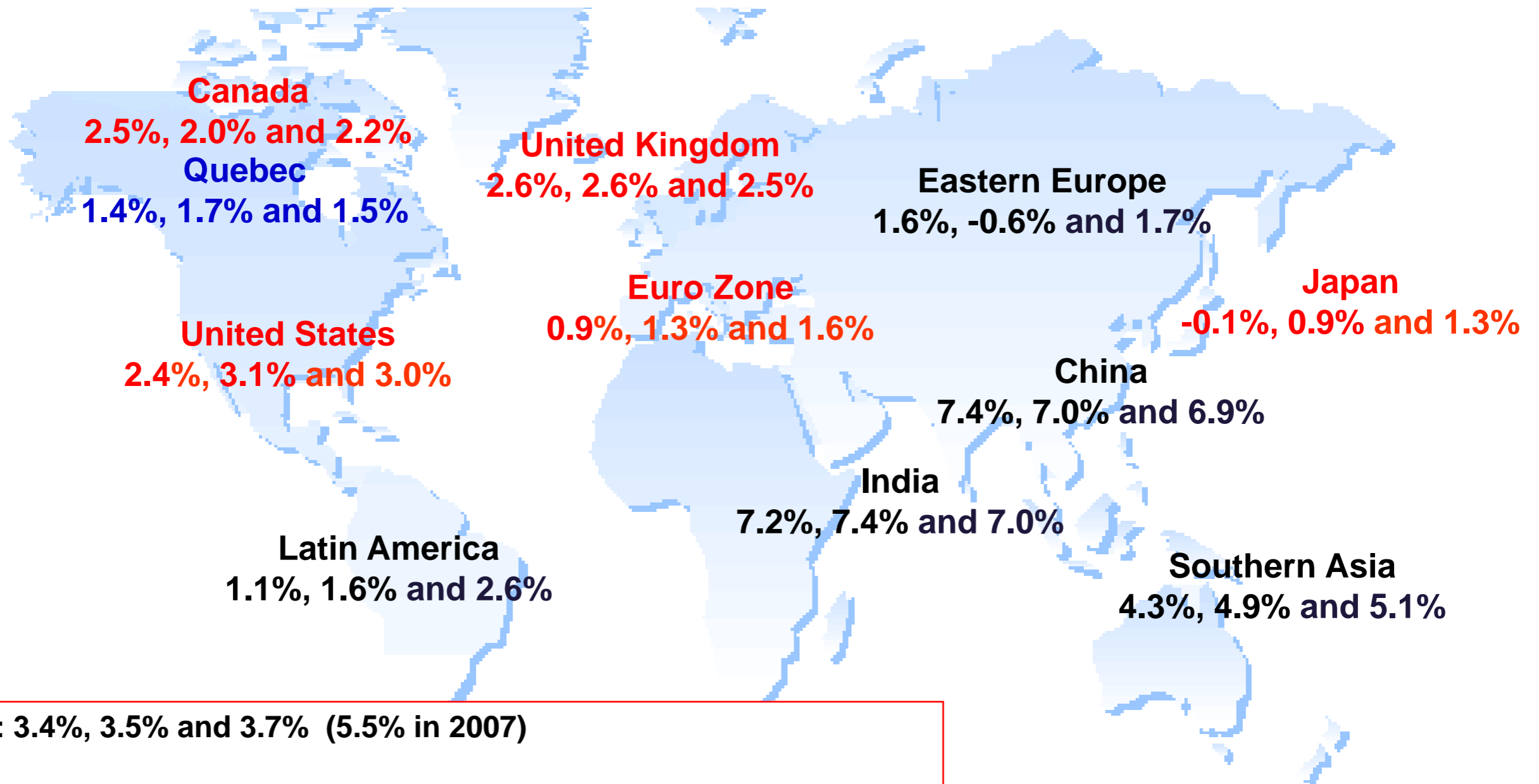


* West Texas Intermediate.

Sources: Datastream and Desjardins, Economic Studies

The global economy – Economic growth by region

Real GDP in 2014, 2015 and 2016



World: 3.4%, 3.5% and 3.7% (5.5% in 2007)

Industrialized economies: 1.7%, 2.2% and 2.3% (2.5% in 2007)

Emerging economies: 4.6%, 4.3% and 4.6% (8.2% in 2007)

U.S. Economy

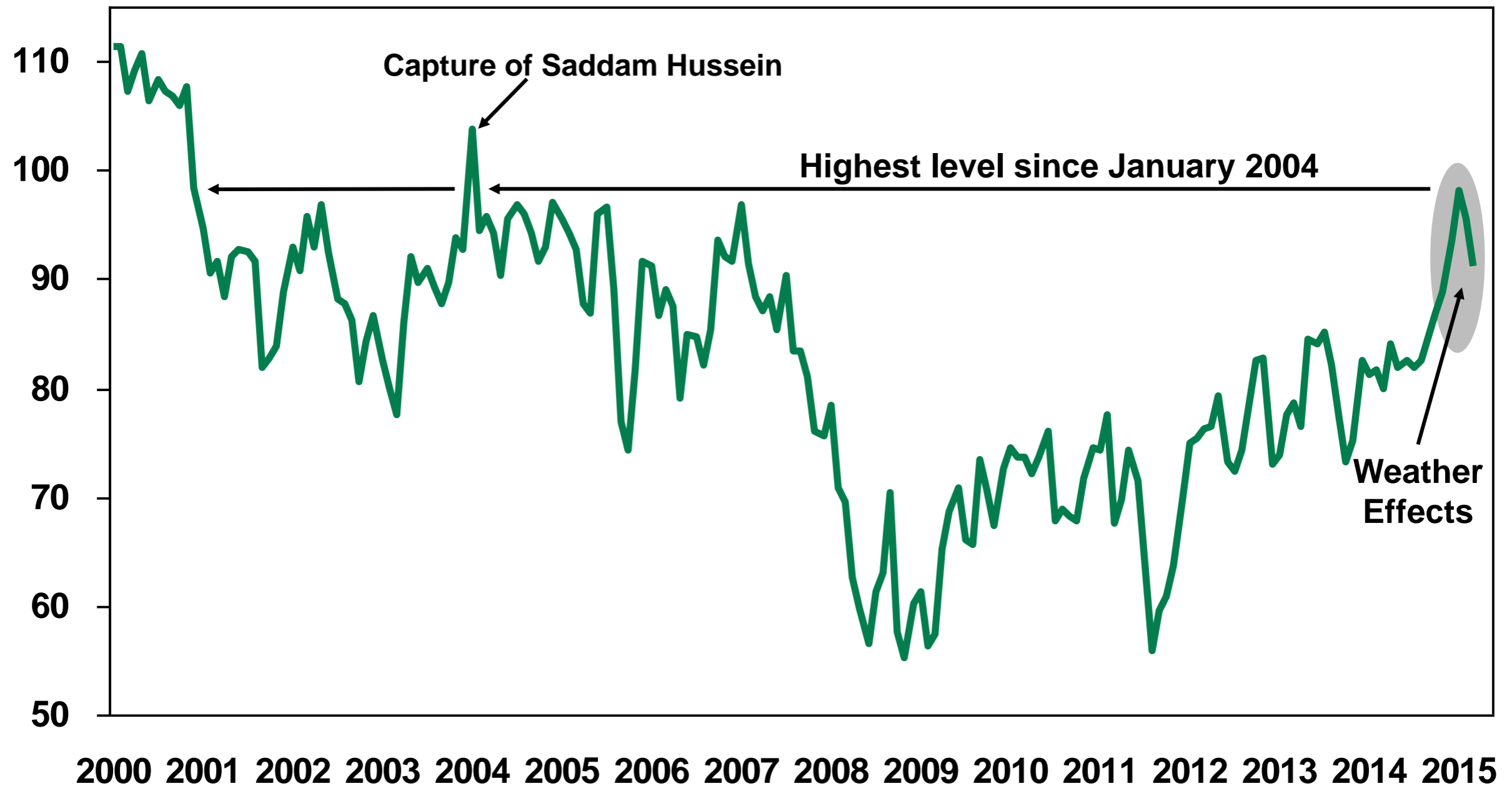
United States – Reasons for optimism

- Painful, but effective **consolidation**
- A return to **faster** growth
- Finally, real improvement in the **job** market
- The **oil** price slump: additional support
- Entrepreneurs have also regained confidence: the return of the "**animal spirit**"?
- The Fed's **key interest rate** hikes will not start until the end of the year.

United States – Consumer confidence is greatly improving

Index

University of Michigan Confidence Index

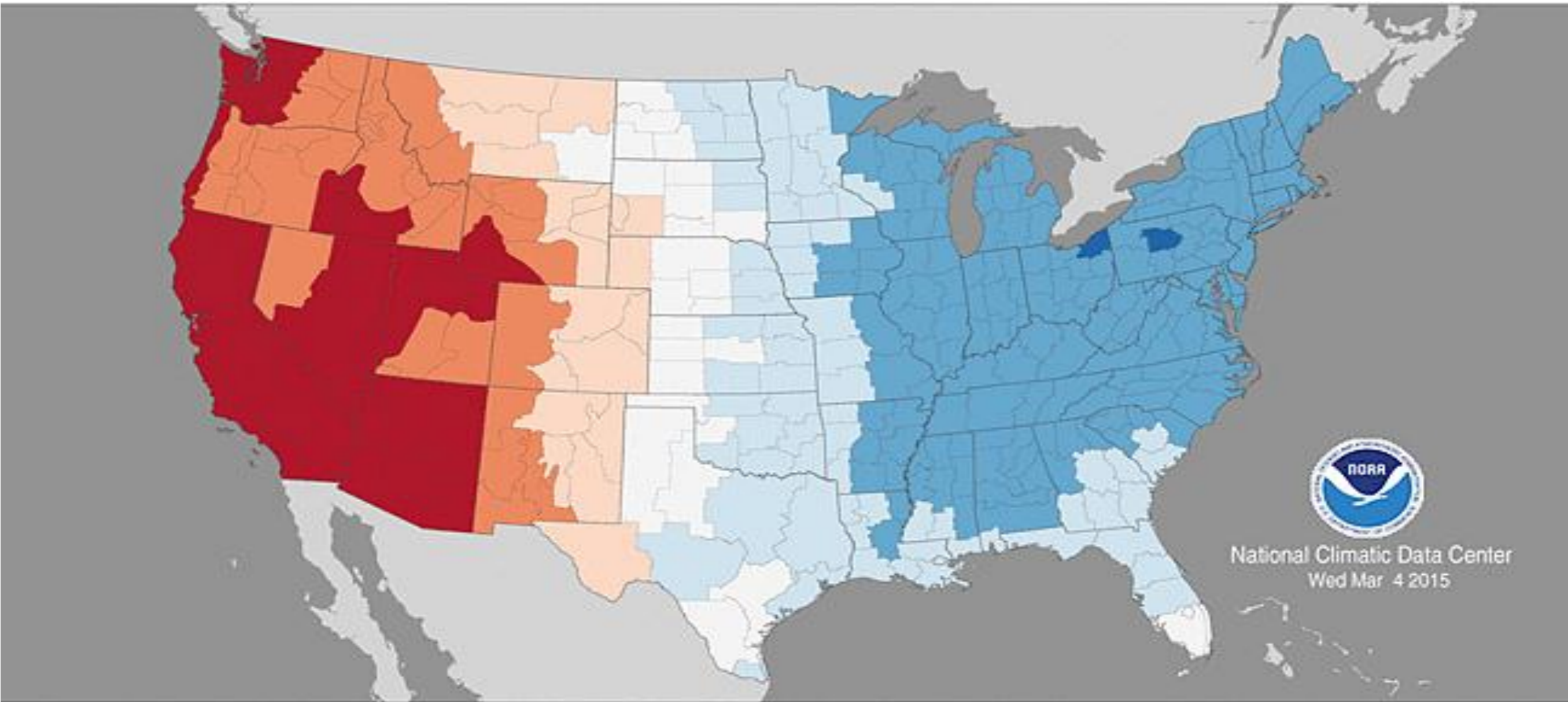


United States – Still a few clouds in the sky

- Appreciation of the U.S. dollar
- Weak growth in wages and job quality
- Expected decline in oil investments
- A few disappointing data in businesses and housing
- A federal government paralyzed by partisan politics

United States – The weather was colder than normal in the East and the Midwest in February

Temperature deviations in February 2015 compared with the average of 1895-2015



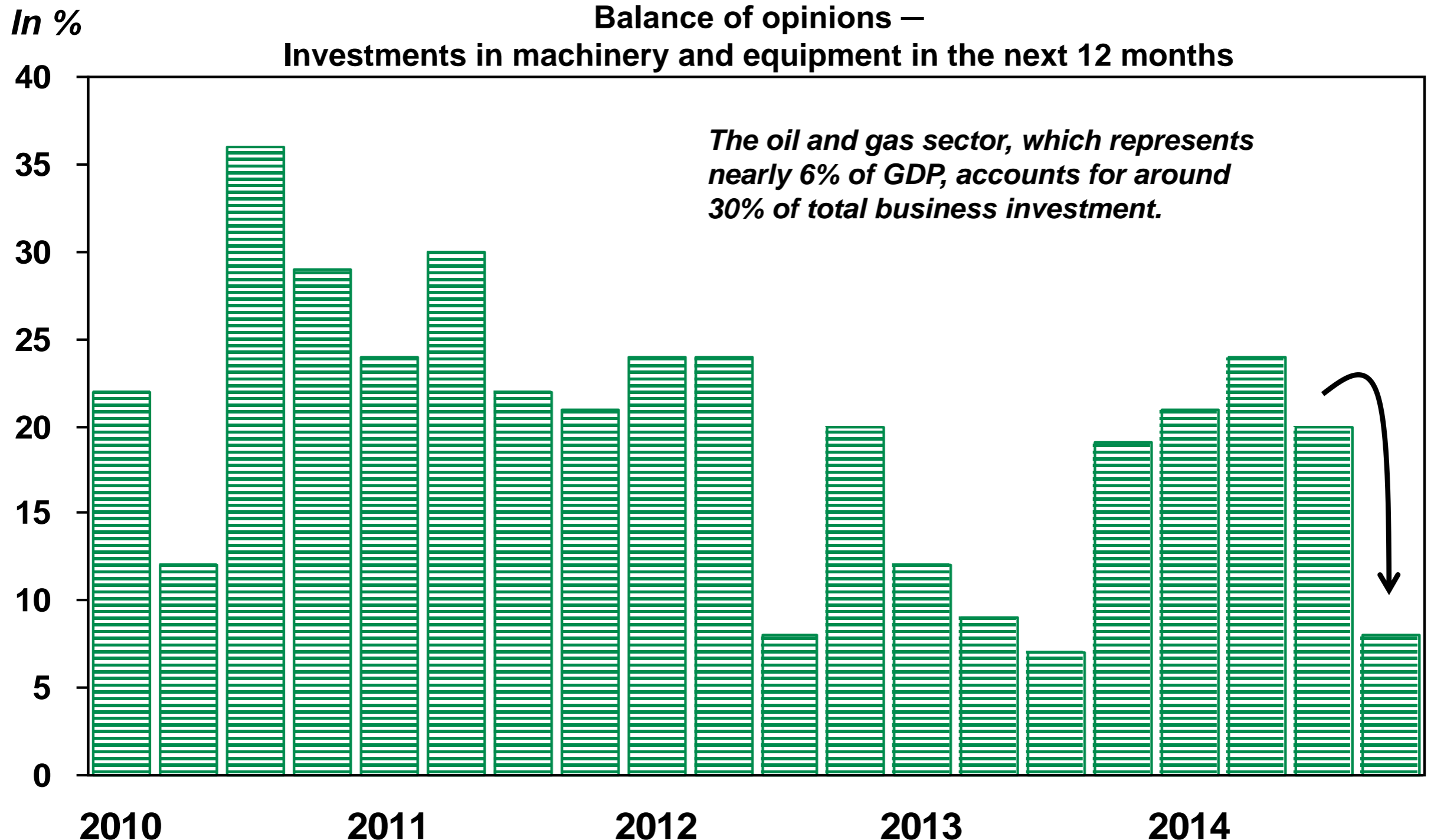
The Canadian Economy

Canada – Main issues

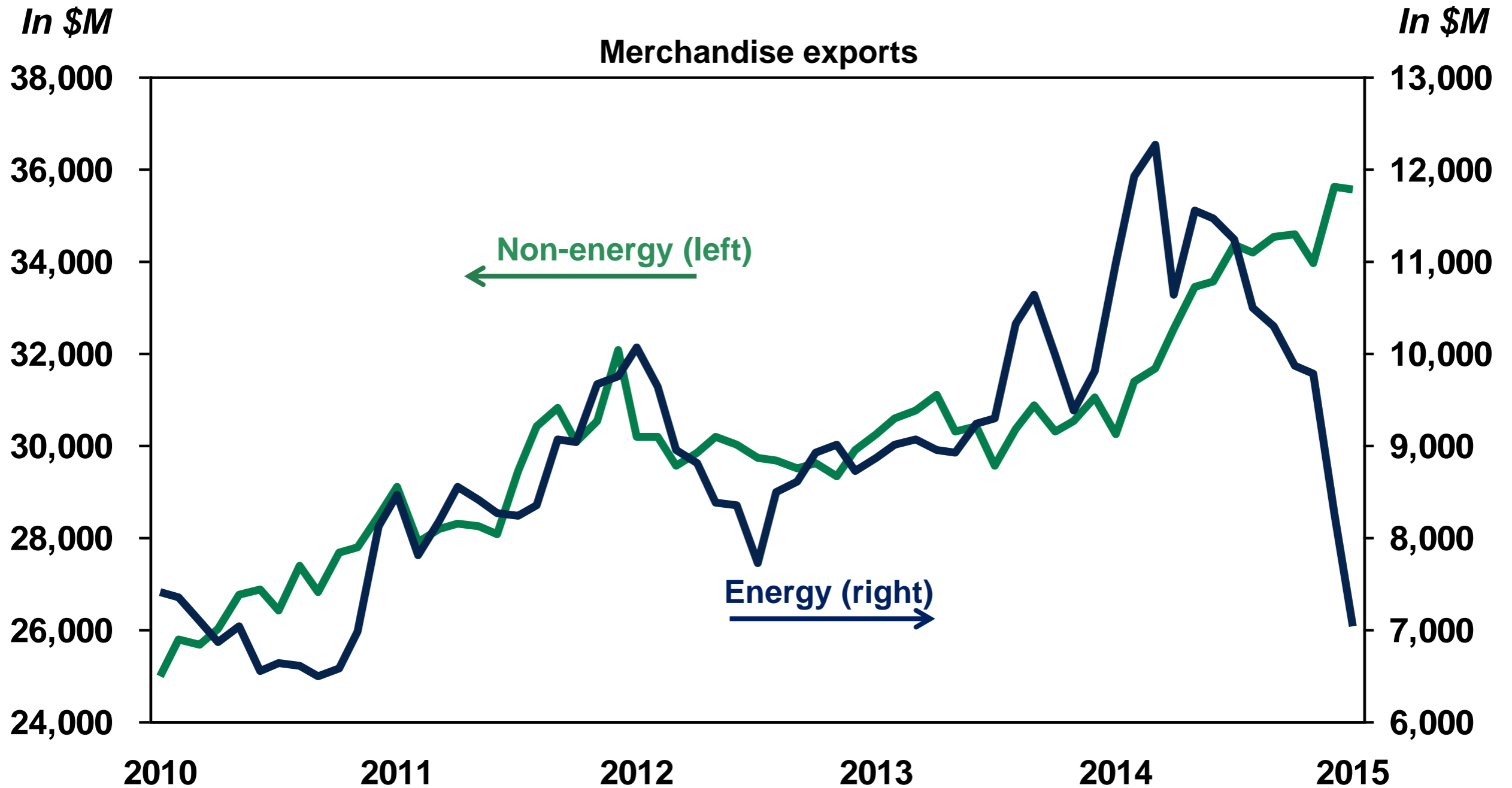
"The oil price slump will have negative repercussions on Canadian economic growth and on business investment, especially in the first half of 2015."

- The **possibility of recession** is quite high in Alberta, Saskatchewan and Newfoundland and Labrador.
- **Non-energy exports** will benefit from the **depreciation of the Canadian dollar** and from the higher **U.S. demand**.
- **Consumption** and non-commodity business **investment** will contribute to growth.

Canada – Investment outlooks have deteriorated ... especially in the energy sector



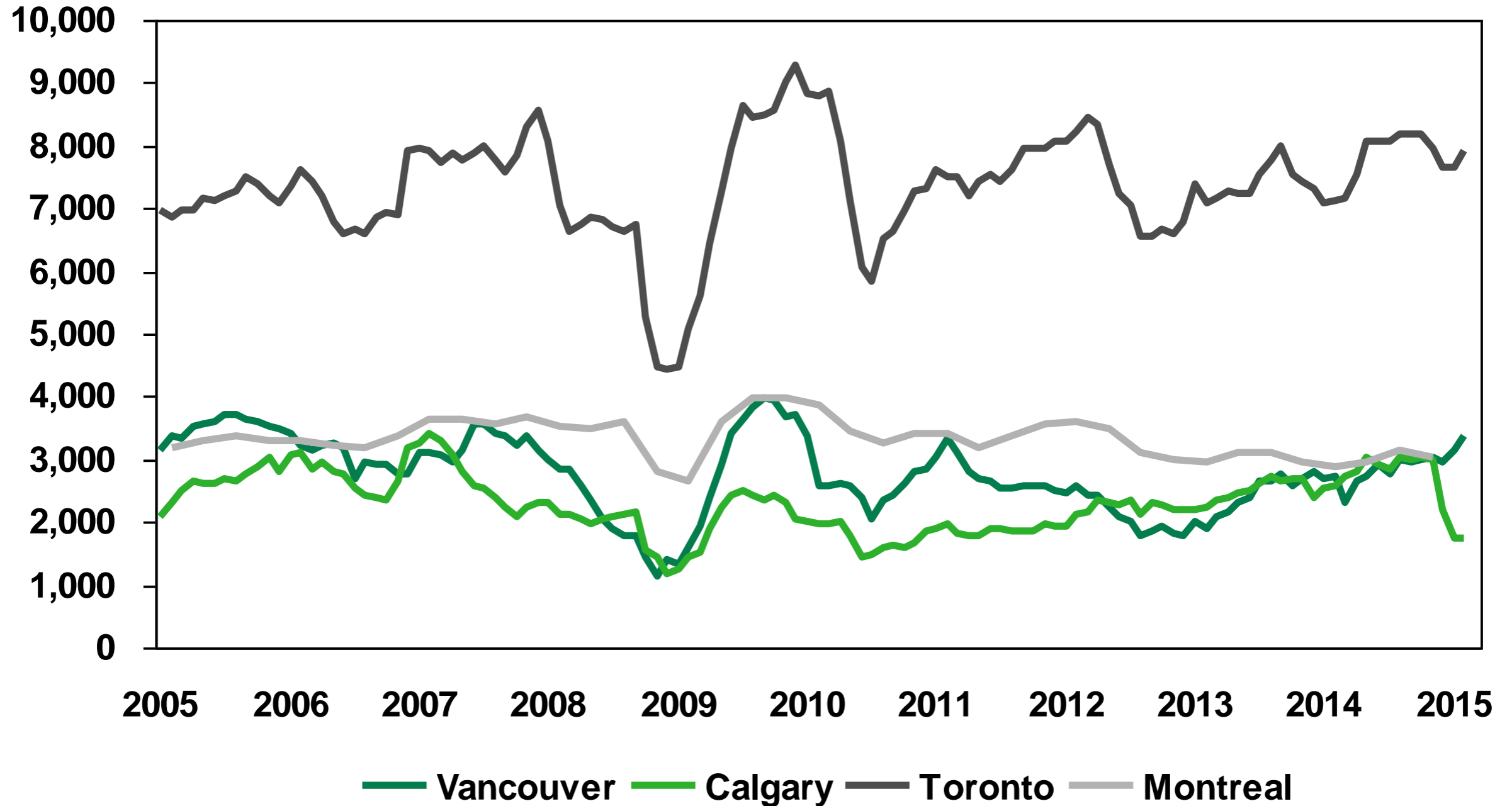
Canada – International trade has seen great improvement since the beginning of 2014



Canada – Home sales slow in Alberta

In units

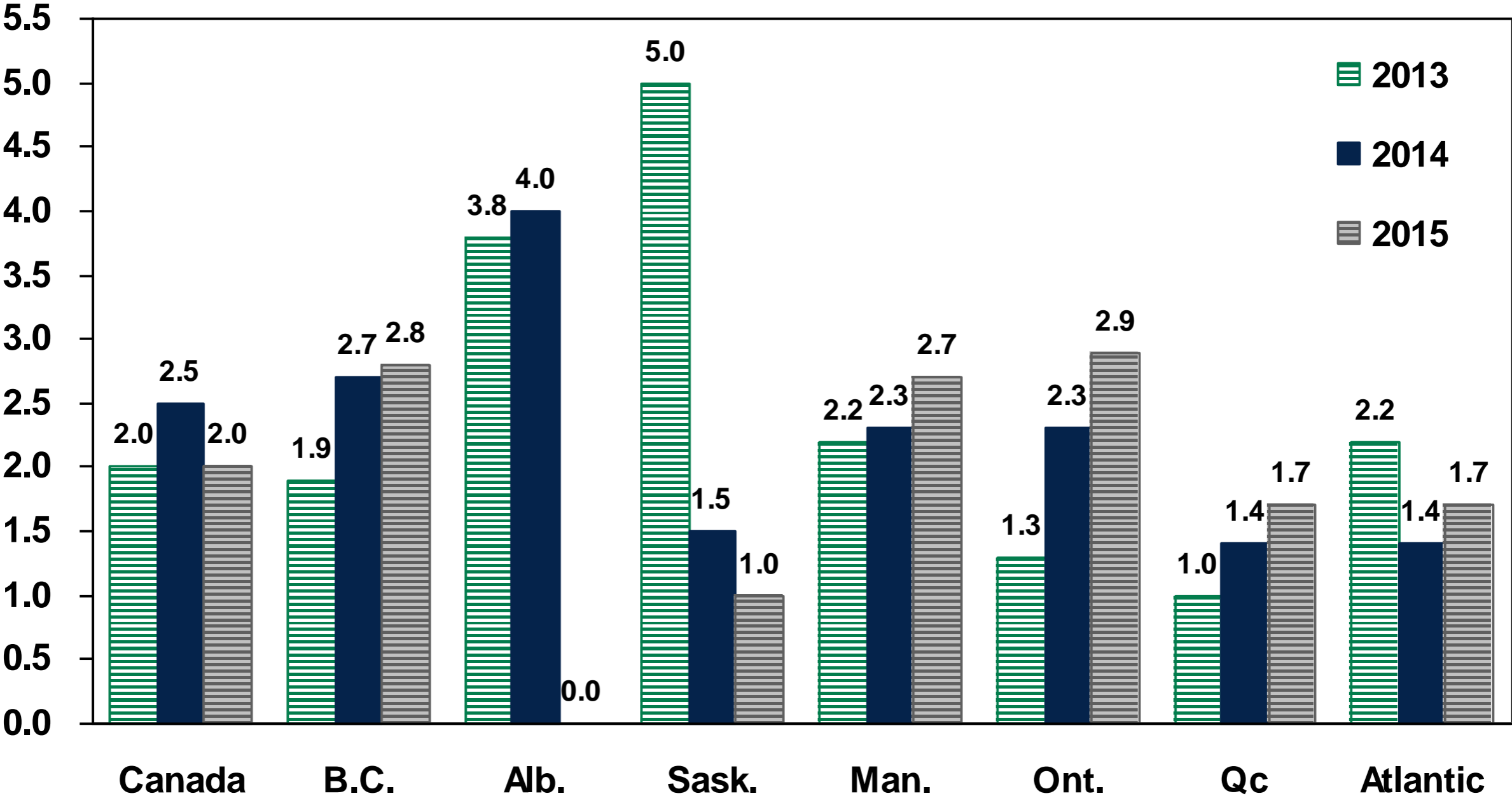
Sales of existing properties



Canada – The effects of the oil price slump will be uneven from one province to another

% annual change

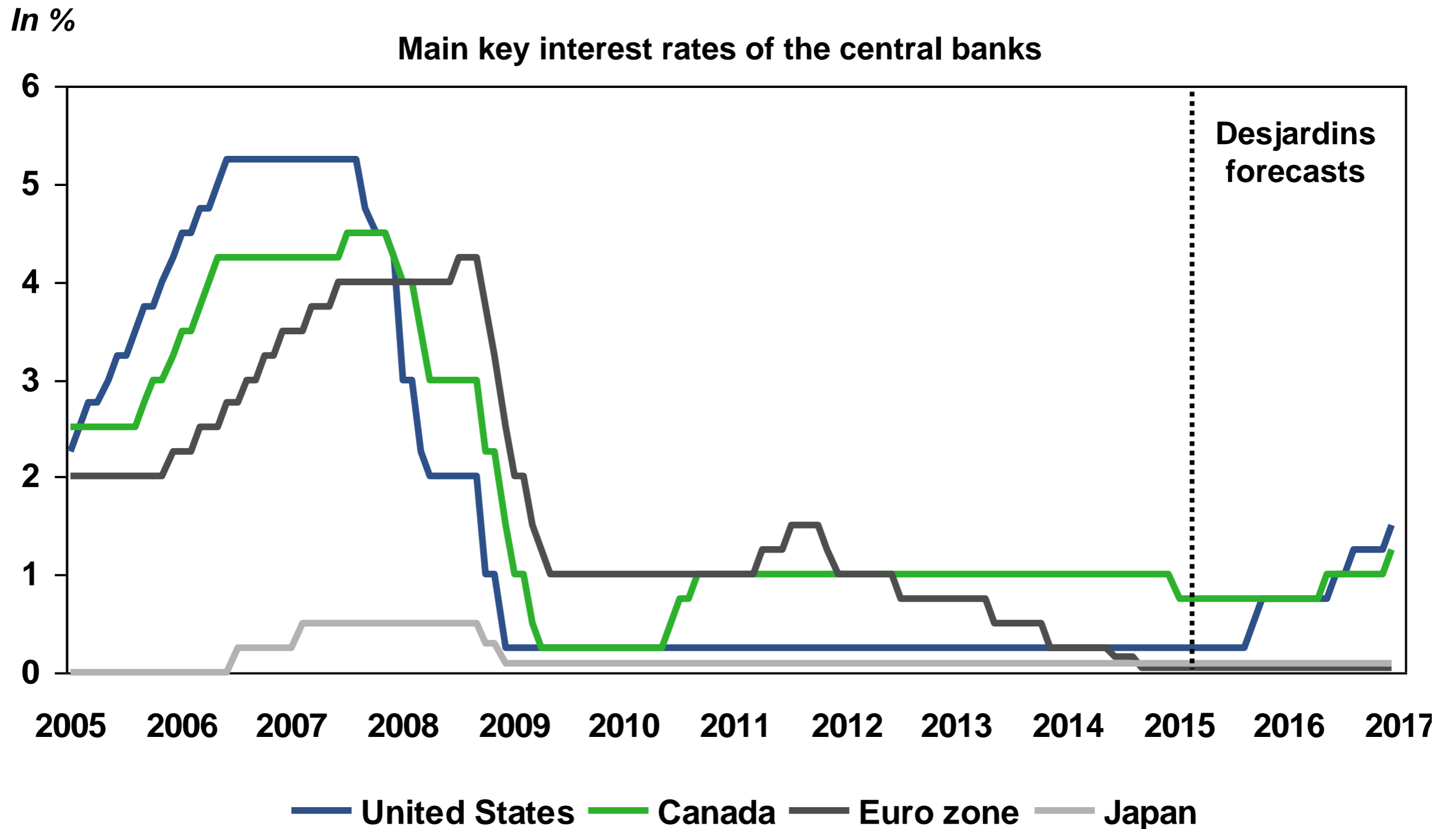
Real GDP growth



Sources: Statistics Canada and Desjardins, Economic Studies

Financial Markets

Financials – Heading for growing divergence in monetary policies

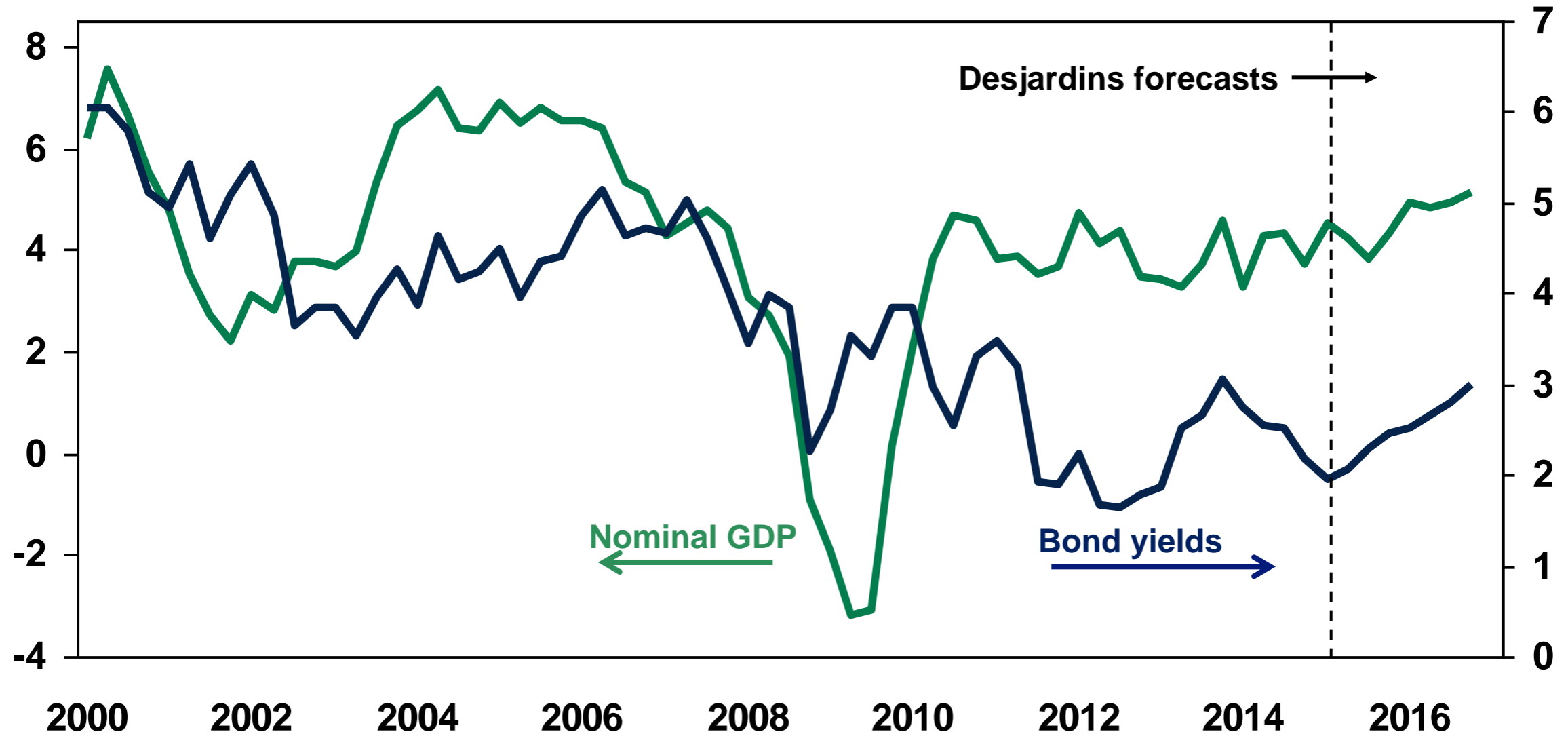


Financials – Economic growth is no longer reflected in bond yield trends

% annual change

United States

In %



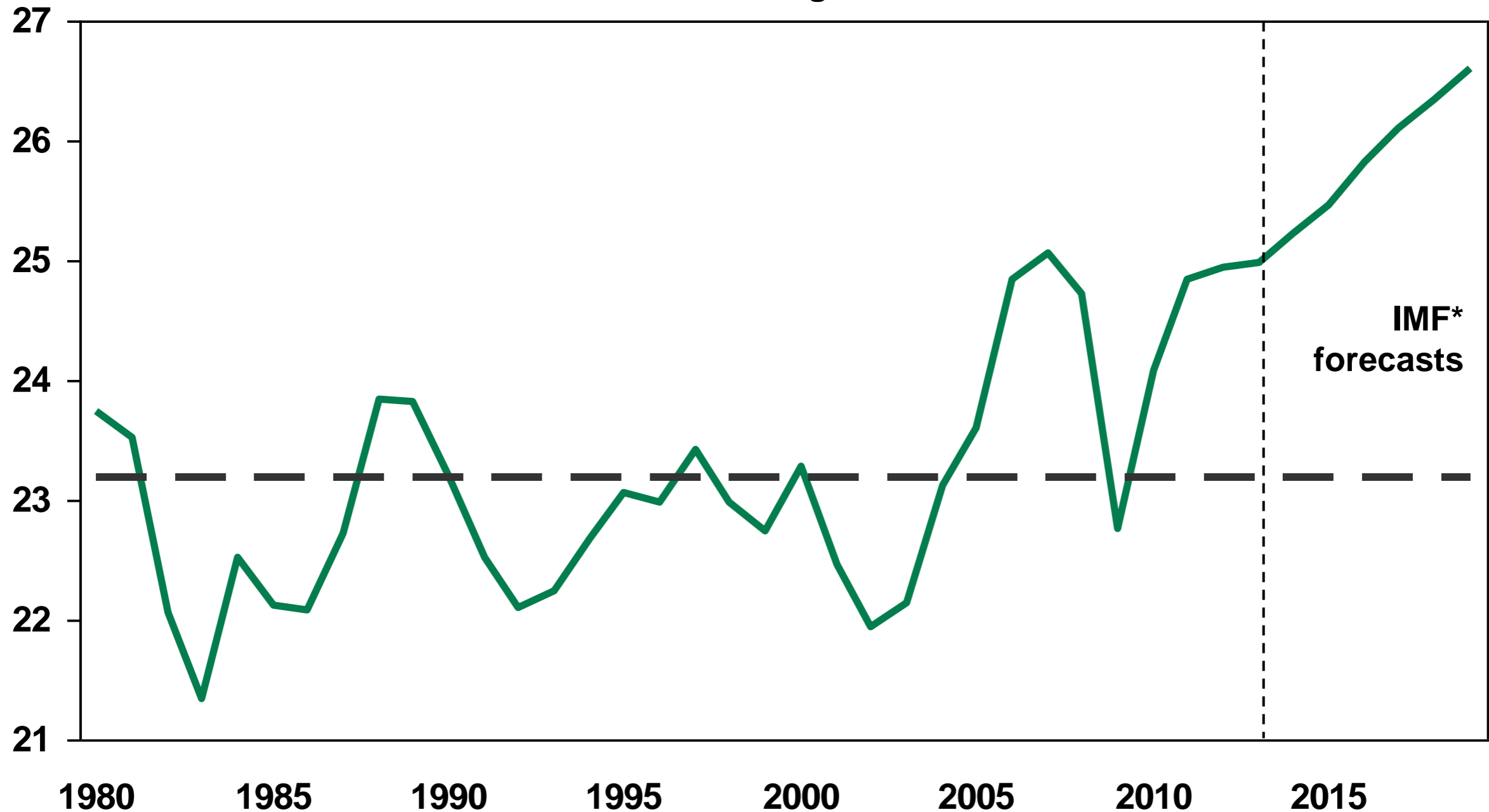
— American nominal GDP (left)

— Federal ten-year bonds (right)

Financials – The global savings rate is high and could keep climbing, especially in emerging countries

As % of global GDP

Global savings rate



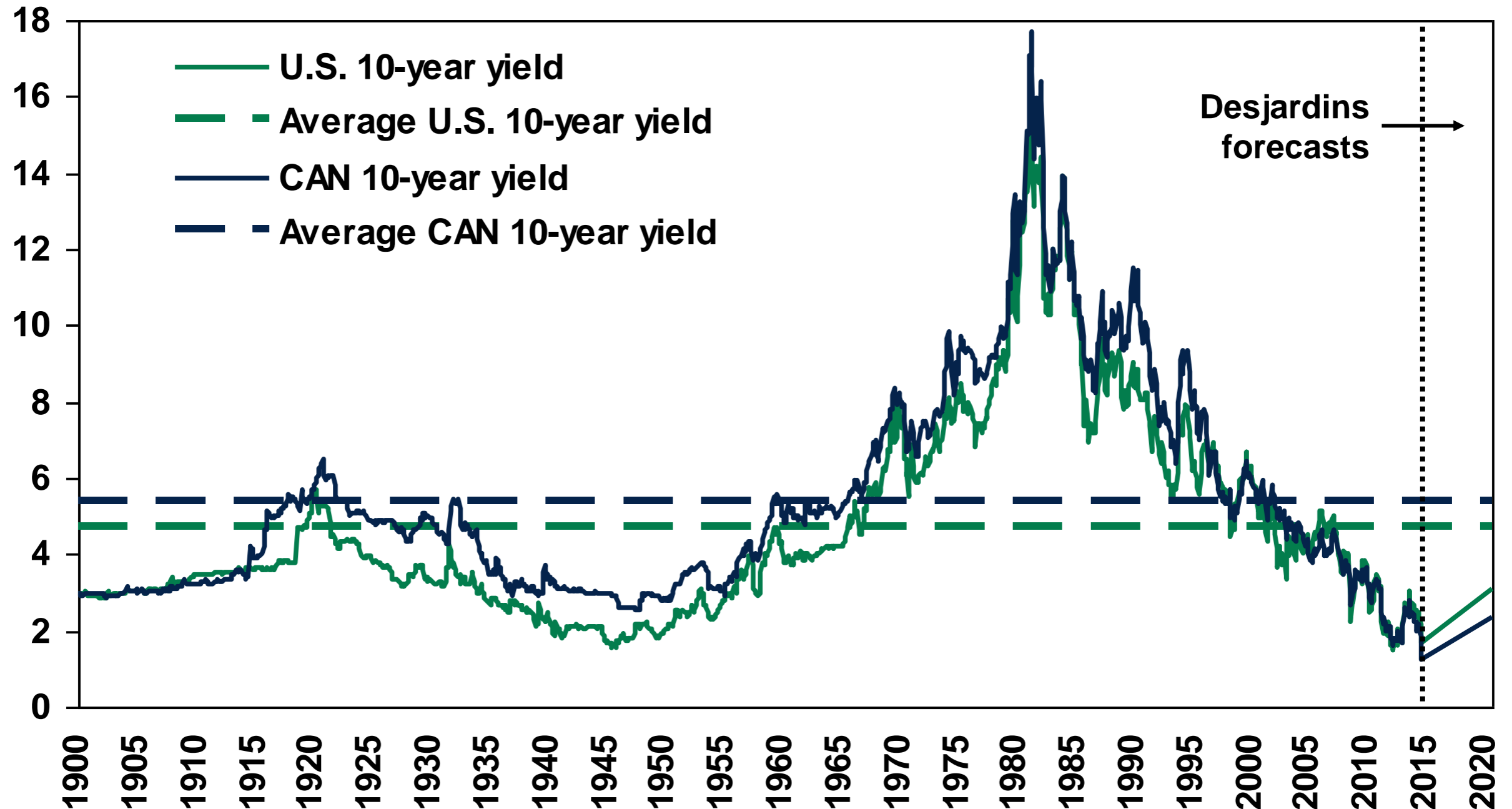
* International Monetary Fund, World Economic Outlook Reports, October 2014

Sources: International Monetary Fund and Desjardins, Economic Studies

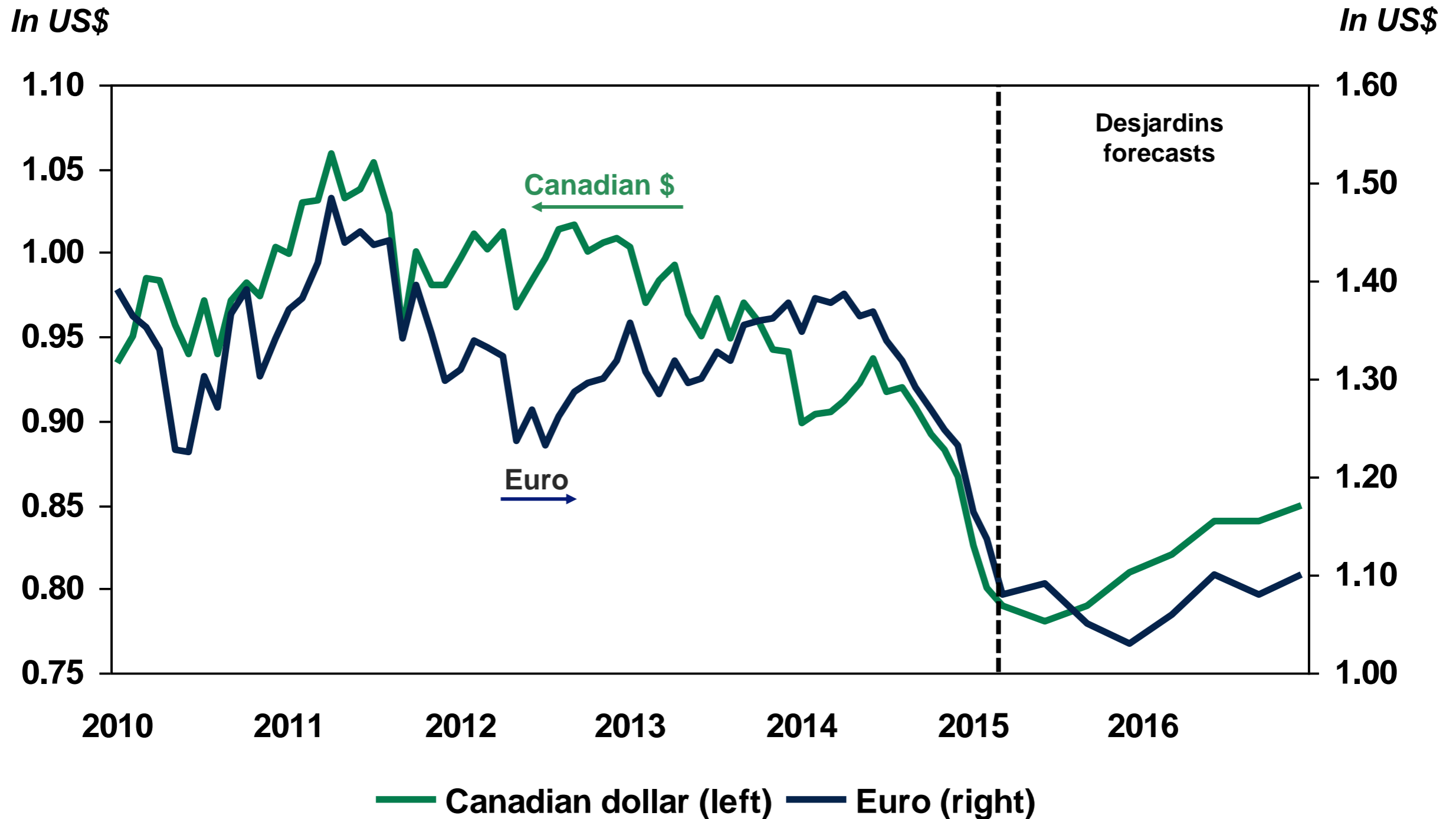
Financials – Global interest rates are at historic lows, few impacts are expected on mortgage rates

In %

Interest rate trends over a span of 115 years



Financials – The majority of currencies will remain weak against the U.S. dollar

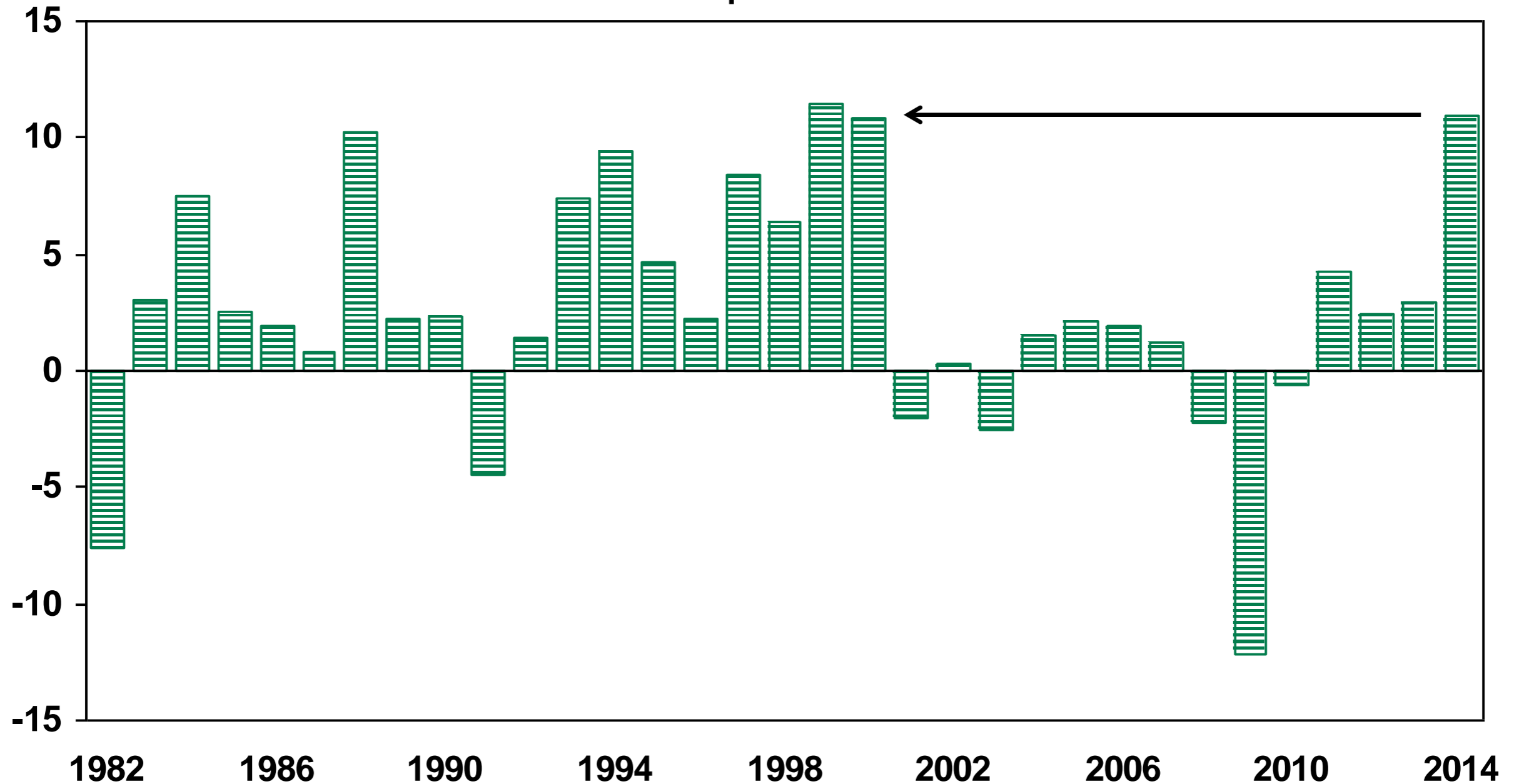


The Quebec Economy

Quebec – The greatest increase in international exports since the end of the 1990s

% annual change

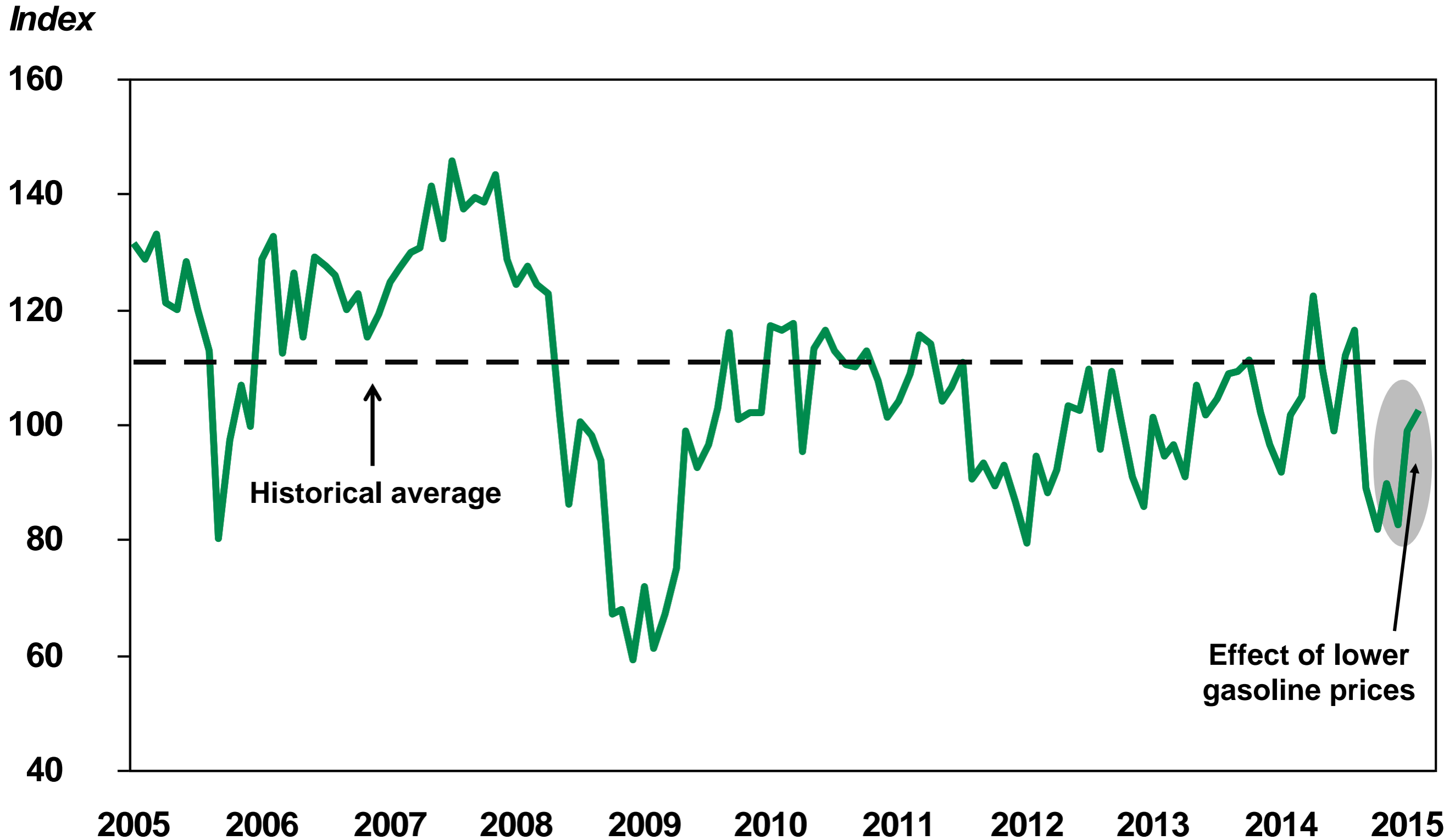
International exports in real terms



Quebec – Business investment continues to falter

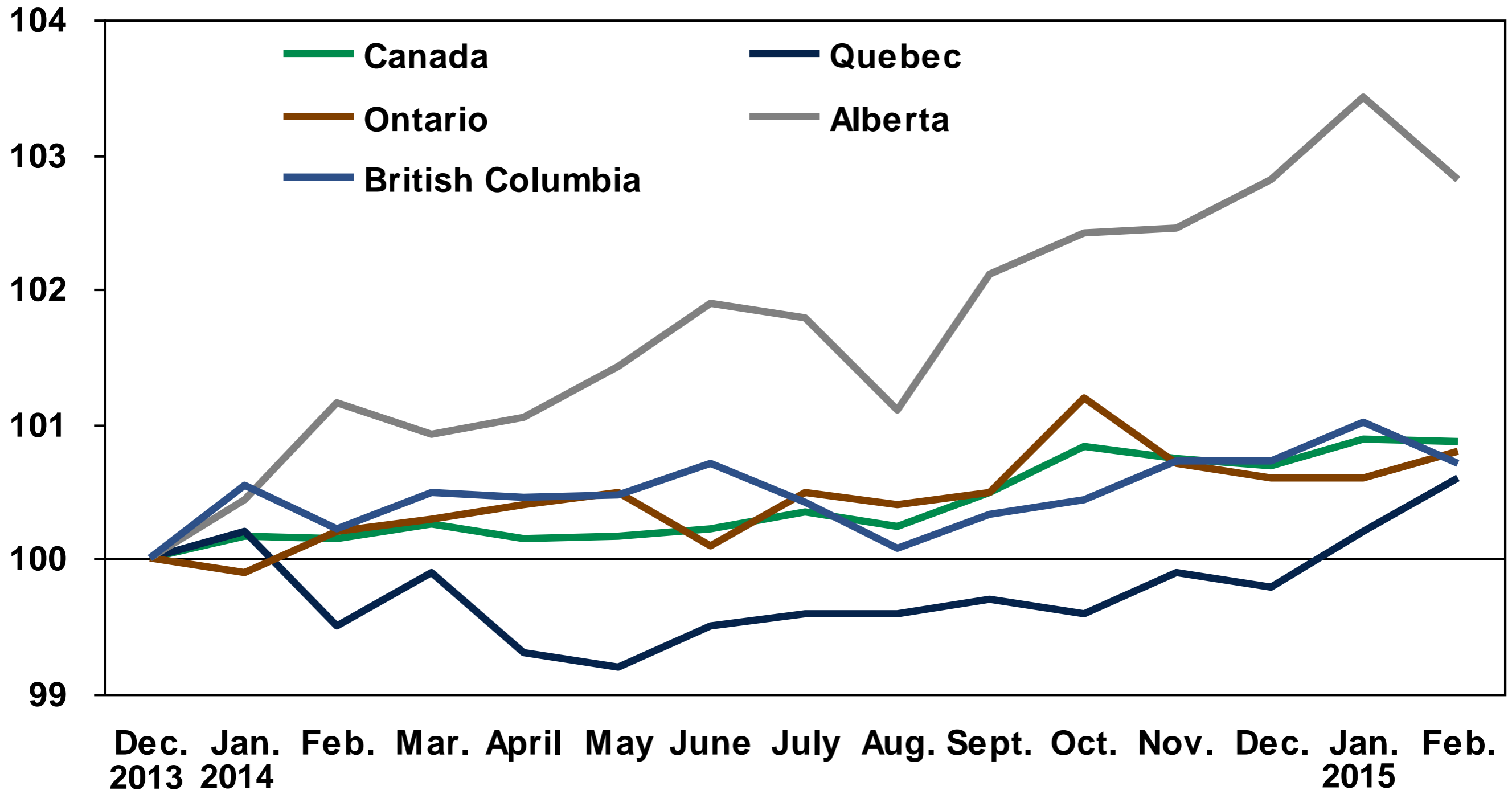


Quebec – Consumer confidence is heading back up but is still below the historical average



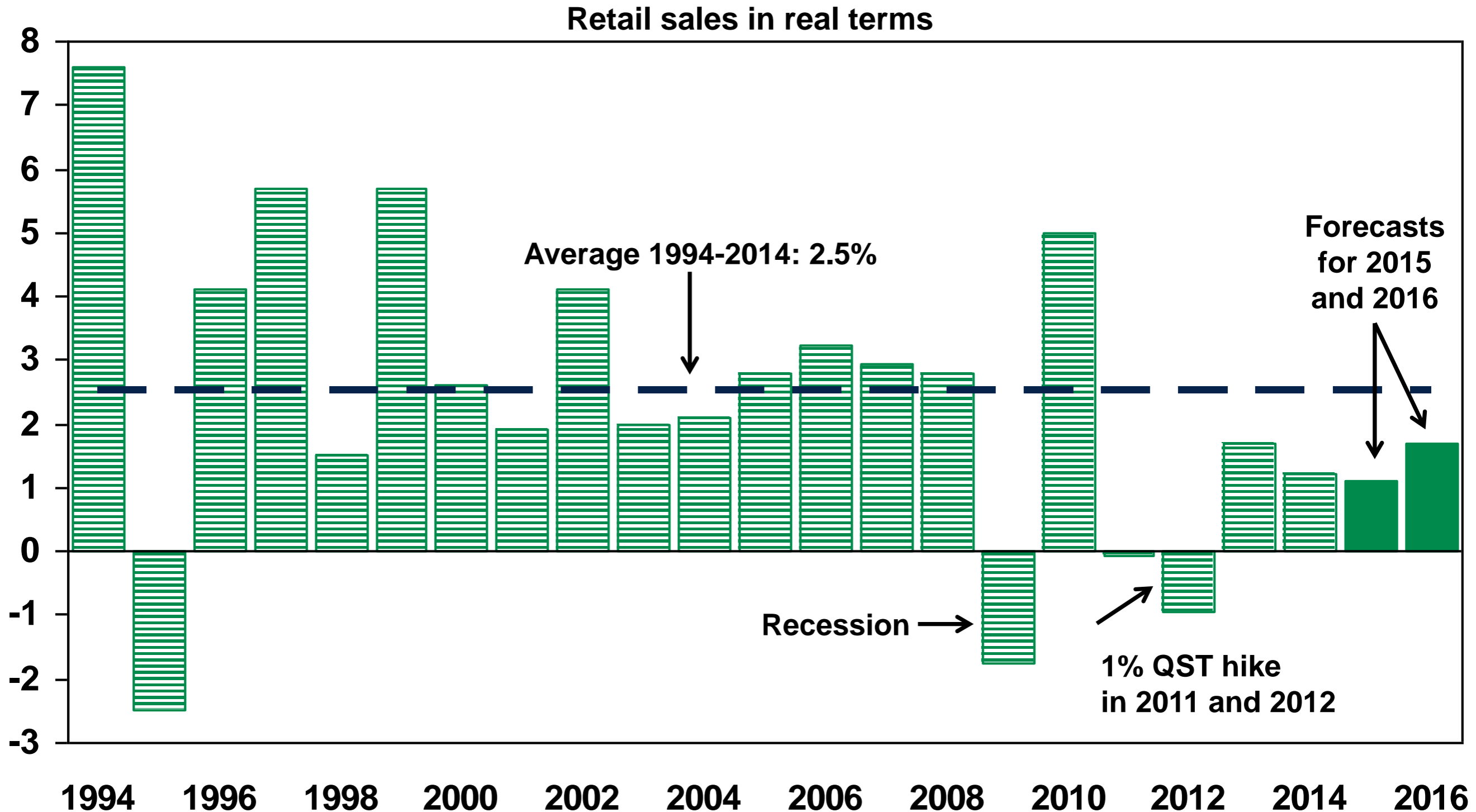
Quebec – Job creation is finally accelerating!

Dec. 2013 = 100

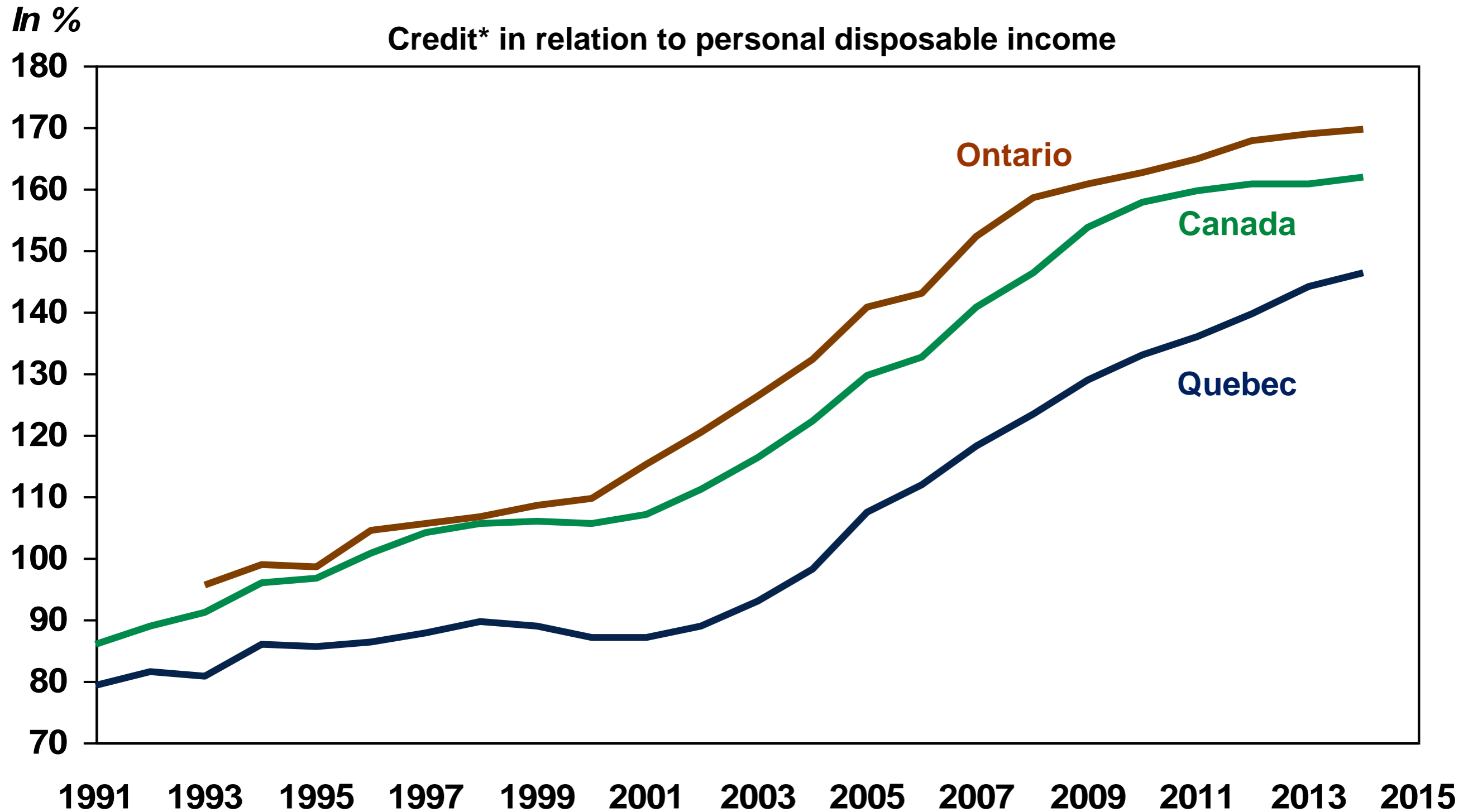


Quebec – Retail sales have been disappointing in the past few years

% annual change



Quebec – The household debt rate reaches a peak

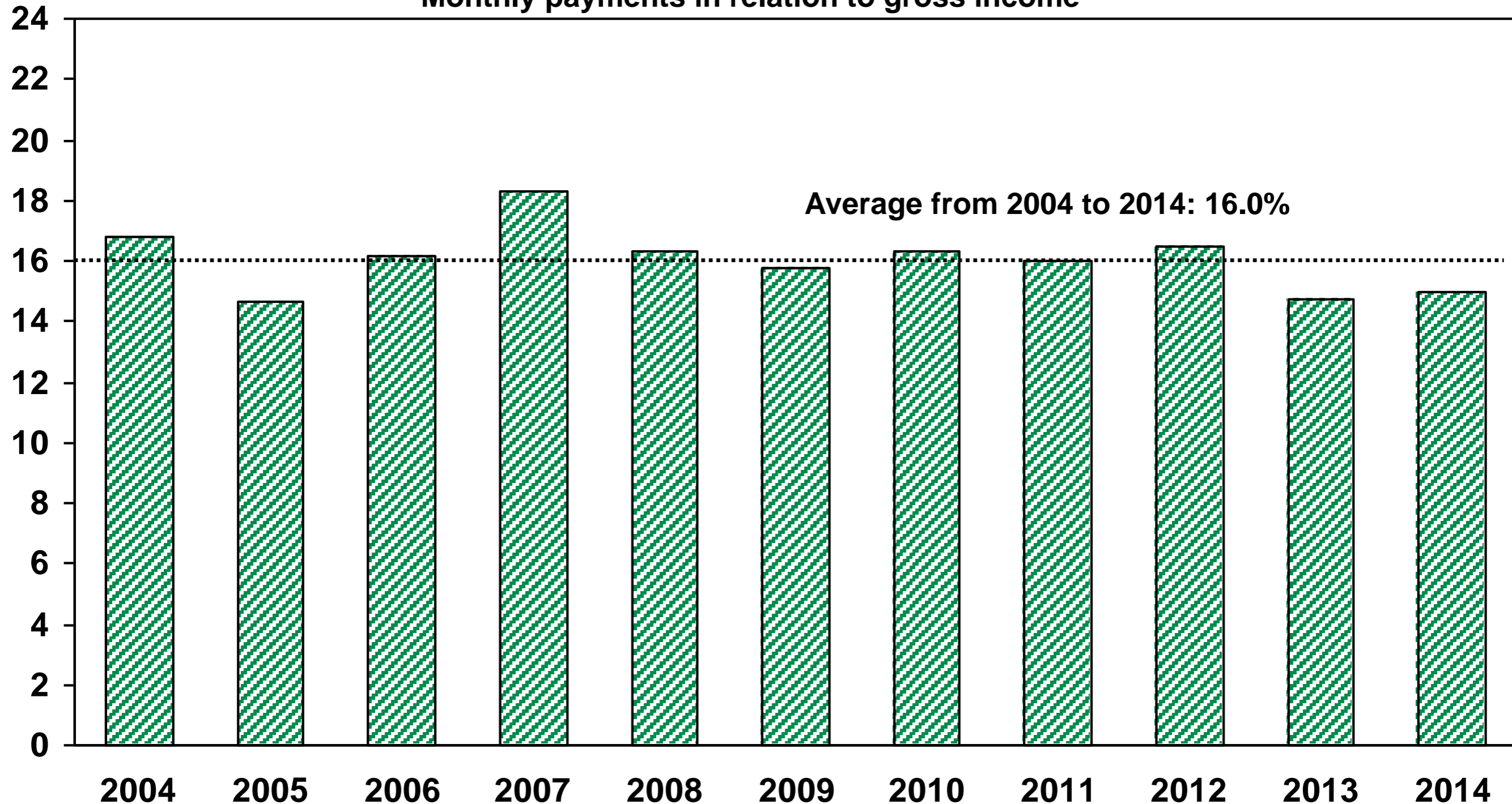


* Total outstanding consumer credit and residential mortgage credit
Sources: Statistics Canada, Canada Mortgage and Housing Corporation,
Bank of Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Quebec – The burden of principal and interest payments has not increased for households

In %

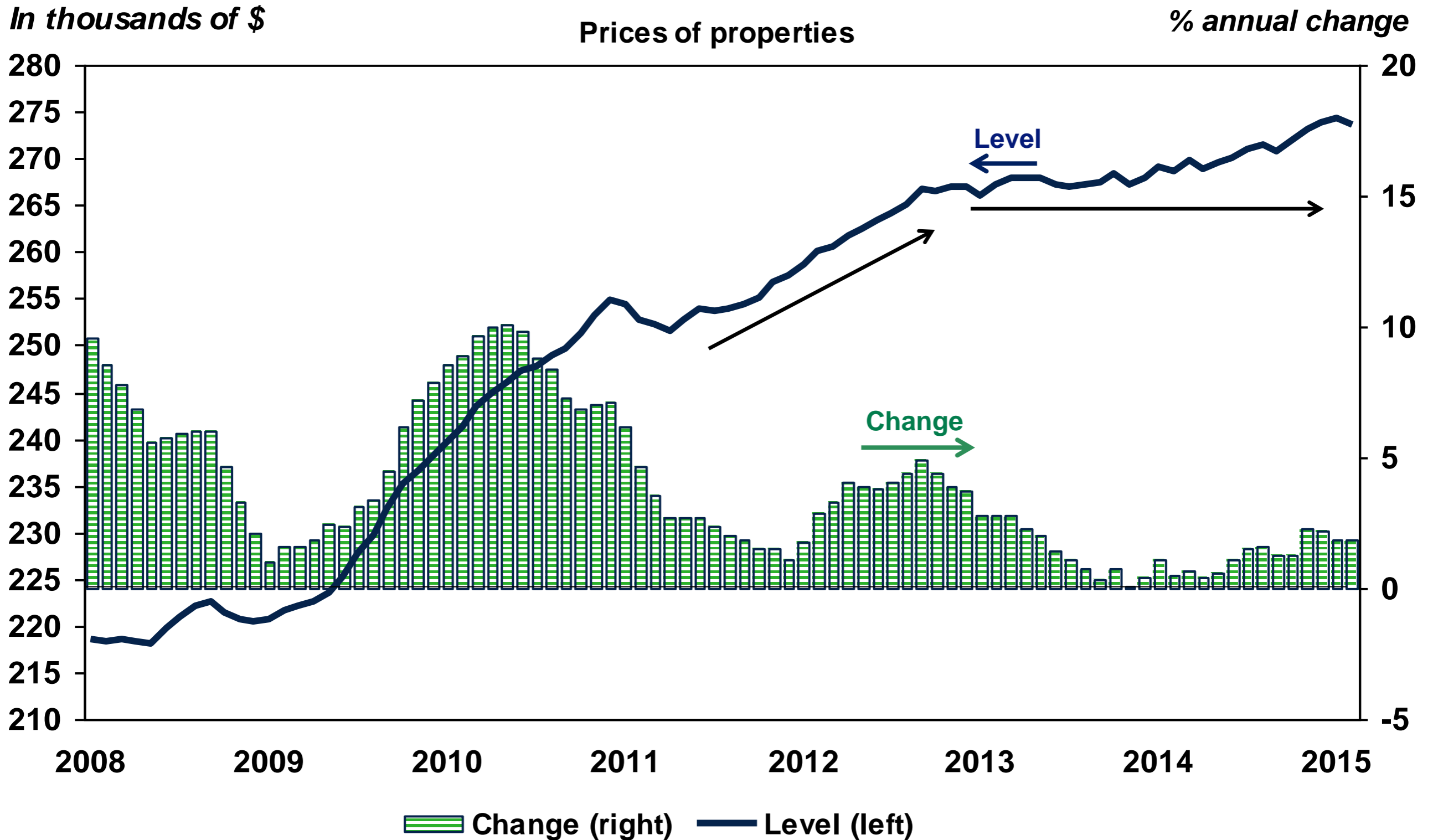
Monthly payments in relation to gross income*



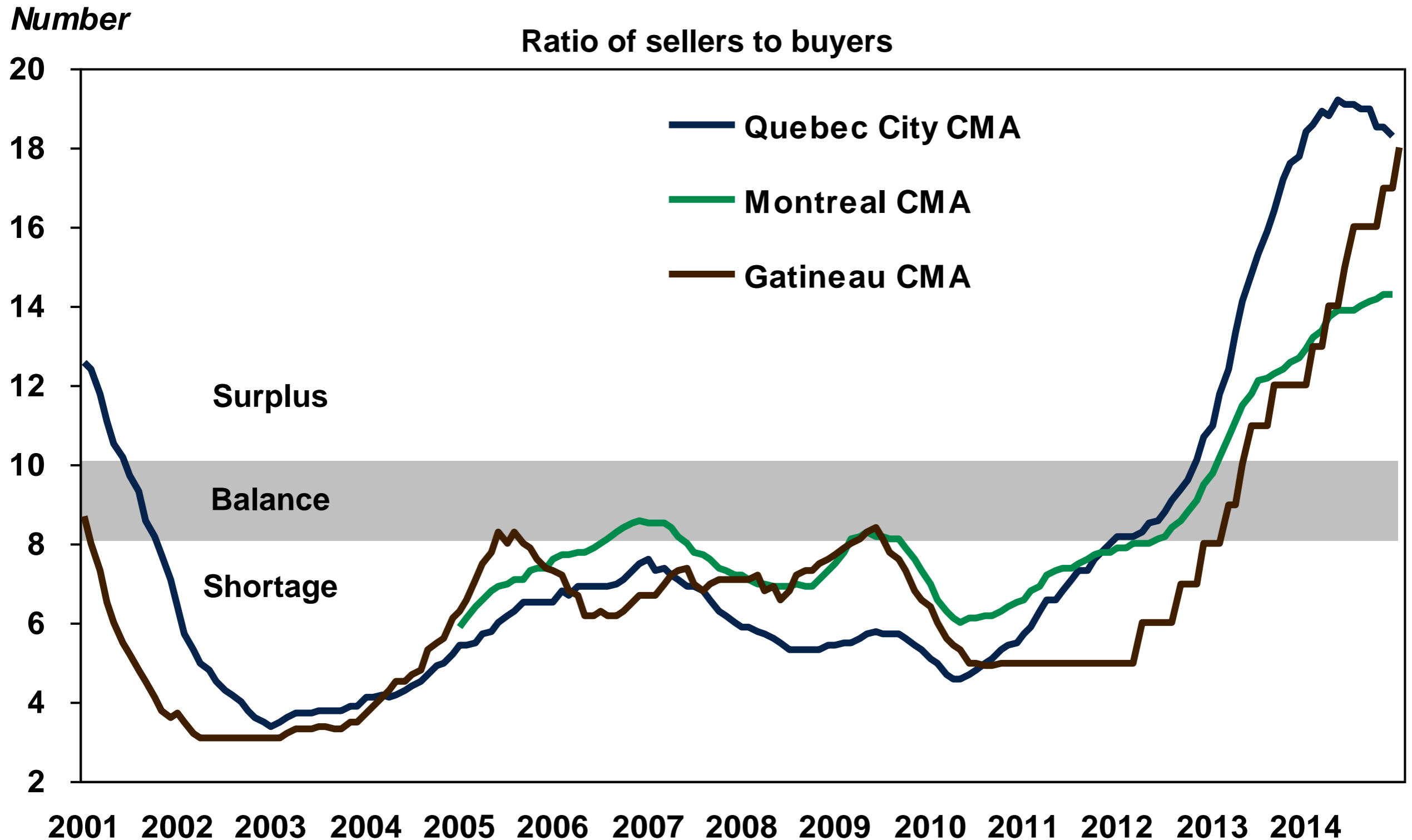
* Corresponds to the debt service ratio (average DSR)

Sources: Ipsos Reid and Desjardins, Economic Studies

Quebec – Home resale prices have stabilized in the past two years



Quebec – The condo resale market is in a surplus position everywhere



Quebec – Many headwinds are buffeting the economy

- Lower oil prices, a low Canadian dollar and improvement in the U.S. and Ontario economies will stimulate **growth**.
- **Consumer confidence** is low, job creation has been disappointing in 2014 and retail sales in real terms are limp.
- Even though exports are accelerating, business **investment** is taking time to pick up steam.
- The **residential real estate market** is stabilizing in Quebec and the soft landing appears to have been achieved.
- The consolidation of Quebec's **public finances** will make it possible to balance the budget in 2015-2016, but the government's contribution to the economy will be reduced in many respects.

Appendix : Risks

Risk factors to watch out for

- Consequences of the major transfer of wealth stemming from the collapse of oil prices:
 - Increase in geopolitical tensions in the Middle East and Eastern Europe
 - Decline in savings in the emerging countries
 - Rebalancing of the Canadian economy, impact on the financial system
- New economic disappointments in the Euro zone and in Japan
 - More difficult negotiations with Greece from now to mid-2015
 - European banking sector
- Consequences of the start of monetary tightening in the United States:
 - Additional risk for emerging countries (spring 2013)
 - Faster-than-expected hikes in interest rates could be detrimental to the stock markets
- The consolidation of public finances in Quebec will put a drain on the economy and could affect the morale of households and businesses.

Thank you very much!

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