

# 2025 **ECONOMIC OUTLOOK**

A Trifecta of  
Headwinds and Tailwinds.  
Economic Hat Trick?



**Randall Bartlett**  
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# Desjardins

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according to *The Banker* magazine<sup>3</sup>



**First**  
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<sup>1</sup> <https://www.desjardins.com/ca/about-us/desjardins/who-we-are/quick-facts/index.jsp>

<sup>2</sup> As at September 30, 2024

<sup>3</sup> Silvia Pavoni, "Top 1000 World Banks – Desjardins out in front of Canadian field," *The Banker*, July 1, 2020. <https://www.thebanker.com/Top-1000-World-Banks/Top-1000-World-Banks-Desjardins-out-in-front-of-Canadian-field?ct=true>

<sup>4</sup> First in RI : Canada's widest responsible investment (RI) lineup with over 50 product options.

Desjardins internal research, December 31, 2023. Data subject to change.



## Randall Bartlett

Deputy Chief Economist

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Desjardins Group



# 2025 Economic Outlook

**A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?**

Randall Bartlett, Deputy Chief Economist

January 15, 2025



# 2025 ECONOMIC OUTLOOK

## A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?

- **3 big headwinds facing the Canadian economy in 2025**
  - US economic policy in a new Trump administration
  - Sharply slower population growth
  - Impending wall of mortgage renewals
  
- **3 long-term tailwinds gradually boosting the Canadian economy**
  - Accelerate AI adoption
  - Scale up Canadian businesses
  - Leverage Canada's vast critical mineral resources

# US ECONOMIC POLICY

## What are Canada and the World in for?

### Tariffs are coming

- We just don't know when, on what and by how much

### Other measures could also be a drag on the US economy

- Deportations could be particularly damaging

### Tax cuts could provide a partial offset

- But they should be inflationary and increase the federal deficit, keeping rates higher than otherwise

### Further deregulation is rarely a bad thing for growth

- This was a bright spot in Trump 1.0

### Additional geopolitical uncertainty and volatility

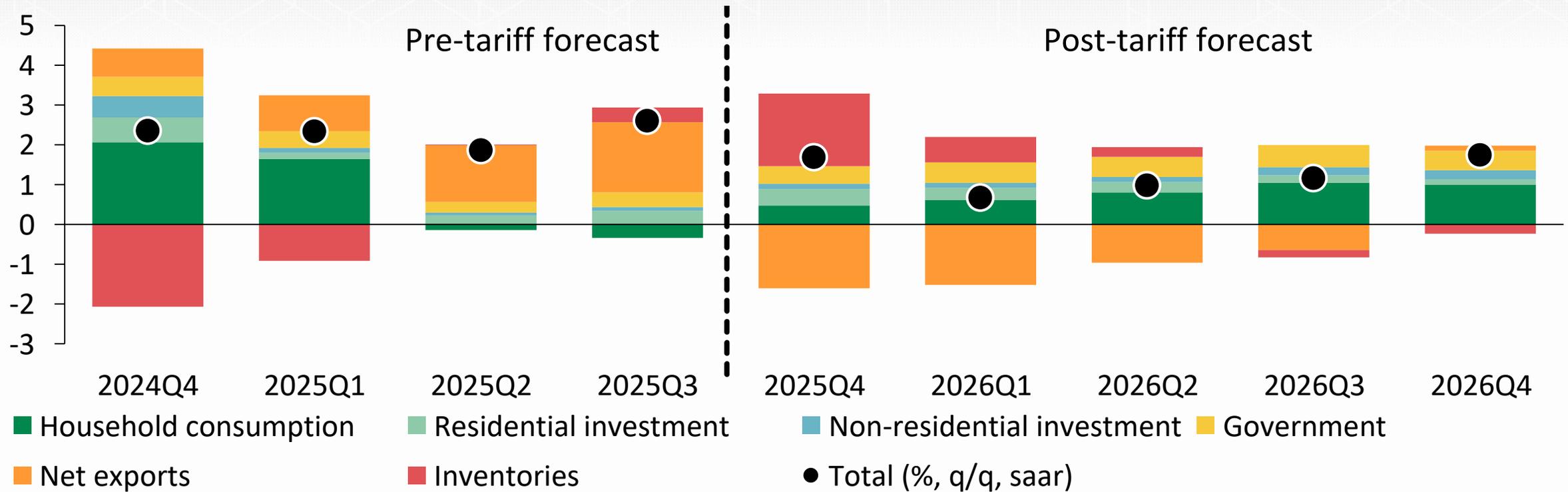
- Trump is transactional, values personal relationships and often announces policy over social media before typically walking it back as a negotiating tactic

# CANADA ECONOMY

## Trade Should Drive Growth Higher in 2025 before Tariffs Take Effect

### Contributions to the quarterly Canadian real GDP growth forecast

Percentage points, annualized rates

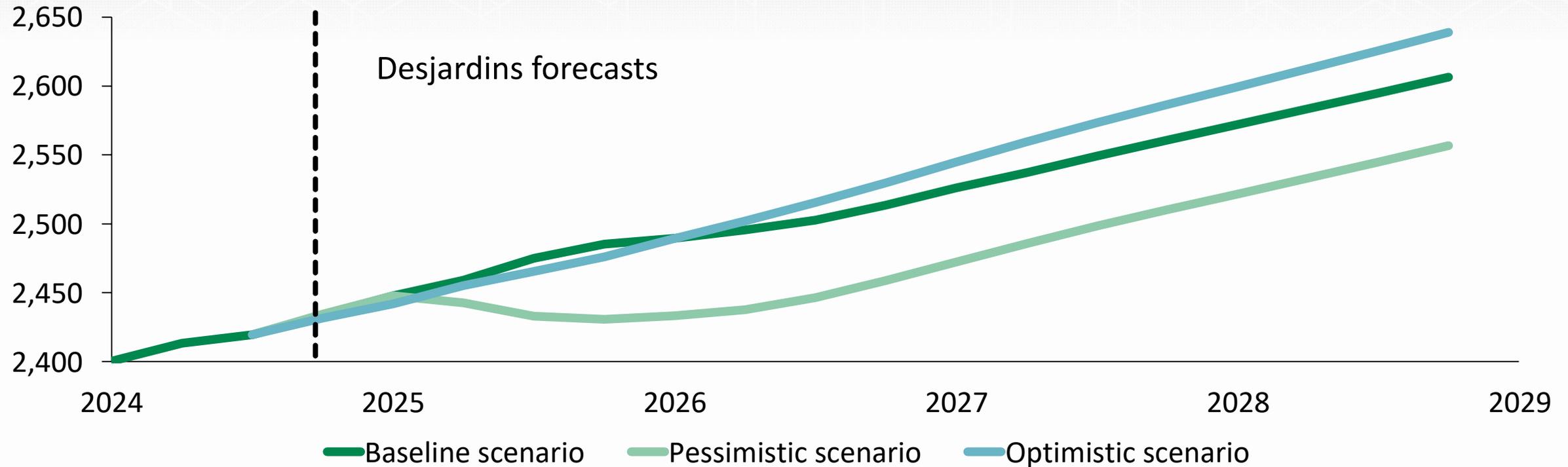


# CANADA ECONOMY

## Risks to Our Baseline Are Balanced but the Downside Could Be Severe

### Canada real GDP forecast scenarios

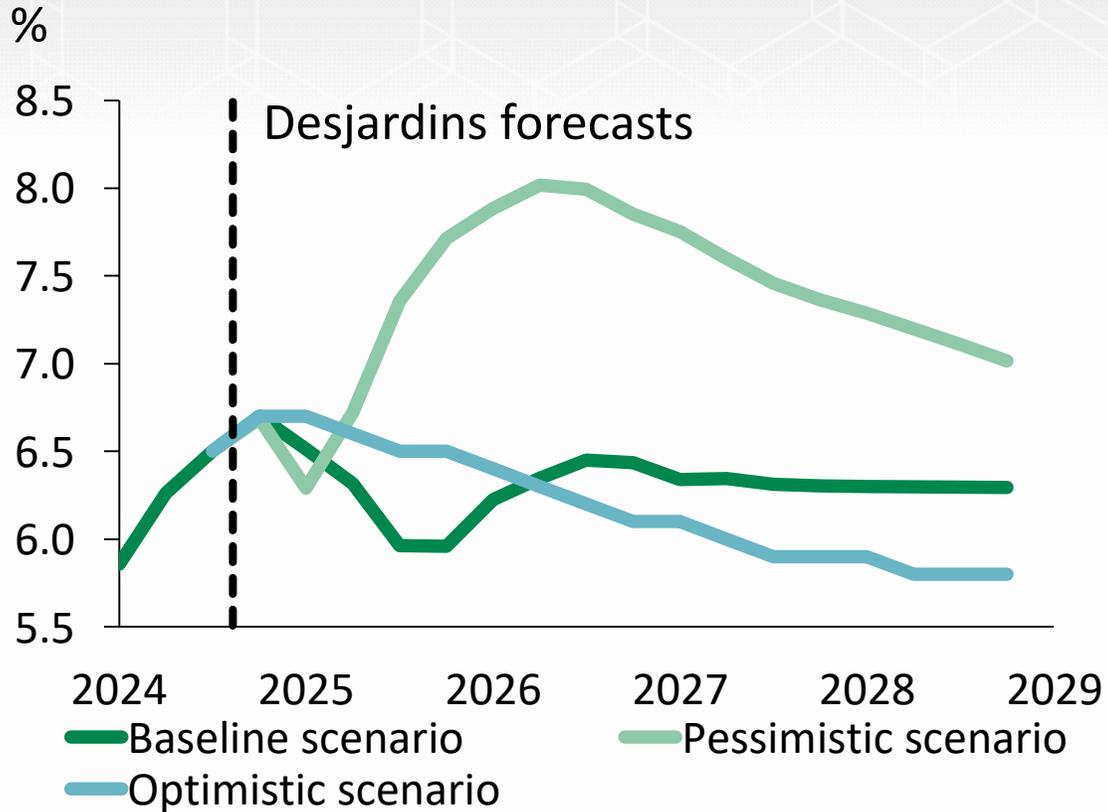
\$B of 2017 dollars



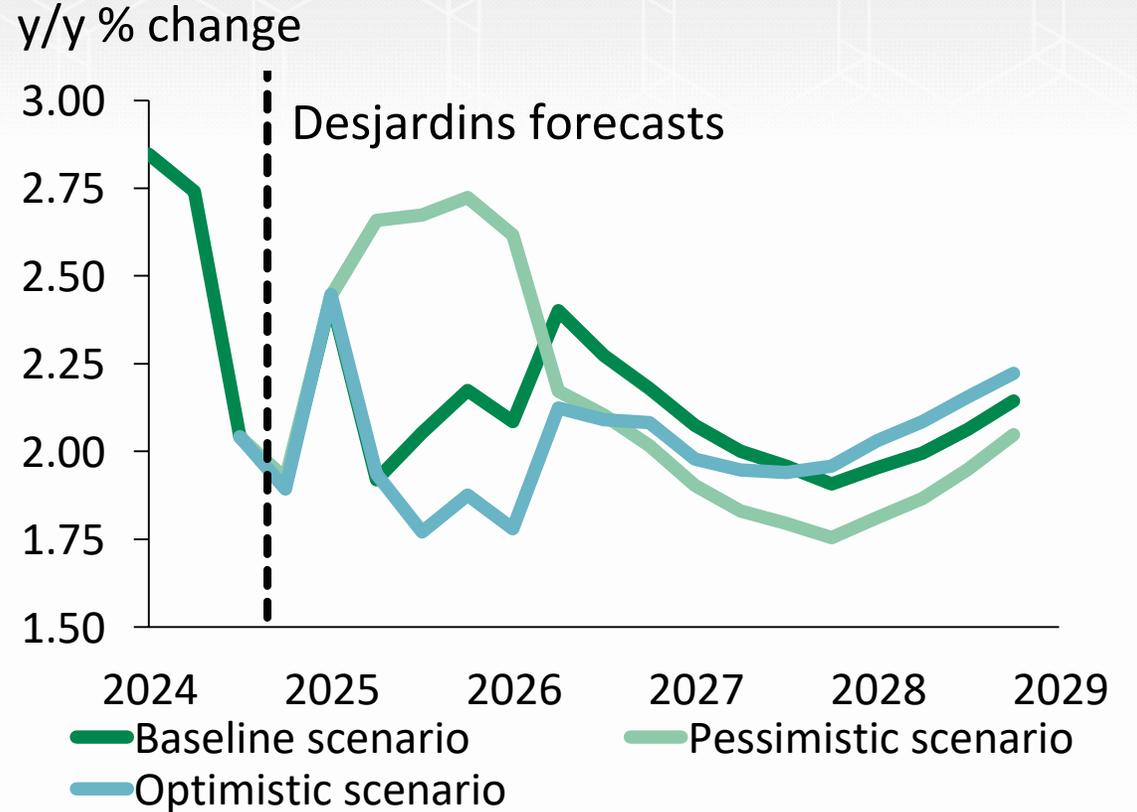
# CANADA ECONOMY

## Pessimistic Scenario Could See Sharply Higher Unemployment and Inflation

### Canada unemployment rate scenarios



### Canada CPI inflation scenarios

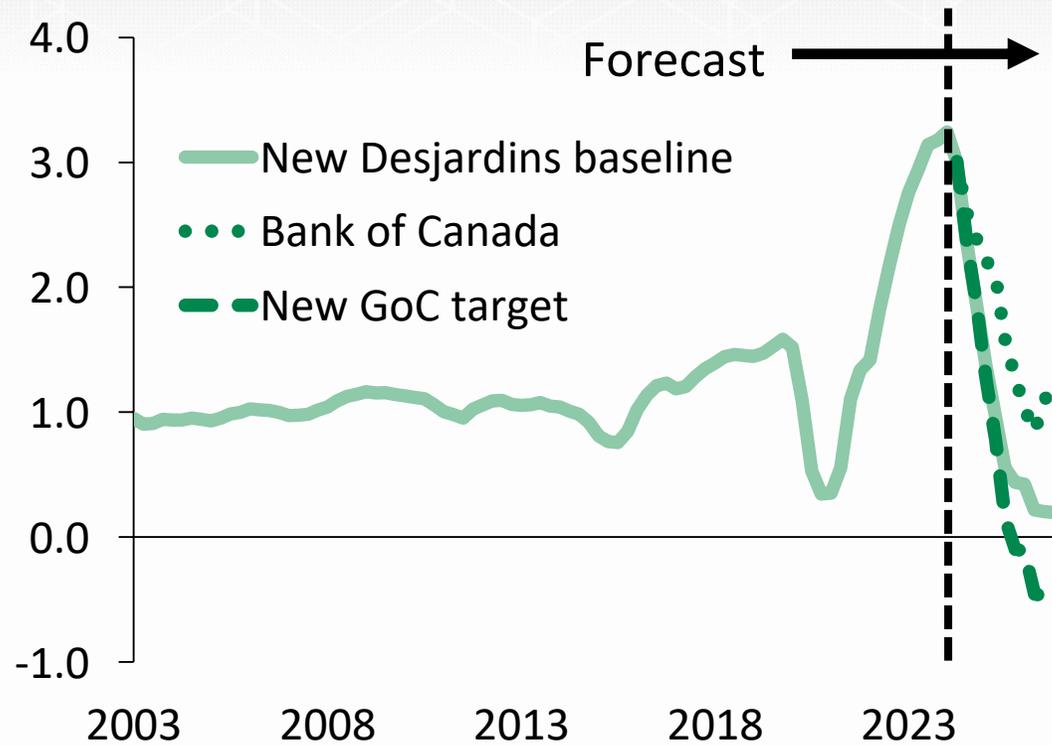


# CANADA LABOUR MARKET

## Population Boom Has Boosted Demand but May Slow Sharply Ahead

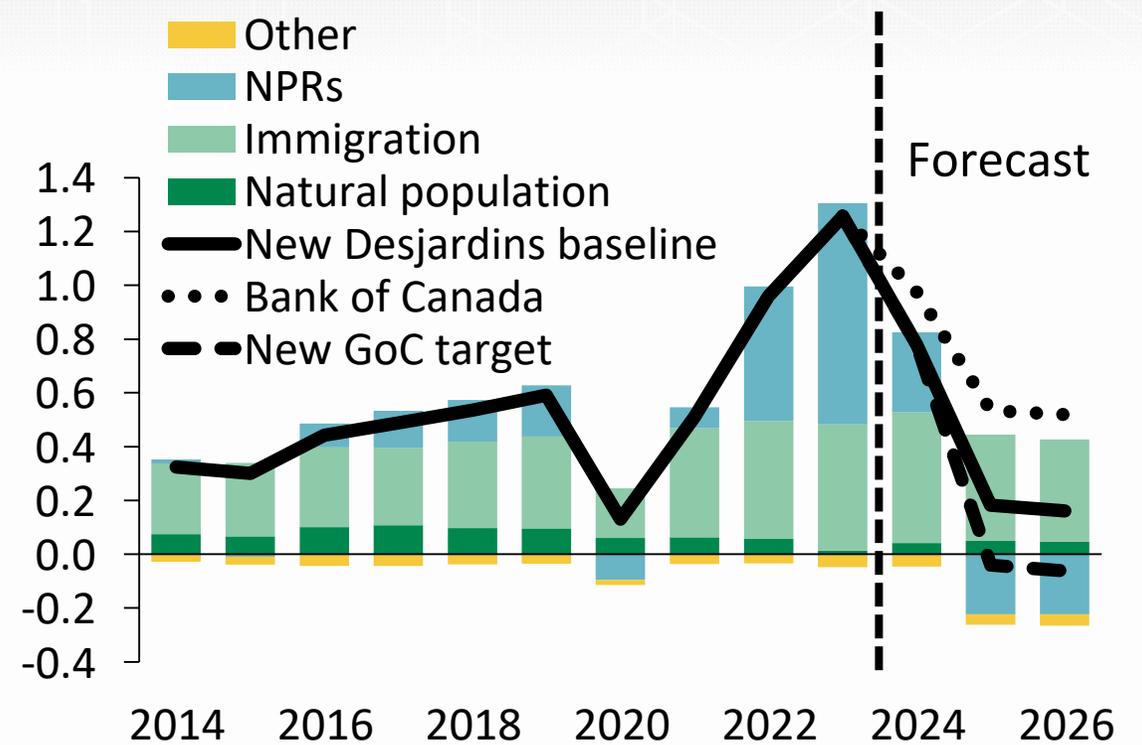
### Population growth

y/y % change



### Change in population level by source

Millions of people

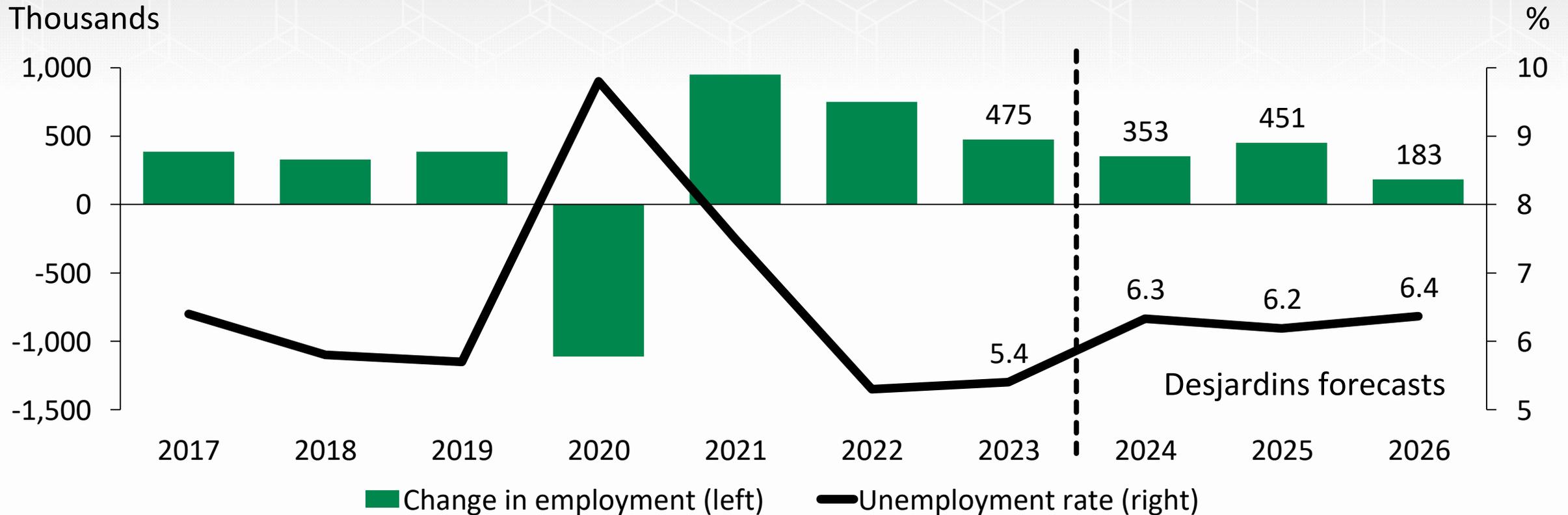


Note: Annual population is presented on a calendar-year basis.  
 NPRs: Non-permanent residents; GoC: Government of Canada

# CANADA LABOUR MARKET

## Unemployment Rate Remains Broadly Stable in Our Baseline Scenario

### Change in employment versus the unemployment rate

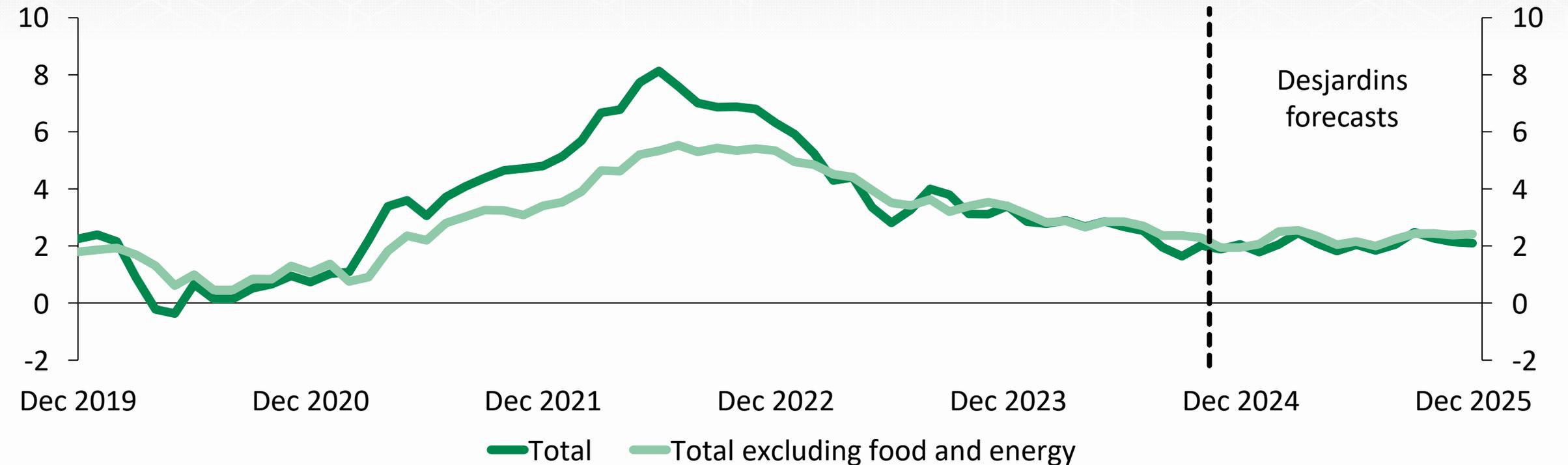


# CANADA INFLATION

## Despite Some Wiggles, Total CPI Inflation Should Stay around 2% in 2025

### Total and core CPI inflation\*

% y/y change



\*Calculated using fixed basket weights

Statistics Canada and Desjardins Economic Studies

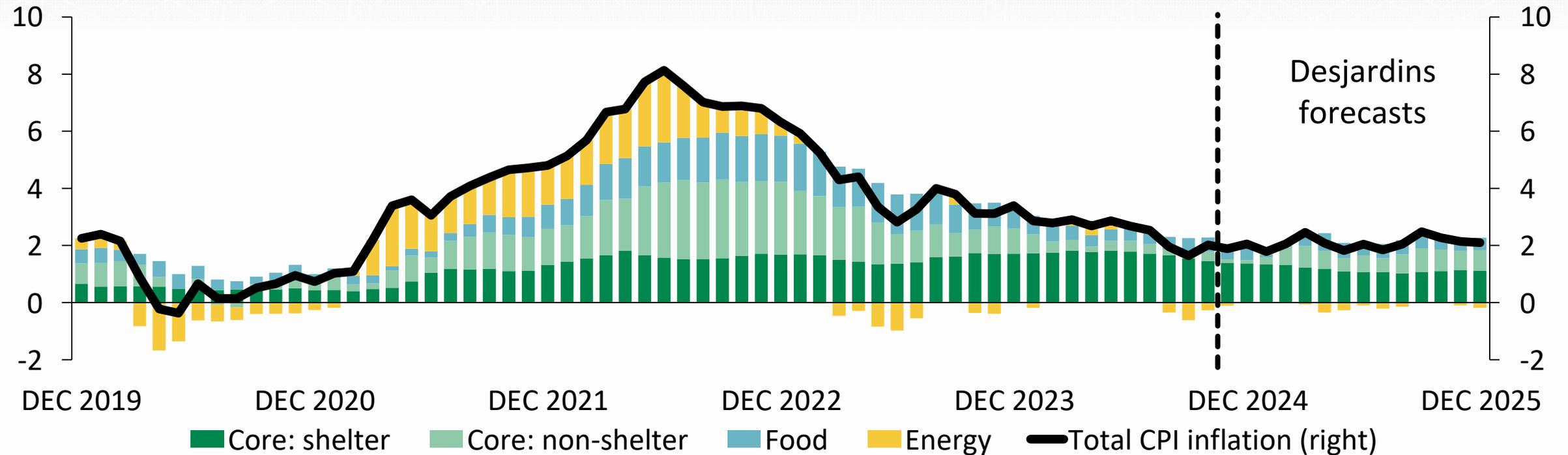
# CANADA INFLATION

## Lower Interest Rates Should Take Pressure Off Shelter Inflation

### Total CPI inflation and its underlying decomposition\*

Percentage points

y/y % change



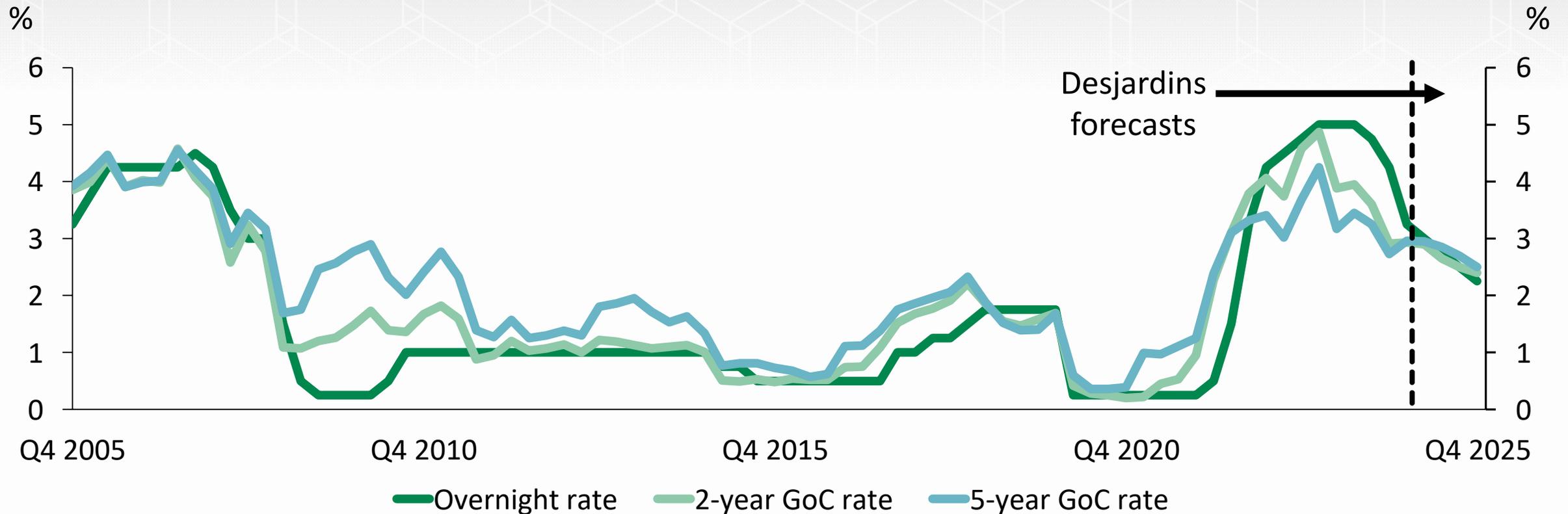
\*Calculated using fixed basket weights; Core refers to the total CPI index excluding food and energy

Statistics Canada and Desjardins Economic Studies

# CANADA INTEREST RATES

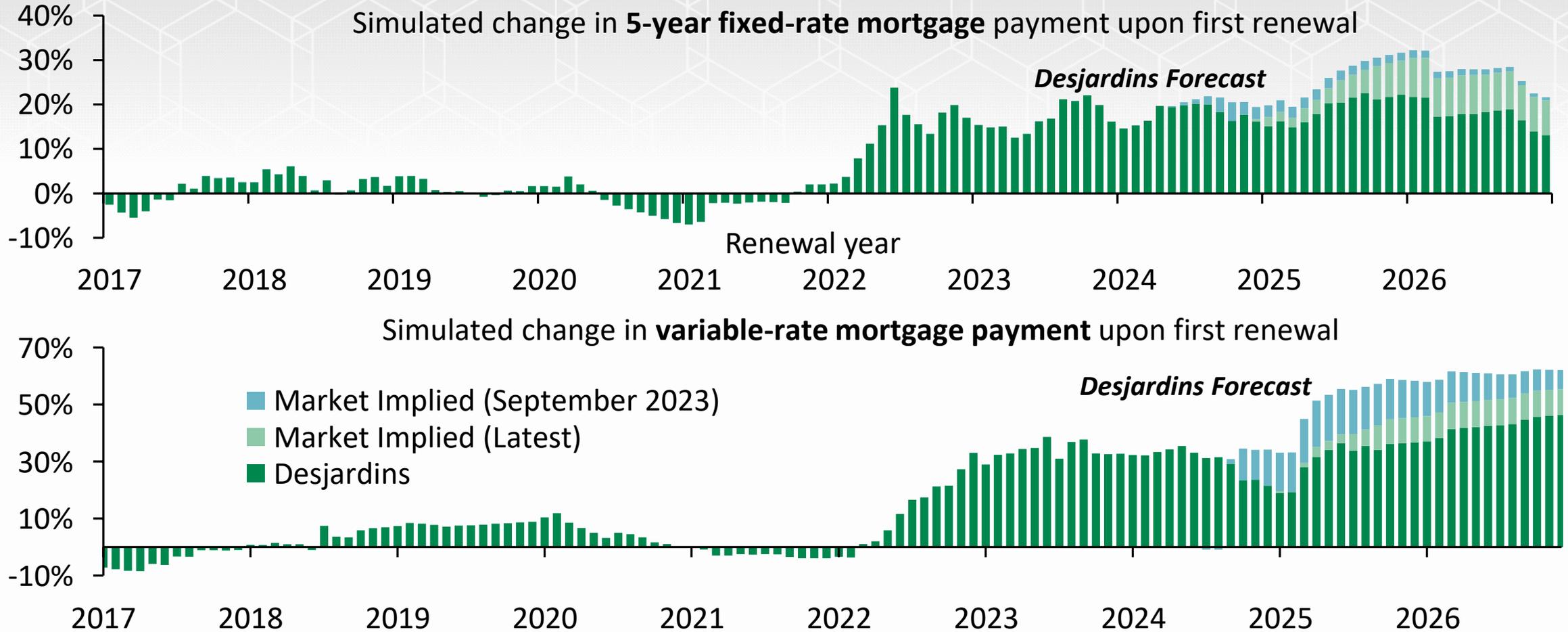
## Interest Rates are Expected to Fall Further in 2025 along with Inflation

### Policy rate and Government of Canada (GoC) bond yields



# CANADA INTEREST RATES

## Impact from Higher Mortgage Rates at Renewal Is Just Getting Started

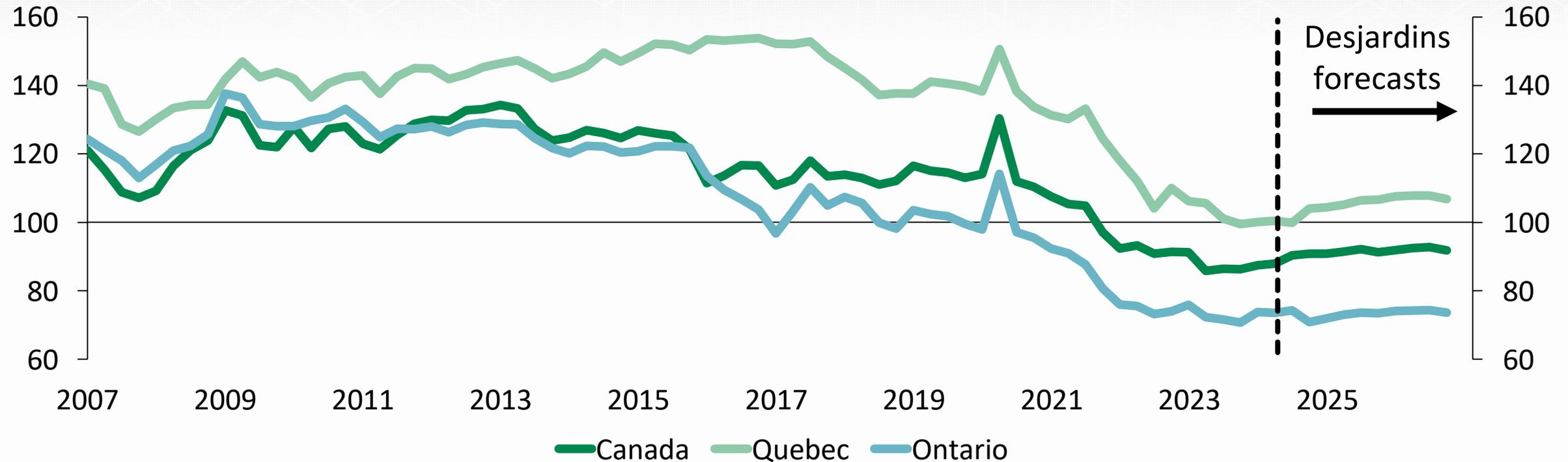


# CANADA HOUSING MARKET

## Affordability Is Unlikely to Improve Materially Over the Next Two Years

### Desjardins Affordability Index

Index, > 100 = affordable

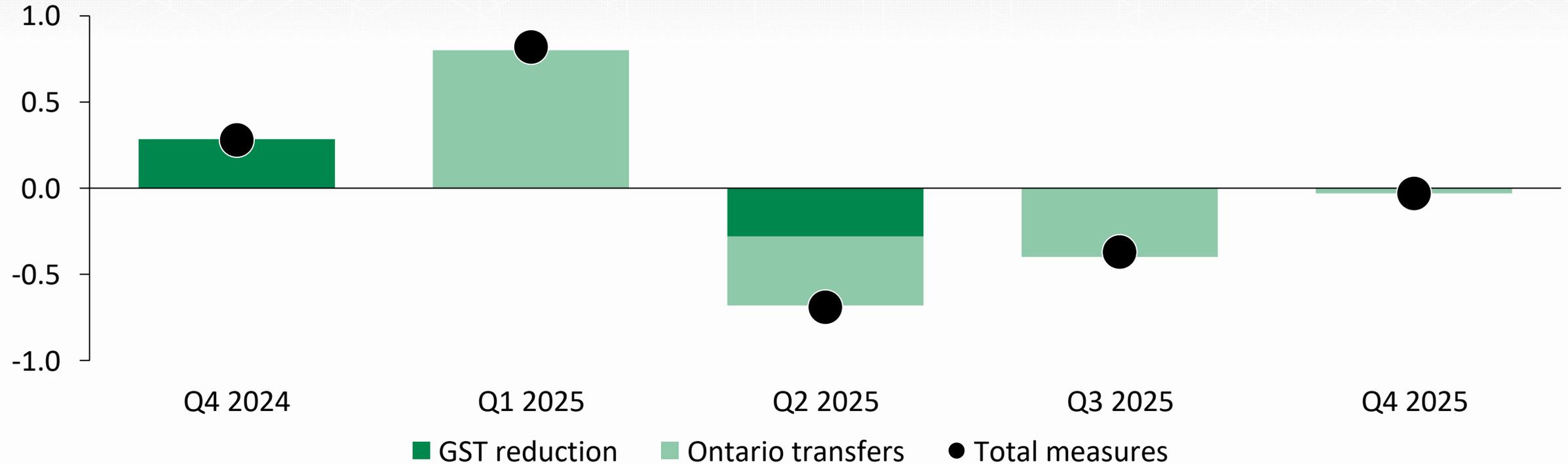


# CANADA CONSUMER

## New Stimulus Will Boost Growth Now but Will Quickly Fade Away

### Contribution to the Canadian real GDP growth forecast

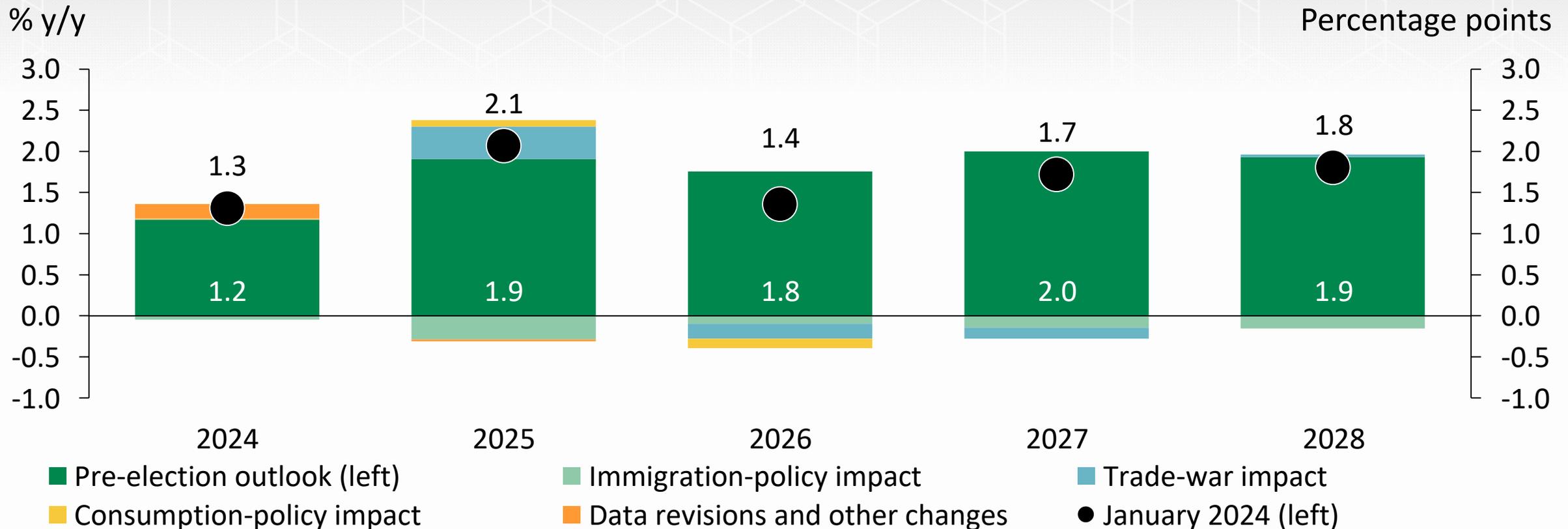
Percentage points, annualized rates



# CANADA ECONOMY

## Stronger Near-Term Growth Should Give Way to Lower Long-Term Growth

### Contributions of changes to the medium-term Canadian real GDP forecast



EFO: Economic and Financial Outlook

Statistics Canada, Immigration, Refugees and Citizenship Canada, and Desjardins Economic Studies

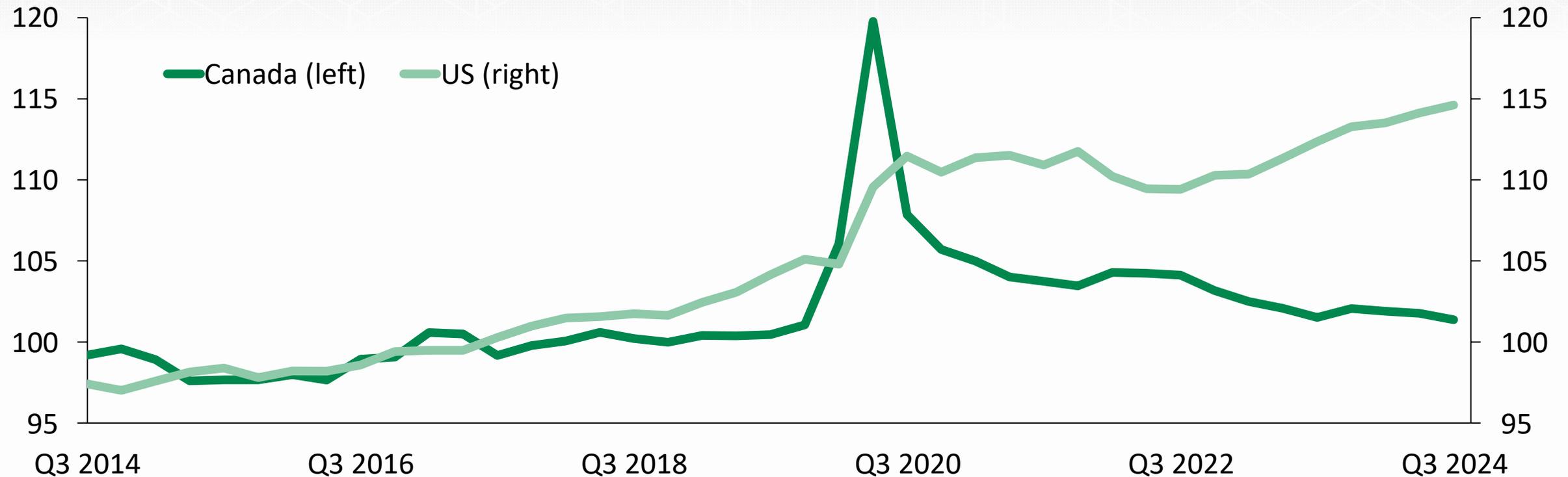
# LABOUR PRODUCTIVITY

## Since the Pandemic, Canadian Productivity has Significantly Trailed the US

### Canada and US business sector labour productivity

Index, 2017 = 100, real GDP per hour worked, CA\$

Index, 2017 = 100, real GDP per hour worked, US\$

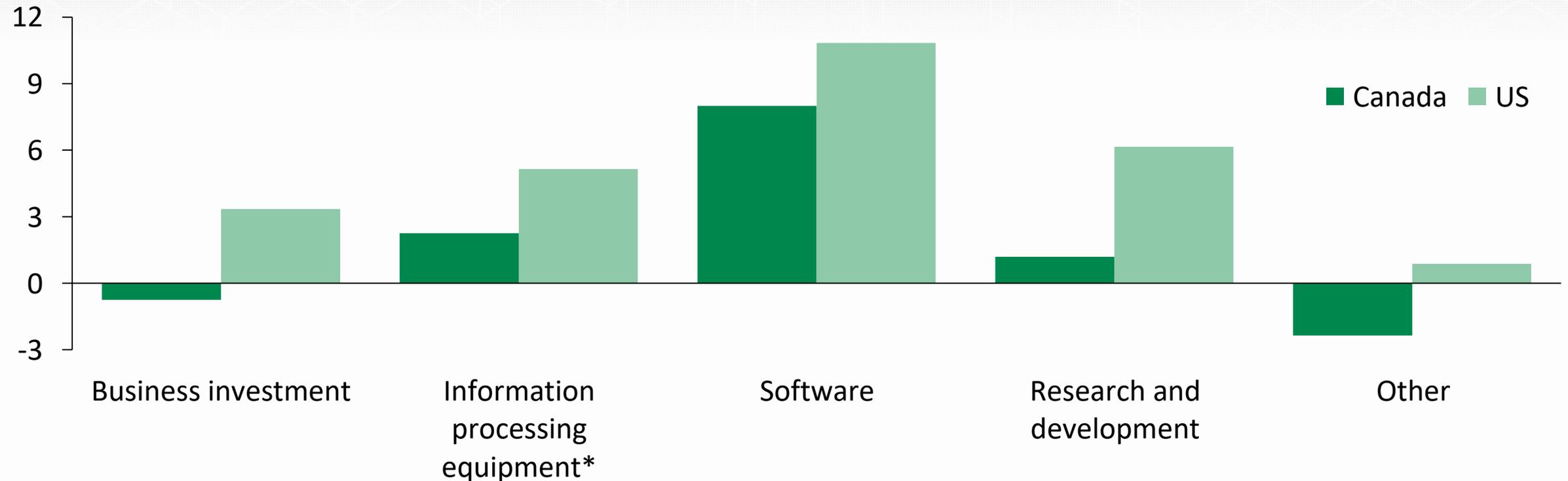


# LABOUR PRODUCTIVITY

## US Business Investment Has Been Concentrated in Innovation

### Real business investment by expenditure category

%, average annual growth, 2015 to 2023



\*For Canada, this includes computers and computer peripheral equipment; communications and audio and video equipment; and other electrical and electronic machinery and equipment.

# ACCELERATE AI ADOPTION

## Canada Is among the Top 10 in International AI Rankings

CRITERIA	INVESTMENT, INNOVATION, IMPLEMENTATION	GOVERNMENT READINESS	AI PATENTS PER 100,000 INHABITANTS	PRIVATE INVESTMENT IN AI
SOURCE	TORTOISE, 2023	OXFORD INSIGHTS, 2023	STANFORD UNIV., 2022	STANFORD UNIV., 2023
#1	US	US	South Korea	US
#2	China	Singapore	Luxembourg	China
#3	Singapore	UK	US	UK
#4	UK	Finland	Japan	Germany
#5	<b>Canada</b>	<b>Canada</b>	China	Sweden
#6	South Korea	France	Singapore	France
#7	Israel	South Korea	Australia	<b>Canada</b>
#8	Germany	Germany	<b>Canada</b>	Israel
#9	Switzerland	Japan	Germany	South Korea
#10	Finland	Netherlands	Denmark	India

Oxford Insights, Stanford University (2024), Tortoise Media, different websites and Desjardins Economic Studies

# ACCELERATE AI ADOPTION

## Canada Lags Its G7 Peers on AI Computing Capacity

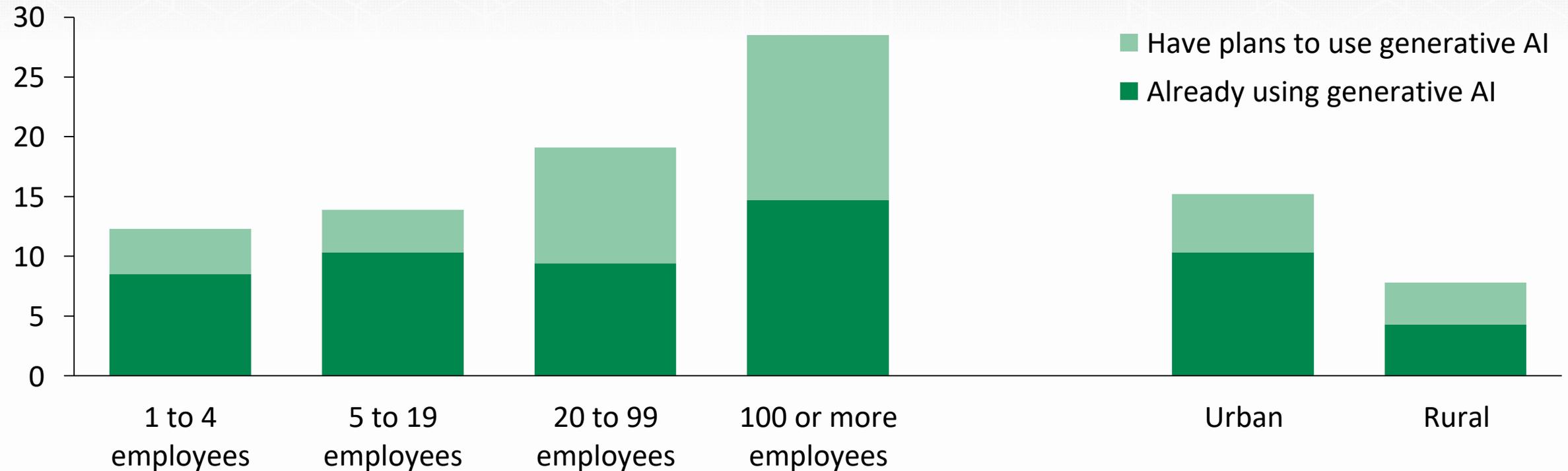
RANK	COUNTRY	UNADJUSTED COMPUTE PERFORMANCE CAPACITY	PER CAPITA PERFORMANCE
1	US	90.4	10.6
2	Japan	16.3	7.6
3	Italy	8.5	5.6
4	Germany	6.2	1.9
5	France	4.2	2.4
6	UK	2.0	1.2
<b>7</b>	<b>Canada</b>	<b>1.0</b>	<b>1.0</b>

# ACCELERATE AI ADOPTION

## Large and Urban Businesses Are More Likely to Be Using Generative AI

### Business use of generative AI, Q1 2024

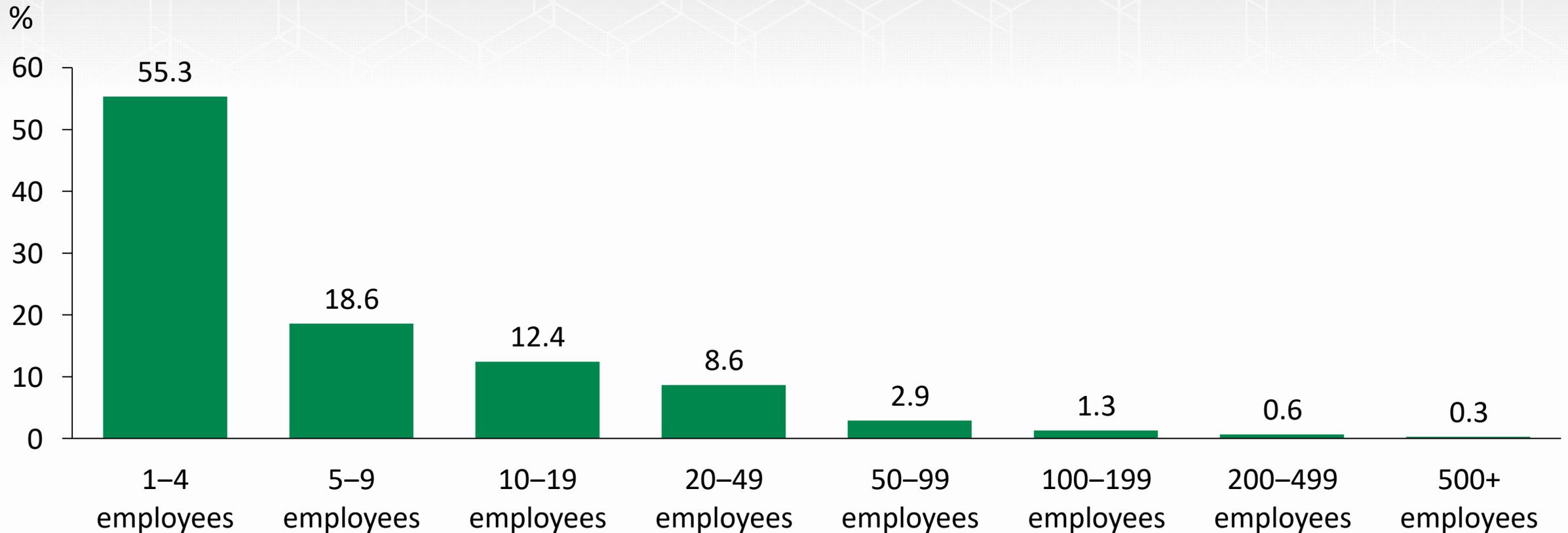
Percent of total



# SCALE UP CANADIAN BUSINESSES

## Canadian Companies Tend to be Disproportionately Small

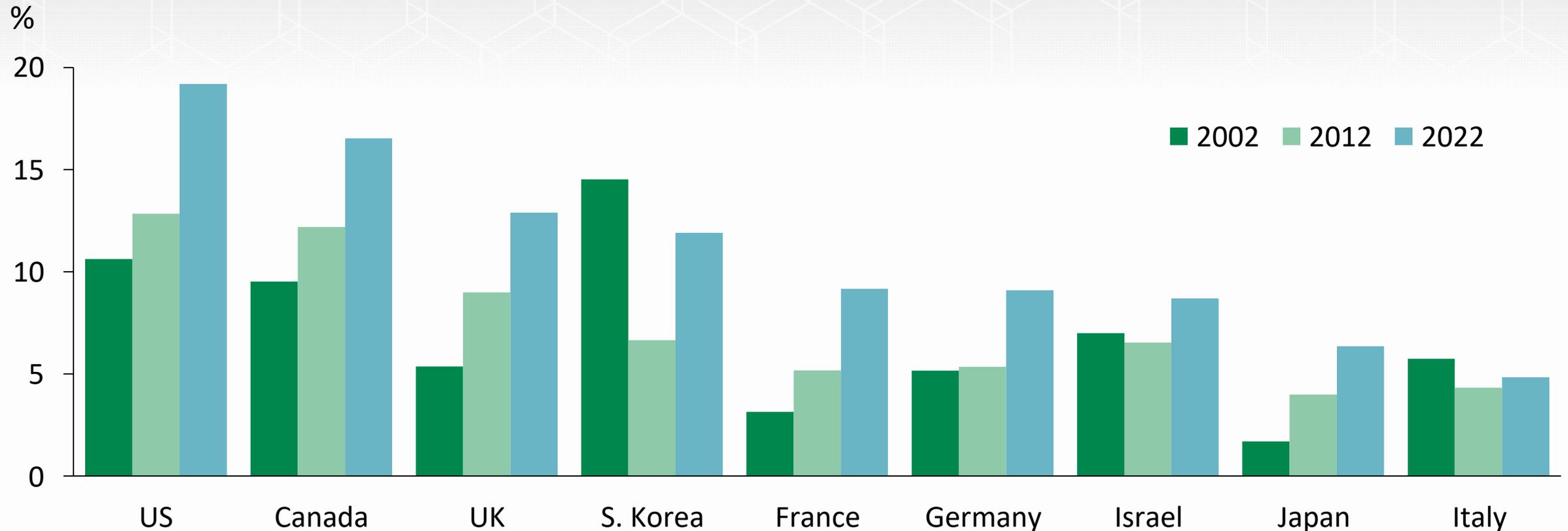
### Share of Canadian employees by business size



# SCALE UP CANADIAN BUSINESSES

## Canadians are Good at Starting Businesses but Not at Scaling them Up

### Total early-stage Entrepreneurial Activity (TEA)



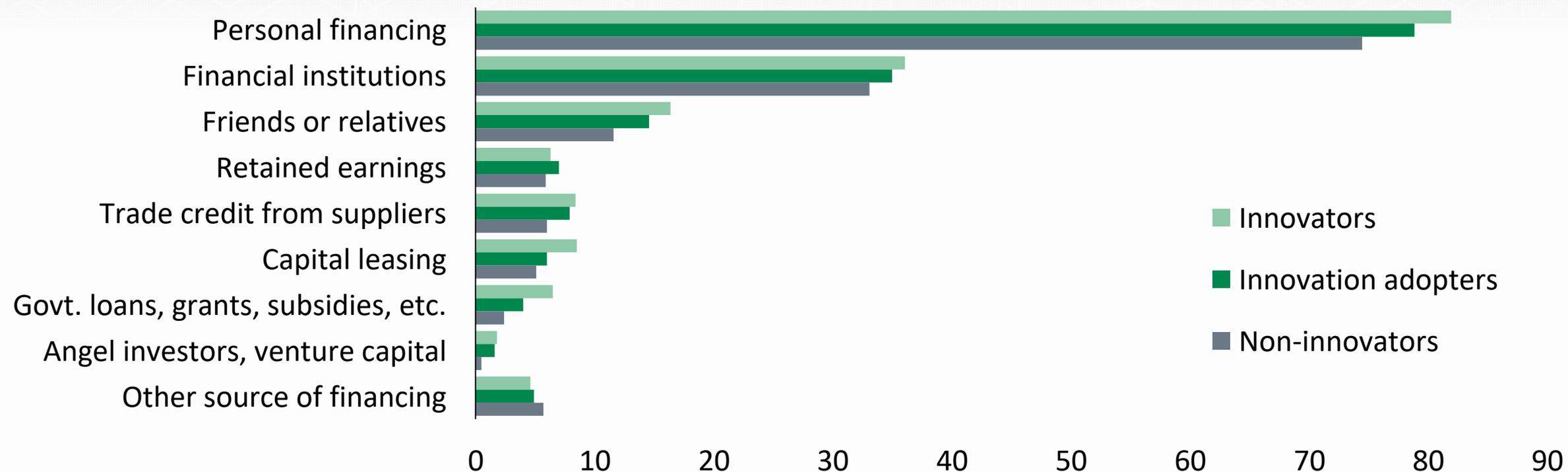
Total early-stage Entrepreneurial Activity (TEA) Rate: Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business

# SCALE UP CANADIAN BUSINESSES

## Opportunity for Financial Institutions to Play a Greater Role

### Sources of financing used to start-up businesses of under 500 people, 2022

%



SMEs: Small- and medium-sized enterprises

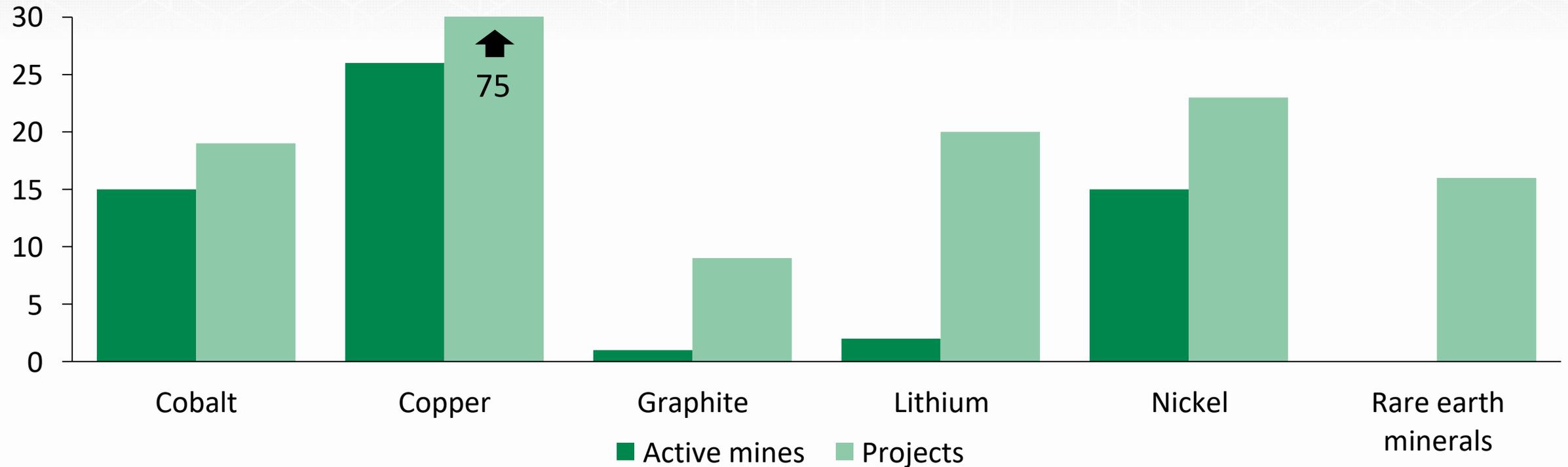
Statistics Canada and Desjardins Economic Studies

# COMMODITIES

## Mining for Critical Minerals is Expected to Keep Ramping Up in Canada

### Number of active critical mineral mines and projects in Canada\*

Number\*\*



\*Projects listed by the government of Canada as of January 8, 2025.

\*\*This may be the mine or project's main production or a byproduct. Consequently, some mines and projects may be included in more than one mineral.

# COMMODITIES

## Oil Prices are Likely to Trend Lower on More Output and Less Demand

### West Texas Intermediate (WTI) crude oil price

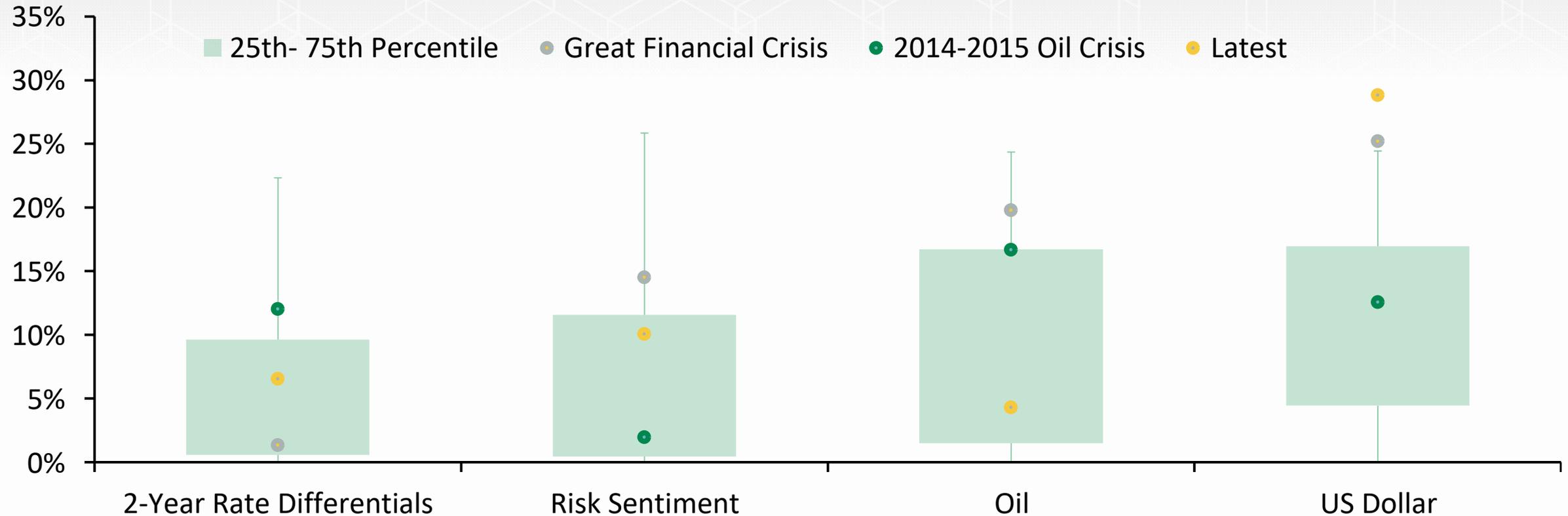
US\$ per barrel



# CANADIAN DOLLAR

## Oil Prices are Just One Factor Driving Canadian Dollar

### Factors explaining changes in Canadian dollar\*

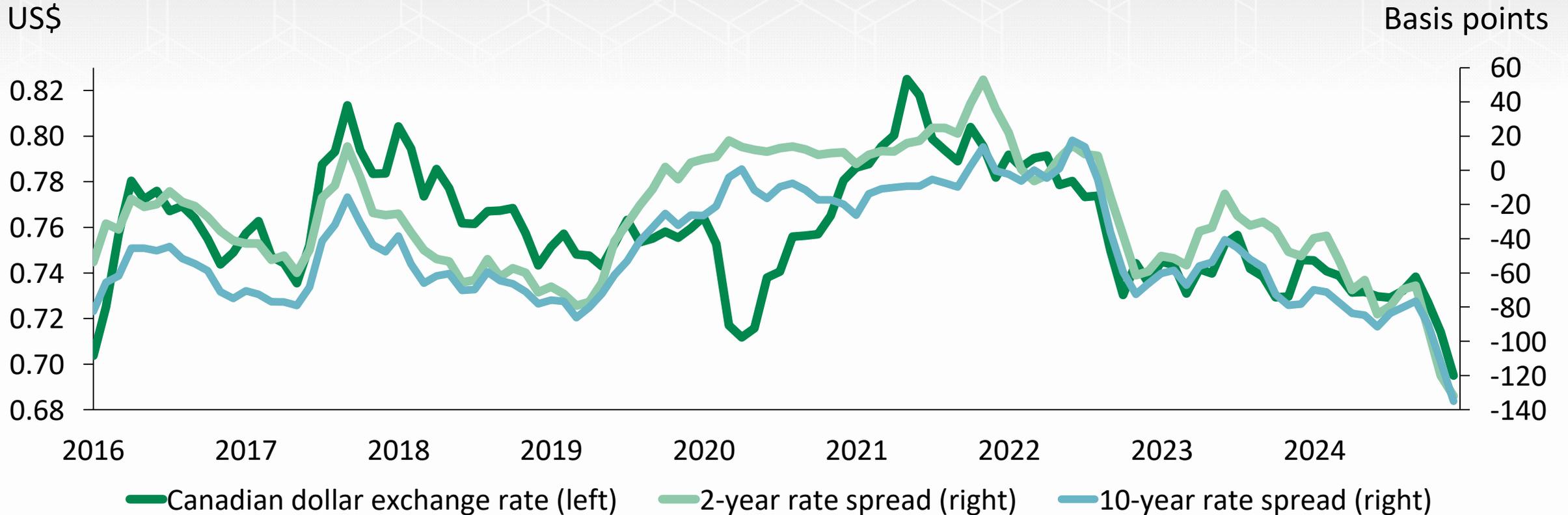


\*R-squared of 1-year rolling univariate regressions on daily returns of each factor. Risk sentiment is represented by the S&P500. The US dollar factor is represented by the DXY index excluding the Canadian dollar. Error bars represent the 10th and 90th percentile observations while the shaded areas are interquartile ranges

# CANADIAN DOLLAR

## The CAD Is Getting Hit by Wider Interest Rate Spreads

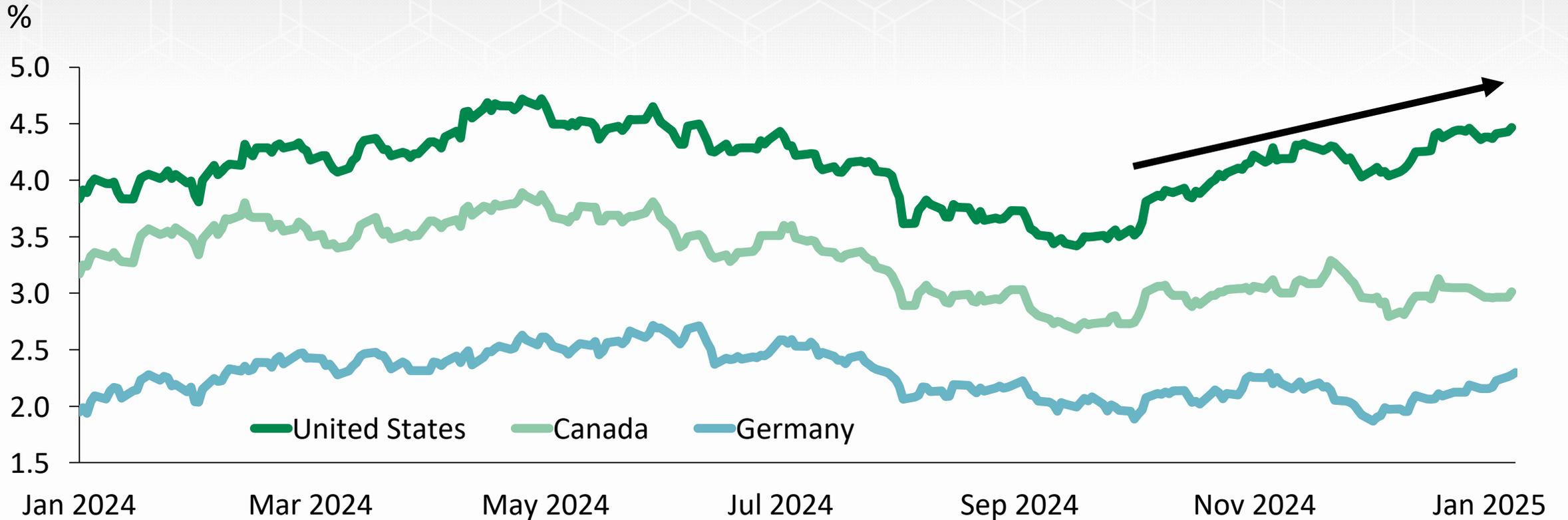
### Canadian dollar exchange rate



# CANADIAN DOLLAR

## US Bond Spreads Continue to Widen Against Other Major Economies

### 5-year government bond yields

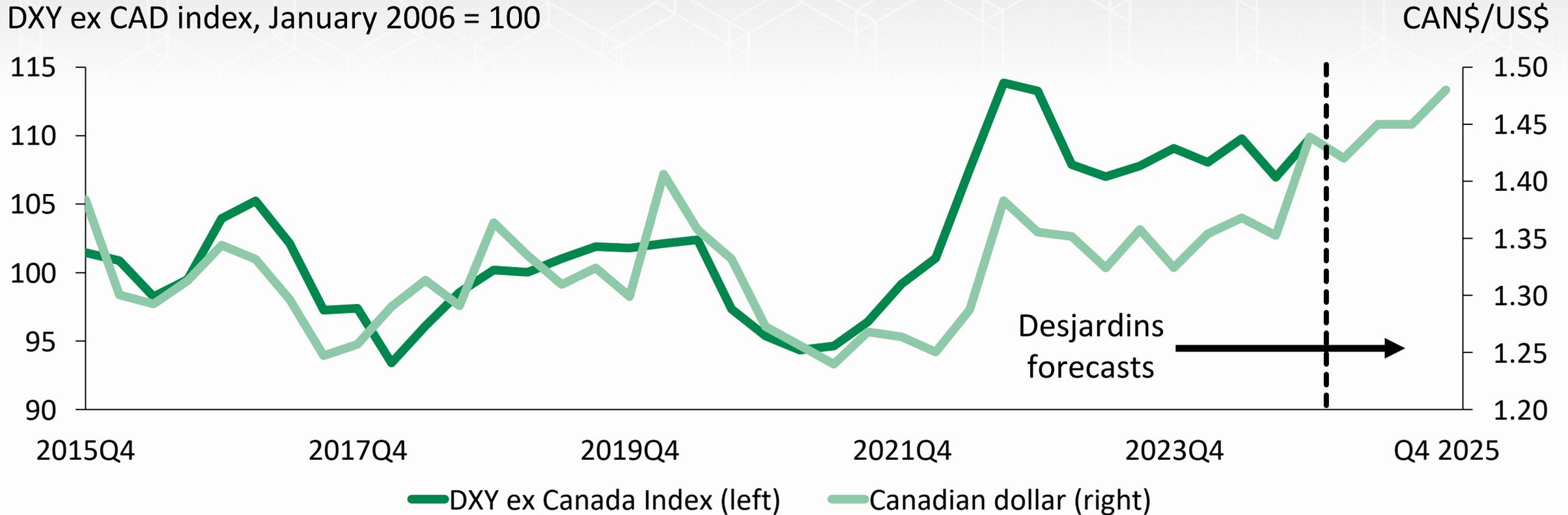


# CANADIAN DOLLAR

## USD Outperformance Should Continue to Weaken the CAD

### USD index excluding the CAD versus the Canadian dollar

DXY ex CAD index, January 2006 = 100



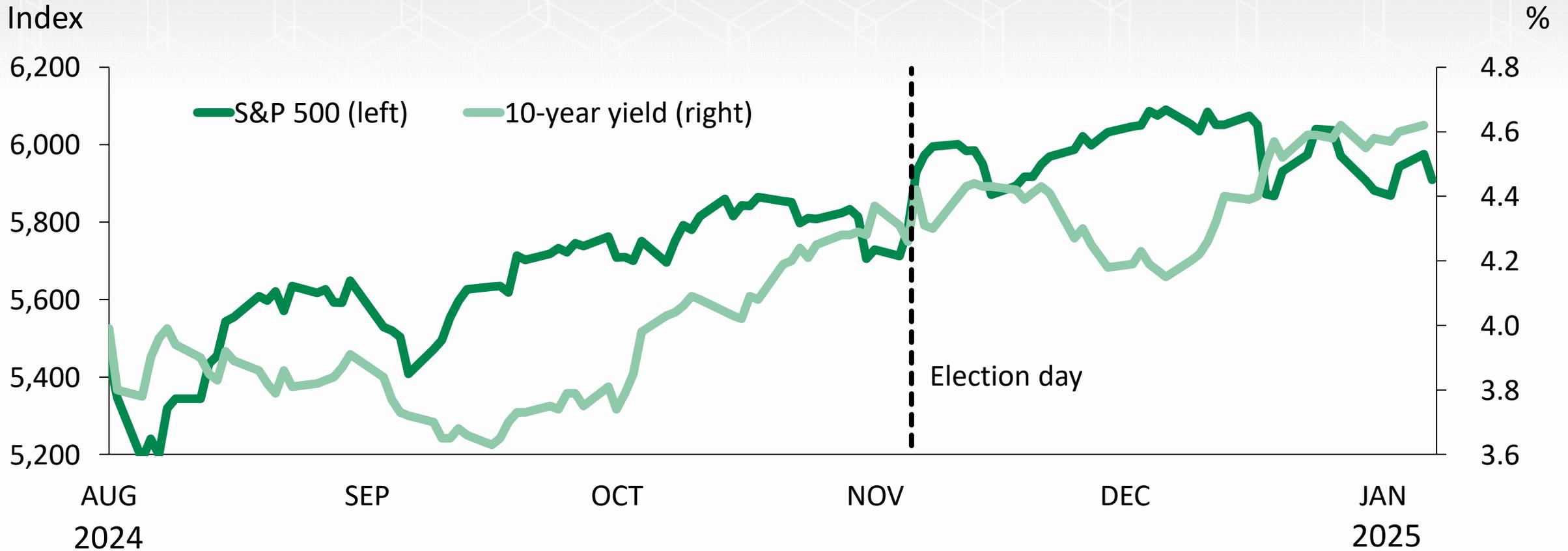
USD: US dollar; CAD: Canadian dollar; estimates and forecasts are for end-of-period values

US Federal Reserve and Desjardins Economic Studies

# EQUITY MARKETS

## US Stock Markets Have Welcomed the Re-Election of Donald Trump

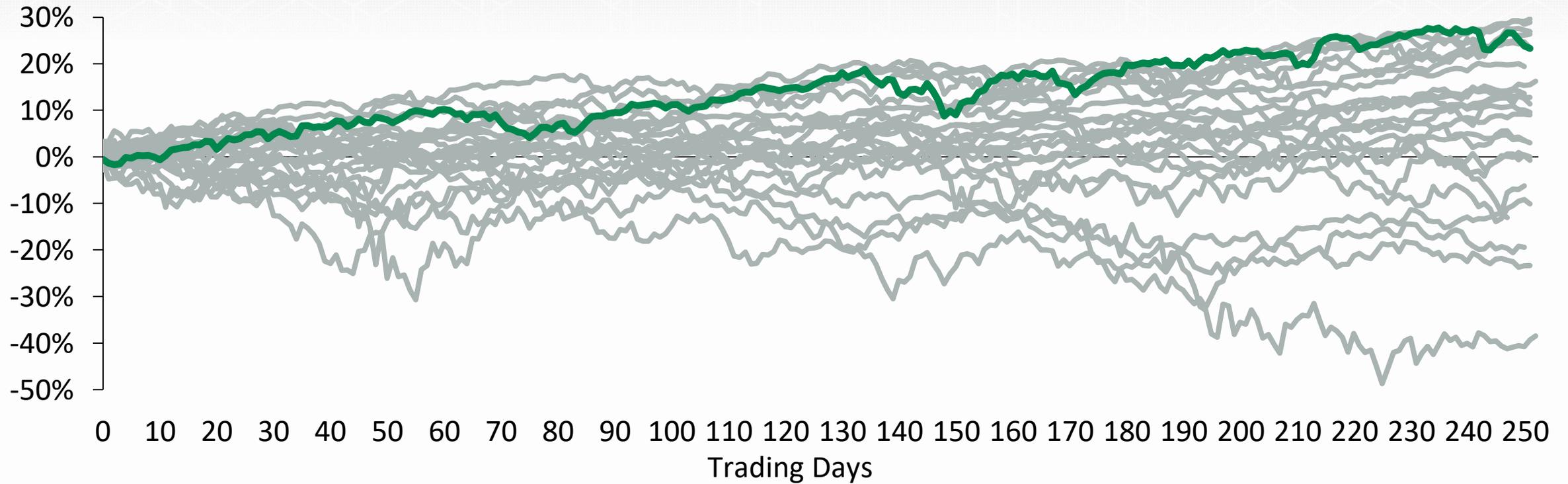
### Stock index and US federal bond yields



# EQUITY MARKETS

## US Equities Ended 2024 on a Relative High Note

### S&P 500 YTD returns since 2000

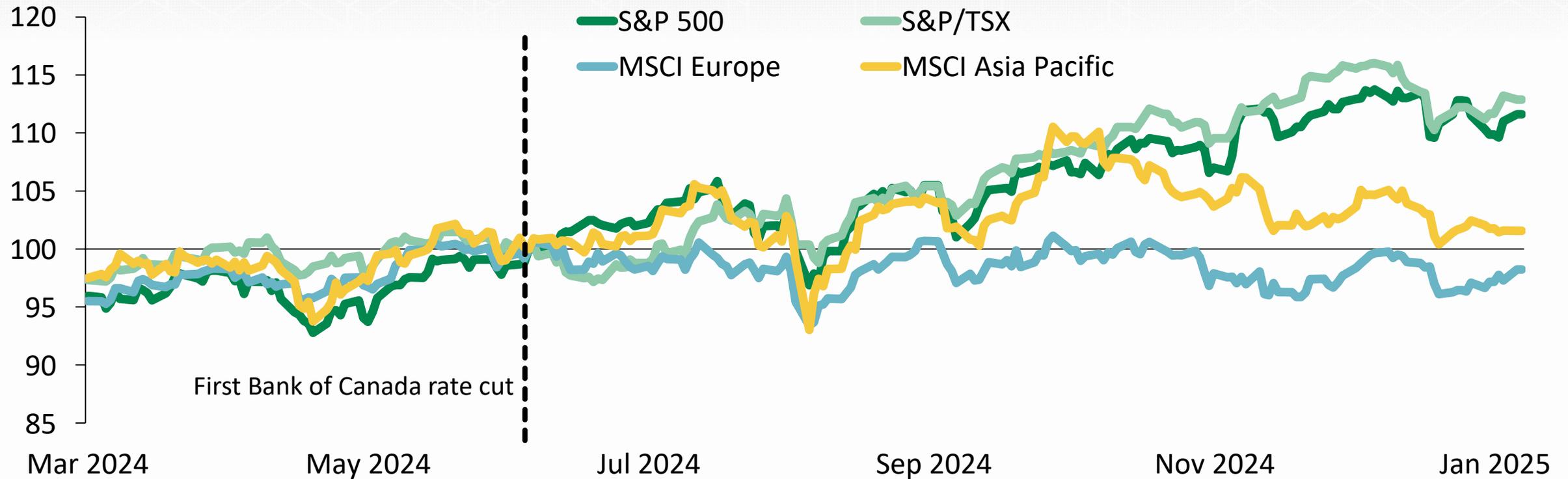


# EQUITY MARKETS

## The TSX Has Performed Well since Rates Started Coming Down

### Global stock indexes

June 5, 2024 = 100

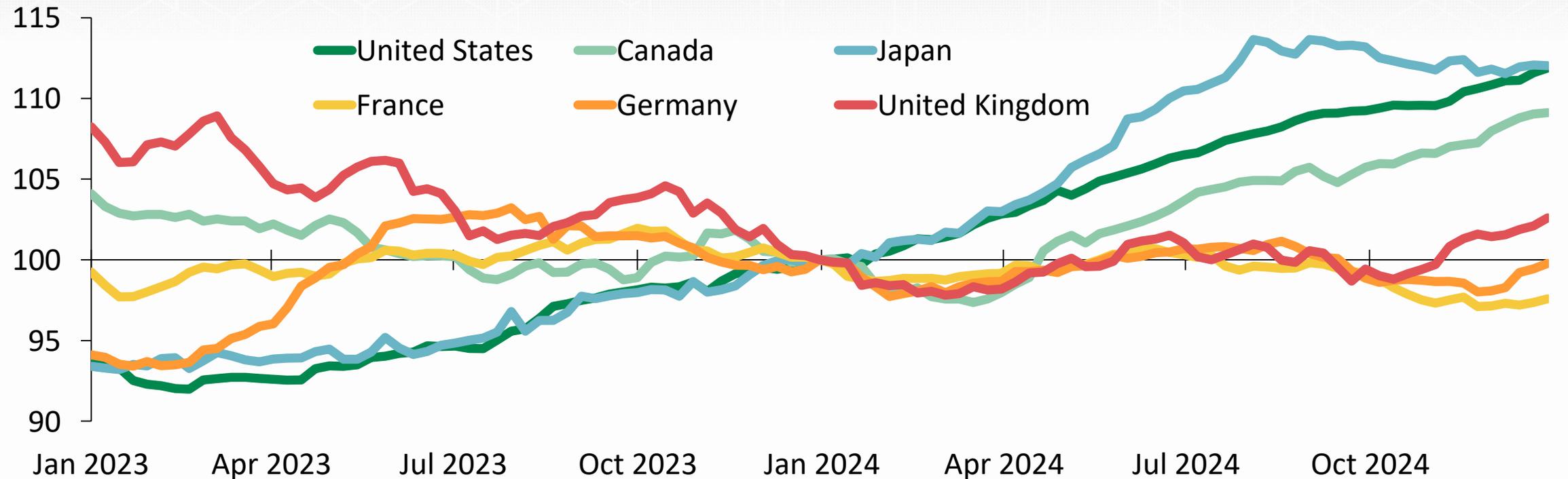


# EQUITY MARKETS

## Analysts Believe Earnings Have More Room to Run in North America

Stock indexes by country:\* Average estimated earnings per share over the next 12 months

December 2023 = 100



\*MSCI indexes.

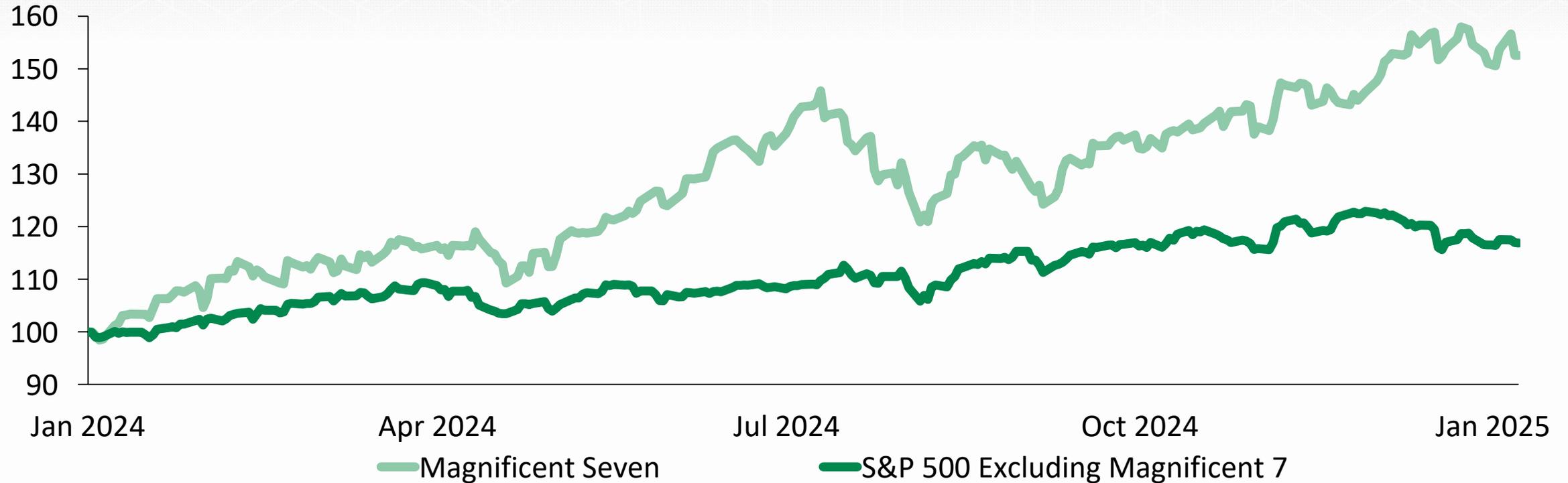
Datastream and Desjardins Economic Studies

# EQUITY MARKETS

## Most US Equity Performance has been Concentrated in a Few Names

### Cumulative equity returns

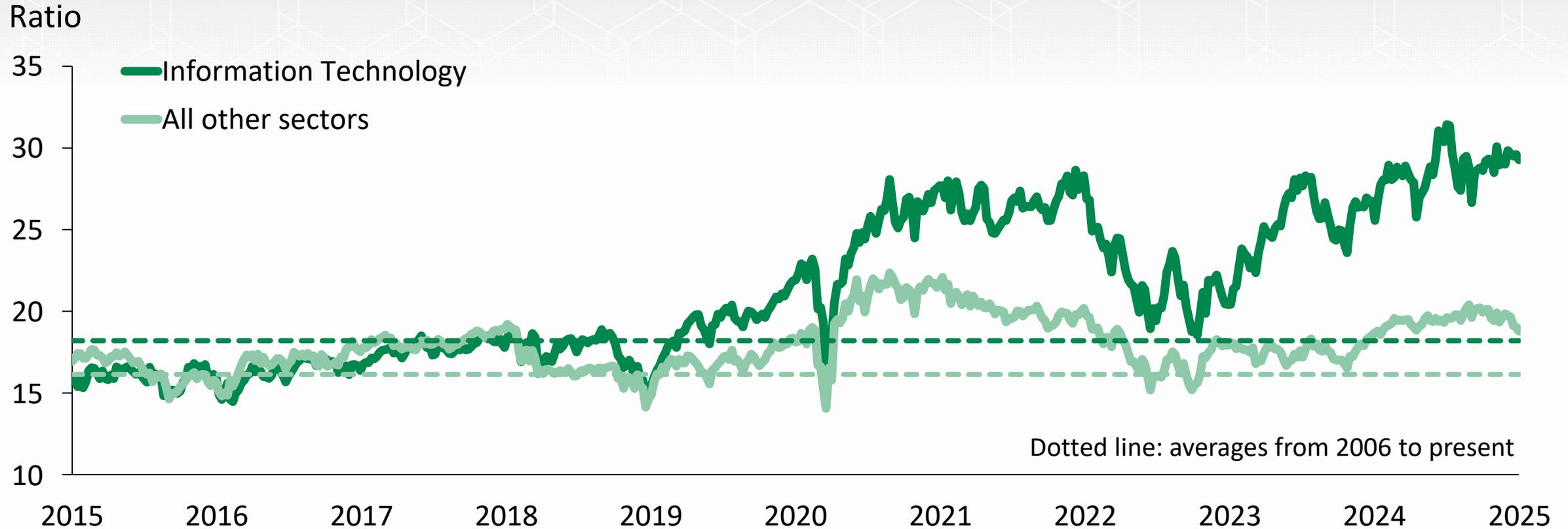
Index (January 2024 = 100)



# EQUITY MARKETS

## S&P 500 Stock Valuations Are Hitting Historic Highs

Average price-to-earnings ratio – Projected earnings for the next 12 months



# EQUITY MARKETS

## Investors are Positioned for More Positive Equity Performance Ahead

### Equity futures held by asset managers (in USD)

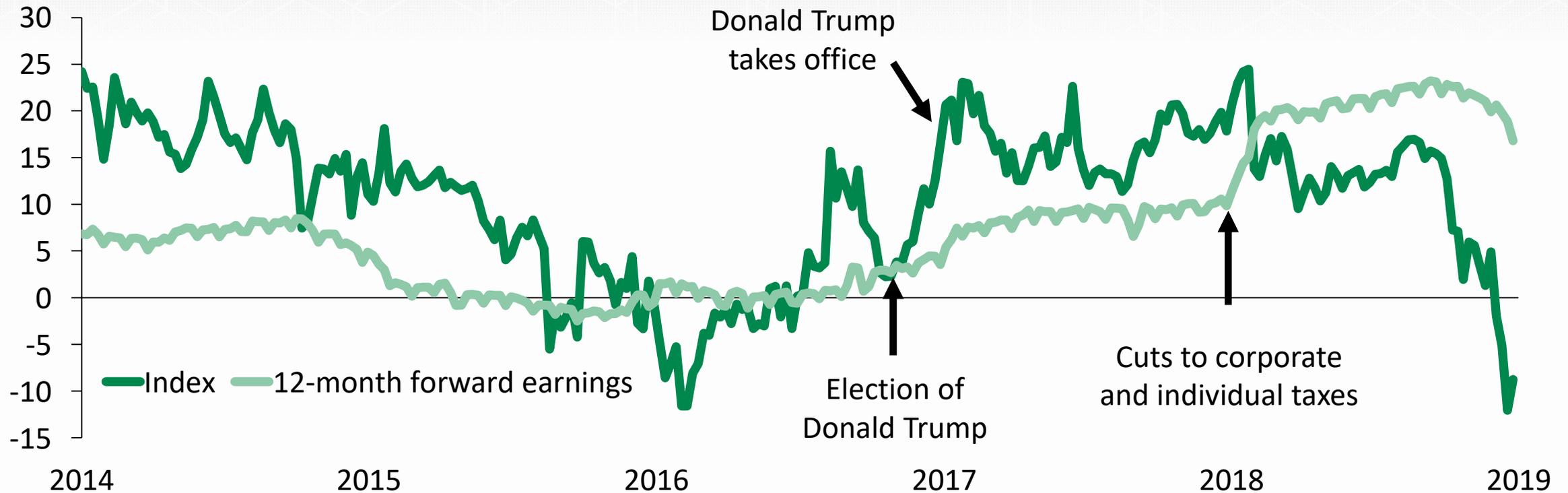


# EQUITY MARKETS

## Markets Loved Trump the First Time, Until They Didn't

### S&P 500 index and 12-month forward earnings

y/y % change



# FINANCIAL MARKETS

## Positive Asset Class Returns are Widely Expected This Year and Next

Asset class returns (%)						
End of year in % (Unless otherwise stated)	CASH	BONDS	CANADIAN STOCKS	US STOCKS	INTERNATIONAL STOCKS	EXCHANGE RATE
	3-month T-bill	Bond index*	S&P/TSX index <sup>^</sup>	S&P 500 index (US\$) <sup>^</sup>	MSCI EAFE Index (US\$) <sup>^</sup>	C\$/US\$ (% change) <sup>†</sup>
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%
2022	1.8%	-11.7%	-5.8%	-18.1%	-14.0%	7.2%
2023	4.7%	6.7%	11.8%	26.3%	18.9%	-2.2%
2024	4.9%	4.2%	21.7%	25.0%	4.3%	8.6%
2025 forecast	3.0%	4.6%	8.3%	10.8%	9.9%	-1.4%
range	2.3% to 3.7%	1.6% to 7.6%	0.3% to 16.3%	2.8% to 18.8%	1.9% to 17.9%	-4.6% to 3.4%
2026 forecast	2.1%	4.0%	7.0%	5.9%	8.6%	-0.7%
range	1.3% to 2.9%	0.5% to 7.5%	-3% to 17%	-4.1% to 15.9%	-1.4% to 18.6%	-4.7% to 3.3%

\* FTSE Canada Universe Bond Index;

<sup>^</sup> Dividends included;

<sup>†</sup> Negative = appreciation, positive = depreciation.

Sources: Datastream and Desjardins Economic Studies

# 2025 ECONOMIC OUTLOOK

## A Trifecta of Headwinds and Tailwinds. Economic Hat Trick?

- **Canada's economy faces several near-term and substantial headwinds**
- **Tailwinds to growth are blowing but will be more gradual**
- **Most drivers of the CAD suggest there should be further weakness ahead**
- **Equity returns should be positive in 2025 but expect ongoing volatility**

# Thank you!

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**[www.desjardins.com/economics](http://www.desjardins.com/economics)**

**[www.linkedin.com/company/desjardins-economics/](http://www.linkedin.com/company/desjardins-economics/)**





# Desjardins Target Date Investment Grade Bond Funds

Fund	Class	Code
<a href="#"><u>Desjardins Target 2025 Investment Grade Bond Fund</u></a>	C (Advisor)	DJT03140
	F (Fee-based)	DJT03140
<a href="#"><u>Desjardins Target 2026 Investment Grade Bond Fund</u></a>	C (Advisor)	DJT03141
	F (Fee-based)	DJT03141
<a href="#"><u>Desjardins Target 2027 Investment Grade Bond Fund</u></a>	C (Advisor)	DJT03142
	F (Fee-based)	DJT03142

A portfolio is only as strong  
as its foundation



## Take the complexity out of bond investing.

Desjardins Target Date Investment Grade Bond Funds are a suite of innovative, low-cost fixed income solutions that have built-in tax efficiency to help your clients make the most of their investments before year end.

Visit the Fund page for more details on series, fees, portfolio managers, and more.

Maturity date 2025: Desjardins Target Date Investment Grade Bond Funds



Maturity date 2026: Desjardins Target Date Investment Grade Bond Funds



Maturity date 2027: Desjardins Target Date Investment Grade Bond Funds



# Disclaimers

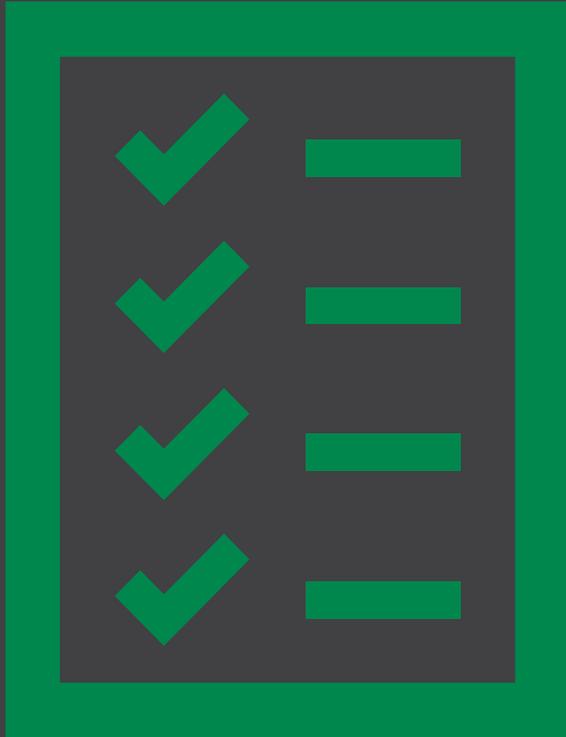
The Desjardins Funds are not guaranteed, their value fluctuates frequently, and their past performance is not indicative of their future returns. The indicated rates of return are the historical annual compounded total returns of the date of the present document including changes in securities value and reinvestment of all distributions and do not consider sales, redemption, distribution or other optional charges, or income taxes payable by any securityholder that would have reduced returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by registered dealers.

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# Questions?



**Take this time to complete the CE quiz.**



A passing grade of 7/10 is required to qualify for credits.

If you run out of time, you must complete it again once the replay is ready (within the next 24 hours).

Thank you!