Economic and Financial Outlook

The United States Will Be the First Victim of Its Trade War

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Highlights

- The world is still grappling with the United States' protectionist policy. The US tariff rollout, the US–China trade war and the abrupt financial market swings have all created a great deal of uncertainty and will eventually weigh on the global economy. That said, the situation remains fluid. For now, our economic and financial outlook assumes that the current tariffs on Canadian and Mexican goods will hold, including the exemptions for CUSMA-compliant goods. It also assumes that the 10% baseline tariff against other countries will be maintained: we don't expect the higher reciprocal tariffs to be brought back after their current pause. The tariff standoff should continue between China and the United States, the two largest economies in the world. Both will suffer, and global supply chains may be damaged as well. We'll update our economic and financial scenarios as the trade war evolves.

- While the United States has paused its reciprocal tariffs, the escalating trade war with China is pushing effective tariffs on all US imports to very high levels. The likely damage from these tariffs, the uncertainty caused by the White House's chaotic announcements, the stock market slide and new questions about the safe-haven status of US bonds are all adding to the gloom. Most business and confidence indexes are down, and inflation expectations have surged. Fortunately, the labour market is holding up for now, but we expect weak growth by US real GDP in the first quarter of 2025, followed by contraction in the following quarters. However, economic indicators may be quite volatile.

- The eurozone and other major advanced economies have been less affected by the US tariffs than initially predicted and could post growth that's modestly better than what we called for in March. Meanwhile, our forecast for China has been revised downward.

- In Canada, while US tariff rates on "Liberation Day" didn't change for exporters, the fact that they didn't get worse was a positive surprise. The exemption for CUSMA-compliant goods is a big benefit for Canada, and we anticipate compliance to accelerate quickly in the near term. As a result, we've reduced our expectation for the drag on the Canadian economy from a US–Canada trade war relative to our March forecast. And with the federal election wrapping up soon, we expect fiscal policy to provide a boost to the Canadian economy going forward as well. However, a deeper downturn stateside should offset some of this improvement in the outlook. Lower oil prices will also weigh on growth. But accompanied by the elimination of the price on pollution, falling energy prices and slower growth will help to keep a lid on inflation that is otherwise being boosted by Canadian counter tariffs. Indeed, by our estimate, inflation over the next year could average slightly below the Bank of Canada's 2% target—something almost unimaginable until just recently.

- Our economic outlook for Quebec is similar to last month's, and the province will be hard-pressed to avoid a recession in 2025. The United States has delayed many of the tariffs on Canadian goods, which will temporarily limit their negative impact on real GDP. The postponement of several tariffs by the US administration will temporarily mitigate the negative impact on real GDP, although the pull-forward of some exports in the first quarter before the tariffs came into effect will give way to a pullback subsequently. International trade should then turn into a drag on economic growth. The latter could be in negative territory for the rest of the year. Business confidence is falling, which suggests that uncertainty is growing and will have a sustained impact on investment. The current data for households do not allow us to measure the impact of uncertainty, but some labour market indicators are showing weakness. Net job creation has been negative for two months—not because of layoffs, but because companies are reluctant to hire new workers. This will affect consumer confidence, with households seeking to limit or push back some expenses. The Quebec government also tabled its 2025–2026 budget, which calls for portfolio expenditures to grow by just 1.8% this year, suggesting their contribution to GDP will be zero in real terms. However, $11B in infrastructure spending will be pulled forward over the next three years, which could provide a modest boost to economic growth.

Risks Inherent in Our Scenarios

The first few months of Donald Trump's second term have triggered a massive spike in uncertainty all over the world. That uncertainty has been amplified by the tariffs that have been announced (and in some cases, delayed), additional threats and the retaliatory measures imposed by other countries, especially China. Furthermore, the other policies implemented by the US administration, especially regarding immigration and the federal government apparatus, could send the economy into a tailspin. Adding to the instability, the US statutory debt limit was reinstated at the beginning of the year. While the Treasury Department has been deploying so-called "extraordinary measures" to keep the government funded, these options are finite. Without congressional action to raise or suspend the limit, the government could exhaust its cash reserves in the coming months, which raises the risk of delayed payments or even default. Even though we've already revised our forecasts, further adjustments will be needed as the situation evolves. President Trump also threatened to use economic force to make Canada consider joining the United States, though the exact nature of that economic force remains unclear for now. There's also a lot of uncertainty over how much room central banks have to cut interest rates if their economies are hit by stagflation. We'll also need to keep an eye on whether the Federal Reserve manages to maintain its independence and if the US markets are still deemed a safe haven. Governments around the world have been hit by political crises, which could further undermine their ability to respond to economic downturns while keeping public finances on solid footing. That's not counting the risks of financial instability, including the ones that could arise from a looser regulatory environment. Stock markets, bond markets and commodity prices could become even more volatile, further slowing the global economy.

Table 1

Global GDP Growth (Adjusted for PPP) and Inflation Rates

	Weight*	Real GDP growth			Inflation rate		
%		2024	2025f	2026f	2024	2025f	2026f
Advanced economies	**37.7**	**1.6**	**0.9**	**1.0**	**2.6**	**2.5**	**2.4**
United States	14.8	2.8	0.8	1.4	3.0	2.9	2.8
Canada	1.3	1.5	1.1	0.7	2.4	2.0	2.3
Quebec	*0.3*	*1.4*	*0.8*	*0.6*	*2.3*	*2.0*	*2.2*
Japan	3.4	0.1	1.1	0.4	2.7	2.8	1.8
United Kingdom	2.2	1.1	0.8	0.7	2.5	3.1	2.7
Eurozone	11.9	0.8	0.8	0.7	2.4	2.2	2.2
Germany	*3.2*	*-0.2*	*-0.1*	*0.2*	*2.3*	*2.2*	*2.3*
France	*2.3*	*1.1*	*0.5*	*0.5*	*2.0*	*1.4*	*1.9*
Italy	*1.9*	*0.5*	*0.4*	*0.5*	*1.0*	*1.8*	*2.0*
Other countries	4.1	1.5	1.4	1.6	2.5	1.9	2.3
Australia	*1.0*	*1.0*	*1.5*	*1.9*	*3.2*	*2.6*	*3.0*
Emerging and developing economies	**62.3**	**4.0**	**3.3**	**3.4**	**7.3**	**4.9**	**4.1**
Emerging Asia	32.8	5.2	4.3	4.2	2.0	1.8	2.3
China	*18.8*	*5.0*	*3.8*	*3.5*	*0.2*	*0.6*	*1.1*
India	*7.9*	*6.4*	*5.9*	*6.0*	*5.0*	*4.3*	*4.8*
Latin America	5.8	2.3	1.3	1.5	4.2	4.3	4.0
Mexico	*1.8*	*1.5*	*-0.3*	*0.9*	*4.7*	*3.8*	*3.9*
Brazil	*2.4*	*2.9*	*1.7*	*1.4*	*4.0*	*5.2*	*4.4*
Eastern Europe	8.5	3.8	2.2	2.5	19.5	12.7	8.9
Russia	*3.5*	*4.3*	*1.4*	*1.3*	*8.4*	*6.8*	*5.2*
Other countries	15.2	2.1	2.6	2.9	16.4	10.1	8.1
South Africa	*0.5*	*0.6*	*1.3*	*1.6*	*4.4*	*3.9*	*4.6*
World	**100.0**	**3.1**	**2.4**	**2.6**	**5.5**	**4.0**	**3.5**

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 Forecast

The Bank of Canada continues to juggle the prospect of rising inflation alongside weaker economic activity from the ongoing trade war. The decision to leave rates unchanged in April was in part due to past decisions given the central bank had already eased policy 225 bps, but also due to uncertainty around the outlook. Once policymakers get more clarity, they "are prepared to act decisively if incoming information points clearly in one direction." Given the ongoing headwinds from trade policy, the mortgage renewal cycle and sharp slowdown in population growth, we continue to forecast that the Bank will return to rate cuts soon and reach a terminal rate of 1.75% later this year.

The Federal Reserve faces a similar dynamic, although, relative to Canada, US economic activity was more robust and progress on inflation less pronounced heading into this period. As such, US policymakers are still expected to lower interest rates as global growth slows, but at a much slower pace relative to past easing cycles. We continue to expect the Federal Reserve to begin its cutting cycle in June and lower its target rate to 3.625% by the end of 2025.

The disruptive nature of the US administration's policy agenda, including questioning the Fed's independence, has led to a rotation away from US assets. The US dollar has suffered as a result, continuing to weaken on a trade-weighted basis. The selloff has come despite a rise in long-term US bond yields, signalling waning confidence in US assets. Historical correlations between stocks and bonds have also broken down due to this new dynamic. Given the uncertainty, we continue to expect risky assets will remain under pressure. Meanwhile, the Canadian dollar is likely to benefit from the rotation away from US assets along with the prospect of further rate cuts stateside.

Table 2

Summary of Financial Forecasts

End of period in %	2024		2025				2026			
(unless otherwise indicated)	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Key interest rate										
United States	5.00	4.50	4.50	4.25	4.00	3.75	3.75	3.75	3.50	3.50
Canada	4.25	3.25	2.75	2.50	2.00	1.75	1.75	1.75	1.75	1.75
Eurozone	3.50	3.00	2.75	2.50	2.00	1.75	1.75	1.75	1.75	2.00
United Kingdom	5.00	4.75	4.50	4.25	4.00	4.00	4.00	3.50	3.75	4.00
Federal bonds										
United States										
2-year	3.68	4.24	3.94	3.70	3.60	3.50	3.45	3.40	3.40	3.35
5-year	3.56	4.38	3.95	3.80	3.75	3.70	3.65	3.60	3.60	3.60
10-year	3.78	4.57	4.21	4.20	4.15	4.10	4.05	4.00	3.95	3.90
30-year	4.13	4.79	4.59	4.60	4.55	4.50	4.45	4.40	4.35	4.30
Canada										
2-year	2.91	2.93	2.46	2.15	1.85	1.85	1.95	2.15	2.25	2.35
5-year	2.73	2.96	2.61	2.40	2.25	2.25	2.35	2.40	2.45	2.50
10-year	2.95	3.23	2.97	2.80	2.75	2.70	2.65	2.65	2.70	2.70
30-year	3.13	3.33	3.23	3.20	3.10	3.05	3.05	3.10	3.10	3.10
Currency market										
Canadian dollar (USD/CAD)	1.35	1.44	1.43	1.38	1.36	1.35	1.35	1.34	1.32	1.30
Canadian dollar (CAD/USD)	0.74	0.70	0.70	0.72	0.74	0.74	0.74	0.75	0.76	0.77
Euro (EUR/USD)	1.12	1.04	1.09	1.15	1.17	1.20	1.20	1.20	1.18	1.15
British pound (GBP/USD)	1.34	1.25	1.30	1.34	1.35	1.36	1.36	1.36	1.35	1.35
Yen (USD/JPY)	143	157	148	140	138	135	135	135	130	130
Stock markets (level and growth)*										
United States – S&P 500	5,882 (23.3%)		Target: 5,400 (-8.2%)				Target: 6,200 (+14.8%)			
Canada – S&P/TSX	24,728 (18.0%)		Target: 23,000 (-7.0%)				Target: 26,000 (+13.0%)			
Commodities (annual average)										
WTI oil (US$/barrel)	77 (70*)		68 (68*)				68 (68*)			
Gold (US$/ounce)	2,390 (2,625*)		2,975 (3,050*)				2,955 (2,885*)			

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

Forecast Tables

Table 3
United States: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024 Q3	2024 Q4	2025 Q1f	2025 Q2f	2025 Q3f	2025 Q4f	Annual average 2023	Annual average 2024	Annual average 2025f	Annual average 2026f
Real GDP (2017 US$)	**3.1**	**2.5**	**0.2**	**-1.1**	**-1.3**	**1.3**	**2.9**	**2.8**	**0.8**	**1.4**
Personal consumption expenditures	3.7	4.0	1.1	-2.9	-1.2	1.8	2.5	2.8	1.1	1.0
Residential construction	-4.3	5.5	5.0	-0.5	-3.5	-2.5	-8.3	4.2	0.8	-1.7
Business fixed investment	4.0	-2.9	7.8	-4.1	-4.1	-0.3	6.0	3.6	0.7	-0.1
Inventory change (2017 US$B)	57.9	8.9	40.0	-70.0	-100.0	-125.0	33.1	39.0	-63.8	-22.5
Public expenditures	5.1	3.1	2.1	1.5	1.5	1.1	3.9	3.4	2.5	1.4
Exports	9.6	-0.2	5.1	-13.0	-5.1	-5.2	2.8	3.3	-1.2	-0.9
Imports	10.7	-1.9	23.4	-32.4	-7.3	-7.2	-1.2	5.3	-2.0	-4.1
Final domestic demand	3.7	3.0	2.3	-2.3	-1.2	1.2	2.7	3.0	1.2	0.8
Other indicators										
Nominal GDP	5.0	4.8	3.4	1.6	1.8	5.0	6.6	5.3	3.6	4.3
Employment[1]	0.9	1.3	1.4	0.8	-0.4	-0.9	2.2	1.3	0.8	-0.2
Unemployment rate (%)	4.2	4.1	4.1	4.3	4.5	4.8	3.6	4.0	4.4	5.1
Housing starts[2] (thousands of units)	1,332	1,392	1,393	1,345	1,320	1,305	1,421	1,368	1,341	1,279
Total inflation rate*	2.7	2.7	2.7	2.4	3.1	3.3	4.1	3.0	2.9	2.8
Core inflation rate*[3]	3.3	3.3	3.1	2.9	3.7	4.0	4.8	3.4	3.4	3.4

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

Table 4
Canada: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024 Q3	2024 Q4	2025 Q1f	2025 Q2f	2025 Q3f	2025 Q4f	Annual average 2023	Annual average 2024	Annual average 2025f	Annual average 2026f
Real GDP (2017 $)	**2.2**	**2.6**	**1.9**	**-1.2**	**-0.8**	**0.2**	**1.5**	**1.5**	**1.1**	**0.7**
Final consumption expenditure [of which:]	4.5	4.4	1.6	0.9	0.9	1.5	2.0	2.6	2.3	1.5
Household consumption expenditure	*4.2*	*5.6*	*1.5*	*0.4*	*0.2*	*1.0*	*1.8*	*2.4*	*2.2*	*1.2*
Government consumption expenditure	*5.4*	*1.4*	*1.8*	*2.2*	*2.8*	*2.9*	*2.2*	*3.2*	*2.6*	*2.6*
Gross fixed capital formation [of which:]	-0.8	9.9	0.0	-4.9	-3.1	1.4	-1.6	0.1	0.6	1.9
Residential structures	*6.4*	*16.7*	*-6.0*	*-9.8*	*-2.0*	*4.4*	*-8.5*	*-1.1*	*-0.3*	*3.9*
Non-residential structures	*1.3*	*2.7*	*2.8*	*-5.8*	*-6.3*	*-1.1*	*3.2*	*-1.8*	*-0.2*	*-0.1*
Machinery and equipment	*-27.4*	*17.9*	*3.5*	*-9.2*	*-14.5*	*-5.5*	*-2.7*	*-2.1*	*-2.8*	*-3.1*
Intellectual property products	*6.5*	*2.3*	*2.7*	*1.9*	*1.7*	*1.6*	*4.0*	*-0.1*	*2.7*	*1.6*
Government gross fixed capital formation	*4.3*	*6.7*	*3.4*	*3.8*	*4.7*	*5.0*	*4.8*	*7.2*	*4.7*	*5.7*
Investment in inventories (2017 $B)	18.1	-1.5	-1.5	10.9	12.0	8.5	25.5	14.4	7.5	0.8
Exports	-0.8	7.4	10.2	-19.8	-6.4	-2.4	5.0	0.6	-1.8	-1.1
Imports	-1.2	5.4	7.9	-10.1	-3.4	-0.5	0.3	0.6	0.1	0.8
Final domestic demand	3.3	5.6	1.2	-0.5	-0.1	1.5	1.1	2.0	1.9	1.6
Other indicators										
Nominal GDP	4.3	6.4	4.4	-2.1	1.8	2.6	2.9	4.6	3.2	2.7
Employment	0.8	1.9	2.7	-2.0	-2.4	-0.6	3.0	1.9	0.5	-0.2
Unemployment rate (%)	6.5	6.7	6.6	7.4	7.7	7.8	5.4	6.4	7.4	7.6
Housing starts[1] (thousands of units)	238	248	223	228	226	222	242	245	225	218
Total inflation rate*	2.0	1.9	2.3	1.5	1.9	2.2	3.9	2.4	2.0	2.3
Core inflation rate*[2]	2.5	2.1	2.5	2.0	2.2	2.3	3.9	2.6	2.3	2.2

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

Table 5

Quebec: Major Economic Indicators

Annual average % change (unless otherwise indicated)	2022	2023	2024	2025f	2026f
Real GDP (2017 $)	**3.4**	**0.6**	**1.4**	**0.8**	**0.6**
Final consumption expenditure [of which:]	4.6	0.7	3.0	2.5	0.6
Household consumption expenditure	*5.5*	*1.8*	*3.1*	*2.7*	*0.9*
Government consumption expenditure	*2.4*	*-1.7*	*3.2*	*2.0*	*-0.1*
Gross fixed capital formation [of which:]	-2.3	-3.7	-0.3	1.0	0.7
Residential structures	*-11.1*	*-15.1*	*2.9*	*5.7*	*2.0*
Non-residential structures	*3.7*	*5.9*	*-0.7*	*-3.5*	*0.0*
Machinery and equipment	*11.6*	*-6.3*	*-2.0*	*-2.2*	*-3.4*
Intellectual property products	*6.3*	*4.2*	*0.2*	*2.9*	*1.7*
Government gross fixed capital formation	*-2.4*	*7.2*	*-2.8*	*-2.0*	*0.9*
Investment in inventories (2017 $B)	11	6	3	0	1
Exports	2.0	4.0	0.9	-2.9	-0.2
Imports	6.9	-0.8	2.0	-0.6	0.8
Final domestic demand	3.0	-0.2	2.4	2.3	0.6
Other indicators					
Nominal GDP	8.7	5.0	5.6	3.6	2.9
Real disposable personal income	1.1	0.1	4.4	3.4	2.5
Weekly earnings	4.1	3.6	4.5	4.5	4.7
Employment	3.1	2.9	0.9	0.4	-0.4
Unemployment rate (%)	4.3	4.4	5.3	6.4	6.6
Personal savings rate (%)	9.3	7.8	9.1	9.5	11.1
Retail sales	8.5	3.7	1.8	2.9	4.3
Housing starts[1] (thousands of units)	58.5	39.9	48.8	53.1	52.1
Total inflation rate	6.7	4.5	2.3	2.0	2.2

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

Table 6

Major Medium-Term Economic and Financial Indicators

% (unless otherwise indicated)	2023	2024	2025f	2026f	2027f	2028f	2029f	2020–2024	2025–2029f
	Annual average							Averages	
United States									
Real GDP (% change)	2.9	2.8	0.8	1.4	1.8	1.8	1.9	2.4	1.5
Total inflation rate (% change)	4.1	3.0	2.9	2.8	2.3	2.1	2.0	4.2	2.4
Unemployment rate	3.6	4.0	4.4	5.1	4.9	4.7	4.0	4.9	4.6
S&P 500 index (% change)[1]	24.2	23.3	-8.2	14.8	8.7	4.7	6.1	6.1	5.2
Federal funds rate	5.20	5.31	4.13	3.63	3.25	3.25	3.25	3.25	3.50
Prime rate	8.20	8.31	7.13	6.63	6.25	6.25	6.25	6.25	6.50
Treasury bills – 3-month	5.28	5.18	3.94	3.39	3.14	3.10	3.20	3.20	3.35
Federal bonds – 10-year	3.96	4.21	4.17	3.98	3.79	3.70	3.65	3.65	3.86
– 30-year	4.09	4.41	4.56	4.38	4.18	4.05	3.75	3.75	4.18
WTI oil (US$/barrel)	78	77	63	60	65	68	68	68	65
Gold (US$/ounce)	1,943	2,387	2,981	2,954	2,915	2,878	2,778	2,665	2,901
Canada									
Real GDP (% change)	1.5	1.5	1.1	0.7	2.0	1.9	1.8	2.6	1.5
Total inflation rate (% change)	3.9	2.4	2.0	2.3	2.2	2.2	2.0	3.4	2.1
Employment (% change)	3.0	1.9	0.5	-0.2	1.4	1.3	1.2	1.7	0.8
Employment (thousands)	593	382	110	-48	282	280	246	332	174
Unemployment rate	5.4	6.4	7.4	7.6	7.0	6.6	6.4	6.8	7.0
Housing starts (thousands of units)	242	245	225	218	235	253	278	248	242
S&P/TSX index (% change)[1]	8.1	18.0	-7.0	13.0	8.1	5.6	5.8	5.8	5.1
Exchange rate (US$/C$)	0.75	0.70	0.74	0.77	0.77	0.78	0.80	0.81	0.77
Overnight rate	4.74	4.59	2.25	1.75	2.13	2.63	2.75	2.75	2.30
Prime rate	6.94	6.75	4.45	3.95	4.33	4.83	4.95	4.95	4.50
Mortgage rate – 1-year	7.14	7.64	5.00	4.60	4.70	4.80	4.85	4.85	4.79
– 5-year	6.68	6.73	6.00	5.80	5.80	5.85	5.95	5.95	5.88
Treasury bills – 3-month	4.74	4.37	2.06	1.79	2.15	2.61	2.70	2.70	2.26
Federal bonds – 2-year	4.27	3.67	2.08	2.18	2.48	2.68	2.80	2.80	2.44
– 5-year	3.57	3.30	2.38	2.43	2.61	2.76	2.80	2.80	2.60
– 10-year	3.36	3.34	2.81	2.68	2.81	2.85	2.85	2.85	2.80
– 30-year	3.28	3.33	3.15	3.09	3.08	3.00	2.90	2.90	3.04
Yield spreads (Canada–United States)									
Treasury bills – 3-month	-0.54	-0.81	-1.88	-1.60	-0.99	-0.49	-0.50	-0.50	-1.09
Federal bonds – 10-year	-0.60	-0.87	-1.36	-1.30	-0.98	-0.85	-0.80	-0.80	-1.06
– 30-year	-0.81	-1.08	-1.41	-1.29	-1.10	-1.05	-0.85	-0.85	-1.14
Quebec									
Real GDP (% change)	0.6	1.4	0.8	0.6	2.5	2.0	1.5	1.6	1.5
Total inflation rate (% change)	4.5	2.3	2.0	2.2	2.1	1.9	1.7	3.6	2.0
Employment (% change)	2.9	0.9	0.4	-0.4	1.3	1.1	1.1	1.3	0.7
Employment (thousands)	128	39	19	-20	58	53	50	53	32
Unemployment rate	4.4	5.3	6.4	6.6	5.6	5.0	4.6	5.8	5.7
Retail sales (% change)	3.7	1.8	2.9	4.3	4.7	4.0	3.1	6.0	3.8
Housing starts (thousands of units)	40	49	53	52	51	49	48	54	51

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