ECONOMIC VIEWPOINT

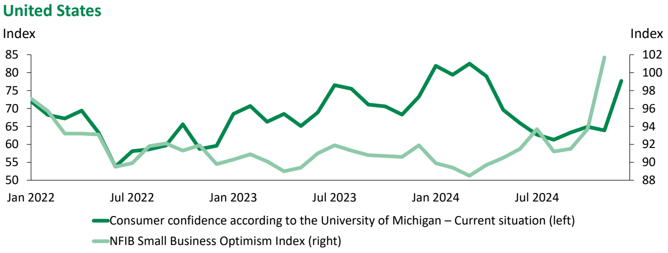
2024 Year in Review

Looking back at an eventful year for the economy, politics and the environment

More than half of the world's population was called to the polls in 2024. Considering that Italians and Germans participated in European Parliament elections, Canadians were the only citizens of G7 countries who weren't called to the polls this year (though many cast ballots in provincial elections, of which there were four). National elections were also held in India, Indonesia, Pakistan, Mexico, Iran, Russia, South Africa and South Korea. The incumbent parties generally lost support, and there was a change in power in several cases. Instability also rocked several governments, particularly in France, Germany and South Korea.

The **US presidential election** captured the world's attention, with no shortage of drama in the run-up to November 5. Widespread discontent surrounding President Biden's candidacy—despite the strength of the US economy—gave way to a rush of support for Kamala Harris, whose campaign successes helped the Democrats pick up some (but ultimately not enough) points in voter intentions. It all ended with the Republicans sweeping the House, Senate and White House. Donald Trump's win ignited reactions across the financial markets and led to an improvement in US business and consumer sentiment (graph 1). Many consumers believe that economic conditions were better during Trump's first mandate and are hopeful that things will return to how they once were. But the president-elect's protectionist intentions are a major concern for the global economy.

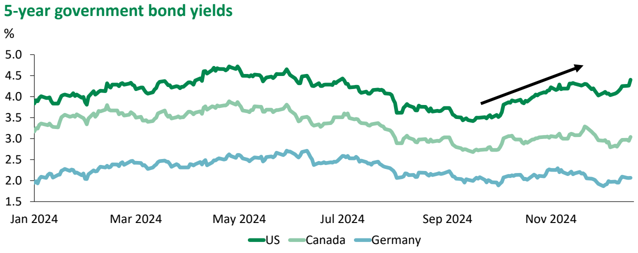
Graph 1
Some Confidence Indexes Spiked After Donald Trump's Election



University of Michigan, National Federation of Independent Business and Desjardins Economic Studies

In Canada, the US election results had an immediate impact on the financial markets and ushered in uncertainty surrounding US policy. Canadian equities and bond yields have followed the same uptrend seen in the US, albeit to a lesser extent (graph 2). At the same time, the loonie has depreciated markedly since November 5. This should further support a strong end-of-year showing for Canadian exports, as US firms look to build up inventories before tariffs are implemented. As their timing is uncertain, potential tariffs should continue to propel external demand for Canadian goods and services into the new year. But given the potentially deeply negative impact of tariffs on the Canadian economy, policymakers are scrambling to act. Premiers have united around their common interest in preventing tariffs from being applied, but they haven't agreed on the best approach. **The federal government remains responsible for coordinating Canada's response.** It committed more than $1 billion to tighten up border security—a key sticking point for the incoming US administration.

Graph 2
After a Sharp Rise in US Yields, Spreads to US Have Remained Wide



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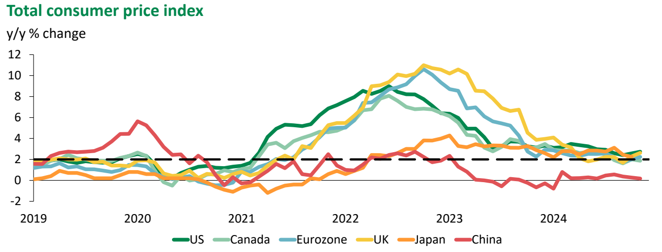
Inflation receded in most countries, nearly reaching central bank targets and even momentarily slipping below the target rate in a few cases (graph 3). The cooling reflects an improved global context, with supply chain pressures normalizing and China even recording slight deflation early in the year. Goods prices have come down in some countries, including the US. But service prices have been sticky, propped up by wage growth. Similarly, **inflation in Canada** slowed considerably in 2024. In the last few months of the year, it has come in at or below the Bank of Canada's (BoC) 2% target. Energy prices have played a big part in this change of fortunes. But so has non-shelter core inflation, with higher borrowing costs weighing on domestic demand. Shelter inflation is turning a corner but remains high, in part because of still-elevated mortgage interest costs. It should continue to cool through to the end of the year, as should rent inflation.

Graph 3
Inflation Slowed Significantly in 2024

Total consumer price index



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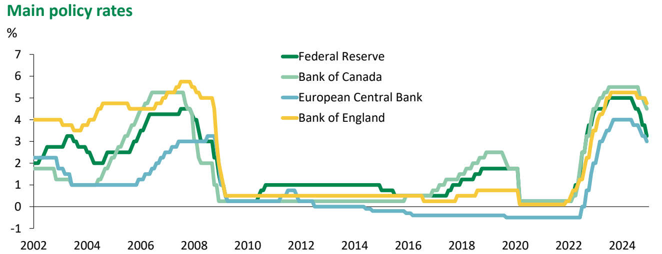
The slowdown in inflation helped pave the way for **key interest rate cuts**. The BoC was one of the first major central banks to trim rates, making a first cut in June and several more since then (graph 4). The Federal Reserve (Fed) held out a little longer, but then it ended up kicking off its monetary easing cycle with a 50 basis-point reduction. After that, the BoC followed suit with a 50-point cut in October and another December. The bond market responded to falling policy rates. In fact, bond yields started declining earlier in the year in anticipation of monetary policy changes. Borrowing conditions improved across the board, for all terms. Risk premia also eased in 2024, helping bring down interest rates for households and businesses.

Graph 4
The Bank of Canada Cut Interest Rates More Aggressively than Other Central Banks in 2024

Main policy rates



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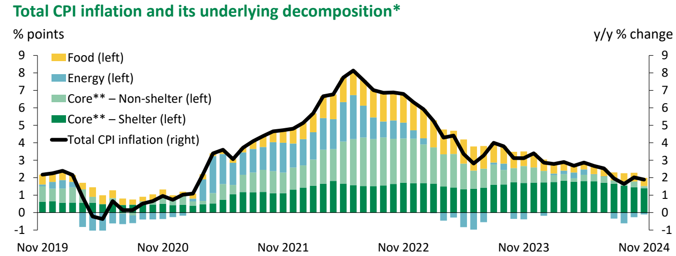
Cost of living issues were front of mind for Canadians in 2024. Housing remained highly unaffordable, particularly in Canada's largest cities, and rents skyrocketed. Still-rapidly-rising shelter costs have contributed to keeping overall inflation higher than it would be otherwise (graph 5). Concerns over immigration as a driver of eroding affordability prompted the Government of Canada to reduce the number of permanent and non-permanent residents going forward. The federal government also introduced a GST holiday on select products and services in mid-December.

Graph 5
While Slowing, Shelter Price Gains Continue to Keep Inflation Elevated

Total CPI inflation and its underlying decomposition*

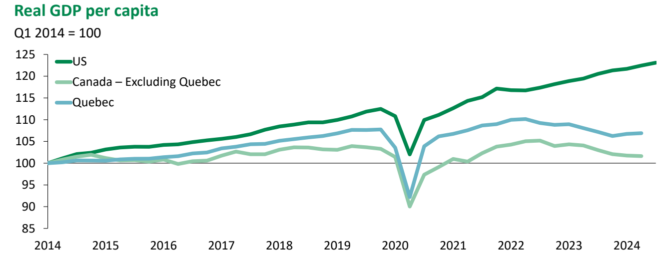


* Calculated using fixed basket weights; ** Refers to CPI indexes that exclude food and energy prices.
Statistics Canada and Desjardins Economic Studies

While Canada managed to avoid a recession in 2024, **real GDP per capita reached a cyclical low**. A slight improvement was recorded in Quebec, however, as the province's GDP reached its nadir in late 2023, due to strikes in its health care and education sectors. But GDP in both Canada and Quebec remains well below US levels (graph 6). Total GDP rose on the back of Canada's strong population growth, but per capita GDP declined. This variable is more representative of local standard of living and is highly dependent on productivity gains. And unlike the US, Canada recorded weak productivity growth in 2024.

Graph 6
Canada's Real GDP per Capita Remained on a Downward Trend in the First Half of 2024

Real GDP per capita



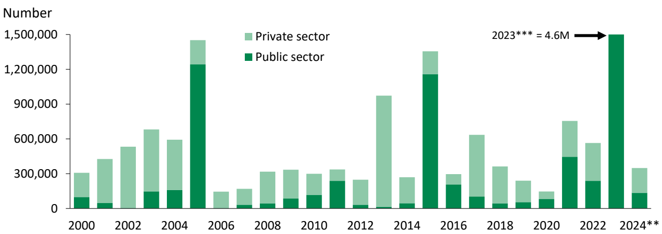
Datastream, Institut de la statistique du Québec and Desjardins Economic Studies

After a year of economic stagnation and large-scale public sector strikes, **Quebec's economy rebounded**, exceeding the national average for the first three quarters. While the overall figures indicate that the economy is barely growing at its potential pace, continued gains in full-time employment since late summer suggest that the economy held steady in the second half of the year.

Although wage growth exceeded the rate of inflation, **worker pay has yet to catch up** to the loss of purchasing power that occurred in 2021 and 2022. The high cost of living continues to weigh on household morale, spurring most consumers to cut down on spending. Worker concern with recovering lost purchasing power is fuelling a rise in labour disputes. In Quebec, the number of days not worked due to strikes and lockouts may exceed half a million for the fourth consecutive year. If it does, it will be the first such string since the early 2000s (graph 7).

Graph 7
An Increase in Work Stoppages Since the Pandemic

Person-days not worked in Quebec*



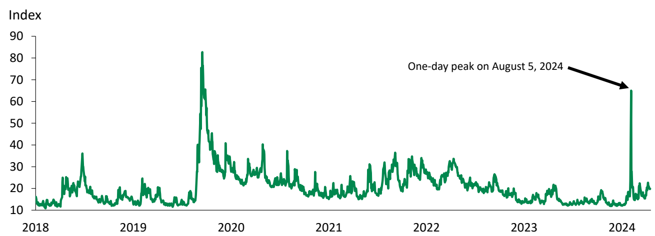
* This series covers strikes and lockouts of at least 10 person-days not worked; ** January through September; *** 4.4M person-days not worked in the public sector and 193k in the private sector.
Statistics Canada and Desjardins Economic Studies

Various **armed conflicts** continued to wreak havoc around the world in 2024. The war in Ukraine intensified with both Russians and Ukrainians making use of longer-range missiles. The Israel–Hamas war spread to Lebanon and led to missile exchanges between Iran and Israel. Houthi attacks in the Red Sea disrupted maritime trade, and the recent fall of the Assad regime in Syria has exacerbated instability across the region. These conflicts fanned the flames of uncertainty in the markets this year. This pushed gold prices higher and then higher again, beating one record after another until Fall.

China's economy had a challenging year with several indicators, including real GDP, showing slowed growth. Although the country faces a number of problems, the central issue remains the property market crisis, which has sent ripple effects into the manufacturing and financial sectors. But the situation has hit Chinese consumers the hardest, as they've seen the value of their biggest savings vehicle—real estate—crumble over the past three years. Without a strong social safety net and with a growing debt problem limiting the government's ability to take action, China's domestic economy has suffered. Weak Chinese demand was one of the main drivers of falling oil prices this year.

Stock market gains were widespread in 2024, as investors became more confident that the US economy could dodge a recession and started seeing interest rates come down. But recession fears briefly resurfaced in July, when rising unemployment in the US triggered the Sahm rule, which has historically signalled the beginning of a recession. The shock of this news, coupled with rising interest rates in Japan, led to a brief episode of dramatic volatility. As a result, the VIX Index soared to its highest level since the pandemic (graph 8). But Donald Trump's election win ultimately ensured another good year for the stock market. **US equities started rising** amid anticipations of Trump's victory and then pushed higher again after the election results were announced. Thanks to these moves, US stock valuations remain near their historical peaks. Tariff threats haven't put a damper on investor optimism. The news even gave the S&P/TSX Index a boost, despite the fact that new levies are unwelcome news for many areas of the Canadian economy.

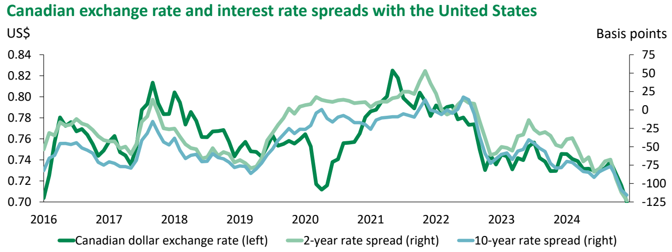
Graph 8
Volatility Surged in August amid a Brief Resurgence of Recessionary Fears and Problems in Japan
United States – VIX Index



Bloomberg and Desjardins Economic Studies

The US dollar flexed its muscles once again, having gained strength from the robust US economy and favorable interest rate spreads. The greenback's appreciation against several currencies was amplified by Trump's election win. Its value reflects expectations that Trump policies will buoy the economy, which could in turn push inflation slightly higher and potentially limit interest rate cuts in the US. Meanwhile, the Canadian dollar suffered this year as weakness in Canada's economy led to more aggressive interest rate cuts here than south of the border (graph 9 on page 4). The threat of tariffs on exports to the US also seems to be weighing on the loonie, whose value has slumped to the lows recorded during the first few months of the pandemic.

Graph 9
The Canadian Dollar Is Getting Hit by Wider Interest Rate Spreads



Datastream and Desjardins Economic Studies

Weather-wise, 2024 wasn't all blue skies and sunshine. Extreme weather events remained on an uptrend (graph 10), resulting in major economic consequences. In a very rare event, a Category 5 hurricane on the Saffir-Simpson scale hit the US in early July. Canada faced troubles of its own, as torrential rain, hail, flooding and forest fires marred the summer and caused costly damage. Toronto's July floods caused nearly $1 billion in damage. That same month, forest fires razed roughly one third of the town of Jasper, again at a cost of around $1 billion. August was even worse. A severe hailstorm caused $2.8 billion in damage in Calgary, while the tail end of Hurricane Debby left parts of southern Quebec under water. These floods resulted in a record $2.5 billion in insurance payouts, surpassing the claims made after the 1998 ice storm.

Graph 10
The Uptrend in Major Natural Disasters Continues in the United States

2024 = data from January to October
Datastream and Desjardins Economic Studies