

August 22, 2011

## CANADA

### Consumer confidence plummets in August

#### HIGHLIGHTS

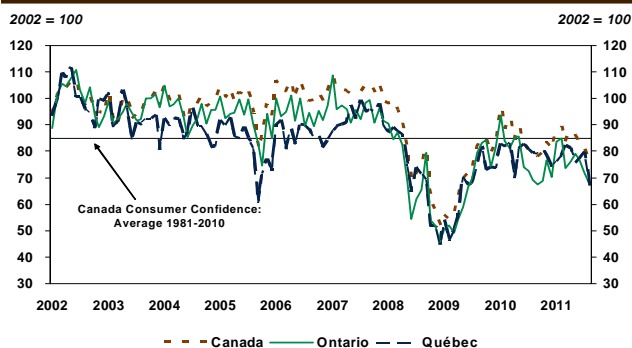
- The Canadian consumer confidence index fell to 74.7 in August, down 6.6 points from the month before.
- The confidence index for Québec households dropped 12.7 points in August, going to 67.1, its lowest point since the summer of 2009.
- In Ontario, the slide was not as steep, with the index falling 4.3 points. Unlike other parts of the country, however, the province saw a sharp drop the month before.

#### COMMENTS

The drop in Canadian consumer confidence is worrisome. It has not been this low since July of 2009, when Canada was recovering from the financial and economic crisis. Without a doubt, the deterioration reflects the intensified uncertainty about the economic outlook, with the sovereign debt crisis having strengthened in Europe, the problems with U.S. public finances under a spotlight, many U.S. and European economic indicators showing net slowdowns, and the stock markets collapsing.

The weakening by consumer confidence is of course a concern for Québec's economy. However, the deterioration occurred against the backdrop of elevated volatility in the financial markets. Confidence has tumbled below its historic average, a situation that does not augur well for Québec's economy, as real GDP has been vacillating since the start of the second quarter. Given that employment continues to advance well, for now, it would be premature to question consumers' contribution to growth until the end of the summer and this fall.

#### Consumer confidence drops below its historic average



Sources : Conference Board and Desjardins, Economic Studies

In Ontario, consumer confidence has been dropping more gradually: the supply problems in the manufacturing sector had already started to impact confidence last spring. All in all, the magnitude of the deterioration over the last few months in that province is similar to the deterioration that has occurred across the country.

**Implications:** Consumer spending could slow sharply if consumer confidence continues to trend down in the next few months. However, given the relative stabilization in the stock markets and the agreement on public finances in the United States, the consumer confidence index could rebound in the months to come. Caution is in order in anticipating substantial slowing by consumer spending.

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