

DLI turns negative in July (-0.1%) Clouds gather for Québec's economy

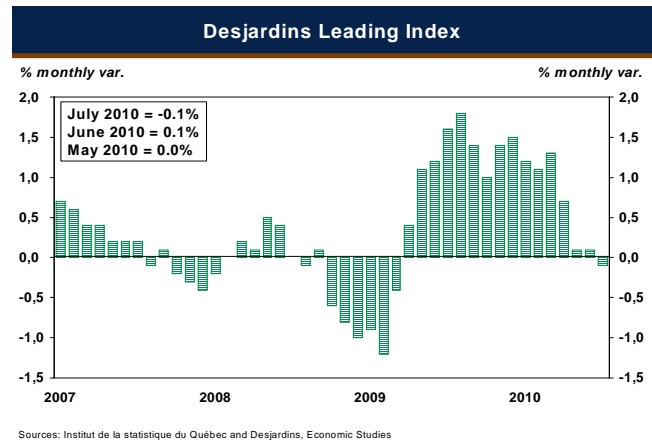
The Desjardins Leading Index (DLI) changed course in July; growth had slowed substantially since the spring. Without being pessimistic about Québec's economic outlook, we have to take note of this less promising signal. For now, the DLI's weakness means that the economy's activity could see some hiccups in the next few months. The DLI's monthly dip is nothing like the drops that preceded the previous recession, mitigating that possibility. However, the leading index's problems do reflect a darker global economic outlook, especially for the American economy. Simultaneously, Québec's economy seems shakier. Without being in danger, the expansion phase that started at the beginning of 2010, which had already begun to flag, could take a break until the economic and financial uncertainties wane. We will need to keep a close eye on the DLI's trend over the next few months before arriving at a clearer diagnosis.

CONSUMPTION

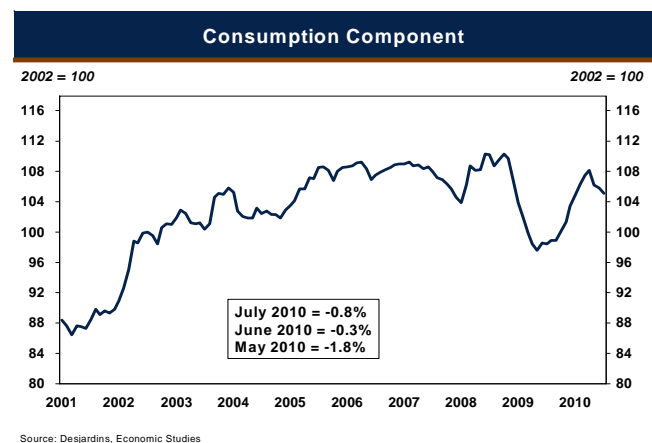
Employment has corrected following its spectacular ascent in the last few months. Québec had 20,900 fewer workers in July than it had the previous month. Despite this pullback, employment is still well above pre-recession levels. At 8.2% in July, the jobless rate is well below the cyclical peak of 9.1% reached in the summer of 2009.

Consumer confidence ticked down for a third straight month in August. It is still above its historic average, favouring consumption. It remains to be seen whether the problems in the global economy will have more of an impact on confidence this fall.

Retail sales fell 3.6% in April, 1.1% in May and 0.2% in June. The balance for the second quarter is quite negative, contrasting with the extraordinary results seen at the start of the year. Even though employment and confidence have



dipped lately, there is room to hope for an upcoming improvement by consumption. Unlike the United States, households are not plagued by major economic problems, such as the real estate market's persistent sluggishness and the job market's deep slump.



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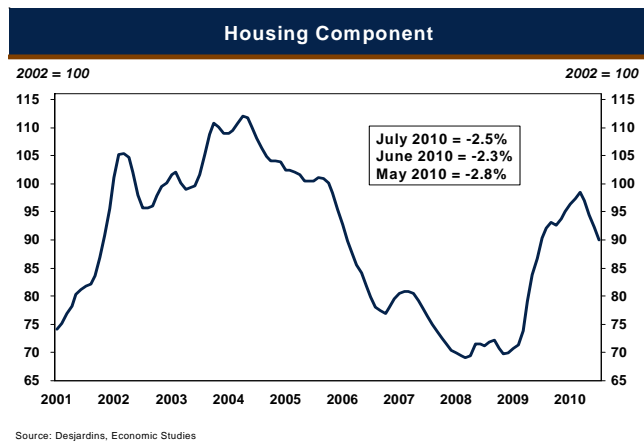
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HOUSING

The Desjardins housing component retreated for a fourth straight month in July. The dip is primarily due to the pronounced decline by home resales. July's 20% plunge in the number of transactions from the same month last year amplified the down trend that started last spring.

Starts have been holding above the 50,000 unit mark (annualized) for several months. New construction is still expected to lose steam in the second half, with starts progressively heading toward 45,000 units.

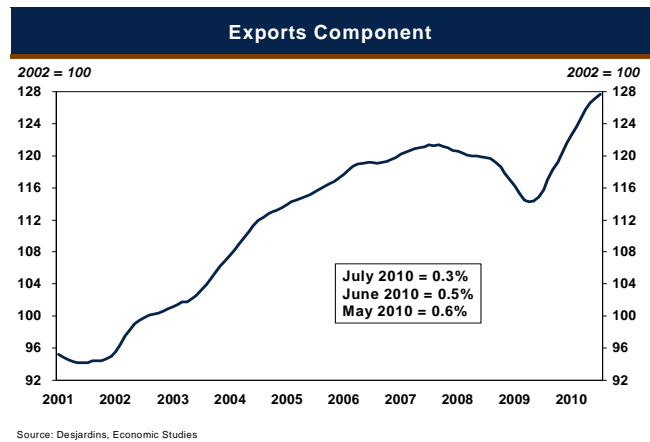
Overall, expect the housing market to be less lively in the second half of the year following an extraordinary first half. Given that mortgage rates declined again recently and the employment market is trending up, there is no risk of a collapse by the housing market in the next few months.



EXPORTS

In real terms, exports of goods abroad rose 7.7% from May to June. The gain follows the previous month's 6.1% decline. Despite June's rise, the balance for exports is negative for the first half of the year. They are down 1.0% from the same period last year.

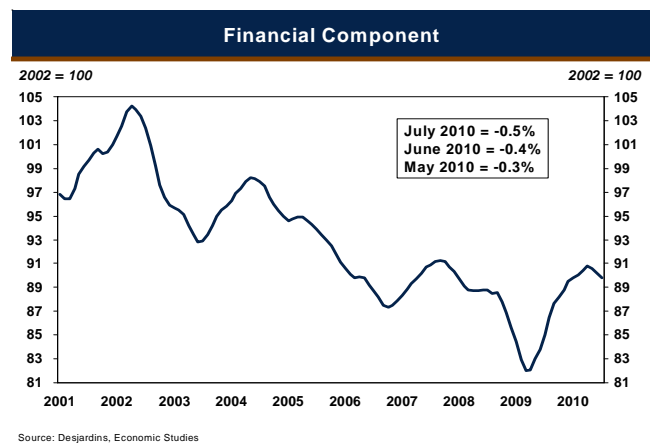
Given that the risks of the United States relapsing into recession cannot be completely dismissed, the future direction of Québec's international exports is fairly cloudy. Note that 70% of our international shipments go to the United States. Although Europe seems to be holding up for now, a number of countries' financial problems could temper the recovery. In short, the global economy's recovery has become shaky. In this context, we cannot expect Québec's shipments abroad to make a lasting recovery in the immediate future.



FINANCIAL MARKETS

The Québec-30 index turned around in July, but not enough to wipe out the losses incurred in recent months. Only one of the stock index's seven sectors dipped in July, the information technology component.

The Bank of Canada raised its key rates by 25 basis points on June 1 and July 20. The target for the overnight rate is now at 0.75%. Another increase of that size could be ordered in September, because Canadian interest rates remain at very low levels in the context of an ongoing economic recovery. After that, we should see a pause until the global uncertainties fade.



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