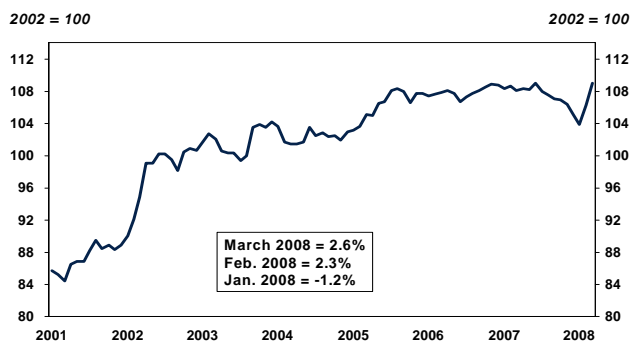


Québec's economy: a ray of hope for recovery? The DLI finally turns around in March (+0.2%)

After having deteriorated for five straight months, the Desjardins Leading Index (DLI) came back into positive territory in March. The monthly gain is encouraging as it is mainly based on strong consumer spending. The increase is, however, not enough to reverse the downward trend that has been with us since the fall of 2007. Further increases will thus be needed before we can look for a sustainable recovery by Québec's economy in the next three to six months. Consumer spending could also run out of steam after a very hot start of the year that was owing to tax relief from the governments, among other things.

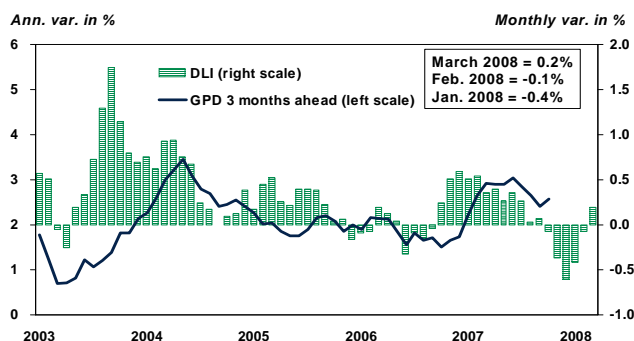
Québec's economy has probably not yet reached its trough, as foreign trade is still deteriorating. International exports are declining due to the American economy's problems, as well as the strong loonie and ruthless global competition. As long as there is a risk of recession in North America, Québec's economy will be vulnerable. Real GDP did go up 0.8% in January, which is a comfort in this context. The first quarter should therefore see some growth, even if the pace slowed in February and March. This is well in line with our forecast scenario, which is for real GDP growth of 1.2% this year, half as fast as last year's 2.5%.

Consumption Component



Source: Desjardins, Economic Studies

Desjardins Leading Index



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

CONSUMERS

Retail sales started the year off strong with a monthly gain of 3.4% in January, and then 0.2% in February. While the momentum in auto sales faded in February (+1.0%), with January's 18.1% jump, growth by consumer spending promises to be outstanding in the first quarter. The reduction in the GST and tax cuts in effect since January 1 produced the hoped-for effect.

While job creation slowed in Q1 of 2008, it is still showing an additional 3,000 workers. At 7.3% in March, the jobless rate moved off the low of 6.8% seen in January, but it is still historically low.

The only shadow in the picture is surging oil prices, which are now hovering around US\$115/barrel. They are progressively hitting prices at the pump, and could undermine consumers' morale. At the end of April, gas was retailing for more than \$1.30 a litre in Montréal. According to the Conference Board survey, consumer confidence only edged down in April, remaining elevated, historically speaking. Note that, in the wake of Hurricanes Katrina and Rita at the end of the summer

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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of 2005, prices jumped beyond \$1.40/litre for a few days, shaking household confidence to the core, with consumers reducing their spending on goods.

HOUSING MARKET

After February’s boom, housing construction slowed in March, dropping by an annualized 8,200 units. Despite this downturn, the province’s housing starts totalled 48,400 units in the first quarter. As somewhat of a lull is expected over the next few months, we are maintaining our forecast of 45,000 units for 2008.

The number of properties sold through a real estate agent fell 3.4% in Q1 of 2008 from the first three months of 2007. It is still a sellers’ market, which means price increases that are higher than inflation. The average home price climbed 6.9% in the first quarter, nearing \$210,000.

EXPORTS

International goods exports dipped by 3.3% in real terms in February. For the first two months of the year, the drop was 5.9% from the same period in 2007.

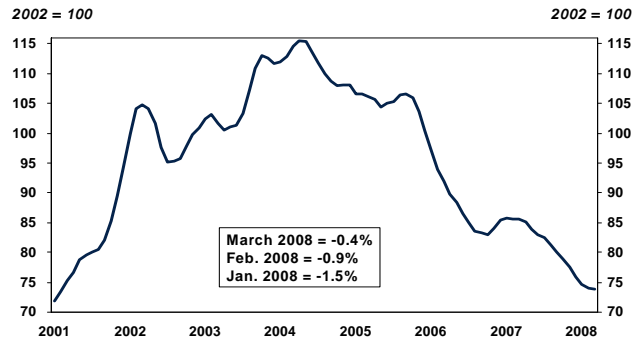
The American economy’s struggles and a loonie that is in the neighbourhood of parity are increasingly influencing exports to the United States. As almost 75% of the goods exported internationally head for the U.S., the downward movement will intensify over the next few months.

FINANCIAL MARKETS

The Québec-30 stock market index fell 1.0% in March and is down 10.3% in the first quarter. This quarterly pullback is much bigger than the S&P/TSX’s 1.7% decline as Canada’s stock market benefits from the ascent by commodities prices. The DLI’s financial component is thus still heading downward.

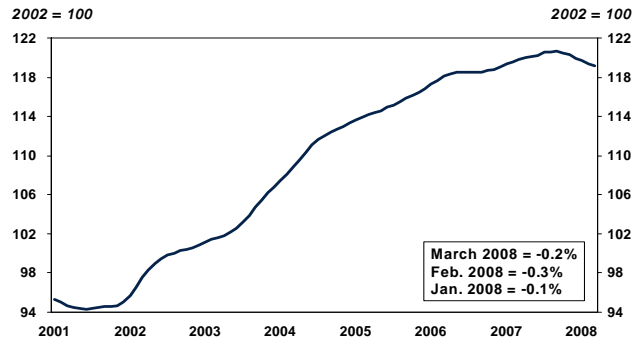
The Bank of Canada cut its key interest rates by 50 basis points on April 22. This is the second cut of this size, taking the overall reduction since last December to 150 points. This decision is due to the darkening Canadian economic outlook, which can be chalked up to the problems in foreign trade. While domestic demand is still sustained, Canada and, by ricochet, Québec will remain vulnerable to a drop in the American demand. In our view, a further 25 basis point cut will be ordered as of the June 10 meeting. The current monetary easing will help Québec’s economy get through this period of uncertainty, though it will not rule out a deeper slowdown.

Housing Component



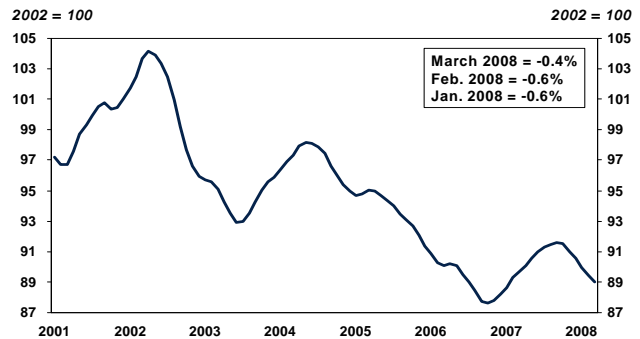
Source: Desjardins, Economic Studies

Exports Component



Source: Desjardins, Economic Studies

Financial Component



Source: Desjardins, Economic Studies

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