

The DLI's recovery takes a break in July Where is Québec's economy headed?

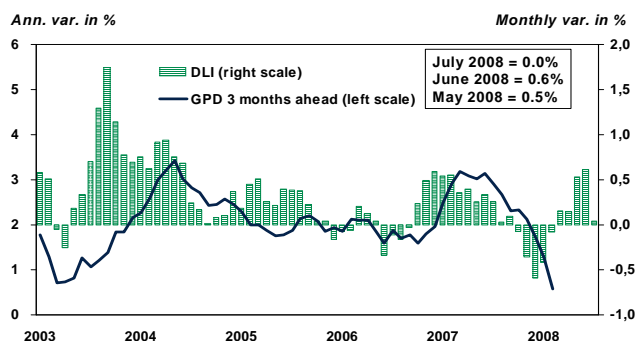
After making a convincing recovery in the past few months, the Desjardins Leading Index (DLI) suddenly dropped to its neutral point in July. Much like other the economic statistics published recently, the DLI's recent tracking is not providing any clear sign of where Québec's economy is headed, at least not for the time being. As such, it is difficult to determine whether the doom and gloom will continue for a few more months. The 0.5% relapse in the real GDP in May, following April's 0.8% gain, is another sign of a stop and go economy. The annualized 0.8% contraction of the real GDP in the first quarter was the first step toward a recession. The numbers for May are not clear cut about this possibility; in fact, June's statistics will be the deciding factors. Our forecast scenario that calls for Québec to barely avoid a recession still stands, despite May's results. Even if real GDP growth firms up somewhat in the second half of 2008, it will only reach 0.8% for 2008 overall. Nothing should be taken for granted on this front either.

CONSUMERS

The drop in oil prices – and by extension, gasoline prices – was a welcome reassurance for consumers in July. It will, however, be difficult for consumer confidence levels to win back the ground lost since last spring. Energy prices, which remain historically high, continue to be a concern in households. Confidence slipped a bit in August, wiping out some of the gains made in July.

The labour market is the major source of worry. Québec sustained heavy job losses, with 29,700 jobs lost in July, after starting the year in neutral territory. The unemployment rate continued to climb, rising from 7.2% in June to 7.4% in July. These unfavourable statistics on the job front reflect the current economic slowdown.

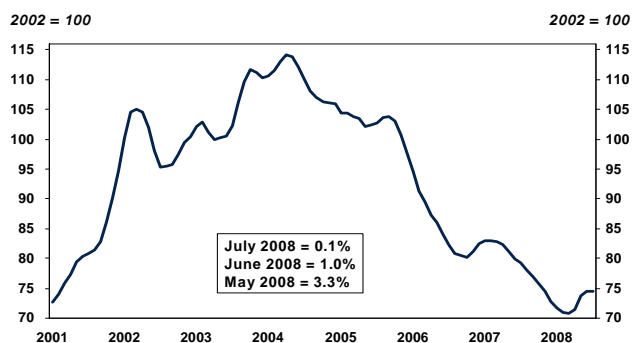
Desjardins Leading Index



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

The gloomy mood could end up slowing down the pace of consumer spending, especially since the soothing effect of tax relief granted at the beginning of 2008 will quietly fade away by the second half of the year.

Housing Component



Source: Desjardins, Economic Studies

François Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Yves St-Maurice
Director and Deputy Chief Economist

Chantal Routhier
Economist

418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

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

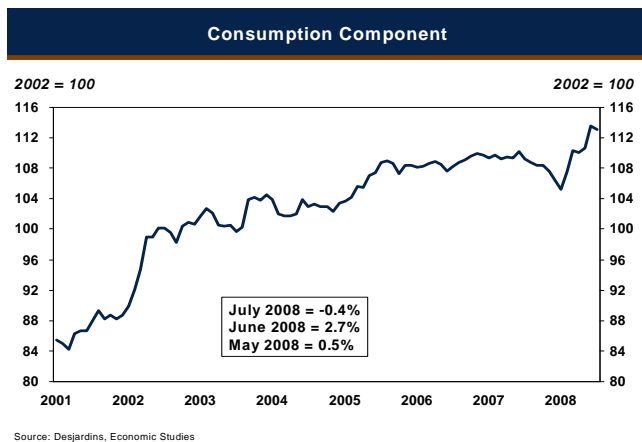
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on factors such as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2008, Desjardins Group. All rights reserved.

HOUSING MARKET

Existing home sales fell by 1.4% in the first semester vs. the same period last year. This change in direction was fully anticipated given that consistently rising prices were bound to have a cooling effect on demand at some point. The number of transactions is still at a high level, however, but it is slowly inching away from the peak reached in 2007.

Even though fewer homes are being sold, prices continue to rise. It is still a sellers market, but sellers are seeing their strong positions undermined. The increase in the number of properties for sale, especially in the upper price ranges, is giving buyers more leeway.

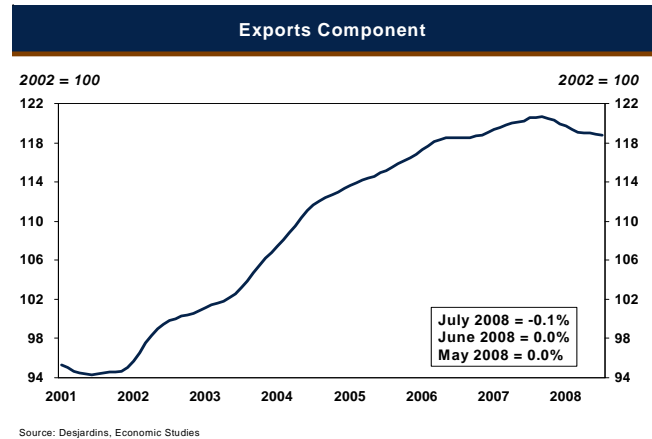
As long as the right balance remains out of reach, price hikes will continue to outstrip inflation. In the first half of the year, home prices increased by 5.1% year-over-year in Québec. And since the market is light years away from the surplus situation we are seeing in the U.S., we will not be seeing any widespread drops in prices here.



EXPORTS

The decline of the Canadian dollar to under the US\$0.95 mark will give exporters a bit of a break. Even at this level, the situation is still difficult. International exports of goods fell by 2.5% in real terms in June. This brings the year-to-date decline to 3.6% for the first half of the year.

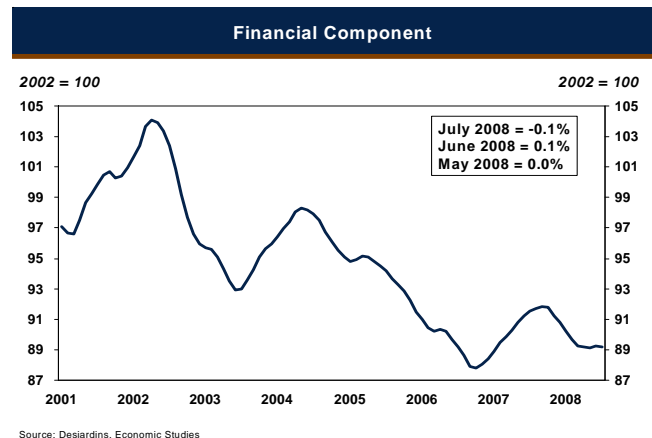
Given the persistent economic troubles in the United States, any recovery in international exports will be slow in coming. The semi-stagnation of the U.S. leading indicator is quite convincing in this regard.



FINANCIAL MARKETS

The Bank of Canada again opted to maintain the *status quo* in July. Despite the economic difficulties that are gripping the country, Canada’s monetary authorities are dealing with a pace of total inflation that is in excess of 3%. In this type of situation, the key interest rates should remain stable in Canada for the next few months.

Québec’s economy will not be able to count on a rate cut in the near future to help it through this turning point. With employment reaching its upper limit and confidence levels that are struggling to regain lost ground, it may take some time to get this train back on track.



Hélène Bégin
Senior Economist

"Indice Québec-30", "Indice Québec-150", "Indice IQ-30", "Indice IQ-150" and "Indice Québec" are trademarks of the Institut de recherche en économie contemporaine (IRÉC), or as the case may be, are intellectual property of IREC, which has filed trademark applications in this regard.