

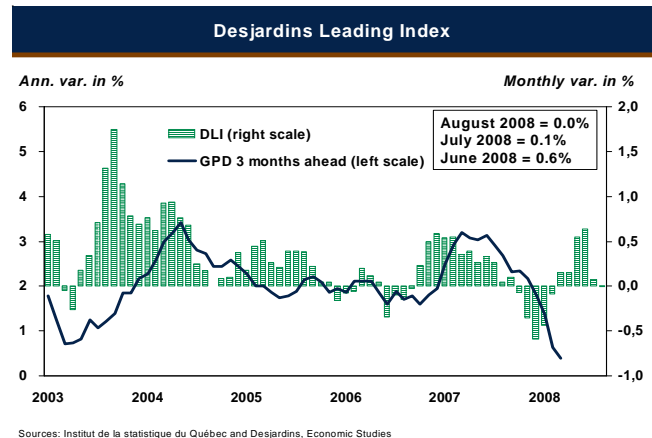
## The DLI stuck in neutral in August Québec's economy will continue to stagnate

The Desjardins Leading Index (DLI) remained stable in August. This softness in the DLI, observed for the second month in a row, is a sign that the current depressed conditions are likely to persist for another three to six months. Still, the economic data for the second quarter gave a more positive reading of the Québec economy. Real GDP rose by 0.9% on an annual basis in the second quarter of 2008. The first quarter, initially pegged down by 0.8% when the figures were released in June, has since been revised upwards. It is now deemed to be stable, rather than in decline, eliminating fears of recession in the first semester. Although these statistics offer some comfort, the second quarter is not immune from a revision as substantial as that which was applied to the first quarter. For the time being, the statistics that are available paint a picture of an economy that is going through a period of stagnation. The Québec economy remains fragile, and many indicators are pointing in that direction. The deterioration in the job market and loss in household confidence indicate that we may not be out of the woods yet. Real GDP is expected to increase by a mere 0.5% this year, the weakest figure since 1992.

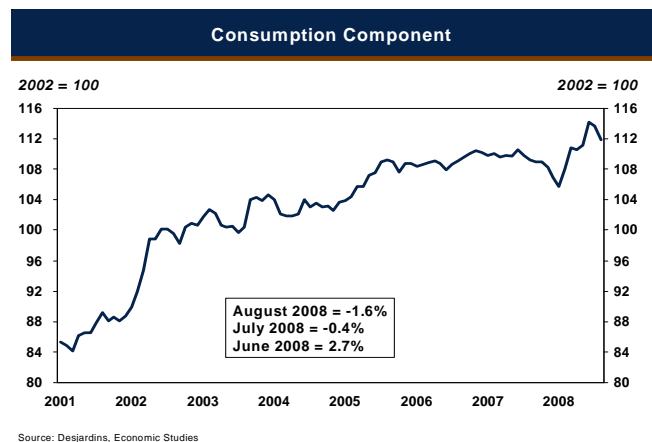
### CONSUMER SPENDING

Spending on goods and services slowed slightly in the second quarter. Growth was nevertheless fairly robust, i.e. 2.8% at an annualized rate, compared with 3.4% the previous quarter. Although consumer confidence dwindled over the summer, retail sales continued to increase. A monthly gain of 0.7% was observed in July, getting the third quarter off to a good start.

Still, consumer spending is likely to slow down this autumn. Despite the drop in the price of gasoline to less than \$1.30 per litre, household confidence flagged once again in September. It is now slightly below the historical average, but nowhere near the low that was reached in the last two recessions.



Thus the current situation is not at all comparable to the nose-dive observed in the early 1980s and 1990s, which reflected a much more severe deterioration in the job market and far higher interest rates. However, should significant job losses occur in the next few months, consumer spending could stall.



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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.

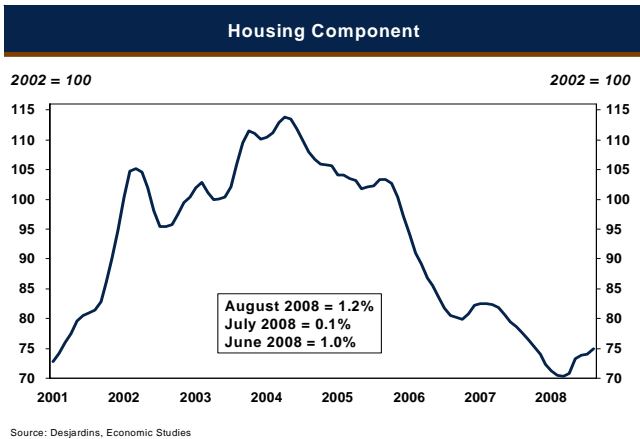
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**HOUSING MARKET**

Québec’s housing market is not experiencing anything like the debacle in the United States. Although growth in house prices has slowed since the beginning of 2008, it is still above 5%.

None of Québec’s six metropolitan areas have reported any slump in prices so far. Price increases since the beginning of the year have been around 15% in Saguenay, 10% in Québec City and 5% in Montréal. Prices are up by 6.2% in Gatineau and by 3.9% in Trois-Rivières. Apart from the stagnation observed in Sherbrooke, Québec’s major cities are not seeing any price declines similar to those that are underway in some parts of western Canada.

Since the sales-to-new-listings ratio is far from surplus conditions, the risk of falling prices is low at present. It would take a serious deterioration in the job market, a spike in interest rates or a tightening of credit conditions to trigger a change of direction in house prices.



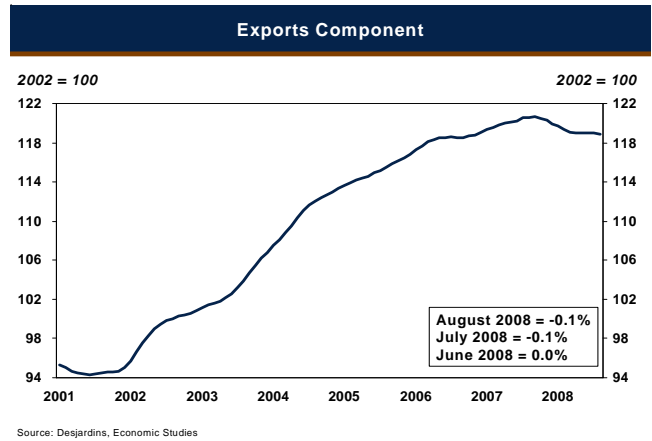
Source: Desjardins, Economic Studies

**EXPORTS**

The decline in international shipments of goods, which started in 2007, has continued since the beginning of 2008. From January to August they fell by 2.9% in real terms, compared with the same period of last year.

The Canadian dollar’s retreat to below US\$0.95 will give exporters a little respite, but the current situation is still difficult.

It will take a while before we see any improvement in international exports, since the economic tribulations in the United States are intensifying. The U.S. leading indicator dropped 0.5% in August after a 0.7% slump in the previous month, so prospects are gloomy.

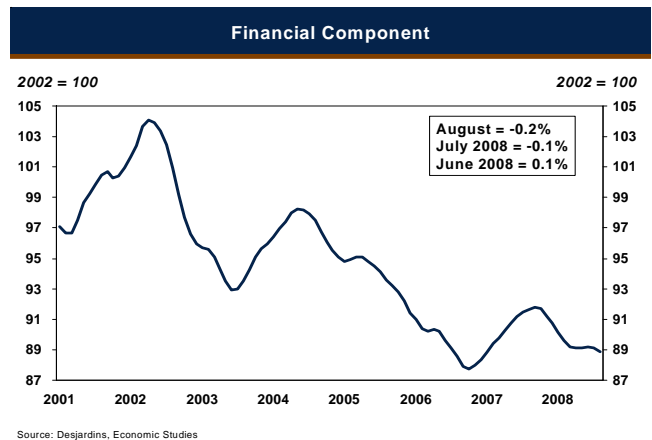


Source: Desjardins, Economic Studies

Québec’s exports will therefore decline for the second year in a row, and will then stabilize in 2009. This means that Québec’s trade deficit, which already exceeds the record of \$20 billion set in 2002, will not be improving any time soon.

**FINANCIAL MARKETS**

The Bank of Canada once again chose the *status quo* for key interest rates in September. Despite the economic turmoil afflicting the country, monetary authorities are faced with a total inflation rate above 3%. Lower gasoline prices should soon curb the increase in the cost of living. This could open the door to an interest rate cut, as early as December.



Source: Desjardins, Economic Studies

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