

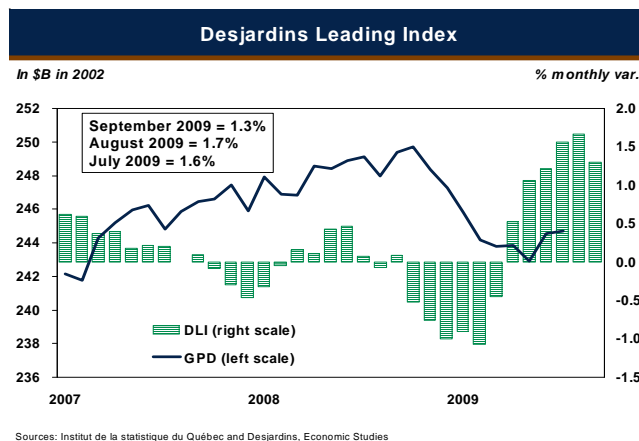
Sustained rise by September's DLI: +1.3% The economy is starting to recover

The Desjardins Leading Index (DLI) began to turn around in the spring of 2009, sending out the first signs of the economy's potential recovery. The real GDP subsequently bottomed out in May then began to firm up in June (+0.7%) and July (+0.1%). Québec thus appears to have emerged from the recession this summer. Failing a substantial relapse, the real GDP's contraction period will have lasted for seven months, from November to May. The third quarter promises to be slightly positive even if the economy did stumble in August, as suggested by some of the negative statistics released to date. Note that the real GDP contracted by 0.7% in the final quarter of 2008, by 5.1% in the first quarter of 2009 and by 2.8% in the second quarter of this year.

How quickly Québec's economy will get back on its feet remains to be seen. The DLI has been rising by more than 1% for several months, meaning that we can expect the real GDP to grow by about 1% (annualized) as of the final quarter of 2009. Many factors are suggesting a moderate recovery by the economy. The upswing by consumer spending will be shaky until job creation really gets back on its feet. The real estate market has been making up for lost time, but this will give way to some stability, for the same reason. It will no doubt be early next year before business investment and exports return to growth. Meanwhile, government spending will stimulate the economy.

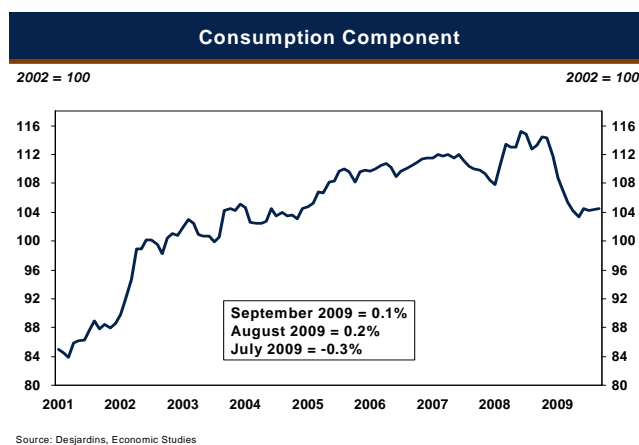
CONSUMPTION

The DLI's consumption component is not very lively, cooling hopes that it will see a sustained recovery in the next few months. Here, sales of durable goods are not very encouraging. Although auto sales firmed up after hitting bottom this summer, they have been relatively stable since then. The same is true for sales of furniture and appliances.



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

The Conference Board of Canada's confidence index or nosedived in October. It even dropped below its historic average, compromising consumption's lasting return to positive territory. Moreover, retail sales seesawed this summer. August's gain (+0.4%) helped to offset July's 0.3% decline.



Source: Desjardins, Economic Studies

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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.

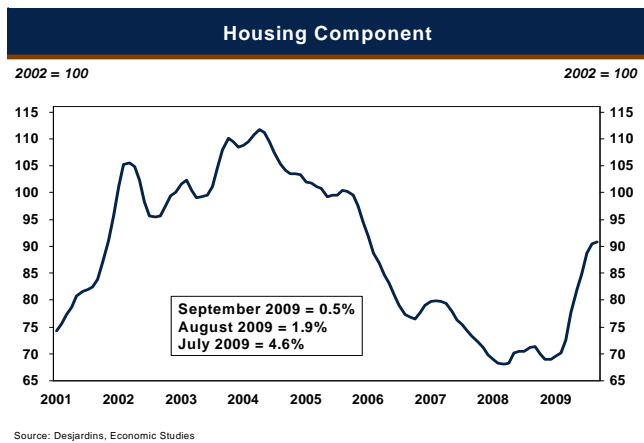
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Future developments for the employment market will be critical to consumer spending. October's statistics, to be released on Friday, are very eagerly awaited. Even though the recession does seem to be over, employment has not yet begun to grow in Québec.

HOUSING

The housing component flagged in September after posting solid gains all summer. Now that the recovery phase for existing home sales is over, the upswing should be more moderate over the coming months.

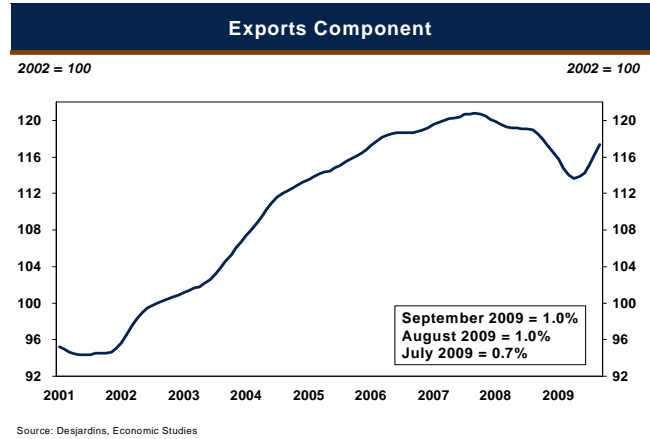
Starts, which shot up in July and August, took a break in September. They should stabilize at an annualized 45,000 units by the end of 2009. The housing market will keep improving in the coming months, but do not expect any period of steep acceleration while the labour market continues to struggle.



EXPORTS

In real terms, exports of goods abroad fell 21.3% from July to August. At 4.1 billion in 2002 dollars, this is a new low in the current cycle.

It will be hard to see a clear cut upswing by exports until the aerospace industry starts to grow again. As order backlogs are still falling in this category, which represents about 20% of Québec's international exports, we cannot expect to see an improvement in the next few months.

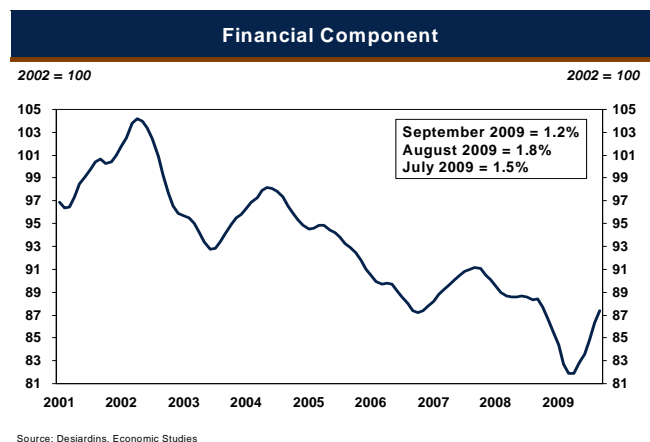


Although the U.S. economy is looking up, the Canadian dollar's movement poses a risk to numerous export businesses. The loonie recently fell below US\$0.95, but could soon rise back above this level.

FINANCIAL MARKETS

The Québec-30 index continues to firm up, posting a 2.7% increase in September. It is up 26.5% since the beginning of the year, a gain that is comparable to the Canadian stock market's 26.8% rise.

The stock markets are now calm again and interest rates are low; this will help bolster the economy's recovery in the coming months. A lack of inflation pressure means the Bank of Canada will be able to keep its key rates at the current floor until at least mid-2010.



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