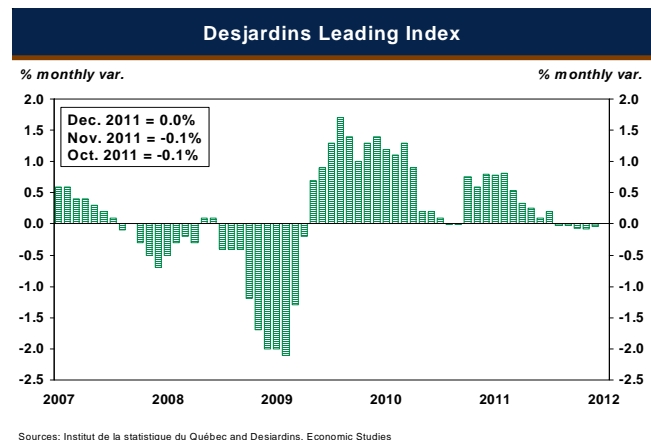
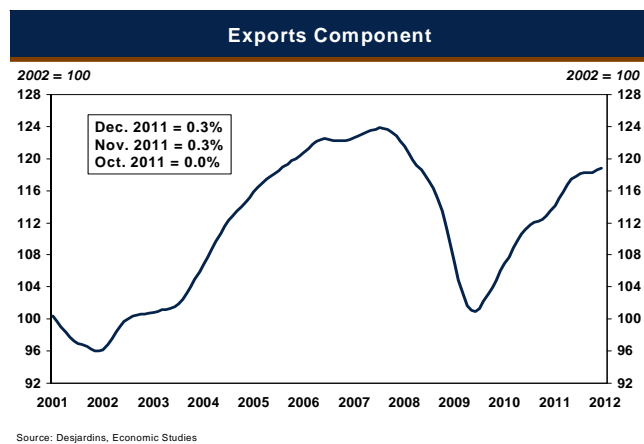


The DLI remained stable in December Revision of the U.S. leading index tarnished outlooks

The Desjardins Leading Index (DLI) did not advance in December. The U.S. leading index, the level of which was lowered following a substantial change in methodology, had a major impact on the exports component and, by extension, the recent changes in the DLI. The slight upticks seen in the past few months gave way to some stagnation, which is more in line with the mixed data released on Québec's economy lately. Labour had a tough time as the year ended, but the new year began with an upswing. Retail sales were a bright spot last fall, but household confidence then began to weaken. In short, Québec's economy is in choppy waters, and recent changes in the DLI show that this period of hesitation could persist throughout the first half of the year. Québec may very well post weaker real GDP growth than expected in 2012. However, the more upbeat statistics on the U.S. economy and the situation in Europe—which seems relatively contained, for now—leaves room for hope about the global economic situation.

EXPORTS

The DLI's export component, which relies on the U.S. and Canadian composite index, underwent a major adjustment.



The U.S. economy's leading indicator, published by the Conference Board, was subject to a thorough review, resulting in a considerable drop in the indicator's level from 2008 onward. The exports component now reflects much better the extent to which exports declined during the 2008–2009 recession.

Regardless, the upward trend in the DLI's exports component since the beginning of 2010, tied to advances in leading indicators in the U.S. and Canada, has yet to ripple through to Québec's exports. Major structural changes appear to be behind this holding pattern.

CONSUMPTION

The labour market suffered major losses in the fourth quarter of 2011, with 61,000 jobs slashed. Unemployment climbed back to 8.7% in December, while just last July it was closing in on 7%. The data for January (+9,500 jobs, pushing the unemployment rate to 8.4%) eased some concerns, but the downward risk represented by consumer spending is still very much alive.

François Dupuis
Vice-President and Chief Economist

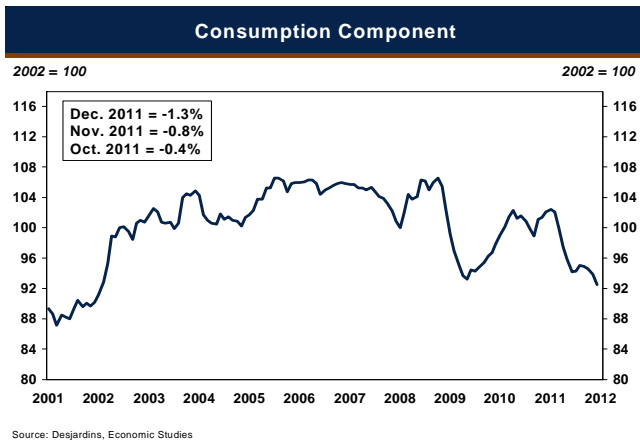
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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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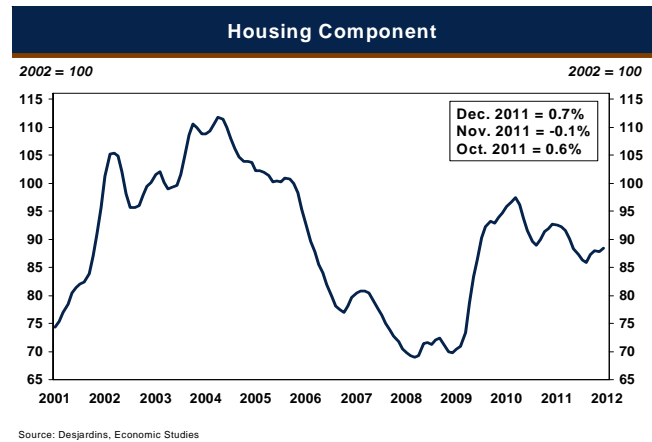
Household confidence in Québec weakened once again in January. The Conference Board index fell below 60, while it had reached 64 in December. This drop in confidence is a concern. The mood of Québec's consumers, which tumbled at the end of summer with the stock market's correction, hasn't managed to climb back up since. The job losses recorded in fall 2011 and the increase in the Québec sales tax (QST) rattled households. The fact that household confidence is up across all regions in Canada except Québec in January supports this.

The inflation rate in Québec reached 3.0% in 2011, the highest level in about 20 years. Escalating oil prices, which pushed gas prices up 20%, contributed to this increase. The 1% hike in Québec's sales tax (QST) in January 2011 and the \$0.01-per-litre tax increase on gasoline last April were the main reasons for this rise in inflation last year.

HOUSING

The housing component advanced by 0.7% in December due to a recovery in housing starts and existing home sales. Despite the positive year-end seen in some indicators in the residential sector, 2011 was marked by an overall and almost widespread slowdown across the province. Housing starts for single-family and semi-detached homes as well as row houses fell by 10 to 15% last year; only apartments posted growth due to the surge in condominium construction. All signs point to a lull in this market segment in 2012, however.

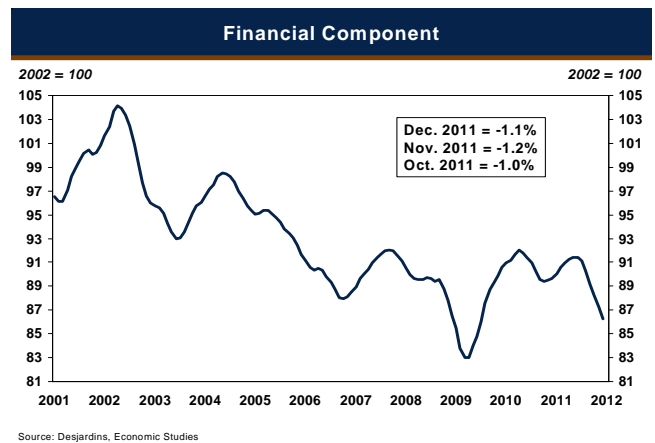
Even if the number of properties sold by real estate brokers ended the year on a strong note, the market posted a 3.5% decline in 2011. Some balance has returned to the resale market, whose current foundations seem relatively sound.



FINANCIAL MARKETS

The Québec-30 stock index posted growth of 3.3% last December. However, its growth in 2011 was negative, with a decline of 2.2%. This is the best showing in Canada's stock market, which fell by about 10% due to substantial declines in the energy sector.

The Bank of Canada (BoC) kept its key rates unchanged in early December. The announcement by the Fed that it would maintain the status quo until the end of 2014 has deferred expected rate hikes in Canada to the spring of 2014 instead of the second half of 2013.



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Senior Economist

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