

February 12, 2015

Near stagnation in December's DLI

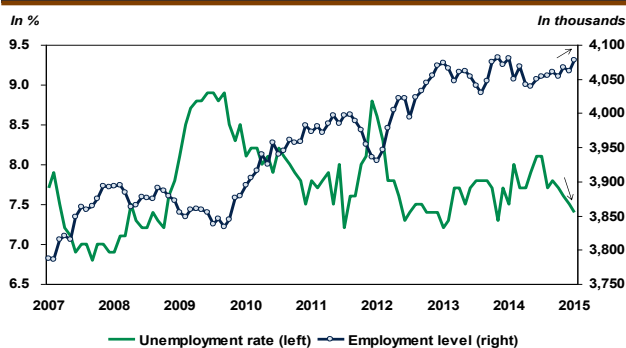
The very anemic 0.1% advance in the Desjardins Leading Index (DLI) in December 2014 (graph 1) is disappointing. Yet, the relative stability of the DLI is not indicative of a Quebec economic slowdown.

For the coming months, contributions by Quebec household consumption and the housing market will likely be modest. Quebec's economic expansion will therefore be largely sustained by growth in international trade. The loonie below parity and the economic recovery in the United States, who seems to be firmly rooted, will support the province's exports.

CONSUMERS

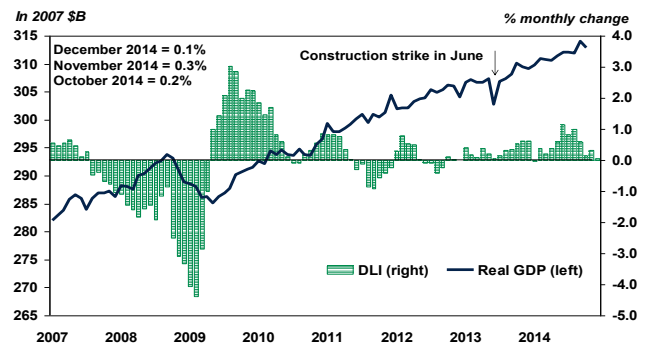
The "consumers" component remained in negative territory in December. However, the Quebec labour market improved, with 16,000 jobs posted in January compared with December 2014. The unemployment rate even fell to 7.4%, its lowest level since November 2013 (graph 2). According to Bank of Canada and Canadian Federation of Independent Business surveys, hiring intentions remain positive for the coming months. However, in 2015, only 25,000 new positions should be created, while jobs slipped by 1,100 in 2014.

Graph 2 – In January 2015, the unemployment rate fell and employment rebounded



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 1 – Desjardins Leading Index weakens in December



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

January saw consumer confidence recover strongly. The drop in gas prices likely contributed to the rise in consumer sentiment. However, the share of households that think the time is right to make a major purchase has dwindled, suggesting contained growth in consumer spending for the next six months.

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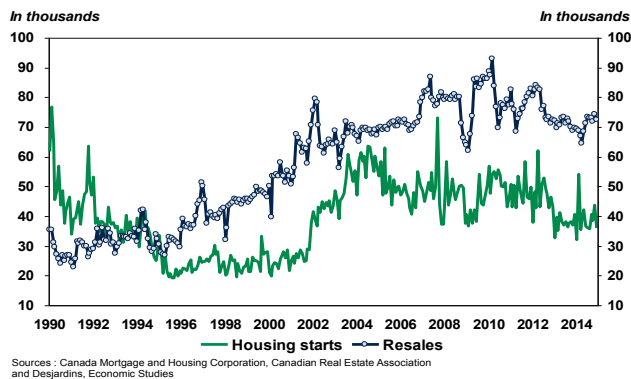
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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HOUSING

The lull in the provincial housing market caused the “housing” component to slip again in December (graph 3). New construction softened by 17.9% in December 2014 compared with the previous month, and January 2015 saw another slide, this time of 11.9%. Nevertheless, we expect relative stability in 2015 housing starts after 2.8% growth last year. This slowdown in pace will mainly stem from decreased activity in the condo segment.

Graph 3 – Activity in the housing market has cooled



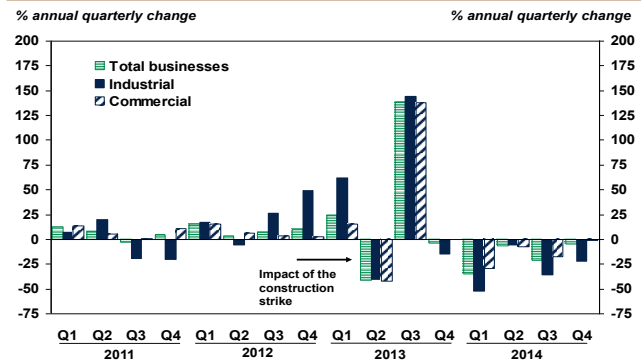
Resales also finished the year on a negative note, with a 2.2% monthly decrease in transactions recorded in December. The results for 2014 show sales sagging a slight 0.7%, while the weighted average sales price increased 1.3%. The forecast firming of employment and weakness in mortgage rates will contribute to the small 1.9% rebound expected in the number of transactions in 2015. The weighted average sales price will continue to grow modestly, at around 1.2%.

On February 3, 2015, the five-year fixed mortgage rate dropped 10 basis points to 4.79%. Since rates have been weak for some time now, this recent drop should have a limited impact on the housing market; however, it will give owners renewing their mortgages some financial leeway.

BUSINESS

The “business” component continued to grow in December, but at a slower pace. Business investments in non-residential buildings fell for the fifth quarter in a row in Q4 2014 (graph 4). This weakness seems to indicate that investors are still concerned with Quebec's economic growth, thereby holding off on any new projects. However, a loonie below parity and the U.S. economy's recent acceleration should sooner or later translate into a recovery for private sector investment.

Graph 4 – Investments in non-residential buildings remained depressed



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