

December 16, 2013

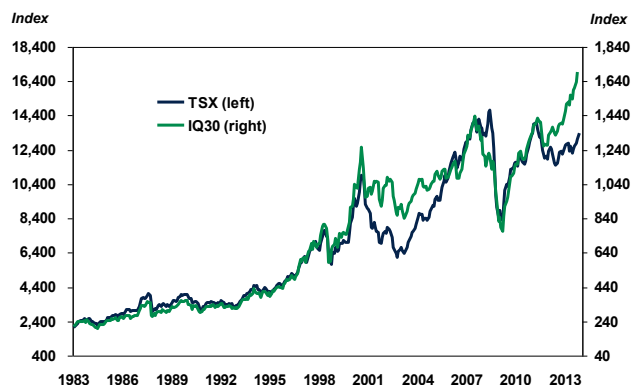
DLI rising slowly but surely

The Desjardins Leading Index (DLI) continues to strengthen with little fanfare. October's 0.6% increase follows rises of 0.5% in September and 0.4% in August (graph 1). This gradual improvement bodes well for the Quebec economy, after challenging times in the spring and summer of 2013. As the year winds down, we note disappointments on many fronts : real GDP edged up around 1%, retail sales saw mild improvement, the housing market cooled off and the manufacturing sector continued to deteriorate. However, the upswing by real GDP and comeback by employment have recently put the Quebec economy back on track. The DLI's ascent gives hope that economic growth will be somewhat firmer over the next six months.

BUSINESS

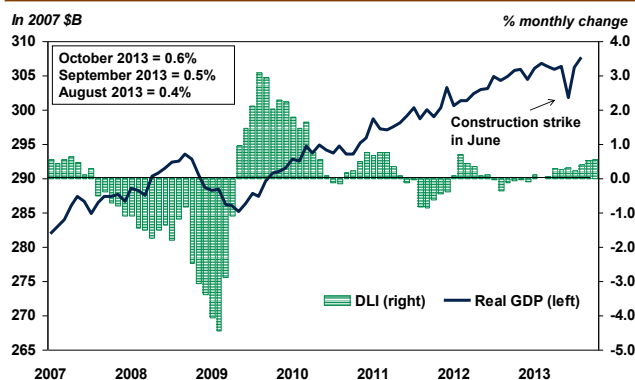
The rise in the "business" component over the last three months is an encouraging sign for the Quebec economy. Since summer, three indicators have held their ground in positive territory. The U.S. leading indicator kept growing, while the Canadian leading indicator accelerated. The IQ-30 continues to shine, outpacing the TSX (graph 2). The underperformance of the Toronto index is due to the dominance of commodities, which have been struggling considerably for about two years now.

Graph 2 – The IQ-30 stock index is growing faster than the Canadian stock market



Sources: Datastream, Centre d'Analyse et de Suivi de l'Indice Québec and Desjardins, Economic Studies

Graph 1 – The rise in the Desjardins Leading Index (DLI) should favour real GDP



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

Despite strong performance for stock markets of late, and recently improved economic conditions in the U.S., business confidence is slow to recover. The Business Barometer index of the Canadian Federation of Independent Business fell to 55.5 in November, one of the lowest levels posted since the end of the recession (graph 3 on page 2). This seems to indicate that SMEs still harbor some fears about future economic growth. Nonetheless, investment intentions appear to be stable, and the value of building permits for businesses (commercial and industrial sectors) has grown 1.5% from January to October 2013 compared with the same period in 2012.

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

Hélène Bégin
Senior Economist

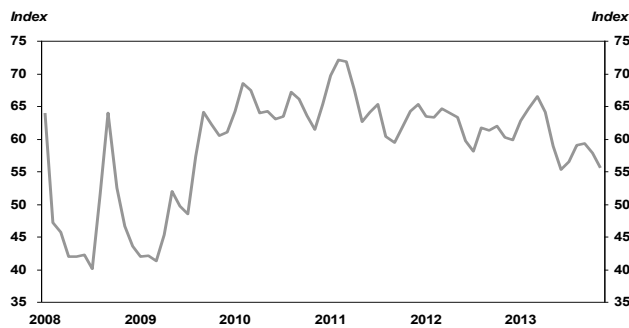
Chantal Routhier
Economist

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 © 2013, Desjardins Group. All rights reserved.

Graph 3 – SME confidence is falling

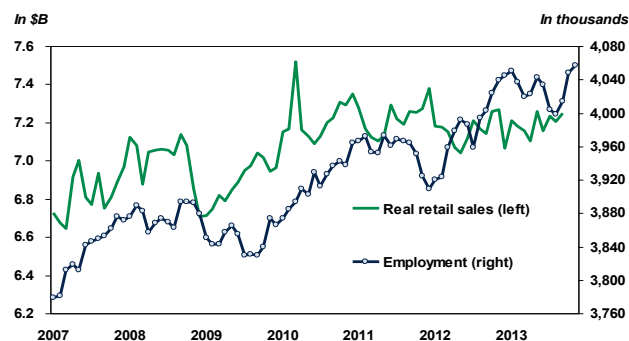


Sources: Canadian Federation of Independent Business and Desjardins, Economic Studies

CONSUMERS

The “consumers” component posted a fifth consecutive increase in October. Strong performance by new car sales in recent months has buoyed consumer spending. From January to September, they rose 3.5% over the same period in 2012. However, furniture and appliance sales were not as robust, falling 1.9% in the first three quarters of 2013 compared with the same period in 2012. Overall, retail sales have increased 1.5% since the start of the year, in keeping with employment growth (graph 4).

Graph 4 – Employment growth will buoy retail sales



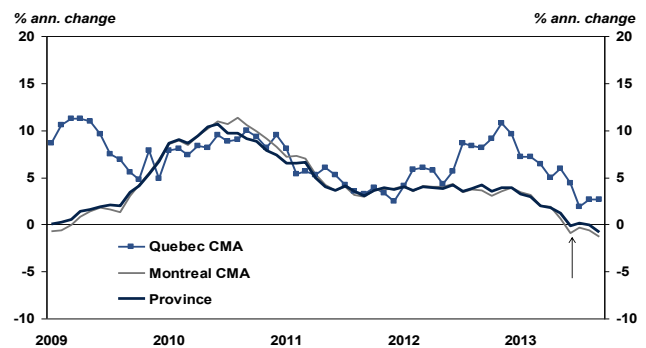
Sources: Statistics Canada and Desjardins, Economic Studies

After a difficult summer, the labour market began to pick up in September. Quebec saw 57,700 new jobs from September to November 2013, more than compensating for the 43,800 jobs lost from June to August. Employment’s recovery was both expected and desirable for the economy to strengthen. Under these circumstances, November’s dip in the consumer confidence index should be temporary. The unemployment rate continued to drop, settling at 7.2% in November, the lowest level recorded since January 2013.

HOUSING

To no one’s surprise, the DLI’s “housing” component is still struggling. The residential market cooled off significantly in 2013. Housing starts plummeted some 25% and sales of existing homes fell almost 10%. Annual growth in home prices has dipped below 2% and seems to have stabilized over the last few months. It’s too early to hope for a turnaround in new construction or the resale market; there isn’t enough demand and the housing supply continues to adjust, particularly for condos, which are still in surplus. Prices have started to fall in this market segment (graph 5), a situation that will hamper any recovery in construction next year.

Graph 5 – Average¹ condo prices are beginning to drop in Quebec



¹ Six-month moving averages.

Sources: Fédération des chambres immobilières du Québec and Desjardins, Economic Studies

Hélène Bégin
Senior Economist

Chantal Routhier
Economist

“Indice Québec-30”, “Indice Québec-120”, “Indice IQ-30”, “Indice IQ-120” and “Indice Québec” are trademarks of the Institut de recherche en économie contemporaine (IREC), or as the case may be, are intellectual property of IREC, which has filed trademark applications in this regard.