



WEEKLY COMMENTARY

Will Consumer Spending Hold Up in Quebec?

By **Hélène Bégin**, Principal Economist

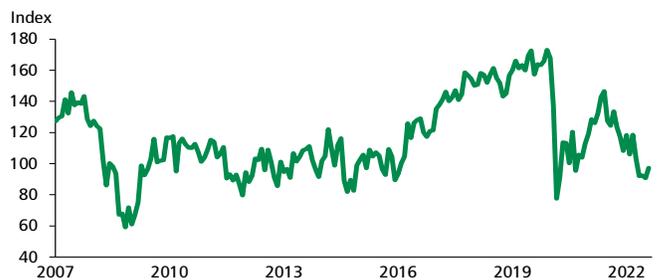
Consumers continued to spend more in the first half of this year, but it’s unclear whether that will last. When restaurants, bars and entertainment venues fully reopened this spring, spending on services rebounded. Services spending made a complete recovery in the second quarter, almost two years after goods spending did the same. Now that outlays are back to pre-pandemic levels and COVID-related public health restrictions finally seem to be behind us, we expect a more moderate advance in goods and services spending in the coming quarters.

Consumer spending accounts for 60% of Quebec’s GDP. So will the resilience of the Quebec consumer be enough to keep the economy afloat? A look back at the last recession might shed some light on the matter. During the 2008–2009 recession, Quebec consumer spending fell about 2% on an annualized basis for two straight quarters. But inflation was under control then, and central banks were slashing interest rates in response to the Global Financial Crisis. The Bank of Canada’s target for the overnight rate hit 0.25% for the first time ever in the spring of 2009, from a cyclical high of 4.50% in the summer of 2007. What had consumers spooked? And could it happen again?

Consumer confidence plummeted well below current levels (graph 1). There were widespread job losses, and unemployment spiked from a cyclical low of 6.9% to a high of 9.0% in July 2009. Labour was abundant, and economic trouble quickly spilled over into the job market. But although the labour market is tight right now, job gains have slowed since spring.

Unemployment has crept up from a record low of 3.9% in April to 4.5% in August. As [Quebec’s economy](#) softens, demand for workers will ease, likely pushing unemployment up to around 6% in the next 12 months. But given today’s high job vacancy rate and worker shortage, the damage will be less severe than it was in 2008–2009. And while wages are going up faster, high inflation is eroding purchasing power.

GRAPH 1
Consumer confidence is declining in Quebec, but is still higher than it was during the 2008–2009 recession



Sources: Conference Board of Canada and Desjardins, Economic Studies

In fact, real after-tax income and government transfers have been declining in recent quarters despite the Quebec government’s payments to individuals totalling \$740 million in January and \$3.2 billion this spring. That’s a huge amount of support. It’s the equivalent of 0.7% of Quebec’s nominal GDP. In comparison, the recently announced federal measures represent 0.1% of Canada’s nominal GDP. These tax cuts and any others that provinces may roll out are designed to help households cope with the rising cost of living. But with prices rising faster than disposable incomes, many households will feel the pinch.

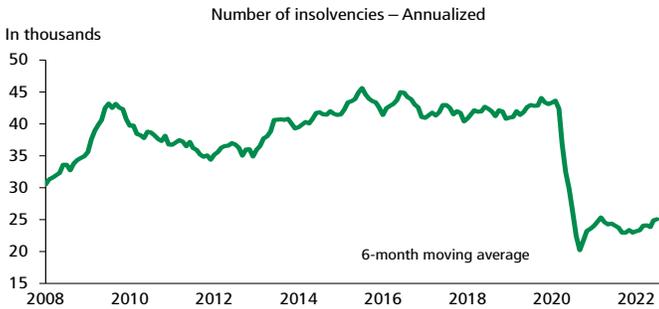
Some will dip into their savings. In the second quarter, Quebec’s savings rate stood at 10.2%, which is very high. That will give many Quebec households some breathing room. The current savings rate is much higher than it was in 2008–2009, when it was in the 4–5% range. In theory, this should help many consumers weather the storm.

At the height of the pandemic, temporary government support measures kept insolvencies artificially low, but they’re on the

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GRAPH 2
After falling early in the pandemic, consumer insolvencies are on the rise in Quebec



Sources: Office of the Superintendent of Bankruptcy Canada and Desjardins, Economic Studies

upswing again (graph 2). Rapidly rising interest rates, soaring inflation and high housing costs are causing significant financial strain for many. And while bankruptcies and consumer proposals remain well below pre-pandemic levels, they could make a rebound in the coming quarters.

In terms of assets, home prices have been falling since spring, and the correction isn't over yet. Prices held up well in 2008–2009, at least in Quebec. This cycle, the value of both real estate and financial assets has declined due to the drop in the stock and bond markets. But the Global Financial Crisis in the late 2000s set off bigger shockwaves.

In short, households are being squeezed on a number of fronts right now. As Quebec consumer confidence continues to decline and interest rates continue to rise, consumer spending growth should slow. The resiliency of the Quebec consumer will be tested, and we could even see spending fall. The real estate market was the first to take a hit, and consumer spending could be next. And though strong consumer spending is key to keeping the economy afloat, it isn't a given. But the ongoing labour shortage and Quebecers' excess savings could make the difference this time around.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

MONDAY October 3 - 10:00

September	Index
Consensus	52.3
Desjardins	52.0
August	52.8

WEDNESDAY October 5 - 10:00

September	Index
Consensus	56.0
Desjardins	57.0
August	56.9

FRIDAY October 7 - 8:30

September	
Consensus	250,000
Desjardins	230,000
August	315,000

WEDNESDAY October 5 - 8:30

August	In \$B
Consensus	3.50
Desjardins	3.60
July	4.05

WEDNESDAY October 5 - 8:30

August	m/m
Consensus	-0.5%
Desjardins	-0.5%
July	-6.6%

FRIDAY October 7 - 8:30

September	
Consensus	15,000
Desjardins	25,000
August	-39,700

UNITED STATES

ISM Manufacturing PMI (September) – The August ISM Manufacturing PMI remained unchanged from July’s reading of 52.8, with not much more movement expected in September. Regional manufacturing indexes are sending mixed signals. But sooner or later, because the economy has been weakened by interest rate hikes, we should see the ISM Manufacturing PMI getting closer to the 50 mark—possibly even dipping below it. Until then, we expect the ISM Manufacturing PMI to remain relatively stable at 52.0.

ISM Services PMI (September) – The ISM Services PMI was up slightly in August, marking the first time since fall 2021 that we’ve seen two consecutive monthly increases. A third may even be in the cards for September. Most regional non-manufacturing indexes improved over the past month, and consumer confidence is also on the rise again. But we’re predicting the ISM Services PMI will hold steady, possibly hitting 57.0, which is still high given recent recession fears.

Job creation according to the establishment survey (September) – Although job growth slowed in August compared to July, it was still relatively strong, with the economy adding a higher-than-expected 315,000 jobs. That said, we expect the pace of job creation to have slowed in September, but indicators are mixed. Job seeker confidence, employers’ hiring intentions and falling unemployment claims all generally point to strong growth, although not likely at the same levels as in the first half of 2022. We expect to see 230,000 net hires in September and the unemployment rate to sit at 3.7%.

CANADA

International merchandise trade (August) – After falling in July from the largest surplus since before the Global Financial Crisis, Canada’s international merchandise trade balance is expected to have shrunk further in August, from \$4.1 billion to \$3.6 billion. Both nominal exports and imports are projected to have declined, in large part on lower energy prices. Early indications suggest that export volumes may have moved higher in the month while real imports moved a tick lower.

Building permits (August) – Following a sharp 6.6% m/m drop in July, the value of building permits is expected to have posted a modest 0.5% decline in August. This is underpinned by an anticipated lacklustre showing in both the number and average price of building permits issued in the month.

Labour Force Survey (September) – A rebound in education jobs due to the timing of the survey should drive employment growth back into positive territory. And given the labour shortages in the food services industry, fewer than usual restaurants and bars likely laid off staff this September. Manufacturing employment, however, might have taken a hit from a dip in auto production. Interest-rate sensitive areas of the economy such as construction and real estate could also have seen job losses as higher rates begin taking their toll on employment.

THURSDAY October 6 - 5:00

August	m/m
Consensus	n/a
July	0.3%

OVERSEAS

Eurozone: Retail sales (August) – Eurozone retail sales grew 0.3% in July after falling 1.0% in June. We're fairly certain to see sales resume their downward trend in August and the months to follow. Between plummeting consumer confidence and the squeeze inflation is putting on incomes, we're looking at a contraction in real consumer spending in the eurozone.

Economic Indicators

Week of October 3 to 7, 2022

Date	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 3	---	Total vehicle sales (ann. rate)	Sept.	13,450,000	13,650,000	13,180,000
	10:00	Construction spending (m/m)	Aug.	-0.2%	0.6%	-0.4%
	10:00	ISM manufacturing index	Sept.	52.3	52.0	52.8
	15:10	Speech of the Federal Reserve Bank of New York President, J. Williams				
TUESDAY 4	10:00	Factory orders (m/m)	Aug.	0.3%	0.0%	-1.0%
	13:00	Speech of the Federal Reserve Bank of San Francisco President, M. Daly				
WEDNESDAY 5	8:30	Trade balance – Goods and services (US\$B)	Aug.	-67.7	-67.7	-70.7
	10:00	ISM services index	Sept.	56.0	57.0	56.9
	16:00	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
THURSDAY 6	8:30	Initial unemployment claims	Sept. 26-30	n/a	205,000	193,000
	13:00	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
	13:00	Speech of a Federal Reserve Governor, L. Cook				
	18:30	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
FRIDAY 7	8:30	Change in nonfarm payrolls	Sept.	250,000	230,000	315,000
	8:30	Unemployment rate	Sept.	3.7%	3.7%	3.7%
	8:30	Weekly worked hours	Sept.	34.5	34.6	34.5
	8:30	Average hourly earnings (m/m)	Sept.	0.3%	0.3%	0.3%
	10:00	Wholesale inventories – final (m/m)	Aug.	n/a	1.3%	1.3%
	10:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
	15:00	Consumer credit (US\$B)	Aug.	25.000	27.500	23.811
CANADA						
MONDAY 3	---	---				
TUESDAY 4	---	---				
WEDNESDAY 5	8:30	International trade (\$B)	Aug.	3.50	3.60	4.05
	8:30	Building permits (m/m)	Aug.	-1.2%	-0.5%	-6.6%
THURSDAY 6	11:35	Speech of the Bank of Canada Governor, T. Macklem				
FRIDAY 7	8:30	Net change in employment	Sept.	15,000	25,000	-39,700
	8:30	Unemployment rate	Sept.	5.5%	5.4%	5.4%

Note: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of October 3 to 7, 2022

Country	Time	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 2								
Japan	19:50	Tankan large manufacturers index	Q3	11		9		
Japan	20:30	PMI manufacturing index – final	Sept.	n/a		51.0		
MONDAY 3								
Japan	1:00	Vehicle sales	Sept.		n/a		-13.3%	
Italy	3:45	PMI manufacturing index	Sept.	n/a		48.0		
France	3:50	PMI manufacturing index – final	Sept.	n/a		47.8		
Germany	3:55	PMI manufacturing index – final	Sept.	n/a		48.3		
Euro zone	4:00	PMI manufacturing index – final	Sept.	n/a		48.5		
United Kingdom	4:30	PMI manufacturing index – final	Sept.	n/a		48.5		
Japan	19:30	Consumer price index – Tokyo	Sept.		2.9%			2.9%
Australia	23:30	Reserve Bank of Australia meeting	Oct.	2.85%		2.35%		
TUESDAY 4								
Euro zone	5:00	Producer price index	Aug.	n/a	n/a	4.0%		37.9%
Japan	20:30	PMI composite index – final	Sept.	n/a		50.9		
Japan	20:30	PMI services index – final	Sept.	n/a		51.9		
New Zealand	21:00	Reserve Bank of New Zealand meeting	Oct.	3.50%		3.00%		
WEDNESDAY 5								
Germany	2:00	Trade balance (€B)	Aug.	n/a		5.4		
France	2:45	Industrial production	Aug.	n/a	n/a	-1.6%		-1.2%
Italy	3:45	PMI composite index	Sept.	n/a		49.6		
Italy	3:45	PMI services index	Sept.	n/a		50.5		
France	3:50	PMI composite index – final	Sept.	n/a		51.2		
France	3:50	PMI services index – final	Sept.	n/a		53.0		
Germany	3:55	PMI composite index – final	Sept.	n/a		45.9		
Germany	3:55	PMI services index – final	Sept.	n/a		45.4		
Euro zone	4:00	PMI composite index – final	Sept.	n/a		48.2		
Euro zone	4:00	PMI services index – final	Sept.	n/a		48.9		
United Kingdom	4:30	PMI composite index – final	Sept.	n/a		48.4		
United Kingdom	4:30	PMI services index – final	Sept.	n/a		49.2		
THURSDAY 6								
Germany	2:00	Factory orders	Aug.	-0.5%	n/a	-1.1%		-13.6%
United Kingdom	4:30	PMI construction index	Sept.	n/a		49.2		
Euro zone	5:00	Retail sales	Aug.	n/a	n/a	0.3%		-0.9%
FRIDAY 7								
Germany	2:00	Industrial production	Aug.	-0.5%	n/a	-0.3%		-1.1%
Germany	2:00	Retail sales	Aug.	-1.0%	-5.0%	1.9%		-5.5%
France	2:45	Trade balance (€M)	Aug.	n/a		-14,538		
France	2:45	Current account (€B)	Aug.	n/a		-5.3		
Italy	4:00	Retail sales	Aug.	n/a	n/a	1.3%		4.2%

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).