

DESJARDINS LEADING INDEX

The [Desjardins Leading Index \(DLI\)](#) is a composite index that allows market players to monitor shifts in Quebec's economy that may indicate an imminent slowdown, recession or recovery in the next six months or so.

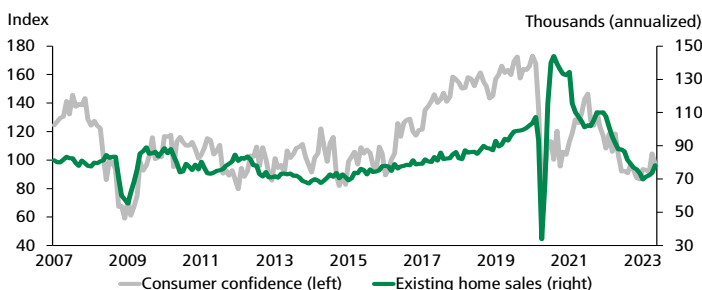
The DLI Is Down Again, but Quebec's Economy Is Holding Up So Far

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The DLI continues to fall, but the pace of the decline slowed again in April. It was down 0.4% on the month, a much smaller drop than we saw early this year when the overall economic picture was worsening. Several indicators are still down sharply, but some are stable and others have improved recently. While this is encouraging, it's worth a closer look to see what lies ahead for Quebec's economy.

Some data points including existing home sales and consumer confidence seem to have bottomed out and started to improve (graph 1). But this rebound is expected to be short-lived, as interest rates are already on the rise again. After pausing rate hikes in March, the Bank of Canada lifted rates by 25 basis points in June and left the door open to additional increases. This should shake consumer confidence, especially since Quebec hasn't posted sustained job gains in months. Full-time employment among 25- to 54-year-olds is one input used to calculate the DLI. It has stagnated recently and is expected to begin falling soon. And while the labour market remains tight, with unemployment hovering around 4%, cracks are starting to show.

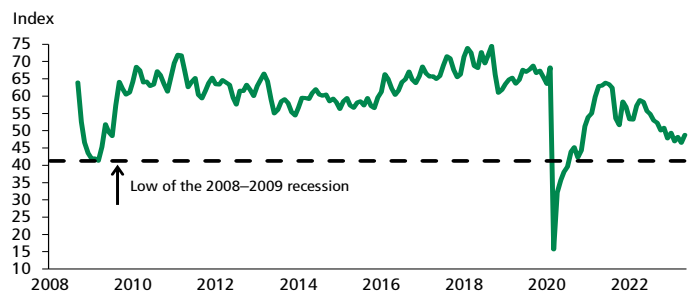
GRAPH 1
Consumer Confidence and Existing Home Sales Are Improving in Quebec



Sources: Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

The temporary improvement in the household component has been tempering the DLI's decline since spring, but the housing and business components are still decidedly in negative territory. On the housing side, renovation spending and construction continue to fall, and the resale market hasn't rebounded enough to offset the drop. It continues to be a difficult environment for businesses, which are contending with high interest rates, strong price pressures and a slowdown in several industrialized economies. SME confidence remains low (graph 2), and the international trade index continues to deteriorate alongside US and Canadian leading indicators. Quebec's exports have also started to fall, and investment is down from its mid-2022 peak.

GRAPH 2
SME Confidence Remains Low



Sources: Canadian Federation of Independent Business and Desjardins Economic Studies

IMPLICATIONS

The DLI didn't decline as much as in previous months, but storm clouds continue to gather for Quebec's economy. [Real GDP growth](#) remains resilient, coming in at a healthy 1.7% annualized in the first quarter on the back of still-strong consumer spending. But it's only a matter of time before interest rate hikes and the looming softening of the labour market take their toll. As we discussed in a recent [note](#), we therefore expect the economy to contract in the coming quarters.