

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 Slumps Again as Quebec Seems on the Edge of a Recession



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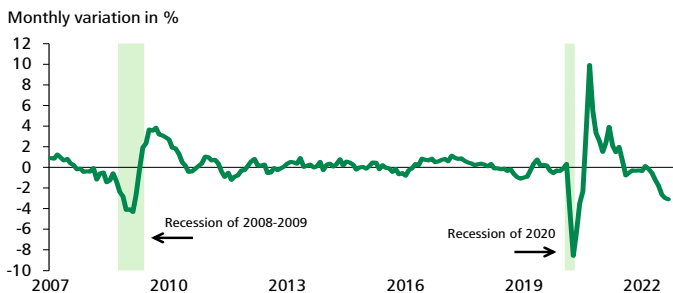
September saw the DLI fall 3.1%, following similar losses in each of the previous two months (graph 1). Of the index's three components, housing took the biggest tumble, followed by the household and business components. The real estate market was the first to be hit by rising interest rates, and consumption is expected to start flagging shortly despite government support measures. The global economic downturn should also slow exports and business investment.

and the US. The global economic downturn will also put a damper on demand from overseas markets.

Consumers are facing a bevy of economic challenges. Confidence is waning, with levels almost as low as they were during the 2008–2009 recession. Spending is down significantly on durable goods such as furniture, appliances and electronics. And persistently high inflation is eroding incomes—just as many households are seeing their monthly payments go up thanks to steep interest rate hikes. The one thing still supporting consumers is the labour market. November saw strong job creation, and the unemployment rate hit a record low of 3.8%. While consumer spending growth will likely cool in the coming months, we don't expect it to turn negative.

The coming months will not be kind to the housing sector. Existing home sales, new construction and renovation spending will continue to weaken, largely due to higher borrowing costs. Existing home sales are down, and the average sale price has already fallen 6.7% between its April peak and October (graph 2). The market is no longer overheated, and bidding wars have become less common. The average home price in Quebec is

GRAPH 1
A dramatic drop in the DLI suggests a recession is inevitable

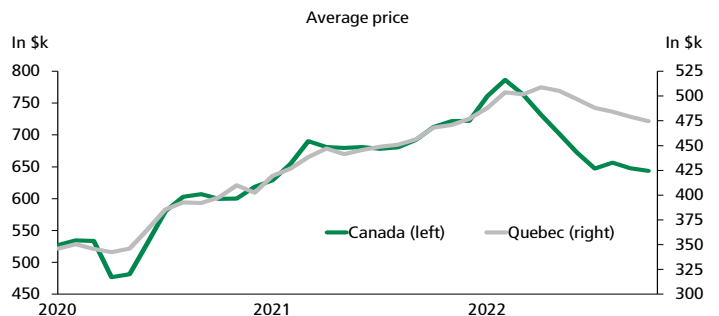


Source: Desjardins Economic Studies

High inflation, steep interest rate hikes and deteriorating economic conditions are hitting firms increasingly harder. Most major sectors, particularly goods-based ones, have already started to see things cool over the past couple months. Services-based industries have been faring better so far, but some are already seeing a drop in activity.

In the manufacturing sector, the pace of production has slowed, declining 3.5% since spring. Manufacturers' sales also fell sharply in the third quarter, pointing to a continued downturn in the industry. As Canadian and US leading indicators continue to fall, we can expect weaker exports from Quebec to other provinces

GRAPH 2
Existing home prices continue to correct in Quebec, but not as sharply as the rest of Canada



Sources: Canadian Real Estate Association and Desjardins Economic Studies

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expected to decline by 17% by the end of 2023. The slowdown in new construction is also far from over.

IMPLICATIONS

After three straight months of substantial falls in the DLI, the signal is clear: the Quebec economy is in for a serious setback, and the first half of 2023 will be particularly rough. With nearly all of the indicators that make up the DLI in deeply negative territory, we can expect the economic contraction to be broad-based. While real GDP has posted three sharp declines since March, it's too soon to say whether the province is already in a recession.