

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.

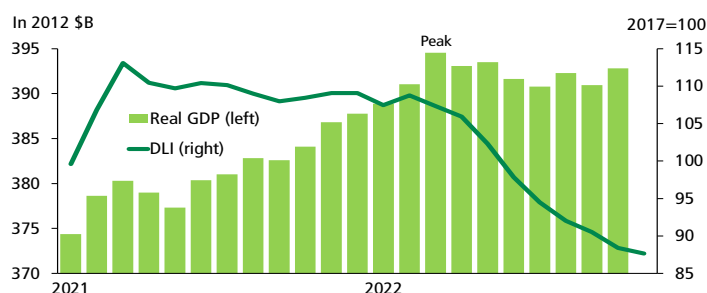
The DLI Continues to Slip, Signalling More Trouble Ahead for Quebec's Economy

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[Real GDP](#) has posted several monthly declines since peaking in March 2022. The DLI continues to trend lower, dropping 2.2% in November (graph)—an ominous sign for Quebec’s economic activity in the first half of 2023.

GRAPH

The DLI Has Been Pointing to an Economic Downturn for Some Time



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

The housing component continues to soften, so we can expect the same for residential investment. December housing starts came in at 33,400 units, the lowest level since August 2018. Both existing home sales and home prices continue to fall, with the average price now down 6.9% from its April 2022 high. Rising interest rates haven't had their full effect yet, which means the housing correction is far from over.

Based on the declining household component, rate hikes are starting to take a bite out of durable goods spending. The labour market has been fairly resilient so far. But while unemployment remains near its 3.8% all-time low, it's expected to creep up in the coming months, approaching 6% by the end of 2023. We can therefore expect slower consumer spending growth on services and non-durable goods as the year wears on.

Finally, we continue to see some weakness in the business component. Quebec's international exports and investments have held up pretty well so far, but that probably won't last much longer. While the US and Canadian economies are showing some resilience and their growth remains strong, there are already signs of recession, including leading indicators and some business activity indexes. Growing economic headwinds around the world and more restrictive monetary policy by many central banks will further dampen foreign demand. And global trade and [Canadian business investment plans](#) have started to trend lower.

IMPLICATIONS

The DLI remains on a steep decline, suggesting that Quebec's economy will continue to deteriorate in the first half of 2023. The recession seems to have already begun, with real GDP contracting an annualized 1.4% in the third quarter of 2022. Despite rebounding in October, economic activity likely fell in November and December, making for another drop in the fourth quarter. But we won't be able to make an official call for a few more months, as a recession is defined as at least two consecutive quarters of GDP decline. We'd need to see a meaningful, broad-based contraction in real GDP from its peak. According to the DLI, most economic indicators apart from the labour market are down sharply. We should soon have enough data to say whether we're already in a recession.

