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DESJARDINS LEADING INDEX

The <u>Desjardins Leading Index (DLI)</u> 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.

ECONOMIC STUDIES

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



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The DLI is still down sharply, declining 1.8% in December, as the economy continues to face multiple headwinds. Interest rates keep going up, the housing market continues to correct and consumer confidence remains low. Meanwhile deteriorating SME confidence and signs of slowing global trade point to lower exports and investment. All in all, it's shaping up to be a tough first half of the year for Quebec's economy. Real GDP bounced back in October and November after several months of weakness, but it has a long way to go (graph).

While most businesses have weathered the many recent challenges fairly well, the coming months will be a bigger test. According to <u>Statistics Canada</u>, a third of Canadian businesses expect their profitability to decrease over the next three months. And 40.2% expect rising interest rates and debt costs to be an obstacle in the very near term. Businesses are therefore likely to take a somewhat cautious approach to investment for now. The global economic slowdown will probably also mean less foreign demand and, by extension, lower exports for Quebec.

At the same time, households will increasingly feel the pinch of ongoing rate hikes this year. Spending on durable goods is expected to weaken as other spending growth slows. While the labour market has held up well so far and unemployment remains at a record low 3.9%, that number will probably begin to creep up soon. And as their finances deteriorate, businesses will likely pull back on hiring.

Meanwhile the housing correction is far from over, as rising mortgage rates have yet to have their full effect. Home sales and home prices continue to decline. In Quebec, the average price is down 8.1% from its April 2022 peak. But prices haven't fallen everywhere, and some regions are still seeing price gains. The value of residential building permits continues to drop in the province, pointing to a further slowdown in new construction in most areas.

GRAPH

The DLI Suggests Quebec's Economic Slide Isn't Over despite a Late 2022 Rebound in Real GDP



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

IMPLICATIONS

Despite the late 2022 rebound in real GDP, Quebec's economy is still very much at risk of a recession. After contracting in the third quarter, real GDP likely grew in Q4. And since a recession is defined as two or more consecutive quarters of steep, broad-based real GDP decline, that means Quebec didn't dip into a recession in the second half of 2022. But given that most non-employment indicators included in the DLI have deteriorated significantly, a recession will be hard to avoid.

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