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 Sinks Further in August: Quebec May Already Have One Foot in a Recession

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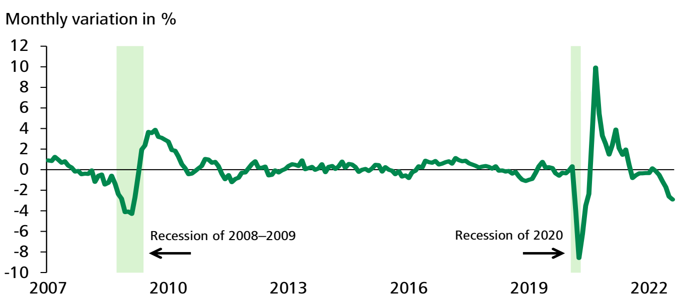
The DLI began trending lower several months ago, but the decline picked up speed in August, with the index falling 2.9% on the month (graph 1). Quebec's economy has also changed course since the spring, closing the door on a period of strong real GDP growth. Practically all of the statistics that go into calculating the DLI have continued to deteriorate. The housing and household components tumbled further in August, and the business component has been in constant decline for the past few months. It would seem economic difficulties have already become broad-based. High inflation and steep interest rate hikes are hitting households and firms increasingly harder.

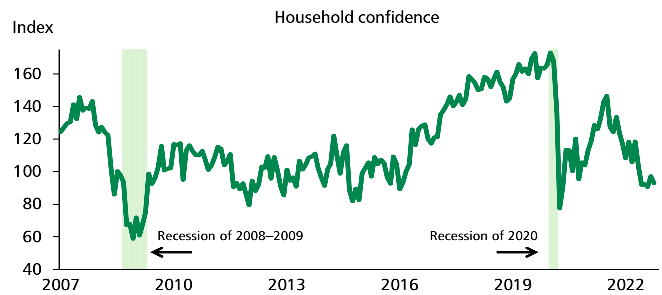
GRAPH 1
The DLI decline is picking up speed: A recession seems inevitable



Source: Desjardins, Economic Studies

On the consumer side, economic difficulties are piling up. Confidence is waning, with levels almost as low as they were at the height of the pandemic and during the 2008–2009 recession (graph 2). Spending is down significantly on durable goods such as furniture, appliances and electronics. New motor vehicle sales continue to lag, even though many dealers have been seeing improvements in availability. The percentage of households that consider it to be the right time to make a major purchase has dropped below 10% since last summer, a nearly 20-year low.

GRAPH 2
Confidence readings plummet in Quebec: Inflation and higher interest rates have taken over from the pandemic effect



Sources: Conference Board of Canada and Desjardins, Economic Studies

A big constraint is high inflation, which is eroding households' incomes—just as they're seeing their monthly payments go up up thanks to steep interest rate hikes. We expect consumer spending to dwindle over the next few months and, according to a recent analysis, we're not ruling out a period of downturn.

The housing sector is continuing to cool. Sales of existing properties are down, with the average sales price already 5.5% below its April peak. September housing starts stood at 50,123 units (annualized), a decline of 19.7% year over year and nearly 60% from their January 2021 record high. Renovation spending has also been affected by higher financing costs, starting to trend downward this spring. Property sales, new construction and renovations will continue to weaken over the coming months.

In terms of the DLI's business component, only the international trade index is holding steady for now. Supply chain disruptions have eased and container shipping rates from Asia have come back down to near pre-pandemic levels. Still, exporters are facing a global economic slowdown affecting trading partners

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across the board. Leading US and Canadian economic indicators continue to fall, with a recession expected in both countries in early 2023.

IMPLICATIONS

The accelerating decline in the DLI confirms that the road ahead only going to get bumpier. Difficulties in the Quebec economy have already become broad-based, and real GDP recorded its fourth consecutive monthly decrease in July. A number of indicators, including the DLI, point to a recession in Quebec—one that may have even already started, according to a recent analysis.