

# DESJARDINS LEADING INDEX

## The DLI Fell Sharply in July, Signalling a Recession Ahead for Quebec

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The DLI plunged 2.5% in July, its fifth straight monthly decline. It's now in pre-recession territory and sending a clear message. In the past, whenever the DLI has fallen more than 2% after trending lower for several months, the economy has begun to contract in short order. In 2007, the drop in the DLI started slowly in September before picking up speed in the spring of 2008. A recession then began that fall, six months after the first steep decline in the DLI. If history repeats itself, we could see a recession by early 2023.

Consumers continued to spend more in the first half of this year. The household component of the DLI has fallen further recently, reflecting the mounting economic challenges facing consumers. As Quebec consumer confidence continues to weaken and interest rates continue to rise, consumer spending growth should slow. Also, persistently high inflation is eroding incomes. We therefore expect consumer spending growth to cool in the coming months or even turn negative.

The housing component of the DLI fell more in July than in previous months. Rising mortgage rates have been taking a toll on the housing market since this spring. Sales are down sharply, sellers have lost the upper hand, and bidding wars are becoming a thing of the past. The average home price in Quebec is off 4.1% from its April peak. The correction is expected to continue until late 2023 and bring down prices 15% to 20%. New construction and renovation spending will also continue to weigh on the economy in the coming quarters.

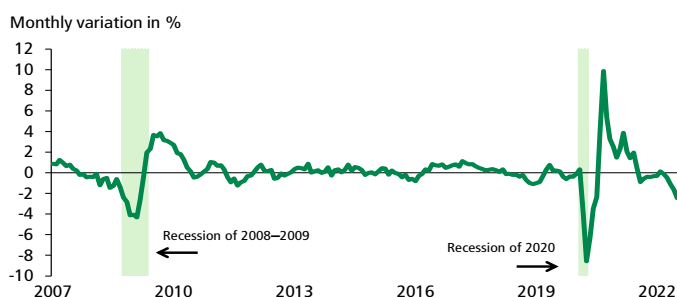
The business component of the DLI continues to decline, but not as much as the household and housing components. Despite weaker small business confidence and a gloomier global and North American economic outlook, business investment and exports held up in the first half of this year, with both posting strong growth in the second quarter. The situation is expected to deteriorate over the next three to six months, however.

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.



### GRAPH

July's DLI decline signals the start of a real GDP contraction



Source: Desjardins, Economic Studies

### IMPLICATIONS

July's DLI decline is a turning point. The modest decreases we saw in previous months suggested Quebec's economy was starting to slow. But this precipitous plunge signals the start of a real GDP contraction. After starting the year off strong, Quebec's economy has already lost some momentum. The coming months aren't looking any better.

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