

DESJARDINS LEADING INDEX

The DLI Slips Again in June as Quebec's Economy Walks a Tightrope

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The DLI fell 1.5% in June, the steepest drop in a series of three straight monthly declines. This time almost every indicator came in lower, dragging down all three components of the DLI. The housing component, which began to deteriorate several months ago, posted the biggest decrease. The household component, which had been holding strong, turned negative in June. The business component continued to fall at the same pace as in previous months. We were already seeing pockets of weakness in Quebec's economy. The DLI reading further underscores its vulnerability.

Higher mortgage rates have had an immediate effect on the housing market. Sales are down sharply, sellers have lost the upper hand, and bidding wars are becoming a thing of the past. The average price has even started to fall. In Quebec, it's already down 4.0% since spring. New construction continues to slow, and fewer building permits are being issued. Rising mortgage rates will continue to put the brakes on the housing sector and the Quebec economy overall.

The household component fell for the first time in June. The negative signs are mounting. Consumer confidence is eroding, and fewer consumers think it's a good time to make a big purchase. High inflation and rapidly rising interest rates should begin to slow consumer spending. But low unemployment (4.1% in July), strong wage growth and the high savings rate are all positives for households.

The business component continues to trend lower. Leading economic indicators for Canada and the United States—Quebec's main trading partners—have edged lower in recent months. The international trade index, another good measure of export and investment prospects, is looking weak. And SME confidence continued to crumble over the summer, reflecting the deteriorating business environment.

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

The declining DLI points to a period of weakness for Quebec's economy



Source: Desjardins, Economic Studies

IMPLICATIONS

The DLI is sending a clear message: Quebec's economy is heading into a period of weakness after posting strong growth through Q1 2022. May's anemic real GDP growth is further proof that the economy slowed this spring. The coming quarters will be challenging for households and businesses as they contend with high inflation and soaring interest rates. They'll also be facing a slowing global economy and a mild [recession in Canada](#) early next year. Quebec will walk a fine line between weak growth and a decline in real GDP.