WEEKLY COMMENTARY

Is Quebec Already on the Brink of a Recession?

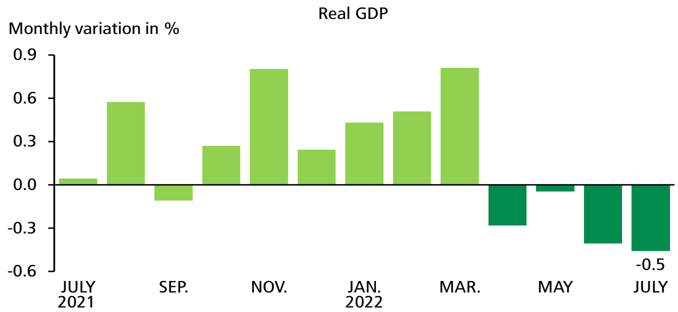
By Hélène Bégin, Principal Economist

Quebec's economy has been showing signs of weakness since spring, but July's 0.5% drop in real GDP was the nail in the coffin (graph). It was the fourth consecutive monthly decline and the largest since August 2017, not counting the pandemic lockdowns. A number of indicators were pointing to an imminent recession, but we may already be in one.

Barring an August rebound in real GDP followed by solid September growth or an upward revision of previously reported data, Quebec will post a third quarter contraction. A recession is commonly defined as two or more consecutive quarters of declining real GDP. By that definition, Quebec already seems to have one foot in a recession. A technical recession is when the economy slows slightly, but other economic indicators such as unemployment aren't meaningfully affected. In a full-blown traditional recession, there's a sharp decline in real GDP over two or more consecutive quarters. During previous traditional recessions in Quebec, real GDP has contracted by at least 1% or so. We also typically see massive job losses, a sharp decline in retail sales or falling home prices. A traditional recession is therefore a large, protracted contraction in real GDP affecting many sectors of the economy.

So what can we expect this time around? We almost meet the definition of a recession already. Economic activity appears to have peaked in March, with real GDP falling 1.2% between then and July. And that's just the start. The total contraction will be large enough to qualify as a traditional recession. As we discussed in a recent *Economic News* piece, although the housing sector was hit first, most major industries have been in decline since March. Construction is already down about 10%, and every other goods-producing sector has been affected as well. Services have held up better so far, but wholesale and retail trade are beginning to slow. Rapidly rising interest rates and high inflation are taking a toll on both consumers and businesses and are increasingly weighing on the economy.

GRAPH
Quebec's economy rolled over in March after a period of strong growth



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

Quebec's real GDP contraction is broad-based, but the labour market has been fairly resilient so far. Unemployment stood at 4.4% in September, up from April's low of 3.9%. The workforce has gone from growing steadily to ebbing and flowing since spring, and total hours worked appear to be starting to decline. But because the ongoing labour shortage is due primarily to structural demographic factors, the job market should hold up pretty well. Job vacancies are still near record highs, and the unemployment-to-job vacancy ratio remains low, although it edged up slightly to 1.0 in August.

That means we may be seeing a new variant of the traditional recession, with limited job losses and a slight increase in unemployment, perhaps up to 6% in the next year. Every recession is different, but a downturn may well be the least of the labour market's problems. Quebec has one of the lowest unemployment rates of any Canadian province, so it seems well positioned to withstand the headwinds. The labour shortage

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and Quebecers' excess savings could be the difference this time around, at least for consumers.

It's easier to see an economic contraction coming in Quebec. The Institut de la statistique du Québec is the only provincial statistical agency in Canada that releases monthly real GDP data. This helps economists quickly spot changes in economic conditions. It's now clear that the tides have turned in Quebec. Some provinces are likely in the same boat, while others are better off.

The Bank of Canada didn't base this week's interest rate decision on Quebec recession signs, but it likely considered them. Despite high inflation, the Bank's decision to raise rates by 50 basis points instead of 75 comes as the economic damage is mounting and the rate hikes implemented since March haven't yet had their full effect on Canadian consumers and businesses. Quebec's economy is facing a number of headwinds both at home and abroad, and it may have trouble bouncing back. This could be a taste of what's to come in other provinces.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

UNITED STATES

TUESDAY November 1 - 10:00

October	Index
Consensus	50.0
Desjardins	49.2
September	**50.9**

ISM Manufacturing PMI (October) – September saw the ISM Manufacturing PMI hit its lowest level since spring 2020 during the early months of the pandemic. At 50.9, it's just shy of 50, the boundary between an expansion and contraction of manufacturing activity. Actually, according to regional manufacturing indexes, the ISM Manufacturing PMI likely dipped below the 50 mark in October. That would be consistent with expectations of a continuing slowdown in economic growth, possibly even tipping into contraction territory in early 2023. We expect the Manufacturing PMI to come in at 49.2.

WEDNESDAY November 2 - 14:00

November	
Consensus	4.00%
Desjardins	4.00%
September 21	**3.25%**

Federal Reserve meeting (September) – Another substantial rate hike is almost certain to come out of this meeting. The Fed's September forecasts pointed to a total increase of 125 points over the final two meetings of the year, which makes a 75-point jump on November 2 entirely consistent with the Fed's rhetoric. That said, there are also signs that the pace of monetary tightening will slow in 2023. Higher rates are already starting to hurt some segments of the economy, such as the housing market, nonresidential construction and real spending on goods. We'll be watching the press conference to see if Fed Chair Jerome Powell drops any hints about a slowdown in rate hikes.

THURSDAY November 3 - 10:00

October	Index
Consensus	55.5
Desjardins	55.6
September	**56.9**

ISM Services PMI (October) – While the ISM Manufacturing PMI is nearing the 50 mark, the Services index remains relatively high, which is also reflected in stronger spending on services than on goods. Additionally, while inflationary pressures persist in services, they're starting to abate on the goods side. Still, we expect the ISM Services PMI to diminish in October. Most regional non-manufacturing indexes are down over the month, while consumer confidence is looking more lukewarm. We're predicting an ISM Services PMI reading of 55.6, which is still high considering ongoing recession fears.

FRIDAY November 4 - 8:30

October	
Consensus	200,000
Desjardins	180,000
September	**263,000**

Job creation according to the establishment survey (October) – It looks like the US labour market might be starting to slow down. After 537,000 jobs were added in July and 315,000 in August, September's 263,000—while still relatively high—points to a shift in the pace of growth. Another sign is that unemployment claims are up from their mid-September low. Job seeker confidence has also dipped. As a result, we expect the growth to continue cooling in October, with hiring coming in at 180,000 jobs. The unemployment rate should edge up from 3.5% to 3.6%, but remain at the mercy of more significant shifts caused by greater-than-expected fluctuations in the labour force participation rate.

CANADA

THURSDAY November 3 - 8:30

September	$B
Consensus	n/a
Desjardins	2.4
August	**1.5**

Merchandise trade balance (September) – Canada's merchandise trade balance is expected to have improved in September, hitting a $2.4 billion surplus after posting a more paltry $1.5 billion in August. This would essentially bring Canada's goods trade surplus back to its July level. However, the drivers of the anticipated improvement are more mixed when you look under the hood. Nominal exports were likely largely responsible for September's fillip, driven by a projected advance in volumes, while inputs to the exports price forecast point to a broadly flat print in the month. In contrast, a projected drop in import volumes on slumping domestic demand was probably almost entirely offset by an increase in prices in September.

THURSDAY November 3 - 8:30

September	**m/m**
Consensus	n/a
Desjardins	-5.9%
August	**11.9%**

Building permits (September) – Building permits are expected to take a step back in September, likely falling 5.9% after surging by an outsized 11.9% in August. The number of permits is anticipated to be lower as the Canadian housing market continues to correct. At the same time, the decline in the price of new and existing homes in September probably also weighed on the value of building permits in the month.

FRIDAY November 4 - 8:30

October	
Consensus	n/a
Desjardins	10,000
August	**21,100**

Labour Force Survey (October) – A quirk in the seasonal adjustment factor meant that education jobs that were supposedly lost in August were gained back in September. Excluding that effect, September's employment numbers posted a notable decline. We foresee only a modest improvement in October, with the labour market having added just 10K jobs. The economy faced stiff headwinds in October, with financial conditions continuing to tighten. Given likely solid population growth as a result of immigration, a 10K increase in employment wouldn't have been enough to stop the unemployment rate from rising. Look for the jobless rate to have risen from 5.2% to 5.4% in September. A soft labour market report would be consistent with the Bank of Canada's expectation that growth is set to stall this winter.

OVERSEAS

MONDAY October 31 - 6:00

Q3 2022	**q/q**
Consensus	0.1%
Q2 2022	**0.8%**

Eurozone: Real GDP (third quarter, preliminary) – The eurozone economy has seen several quarters of decent growth in a row, most recently adding 0.8% (non-annualized) in Q2. The region is facing multiple challenges, however, with surging energy prices and a general increase in the cost of living at the top of the list. Several indicators are signalling an imminent recession. That said, third-quarter national accounts figures could still show growth or at least no change. Q3 gains of 0.2% in France and 0.3% in Germany are also rather encouraging. We expect to start seeing contractions come fall.

THURSDAY November 3 - 8:00

November	
Consensus	3.00%
September 22	**2.25%**

United Kingdom: Bank of England meeting (November) – This summer saw an increased pace of rate hikes in the United Kingdom. With inflation approaching 10%, there are no signs the Bank of England (BoE) will slow down—quite the opposite, in fact, with a 75-point increase expected. That said, the government's U-turns on many of the fiscal stimulus measures announced in September could reassure the BoE as to the future trajectory of inflation. The measures spooked the markets, stoking fears of even higher inflation. A new budget update is to be announced after the BoE meeting, this time likely to include spending cuts and tax increases. This could put downward pressure on inflation and encourage the BoE to dial down its aggressive monetary policy decisions moving forward.

Economic Indicators

Week of October 31 to November 4, 2022

UNITED STATES

Date	Time	Indicator	Period	Consensus	⬡	Previous data
MONDAY 31	9:45	Chicago PMI index	Oct.	47.6	47.0	45.7
TUESDAY 1	---	Total vehicle sales (ann. rate)	Oct.	14,250,000	14.850.000	13,490,00
	10:00	Construction spending (m/m)	Sept.	-0.5%	-0.6%	-0.7%
	10:00	ISM manufacturing index	Oct.	50.0	49.2	50.9
WEDNESDAY 2	14:00	Federal Reserve meeting	Nov.	4.00%	4.00%	3.25%
	14:30	Speech of the Federal Reserve Chair, J. Powell				
THURSDAY 3	8:30	Initial unemployment claims	Oct. 24-28	n/a	220,000	217,000
	8:30	Trade balance – Goods and services (US$B)	Sept.	-70.2	-72.2	-67.4
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q3	-0.1%	0.2%	-4.1%
	8:30	Unit labor costs – preliminary (ann. rate)	Q3	3.9%	4.3%	10.2%
	10:00	ISM services index	Oct.	55.5	55.6	56.9
	10:00	Factory orders (m/m)	Sept.	0.4%	0.1%	-1.0%
FRIDAY 4	8:30	Change in nonfarm payrolls	Oct.	200,000	180,000	263,000
	8:30	Unemployment rate	Oct.	3.6%	3.6%	3.5%
	8:30	Weekly worked hours	Oct.	34.5	34.5	34.5
	8:30	Average hourly earnings (m/m)	Oct.	0.3%	0.3%	0.3%

CANADA

Date	Time	Indicator	Period	Consensus	⬡	Previous data
MONDAY 31	---	---				
TUESDAY 1	---	---				
WEDNESDAY 2	---	---				
THURSDAY 3	---	Government of Canada Fall Economic Statement				
	8:30	International trade ($B)	Sept.	n/a	2.4	1.5
	8:30	Building permits (m/m)	Sept.	n/a	-5.9%	11.9%
FRIDAY 4	8:30	Net change in employment	Oct.	n/a	10,000	21,000
	8:30	Unemployment rate	Oct.	n/a	5.4%	5.2%

NOTE: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours). ⬡ Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of October 31 to November 4, 2022

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
SUNDAY 30							
Japan	19:50	Industrial production – preliminary	Sept.	-0.8%	10.5%	3.4%	5.8%
Japan	19:50	Retail sales	Sept.	0.8%	4.1%	1.4%	4.1%
China	21:30	PMI manufacturing index	Oct.	49.9		50.1	
China	21:30	PMI non-manufacturing index	Oct.	50.1		50.6	
MONDAY 31							
Japan	1:00	Housing starts	Sept.		2.3 %		4.6%
Italy	5:00	Real GDP – preliminary	Q3	-0.1%	2.0 %	1.1%	4.7%
Euro zone	6:00	Real GDP – preliminary	Q3	0.1%	2,1 %	0.8%	4.1%
Australia	23:30	Reserve Bank of Australia meeting	Nov.	2.85%		2.60%	
TUESDAY 1							
United Kingdom	3:00	Nationwide house prices	Oct.	-0.3%	8.2%	0.0%	9.5%
United Kingdom	5:30	PMI manufacturing index – final	Oct.	45.8		45,8	
WEDNESDAY 2							
United Kingdom	2:00	Nationwide house prices	Oct.	-0.3%	8.2%	0.0%	9.5%
Germany	2:00	Retail sales	Sept.	-0.5%	-3.4%	-1.3%	-1.7%
Germany	3:00	Trade balance (€B)	Sept.	0.7		1.2	
Italy	4:45	PMI manufacturing index	Oct.	47.0		48.3	
France	4:50	PMI manufacturing index – final	Oct.	47.4		47,4	
Germany	4:55	PMI manufacturing index – final	Oct.	47.7		47,7	
Euro zone	5:00	PMI manufacturing index – final	Oct.	46.6		46,6	
THURSDAY 3							
Norway	5:00	Bank of Norway meeting	Nov.	2.63%		2.25%	
United Kingdom	5:30	PMI composite index – final	Oct.	47.2		47.2	
United Kingdom	5:30	PMI services index – final	Oct.	47.5		47.7	
Euro zone	6:00	Unemployment rate	Sept.	6.6%		6.6%	
United Kingdom	8:00	Bank of England meeting	Nov.	3.00%		2.25%	
FRIDAY 4							
Germany	3:00	Factory orders	Sept.	-0.5%	-7.2%	-2.4%	-4.1%
France	3:45	Industrial production	Sept.	-1.3%	1.4%	2.4%	1.2%
Italy	4:45	PMI composite index	Oct.	47.4		47.6	
Italy	4:45	PMI services index	Oct.	48.5		48.8	
France	4:50	PMI composite index – final	Oct.	50.0		50.0	
France	4:50	PMI services index – final	Oct.	51.3		51.3	
Germany	4:55	PMI composite index – final	Oct.	44.1		44.12	
Germany	4:55	PMI services index – final	Oct.	44.9		44.9	
Euro zone	5:00	PMI composite index – final	Oct.	47.1		47.1	
Euro zone	5:00	PMI services index – final	Oct.	48.2		48.2	
Euro zone	6:00	Producer price index	Sept.	5.0%	43.2%	5.0%	43.3%

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic fi gures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).