

January 15, 2014

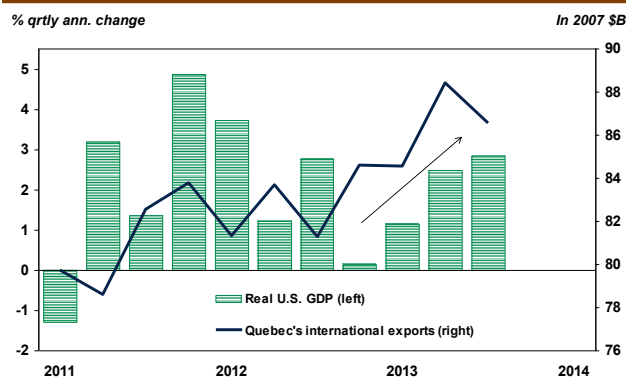
The DLI edges up again—the economy should follow suit

The recent trend in the Desjardins Leading Index (DLI) is very encouraging for the Quebec economy (graph 1). The DLI continued to firm up in November, rising 0.7%. Improvement in the “business” component is primarily responsible for this positive result. Even with a risk of cooling growth in private sector investment in 2014, international trade will drive real GDP growth at an accelerated 1.8% compared with 1.2% last year. While some uncertainties about the strength of the economy linger, the DLI is sending a clear positive signal for the coming months.

BUSINESS

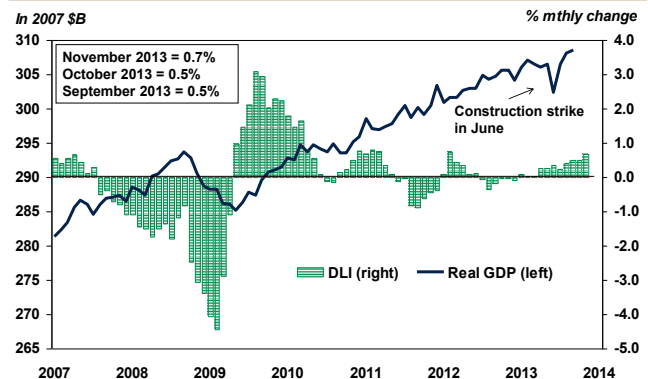
Acceleration in the “business” component results from the more convincing increase in the U.S. economy’s leading indicator. Like the DLI, this indicator gradually firmed up in the last several months. Real U.S. GDP also picked up steam, reflecting positively on international exports from Quebec (graph 2). The winds seem to have shifted for international trade, which has resumed stimulating economic growth. As real GDP growth was dampened by the balance of trade eroding between 2002 and 2012, this change of course is welcome.

Graph 2 – Accelerating real U.S. GDP impacts Quebec’s international exports



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 1 – The rise by the Desjardins Leading Index (DLI) should impact real GDP



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

The IQ-30 stock index grew 3.2% in November, strengthening the “business” component of the DLI. Despite shares of the key companies headquartered in Quebec performing strongly, profits for companies across the province shrank in 2013. SME confidence has also diminished recently, confirming that investments will not be able to sustain last year’s quick pace.

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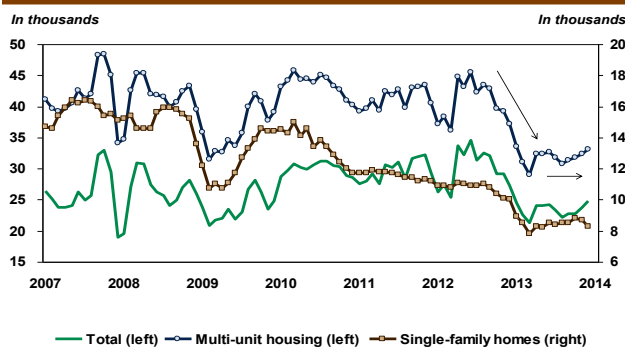
NOTE TO READERS: The letters K, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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HOUSING

Plummeting residential housing starts and existing home sales gave way to some stabilization, setting the stage for 2014. As recent results suggest (graph 3), new construction activity should hold steady for both single-family homes and multi-unit housing. Even though housing inventory was significantly depleted over the last year, demand is not yet strong enough to trigger additional construction. It will be next year before we see a turnaround in housing starts. After a roughly 20% decline in 2013, new housing construction should be fairly stable this year.

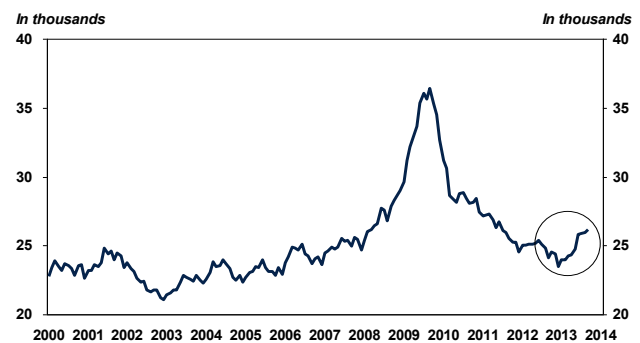
Graph 3 – Housing starts* stabilize after falling sharply



* Urban areas with more than 10,000 inhabitants.
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Households are having a hard time being optimistic, particularly due to their high debt levels and a sluggish labour market that shed 10,200 jobs from November to December. The weak annual gain of 2,100 jobs reflects both the massive addition of jobs at the end of 2012 and the see-saw trend that followed in 2013. From December 2012 to December 2013, 45,800 part-time workers were added in total, while 43,800 full-time jobs were lost. This certainly provides a partial explanation for the recent hike in personal bankruptcies in Quebec (graph 5).

Graph 5 – Personal bankruptcies on the rise of late

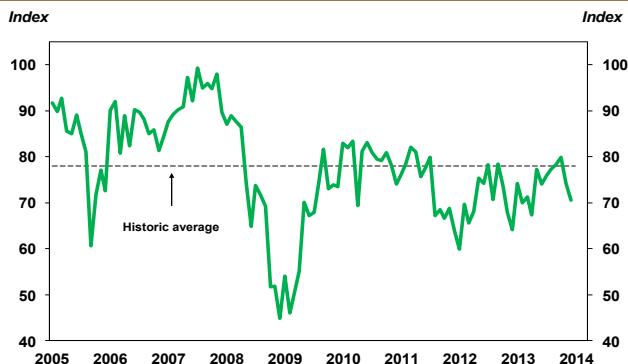


Sources: The Office of the Superintendent of Bankruptcy Canada and Desjardins, Economic Studies

CONSUMERS

Growth in the “consumers” component of the DLI paused in November, indicating some vulnerability with their situation. The consumer confidence index also weakened recently, slipping back below the historical average (graph 4).

Graph 4 – Household confidence struggles to rise above its historic average



Sources: Conference Board of Canada and Desjardins, Economic Studies

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