

April 14, 2014

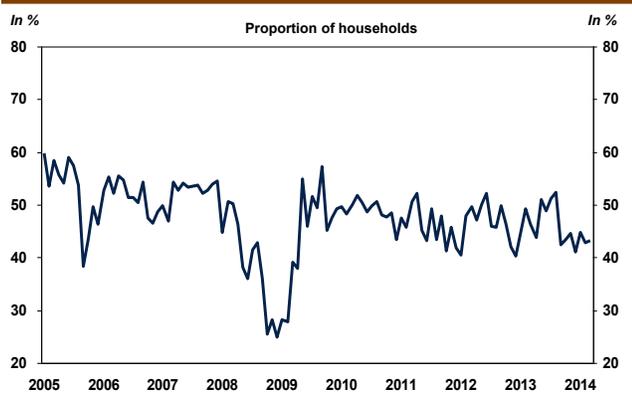
DLI posts slow growth in February

The Desjardins Leading Index (DLI) slowed following several fairly sustained increases in the second half of 2013 (graph 1). The change in direction by the “consumers” component at the beginning of the year explains the DLI’s listlessness. For its part, the “business” component was still on cruising speed, while the “housing” component firmed up slightly. For now, the hope is that businesses can breathe some life into the Quebec economy. The weak outlook for investment should be offset by a stronger contribution from international trade in 2014. The more favourable winds across North America should bring the Quebec economy along in its wake.

CONSUMERS

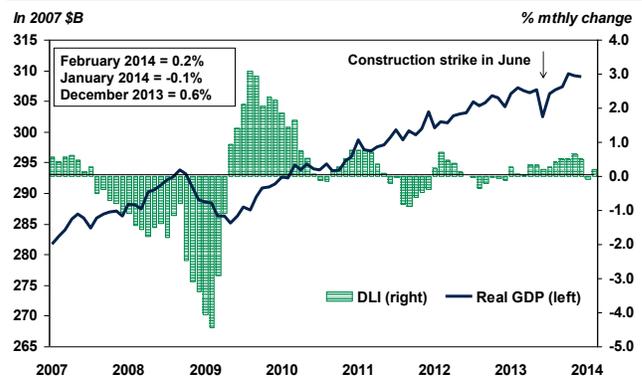
Automobile, furniture and appliance sales have fallen recently, triggering a retreat by the “consumers” component. The proportion of households that think the time is right for a major purchase has nonetheless been stable for a few months now (graph 2), suggesting that the downturn in these kinds of expenses will be fleeting. Consumer confidence has in fact strengthened recently, lending further support to this projection.

Graph 2 – Proportion of households that think the time is right for a major purchase



Sources: Conference Board and Desjardins, Economic Studies

Graph 1 – The Desjardins Leading Index (DLI) has been listless since January



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

Hiccups in the labour market are proving to be less encouraging for consumption. Employment has been yo-yoing since the end of 2013, with no clear trend emerging. The unemployment rate is also struggling at around 7.5%. This will need to improve if household spending is to firm up.

The fact that the “consumers” component stumbled in January and February does not necessarily compromise households’ contribution to real GDP growth in the coming months. This DLI component should, however, rebound quickly to allay doubts.

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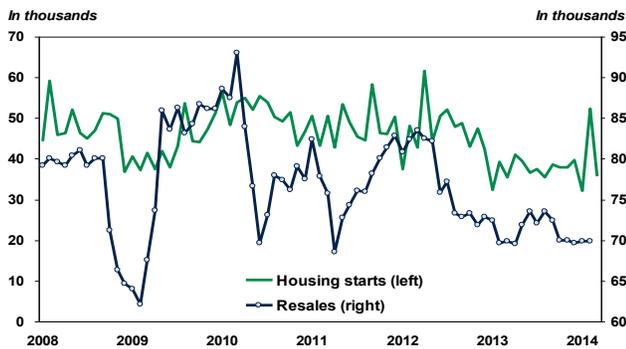
NOTE TO READERS: The letters K, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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HOUSING

This component of the DLI made its first advance after a long negative run. This blip is due to abrupt movement in housing starts, which plummeted to 32,100 units in January, then rebounded to 52,300 units in February. With a fall back to 35,600 in March, the stimulating effect on the “housing” component will be short-lived. What is the take away from this start of the year? Beyond monthly fluctuations, the recent trend in new construction is fairly stable (graph 3), confirming that the downward movement is now over.

Graph 3 – The residential real estate market plunge seems to be over in Quebec



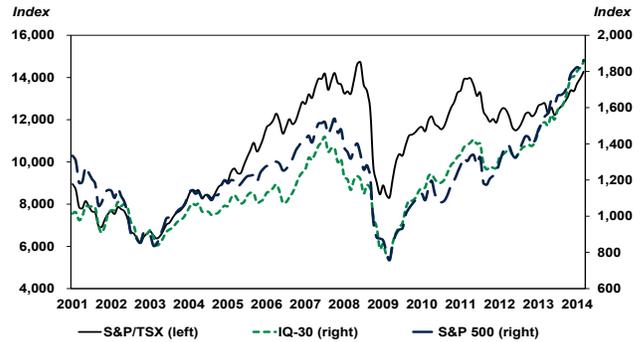
Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

Stagnation is also present in the resale market. The number of sales and average property prices have held steady at the same level for several months. The pause in the residential sector is helping calm fears of overheating, reducing risk for the Quebec economy.

BUSINESS

The “business” component continued its advance in February, in large part due to the strong performance of stock indexes (graph 4). In fact, 6 out of the 10 sectors of the IQ-30 have posted gains since the beginning of the year, with the materials sector turning in the best performance. In Canada, increasing commodity prices and renewed investor interest in commodity securities fuelled strong performance by the S&P/TSX. Lastly, the U.S. S&P 500 strengthened, particularly in relation to the easing of geopolitical tensions

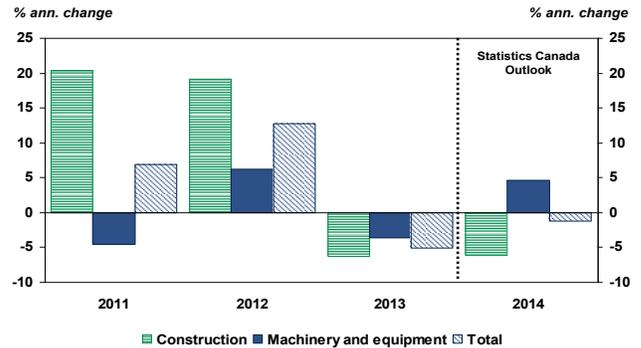
Graph 4 – Stock indexes are on the rise



Sources: Datastream, Centre d’analyse et de suivi de l’indice Québec and Desjardins, Economic Studies

in emerging countries. However, this has yet to impact entrepreneur confidence in Quebec, which continues to fall. In addition, businesses’ investment intentions remain, all in all, very low (graph 5). The loonie’s current level and the uncertain economic conditions most likely played a role here.

Graph 5 – Non-residential investment by businesses could weaken in 2014



Sources: Statistics Canada and Desjardins, Economic Studies

The beginning of 2014 was disappointing for international merchandise exports, sliding 3.2% in January from December 2013. Hopefully a recovery will set in soon, as Quebec economic growth in 2014 will essentially be dependent on the performance of international trade, which did relatively well in 2013.

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