

# DESJARDINS LEADING INDEX

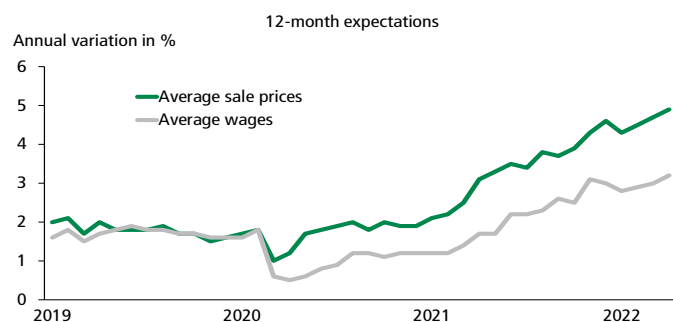
## The DLI Rose in February

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The DLI was up 0.4% in February on some positive economic indicators. The housing component continued to post solid growth, while the household component was up slightly and the business component continued to trend lower.

Since the start of the war in Ukraine, supply problems have worsened and input costs have increased. This is hitting businesses hard. SMEs plan to raise their prices a bit faster than wages this year (graph 1). According to a survey conducted by the Canadian Federation of Independent Business, SMEs anticipate having to increase their prices faster in 2022. That means businesses will try to pass on some of their higher costs to customers. But according to Statistics Canada, about a third of all businesses still expect to see their profitability fall this spring.

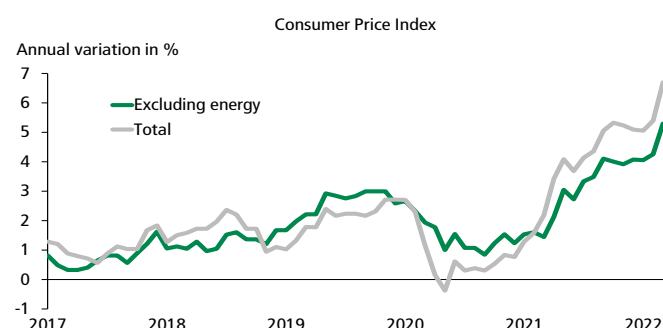
**GRAPH 1**  
Prices and wages are picking up speed at SMEs across Canada



Sources: Canadian Federation of Independent Business and Desjardins, Economic Studies

On the household side, strong job creation pushed the unemployment rate to a record low 4.1% in March. Despite this improvement, supply issues continue to slow down sales of cars and other durable goods. But overall, retail sales had a good start to the year despite ongoing public health restrictions. Sharply rising prices are inflating sales data, however. Even stripping out energy prices, inflation is up steeply in recent months (graph 2). In March, it hit 6.7% in Quebec, the highest level since the early 1990s.

**GRAPH 2**  
Inflation is soaring in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

## IMPLICATIONS

Despite an uptick in the DLI in February and strong real GDP growth in Quebec in January, there's still a lot of uncertainty. Soaring inflation will need to be reined in, especially in Europe and North America. This will require faster interest rate hikes in Canada, which should start slowing the economy mid-year. Quebec households and businesses will also feel the pinch of higher borrowing costs.