

June 12, 2014

## DLI posts slow growth in April

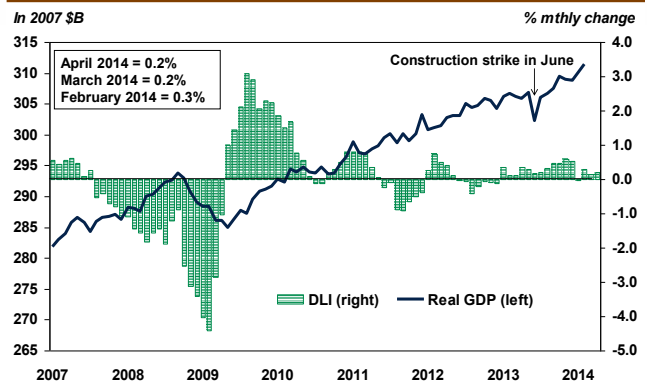
The Desjardins Leading Index (DLI) rose only slightly in April (graph 1). The second GDP by industry increase in February represents one of the rare areas of good news for Quebec's economy, as retail sales and employment have been flagging since January. Despite improvement in international trade, growth for the second quarter looks weak.

### CONSUMERS

Employment appears to be on a downward trend. A drop of 32,000 workers was posted in April, while there was little movement in employment in May (-800 workers). The unemployment rate even hit 8.0%, its highest level since July 2013 (graph 2). The situation is expected to improve however, as the Quebec economy should benefit from the upturn in the U.S. and Canadian economy.

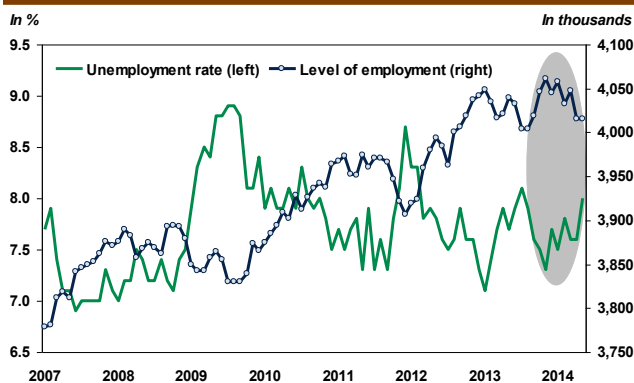
Furthermore, the sharp 7.3-point drop in consumer confidence in May is not reassuring, particularly since a slight turnaround seemed to be on the horizon. At 78.8, it is nonetheless slightly above its historical average (graph 3).

**Graph 1 – The Desjardins Leading Index (DLI) has posted little growth since January 2014**



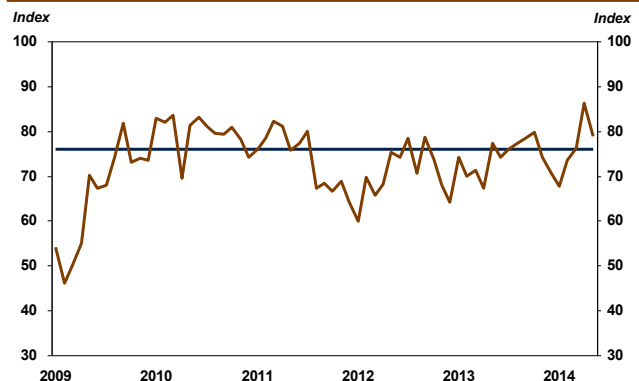
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

**Graph 2 – The labour market is weak**



Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 3 – The consumer confidence index dropped in May**



Sources: Conference Board and Desjardins, Economic Studies

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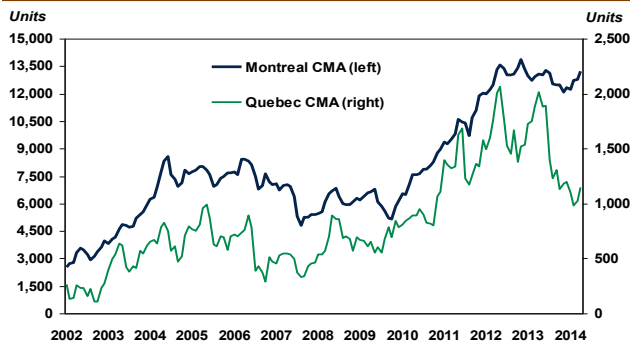
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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## HOUSING

The housing component rose slightly in April, and the up-swing in housing starts continued through May. However, transactions continued to slide, with the average sales price remaining flat. While there is a surplus of condos in the Montreal CMA in particular, the situation is much better in Quebec City, with condo starts falling by nearly half over a year (graph 4).

**Graph 4 – Condo construction slows down in Quebec, but continues to rise in Montreal**



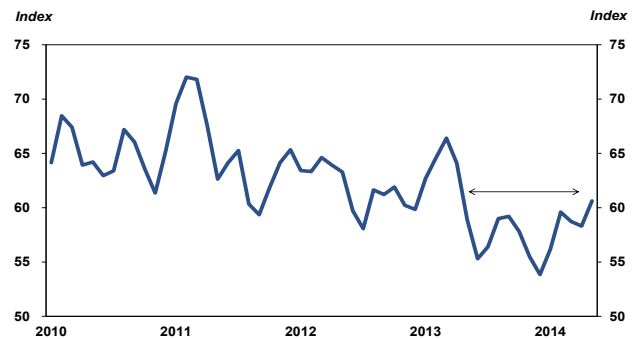
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Also, the CMHC announced new restrictions to its mortgage default insurance coverage last Friday. The direct impact of such measures is very limited, but does confirm that the CMHC wants to reduce risk taking.

## BUSINESS

In Quebec, international goods exports in constant dollars continued their upward trend for a second straight month last March (+5.6%). The first quarter's performance ended on a positive note with a 2.1% increase over the last quarter of 2013. Furthermore, business confidence has strengthened, with the Business Barometer index reaching 60.6 in May, its best level in a year (graph 5).

**Graph 5 – SME confidence reaches its best level in a year**



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

Canada's economy slowed down during the first three months of 2014, but several factors in place suggest an upcoming recovery. The loonie will continue to move below parity, stimulating Quebec exports. Foreign demand is expected to be stronger and the anticipated corporate profits are on the rise. The U.S. economy is recovering and the performance of several indicators since March points towards a possible surge in the second quarter of 2014. Also in May, employment outstripped the January 2008 peak. This should contribute to the momentum of the "business" component in the coming months.

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