

September 23, 2014

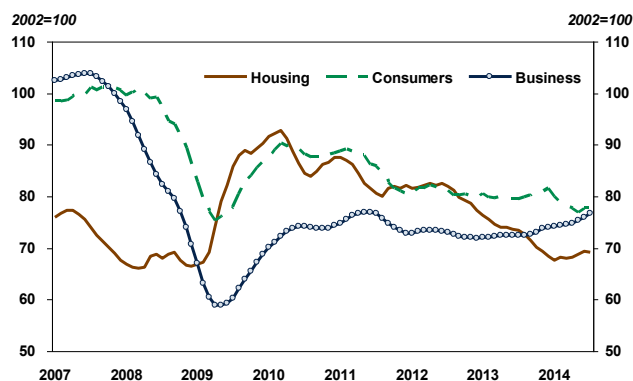
## The DLI continues its advance in July

The bulk of the DLI's advance in July (graph 1) rested once more on the robustness of the "business" component, which has maintained its upward trend for several months now. This offset the weakness of the "consumers" and "housing" components (graph 2). However, business investment in the construction of non-residential buildings recorded a downturn for a second straight quarter in 2014. On the other hand, the revival of business confidence that has been observed lately could reverse that trend. The loonie's depreciation below parity and the firming up of the U.S. economy should give a boost to economic activity in the province. All things considered, the Quebec economy will grow in 2014, but that growth will remain below 2%.

### CONSUMERS

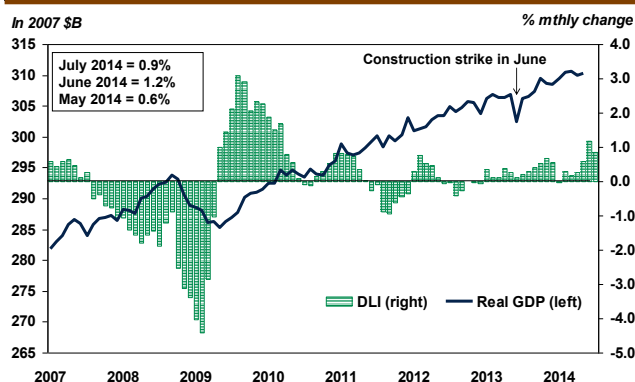
The "consumers" component stayed relatively stable in July. Job creation was very modest in August with just 4,100 new jobs, after a gain of 1,900 jobs in the previous month. In the past four months, employment has been in quasi-stagnation mode. On the plus side, the unemployment rate has fallen by 0.4% since June 2014, reaching 7.7% last August, after nearing 8.0% for several months.

**Graph 2 – For the past several months, the DLI's advance has rested on growth in the "business" component**



Source: Desjardins, Economic Studies

**Graph 1 – The Desjardins Leading Index (DLI) continues its upward trend**



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

Despite the softness of the labour market, consumption stayed relatively strong (graph 3 on page 2). Retail sales accelerated in the second quarter, and a 2.7% gain was observed compared with the first three months of the year. The consumer confidence index was up in July and in August, and is now hovering above its historical average.

**François Dupuis**  
Vice-President and Chief Economist

**Hélène Bégin**  
Senior Economist

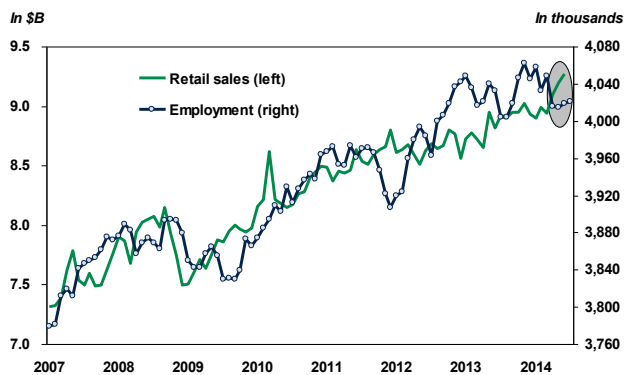
**Chantal Routhier**  
Economist

418-835-2450 or 1 866 835-8444, ext. 2450  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

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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**Graph 3 – Despite weak employment growth, retail sales are showing good momentum**

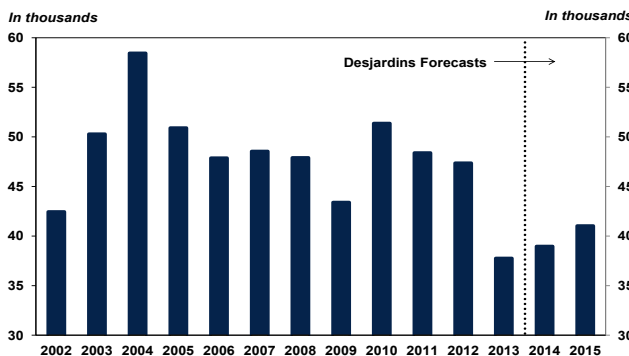


Sources: Statistics Canada and Desjardins, Economic Studies

## HOUSING

The “housing” component contracted in July; both residential building permits and resales lost ground. However, housing starts recorded an upturn. After a positive first quarter, strongly tied to starts of large residential projects in downtown Montreal, the results for the second quarter were slightly negative. Nevertheless, the year should end on a positive note, thereby putting an end to three consecutive years of contraction in housing starts (graph 4). In fact, from January to August 2014, 7.0% growth was recorded compared with the first eight months of 2013 in urban centres with populations of 10,000 or more.

**Graph 4 – Housing starts should turn the corner this year**



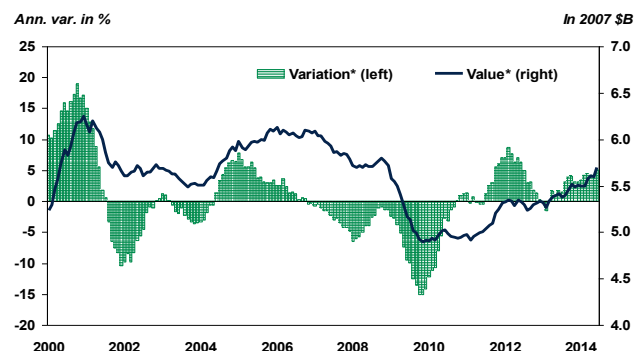
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

But a different dynamic was observed in the resale market. Despite the upward trend that has recently prevailed, the results of the first eight months of the year show a 3.1% downturn compared with the same period of last year. The average selling price rose by 1.0% during that period; this is in line with our expectations. Since demand for homes has flagged and the supply is still abundant, the volume of transactions will probably head downwards this year.

## BUSINESS

The “business” component has continued to show firmness. The improvement in the global economy, especially in the United States, combined with the weakness of the loonie, have had a positive impact on the international trade sector of Quebec’s economy. Exports are up, and the decline recorded in July should be merely temporary (graph 5). The Quebec-30 stock market index kept heading up in August. On the other hand, the leading indicator for Canada merely sputtered along, while that of our neighbours to the south accelerated in July. However, non-residential investments by businesses are taking time to pick up.

**Graph 5 – International trade will make a positive contribution to the Quebec economy in 2014**



\* 8-month moving average  
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

**Chantal Routhier**  
Economist

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