DESJARDINS LEADING INDEX

The Desjardins Leading Index (DLI) is a composite index that allows market players to monitor shifts in Quebec's economy that may indicate an imminent slowdown, recession or recovery in the next six months or so.

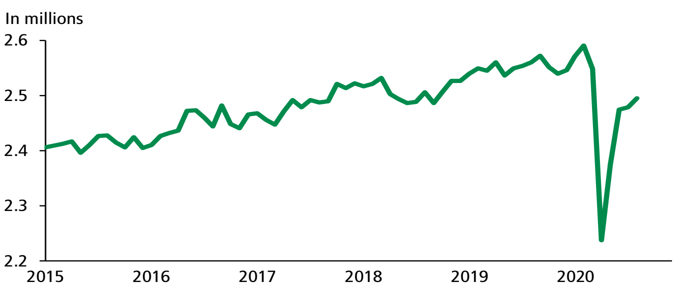
DLI Shows Some Encouraging Signs

The DLI was recently overhauled and the results presented here are from the new version. Some indicators had become outdated over time and were replaced by new variables that were better at predicting turning points in real GDP. According to this enhanced version of the DLI, Quebec's economic problems are still very much with us. The DLI's monthly variation remained in negative territory in July, with a 3.1% decline. While the situation is not as bad as it was last spring, a number of economic indicators have still to recover all of the ground lost during the lockdown. The DLI includes the same three components as before, which are not all moving in the same direction.

Housing

The DLI's housing component has been in positive territory for several months now. Residential building permits quickly returned to pre-pandemic levels, attesting to heavy activity on construction sites. Sales of existing properties also recorded a lively comeback, even shattering a peak last summer. Weak mortgage interest rates, for which some terms declined again in July, are also helping to buoy the housing component. Full-time employment among 15-to-54-year-olds, a variable added to the new version of the DLI, has been slower to turn around. It is still catching up and fewer workers in this age group hold full-time jobs than before the pandemic started (graph 1).

GRAPH 1
Full-time employment among 15-to-54-year-olds has not completely caught up

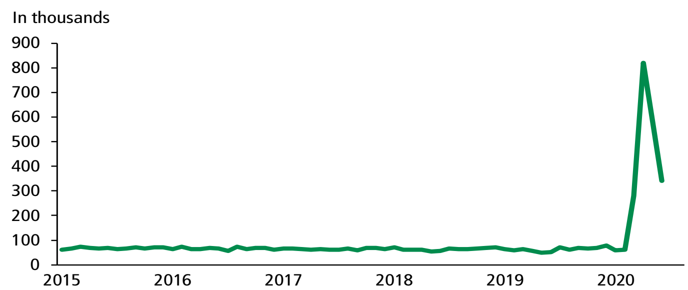


Sources: Statistics Canada and Desjardins, Economic Studies

Consumers

The consumer component was showing the biggest decrease in July. Yet sales of furnishings, appliances and electronics outstripped the level seen in February, which preceded the spring's collapse, and the recovery by motor vehicle sales is well underway. However, employment insurance claims remain abnormally high (graph 2). They have dwindled from April's unprecedented peak, when the unemployment rate climbed to 17.0%. Although the unemployment rate continues to come down slowly, after hitting 8.7% in August, an upswing in employment insurance claims can be expected. The federal Canada Emergency Response Benefit (CERB) program ended on September 26, and eligible recipients can turn toward a broader employment insurance formula and certain other programs. This could muddy the waters for the DLI's consumer component for a few more months.

GRAPH 2
Employment insurance claims remain very numerous



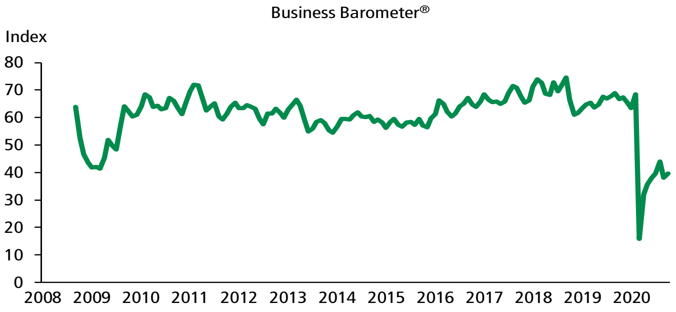
Sources: Statistics Canada and Desjardins, Economic Studies

Businesses

The business component deteriorated again in July, but not as much as in previous months. Quebec SME confidence has firmed up from its spring low, but has a long way to go to recover completely (graph 3 on page 2). The uncertainties over the pandemic's evolution and eventual availability of a widely-distributed vaccine continue to affect businesses. The

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hélène Bégin, Senior Economist
Desjardins, Economic Studies: 418-835-2450 or 1 866-835-8444, ext. 5562450 • desjardins.economics@desjardins.com • desjardins.com/economics

GRAPH 3
SME confidence is still relatively low



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

Québec-30 stock market index (QI-30), which is an investor barometer for future corporate earnings, continued to rise in July. As concern seems to be regaining its hold over the financial markets, another QI-30 relapse is not out of the question. Lastly, the international trade index, which is part of the new DLI, has made some progress in recent months. The volume of international trade remains sluggish; activity is not expected to be back at pre-pandemic levels in the coming months (graph 4). The interruption of numerous global supply chains, partly as a result to production stoppages, is making things harder for Quebec exporters.

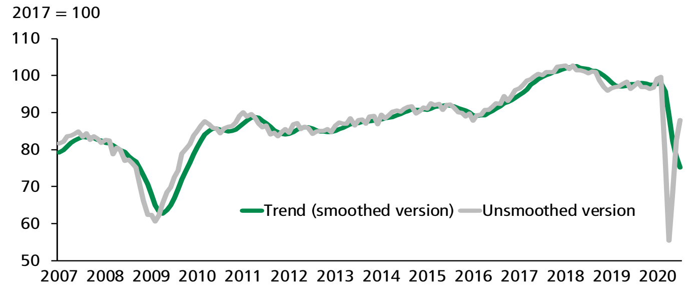
GRAPH 4
Global trade has recovered

Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

IMPLICATIONS

The DLI is taking its time in recovering, even though many economic indicators have nearly recouped all of the ground lost, and some have completely recovered. Given that the DLI is calculated using a five-month moving average, the disastrous results recorded in March and April continue to be a drag on its trend. However, the unsmoothed version of the DLI has been rebounding since May (graph 5). The unusual situation associated with the pandemic caused economic indicators to plunge abruptly, then bounce back. Like several of the world's

GRAPH 5
The DLI's trend remains negative



Source: Desjardins, Economic Studies

leading indicators, the DLI was unable to correctly anticipate the real GDP's contraction as of March, nor the upswing that began in May. One thing is certain: the Quebec economy will continue to convalesce for some time. The second wave of the virus's spread which is hitting this fall could cause some damage, even though the shutdowns will be more targeted this time. In the past, the DLI has proven to be excellent at predicting turning points in Quebec's economy several months ahead, but the current situation makes it harder to interpret.

Hélène Bégin, Senior Economist