

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.

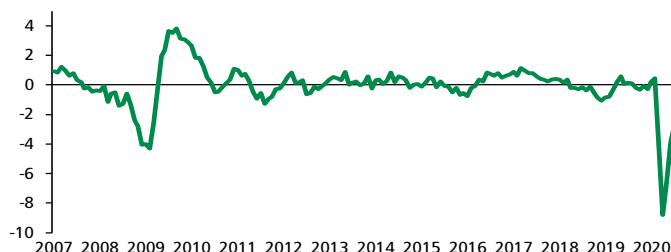
The DLI Finally Wakes Up: First Increase Since the Pandemic Started

The DLI, whose [new version](#) was launched earlier this fall, finally rose in August after posting five large declines in a row. The rise ends a tumble that was unprecedented for the DLI (graph 1). The incipient upturn is due to a fairly advanced turnaround by several of the economic indicators that make up the new DLI. For the first time since February, the index's three components—housing, consumers, and business—are on the rise. Accordingly, the improvement is generalized and rests on solid foundations. The DLI is not, however, immune from blips in certain economic statistics this fall, associated with the second wave of COVID-19.

GRAPH 1

The DLI finally rebounded in August after falling for several months

Monthly variation in %



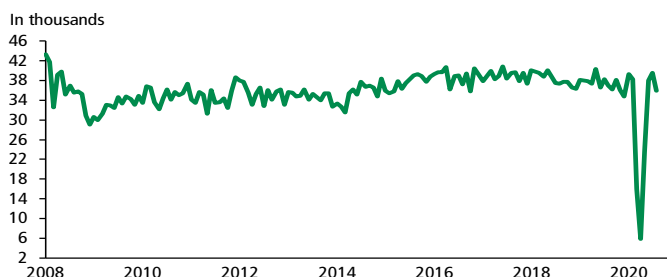
Source: Desjardins, Economic Studies

Consumers

The DLI's consumer component was the component showing the biggest advance in August. It puts an end to an unprecedented period of deterioration which began in March. Sales of expensive goods, which were heavily impacted by the period of uncertainty that followed the onset of the pandemic, are starting to come back. Motor vehicle purchases have strengthened and have reached the February 2020 level (graph 2). Despite the recent upswing, total sales since the start of 2020 are still about 20% below where they were at this time last year. The trend for

GRAPH 2

New motor vehicle sales are swinging up in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

furniture, appliance and electronics sales has also become positive in the last few months.

Quebec's employment market has made huge strides since last spring. The unemployment rate went from a peak of 17.0% in April to 7.4% in September but is still higher than it was prior to the pandemic (graph 3 on page 2). In this context, households are less inclined to make a major purchase, as shown by the results of the Conference Board survey. Uncertainty has notched up since the second wave began, so consumers will be cautious about certain purchases. Overall, however, retail sales are above their pre-pandemic peak, among other things as a result of increased spending on food and renovation. The context remains tough for a number of sectors, including clothing and footwear.

Housing

The DLI's housing component was the first to recover a few months ago, and it continues to advance. The new construction indicators are showing a green light, while resales remain strong. The improvement in the employment market and drop in mortgage interest rates which persisted in August are providing

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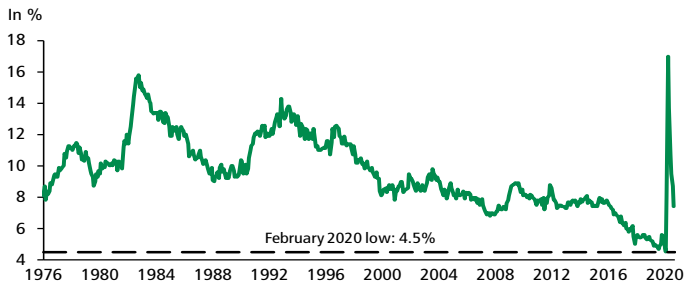
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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GRAPH 3

Quebec's unemployment rate fell to 7.4% in September, but is still far from February's pre-pandemic low



Sources: Statistics Canada and Desjardins, Economic Studies

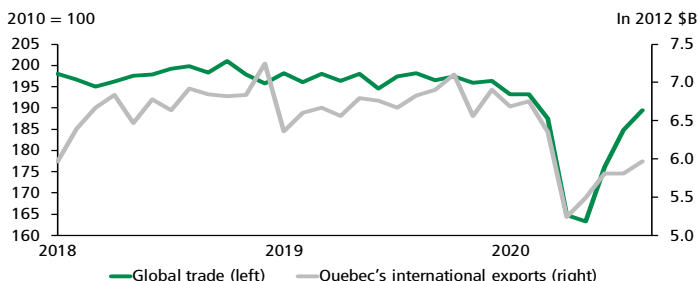
the housing market with support. As the recovery period is over, a lull can be expected in the coming months, however.

Businesses

The DLI's business component finally became positive after dropping for five straight months. The upswing in the leading indicators for Canada and the United States in the last few months are partially responsible for the improvement. The volume of international trade continues to recover, taking Quebec's international exports up (graph 4). The instability of numerous global supply chains, partly as a result of temporary production stoppages, is making things harder for Quebec exporters. Other factors, such as August's upswing by the Québec-30 stock index and SME confidence, also buoyed the business component. The uncertainties over the pandemic's evolution and the potential availability of an effective vaccine or treatment on a large scale continue to affect businesses, however. This fall's spike in cases shook the confidence of Quebec SMEs in October.

GRAPH 4

The rise in global trade is rippling into Quebec's international exports



Sources: CPB - Netherlands Bureau for Economic Policy Analysis, Institut de la statistique du Québec and Desjardins, Economic Studies

IMPLICATIONS

The DLI finally shook off the slump that followed the first wave of COVID-19, which triggered a widespread shutdown of non-essential activities. However, the measures applied since October to contain the second wave will soon be reflected in the DLI's results. Given that, this time, closures are more focused on specific types of businesses and by region, the economy should be less disrupted than it was last spring. The rapid recovery period will give way to a slower improvement, which will no doubt be marked by some blips.

Hélène Bégin, Senior Economist