

July 18, 2014

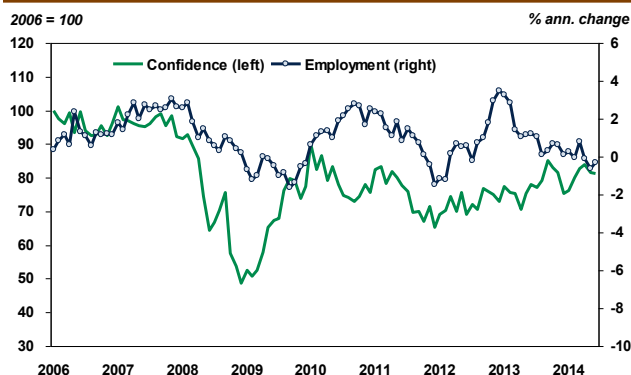
The DLI rises again in May

The Desjardins Leading Index (DLI) was up in May (graph 1). This increase is attributable to acceleration in the housing and business components, supported respectively by the increase in housing starts and recovery in entrepreneur confidence. This offset the weakness observed in the household component affected by the dip in consumer confidence.

CONSUMERS

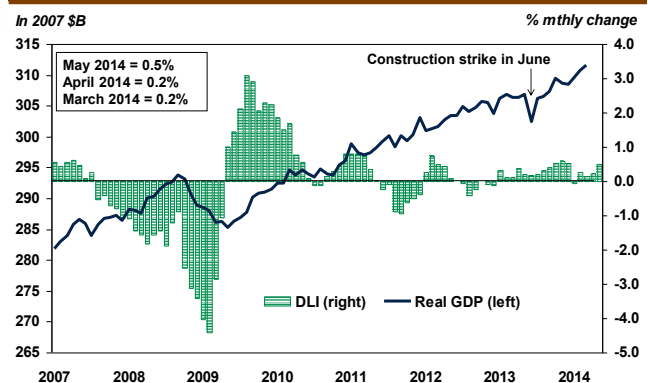
The “consumers” component continued to deteriorate in May, mainly due to the sharp fall in the consumer confidence index. Jobs lost in May (-800) and April (-32,000) are likely a key factor in the index’s dismal performance (graph 2). However, a timid 3,500 new jobs were created in June. In addition, retail sales were up in April, stimulated by car and furniture. This context gives hope for some kind of turnaround, or at least stabilization, in the household component in the coming months.

Graph 2 – Consumer confidence fell in May



Sources: Conference Board, Statistics Canada and Desjardins, Economic Studies

Graph 1 – The Desjardins Leading Index (DLI) rose again in May



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

HOUSING

The “housing” component posted another increase in May. Following two straight months of growth, housing starts dipped in June. The trend remains positive, however, (graph 3 on page 2) and stronger than expected. Our forecasts now bank on more sustained growth in construction this year, at 39,000 housing starts (+3.3%) compared with 38,000 (+0.6%) forecast in the previous scenario. The resale market is continuing its soft landing.

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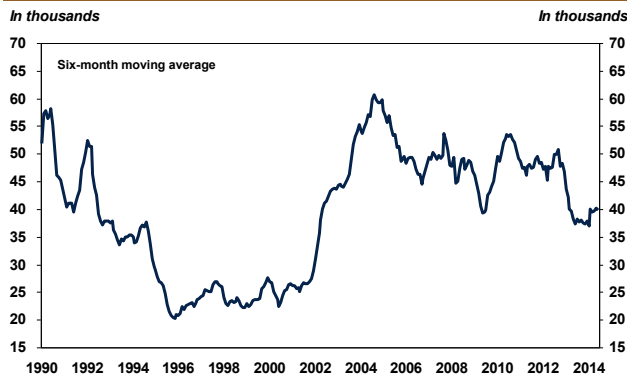
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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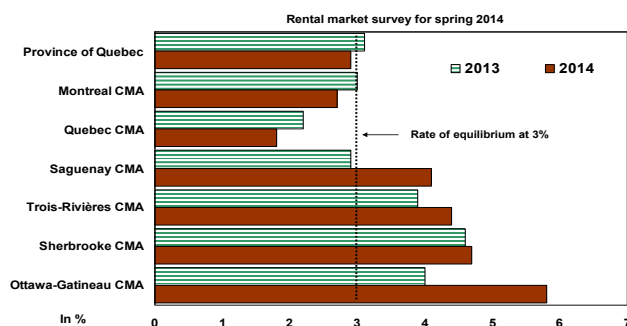
Graph 3 – New construction is advancing



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

In addition, according to the latest rental market survey by the Canada Mortgage and Housing Corporation, the vacancy rate for rental buildings was 2.9% in April for urban centres with 10,000 residents or more, which is down slightly from spring 2013 (3.1%). This is mainly explained by supply and demand growing at roughly the same rate. Tightening rules for mortgages and the high average sales price have restricted access to home ownership, which affected the rental market. The change in the vacancy rate was disparate in the Quebec CMAs (graph 4).

Graph 4 – The vacancy rate fell in the Montreal and Quebec CMAs, but rose in others



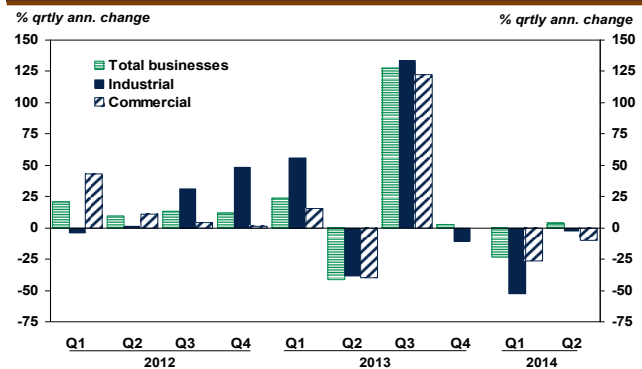
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

BUSINESS

The upward trend in the “business” component persisted in May. The U.S. leading indicator continued to grow, signalling that U.S. economic activity is expanding. In Canada, the leading indicator was down, while the IQ-30 in Quebec continued to reach new heights.

Business confidence strengthened, as the Business Barometer® Index of the Canadian Federation of Independent Business rose once again in June. In addition, the Statistics Canada survey on investment in non-residential buildings shows an annualized 3.6% increase in the second quarter of 2014 (in constant 2007 dollars) (graphique 5). Business investment slipped in the industrial sector (-2.5%) and in the commercial sector (-9.6%). Investment by institutions and the governments, on the other hand, recorded a quarterly increase of 34.2%.

Graph 5 – Investments in non-residential buildings increase in the second quarter of 2014



Sources: Statistics Canada and Desjardins, Economic Studies

International goods exports (in constant dollars) rebounded somewhat in May (+0.5%). Since the loonie should stay below parity and the U.S. outlook keeps improving, growth in Quebec’s exports should accelerate. The recovery in activity will stimulate Quebec’s economic growth for the coming months.

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