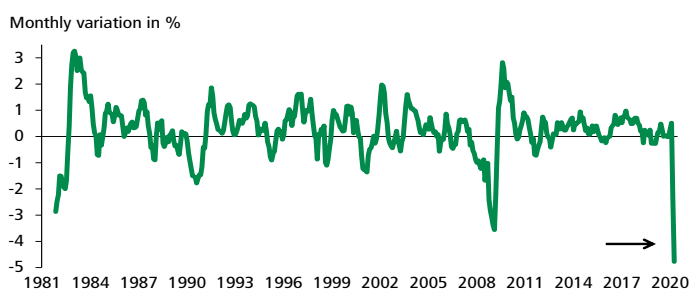


DESJARDINS LEADING INDEX

The DLI Tumbles Further in April

In Quebec, like elsewhere in the world, the economic figures released for March reflected the start of the “Great Lockdown”, and April’s figures are even more disastrous. As a result, many of the DLI’s indicators dropped even more sharply in April, and the index posted a decrease of 4.8% after falling 2.3% the previous month. The DLI, which has been compiled since the 1980s, has never taken such a nosedive (graph 1).

GRAPH 1
The DLI plummeted in April



Source: Desjardins, Economic Studies

Clearly, the public health crisis stemming from COVID-19 has had an unprecedented negative impact on Quebec’s economy. During the 2008–2009 recession, the DLI dropped more than 3% for several months, and even posted a decline of 4.4% in February 2009. However, this time, the contraction of Quebec’s economy will be short-lived, and many statistics have already begun to rebound following the gradual reopening of various sectors, which will be reflected in the DLI in the coming months. Nevertheless, the damage caused will leave deep scars, and it will take several quarters for economic activity to fully recover.

Consumption

The consumer component was hit hard by the plunge in household confidence, which intensified in April. The tepid recovery that began in May suggests that it will take some time for the uncertainty to subside. Retail sales, which plummeted in the spring, should pick up more quickly, but they

will not return to pre-crisis levels. Sales of more expensive goods, such as motor vehicles, furniture, household appliances and electronics, will be slower for an extended period of time. The economy’s gradual restart brought the unemployment rate down from 17.0% in April to 13.7% in May, but it still remains high (graph 2). With part of the labour force returning to work, 230,900 jobs were recouped in May, representing around 30% of the 820,500 job losses recorded in March and April in Quebec. The road ahead will be difficult, particularly for the accommodation, food services, retail trade and amusement industries.

GRAPH 2
The unemployment rate dropped from its March peak



Sources: Statistics Canada and Desjardins, Economic Studies

Housing

The DLI’s housing component was weakened by the mandatory shutdown of residential construction sites from March 25 to April 19. However, it has started to catch up, and the construction industry will be very active in the next few months to ensure the delivery of new units as soon as possible. The lockdown also paralyzed existing property sales in the spring. In-person visits were reauthorized on May 11, which will lead to a slight recovery. However, there will still likely be fewer buyers given the labour market’s woes. The recent reduction in mortgage rates will be favourable to buyers, whose financial situations are less uncertain.

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

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

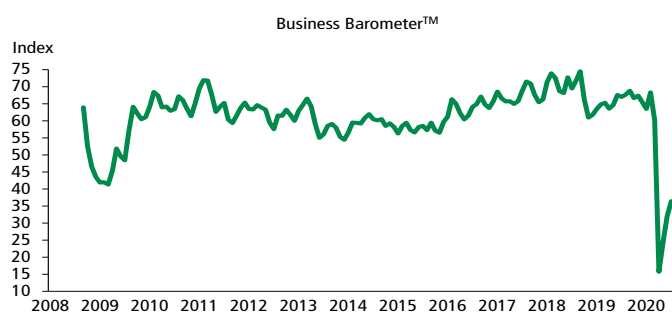
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document’s authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

Businesses

The business component of the DLI fell sharply for a second consecutive month in April. The weak Canadian and U.S. leading indicators will reflect negatively on Quebec's international and interprovincial exports. SME confidence took a major tumble at the start of the lockdown and worsened in April. Despite a slight uptick in May (graph 3), the financial struggles of numerous companies are lingering, and the outlook is shrouded in uncertainty. Many businesses are in a fragile situation in spite of government assistance and the possible debt repayment deferrals offered by financial institutions.

GRAPH 3

SME confidence in Quebec is slowly coming back up



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

IMPLICATIONS

The pandemic is taking a severe toll on Quebec's economy, as it is worldwide. All of the DLI's components are still feeling the negative effects of the lockdown measures. However, the rebound of certain indicators in May points to an improvement in economic conditions. We will need to keep a close eye on the DLI in the coming months to better grasp the overall signal given off by the statistics, which are usually a precursor to a shift in the economy.

Hélène Bégin, Senior Economist