

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's Decline Has Slowed, but Quebec Still Won't Avoid a Recession

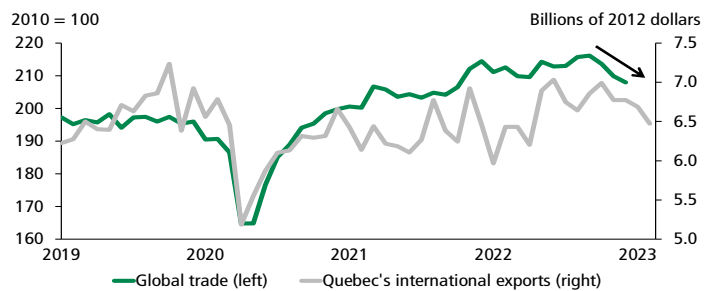
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The DLI fell 0.5% in March, far less than in previous months (graph 1). While this suggests Quebec could avoid a major economic slowdown, it comes with some caveats. Some key indicators have stabilized recently but remain worrisome.

The Bank of Canada's aggressive rate hiking campaign began to drive down the DLI in spring of last year. But after raising interest rates in January, the Bank has held them steady, giving the DLI some time to recover. Interest rates remain elevated, however, and we expect to see the full effect of rate increases over the next few quarters.

High borrowing costs and cautious lenders have already resulted in tighter credit conditions. Business investment began to drop in the middle of 2022, so household spending will likely start to slow. But consumer and business confidence indexes seem to have stabilized after plunging and sending the DLI lower. They remain very low, however, suggesting a tough road ahead for the economy. And the growing problems facing the global economy are showing up in global trade. Quebec's international exports are expected to continue to fall over the coming months (graph 2).

GRAPH 2
Weak Global Trade Is Showing Up in Quebec's International Exports



Sources: CPB – Netherlands Bureau for Economic Policy Analysis, Institut de la statistique du Qu  bec and Desjardins Economic Studies

IMPLICATIONS

Even though the decline has slowed, the DLI remains in negative territory and dark clouds are gathering on a number of fronts. We're therefore still forecasting a moderate recession in the second half of the year. Real GDP was flat in February, a sign that Quebec's economy has begun to weaken—unlike Canada's economy, which started the year off strong.

GRAPH 1
The DLI Remains Slightly Negative



Source: Desjardins Economic Studies

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