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 Bounceback Faltered in June, and Quebec's Economic Weakness Will Continue

By Hélène Bégin, Principal Economist

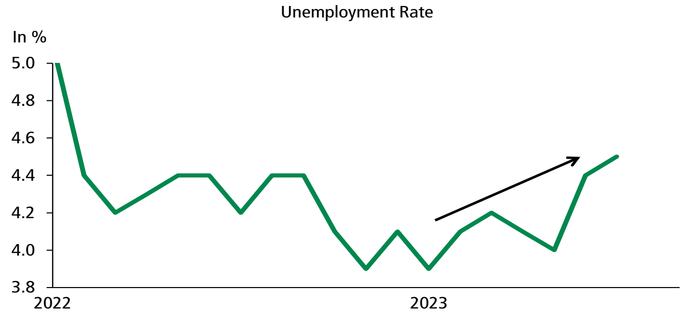
After returning to growth in May with a solid 0.7% rebound, the DLI weakened in June, rising just 0.2%. This slowdown is likely due to certain statistics confirming that consumer sentiment is cooling somewhat. On the housing market, the recovery in existing home sales seems to be ending, while housing starts continue to decline. The outlook is also worsening for businesses grappling with higher interest rates. This suggests that the DLI's continued rise in June is likely to be fleeting. Despite the recent increase, there are no bright spots on the horizon, and it'll be tough to avoid a contraction in real GDP.

As expected, May's improvement in the household component was short-lived, as it quickly fell back into the red. Sales of durable goods such as motor vehicles, home furnishings and appliances declined, while the share of households that think it's a good time to make a major purchase plummeted. The Bank of Canada (BoC)'s decision to start raising interest rates again in June was a shock to consumers, who then had to contend with an additional hike in July.

Meanwhile, the labour market has deteriorated slightly in Quebec in recent months and is offering households little reassurance. While July's 4.5% unemployment rate remains low, it's been slowly creeping up from its trough of 3.9% (graph). In addition, according to a recent analysis, inflation remained stickier in Quebec at 3.9% in July compared to 3.3% for the country as a whole. All in all, a number of barriers to consumer spending are set to remain, keeping it down over the coming months.

Between the dampening effects of higher interest rates and the continued labour market deterioration, we should soon see a second wave of corrections in the resale market—in terms of both prices and sales. Demand for new homes and condominiums will probably continue to weaken. Housing starts in these two segments fell almost 55% over the first six months of the year compared to the same period in 2022. Meanwhile, purpose-built rental housing starts in urban centres with over 10,000 inhabitants dropped nearly 45%. High interest rates

GRAPH
Quebec's Unemployment Rate Is Starting to Rise



Sources: Statistics Canada and Desjardins Economic Studies

combined with high material and labour costs are jeopardizing the profitability of many projects, which may have to be postponed or cancelled despite urgent demand for rental apartments. Against this backdrop, the housing market will continue to weaken.

Businesses—particularly those with higher debt—are facing several headwinds and deteriorating finances. Rising borrowing costs combined with skyrocketing wages and inflation have reduced profitability. In addition, the global economic slowdown and fears of a recession in North America continue to leave businesses floating in a sea of uncertainty.