

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 Isn't Falling Quite as Fast, but Quebec's Economy Isn't Out of the Woods Yet

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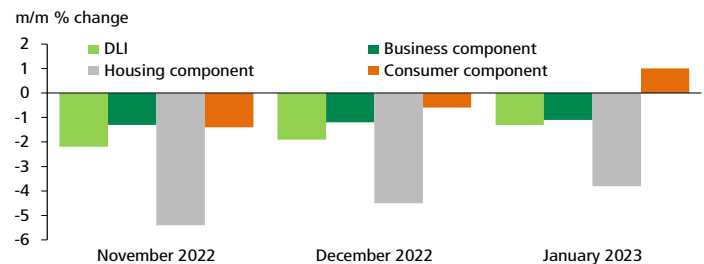
The drop in the DLI has slowed, but most of the economic data used to compute the indicator continues to weaken. Of the indicator's three components, housing and business remained solidly in negative territory in January, while the consumer component rebounded, helping to stem the DLI's monthly decline.

The one-time payment from the Quebec government in early December and strong wage and job growth fuelled retail sales at the end of last year and at the start of 2023. But we expect to see spending slow until additional provincial and federal relief measures take effect this spring. Inflation is cooling but remains hot, and high interest rates are taking a bigger bite out of the budgets of indebted households.

Meanwhile mortgage rates have probably just about topped out, but their sharp rise over the past year continues to pour cold water on the housing market. Existing home sales, new construction and renovation spending are all down and aren't expected to improve anytime soon. We're likely nearing the

GRAPH 2

The Consumer Component Has Rebounded, Stemming the DLI's Decline to Start the Year



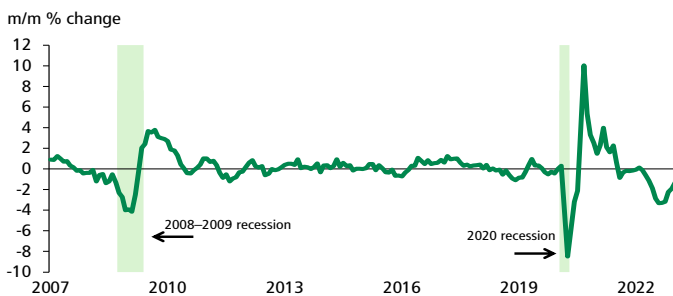
Source: Desjardins Economic Studies

halfway point of the correction, and prices have already fallen almost 7.5%. The average home price in Quebec will continue to drop in 2023, ending the year 17% off its peak.

Not surprisingly, business investment has been on the decline since mid-2022. Low SME confidence and global economic and financial uncertainty are prompting businesses to be cautious.

GRAPH 1

The Drop in the DLI Has Slowed



Source: Desjardins Economic Studies

IMPLICATIONS

Despite posting a smaller decline in January, the DLI remains in negative territory, signalling an economic contraction ahead. It's been a bumpy ride for Quebec's economy. [Real GDP](#) was up 1.9% in the fourth quarter of 2022 after slipping 1.3% in Q3. Like the pandemic, which muddled the economic data for some time, government payments to households are affecting the path of the economy. We're seeing brief periods of recovery followed by pullbacks in retail sales as many pillars of the economy remain on shaky footing. Bottom line? Quebec's economy could still dip into a recession this year.