

DESJARDINS LEADING INDEX

The DLI Continues to Rise

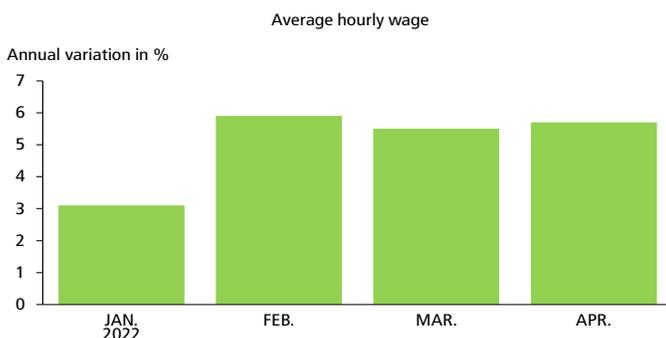
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The DLI was up 0.3% in March. Despite this increase, a number of economic indicators included in the DLI were down, especially those related to business. March's gain is due primarily to a rise in the household component. The housing component slowed, while the business component was slightly negative once again.

Retail sales of goods remained strong in real terms in Quebec in the first quarter, and spending on services continues to increase thanks to the lifting of last winter's public health restrictions. While the consumption component of the DLI is strong, households are facing a growing number of challenges. Inflation hit an annual rate of 6.8% in April and is beginning to shake consumer confidence.

And though unemployment reached a new record low of 3.9% in April and wages are rising (graph 1), they aren't keeping up with inflation. Households are therefore seeing their purchasing power decline. The surge in gasoline prices, which recently passed the psychological threshold of \$2 per liter, is particularly painful. Many households will have to limit their spending on essentials other than food and housing.

GRAPH 1
Wages are rising rapidly in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

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.

GRAPH 2
Quebec exports to non-US destinations are leveling off



Sources: Institut de la statistique du Qu bec and Desjardins, Economic Studies

The global economic slowdown is also beginning to affect exporters. Exports to the United States continue to rise, but those to the rest of the world, especially Europe and Asia, seem to be stabilizing (graph 2). That's affecting businesses that focus on overseas markets more than those that sell their goods in North America.

According to the Canadian Federation of Independent Business, small business confidence remains low in Quebec. After recovering from the initial shock of the pandemic, it's been declining since last summer. Rising wages and input costs are driving down profitability for a growing number of businesses, and uncertainty about the global economy is likely shaking small business confidence.

IMPLICATIONS

Though the DLI rose in March and real GDP was up sharply early this year, households and businesses are facing a multitude of challenges. High inflation and rising interest rates in Canada will start to slow Quebec's economy mid-year.