

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 Is Still Declining: Challenging Times Ahead for Quebec

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Though 2022 started off strong with annualized real GDP growth at 6.9% in the first quarter, there are mounting signs that Quebec's economy is running out of steam. The DLI recorded its second consecutive decline in May, down 0.7% compared to 0.2% the previous month (graph). Most of the fifteen statistics that go into [calculating the DLI](#) saw declines in May, particularly those related to housing and business.

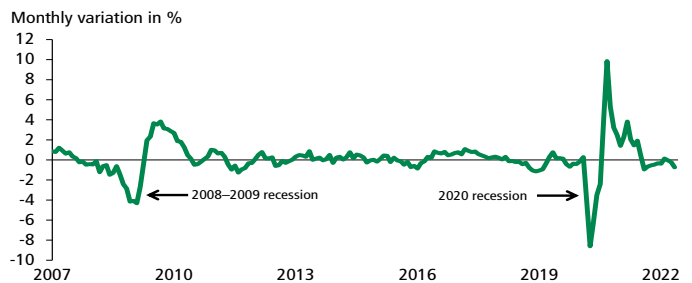
May saw the housing component decline even further and we had already started to see the warning signs last year. The residential real estate market changed course over the spring, as high prices and higher mortgage rates seriously reduced [affordability](#). There's been a major drop in potential buyers as the inventory of properties for sale takes an upward turn, resulting in the resale market quickly returning to balance after posting an important shortage. Average prices have even started to drop and this pace is expected to accelerate in the coming months. New construction is also slowing, and building permits are down. Rising mortgage rates will work to further cool the housing market and significantly decelerate Quebec's economic growth.

The business component also continues to trend downwards. Leading indicators in Canada and the United States have posted a slight decline over the past few months, while the Qu bec-30 stock index wasn't spared from the stock market correction. The international trade index, which usually reflects export performance, also posted some weakness. Businesses have already adjusted on several fronts since the pandemic began, and now they must deal with an increasingly troubled global economy.

The household component is currently holding strong, but it won't be long before high inflation and rapidly rising interest rates take a toll on consumer spending. On the positive side, the unemployment rate is still low—posting 4.3% in June—and wage growth is also strong, with annual increases in average

GRAPH

The modest drop in the DLI signals an economic slowdown for Quebec



Source: Desjardins, Economic Studies

hourly wages jumping to 7.5% in June for Quebec. But this is still below June's 8.0% spike in inflation.

IMPLICATIONS

Quebec's economy has been growing at a robust pace until recently, but the decline in the DLI signals that the province won't be sheltered from the intensifying economic and financial headwinds affecting the globe. For the time being, the DLI's modest drop means we should brace for a significant slowdown in real GDP growth beginning in the second half of 2022. As the DLI suggests, we can expect Quebec's economic flow to be shaken over the next three to six months by the difficulties faced by both households and businesses.