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QUÉBEC

Deterioration by international exports intensifies in February

HIGHLIGHTS

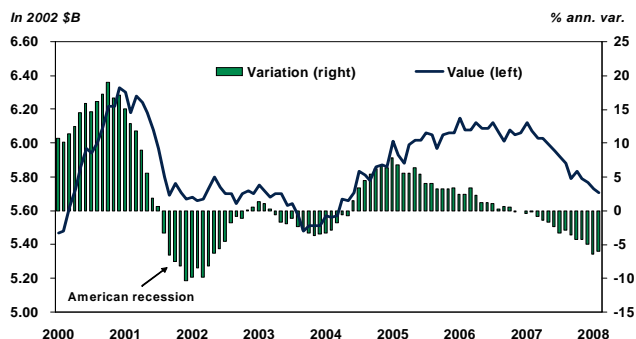
- Québec's exports of goods abroad dropped 3.3% in real terms in February for a volume of 5.5 billion dollars.
- For the first two months of the year, international shipments are down 5.9% in real terms.
- Of the 25 main products that Québec exports, eight are down in February, including whole aircraft, which posted a monthly slide of 43.3%. Without this tumble, exports would have gone up 2.6% in February.
- The value of exports to the United States (not seasonally adjusted) fell 7.0% in February from January. However, exports to Europe went up 18.5%, while exports to Asia went up 3.5%.

COMMENTS

The pullback by exports does not come as a surprise, as it is in line with the downward trend that began in 2007. The American economy's difficulties and a loonie that is close to parity are having an increasing impact on exports to the United States. As almost 75% of the goods exported internationally head for the U.S., the downward movement will intensify over the next few months. Although exports to the other continents are doing well, they do not have enough weight to turn things around. Québec's goods shipments abroad will therefore continue to soften until the American economy starts to improve, in the second half of 2008 at the earliest. The pullback by exports could be similar to the pullback seen during the 2001 recession in the U.S.

This context demonstrates the urgent need for Québec to prospect for new markets so as to broaden its international horizons. Given that this usually takes some time, it could take a while for the Québec government's current efforts to bear fruit. The province will be courting European nations this year in view of an economic accord.

International goods exports continue to pull back



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Although this is a step in the right direction, it would be astounding if there were any immediate benefits. It is too late to soften the impact of the American economy's current slowdown. However, developing markets overseas will be beneficial over the longer term by generating a stabilizing effect on Québec's international exports and promoting expansion.

Implications: This further pullback by international exports once again demonstrates Québec's dependency on the American market. The downward movement should therefore intensify in the near future. Foreign trade will thus continue to rein in real GDP growth this year. Our projection of economic growth of 1.2% for 2008, compared with 2.5% last year, thus still holds. Domestic demand will save the day, allowing Québec to keep its head above water this year. The timing of the tax relief and increase in private and public investment is very good for the province.

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