

QUÉBEC

Surprise! Québec close to a recession

HIGHLIGHTS

- Real GDP contracted by an annual 0.8% in Q1 of 2008. The decline follows meagre 0.2% growth in the previous two quarters.
- Domestic demand slowed substantially in the first quarter, posting annualized growth of 2.4% compared with the previous quarter's 6.0%.
- Even though spending on goods kept up its pace, the decline in services made consumer spending plummet.
- Residential investment fell for a third straight quarter, this time by an annualized 11.3%.
- Business investment rose by an annual 4.5% due to a drop in construction and a 7.1% increase in investment in machinery and equipment.
- Despite the Infrastructure Plan, capital spending by governments did not go up in the first quarter.
- The first quarter saw inventories decline sharply (-114 million) compared with the three billion in stockpiling (in 2002 dollars) the previous quarter.
- The trade deficit declined somewhat in the first quarter, going to -\$22.4B in 2002\$; the improvement is owing to a bigger annualized decline in imports (-9.4%) than exports (-8.0%).

COMMENTS

The contraction by real GDP comes as a surprise, as it was expected to tick up. The change of course is partly due to the sharp correction by inventories, which dragged economic activity down. Changes to statistics for preceding quarters also helped to darken the picture of Québec's economy. The first quarter's results are fanning fears of a recession, which is usually characterized by two straight quarters of real GDP contraction.

The fact that domestic demand slowed sharply in the first quarter is not in the least reassuring. To date, lively domestic demand had helped Québec's economy keep its head above

Québec - Real GDP at Market Prices

	Quarterly annualized % change			
	2007	Q3 2007	Q4 2007	Q1 2008
GDP	2.4	0.2	0.2	-0.8
Consumption	4.4	2.3	8.6	3.2
Residential inv.	5.7	-5.5	-17.1	-11.3
Non-residential inv.	6.3	8.0	8.8	4.5
Gov't spending	3.7	6.3	4.5	3.7
Domestic demand	4.5	3.3	6.0	2.4
Exports	-2.0	-5.9	2.4	-8.0
Imports	2.2	6.1	11.4	-9.4
Net exports (2002 \$M)	-18,188	-19,838	-23,476	-22,374
Inventory change (2002 \$M)	2,013	3,413	3,093	-114

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

water. The slower increase in consumer spending is astounding given the substantial tax relief to individuals in early 2008. Retail sales, which jumped 3.4% in April, point to some improvement in this area. Note that consumer support is critical to avoiding a recession. The temporary improvement in foreign trade helped to limit the damage this time, but the deteriorating North American outlook does not augur well for the next few quarters.

Implications: This real GDP contraction, which follows two anaemic quarters, raises some questions about the Québec economy's resilience. Disappointing domestic demand growth is a weak point that will have to be made up quickly. Surging gas prices, which have shaken consumer confidence, and the rise in the jobless rate, however slight, are not encouraging signs for Québec's economy.

Hélène Bégin
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Chantal Routhier
Economist

514-281-2336 or 1 866 866-7000, ext. 2336
418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

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