

August 27, 2008

QUÉBEC

Can we avoid a recession? Real GDP declines by 0.5% in May

HIGHLIGHTS

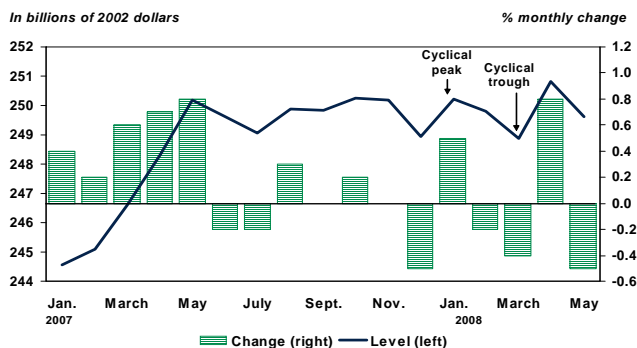
- Real GDP by industry declined by 0.5% in May following April's sharp +0.8% increase. This is the third decline since the start of the year.
- Production in the goods sector fell by 1.6% in May, following the 1.3% gain in April. Since the start of the year, this sector has lost a total of 2.2% year over year.
- Manufacturing is mainly responsible for the weakness in May with a drop of 2.3%, following the 2.8% gain in April.
- The services sector remained stable in May. The trend these past few months has been positive, however. The year-to-date increase for the first five months of the year is 2.7% vs. the same period last year.

COMMENTS

This new dip in the real GDP for May is very disappointing given how April's 0.8% gain gave us hope for a second quarter of positive economic growth. All is not lost, however. Despite the scope of the relapse in May, the carry-over for the second quarter is still in positive territory at 0.6% on an annual basis. Since we tipped into negative territory in the second quarter, the numbers for June should be particularly bad with a larger decline than May's 0.5% drop.

The services sector, which took a break in May, should resume its upward trend in June. Any trend in the manufacturing sector will be decisive. Given the persistent economic troubles in the U.S. and the high Canadian dollar, these are hard times for manufacturers, even with the loonie's recent fall to around 95 cents.

Real GDP tumbles again in May



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

The drop in production in May is the ninth decline in one year. It should be noted that May's declines were widespread. According to the ISQ, 14 of the 20 main industrial groups saw their production decline.

Implications: Our forecast scenario on the economy, which calls for Québec barely avoiding a recession, still holds despite the poor results for May. We are not out of the woods yet, however. Much like Canada, Québec is going through a turning point and the risks of a technical recession, i.e. two consecutive quarters of negative growth, are still present. The annualized 0.8% first quarter contraction in the real GDP opened the door to such a possibility and the figures released this morning unfortunately hold that door open.

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