

September 26, 2008

QUÉBEC

Recession risks are put on hold Real GDP goes up 0.9% in Q2

HIGHLIGHTS

- In Q2 of 2008, the real GDP recovered, posting annual growth of 0.9%. The first quarter, which was initially down 0.8% when figures were released in June, was revised upward. It is now stable, thus eliminating the contraction that had raised concern about the recession risk.
- Domestic demand grew more quickly in the second quarter, at an annual rate of 3.8%, compared with 3.4% the previous quarter.
- Consumer spending slowed slightly, but still recorded annual growth of 2.8% compared with the previous quarter's 3.4%.
- After pulling back for several quarters, residential investment bounced back sharply (+13.1%) in the second quarter, on an annual basis.
- Capital spending by governments shot up. For a second straight quarter, the increase is in the neighbourhood of 25%, on an annual basis. With current spending included, governments' contribution rose by an annual 6.6%.
- The trade deficit grew deeper in the second quarter, reaching -\$25.6B in 2002\$. The surge by imports (+7.2%) and drop in exports (-1.1%), on an annual basis, are behind the deterioration.

COMMENTS

This morning's figures are completely in line with our forecast scenario, which called for exactly this increase in the real GDP. The surprise comes from the size of the revisions to the last quarter. June's initial figures showed an annual contraction of 0.8%, leaving the door open to a recession. This morning's statistics put the real GDP at neutral, substantially improving the reading for Québec's economy. However, Q2's fairly soft growth confirms the period of quasi-stagnation that is currently characterizing Québec's economy.

Québec - Real GDP at Market Prices

	Quarterly annualized % change		
	2007	Q1 2008	Q2 2008
GDP	2.4	0.0	0.9
Consumption	4.4	3.4	2.8
Residential inv.	5.7	-7.1	13.1
Non-residential inv.	6.3	3.9	-2.5
Gov't spending	3.7	5.1	6.6
Domestic demand	4.5	3.4	3.8
Exports	-2.0	-6.5	-1.1
Imports	2.2	-8.3	7.2
Net exports (2002 \$M)	-18,188	-22,290	-25,565
Inventory change (2002 \$M)	2,013	-204	922

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

A number of real GDP components did well in the second quarter. Consumer spending remained fairly sustained, residential investment rebounded and government spending shot up sharply, stimulated by such things as the Québec Infrastructure Plan. Domestic demand therefore advanced more quickly, offsetting the problems in foreign trade. Note however that, without the increase in inventories, real GDP would have been negative in Q2. This increase was expected, however, given the sharp correction the quarter before.

Implications: This morning's results have led to a sigh of relief. However, the risks of a recession cannot be completely dismissed, since the second quarter could be subject to as big a revision as the first quarter was. Québec's economy remains fragile, with several indicators pointing in that direction. The deterioration in the labour market and drop in consumer confidence show that the worst may not be behind us.

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