

October 29, 2008

QUÉBEC

International exports drop sharply in August

HIGHLIGHTS

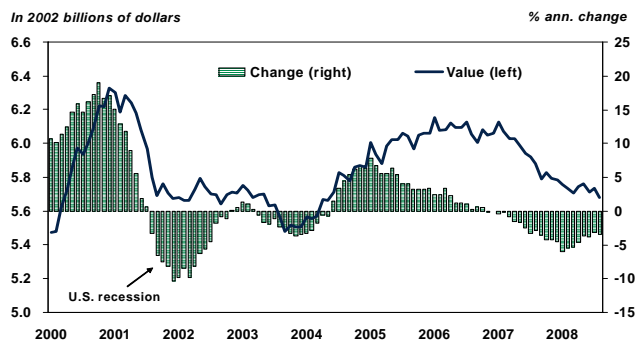
- Exports of goods abroad fell 8.3% in real terms from July to August of 2008. Despite the substantial deterioration, the year-to-date total for January to August is 3.3% lower than it was at this time last year.
- Aerospace was hit by a sharp monthly pullback in exports in August: 63.8% for complete aircraft and 9.1% for engines and parts. With these two products excluded, shipments abroad are still down, this time by 6.0% in real terms.
- Nineteen of the twenty-five primary groups of products that Québec exports also fell in August. Since the beginning of the year, telecommunications equipment (-16.3%), machinery and equipment (-12.5%), newsprint (-7.4%) and aluminum (-7.0%) have stood out in this regard.

COMMENTS

August's drop in international exports comes as no surprise, given the current climate. The fact that the pullback by shipments abroad has expanded and become almost general attests to the problems facing Québec exporters. The situation should even deteriorate further by year's end, as the U.S. economy has gone into recession and consumer spending is falling off for the first time since 1991. As the bad news regarding the American industrial sector continues to mount, exports of goods to that sector will certainly feel the aftershocks.

It should take the American economy some time to emerge from this period of contraction, which will prolong the decline by exports next year. The fact that the Canadian dollar recently fell below US\$0.80 is slim consolation for exporting businesses faced with a drop in demand from their biggest customer.

The down trend continues with August's decline



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

As Europe also has one foot in a recession and it will be hard for the global economy to escape, Québec cannot rely on greater diversification to overseas markets to save the day.

Implications: August's drop in exports is simply an extension of the down trend that started at the beginning of 2007. As a result, foreign trade will remain a weak link in Québec's economy, which is currently trying to avoid a recession. A number of risks are hanging over domestic demand, which will not be able to prevent a slowdown. October's tumble by consumer confidence due to the collapse of stock market prices and the problems in the labour market should make themselves felt in consumer spending. As a result, real GDP growth should be 0.6% this year, the weakest performance since 1992.

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