

ECONOMIC NEWS

Quebec: Real GDP Drops 1.9% in Q3 as the Recession Appears to Have Begun

By Hélène Bégin, Principal Economist

HIGHLIGHTS

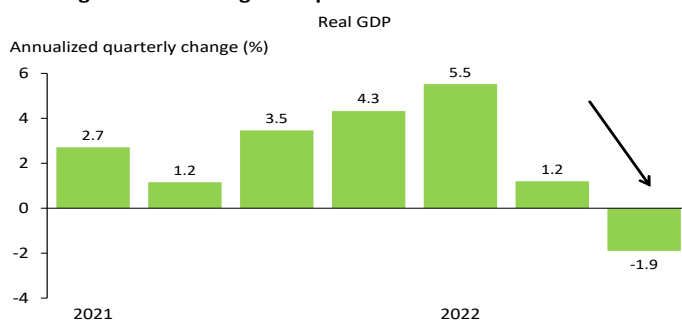
- ▶ Quebec's real GDP fell 1.9% in the third quarter, a far cry from Canada's 2.9% annualized growth over the same period.
- ▶ The drop was due in part to a 14.6% decrease in residential investment. Spending on new construction (-25.6%) and transfer costs (-34.0%) contributed to the quarterly decline.
- ▶ Household spending slowed sharply, but was still up 1.5% following a second quarter spike after public health measures were relaxed.
- ▶ Business investment growth slowed to 2.0% in the third quarter. Machinery and equipment investment was up significantly (+17.7%), but spending on non-residential structures (-2.4%) and intellectual property products (-7.7%) was down.
- ▶ Domestic demand was basically flat in the third quarter after advancing 3.3% in the previous two quarters.
- ▶ International trade was a drag on real GDP growth. The trade deficit grew on higher imports (+3.8%) and lower exports (-0.7%). It widened from -\$31.9 billion to -\$34.3 billion in 2012 dollars in the third quarter.

COMMENTS

A Q3 real GDP contraction of this size was expected based on previously released monthly data. This morning's news of a sharp 0.5% decline in real GDP in September was the nail in the coffin. Housing continues to slide. This comes as no surprise, as it was the first to be affected by rising interest rates. Exports are also starting to feel the pinch of the global economic downturn. But it's not all doom and gloom. Household spending and business investment have slowed but are holding up well so far. And Quebecers continue to save for a rainy day. Their savings rate

GRAPH 1

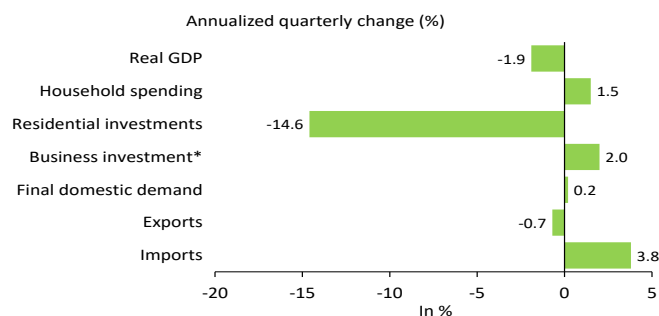
Quebec's economy weakened significantly in the third quarter, marking the end of the growth phase



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

GRAPH 2

Domestic demand moved into neutral territory in the third quarter, while international trade declined



* Excludes residential investment.

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

came in at 8.6% in the third quarter, which is still very high and well above the Canadian average of 5.7%. But real household incomes are falling, and financial problems are piling up for many.

IMPLICATIONS

The Q3 drop-off in economic activity probably marks the beginning of the recession in Quebec. We'll know for sure if the next few quarters are negative as well. With September's sharp decline in GDP, it looks like we'll see a contraction in Q4 too. But unlike in past cycles, the labour market is in great shape. Unemployment bottomed out at 3.8% in November and shouldn't edge up much given the severe labour shortage in most sectors and regions of Quebec. So while it appears the recession is here, Quebec's robust job market should limit the economic damage.