

ECONOMIC NEWS

Quebec: Real GDP Growth Has Already Slowed Considerably

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HIGHLIGHTS

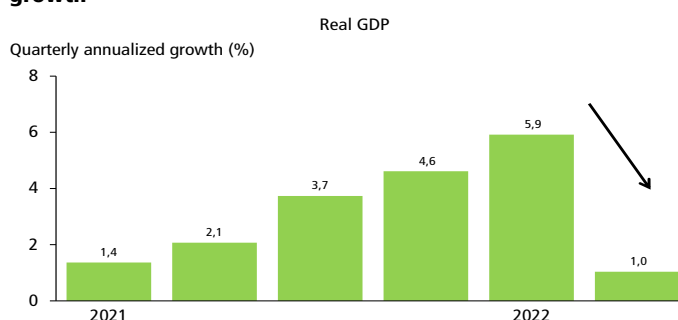
- ▶ Quebec's real GDP growth slowed from 5.9% to 1.0% on an annualized basis in the second quarter. The national figure came in at 3.3%.
- ▶ This weakness was due in part to an 18.2% decline in residential investment led by lower spending on new construction (-10.2%), renovation (-23.2%) and transfer costs (-22.9%).
- ▶ International trade also weighed on real GDP growth. Imports (+33.0%) bounced back much more than exports (+19.2%), widening the trade deficit from \$24.1 billion to \$31.1 billion (in 2012 dollars) in the second quarter.
- ▶ Business investment remained strong, up 8.0% on the quarter, as inventories grew a healthy \$9.4 billion (in 2012 dollars).
- ▶ Household spending rose 8.8% on the back of a 19.5% rebound in service spending.
- ▶ But Quebec's household savings rate plunged from 13.9% to 10.2% in the second quarter. Nationwide, the savings rate fell from 9.5% to 6.2%.
- ▶ Real GDP contracted 0.2% m/m in June after declining 0.1% in May.

COMMENTS

First quarter GDP was much weaker than expected. What little growth we did see was built on shaky foundations. The rebound in service spending will be short lived, as bars, restaurants and entertainment venues reopened at full capacity last spring. Consumer spending will slow in the coming quarters as high inflation continues to eat into real household incomes. The housing market correction is underway, and business investment

GRAPHIQUE

Quebec's economy has slowed after posting outstanding Q1 growth



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

is expected to weaken soon. And we can't expect much help from international trade, as the entire global economy is under pressure.

IMPLICATIONS

Quebec's long-awaited economic downturn has only just begun, and the coming quarters will be even more challenging. Real GDP should be essentially flat until the middle of next year, posting either weak growth or a slight decline. Rising interest rates have already begun to cool the housing market. They'll start to slow consumer spending soon as well, especially since the spring rebound was fuelled by business reopenings.