

ECONOMIC NEWS

Quebec Ends 2022 with a Bang, Avoiding a Recession for Now

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HIGHLIGHTS

- ▶ Real GDP jumped an annualized 1.9% in the final quarter of 2022. Meanwhile the Q3 decline was revised up from -1.9% to -1.3%. This is in stark contrast to the national numbers, which showed a 2.3% advance in the third quarter and flat growth in the fourth quarter.
- ▶ Quebec's Q4 real GDP rebound was driven by an impressive 7.3% increase in household spending and an 11.1% spike in government investment, pushing final domestic demand 2.4% higher following a 0.8% decline in the third quarter.
- ▶ Housing was down about 20% for the third straight quarter, pulled lower by every component, including new construction (-27.2%), renovation (-6.3%) and property transfer costs (-36.9%), which have fallen on lower sales and prices.
- ▶ Business non-residential fixed investment slumped -11.7% in the fourth quarter after starting to slip in the third quarter. Investment in machinery and equipment plunged 32.7%, while investment in non-residential structures was down 6.1%. Investment in intellectual property products was up 1.5%.
- ▶ International trade contributed to real GDP growth with a slight 0.7% gain in exports and a 1.5% drop in imports. The trade deficit narrowed to 28.5 billion 2012 dollars on the quarter.

COMMENTS

Real GDP rebounded a surprising 1.9% in the fourth quarter. We predicted just a 1.1% increase. Consumer spending came in much higher than expected, spurred on by \$400 and \$600 cheques from the Quebec government in early December. For the quarter, spending was up an annualized 6.0% on services and 8.6% on goods, with durable goods spending surging 22.3%. Auto sales recovered from the pandemic on improved

inventories, but that only partially explains the jump in consumer spending. Household incomes are up on strong job and wage growth and a boost from the provincial government, pushing the savings rate from 9.1% to 13.9% in the fourth quarter. But we expect this uptick to be temporary. Still, the savings rate is significantly higher than the 7.5% before the pandemic.

Not surprisingly, the housing market continues to correct as high interest rates put a damper on every market segment. Business investment is also down as expected. Businesses carrying debt are seeing their finances deteriorate, making them cautious, and exports are starting to feel the pinch of the global economic slowdown.

IMPLICATIONS

Real GDP rebounded in the fourth quarter on strong consumer spending growth and increased infrastructure spending. 2022 ended on a high note, with solid economic growth of 2.8% for the year. The recession that seemed to have started in the third quarter hasn't materialized, at least not yet. With interest rates still high, many households and businesses are just holding on. Like the rest of Canada, Quebec may struggle to stay out of a recession this year.