Economic News

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# QUEBEC

## Economic growth: The period of weakness will continue

Real GDP only advanced 1.3% in Quebec in 2014, following advances of 1.0% in 2013 and 1.5% in 2012. As such, for the third straight year, economic growth will not surpass 1.5%. Some observers believe that winds will be favourable enough in 2015 to push real GDP past 2%. Since 2001, the change in GDP has exceeded this mark only three times: in 2002 (+2.7%), in 2004 (+2.6%) and in 2010 (+2.3%).

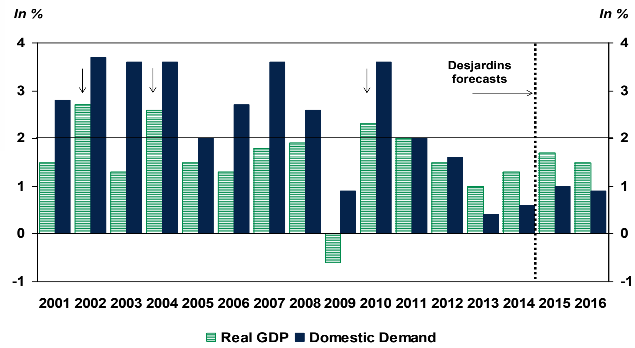
Each time, the domestic economy was robust and there were many pillars. The housing market was booming, business investment posted sustained growth, government expenditures were growing at a good pace and consumer spending was growing faster than in prior years. This is why the annual pace of domestic demand was above 3.5%, solidifying economic growth for these three years.

What about now? The housing market is in a slump, budgetary restraint is limiting public spending, businesses are hesitant to invest and consumers are being careful with spending. Near stagnation in after-tax income and a savings rate at a low of 0.8% at the end of 2014 reveal narrow leeway. The result: the domestic economy is moving at a snail's pace.

Can we expect domestic demand to accelerate soon? Not likely. First, it is too early to imagine a recovery in the residential sector, which currently has a surplus. Next, the governments will have to tighten their belts for a while. Lastly, consumers do not have the liberty to contribute further to economic growth.

That leaves business investment, which is slow to recover even though exports are booming. SME owners' confidence is improving, but is still too weak to allow for a return in full force of investment projects. Our forecast scenario is therefore calling on domestic demand to continue growing close to 1% in 2015 and 2016.

**In the past, a rise in real GDP of more than 2% was supported by strong domestic demand**




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

Even if international trade continues to improve, it will not be enough for Quebec's economic growth to resume a pace above 2%. For real GDP to cross that threshold, exports would need to grow twice as fast as in 2014. The pace of the U.S. economy, which will be around 3% this year compared with 2.4% last year, and the weaker Canadian dollar will not be enough to support such a feat.

**Implications:** Persistent sluggishness in domestic demand will continue to limit economic growth in Quebec. In addition, with the effects of the demographic shock starting to be felt, the likelihood of the domestic economy returning to a very sustained pace is rather slim. Even though the improvement in international trade is timely, it will not be enough to hoist real GDP growth above 2% this year. The weak 0.4% rise in real GDP in the last quarter of 2014 is a reminder that the Quebec economy is standing on shaky ground. With such a sluggish result, the carryover for 2015 is limited. In light of the above, our forecast calls for a 1.7% increase this year.

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