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QUEBEC

Faster real GDP growth in the third quarter, but a tumble in October

HIGHLIGHTS

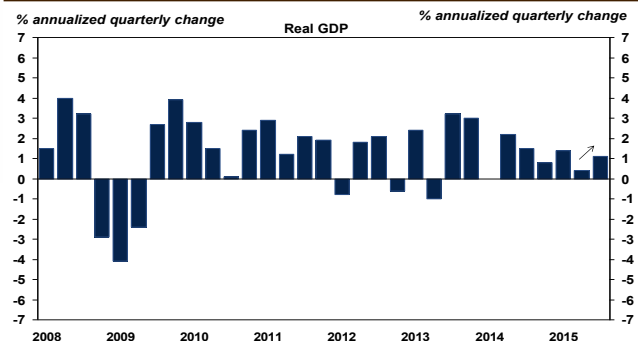
- Real GDP rose an annualized 1.1 % in the third quarter of 2015. Due to statistical revision, quarterly growth of 0.4% in the second quarter replaces the slight downturn initially published last fall.
- Domestic demand broke free of its sluggishness in the third quarter (+0.6%) after pausing during the previous quarter (-0.1%). Acceleration in household consumption expenditure, which reached an annualized pace of 2.1%, is behind this improvement.
- Business investment continued to fall in the third quarter. The annualized pullback for non-residential structures was 6.4%, and investment in machinery and equipment was 19.6%.
- The trade deficit shrank somewhat, reaching \$10.9B in 2007 dollars in the third quarter. The 3.7% annualized contraction in imports, combined with the slight 0.3% decrease in exports, explains the improvement in international trade.
- Real GDP by industry was down 0.5% in October from the prior month. The cumulative increase for the first 10 months of 2015 was 1.1% compared with the same period last year.

COMMENTS

Acceleration in real GDP growth in the third quarter is a welcome relief following the weakness observed in the prior quarter. The fact that consumer spending is the main support tarnishes the scope of the results. Businesses did not contribute to third quarter growth because their investments continued to fall and exports marked time. Public administration investments are also down, reining in the pace of Quebec's economy.

The last quarter of 2015 started off on the wrong foot. The 0.5% drop in real GDP observed in October is a reminder that we are not out of the woods yet. Despite the U.S. economy's good pace, manufacturing output has been wavering for a few months now, as have international exports. Our

Read GDP accelerated in the third quarter of 2015



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

industrial sector is reflecting the difficulties in the Canadian economy, the weakness in Europe and the slowdown in China. Even though the loonie recently fell under US\$0.70, the stimulating effect on our exports to the U.S. has probably peaked.

Implications: Despite somewhat more sustained economic growth in the third quarter of 2015, Quebec's economy has not made its way out of the turbulence. The significant drop in real GDP in October is further proof of this. Weak oil prices and poor stock market performance since the start of the year are raising worries about the global economy. The outlook for Canadian economic growth is even more negative in oil-producing provinces. Quebec does not operate in a vacuum, and maintaining growth slightly above 1% this year would be positive considering the circumstances.

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