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## QUEBEC

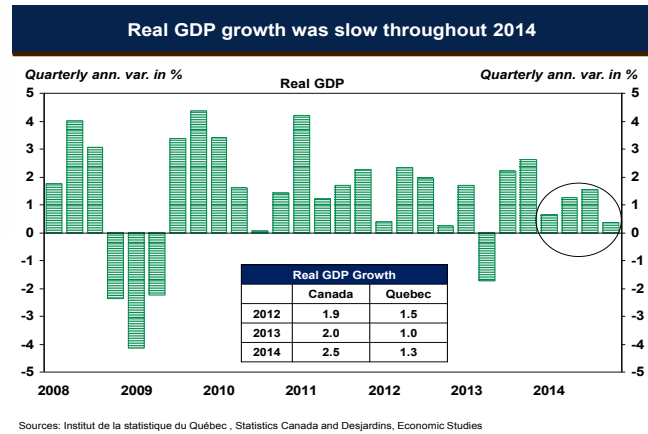
### Weak real GDP growth at the end of 2014 makes for a rather modest year

#### HIGHLIGHTS

- Real GDP grew at an annualized pace of 0.4% in the fourth quarter of 2014. This is quite a slow pace, compared to the 2.4% growth that was observed in Canada as a whole during the same period.
- The annual growth in 2014 comes in at 1.3%, a slight acceleration compared with 2013. In Canada, real GDP grew by 2.5% last year.
- The improvement in international trade enabled Quebec's economy to make a better go of things in 2014. The increase in international goods exports reached 9.0%, while those heading to other provinces lost ground. Consequently, the trade deficit dipped below the mark of \$20 billion in 2007 dollars.
- Household consumption maintained a pace of 2.0% for the second year in a row. After-tax income grew at approximately the same rate as in 2013, i.e. 0.6% in 2014. The savings rate faltered, to 1.3% last year, even reaching a low of 0.8% in the fourth quarter.
- Fixed capital investments fell in all categories last year. The residential sector pulled back by 0.5% due to a slowdown in new construction and in the resale market. Non-residential construction slid by 10.1%, and the amounts invested in machinery and equipment dipped by 1.1%.
- Government expenditures stayed nearly stable last year, while investments dipped slightly and current expenditures barely rose.
- Domestic demand proved anaemic in 2014 (+0.6%) since all the components faltered, with the exception of household consumption.

#### COMMENTS

Weak real GDP growth was expected in the last quarter of 2014. The pullbacks observed in October and November left little doubt about the final result. The 1.3% economic growth for the year as a whole is modest, and is supported by a strong performance in international trade. The slackness in domestic demand reminds us that the Quebec economy currently has few supports.



Consumers have very little room to manoeuvre, as may be seen from their weak income growth and low savings rate. We should not look for any acceleration in their spending, even if their confidence heads up a little in reaction to low gasoline prices. Households will remain cautious this year. The slowdown in the residential sector will continue, and government expenditures will be limited. Hopes of more sustained growth this year must be placed on the shoulders of businesses. It is anticipated that they will increase their investments, which will give exports a shot in the arm. The trade balance will continue to improve, and real GDP growth will thus be able to accelerate a little.

**Implications:** The weak real GDP growth in the last quarter of 2014 reminds us that the Quebec economy sits on fragile foundations. The persistent limpness of domestic demand is having a significant impact on economic growth. The improvement in international trade is just what the doctor ordered, but it will not be enough to propel the change in real GDP above 2% this year. In fact, after such a sluggish fourth quarter, the carryover for 2015 is limited. This supports our forecast of 1.7% this year.

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