

## QUEBEC

June 26, 2015

### First-quarter real GDP up 1.6%

#### HIGHLIGHTS

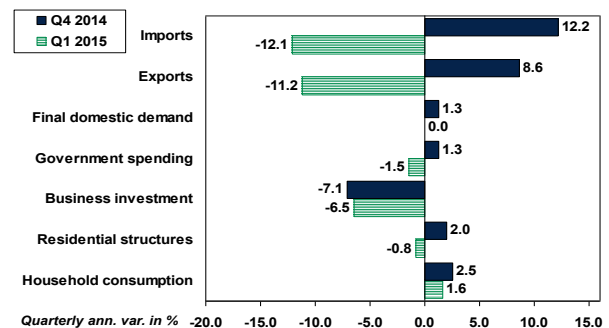
- Real GDP advanced 1.6%, annualized, in the first quarter of 2015, a clear improvement over the 0.5% growth recorded in the last quarter of 2014.
- Quarterly data for 2014 were revised, with the annual rise in real GDP now at 1.4% instead of the previous 1.3%.
- Domestic demand turned in zero growth in the first quarter of 2015. Household consumption expenditure rose slightly (+1.6%), but residential and non-residential business investment fell, as did government spending.
- Improved international trade boosted real GDP growth in the first quarter. The pullback in imports, which was greater than the pullback in exports, improved the balance of trade. In the first quarter, the deficit reached -\$17.5B in 2007 dollars, compared with -\$18.4B in 2007 dollars in the fourth quarter of 2014.

#### COMMENTS

Even though first-quarter economic growth was stronger than expected, the results are extremely disappointing in the details. Besides household spending, which posted a modest increase, all the other components of domestic demand recorded declines. The domestic economy is therefore slowing, and improvement in international trade in the first quarter does not have a solid foundation. The U.S. economy's contraction during the winter combined with difficult weather conditions disrupted the province's trade. Imports fell further than exports, which shrank the trade deficit.

Business investment continued to weaken. The annualized quarterly drop was -9.2% for non-residential structures and -6.6% for machinery and equipment. The downtrend that has persisted for two years running is slow to reverse. Business leader confidence is too low to hope for a turnaround in the short term. Amounts invested by business are expected to undergo a true recovery next year.

#### Most components of real GDP fell in the first quarter of 2015



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

Monthly GDP by industry sagged 0.1% in March, after stagnation in February and a 0.3% uptick in January. April is looking to be mediocre: retail sales (-0.4%) and housing starts (-2.9%) fell, as did manufacturing sales (-5.4%) and exports (-3.6%). Given the retreat by real GDP in March and the difficulties that plagued the month of April, we can expect fairly limited economic growth for the second quarter.

**Implications:** The 1.6% increase in real GDP was a positive start to the year, given that Canada and the United States both saw real GDP contract slightly in the first quarter. However, a deeper analysis of the sources of growth for the Quebec economy during this period was in no way reassuring. With such sluggish domestic demand, it will take exports returning to growth in the coming months to stimulate economic activity. Our forecast 1.5% increase in real GDP for 2015 still applies, especially since the second quarter is likely to be rather weak.

**Hélène Bégin**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Hélène Bégin**  
Senior Economist

**Benoit P. Durocher**  
Senior Economist

**Francis Généreux**  
Senior Economist

418-835-2450 or 1 866 835-8444, ext. 2450  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)