

## QUEBEC

June 28, 2016

### Real GDP growth hits 2.0% for Q1 2016

#### HIGHLIGHTS

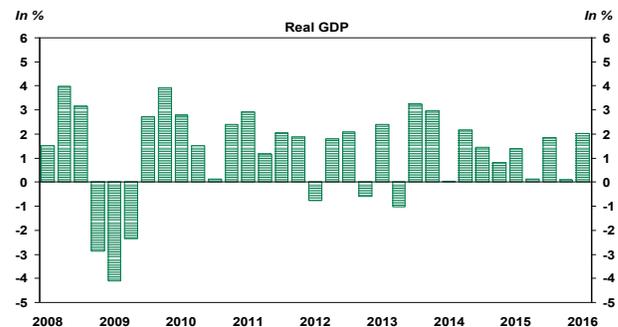
- Real GDP rose an annualized 2.0% in the first quarter of 2016, after being flat the previous quarter.
- Domestic demand emerged from its stupor following a long period of near stagnation; its annualized 1.6% first-quarter growth comes mostly from households.
- Consumer spending picked up in the first quarter, rising an annualized 3.3% compared with 1.3% the previous quarter.
- Housing sector activity fell on a downturn in new construction and renovation spending.
- Business investment pulled back again, coming in at -2.4% for non-residential construction and -9.1% for machinery and equipment.
- Quebec's exports abroad fell nearly 20% (annualized) in the first quarter. However, shipments to other provinces posted an increase. Nonetheless, total exports retreated sharply over the first three months of the year.

#### COMMENTS

Seemingly, the first-quarter rebound by economic growth is great news. The contribution from consumers made the difference and even allowed domestic demand to firm up after a long slumber. The upswing in consumer confidence at the start of the year, solid labour market performance and some tax relief are what have allowed consumption to come back strong.

Aside from this component, which did well, the figures released this morning contain two big disappointments: business investment and exports. Although the Statistics Canada survey of investment intentions suggests we can expect business investment to climb in 2016, the results for the first quarter are negative. They are still expected to recover during the year, which should end the retreat.

#### Real GDP growth firms up in Q1 2016



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

As for exports, the monthly data suggested a first-quarter pullback. The weak economic growth in the United States during this period is partially responsible for the dismal performance. The U.S. economy seems to be returning to a more sustained pace, which should soon allow Quebec's exports abroad to recover.

**Implications:** The first-quarter rebound by economic growth after the stagnation recorded at the end of 2015 is one step in the right direction. An examination of the components of real GDP shows, however, that Quebec's economy is short on support. Aside from the long-awaited resurgence by consumers, the contribution from business is missing in terms of investment and exports. That situation will have to shift to allow Quebec's economy to maintain a solid cruising pace in the quarters to come. The 1.3% real GDP growth forecast for this year banks on a solid contribution from business.

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