

QUEBEC

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Third straight slide in real GDP: Pullback of 0.5% in May

HIGHLIGHTS

- Real GDP by industry slipped 0.5% in May, after dropping 0.3% in April and 0.1% in March.
- All major activity sectors recorded a monthly dip except for construction (+0.7%) and agriculture and forestry (+2.7%). The largest decreases were in manufacturing production (-1.8%), utilities (-5.3%) and mining, oil and gas extraction (-8.3%).
- Overall, the goods sector retreated 1.9% in May and the services sector was nearly stable (+0.1%).
- Cumulative growth in real GDP for the first five months of the year is now at 1.1% compared with the same period in 2014.

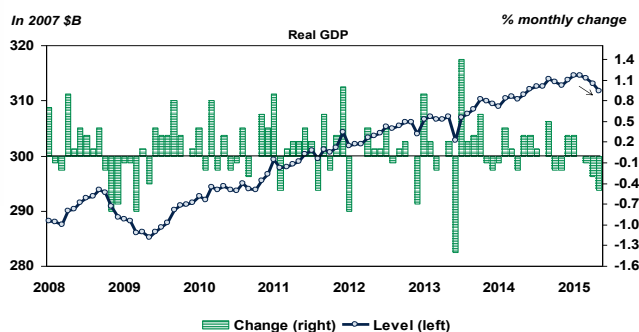
COMMENTS

The magnitude of the monthly decrease in real GDP is as bracing as a cold shower. Certain previously released economic statistics for May were short on vitality, but nothing suggested such a pullback.

After a good start to the year, with first-quarter annualized growth of 1.6%, the second quarter will no doubt be negative. Given the damage inflicted by recent results, real GDP will have to jump more than 2% in June to avoid a second-quarter contraction. This will be almost impossible to achieve. Contraction in a single quarter is still not enough to talk about a slight recession.

Even though Quebec's industrial structure is less sensitive to weak oil prices than other provinces, the contagion effects, particularly from low business confidence, is a risk. Given lacklustre retail sales, the adjustment underway in the residential sector and tighter control over government spending, much is riding on businesses.

Real GDP drops sharply in May



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

Let's hope that the U.S. economic rebound will pull the province along in its wake through exports. However, clouds are beginning to gather over the province's economy. Blips on the international scene and difficulties in the Canadian economy are sharpening the climate of uncertainty for Quebec. Province's shipments abroad nevertheless posted 11.8% growth in June, despite difficulties in the Asian and European economies. Besides the Canadian dollar, depreciation in several other currencies is throwing international trade into disarray.

Implications: This morning's numbers are heavy in consequences: this is not only the third consecutive month of declines, but the size of the fall drags down the cumulative average for the current year, which is now only 1.1%. Our forecast scenario, which calls for real GDP growth of 1.3% in 2015, will most likely be again revised downwards.

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