

QUEBEC

September 25, 2015

The economy contracted slightly in Q2

HIGHLIGHTS

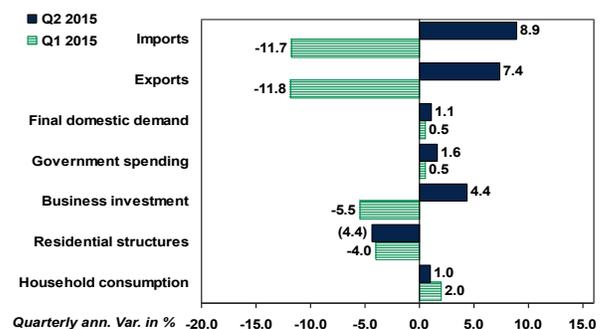
- Real GDP declined an annualized 0.3% in the second quarter of 2015, deteriorating from the first quarter, whose growth has been revised from 1.6% to 1.8%.
- The 0.5% jump in real GDP for June limited the decline for the quarter as a whole. June's gain is the first increase since January 2015.
- Domestic demand accelerated in the second quarter, thanks to the recovery in business investments for machinery and equipment. Consumer spending made only a tepid advance, while the residential sector weakened.
- Exports showed renewed growth in the second quarter. Shipments to other countries surged 11.6% (annualized), while shipments to other provinces rose 1.6% from the first quarter.
- The sharp increase in imports triggered a deterioration in the trade deficit which reached \$18.9B in real terms in the second quarter.
- Nominal GDP rebounded 2.0% while it was almost stable in the first quarter. The annualized change in the deflator switched gears: +2.3% in the second quarter from -1.6% in the previous quarter.

COMMENTS

The drop in real GDP in the second quarter is not nearly as sharp as expected. After several months of decline, stability took over following statistical revisions, thereby improving the overall picture of Quebec's economy. The surprising 0.5% gain in June also limited the damage in the second quarter. Most industries posted growth in June, while the difficulties were fairly widespread in previous months.

Among the positive elements for the second quarter, the rebound in business investment is the most noteworthy. This ends the successive declines that persisted for more than two years. The recovery in exports after a temporary decline in the first quarter is also good news. It looks like the favourable winds from south of the border are finally breathing new life in Quebec's industrial sector.

Some real GDP components have done more poorly in Q2 2015



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

Households made less of a contribution in the second quarter, however. Consumer spending is advancing slowly, with after-tax income and inflation both declining and the savings rate retreating once again, to 1.7%. The housing sector is still in an adjustment period, which triggered a decline in new construction.

Implications: This first quarterly decline in real GDP is a sign that the underpinnings of Quebec's economy are fragile. While the month of June was indeed positive, we must keep in mind that growth has been elusive for the past few months. Despite the recent results that were better than expected, especially due to the statistical revisions, our forecast for 2015 is still on track. A 1.1% increase in real GDP is still possible, if the economy posts good growth until the end of the year. The Desjardins Leading Index, which has been on a positive trend these past few months, suggests that the situation will improve in the next three to six months. The decline in the second quarter should soon make way for growth.

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

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2015, Desjardins Group. All rights reserved.