

QUEBEC

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Weak second-quarter real GDP growth

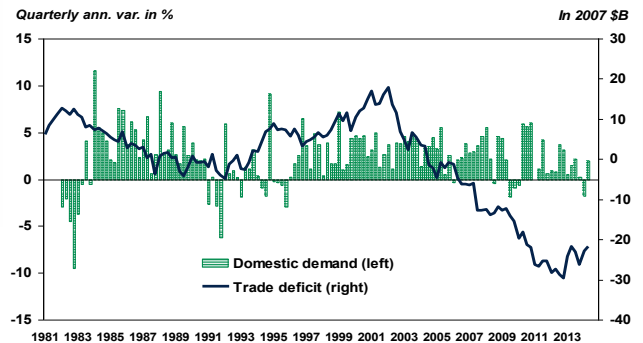
HIGHLIGHTS

- The increase in annualized real GDP at market prices was limited to 0.7% in the second quarter of 2014. The first-quarter increase, initially estimated at 2.4%, was revised to 1.3% with this morning's news.
- Weak second-quarter growth is mainly explained by movement in inventory, as all the components of the domestic economy performed well and international trade improved again.
- Domestic demand recovered (+2.0%) after falling in the previous quarter. Household consumption expenditure firmed up (+2.1%), as did expenditure in the residential sector (+3.9%).
- Business investment also did better in the second quarter due to the recovery of amounts invested in machinery and equipment (+4.7%).
- Exports were up significantly (+14.6%) in the second quarter, driven by acceleration in international shipments. However, imports grew less, allowing the trade deficit to fall to \$21.7B in 2007 dollars.
- In Quebec, cumulative growth for the first half of the year was 1.4% compared with the same period the year before. In Canada, the 3.1% rebound in the second quarter drove real GDP growth to 2.3% for the first half of the year.

COMMENTS

Our economic scenario called for real GDP to increase less than 1% in the second quarter. Disappointing results in April and May left little hope that growth will be stronger. The 0.4% recovery in monthly GDP in June was not enough to shake the second quarter out of its doldrums. In addition, the major revision of the first quarter, with growth down from 2.4% to 1.3%, paints a gloomy picture for 2014.

The trade deficit shrinks and domestic demand heats up



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

However, apart from the unfavourable movement of inventory in the second quarter, there is a lot of support from the results. First, a stronger contribution from households and businesses is encouraging. Next, a much-anticipated acceleration in exports reflects increased economic activity in the United States and the rest of Canada. An improvement in the trade balance is a very positive point for the Quebec economy. However, we will likely have to wait until 2015 before business investment accelerates in a sustainable fashion.

Implications: Despite tepid economic growth in the second quarter, there are many indications that Quebec's economy may be on the right track. The second half of 2014 should be stronger, assuming exports continue on their path. Given the performance of the first half of the year, real GDP growth will be around 1.5% this year.

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