

QUEBEC

September 27, 2016

Real GDP expands by 0.8% in the second quarter of 2016

HIGHLIGHTS

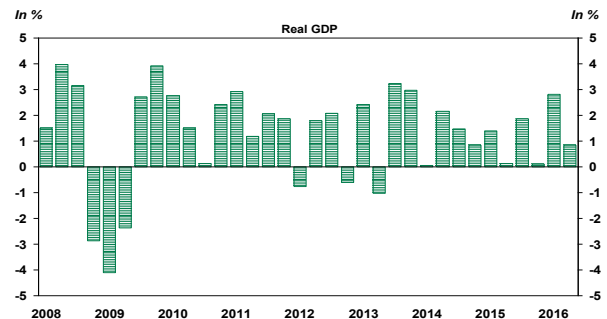
- Real GDP expanded at an annualized rate of 0.8% in the second quarter of 2016.
- Domestic demand slowed, but the annualized rate still managed to reach 1.6% in the second quarter. This erosion is due to more tepid growth in consumer spending (+0.9%).
- Residential sector activity maintained a moderate pace in the second quarter (+1.8%).
- Business investment finally picked up after two years of decline. Expenditures for machinery and equipment made an annualized leap of 6.8%, while non-residential construction remained stable.
- Public administrations' current expenditures climbed, while their capital investments fell again. Overall, government spending moved onto positive ground after a period of decline.
- International exports tumbled at an annualized rate of 7%, while shipments to other provinces held steady in the second quarter. Consequently, Quebec's trade deficit widened to nearly 10 billion 2007 dollars.

COMMENTS

Economic growth was expected to slow down to some degree, after the robustness of the first quarter. The nearly 1% real GDP growth in the second quarter is more than satisfactory. Many of the components did well, and the turnaround in business investment is excellent news. This is indeed a step in the right direction, given that slumps had been recorded in the past several quarters.

Household consumption was hard pressed to maintain the same pace as in the first quarter. Spending on goods took a breather, while services kept up a steady pace. Given the strong labour market and the relatively high level of consumer confidence, conditions are more favourable for spending on services.

Real GDP keeps growing



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

A downturn in exports was expected in the second quarter, but the scope of the contraction in international shipments is extremely disappointing, especially after the drop observed in the first quarter. Sluggish economic growth in the United States during that period is partly responsible for that dismal performance. Fortunately, the U.S. economy now appears to be picking up a more sustained pace, which should soon lead to a turnaround in Quebec's international exports.

Implications: The second-quarter economic growth is something to feel good about. The contraction in real GDP in Canada as a whole does not seem to have affected Quebec, which is doing well under the circumstances. The turnaround in business investment is the main positive development; meanwhile, the second straight quarterly slump in exports is a source of concern. All things considered, Quebec's economic performance is in line with our expectations. Accordingly, we are maintaining our forecast of 1.2% real GDP growth for the year 2016.

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