

## QUEBEC

December 20, 2013

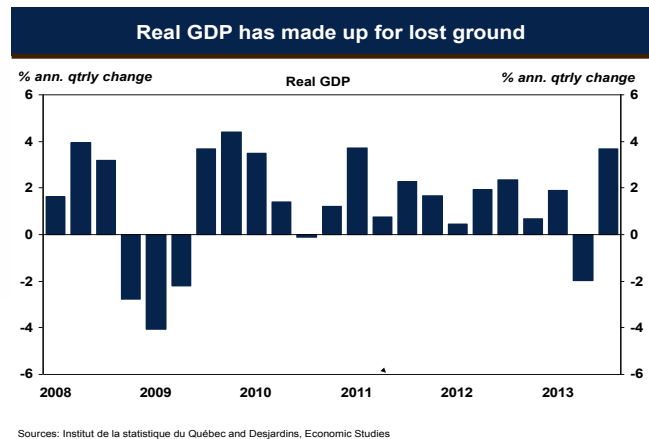
### Real GDP rebounds in third quarter

#### HIGHLIGHTS

- Real GDP rose at an annual rate of 3.7% in the third quarter following a 2.0% decline in the previous quarter, mainly due to the construction strike last summer.
- The pick-up in economic activity is explained by an upswing in investments and inventories.
- In the third quarter, non-residential business construction surged at an annual rate of 37.2%, following a 25.2% decrease the previous quarter. Public administration investments jumped 31.8% after a similar percentage decline in the second quarter.
- Residential investments rose 12.6%, driven by an increase in new construction, ownership transfer costs and, especially, renovation spending.
- Household consumption improved slightly in Q3, reaching an annual rate of 2.2%, compared with 1.8% in Q2.
- Third-quarter exports fell 6.3% (annualized) after posting gains since the end of 2012. For their part, imports pretty much stayed the same. As a result, the trade deficit grew from \$22.1B (2007 dollars) in Q2 to \$24.6B (2007 dollars) in Q3.
- Inventories increased more substantially in the third quarter (+\$1.7B in 2007 dollars) than in the previous quarter (+\$0.5B in 2007 dollars).

#### COMMENTS

We were expecting the pendulum to swing back in the third quarter. The 3.7% annualized growth in real GDP did, however, beat expectations. The 0.2% gain in September prolongs the positive trend that began in July (+1.4%) and continued into August (+0.5%). The Quebec economy therefore seems to be on a favourable trajectory that is owed to more than the pick-up in construction in July. After a sluggish spring, this return to growth was necessary to get the economy back on track.



Despite these good results, real GDP's cumulative increase is only 1.2% for the first three quarters of 2013. This advance is quite disappointing, reflecting weak consumption, the drop in new construction and international trade's hesitation. Despite the ups and downs of the construction sector, business investment was the main support for Quebec's economy in 2013.

**Implications:** The turnaround in real GDP growth in the third quarter supports our forecast of 1.2% for 2013. This growth was fuelled largely by business investments. Given that a slowdown is expected next year, foreign trade will have to take up the slack. The pick-up in the global and North American economies should soon stimulate Quebec's exports. As such, real GDP will probably grow 1.8% in 2014.

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