Economic News

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QUÉBEC

Real GDP growth remains below 1% in Q2

HIGHLIGHTS

- Real GDP rose by an annualized 0.8% in Q2 of 2012, slightly better than the 0.5% advance posted the quarter before.
- Consumer spending barely budged, with the goods segment even posting a 1.3% retreat. The 2.2% rise in spending on services saved the day in the second quarter.
- Residential investment accelerated due to more sustained activity in new construction and sales of existing properties.
- Q2 stockpiling (+$2.9B in 2002 dollars) also powered real GDP growth.
- Business investment (+7.0%) kept up a solid pace in the second quarter, thanks to lively non-residential construction (+14.8%) and investment in machinery and equipment (+3.4%).
- Government expenditures did not advance much. The dip by current government spending was offset by the rise in capital spending.
- The trade deficit increased, going from $35.9B in 2002 dollars to $38.0B in 2002 dollars from the first to the second quarter. The deterioration in the trade deficit can be chalked up to an upswing by exports (+2.8%) that was smaller than the advance posted by imports (+7.3%).

COMMENTS

Q2's 0.8% rise in real GDP is not enough to extricate Québec's economy from the near stagnation it has been mired in since the spring of 2011. However, the results for the second quarter are still better than expected, particularly due to the strong upside revision to May's monthly GDP. The initial 0.4% contraction had raised a lot of concern about the statistics for the second quarter; this was replaced by a stable May, yielding a positive result for the quarter. The period's weak economic growth is thus being received with some relief.

Québec - Real GDP at Market Prices

	Quarterly annualized % change		
	Q4 2011	Q1 2012	Q2 2012
GDP	**0.8**	**0.5**	**0.8**
Consumption	3.9	-0.6	0.5
Residential inv.	5.9	4.5	9.7
Non-residential inv.	-6.5	8.9	7.0
Gov't spending	0.2	1.8	0.9
Domestic demand	**2.0**	**1.1**	**1.6**
Exports	11.1	-13.0	2.8
Imports	4.4	-5.0	7.3
Net exports (2002 $M)	-33,285	-35,916	-38,012
Inventory change (2002 $M)	**-587**	**1,614**	**2,854**

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

Aside from lethargic consumer spending and the deterioration in the trade deficit, which are keeping real GDP from strengthening, a number of encouraging points should be stressed. For one thing, housing investment is surprisingly strong, and the amounts being invested by business continue to support the current cycle.

Implications: The second quarter's weak real GDP growth is reassuring, as the figures released previously had suggested somewhat of a pullback by economic activity. Québec is thus managing to keep its head above water, despite some obstacles. However, the province's economy is clearly not as strong as the Canadian economy. In the second quarter, Québec's real GDP rose 0.8%, while Canada's advanced 1.8%. The gap in growth is even bigger in the first semester. The total to date is just 0.6% for Québec compared with 2.1% for Canada. In this context, Québec's real GDP growth will have trouble beating 1% in 2012.

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