

Quebec: Real GDP grew at 2.5% in Q2

Q2 2017: +2.5% Q1 2017: +2.8% Q4 2016: +3.1%

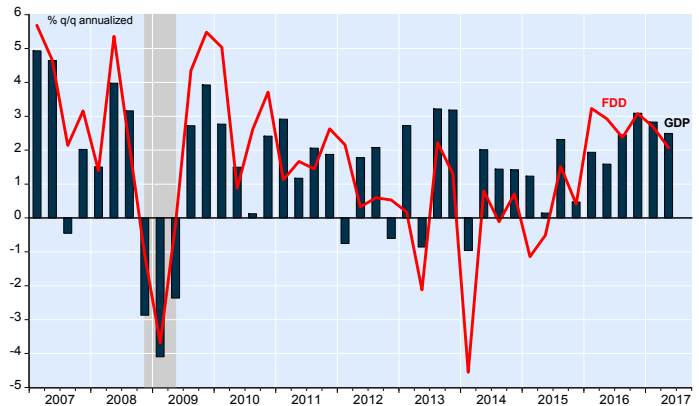
NUMBERS: The Institut de la statistique du Québec (ISQ) reports that Quebec real GDP at market prices grew 2.5% annualized in Q2 (Canada: +4.5%) after downwardly revised growth of 2.8% in Q1. Final domestic demand (FDD) grew at 2.1% in Q2 (top chart), fuelled mainly by household consumption (+3.1%) and government current operations (+2.5%). Business investment, on the other hand, fell 1.2%, as declines in nonresidential construction (-7.9%), residential construction (-0.9%) and intellectual property products (-2.6%) more than offset a 6.7% gain in machinery and equipment investment. External trade had little effect on growth – exports rose 16.4% and imports 14.9%. Inventory investment contributed 0.2 points to the growth rate. Corporate profits were down 10.9% annualized after rising 13.1% in Q1. The net household savings rate edged down a tick to 5.5% (Canada 4.6%). In June, real GDP at basic prices was up 0.4% on the month after a contraction of 0.4% in May.

OPINION: The Quebec economy continued to expand vigorously in Q2, supported by final domestic demand growth exceeding 2.0% annualized for a sixth straight quarter (top chart), the longest such run since 2007. Consumer spending remained robust as strong gains in employment boosted incomes while energy bills and debt burdens remained low. There is also upbeat news in the growth of machinery and equipment investment for a second straight quarter after two years in the doldrums (middle chart). There is reason to think the uptrend of profits in recent quarters has given businesses room for such spending. Also important is that the quarter ended with a solid rebound of growth in June, for reasons including the end of the construction strike and a 16th consecutive month of growth in services output (bottom chart). Conversely, manufacturing output fell for the fifth time in six months after an encouraging finish in 2016. Despite the good news, we must revise down our 2017 growth forecast three-tenths of a point, to 2.4%, as a result of a large downward revision of Q1 GDP growth, to 2.8% from 4.3%. Nevertheless, if this forecast is on the mark, 2017 will turn out to be the best year in a decade.

Matthieu Arseneau

Domestic demand continues to support growth

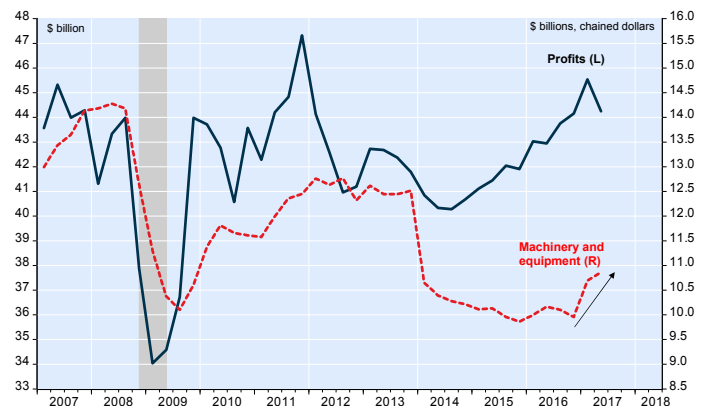
Real change in GDP and real change in final domestic demand



NBF Economics and Strategy, ISQ data

Machinery and equipment investment up again in Q2

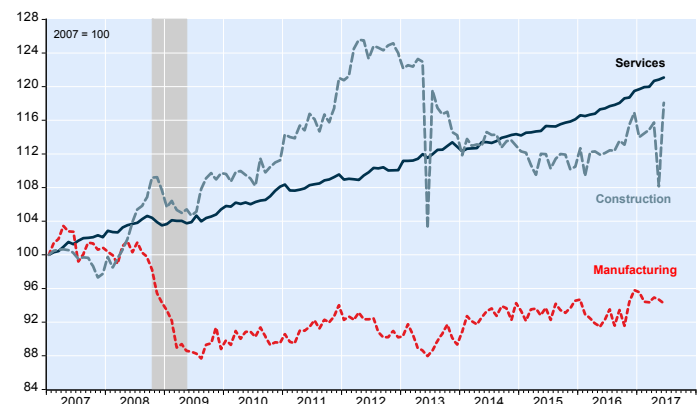
Corporate operating profits and real investment in machinery and equipment



NBF Economics and Strategy, ISQ data

Services output up for a 16th consecutive month

Real GDP, chained 2007 dollars



NBF Economics and Strategy, ISQ data

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