After experiencing strong growth in the first quarter of 2022 (6.0% annualized), Quebec’s economy has been catching its breath since then. In July, this resulted in the fourth contraction of the province’s economy in as many months. The last time Quebec’s GDP contracted over such a long period was during the 2008 financial crisis. It is important to note that this time, the decline totaled 1.2%, which is more modest than the 2.1% decrease recorded in the first four months of the financial crisis. Another encouraging element of the current weakness is that for the moment it has not translated into significant damage to the labor market. Back then, the unemployment rate rose by one percentage point during those four months (from 7.3% to 8.3%), whereas this time it has remained unchanged and has only increased slightly since July (from 4.1% to 4.4% in September). For its part, the Canadian economy recorded its sixth consecutive month of growth in July. Thus, the Quebec economy, which had experienced a spectacular recovery compared to the country as a whole since the beginning of the pandemic, lost its lead in July. There is reason to believe that the decline in consumer purchasing power in a context of galloping inflation can be blamed for the weakness of certain services, particularly wholesale trade, which posted a marked contraction. But it is mainly goods that explain the recent weakness, with all sub-categories showing contractions over four months (right chart). The construction sector is showing the most pronounced decline, having been impacted by interest rate hikes. A contraction in GDP now appears inevitable in Q3, and we can only expect weak growth thereafter as the central bank works to calm domestic demand in the country.

HIGHLIGHTS:

- According to the Institut de la Statistique du Québec, real GDP decreased by 0.5% in July, while the economy in Canada as a whole increased by 0.1%.
- On a year-over-year basis, Quebec’s real GDP was up 2.4%, which was less than the 4.3% increase recorded in the country as a whole.
- Eleven of the 20 industries monitored recorded declines in July, including 8 of the 15 services subsectors and 3 of the 5 goods subsectors.
- This decrease was mostly attributable to the goods-producing sector, which contracted by 0.9% in July due to declines in construction (3.6%), the non-mining primary sector (−3.0%) and manufacturing (−0.6%). Conversely, the utilities (+3.0%) and mining (+1.7%) sectors were up in July.
- The services sector also contributed to the contraction of the economy with a decrease of 0.3%. This decrease was due to a decline in the wholesale trade (−4.1%), accommodation and food services (1.5%), transportation and warehousing (−1.0%) and retail trade (−0.8%) subsectors. Conversely, the arts, entertainment & recreation (+3.8%), professional services (+0.8%) and public administration (+0.6%) subsectors experienced the most significant increases.
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General
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