

Quebec: Real GDP growth of 4.3% annualized in Q1

Q1 2017: +4.3% Q4 2016: +3.1% Q3 2016: +2.5%

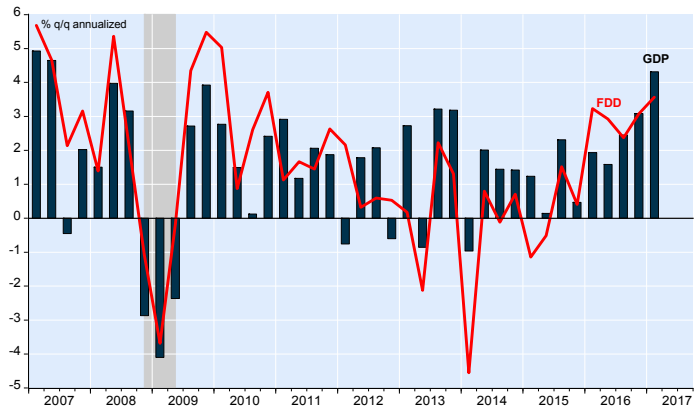
NUMBERS: The Institut de la statistique du Québec (ISQ) reports that Quebec real GDP at market prices grew 4.3% annualized in Q1 (Canada: +3.7%) after expanding at 3.1% in Q4. Final domestic demand grew at 3.6% in Q1 (top chart), fuelled mainly by household consumption spending (+3.7%) and residential construction (+11.1%). Business nonresidential investment was up strongly in machinery and equipment (+16.1%) and essentially flat in structures (+0.2%). Government investment was up 2.0% annualized. In external trade, the international component subtracted from growth (exports -21.6%, imports -2.3%) while interprovincial trade contributed to it. The overall weakness in external trade was offset by strong inventory building. Corporate profits rose at 18.7% annualized, the strongest gain since 2011. The net household savings rate fell half a point to 5.7% (rest of Canada 4.0%). In March, real GDP at basic prices was up 0.4% from the month before, after edging up 0.1% in February.

OPINION: The Quebec economy is showing very impressive cyclical momentum. Its Q1 growth was the strongest in a decade, following a Q4 that was also strong. Solid labour market gains gave lift to consumption and residential construction by boosting income growth and household confidence. But the vigour of Q1 domestic demand was not limited to consumption. The gain in machinery and equipment investment was the largest since 2010 (middle chart). And the strength of hiring and investment is not surprising given the sharp rise of corporate profits (bottom chart). The disappointing performance of exports is likely to be temporary – in April, international volume exports were up 3% from the Q1 monthly average. There is reason to believe the weakness of exports was the reason for the large inventory buildup of the first quarter, which could brake production in subsequent quarters. The beginning of the year was nevertheless so strong that even if economic expansion were to slow to an annual rate of 1% over the rest of the year, GDP for 2017 would be up 2.4% from 2016, a rate unseen in a decade.

Matthieu Arseneau

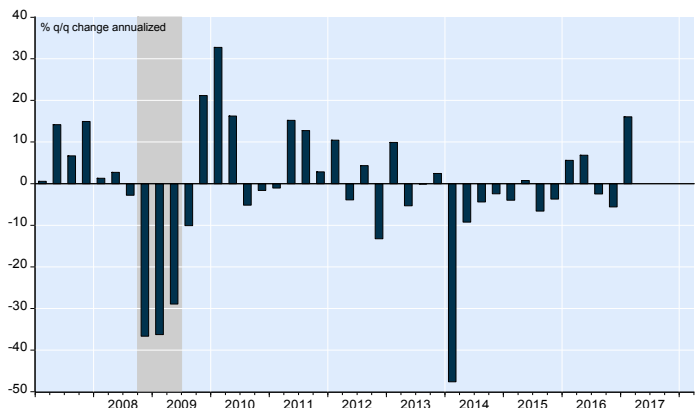
Quebec: Strongest quarterly growth in a decade

Real change in GDP and real change in final domestic demand



NBF Economics and Strategy, ISQ data

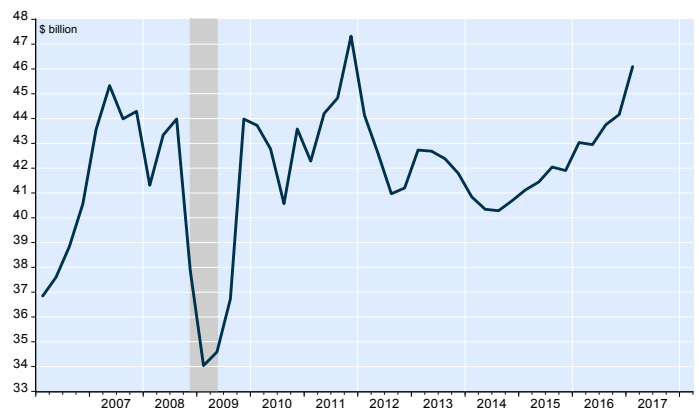
Strong rise of machinery and equipment investment



NBF Economics and Strategy, ISQ data

Quebec: Sharp acceleration of corporate profits

Earnings from operations



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