



Quebec: Modest GDP growth in the second quarter

By Daren King

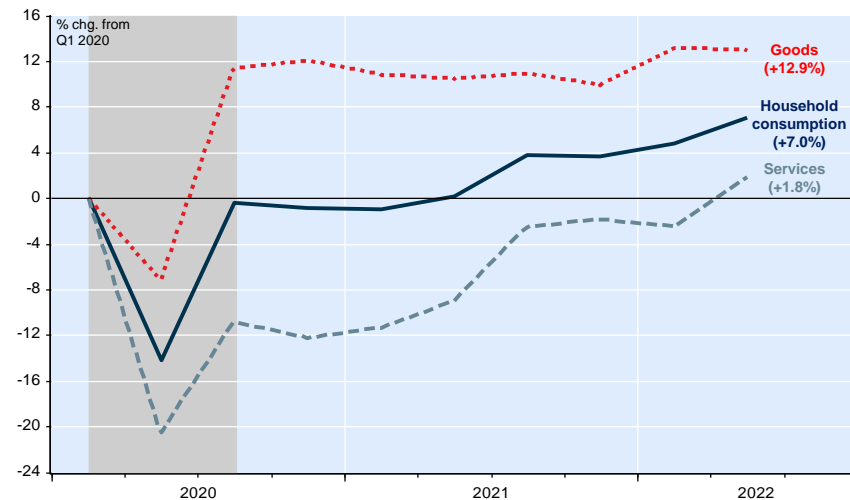
As we expected, the Quebec economy continued to grow for the 8th consecutive quarter in Q2, but with a modest gain of 1.0% in real annualized terms, below the growth observed in the country as a whole. Despite this latest smaller increase, the province's GDP in Q2 2022 was 6.0% above its pre-pandemic level, compared to only 3.9% in Canada (left chart). However, in nominal terms, Canadian GDP has grown more strongly than in Quebec since the start of the pandemic, supported by high energy and some commodity prices. In Q2, the Quebec economy's growth was mainly supported by an 8.8% increase in household consumption. However, this increase masks a 0.7% decrease in goods consumption, which was more than offset by a 19.5% jump in services. As a result, services exceeded their pre-pandemic level for the first time in the absence of health measures (right chart). Q2 GDP growth was also supported by a third consecutive positive contribution from inventories as businesses continue to rebuild their inventories. Conversely, residential construction slowed growth as rising interest rates weighed heavily on the housing sector. The sluggish Q2 GDP, supported by the strong starting point in March, masks an even more pronounced weakness in recent months. Indeed, the Quebec economy posted its third consecutive monthly decline in June, which is consistent with our view that a slump appears increasingly inevitable as higher interest rates continue to weigh on the province's economy.

HIGHLIGHTS:

- According to the Institut de la Statistique du Québec, real GDP grew by 1.0% on a quarterly annualized basis in Q2 2022 (Canada: +3.3%), following an increase of 5.9% in Q1 2022 (Canada: +3.1%).
- Nominal GDP jumped by 8.5% in Q2 2022 (Canada: +17.9%) after increasing by 15.1% in Q1 2022 (Canada: +15.8%).
- In real annualized terms, final domestic demand increased by 2.2% (Canada: +2.9%), driven by investment in machinery and equipment (+13.6%), household consumption (+8.8%), investment in intellectual property products (+5.8%) and business investment in non-residential construction (+4.8%). Conversely, residential construction (-18.2%), government current expenditure (-4.8%) and government investment (-2.1%) declined.
- In real annualized terms, international exports increased by 6.7% (Canada: +10.9%) while imports were up 8.9% (Canada: +30.5%). International trade therefore subtracted from Quebec's economic growth in Q2. Conversely, the increase in inventories in Q2 supported growth (+\$9.388B vs +\$4.318B in Q1).
- The household net saving rate fell from 13.9% in Q1 to 10.2% in Q2, which remains high on a historical basis and higher than the 6.2% recorded at the national level. On an annual basis, corporate profits increased by 18.8%.

Quebec: Services consumption has finally caught up

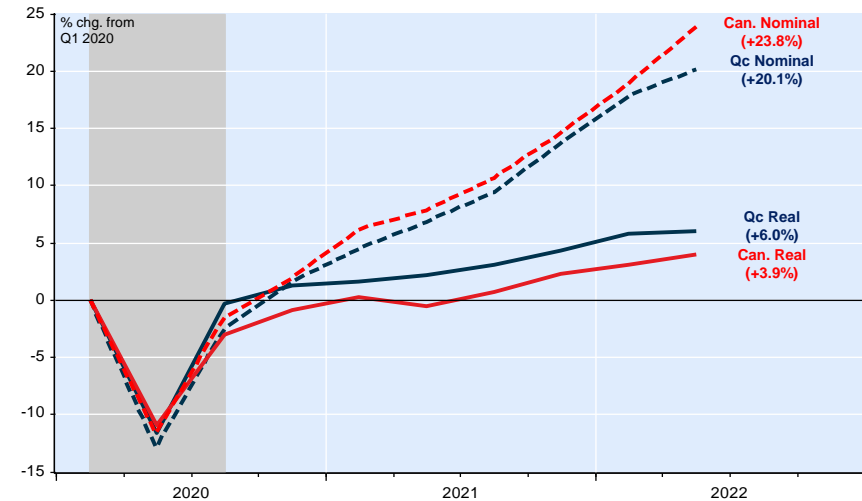
Change in household consumption since Q1 2020



NBF Economy & Strategy, data via Institut de la Statistique du Québec

Quebec: Greater real GDP recovery in Quebec, but not in nominal terms

Change in real and nominal GDP since Q1 2020



NBF Economy & Strategy, data via Institut de la Statistique du Québec

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