

More uniform performance in the cards for 2016

We expect broader and more consistent growth to take place across economic sectors in Quebec in 2016 after a disappointingly uneven performance in 2015 that failed to deliver the hoped for acceleration in the pace of expansion. The province's economic performance in 2016 will benefit from sustained growth in external demand (mainly the US), a strengthening household sector, and an improved provincial fiscal situation. While most of these factors contributed positively in 2015, we see their boosting effects both gaining heft and spreading more widely as they gain further traction. We expect momentum in provincial exports to pick up in 2016, which should fuel manufacturing activity and various links within supply chains. Domestically, steady—albeit still-moderate—job creation should support continued growth in household spending, and improving business confidence should support non-residential investment—a regular sour spot in the provincial economy in recent years. We project Quebec's real GDP growth to quicken from a rate of 1.3% in 2015 to a five-year high of 1.9% in 2016. We expect that most of this faster pace will be maintained in 2017 with our real GDP growth forecast easing just slightly to 1.7%.

2015 disappoints but the seeds are planted...

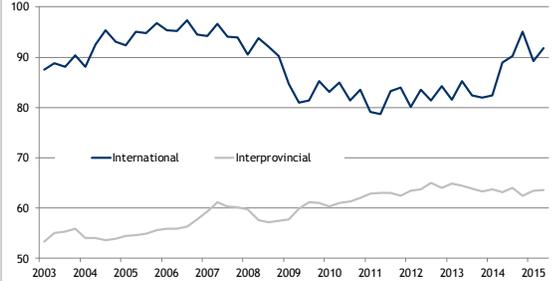
Based on currently available indicators, Quebec's economic performance in 2015 is shaping up to be a mild disappointment. Growth appears to be stuck in middle gear, which in our analysis, will translate into a rate of 1.3% for the year. This would represent a slight slowing from the 1.5% recorded in 2014. The main issue holding back growth in 2015 is a lack of consistency. The year started reasonably well, with good momentum in merchandise exports (carrying over from the latter half of 2014) and household spending; however, the pace weakened mid-year particularly on the external trade side. Still, we note positive elements that bode well for the period ahead. According to estimates from the *Institut de la statistique du Québec* (ISQ), manufacturing real GDP was up by 1.3% year over year in the first seven months of 2015, and real merchandise exports were up by a solid 5.3% in the first nine months of the year despite slowing mid-year. These indicators suggest to us that external sources of growth indeed are contributing positively to activity in the province. Also quite encouraging is the fact that employment was up 1.0% year over year in the first 11 months of 2015, which is a welcome turnaround from no growth in 2014.

...for stronger economic growth in 2016

Importantly, the majority of the new jobs created in the province in 2015 were full-time positions. We believe that improved labour market outcomes and prospects—we forecast employment to continue to grow moderately by 0.8% in 2016—will boost consumer confidence and spending power into 2016. This should support domestic activity in the province, including in the retail trade and housing sectors (although housing construction will continue to contend with plentiful supply of recently completed condo units). We think that the elimination of the provincial budget deficit in the fiscal year ending March 2016 at the margin will be positive for confidence for both consumers and businesses, following years of belt-tightening. Any boost to business confidence would help stabilize the declining trend in non-residential investment in the province, thereby ensuring that Quebec firms enhance their competitive position and fully capitalize on export opportunities. External sources of growth will continue to be central to Quebec's outlook in 2016.

Quebec : Real exports

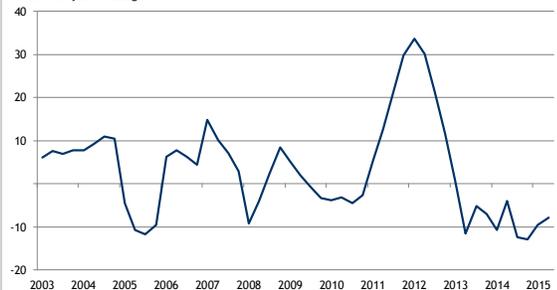
Billions of chained (2007) dollars



Source: Institut de la statistique du Québec, RBC Economics Research

Quebec : Business non-residential investment

Year-over-year % change



Source: Institut de la statistique du Québec, RBC Economics Research

Quebec forecast at a glance

% change unless otherwise indicated

	2012	2013	2014	2015F	2016F	2017F
Real GDP	1.0	1.2	1.5	1.3	1.9	1.7
Nominal GDP	2.7	2.0	2.5	2.9	3.5	3.5
Employment	0.8	1.4	0.0	1.0	0.8	0.7
Unemployment rate (%)	7.7	7.6	7.7	7.6	7.4	7.1
Retail sales	1.2	2.5	1.7	1.2	3.9	3.4
Housing starts (units)	47,367	37,758	38,810	36,400	35,500	33,500
Consumer price index	2.1	0.8	1.4	1.1	2.0	2.0

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