



# Environmental Scan

Quebec

2016-2018 HORIZON



## HIGHLIGHTS

- While the long-awaited growth of Quebec exports finally came to fruition in 2014 and 2015, other components of the economy have shown less vigour (consumption) or even declined (private investments and government expenditures).
- Employment in Quebec is expected to grow very slowly between 2016 and 2018: household discretionary spending will be limited by increased tariffs, user fees, and tax increases; governments will be prioritizing a balanced budget; and uncertainty in the business environment will have companies treading carefully.

## ECONOMIC CONTEXT

After the strong start that marked the brief period of recovery following the 2008-2009 recession, the dynamic has trended downwards year after year in Quebec. Today, lower contributions across all components of the economy are reflected in the slower growth in Quebec's gross domestic product (GDP).

Consumption, the largest component of the Quebec GDP, has slowed since 2011. For three years, growth in retail sales has even been lower than inflation. This means that there is no longer real growth in this area.

Government expenditures, which have been down since 2012, have contributed negatively to the GDP since the 2<sup>nd</sup> quarter of 2014. This is understandable given that all levels of government have done everything in their power to bring their expenses in line with their financial capacity. What was good news for the government's balance sheet had a negative impact on employment and GDP growth.

Private investments are on the decline in Quebec because of global challenges: production overcapacity, large reserves and low demand. With less activity and less demand, prices have fallen to a level that is not conducive to development. There is much talk about the decline in oil and commodities investments, but overshadowed by this are the upstream and downstream activities that are also feeling the effects of this steep decline. This refers to supply chains, suppliers, and businesses involved in development and processing. Quebec is not the only province facing this situation: all of Canada is affected. This is what led to the Canada-wide technical recession in the first half of 2015 and a significant decrease in expectations for GDP growth in 2015 and 2016.

In the wake of a significant decline during the recession, exports have struggled to reclaim their position in Quebec's economic activity. Despite a significant increase in 2011, Quebec exports have since been contending with the slow recovery of the U.S. economy and the difficulties in Europe and emerging economies. When production is integrated into a global trade environment, the problems of the few become the problems of the many, economically speaking.

There has, nonetheless, been recent improvement. The value of Quebec exports rebounded significantly in 2014 and demonstrated a good level of growth in 2015 thanks to the continuing improvement of business conditions both for the U.S. and the province's primary European partners. This growth had long been anticipated since, given the poor performance of the other components of the GDP, high expectations were placed on an improvement in world trade, which, even with a moderate rebound, could stimulate a surge in the economy.

While many have set high expectations on the declining Canadian dollar to support export growth, it is unlikely that the dollar will produce the desired boost. A number of other currencies have also seen a sharp decline in value against the U.S. dollar, meaning the United States can be selective about their foreign purchases. Moreover, business contracts typically cover one or more years and include clauses on currency devaluation. Thus, the effect of the low Canadian dollar may take longer to materialize. Lastly, Quebec's manufacturing sector uses, on average, 40% imported products in its processes. This means that foreign sourcing is more costly, especially if it was negotiated in U.S. dollars.

### **Demographics**

The job creation potential is expected to decrease in Quebec over the coming years. This is because the population between 20 and 64 years of age will start to decrease around 2017-2018, and at the same time the number of retirees will increase. This will cause difficulties in replacing retiring workers and limit potential growth in the province and its industries. This problem will only worsen, because the decrease in the labour force could continue until 2031.

Companies will have to invest in new equipment and make gains in productivity in order to work around recruitment difficulties. Nevertheless, until the production overcapacity has been used up, it is very likely that investments will be delayed. Before investing, companies should optimize the use of available human and material resources.

The Laval, Lanaudière, Laurentides, Montréal, Montérégie and Outaouais regions have the demographic potential to replace retiring workers and increase the number of jobs in the coming years. In the other regions of Quebec, retirements may have to be offset by productivity gains, offshoring growth or offshoring activities.

## THE LABOUR MARKET

In the three years that preceded the 2008 2009 recession, the average annual employment growth in Quebec was 1.6%. The economy benefited from interior buoyancy as well as that of other Canadian provinces, the U.S., Europe and emerging economies. Employment growth peaked in 2007, with the addition of over 96,000 workers boosting the rate to 2.6%.

Aside from during the brief post-recession recovery in 2010, employment growth in Quebec has fallen significantly over the years. In the past five years, the growth rate has declined in pace with global challenges and the slowdown in consumption and investments in the province. From 2010 to 2015, average annual employment growth was at 0.8%, half of what it was prior to the recession. Since 2013, employment has increased an average of 0.4% per year in Quebec.

Labour Market Indicators

Province of Quebec	2013	2014	2015	Variation 2013-2014		Variation 2014-2015	
				Number	%	Number	%
Population 15 + ('000)	6,755.3	6,802.2	6,843.3	46.9	0.7%	41.1	0.6%
Labour Force ('000)	4,393.5	4,400.0	4,434.2	6.5	0.1%	34.2	0.8%
Employment ('000)	4,060.8	4,059.7	4,097.0	-1.1	0.0%	37.3	0.9%
Full-time ('000)	3,277.8	3,245.3	3,290.3	-32.5	-1.0%	45.0	1.4%
Part-time ('000)	783.0	814.4	806.7	31.4	3.9%	-7.7	-0.9%
Unemployment ('000)	332.8	340.3	337.2	7.5	2.2%	-3.1	-0.9%
Unemployment rate	7.6%	7.7 %	7.6%	0.1		-0.1	
Participation rate	65.0%	64.7%	64.8%	-0.3		0.1	
Employment rate	60.1%	59.7%	59.9%	-0.4		0.2	

Source: Statistics Canada. Table 282-0002 – Labour Force Survey estimates (LSF), by sex and detailed age group, annual (persons unless otherwise noted), CANSIM (database).

Given such low job growth, the unemployment rate should have increased. But due to the declining participation rate, the unemployment rate has instead been at a standstill in recent years. This, combined with low population growth in Quebec, could make it difficult to replace retired workers. Fortunately, the rise in the participation rate among workers age 50 and over since 2007 and, more recently, in the 35-49 age group, has helped slow the decline in adult participation in the labour market.

However, this may not last. Already, we see that the cap has been reached in several age groups with regard to participation in the labour market. Even for the 20-29 age group, we note a decline in activity, putting them below the levels of 10 years ago.

### Employment Prospects by Industry - 2016-2018 Horizon

Although we believe that exports remain the best opportunity for growing the Quebec economy, it is possible that this dynamic will die out before we see a tangible recovery in the resource sector. Export Development Canada also expects slowed growth in the value of exports in Quebec in 2016 and 2017, although the outlook remains good.

A number of risks threaten export prospects:

- The debt of emerging economies, where Quebec exports have been diversified - This was a great help while the U.S. economy was slowly recovering from the recession, but the impact was recently reversed with the slowdown in global trade.
- Changes in China's economic development strategy - The shift from a production-based economy to a consumer economy could result in fewer foreign purchases of materials, commodities and industrial products. After the United States, China is the second largest destination for Quebec exports, half of which come from the exploitation and processing of resources.
- Europe's slow growth rate - European states continue to face significant challenges; this does not affect economic recovery, but some of the issues, such as the migrant crisis will certainly have a significant economic impact.
- The increase in restrictive measures for trade between countries - the World Trade Organization (WTO) noted that there is currently a record number of restrictions. The WTO also noted that the implementation of these measures has occurred much faster than the settlement of disputes in recent years.

We did not take into consideration the economic agreement with the European Union (EU) and the Trans-Pacific Partnership (TPP) when determining the short-term prospects because they are not yet in force. Even once the member legislations have voted, implementation will be gradual; for example, the impacts arising from the TPP will be spread over 5 to 15 years, depending on the products and the individual country's implementation schedule.

In addition to exports, the following elements will influence job prospects in the coming years:

- Consumption will not be such a large source of growth as in the past.
- Private investments will decline further in 2016 and will not rebound during the forecast period.
- We will see a decline in the labour force from 2017-2018, possibly until 2031, due to the growing number of retirements among baby boomers.

Since only exports and, to a degree, consumption, will contribute to Quebec's economic growth, we expect job growth to be very moderate in Quebec over the period of 2016-2018, with an average annual rate of 0.6%. Public investment is the only unknown factor at this stage of reflection as we await the new government's initial budget. This factor could boost growth.

**Distribution of Employment and Growth Prospects by Industry**

Province of Quebec	2013-2015 average		2016-2018
	Level ('000)	Share of total employment	Share of average annual growth
<b>All industries</b>	<b>4,072.5</b>	<b>100.0%</b>	<b>0.6%</b>
Goods-producing sector	861.8	21.2%	0.4%
Service sector	3,210.7	78.8%	0.7%

Sources: Employment – Statistics Canada, Table 282-0002 – Labour Force Survey  
 Growth rate – Prepared by the Labour Market Analysis Directorate – Service Canada, Quebec Region

**Note:** in preparing this document the authors took care to base their research on labour market information that was accurate and relevant at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this publication does not necessarily reflect the official policies of Employment and Social Development Canada.

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