

Sectoral Outlook

2010-2012



Capitale Nationale

Service
Canada

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Summary

Economic Outlook

The Capitale-Nationale region's economy, heavily influenced by Quebec City, the province's capital, is dominated by the service industry, which is characterized by large numbers of jobs in public administration, health care, educational services, wholesale and retail trade, tourism, arts, entertainment and recreation. Quebec City is becoming increasingly noteworthy for the vitality of its commercial and industrial businesses. The Quebec City region is also well positioned in the area of research and development and is considered a centre of biotechnological and biomedical innovation, which fosters the emergence of innovative companies. Owing to a highly educated and creative population, a low cost of living and reasonable business overhead costs, Quebec City is considered to be one of the best cities in Canada for setting up and operating a business.

The Capitale-Nationale region was less affected than others by the recession that struck most industrialized countries and slowed the economic growth of emerging countries. The stability offered by the public service, health care services and educational services sheltered the region's economy from the crisis to some extent. Moreover, the vitality of the finance and insurance, entertainment, construction and trade sectors reduced the impact of the economic downturn. Several of these industries generate basic activities that inject new money into the region.

The recession is now over, but its traces will influence employment growth in several industries. The Capitale-Nationale region was belatedly affected by the recession and although the impact on the labour market was relatively modest in 2009, the repercussions are still being felt in the form of job losses. The regional labour market is likely to remain hesitant during the first half of 2010. The decline in employment observed since the beginning of the year may limit employment recovery at the start of the forecast period. The recovery will be slow and employment growth will occur primarily in the service sector.

Coming out of the recession, businesses will continue to focus on controlling costs and increasing productivity, primarily through capital and technological investments, which will slow employment gains. Employment recovery may also be hampered by the reluctance of employers to hire at the start of the recovery, preferring to increase working hours to meet additional demand. Slow growth of the working-age population will also limit labour supply, which may contribute to delaying employment growth.

For 2010, we are anticipating a return to employment growth along with a rise in unemployment. Between 2010 and 2012, our growth projections for the Capitale-Nationale region indicate average annual growth of 0.9%

in the employment level, a growth rate similar to that anticipated for the province as a whole (1.0%). The rise in employment, initially modest, will become more significant in subsequent years.

Sectoral Outlooks

Primary Sector

The primary sector's relative share of employment and output in the Capitale-Nationale region is small. It accounts for less than 1% of all jobs in the region compared with 2.4% for Quebec, and its contribution to the collective wealth in 2007 amounted to 0.7% of the region's gross domestic product. Between now and 2012, the employment level in the primary sector will show a slight decrease of 0.5% per annum, owing to the decline of the forest and logging industry.

Secondary Sector

The construction industry should remain strong in the Capitale-Nationale region but since the level of activity is already very high, employment growth will be weaker than in recent years. Non-residential construction will see the most growth due to major government investments in infrastructure projects.

The employment level in the manufacturing sector has fallen by 20% since 2006. After a difficult period, the start of the next decade may be more favourable for this sector. However, this will mean the recovery of lost jobs rather than reversal of the trend. In the short term, the strength of the Canadian dollar and relative weakness of U.S. demand will limit export growth. Moreover, although the restructuring of a number of traditional industries is virtually complete, this will continue to have a negative impact on employment growth for some consumer-related and resource-related industries. We believe that the manufacturing sector's problems will ease, but the recovery will be lethargic. It will take at least until the end of the forecast period for employment to return to its pre-recession level.

Some industries, particularly those related to investments, may perform better, including the computer and electronic product, plastics and rubber products, fabricated metal product and food manufacturing industries. Between now and 2012, employment will increase at the rate of 0.5% per annum.

Tertiary Sector

Because of the region's industrial structure and the vitality of several industries, services have been driving employment growth in the Capitale-Nationale region for the past few years. Their contribution to employment growth has been less notable recently, however, due to the recession, which has affected certain production services industries more severely. Between 2010 and



2012, the service sector will be responsible for 90% of regional employment growth. This growth will be generated primarily by health care and social assistance services, professional, scientific and technical services, and finance and insurance as well as retail trade. In a deficit situation, governments will limit the rate at which expenditures increase, which will have an impact on the employment level in public administration. Based on our forecasts, the employment level for all services will rise slightly in 2010, but the increase will strengthen as the economy picks up steam. Over the period as a whole, we are expecting average annual growth of 0.9%.



Introduction

Each year, Service Canada issues medium-term employment forecasts both by industry and by occupation for Quebec as a whole and for each of its economic regions. The results of these analyses are published in the form of a series of studies intended to provide a comprehensive overview of recent labour market developments and outlooks in Quebec and its various regions.

This document addresses the sector-specific outlooks, and a second document, which will be published later, will present the occupational outlooks.

We hope this series of documents will interest people who are seeking labour market guidance and those who help them, including parents, educational staff and employment assistance services workers. It should also interest businesses and employer associations that want to identify human resources management issues in their industries.

This document is made up of two sections. The first part provides a synopsis of the labour market in the region, including an overview of economic developments and key labour market indicators. The second part presents sectoral outlooks by industrial groups catalogued according to the North American Industry Classification System (NAICS).



Notes on methodology

Employment estimates

The employment estimates by industry are based on Statistics Canada's Labour Force Survey (LFS), because this tool is the only reliable source that follows employment developments in both Quebec and the regions. Since the employment level in some industries is very low in a number of economic regions, other sources of data—mainly of an administrative nature—have sometimes been used because LFS figures in these industries are unreliable. In addition, three-year (2007-2008-2009) averages are included in the statistical tables to provide a more reliable indication of employment levels.

The employment outlooks have been established for a three-year period, from 2010 to 2012. They were developed in spring 2009-2010 in co-operation with Service Canada economists working in Quebec's regions. We also wish to thank the Canadian Occupational Projection System (COPS) team, without which we would not have had access to many of the analysis and forecasting tools that were used to carry out this study.

Industrial groups

The industrial analysis presented in this study is based on an aggregation using the North American Industry Classification System (NAICS). Here, we provide a brief overview of the composition of each of these groups. Precise definitions of the industries are available in the NAICS published by Statistics Canada.

Primary sector

- 11 Agriculture, Forestry, Fishing and Hunting
- 21 Mining and Oil and Gas Extraction

Manufacturing

- 31-33 Manufacturing

When relevant, the following groups are also presented:

Consumer-related manufacturing

- 311 Food Manufacturing
- 312 Beverage and Tobacco Product Manufacturing
- 313 Textile Mills
- 314 Textile Product Mills
- 315 Clothing Manufacturing
- 316 Leather and Allied Product Manufacturing
- 323 Printing and Related Support Activities
- 337 Furniture and Related Product Manufacturing
- 339 Miscellaneous Manufacturing

Resource-related manufacturing

- 321 Wood Product Manufacturing
- 322 Paper Manufacturing
- 324 Petroleum and Coal Products Manufacturing
- 327 Non-Metallic Mineral Product Manufacturing
- 331 Primary Metal Manufacturing

Investment-related manufacturing

- 325 Chemical Manufacturing
- 326 Plastics and Rubber Products Manufacturing
- 332 Fabricated Metal Product Manufacturing
- 333 Machinery Manufacturing
- 334 Computer and Electronic Product Manufacturing
- 335 Electrical Equipment, Appliance and Component Manufacturing
- 336 Transportation Equipment Manufacturing

Construction

- 23 Construction



Consumer services

- 44-45 Retail Trade
- 51 Information and Cultural Industries
- 71 Arts, Entertainment and Recreation
- 72 Accommodation and Food Services
- 81 Other Services (except Public Administration)

Production services

- 22 Utilities
- 41 Wholesale Trade
- 48-49 Transportation and Warehousing
- 52 Finance and Insurance
- 53 Real Estate and Rental and Leasing
- 54 Professional, Scientific and Technical Services
- 55 Management of Companies and Enterprises
- 56 Administrative and Support, Waste Management and Remediation Services

Public and parapublic services

- 61 Educational Services
- 62 Health Care and Social Assistance
- 91 Public Administration



Part 1: Overview

Description of area

The Capitale-Nationale region is bordered by the Mauricie region to the west, the Saguenay-Lac-St-Jean region to the north, the Côte-Nord region to the east and the St. Lawrence River to the south. In addition to Quebec City, the region includes six regional county municipalities: Charlevoix-Est, Charlevoix, La Côte-de-Beaupré, L'île d'Orléans, La Jacques-Cartier and Portneuf.

Economic environment

The regional economy, heavily influenced by Quebec City, the province's capital, is dominated by the service industry, which is characterized by large numbers of jobs in public administration, health care, educational services, wholesale and retail trade, tourism, arts, entertainment and recreation. Quebec City is becoming increasingly noteworthy for the vitality of its commercial and industrial enterprises. The Quebec City region is also well positioned in the area of research and development and is considered a centre of biotechnological and biomedical innovation, which fosters the emergence of innovative companies. Quebec City has been cited as an excellent place to establish a business because of its highly educated, creative population, low cost of living and low operating costs. Quebec's second largest city is known as a safe and tolerant place to live where quality of life is high and culture abounds. These attributes, combined with its economic development potential, make it attractive to new workers, particularly for businesses employing highly skilled workers.

Since the beginning of this decade, the performance of the regional economy has been better than that of Quebec as a whole. Gross domestic product (GDP) at base prices increased more quickly, with average annual growth of 4.9% compared with 4.1% provincially. Nevertheless, the rate of economic growth in the region decreased significantly in 2008 to 2.5% while still remaining higher than that of the province (1.9%). The recession did not have an impact on capital expenditures, which increased at an average annual rate of 11% between 2000 and 2009. More than 20% of that increase occurred in 2009. In 2010, it is anticipated that they will grow by 4.9%, one of the highest increases of all the regions.

The Capitale-Nationale region has a higher standard of living than the Quebec average.

Income and wealth accumulation influence household confidence and consumer spending. In this regard, the Capitale-Nationale region can boast a higher standard of living than the Quebec average. Per capita disposable personal income (\$26,363 in 2008) grew steadily between 2003 and 2008 and is among the highest in all of Quebec's administrative regions.

Housing starts are another indicator of the region's economic vitality. These grew an annual average of 11.7% in the greater Quebec City area between 2000 and 2009 compared with 6.5% for the province as a whole.

Labour market indicators

After an almost uninterrupted period of employment growth between 2000 and 2008, the Capitale-Nationale region did not come through the recession unscathed. The impact on the labour market was relatively limited, however. Over the year, the labour force (influenced by rising unemployment) grew by 0.2% to 375,800, the highest level since regional statistics have been compiled. Since the working age population grew more quickly than the labour force, the participation rate fell by 0.5% to 65.6%.

Despite slight job losses in 2009, the region had the lowest unemployment rate (5.2%) in Quebec.

In terms of employment, the region got off to a good start in 2009 and showed resilience until the second quarter before experiencing heavy losses in the third, quickly stabilizing by year-end, however. In 2009, the economy's woes finally made the employment level fall by 0.6% (-2,000) to 356,100. Province-wide, the drop in employment was more severe (-1.0%). Despite this decline, the volume of employment in the region remained historically high; in fact, it was at its second highest level after its 2008 record. This slight deterioration of the



labour market was amplified, however, by the quality of the jobs lost, which were primarily full-time positions in the manufacturing and public administration sectors. Transportation and warehousing as well as accommodation and food services were also hard hit by the drop-off in economic activity. The employment rate fell by 0.9% to 62.2%.

Despite the rise in unemployment, the region's unemployment rate (5.2%) stayed well below that of the province as a whole (8.5%). It was also the lowest of all the administrative regions of Quebec, for the sixth year in a row.

Table 1

Main Labour Market Indicators – 2007-2009				
Capitale-Nationale Region				
	2007	2008	2009	2007-2009
Population 15+ ('000)	564.1	568.0	572.9	568.3
Labour force ('000)	372.0	375.2	375.8	374.3
Employed ('000)	353.7	358.1	356.1	356.0
Unemployed ('000)	18.3	17.1	19.7	18.4
Unemployment rate (%)	4.9	4.6	5.2	4.9
Participation rate (%)	65.9	66.1	65.6	65.9
Employment rate (%)	62.7	63.0	62.2	62.6

Source: Statistics Canada, Labour Force Survey
Data compiled by Service Canada



Part 2: Sectoral Outlook

Overview

Industrial structure

The industrial base of the Capitale-Nationale region is primarily the service sector, which accounts for about 86% of regional employment, compared with 78% in the province as a whole. The manufacturing sector (8.8% of the region's jobs) is much less significant in terms of jobs than in Quebec overall, where it represents 14% of all employment. The proportion of employment associated with the construction industry is also lower: 4.1% in the Capitale-Nationale region compared with 5.4% for Quebec. The relative share of primary sector employment is low in the region. At 0.9%, it is well below the provincial percentage (2.4%).

Outlook

Although the worldwide recession began outside our borders, it had a severe impact on the Canadian economy, where GDP fell by 2.6% in 2009. However, Canada withstood the crisis better than most other major industrialized countries. Quebec's economy came through even better, with a decline in GDP of 1.4%. The most recent economic forecasts predict an improvement in the economic situation, whether at the international, national, provincial or regional level.

But despite the anticipated improvement, the recovery will be unsteady at the beginning of the period and will remain dependent on government measures. Government infrastructure stimuli, which will peak in 2010, and consumer spending will lay the foundations for the recovery, while exports and private sector investments will become more significant in subsequent years. Despite several positive signs, doubts remain as to the extent and sustainability of the recovery. The strength of the Canadian dollar and the relative weakness of U.S. demand may challenge exports, and there is considerable ongoing uncertainty regarding the growth of the world economy, particularly in Europe. Moreover, in the medium term, the decrease in stimulus programs, the impact of the debt load and deductions (taxes, fees, income tax, health care contributions) from household incomes (particularly in Quebec) may slow public and consumer spending. Wide fluctuations in Quebec consumer confidence indicators since the beginning of the year are a sign that Quebecers are uncertain about and hesitant to make major expenditures. Furthermore, the Quebec government has announced its intention to balance the budget within five years. A number of measures to be taken between 2011 and 2013 will limit the public sector's contribution to economic growth.

Growth may slow as economic stimulus programs end and efforts are made to balance the budget.

The Capitale-Nationale region was less affected than others by the recession. The stability offered by the public service, health care services and educational services sheltered the region's economy from the crisis to some extent. Moreover, the vitality of the finance, entertainment, construction and trade sectors reduced the impact of the economic slowdown. Several of these industries generate basic activities that inject new money into the region, since the goods or services produced are sold to external markets or consumed by people living outside the region. According to the Conference Board of Canada, the GDP for the Quebec Census Metropolitan Area (CMA) fell by only 0.7% in 2009, for one of the best performances of all CMAs in the country.

The Capitale-Nationale region was less affected than others by the recession in 2009.

The recession is now over, but its after-effects will influence employment growth in several industries. The Capitale-Nationale region was belatedly affected by the recession, and its impact on the labour market has been minor so far, but is still being felt. The region started 2010 badly with a drop in employment (-7,200 or -2.0% in the first five months of 2010) compared with the province as a whole, where there was a moderate improvement (+1.2%). The regional labour market is likely to remain hesitant in the first half of 2010. The decline in employment observed since the beginning of the year may limit employment recovery in 2010. The recovery will be slow and employment growth will occur primarily in the service sector.



The regional labour market will continue to feel the impact of the recession. Recovery will be slow.

We are anticipating a return to growth in 2010.

Although the recovery is now under way and we are not seeing as many mass layoffs, businesses continue to focus on controlling costs and improving productivity, largely through capital investment and spending on technology, which will restrict employment growth. A turnaround on the employment front may also be delayed by employers' reluctance to hire in the early days of the recovery, preferring to meet additional demand by increasing work hours. As well, slow growth in the size of the working-age population will limit the supply of workers, which may contribute to delaying employment growth.

Nevertheless, for 2010 we are anticipating a return to growth. It will be stimulated by rising revenues, a series of public and private investments, infrastructure improvements and construction of office buildings. A number of industrial sectors will contribute to the recovery, including the construction, finance, insurance, real estate and rental and leasing sectors, trade, health care and social services, professional, scientific and technical services, and the information, culture and recreation sectors. The problems of the manufacturing sector will ease, but in general this sector will have another difficult year. The public administration sector will strive for greater efficiency in the public service and limit the growth of expenditures. Between 2010 and 2012, the growth projections for the Capitale-Nationale region indicate average annual growth of 0.9% in the employment level, a growth rate similar to that anticipated for the province as a whole. The rise in employment, initially modest, will become more significant in subsequent years.

Table 2

Employment Breakdown and Outlook for Selected Industry Groups					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level ('000)	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
All industries	356.0	100.0%	100.0%	0.9%	1.0%
Primary	3.3	0.9%	2.4%	-0.5%	0.3%
Manufacturing	31.4	8.8%	14.0%	0.5%	0.4%
Construction	14.8	4.1%	5.4%	1.0%	1.3%
Services	306.6	86.1%	78.2%	0.9%	1.1%
Consumer services	98.8	27.8%	27.6%	0.9%	1.0%
Production services	97.0	27.3%	26.0%	1.4%	1.6%
Public and parapublic services	110.8	31.1%	24.7%	0.5%	0.8%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)

Primary sector

The employment level in the primary sector will decrease slightly, by 0.5% per annum.

The primary sector's relative share of employment and output is small in the Capitale-Nationale region. It accounts for less than 1% of all jobs in the region and its contribution to overall wealth in 2007 amounted to 0.7% of the region's GDP. The region has about 3.5% of all primary sector jobs in Quebec.

The employment level in the primary sector trended downward in recent decades under the influence of changing employment in the agriculture and forest and logging industries. Between now and 2012, the employment level in the primary sector will decrease slightly by 0.5% per annum, owing to the decline of the forest and logging industry.

Employment in agriculture seems to have stabilized in recent years. In an attempt to increase the productivity and profitability of farming operations, farmers have begun seeking economies of scale. We have therefore witnessed a consolidation of farms into larger operations with more farmers working together. Between 2001 and 2006, the number of farms remained relatively constant in the region, but decreased in rural areas. This drop was offset by an increase in small farms in the urban area. The development of regional *terroir* products, operations focusing on niche products, and agricultural tourism, as well as the introduction of a protected geographical labelling system are encouraging the emergence of small, highly specialized operations that focus on high-quality products. This trend will help stabilize the employment level in the agriculture industry.

Table 3

Employment Breakdown and Outlook in the Primary Sector					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level (‘000)	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
Primary sector	3.3	0.9%	2.4%	-0.5%	0.3%
Agriculture	2.0	0.6%	1.6%	0.0%	-0.3%
Forestry and logging	0.9	0.3%	0.4%	-1.9%	0.0%
Fishing, hunting and trapping	0.0	0.0%	0.0%	0.0%	1.9%
Mining	0.3	0.1%	0.4%	0.0%	2.5%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)

Forestry and logging represent a key sector for several municipalities in Côte-de-Beaupré, Portneuf and Charlevoix. In decline for some years, this sector has felt the consequences of the challenges faced by the wood products and pulp and paper manufacturing industries and the rationalization of the pulp and paper industry. Often integrated with large forestry companies, many businesses were weakened by the financial problems of the parent companies. The last few years have also been characterized by a reduction of the potential area for logging. In the short term, this situation is not expected to turn around and we are anticipating a slight decrease in employment, primarily at the beginning of the forecast period. However, the situation may improve in the medium term with the economic recovery stimulating demand for wood.

Mining activity in the region mainly involves the extraction of non-metallic minerals (architectural stone, industrial stone, cement, sand and gravel) and a few mining exploration and oil and gas companies. Demand for these products will be sustained by the vitality of the construction industry, particularly the abundant infrastructure work, but will not generate additional jobs. We believe that employment in the mining industry will remain relatively stable over the forecast period.

Manufacturing sector

Employment in the manufacturing sector has declined significantly since 2006.

The manufacturing sector does not occupy a dominant position in the region's economic structure. Employment is estimated at 31,400, which represents about 8.8% of total employment, compared with 14.0% province-wide. The manufacturing industry's GDP was approximately \$2.9 billion in 2007, or about 10.7% of the region's GDP, considerably lower than for the province as a whole (17.6%). The regional diversification policy put in place in the late 1990s promoted development of the manufacturing sector in the Capitale-Nationale region. Employment increased by 32% between 1998 and 2006. Changes in the



The manufacturing sector will begin a period of recovery.

distribution of manufacturing employment among the different industries also fostered significant diversification of the sector. Nevertheless, manufacturing has declined significantly over the past three years. Since 2006, one out of five manufacturing jobs has disappeared.

After a difficult period, the start of the next decade may be more favourable for this sector. The current employment level leaves little room for a significant decrease and the restructuring of a number of traditional industries is virtually complete. We believe that the manufacturing sector's problems will ease, but the recovery will be lethargic. It will take at least until the end of the forecast period for employment to return to its pre-recession level. In the short term, the strength of the Canadian dollar and relative weakness of U.S. demand will limit export growth. Furthermore, several companies announced that they would cease operations in late 2009 and early 2010, primarily in the wood products manufacturing and pulp and paper industries. Other industries are anticipating consolidation of their workforces. The outlook is better for some sectors, including computer and electronic products, plastics and rubber products, fabricated metal products and food manufacturing. Between now and 2012, employment will increase at an annual rate of 0.5%. However, this will mean the recovery of lost jobs rather than a reversal of the trend.

Consumer-related manufacturing

The consumer-related manufacturing sector includes 12,100 workers in the Capitale-Nationale region, or 3.4% of total employment. It accounts for nearly 39% of all manufacturing employment in the region. The employment level in consumer-related industries fell over the past three years. With the exception of food, beverages and tobacco, and furniture and related products, the industries in this group have seen a drop in employment. Structural and, more recently, economic problems have affected many industries in this segment of the manufacturing industry. Over the next three-year period, the industries will continue to develop asymmetrically. The profound transformation and low employment level of the textile, clothing and leather product manufacturing industries as well as the printing industry do not point to a reversal of the trend. These industries will therefore continue their decline. The food and beverages, furniture and related products, and miscellaneous manufacturing sectors will see a slight increase in employment. For the group as a whole, we are anticipating that employment will grow an average of 0.5% per annum by 2012.

A number of projects will boost employment in the food and beverages industry.

The food and beverages industry is the largest in the consumer-related manufacturing sector. It accounts for about 43% of all employment in this industrial group in the Capitale-Nationale region. This industry is not as sensitive to economic cycles, but is facing a slowly growing, mature market which depends primarily on population growth and higher disposable income. Foreign competition is also increasing in this industry, particularly in the emerging health foods segment. The industry is also characterized by relatively low productivity. To improve their competitive position and maintain their market share, companies will focus on improving productivity and developing new products. Specialized and niche products will be emphasized. Capital spending in the region increased in 2009 and a number of projects to be implemented during the forecast period will boost the employment level, which is expected to rise by 1% per annum on average between 2010 and 2012.

Since the early 2000s, employment in the clothing and leather product manufacturing industry has fallen by half. The elimination of trade barriers and import quotas led to increased competition which, combined with the rise in value of the Canadian dollar, adversely affected the profitability of businesses in this industry. In response to these changes, certain companies altered their business models by outsourcing some of their production to Asian subcontractors. The outsourcing of production jobs helped to safeguard design activities, but significantly lowered the employment level. From 10% in the late 1980s, the relative share of this industry's employment in manufacturing as a whole fell to less than 1%. Fashion design remains a promising avenue for small studios. The outlook is also better for specialized niches. Employment in this industry will continue



The printing industry is undergoing structural and economic changes.

its decline, but at a much slower pace than in previous years (-1.9% per annum on average).

The printing sector has been under fire from all sides, a victim of both the transformation of the industry and the economic slowdown. The shift from print to electronic content and ever-increasing competition have prompted consolidation and restructuring of the industry. Many small firms closed their doors, leaving their share of the market to larger players. Competition comes not only from other countries, but also from other sectors which, thanks to technology, can compete with the smallest companies. The publishing and print media crisis is also contributing to the turmoil in the printing sector by decreasing the number of publications. It is not surprising, in this context, that the industry's GDP fell by 30% between 2003 and 2007 in the Capitale-Nationale region. The employment level also followed a downward trend. Despite the recovery, business spending on communications and marketing will remain low, resulting in decreased direct mail advertising, commercial printing and investment in advertising. In a more competitive environment, companies will increasingly rely on more advanced technologies to boost productivity. The employment level will drop by 1.7% on average over the next three years.

The furniture and related product manufacturing industry in the region represents about 6% of manufacturing employment. It is mainly centred on the production of cabinets and cabinet components, an activity greatly affected by changes in the residential construction industry. The recession and the collapse of the residential sector in the United States have adversely affected the revenues of several companies in the region, but the strength of the domestic residential sector has helped most firms survive. Producing distinctive, high-quality products is a sure way to stand out from the competition. The high-end market offers better prospects therefore. Residential construction in the region will decline over the next few years, but remain at a historically high level. Together with the anticipated economic recovery in the United States, it is expected to benefit the region's furniture industry. The employment level will see a slight increase of 0.7% per annum over the next three years.

Resource-related manufacturing

Resource-related manufacturing is the smallest manufacturing segment in the Capitale-Nationale region. It accounts for 6,600 jobs, which represents 1.9% of employment in the region and constitutes 21% of all manufacturing jobs in the region. This group is made up of traditional industries and is distinguished from other manufacturing categories by a greater proportion of large firms. In recent years, this group has been marked by the closure of several large companies. Employment has fallen by more than 30% from the peak reached in 2006. Furthermore, a number of projects that could have injected new vitality into this segment have been postponed. The slow economic recovery and the restructuring of several industries in this segment will continue to have a negative impact on employment. Based on our forecasts, the decline in employment will be 1.7% on average over the next three years.

A ray of hope for the wood product manufacturing industry.

The wood product manufacturing industry continues to experience difficulties. To the structural problems that undermined the profitability of many companies over the past few years was added the more recent contraction of the market because of the economic slowdown. The problems in the pulp and paper industry are also restricting the wood product industry's market, particularly that of sawmills, which derive a significant proportion of their income from the wood chips market. In the Capitale-Nationale region, many independent sawmills may suffer from the closure of the AbitibiBowater plant in Beaulieu and the crisis affecting many other pulp and paper plants in the region. Sawmills that are affiliated and vertically integrated with the major forestry firms may feel the effects of the financial difficulties of their parent companies. The demand for lumber has also been weakened by the economic downturn and the deterioration of the real estate market in North America. Attesting to the weakness of the market, investments in the wood product industry fell 17% over the past five years in the region. In the short term, it is expected that these rationalizations will lead to a decline in employment, but the consolidation trend is expected to fade over time. Some signs of improvement can be seen, such as the rise in forest product prices and an increase in the provincial GDP for this sector. The end of the



U.S. real estate crisis, the government strategy to promote increased use of wood in construction in Quebec and the vitality of the construction sector will help the industry. After a slight drop in 2010, the industry will recover almost all of the jobs lost by 2012.

Table 4

Employment Breakdown and Outlook in the Manufacturing Sector					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level (‘000)	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
Manufacturing sector	31.4	8.8%	14.0%	0.5%	0.4%
Consumer-related manufacturing	12.1	3.4%	5.2%	0.5%	-0.1%
Food, beverages and tobacco	5.2	1.5%	2.0%	1.0%	0.9%
Textile mills and textile product mills	0.2	0.0%	0.3%	0.0%	-1.0%
Leather clothing and products	1.2	0.3%	0.7%	-1.9%	-2.5%
Printing and related activities	2.0	0.6%	0.7%	-1.7%	-1.6%
Furniture and related products	1.9	0.5%	0.9%	0.7%	0.1%
Miscellaneous manufacturing	1.7	0.5%	0.6%	1.9%	0.6%
Resource-related manufacturing	6.6	1.9%	3.0%	-1.7%	0.1%
Wood product manufacturing	2.3	0.6%	1.0%	-0.1%	0.4%
Paper manufacturing	1.4	0.4%	0.7%	-10.6%	-1.3%
Petroleum/coal products manufacturing	0.1	0.0%	0.1%	0.0%	-3.0%
Non-metallic mineral product manufacturing	1.4	0.4%	0.4%	1.9%	1.5%
Primary metal manufacturing	1.4	0.4%	0.7%	1.8%	0.8%
Investment-related manufacturing	12.7	3.6%	5.8%	1.6%	1.0%
Chemical products	1.9	0.5%	0.8%	0.2%	0.3%
Plastics and rubber products	1.9	0.5%	0.9%	1.7%	0.4%
Fabricated metal product manufacturing	3.3	0.9%	1.1%	2.1%	1.7%
Machinery manufacturing	1.5	0.4%	0.6%	1.1%	1.0%
Computer and electronic product manufacturing	1.9	0.5%	0.6%	2.6%	0.7%
Electrical equipment, appliance and component manufacturing	1.0	0.3%	0.4%	1.3%	1.1%
Transportation equipment manufacturing	1.1	0.3%	1.4%	1.6%	1.1%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)

Closures and problems in several pulp and paper plants.

The pulp and paper industry is still facing production surpluses, which drive prices downward, particularly in the case of newsprint. In a context of depletion of raw materials, increased competition and higher production costs, the fall in prices is severely testing business profitability. Given this trend, companies in the region are cutting back on their production capacity by halting production more frequently and for longer periods. In the past two years, AbitibiBowater's financial woes have forced the company to close two major plants in Donnacona and Beaufort. The cuts announced for the Clermont plant have been postponed for the time being, but the situation remains worrisome. The company recently signed a collective agreement that includes significant salary concessions. Meanwhile, White Birch Paper has applied for bankruptcy protection with a view to restructuring. The company has until July 12, 2010 to present its plan for reorganization and may even be forced to sell its facilities. Several plants that are precariously balanced may teeter and fall if conditions in the pulp and paper market deteriorate. On the other hand, plants producing wrapping paper and bathroom tissue are benefiting from more sustained demand. Employment in the pulp and paper industry will drop just over 10% per annum during the forecast period.

The economic recovery, the strength of the non-residential construction industry and substantial investments in public infrastructures will support the activities of the non-metallic mineral product and primary metal manufacturing industries. Several companies in the region have shifted their production to the municipal products market and should benefit from the demand for products related to road maintenance, as well as cast iron items for roads and use in wastewater systems. Furthermore, SiliCycle has plans to expand that are expected to increase its workforce by 75 people over the next three years. On the other hand, the aluminum market remains problematic. Expansion of the Alcoa plant in Deschambault is not among the multinational's priorities and has been postponed until at least 2014. This project, which involves investments of a billion dollars, may generate 250 additional jobs.

Investment-related manufacturing

Employment growth in investment-related manufacturing will be stronger than for all industries.

Employment in the investment-related manufacturing industries is estimated at 12,700, or 3.6% of regional employment. This sub-sector has experienced the highest employment growth over the past two decades. Its contribution to the diversification and growth of the regional manufacturing sector has been substantial. However, like the rest of the manufacturing sector, it has experienced problems over the past three years. The fabricated metal product, machinery and computer and electronic product manufacturing industries have suffered from the recent contraction of the economy. The outlook for the forecast period is more favourable. Innovation and high technology remain avenues of development prioritized by regional leaders. Furthermore, under the ACCORD agreement, applied technologies, life sciences, health foods, metals and advanced materials are the sectors of choice. We are anticipating a decrease in employment in 2010 followed by a moderate recovery in 2011 and 2012. For the period as a whole, we are forecasting stronger growth (1.6%) than for all industries (0.9%).

The Capitale-Nationale region is fertile ground for the development of biotechnology companies.

The chemical manufacturing industry is relatively small but diversified in the Capitale-Nationale region. It provides employment for about 1,900 people, representing 6% of manufacturing jobs. Over the years, the pharmaceutical and biotechnology product sector has grown substantially, particularly with the arrival of GlaxoSmithKline, which employs 800 people. The presence of several research centres (in the biomedical and applied sciences areas) makes the region fertile ground for the establishment and growth of biotechnology companies, especially with the boom in medical imaging and genomics working in the region's favour. Despite the rationalization of the industry at the international level and the scarcity of venture capital, several companies in the region have succeeded in obtaining funding to pursue research and development. Significant investments, as well as new contracts and marketing agreements will prompt consolidation of operations in the region. A new initiative, the development of a "cosmetics valley", was recently launched. Companies in this industry are interested in co-operating to stimulate the growth of this sector. The group hopes to attract foreign businesses to the region to supplement local expertise. Our forecasts indicate that in the short term, a transfer of two companies' activities will lead to a slight drop in employment in 2010, which will be quickly offset by the



expansion of several companies between now and 2012. On balance, employment will grow very slightly, by 0.2% per annum.

Employment in the plastics and rubber products manufacturing industry bounced back in 2009. This growth followed in the wake of two consecutive years of declining employment. The difficulties of the residential construction market in the United States and the problems experienced by the large U.S. automobile manufacturers adversely affected the activities of local companies whose market is linked to these sectors. The recovery of the past year, capital investments and development of new products and markets point to an improvement in this industry's situation in the region. For example, Foam Creations reopened with a new product, but a smaller workforce. The company, which focuses on research and development, will seek to diversify production over the next few years in order to ensure growth. Novik, meanwhile, has invested several million dollars in expanding its facilities and purchasing equipment. New products will be added to the company's range, which will help to create some sixty jobs. The employment level in this industry will rise by 1.7% per annum.

The fabricated metal product industry will benefit from non-residential and road construction projects.

Growth of the fabricated metal product manufacturing industry is dependent on the economic situation. The past year was marked by a drop in exports and the value of manufactured shipments in Quebec. It is also anticipated that capital and maintenance expenditures in Quebec will fall in this industry in 2010. In the Capitale-Nationale region, the impact of the recession and the instability of the automobile market led to the closure of Maxtech and the loss of 70 jobs in early 2010. Investment in this industry has been in free fall for five years in the region and the trend is expected to continue in 2010. Changes in the exchange rate and certain protectionist clauses in the U.S. recovery plan ("Buy American") have also adversely affected opportunities to export to the United States. However, a recent agreement in this regard is expected to allow Canadian companies to benefit, temporarily, from preferential access to certain infrastructure programs financed by the U.S. government. In the short term, the uncertain outlook for the manufacturing sector will continue to delay investment and maintenance projects. However, the demand for structural steel products and welded beams should grow as a result of a large number of institutional construction and engineering projects. Given the foregoing, the metal product manufacturing industry will be in decline in 2010, but will benefit from the strengthening of the economy subsequently to grow by 2.1% on average over the next three years.

In the machinery manufacturing industry, exports and the value of manufactured shipments also declined in Quebec in 2009. Things will improve for this industry in the years ahead, however. The strength of the dollar, the favourable tax environment, certain measures in the federal budget and improved business confidence are expected to encourage investment in equipment. In a context of cost control and fierce competition, companies will also seek to increase their productivity by automating production processes and improving equipment and machinery. The decline of certain manufacturing industries may decrease demand for certain types of equipment, however, such as those related to wood and pulp and paper processing. Manufacturers of heating, ventilation, air conditioning and refrigeration equipment will continue to be well supported by the strength of the real estate sector. Several firms in the region have developed specialized niche markets that still offer growth opportunities. The employment level in this industry will rise slightly (1.1%) by the end of the forecast period.

The computer and electronic product manufacturing industry is highly dependent on its capacity to export its products and is therefore subject to the world economic situation. It has suffered from the recession that afflicted most industrialized countries and the slowdown in economic growth in the emerging countries. This industry's GDP fell significantly over the past five years in Quebec. It is also characterized by the existence of several sub-sectors whose growth has been uneven in the past few years.

Efforts to improve productivity and modernization of network infrastructures will help the computer and electronic products industry.

The demand for computer and electronic products is influenced in part by consumer spending, but primarily by companies investing in machinery and equipment. Efforts to improve productivity should boost demand, since investment in technology contributes to company restructuring and cost cutting and represents a source of added value and innovation. The growth of certain sub-sectors of the market (high speed, Internet, smart



phones, online games, networking, etc.) requires modernization of the network operators' infrastructures, which will also be favourable to the industry.

Increased competition is exerting downward pressure on sales prices, which is leading companies to cut their production costs. To this end, some firms have chosen to outsource the manufacturing of their high-volume, low-complexity products to production facilities in emerging countries. This direction could affect the future growth of some enterprises in the region.

In the Capitale-Nationale region, the electronic products industry, and particularly activities related to optics-photonics, defence, security and protection, represent a "niche of excellence". Several other niche markets (aerospace, energy, medical applications) are being developed and represent promise for the future. After a period of stabilization in 2010, the industry will resume its rate of growth.

Construction industry

The construction industry will remain strong, but employment growth will be lower than during the past few years.

The construction industry employs 14,800 people in the Capitale-Nationale region, which represents 4.1% of all employment. This industry has posted strong growth in the region since the early 2000s. Employment has increased at an average annual rate (5%) twice that of all industries (2.3%). The construction industry's GDP has also risen substantially (43% between 2003 and 2007). According to data from the Commission de la construction du Québec, both the number of workers and the number of hours worked by workers residing in the region have increased steadily over the past decade. Between 2010 and 2012, the construction industry is expected to remain strong in the Capitale-Nationale region, but, given the already high activity level, employment growth will be lower than during the past few years. We are forecasting annual growth of about 1%.

The residential sector is expected to decline slightly, but will remain at a historically high level. The low vacancy rate for rental housing, favourable mortgage rates and lending conditions and positive migration will continue to exert a significant influence on housing demand. Several large residential development projects will be carried out, including Le Mesnil and the eco-quartier housing in Estimauxville and Pointe-aux-Lièvres, not to mention the Cité Verte project in the Saint-Sacrement neighbourhood. In addition, the resale market will be steady. After a slight drop in 2009, the Canada Mortgage and Housing Corporation (CMHC) is anticipating a rise (1%) in the number of transactions in 2010 in the Quebec City Census Metropolitan Area. The volume of transactions may decrease, however, starting in 2011, which will exert downward pressure on renovation activities. Spending on home renovations may also decline with the end of renovation assistance programs.

Non-residential construction will be in a better position in the next three years. The vacancy rate for office buildings is still below the equilibrium level in the region, which is stimulating the construction of new buildings. Major investments by the different levels of government in projects to overhaul infrastructure (transportation and roads, educational and health care institutions, museums, research laboratories and sports facilities) should offset the decline in construction of new housing. Under the Quebec Infrastructure Plan, tens of billions of dollars will be invested over the next five years, while the City of Quebec's 2010-2012 three-year capital investment plan includes some \$1.6 billion for municipal infrastructures. There are also a number of private projects for the production of electricity (a wind farm and a hydroelectric plant) that will have a significant impact on employment in the construction industry.

Service sector

Between now and 2012, the service sector will be responsible for 90% of employment growth in the region.

The service sector accounts for approximately 306,600 jobs in the region, or 86% of employment compared with a little over 78% in the province as a whole. Because of the volume of employment and the vitality of several industries, this sector has been driving employment growth in the region for the past few years, offsetting employment losses in commodity production. Its contribution to employment growth has been less significant recently because of the recession, which had more impact on production services. Between now and 2012, the service sector will be responsible for 90% of employment



growth in the region. This growth will be generated primarily by health care and social assistance services, the professional, scientific and technical services industries, finance and insurance, and the retail trade industry. In a deficit situation, governments will limit spending, which will affect the employment level in public administration. Our forecasts indicate that the employment level for all services will increase only slightly in 2010, but growth is expected to pick up speed as the economy becomes stronger. Between 2010 and 2012, we are anticipating average annual growth of 0.9%.

Consumer services

Consumer services employ 98,800 people in the Capitale-Nationale region, accounting for almost 28% of total employment. Historically, employment growth in this category of services has always been lower than that of all industries, primarily because of its greater sensitivity to economic cycles. The accommodation and food services and other services industries were hard hit by the recent recession but, overall, consumer services withstood the economic downturn better than previous recessions. The employment level grew by 0.8% on average over the past three years. Continued employment growth in the retail trade and information, culture and recreation industries as well as recovery of lost jobs in the accommodation and food services industries will raise the employment level for this sector by 0.9% per annum between now and 2012. This growth will be in line with the provincial trend.

Retail trade is an important industry in the Capitale-Nationale region. Over the past three years, this sector provided work for 45,600 people on average, which represents nearly 13% of regional employment. Population growth and an improved standard of living, a dynamic labour market, urban sprawl, the geographic location of Quebec City, as well as the attraction exercised by the city's major shopping centres on the population of Eastern Quebec have fostered strong growth in this industry's employment and GDP. Retail trade is expected to continue this trend in the short term, but at a more moderate pace. Population growth (although slow), slow growth of the labour market and low interest rates (despite the expected recovery and the effect of credit restrictions) as well as the lack of inflationary pressures will continue to favour consumer spending. Furthermore, significant investments and major expansion projects are planned for both major shopping centres, allowing the arrival of new stores. The sales tax increase (expected in 2011) may also contribute to increased spending in late 2010.

Table 5

Employment Breakdown and Outlook in Consumer Services					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level (^{'000})	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
Consumer services	98.8	27.8%	27.6%	0.9%	1.0%
Retail trade	45.6	12.8%	12.4%	0.7%	0.9%
Information, culture and recreation	12.8	3.6%	4.5%	1.5%	1.0%
Accommodation and food services	24.7	6.9%	6.2%	1.3%	1.0%
Other services	15.7	4.4%	4.6%	0.9%	1.3%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)



The growth of consumer spending may slow in the medium term and limit the growth of retail trade.

In the medium term, however, a number of factors may curb consumer spending by the region's residents. The sales recovery depends on consumer confidence, which has been shaky since the beginning of the year. Consumers are being cautious, particularly with the expected interest rate hike. The end of the easy money policy and programs to stimulate consumption, the rise in the TVQ (in 2011 and 2012) and low pay raises in the public and parapublic sectors could dampen consumer enthusiasm. Disposable personal income will also suffer from efforts to balance the budget (sales tax, user fees (services, licences), income tax (health care contribution)). In the past few years, the Capitale-Nationale region, because it is home to a large number of public servants, has enjoyed an increase in personal income generated by such things as the pay equity regulations. However, it could suffer more than other regions from the cap on public spending and measures to balance the budget. High household indebtedness may also encourage saving to the detriment of consumer spending. In view of the foregoing, retail trade employment is expected to increase an average of 0.7% per annum between now and 2012, an increase slightly lower than that forecast for the province as a whole (0.9%).

Approximately 12,800 people work in the information, culture and recreation industries in the Capitale-Nationale region, representing 3.6% of all employment in the region. Despite the recession, this industry, which depends in large part on increases in population and disposable income, saw its employment level rise steadily over the past three years thanks to investment in recreational infrastructure, the introduction of policies to support culture, and above all, the expansion of the video game industry.

New niches are being developed in the video game industry. Employment recovery is well under way.

After several years of very strong growth, 2009 was one of consolidation for the video game industry. Difficult economic conditions and declining video game sales slowed growth for some companies. Competition is increasingly stiff in this industry, not only between firms, but also between countries, which are using tax incentives to attract new companies. Competition from developing countries also exerts downward pressure on production costs. In the Capitale-Nationale region, a number of companies are associated with the big names in the industry, which gives them greater stability and helps them win contracts to develop new games for the different consoles. In a more difficult context, other companies have opted instead to alter their business model. They are turning towards subcontracting their activities, preferring to focus on smaller projects and develop their own titles in order to keep the intellectual property rights. The industry also benefits from the development of new niche markets, including animation, 3D technologies, special movie effects, quality assurance and the development of the game market for smart cell phones. Frima Studio plans to hire 120 people in Quebec City within three years thanks to its new division focusing on these niches. The employment recovery in this industry has already begun and is expected to continue throughout the forecast period.

Measures have been taken to consolidate the region's development as a culture and tourism capital.

Quebec City is the province's second largest cultural centre, and culture is now considered a major factor in the city's development. This industry also contributes to the competitiveness of other economic sectors, particularly tourism, one of the industries driving the regional economy. With this in mind, the City of Quebec has joined with industry members and the Government of Quebec to promote cultural development. In 2009, it established the Quebec Horizon Culture initiative, with an action plan involving investments of \$106 million over three years for cultural development. The Première Ovation initiative is intended to make Quebec City the capital of cultural and artistic renewal. The Capitale-Nationale region also makes significant effort to host international sporting and cultural events. Activities related to entertainment, culture and recreation will be given a boost by the development of tourism infrastructures, the holding of several recurring events and the creation of new events. To this end, the municipal government has created a major events fund (the Fonds des grands événements) to enhance the offering of major tourism activities including presentation of the Image Mill and a Cirque du Soleil show until 2013.

The outlook for the information sector is more mixed. The world of media is in transition; advertising revenues are declining and are being distributed differently, leaving traditional media for electronic and Internet-based media. Restructuring and budget cuts have had a negative impact on employment in recent years. The reorganization of certain media organizations is continuing, which may lead to additional cuts, particularly in the print media.



In general, the information, culture and recreation industry will experience moderate growth between now and 2012. Growth in the Capitale-Nationale region will average 1.5%, in contrast to 1.0% for the province as a whole.

The accommodation and food services industries account for just under 25,000 jobs, or 7% of regional employment. They make a significant contribution to the region's economy, generating a GDP estimated at about one billion dollars in 2007. These industries, which depend on tourism, benefit from the appeal of the Capitale-Nationale region, which is one of Canada's primary tourist destinations and receives various honours year after year. According to the Office du tourisme de Québec (OTQ), tourism was down in 2009, not only compared with 2008, but also compared with 2007. Pleasure travel was relatively unscathed, but business travel was particularly hard hit by the financial crisis. For the next three-year period, we are anticipating an increase in the number of tourists. The industry will depend more on local markets and specialized client niches. It will also develop strategies to attract conferences and business meetings. The presentation of recurring cultural shows and events thanks to resources from the Fonds des événements will also support the tourist business. The overall objective will be to attract more tourists, but also to increase the length of visits and the number of overnight stays. Plans to upgrade and expand hotels and to build new facilities will materialize over the next few years.

Food services are sensitive to the economic situation and they have been tested by the recession. They represent a discretionary expenditure that is significantly affected during a downturn. After peaking in 2008, the employment level in this industry decreased sharply in 2009. The economic recovery should be favourable to this industry, which is characterized by turnover of establishments.

2010 will be a better year for the accommodation and food services industries, but full recovery of lost jobs will be slow.

Overall, 2010 is expected to be a better year than 2009, but accommodation and food services industry representatives remain cautious and note that the economic environment is not favourable to a sustained recovery. The effects of the recession are still being felt, the value of the Canadian dollar is high and a number of factors (the sales tax increase, fees, special contribution to fund health care services, and so on) could limit the growth of disposable income. The accommodation and food services industries will regain some of the jobs lost in 2009, but full recovery will take a few more years. The employment level in these industries should rise an average of 1.3% over the three-year period.

Production services

Production services account for over 27% of the region's employment, with about 97,000 jobs. This has been the most dynamic part of the service sector since the beginning of the decade, with average annual growth of 3.3% compared with 2.4% for the service sector as a whole. However, this sector saw employment drop in 2009 under the negative influence of the transportation and warehousing and professional, scientific and technical services industries. During the forecast period, and particularly at the beginning of the period, growth of this service group will be more modest than in recent history because of the drop in employment in the wholesale trade and transportation industries. Employment growth will be stronger beginning in 2011 and will come primarily from professional, scientific and technical services as well as the finance, insurance, real estate and rental and leasing industries. For production services as a whole, we are anticipating a slight increase in employment in 2010 and a moderate recovery subsequently as the economy bounces back. Between now and 2012, we are expecting average annual growth of 1.4%, which is close to that anticipated for the province (1.6%).

The Capitale-Nationale region is an important distribution centre for Eastern Quebec. Wholesale trade provides employment for about 12,300 people, representing 3.5% of total employment. This industry, which is dependent on retail trade, the manufacturing sector and foreign trade, is also influenced by capital spending. Several of these components should see improvement in the next few years. Food distribution operates in a highly competitive environment, which is prompting companies to review efficiency and re-evaluate distribution networks. This is the context in which Loblaw Companies Limited chose to close its distribution centre in Quebec City permanently, leading to the loss of 400 jobs. This deficit will undermine employment growth in this industry during the forecast



The presence of eleven insurance industry head offices stimulates the regional economy.

period. Despite a positive trend for final demand components, wholesale trade will barely recover the jobs lost by 2012.

The finance, insurance, real estate, rental and leasing industries are strong players in the economy of the Capitale-Nationale region. They employ about 29,600 people, representing 8.3% of total regional employment compared with 5.9% for the province. The industry's steadily growing GDP reached \$4.5 billion in 2007, or 17% of the region's GDP. The eleven insurance head offices in the Quebec City CMA control 30% of the general insurance market in Quebec and nearly 45% of the personal insurance market. These companies purchase goods and services worth over \$200 million in the region. This injection of money has a multiplying effect that stimulates the region's economy. This is a strategic sector for the Capitale-Nationale region.

The financial crisis, the associated downturn in the stock market and drop in interest rates, devaluations of asset-backed commercial paper and bad debt have adversely affected the financial results of many enterprises in the sector. The recession prompted financial institutions and insurance companies to improve their work processes in order to increase their efficiency and productivity. Greater attention has also been paid to cost management. The improved economic situation, better credit conditions and stock market recovery allowed this industry to begin growing again in 2009. The employment level in this industry increased for a sixth consecutive year. Over the past five years, the industry has maintained average annual growth of nearly 12% compared with 1.4% for all industries.

The outlook remains positive for the years ahead, but growth will be much more moderate. Labour supply is still lower than demand and the regional industry has the objective of hiring 3,000 new people by 2013. There will also be renewed focus on customer service in financial institutions and insurance companies, which are taking more of a consulting approach. However, various factors will limit the industry's growth. Interest rate hikes and the introduction of new mortgage regulations¹ will slow the growth of the housing market, which will have an impact on demand for loans. Consumer loans may suffer from the reluctance of households to make major expenditures. The group insurance sector, meanwhile, is still feeling the impact of the recession and is recovering more slowly because of a weak labour market and cost control by employers. The decline in automobile sales has also had a downward effect on the associated insurance products. In addition, some institutions expect the increase in business loans to lag behind the economic recovery, given the rise in liquidity levels and surplus capacity.

Other sectors are in better shape. The aging population and the advent of new financial tools will benefit the individual insurance and wealth management industries. Demand for investment products should be sustained by improvement in incomes and capital markets. Over the next few years, insurance companies will grow by penetrating new markets outside Quebec (Canada and the United States) and expanding distribution networks, based in part on an increase in the number of representatives.

Real estate continues to be a dynamic sector. The resale market will continue to be tight in the short term but increasingly tend to balance out between now and 2011. According to CMHC, the number of transactions in the Quebec City metropolitan area should increase slightly (1%) in 2010 to reach 8,050. This figure may decrease, however, beginning in 2011 (-5.6%). Furthermore, limited availability of office space is encouraging developers to start new projects. The employment level in the finance, insurance, real estate and rental and leasing industries will increase more modestly over the next three years, rising by an average of 1.0% per annum.

The Capitale-Nationale region has a large network of road, rail, maritime and air transportation infrastructures. Transportation plays a significant role in the region's development. The transportation and warehousing industry accounts for about 4% of total employment in the region, or 14,200 jobs. This sector was one of the hardest hit by the

¹ In April 2010, the federal government introduced new rules to ensure that borrowers do not exceed their financial capacities. Borrowers are now required to meet the standards for a five-year, fixed-rate loan even to obtain a lower rate. People buying a non-owner occupied property must make a 20% down payment. Owners who want to refinance may do so up to 90% of the value of their house instead of 95%.



slowdown in economic activity. Truck transportation, the industry's largest sub-sector, suffered most, dragging down the employment level for the entire sector.

Table 6

Employment Breakdown and Outlook in Production Services					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level ('000)	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
Production services	97.0	27.3%	26.0%	1.4%	1.6%
Utilities	2.0	0.6%	0.9%	1.4%	1.2%
Wholesale trade	12.3	3.5%	4.0%	0.0%	1.5%
Transportation and warehousing	14.2	4.0%	4.6%	1.1%	1.5%
Finance, insurance, real estate and rental and leasing	29.6	8.3%	5.9%	1.0%	1.4%
Profession, scientific and technical services	25.8	7.2%	6.9%	2.7%	2.0%
Management of companies and enterprises, administration and support and other	13.1	3.7%	3.7%	1.0%	1.2%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)

Substantial investments at Jean Lesage International Airport.

Regional air transportation was not affected too severely by the recession. Traffic at Jean Lesage International Airport actually increased (1.2%) in 2009, compared with the previous year, which saw its share of visitors owing to the celebration of Quebec City's 400th anniversary. The economic slowdown did affect domestic air traffic, of course, since two thirds of passengers on domestic flights are business people. This drop was more than offset, however, by gains on flights to the United States and other international destinations. For 2010, airport managers are expecting an overall increase of 4% in traffic on domestic, trans-border and international flights. The medium- and long-term prospects are even more encouraging. Modernization of the airport (a \$225 million development project to be carried out over the next five years) and the advent of new airlines and additional connecting flights will help to increase the airport's potential. The future investments and the addition of new services will attract other carriers and foster increased passenger traffic. The one negative development is that ExelTech Aerospace Inc., which provides maintenance, repair and overhaul services for commercial aircraft, has suspended operations and was placed under the protection of the *Bankruptcy Act*, leading to the layoff of 140 workers. The aircraft maintenance company has reportedly sold some of its assets, including its maintenance facility at Quebec City's airport.

The number of cruise ship passengers will reach new highs in 2010.

Maritime sector activities are characterized by the presence of the Port of Quebec, one of the province's largest ports. In 2009, the recession led to a sharp decrease in the volume of shipments on the St. Lawrence River. The Port of Quebec experienced a drop of 21% in cargo tonnage handled, a first since the early 2000s. This decline resulted from the decrease in dry bulk tonnage (iron ore) related to the U.S. steel industry (automobile manufacturers) and petroleum products. For 2010, the port authority is expecting a slow recovery of activities that will strengthen in the second half of the year. The Port of Quebec is also favoured by cruise ship passengers, and efforts to develop this sector are bearing fruit. 2009 ended with a 4% rise in the number of visitors and, according to indications from the port authority, confirmed reservations for next season suggest that this sector will reach



new highs. The Port of Quebec still intends to expand its facilities, a project estimated at over \$400 million, which is imperative to the growth of its operations. The drop in volume of freight tonnage handled in 2009 makes this expansion less urgent, however, and it may be two or three years before work begins.

Truck transportation is an important sub-sector of the transportation industry. It accounts for about a third of the sector's total employment in the region. The outlook for this area is more mixed. Problems in the manufacturing sector and wholesale trade will make it tough for this industry. The possible closure of forest industry plants could affect those carriers closely linked to the forest industry. However, the benefits derived from road and infrastructure projects will ease the pain. Anticipated growth in exports and imports should also help to boost this sector over the next few years.

The concentration of demographic growth near urban centres and increased city density will be a plus for public transit, which continues to be a priority for the region. For several years, the Réseau de transport de la Capitale (RTC) has seen an increase in business, reaching 45 million passengers in 2009. The RTC is planning significant investments to improve the services it offers. New buses, an expanded garage and the addition of new routes are expected to contribute to the continued growth of public transit. Overall, the transportation and warehousing industry will begin the three-year period with a decline in employment, but will see growth of 1.1% per annum over the period as a whole.

The professional, scientific and technical services industry is associated with efforts to diversify the region's economy. This sector employs 25,800 people in the region, or 7.2% of all employment. The value added by this industry to the region's economy was estimated at 5% of the GDP in 2007. In recent years, the employment level in this industry has posted strong growth because of the expansion of architectural, engineering and computer system design services. In the Capitale-Nationale region, this sector has created 7,500 jobs since 2004, with one of the highest average annual growth rates (7.0%) of all industries.

The economic slowdown did not spare professional, scientific and technical services, but this industry will see strong growth over the next three years.

The recession has not spared this industry, however, and employment fell significantly in 2009. This decline affected management and scientific and technical consulting services in particular. The credit crisis has restricted spending on research and development and limited capital investment. Many enterprises have postponed projects. Major public works have generated very strong demand, however, which has helped save the day for engineering consulting firms, particularly those specializing in road infrastructures.

The engineering consulting sub-sector has been restructured over the years. There has been some consolidation of the industry, with big companies capturing a larger share of the market to the detriment of smaller firms. The latter must close ranks and specialize to ensure their survival. Other companies are banking instead on multi-disciplinarity to help them take full advantage of opportunities and protect themselves from a decline in any one sector. In the short term, public investment in infrastructure will continue to create strong demand for engineering consulting services. These should also benefit from the vitality of the non-residential construction sector and the growing interest in energy efficiency and new energy sources. The introduction of the new forest regime will, meanwhile, require the services of firms whose activities are related to that sector. The environmental, biomedical and bioengineering niches are also expanding.

Accounting firms, management consulting firms and bankruptcy trustees have weathered the economic crisis well. In fact, besides the recurring services they offer their clients, the demand for services from these firms has increased because of activities provoked by the crisis. Business turnaround, bankruptcy and restructuring as well as business re-engineering and cost optimization projects have gained in importance. In the early days, accounting firms will continue to help businesses prepare to benefit from the economy's recovery. Controlling costs and reducing spending will increasingly give way to efforts to obtain credit and loans, evaluation of the profitability of investments and projects and business plan development. The accounting field is subject to increasingly strict regulation and the establishment of sound accounting practices and control procedures. Requirements for the reliability and quality of financial information are also stricter. These activities will help to increase demand for accounting services.



Most information technology consulting firms are growing in the Capitale-Nationale region. Many of these companies benefit from the government services and financial services market, which brings them secure and lucrative contracts. Investments in information technology help to increase productivity and, during an economic slowdown, businesses tend to invest more in these technologies. A return to profitability should also create a favourable environment that will stimulate activity in the information technology area. The market is still favourable to outsourcing (government sector, commercial, major companies) within Quebec, but particularly outside the province. Some local companies may benefit from this market segment thanks to their remote service centres. Finally, several small companies have obtained venture capital to pursue the development and marketing of new technologies.

The Capitale-Nationale region has many world-class research centres that employ thousands of people. The emphasis on innovation, emerging technologies and research and development will stimulate public and private investment. Governments will continue to invest in research centres. The federal government, for example, will invest \$170 million in the research centre at the Valcartier military base for the renovation and construction of new laboratories. For the forecast period, the average annual growth rate in professional, scientific and technical services will be among the highest of all the industries (2.7%).

The employment level in administrative, support, waste management and remediation services in the Capitale-Nationale region is estimated at 13,100, representing 3.7% of employment. This sector is expected to continue to grow over the next few years, since several sub-sectors will benefit from the economic recovery and business renewal. These include packaging and labelling, business support and employment services, as well as conference, show and trade fair organization services. Meanwhile, increased consumer spending and the rise in the number of condominium apartments will lead to growing demand for building services. The obsession with security (airport, protests and crowd control, labour disputes, the aging population) is putting pressure on private security services, the market for which is booming. The growing phenomenon of outsourcing services is generating greater demand not only from private companies, but also from public organizations, particularly subcontracting of waste management and remediation services. Overall, employment will grow about 1% per annum between now and 2012, slightly below the growth expected for the province as a whole (1.2%).

Despite its low employment level (about 2,000 jobs or 0.6%), the utilities industry cannot be discounted. Over the next few years, this industry will be fuelled by investment expected to exceed \$1.5 billion. The construction of wind farms in Côte-de-Beaupré (\$800 million) and Charlevoix (\$740 million) should be completed by 2015. The AXOR Group intends to develop a hydroelectric facility at the Ste. Anne Falls, a project estimated at \$50 million. Lastly, an organic waste treatment plant (\$60 million) will be constructed in Quebec City and should enter into service in 2013. Although the impact of these projects will be felt primarily during the construction phase, they will help inject large sums of money into the region and stimulate the regional economy.

Public and parapublic services

The region is still relatively dependent on public administration activities.

Public and parapublic services play a very important role in the region's economy. They provide employment for approximately 111,000 people, or nearly one in three workers, compared with one in four for the province as a whole. Their economic contribution is also substantial. This group of services generated 31% of the region's GDP in 2007. Public administration alone accounts for just over 11% of total regional employment. This proportion, twice that of the province as a whole (5.8%), is explained by the presence of thousands of provincial public servants in Quebec City. Despite the diversification of its economy, the Capitale-Nationale region is still relatively dependent on public administration activities. This industry's GDP was estimated at about \$4 billion in 2007, representing 15% of the region's GDP. Capital spending in this sector represented 24% of all capital spending in the region in 2009.



The decline in student numbers is slowing in educational services, which will help to maintain the employment level.

Recently, there has been a slight drop in employment in public and parapublic services. This decline resulted from a decrease in public administration and educational services employment that could not be offset entirely by employment growth in the health care and social assistance industry. Over the next few years, the employment level is expected to increase slightly under the influence of health care and social assistance services, but growth will level off in educational services and public administration employment will continue to fall. Between 2010 and 2012, the employment level in public services is expected to increase by 0.5% annually.

The educational sector includes 24,200 jobs in the Capitale-Nationale region, representing 6.8% of all workers, a share of employment quite similar to that for the province (6.7%). Between 2010 and 2012, employment in educational services is expected to remain relatively stable. The decline in student numbers is expected to slow considerably, helping to maintain the employment level. The birth rate has increased by 12% in the Capitale-Nationale region since 2006, a much higher increase than that observed in the province as a whole (5.4%). The estimates of the Department of Education, Recreation and Sport (MELS) indicate that owing to the rise in births, the number of pre-secondary students should begin to rise again during the forecast period. This growth will considerably offset the impact of the decline in secondary enrollment. Overall, student enrollment at the elementary and secondary levels will fall only 1.5% by 2012. MELS is anticipating a rise in the number of students enrolled at the college level in the region in 2010 and 2011, followed by a decline in 2012. The number of potential university students, meanwhile, is expected to increase as the many young people born in the early 1990s come of age.

Several other factors will help to maintain the demand for educational services. First of all, the government has announced its intention to reduce elementary and secondary class sizes. MELS intends to hire approximately 3,000 new teachers over the next few years to decrease the number of students per class, which may help to reduce the drop-out rate. Next, the establishment of complementary student assistance services to promote the development of healthy lifestyles and prevent and treat violent behaviour in schools will require investment and additional resources. Capital investment in the education sector has increased at an average annual rate of 6% since the early 2000s and this trend should continue, particularly with respect to higher education. Laval University has announced the creation of 100 new research chairs between now and 2013, which will lead to the hiring of 100 new faculty members. The awarding of two Canada Excellence Research Chairs will attract 75 researchers to Quebec City.

Finally, demographic decline and the aging of the population will make it a significant challenge to meet labour needs. To address this issue, the government will introduce measures to make it easier for people to continue their education, to train workers and to improve employability. The employment level in educational services will remain relatively stable (0.1%).

The mission of the health care and social services sector is to maintain, improve and restore the health and well-being of the population by making a set of health care and social services accessible. To meet these objectives, the Government of Quebec devotes 40% of its operating budget to these services. In 2010-2011, the budget will be increased by nearly one billion dollars. In the Capitale-Nationale region, a little over 47,000 people work in this sector, representing about 13.2% of total employment. This proportion is slightly higher than that of the province as a whole (12.1%).

The aging population and rising birth rate are generating increased demand for health care and social assistance services.

Population growth and aging are fuelling an enormous and ever-expanding need for health care services. In the last five-year period, capital expenditures in this sector jumped an average of 20% per annum in the region compared with 15% for all industries. For three years, the employment level has grown at three times the average rate for all sectors of activity, or 3.6% compared with 1.1%.



Table 7

Employment Breakdown and Outlook in Public and Parapublic Services					
Capitale-Nationale Region					
	Average 2007-2009			2010-2012	
	Level (‘000)	Share of Employment		Average Annual Growth	
	Region	Region	Province	Region	Province
Public and parapublic Services	110.8	31.1%	24.7%	0.5%	0.8%
Educational services	24.2	6.8%	6.7%	0.1%	0.3%
Ambulatory health care and hospitals	27.4	7.7%	6.5%	1.3%	1.4%
Other health care and social assistance	19.7	5.5%	5.6%	1.5%	1.8%
Federal public administration	6.1	1.7%	2.1%	-0.6%	-0.4%
Provincial and territorial public administration	25.5	7.2%	1.9%	-0.4%	-0.4%
Local, municipal, regional and other public administration	7.9	2.2%	1.8%	-1.6%	0.5%

Source: Service Canada, Quebec Region
Historical estimates based on Statistics Canada's Labour Force Survey (see Notes on methodology)

Projections indicate that the growth, and primarily the aging, of the population will continue to increase pressure on the demand for health care services. According to estimates from the Institut de la statistique du Québec (ISQ), the region's population is expected to grow 2.1% during the forecast period and the population aged 65 and older is expected to increase nearly 12%. Substantial investment is also planned for institutions in the region's health network. The largest project is the expansion and renovation of the Hôtel-Dieu-de-Québec, a project estimated at approximately \$635 million.

Scarcity of labour has become a constant concern for health care institutions. Greater needs, bigger budgets and a larger supply of workers will help boost employment in the health care sector. However, this increase will be limited because the demand will outstrip the supply of labour and because of the institutions' budget limitations.

The higher birth rate and increased number of young children is prompting the Quebec government to create additional daycare spaces. To meet the needs of Quebec families more quickly, the government chose to create 18,000 spaces by 2010, rather than the 9,000 initially planned. In the Capitale-Nationale region, this plan will open up nearly 900 additional spaces.

Because of all these factors, we believe that expansion in health care and social assistance services will exceed growth in all industries and that this sector will post average annual growth of 1.4%.

Government deficits are prompting cuts to public administration workforces.

The employment level in the public administration sector should continue its downward trend over the next few years. Since the introduction of Quebec's plan to reduce the size of the public service workforce in 2004-2005, the workforce has decreased by about 4,100 full-time equivalent (FTE) positions, or 5.4% of the public service workforce. In 2009-2010, however, the number of government employees increased because of government priorities, efforts to assist economic recovery and measures to fight misappropriation and corruption. In view of these priorities, the budget for 2010-2011 also calls for hundreds of positions to be filled throughout the provincial government.



In the years ahead, however, the plan to restore budget balance will introduce new workforce size restrictions. Among the measures that will be introduced, the Government of Quebec will freeze the public service payroll at its current level until 2013-2014. Any increase in the payroll will have to be offset by gains in productivity and replacement of only some retirees. These initiatives will lead, in time, to a reduction in the number of employees.

The federal public service is also engaged in an exercise to limit spending. During the past year, the Canada Economic Action Plan required additional investment that demanded further resources. On the other hand, the federal government no longer has a budget surplus, so it has less flexibility. Reducing expenditure growth will come through strategic analysis of current spending and efforts to improve efficiency and effectiveness. As indicated in the budget documents, pay and operating budgets for departments will be capped at the 2010-2011 level for the years 2011-2012 and 2012-2013 in order to contain administrative costs. In 2010, the government will review thirteen government departments and agencies with a view to reducing the size of the public service and finding savings totalling \$1.7 billion. The Government of Canada will also target basic missions and meet priority objectives. The fight against the deficit that eventually ensues will affect employment.

The 2009-2013 five-year labour plan adopted by the City of Quebec provides for the abolition of half the positions that become vacant. The plan should result in the elimination of 500 positions during that period. City administrators are aiming to increase productivity in the municipal public service by identifying the HR requirements (number and profile of employees) according to economic trends in the region and the city's strategic plan. The city will ensure that the ratio of the number of full-time equivalent employees to standardized property value constantly decreases by 2013. A committee will also look into the possibility of sub-contracting some services.

In view of the financial situation and policies of the different levels of government, it is anticipated that the employment level in public administration will decrease by 0.7% per annum between now and 2012.