Québec
2015-2017

HIGHLIGHTS

- The year 2014 witnessed the long-awaited growth of Quebec exports, but its impact was diminished by employment losses in several industries, including construction.

- Quebec will no longer be able to maintain its current labour force levels past 2018, after which the share of its population aged 20 to 64 will begin to decrease. This will likely cause difficulties in replacing retiring workers and limit the province’s and its industries’ growth potential.

- Employment in Quebec is expected to grow very slowly between 2015 and 2017: household discretionary spending will be limited by tariff, user fee, and tax increases; Governments will be prioritizing a balanced budget; and uncertainty in the business environment will have companies treading carefully.

ECONOMIC ENVIRONMENT

Economic growth generally requires an increase in one or more of the following factors: consumer spending, government spending, private sector investment, and exports (a decrease in imports can also be considered a positive factor to be included in this list). Of course, a decrease in one of these factors must not counteract increases in others. Other elements that may have an influence on these factors must also be considered:

- demographics, which affects opportunities for employment growth and consumer spending, as well as the ability to replace retiring workers;

- debt, which affects people’s – and governments’ – ability to spend;

- investor caution, particularly considering that low demand in certain sectors and unused production capacity keep prices low;

- global economic dynamics, which direct growth, since globalized production lines have internationalized economic difficulties.
The 2008-2009 recession resulted in massive government intervention to support the economy. Soon after the end of the recession, households followed suit, and consumer spending in Quebec began to increase again. Private sector (non-residential) investment continued the trend, peaking in 2012. Since then, economic momentum has been slowing down. Sales growth declined and has now difficulty keeping up with the inflation rate, resulting in no growth in real household consumption. This has had a substantial impact, since consumer spending represented 58% of Quebec’s gross domestic product (GDP) in 2012.

Governments are doing all they can to better align spending levels with their financial capabilities. While this is good for the financial results, such savings measures will stifle GDP and employment growth:

- The federal government will achieve its goal of eliminating the deficit in 2015-2016. The plan to return to a balanced budget comprised several measures designed to generate ongoing savings, such as reducing the size of government, performing strategic analysis of programs and activities, and implementing deficit reduction measures for all government departments and organizations (by late 2014, the number of federal public servants employed in Quebec was 15% lower than its high in 2009).

- As a result of a significant structural deficit, the provincial government announced several measures to achieve its goal of a balanced budget in 2015-2016. These measures include implementing an overall hiring freeze for public and parapublic sector staff until the budget has been balanced, imposing budget and departmental spending constraints, reviewing the relevance of existing programs and frameworks, increasing user fees and charges, and reducing tax assistance to businesses by 21%.

In 2013, non-residential private-sector investments declined, and remained relatively low in 2014. This is understandable given the lingering production overcapacity in some industrial materials and products sectors, and the declining demand, both of which caused prices to fall. The drop in investments knocked the wind right out of Quebec’s economic sails and, at 17% of GDP on the expenditure side, this component is hardly negligible.

Given the lower contributions by the key economic players, Quebec was left to rely on improved economic conditions in other parts of the world to stimulate its growth. The importance of exports should not be underestimated. The value of goods and services sold outside Quebec corresponds to 45% of GDP (2012). Naturally, this activity depends on the client’s economic health. Internationally, the United States account for 72% of Quebec’s exports. In Canada, 90% of the goods manufactured in and sold outside Quebec are intended for Ontario (63%) and for the western provinces (27%).

After four years of bumpy progress, the value of Quebec exports jumped by close to 15% in 2014. This marked growth was a result of improved trade with all of Quebec’s main economic partners. The United States is in the lead: after three years of prudent growth, in 2014 trade jumped 13% thanks, among other things, to household consumption and residential construction. With this increase, the value of Quebec exports to the United States, which had dipped by closed to 30% between 2005 and 2010 due to the difficult economic period (burst real estate market bubble, bank fragility, investment exposure, and the 2007-2009 recession), almost regained its previous peak.

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1 With the value of imports being greater than that of exports, this contribution was completely wiped out as the negative trade balance resulted in slower GDP growth.
Exports to Europe also grew substantially in 2014, gaining close to 23%. This pace will not hold over the next few years. Given that there is always a risk of recession in some parts of the continent, and that several States have not yet recovered their losses since the recession (sovereign debt crisis, fragility of banks and investments, Euro crisis, etc.), future growth will be much more moderate. The leap in the gain in exports could be called “consumption catch-up” because the increase comes after four years of freefall in the last five years. This is an exception, not the norm. In 2014, the value of Quebec exports to Europe returned to the pre-recession level. The weak growth expected for the next few years will nonetheless maintain, and maybe even add, jobs with manufacturing exporters and the ones that supply their goods and services.

China is not only a manufacturing giant on the world stage. Because of its position in this regard, the country is also the biggest consumer of raw materials and industrial products. The demand generated by China impacts markets and prices. In 1991, this country accounted for less than 0.5% of Quebec’s exports. After 24 years of almost continuous growth, and a more involved business relationship since 2001, this proportion grew to 4% by 2012 (where it has remained since). Over the last three years, business activity with China has not kept up with previous increases because of the global trade situation since the end of the recession. As the economic environment improves, export growth should continue, but it will probably be similar to what it has been over the last few years. In addition, the announced retooling of factories in China in pursuit of significant productivity gains could become a serious obstacle over the years for Quebec exporters.

Finally, emerging economies were unable to stand up to the pressures generated by their clients’ economic difficulties that led to a drop in demand for consumer goods and industrial products. There was a massive draw on credit to finance economic support plans focused on infrastructure work. Although this may have generated demand for Quebec products at the start of the recession, in some cases the impact has since then petered out. For other countries, exports are slowly rising. Just as emerging economies benefit from the hesitant expansion in world trade, Quebec exports should also benefit where these represent a source of goods and services to these countries’ industries.

In Quebec, the industries that gained from increased exports in 2014 were aeronautics and parts (engines, landing gear, etc.), processed resources such as lumber and pulp, the manufacture of industrial products made from aluminum and copper, iron ore, agri-food products and furniture.
POPULATION OUTLOOK

Quebec and the Atlantic provinces’ populations are the oldest in Canada. With low natural growth and lower immigration than in the West, Quebec no longer has the necessary means to maintain current labour force levels after 2018: the number of people aged 20 to 64 is already starting to decrease. According to the demographic scenarios prepared by the Institut de la statistique du Québec (ISQ), the decline will occur gradually until 2031 [baseline scenario] or 2026 [stronger growth scenario], but only if natural growth is a little higher than expected and the province’s net migration situation improves.

The province’s labour replacement index\(^2\) (LRI) is already at 93. This level is below the hypothetical threshold required to replace each retiree. Thus, the potential for new labour market entrants to fill upcoming positions vacated by retirees is falling short. This may not be an issue yet, because productivity gains can be used to compensate for the shortfall. However, the index is expected to reach 85 in 2019, which is much more problematic. Given the different levels of training, competencies, orientation and location of the people who are joining the labour force compared to those who are leaving it, the imbalance in the labour force supply and demand will continue to worsen. With the decrease in the number of people aged 20 to 64 as of 2018, the race to replace retirees will pick up and become an obstacle to job creation.

By 2019, of Quebec’s 17 regions, four – Montréal, Laval, Outaouais and Capitale-Nationale – will have the necessary demographic potential to replace retirees, not counting other factors such as the training and interests of the people joining the labour market compared to those leaving it. Other regions might be able to make up for the labour force shortfall as long as there are significant productivity gains. But this would also involve less job creation and probably a smaller labour force after all.

\(^2\) The ISQ calculates this index by establishing the relationship between the number of young people aged 20 to 29 who are likely to enter the labour market, and the number of people aged 55 to 64 who are approaching retirement, x 100.
LABOUR MARKET

According to Statistics Canada’s Labour Force Survey estimates, employment levels plateaued in 2014 in Quebec: losses in the goods-producing sector (close to 23,000) could not be offset by the gain of almost 22,000 jobs in the service sector. The biggest decrease was in Construction which, for more than 10 years, remained very dynamic and a good source of jobs. The same thing occurred in Professional, Scientific and Technical Services as several components in the industry cut back staff in 2014. The Commission d’enquête sur l’octroi et la gestion des contrats publics dans l’industrie de la construction may have contributed to the slowdown in this industry over the last few years. The Commission’s work prompted the Government of Quebec to introduce the Integrity in Public Contracts Act which requires that the Autorité des marchés financiers issue the necessary authorizations to businesses wishing to sign public contracts and sub-contract in Quebec. This generated delays in the issuance of contracts or prevented companies from carrying out their work.

Labour Market Indicators

<table>
<thead>
<tr>
<th>Province of Quebec</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Variation 2012-2013</th>
<th>Variation 2013-2014</th>
</tr>
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<tbody>
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<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
<td>#</td>
</tr>
<tr>
<td>Population 15 + (000’s)</td>
<td>6,699.4</td>
<td>6,755.3</td>
<td>6,802.2</td>
<td>55.9</td>
<td>46.9</td>
</tr>
<tr>
<td>Labour force (000’s)</td>
<td>4,341.8</td>
<td>4,393.5</td>
<td>4,400.0</td>
<td>51.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Employed (000’s)</td>
<td>4,005.9</td>
<td>4,060.8</td>
<td>4,059.7</td>
<td>54.9</td>
<td>-1.1</td>
</tr>
<tr>
<td>Full-time (000’s)</td>
<td>3,245.9</td>
<td>3,277.8</td>
<td>3,245.3</td>
<td>31.9</td>
<td>-32.5</td>
</tr>
<tr>
<td>Part-time (000’s)</td>
<td>760.0</td>
<td>783.0</td>
<td>814.4</td>
<td>23.0</td>
<td>31.4</td>
</tr>
<tr>
<td>Unemployed (000’s)</td>
<td>335.9</td>
<td>332.8</td>
<td>340.3</td>
<td>-3.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>7.7%</td>
<td>7.6%</td>
<td>7.7%</td>
<td>-0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Participation rate</td>
<td>64.8%</td>
<td>65.0%</td>
<td>64.7%</td>
<td>0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Employment rate</td>
<td>59.8%</td>
<td>60.1%</td>
<td>59.7%</td>
<td>0.3</td>
<td>-0.4</td>
</tr>
</tbody>
</table>


Last year, the unemployment rate reached 7.7%, as it has since 2012 ... the only difference being that over the previous years, the number of jobs had risen in Quebec.

Quebec is not the only province where employment reached a plateau in 2014. The same thing happened in Prince Edward Island, New-Brunswick and Manitoba. But because of the gains in Ontario, Alberta and Saskatchewan, employment increased in Canada. The national unemployment rate was 6.9% in 2014. The lowest rate was in Saskatchewan, at 3.8%, where it has been steadily declining since the end of the recession, when it was 5.2%. By comparison, over that same period, Quebec’s unemployment rate only fell 0.9 percentage points.
ECONOMIC OUTLOOK FOR 2015-2017

The Service Canada - Quebec Region Labour Market Analysis Branch (LMAB) expects very modest job growth in Quebec from 2015 to 2017. There will not be much support from household consumption given the thousands of dollars that householders will have to spend on announced increases in rates, user fees and taxes. This will strain discretionary spending and limit the purchase of durable goods. In view of the unused production capacity worldwide, and inventories that are taking so long to sell off, little growth is expected in terms of private investment, except at the tail end of that period, by which time we believe that industrial development will rebound in the province.

Given that we cannot escape the trends weighing down global activity since the recession, exports will continue to expand during the 2015-2017 period, but at a more modest pace compared to the best years in the decade up to 2010. Employment activity in Quebec will depend a lot on this rise in exports. In this regard, the United States will be leading the charge. Europe will then follow suit, but trade with this part of the world will take time to recover. Asia and the emerging economies will once again post strong growth rates compared to those in the developed economies, but they will not be as high as in the past, at least not until foreign investment has rebounded somewhat in these countries.

In its October 2014 export forecasts, Export Development Canada estimated that Quebec’s best chances for export growth were in lumber because of the high level of residential construction in the United States, in the rebound of demand for minerals and aluminium products, and in the Bombardier C Series planes, whose delivery might be pushed back to 2016. These forecasts are consistent with the gains achieved in 2014, and have been integrated into the LMAB’s job growth outlook for 2015-2017 for Quebec.

During this period, resource exploitation and processing should help boost job growth in Quebec as global demand grows and production overcapacity and inventory surplus are used up. In terms of goods manufacturing, employment activity will be positive but weak: the sectors that have been shrinking for several years – clothing, textiles, paper, printing – will continue to do so, while traditionally strong industries will experience weaker growth. The service sector will grow at a more modest pace in 2015-2017, a situation that has recurred a few times since the end of the 2008-2009 recession. Only a few of the larger industries, such as
retail, are facing major challenges. Others, such as professional, scientific and technical services, have achieved too high a level of activity to maintain their growth.

### Employment Distribution and Growth Perspectives by Industry Sector

<table>
<thead>
<tr>
<th>Province of Quebec</th>
<th>2012-2014 Average</th>
<th>2015-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level (000's)</td>
<td>Share of Total Employment</td>
</tr>
<tr>
<td>All industries</td>
<td>4,042.1</td>
<td>100.0%</td>
</tr>
<tr>
<td>Goods production sector</td>
<td>872.9</td>
<td>21.6%</td>
</tr>
<tr>
<td>Construction</td>
<td>259.9</td>
<td>6.4%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>493.7</td>
<td>12.2%</td>
</tr>
<tr>
<td>Service sectors</td>
<td>3,169.3</td>
<td>78.4%</td>
</tr>
</tbody>
</table>

Growth – Labour Market Analysis Branch, Service Canada - Quebec Region

Already a key factor in employment activity in Quebec, the need for personnel to replace retirees will become even more significant over the next few years. Demographic factors will reduce the employment growth potential given the anticipated decrease in the population between 20 and 64 years of age. In this context, it is difficult to foresee much growth. The situation could in fact present quite a challenge to the following industries, which have an older labour force and very few young people:

- Agriculture
- Forestry and forest operations
- Mining, oil and natural gas extraction
- Textile product mills and textile products
- Clothing, textile and leather manufacturing
- Paper manufacturing
- Printing
- Plastic and rubber products manufacturing
- Non-metallic mineral product manufacturing
- Primary metal manufacturing
- Machinery manufacturing
- Electric equipment manufacturing
- Furniture manufacturing
- Wholesale
- Transportation and warehousing
- Public administration

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

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