



# Environmental Scan

## Quebec

2017-2019 HORIZON



### HIGHLIGHTS

- The acceleration of growth in several industries during the second half of 2016 resulted in the province's economy reaching a level that did not seem possible at the start.
- Nevertheless, we expect employment growth to remain low during the 2017–2019 period. Although a weak Canadian dollar and a busier domestic market should have contributed to stronger activity in Quebec, the imposition of duties on softwood lumber imports by the United States and the protectionist rhetoric of many economic players have had a negative impact on the short-term outlook.

### ECONOMIC CONTEXT

At the beginning of 2016, the acceleration of growth experienced in Quebec at the end of the summer and during the fall could not have been predicted. During the first six months, the main indicators revealed only a weak potential for growth in employment and the economy. During the second quarter, the pronounced slowdown of activity led the main financial institutions to regularly revise downwards their forecasts for gross domestic product (GDP) growth and job creation. In August 2016, most had lowered their forecasts for expected Quebec GDP growth by almost half. Then, several economic sectors displayed increasingly stronger activity, which contributed to a regain of momentum.

First, in August 2016, employment showed a slightly higher increase than in previous months. Although this in itself was not a significant increase, it marked the beginning of an unbroken series of (annualized) growth which will accelerate and continue for several months (as of March 2017, it is still growing). March 2017 marks the 25<sup>th</sup> consecutive month of full-time employment growth.

At the end of 2015 and in 2016, household consumption expenditures bounced back, with respect to the purchase of both services and goods. Retail sales jumped, showing a growth not seen in years. This did not prevent the savings rate from increasing last year to 6.2%, the highest level reached since its 2.3% low in 2005.

Tourism also contributed to the improvement of the province's economic environment. In 2016, Quebec recorded a significant rise in the number of overnight stays and visitors from all origins. The occupancy rate increased despite room supply being higher. All aspects of tourism contributed to this momentum: individual tourism, business tourism, cruises, etc.

The revenue from the province's restaurants followed suit, showing a notable increase in 2016. Indeed, this growth marks a new record for the industry.

The slight decrease in the number of housing starts anticipated by the Canada Mortgage and Housing Corporation in 2016 did not materialize. Rather, the flow of inventories accelerated in a way that enabled the construction industry to regain its pace.

Spending on capital, non-residential construction, machinery and equipment increased in 2016—a long-awaited return to growth. Intentions for 2017 forecast further profits, which can partially be attributed to the upswing in industrial investment, an area that has seen weak activity for a few years.

Finally, in 2016, only Quebec exports performed contrary to what was expected. In fall 2015, *Export Development Canada* was anticipating an 8% increase in Quebec exports for 2016. However, the decline in demand from the United States, which makes up 73% of Quebec exports, turned this prediction into a decrease. The most notable drops in sales occurred in typically fast-growing segments such as aeronautics, aluminum and non-ferrous metals.

## DEMOGRAPHICS

Over the past few years, we have often said that the population dynamics of Quebec are slower than the Canadian average. Yet, since 2014, annual estimates show that population growth is lower than the Institut de la statistique du Québec's (ISQ) low-growth scenario. The difference is not huge, but it is a signal that cannot be ignored.

The main reason for this reality is that the number of births has diminished faster than what had been expected. In addition, interprovincial migration continues to disadvantage Quebec compared to provinces in western Canada. Even though other components of population growth have shown interesting dynamics—for example, the number of deaths is lower in Quebec, and net international migration is favourable to the province—this has not been enough to maintain a higher growth rate.

The falling birth rate will have no impact on the labour force pool in the labour market for 12 to 15 years. But, this does not mean that there is no reason to worry about the future. Indeed, the 20 to 64 age group, which makes up much of the labour pool, is showing that a decline in the potential labour force pool has already started in Quebec. This decrease in the 20 to 64 age group is expected to continue until about 2030. This foreshadows a difficult decade for replacing retirees and for the growth of economic activity in Quebec. Businesses will have to invest in new equipment and make productivity gains to counteract recruitment difficulties. In addition, before these investments are made, the first step will be to attempt to optimize the use of existing human and material resources. In either case, there is little room for employment growth.

## LABOUR MARKET

According to Statistics Canada's *Labour Force Survey* (LFS) estimates, an additional 36,100 jobs were recorded in Quebec in 2016, an increase of 0.9%. Only two other provinces recorded employment growth: British Columbia, where the increase was the strongest in Canada (3.2%), and Ontario (1.1%). The remaining provinces recorded employment decreases in 2016.

## Labour Market Indicators

Province of Quebec	2014	2015	2016	Variation 2014-2015		Variation 2015-2016	
				Number	%	Number	%
<b>Population 15 +</b> (thousands)	6,802.2	6,843.3	6,887.9	41.1	0.6%	44.6	0.7%
<b>Labour force</b> (thousands)	4,400.0	4,434.2	4,448.3	34.2	0.8%	14.1	0.3%
<b>Employment</b> (thousands)	4,059.7	4,097.0	4,133.1	37.3	0.9%	36.1	0.9%
Full-time (thousands)	3,245.3	3,290.3	3,344.0	45.0	1.4%	53.7	1.6%
Part-time (thousands)	814.4	806.7	789.1	-7.7	-0.9%	-17.6	-2.2%
<b>Unemployment</b> (thousands)	340.3	337.2	315.2	-3.1	-0.9%	-22.0	-6.5%
<b>Unemployment rate</b>	7.7%	7.6%	7.1%	-0.1		-0.5	
<b>Participation rate</b>	64.7%	64.8%	64.6%	0.1		-0.2	
<b>Employment rate</b>	59.7%	59.9%	60.0%	0.2		0.1	

Source: Statistics Canada, Table 282-0002 – Labour Force Survey, estimates by sex and detailed age group.

The net gain of 36,100 jobs in Quebec in 2016 is hiding labour markets that are more dynamic than they seem. According to Statistic Canada's employment estimates per industry, 51,400 more people were hired than in 2015, notably in areas such as business, building and other support services, accommodation and food services, health, education, etc. Conversely, the number of employees decreased by 15,300 in wholesale trade, retail trade, professional, scientific and technical services, warehousing and transportation and utilities.

Employment growth came entirely from full-time work. This segment, which accounts for 80% of employment, has been growing since March 2015. This resulted in the unemployment rate dropping to 7.1% in 2016. However, the participation rate dipped slightly to settle at 64.6% as a result of slow population growth and Quebec's aging population. Not only has the province failed to return to the level of activity experienced before the 2009 recession, 65.7%, but it has also further distanced itself from its 2003 peak, when participation in the Quebec labour market had reached 66.1%.

The LFS labour market indicators are calculated based on the population aged 15 and over. The picture changes when focused on the core of Quebec's labour power: persons aged 20 to 64. This group makes up 92% of the labour force and employed persons. In 2016, the participation rate for 20 to 64 year olds reached 81.2%, which is much higher than the rate of 64.6% among those 15 years and over. Better still, while the overall rate has been falling slowly since the 2009 recession, that of 20–64 year olds has been rising. This even allowed the potential labour pool to grow despite a rapid increase in the number of retirements.

In contrast, until 2021, it is estimated that every year there will be 55,000 new people aged 65 and over for only 19,000 new people aged 0 to 19. This large difference between the number of potential retirees and the pool of newcomers to the labour market creates a serious deficit for replacing retirees and has a negative impact on Quebec's growth potential.

## EMPLOYMENT OUTLOOKS IN QUEBEC – 2017-2019 HORIZON

During the second half of 2016, the bustle of Quebec's domestic market led to an acceleration of growth that resulted in the economy reaching a level not thought possible at the start. In 2017, the dynamics should have benefitted from this momentum and added to the growth, thanks to the favourable exchange rate of the Canadian dollar—an asset for exports. However, the imposition of duties on softwood lumber imports by the United States, the renegotiation of the North American Free Trade Agreement, the end of the Trans-Pacific

Partnership and the protectionist rhetoric of many economic players have negatively impacted near-term prospects, particularly in regards to exports.

This is why during the 2017–2019 period, we expect employment growth in Quebec to remain moderate. Yet the future is not all dark. Many industries will continue to benefit from the domestic market and trade with other provinces or other external trading partners.

What is more, the growth of business investment intentions in 2017 and the measures included in the provincial budget regarding education, health and social services in particular will facilitate growth over the next few years in Quebec.

#### Employment Breakdown and Growth Outlook by Industry

Province of Quebec	2014-2016 Average		2017-2019
	Level in thousands	Share of Employment	Average Annual Growth Rate
All industries	4,096.6	100.0%	0.71%
Goods-producing sector	848.1	20.7%	0.21%
Services-producing sector	3,248.5	79.3%	0.84%

Sources: 2014-2016 Employment – Statistics Canada, Table 282-0002, Labour Force Survey.

2017-2019 Growth – Service Canada, Quebec region,

Labour Market Analysis Directorate Scenario, May 3, 2017.

**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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