QUEBEC - A new economic powerhouse?

Quebec emerged as one of the more vibrant provincial economies over the past two years. 2019 is shaping up to be no different with most industrial sectors in expansion mode. We project growth to exceed the national average for a second-straight year.

Not that long ago Quebec’s economy was stuck in the slow lane. Declining working-age population, weak business investment and lagging labour productivity significantly restrained growth. Between 2012 and 2016, Quebec’s GDP growth consistently ranked in the bottom half of the provincial rankings, averaging just 1.2%. Things turned around in a big way in 2017 when the provincial economy recorded its strongest advance in 15 years (2.8%). A number of factors came together—including exceptionally low interest rates, successive provincial budget surpluses, an immigration wave and a thriving housing market—that boosted confidence across the province. Businesses went on a hiring spree and increased capital spending.

The good times continued to roll in 2018. Preliminary estimates place Quebec’s GDP growth rate (2.4%) second behind only Prince Edward Island (2.5%). The broad-based expansion—all major industrial sectors grew last year—kept the labour market very tight. Quebec’s unemployment rate fell to its lowest level (5.5%) in more than 40 years. This led to a sharp rise in the number of positions going unfilled. In fact, recruiting and retaining labour last year was one of the top challenges facing businesses.

We see little that would throw Quebec’s economy off its faster track in the near term. Momentum remains impressive at this stage with monthly GDP estimates from the Institut de la statistique du Québec running close to 3% above year ago levels. Most industrial sectors—including manufacturing, construction, and retail and wholesale trade—had a solid first quarter of 2019. After stalling briefly late last year, hiring resumed in the initial months of 2019 despite the pool of job seekers shrinking. The unemployment rate drifted lower to 4.9% in April.

More importantly, Quebec’s growth renaissance is being supported by improved economic fundamentals. A wave of immigrants and non-permanent residents has stemmed the decline in the working-age population—now growing for the first time since 2012. And labour productivity growth has accelerated thanks in part to a material rise in business capital investment in the past couple of years. Solid capital spending intentions this year bode well for these gains to be sustained. We believe that strong momentum and improved fundamentals will keep Quebec near the top of the provincial growth rankings this year with a rate of 2.0%. This would be more than 0.5 percentage points above the national average for the second-straight year.

Whether this qualifies Quebec as an economic powerhouse is debatable. What’s undeniable is that the impressive growth spurt is doing wonders to the Quebec government’s books. Strong revenue tracking has prompted the government to boost its 2018-2019 projected budget surplus to $3.6 billion—by far the largest on record in dollar terms. Staying out of the slow lane will keep the fiscal affairs in good standing.

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