

Trailing the pack

Any sense that Quebec's economy would sail through after emerging from the 2008-2009 recession ahead of most provinces faded last year. There were disappointing developments in the labour market and other sectors of the economy in the closing months of 2011 in Quebec that dimmed the prospect for a bounce back in growth in 2012 from a lacklustre pace in 2011. We expect the provincial economy to continue to trail other provinces in terms of growth this year with a rate of 1.6%, which is unchanged from 2011. This would constitute the weakest back-to-back performance outside a recession since 1995-1996. We project only a slight acceleration to 1.9% in 2013.

Disappointing labour market slump

Admittedly, we were caught off guard by the severity of the slump in Quebec's labour market in the last three months of 2011. While we questioned, a year ago, the sustainability of the strong jobs growth at the start of 2011, we were disappointed by the significant subsequent slowing that led to the loss of 61,000 jobs between October and December—a drop almost as large as the total loss during the 2008-2009 recession (64,000) in the province. This rapid deterioration was echoed in the unemployment rate, which surged to 8.7% by December; i.e., a tad lower than the recession peak of 8.9%. We are now concerned that the deterioration in labour market conditions will weigh on consumer-dependent sectors of the economy. The employment gain registered in the first two months of 2012 (9,700) was insufficient to perk up job prospects in any meaningful way. Recent layoff announcements in high-profile industries such as pharmaceuticals do not bode particularly well for a snap back in hirings in the near term either. We project employment growth of just 0.2% in 2012, which would be well below the average rate in the past five years (1.1%).

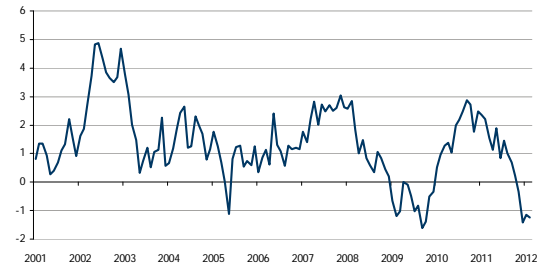
Poor handoff to 2012

Also concerning lately has been the recent string of data showing a significant slowing in monthly real GDP. According to estimates by the *Institut de la statistique du Québec*, the province's real GDP was flat in both October and November 2011. Unless the pace picks up materially in December, the fourth quarter of 2011 could well show no growth at all or perhaps even a small decline. Sectors such as residential construction, manufacturing (including primary metals and machinery), and public administration showed weakening signs late last year. This stalling of activity in the closing months of 2011 would come on the heels of a slight contraction in the second quarter and minimal growth in the third. In other words, the Quebec economy is carrying very little forward momentum, if any at all, as it enters 2012.

Business investment holding up

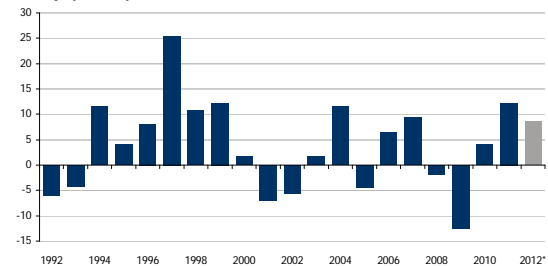
One type of activity that continues to give positive signs for 2012, however, is business investment. The latest P&PI survey by Statistics Canada indicates that private firms intend to boost their non-residential capital spending by 8.5% this year, following a strong increase of 12.3% in 2011. Virtually all of this increase will take place in the mining and utilities sectors. The public sector will also contribute positively with capital spending projected to rise by 5.8%, which would be up from a growth of 2.9% last year.

Quebec employment
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

Quebec private non-residential investment
% change, year-over-year



Source: Statistics Canada, RBC Economics Research
*Intentions.

Quebec forecast at a glance

% change unless otherwise indicated

| | 2010 | 2011F | 2012F | 2013F |
|------------------------|--------|--------|--------|--------|
| Real GDP | 2.5 | 1.6 | 1.6 | 1.9 |
| Employment | 1.7 | 1.0 | 0.2 | 1.3 |
| Unemployment rate (%) | 8.0 | 7.8 | 8.0 | 7.8 |
| Retail sales | 6.3 | 1.9 | 3.4 | 3.8 |
| Housing starts (units) | 51,363 | 48,200 | 45,000 | 42,000 |
| Consumer price index | 1.3 | 3.0 | 1.8 | 2.0 |

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