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Desjardins: a clear force for Québec Economic contribution and reach of Desjardins Group's Québec operations

Everyone recognizes that Desjardins Group is important to Québec's economy. But how do its province-wide activities translate into spin-offs for Québec's economy and its population overall? By quantifying the economic impacts of Desjardins Group's activities in Québec, Desjardins Economic Studies seek to shed some light on this question. The results show that Desjardins Group's operations in the province represented a value-added contribution that exceeded \$4.8B in 2006, taking all direct, indirect and induced effects into account. This figure represented 1.84% of Québec's total GDP in terms of basic prices. It also represented 67,551 jobs (person-years), including those who depend either directly or indirectly on Desjardins Group's activities in Québec, or just under 2% of jobs in Québec, or approximately one job in 50. Furthermore, each job created at Desjardins creates another job elsewhere in the economy. More than 80% of these jobs are held in the Desjardins caisse network and at the Fédération des caisses Desjardins. Desjardins activities in Québec also provide a revenue stream for the provincial government that exceeds \$1B in taxes, miscellaneous taxes and incidental taxation [example: Québec Pension Plan (QPP), Commission de la santé et de la sécurité du travail (CSST)]. This also boosts the federal government's receipts by about \$470M. These are significant sums if one assumes that \$1B represents 1.7% of Québec government's total budgetary revenues and 2.1% of own-source revenues (excluding federal transfers) for the 2006-2007 budget year.

INTRODUCTION

Desjardins Group plays an active role in Québec's economic development on several fronts. Box 1 on page 2 presents a few figures that describe the scope of the Group's outreach. But the best way to measure the Group's economic impact is through the Group's day-to-day activities. The purpose of this *Economic Viewpoint* is to accurately quantify the impact and economic spin-offs of Desjardins Group in Québec. The results are for 2006, but it is clear that any results based on more recent data would be similar to those presented herein.

We begin this *Economic Viewpoint* with a brief description of the methodology used to assess the economic impacts. All the steps in the process will be discussed here—from data sources to the definition of direct, indirect and induced effects. The pivotal role played by the Institut de la statistique du Québec (ISQ) in the process—as owner of the input-output model—is also clearly defined. Lastly, the results in terms of jobs, value-added, gross domestic product (GDP) and tax revenues for the federal and provincial governments are also provided for the Group's overall activities in Québec.

It is important to note that the economic impact of investments made by Desjardins Group overall could not be estimated. The results presented therefore do not include the Group's capital investments. Much like the calculation of economic spin-offs in each region of Québec, the absence of detailed information on this front made it impossible to assess this aspect.

METHODOLOGY

To contain the scope of our analysis, we must present a summary of the methodology used. The methodology is based on the Québec input-output model that allows us to simulate and translate the impact of operating expenses, investments and current consumption on the economy. This analysis involves Desjardins Group's operating expenditures only since investment expenses could not be identified. The impact is measured in terms of output, revenues and jobs. The Québec input-output model, developed in the early 1960s, measures the effects of these expenses on the economy and classifies them based on the sectors affected.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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Box 1**Outreach of Desjardins Group**

Since the founding of the first *caisse* more than 107 years ago, Desjardins Group has succeeded in convincing close to 6 millions members across Canada (including more than 400,000 companies) to join its ranks. Over the years, Desjardins has accumulated more than \$150B in assets. This success is due to the quality of the services offered, the proximity of *caisses* and to the dedication of its officers and employees to the cooperative nature of the organization. Desjardins Group's values are solidly entrenched in personal engagement, democracy, integrity and solidarity with the local environment. By putting its members' money to use through economic and human development, Desjardins has become the largest and the most present financial institution in Québec.

With solid roots in Québec, Desjardins Group also enjoys an outreach that spans Canada and the globe. It is a member of the International Co-operative Alliance. According to the *The Banker* magazine, the Group currently ranks 96th in the global listing of major financial institutions in terms of tier 1 capital. Through its Développement international Desjardins (DID), the Group also supports the creation and consolidation of financial institutions with access to all in several developing countries. The Group also enjoys international presence with three Desjardins Bank service centres in Florida and a Caisse centrale Desjardins (CCD) that is authorized to grant commercial loans in both Canada and the United States.

In Canada, the scope of Desjardins activities is impressive. As at December 31, 2007, the Group had, among others, 1,427 points of service centres in Québec and Ontario: 536 *caisses* and 891 service centres, in addition to 28 Desjardins Credit Unions (DCU) in Ontario. There are also 114 points of service in Manitoba and New Brunswick: 39 affiliated *caisses* and 75 service centres which maintain some ties with the Group. The companies are also serviced by 49 business centres in Québec and 3 in Ontario. To complete the service offering, some twenty subsidiary companies offer Desjardins' full range of financial services, many of which are active across the country. Desjardins is much more than the 42,000 plus individuals who work for the Group in Canada—it's the commitment of the 6,925 elected officers that sets the Group apart.

The strength of Desjardins Group takes on extra meaning when set within Québec's context. Its huge market share allows the Group to lay claim, inarguably, to being the top

financial institution in Québec. For example, in 2007 Desjardins Group held 44.1% of all personal savings in Québec, making it the leader of the pack. The residential mortgage market is another area where the Group is a primary player. This sector is highly coveted by financial institutions, and competition is fierce to increase each company's share of this market. In Québec, the Group held 39.2% of this market as at December 31, 2007, making it a mortgage lending leader. The Group is also active in consumer loans, credit cards and other individual loans, with a level penetration that reached 22.4% by the end of 2007.

In terms of business financing, the figures clearly show that Desjardins is also a leader in its field. Owing to its network of *caisses*, business financing centres and through the CCD, the Group is well placed to meet the financing needs of most businesses regardless of the business sector involved. In the field of commercial and industrial credit, the market share held by Desjardins in Québec was assessed at 24.3% at the end of 2007. With regard to farm financing, the Group is by all means the most dominant financial institution in Québec with 42.5% of all farm loans at the end of 2007.

These figures speak for themselves and those for the subsidiary companies do even more so. Desjardins Financial Security (DFS) is the fourth largest personal insurer in Canada and Québec's number one insurer. DFS offers life and health insurance products to individuals, groups and companies and provides innovative savings products to more than five million Canadians. Desjardins General Insurance Group (DGIG) ranks 11th in Canada's general insurance market and 2nd in Québec. Moreover, it is the 6th largest personal underwriter in Canada in an industry where more than one hundred companies operate. Desjardins also has a significant presence in the securities and venture capital markets.

Desjardins Group is also one of Canada's largest trustees and wealth managers. As at December 31, 2007, the overall value of assets under management reached \$210.7B. Lastly, the Group enjoys high visibility in Québec's venture capital market. Through its subsidiary, Desjardins Venture Capital and the Capital régional et coopératif Desjardins (CRCD) public fund, the Group had coached 290 businesses by the end of 2007. After six years of business activity, the CRCD held outstanding debt of \$735M as at December 31, 2007, with \$470M committed to 195 companies.

Economists usually define economic impacts along three separate lines: direct, indirect and induced effects. Direct impacts measure the value-added to the economy that can be attributed directly to a specific industry—through revenues and salaries—as well as compensation for other production factors. Let's explain the concept of value-added by using aircraft assembly as an example. An aircraft's different parts are all separate at the start of the production line. By the time it reaches the end of the line, the aircraft is built and ready for take off. Simply put, the value-added is the value that was created by taking the separate parts and putting them together to make the aircraft. This is the difference between revenues made from selling the assembled aircraft and the cost of each individual part.

For Desjardins, the value-added, also referred to as net output, represents the difference between total income for Desjardins Group and the total expenses for materials, parts and all other inputs needed to provide the services offered. Value-added therefore includes before-tax wages and salaries, the net revenues of sole proprietorships and other gross revenues before taxes, including taxes and production subsidies. Since 1997, we are using the more specific concept of value-added at market prices that include indirect taxes on goods and services, net of subsidies on goods and services. If we calculate the sum total of all the value-added of all the industries located in a region or country, we obtain the GDP of that region or country.

By purchasing goods and services, Desjardins Group creates economic activity in other industries. For example, when the Group buys electricity or telephone services or purchases printing services or furniture, this generates activity in other industries. This is what economists refer to as indirect effects, which represent the value-added generated for other industries via the income and salaries paid by suppliers to make sure the goods and services required are produced. In addition to the salaries and benefits paid to employees and the activity generated by purchasing goods and services, Desjardins Group provides both levels of government with significant revenue streams that are required to provide public services to all Québécois.

The input-output model used by ISQ is the best possible tool for calculating the direct and indirect effects of an economic activity. The model's current reference data were culled from Statistics Canada's input-output table for 2003 for Québec. The industries are classified based on North American Industry Classification System (NAICS). Even if the input-output table dates from 2003, the ISQ updates it regularly to take into account changes that take place in the economy, especially in terms of taxation.

Overall, the ISQ's input-output model is a simplified representation of Québec's economy. It allows us to describe relations that exist between sectors or industries over the course of a given year and describes the inputs used by an industry to produce specific goods. As such, we can draw a line between Desjardins Group's activities and computer assembly, for example. The structure may be fairly complex but the foundation rests on solid assumptions that must be well understood in order to use the model and, more importantly, to interpret the results correctly.

It must be specified that the results obtained with the model indicate magnitude and not exact or absolute values. In addition, this model is static, not dynamic, meaning that no reference is made to the propagation of demand. This means that we cannot determine the time it takes before any impacts are fully felt in the broader economy. Lastly, the results are interpreted in current year dollars, as if the overall effects would be achieved in the reference year.

The input-output model does not take induced effects into consideration; therefore, increased activity triggered by increased revenues (like wages) generated by Desjardins Group are not taken into account. Only additional expenditures in goods and products from production sectors are re-injected into the economy. Lastly, this is a linear model, which means that the indirect effects are in fact doubled when the amount of the impact re-injected into the economy doubles.

The induced effects represent the impact on the economy when the employees of Desjardins Group and related industries spend their paycheques, when business owners use their profits or when members take advantage of their member dividends. Any purchases they make ripple through the rest of the economy which only generates more jobs, more wages and more inflows for the government.

The Group's activities not only have a direct impact on the economy, they extend beyond the economy through leveraging. The Group's suppliers feel the indirect effects through increased demand. Another impetus comes from induced effects which, while traditionally weaker, spread throughout the general economy through increased consumption. The direct, indirect and induced effects often extend beyond borders to suppliers and related industries in other countries through imports.

SOURCE OF DATA

The basic information that is essential to calculate the economic impact of the Group's induced activities was culled from financial statements for 2006. Based on this information, we could immediately identify direct primary factor input

purchases, like labour and the purchase of goods and services from other companies. Overall, Desjardins Group's operating expenditures in Québec reached \$4.2B in 2006, of which 46.2% was used to pay salaries. In total, the workforce represented the equivalent of 34,520 person-years.

It must be specified that the concept of operating expenses in an economic impact analysis is different than for accounting purposes. For an impact analysis, operating expenses include certain gross revenues before income taxes like return on capital or surpluses, which is not the case in traditional accounting. This difference stems from the use in this study of value-added as a concept.

The expenses related to the Group's activities outside Québec were excluded from the economic impact calculation. Business activities in Ontario have induced effects on the economy of that province but very little impact on Québec. As a result, some assumptions had to be drawn up to separate expenses incurred in Québec and Ontario from other Desjardins components. The estimates were generally made by the components themselves when the information was available.

CALCULATING DESJARDINS' ECONOMIC IMPACT

This section presents the results of the ISQ's input-output model. The results are tallied as direct and indirect effects. The input-output model does not calculate the induced effects, which were processed separately. Desjardins Economic Studies calculated the induced effects and the methodology used to assess them is described in box 2 on page 5.

Direct and indirect effects

As defined previously, direct effects are those that can be calculated in a sector where Desjardins operates. The impacts are represented by their value-added components only, including income tax calculations and incidental taxation revenues [like the Québec Pension Plan (QPP), the Commission de la santé et de la sécurité du travail (CSST), the Fonds des services de santé (FSS)].

The indirect effects are measured via the goods and services purchased by the Group. These can be separated into two groups. The initial impact is felt by the primary suppliers who see increased demand for their products or services. These are the indirect effects on the primary suppliers. In turn, these suppliers must call on their suppliers to meet the additional demand, and so on. The input-output model also calculates the indirect effects on the production sectors that come into play subsequent to the primary suppliers.

Table on page 6 presents the detailed results of the economic impacts of Desjardins activities in Québec. It says that in 2006,

the direct and indirect effects of the Group's operating expenses for labour in Québec would have supported 47,362 person-years for a global payroll of more than \$2.4B. To this number, 2,624 person-years have to be added for non-salaried workers like sole proprietorships or self-employed workers, for net revenues of \$50.7M. The value-added at basic price, including direct and indirect effects, would have reached \$3.7B in 2006.

The Group's activities also have a significant impact on the government revenues at different levels. The ISQ indicates that the Québec government collected \$261.8M in income taxes on wages and salaries; \$8.2M in sales taxes (QST) and \$7.5M in specific taxes. In the same vein, the Group remitted to the federal government \$179.6M in income taxes on salaries and wages; \$42.8B in sales taxes (GST) and \$6.6M in excise taxes. Lastly, incidental taxes payable in Québec and at the federal level boosted inflows by \$289.1M and \$63.0M respectively.

Calculating induced effects

The induced effects of the expenses made by salaried and non-salaried workers whose livelihood depends—either directly or indirectly—on Desjardins Group's activities in Québec must be added to the previously calculated direct and indirect economic impacts. The input-output model does not take into account or does not calculate induced effects. It therefore does not take into account increased activity as a result of increased revenues (like salaries) generated by Desjardins Group. Only supplementary expenses in goods in services in production sectors are re-injected into the economy. However, it can be evaluated. The calculation method and related assumptions are described in box 2 on page 5.

Purchases made from the salaries paid to salaried and non-salaried Desjardins workers also generated supplementary value-added for the economy of \$1.2B (see table on page 6). Of this amount, \$483.2M is directed into the pockets of other salaried workers; \$113.4M is redistributed as supplementary net income for sole proprietorships and \$558.1M is other gross revenues before taxes. This represents 17,566 person-years of work that are added to Québec's economy, of which 15,913 is for salaried workers and 1,653 for non-salaried workers. To calculate the induced effects, only one iteration was used, meaning that the other induced effects generated by the additional \$483.2M in salaries were not added to the total effect amount. In fact, the impact quickly becomes marginal when compared to the total effects.

In terms of induced effects, the economic impacts in terms of value-added are mainly in the services sector (77.6%). Landlords, real estate lenders, the manufacturing sector, public

Box 2**Calculating the induced effects of Desjardins activities**

The induced effects stem from the fact that Desjardins Group employees spend their paycheques purchasing various goods and services, much like the employees of primary and subsequent suppliers. As a result, to calculate the induced effects of the Group's activities, we applied the total impact on salaries and on the net income of sole proprietorships. However, the sums that are injected through the economy are taxable. The figures have to be corrected to take into account all income taxes payable in order to determine the net value of what is left in our pockets. The induced effects were calculated by Desjardins *Economic Studies* using information provided by ISQ.

Some amounts, which were not included in our calculation of economic impacts that are specific to Desjardins but constitute income earned by economic agents that was probably spent, much like other types of income, have also been taken into account in the induced effects. These are, among others, member dividends, Visa premiums paid in goods in services, income from with-participation policy holders, donations and sponsorships. Our assumptions took into account that these sums had been spent on personal consumption. In fact, great care was taken to make sure that any amounts identified were available for personal consumption. We therefore had to exclude, for example, dividends paid into registered retirement income funds (RRIFs), registered retirement savings plans (RRSPs)

or locked-in retirement accounts (LIRAs). An identical approach was used for Visa premiums, by rejecting reimbursement payments for mortgage, personal and car loans or deposited in an RRSP.

Other before-tax gross revenues were not included in the calculation of induced effects. These include an entrepreneur's compensation (unless this is already included in the net income of sole proprietorships), return on capital (amortization, depletion and depreciation of material and buildings), and other charges. These amounts have little impact on the economy unless the entrepreneur's compensation is distributed to shareholders. We had no assumptions on this front since specific amounts could not be determined. This is why the dividends paid to members were used to calculate the induced effects—they invariably find their way back into the economy.

Once this after-tax income finds its way into the hands of economic agents, especially consumers or individual entrepreneurs, we have to determine how it will be used. Our first assumption posits that about 10% of the amount would be earmarked for savings or to service total debt. For the large portion that remains, we believe it would flow back into the economy through personal consumption. The ISQ provided us with information on how \$100B in personal consumption impacts the economy. Since the input-output model is linear, we were able to estimate the induced effects based on ratios.

services, retail and wholesale trade are sectors that benefit the most from the induced effects of Desjardins activities in Québec. Imports also get a big boost from induced effects. Many of the goods consumed as a result of salaries paid are imported.

Global effects

Desjardins Group's overall activities in Québec created value-added to the tune of \$4.8B in 2006 (see table on page 6). This value-added represents the Group's contribution to the GDP in Québec: 1.84%. In concrete terms, the economic impacts translate into a total payroll of \$2.9B; \$164M in net revenues for sole proprietorships and approximately \$1.8B in other gross revenues before income taxes that are spread throughout the economy. This is the sum total of all direct, indirect and induced effects. Also worth noting is that Desjardins activities in Québec trigger a total of \$1.2B in imports, most of which are the result of induced effects.

In terms of the labour market, Desjardins Group is responsible for creating 67,551 person-years: 63,275 for salaried workers and 4,277 for all other workers. If we consider that a portion of these jobs are part time, we can conclude that Desjardins Group employs about 2% of Québec's entire workforce, representing one job out of 50. We have also observed that for each job created at Desjardins, another job is created elsewhere in the economy. It is worth mentioning that more than 80% of these jobs are attributable to the network of Desjardins caisses and the Fédération des caisses Desjardins.

Governments draw certain advantages from having an organization like Desjardins Group operating on its territory. The provincial government receives more than \$1B in income taxes and incidental taxes from Desjardins in Québec alone. Of this amount, \$295.3M comes from income taxes on salaries and wages; \$99.3M from sales taxes; approximately \$65.1M from other specific taxes and more than \$589.2M in incidental taxes (QPP, FSS and CSST). This \$1B represented 1.7% of the

Economic impact of Desjardins Group's \$4.2B of operating expenditures in Québec (2006)

	Direct effects	Indirect effects		Total effects	Induced effects	Global effects*
		Primary suppliers	Other suppliers			
In K\$ (unless otherwise specified)						
Workforce (person-years)	34,520.0	9,723.0	5,742.3	49,985.3	17,565.7	67,551.0
Salaried employees	34,520.0	7,810.9	5,030.8	47,361.7	15,912.8	63,274.5
Other workers	0.0	1,912.1	711.5	2,623.6	1,652.9	4,276.5
Value-added to basic prices	2,887,040	487,357	314,064	3,688,461	1,154,754	4,843,215
Salaries before taxes	1,956,407	299,123	168,373	2,423,903	483,232	2,907,135
Net income of sole proprietorships	0	32,832	17,886	50,718	113,396	164,114
Other gross income before taxes	930,633	155,402	127,805	1,213,840	558,126	1,771,966
Other productions⁽¹⁾	---	9	1,435	1,444	6,026	7,470
Subsidies	0	-15,518	-7,887	-23,405	-43,415	-66,820
Indirect taxes	---	53,740	11,291	65,031	241,203	306,234
Imports	---	239,398	263,888	503,286	703,821	1,207,107
Québec gov. revenues, including:	222,652	34,549	20,221	277,422	182,243	459,665
Taxes on salaries and wages	222,652	26,133	12,966	261,751	33,504	295,255
Sales tax (QST)	---	5,155	3,007	8,162	91,186	99,348
Specific taxes	---	3,261	4,248	7,509	57,553	65,062
Federal gov. revenues, including:	156,087	61,143	11,748	228,978	111,464	340,442
Taxes on salaries and wages	156,087	15,819	7,712	179,618	19,001	198,619
Sales tax (GST)	---	41,529	1,236	42,765	65,033	107,798
Taxes and excise taxes	---	3,795	2,800	6,595	27,430	34,025
Incidental taxation⁽²⁾	271,817	50,594	29,617	352,028	366,035	718,063
Québec (QPP, FSS, CSST)	223,434	41,367	24,283	289,084	300,107	589,191
Federal (employment insurance)	48,383	9,227	5,334	62,944	65,928	128,872

* Total of direct, indirect and induced effects.

⁽¹⁾ Stock decreases and sales of goods and services in several final demand sectors.

⁽²⁾ Incidental taxation includes employer and employee contributions.

--- Not applicable.

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Québec government's total budgetary revenues and 2.1% of own-source revenues (excluding federal transfers) for the 2006-2007 budget year.

The federal government's coffers were boosted by \$469.3M in additional revenues due to Desjardins activities in Québec. More specifically, \$198.6M was collected in income taxes on salaries and wages; \$107.8M in sales taxes and \$34M in other taxes and excise taxes. An additional \$128.9M was also collected in incidental taxes, mostly through employment insurance contributions.

CONCLUSION

Desjardins Group plays an active role in Québec's economic development on several fronts: not only as a major employer, but through charitable donations and sponsorships, through the strong presence it enjoys across the province and the

education it provides to its members on economic matters. However, it is through its present day activities that the Group's strength is felt and is most visible. It is also through the Group's current activities that its economic impact is most easily measured.

No private company can boast that it has created one in about every 50 jobs in Québec. Furthermore, for each job created at Desjardins, another job is created elsewhere in the economy. This represents more than \$4.8B in direct, indirect and induced effects on Québec's economy, or about 1.84% of Québec's total GDP in 2006.

In addition to the salaries and benefits paid to employees and the activity generated by purchasing goods and services, Desjardins Group provides both levels of government with the significant revenue streams required to provide public

services to all Québécois. Overall, Desjardins activities in Québec ensure inflows for the provincial government of more than \$1B in income taxes, miscellaneous taxes and incidental taxes. The federal government collects more than \$470M. These figures are hardly insignificant if we consider that \$1B represented 1.7% of the Québec government's total budgetary revenues and 2.1% of own-source revenues (excluding federal transfers) for the 2006-2007 budget year.

These figures, which speak for themselves, are more of a rough estimate than absolute values but they illustrate the Desjardins Group's economic strength in Québec and foster an appreciation of the role this institution plays in an economy like ours.

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