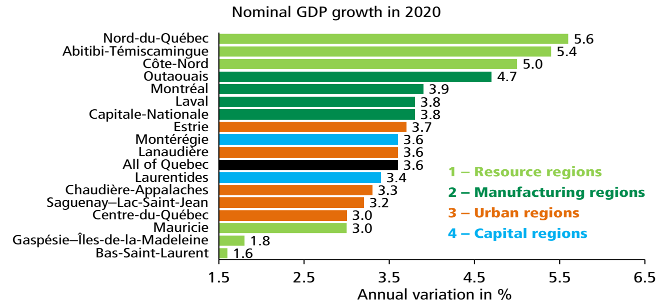
ECONOMIC VIEWPOINT

Overview of Quebec's Regions: What to Expect in 2020?

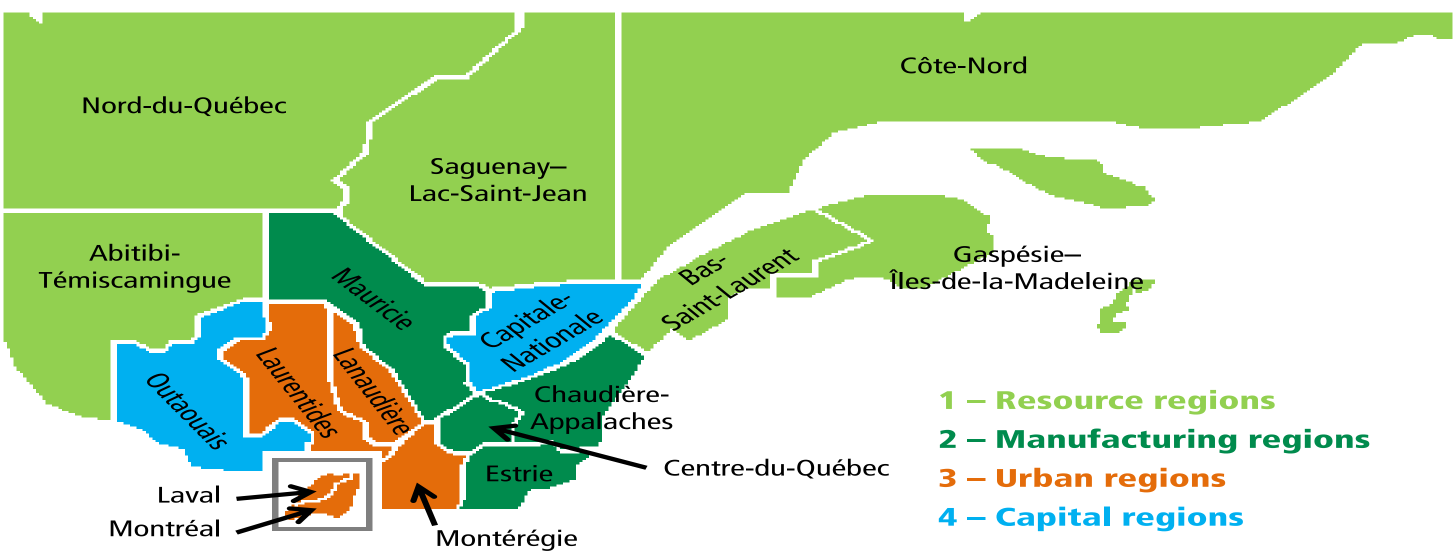
Economic growth in the regions of Quebec will be less sustained in 2020 than in 2019 (graph 1). The global context will continue to provide its share of uncertainty, due in particular to the trade tensions and geopolitical issues that will prevail this year, despite recent encouraging developments. Moreover, the labour shortage will slow the expansion of many businesses in a number of Quebec regions, which will negatively impact their economic growth.

Among the regions expected to perform best are the mining regions, which are strongly stimulated by the strength of investment. The Outaouais will also grow at a good pace, due in part to sustained population growth. The Island of Montreal will also do very well. The presence of major infrastructure work will continue to support investment and employment. In eastern Quebec and certain manufacturing regions, conditions will be more difficult, as their driving industries will continue to be weakened by the aging population and trade disputes.

GRAPH 1
Economic growth in Quebec regions will be weaker in 2020



Source: Desjardins, Economic Studies



Source: Desjardins, Economic Studies

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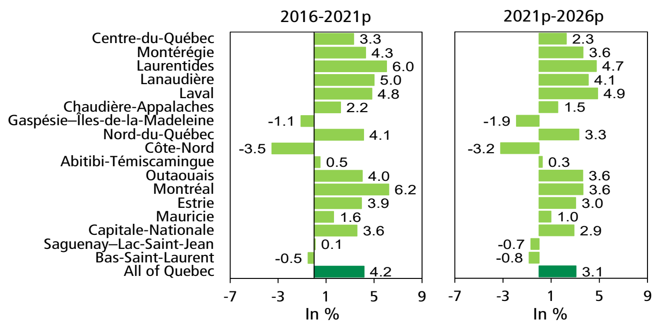
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

Population Growth Will Slow in Most Quebec Regions by 2026

Population growth will be less sustained over the next few years than in the past in most Quebec regions, according to the demographic projections of the Institut de la statistique du Québec (ISQ) released in fall 2019 (graph 2).

GRAPH 2
Population growth will slow in almost all regions by 2026

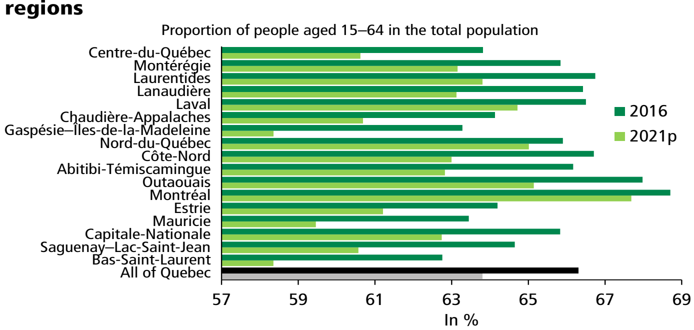


p: Institut de la statistique du Québec projections, based on the baseline scenario for 2019
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Demographic dynamics vary widely at the regional level. While the Island of Montreal and the surrounding areas will maintain a good rate of population growth, it will be different for the outlying regions. Of these, four will see the number of residents decrease from 2021 to 2026: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Côte-Nord and Gaspésie–Îles-de-la-Madeleine.

In addition, the share of the working-age population, aged 15 to 64, will decline over the next few years in all regions (graph 3), thus increasing the pressure to fill positions left vacant by retirements and to ensure business growth.

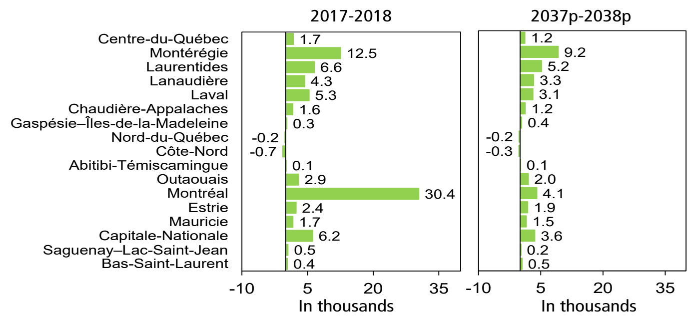
GRAPH 3
Proportion of people aged 15–64 is decreasing in all Quebec regions



p: Institut de la statistique du Québec projections, based on the baseline scenario for 2019
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Migration remains a major asset, but as shown in graph 4, the expected gains in this area will remain limited over the next 20 years.

GRAPH 4
Total migration gains will remain limited

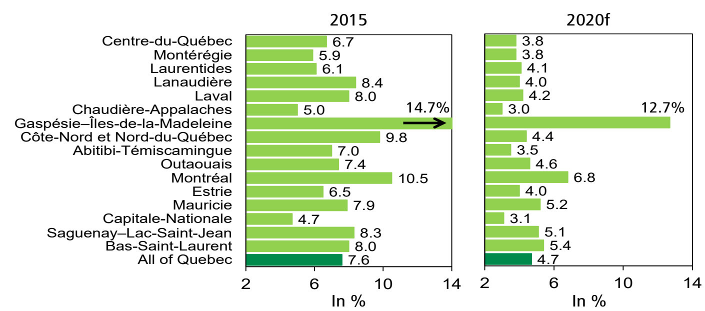


p: Institut de la statistique du Québec projections, based on the baseline scenario for 2019
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Regional Labour Markets Are under Increasing Pressure from an Aging Population

The drop in unemployment rates has been widespread and will continue. A number of regions now have an unemployment rate of less than 5.0% (graph 5).

GRAPH 5
The drop in unemployment rates is widespread



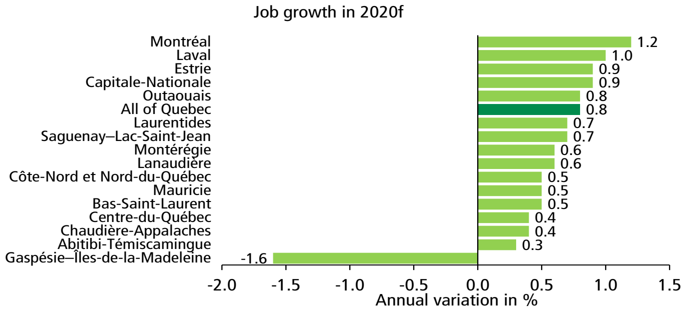
f: Desjardins forecasts
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

This is due to the strong economy, a growing labour market in many regions, but also the increased aging of the population. The latter is also playing an increasingly important role in the general decline in regional unemployment rates. In some regions—including Chaudière-Appalaches and the Capitale Nationale—this phenomenon, along with a dynamic labour market, has brought their unemployment rates to levels deemed to constitute full employment.

In the current context of relative labour scarcity, a number of regional markets will show weak employment growth in 2020 (graph 6 on page 3).

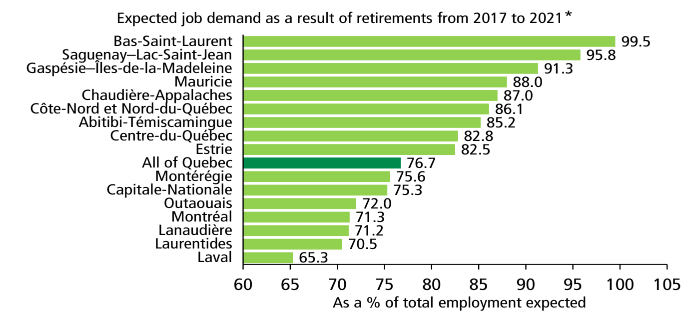
According to Emploi Québec, more than 78% on average of the expected demand for workers in Quebec from 2017 to 2021 will come from retirements (graph 7 on page 3). For the Bas-Saint-Laurent region, the organization anticipates that all of

GRAPH 6
Job growth will be contained in 2020



f: Desjardins forecasts
Source: Desjardins, Economic Studies

GRAPH 7
Aging population is boosting retirements

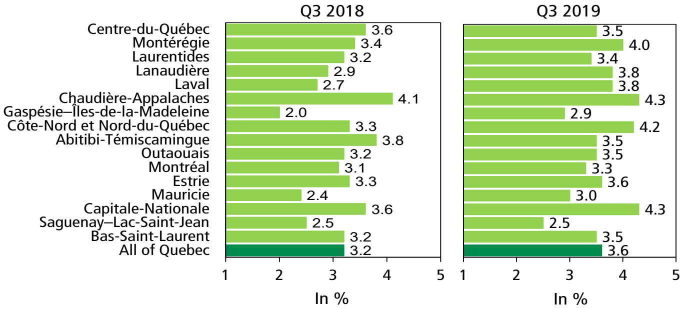


* Emploi-Québec forecasts.
Sources: Emploi-Québec and Desjardins, Economic Studies

the demand will be driven by this phenomenon, as a decrease in total employment is expected during this period.

Another sign of the relative worker shortage is the vacancy rate, which continues to peak in all regions (graph 8). In the third quarter of 2019, there were 137,350 vacancies in Quebec, of which just over two thirds were outside of Montreal.

GRAPH 8
Vacancy rates reach new heights



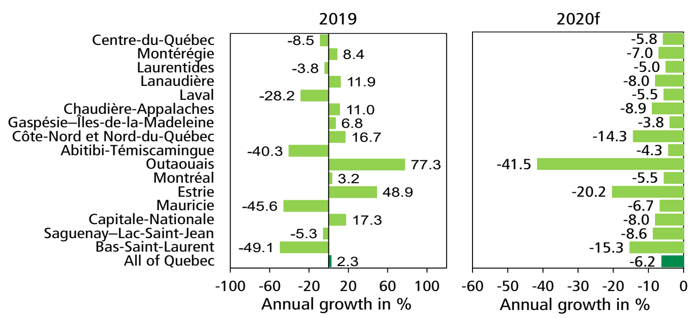
Sources: Statistics Canada and Desjardins, Economic Studies

A very large proportion of industries are affected by this phenomenon, including accommodation and food services, retail trade, and information and cultural industries, according to data collected by Statistics Canada.

The Residential Market Will Maintain a Good Cruising Speed in 2020

After several years of increases, during which new construction has continued to surprise by its strength, a lull is expected in 2020 across all regions (graph 9). Despite this slowdown, housing starts will remain quite high overall. The high demand for rental housing due to an aging population and the arrival of immigrants supports this projection.

GRAPH 9
New construction will be down everywhere in 2020



f: Desjardins forecasts
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

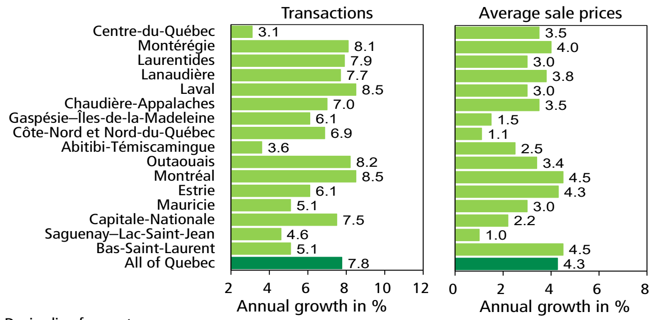
In Montreal, however, residential activity may slow further as new bylaws on the Island of Montreal come into effect in 2021. The By-law for a diverse metropolis, introduced on June 12, 2019, will require developers of residential projects with 50 or more units to include 20% social housing, 20% affordable housing and 20% family housing in their projects. This could reduce project profitability and jeopardize the execution of certain projects.

Overall, vacancy rates declined in 2019, and in this context remained lower than their average of the past five years. By 2020, most regions will have a rate of less than 3.0%, which is often perceived as a point of equilibrium.

In the resale market for existing homes, another year of growth is expected in all regions (graph 10 on page 4). The economy and, in turn, employment will continue to do well, which will support the existing home market. In addition, mortgage rates will remain low.

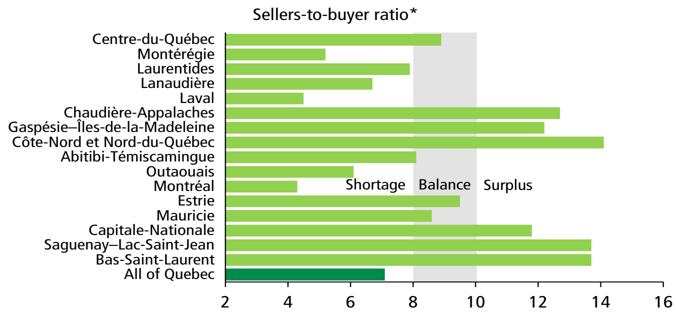
The tightening of the balance between supply and demand in many markets (graph 11 on page 4) will maintain some upside pressure on the growth of average sale prices. Sellers will have the upper hand when negotiating in the majority of transactions, especially in Montreal and Laval.

GRAPH 10
The resale housing market will continue growing in 2020



f: Desjardins forecasts
Sources: Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

GRAPH 11
It was a seller's market in several markets in 2019



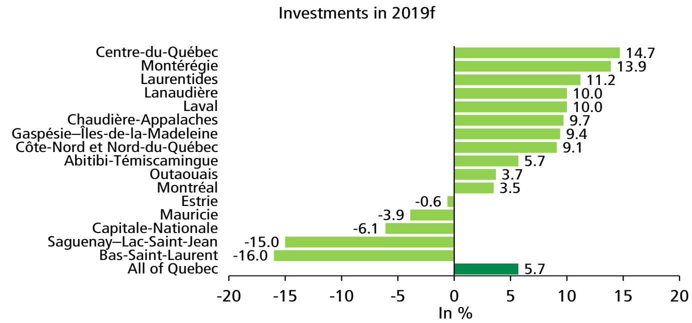
* Current listings divided by the number of transactions on the resale market for existing properties.
Sources: Quebec Professional Association of Real Estate Brokers by the Centris system and Desjardins, Economic Studies

In Montreal, the real estate market will have to be watched closely. According to the Canada Mortgage and Housing Corporation (CMHC), it has crossed the overheating threshold, making it vulnerable to possible price corrections. In addition, a foreign buyer tax could be imposed, as was done in Vancouver and Toronto.[1]

Investment Will Continue to Keep Pace in a Number of Regions

The outlook for investment growth is generally positive for 2020. Investment is expected to be up in most Quebec regions in 2019, according to the ISQ forecast (graph 12). The Montérégie, Laurentides and Lanaudière regions will be mainly stimulated by major current and upcoming residential developments, including Solar Uniquartier in Brossard ($1.3B), Habitations Trigone in Saint-Jérôme ($242M) and District Union in Terrebonne ($900M). The increase in population and the arrival of several Réseau express métropolitain (REM) stations account for much of this effervescence.

GRAPH 12
Investment advanced in most regions in 2019



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

On the Island of Montreal, the amount of money injected into the economy should remain at historically high levels. Projects include the implementation of the REM ($6.3B), modernization work at Montréal Trudeau International Airport ($2.5B) and the Royalmount commercial development ($1.7B). In Laval, the continuation of major revitalization projects, including those related to downtown, will continue to bring their share of investment (e.g., the Central Parc Laval rental project [$500M] and the Espace Montmorency commercial development [$450M]).

Projects elsewhere in Quebec include the redevelopment of Route 185 as a highway in the Bas-Saint-Laurent (phase 3) ($947M), the construction of the new Enfant-Jésus hospital complex in the Capitale-Nationale region ($650M), the construction of the Kruger Holding tissue plant in Estrie ($575M), and the improvement of port infrastructure in Pointe-Noire on the Côte Nord ($280M). Lastly, construction of the Micoua Saguenay power line began in the fall of 2019 ($793M).

Many Issues Await Quebec Regions in 2020

The number one issue for all Quebec regions is undoubtedly the scarcity of labour. However, there are a number of initiatives and strategies in place to attract and retain workers across Quebec.

The technological shift is another major challenge for all regions. Against the backdrop of a declining labour force in Quebec's regions, the economy must be able to rely on productivity gains to keep growing. The integration of digital technologies and the adaptability of production chains are essential to keep companies competitive and maintain market share.

That being said, each region has its own economic dynamic, which is linked to sectors whose importance in their economies is greater than what is observed in Quebec as a whole. Let's take a quick look at the specific challenges and issues they face.

[1] Zacharie GOUDREAULT, *Acheteurs étrangers: la taxe promise par Justin Trudeau bénéficierait à Montréal*, *Journal Métro*, September 16, 2019.

For resource regions—economies based on the development of natural resources (e.g., agriculture, forestry, mining)—price changes must be taken into account. The same holds true for the challenges associated with environmental protection, including the introduction of quotas and protected areas, as would be the case for any business, community or level of government. Measures to protect right whales, Northern shrimp and woodland caribou are good examples. Transportation is another major concern, particularly in terms of air fare. In addition, trade wars will continue to negatively affect their economies.

The economic growth of Abitibi-Témiscamingue, Côte-Nord and Nord du Québec will be stronger than for Quebec as a whole in 2020. The investment boom in 2018 and 2019 will continue to have a positive impact in 2020. This is mainly due to the return of growth in mining investment since 2016. Mining activity has now resumed a steady pace, but without breaking any records.

For manufacturing regions, trade disputes have affected many companies, especially in the wood, aluminum and steel sectors. Despite the signing of the new Canada–United States–Mexico Agreement (CUSMA) and the elimination of tariffs on steel and aluminum, the context of uncertainty persists.

This will make it difficult for manufacturing regions to grow faster than Quebec overall, especially as they operate in a context of modest population growth and increased population aging. However, manufacturing companies that specialize in niche markets, develop original products and move into innovation will do better.

The population growth of urban regions remains among the strongest in Quebec, the expansion of the science and high-tech (innovation) industries is continuing, and the presence of major construction projects, including the REM, are all factors that will continue to stimulate economic growth in urban regions.

These regions will have the challenge of maintaining and developing a range of services tailored to citizens by enhancing the service offer and providing adequate infrastructure. The fluidity of people and goods also remains a major challenge in their respective territories. Furthermore, the presence of major infrastructure projects, which will continue over the next few years, will add pressure to the road network.

Lastly, the capital regions, which are distinguished by a strong government presence, will continue to do well economically. For these two regions, construction and tourism in particular will boom, while investment will remain high. As with urban areas, they also face the challenge of fluidity of people and goods.

Conclusion

The labour shortage, trade wars, traffic congestion and environmental concerns are all challenges that will affect the economy of Quebec's regions in 2020. However, they will still be able to count on a number of positive factors to be successful. The population is growing in almost all regions, personal disposable income is increasing everywhere and investment is sustained in most regions. In addition, diversification efforts are continuing and many strategies are being proposed to attract and retain workers.

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