ECONOMIC VIEWPOINT

Montreal's Economy Is the Driving Force Behind Quebec's Economy Once Again

The Montreal census metropolitan area (CMA) has made huge strides in recent years, dispelling the climate of gloom that had persisted for so long. The metropolis had lost its role as the locomotive moving Quebec's economy forward. Several economic indicators showed a trend similar to that of the rest of Quebec, and the Montreal CMA was no longer the driving force. Taking into account a demography that is clearly more positive than elsewhere in Quebec, the metropolis's potential for economic growth is, in fact, higher. Greater Montreal's economy picked up speed once again in recent years and is now running at full throttle. Let's dissect this resurgence.

Accelerated Economic Growth

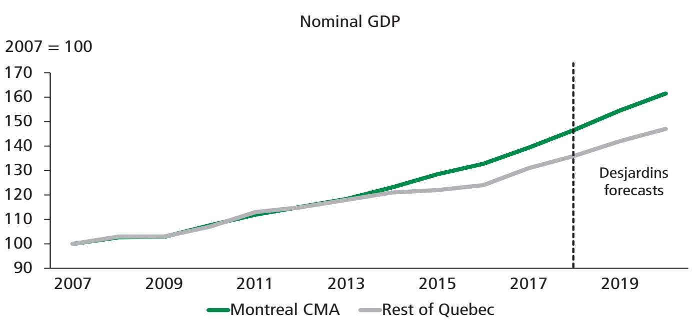
The Montreal CMA economy advanced at the same rate as that of the rest of the province in the years following the 2008–2009 recession. This reflected the metropolis's relative weakness considering the more favourable demographic development. Then, Montreal pulled ahead roughly five years ago and has since seen faster economic growth than elsewhere in Quebec (graph 1). What caused this acceleration? Several factors behind the province's economic surge had a positive impact on Montreal. Other elements, however, are specific to the metropolis, which led to a more sustained rise in GDP than elsewhere in the province.

Universities and Labour Market: Attractiveness's Factors

In terms of demography, population growth accelerated in the Montreal CMA, leaving behind the rest of the province (graph 2). Yet the movement of people between the Montreal CMA and the other regions of Quebec, as well as the rest of Canada, has remained fairly stable in the last few years. The main change is the huge influx of non-permanent residents from other countries. This category includes foreign students and temporary foreign workers as well as asylum seekers.

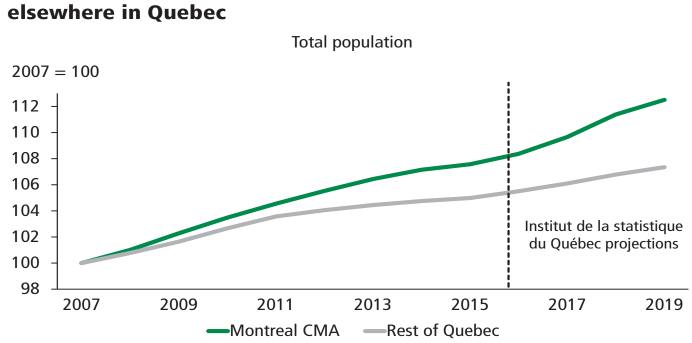
Given that Montreal is renowned internationally for its university community and has a cost of living that is lower than that of most cities around the world, the number of foreign students

GRAPH 1
The Montreal CMA pulled ahead of the rest of the province



CMA: Census metropolitan area
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 2
The population is growing faster in the Montreal CMA than elsewhere in Quebec



CMA: Census metropolitan area
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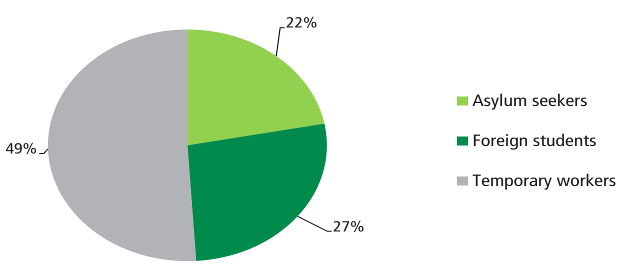
has grown in recent years. In addition, an increasing number of them are choosing to start, and even pursue, their professional careers in Montreal. The new reality of the labour market, i.e., an ever-increasing shortage of workers, is just one more factor that's helping to attract and retain newly graduated international students in Montreal or elsewhere in Quebec.

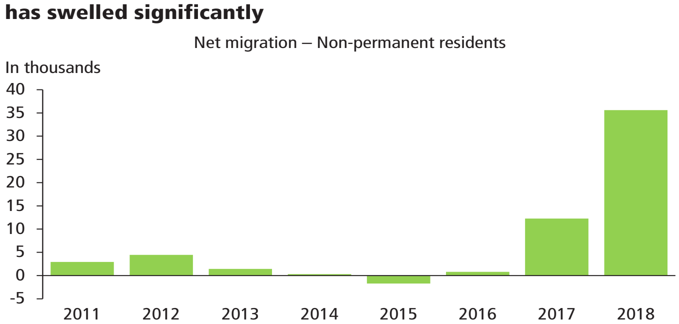
Foreign workers are also settling in Montreal without necessarily having studied here. This sub-group is the highest number of non-permanent residents (graph 3) and is also experiencing the strongest growth. Since 2017, the number of temporary residents in the metropolis has swelled significantly (graph 4), which coincides with the strong rise in the number of people who have a job (graph 5). Therefore, the Montreal CMA has performed better than the rest of Quebec due to the influx of foreign workers, who are helping to meet labour needs. Moreover, the population aged 15 to 64 years is following a trajectory that is very different from that of the rest of the province (graph 6). This phenomenon isn't new, but the difference has increased over the last few years.

GRAPH 3
Distribution of non-permanent residents in Quebec in 2018



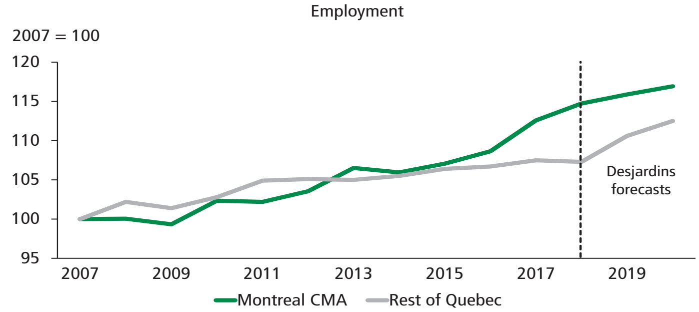
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 4
The number of non-permanent residents in the Montreal CMA has swelled significantly



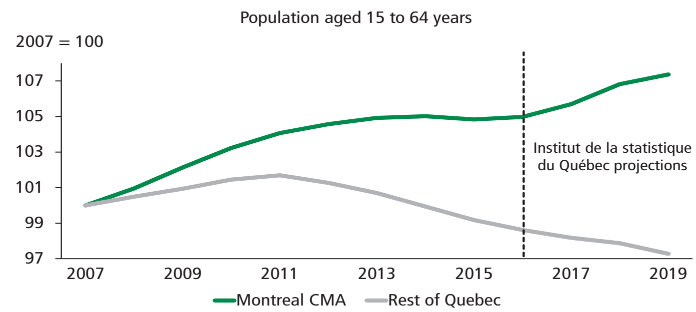
CMA: Census metropolitan area
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 5
Employment in the Montreal CMA has grown significantly in recent years



CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

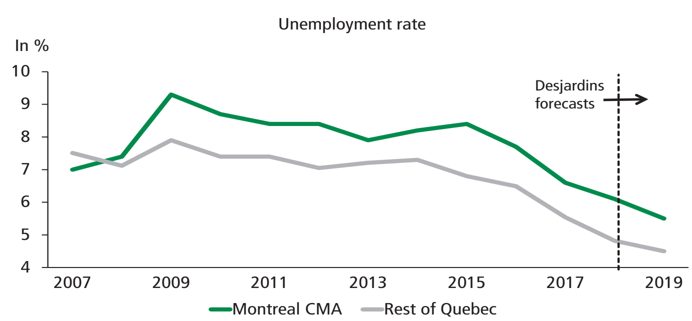
GRAPH 6
Contrary to the rest of Quebec, the Montreal CMA has seen no decline in the number of potential workers



CMA: Census metropolitan area
Sources: Institut de la statistique du Québec, Statistics Canada and Desjardins, Economic Studies

Despite the rapid job growth in the Montreal CMA, an expanding pool of potential workers has slowed the drop in the unemployment rate. Elsewhere in the province, the slower change in employment, together with a declining working age population, has also caused the unemployment rate to plummet. The unemployment rates in the Montreal CMA and the rest of Quebec have fallen at the same pace but for different reasons, maintaining the difference that has prevailed for years (graph 7).

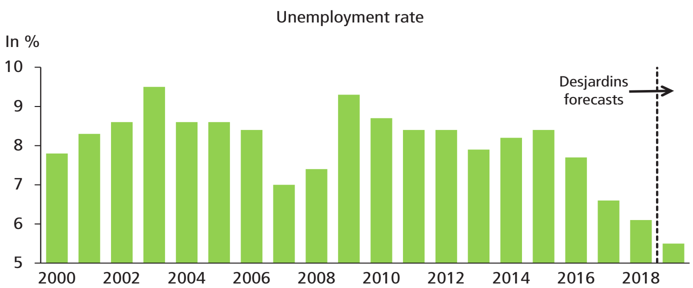
GRAPH 7
The unemployment rate did not decline faster in the Montreal CMA than in the rest of Quebec



CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

In 2019, the unemployment rate in the Montreal CMA has been hovering around 5.5% thus far, its lowest point in at least 20 years (graph 8).

GRAPH 8
The unemployment rate has fallen below 6% in the Montreal CMA

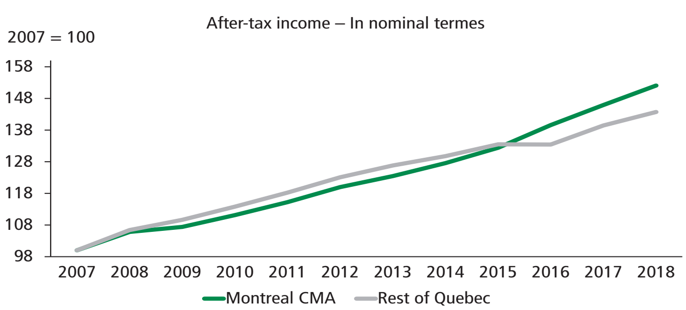


CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

Positive Impact on Households

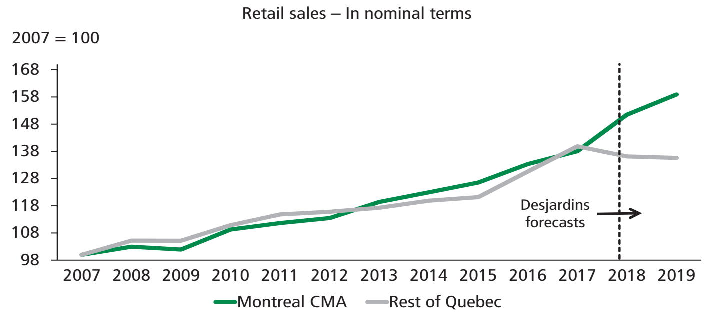
The surge in Montreal's economy, which has been driving job creation since 2016, is also reflected in income and consumption (graphs 9 and 10). Whereas the Montreal CMA and the rest of the province have been following the same trend for a number of years, the metropolis has been able to take the lead. Same thing for the residential sector. The more favourable demographic and economic factors, and the change in perception of real estate investors regarding the metropolis, have led to a boom in housing starts that began in 2017 (graph 11). Rental apartment and condominium projects have multiplied, and demand continues to be very sustained. On the existing homes market, property sales and prices have been rising at a good clip for several years. Given the importance of households for the economy, they have contributed to the Montreal CMA's surge.

GRAPH 9
Personal income is rising faster in the Montreal CMA



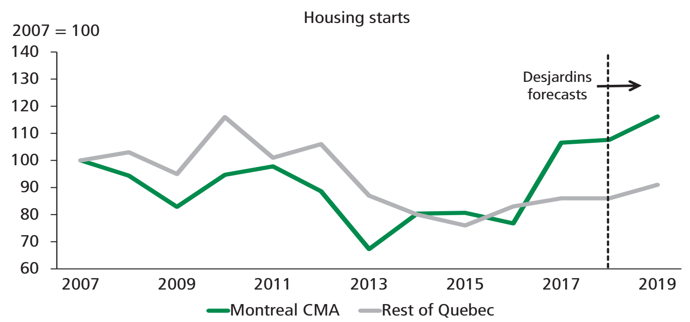
CMA: Census metropolitan area
Sources: Conference Board of Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 10
Consumer spending in the Montreal CMA is increasing faster than elsewhere in Quebec



CMA: Census metropolitan area
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 11
Residential construction in the Montreal CMA has accelerated compared to that in the rest of the province



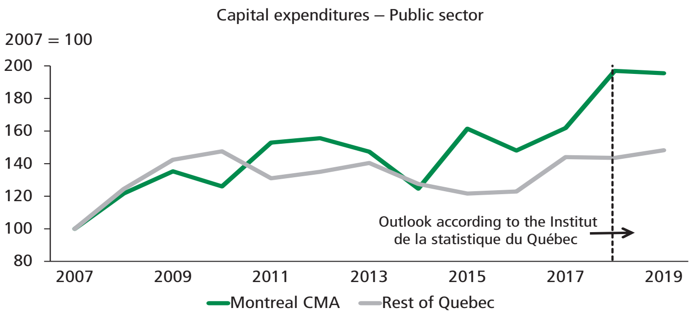
CMA: Census metropolitan area
Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

The Role of Government

In recent years, the different levels of government have released significant sums of money for major road and transit infrastructure projects, especially in Montreal. A major share of public investment in Quebec has been directed at the Turcot Interchange, the Champlain Bridge and the future Réseau express métropolitain (REM). As a result, non-residential real estate spending in the public sector has advanced faster in the Montreal CMA than elsewhere in Quebec (graph 12 on page 4). This has supported faster growth in terms of the GDP and employment, especially in the construction industry. These massive investments in infrastructure have contributed to Montreal's resurgence.

The business and investment communities have picked up on the change in perception regarding the metropolis, which, in turn, is leading to an influx of capital, especially in the residential and commercial real estate markets. The 15% tax introduced in August 2016 in Vancouver and April 2017 in Toronto has also helped make Montreal more attractive in the eyes of foreign property buyers. Vancouver has since raised the tax to 20% for non-residents. As for commercial buildings, extremely high prices in major Canadian cities have motivated investors to turn to the Montreal market, which is considered relatively more affordable.

GRAPH 12
Public investment in the Montreal CMA has risen sharply in the last five years



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The turnaround in the Quebec government's finances has also helped restore household and business confidence in the province. In fact, 2015 put an end to a long period of budget deficits, replacing them with surpluses, which made it possible to gradually repay the debt. The room to manoeuvre allowed the government to re-inject money into the economy. Current public spending and capital expenditures began to turn around in 2016 after a series of lean years. Furthermore, more money was injected into the Quebec infrastructure program, giving the Montreal CMA another leg up.

In Short

Several factors helped to launch Montreal's economic boom a few years ago. First, a more favourable demographic situation, especially due to the arrival of numerous foreign students and of temporary foreign workers to meet part of the high demand for workers. As a result, employment grew rapidly, which had a positive impact on household income, consumer spending and the housing market.

Next, government support through massive investments in infrastructure gave Montreal a second wind. Aging public infrastructure has, of course, led to a certain urgent need to act. Still, several major projects completed in the metropolis have stimulated the economy.

All of these positive points explain how the perception of Montreal has changed. The business and investment communities have picked up on the change, leading to an influx of capital, especially in the residential and commercial real estate markets. The Montreal CMA continues to surge, but this won't protect it against a possible economic slowdown or the end of the cycle. The increasing challenges facing global trade, which are already affecting North America, could slow down the metropolis's dynamism.

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