

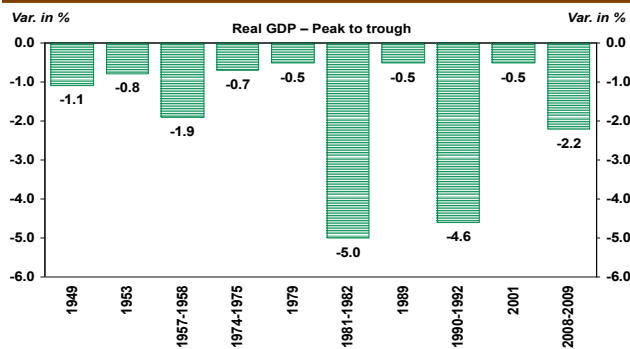
Comparative study of magnitude and length of economic cycles Quebec not always in synch with Canada

The news of the Canadian economy's slight contraction in the first half of 2015 due mainly to weaker activity in the oil-producing provinces has fuelled the risk of contagion to the central part of the country. Ontario has already seen its real GDP shrink in the first three months of the year while Quebec is sure to suffer the same fate in the second quarter. Official results will be published by the Institut de la statistique du Québec on September 25. Is this just a temporary downturn? Are these two economies merely feeling the ripple effect of the national slowdown? A review of economic cycles shows that the turning points in Quebec's real GDP are sometimes different. And when both economies contract at the same time, the magnitude and the impact on industry are not necessarily the same. The fact is that Quebec's economic cycle (recovery, expansion, slowdown and contraction) does not always move in tandem with the Canadian cycle and has diverged more than once in the past. This should be another one of those times.

MAGNITUDE AND LENGTH OF ECONOMIC CYCLES IN QUEBEC

Of the 10 recessions to strike Quebec since the end of the 1940s¹ (graph 1), some were mild and short-lived while others were deep, lasting several quarters. All those before 1980 were mild and brief, characterized by two or three consecutive quarters of negative real GDP growth (graph 2). However, the economic cycles then changed, with recessions lasting as long as seven straight quarters. Two

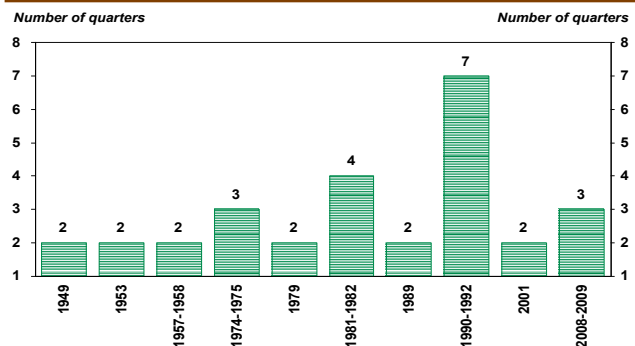
Graph 1 – Magnitude of Quebec recession, 1948–2015



Sources: Department of Economics, Université de Sherbrooke and Desjardins, Economic Studies

¹ Desjardins, Economic Studies, *Economic Viewpoint*, "Special study: Economic history of Quebec over the past six decades", November 25, 2014, <https://www.desjardins.com/ressources/pdf/pv1411e.pdf?resVer=1416935108000>

Graph 2 – Length of Quebec recessions, 1948–2015



Sources: Department of Economics, Université de Sherbrooke and Desjardins, Economic Studies

deep recessions hits the province, one in 1981–1982 and another in 1990–1992. Both were similar in magnitude but different in length. The first lasted one year while the second dragged on for almost two years. Also, two back-to-back quarters of mild negative real GDP growth were recorded (1989 and 2001). Lastly, the 2008–2009 recession lasted three quarters and, despite a 2.2% decrease in economic activity, did not inflict too much damage. The 2000s were therefore characterized by one mild recession, referred to as technical, and another one, referred to as classical (box 1 on page 2).

BOX 1
CLASSICAL OR TECHNICAL RECESSION?

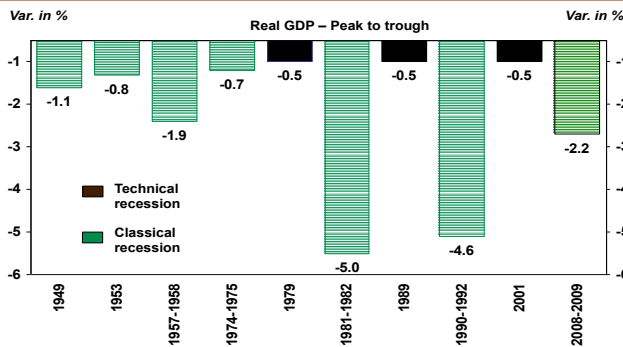
It is important to distinguish between a classical and a technical recession. A genuine or “classical” recession is characterized by a sharp decline in real GDP over several consecutive quarters—at least two—along with a major deterioration in other economic indicators such as employment, retail sales and residential housing prices.

A genuine recession is distinguished by the magnitude and length of the contraction and by the severe impact on several sectors of the economy.

Conversely, a technical recession is announced as soon as real GDP dips for two straight quarters and other economic indicators are affected, no matter how slightly. For instance, although Canada was in a technical recession in the first half of this year, the unemployment rate remained fairly stable and activity was strong in the real estate sector. As well, since the downturn is confined to the oil-producing provinces and the natural resource, manufacturing and non-residential construction industries, the damage is hardly widespread, in fact, far from it.

Several periods of contraction in economic activity have occurred [in Quebec] since the end of the 1940s, for a total of ten recession phases, some of them “classic” and others “technical” (graph 3).

Graph 3 – Quebec recessions, 1948–2015



Sources: Department of Economics, Université de Sherbrooke and Desjardins, Economic Studies

MORE RECENT RECESSIONS

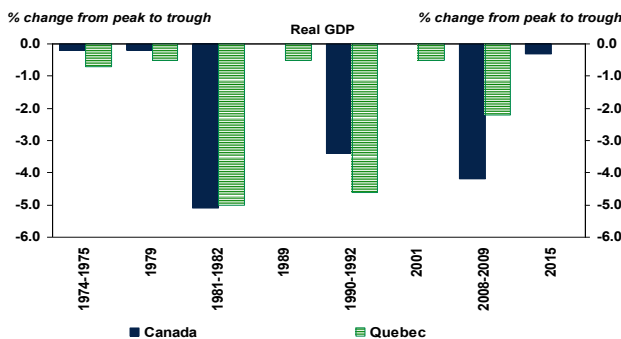
Since the 1970s, the economic cycles of Quebec and Canada as a whole have been pretty much synchronized, as have been the magnitudes and lengths of their recessions (graphs 4 and 5). On two occasions, once in 1989 and again in 2001, Quebec experienced a mild recession that was not observed at the national level.

concentrated, experienced a mild recession, while Canada as a whole held up fairly well.

Marked monetary policy firming by the Bank of Canada at the end of the 1980s contributed to the 1989 recession as higher key rates pushed up the Canadian dollar, which in turn impacted the competitiveness of Quebec businesses. Exporters were hit hard, especially since domestic demand was faltering in the U.S. Quebec, where manufacturing was

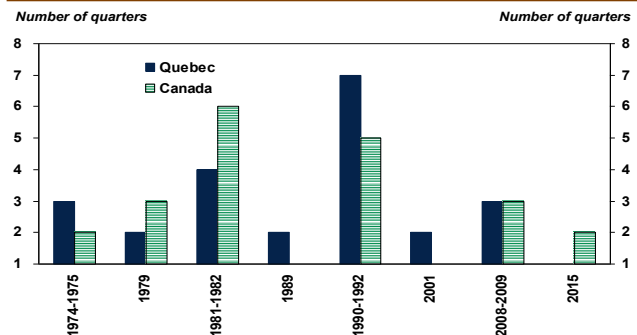
The 2001 recession was an entirely different story. When the tech bubble burst in the U.S. at the turn of the century, the fallout was felt all across North America. For Quebec, this meant the collapse of its main export at the time, telecom equipment, and a major blow to international trade given the importance of the telecom equipment industry in the province. Less dependent on this industry, the rest of Canada did not feel the effects of this upheaval in exports. This turn of events was the main reason for this brief, mild recession in Quebec. In contrast, the rest of Canada only experienced an economic slowdown.

Graph 4 – Magnitude of recessions* in Quebec and Canada 1970–2015



* Dates of Quebec recessions are almost the same as for Canada. Sources: Department of Economics, Université de Sherbrooke and Desjardins, Statistics Canada and Desjardins, Economic Studies

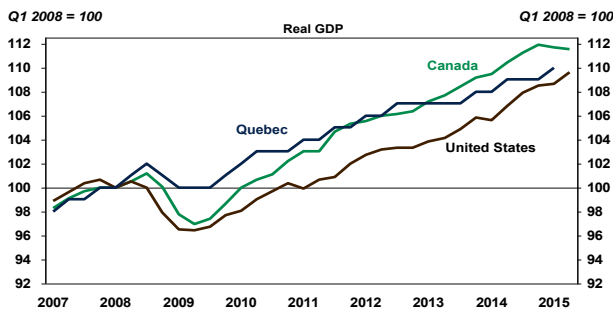
Graph 5 – Length of recessions* in Quebec and Canada 1970–2015



* Dates of Quebec recessions are almost the same as for Canada. Sources: Department of Economics, Université de Sherbrooke, C.D. Howe Institute and Desjardins, Economic Studies

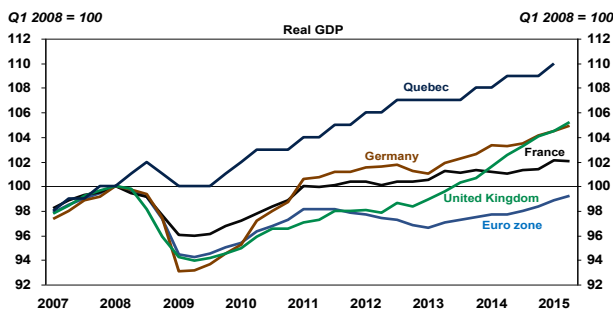
In 2008–2009, the Canadian economy was badly shaken by the financial crisis that began in the U.S. and the collapse of its housing market. Ontario was strongly impacted by the automotive industry’s difficulties, which were amplified by the U.S. recession. Quebec was less affected and even outperformed other economies on the international stage (graphs 6 and 7) thanks to a pick-up in infrastructure work by the Quebec government. This helped cushion the blow and limit economic volatility. The decline in real GDP was therefore greater in Canada as a whole, resulting in a sharper increase in unemployment (graph 8). As well, national housing prices fell approximately 10% at the end of the 2000s, but remained fairly stable in Quebec (graph 9). When real GDP is only mildly affected by a recession, as was the case in 2008–2009, the impact on the economic indicators is usually more muted.

Graph 6 – Quebec outperformed several large industrialized economies in 2008–2009



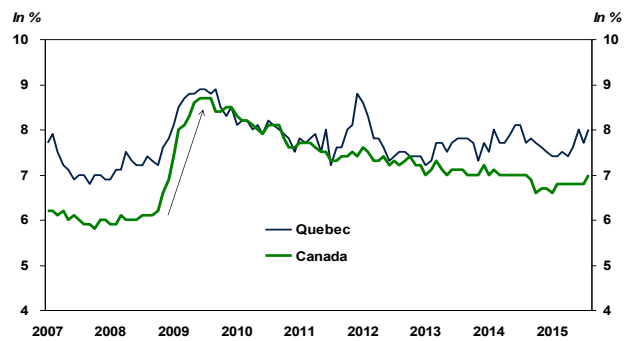
Sources: Datastream, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 7 – Quebec outperformed several large industrialized economies in 2008–2009



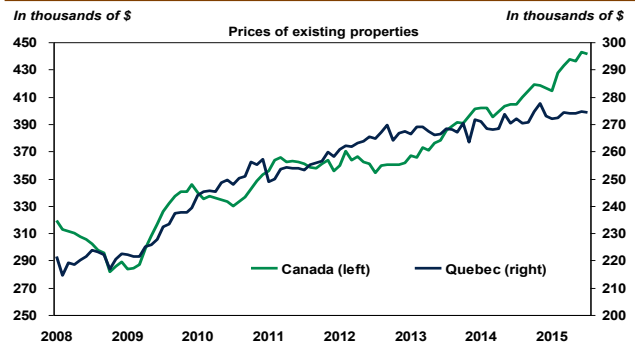
Sources: Datastream, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 8 – Unemployment rose more in Canada than in Quebec during the 2008–2009 recession



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 9 – Housing prices fluctuated more in Canada than in Quebec at the end of the 2000s

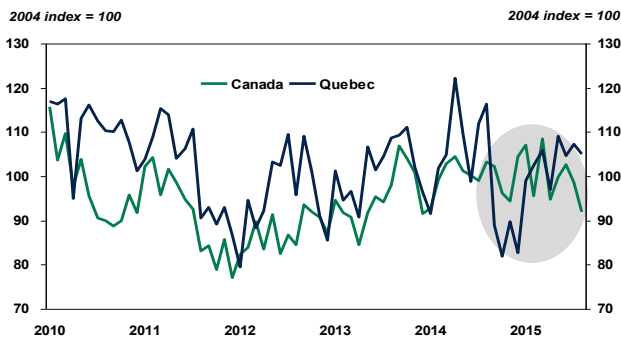


Sources: Canadian Real Estate Association and Desjardins, Economic Studies

QUEBEC WILL BE SPARED THIS TIME AROUND

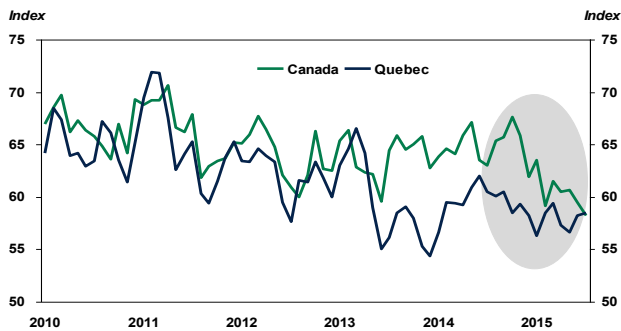
Because Quebec and Canada have different industrial structures, their vulnerabilities can also be different. This time around, persistently low oil prices are mostly impacting the oil-producing provinces, i.e. Alberta, Saskatchewan and Newfoundland and Labrador. These three provinces are behind the nation’s mild recession in the first half of the year. In terms of industries, output is down in natural resources, manufacturing and non-residential construction, and confidence indexes have nosedived in Canada, as households and businesses have been anticipating a downturn since the beginning of the year. In Quebec, consumer sentiment rose during this period while business confidence stabilized (graphs 10 and 11 on page 4).

Graph 10 – Consumer confidence rebounds in Quebec, but weakens in Canada in 2015



Sources: Conference Board of Canada and Desjardins, Economic Studies

Graph 11 – SME confidence fell in Canada, but remained fairly stable in Quebec



Sources: Canadian Federation of Independent Business and Desjardins, Economic Studies

Although the low price of oil has little impact on Quebec, the province has its own share of problems: consumption is lacklustre, its housing market is going through a period of adjustment, investments are anaemic, and exports are too low to spur the economy. After an encouraging start to the year, with a 1.6% annualized increase in real GDP in the first three months, a slowdown is looming in the second quarter. The utilities sector, which includes electricity, is headed for a sharp decline. After a first quarter of strong demand, fuelled by an exceptionally cold winter, the return to normal spring weather means a major pullback for this industry. However, as we shall see when the second quarter results are published on September 25, other industries will also have played a role in the slowdown.

Quebec's output is expected to quickly rebound in the second half of the year. The U.S. economy, which is strengthening, should have a positive effect on this side of the border. This time, their respective industrial structures should make it easier for Quebec and Ontario to handle this critical period since the energy sector's difficulties

Table 1 – Recessions* in the U.S., Canada and Quebec

Recession	U.S.	Canada	Quebec
1929-1933	✓	✓	na
1937-1938	✓	✓	na
1947-1948		✓	na
1949	✓		✓
1953	✓	✓	✓
1957-1958		✓	✓

na : not available
* Dates of Quebec recessions from 1949 and dates of Canada for previous recessions.
Sources: C.D. Howe Institute, Department of Economics, Université de Sherbrooke, National Bureau of Economic Research and Desjardins, Economic Studies

Table 2 – Recessions* in the U.S., Canada and Quebec

Recession	U.S.	Canada	Quebec
1974-1975	✓	✓	✓
1979 in Quebec 1980 elsewhere	✓	✓	✓
1981-1982	✓	✓	✓
1989			✓
1990-1992	✓	✓	✓
2001	✓		✓
2008-2009	✓	✓	✓
2015 forecast		✓	

* Dates of Quebec recessions.
Sources: C.D. Howe Institute, Department of Economics, Université de Sherbrooke, National Bureau of Economic Research and Desjardins, Economic Studies

have little impact on these two provinces. As previous economic cycles have shown, the timing and magnitude of recessions are not always the same in Canada as whole. The risk of contagion seems limited for Quebec and Ontario, and strong international trade will help save the day. Down the road, when we look back at how Quebec and Ontario fared in 2015, we will probably find a year of slower growth, punctuated by just one quarter of decline in real GDP. With the United States and Quebec likely to be spared this time around, this is the first year since the 1970s that Canada is alone to experience an economic downturn, one that will last just long enough to qualify it as a technical recession (tables 1 and 2). The economic cycle will subsequently resume, but the pace of Quebec's economy will be reined in, even more so than in the past decades, due to unfavourable demographic factors. With more limited economic growth than ever before, the sound management of public finances will take on even greater proportions.

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