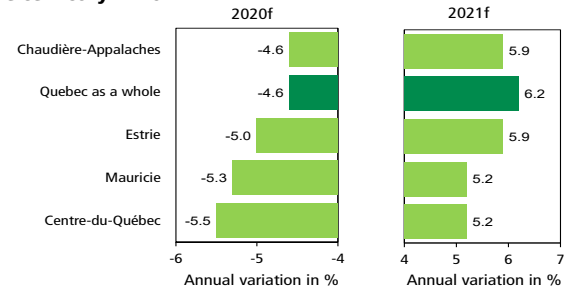


ECONOMIC VIEWPOINT

Overview of Quebec's Manufacturing Regions for 2020–2021

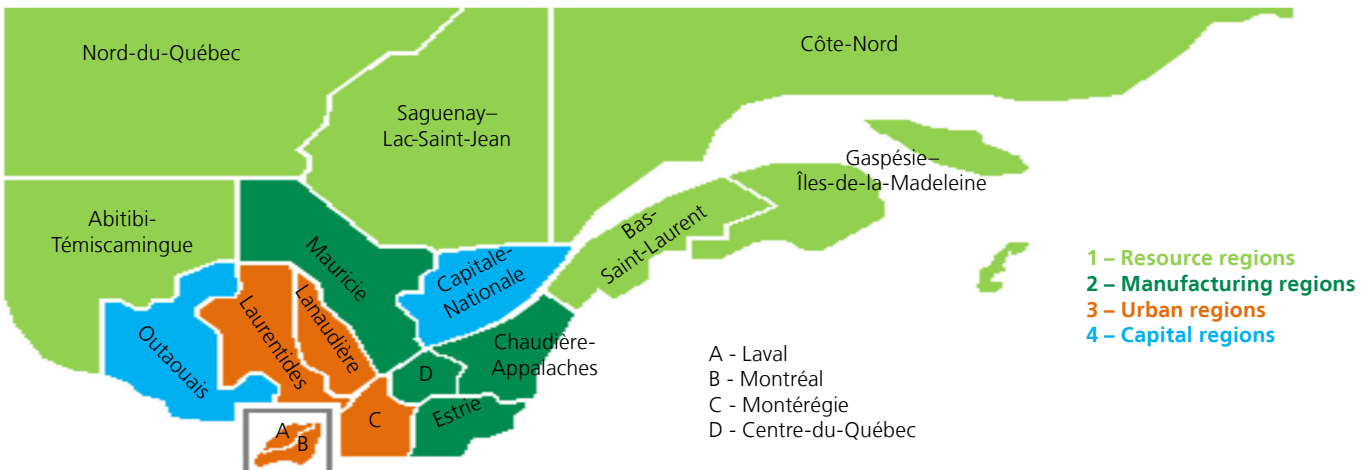
Due to the pandemic, economic growth for Quebec's manufacturing regions will be negative in 2020, as it will be for the province as a whole (graph 1). Quebec will outperform the economies of all the manufacturing regions with the exception of Chaudière-Appalaches. The manufacturing sector remains heavily impacted by the current public health and economic crisis, and the production capacity of many businesses is still limited. They continue to face difficulties replenishing inventories to meet demand due to supply chain disruptions during the lockdown and remaining restrictions on international trade. It's also worth noting that many exporting companies will likely have to wait until late 2021 to return to pre-pandemic levels. The speed of next year's expected recovery will depend on the driving industries of each manufacturing region. However, the recovery could take longer if the second wave of the pandemic became bad enough to require a new general lockdown, which would mean downgrading our outlooks. This represents the most significant risk at the present time in the forecast scenario.

GRAPH 1
Economic growth in Quebec's resource regions should return to positive territory in 2021



f: Desjardins forecasts
 Source: Desjardins, Economic Studies

MAP 1
 Quebec's regions



Source : Desjardins, Economic Studies

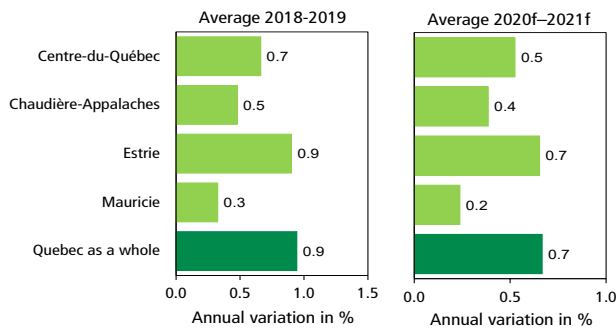
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
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Population Growth Will Remain Positive

Based on the projections of the Institut de la statistique du Québec (ISQ), on average, population growth in the manufacturing regions in 2020 and 2021 will be slightly below that of the last two years (graph 2). The Mauricie region will see the lowest growth, primarily due the increased aging of its population compared to that of its counterparts.

GRAPH 2
Population growth will slow somewhat



f: 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

For the manufacturing regions as a whole, migration (arrivals minus departures) will lead to slight population growth between now and 2021, while natural growth (births minus deaths) will have a less significant impact. While net migration is on an upward trend in these four regions, it will not be sufficient to sustain long-term population growth. Natural growth is forecast to become negative by 2026 in Estrie, Chaudière-Appalaches and Centre-du-Québec. In Mauricie, deaths have exceeded births since 1988.

In addition, a brief overview of interregional migration shows that many manufacturing regions remain attractive, particularly Montréal. By contrast, residents are leaving the Centre-du-Québec, Capitale-Nationale and Montreal regions (graph 3).

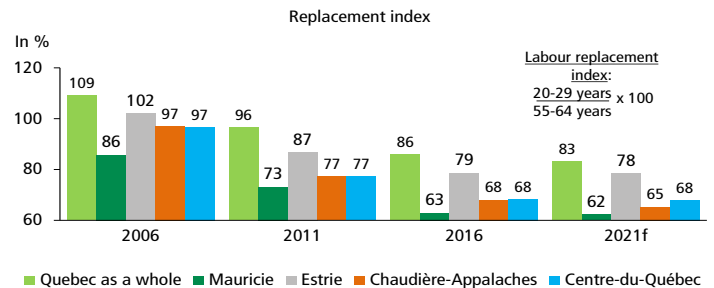
GRAPH 3
Interregional migration for the manufacturing regions in 2018-2019

SECTOR	Breakdown of in migrants based on the three main regions of origin	Breakdown of out migrants based on the three main destination regions
Mauricie	1) Centre-du-Québec; 2) Montréal et 3) Centre-du-Québec	1) Centre-du-Québec; 2) Capitale-Nationale et 3) Montréal
Estrie	1) Montréal; 2) Montréal et 3) Centre-du-Québec	1) Montréal; 2) Montréal et 3) Centre-du-Québec
Chaudière-Appalaches	1) Capitale-Nationale; 2) Montréal et 3) Bas-Saint-Laurent	1) Capitale-Nationale; 2) Centre-du-Québec et 3) Montréal
Centre-du-Québec	1) Montréal; 2) Mauricie et 3) Estrie	1) Montréal; 2) Mauricie et 3) Estrie

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

The challenges of workforce attraction and retention remain major concerns. Despite an unemployment rate that is expected to remain higher than pre-pandemic levels for the long term, some business sectors are actively seeking labour. Furthermore, the current climate has accentuated difficulties in hiring foreign workers that existed prior to the pandemic. As shown in graph 4, labour replacement indexes have been below 100% for several years, signalling a lack of young workers to fill vacancies left by retiring workers. This is putting pressure on the labour market by narrowing the gap between labour supply and demand. For example, Mauricie will post an index of 62% in 2021, meaning that for each group of 100 workers between the ages of 55 and 64 that leaves the labour market, there will be 62 people who are of age to replace them (20 to 29). Compared with 2016, this will represent a drop of 24 points for this index.

GRAPH 4
The replacement index will remain low



f: 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

The Labour Markets Will Gradually Recover

The labour markets for the manufacturing regions have been hard hit by the public health and economic crisis. Employment dropped and the unemployment rate soared to historic highs in the spring after trending downward for the last few years.

The labour market is gradually making up for lost ground, and job creation has risen in all of the manufacturing regions since July. However, only the Chaudière-Appalaches region has made up its losses, even exceeding its pre-pandemic employment level (graph 5 on page 3). Unemployment rates in the other regions will return to lower levels by late 2021 (graph 6 on page 3). Although the labour market is improving, it will take some time, perhaps several quarters, to return to its levels prior to the COVID-19 crisis.

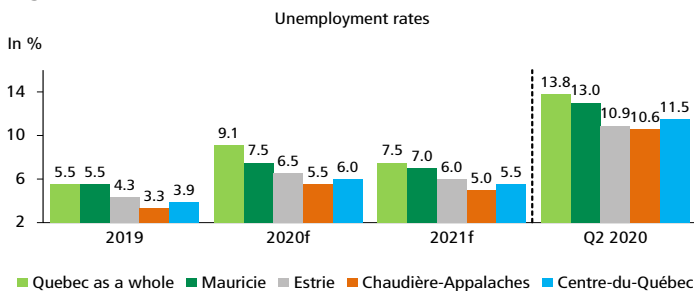
For example, for the wood product and paper industries, the lockdown measures due to COVID-19 slowed down production in sawmills and paper mills and led to plant closures. Since then, demand for wood products has rebounded sharply. The summer months were good for the industry, but a lull is expected by late fall, once inventories are replenished.

GRAPH 5
Monthly employment growth¹ in 2020

REGIONS	EMPLOYMENT	FEB.	MAR. ²	APR. ³	MAY ⁴	JUNE	JUL.	AUG.	VARIATION FROM AUG. TO FEB. IN %
Quebec as a whole	Level (number)	4,364.8	4,289.8	4,023.0	3,826.5	3,800.4	3,992.4	4,125.5	-5.5
	Variation in %	0.5	-1.7	-6.2	-4.9	-0.7	5.1	3.3	
Mauricie	Level (number)	132.7	130.6	123.0	114.8	113.0	117.3	120.9	-8.9
	Variation in %	4.1	-1.6	-5.8	-6.7	-1.6	3.8	3.1	
Estrie	Level (number)	167.2	165.9	156.5	152.4	150.7	158.2	159.5	-4.6
	Variation in %	1.2	-0.8	-5.7	-2.6	-1.1	5.0	0.8	
Chaudière-Appalaches	Level (number)	224.9	225.8	212.6	208.1	207.4	223.0	230.2	2.4
	Variation in %	0.6	0.4	-5.8	-2.1	-0.3	7.5	3.2	
Centre-du-Québec	Level (number)	135.0	134.9	124.9	115.8	108.9	113.5	116.0	-14.1
	Variation in %	1.2	-0.1	-7.4	-7.3	-6.0	4.2	2.2	

¹ 3-month moving average; ² Start of lockdown; ³ Lockdown; ⁴ Start of reopening.
 Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 6
Unemployment rates in 2020 and 2021 for the manufacturing regions



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

In addition, a number of challenges and issues persist, including the softwood lumber dispute despite encouraging developments within the World Trade Organization (WTO), and the high cost of fibre. However, activities linked to biomass operations continue to develop, and the pulp and paper industry is increasingly turning to technological innovation and specialization. Examples include the processing of appearance wood and composites and the manufacturing of 100% recycled and biodegradable paper for food packaging and paperboard packaging.

Demand for workers will be strong in the next few years, primarily due to the advanced average age of the workforce in both of these sectors, which will lead to a greater number of retirements. The challenge will therefore be to attract new workers to these hard-hit industries, which are not highly valued by the next generation.

Growth prospects are fairly subdued for plastic and rubber products. According to Service Canada, employment should return to its pre-pandemic level by late 2022. The pace of the rebound in output will depend on how quickly the motor vehicle

industry recovers, among other factors. With regard to machinery manufacturing, which exists in all of the manufacturing regions, the accelerated pace of production is tied to the health of the global economy, the value of the Canadian dollar and the drive for companies in Quebec and elsewhere to automate.

Export-oriented businesses will likely have to wait until the end of 2021 to return to pre-pandemic levels, despite a weak Canadian dollar. The difficulties facing the global economy and international restrictions on travel and shipping will continue to take a toll on the free flow of trade.

The public health crisis has impacted activities in the tourism industry, a key economic driver, and a number of businesses will struggle to recover. The Quebec government has implemented a \$753M recovery plan to support and revive the industry. Initiatives include discounted packages. However, Quebecers have been more drawn to resorts and vacations in nature. A number of municipalities have fared well despite the current situation.

The Residential Market Will Go through Two Phases

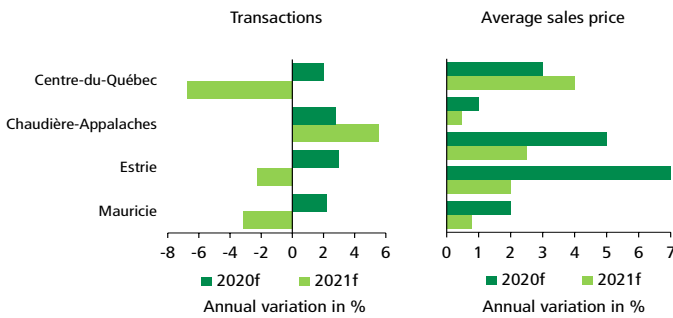
The majority of the manufacturing regions posted major rebounds in new construction in the second quarter of 2020. This was primarily due to the resumption of projects underway before the public health crisis, which brought activities to a halt. Although the pace is expected to slow in the fall, this year's overall performance will be positive. Nevertheless, we expect to see a decline in all of the manufacturing regions as well as for Quebec in 2021. The challenge lies in maintaining the interest of Quebecers.

After a record year in 2019, resales have started to lose steam in most of the manufacturing regions. A drop is anticipated in 2020, with the exception of Chaudière-Appalaches, where activity will remain fairly steady. Next year, all of the manufacturing regions are expected to show an uptick (graph 7 on page 4).

The average sales price will continue to rise at a decent clip, as the existing home market is seeing shortages in most of the manufacturing regions. This should sustain its growth this year and next.

In addition, more stringent rules for new mortgage loan insurance applications with the Canada Mortgage and Housing Corporation (CMHC) came into effect on July 1. For example, the maximum debt ratio permitted is lower, the mandatory minimum credit score was raised from 600 to 680, and down payments from non-traditional sources are longer accepted.

GRAPH 7
Resales will continue to grow in 2020



f. Desjardins forecasts
Source: Desjardins, Economic Studies

The Direction Investments Will Take Is Unclear

In these uncertain times, predicting how investments will turn out is tough to do. If public investments are in line with the Quebec government’s announcements to ramp up major infrastructure work, nothing could be less certain for the private sector. Furthermore, aside from Mauricie, the other three regions have generally seen private investments exceed public investments.

In the current climate, few projects have been announced that are expected to boost private sector performance, and many businesses are still struggling financially due to the circumstances. In addition, while business confidence is gradually rising, it remains a far cry from pre-crisis levels.

For the time being, it’s difficult to say whether the expected increase for the public sector will be large enough to offset the decline anticipated for the private sector in these regions. It therefore wouldn’t be surprising to see the amounts injected into their respective economies stabilize or go down for this year or the next.

However, there are still projects underway in these regions, including the construction of a tissue plant in Estrie (\$575M between 2019 and 2021); District 55, a commercial and residential development in Mauricie; and UMANO, a residential development in Chaudière Appalaches (\$900M between 2019 and 2029).

Lastly, at the end of [the economic prioritization](#) mandate given to each Quebec region in June by the Quebec government, all regions were supposed to implement their stimulus plans targeting three transformative, mobilizing and innovative projects. Several regional county municipalities and cities have also developed plans for the recovery of their economies. Graph 8 shows a few examples of these plans for the manufacturing regions.

GRAPH 8
Example of economic stimulus projects in manufacturing regions

- **Coaticook RCM (Estrie)**
 - Launch of an online tool to promote local purchases in June
- **Etchemins RCM (Chaudière-Appalaches)**
 - Launch of the third phase of the stimulus plan begun in 2017
 - ✓ Subsidies are available for any development project, large-scale project in maple production, forestry or recreational tourism or an improvement to local services.
- **Arthabaska RCM (Centre-du-Québec)**
 - Expansion and renovation of Arthabaska Hotel-Dieu Hospital
- **City of Trois-Rivières (Mauricie)**
 - Creation of an economic recovery committee for Trois-Rivières
 - ✓ Aims to support major investment projects and the adaptation and modernization of strategic companies.

RCM : Regional county municipalities
Source: Desjardins, Economic Studies

Conclusion

The economic recovery of the manufacturing regions will lag behind that of Quebec in the next few months. The ability of businesses to adapt to the new reality, maintain or shorten their supply chains, and make the shift to Industry 4.0 will be determining factors in the recovery. Also worth noting are the diversification of their industrial base, the development of new products, particularly niche products, and gains in productivity. Moreover, as these regions continue to see modest population growth, the aging of their populations is accelerating and hiring foreign workers remains difficult, the challenges of attracting and retaining labour are a major source of concern. The outlook for the manufacturing regions should be clearer in 2021, as the global economy is expected to improve, which will provide solid support for exports.

Chantal Routhier, Senior Economist