

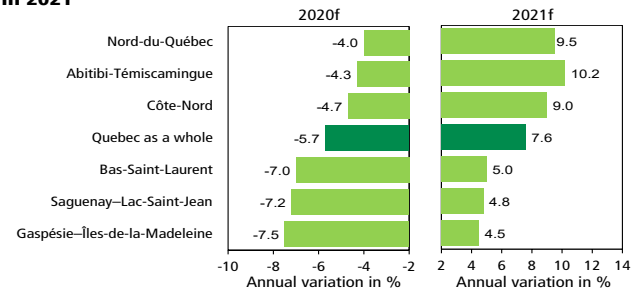
# ECONOMIC VIEWPOINT

## Overview of Quebec's Resource Regions for 2020–2021

Like the province, economic growth in Quebec's resource regions will be negative in 2020 due to the health and economic crisis. As shown in graph 1, this cluster of regions will evolve at two different speeds. The economies of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean and Gaspésie–Îles-de-la-Madeleine are expected to post the largest declines in their respective nominal GDPs this year, as some of their flagship industries, including forestry, agriculture and aluminum, will remain under pressure. In contrast, the mining regions, i.e., Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec, will post some of the smallest declines. The solid mining industry supports this outlook.

Quebec's overall resource regions are expected to return to the pre-pandemic level of economic activity sometime around the summer of 2022. 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.

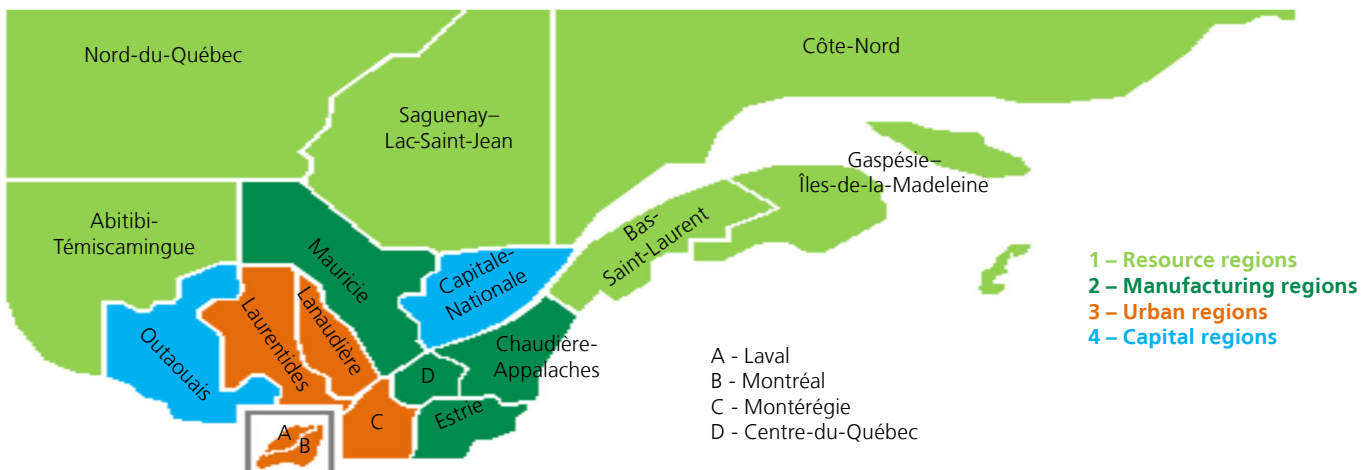
**GRAPH 1**  
Economic growth in Quebec's resource regions should rebound in 2021



f: Desjardins forecasts  
Source: Desjardins, Economic Studies

### MAP 1

Quebec's regions



Source : Desjardins, Economic Studies

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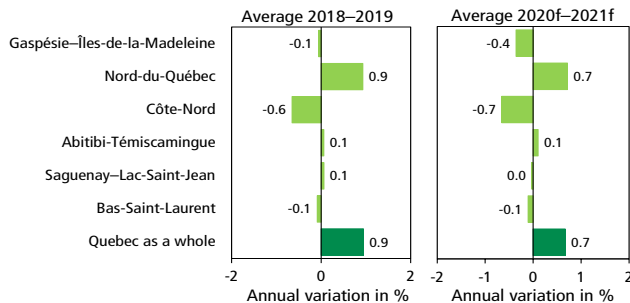
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**Population Growth Will Remain Low or Decrease, except in Nord-du-Québec**

Based on the projections of the Institut de la statistique du Québec (ISQ), population growth in the resource regions will be very modest or in decline by the end of 2021. Only the Nord-du-Québec region will stand out for its strong population growth, which will keep pace with the provincial average (graph 2).

**GRAPH 2**

**With the exception of Nord-du-Québec, population growth will remain low, and even decrease**



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

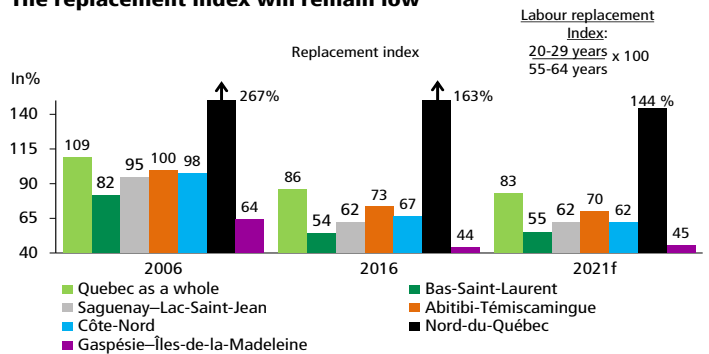
In Nord-du-Québec and Abitibi-Témiscamingue, the contribution of natural growth (births less deaths) will support this increase, as the contribution from migration (arrivals less departures) will remain negative. In contrast, the population will decline in the Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Côte-Nord and Gaspésie–Îles-de-la-Madeleine regions, mostly due to natural growth’s negative balance, which continues to worsen.

At the same time, these regions are also grappling with the challenge of recruiting the next generation of workers, as is the rest of Quebec (graph 3). For several years now, their labour replacement indexes have been declining and, as a result, there aren’t enough people to fill all the positions left vacant by retirements. In fact, for every 100 people aged 55 to 64, there are fewer than 100 people aged 20 to 29 ready to enter of labour market. This puts pressure on the labour market, namely by narrowing the gap between the supply of labour and demand. The index for Gaspésie–Îles-de-la-Madeleine, for example, will reach 45% in 2021, meaning that for each group of 100 new retirees, 45 people will be ready to join the labour market. Compared with 2006, this represents a drop of 19 points for this index.

**The Labour Market Will Gradually Recover Lost Ground, but Many Challenges Will Remain**

The labour market in resource regions has been hard hit by COVID-19. Employment fell and unemployment rates reached all-time highs in April, May and June, after a long string of declines. The labour market is gradually picking up, with a return to growth since July (graph 4). Unemployment rates will fall to

**GRAPH 3**  
**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

lower levels, but it will take some time, several quarters even, to get back to pre-crisis levels (graph 5 on page 3). In forestry, for example, the lockdown measures triggered by COVID-19 have had impacts, such as the production slowdown in sawmills.

**GRAPH 4**

**Monthly employment growth<sup>1</sup> in 2020**

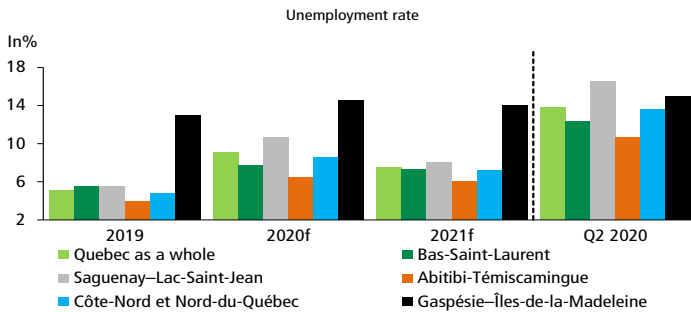
REGIONS	EMPLOYMENT	FEB.	MAR. <sup>2</sup>	APR. <sup>3</sup>	MAY <sup>4</sup>	JUN.	JUL.	AUG.	VIARIATION FROM AUG. TO FEB. IN %
<b>Quebec as a whole</b>	<b>Level (number)</b>	<b>4,364.8</b>	<b>4,289.8</b>	<b>4,023.0</b>	<b>3,826.5</b>	<b>3,800.4</b>	<b>3,992.4</b>	<b>4,125.5</b>	<b>-5.5</b>
Bas-Saint-Laurent	Level (number)	87.8	87.9	82.8	79.5	78.7	83.7	86.8	-1.1
Saguenay–Lac-Saint-Jean	Level (number)	128.4	125.2	116.1	109.4	110.3	118.0	123.8	-3.6
Abitibi-Témiscamingue	Level (number)	73.6	72.1	66.9	62.7	62.7	65.9	69.4	-5.7
Côte-Nord et Nord-du-Québec	Level (number)	55.0	53.9	50.5	48.3	47.7	49.4	50.7	-7.8
Gaspésie–Îles-de-la-Madeleine	Level (number)	34.1	33.3	30.1	27.7	27.3	27.9	28.9	-15.2

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

The labour market in these regions also remains weakened by the many challenges and issues facing their driving industries. In agriculture, for example, the labour shortage, particularly foreign labour, recruitment challenges, and increased competition from abroad will continue to be major concerns. What’s more, the lack of rain this past summer is giving agricultural producers much to be worried about. The resulting hay shortage is also critical, as is the sharp price increase that inevitably follows. An online platform was developed to connect hay sellers to buyers.

The fishing industry is still concerned about the profitability of its operations given the pandemic-related instability of the markets, which has lowered landed prices. Agreements signed late saved the shrimp season, while fishing started ten weeks later than usual. Lobster and crab had abundant catches, but prices were down due to lower-than-usual demand. The closure and partial reopening of restaurants negatively affects demand for marine

**GRAPH 5**  
Unemployment rates will rise sharply in 2020



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

products. This context continues to impact the profitability of many small businesses and processors.

The forest industry, for its part, always evolves in a unique context. Sawmill production decreased in April and May due to pandemic-related measures. Since then, demand for wood products has soared. The summer months were good for the industry, but a lull is expected by late fall, once needs are met and stocks are replenished. Moreover, considerations surrounding the spruce budworm outbreak, the protection of land and wildlife, compliance with allowable cuts, and the dispute over softwood lumber remain, COVID-19 or not.

In the manufacturing industry, the extension of the contract for the Montreal metro (Phase II) began at the Bombardier plant in La Pocatière, helping to offset part of the job losses announced on May 31, 2019. However, some worry lingers, since the company intends to offload other sectors of activity to clean up its financial balance sheet and ensure its competitiveness. On the other hand, the relative weakness of the Canadian dollar favours exports. And the U.S. manufacturing sector is far from having resumed its pre-pandemic pace.

The environment is more favourable in the mining industry, despite a weakened global economy, while gold prices recently reached record highs. The pandemic, low bond yields and the uncertainty related to trade tensions specifically will continue to support demand. On average, the price of gold should reach US\$1,790 per ounce in 2020 and US\$1,835 per ounce in 2021 (US\$1,393 per ounce in 2019). The outlook for base metals is brightening after the drop observed in the spring. The London Metal Exchange (LME) base metal index is expected to reach 2,700 this year and 2,870 next year (2,854 in 2019).

Incidentally, the aluminum smelters remained in operation during the lockdown. At Rio Tinto, the workforce was reduced but all employees continued to be paid. Demand was impacted and fell. In these circumstances, the company expects a 5% cut in

production at the Arvida plant. Future investments could take longer to materialize, including the completion of Phase II of the Alma aluminum smelter and the completion of the AP60 complex in Jonquière. However, construction of the new aluminum production plant at Elysis, with its carbon-free processing, continues in Jonquière.

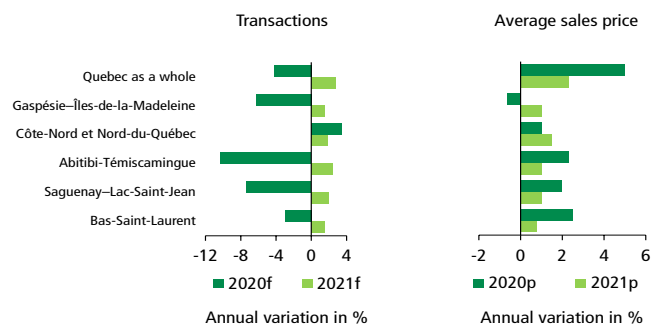
In the tourism industry, we noted that Quebec tourists were mostly drawn to resort and nature vacations, especially in Gaspésie-Îles-de-la-Madeleine, where the surge of tourists reached unprecedented levels. The other resource regions also did well in terms of tourism.

**Residential Construction Will Weaken**

The new construction market in the resource regions did very well in the first half of 2020. Housing starts in these regions should therefore keep rising this year, like the rest of Quebec. A decline is expected in 2021 in these regions and at the provincial level.

Resales, for their part, have started to lose steam in most of the resource regions. A decline is thus to be expected this year. Next year, all of the resource regions are expected to show an uptick. The increase in the average sales price, which remains strong except in Gaspésie-Îles-de-la-Madeleine, is expected to continue to grow in 2020 and 2021 (graph 6). Since the existing home market is showing smaller surpluses and some regions are even in a shortage situation with a seller/buyer ratio of less than 8, there is good support for prices, which should be resilient this year and next.

**GRAPH 6**  
Resales will advance in 2021



f: Desjardins forecasts  
Source : Desjardins, Economic Studies

Of particular note, more stringent rules for new mortgage loan insurance applications with the Canada Mortgage and Housing Corporation came into effect on July 1. For example, the maximum debt ratio permitted is lower and the minimum credit score required has been increased from 600 to 680.

## Uncertainty Remains about Where Investments Are Heading until 2021

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. Business confidence is gradually rising but is still far from pre-crisis levels and, for many businesses, profitability continues to be heavily affected by the pandemic. Some will recover quickly, while for others the journey will be long and slow.

For the Bas-Saint-Laurent and the Gaspésie-Îles-de-la-Madeleine regions, the outlook for investment growth is modest. Projects will continue, including the conversion of Route 185 into a highway between Saint-Louis-du-Ha! Ha! and Saint-Antoine (\$943M from 2017 to 2025) and the rehabilitation of the railway between Matapédia and Gaspé (\$100M from 2019 to 2025). However, this will not compensate for the boom seen in recent years driven by the large-scale wind farms and the construction of the McInnis cement plant. In the Saguenay-Lac-Saint-Jean region, investments could soar if major projects are brought to life, including the Blackrock Metals project.

Activity in all three mining regions was not interrupted for very long during the lockdown from March 23 to April 15, 2020. Current projects are still under way and the strength of the investments made in the last two years will continue to have a positive impact in 2020. For 2021, the amounts injected should be relatively stable.

Lastly, at the end of the economic prioritization mandate given to each of the Quebec regions in June by the Quebec government, all Quebec regions implemented their stimulus plan targeting three transformative, mobilizing and innovative projects. Several regional county municipalities (RCMs) and cities have also developed plans for their economic recovery (graph 7).

## GRAPH 7

### Example of economic stimulus projects in resource regions

- **Matanie RCM and Matane City (Gaspésie-Îles-de-la-Madeleine)**
  - Aquatic complex project
  - Matane seaport upgrade
- **Rimouski-Neigette RCM (Bas-Saint-Laurent)**
  - Extension and renovation of the Théâtre du Bic
  - Redevelopment of the Canyon des Portes de l'Enfer site
- **Manicouagan RCM and Baie-Comeau City (Côte-Nord)**
  - Improvement of the breakwater at the landing quay for cruise ships
  - Development of the knowledge economy

RCM : Regional county municipalities  
Source: Desjardins, Economic Studies

## Conclusion

The economic recovery in the resource regions will be uneven in the months to come. These regions will continue to record very weak population increases and even decreases, while the labour market will improve and new construction will weaken. Lastly, investment trends should remain relatively modest. While the recovery is gradual and slower in certain resource regions, they all have key assets that will enable them to face their own challenges, including an increasingly diversified industrial fabric and the accelerated integration of new technologies. Many other economic stimulus projects are also in the works.

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