ECONOMIC VIEWPOINT

How Is Quebec's Economy Faring One Year into the Pandemic?

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In March 2020, like the rest of the world, Quebec was struck by the pandemic. Since then, the economy has been repeatedly put on hold as lockdown measures were put in place. You may be wondering how the economy is doing compared to February 2020. In this exercise, we will compare where Quebec's economy was before the upheaval began to where it is one year later. We will draw parallels based on gross domestic product (GDP) data by sector released by the Institut de la statistique du Québec. The most important takeaway from this brief analysis is the surprising resilience of Quebec's economy.

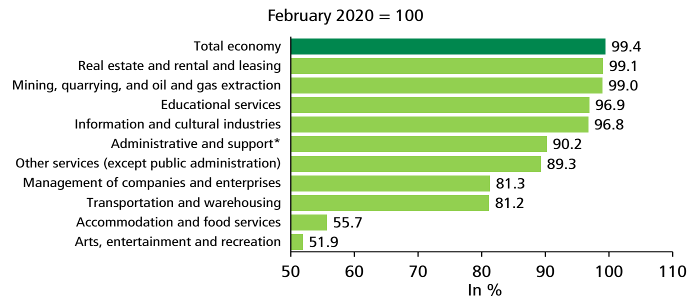
Two Snapshots in Time

Comparing GDP by sector from one month to another is a bit like comparing two snapshots in time. They don't indicate any fluctuations that may have occurred in between. However, the exercise is still worthwhile. Let's start with the major economic sectors indicated in graphs 1 and 2. As you can see, Quebec has almost completely made up the ground lost over the year, despite the scope of the public health crisis and the measures implemented to fight it. In February 2021, Quebec's level of activity (real GDP) was around 99.4% of what it was one year before.

Unsurprisingly, the arts, entertainment and recreation sector had only reached 51.9% of its real GDP level of February 2020, leading the hardest-hit sectors during the year (graph 1). Accommodation and food services were close behind at 55.7%. Both of these industries experienced the strictest and longest closures due to stringent public health measures. Transportation and warehousing came in third place (81.2%), followed by management of companies (81.3%), other services, such as hair salons, garages, and local services (89.3%), and administrative and support, waste management and remediation services (90.2%). A significant number of industries have returned to their February 2020 levels (graphs 1 and 2).

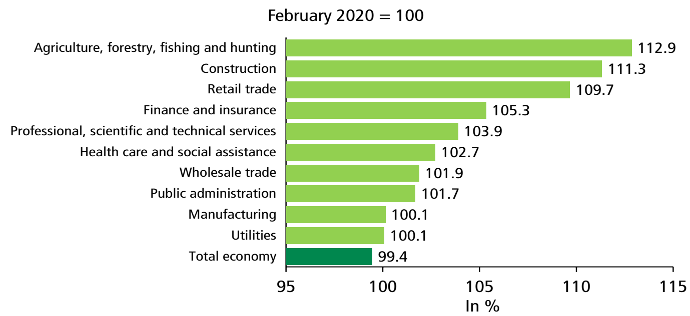
The following sectors posted outstanding growth: professional, scientific and technical services (103.9% of its February 2020 level) and finance and insurance (105.3%). These two areas of activity have been able to continue to operate for the most part through telework. Among the industries that posted significant gains, retail trade recorded strong growth (109.7%) thanks to a few sectors, such as building materials and e-commerce. This

GRAPH 1
Real GDP by sector: Some sectors will be slow to recover



* Waste management and remediation services.
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

GRAPH 2
Real GDP by sector: Some sectors have already reached or exceeded their pre-pandemic levels



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

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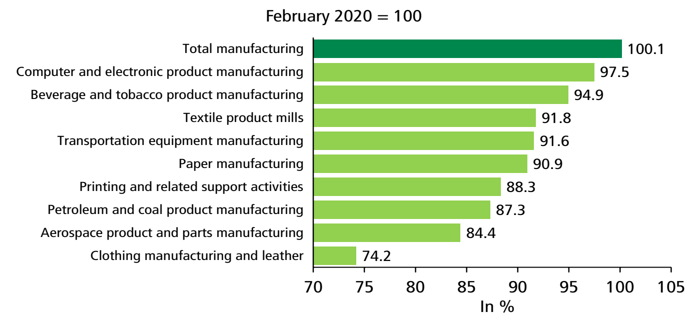
will be discussed in more detail further on. Lastly, construction (111.3%), residential activity in particular, was so strong that it came in second place among the most successful industries over the period. It was preceded by agriculture, forestry, hunting, and fishing (112.9%), which may have benefited from higher commodity prices.

A Very Mixed Performance for Manufacturing

After one year, total manufacturing was just a few decimals shy of its February 2020 level. However, this overview conceals a number of disparities (graph 3). Some sectors were still hurting, such as clothing (74.2% of its February 2020 level), aerospace equipment (84.4%), petroleum and coal (87.3%), printing (88.3%), paper (90.9%), transportation equipment as a whole (91.6% including aerospace) and textile mills (91.8%).

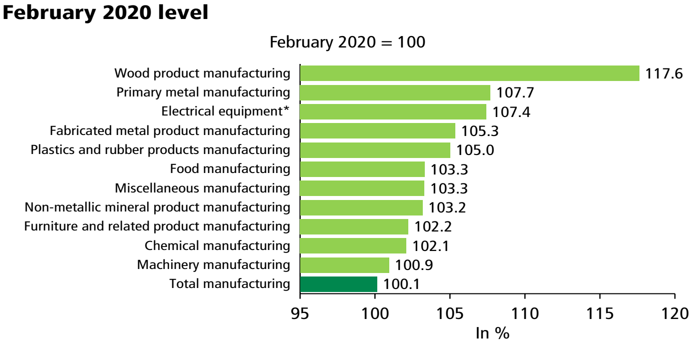
GRAPH 3
Manufacturing: Growth has been uneven, affecting both durable and non-durable goods



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

Among the industries who fully resumed operations and exceeded their GDP of February 2020, wood products (117.6% of their February 2020 level) led the pack (graph 4). Wood product manufacturing was driven by intense demand in the renovation and new construction sectors. This was due to very low interest rates, telework and lockdown measures, the resulting need for more space, the relative scarcity of homes for sale on the market and the increased ability of a number of households to spend, among other factors.

GRAPH 4
Manufacturing: Wood products have far exceeded their February 2020 level



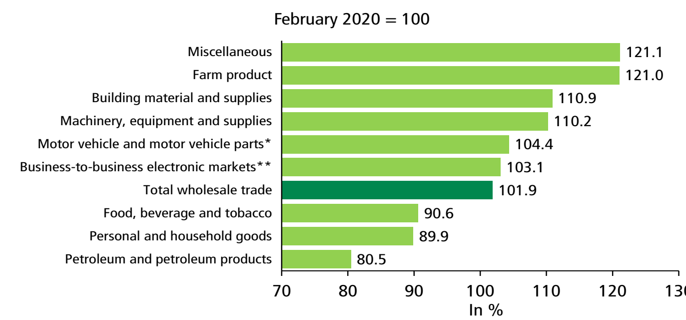
* Appliance and component manufacturing.
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

Other sectors also exceeded their pre-pandemic levels of productivity, such as: plastics and rubber products (105.0% of its February 2020 level), metal products (105.3%), electrical equipment and appliances (107.4%) and primary metal manufacturing (107.7%). These activities are tied to construction and saw strong global and North American demand over the last year.

Wholesale Trade Has Done Well as a Whole

Wholesale trade reached and even slightly exceeded its February 2020 level (101.9%). However, the overall snapshot hides some discrepancies as well (graph 5). Three major product categories were impacted. These included petroleum and petroleum products merchant wholesalers (80.5% of February 2020 level), which saw significantly lower demand due to telework and lockdown measures, personal and household goods merchant wholesalers (89.9%) and food, beverage and tobacco merchant wholesalers (90.6%). In the case of the latter, restaurant closures undoubtedly impacted food wholesalers' activities.

GRAPH 5
Wholesale trade: Unsurprisingly, petroleum products declined the most due to lockdowns and telework



* Accessories; ** Agents and brokers.
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

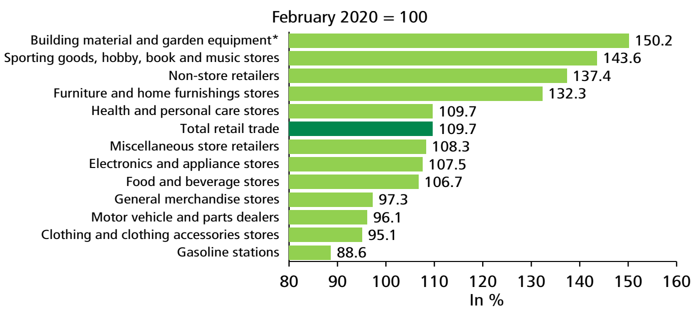
Sectors whose GDPs exceeded their February 2020 levels included business-to-business electronic markets, and agents and brokers (103.1%), motor vehicle and motor vehicle parts and accessories merchant wholesalers (104.4%), machinery, equipment and supplies merchant wholesalers (110.2%), building material and supplies merchant wholesalers (110.9%) and farm product merchant wholesalers (121.0%), which tied with miscellaneous merchant wholesalers (121.1%). The latter category includes recyclable materials, paper products, agricultural supplies and chemicals.

Retail Trade Was Buoyed by a Few Sectors

Despite repeated closures of non-essential businesses, total retail trade GDP exceeded its February 2020 level by a significant margin (109.7%).

However, four major sectors were below their February 2020 levels after one year (graph 6): gasoline stations (88.6%), clothing and clothing accessories stores (95.1%), motor vehicle dealers (96.1%) and general merchandise stores (97.3%). There was a major gap between the stores that failed to reach their pre-pandemic GDPs and those that exceeded them. Food and beverage stores reached 106.7%, while electronics and appliance stores stood at 107.5%, miscellaneous store retailers (pet stores, art dealers, etc.) at 108.3% and health and personal care stores at 109.7%.

GRAPH 6
The flurry of activity in construction and renovation drove up sales of building materials and gardening supplies



* Supplies dealers.
Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

The differences were the most glaring for furniture and home furnishings stores (132.3%), non-store retailers (137.4%), such as e-commerce for stores located in Canada, as well as sporting goods, hobby, book and music stores (143.6%) and building material and garden equipment and supplies dealers (150.2%). These results serve as somewhat of a barometer for household consumption during the lockdown. Statistics for the past year show increases in household disposable income and the household savings rate. Clearly, spending also went up. Goods-producing industries performed well, as households spent their disposable income on them while many services were unavailable (e.g., travel, restaurants, hair salons and gyms).

What's Next?

Quebec's economy has made up nearly all the ground it lost despite several disruptions aimed at protecting the public. While real GDP in February 2021 was nearly the same level as in February 2020, the economy had changed. Workers in the arts, entertainment and recreation sector as well as those in accommodation and food services know this better than anyone. Aerospace, petroleum product and clothing manufacturers can also attest to it. Furthermore, all aspects of the transportation industry (goods and people) have undergone a transformation.

What can we expect next? Quebec's economy surprising comeback was helped by sectors that were able to continue operating, industries that benefited from the lockdowns and by generous government assistance. The future is full of unknowns. Will the vaccination campaign maintain a solid clip? Will the vaccines provide sufficient protection to resume normal life in the short term? If not, when will we be able to do so? Will we have to contend with a fourth wave? Where will the savings stockpiled by consumers go? Will they spend it locally, build up personal contingency funds or travel abroad? What will happen when government assistance ends? When will the borders fully reopen? Will reopening the global economy cause commodity prices, such as energy, to spike so much that it hinders growth in spending? For the time being, we don't have the answers to these questions. What we do know, however, is that Quebec's economy has enough steam to pursue strong growth for the next few quarters. The rebound effect will eventually dissipate, and the differences between sectors should gradually fade. However, 2021 will be a year marked by growth.