Perspective

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# Quebec's economy through the lens of GDP: Gains outweigh losses

For 2014, the data shows that most of the Quebec economy's industries made upside contributions to last year's real GDP of 1.4%. Although doing this exercise for a single year is useful, the period is too short to pinpoint the strengths that have kept Quebec going since the recession. A look at the 2009–2014 period reveals that high-tech industries were not the only ones that fostered growth. Moreover, an economic analysis makes it possible to better establish the share of industries we too often tend to confuse with government budget items. The pillars of growth are not always what we assume. Lastly, in light of the forces present in the first half of the year, the outlook for Quebec's economy is good for 2015.

## 2014 IN REVIEW

For 2014, Statistics Canada put Quebec's real GDP growth at 1.4%, which comes in below Canada's, which was 2.4% for that year. Goods production, which includes such industries as the primary sector and manufacturing, increased 1.9% last year in Quebec. Services, which account for 71.7% of GDP, advanced more slowly than goods (+1.3%).

Dissecting the economy into 20 major sectors shows that most sectors made gains last year (table 1). Still, there were five that slowed the economy's advance. Among them, construction is one important sector that retreated (-2.2%); unsurprising as we know that infrastructure work has been slower in Quebec, and that the housing market (new construction, resales and renovation) went through some shakier periods. All the same, construction accounted for 6.6% of Quebec's economy.

Other sectors also posted sizable drops, including management of companies and enterprises (down 2.6%), which accounted for 0.7% of the economy, followed by utilities, which include the production, transmission and distribution of electricity (down 1.1% and 4.4% of Quebec's GDP). Also pulling back were accommodation and food services (off 1.1% and 2.1% of GDP) and the information and culture industry (down 1.0% and 3.3% of GDP).

On the growth side, mining and oil and natural gas extraction rose 19.4% in 2014; they accounted for 1.4% of the economy. On its own, metal product extraction rose 24%, a thrust that solidly beats growth in prior years.

**Table 1 – Quebec – GDP by industry**
**% change in 2014**

| | *Change* | *Weight in total GDP (%)** |
|---|---|---|
| **Total - Quebec economy** | **1.4** | **100.0** |
| Agriculture, forestry, hunting and fishing | 0.7 | 1.6 |
| Mining, oil and gas extraction | 19.4 | 1.4 |
| Utilities | -1.1 | 4.4 |
| Construction | -2.2 | 6.6 |
| Manufacturing | 3.1 | 14.3 |
| Wholesaling | 1.5 | 5.6 |
| Retailing | 0.9 | 5.9 |
| Transportation and warehousing | 2.4 | 4.0 |
| Information and cultural industry | -1.0 | 3.3 |
| Finance and insurance | 2.0 | 6.2 |
| Real estate and leasing services | 2.0 | 11.3 |
| Professional, scientific and technical services | 1.0 | 5.2 |
| Management of companies and enterprises | -2.6 | 0.7 |
| Administrative and support services | 2.2 | 2.6 |
| Educational services | 0.9 | 6.0 |
| Healthcare and social assistance | 1.2 | 8.3 |
| Arts, entertainment and recreation | 0.6 | 0.9 |
| Accommodation and food services | -1.1 | 2.1 |
| Other services except for public administration | 1.7 | 2.2 |
| Public administration | 1.7 | 7.5 |

* May not total 100 due to rounding.
Sources: Statistics Canada and Desjardins, Economic Studies

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The other sectors are well behind. Manufacturing ranks second in terms of growth (up 3.1% and 14.3% of GDP). In contrast with what we might assume, manufacturing has not consistently retreated since the recession. It fell 8.7% in 2009, and has inched forward since then, only posting one decrease in 2013 (-1.0% that year).

Transportation and warehousing are also up (2.4% and 4.0% of GDP). Administrative and support, waste management and remediation services[1] increased 2.2% and accounted for 2.6% of GDP.

Retailing is another sector that merits a closer look. It expanded 0.9% (5.9% of GDP) in 2014, in spite of the many closures that were in the headlines throughout the year.

### QUEBEC MANUFACTURING DID WELL LAST YEAR

It was swept along by several factors, including more aggressive growth by Uncle Sam's economy, the boom in production south of the border, the U.S. drive to rebuild its supply chains, and the loonie's tumble. Out of the 19 manufacturing categories identified, only four fell in 2014 (table 2).

Of those that had a more lacklustre year, primary metal processing, a manufacturing heavyweight (13.2% of manufacturing's GDP), saw its real GDP decline 0.5% after four years of growth. Also on the losing side were electrical equipment, appliance and component manufacturing (down 10.5% and 3% share of manufacturing's GDP), after 2013's 8.4% advance. Computer and electronic products also fell substantially (-4.9%, with a 2.7% share of manufacturing's GDP), declining for a third consecutive year. Foreign competition is lively in this industry. Lastly, the restructuring printing industry also lost ground in 2014, seeing its GDP drop by 2.9% (2.1% of manufacturing's GDP). A sign of the changes underway, the sector has retreated steadily since the recession.

**Table 2 – Quebec – Manufacturing GDP in 2014 (%)**

| | *Change* | *Weight in manufacturing GDP* |
|---|---|---|
| **Total - Manufacturing** | **3.1** | **100.0*** |
| Food | 10.5 | 11.8 |
| Beverage and tobacco products | 1.4 | 4.2 |
| Textiles and textile products | 6.7 | 1.1 |
| Clothing and leather products | 8.9 | 1.6 |
| Wood products | 5.8 | 5.7 |
| Paper | 2.5 | 5.6 |
| Printing and related activities | -2.9 | 2.1 |
| Petroleum and coal products | 1.1 | 2.3 |
| Chemicals | 2.9 | 7.0 |
| Plastics and rubber products | 3.1 | 5.2 |
| Non-metallic mineral products | 2.0 | 2.7 |
| Primary metals | -0.5 | 13.2 |
| Fabricated metal products | 1.8 | 6.4 |
| Machinery | 0.3 | 6.1 |
| Computer and electronic products | -4.9 | 2.7 |
| Electrical equipment, appliances and components | -10.5 | 3.0 |
| Transportation equipment | 8.2 | 13.9 |
| Furniture and related products | 0.2 | 3.2 |
| Miscellaneous manufacturing | 2.1 | 2.1 |

* May not total 100 due to rounding.
Sources: Statistics Canada and Desjardins, Economic Studies

Other industry sub-categories deserve some attention, such as transportation equipment manufacturing (aviation, trucks, buses, other vehicles); it accounts for 13.9% of manufacturing's GDP and it posted its fifth consecutive yearly advance in 2014, rising 8.2%. This industry exports the bulk of its products. Food manufacturing is another group with substantial weight in Quebec (11.8% of manufacturing's GDP); it rebounded 10.5% in 2014 after retreating for three straight years. Note that this is one of the few sectors that held up during the recession.

Among the other groups with some weight in Quebec's manufacturing GDP, we should mention wood products (5.7% of manufacturing's GDP), which advanced 5.8% last year. This sector has been on the rise since 2010 due to the upswing in the U.S. housing market and strong residential construction on this side of the border. It is clear that major gains were made in both high-tech sectors and sectors with less of a technological focus.

[1] Statistics Canada, NAICS 56, Administrative and Support, Waste Management and Remediation Services: "This sector comprises two different types of establishments: those primarily engaged in activities that support the day-to-day operations of other organizations; and those primarily engaged in waste management activities."

### AFTER THE RECESSION: TAKING STOCK

A review of 2014 is interesting, but a look at the ground covered since the recession allows us to identify what has kept Quebec's economy afloat in the last few years. Table 3 sets out the growth for each sector of the economy according to its average annual growth rate (AAGR) from 2009 to 2014.

First, it is clear that Quebec's economy grew at an AAGR of 1.6%. The first two post-recession years, 2010 and 2011, were spent catching up; they posted respective growth of 2.1% and 2.0%. For the entire period under consideration, both goods (1.6%) and services (1.6%) contributed to this result. Note that growth was positive almost throughout the economy, except for management of companies and enterprises[2] (-1.0%) and arts, entertainment and recreation (-0.6%). Together, these two sectors only accounted for just over 1.5% of total GDP in 2014.

For growth, mining and oil and natural gas extraction lead the pack (AAGR of 7.6%). This score was literally propelled by 2014. Keep in mind that, in 2014, this industry only accounted for 1.4% of the Quebec economy; its weight was closer to 1.1% in prior years. Real estate and rental and leasing services[3] (2.6% growth) come in second, followed by finance and insurance with an AAGR of 2.2%.

Among the other sectors that beat the overall average are utilities (+2.1%), transportation and warehousing (+1.9%), wholesaling (+1.8%) and construction (+1.8%). Initially, given the fact that the housing market has boomed since the mid-2000s and the big wave of infrastructure work throughout Quebec, we might have assumed that construction was one sector that has led the way since the recession; however, it is clear that it is just a little faster than the economy's overall pace, which is 1.6% for 2009 to 2014.

Very close to the average were professional, scientific and technical services (+1.6%), administrative and support, waste management and remediation services (+1.6%), and retailing (+1.5%).

**Table 3 – Quebec – GDP by industry Average annual growth rate 2009 to 2014 (%)**

| | *2009-2014 AAGR* |
|---|---|
| **Total - Quebec economy** | **1.6** |
| Agriculture, forestry, hunting and fishing | 1.1 |
| Mining, oil and gas extraction | 7.6 |
| Utilities | 2.1 |
| Construction | 1.8 |
| Manufacturing | 0.8 |
| Wholesaling | 1.8 |
| Retailing | 1.5 |
| Transportation and warehousing | 1.9 |
| Information and cultural industry | 0.9 |
| Finance and insurance | 2.2 |
| Real estate and leasing services | 2.6 |
| Professional, scientific and technical services | 1.6 |
| Management of companies and enterprises | -1.0 |
| Administrative and support services | 1.5 |
| Educational services | 1.1 |
| Healthcare and social assistance | 1.4 |
| Arts, entertainment and recreation | -0.6 |
| Accommodation and food services | 0.7 |
| Other services except for public administration | 1.3 |
| Public administration | 1.1 |

Sources: Statistics Canada and Desjardins, Economic Studies

A closer look at the 2014 data once again shows us that a single year does not make a trend and that caution is advisable in interpreting statistics. Moreover, a sector such as healthcare, generally seen as big and growing fast, only posted an AAGR of 1.4%, which is below the general average for 2009 to 2014. Similarly, professional, scientific and technical services, which had been booming in the 2000s, particularly in terms of employment, only saw their GDP rise by an average of 1.6% a year during the period under consideration.

Returning to healthcare, we find that this sector occupies a big swath of the economy, and is expected to grow in the future due to demographics. It is also clear that its share of the economy is not comparable with its share of the government's budget. These are two very different statistical universes. In short, an exercise like this sometimes provides a different perspective.

[2] Statistics Canada, NAICS 55, Management of Companies and Enterprises: "This sector comprises establishments primarily engaged in managing companies and enterprises and/or holding the securities or financial assets of companies and enterprises, for the purpose of owning a controlling interest in them and/or influencing their management decisions. They may undertake the function of management, or they may entrust the function of financial management to portfolio managers."

[3] Statistics Canada, NAICS 53, Real Estate and Rental and Leasing: "This sector comprises establishments primarily engaged in renting, leasing or otherwise allowing the use of tangible or intangible assets. Establishments primarily engaged in managing real estate for others; selling, renting and/or buying of real estate for others; and appraising real estate, are also included."

### MANUFACTURING STRUGGLED TO RECOVER AFTER THE RECESSION

Manufacturing faced an arduous recovery from 2009 to 2014 (table 4). For manufacturing as a whole, its average annual real GDP growth was 0.8%. Nine major industrial groups had negative AAGRs during this years, attesting to the difficulties that many of them faced. Among the hardest hit were clothing and leather product manufacturing (AAGR down 7.4%) and printing and related support activities (down 6.8%). Petroleum and coal products manufacturing also fell (down 5.9%), a reminder of the closure of Montreal's Shell refinery at the start of the decade. Lastly, facing relentless competition and large yearly fluctuations, textile plants and products dropped an average of 3.5% a year.

Other sub-categories had a better time; here, transportation equipment manufacturing stood out (+4.2%). Wood product manufacturing posted a nice comeback after a tough decade (AAGR of 3.9%). Plastics and rubber products manufacturing also stood out (+3.3%), along with primary metal manufacturing (+2.7%), and fabricated metal product manufacturing (+2.3%).

Still above average, machinery manufacturing had an AAGR of 2.0%, while electrical equipment, appliance and component manufacturing stood at 1.6%, just ahead of furniture and related product manufacturing (+1.5%).

Comparing the 2009 to 2014 period with last year shows that 2014 was a much better year for the entire manufacturing industry, as well as for most of its sub-categories.

### 2015: MODERATE EXPECTATIONS

Like Quebec's GDP, which should post moderate growth in 2015 (the forecast is about 1.7% real GDP growth), the outlook is gradually improving for the next few months, primarily because of the high expectations for exports. Generally, we expect manufacturing to make further gains. In general, it will be drawn along in the wake of its U.S. cousin, which is attempting to re-energize this entire part of the economy. Below parity, the loonie will also create flow in trade. Transportation equipment and wood product manufacturing are raising hopes because of their closeness with the U.S. The other major industrial groups will advance in tandem with the global economy's strength, local and international demand for their products, and the intensity of the competition, to mention but a few drivers.

**Table 4 – Quebec – Manufacturing GDP Average annual growth rate 2009 to 2014 (%)**

| | *2009–2014 AAGR* |
|---|---|
| **Total – Manufacturing** | **0.8** |
| Food | 1.4 |
| Beverage and tobacco products | -1.0 |
| Textiles and textile products | -3.5 |
| Clothing and leather products | -7.4 |
| Wood products | 3.9 |
| Paper | -1.0 |
| Printing and related activities | -6.8 |
| Petroleum and coal products | -5.9 |
| Chemicals | -0.2 |
| Plastics and rubber products | 3.3 |
| Non-metallic mineral products | -1.4 |
| Primary metals | 2.7 |
| Fabricated metal products | 2.3 |
| Machinery | 2.0 |
| Computer and electronic products | -0.1 |
| Electrical equipment, appliances and components | 1.6 |
| Transportation equipment | 4.2 |
| Furniture and related products | 1.5 |
| Miscellaneous manufacturing | -1.5 |

* May not total 100 due to rounding.
Sources: Statistics Canada and Desjardins, Economic Studies

As for the other parts of the economy (utilities, transportation and warehousing and healthcare, for example), we can expect most to capitalize on the general improvement in the economic situation in 2015. However, we cannot expect all of the sectors to be in lock step, even during a growth cycle. We already know that business investment intentions are not up in every area of Quebec's economy. Moreover, we must pay close attention to the construction industry, where activity could be less shaky, as well as retailing, which is under increasing pressure. Movement by metal prices is to be watched, along with its impact on mining. Similarly, upside and downside fluctuations in gas prices and the labour market's performance, good or bad, will have repercussions for household finances; consumers could tighten their belts or let them out a few notches in sectors as diverse as accommodation and food services, retailing and construction. Rapid conclusions are not warranted, as the year has still to play out.

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