

Quebec: 2019–20 Outlook

HOT STREAK CONTINUES

We continue to look for a moderation of Quebec economic growth after a 2017–18 expansion well above its underlying potential rate. An upward revision to 2.1% real GDP growth in 2019 largely reflects expectations of stronger-than-anticipated household spending gains. Job creation has accelerated since its more muted start to the year, labour shortages continue to put upward pressure on wages, and retail sales, new motor vehicle purchases, and real consumer outlays have picked up versus last year. As we progress into 2020, we still look for a return to more sustainable advances, but the strong start puts 2019 growth on firmer footing.

We still anticipate more moderate provincial population growth over 2019–20 and remain skeptical of the benefits of cuts to provincial immigration targets. Thus far, Quebec has managed to maintain population gains above 1%, in part due to greater intake of temporary foreign workers (TFWs) (chart). The Province implemented policies to improve integration of temporary workers to address labour market shortages as newcomer admissions fall, and the data imply some adjustment on the part of firms seeking to fill job vacancies. Yet we suspect that the explosive recent pace of TFW intake cannot be sustained, and that the rate of population growth will likely slow as an easing expansion translates into wider outflows of residents to other provinces.

Population and household spending gains continue to spur housing market activity. Montreal's sales-to-new listings ratio reached an all-time high earlier this year and was the tightest local market in Canada in April. Seller-friendly conditions have persisted despite torrid homebuilding and residential investment. While shortages of vacant land are present on the Island of Montreal, our view remains that housing demand and supply will broadly realign as growth eases closer to its underlying trend rate.

By contrast, private-sector investment has disappointed to start the year, though first quarter declines in machinery & equipment and non-residential construction outlays came with upward revisions to 2018 capital spending. Those decreases suggest more limited uptake of federal and provincial accelerated depreciation allowances than we had anticipated. Going forward, Montreal transit projects and work on a lithium mine limit downside for investment activity alongside stepped-up infrastructure spending announced in the March 2019 Quebec budget, but the first quarter nonetheless provides a soft handoff for the rest of 2019.

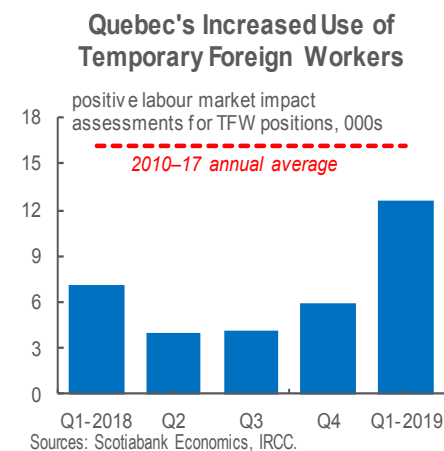
The province's external sector looks set for more modest growth as well. Real exports retreated nearly 15% (q/q ann.) in Q1-2019 and face obvious downside risk vis-à-vis ongoing Sino-US tensions that look to be dampening world trade volumes. A slower US expansion in 2019 should also translate into weaker international import demand while Alberta's 2019 soft patch weighs on interprovincial machinery exports, though elimination of US steel and aluminum tariffs is positive for Quebec trade.

CONTACTS

Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Quebec % change except where noted				
Economic Conditions	17	18	19f	20f
Real GDP	2.8	2.5	2.1	1.8
Nominal GDP	5.0	4.2	3.2	3.7
Employment	2.2	0.9	1.5	0.8
Unemployment Rate, %	6.1	5.5	5.2	5.4
Housing Starts, 000s	46	47	46	41
Fiscal Situation	FY18	FY19	FY20	
Budget Balance*, % of GDP	1.1	0.6	0.0	
Net Debt, % of GDP**	43.0	40.1	39.0	

* After deposits into the Generations Fund. ** Nom. GDP fctst:
Scotiabank Economics. Sources: Scotiabank Economics,
Statistics Canada, CMHC, Finances Québec.



Provincial Forecast Summary

	(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.4	2.0	2.1	1.3	0.6	2.1	1.4	1.5	1.4	0.5	2.2
2020f	2.0	0.8	2.0	1.3	0.8	1.8	1.8	1.5	1.6	2.5	3.0
Nominal GDP											
2000–17	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2017	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
2018e	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	2.7	3.0	4.1	3.0	2.2	3.2	2.6	3.3	3.3	1.3	4.2
2020f	4.2	3.9	3.9	3.3	2.5	3.7	3.7	3.3	4.0	4.6	5.7
Employment											
2000–17	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.1	1.9	1.4	2.3	0.5	1.5	2.5	1.2	1.6	1.0	3.0
2020f	1.0	0.2	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
Unemployment Rate (%)											
2000–17	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	11.8	9.0	6.8	8.0	5.2	5.6	5.5	5.5	6.7	4.6
2020f	5.9	11.6	9.0	6.8	8.0	5.4	5.8	5.5	5.5	6.8	4.7
Housing Starts (units, 000s)											
2000–17	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	202	1.0	0.9	3.9	2.1	46	69	6.8	3.2	26	44
2020f	199	1.3	0.8	3.8	2.0	41	72	6.0	4.8	30	37
Motor Vehicle Sales (units, 000s)											
2000–17	1,657	29	6	48	38	413	635	47	45	216	180
2017	2,041	33	9	59	42	453	847	62	56	245	235
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,935	30	9	51	39	447	813	60	49	220	217
2020f	1,915	30	9	50	37	440	800	56	48	217	228
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2017	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,711	374

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

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