

## Quebec

### TORRID EXPANSION SET TO COOL

*La Belle Province* remains in the midst of a remarkable streak of advances—2019 completed a three-year expansion of nearly 8% that has not been seen since 2000–02—and we foresee easing, but still solid gains this year and next.

One key driver of recent gains is a multi-year string of rising business investment; over time, we look for private-sector capital outlays to cool to a more sustainable pace. Since falling to 14-year lows in 2016, real machinery and equipment (M&E) spending has risen nearly 25%. The initial upswing looks to have been in response to capacity pressures that had been easing, but federal and provincial tax measures pushed M&E up again from Q4-2018 onwards. We expect these outlays to moderate as tax impacts wane, but continue to be lifted by healthy business confidence and ongoing transit and mining projects.

Above-trend population growth is another reason for Quebec's robust expansion; on this front, we are cautiously optimistic about further near-term gains. Low unemployment and hefty recent wage gains should attract workers from other provinces and keep outflows narrow relative to historical norms. And amid labour shortages and cuts to Quebec immigration targets, firms are retaining temporary foreign workers, raising the number of net non-permanent residents with international student attraction.

Quebec consumers also have healthy finances. The province's 9.1% Q3-2019 household saving rate was its highest since 1995 and far exceeded the national average as well as that of Ontario and Western Canada (chart). Relatively low levels of household indebtedness in Quebec suggest the province's consumers are better positioned to weather adverse economic events. With healthy balance sheets, provincial tax relief and looser monetary policy should support household spending.

Housing price pressures are natural consequences of the province's economic growth. Montreal was the tightest local real estate market in Canada for most of 2019—its sales-to-new listings reached a new all-time high towards year-end and prices climbed at some of the fastest rates since the early 2000s. We expect sales and prices to cool this year and next, mirroring Quebec's projected expansion.

Healthy Provincial finances are another upshot of the recent hot streak. A hefty \$8.3 bn surplus was realized in FY19—by far the strongest ever recorded in Quebec—and net debt dipped below 40% of GDP for the first time since FY06. Some of these results are undoubtedly cyclical rather than structural. Yet Quebec's 2019 Fall Economic Statement also unveiled measures that will strengthen female labour force participation and bolster municipal infrastructure, which should support longer-run economic growth.

A weakening trade outlook is the key factor expected to limit Quebec's expansion in 2020–21. Softer global growth hurt exports in 2019 and should continue to constrain foreign purchases from the province's industrial sector. The pronounced slowdown in American economic growth forecast for this year should weigh heavily on Quebec given its US-dominated export profile.

### CONTACTS

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### Economic Outlook

annual % change except where noted

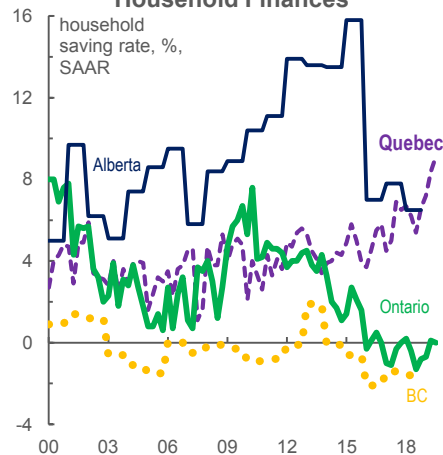
	18	19e	20f	21f
Real GDP	2.5	2.5	1.8	1.7
Nominal GDP	4.8	4.1	3.5	3.6
Employment	0.9	1.8	0.9	0.8
Unemployment Rate, %	5.5	5.1	5.2	5.3
Housing Starts, 000s	47	48	46	44

### Fiscal Situation

% of nominal GDP\*

	FY19	FY20	FY21
Budget Balance**	1.1	0.3	0.0
Net Debt	39.5	37.9	36.8

### Healthy Quebec Household Finances



\* Nominal GDP forecast: Scotiabank Economics. \*\* After deposits into Generations Fund. Sources for chart and tables: 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
2010–18	2.2	0.5	2.0	0.9	0.6	1.7	2.2	2.2	2.5	2.8	2.8
2018	2.0	-3.5	2.6	1.5	0.8	2.5	2.2	1.3	1.3	1.6	2.6
2019e	1.6	2.1	2.7	1.7	0.6	2.5	1.7	1.3	1.0	0.5	2.1
2020f	1.5	1.1	2.0	1.3	0.7	1.8	1.5	1.1	1.2	1.6	2.1
2021f	2.0	0.5	2.0	1.3	0.7	1.7	1.8	1.4	1.6	2.5	2.4
Nominal GDP											
2010–18	3.9	3.2	3.9	2.7	2.8	3.7	4.1	4.0	3.3	3.8	4.5
2018	3.9	1.7	4.2	3.3	3.2	4.8	3.7	2.2	1.4	3.8	4.5
2019e	3.2	3.6	4.6	3.4	2.2	4.1	3.3	3.0	2.6	2.0	4.2
2020f	3.3	3.0	3.9	3.2	2.3	3.5	3.2	3.0	2.9	3.3	4.4
2021f	4.2	3.0	4.0	3.1	2.1	3.6	4.0	3.2	4.1	5.2	5.1
Employment											
2010–18	1.2	0.5	1.2	0.2	-0.2	1.1	1.3	0.8	0.9	1.5	1.4
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019e	2.1	0.6	2.7	2.2	0.8	1.8	2.9	0.9	1.8	0.5	2.6
2020f	0.9	-0.1	0.8	0.3	0.2	0.9	1.2	0.6	0.7	1.0	1.3
2021f	1.0	0.0	0.6	0.1	0.2	0.8	1.0	0.6	0.6	1.2	1.3
Unemployment Rate (%)											
2010–18	7.0	13.3	10.8	8.8	9.3	7.4	7.3	5.5	5.2	6.1	6.4
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019e	5.7	11.9	8.8	7.2	8.0	5.1	5.6	5.3	5.4	6.9	4.7
2020f	5.8	12.0	8.8	7.2	8.0	5.2	5.7	5.4	5.4	7.0	4.9
2021f	5.8	11.8	9.0	7.3	7.9	5.3	5.7	5.5	5.4	6.9	5.0
Housing Starts (units, 000s)											
2010–18	200	2.4	0.8	4.1	2.7	44	70	6.5	6.4	31	33
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019e	209	0.9	1.3	4.7	2.9	48	69	7.0	2.4	27	45
2020f	205	1.2	1.1	4.3	2.4	46	75	6.0	3.3	30	37
2021f	203	1.1	1.0	4.2	2.4	44	77	5.9	3.7	31	33
Motor Vehicle Sales (units, 000s)											
2010–18	1,847	33	7	52	42	439	725	56	54	241	197
2018	1,983	28	8	51	38	449	853	67	47	226	217
2019e	1,922	31	9	51	40	442	820	57	48	218	207
2020f	1,915	28	8	50	40	430	815	52	49	227	213
2021f	1,915	25	8	50	40	430	815	50	50	232	218
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2019	-14,000	-552	57	120	73	4,803	-7,435	-163	-268	-6,711	1,535
2020f*	-26,600	-944	1	37	88	1,400	-9,023	-350	37	-8,704	148
2021f	-28,100	-796	7	52	33	100	-6,800	-234	49	-5,883	291

\* NL budget balance in 2020 is net of one-time revenue boost via Atlantic Accord. Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

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