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The Conference Board of Canada

Demographics Crunch Hampers Long-Term Growth

Quebec's Outlook to 2045

Issue Briefing | March 2, 2023

Contents

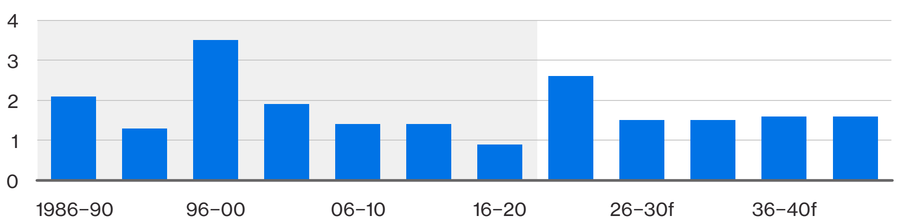
Key findings

- Demographic trends will conspire to slow down Quebec's long-term growth to an annual average of around 1.5 per cent.
- The weak growth in Quebec's labour force will be accentuated by the provincial government's policies concerning immigration.
- Sluggish gains in potential output through 2045 will require higher investment in technology to counteract ongoing labour shortages.
- Housing starts will fall into decline as an aging population results in lower levels of household formation.
- Structural changes in non-residential construction linked to the pandemic will curtail growth over the long term.
- Quebec exporters will receive a boost from the relatively weak value of the loonie anticipated over the forecast.

Overview

Quebec's long-term economic outlook will be affected by the changing demographic profile of its population. Population aging, the key demographic factor, will impact overall growth through many channels in the economy, including labour and housing markets, household spending, and the government's fiscal position. Between 2022 and 2045, annual real GDP growth in Quebec will average around 1.5 per cent, slightly below the average of 1.6 per cent over the last two decades. (See Chart 1.)

Chart 1
Real GDP at basic prices
(5-year average annual compound growth, per cent)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Over the next decade, the remainder of Quebec's baby boomer cohort will retire and leave the workforce. As the number of retirees in the population expands, Quebec's labour force participation rate will continue to drop. We forecast the participation rate will hit a low of 62.0 per cent in 2033, after which it will pick up as the large millennial cohort attains middle age.

Although other provinces are actively encouraging immigration to boost labour force growth, Quebec's government has so far decided against increasing immigration to the same degree. Lower immigration will result in sluggish labour force growth in Quebec compared with most other provinces and negatively impact potential output growth. In the labour market, labour scarcity will remain a principal challenge for Quebec's companies, and we forecast the province's unemployment rate will remain low through 2045.

The aging population combined with less immigration will also lower household formation in Quebec. Weaker housing demand will lead to declining housing starts over the forecast period. Consequently, real residential investment as a share of total business investment will drop. At the same time, labour supply restrictions imply that firms will have little choice but to make productivity-improving capital investments, including the increased use of new technologies in the auto sector. Real investment in machinery and equipment as a share of total business investment is, therefore, forecast to grow steadily over the forecast.

Demographic patterns

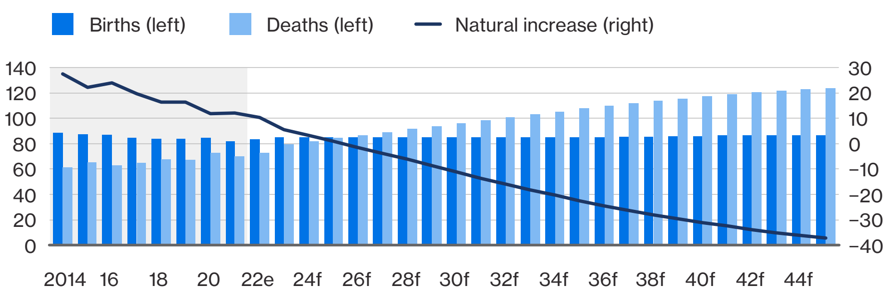
Restrained immigration limits population growth

Demographics play an important role in determining the long-term outlook of the Quebec economy. The growth of a province's population is determined by these key factors: births, deaths, and net migration. In the case of Quebec, the population is aging and the fertility rate is below the replacement rate while net migration is expected to grow only modestly. Together, these factors mean that Quebec's population growth will remain weak over the forecast period.

The movement of the sizable baby boomer cohort (those born between 1946 and 1964) has important implications for the economy. By 2022, high numbers in this cohort are approaching the end of their working lives or have recently retired. The baby boomers were retiring prior to the onset of the pandemic, but the pace has accelerated partially due to health concerns while others saw their investment portfolios surge during the 2010–21 period, a development that left them in a good financial position. Over the coming decade, the remainder of this generation will leave the labour force, and Quebec's elderly population will expand. In 2022, the percentage of Quebec's population over the age of 65 years was 20.3 per cent, up from 17.5 per cent in 2015. By 2045, this share will grow to 24.5 per cent. The expansion of the group aged 65 years and older will result in a significant rise in the senior dependency ratio (the ratio of those aged 65 and over relative to those in the population aged between 15 and 64).

Inevitably, the aging of Quebec's population will lead to a greater number of deaths over the next two decades. Deaths are expected to expand from around 73,000 in 2022 to close to 124,000 by 2045, an increase of almost 70 per cent. At the same time, the number of births is expected to remain relatively flat throughout the forecast period. Between 2022 and 2045, the fertility rate in Quebec of 1.52 will remain well below the replacement rate of 2.1. The natural rate of increase (the total number of births minus the number of deaths) is currently declining and will enter negative territory by 2026, hitting –37,145 by 2045. (See Chart 2.)

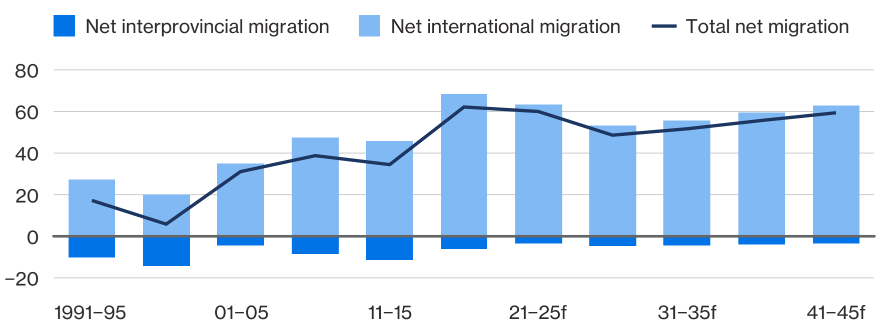
Chart 2
Natural increase in population
(000s)



Note: Unshaded area represents forecast data.
e = estimate; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

The inflow of migrants to Quebec will act as an increasingly important support for the population, working as a counterweight to the declining natural rate. Net international migration is expected to remain strong through the long term, averaging around 59,000—between 1991 and 1995, net international migration averaged only 27,000. Between 2022 and 2045, average annual net migration to Quebec will far outweigh a net interprovincial outflow of migrants. Since the early 1990s, more Quebecers have left the province compared with arrivals from other provinces because of Quebec's high taxes and better opportunities in other parts of the country. (See Chart 3.) Ultimately, migration to Quebec from outside Canada will be key in supporting population growth in Quebec over the long term.

Chart 3
Migration profile
(000s)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

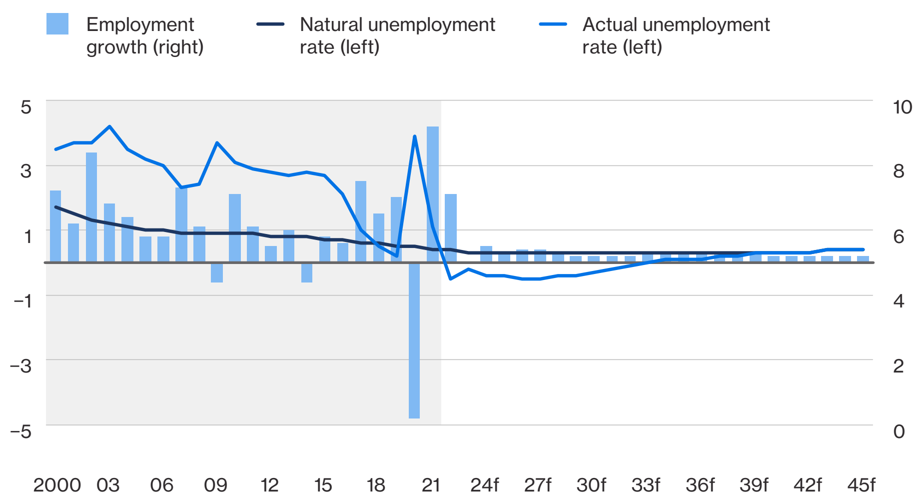
The province recently announced that it will keep its maximum immigration target at 52,500, close to the level in 2022. Once again, French-speaking migrants will have priority over others. Although this level is higher than immigration levels in 2019, when the Quebec government reduced immigration targets by about 20 per cent, it is lower than for the rest of Canada. Quebec's updated targets represent 0.6 per cent of the population, far lower than the 1.0 per cent targeted by the federal government's Immigration Levels Plan 2021–23. Currently Quebec faces labour shortages across several industries, including construction as well as accommodation and food, and has one of the lowest unemployment rates in the country. Over the long term, unemployment will remain below 6 percent, suggesting that the challenges of labour scarcity aren't going away anytime soon. (See Chart 4.) Although immigration isn't a sure fix, in the face of weakening population growth it will become increasingly important in maintaining the labour force, a vital input into the economy. The Quebec government may be forced to permit even higher levels of immigration through the medium to long term to cope with ongoing labour shortages, even though its current policy remains popular among Quebecers.

Besides immigrants, temporary foreign workers will continue to make an important contribution to the economy, particularly in sectors such as agriculture and food processing. The Quebec government recently reached an agreement with the federal government to triple the number of temporary foreign workers by the end of 2023. Although this program could help offset the government's policy of containing immigration, it has been criticized because of potential worker exploitation. Other government measures designed to boost the labour force include increasing the participation rates among older workers.

Chart 4

Dimensions of employment

(per cent, left; percentage change, right)



Note: Unshaded area represents forecast data.

f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

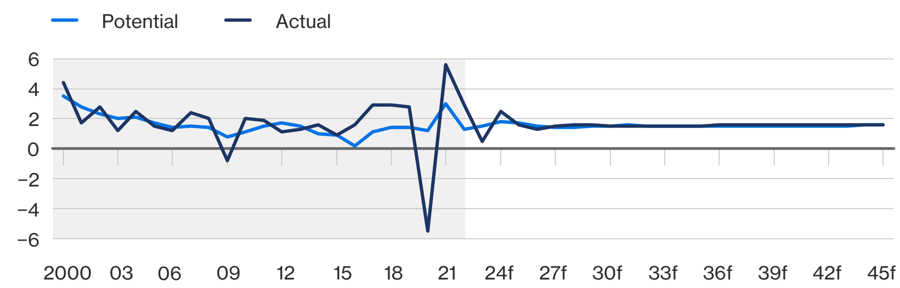
Potential output

Labour force and participation rate restrain potential growth

Growth in potential output is the principal determinant of the long-term economic growth outlook. Potential output refers to the highest level of real GDP an economy can attain given its potential labour supply, current capital stock, and available technology. Potential output has been volatile to this point in the pandemic, with growth surging above actual output in 2020 but subsequently dropping below gains in 2021. However, over the long term, growth in actual and potential output will gradually converge.

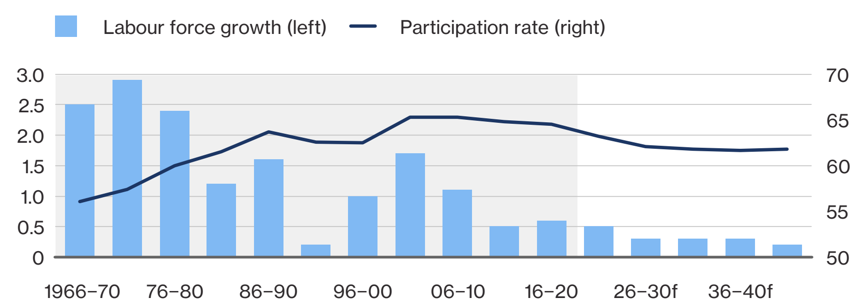
Quebec's potential output is forecast to grow at an average annual pace of about 1.5 per cent (see Chart 5), below the national average of close to 1.7 per cent. The relative weakness of potential output growth is a result of a deceleration in labour force growth. The labour force will grow at an annual average of just 0.3 per cent compared with an average annual gain of close to 1 per cent in the rest of Canada. The difference is mainly a result of the lower immigration levels expected in Quebec through 2045. Another labour market indicator impacting potential output is the participation rate. A high participation rate could offset the weakness in Quebec's labour force growth anticipated over the long term. However, similar to the labour force, Quebec's participation rate will be lower than Canada's. The rate will slip below 62 per cent by the end of the forecast while Canada's will remain above 64 per cent. (See Chart 6.) In the face of weak labour force growth, capital accumulation will be the principal driver of potential output growth. Over the long term, growth in the contribution of capital to increases in potential output in Quebec will average about 0.1 per cent compared with labour's contribution of only 0.3 per cent.

Chart 5
Actual versus potential output growth
(real percentage change)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Chart 6
Labour participation
(per cent)



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f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

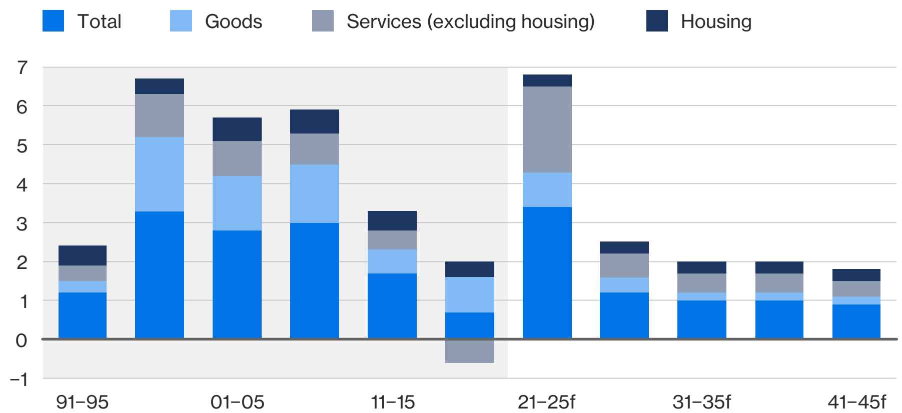
Consumption

Quebecers favour services over durable goods

Over the long run, the pattern of consumer expenditure reflects movements in the population, its demographic distribution, and its spending power. Changes in spending power are primarily determined by the outlook for employment and income as well as interest rates. Although interest rates will be lower over the long term compared with today's high rates, the weaker economy will result in sluggish gains in employment and disposable income. Growth in employment will average around 0.4 per cent over the medium term before slipping to gains of only 0.2 per cent beyond 2040. Similarly, growth in disposable income will decline from average annual increases of 2.5 per cent in the medium term to less than 2 per cent by the end of the long term. Consequently, we expect real household consumption to expand by 1.5 per cent toward the end of the medium term before growth tails off to less than 1 per cent by 2045. (See Chart 7.)

The aging of the population is the major factor behind the relatively weak outlook for consumer spending. As more and more people enter their high-saving pre-retirement years, growth in spending will decline. This is especially true for consumer durables, as significantly weaker housing activity in Quebec will have a negative impact on durable goods spending. Spending on durables will average less than 0.5 per cent per year over the long term, while gains in services will be around 1.3 per cent. However, Quebecers will continue to spend on healthcare and travel, while spending on education will be weaker due to demographic trends that will result in fewer children and young adults attending school. Also, spending on business services linked to the housing market will decline though 2045 due to the slowdown in housing markets.

Chart 7
Real consumer spending by sector
(5-year period, contribution to annual growth, percentage points)



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Sources: The Conference Board of Canada; Statistics Canada.

Housing

Aging population sinks housing markets

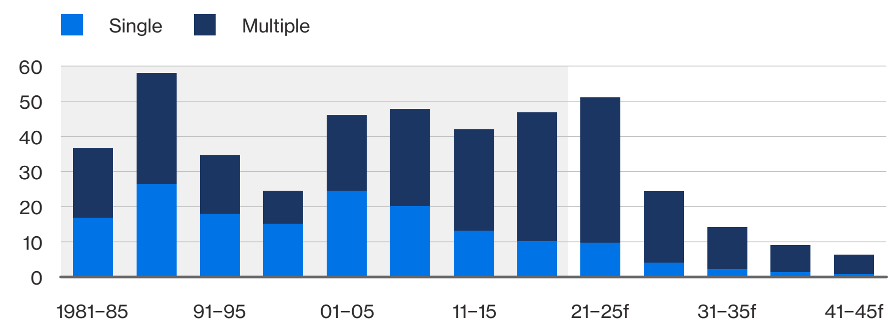
The upshot of an aging population is lower levels of household formation. Lower household formation underpins our forecast of falling housing starts over the long term. After briefly spiking during the height of the pandemic, housing starts will resume the downward trend that began in the early 2000s. (See Chart 8.) The downward trend reflects the replacement of the baby boomer cohort with a much smaller cohort as the key generation in prime homebuying years. The mix of housing has also changed in line with an aging population. The share of multiple units has grown from 38.0 per cent in 2000 to 81.0 per cent in 2022. Over the long term, this share is expected to remain stable, increasing only slightly to close to 84 per cent by 2045.

An important issue that will continue to impact Quebec's housing markets over the long term is ongoing labour shortages. The construction sector has been one of the hardest-hit sectors, and contractors continue to experience challenges in finding enough workers to complete their property developments. The provincial government's stance on immigration hasn't helped matters. The industry also has an image problem, as young people continue to view construction jobs as being hazardous—even though they generally pay more than other jobs, especially in the service sector.

Chart 8

Single and multiple housing starts

(5-year average annual housing starts, units, 000s)



Note: Unshaded area represents forecast data.
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Sources: The Conference Board of Canada; Statistics Canada.

Investment

Spending on equipment to expand faster than on structures

For the last decade, investment spending by businesses, particularly expenditures on equipment, in Quebec has restrained growth in the province. Although spending on equipment has rebounded sharply since 2020, we expect it to increase at an annual average pace of below 2 per cent over the long term. This gain will be below the 2 per cent-plus pace anticipated at the national level. A lack of investment in equipment has resulted in a decline in the province's capital stock, and provincial governments must address this issue in order to boost growth over the long term. In the case of Quebec, which faces even weaker labour force growth than the rest of the country, investment in equipment will be paramount to compensate for a shortage of workers and allow labour productivity to grow.

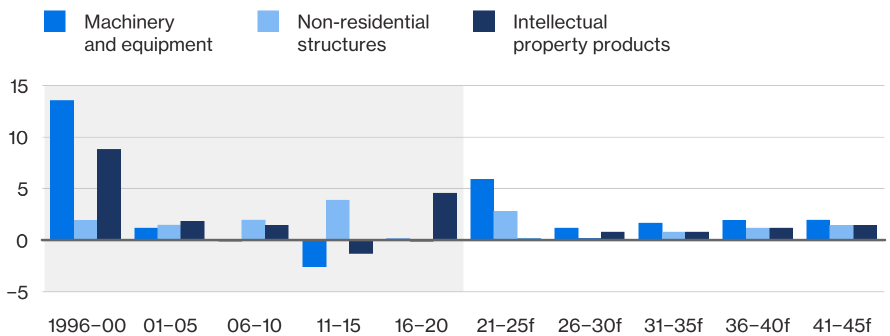
Fortunately, the outlook for spending on equipment isn't entirely gloomy. There are some major infrastructure projects that could last well into the long term, including the estimated $7 billion project to build a tunnel linking Québec City and Lévis. Alongside multiple large-scale infrastructure projects, significant public investment is planned as part of the 2022–23 Québec Infrastructure Plan (QIP). In the most recent iteration of the QIP, the government announced plans to spend $80 billion in the 2022–23 to 2026–27 time frame. The spending will be spread across priority areas including the health sector, the education sector, the road network, and the public transit sector.

Expenditures on non-residential structures will be even weaker than on equipment (see Chart 9), as the weak outlook for economic growth in Quebec will lower demand for structures through 2045. As well, structural issues are impacting spending on structures in Quebec and the rest of Canada. The onset of the pandemic led to a boost in working from home to contain the spread of the virus. The gradual reopening of the economy has caused some companies to encourage their employees to return to the office. Some have returned on a full-time basis, but a hybrid model has become even more appealing among both employers and workers. Also, the ongoing popularity of online shopping, which has ramped up during the pandemic, will also lead to weaker demand for retail space through 2045. These changes mean that the need for non-residential structures will be contained through 2045, as companies in Quebec won't require as much office space or retail space during the next few decades.

Chart 9

Real business investment spending by category

(5-year average annual compound growth, per cent)



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Sources: The Conference Board of Canada; Statistics Canada.

Government

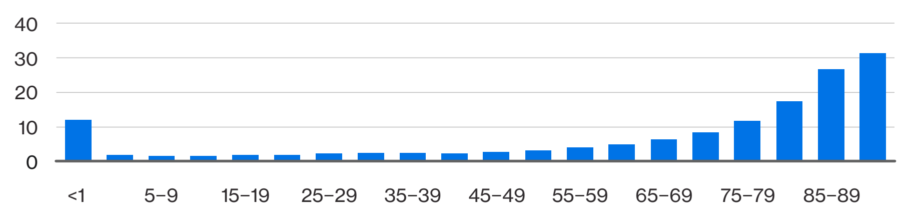
Balancing the books will be challenging in years to come

The pandemic and the resulting surge in government expenditures required to support the economy has led to a fiscal deficit, a reversal from the series of budget surpluses prior to 2020. For the 2022–23 fiscal year, we anticipate a deficit of more than $5 billion, with a lower deficit of $2.3 billion in 2023–24. The provincial government expects to balance the books by 2027–28 and will presumably avoid slipping back into a deficit position right through the long term. This will be challenging, because as the population of Quebec ages and economic growth weakens in the latter years of the forecast, there will be downward pressure on revenue growth occurring at the same time as healthcare expenditures will be ramping up. Healthcare costs rise exponentially with age, and meeting these rising costs will be a major challenge for future governments as weak labour force growth constrains tax revenue receipts. (See Chart 10.)

Chart 10

Population aging and healthcare expenditures

(healthcare costs per capita by age, 2019 $ 000s)



Sources: The Conference Board of Canada; Canadian Institute for Health Information.

International trade

Growing opportunities for Quebec's exporters

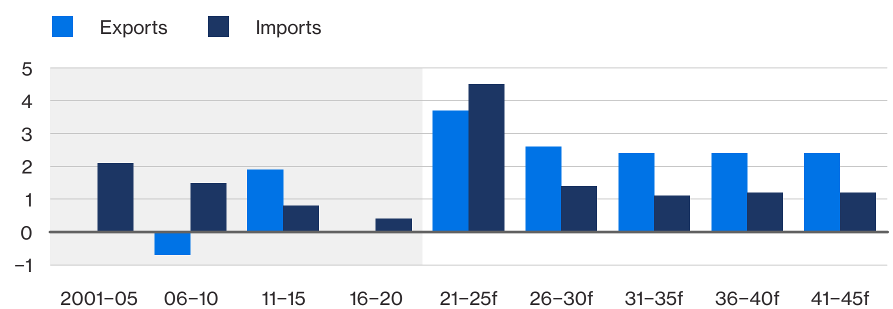
Quebec's exports will grow by an average of 2.5 per cent per year over the long term. (See Chart 11). The pandemic has completely toppled international trade by changing patterns of consumer spending and impeding the flow of goods across borders. As the global economy continues to emerge from the pandemic, Quebec is in a good position to benefit from growing demand for several commodities as well as the recovery of international air travel, which has already attained pre-pandemic levels. Given that over 70 per cent of Quebec's exports are destined for the U.S. market, a relatively weak Canadian dollar, which will remain below US$0.80 throughout the forecast period, will also be beneficial.

Infrastructure spending in the United States combined with a normalization of trade relationships under the Biden administration following the tumultuous days of the Trump administration has helped to support demand for Quebec's aluminium. Global demand for aluminium is expected to remain solid because of its potential role in transitioning toward a low-carbon economy. The metal is a key input into solar power and electric vehicles and is also in demand as a building material.

Download the data

Over the long term, electricity exports will also become an increasingly important component of Quebec's trade. Climate change has increased pressure on governments around the globe to reduce carbon emissions, although this has been put on hold in some regions of the world due to the war in Ukraine and the subsequent increase in the demand for coal. Electrification is a main component of Canada's decarbonization strategies, and Canada is one of the world's largest producers of hydroelectricity—and Quebec accounts for about 50 per cent of all Canadian production. Hydro-Québec recently agreed to a deal to supply renewable energy to New York State for a 25-year period.

Chart 11
Real exports and imports
(5-year average annual compound growth, per cent)



Note: Unshaded area represents forecast data.
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Sources: The Conference Board of Canada; Statistics Canada.

Methodology

This report examines the economic outlook for Quebec, including gross domestic product, output by industry, and labour market conditions. It includes a forecast for the province's economic indicators and compares its GDP against the country's overall. The outlook is updated quarterly using The Conference Board of Canada's economic model of provincial economics.

The forecast was completed December 16, 2023.

Acknowledgements

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