

## This year highlights

- 1 The number of businesses and entrepreneurs is down, and the downward trend in access to venture capital continues.
- 2 The economic importance of the manufacturing sector fell below the bar of 15% of GDP.
- 3 Productivity is rising but more slowly than in the rest of Canada.
- 4 Employment is growing faster in Québec than in the rest of Canada, especially skilled workers and older workers.
- 5 Public and private spending on R&D has decreased in the past two years, but remains higher than the OECD average.
- 6 Over the last two years, Québec's trade balance has continued to drop dramatically, along with foreign investment in the province.

« Québec will have the wherewithal to face the coming challenges. »  
 Françoise Bertrand

# L'EXCLUSIF

FCCQ Member Newsletter - Indicators 2011 Edition

## The Québec economy is showing some worrying signs

For the fifth consecutive year, the Fédération des chambres de commerce du Québec (FCCQ) is publishing its annual indicator. It is apparent that productivity in Québec is growing, but not at the same pace as the rest of Canada. Many challenges will have to be overcome in the next few years in order to ensure a long period of economic growth. Some regions will fare much better than others.

Access to venture capital and the number of entrepreneurs are among the indicators that will require monitoring in the coming years.

Following the 2008 financial crisis, access to venture capital was substantially reduced. While the situation improved slightly in 2009, the signs for 2010 are a cause for considerable concern. We are far from 2005 levels, and many businesses no longer have access to capital to kick-start their growth. In 2005, some 297 businesses had access to capital compared with only 174 last year.

After an increase in recent years, the number of Québec businesses declined in 2010. This also is a disturbing sign that Québec is facing a major problem of entrepreneurial succession.

For the first time, the manufacturing industry has fallen below the bar of 15% of GDP. This weakening of an economic sector that is vital to the creation of jobs and value runs the risk in the mid-term of dampening Québec's economic growth. One fact worth noting is that no other sector appears able to replace the losses seen in the manufacturing sector.

In 2009, Québec recorded fewer hours worked than in previous years, most likely the result of job losses and retirements. In contrast, productivity per hour worked increased in Québec. Still, the gap with the rest of Canada remains very wide. While the trend is for that gap to narrow, the speed at which productivity is increasing leaves little reason to expect that Québec will catch up with the productivity of neighbouring provinces in the mid-term.

Last year, employment grew faster in Québec than in the rest of Canada. For several years now, the gap in the employment rate with the rest of Canada has been narrowing substantially. This should be viewed as a positive sign for our economy, which is more dynamic on the employment front than its neighbours. People are working longer and the employment rate among people of retirement age has more than doubled in 10 years.

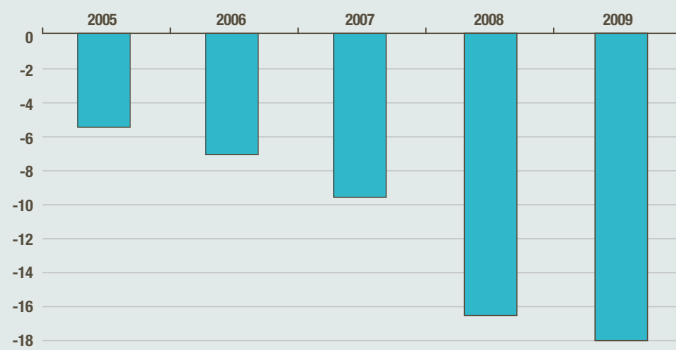
While Québec spends more on R&D than other OECD countries, this spending has declined. For the first time in several years, the United States invested a greater percentage in R&D than did Québec. However, the number of patented inventions per capita remains much lower in Québec than in the rest of Canada, the United States and the G8 countries. This is a worrying sign of our ability to innovate.

Since 2005, Québec's international trade balance has been in free fall. In 2009, the province recorded a negative trade balance of \$16B. Most of our exports are still destined for the United States, although exports to the BRIC zone have tripled in the last five years.

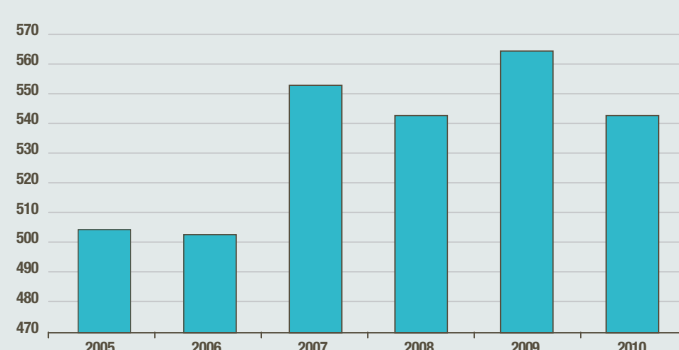
Foreign capital investment in Québec fell substantially over the two years assessed. Against the backdrop of the need to access capital for development, especially within the framework of the Plan Nord, there is serious work to be done.

## Figures speak for themselves...

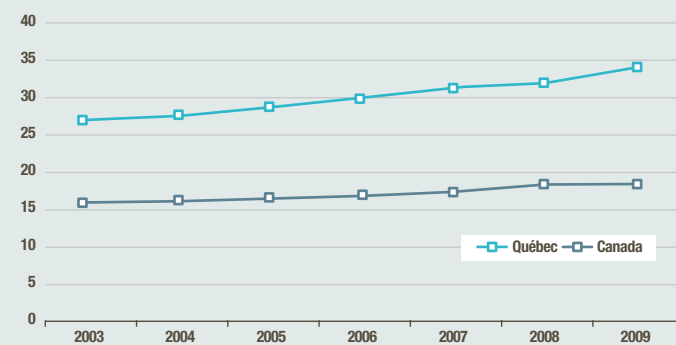
Québec International Trade Balance (Canadians \$ billion chained, 2002)



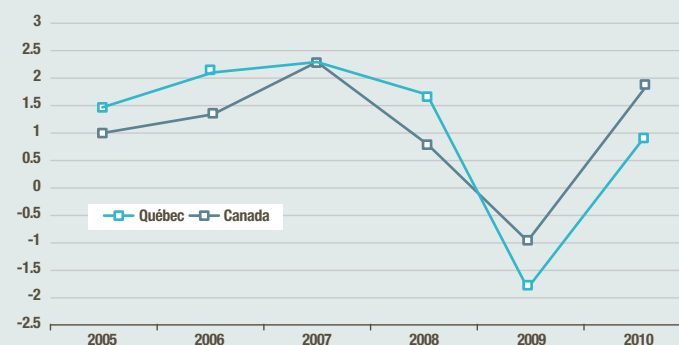
Number of entrepreneurs in Québec (thousands)



Public expenditure as a percentage of GDP (chained 2002 dollars)



Growth in Employment (absolute number of jobs) percent from previous year



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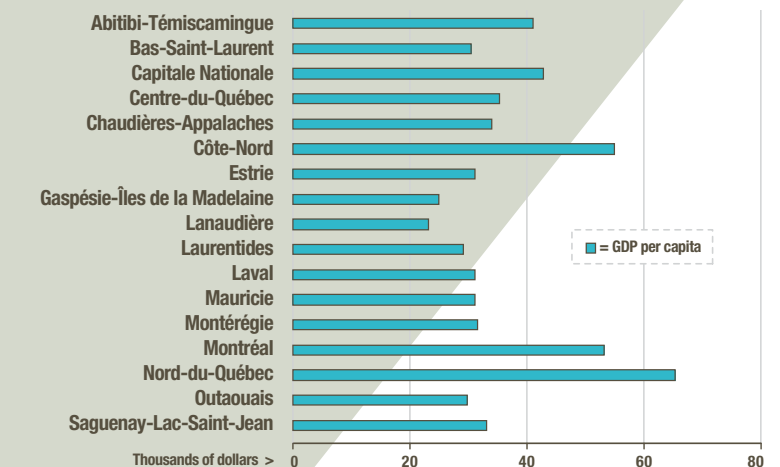
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With its wide network of more than 150 chambers of commerce, the FCCQ represents more than 60,000 businesses and 150,000 business people involved in all sectors of the economy throughout Québec. The FCCQ strongly supports its members' interests in matters of public policy, thus promoting an innovative and competitive business environment.



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## GDP per capita in each region of Québec



# Indicators by Québec Region

## Nord-du-Québec

The region is currently experiencing a boom. Hydroelectric projects and the price of raw materials are contributing to this phenomenon. Regional GDP leapt by 5.5% last year. The construction industry accounted for the lion's share, both supporting and supported by the region's industrial and residential development. The per capita GDP was much higher than that of Québec as a whole, holding steady at more than \$25,000 higher than the provincial average for the past four years. The Nord-du-Québec is replicating the model of a resource-based region as seen in the Côte-Nord. For the first time since 2005, the employment rate was up, even exceeding the level of six years ago. The rate regained six percentage points this year, bringing it very close now to that of Québec. On the eve of the first deployments of the Plan Nord, these indicators are signs of an attractive economic future.

## Abitibi-Témiscamingue

The region saw excellent growth last year, thanks mainly to the financial soundness of the mining industry. It is worth noting that this industry now accounts for 18% of the region's GDP. Abitibi's per capita GDP in dollar figures is now higher than that of Québec, proof of sustained growth in recent years. The employment rate, however, is two percentage points lower than the rest of the province and has not rebounded to the rate compiled prior to the financial crisis of 2008. This number will undoubtedly improve over the next few years, thanks to the contribution of the mining industry and of the Plan Nord. The economic strength of mine development has also led to an increase in investments in machinery and equipment, which in turn has helped create short- to mid-term wealth and value.

## Outaouais

Growth in the Outaouais has kept pace with that of Québec this past year. Due to its proximity to the federal capital, the service sector accounts for more than 80% of the region's economy. As with regions bordering the metropolis, the per capita GDP is much lower than that of Québec as a whole. For several years now, the gap has remained around \$8,000. The employment rate has been historically higher than that of the province and the job stability created by the federal public service ensures that this trend continues year after year. Investments fared better in 2010 than in 2009.

## Montréal

The metropolis remains Québec's main production and economic development region, accounting for 35% of the province's GDP. However the economic engine has slowed down. In the past five years, GDP growth has been slower in the region than in Québec as a whole. Montréal's strength lies in its service sector, with a regional percentage far exceeding the service portion of Québec's GDP. If the manufacturing sector seems to be experiencing problems, the research and cultural sectors are much more dynamic than elsewhere in the province. The per capita GDP is generally higher than that of the other regions. For several years now, the gap between Montréal's per capita GDP and that of Québec as a whole has remained steady at around \$15,000. It should be noted that more people work in Montréal than live there. Montréal's employment rate rebounded in 2010. The negative gap that had widened between Montréal's employment rate and that of Québec as a whole seems to have been curtailed, and was only 1.3 percentage points last year. A more worrying sign is the relative weakness of construction, machinery and capital investments, which represent only 11.6% of GDP, the lowest rate in Québec.

## Lanaudière

This region experienced solid growth in 2010, at 4% of GDP or 0.5 percentage points higher than Québec's growth. The construction sector was especially buoyant, contributing 10% of the region's GDP. The retail sector played a greater role in wealth creation than elsewhere in Québec. The region also witnessed strong demographic growth of almost 2% per year. This growth explains in part the low per capita GDP rate, which was considerably lower than that of Québec as a whole. Another possible explanation is the fact that many of the people who live in Lanaudière do not work there. The employment rate, which was similar to that of Québec in 2008, fell last year but the drop was not significant. Nearly \$2.5B was invested in machinery and equipment last year, supporting the region's rapid development.

## Laurentides

In spite of the region's strong demographic growth, regional GDP grew at a slower rate than that of the province last year. Construction played a more important role in the region than in Québec as a whole. The gap between the region's per capita GDP and that of Québec as a whole has stabilized over the past five years at around \$8,000 less. It should be noted that many of the people who live in the region do not work there. The employment rate, which has been historically higher than that of Québec, rose from 61.6% to 62.3%.

## Saguenay-Lac-Saint-Jean

Of note in this region is the importance of the primary and secondary sectors to the regional economy. Agriculture, forestry and manufacturing remain the wealth-creating sectors. Regional growth was very good last year, at 5.1% of GDP. However this growth failed to narrow the substantial gap that exists between the region's per capita GDP and that of Québec as a whole. The gap has gone from \$3,573 in 2005 to \$4,861 today. Last year, the employment rate fell significantly, a worrying sign for the region's economy. The gap between the regional employment rate and that of the province widened, from 5.9 percentage points in 2009 to 6.7 percentage points last year. Capital investments have not rebounded to pre-2008-crisis levels.

## Mauricie

The economy of the Mauricie is in full transition mode. As a result of the forestry crisis, the regional economy, which was once based on raw materials, is now a service economy. A major portion of the region's activities still comes from the manufacturing sector, which has experienced some difficult years, driving down regional GDP growth. Last year, the gap between the region's per capita GDP and that of Québec as a whole remained about the same, at \$6,500 less in the region than in the rest of Québec. The employment rate has been generally lower than in the province as a whole and this trend seems to be continuing. What's more, the rate has not returned to pre-2008-crisis levels. Investment in construction seems to have slowed down in recent years and has not been replaced by other investments in machinery or equipment. Since 2008, the result has been that active investment in the GDP has substantially decreased.

## Laval

In the last five years, this region has witnessed significant demographic growth. Last year, the population of Laval grew by almost 2%. The regional economy followed the same upward trend, with the region's GDP rising 4.6% over the previous year. The increase in per capita GDP, however, was not sufficient to narrow the gap with the province, which increased to \$6,745 in 2010. Laval's economy is strongly concentrated in the service sector, which contributed close to three quarters of the regional GDP in 2010. The employment rate, which has been generally higher than that of Québec as a whole, contracted last year, inching 1.6 percentage points closer to the provincial average. Since 2008, capital investments have stabilized, and a cause for concern for the region is the marked drop in construction investments since 2007.

## Montréal

This is a highly diversified region. Home to many suburbs, Montréal also has a strong agricultural sector. In the past few years, the region has undergone extensive development. Last year, economic growth was slightly higher than in Québec as a whole. The manufacturing industry's contribution to the GDP is also highest in this region. Once again this year, the region's per capita GDP was lower than that of Québec as a whole. This gap has been widening since 2005. One positive point is the increase in investments in machinery and equipment, up \$1.1B over last year.

## Capitale-Nationale

This region's economy is the most stable in Québec, due in large part to the strong presence of Québec's public service (15.4% of the region's GDP). Last year's GDP growth was similar to that of Québec as a whole. The region's per capita GDP has been historically higher than that of Québec and 2010 was no exception. The employment rate rose to 63% last year. This rate was also higher than that of Québec as a whole. While the region's employment rate traditionally follows provincial variations, it continues to remain higher. Capital investment in the region fell slightly below last year's 25% bar. This drop can be attributed to a decrease in construction investments. The importance of the public sector in the Capitale-Nationale region should not obscure the fact that the region needs to continue its economic diversification in order to prevent an economic slowdown as a result of the foreseeable period of job cuts.

## Chaudière-Appalaches

This is a very dynamic region, with an employment rate historically higher than that of the province as a whole. In fact, the gap between the regional and provincial employment rate is wider today than it was in 2005. The region's GDP grew at the same pace as Québec's as a whole. However, the regional per capita GDP remains lower than that of the province by \$4,000. In 2010, \$2.2B was invested in machinery and equipment in the region. While this amount may seem spectacular, some stagnation has been felt since 2005. Nonetheless, according to the indicators, the regional economy is faring well.

## Estrie

This region is economically diverse but without the kind of dynamism seen in resource-based regions, fueled by the price of raw materials. The manufacturing sector's importance and the drop in exports have dampened the region's growth. In 2005, the regional per capita GDP was higher than that of Québec by \$4,000. Today this gap has widened to more than \$6,000. While the region appears to be somewhat at a standstill economically, some excellent attempts have been made to diversify niche markets. This diversification is needed since the employment rate dropped in 2010. Employment remains historically higher than that of the province, but the gap continues to narrow year after year.

## Côte-Nord

This region shows signs of an economy in full expansion. Buoyed by the price of raw materials, the region's GDP experienced greater growth than that of the province. Per capita GDP, which has historically been higher than that of Québec as a whole, increased in 2010, widening the gap with the rest of the province. The primary and secondary sectors account for 61% of Côte-Nord's economy, compared with 28% for Québec as a whole. In 2010, more than \$1.6B was invested in machinery and tools to support the expansion of natural resource development in the region. The employment rate was up six percentage points last year, gradually nearing the Québec average. With the anticipated development, the region is very likely to see positive demographic growth over the next few years.

## Gaspésie-Îles-de-la-Madeleine

In 2010 the Gaspésie-Îles-de-la-Madeleine region saw an improvement over previous years. GDP growth was higher than that of Québec as a whole. Surprisingly for a resource-based region, the service sector accounted for a greater portion of the region's GDP than the province's. In 2009, the sector that contributed the most to regional GDP was health and social services. One positive point worth mentioning is the increase in per capita GDP, leading to a gap similar to that prior to the 2008 crisis. However, this gap remains above \$10,000 per capita, which is enormous. The region's demographic decline also contributed to the increase in per capita GDP. After a drop last year, the employment rate was up this year. The gap between the regional and provincial rate, which was close to 19 percentage points in 2005, is now closer to 14 points.

## Bas-Saint-Laurent

The region experienced steady growth over the past year. The regional economy fared slightly better than that of Québec. Agriculture still holds an important place in the region's GDP, and the public sector is more important in this region than in the rest of Québec. The gap between the region's per capita GDP, which was slightly less than \$30,000, and that of the rest of the province narrowed by \$600 between 2005 and 2010. This variable reflects real economic development since the number of inhabitants remained about the same. On the other hand, a worrying sign is the increasingly wide gap in the region's employment rate compared with Québec as a whole. In 2010, this rate was below 54%. Capital investments remain steady year over year after a substantial increase in 2007.

## Centre-du-Québec

The manufacturing industry is the economic foundation of the Centre-du-Québec region, representing 26% of the region's GDP, well above the province's 14.6%. Consequently, the problems facing this sector have an impact on the region's growth. The good news is that Centre-du-Québec is doing fairly well, with growth comparable to that of Québec as a whole. However the gap between Québec's per capita GDP and that of the region is widening, from \$1,600 in 2005 to more than \$2,500 this year. The region's employment rate plummeted in 2010. While the rate has often been historically higher than that of Québec as a whole, last year's drop of more than four percentage points is a cause for concern. This trend will need to be monitored over the next few years to ensure that necessary corrective action can be taken. One of the positive signs that could see the region recover is the gradual increase in capital investments.