Impact of the Demographic Shock on Quebec’s Economy

Improved Productivity Necessary to Mitigate the Disruptions to Come

Hélène Bégin
Senior Economist
Part 1 - The consequences of demographic shock

- Aging will have major consequences on the labour market.
- The decline in the labour pool will weaken economic growth.
- Public finances will be strained.
- What are the solutions to soften the impact of demographic shock?

Part 2 - Productivity: The key to prosperity

- How can Quebec tackle this challenge?
1.1 – Portion of the population aged 65+ in the following industrialized economies

- Japan
- Europe
- North America
- United States
- Canada
- Ontario
- Quebec

f: forecasts
Sources: United Nations, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies
1.2 – Growth of population aged 65+ will accelerate in Quebec whereas population aged 15 to 64 is set to decline.

Projections

2014: Decline in the potential labour pool

Population aged 15 to 64
Population aged 65+

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies
1.3 – Shrinking labour pool will prove troublesome for Quebec

Population aged 15 to 64

% ann. change

2.4
1.8
1.2
0.6
0.0
(0.6)

Quebec
Ontario
Canada without Quebec

Projections

Sources: Institut de la statistique du Québec, Statistics Canada and Desjardins, Economic Studies
1.4 – Decline in labour force affected potential GDP growth in Japan

Sources: Japan Cabinet Office, Statistics Bureau of MIC and Desjardins, Economic Studies
1.5 – The growth potential of Quebec’s economy will deteriorate significantly
1.6 – Quebec’s public finances are already under pressure

Sources: Ministère des Finances du Québec and Desjardins, Economic Studies
1.7 – Sweden and Finland saw their labour force decline temporarily in the 1990s
1.8 – The increase in the number of births slightly increased the fertility index.

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies
The number of births has increased significantly in recent years. Too little, too late!

Even a return to a fertility rate of 2.1 children per woman would not prevent a decline in the working-age population for the next fifteen to twenty years.

Is international immigration a solution?

The increase in targets will not be enough.

The ISQ’s "strong" scenario of 60,000 immigrants per year delays the decline in the labour pool from 2014 to 2019.

The demographic trends are impossible to reverse.
Integrate a larger proportion of the population into the labour market (people who are fit to work and available).

Encourage increased labour mobility among the provinces.

Facilitate the recognition of immigrants’ diplomas and qualifications.

Implement incentives to delay the retirement of aging workers.
1.11 – The employment rate of those aged 55 to 64 is relatively low in Quebec

Sources: OECD, Statistics Canada and Desjardins, Economic Studies
1.12 – Life expectancy in Quebec is increasing and is rapidly moving away from 65 years.

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies.
1.13 – Once the effects of the recession dissipate, unemployment will decline under the weight of demographics.

Sources: Statistics Canada and Desjardins, Economic Studies
The services sector will be able to adjust more easily.

Businesses focused on foreign markets will have to confront the competition.

With the scarcity of labour, offshoring could increase.

To be sustainable, wage increases must be based on productivity gains.
1.15 – Real wage growth is generally based on productivity gains

In %
Average annual change between 2001 and 2007

Real wages

Productivity*

- Productivity equals output per worker, and wages are also calculated per worker.
- Sources: OECD, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies
Quebec will age faster than its neighbours.

The labour pool will decline within five years.

The increase in the birth rate cannot reverse the trend for the next ten to fifteen years.

Higher immigration could only delay the phenomenon.

The solution: Integrate more people into the labour market.

Wages will not necessarily increase more quickly: Productivity will be the key factor.
Part 2 – Productivity will be the key to prosperity for Quebec’s economy

- Failure to boost productivity guarantees weaker economic growth.
- Productivity plays a central role in the economy.
- How can Quebec tackle the productivity challenge?
- Failure to boost productivity will lead to tough social choices.
2.1 – Quebec’s economic growth will soon depend entirely on productivity gains*

Productivity is calculated as a residual (change in real GDP minus change in the labour force). Assumption of constant productivity (1998-2008) was used for the projections.

Sources: Conference Board, Statistics Canada and Desjardins, Economic Studies
2.2 – Rise in labour productivity required to sustain annual real GDP growth of 2%

Sources: Statistics Canada and Desjardins, Economic Studies
Increase in real wages for workers.
Lower relative prices for consumers.
Higher profits for businesses.
Higher tax revenues for governments.
2.4 – Solutions to increase productivity

Five main areas:

- Business innovation
- R&D spending
- Capital investment
- Education
- Regulation

Macro- and microeconomic solutions
2.5 – Innovation is the only way out for Quebec business

Innovation is the only way out for Quebec businesses. They face highly competitive U.S. companies, increased protectionism measures, competition from emerging countries with low labour costs, exchange rate fluctuation, and businesses' role in innovation.

Adapted business strategies are needed, especially in the face of government policies that encourage innovation. These policies include taxation, regulation, and assistance programs. The government's role in supporting innovation is crucial for Quebec businesses to compete on a global scale.

Sources: Thales Canada Inc. and Desjardins, Economic Studies
2.6 – Contribution of innovation\(^1\) to economic growth

Average annual contribution between 1995 and 2006*

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution (In %)</th>
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<tbody>
<tr>
<td>Ireland</td>
<td>3.5</td>
</tr>
<tr>
<td>Finland</td>
<td>2.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.5</td>
</tr>
<tr>
<td>United States</td>
<td>1.0</td>
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<tr>
<td>Australia</td>
<td>1.0</td>
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<td>Portugal</td>
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<td>Japan</td>
<td>1.0</td>
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<td>Germany</td>
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<td>France</td>
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<td>Austria</td>
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<td>Ontario</td>
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<td>Canada</td>
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<td>Quebec</td>
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<tr>
<td>Netherlands</td>
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<td>Switzerland</td>
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<td>New Zealand</td>
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<td>Denmark</td>
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<td>Spain</td>
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<td>Italy</td>
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</tbody>
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\(^{1}\) Estimated by multifactor productivity

* 1995 to 2005 for Austria, Denmark, Finland, the Netherlands, Portugal and the U.K.

Sources: OECD and Desjardins, Economic Studies
2.7 – First main lever: Business innovation

Observation:

- Québec still has certain deficiencies regarding education

How to do better:

- Must be an integral part of business strategies.
- Adopt better-adapted management practices.
- Involve employees more to encourage the emergence of ideas.
- Develop an action plan to leverage resources and knowledge apt to spur innovation (talent management, targeted investments, key partnerships, etc.).
- Develop new niches in order to stand apart on the world stage.
2.8 – Quebec ranks favourably at the international level for R&D spending*

* Period from 2000 to 2006. For certain years, data was not available for Australia, Denmark, Italy, Norway, Sweden, and Switzerland.

Sources: World Bank and Desjardins, Economic Studies
2.9 – Second main lever: R&D spending

Observation:

- Quebec is faring quite well in this regard.

How to do better:

- Maintain the attractive tax system (tax credits).
- Go beyond research, find more interesting applications for businesses.
- Intensify partnerships between business and universities and research laboratories.
- Conduct research and development in partnership with competitors as well as suppliers and clients.
2.10 – Machinery and equipment investment is weak in Quebec

Sources: Statistics Canada, Datastream and Desjardins, Economic Studies

As a % of GDP

1991 1993 1995 1997 1999 2001 2003 2005 2007

Quebec
Canada
Ontario
United States

Sources: Statistics Canada, Datastream and Desjardins, Economic Studies
Observation:

- Quebec lags behind both at the global and North American levels.

How to do better:

- **Review our tax system** in order to encourage more investment:
  - Quickly eliminate the **tax on capital**;
  - **Reduce public costs** not related to business profits.

- **Show and promote the need for long-term machinery and equipment investments.**
2.12 – Education level of those 25 years and over: Quebec’s performance leaves much to be desired

Sources: Statistics Canada, U.S. Census Bureau and Desjardins, Economic Studies
Observation:

- Quebec still has a way to go regarding education.

How to do better:

- Improve student retention among our youth.
- Make education a top priority again through greater funding at all levels, particularly of universities.
- Invest in professional development in order to update knowledge and monitor new developments.
- Encourage immigration of needed skilled workers.
- Improve recognition of the skills of immigrant workers.
Observation:

- Quebec ranks last among Canadian provinces regarding the relative cost of regulation.

How to do better:

- Ease the administrative burden on businesses.
- Maintain adequate regulation to encourage research and investment.
- Set up the conditions needed to make the labour market more flexible.
2.15 – There are a number of ways to increase productivity

Macroeconomic solutions:
- Reform taxation.
- Simplify regulation.
- Improve support to education at all levels.
- Invest in capital (machinery and equipment).

Microeconomic solutions:
- Management practices that foster innovation.
- Leverage employee creativity.
- Invest in professional development.
- Increase research and development, and find the best applications.
The demographic trends are impossible to reverse.

As many people as possible must be integrated into the labour market.

An extended working life would be consistent with the increased life expectancy.

Demographic shifts create a challenge for the labour market, economic growth and especially management of public finances.

Quebec’s future prosperity depends on accelerating productivity: a number of means must be implemented to achieve it.