

RÉGIE DES RENTES DU QUÉBEC SEMINAR

Québec, 27 November 2009

Impact of the Demographic Shock on Quebec's Economy

Improved Productivity Necessary to Mitigate the Disruptions to Come

Hélène Bégin
Senior Economist

Presentation Outline

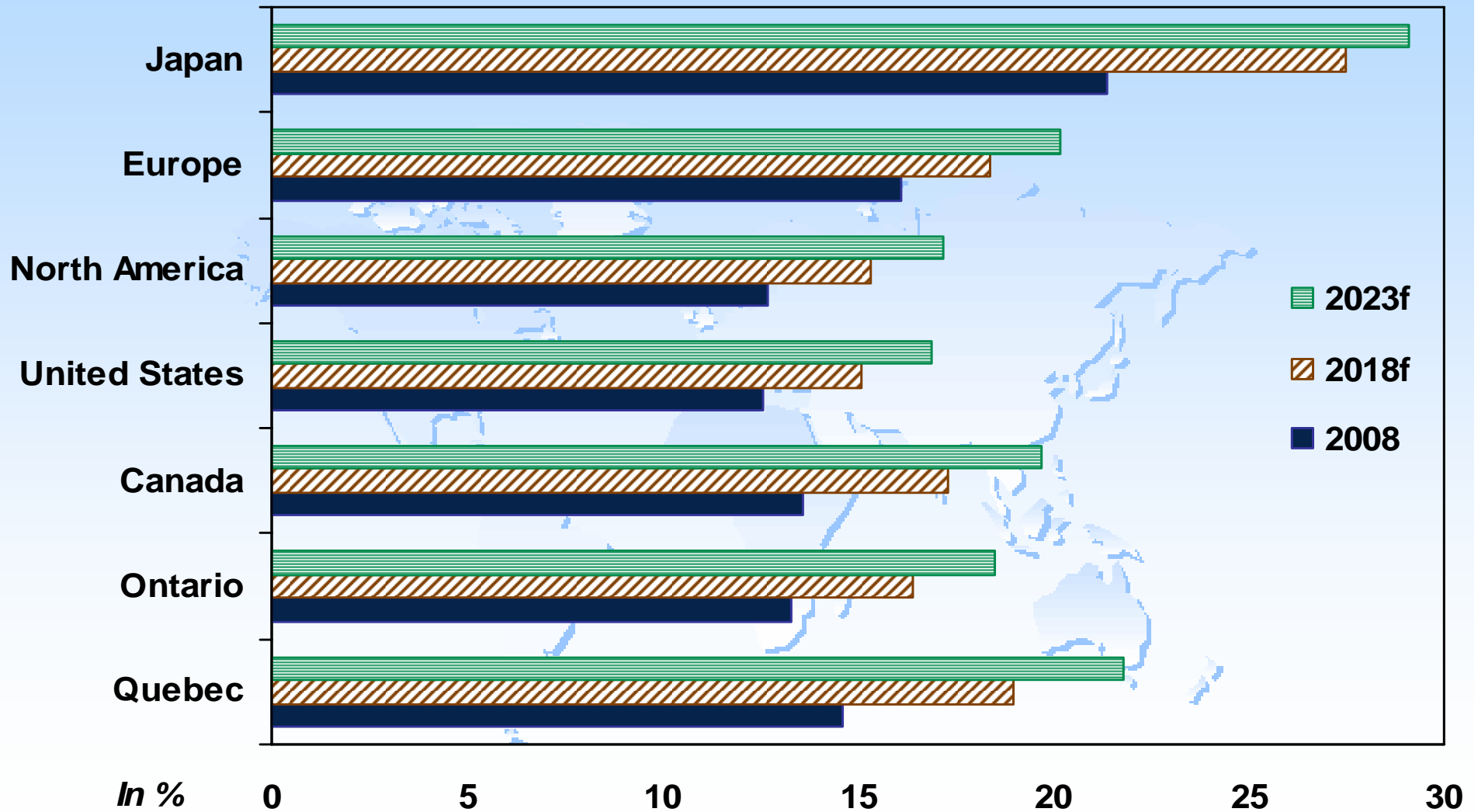
Part 1 - The consequences of demographic shock

- 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?

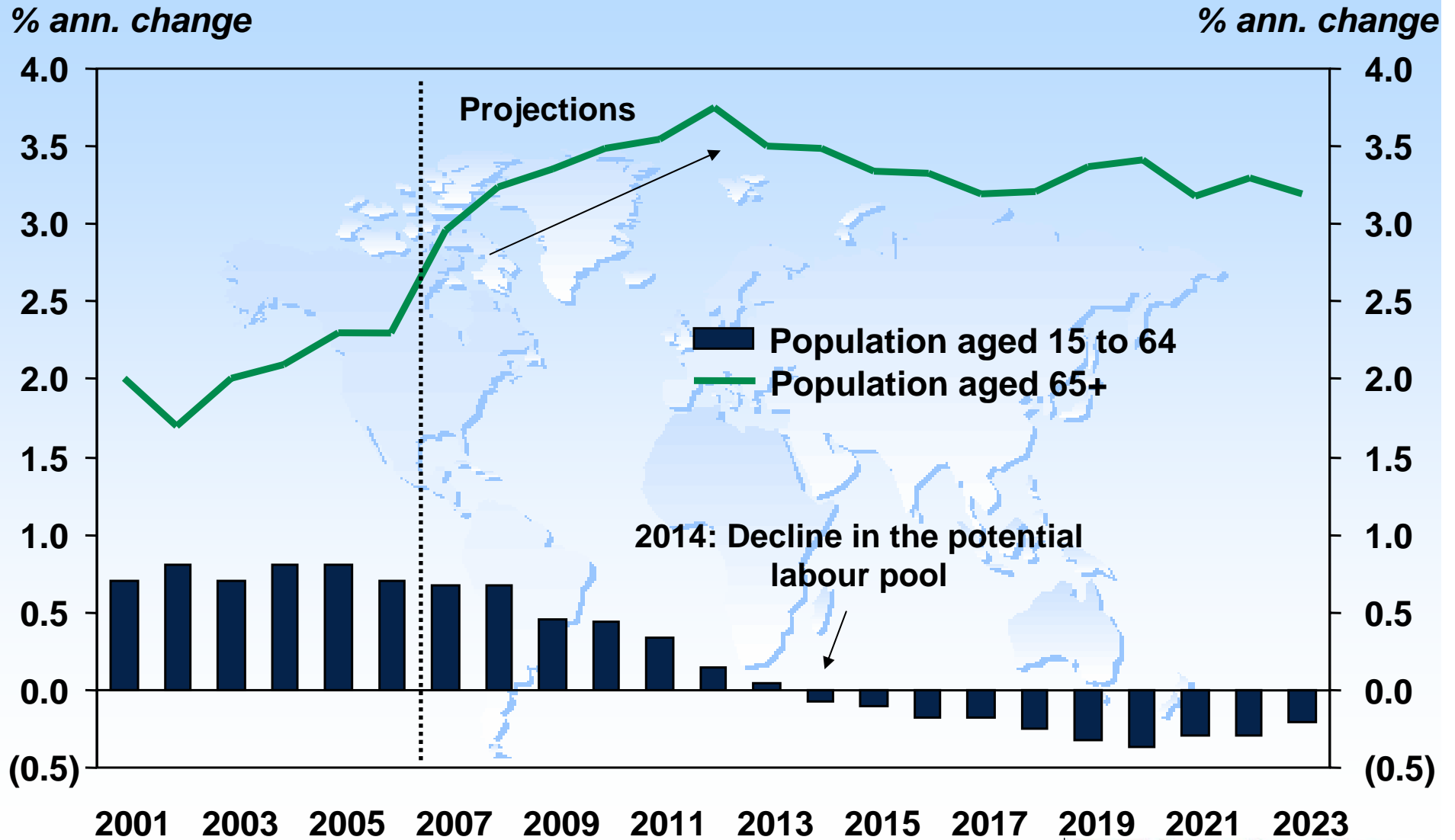
1.1 – Portion of the population aged 65+ in the following industrialized economies



f: forecasts

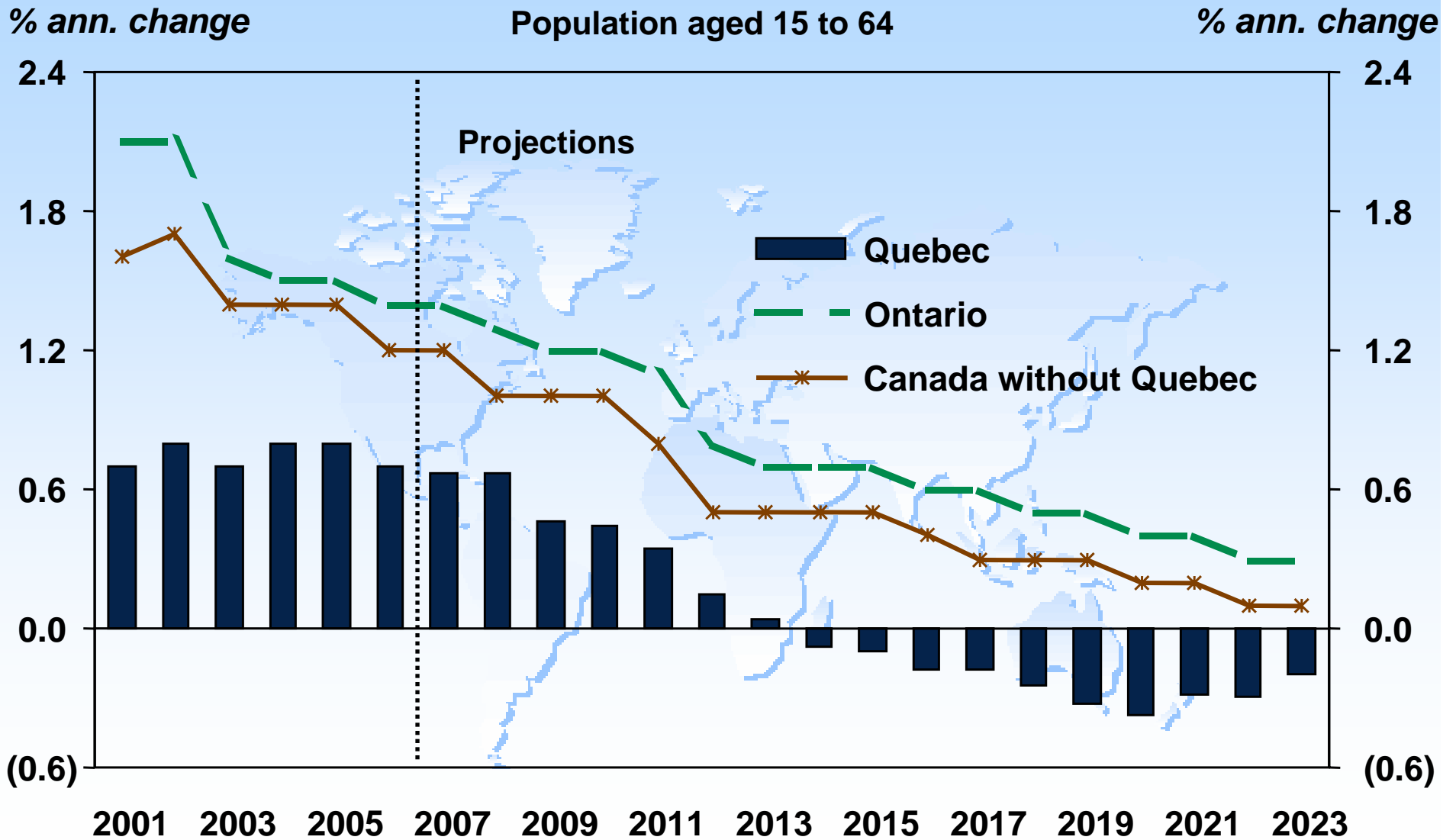
Sources : United Nations, Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

1.2 – Growth of population aged 65+ will accelerate in Quebec whereas population aged 15 to 64 is set to decline

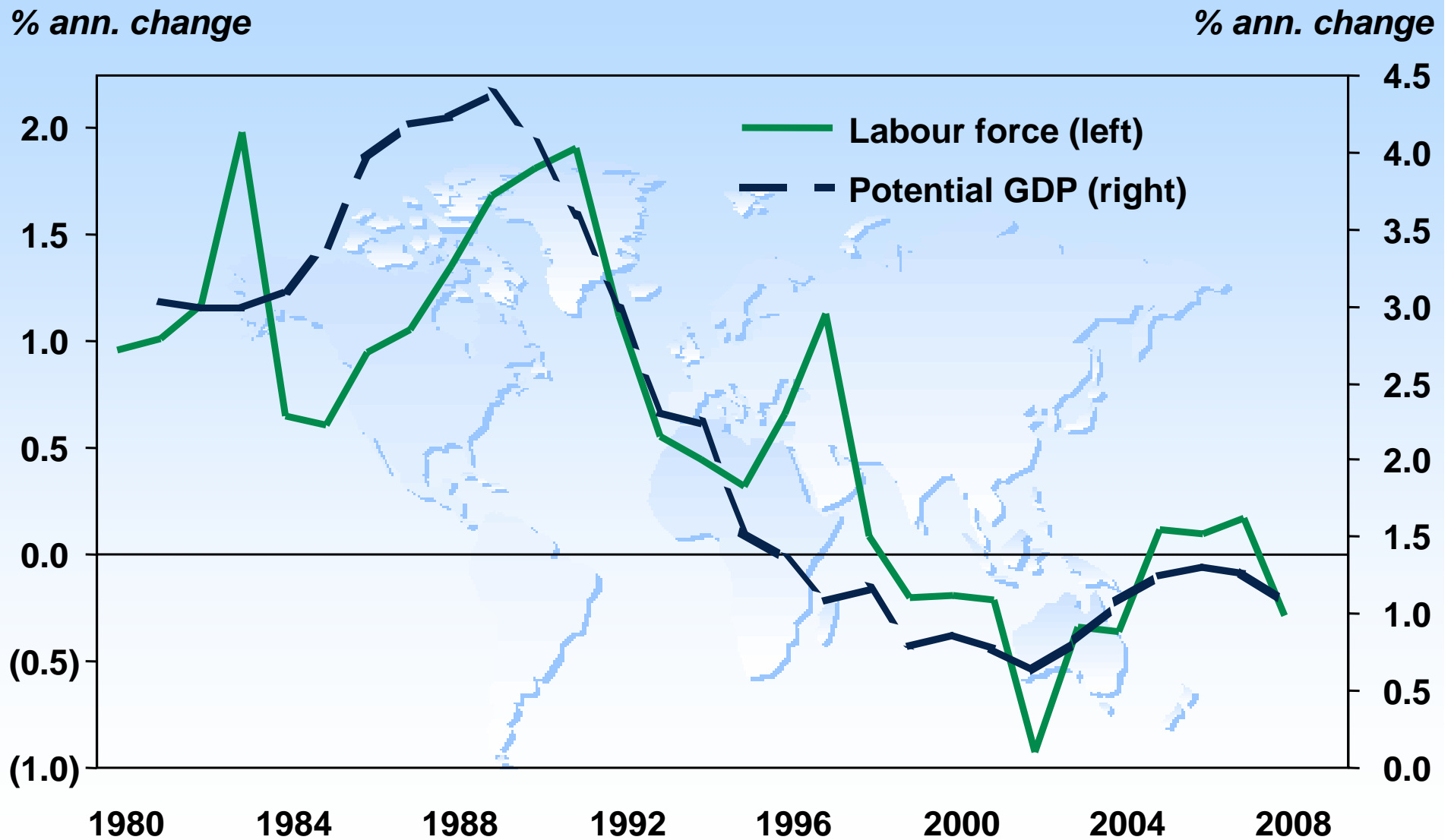


Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

1.3 – Shrinking labour pool will prove troublesome for Quebec

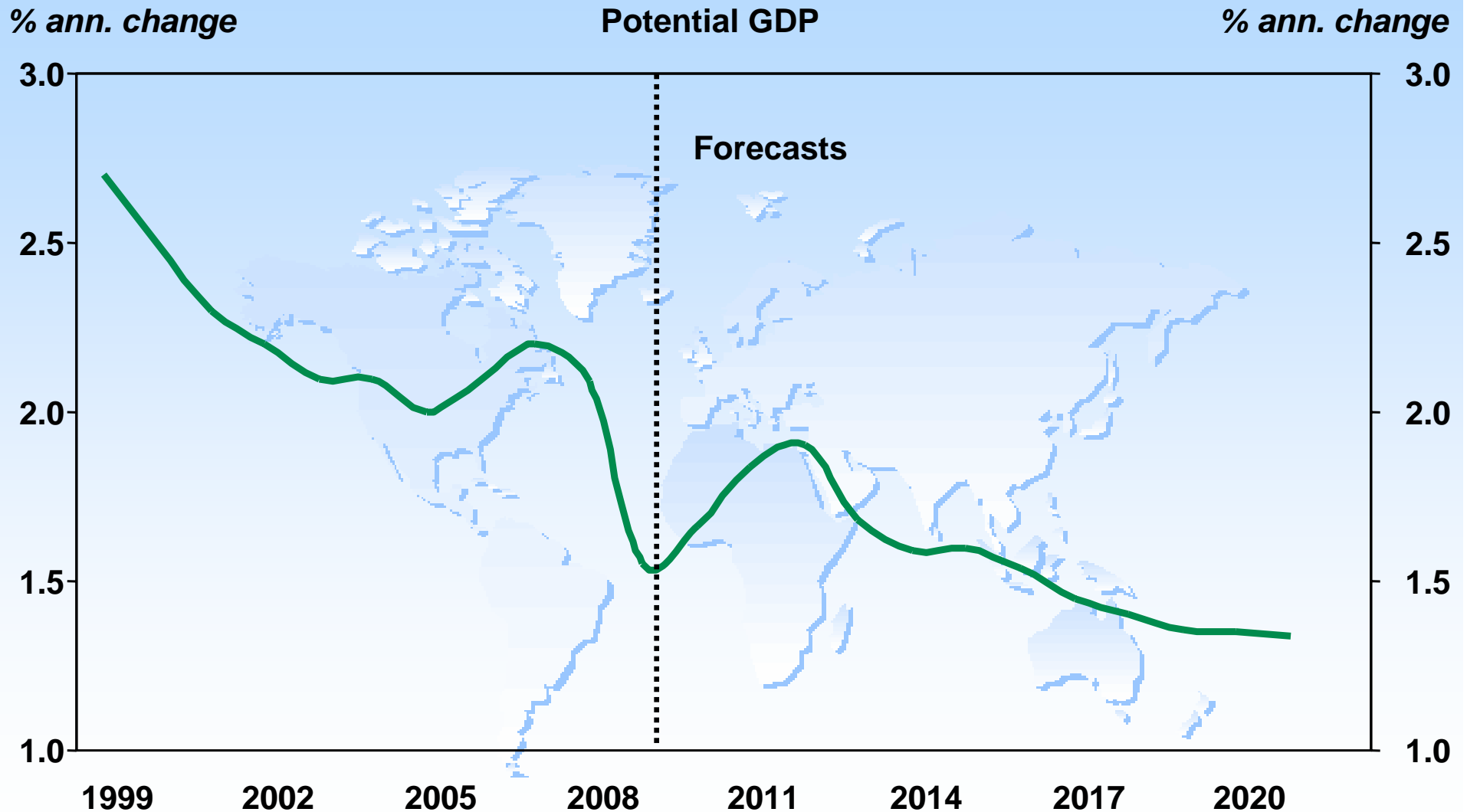


1.4 – Decline in labour force affected potential GDP growth in Japan



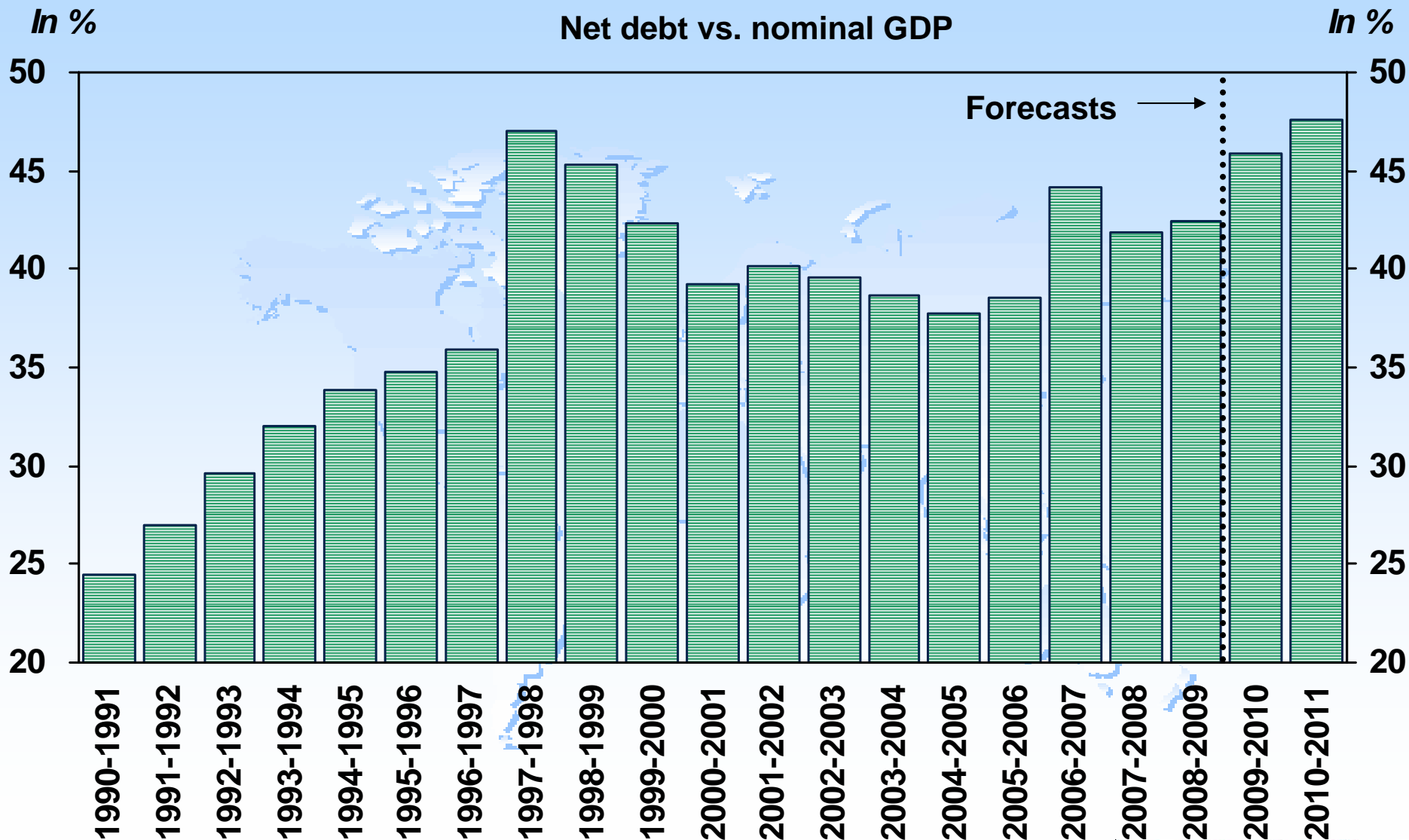
Sources: Japan Cabinet Office, Statistics Bureau of MIC and Desjardins, Economic Studies

1.5 – The growth potential of Quebec's economy will deteriorate significantly



Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

1.6 – Quebec's public finances are already under pressure

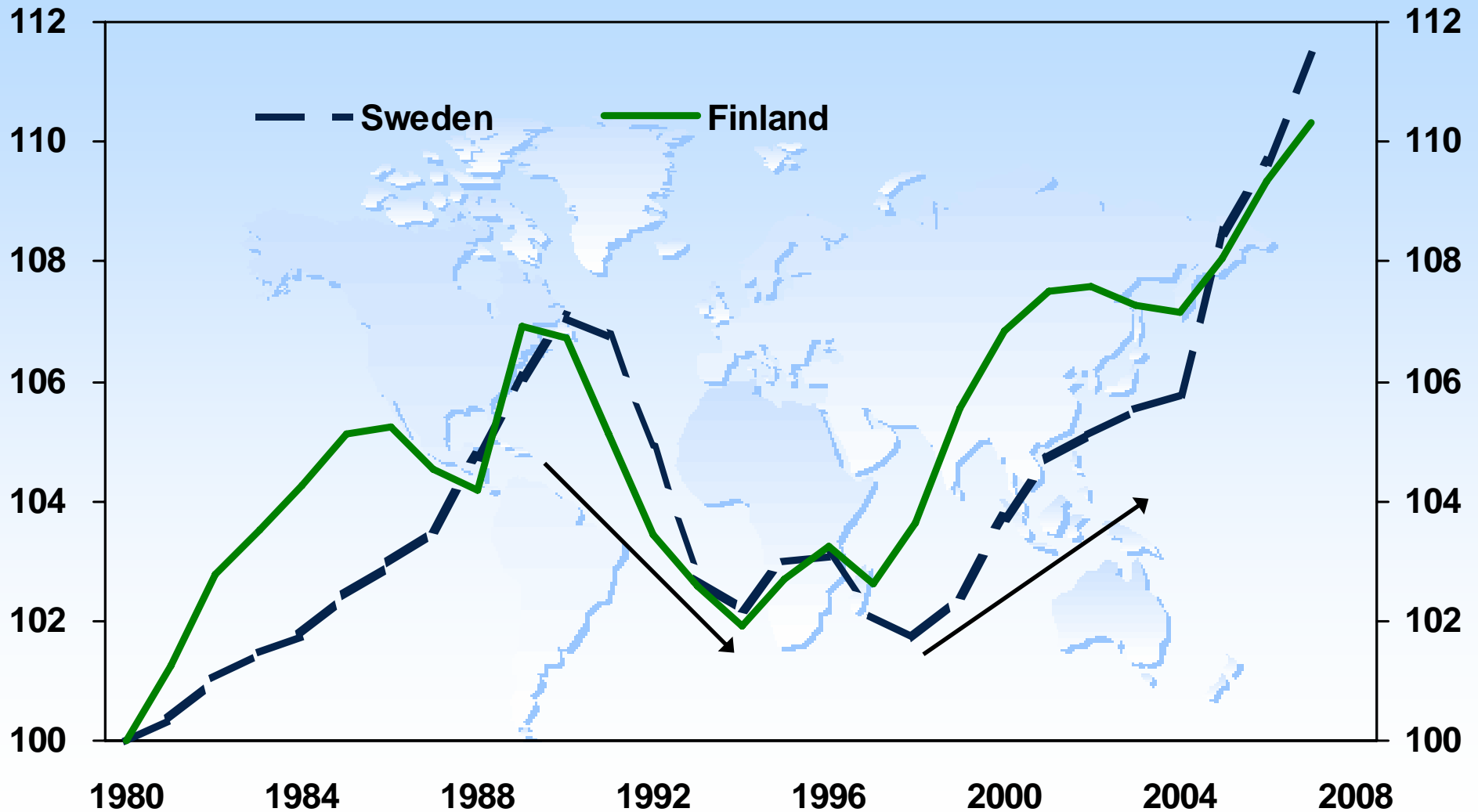


Sources: Ministère des Finances du Québec and Desjardins, Economic Studies

1.7 – Sweden and Finland saw their labour force decline temporarily in the 1990s

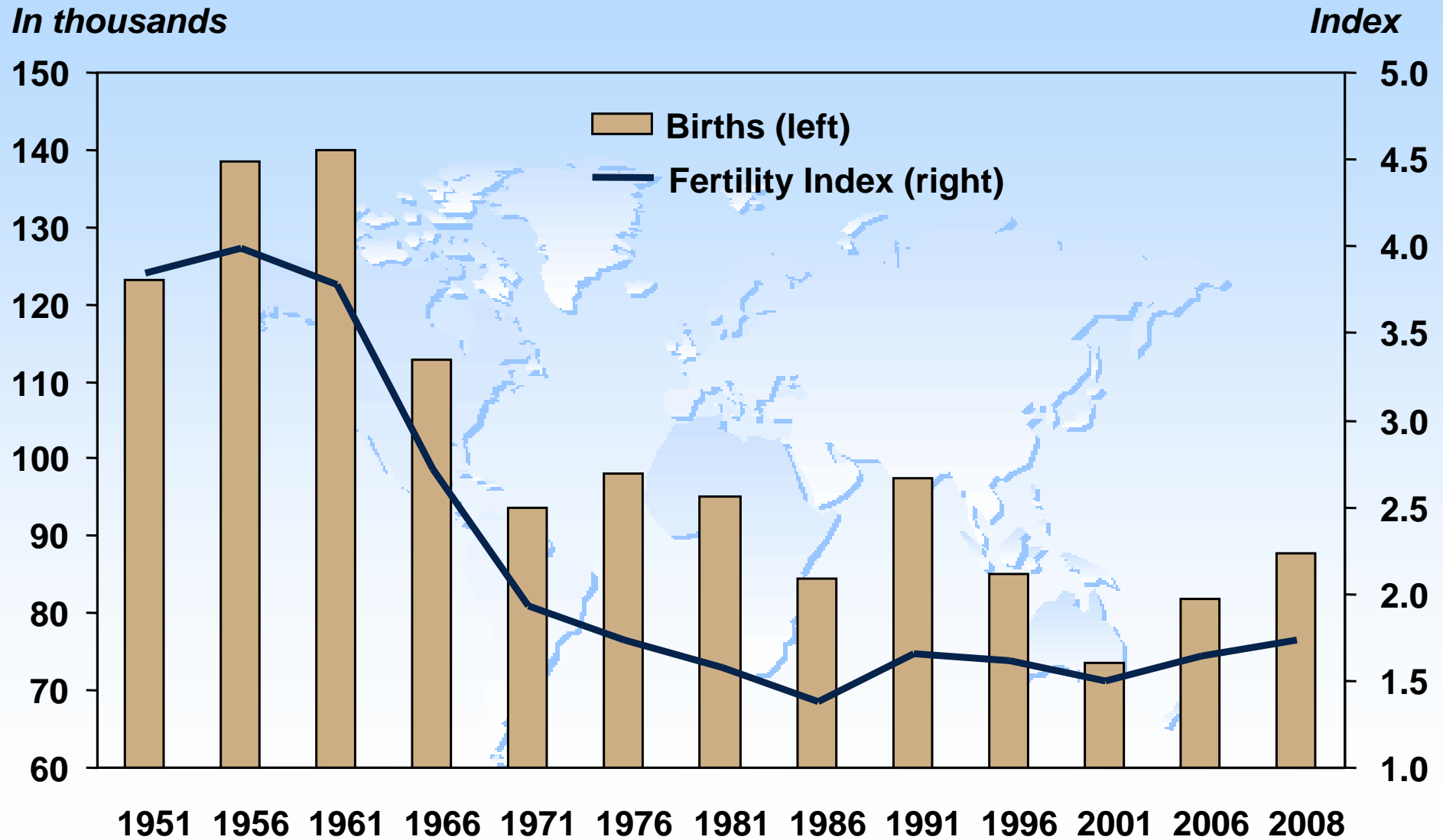
Index 1980 = 100

Index 1980 = 100



Sources: OECD and Desjardins, Economic Studies

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

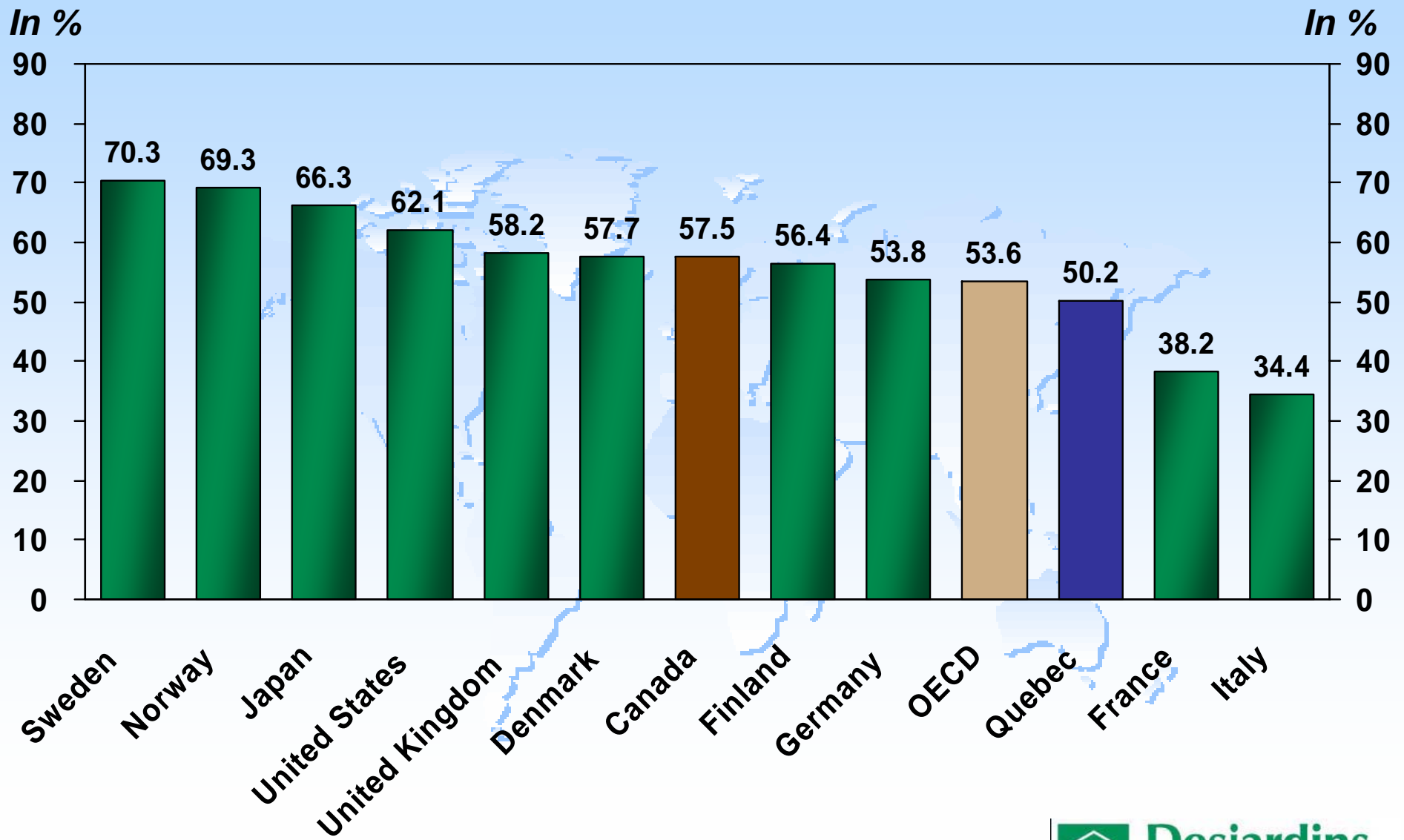
1.9 – Can demographics prevent a contraction of the labour pool?

- 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.

1.10 – Solutions to mitigate the expected labour shortage

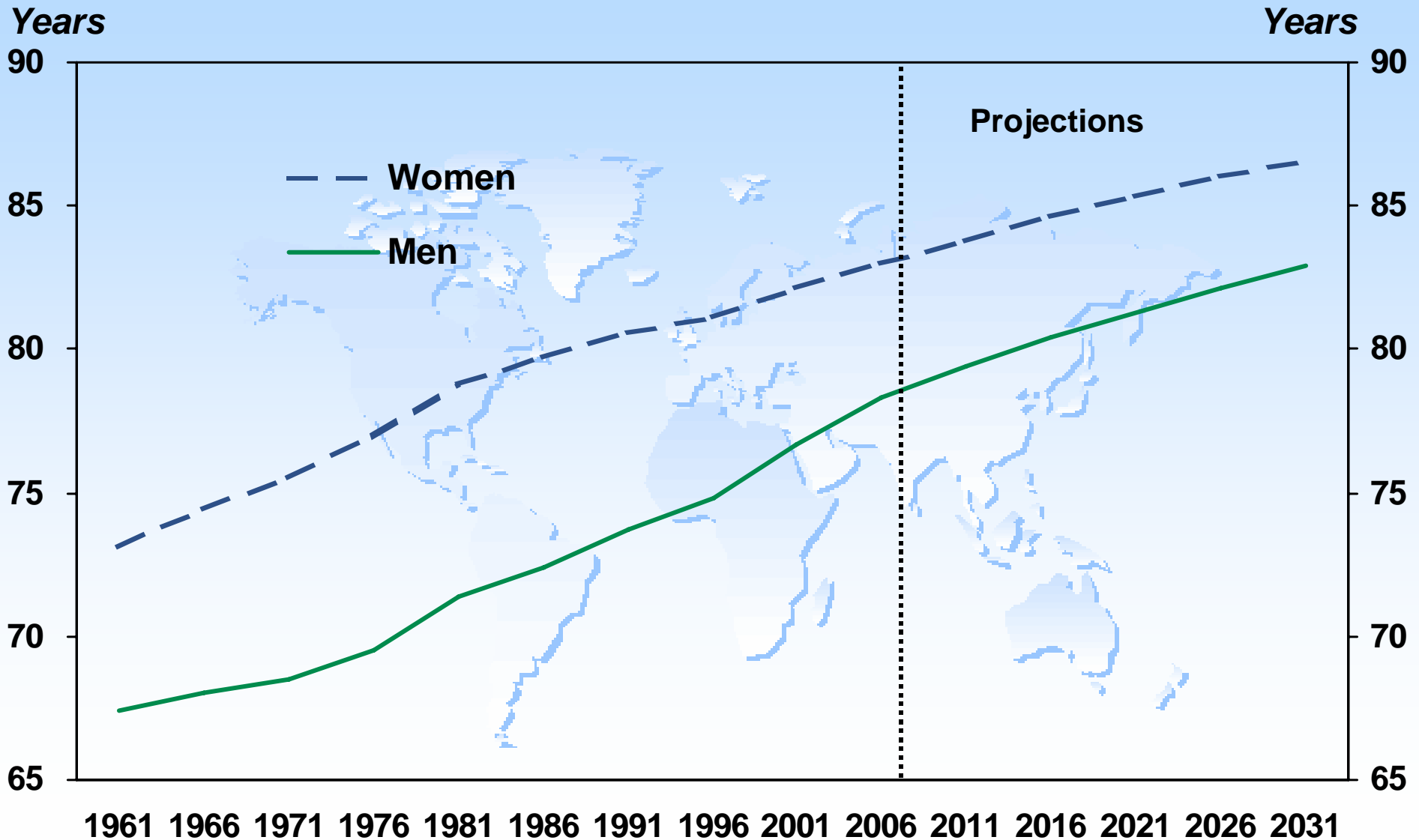
- **Integrate a larger proportion of the population into the labour market (people who are fit to work and available).**
- **Encourage increased labour mobility among the provinces.**
- **Facilitate the recognition of immigrants' diplomas and qualifications.**
- **Implement incentives to delay the retirement of aging workers.**

1.11 – The employment rate of those aged 55 to 64 is relatively low in Quebec



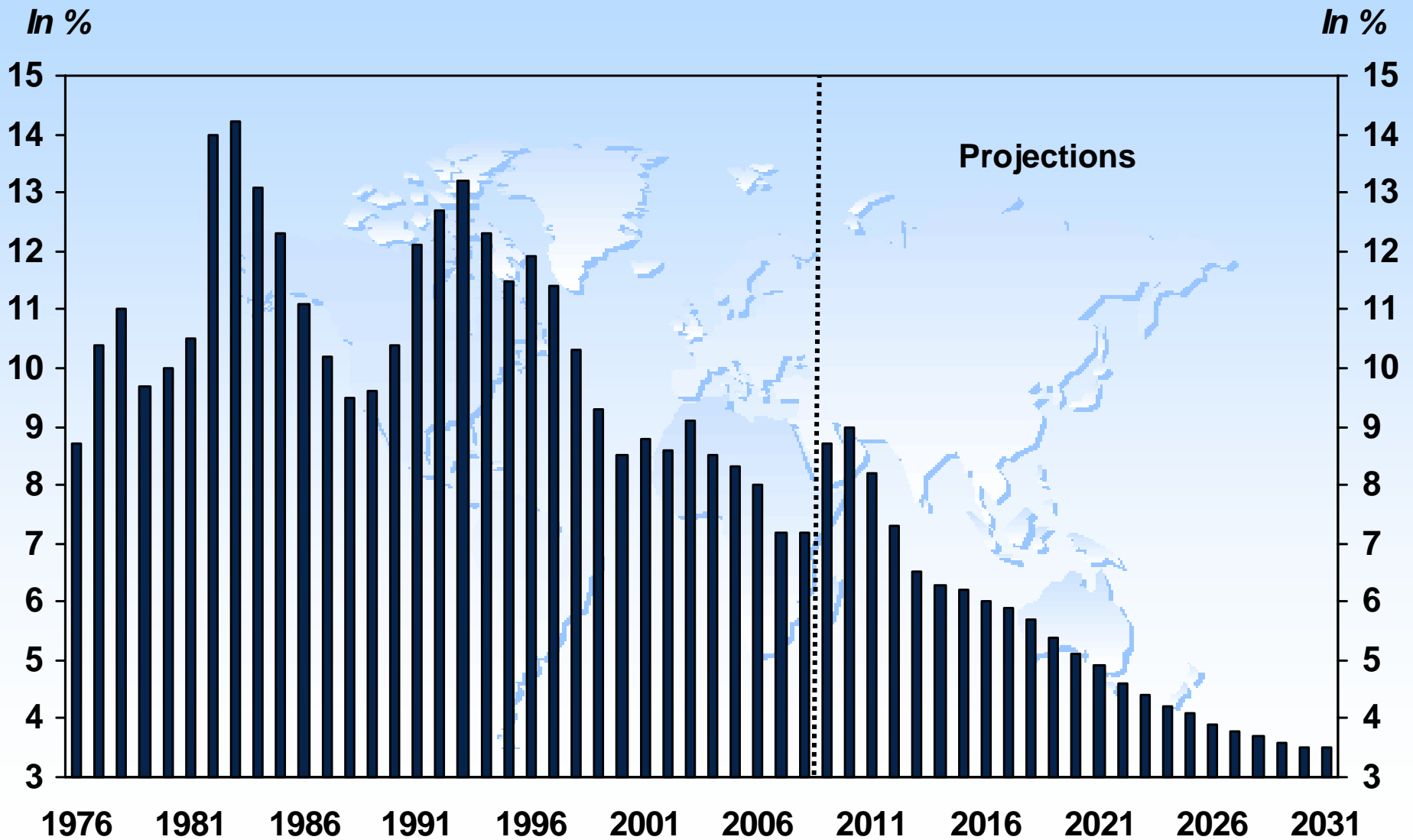
Sources: OECD, Statistics Canada and Desjardins, Economic Studies

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

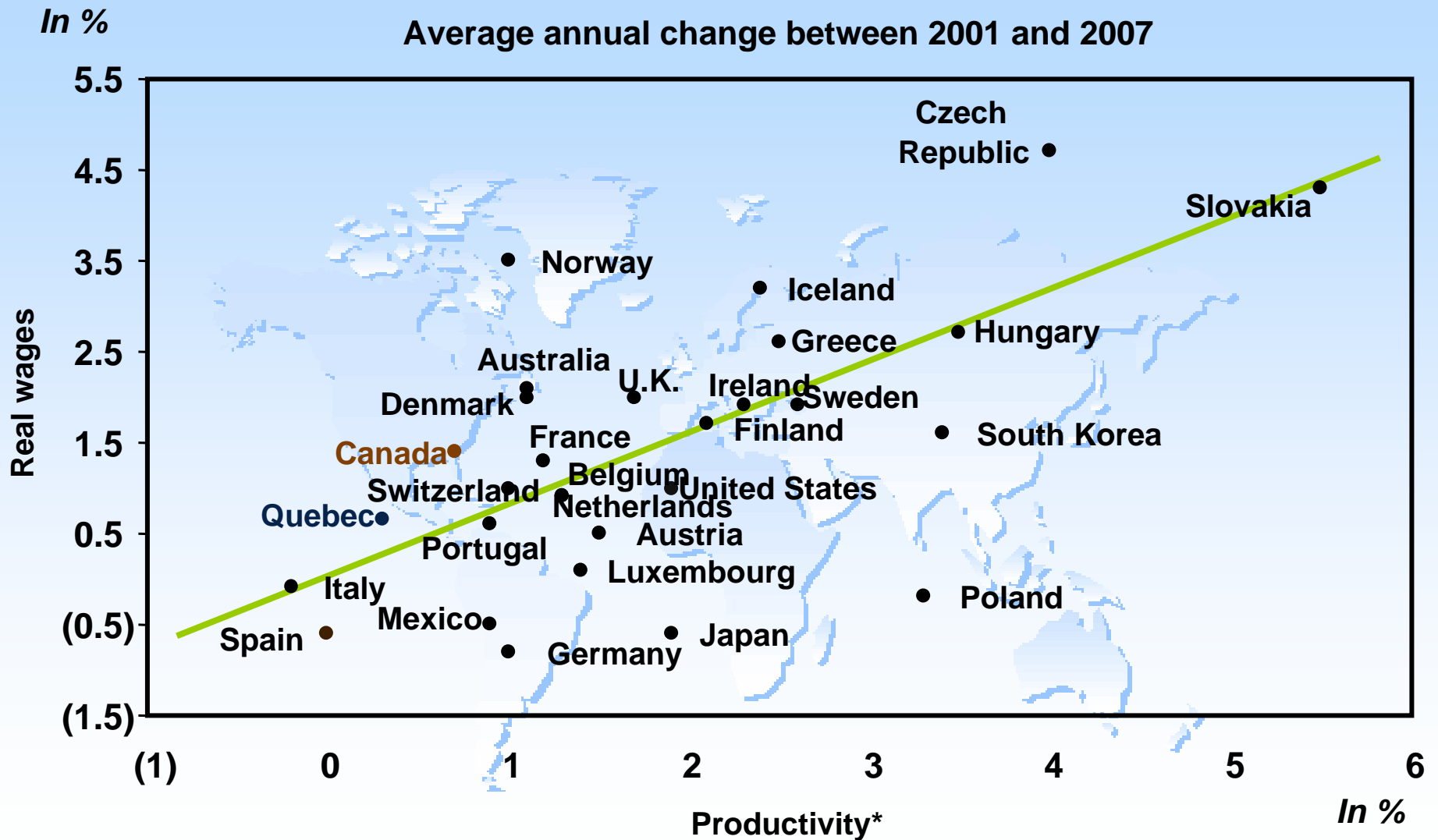


Sources: Statistics Canada and Desjardins, Economic Studies

1.14 – Will wages climb in Quebec?

- **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



•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

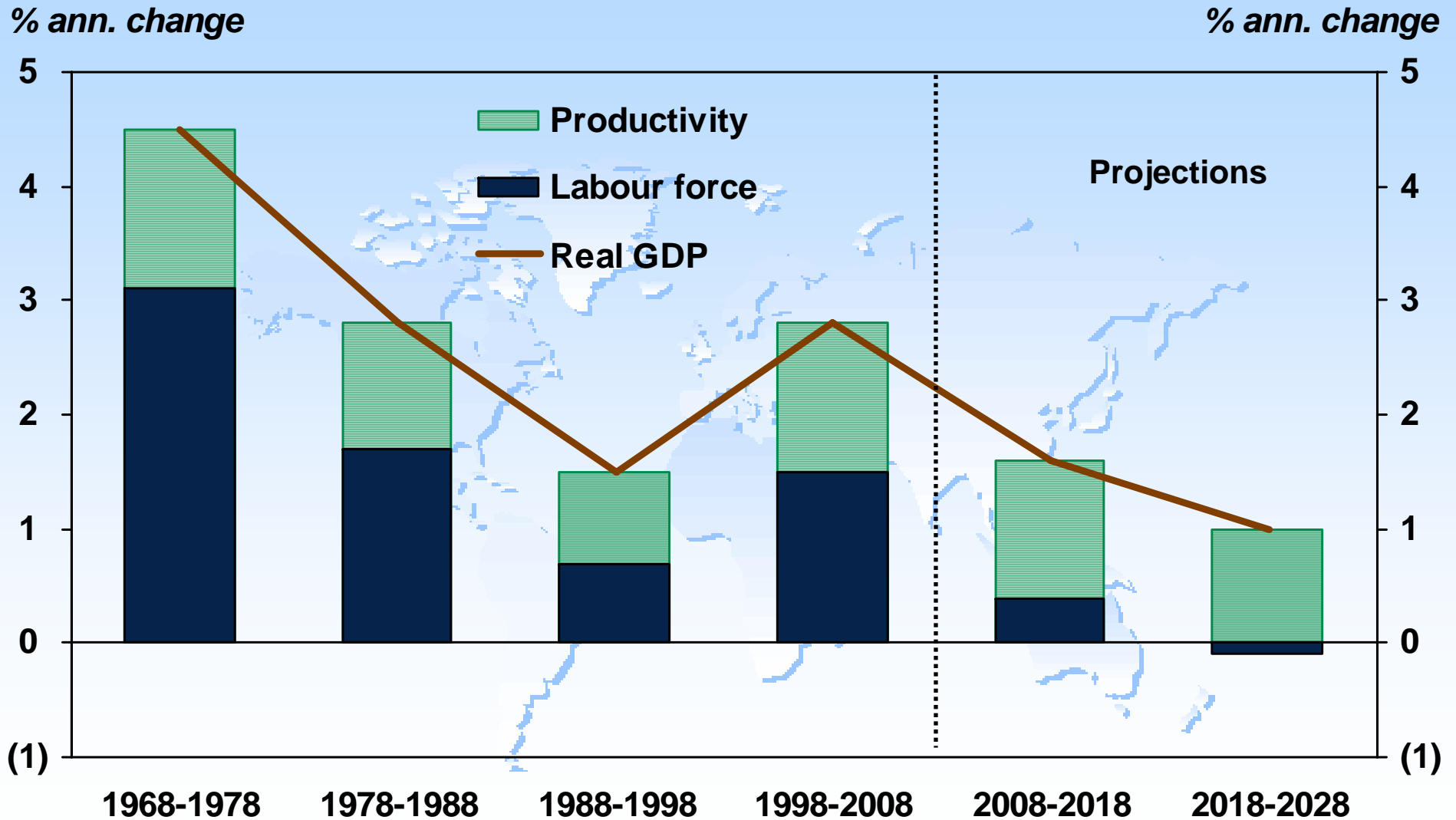
Part 1 – Summary: The impact of the demographic shock on the labour market

- **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

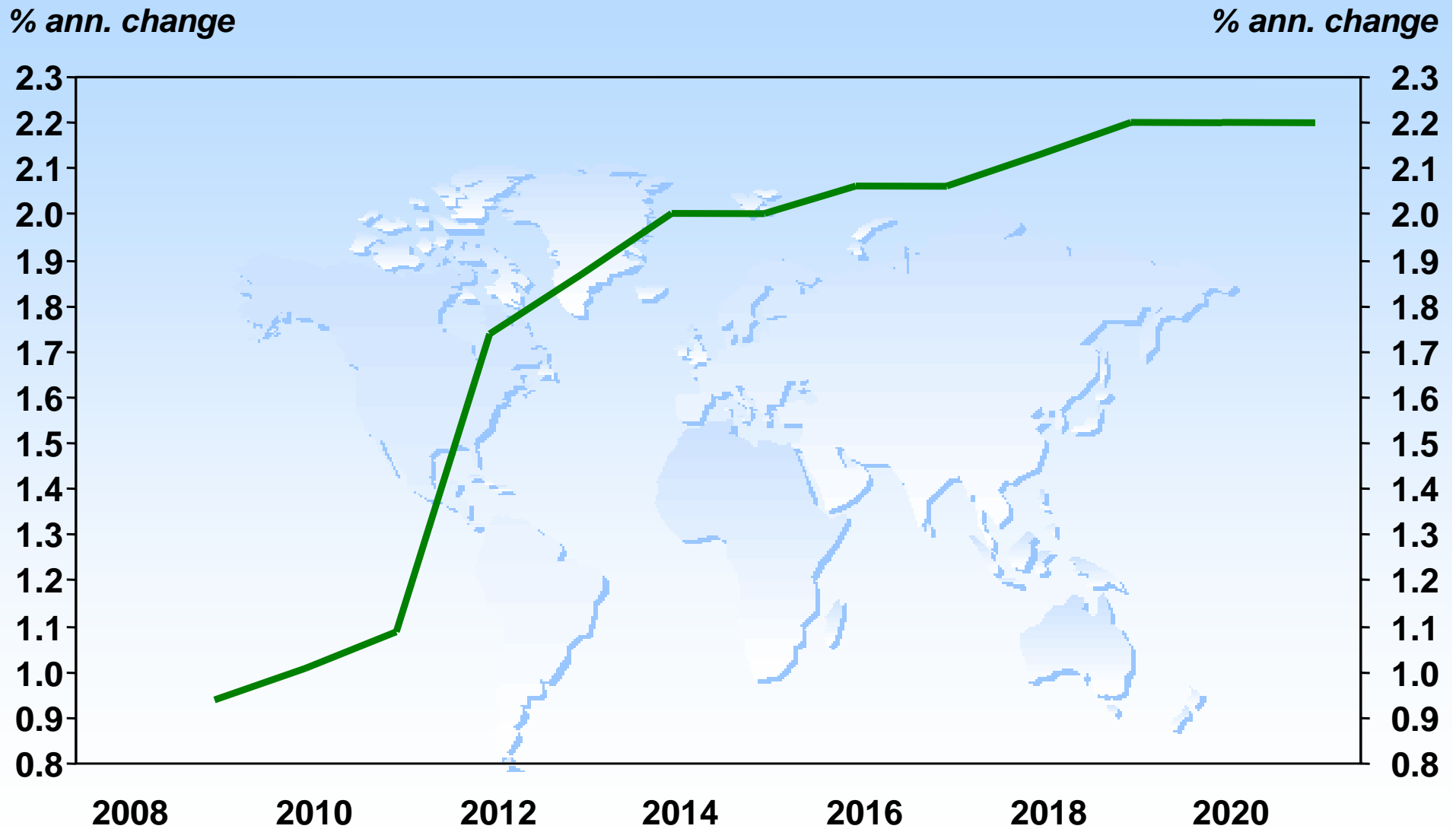
- **Failure to boost productivity guarantees weaker economic growth.**
- **Productivity plays a central role in the economy.**
- **How can Quebec tackle the productivity challenge?**
- **Failure to boost productivity will lead to tough social choices.**

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

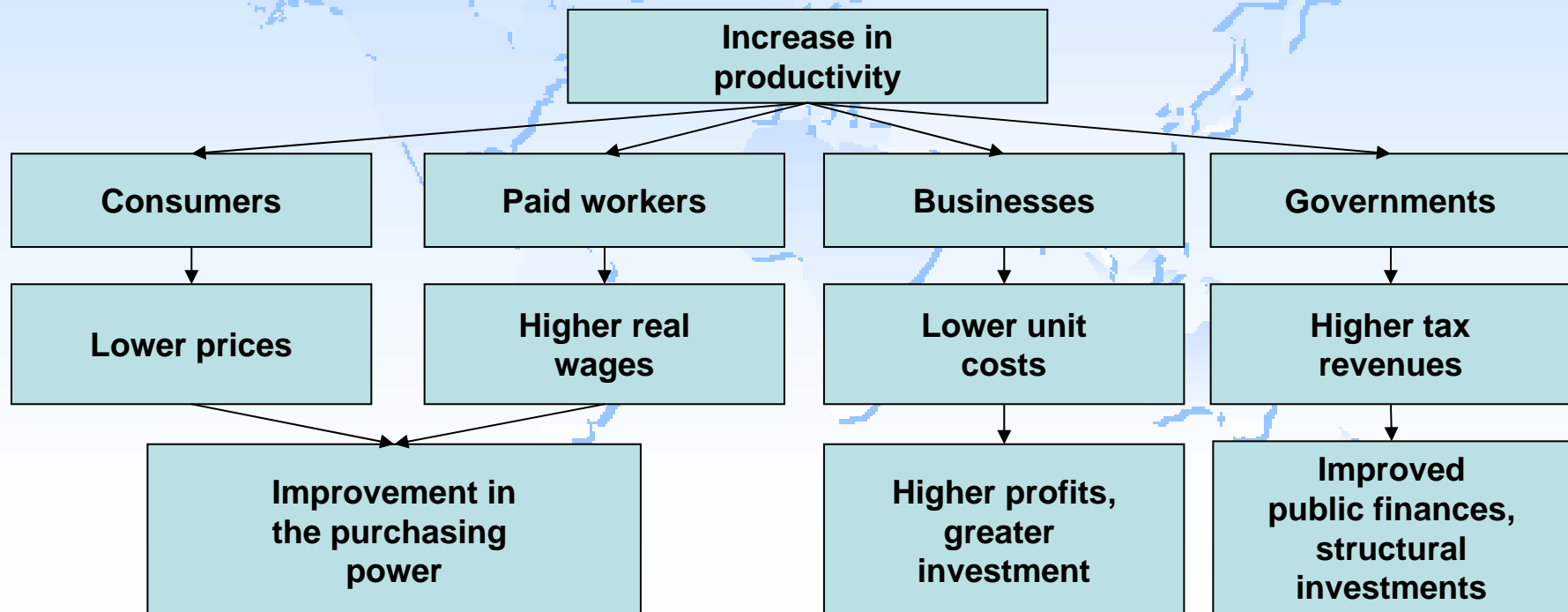
2.2 – Rise in labour productivity required to sustain annual real GDP growth of 2%



Sources: Statistics Canada and Desjardins, Economic Studies

2.3 – Productivity growth benefits society

- 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

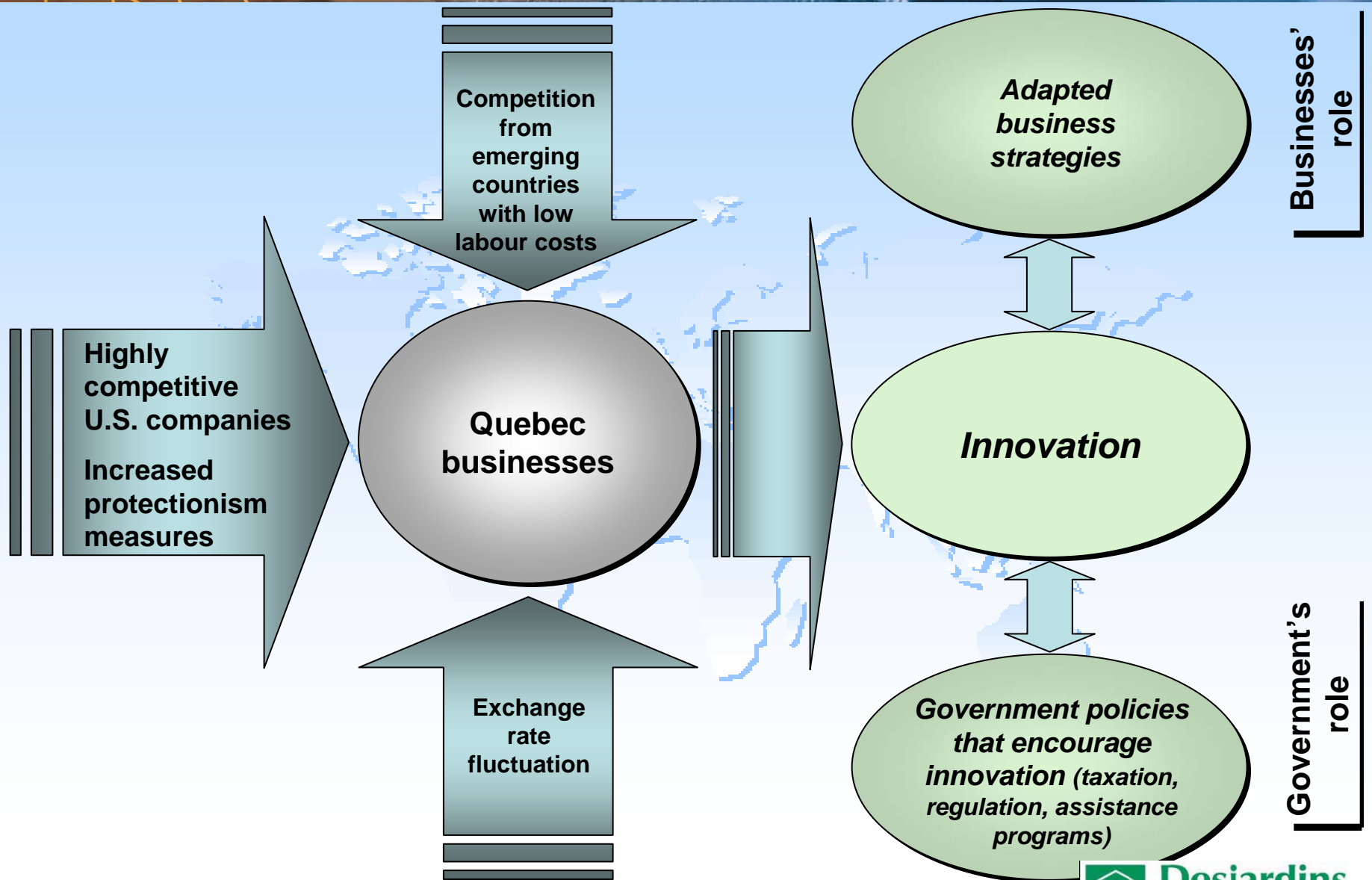
➤ Five main areas:

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

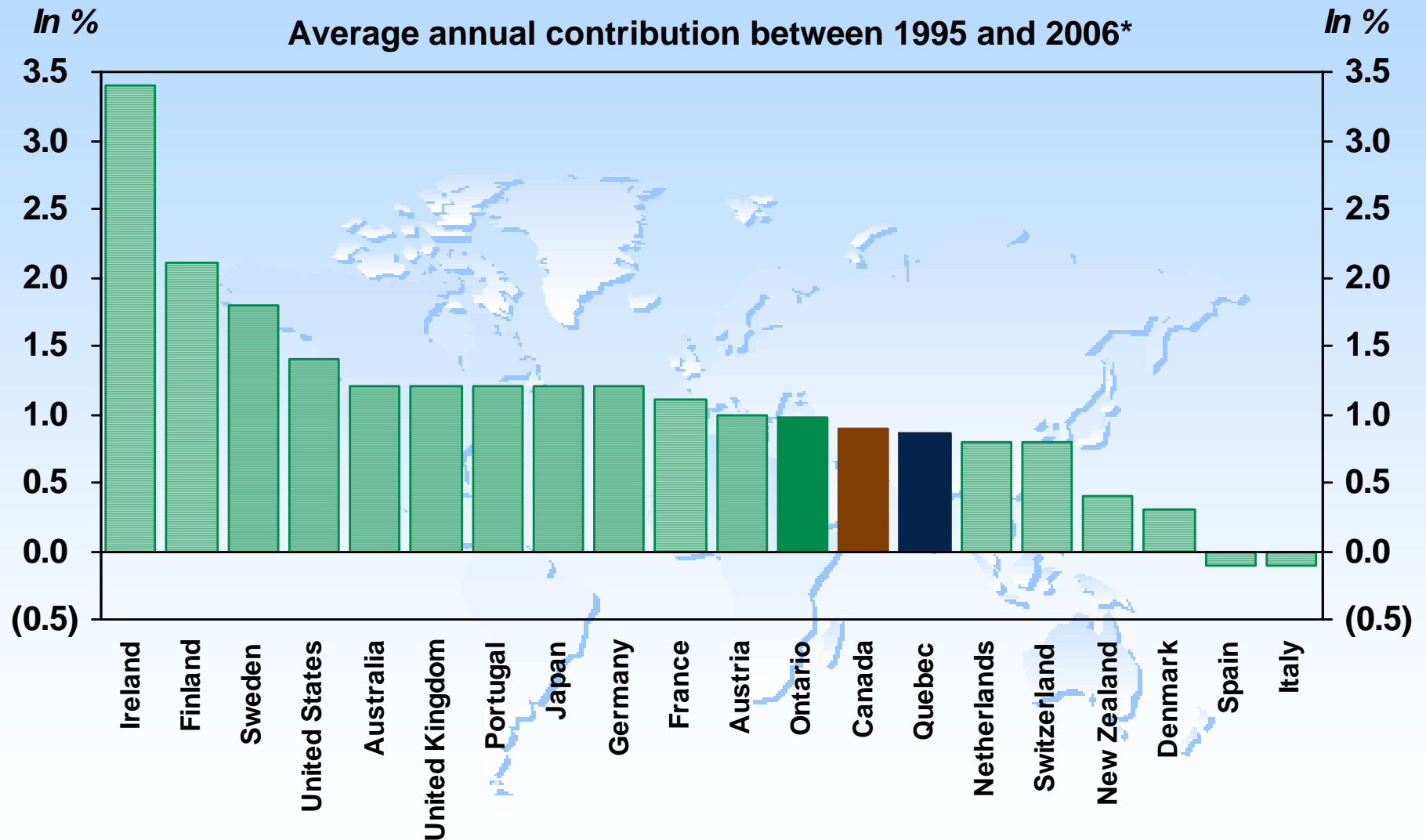
➤ Macro- and microeconomic solutions



2.5 – Innovation is the only way out for Quebec business



2.6 – Contribution of innovation¹ to economic growth



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

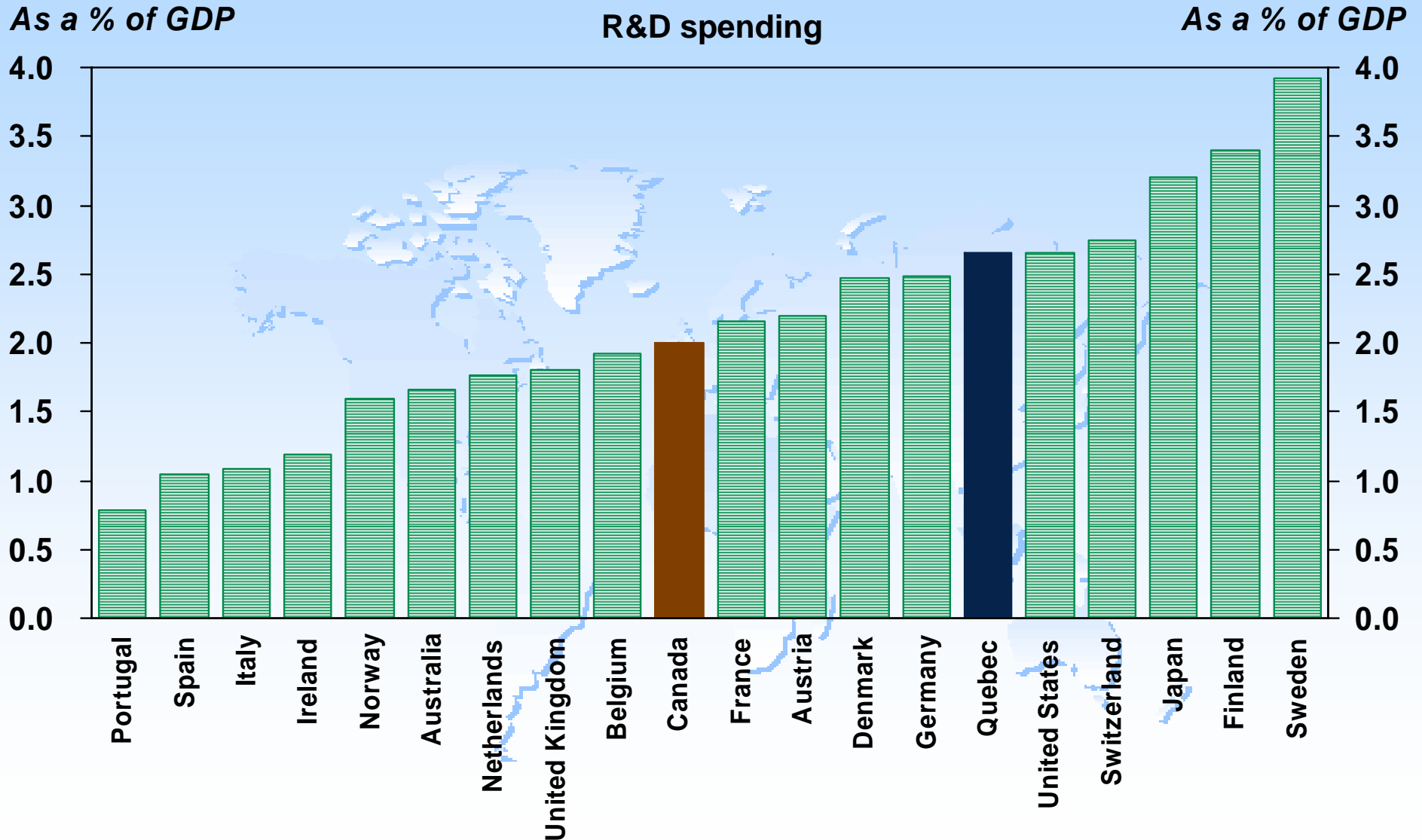
Observation:

- 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

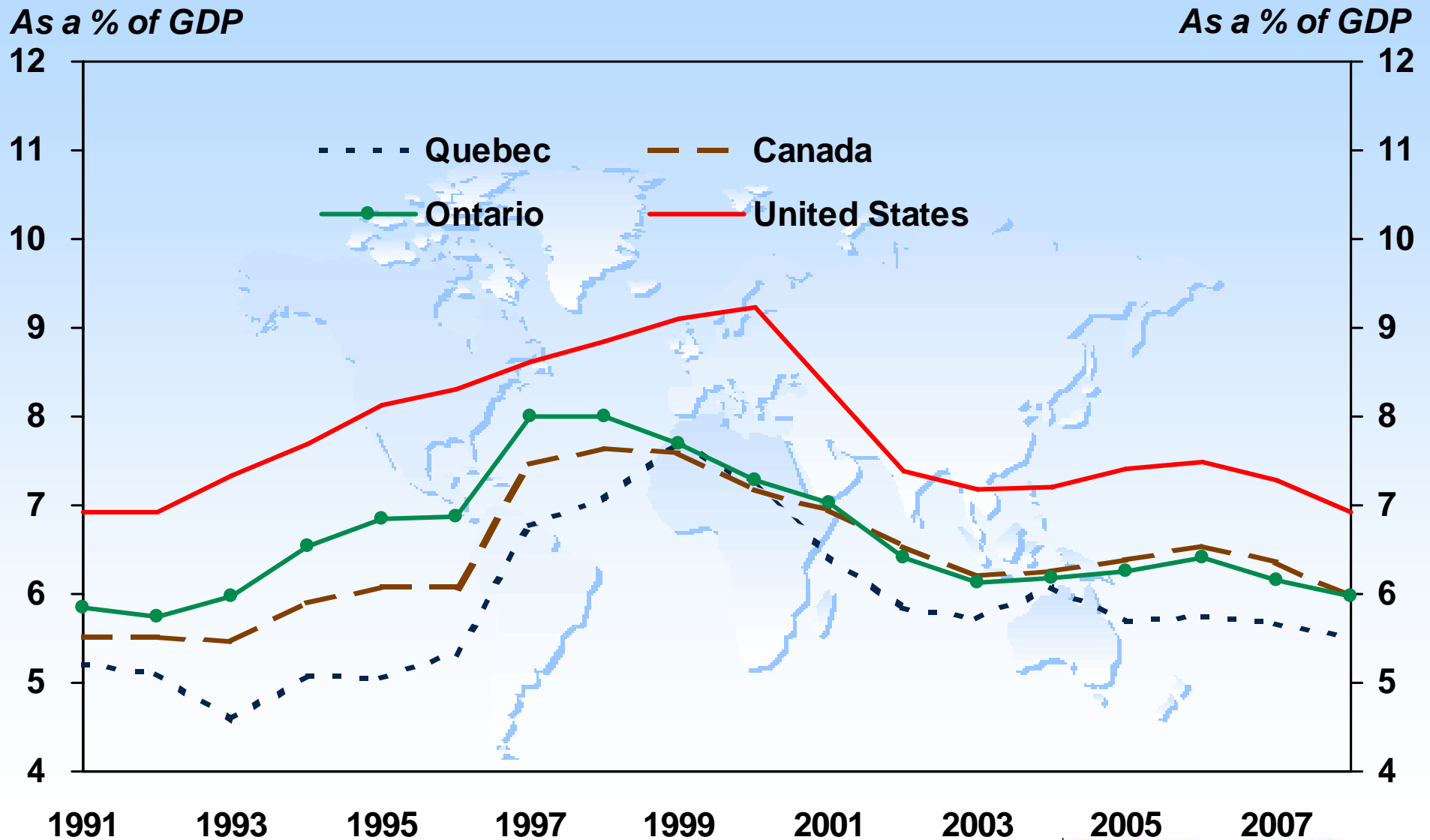
Observation:

- 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

2.11 – Third main lever: Machinery and equipment investment

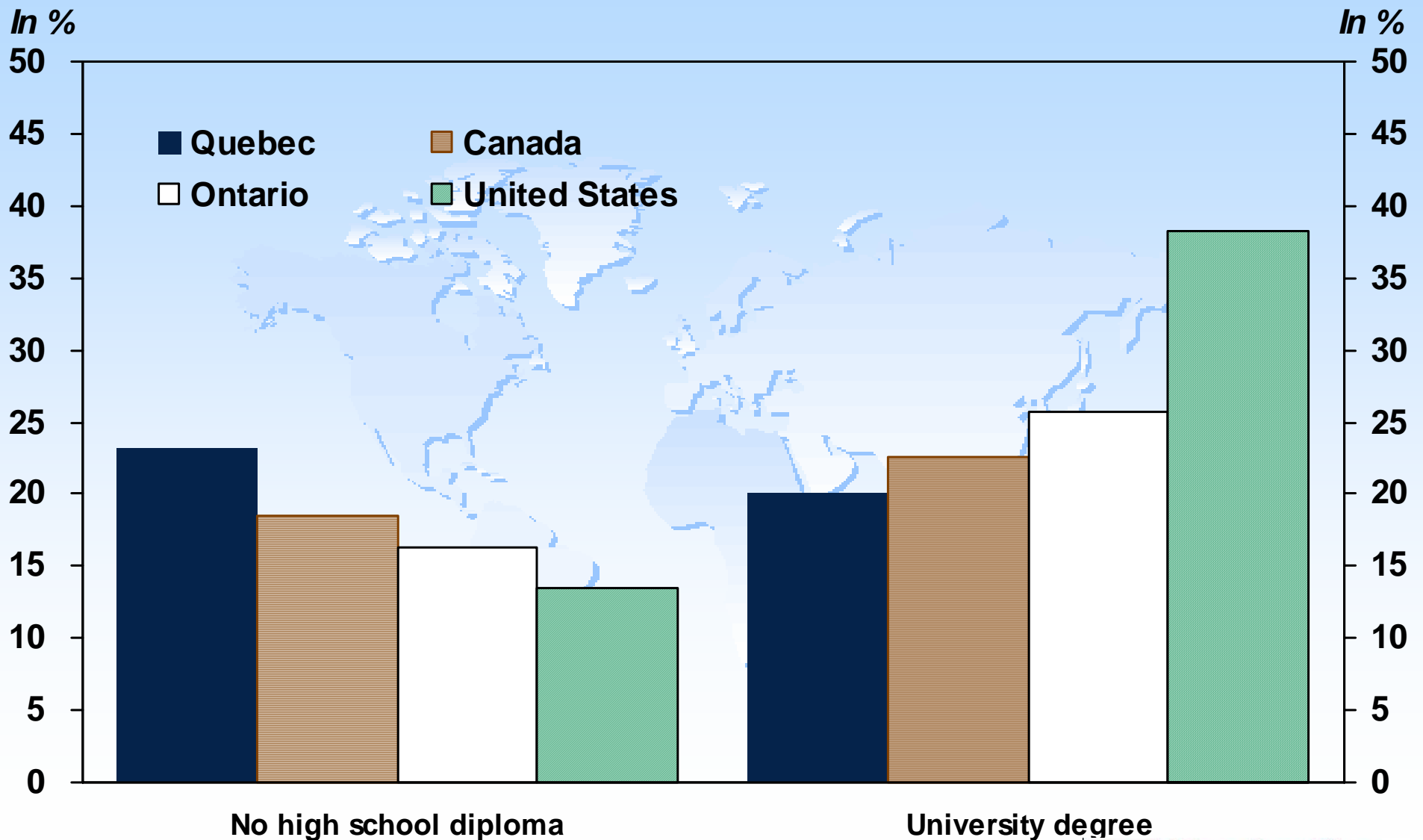
Observation:

- 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

2.13 – Fourth main lever: Education

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.

2.14 – Fifth main lever: Regulation

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.

Summary – Action must be taken in order to soften the impact of the demographic shock on our economy

- **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.