THE GLOBE AND MAIL
CANADA'S NATIONAL NEWSPAPER • FOUNDED 1844

Latest jobs report a bad sign for Quebec's budget hopes

The plan to reduce the province's deficit needs a boost in tax revenue that would come from an increase in employment

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613 Words
Wednesday, August 20, 2014
Globe and Mail Update

The July Labour Force Survey (LFS), which was published on Aug. 8 and revised last Friday, shows that the Canadian labour market is losing momentum.

Let's be honest: Canada has enjoyed an enviable run through the recession, emerging as the most reliant member of the Group of Seven, but the Canadian ship seems to have less wind in its sails as of late. For the country as a whole, 41,700 jobs were added in July, a figure that hides the fact that full-time employment was down 18,100 in this month alone, and that all the added jobs are part-time.

While the Canadian situation is far from what we would wish for, the situation in Quebec is starting to feel even more problematic. The LFS showed that a meagre 1,900 jobs were added in the "Belle Province" in July and, even worse, that 20,800 full-time jobs were lost in this month alone. So far in 2014, Quebec is down 25,000 jobs (see Figure 1), while Ontario added 63,500. In the past 12 months, only 16,000 jobs were added in Quebec, compared to 60,300 in Ontario.

These figures must be causing headaches for Quebec's policy makers as the province is facing a $3-billion deficit in the next year alone, which the Liberal government promised to address without raising taxes (although some tariffs have been raised, the most important one being the daily price of Quebec's child care program). This means two things: 1) The government is betting that it will be able to curb spending enough to address such a large budget hole, and 2) it expects the economy to grow quickly enough that own-source revenues will pick up significantly.

The first element is being addressed by a more austere (Finance Minister Carlos Leitao prefers the term "responsible") budget and the establishment of expert commissions that will review Quebec's programs and fiscal landscape. Cutting spending is never a popular activity, but since the Liberals campaigned with a "responsible" platform, some results can be expected on the spending side of the equation.

The second element, however, is looking more unlikely as the year goes on. In its latest budget, the Liberal government projects 3.2-per-cent nominal growth in revenues over the next year, a target that might be hard to reach with Quebec's 1.7-per-cent inflation lagging behind the Canada-wide average of 2.4 per cent in June. For revenue to grow at 3.2 per cent, jobs need to be created, not lost by the tens of thousands.

We already shared our thoughts about the long-term impact of demography in a previous column, but the short term does not look rosy either. In early August, Mr. Leitao stated in an interview that he expects a significant rebound in Quebec job creation in the second half of the year, mainly caused by an acceleration of the U.S. economy coupled with the devaluation of the loonie. Although we did see Canadian manufacturing exports picking up in the past few months, this did not seem to translate into more jobs for Quebec. And since hiring is usually a lagging indicator, Quebeckers must be hoping that this time it does not lag for too long.

As he unveiled his budget, Mr. Leitao stated that “90 per cent of the effort has to be made on the spending side of the equation.” The other 10 per cent is now looking much harder to reach.

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