



ANALYSIS GROUP
ECONOMIC, FINANCIAL and STRATEGY CONSULTANTS

Productivity and salaries in Quebec Long-term outlook



Presentation to the Régie des rentes du
Québec
September 22, 2006

Determining factors in the long term for salaries and productivity

Supply:

- Education
- General level of health of the labour force
- Cultural considerations

Demand:

- Investment and technological progress

Labour supply, salaries and productivity

The myth about labour scarcity:

The demand for labour is mobile. The fact alone that the ageing of the population in Quebec will create a scarcity of labour cannot in itself justify higher salaries.

Labour supply, salaries and productivity

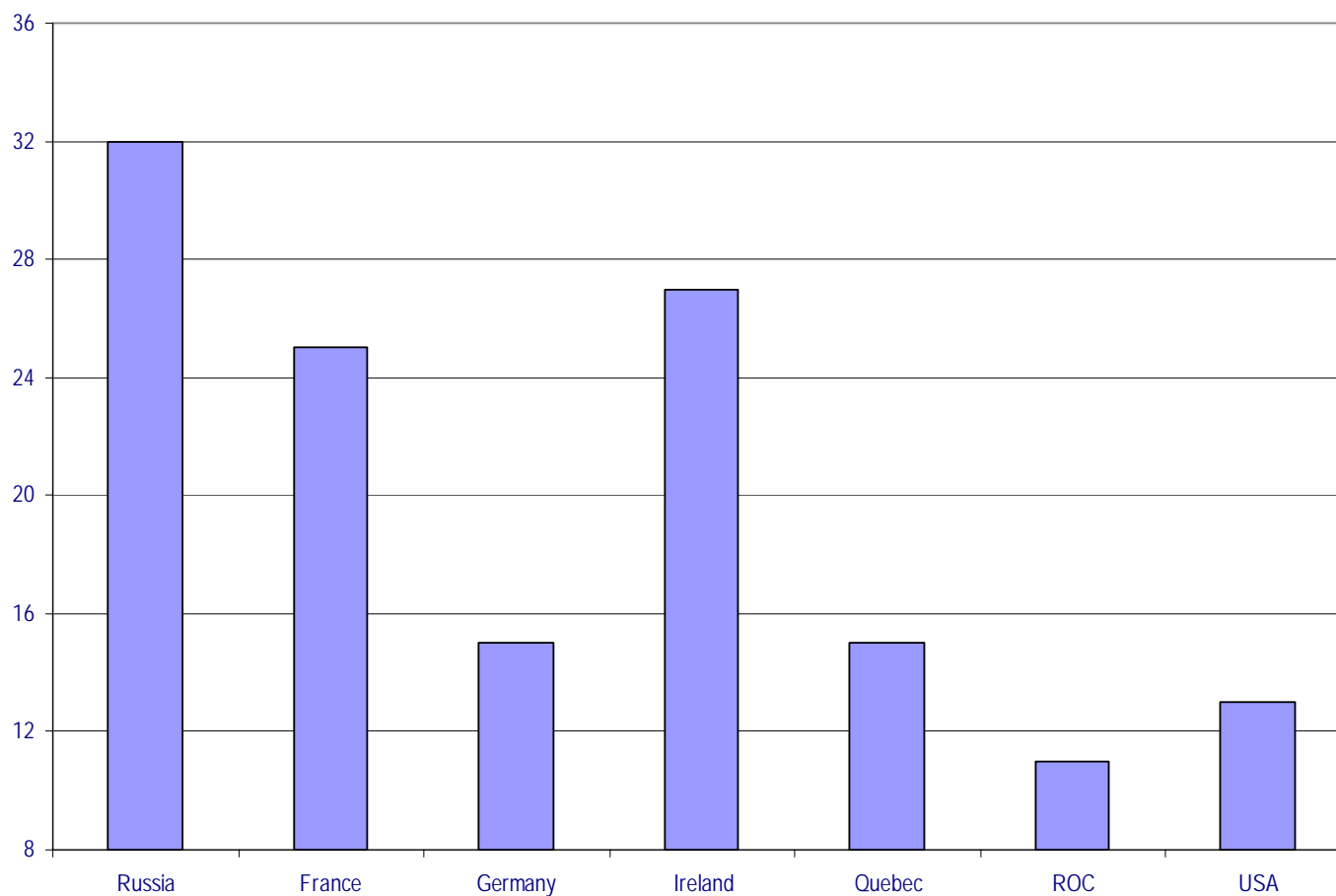
Education

In terms of supply, the most important determining factor of the capacity for growth in salaries is education.

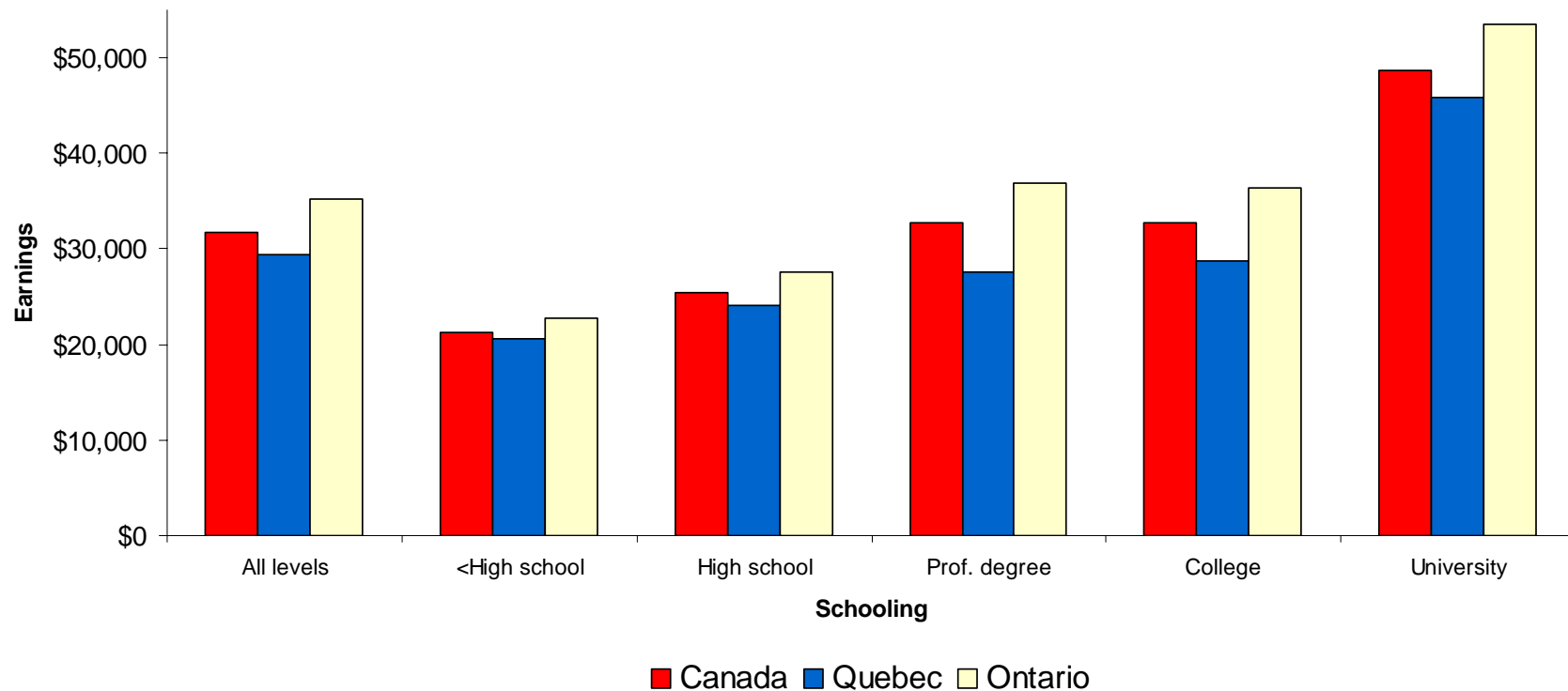
In recent years, Quebec has overcome its educational deficit and Quebec's labour force of the future will be almost as educated as that of Ontario (still slightly less than that of the United States).

Labour supply, salaries and productivity

Percentage of the population 25-44 years without a secondary diploma



Labour supply, salaries and productivity: Average income per education level



Labour supply, salaries and productivity

General level of health:

A younger labour force should be in better health – less absenteeism.

Number of days of work lost per worker

25-34	9.1
35-44	9.8
45-54	10.0
55-64	12.4

Sources: Statistics Canada

Number of days of work lost per worker in Quebec: 11.2; in Ontario: 8.6.

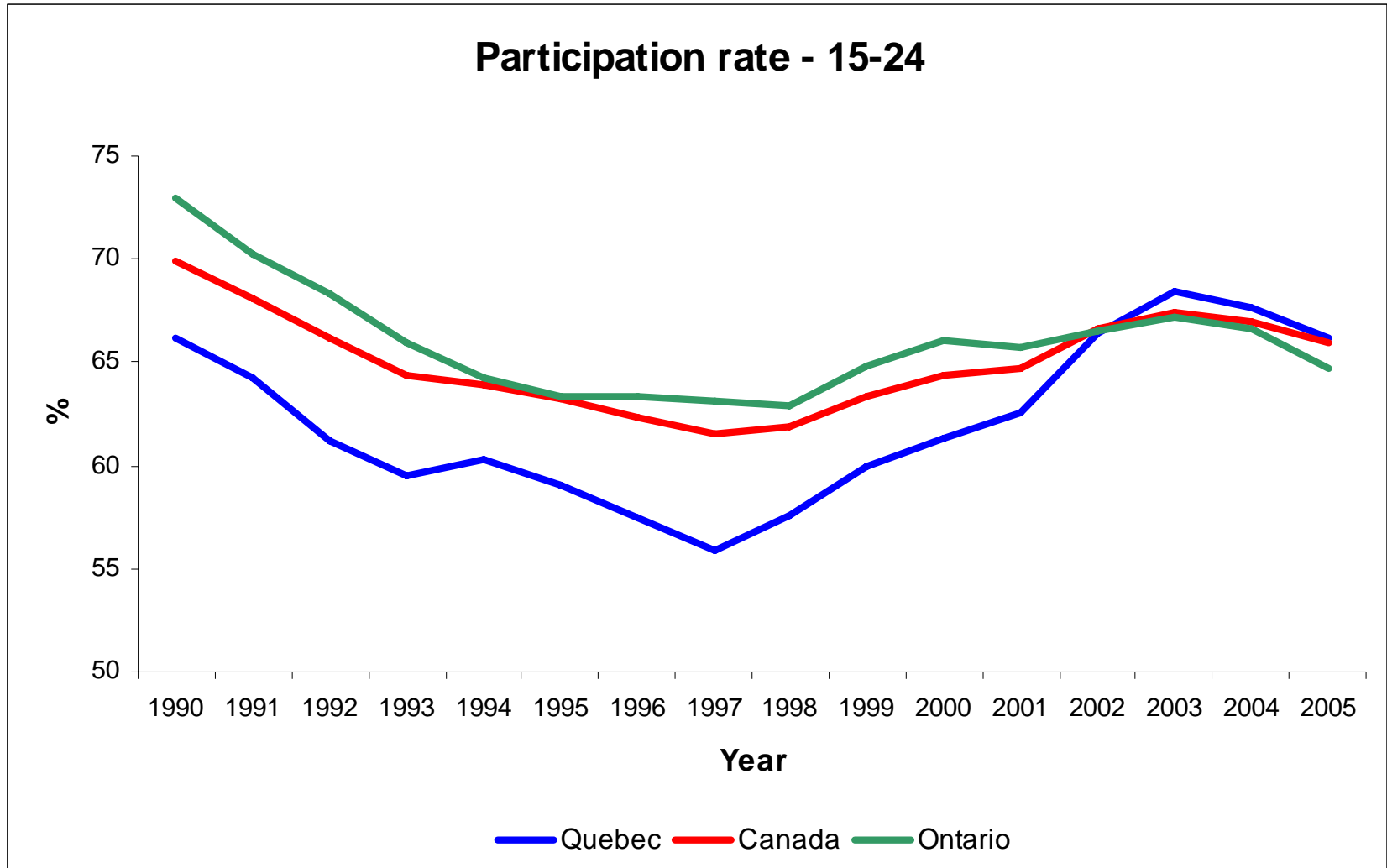
Labour supply, salaries and productivity

Cultural considerations:

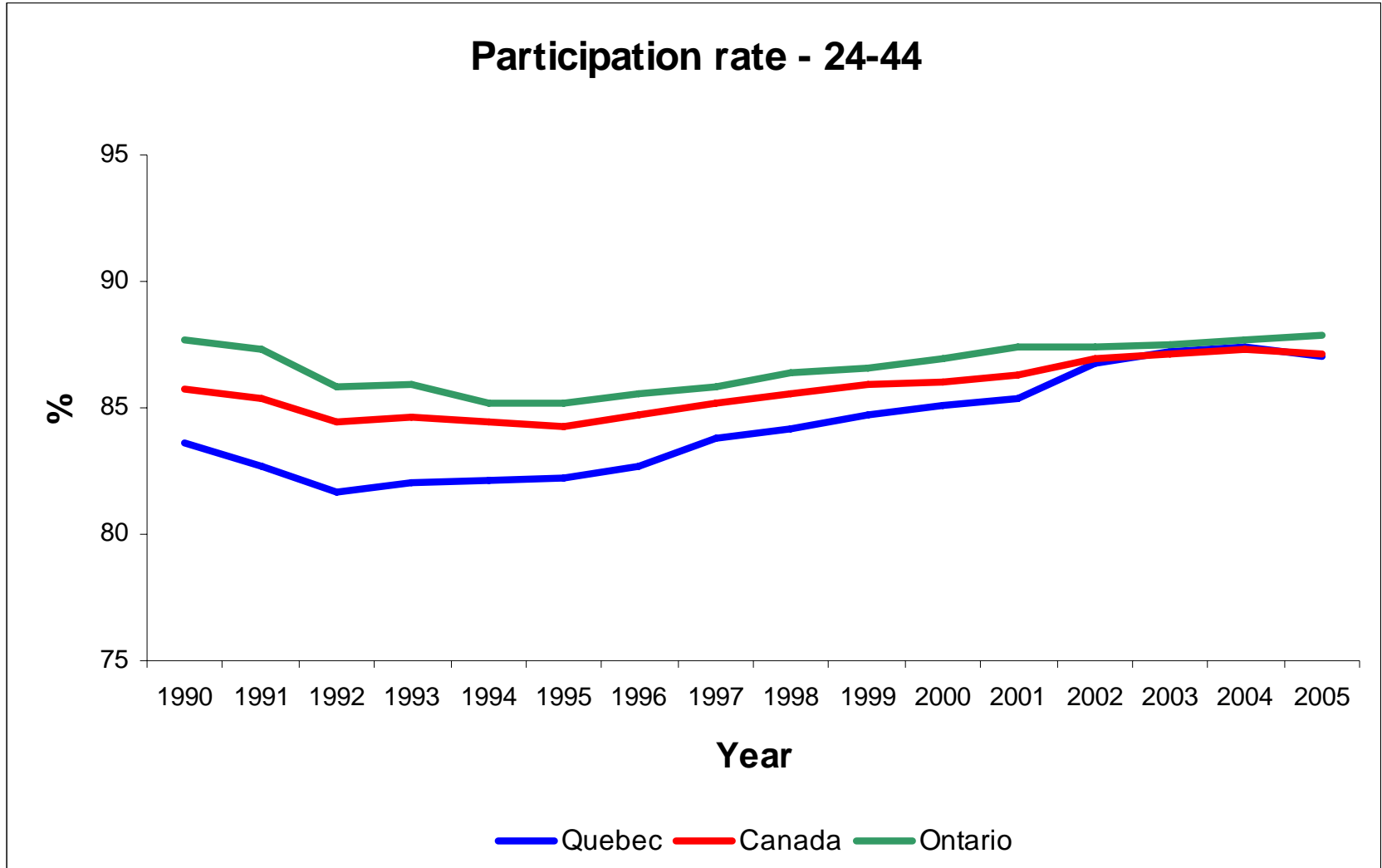
There is a considerable labour pool in Quebec ...

	Labour force	Unemploy- ment rate	Hours worked
Quebec	65.6	8.1	31.6
Ontario	68.1	6.5	32.3

Labour supply, salaries and productivity



Labour supply, salaries and productivity



Labour supply, salaries and productivity

Supply conclusion :

- The decline in labour supply will not automatically lead to an increase in salaries.
- The Quebec labour force is increasingly more educated.
- The demographic change will have a major impact on absenteeism.
- There is a labour pool in Quebec – if Quebecers want to work more.

Labour demand, salaries and productivity

Labour demand will essentially depend on future investments...

Future investments will depend on our capacity to attract those investments...

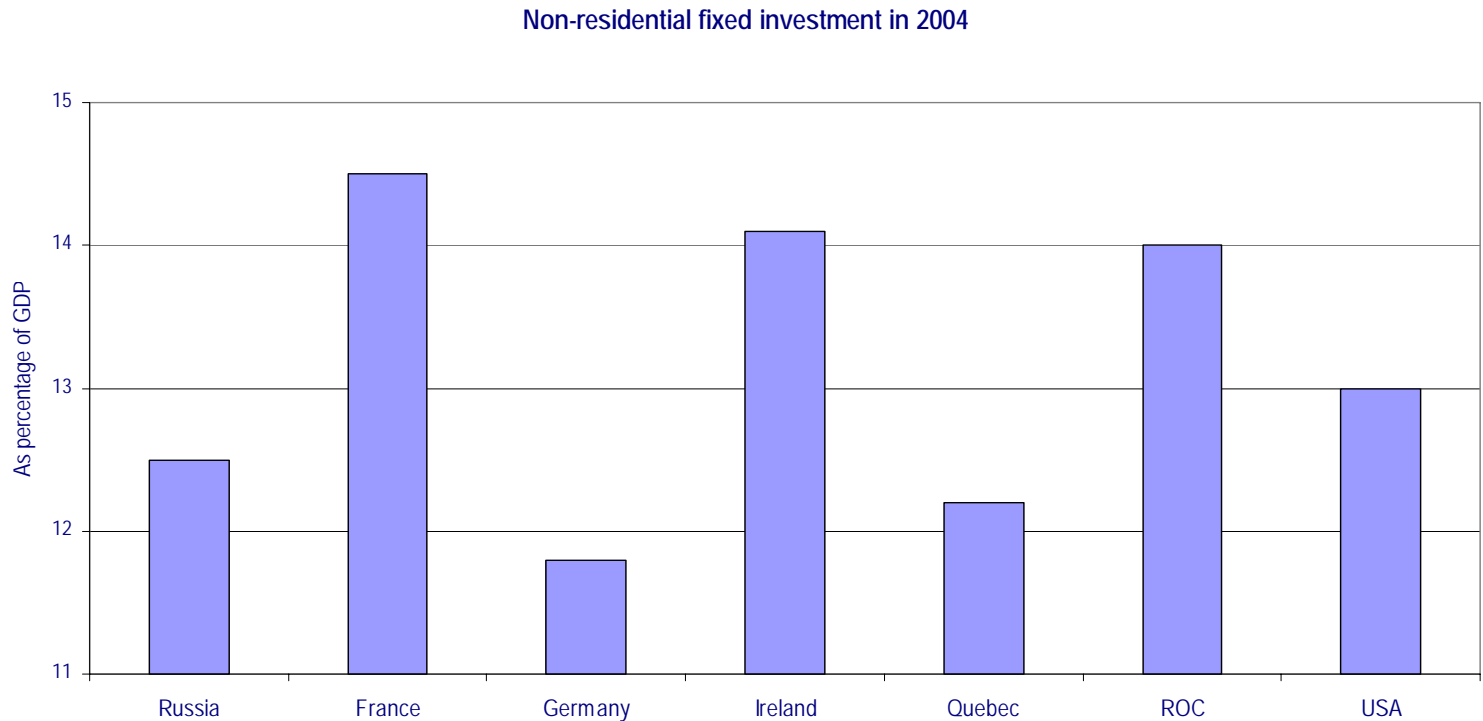
Labour demand, salaries and productivity

Determining factors for future investment:

- *Technological progress*: Quebec and Canada are behind the USA in this area.
- *Cost of raw materials*: high raw material costs in the long term will hurt Quebec directly and indirectly (exchange rate).
- *Environmental policy*: an overly restrictive environmental policy could discourage investment.
- *Industrial policy*: Quebec's industrial policy tends to slow the reallocation of resources and delay growth.

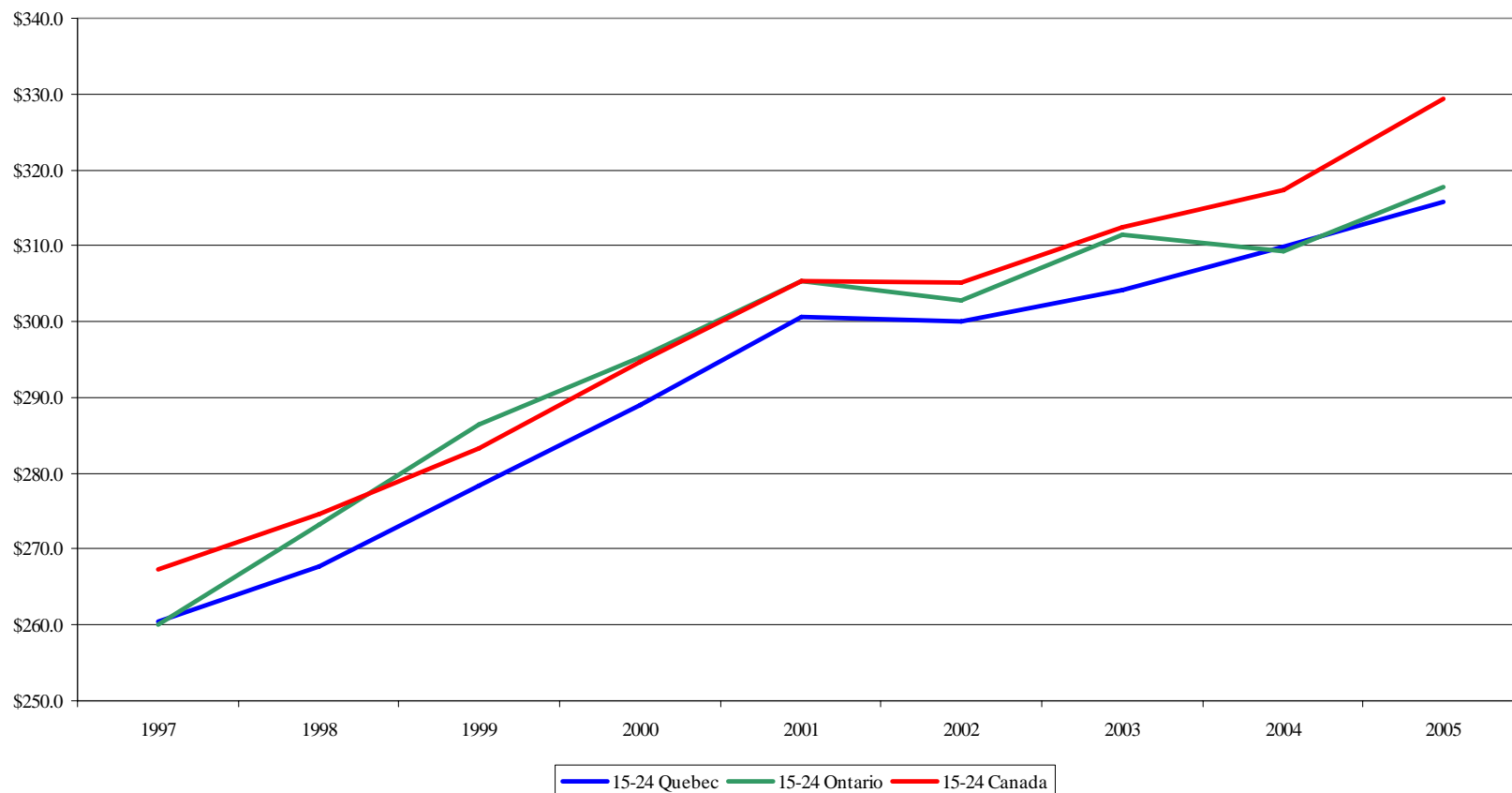
Labour demand, salaries and productivity

Investment continues to lag in Quebec:



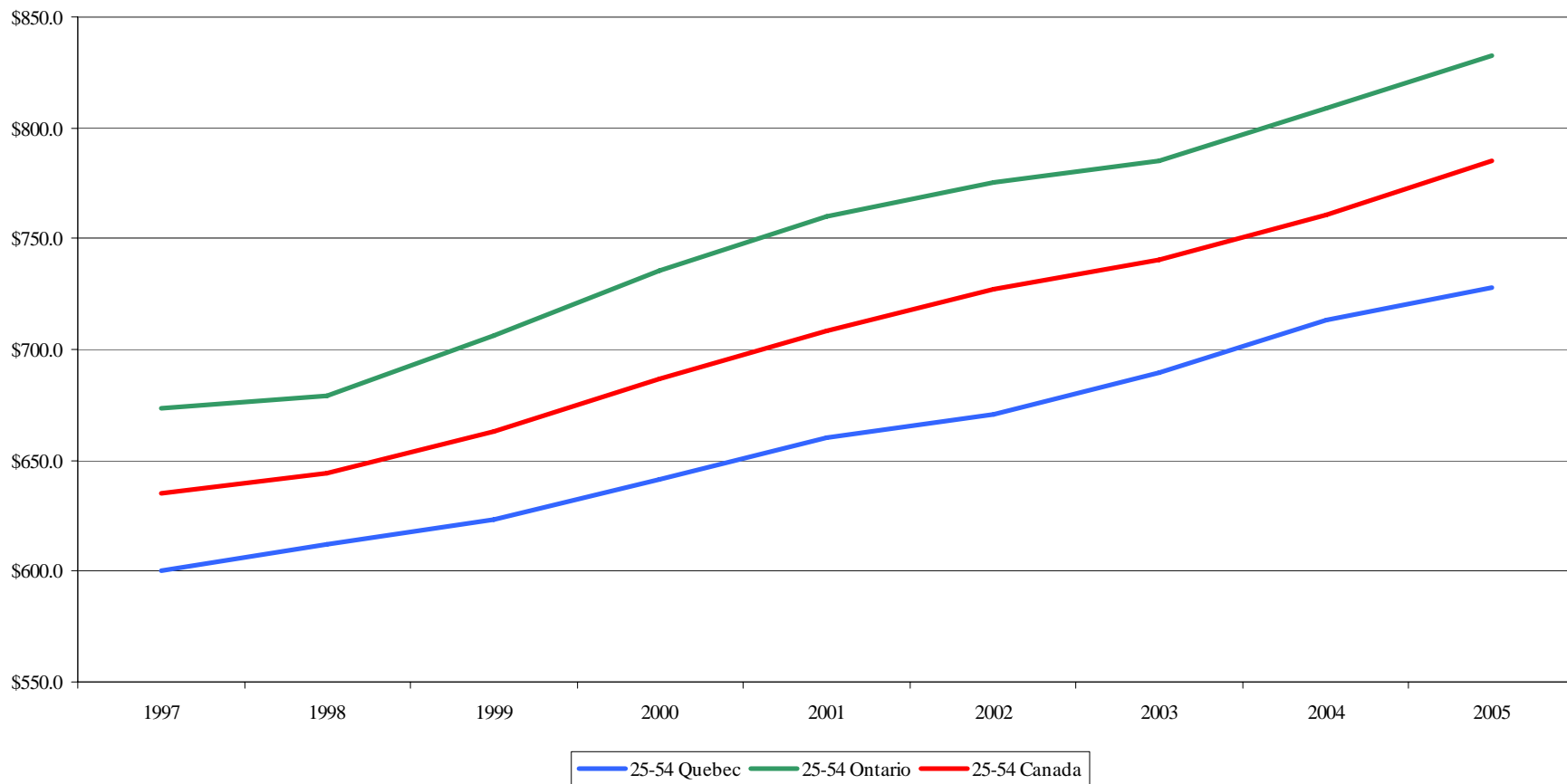
Labour demand, salaries and productivity: Average weekly income by age group

Average weekly salaries - 15-24 years



Labour demand, salaries and productivity: Average weekly income by age group

Average weekly salaries - 25-54 years



Conclusions

Initially, a concern about supply:

- A reduction in the size of the labour force will result in a contraction of the Quebec economy.
- However, there are many positive signs around supply:
 - Quebec will overcome its educational deficit
 - There is a considerable labour pool
 - However, Quebecers will have to agree to work more



Conclusions

Length of work, productivity and employment			
1996			
Country	Hours per week	GDP hour	GDP person
Germany	19.3	99	74
France	17.5	110	74
Italy	16.5	90	57
Canada	22.9	89	79
Great Britain	22.8	76	67
Japan	27	74	78
United States	25.9	100	100
Source: Prescott (2003)			

Conclusions

Quebec is not France. When we are less productive, we must work harder or become poorer.

Productivity work schedule	
2005	
	GDP per hour
Canada	100
Ontario	104.2
Québec	94.3
Source: CSLS	

Conclusions

The major concern in terms of the future of salaries and productivity is on the demand side.

- Will Quebec be able to make up its lag in technological progress?
- Will the economic environment become more favourable to investment?
 - Exchange rate/interest rate
 - Quebec's industrial and regional policy

Conclusions

Ultimately, there is no reason to think that productivity growth in Quebec will be any different than in the rest of Canada

Source	Period	Estimate
CPP Chief Actuary	2012-2078	1.2
Finance Canada	2006-2029	1.7
Informetrica	2006-2025	1.6
Conference Board	2006-2025	1.6

Source: CSLS