

GOOD NEWS, AND NOT-SO-GOOD NEWS: UPDATE ON THE CRISIS-RECESSION-RECOVERY

CIRANO Note written by Jean-Pierre Aubry and Mathieu Laberge, March 2010

The most recent economic data reveals that the worst of the recession is behind us. In Quebec and Ontario, as in Canada as a whole and the United States, the latest statistics on gross domestic product and employment appear to indicate that we have turned a corner. Though still weak, growth is back.

This translates into greater optimism among consumers and analysts and rising confidence as reports on the state of the economy are increasingly upbeat. There's nothing wrong with that! Only a few weeks ago we were still wondering whether this crisis-recession would ever end!

Quebec has not been slow to buy into the optimism. As Quebec's finance minister prepares to table the 2010–2011 budget in the coming weeks, the perception that Quebec has emerged relatively unscathed from the recession is firmly entrenched in the popular mind. This should not, however, detract us from the many economic challenges that *la Belle Province* must address without delay.

When the tree obscures the forest

In fact, this optimism papers over a very different reality. The current economic lustre is heavily reliant on government stimulus packages. These are expected to continue propping up western economies until the end of 2010, but we need to ask ourselves what will happen when they expire and governments cease injecting massive amounts of money into the economy.

With regard to this, employment data from the United States suggest that 2011 might be fraught with dangers. Until quite recently, job losses among our neighbour to the south were expected to be on the order of 7.2 million (5.2%), whereas they are now likely to reach 8.4 million, or nearly 6.1% of U.S. jobs.

This excess in the number of job losses over earlier estimates is not without consequences. For the U.S. economy, it indicates a prolonged slump and a greater rise in the Federal government's debt. For Canada, it means weaker demand from our largest export market and by extension greater pressure to achieve productivity gains. Despite vigorous intervention by the U.S. government, the recovery remains fragile and the return to balanced budgets very remote.

In the long term, Quebec's position is weak

In 2011, when stimulus packages are being phased out and the private sector needs to pick up the slack, markets, analysts, and voters will begin to turn their attention toward more long-term considerations, such as government deficits and debt. This change in perspective is already manifest in those countries that spent the most on stimulus— specifically, Spain, Greece, and the United States.

Though it is, in fact, true that Quebec weathered the last recession better than its neighbours, it remains poorly positioned with regard to these long-term challenges. The challenge of sustaining economic growth is particularly urgent in this province, which has a greater debt load, higher taxes, and a less active and productive labour force.

In addition to looking forward to a balanced budget, the finance minister will need to address these challenges in his next budget. If nothing is done in the short to medium term, the coming decades could prove very trying economically for Quebec: loss of competitiveness, difficulty sustaining historical economic growth levels, structural government deficits, and an inability to maintain the level and quality of public services.

Consequently, Quebec's relatively strong performance during the last recession should be seen as a window of opportunity. Though it entered the recession with an economic handicap, its problems were not compounded in the same measure as those of its principal economic partners. Therefore, it must take advantage of this recovery to tackle the challenges it will face in the future.

Addressing the problem of government debt must be a top priority. The government of Quebec can only rise to this challenge if it adopts a budgetary policy that is more sustainable in the long term. Better controls on its spending and debt levels will make it possible to build a margin of manoeuvre into public finances over time. Recent events and the current financial situation of the government of Quebec make amply clear the importance of such a margin of manoeuvre.

This analysis is an update to the findings on the magnitude of the recession presented in chapter 10 of the book *Le Québec économique 2009*: <http://www.lequebecéconomique.qc.ca/> as well as a recapitulation of the challenges associated with the economic recovery.