



Update on Québec's Economic and
Financial Situation – Fall 2023

Increasing Québec's Economic Potential

AMBITIONS AND MEANS TO ACHIEVING THIS GOAL

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Increasing Québec's Economic Potential – Ambitions and Means to Achieving this Goal

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MESSAGE FROM THE PREMIER OF QUÉBEC

Since I first became involved in politics, I have been concerned about the standard of living in Québec. Five years ago, our government embarked on a major endeavour to close the wealth gap that lies between us and our main trading partners. Québec has some unique advantages. It is up to us to leverage those advantages to accelerate the process of closing the gap for the benefit of all Quebecers.

As a result, we asked Québec experts from a variety of fields to join us in reflecting on the next steps that should be taken to improve Québec's standard of living and help create wealth.

This goal is not an end in itself—it aims to give Québec the means to achieve its ambitions. Accordingly, Québec will be better equipped to face the many collective challenges ahead. Such a success will also reduce Québec's dependence on federal transfers and financial markets, while enabling it to maintain, if not improve, the competitiveness of its tax system.



■ Growing Quebecers' collective wealth

A more productive Québec will increase the value of production for every hour worked. It will translate into better wages for employees, higher profits for businesses and greater tax revenue for the government as a result.

■ Reducing our dependence on federal transfers

Québec receives just over \$14 billion in equalization payments. This dependence on federal transfers is the result of a lower level of wealth in Québec, and represents a real risk. Although the Canadian Constitution guarantees the existence of the equalization program, there is no certainty as to the amount Québec will receive each year. Building Québec's prosperity will enable us to reduce our dependence on equalization payments.

■ Aiming for even better-financed public services

A richer Québec means higher tax revenues, making it easier to finance our social programs. Greater wealth will enable us to increase the quantity and quality of public services. We will be able to invest even more in education and health care, improve income security, increase assistance to families, and accelerate our efforts to maintain and develop our public infrastructure.

Premier of Québec


François Legault

MESSAGE FROM THE MINISTER OF FINANCE

The Québec government has set itself the objective of creating wealth and maximizing economic potential over the long term. We have committed ourselves to this ambitious endeavour, starting with narrowing the standard of living gap with Ontario.

In concrete terms, our government has set an objective of reducing the gap in real GDP per capita with Ontario to less than 10% by 2026 and catching up with Ontario's real GDP per capita by 2036.

Government action is already bearing fruit: the process of catching up with Ontario's standard of living has accelerated significantly in more recent years. However, it is important to continue and intensify our efforts in this regard, based on certain guidelines, namely:

- valuing education and training;
- fostering a competitive business and regulatory environment;
- supporting priority development sectors with high growth potential;
- boosting productivity in both the private and public sectors;
- developing large businesses with their decision-making centres in Québec;
- accelerating the digitization and automation of all sectors;
- refocusing existing tools to optimize the impact of tax and budgetary measures.

I am therefore proud to present the results of an extensive review carried out over the last few months, with the aim of identifying promising ways of closing the gaps between Québec's standard of living and that of its main partners. The initiatives proposed in this document resulted from consultation with leading experts from the private sector and university community. They were asked for their outlook on the long-term impacts of disparities in living standards, possible solutions for bridging these gaps, and the determinants for maximizing Québec's potential economic growth.

It is essential for a developed and modern society like ours to reflect on past actions and to make the most of our economic expertise. The proposals received will deepen our reflection on wealth creation in Québec. Although some of the ideas contained in this document qualify the impacts of past decisions, they all have the same objective—to give Québec the means to achieve its ambitions.

I would like to extend my warmest thanks to all the experts who took part in our work. Québec's economic expertise is noteworthy. The recommendations arising from the consultation will guide us in our efforts to increase Québec's economic potential.

Minister of Finance



Eric Girard



SUMMARY

Since 1981,¹ Québec's standard of living, defined by real GDP per capita, has been lower than that of its main trading partners.

Quebecers' average annual standard of living growth was similar to Canadians' and Ontarians' until 2018. Gains in GDP per capita in Québec have therefore not enabled it to catch up with its main partners in terms of wealth.

As a result, Québec's standard of living gap with Ontario has remained relatively stable, dipping from 16.7% in 1981 to 16.1% in 2018.

TABLE 1

Standard of living gap with Québec
(real GDP per capita, gap as a percentage)

	1981	2018	2019	2020	2021	2022
Ontario	16.7	16.1	14.6	14.4	13.2	13.5
Canada	17.2	18.0	16.6	16.1	14.7	14.9
United States	14.2	44.3	47.8	51.4	52.4	51.2

Note: For the United States, real GDP per capita in U.S. dollars is converted to Canadian dollars using the purchasing power parity rate published by the OECD.

Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

However, there has been a change in trend since 2019. Gains in the standard of living continued to rise in Québec (+0.7% annual average), while real GDP per capita remained relatively stable in Ontario (+0.1%) and Canada (0.0%).

As a result, the standard of living gap with Ontario has narrowed rapidly, standing at 13.5% in 2022. However, the gap with the United States widened over this period, as the U.S. economy benefited from significant gains in productivity.

❑ The standard of living gap with Ontario will continue to narrow

The Québec government has set ambitious objectives for creating wealth and increasing Québec's economic potential.

—Major steps have been taken to increase the potential of Québec's economy and create more wealth.² Among other things, a number of initiatives have been implemented to boost business productivity and encourage the integration and retention of workers in the labour market.

—The government's action is paying off. It has improved Quebecers' standard of living. As a result, the wealth gap with Ontario has narrowed significantly.

The government intends to continue acting on the main determinants of living standards and to intensify its efforts to close the gap between Québec's standard of living and that of Ontario.

¹ The year in which the provincial economic accounts were first published.

² For more information, see section 3, "Levers for growing wealth and raising Quebecers' standard of living."

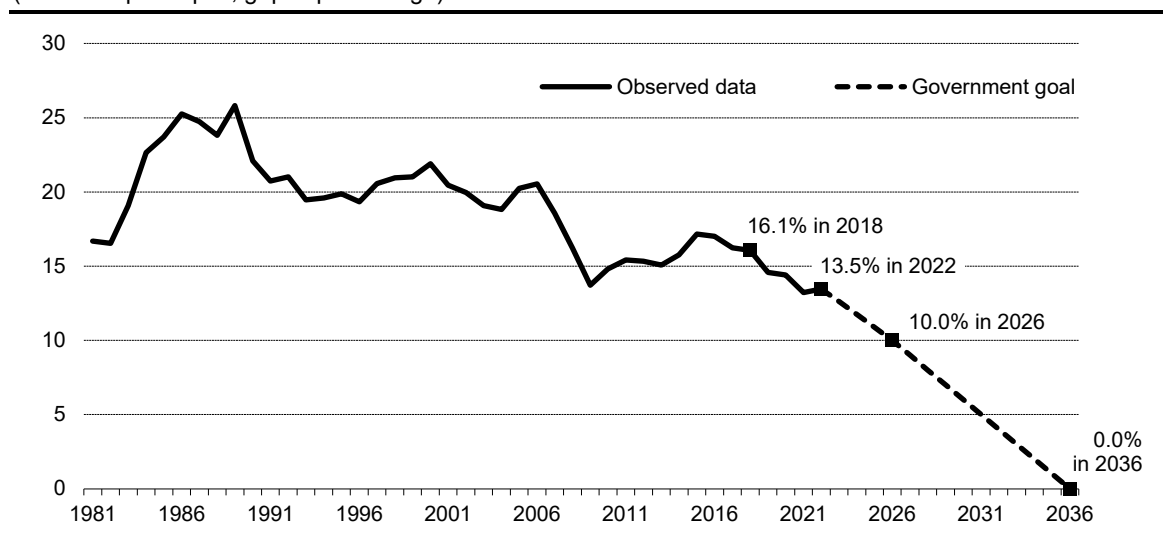
❑ An ambitious goal

The Québec government has set itself the objective of creating wealth and increasing economic potential over the long term, in an effort to do more for Quebecers. To achieve this, it intends to narrow the standard of living gaps with its main partners, particularly Ontario. Québec has therefore set the following ambitious objective:

- reducing the gap in real GDP per capita with Ontario to less than 10% by 2026;
- catching up with Ontario's real GDP per capita by 2036.

CHART 1

Change in the standard of living gap between Québec and Ontario (real GDP per capita, gap in percentage)



Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance and Ministère des Finances du Québec.

❑ A gap mainly attributable to lower productivity

A large proportion of the wealth gap can be explained by Québec's low productivity, as measured by output per job.³

- In 1981, Québec's productivity was below that of its main trading partners.
- From 1982 to 2022, it grew at a faster pace in Ontario (+1.0% annual average), Canada (+0.9%) and the United States (+1.5%) than in Québec (+0.8%).

As a result, Québec's productivity gap with its economic partners has widened since 1982. By 2022, the gap had grown to 12.8% with Ontario, 15.4% with Canada and 67.8% with the United States.

³ Output per hour worked is another method used to measure productivity. These two calculations generally produce similar findings.

Despite lagging in terms of living standards, Québec has many competitive advantages

Despite lagging in terms of standard of living, Québec has many competitive advantages that make it a high-performance economy.

- Québec is renowned for its diversified economy, strategic geographic location and abundance of natural resources. Not only is it the largest producer of hydroelectricity in North America, but its hydroelectric network is also one of the most reliable and self-sufficient in the world, as it is regulated to the highest standards.
- The Québec labour market posts the best performance in the country. In 2022, the unemployment rate was the lowest of all provinces, and the employment rate among those aged 15 to 64 was the highest in the country.
- The real estate market is one of the most accessible in Canada. In 2022, the average price of a property on the resale market stood at \$483 600 in Québec, compared to \$931 000 in Ontario, \$996 400 in British Columbia and \$703 600 in Canada.
- Household debt levels are relatively low. The debt ratio, that is, the value of household liabilities as a proportion of disposable income, was significantly lower in Québec (155.2% in 2022) than in Canada (188.3%) and Ontario (208.1%).
- Québec offers quality, affordable educational childcare services, as well as universal free access to health care.
- Québec has an excellent education system. It has many world-renowned universities accessible at a low cost.
- Québec encourages its businesses to invest in their productivity by offering them a tax advantage that greatly contributes to reducing the cost of investing.
- With affordable labour costs, low energy rates, low-cost rental space and a competitive general tax rate, Québec enables businesses to increase their competitiveness on the world stage.
- Québec boasts internationally recognized research and transfer ecosystems and infrastructures in a number of cutting-edge sectors, including aerospace, artificial intelligence, life sciences and sustainable development.
 - Québec is a leader in R&D, accounting for just over 27% of jobs and a quarter of R&D spending in Canada.
- Numerous free trade agreements give Québec privileged access to 1.5 billion consumers in 51 countries. Québec boasts modern, efficient transportation infrastructure that enables goods to be shipped by land, rail, sea or air.
- The Caisse de dépôt et placement du Québec and Investissement Québec make a tangible contribution to economic growth by supporting businesses that are innovating and going global.
- Québec has two key pieces of legislation for managing public finances: the *Balanced Budget Act* and the *Act to reduce the debt and establish the Generations Fund*. These acts contribute to maintaining an advantageous “AA” credit rating from the major rating agencies.

❑ The main factors behind the gaps

Several factors explain Québec's productivity gaps with its main economic partners, particularly:

- strong employment in lower-wage industries;
 - In 2022, 62.8% of employees in Québec worked in industries where the hourly wage was below average. This proportion stood at 59.1% in Ontario and 60.3% in Canada as a whole.
- the fact that SMBs are the backbone of the province's economy. However, large businesses are generally more productive than small ones, particularly due to their greater capacity for investments, the economies of scale they benefit from and their greater research and development (R&D) efforts;
 - In Québec, in 2022, 31.4% of all wage earners worked for a business with fewer than 50 employees. This was a higher proportion than in Ontario (28.2%) and Canada as a whole (30.2%).
- a shorter work week;
 - The average work week in Québec was 31.8 hours in 2022. This was less than in Ontario (32.8 hours, a 3.1% gap), Canada as a whole (32.7 hours, a 2.8% gap) and the United States (34.5 hours, an 8.6% gap).
- non-residential business investment, which did not reach its full potential;
 - Since 1981, the value of investment per private-sector worker has generally been lower in Québec than for its main trading partners. In 2022, it amounted to \$14 842 per private job, lower than in Ontario (\$17 066, a 15.0% gap), Canada (\$20 338, a 37.0% gap) and the United States (\$31 443, a 111.8% gap).
 - These differences are mainly due to under-investment in machinery and equipment, the key determinant of productivity. This under-investment in machinery and equipment has an effect on the capital stock per worker. In this respect, Québec lagged behind Ontario by 29.9% and behind Canada by 41.9% in 2021.
- lower entrepreneurial dynamism, which reduces competition;
 - On average from 2002 to 2020, the enterprise entry rate was 11.1% in Québec, below that of Ontario (14.7%), Alberta (16.1%) and British Columbia (15.4%).
 - Similarly, the enterprise exit rate averaged 10.5% in Québec, lower than in Ontario (12.5%), Alberta (14.2%) and British Columbia (13.6%).
 - These ratios measure the renewal of businesses in an economy.
- a higher gross corporate tax burden despite an advantageous marginal effective tax rate (METR) on investment.
 - As a proportion of GDP, taxes paid by businesses in Québec were 7.2% in 2021, compared with 6.1% in Ontario and 1.6% in the United States.

❑ **Levers for growing wealth and raising Quebecers' standard of living**

Major steps have been taken since fall 2018 to increase the potential of Québec's economy in an effort to create more wealth. Significant gains have been made in this respect. The standard of living gap between Québec and Ontario narrowed from 16.1% in 2018 to 13.5% in 2022. The Québec government intends to continue on this path and take further action on the main determinants of living standards, based on the following guidelines:

- valuing education and training;
- increasing the labour force and labour market participation;
- encouraging a competitive business and regulatory environment;
- supporting priority development sectors with high growth potential;
- encouraging academics and researchers to transfer their expertise to the private sector;
- boosting productivity in both the private and public sectors;
- developing large businesses with their decision-making centres in Québec;
- attracting foreign investment to Québec to boost growth and productivity, particularly in strategic sectors;
- improving access to venture capital;
- accelerating the digitization and automation of all sectors;
- encouraging innovation, commercialization and exports;
- refocusing existing tools to optimize the impact of tax and budgetary measures.

■ **Increasing the labour force**

The Québec labour market is one of the tightest in the country. This is due, in particular, to the aging of the population. Québec therefore has fewer potential workers who can fill available jobs.

In this context, increased labour market participation will be needed to support long-term economic growth in Québec.

- People aged 15 to 64 in Québec participate significantly in the Québec labour market.
- In addition, increased schooling has markedly improved the employment rate of experienced workers.

Therefore, gains will be more difficult to achieve in this area.

■ Increasing the participation of experienced workers in the labour market

In 2022, the employment rate of the population aged 15 and over remained lower in Québec (61.5%) than in Canada (62.0%) and Ontario (61.8%). This is due to the fact that Québec has an older population.

- The employment rate for all age groups between the ages of 15 and 59 was higher in Québec than in Canada as a whole and Ontario in 2022.
- Gaps in employment rates among the population aged 60 and over still exist with Canada and Ontario. In 2022 in particular, the employment rate of the population aged 60 to 69 in Québec (37.0%) was nearly 7 percentage points lower than in Ontario (43.8%).

Thus, gains can still be made with respect to experienced workers.

- If the employment rate for Quebecers aged 60 to 69 had caught up to Ontario's rate in 2022, Québec would have 76 500 additional workers.

■ Improving the integration of recent immigrants into the labour market

Progress must still be made in terms of integrating immigrants into the labour market.

- Immigrants aged 25 to 54 who had been in Québec for five years or less had an employment rate of 74.7% in 2022. This was lower than the rate for Canada (78.0%) and Ontario (78.1%).

■ Facilitating women's participation in the labour market

The family policies implemented in Québec over the last few decades have made it easier for women to enter the labour market.

- The employment rate among women aged 25 to 54 jumped from 51.4% in 1981 to 85.1% in 2022, a gain of 33.7 percentage points. Québec has the highest employment rate for women aged 25 to 54 of all the provinces (81.4% in Canada and 79.8% in Ontario in 2022).

Despite this progress, women's employment rate was still lower in 2022 than for men in the same age category (88.8%).

- In particular, women aged 25 to 54 with young children had an employment rate of 79.8% in 2022, well below that of men with similar characteristics (94.4%).

■ Improving the personal income tax system

Since 2018, the government has taken action to improve the personal income tax system, in particular by reducing the tax burden. Nevertheless, Québec remains the province where taxpayers are the most heavily taxed in Canada.

- In 2021, personal income tax as a proportion of GDP was 14.7%, higher than the Canadian average without Québec (12.7%). The personal income tax cut starting in 2023 will reduce this proportion to 14.3%, which is still higher than Ontario's tax burden (14.1%). This major effort will nevertheless narrow the gap between the two provinces and make Québec more attractive to workers.

■ Providing an investment-friendly business environment

The business environment must be competitive to rival with North American markets in attracting and retaining foreign subsidiaries, and to foster the growth of Québec businesses. Since 2018, the government has introduced a series of measures that support investments in the aim of fostering productivity gains.

—Québec must continue its efforts to ensure that its tax system is competitive and encourages business investment, and to make it easier to do business by reducing the regulatory burden.

Overall, Québec's tax system included 85 tax expenditures associated with corporate taxation in 2022. For the purposes of comparison, total business assistance tax credits were 1.5 times higher in Québec (\$2.7 billion) than in Ontario (\$1.8 billion) in 2022.

—The total of these tax credits is 2.8 times higher in Québec when the size of the two economies is taken into account. This represents 0.49% of GDP in Québec, compared to just 0.18% in Ontario.

■ Encouraging innovation, commercialization and exports

In a world where markets are increasingly competitive and new players are seeking to make their mark, Québec needs to encourage R&D projects, innovation and commercialization in order to stand up to the competition and continue to prosper.

—Progress is needed on several fronts. While Québec has a good research and innovation structure, it can do better, particularly in terms of commercializing innovations.

Given the limited size of the Québec market, businesses need to step up their innovation and commercialization efforts. These efforts will enable businesses to increase their presence on export markets, accelerate their development and thus contribute to growing Québec's wealth.

■ Promoting entrepreneurship

In 2020, Québec's private sector numbered just over 220 000 businesses with salaried employees. However, the province had the fewest businesses per capita.

—In 2020, Québec had around 25.9 active businesses per 1 000 inhabitants, compared to 29.9 in Ontario.

To increase its productivity and grow its wealth, Québec must focus on entrepreneurial dynamism and encourage new businesses to enter the market and business takeovers.

■ Valuing education and training

Quality education services promote the collective prosperity of Quebecers. Higher graduation rates and greater access to education increase worker productivity.

—In 2018-2019,⁴ the on-time high school graduation rate⁵ was 75% in Québec compared to 83% in Ontario. Québec had the lowest high school graduation rate of all the provinces.

In particular, student retention needs to be improved among boys.

—In 2018-2019, only 69% of boys graduated on time. This is a much lower proportion than for girls (81%).

⁴ The most recent data available cover the 2019-2020 school year. However, this period was affected by the COVID-19 pandemic. In order to exclude the effects of the pandemic from the results, the year 2018-2019 was considered in this analysis.

⁵ The on-time high school graduation rate is the percentage of a cohort of youth who complete high school within three years of starting grade 10 (secondary 4 in Québec).

Key recommendations from the consultation

Over the past few months, the Ministère des Finances has been consulting leading experts from university, institutional and financial communities.⁶ The experts were asked to identify the long-term impacts of disparities in living standards, possible solutions for bridging these gaps, and the determinants for increasing Québec's potential economic growth. The experts came up with a variety of levers, including:

- investing more in education and training;
- fostering a competitive business and regulatory environment;
- implementing a formal framework for collective wealth, which should be enshrined in law;
- reviewing industrial policy by targeting the most promising sectors;
- encouraging academics and researchers to transfer their expertise to the private sector;
- developing large businesses with their decision-making centres in Québec;
- promoting the development of large businesses with targeted measures and reducing support for under-performing businesses;
- modifying certain fiscal measures for businesses, particularly reviewing the wage-based tax credits;
- optimizing tax and budget support for R&D and the commercialization of innovations;
- continuing to develop innovation zones and implementing an Advanced Research Projects Agency (ARPA) program in Québec, industrial laboratories of excellence, as well as large, concerted mobilizing projects in areas where Québec has a competitive advantage;
- funding a reduction in employer contributions to the Health Services Fund via a review of tax assistance for businesses;
- reducing the scope of the small business deduction to lower the general corporate income tax rate;
- developing incentives to encourage investment in business capital;
- continuing to ease the tax burden on individuals;
- redesigning taxation methods (income tax versus sales tax) and evaluating fiscal measures;
- introducing more generous incentives to delay retirement;
- carrying out a comprehensive periodic review of existing programs and measures;
- boosting productivity in both the private and public sectors;
- digitizing public administration and adopting cutting-edge technologies.

The Ministère des Finances will be analyzing the recommendations arising from this consultation over the coming months, in order to identify the most promising measures for increasing Québec's economic potential and closing the wealth gap with Ontario. Moreover, in some cases, the proposals submitted confirm existing measures.

⁶ Shaded areas indicate recommendations made by the experts as part of the consultation.

❑ Undeniable progress, collective reflection to be pursued

Raising Quebecers' standard of living is an essential objective for the development of society. Achieving this requires the commitment of all Quebecers. Despite lagging in terms of living standards, Québec has many competitive advantages. These unique advantages must be exploited to accelerate the process of closing the gap for the benefit of all Quebecers.

Québec's historically lower standard of living, the underlying factors, and the various means that could be used to boost economic potential are well known.

The findings and recommendations gathered from experts from the academic, institutional and financial communities were relatively mixed.⁷ The range of possible solutions received demonstrates the complexity of the issue. As a result, the government must remain cautious and adjust to act effectively. It must also do so in a way that is consistent with the evolution of society and the new priorities that emerge.

Government action must remain in step with the economic environment, changes to the labour market and population characteristics, and the needs of businesses. The measures put in place by the government since 2018 are part of this vision. They are bearing fruit, as the wealth gap with Ontario is narrowing.

In the *Update on Québec's Economic and Financial Situation – Fall 2023*, the government is taking strong action to encourage businesses to invest more.

- The renewal of the investment and innovation tax credit (C3i) will provide fully refundable tax assistance corresponding to 15%, 20% or 25% of eligible investments, depending on the territory in which they are made.
- In addition to providing businesses with a simplified investment tax assistance plan, the renewed C3i will represent nearly \$1.3 billion in additional financial support over the next five years, driving \$19 billion in investments by 2029.

The reflection initiated as part of this consultation represents a first step. The government will continue in this direction over the next few years.

Boosting economic performance will benefit all Quebecers by improving their standard of living. This collective prosperity is necessary to ensure that Québec's public services are funded in the long term.

⁷ The briefs prepared by these experts can be consulted on the Ministère des Finances du Québec website at http://www.finances.gouv.qc.ca/ministere/outils_services/consultations_publicques/communaute_universitaire_economique/2023_2024_ecart_de_richesse.asp.

Illustration of possible gains

Productivity gains

If Québec had had the same industrial structure as Ontario in 2022, Québec's real GDP per job would have been approximately \$8 000 higher, or roughly two thirds of the observed productivity gap.

If Québec had achieved the same productivity per industry as Ontario in 2022, Québec's real GDP per job would have been approximately \$4 000 higher, or roughly one third of the observed productivity gap.

Other possible gains

If the employment rate for workers aged 60 to 69 in Québec had caught up to Ontario's rate in 2022, Québec would have 76 500 additional workers. Quebecers' standard of living would increase by \$845 per capita, or around 1.7%.

If the number of hours worked per week in Québec had been the same as in Ontario in 2022, Québec's standard of living would be approximately \$1 450 higher per capita, a gain of about 3.0%.

According to estimates based on the general equilibrium model of the Ministère des Finances du Québec (MEGFQ):

- an annual increase in business investment of \$7.0 billion (+15.0%) would have a positive effect on Québec's real GDP of approximately \$27.5 billion annually over the long term. Quebecers' standard of living would increase by just over \$3 200 per capita, a gain of around 5.5%;
- an increase in the number of students, so that Québec's high school graduation rate would match that of Ontario, would have a positive impact of approximately \$2.4 billion on Québec's real GDP. Thus, increased schooling would raise Québec's standard of living by around \$250 per capita, or 0.4%.

Impact of GDP growth on government revenue

A gain of 1.0 percentage point in nominal GDP has a positive impact of \$1.0 billion on the Québec government's own-source revenue (excluding government enterprises).

- If Québec's GDP per capita had been equivalent to Ontario's in 2022, the Québec government would have benefited from additional revenue of approximately \$8.2 billion, an increase of 7.5% over the level forecast in 2022-2023.
- If Canada's GDP per capita had been attained, the impact would have been \$12.1 billion (+11.1%).

TABLE 2

Illustration of possible gains for Québec's economy

Assumption	Estimated gain
Québec's GDP per capita was equivalent to Ontario's in 2022	- Impact of about \$8.2 billion on own-source revenue ⁽¹⁾ in 2022-2023, a gain of 7.5%
Québec's GDP per capita was equivalent to Canada's in 2022	- Impact of about \$12.1 billion on own-source revenue ⁽¹⁾ in 2022-2023, a gain of 11.1%
The employment rate of workers aged 60 to 69 in Québec caught up to Ontario's rate in 2022	- 76 500 additional workers - Increase of about \$845 in real GDP per capita, a gain of 1.7%
The number of hours worked per week in Québec was the same as in Ontario in 2022	- Increase of about \$1 450 in real GDP per capita, a gain of 3.0%
Québec had the same industrial structure as Ontario in 2022	- Increase of about \$8 000 in real GDP per job
Québec achieved the same productivity per industry as Ontario in 2022	- Increase of about \$4 000 in real GDP per job
Estimates based on the general equilibrium model of the Ministère des Finances (MEGFQ)	
Non-residential business investment increases by \$7.0 billion (+15.0%)	- Increase of about \$27.5 billion in real GDP annually - Increase of just over \$3 200 in real GDP per capita, a gain of 5.5%
Québec's high school graduation rate catches up with Ontario's	- Increase of about \$2.4 billion in real GDP - Increase of about \$250 in real GDP per capita, a gain of 0.4%

(1) Own-source revenue excluding revenue from government enterprises.
Source: Ministère des Finances du Québec.

1. A HISTORICALLY LOWER STANDARD OF LIVING IN QUÉBEC

The government wants to increase Québec's level of wealth. Wealth itself is the means to ensure Québec's full social and cultural potential and the development of a greener economy. Québec will be able to create more wealth by acting on the determinants of economic growth, which will support an increase in the standard of living. The standard of living, defined by real GDP per capita, measures a population's wealth and prosperity.

- Some of the nominal economic growth is simply the result of price increases and does not improve purchasing power for citizens. It is therefore more appropriate to use real GDP to calculate the standard of living.

The standard of living can be raised by acting on three levers:

- the demographic weight of the main labour pool, defined by the population aged 15 to 64 as a proportion of a region's population;
- the employment rate, which corresponds to the number of people working as a proportion of the population aged 15 to 64;
- productivity, that is, real GDP per worker.

$$\text{Standard of living} = \text{Demographic weight of main labour pool} \times \text{Employment rate} \times \text{Productivity}$$

$$\frac{\text{Real GDP}}{\text{Capita}} = \frac{\text{Pop. aged 15 to 64}}{\text{Capita}} \times \frac{\text{Employment}}{\text{Pop. aged 15 to 64}} \times \frac{\text{Real GDP}}{\text{Employment}}$$

If real GDP growth exceeds demographic growth, the standard of living will increase. The higher it is, the greater the range of products and services available to residents.

❑ A wealth objective that goes beyond standard of living gaps

As various experts mentioned, there are other indicators for assessing a region's standard of living.

- In particular, real gross domestic income (GDI) per capita measures the volume of goods and services that an individual can purchase from the income generated by their production.
- Other complementary well-being indicators are published by various organizations. These indicators can be used to measure other aspects of a society's development and influence.⁸

As part of its various studies and analyses, the government examines numerous indicators to assess the well-being of Quebecers. Among existing measures, the Ministère des Finances favours real GDP per capita.

- This indicator is the most often used. It allows us to focus on the increase in wealth, and to determine which elements to act on in order to maximize Québec's potential.

⁸ See Appendix 2 for more information on other living standard indicators.

1.1 A standard of living gap that has existed for many years, but is narrowing

In 1981, the year in which the provincial economic accounts were first published, Québec's standard of living was lower than that of its main trading partners.

Québec's average annual standard of living growth was similar to Canada's and Ontario's until 2018. Gains in real GDP per capita in Québec have therefore not enabled it to catch up with its main partners in terms of wealth.

As a result, Québec's standard of living gap with Ontario has remained relatively stable, dipping from 16.7% in 1981 to 16.1% in 2018. A similar observation can be made for Canada (from 17.2% in 1981 to 18.0% in 2018). Meanwhile, the standard of living gap between Québec and the United States widened significantly, increasing from 14.2% in 1981 to 44.3% in 2018.

❑ Accelerated catch-up since 2019

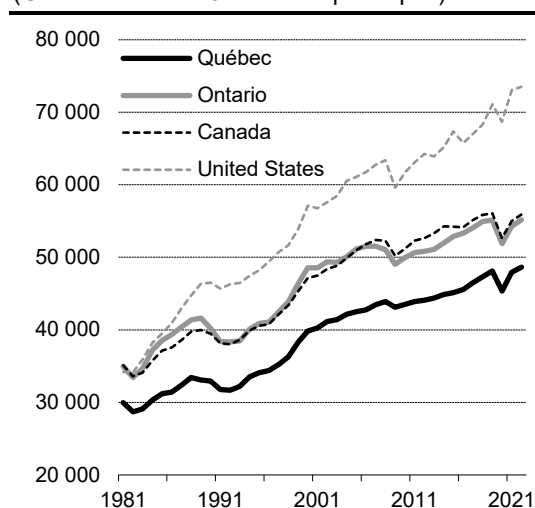
There has been a change in trend since 2019. Gains in the standard of living continued to rise in Québec (+0.7% annual average), while real GDP per capita remained relatively stable in Ontario (+0.1%) and Canada (0.0%). The United States stands out with strong growth in real GDP per capita from 2019 to 2022 (+1.9% on average per year).

—Consequently, the standard of living gaps with Ontario and Canada narrowed quickly to stand at 13.5% and 14.9% respectively in 2022. However, the gap with the United States widened over this period, as the U.S. economy benefited from significant gains in productivity.

CHART 2

Change in standard of living

(GDP in chained 2012 dollars per capita)



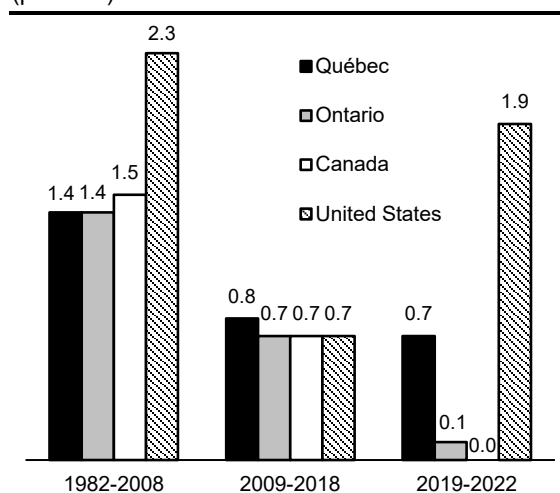
Note: For the United States, real GDP per capita in U.S. dollars is converted to Canadian dollars using the purchasing power parity rate published by the OECD.

Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

CHART 3

Average annual growth in standard of living

(per cent)



Note: The standard of living corresponds to real GDP per capita. For the United States, real GDP per capita in U.S. dollars is converted to Canadian dollars using the purchasing power parity rate published by the OECD.

Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

The United States, a highly productive country

The standard of living in the United States, as measured by real GDP per capita, jumped sharply in recent decades largely as a result of productivity gains. Average annual growth in real GDP per capita rose from 0.7% between 2009 and 2018 to 1.9% between 2019 and 2022.

The United States' dominance in terms of productivity is well known. However, this overall result conceals major gaps between various industries and U.S. states.

Productivity: A matter of technological advancement and investment

Productivity in the United States rose by an average of 1.6% between 2019 and 2022.

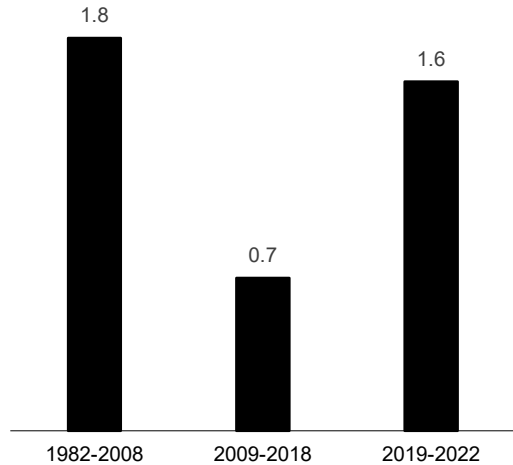
A number of researchers have attributed this strong growth mainly to technological advances, which may have accounted for a large share of productivity gains in the first half of the 20th century.

- According to various analyses, the information and communication technology industry was the top performer. It has underpinned U.S. productivity growth since the 1990s.

There are other factors behind the United States' strong performance in this area. They include Americans' willingness to go into business for themselves and work longer, qualified business managers and a pool of skilled workers trained at leading universities. The size of the economy and the natural wealth of the United States, as well as strong private and public investment spending, also underpin the productivity gains.

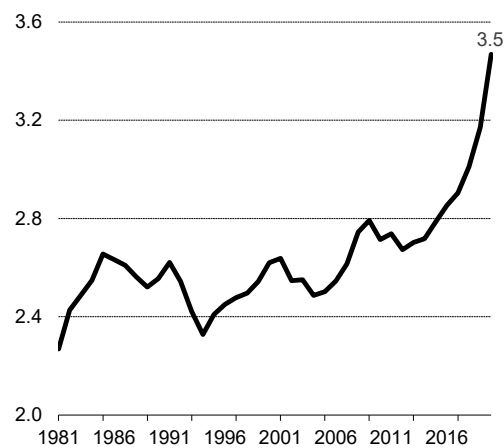
- In terms of research and development spending, the country ranked fifth among the countries monitored by the OECD in 2020 (3.5% of GDP) and continues to dominate regarding the number of patents.

Productivity in the United States
(average percentage change)



Note: Productivity as measured by real GDP per job.
Sources: S&P Global and Ministère des Finances du Québec.

R&D spending
(percentage of GDP)



Source: OECD.

The United States: Outstanding performance in terms of standard of living

Québec and Canada are not the only economies to see a significant wealth gap with the United States. For example, the standard of living in Germany, Europe's largest economy, which is also recognized worldwide for its high productivity, is lower than in the United States. The wealth gap between these two economies increased between 2018 and 2022.

- Average real GDP per capita growth from 2019 to 2022 was much higher in the United States (+1.5%) than in Germany (+0.3%).
- As a result, the standard of living gap rose from 13.8% in 2018 to 19.2% in 2022.

Beyond the relative standard of living gaps, the United States has an exceptional economic performance. The U.S. economy is home to many multinationals, including several world leaders in the technology sector.

Furthermore, the level of U.S. real GDP for 2023 in the International Monetary Fund's October 2023 forecasts was higher than in its pre-pandemic forecasts in January 2020.

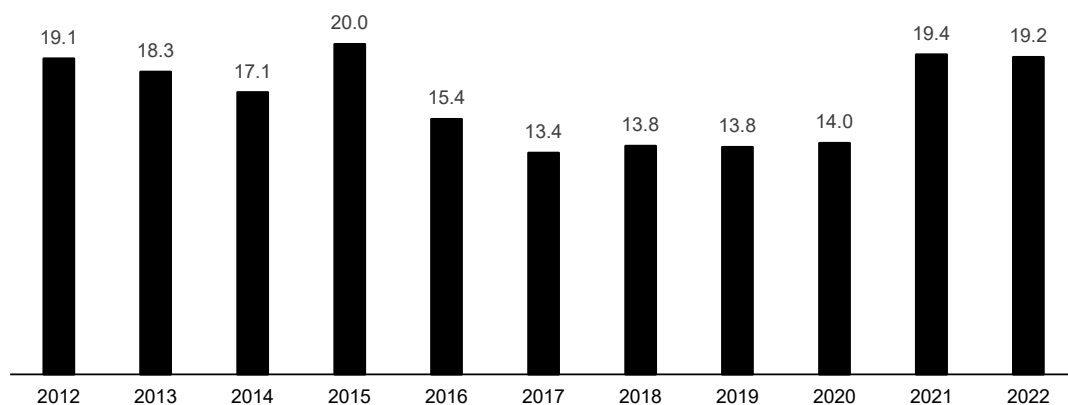
The United States is the only major economy to achieve such a result, reflecting the country's exceptional economic performance during this period.

International comparisons should be interpreted with caution

Comparisons of the standard of living between Germany and the United States must be interpreted with caution.

- These two economies may be at different stages of their economic cycle or experiencing diverging demographic trends.
- In addition, converting Germany's GDP into U.S. dollars can result in fluctuations.

Standard of living gap between the United States and Germany (real GDP per capita, per cent)



Note: For Germany, real GDP per capita in euros is converted to U.S. dollars using the purchasing power parity rate published by the OECD. The nominal value of GDP is converted into the chained 2012 value by the 2012 GDP deflator.
Sources: World Bank, S&P Global, OECD and Ministère des Finances du Québec.

1.2 A gap mainly attributable to lower productivity

In 2022, Québec's **standard of living** was lower than that of its main economic partners.

Québec was at a **demographic** disadvantage in the **weight of the 15-to-64 age group** compared to Ontario, Canada and the United States.

—The aging of the population is more pronounced in Québec than it is among its main partners. As a result, the demographic weight of people aged 15 to 64 is lower in Québec. However, this component did not account for a significant share of the standard of living gap in 2022.

In contrast, Québec's **employment rate** was better than that of Ontario, Canada and the United States. Total employment, as a proportion of the population aged 15 to 64, was 81.2% in Québec in 2022.

—This was a higher rate than that observed in Ontario (78.5%), Canada (79.5%) and the United States (72.0%) for the same period.

However, Québec lagged far behind in terms of **productivity**.

—Québec's real GDP per job was \$95 768 in 2022, well below that of Ontario (\$108 062), Canada (\$110 477) and the United States (\$160 696).

TABLE 3

Standard of living and its components in 2022

	Standard of living ⁽¹⁾	Demographic weight of 15- to 64-year-olds ⁽²⁾	Employment rate ⁽³⁾	Productivity ⁽⁴⁾
Level				
Québec	48 624	62.5	81.2	95 768
Ontario	55 166	65.0	78.5	108 062
Canada	55 872	63.6	79.5	110 477
United States ⁽⁵⁾	73 496	63.5	72.0	160 696
Gap with Québec (per cent)				
Ontario	13.5	4.0	-3.3	12.8
Canada	14.9	1.7	-2.1	15.4
United States	51.2	1.6	-11.4	67.8

Note: Totals may not add due to rounding.

(1) Standard of living corresponds to GDP in chained 2012 dollars per capita.

(2) The demographic weight of the 15-to-64 age group represents the weight of the population aged 15 to 64 as a percentage of the total population.

(3) The employment rate corresponds to the total number of workers in proportion to the population aged 15 to 64.

(4) Productivity represents GDP in chained 2012 dollars per job.

(5) For the United States, real GDP per capita and real GDP are converted to Canadian dollars using the purchasing power parity rate published by the OECD. Demographic weight and employment rate are measured using data on the population aged 16 to 64.

Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

Standard of living and productivity gaps between the various U.S. states

Different levels of wealth between states

As is true for Canada and the provinces, the standard of living and productivity are not consistent within the United States.

- Some U.S. states have a standard of living that is far from the national average.
- In 2022, for example, the standard of living in New York (\$97 393), Massachusetts (\$95 442) and Illinois (\$77 767) was higher than the U.S. average (\$73 496). However, it was below the average in Pennsylvania (\$68 582) and Michigan (\$59 857).
- States with a higher standard of living than the national average generally had higher productivity than the average for the country as a whole.

According to a U.S. Federal Reserve study, differences in life expectancy and education are among the factors that account for the standard of living gaps observed between the states that were analyzed.¹

Very significant gaps with Québec

Most U.S. states have a higher standard of living than Québec.

- These states enjoy a demographic advantage over Québec, enabling them to better supply their labour market.
- In addition, their productivity levels are much higher. A number of factors explain the United States' good performance in this area, including major technological advances, Americans' willingness to go into business for themselves, qualified business managers and a pool of skilled workers trained at leading universities. The size of the economy and its natural wealth, as well as strong private and public investment spending, also underpinned the productivity gains.
- However, all these states have lower employment rates than Québec's.

Standard of living in selected U.S. states and Québec in 2022

(Canadian dollars, unless otherwise indicated)

	New York	Mass.	Illinois	Penns.	Michigan	United States	Québec
Factors of production							
Demographic weight (%) ⁽¹⁾	65.1	66.3	65.2	63.8	64.0	63.5	62.5
Employment rate (%) ⁽²⁾	74.4	79.5	73.7	72.4	67.9	72.0	81.2
Productivity ⁽³⁾	201 079	181 124	162 009	148 471	137 676	160 696	95 768
STANDARD OF LIVING⁽⁴⁾	97 393	95 442	77 767	68 582	59 857	73 496	48 624
Gap with Québec (%)	100.3	96.3	59.9	41.0	23.1	51.2	—

Note: U.S. figures were estimated by S&P Global in August 2023.

(1) The demographic weight of the 15-to-64 age group represents the weight of the population aged 15 to 64 in the total population. In the United States, it is measured using data on the population aged 16 to 64.

(2) The employment rate corresponds to the total number of workers in proportion to the population aged 15 to 64 in Québec and aged 16 to 64 in the United States.

(3) Productivity represents real GDP at purchasing power parity per job. GDP in U.S. dollars is converted to Canadian dollars using the purchasing power parity rate published by the OECD. For Québec, this is real GDP per job.

(4) Standard of living is measured by real GDP per capita at the purchasing power parity rate published by the OECD. For Québec, this is real GDP per capita.

Sources: Institut de la statistique du Québec, Statistics Canada, S&P Global, OECD and Ministère des Finances du Québec.

¹ Elena Falcattoni and Vegard M. Nygaard, "A Comparison of Living Standards Across the States of America," [Online], *Finance and Economics Discussion Series*, Washington, July 26, 2022, [<https://doi.org/10.17016/FEDS.2020.041>].

❑ An economic lag also observable in the metropolis

Close to 40% of Canada's GDP in 2019 was generated by three census metropolitan areas (CMAs): Montréal, Toronto and Vancouver.

Like at the provincial level, GDP per capita in the Montréal CMA (\$53 987 in 2019) was lower than in the Toronto CMA (\$68 418) and the Vancouver area (\$60 339).

The link between standard of living and labour productivity is inextricable. The Montréal CMA therefore also showed a gap in terms of productivity.

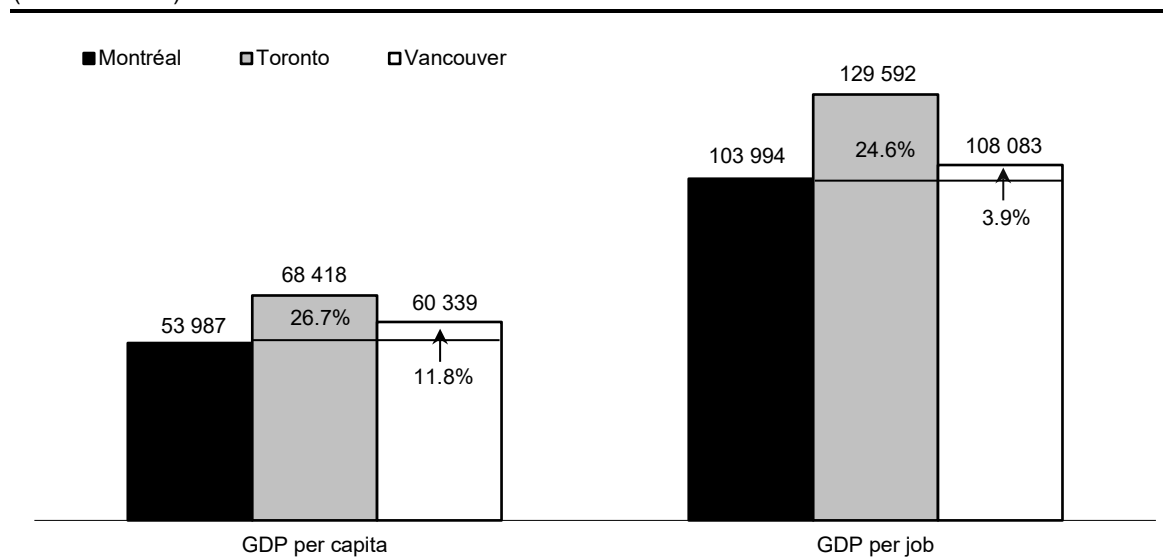
—In 2019, Montréal's GDP per job was \$103 994, a gap of 24.6% compared to Toronto.

—However, the productivity gap with Vancouver (3.9%) was narrower.

The Montréal CMA accounted for 55.0% of Québec's GDP in 2019. This area's economic vitality is therefore essential to raise the standard of living across Québec as a whole.

CHART 4

Standard of living and productivity for selected census metropolitan areas in 2019 (current dollars)



Note: Standard of living corresponds to GDP per capita and productivity corresponds to GDP per job.

Sources: Statistics Canada and Ministère des Finances du Québec.

2. PRODUCTIVITY GAINS WILL BE THE MAIN DRIVING FORCE IN RAISING QUÉBEC'S STANDARD OF LIVING

Québec's standard of living can be improved by focusing on three levers: the demographic weight of the main labour pool, the employment rate and productivity. Against a backdrop of an aging population and a labour shortage, productivity gains offer the greatest potential for sustaining standard of living gains.

2.1 A widening productivity gap

A large proportion of Québec's wealth gap can be explained by its low productivity, as measured by output per job.⁹

—In 1981, productivity in Québec was below that of its main trading partners.

—From 1982 to 2022, it grew at a faster pace in Ontario (+1.0% annual average), Canada (+0.9%) and the United States (+1.5%) than in Québec (+0.8%).

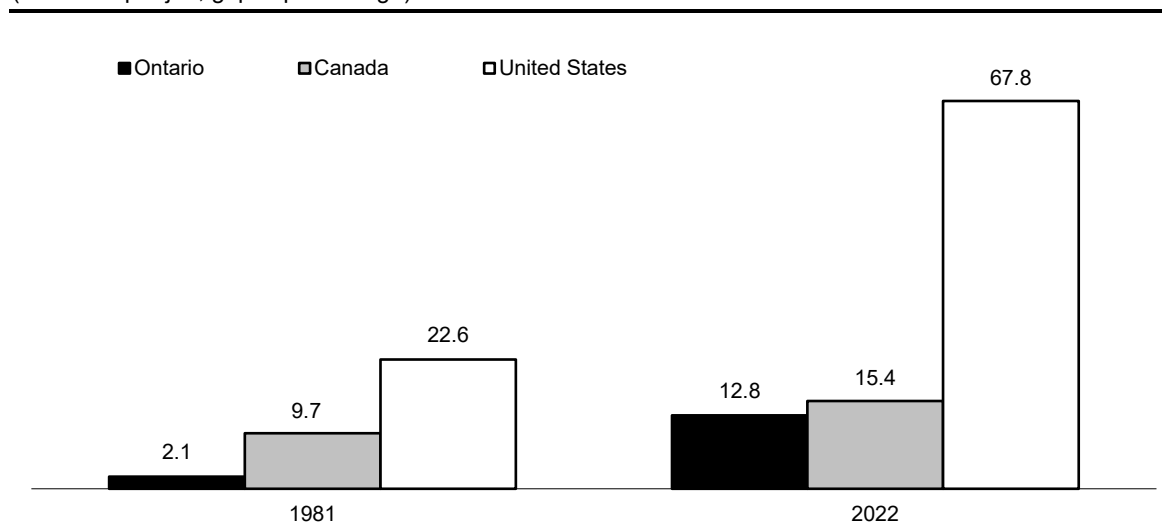
As a result, by 2022, Québec's productivity gap with its economic partners had widened. The gap had grown to 12.8% with Ontario, 15.4% with Canada and 67.8% with the United States.

Québec's productivity gap is due to a number of factors, such as:

- non-residential business investment, which remains relatively weak;
- an industrial fabric with a strong presence of small and medium-sized businesses;
- a lower average number of hours worked per job.

CHART 5

Productivity gap with Québec (real GDP per job, gap in percentage)



Note: For the United States, real GDP per job in U.S. dollars is converted to Canadian dollars using the purchasing power parity rate published by the OECD.

Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

⁹ Output per hour worked is another method used to measure productivity. These two calculations generally produce similar findings.

❑ Strong employment in lower-wage industries

Generally speaking, productivity is closely tied to wages. In Québec, a significant share of jobs are in industries where the average hourly wage is below the provincial average.

- In 2022, the average hourly wage was \$30.96 in Québec, compared to \$32.94 in Ontario and \$31.96 in Canada as a whole.
- During this period, 62.8% of jobs in Québec were in industries where hourly wages were lower than the provincial average. This ratio is higher than in Ontario (59.1%) and Canada as a whole (60.3%).

❑ Small and medium-sized businesses make up the economic fabric of Québec

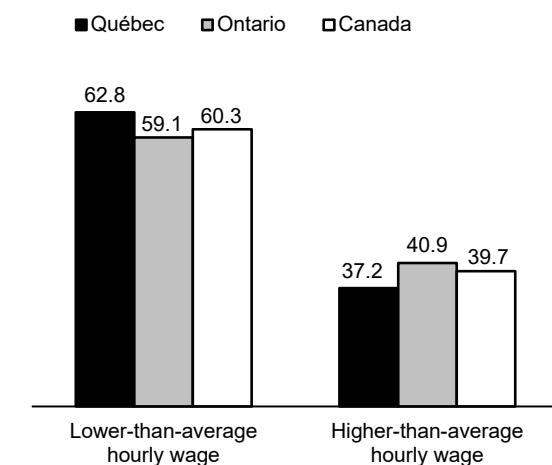
Company size may explain part of Québec's productivity gap. Large companies are generally more productive than small ones, particularly due to their greater R&D efforts. Yet, small and medium sized businesses form the very fabric of the Québec economy.

- In 2022, 31.4% of all wage earners worked for a business with fewer than 50 employees. This is a higher proportion than in Ontario (28.2%) and Canada as a whole (30.2%). At the same time, 48.1% of Québec employees worked in companies with 300 or more employees, a lower proportion than among the province's main trading partners.

Furthermore, since large companies benefit from economies of scale, they usually pay their employees higher salaries. In 2022, the average weekly wage for employees in businesses with fewer than 50 employees was \$957 in Québec, compared to \$1 249 for businesses with more than 300 employees.

CHART 6

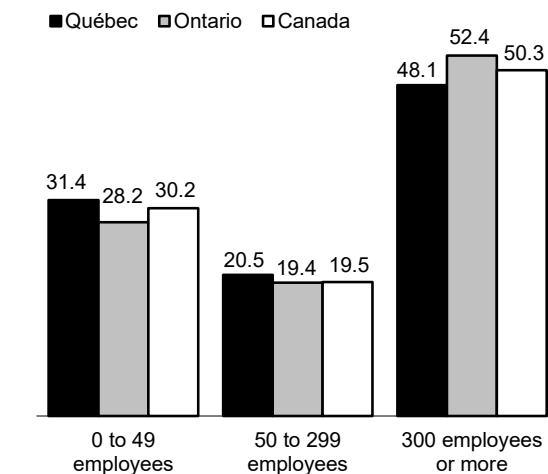
Share of total employment by average hourly wage in 2022
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART 7

Share of employment for all employees by business size in 2022
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

A detailed analysis of productivity by industry

Most of Ontario's industries are more productive than Québec industries

Based on real GDP statistics by industry in 2022, it is clear that the majority of industries in Québec are lagging behind Ontario in terms of productivity.

- In 2022, each job in Québec generated an average of \$88 844, compared to \$100 774 in Ontario.

Much of this difference stems from a different industry makeup.

- The finance and insurance industry plays a major role in Ontario's economy. The province is home to the Toronto Stock Exchange and the head offices of most major banks.

The productivity gap between Québec and Ontario is approximately \$12 000 per job.

- With an industrial structure comparable to Ontario's, productivity in Québec would have been about \$8 000 higher per job, or roughly two thirds of the gap.
- At the same time, if Québec had achieved the same productivity per industry as Ontario, Québec's GDP per job would have been approximately \$4 000 higher, or roughly one third of the gap.

Real GDP per job in 2022

(share of total employment, productivity in chained 2012 dollars per job)

	Québec		Ontario	
	Share of total employment	Productivity	Share of total employment	Productivity
Natural resources ⁽¹⁾	2.3	146 856	1.4	149 346
Utilities ⁽²⁾	0.7	415 455	0.8	222 550
Construction	6.7	88 039	7.6	97 626
Manufacturing	11.4	97 860	10.2	107 833
Wholesale and retail trade	15.1	69 712	14.8	77 805
Transportation and warehousing	4.8	68 982	4.9	68 159
Finance, insurance, real estate, rental and leasing	6.3	253 521	8.7	275 381
Professional, scientific and technical services	8.5	75 274	10.4	74 597
Business services ⁽³⁾	3.9	57 581	3.7	84 020
Educational services	7.7	70 769	7.3	79 317
Health care and social assistance	13.7	55 883	12.1	57 793
Information, culture and recreation	4.2	83 384	4.1	126 280
Accommodation and food services	4.6	38 235	5.2	32 569
Other services (except public administration)	3.7	49 422	3.3	56 470
Public administration	6.3	109 955	5.7	130 281
All industries	100.0	88 844	100.0	100 774

Note: Productivity as measured by real GDP per industry per job.

(1) This category includes agriculture, mining, fishing, quarrying and oil and gas extraction.

(2) Québec's higher productivity in this sector is mainly due to the production of hydroelectricity.

(3) This category includes management of companies and enterprises.

Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Less work intensity in Québec

■ A shorter work week

Québecers work a shorter week than Ontarians, Canadians as a whole and Americans.

—In 2022, the average work week, or the average number of hours actually worked by all employed individuals, for all jobs, was 31.8 hours in Québec. This was less than in Ontario (32.8 hours, a 3.1% gap), Canada as a whole (32.7 hours, a 2.8% gap) and the United States (34.5 hours, a 8.6% gap).

—The shorter work week in Québec may result from the higher proportion of part-time jobs in particular.

— Notably, population aging is more pronounced in Québec, and older workers generally seek more flexible employment conditions.

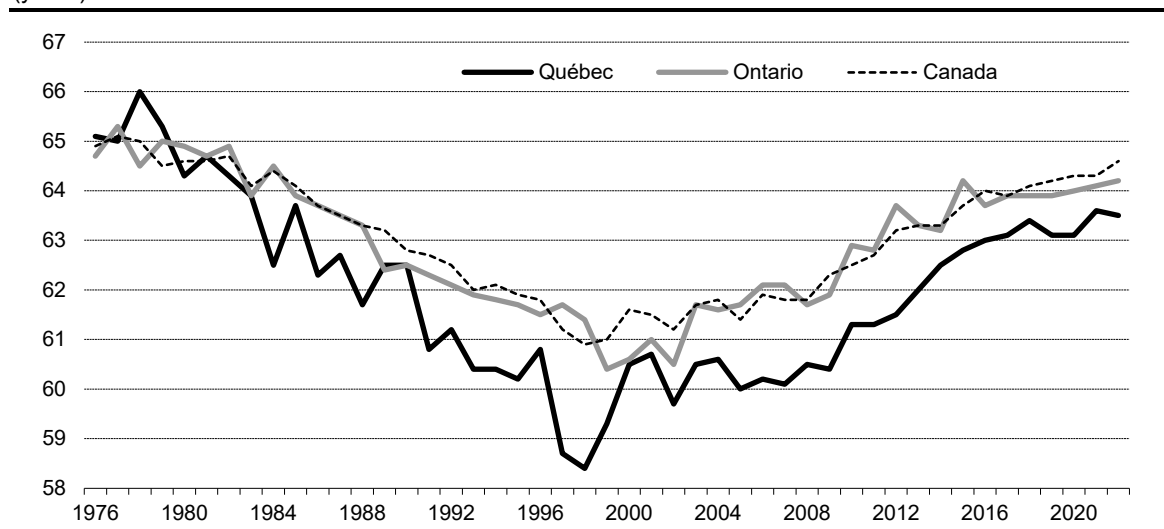
■ Québecers are retiring earlier on average

Québec workers have shorter working lives than their counterparts in Ontario and Canada.

—The average retirement age in 2022 was 63.5 years in Québec, lower than in Ontario (64.2 years) and Canada as a whole (64.6 years).

CHART 8

Average retirement age (years)



Sources: Institut de la statistique du Québec and Statistics Canada.

❑ Business investment needs to increase further

Québec has yet to achieve its full potential in terms of business investment. Since 1981, the value of investment per private-sector worker¹⁰ has generally been lower in Québec than for its main trading partners.

—In 2022, it amounted to \$14 842 per private job, lower than in Ontario (\$17 066, a 15.0% gap), Canada (\$20 338, a 37.0% gap) and the United States (\$31 443, a 111.8% gap).

—If Québec wants to achieve the same level of investment per private-sector job that Ontario had in 2022, Québec businesses need to increase their investments by \$2 224 per worker. Such an increase would represent an additional \$7 billion for the economy as a whole, an increase of 15%.

These gaps are mainly due to under-investment in machinery and equipment, the key determinant of productivity. In particular, this component includes purchases of transportation equipment, as well as industrial machinery and office equipment.

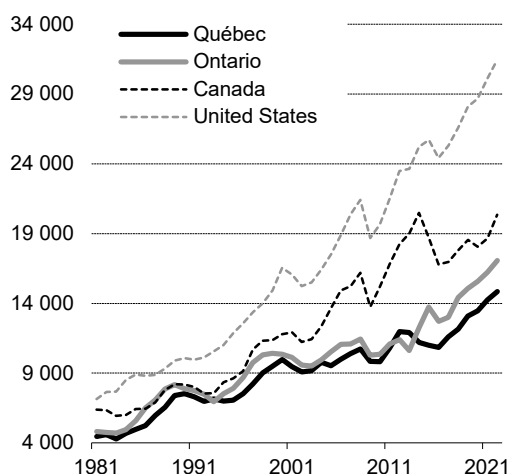
—In 2022, the level of investment in machinery and equipment per private-sector job in Québec lagged behind Ontario (+26.9%) by \$1 225, Canada as a whole (+34.5%) by \$1 571 and the United States (+173.1%) by \$7 873.

This under-investment in machinery and equipment also has an effect on the capital stock per worker. Note that capital stock is defined as the sum of all investments made in the past, less accumulated depreciation.

—In 2021, Québec lagged behind Ontario by 29.9% in terms of available capital stock in machinery and equipment per worker. The gap with Canada was 41.9%.

CHART 9

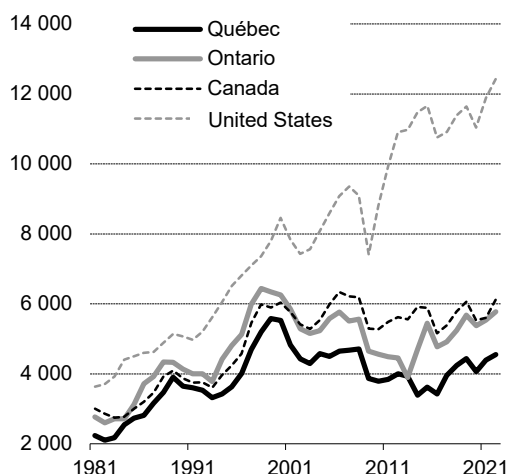
Non-residential business investment per private-sector job (current dollars)



Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global and Ministère des Finances du Québec.

CHART 10

Investment in machinery and equipment per private-sector job (current dollars)



Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance, S&P Global and Ministère des Finances du Québec.

¹⁰ To measure businesses' investment efforts, it is preferable to analyze statistics in current dollars.

■ Investment in ICT is lower in Québec

Investment expenditures in information and communications technologies (ICT) are important for boosting productivity. In this respect, Québec businesses have long lagged behind their main trading partners.

—In 2021, the value of ICT investment per private-sector job was \$4 387, lower than in Ontario (\$5 134, a gap of 17.0%), Canada (\$4 468, a gap of 1.9%) and the United States (\$6 444, a gap of 46.9%).

■ Québec still lags in innovation

R&D plays a major role in increasing productivity. Québec performs relatively well in this area.

—In 2020, it ranked first among the provinces in relation to R&D as a percentage of GDP (2.3%), ahead of Ontario (2.2%). For the same year, Québec ranked second in terms of R&D spending per capita (\$1 219), behind Ontario (\$1 309).

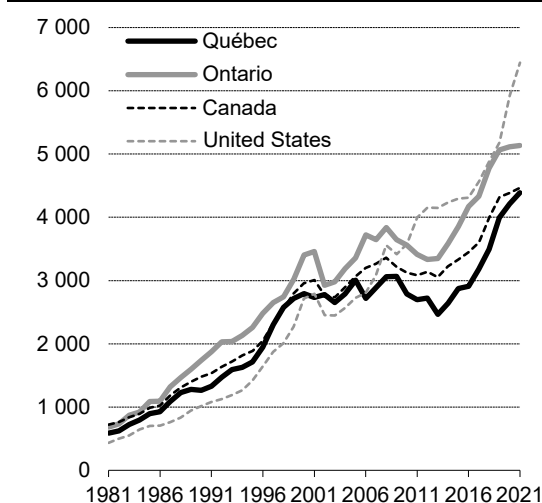
Despite this strong performance, Québec lags in patent development.

—In 2016, in Québec, 3.70 inventions were patented for every billion dollars of GDP. This figure was 5.80 in Ontario, 3.97 in Canada and 6.70 in the United States. Still in 2016, 177 inventions were patented per million Quebecers, compared to 222 in Canada, 328 in Ontario and 469 in the United States.

CHART 11

Non-residential investment in ICT per private-sector job

(current dollars)



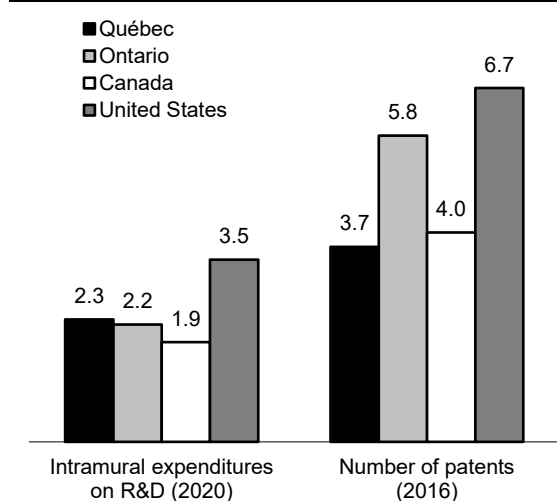
Note: Investments in ICT include spending on computers and electronic products, as well as software.

Sources: Statistics Canada, Ontario Ministry of Finance, S&P Global, OECD and Ministère des Finances du Québec.

CHART 12

Total R&D expenditures and number of patented inventions for the most recent year available

(expenditures as a percentage of GDP and number of patented inventions per billion dollars of GDP, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada, S&P Global, OECD and Ministère des Finances du Québec.

❑ Entrepreneurial dynamism is less pronounced in Québec

For Québec to be productive and prosperous, it is crucial to encourage and leverage entrepreneurship and competition. Enterprise entry and exit rates reflect this dynamism, which is vital to a healthy economy. These ratios measure the renewal of businesses in an economy.

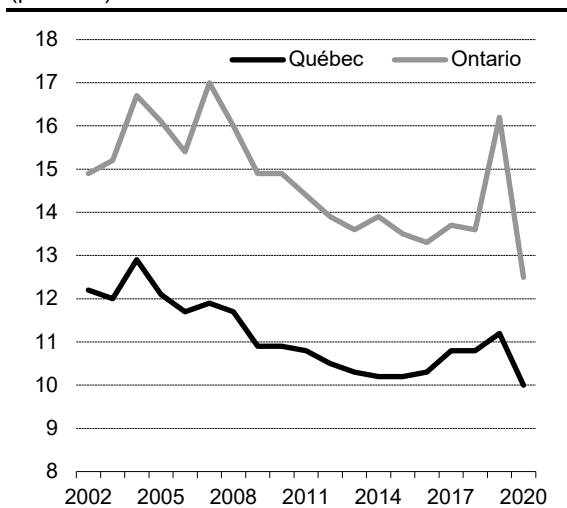
- The establishment of new businesses is a catalyst for innovation and encourages the use of new production processes and the latest management methods.
- Conversely, enterprise exits eliminate less productive businesses.

In this respect, Québec does less well than Ontario. Entry and exit measurements show a lower turnover of businesses in Québec than in Ontario.

- On average per year from 2002 to 2020, the entry rate was 11.1% in Québec, compared to 14.7% in Ontario.
- Similarly, the exit rate averaged 10.5% per year in Québec, compared to 12.5% in Ontario. It is therefore more frequent that a lower-performing company will be excluded from the Ontario market.

CHART 13

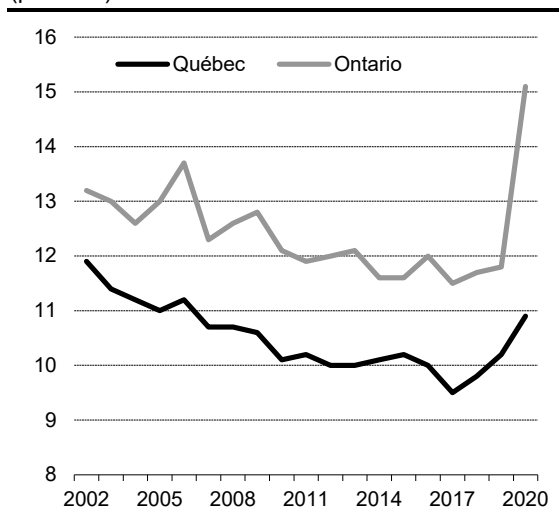
Enterprise entry rate (per cent)



Source: Statistics Canada.

CHART 14

Enterprise exit rate (per cent)



Source: Statistics Canada.

❑ A higher gross corporate tax burden in Québec

In a globalized economy, the tax burden imposed on businesses is a major factor that influences competitiveness. Taxes paid by businesses have an impact on the profitability of investments and the ability to attract foreign businesses.

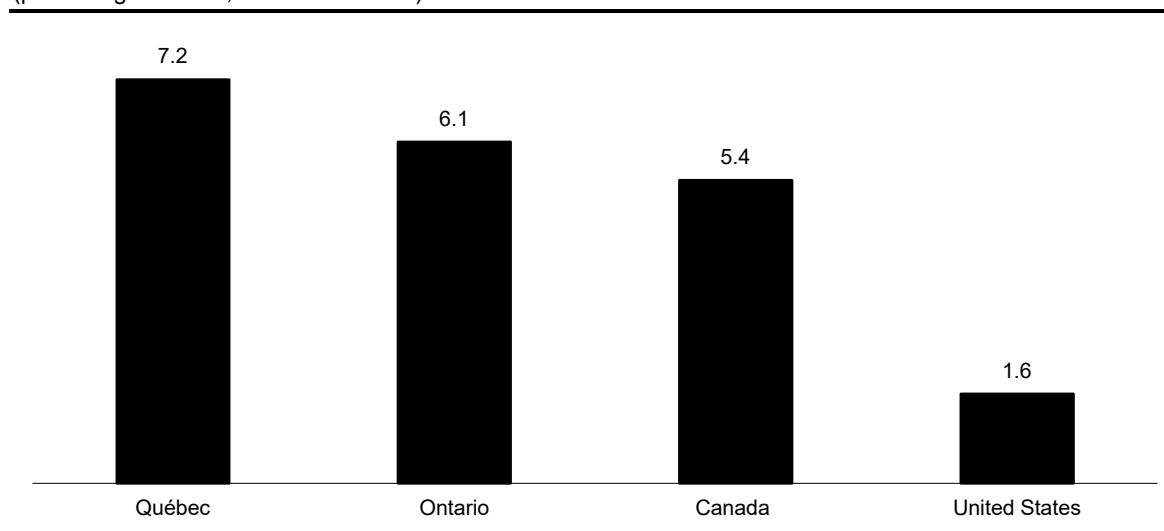
Excluding tax assistance measures, the gross tax burden on businesses in Québec is higher than that of its trading partners.

—As a proportion of GDP, taxes paid by businesses in Québec were 7.2% in 2021, compared to 6.1% in Ontario and 1.6% in the United States.

The general payroll tax in Québec, which constitutes the contribution to the Health Services Fund, largely explains this higher weighting. In 2021, it represented 1.8% of GDP in Québec, compared to 0.7% for the general payroll tax in Ontario.

CHART 15

Taxes paid by businesses by territory in 2021 (percentage of GDP, in nominal terms)



Note: Taxes paid by businesses include income tax, capital taxes and general payroll taxes (excluding social security contributions).
Sources: Statistics Canada, OECD and Ministère des Finances du Québec.

■ Tax incentives for investment

Despite this, Québec's tax system has a competitive general tax rate and offers businesses that invest in their productivity significant tax incentives that considerably reduce the cost of their investments.

Québec stands out for its marginal effective tax rate (METR) on investment,¹¹ making it one of the most competitive places to invest in North America.¹²

¹¹ The METR is a quantitative measure of the impact of a tax system on new business investment. It represents the effect of all tax rules, rates and measures that influence the return on invested capital, including income tax, capital tax, tax depreciation rules and investment tax incentives.

¹² For more details, see page 53 of Section B, "Targeted Actions for Quebecers" of the *Update on Québec's Economic and Financial Situation – Fall 2023*.

■ Bigger tax credits

In 2022, Québec's tax system included 85 tax expenditures associated with corporate taxation, including major tax credits designed to recognize the strategic aspect of certain fields and activities in terms of economic development.

For the purposes of comparison, total business assistance tax credits were 1.5 times higher in Québec (\$2.7 billion) than in Ontario (\$1.8 billion) in 2022.

—The total of these tax credits is 2.8 times higher in Québec when the size of the two economies is taken into account. This represents 0.49% of GDP in Québec, compared to just 0.18% in Ontario.

2.2 Population aging that limits the growth of the potential labour pool

Québec's population is aging. This phenomenon is mainly due to rising life expectancy and falling birth rates. This trend has accelerated in recent years and is expected to continue.

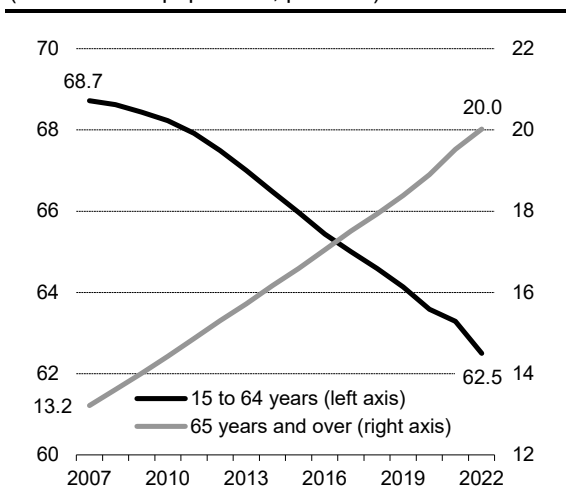
- The proportion of Québec's population aged 15 to 64 has been declining steadily since the mid-2000s.
 - In 2007, people aged 15 to 64 represented 68.7% of the total population. This proportion dropped to 62.5% in 2022, a decline of 6.2 percentage points.
- At the same time, the demographic weight of the population aged 65 and over continued to grow, rising from 13.2% in 2007 to 20.0% in 2022.

While the aging of the population is a widespread phenomenon among its main economic partners, this trend is more pronounced in Québec.

- By comparison, the 15 to 64 age group represented 65.0% in Ontario in 2022, and 63.6% in Canada, down 3.4 percentage points and 4.3 percentage points respectively from 2007.
- In the United States, the demographic weight of the 16 to 64 age group fell by 2.3 percentage points between 2007 and 2022 to stand at 63.5%.

CHART 16

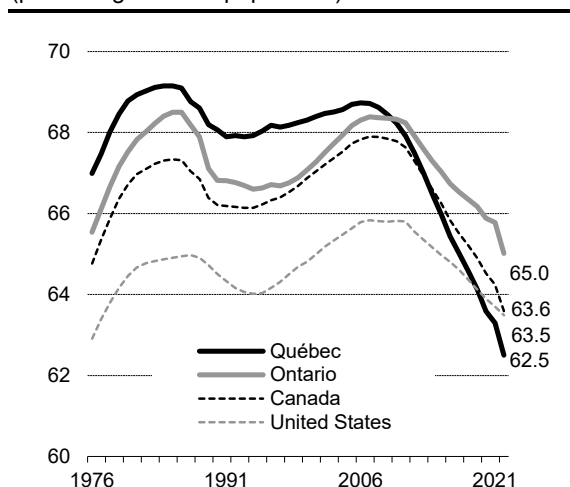
Demographic weight by age group in Québec
(share of total population, per cent)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART 17

Demographic weight of the population aged 15 to 64
(percentage of total population)



Note: For the United States, this relates to the population aged 16 to 64.

Sources: Statistics Canada, S&P Global and Ministère des Finances du Québec.

2.3 Quebecers make a major contribution to the labour market

The labour market situation in Québec has improved greatly in recent decades. The dynamism of the labour market is illustrated by the considerable reduction in the unemployment rate.

—In 1981, the unemployment rate for people aged 15 to 64 was 10.6%. It then fell steadily to reach 4.3% in 2022, a historic annual low.

At the same time, the employment and participation rates of 15- to 64-year-olds have shown significant gains.

—The employment rate for all age groups between the ages of 15 and 59 was higher in Québec than in Canada as a whole and Ontario in 2022.

—In addition, in 2022, the employment rate in Québec rose to record highs for every age group between the ages of 30 and 64.

This change is due to a number of factors, including:

- increased schooling;
- greater participation of women;
- better integration of immigrants.

TABLE 4

Employment rate by age group in 2022 (per cent)

	Québec	Canada	Ontario
15 to 19 years	53.1 ⁽¹⁾	45.3	41.2
20 to 24 years	73.1	70.4	67.3
25 to 29 years	84.5	82.7 ⁽¹⁾	82.4
30 to 34 years	87.2 ⁽¹⁾	84.8 ⁽¹⁾	84.2 ⁽¹⁾
35 to 39 years	86.5 ⁽¹⁾	85.4 ⁽¹⁾	84.9 ⁽¹⁾
40 to 44 years	89.5 ⁽¹⁾	86.3 ⁽¹⁾	84.6
45 to 49 years	88.3 ⁽¹⁾	85.9 ⁽¹⁾	84.5
50 to 54 years	85.6 ⁽¹⁾	83.3 ⁽¹⁾	82.8 ⁽¹⁾
55 to 59 years	74.5 ⁽¹⁾	73.4 ⁽¹⁾	73.0 ⁽¹⁾
60 to 64 years	50.5 ⁽¹⁾	53.7 ⁽¹⁾	55.8 ⁽¹⁾
15 to 64 years	77.5⁽¹⁾	75.6⁽¹⁾	74.5

Note: Shaded areas in the table indicate the place with the highest employment rate between Québec, Ontario and Canada as a whole.

(1) This is an annual peak since Statistics Canada began its Labour Force Survey in 1976.

Source: Statistics Canada.

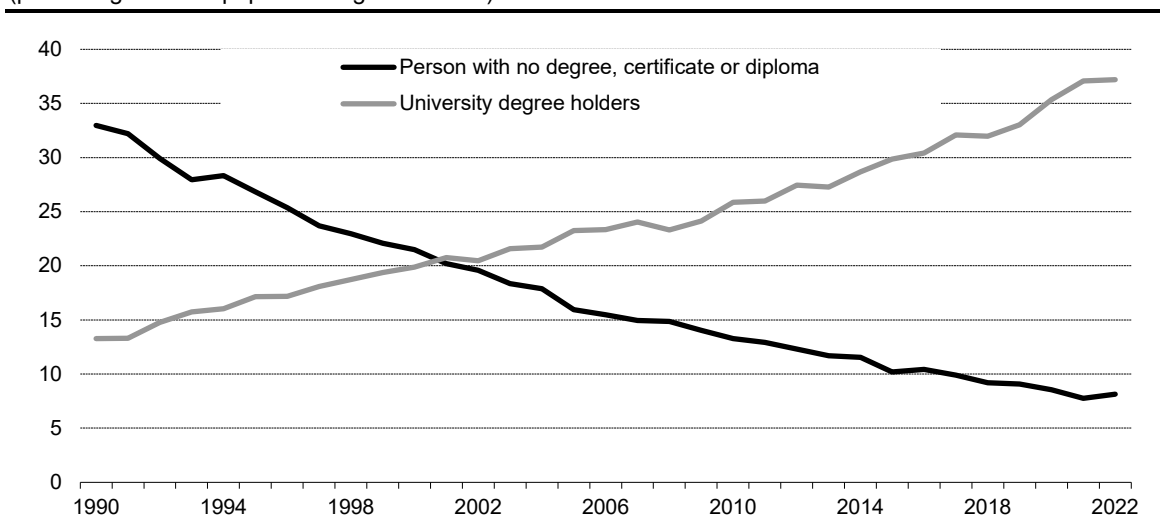
In particular, increased graduation rates have been crucial to the progress observed on the labour market in recent years.

—In 1990, the proportion of the population aged 25 to 54 with no degree, certificate or diploma was 33.0% in Québec. Since then, this proportion has fallen sharply to stand at 8.1% in 2022.

—At the same time, the share of 25- to 54-year-olds with a university degree has almost tripled, rising from 13.3% in 1990 to 37.2% in 2022.

CHART 18

Proportion of the population aged 25 to 54 by level of education in Québec
(percentage of total population aged 25 to 54)



Sources: Statistics Canada and Ministère des Finances du Québec.

Since labour market indicators are more favourable for better-educated individuals, the steady increase in graduation rates has been a major contributor to Québec's rising employment rate.

TABLE 5

Labour market statistics by level of education in Québec
for the population aged 25 to 54 in 2022
(per cent)

	Unemployment rate	Participation rate	Employment rate
Persons with no degree, certificate or diploma	7.4	74.1	68.6
Secondary school graduates	5.5	85.9	81.1
Post-secondary certificate or diploma holders	2.9	92.2	89.5
University degree holders	2.8	92.9	90.3

Source: Statistics Canada.

❑ Job gains will be more difficult to achieve

In the current context of an aging population, increased labour market participation will be needed to support long-term economic growth in Québec. However, the labour market situation has improved considerably in recent decades.

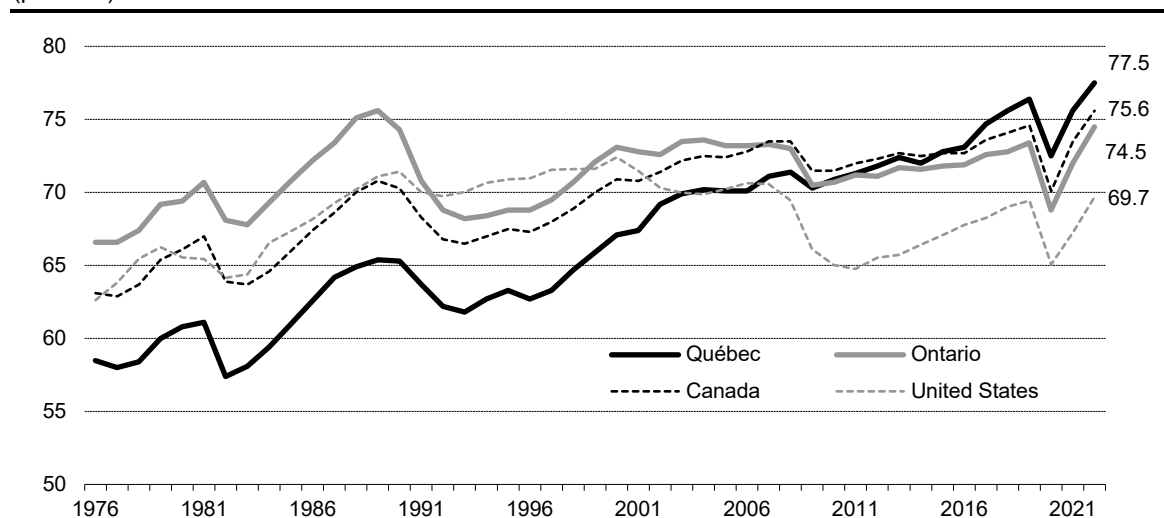
■ People aged 15 to 64 participate significantly in the Québec labour market

The gaps in employment rates between Québec and its main economic partners observed in 1976 have been eliminated.

- Québec's lag behind Ontario and Canada in employment rates persisted until the early 2010s, before the trend reversed.
- In 2022, the employment rate for the population aged 15 to 64 was higher in Québec (77.5%) than in Ontario (74.5%), Canada as a whole (75.6%) and the United States (69.7%).
- Furthermore, in 2022, Québec's employment rate for people aged 15 to 64 was the highest among the Canadian provinces.

CHART 19

Employment rate for the population aged 15 to 64 (per cent)



Note: For the United States, this is the proportion of the population aged 16 to 64 that is employed, and the labour pool aged 16 to 64.
Sources: Statistics Canada, Bureau of Labor Statistics, S&P Global and Ministère des Finances du Québec.

■ Increased schooling has significantly improved the participation of experienced workers in the labour market

Since 1990, the participation of experienced workers in the workforce has greatly improved.

- The employment rate for people aged 55 to 64 in Québec was 38.7% in 1990. By 2022, it had risen to 62.2%, an increase of 23.5 percentage points.
- A similar phenomenon has been observed among people aged 65 and over, whose employment rate has risen from 4.6% in 1990 to 11.7% in 2022.

This gain occurred simultaneously with an improvement in the schooling of cohorts.

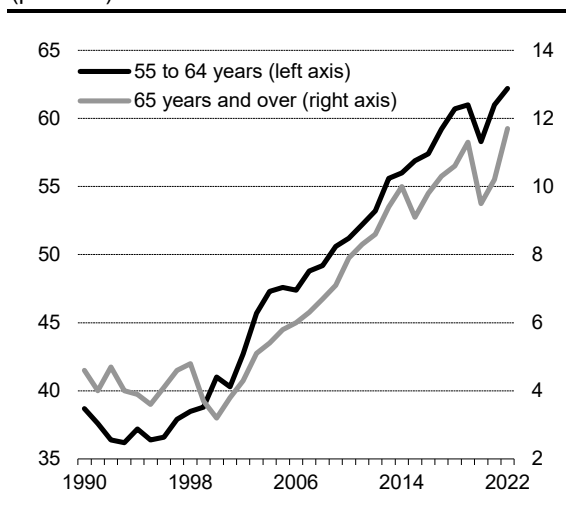
- In 1990, 4.2% of the population aged 55 and over in Québec had a university degree. This proportion had risen to around 20% in 2022.
- Participation in the workforce of older cohorts is higher when they have more schooling.

Notable gains in labour market participation have already been achieved through better training. Increased schooling will continue to have a positive impact on the employment rate of older age groups in the coming years.

CHART 20

Employment rates for certain age groups in Québec

(per cent)

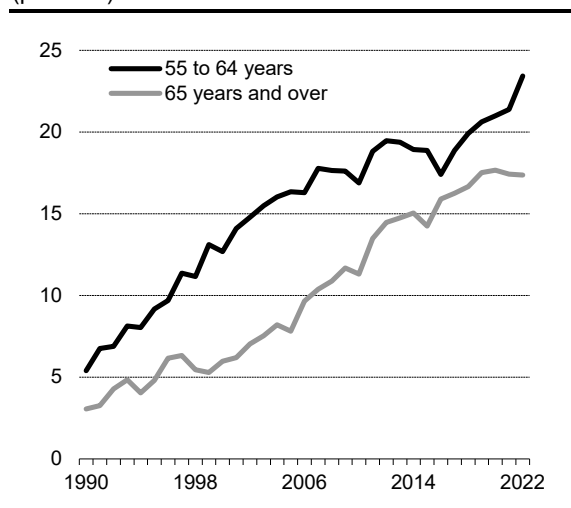


Source: Statistics Canada.

CHART 21

Proportion of the population with a university degree for certain age groups in Québec

(per cent)



Source: Statistics Canada.

3. LEVERS FOR GROWING WEALTH AND RAISING QUEBECERS' STANDARD OF LIVING

The Québec government has the ambitious goal of closing the wealth gap with Ontario. To achieve this, Québec needs to accelerate its pace of economic growth. As a result, action must be taken on every component of GDP to achieve this long-term ambition.

Major steps have been taken since fall 2018 to increase the potential of Québec's economy and create more wealth. The Québec government intends to continue on this path and take further action on the main determinants of living standards, based on the following guidelines:

- valuing education and training;
- increasing the labour force and labour market participation;
- encouraging a competitive business and regulatory environment;
- supporting priority development sectors with high growth potential;
- encouraging academics and researchers to transfer their expertise to the private sector;
- boosting productivity in both the private and public sectors;
- developing large businesses with their decision-making centres in Québec;
- attracting foreign investment to Québec to boost growth and productivity, particularly in strategic sectors;
- improving access to venture capital;
- accelerating the digitization and automation of all sectors;
- encouraging innovation, commercialization and exports;
- refocusing existing tools to optimize the impact of tax and budgetary measures.

3.1 A labour pool to be increased

Québec's population is aging, which limits the growth of its labour force and, by extension, its pool of available labour. Québec is facing the phenomenon of an aging population, translating into strong growth of the population aged 65 and over.

According to the latest data and demographic projections from the Institut de la statistique du Québec, the population aged 15 to 64 is expected to continue to stagnate over the next few years. At the same time, the population aged 65 and over is expected to increase by an average of 2.3% per year between 2023 and 2033.

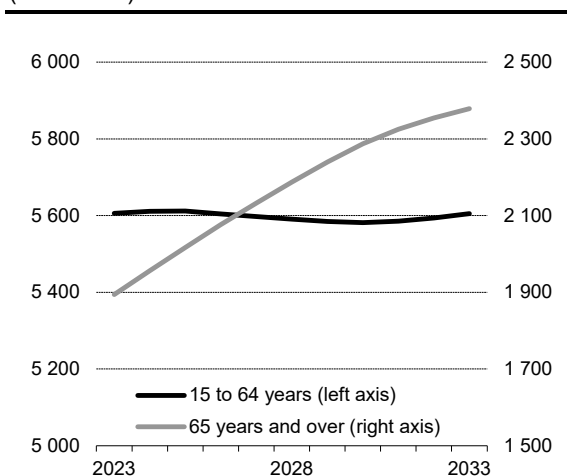
Demographic trends are hard to reverse.

—The various demographic scenarios of the Institut de la statistique du Québec show that even under optimistic assumptions, which assume in particular a higher level of immigration, the demographic weight of the population aged 65 and over will continue to grow.

CHART 22

Changes in the populations aged 15 to 64 and 65 and over in Québec

(thousands)

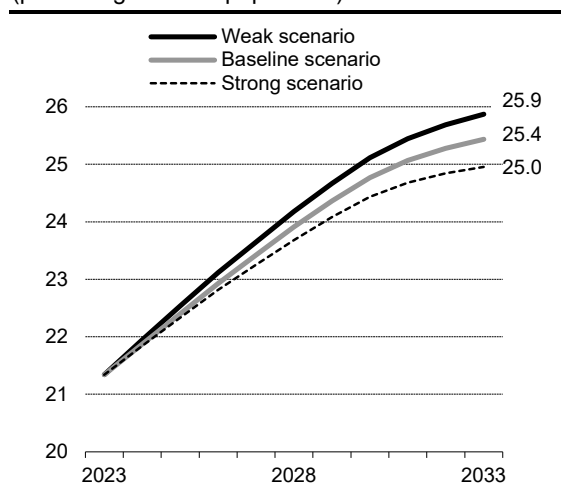


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART 23

Demographic weight of the population aged 65 and over in Québec for various demographic scenarios

(percentage of total population)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

3.2 Job gains still possible, but more difficult to achieve

Participation in the labour market will continue to support economic activity. Significant progress has already been made in this area in recent years.

- The employment rate for the population aged 15 to 64 is already at a historic high.
- Higher levels of education have significantly improved the participation of experienced workers in the labour market.

Nevertheless, although potential job gains are still possible, they will be more difficult to achieve.

❑ Increasing the labour force

The Québec labour market is one of the tightest in the country. These tensions are due, in particular, to the fact that the labour force in Québec is growing at a slower pace than in Ontario and Canada as a whole, as a result of the aging population.

- In particular, the size of the Québec labour force grew slightly between 2012 and 2022 (+0.6% annual average). In Ontario and Canada as a whole, it respectively rose by 1.2% and 1.0% on average per year over the same period.

■ Significant steps in recent years

To limit the effects of labour shortage and increase the pool of potential workers, the Québec government announced Opération main-d'œuvre (OPMO) in November 2021. OPMO provided for investments of \$3.9 billion over five years, including \$2.9 billion in additional appropriations.

- OPMO's goal was to increase the number of workers by 170 000 over the next five years in the following areas:
 - health and social services, education, and educational childcare services;
 - information technologies, engineering and construction.

❑ Increasing the participation of experienced workers in the labour market

People aged 15 to 64 make a significant contribution to the Québec labour market. Despite this favourable performance, the employment rate of the population aged 15 years and over remained lower in Québec (61.5%) than in Canada (62.0%) in 2022.

—This is due to the fact that Québec has an older population. Gaps in employment rates among the population aged 60 and over still exist with Canada and Ontario.

Thus, gains can still be made with respect to experienced workers.

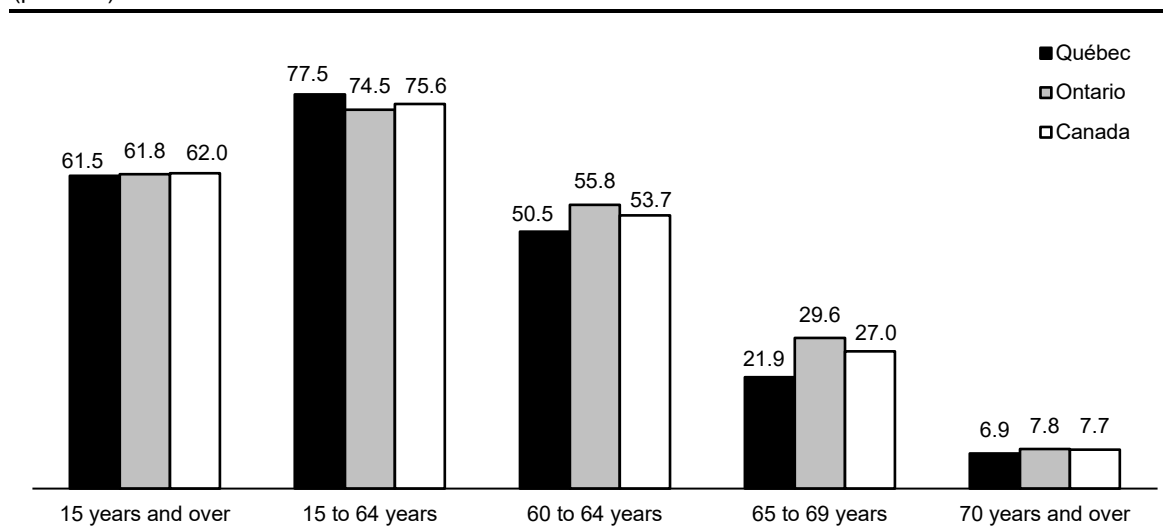
—In 2022, the employment rate of the population aged 60 and over in Québec (21.9%) was nearly 4 percentage points lower than in Ontario (25.8%).

—If the employment rate for experienced workers in Québec were to catch up to Ontario's rate in 2022, Québec would have 86 400 additional workers.

— Nearly 90% of these additional workers—76 500 people—would have come from the 60- to 69-year-old cohort.

CHART 24

Employment rate by age group in 2022 (per cent)



Source: Statistics Canada.

■ Significant steps in recent years

Since 2018, steps have been taken to increase the participation of experienced workers in the labour market.

- The personal income tax system provides an incentive to remain in the workforce after age 60 with the tax credit for career extension, which reduces the income tax payable on part of work income.
- The corporate tax system provides an incentive to support SMBs in their efforts to retain experienced workers and encourage their return to work through a reduction in payroll taxes, namely, the tax credit to foster the retention of experienced workers.
- In addition, the government has reduced deductions from retirees' work income. As of 2024, contributions to the Québec Pension Plan (QPP) will become optional as of age 65.

Each of these measures reaches thousands of individuals, encouraging a significant number of people to enter the labour market, stay in it or increase their labour supply.

■ Tax credit for career extension

The objective of the tax credit for career extension is to encourage experienced workers to stay in or return to the labour market.

This tax credit eliminates Québec income tax on a portion of the first dollars of earned income. To qualify, the taxpayer must earn at least \$5 000, and only dollars in excess of this threshold (excess work income) are eligible for the tax credit.

As of 2019, the government has raised the ceiling on the eligible amount to \$10 000 for workers aged 61 to 64 and has made workers aged 60 eligible for the measure.

The maximum tax credit amount is determined by applying a rate of 14% on excess work income, capped at \$10 000 for workers aged 60 to 64 and \$11 000 for workers aged 65 or over.

To target assistance to low- and middle-income workers, the maximum amount is subsequently reduced based on work income above an income threshold of \$40 925, at a rate of 5% for the 2024 taxation year.

Nearly 357 000 taxpayers benefited from this tax credit in 2020.

■ Tax credit to foster the retention of experienced workers

This tax credit gives SMBs a reduction in Québec payroll taxes to foster the retention of experienced workers. This reduction can reach:

- 50% for workers aged 60 to 64, up to a maximum of \$1 250 annually per worker;
- 75% for workers aged 65 and over, up to a maximum of \$1 875 annually per worker.

Close to 20 000 SMBs receive this tax credit every year.

- **Optional QPP contributions as of age 65**

In Budget 2023-2024, the government announced that as of January 1, 2024, people aged 65 and over could stop contributing to the QPP, provided they are receiving a QPP or Canada Pension Plan retirement pension.

For an employee who stops contributing, the annual savings can amount to as much as \$4 038.40 (\$8 076.80 for a self-employed worker), that is, the maximum contribution for 2023.

By electing to stop contributing, workers will benefit from greater short-term cash flow for the hours they worked, and businesses will be able to reduce payroll taxes attributable to these employees.

Recommendations from the consultation

Retaining experienced workers is one response to the labour shortage.

More specifically, it is recommended that existing tax incentives and measures be enhanced to boost the labour market participation of older workers.

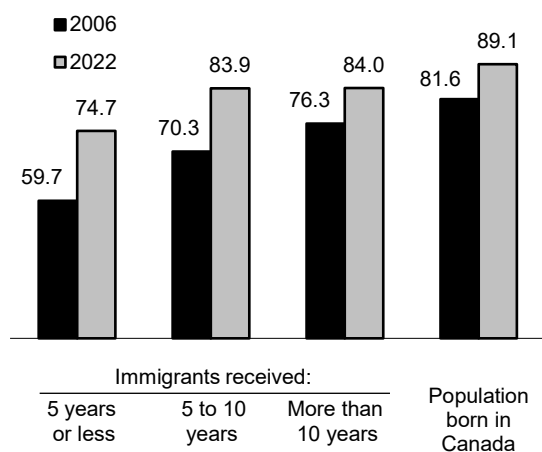
❑ Improving the integration of recent immigrants into the labour market

Progress must be made in terms of integrating immigrants into the labour market.

- Immigrants aged 25 to 54 who had been in Québec for five years or less had an employment rate of 74.7% in 2022. This was lower than the rate for Canada as a whole (78.0%) and Ontario (78.1%).
- The integration of newcomers improves over time, as immigrants who have been in Québec for more than five years have a higher employment rate than their counterparts in Ontario and Canada as a whole.
- Moreover, in 2022, the Québec employment rate for immigrants aged 25 to 54 remained below the rate for people born in Canada (89.1%).

CHART 25

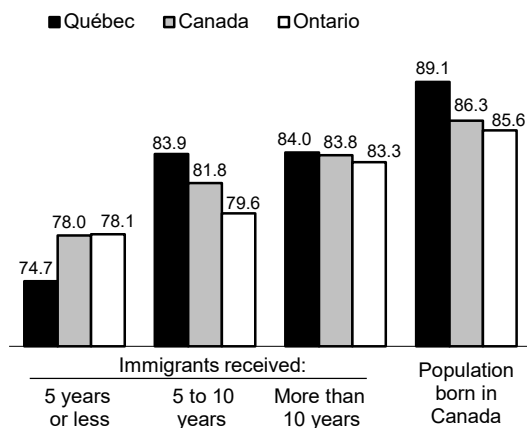
Québec employment rate for the population aged 25 to 54 (per cent)



Source: Statistics Canada.

CHART 26

Employment rate for the population aged 25 to 54 in 2022 (per cent)



Source: Statistics Canada.

■ Significant steps in recent years

The integration of immigrants into the labour market is beneficial for all communities, particularly in terms of economic development. Over the past five years, the government has announced nearly \$2 billion in investments with a view to:

- introducing a new personalized support pathway;
- enhancing the offer of francization services, in particular by setting up Francisation Québec;
- expediting the recognition of credentials and the processing of immigration applications;
- promoting the attraction and settlement of immigrants in the regions.

Recommendations from the consultation

The current strategy regarding immigration, which attracts quality candidates and talent, optimizes selection and improves the integration of immigrants, is adequate.

It is nevertheless recommended to improve the integration of qualified foreign workers, particularly those who hold positions in fields where labour needs are being felt, including science and technology, engineering and mathematics.

❑ Facilitating women’s participation in the labour market

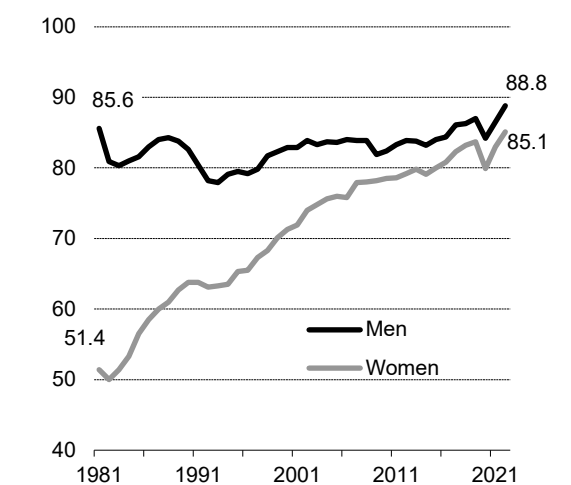
In 2022, the employment rate for women aged 25 to 54 in Québec (85.1%) was the highest of all provinces (81.4% in Canada and 79.8% in Ontario). However, it was still lower than for Québec men in the same age category (88.8%).

- In particular, Québec women aged 25 to 54 with young children had an employment rate of 79.8% in 2022, well below that of men with similar characteristics (94.4%).
- The employment rate among women aged 25 to 54 with no children under 18 was 87.4%, a rate identical to that of men with similar characteristics.

CHART 27

Québec employment rate for the population aged 25 to 54 by gender

(per cent)

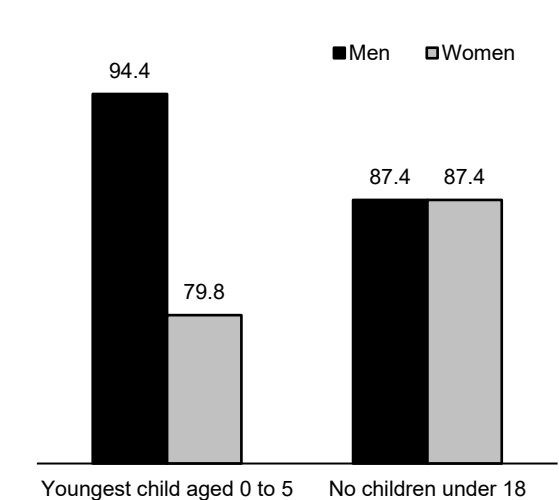


Source: Statistics Canada.

CHART 28

Québec employment rate for the population aged 25 to 54 according to family structure in 2022

(per cent)



Source: Statistics Canada.

■ Significant steps in recent years

One of the cornerstones of Québec's family policy is the educational childcare services network, which includes subsidized and non-subsidized childcare. This network has greatly contributed to women's participation in the labour market.

The government has therefore been working on a strong educational childcare services network. The action plan for completing the educational childcare services network (Grand chantier pour les familles) and the enhancement of the refundable tax credit for childcare expenses attest to this.

■ Action plan for completing the educational childcare services network

In October 2021, the Québec government launched the action plan for completing the educational childcare services network, an ambitious plan with the primary objective of completing the current childcare services network with the creation of 37 000 new subsidized childcare spaces.

As at August 31, 2023, 12 137 spaces have been created and 3 549 non-subsidized spaces have been converted into subsidized spaces.

■ Enhancing the refundable tax credit for childcare expenses

Parents whose children do not have a subsidized childcare space are eligible for the refundable tax credit for childcare expenses.

This tax credit was enhanced in the *Update on Québec's Economic and Financial Situation – Fall 2021*, so that a family pays a similar rate for subsidized and non-subsidized childcare, regardless of income.

Recommendations from the consultation

Significant progress has been made in recent decades in family policies for mothers wishing to enter the labour market.

It is recommended to continue efforts in this direction.

3.3 A more productive economy to create more wealth

Labour productivity measures the efficiency with which workers turn effort into production. Given the labour shortage, productivity gains hold the greatest potential for improving the standard of living. In this regard, Québec can use several levers.

❑ Encouraging innovation, commercialization and exports

In a world where markets are increasingly competitive and new players are seeking to make their mark, Québec needs to encourage R&D projects, innovation and commercialization in order to stand up to the competition and continue to prosper.

- Given the limited size of the local market, Québec businesses need to step up their innovation and commercialization efforts. These efforts will enable businesses to increase their presence on export markets, accelerate their development and thus contribute to increasing Québec's wealth.

In this respect, as part of initiative 6 of the 2022-2027 Québec Research and Innovation Investment Strategy (QRIS²), the Conseil de l'innovation du Québec (CIQ) is conducting a study on optimizing the Québec model for supporting R&D in businesses and commercializing innovations.

■ Significant steps in recent years

Québec can increase its productivity by improving its performance with regard to research, innovation and commercialization, particularly by creating innovative businesses and accelerating their development. Important steps have been taken toward achieving these objectives.

■ Incentive deduction for the commercialization of innovations

To encourage the competitiveness of Québec businesses while fostering the retention and promotion of their innovations, the government announced the introduction of the incentive deduction for the commercialization of innovations (IDCI) in Budget 2020-2021.

In effect since January 1, 2021, the IDCI encourages businesses from all sectors of the economy to commercialize Québec innovations in Québec with the most competitive tax rate in North America.

■ Québec Research and Innovation Investment Strategy

In May 2022, the government rolled out the 2022-2027 QRIS², with an envelope of \$7.5 billion earmarked for research and innovation, to help Québec excel in cutting-edge fields on the world stage and create more wealth.

One of the aims of this strategy is to commercialize new technologies, intensify our culture of innovation and strengthen synergies between the research community and industry.

It highlights internationally recognized cutting-edge research and transfer infrastructure and ecosystems in a number of fields, such as artificial intelligence, quantum technologies, aerospace, life sciences and sustainable development. They benefit all regions of Québec, particularly the Montréal metropolitan area.

■ **Creation of innovation zones**

As a central aspect of the government's economic vision, innovation zones promote the commercialization of innovations and export growth, local and foreign investment as well as business productivity.

Since Budget 2020-2021, \$240 million has been allocated for the creation of innovation zones, leading to the rollout of the first three zones:

- DistriQ, located in Sherbrooke, in the quantum science and technological applications sector, through which Québec was able to host a state-of-the-art IBM quantum computer;
- Technum Québec, located in Bromont, in the digital technologies sector;
- the Vallée de la transition énergétique, located in Bécancour, Trois-Rivières and Shawinigan, which aims to accelerate the development of the battery industry and the electrification of transportation, decarbonize the industrial port sector and optimize the production and use of green hydrogen.

■ **Action plan to boost exports**

To recover the ground lost due to the pandemic and propel Québec exports into a new growth phase, the government rolled out the action plan to boost exports in 2021.

The plan is aimed primarily at exporting companies and those with strong export potential, in particular, by providing them with enhanced and tailored financial assistance, as well as personalized support and advice.

Larger companies benefit from the guidance of Investissement Québec International, while regional export promotion bodies work with smaller companies.

- In addition, industry organizations such as the Bureau de promotion des produits du bois du Québec and the Agri-Food Export Group provide support and guidance to their respective members.

The plan's initiatives support the ambitions of Québec companies by helping them integrate global supply chains and increase their presence in foreign markets.

■ **Supporting construction of the Contrecœur terminal**

The Québec and federal governments have earmarked substantial sums to support the construction of the Contrecœur terminal.

Against the backdrop of recent supply chain disruptions, this project is of strategic importance in promoting business growth and Québec exports.

It will increase the Montreal Port Authority's container handling capacity by 50%, positioning Québec favourably in the competitive market of ports in Eastern Canada and the northeastern United States.

■ Digital shift offensive

Over the past few years, the government has implemented the digital shift offensive, which has supported many organizations and businesses in various sectors of the Québec economy in their efforts to increase their productivity and mitigate the impact of the labour shortage.

To date, the digital shift offensive has funded initiatives that will support more than 15 000 businesses in digital transformation projects.

Recommendations from the consultation

The creation and development of innovation ecosystems, particularly the creation of industrial laboratories of excellence in innovative industries, must be encouraged. Such initiatives would support business start-ups in targeted sectors.

An industrial policy could be developed around these promising sectors, so that Québec can capitalize on its innovative industries to stimulate innovation and productivity.

More specifically, the experts recommend:

- setting up a funding program for major technological breakthroughs and establishing a special fund to finance large-scale mobilizing projects;
- creating industrial laboratories of excellence for innovative industries with high economic potential for Québec;
- optimizing support for business research;
- focusing efforts on innovations that will help businesses progress their business model toward data and artificial intelligence.

Specific recommendations aimed at fostering innovation have also been made, including:

- amending the R&D tax credit to optimize its impact;
- reviewing the framework for intellectual property to encourage international commercialization;
- adopting a data strategy;
- tasking the Institut de la statistique du Québec with creating a bank of data and indicators on innovation;
- carrying out a sector-based study on productivity gaps;
- accelerating digitization and the adoption of cutting-edge technologies within government.

Although the majority of experts agree on the objectives, the means suggested to achieve them can differ significantly, as the extent of the recommendations made illustrates.

❑ **Promoting entrepreneurship**

In 2020, Québec's private sector numbered just over 220 000 businesses with salaried employees. However, the province had the fewest businesses per capita.

—In 2020, Québec had around 25.9 active businesses per 1 000 inhabitants, compared to 29.9 in Ontario.

To increase its productivity and grow its wealth, Québec must:

- focus on entrepreneurial dynamism;
- encourage new businesses to enter the market.

■ **Significant steps in recent years**

■ **2022-2025 Québec Entrepreneurship Plan**

To develop a strong and prosperous Québec economy by prioritizing the person behind the entrepreneur and considering under-represented groups, the government rolled out the 2022-2025 Québec Entrepreneurship Plan with the aim of:

- creating more businesses;
- accelerating business growth;
- fostering success and perseverance among entrepreneurs.

This plan contains nine measures pertaining to services for entrepreneurs, support, training opportunities, growth acceleration, innovation, financing and assistance with business takeovers.

■ **2020-2025 Government Action Plan on Regulatory and Administrative Streamlining**

The government has undertaken various initiatives to streamline the regulatory and administrative burden for businesses and make life easier for entrepreneurs. These initiatives seek to reduce the adverse effects more acutely felt by small businesses, which have limited resources to fulfil their obligations.

The Québec government is making regulatory and administrative streamlining one of its priorities in order to increase competitiveness in the business environment and boost the development of small and medium-sized businesses.

■ **Tax relief to encourage intergenerational business transfers**

The government has introduced tax relief to promote intergenerational transfers of family businesses.

- In particular, this relief allows eligible entrepreneurs who are selling their business to their children to benefit from the same tax treatment as they would if they had sold it to a third party.

Like the federal government, Québec has announced an easing of criteria to simplify eligibility for the measure and thereby promote intergenerational business transfers.

Recommendations from the consultation

Since entrepreneurship is at the very heart of the development of Québec businesses, no matter their size, the government must implement the necessary conditions to promote it.

Experts have made a few recommendations on this topic, including investing more in the development of entrepreneurial and managerial skills.

❑ Improving the personal income tax system

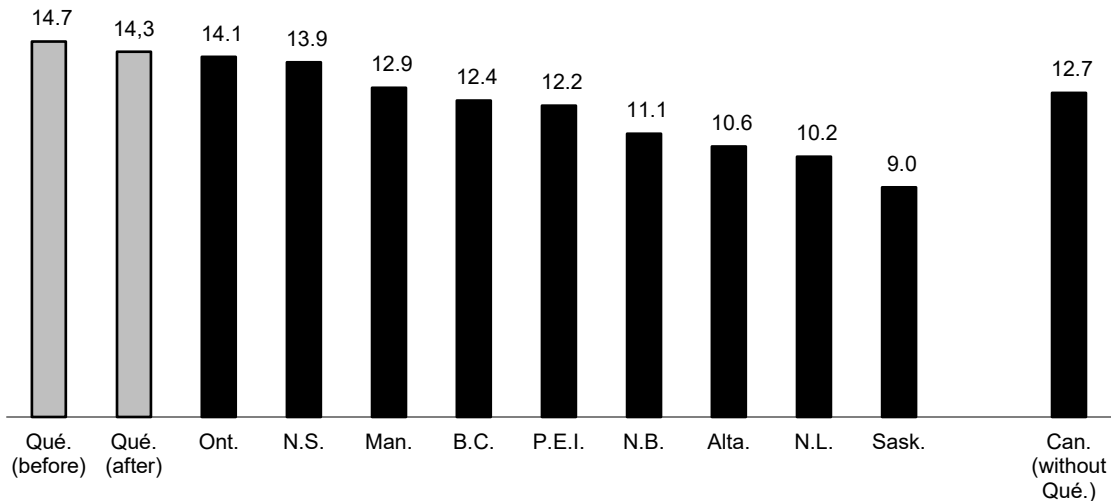
Since 2018, the government has taken action to improve the income tax system, in particular by reducing the tax burden. Despite this reduction, Québec still has the highest tax burden in Canada.

—In 2021, personal income tax as a proportion of GDP was 14.7%, higher than the Canadian average without Québec of 12.7%.

—Despite the personal income tax cut starting in 2023, this proportion will be reduced to 14.3%, which will still be higher than Ontario's tax burden (14.1%). This major effort will nevertheless narrow the gap between the two provinces and make Québec more attractive to workers.

CHART 29

Personal income tax burden by province and for Canada, excluding Québec, before and after the Québec income tax reduction
(percentage of GDP)



Note: For all the provinces, this proportion takes into account personal income taxes paid to the provincial and federal governments.
The personal income tax burden in Québec after the tax reduction is presented for illustrative purposes only.

Sources: Department of Finance Canada and Statistics Canada.

■ Significant steps in recent years

■ Easing the tax burden on individuals

As part of Budget 2023-2024, the government reduced the rates of the first two tax brackets by 1 percentage point, as of the 2023 taxation year:

- a decrease from 15% to 14% for the first tax rate;
- a decrease from 20% to 19% for the second tax rate.

Since July 2023, Quebecers have been able to benefit from the tax cut directly on their source deductions. The tax reduction, which could reach \$814 per person for the 2023 taxation year, will reduce the tax burden of 4.6 million taxpayers by \$1.7 billion a year.

- The resulting increase in disposable income will have a positive effect of \$1.9 billion on Québec's real GDP, corresponding to an increase of \$221 per capita.

The government is maintaining its goal of easing the tax burden of Quebecers so that Québec is no longer the province that taxes its people the most. However, the government must remain cautious and responsible to comply with its financial framework.

- Easing the tax burden on individuals must not undermine the government's ability to fund public spending. This is why the first tax reduction was funded by more moderate growth in deposits in the Generations Fund.
- Until Québec achieves fiscal balance, the government has no intention of further reducing the overall tax burden on individuals. However, this will not prevent further initiatives to stimulate wealth creation, which will ultimately reduce the tax burden on the Québec economy.

Recommendations from the consultation

The personal tax system places a burden on the economy and wealth creation. It is important to continue to reduce the tax burden on Quebecers.

Because the government should not fund tax cuts with deficits, several zero-cost recommendations have been put forward, including:

- increasing the QST and reducing income tax correspondingly;
- simplifying the income tax system by reducing the number and amount of the different tax expenditures to lower income tax rates;
- periodically reviewing tax expenditures;
- enhancing communication efforts regarding existing tax measures.

❑ Valuing education and training

Education has beneficial effects on society as a whole.

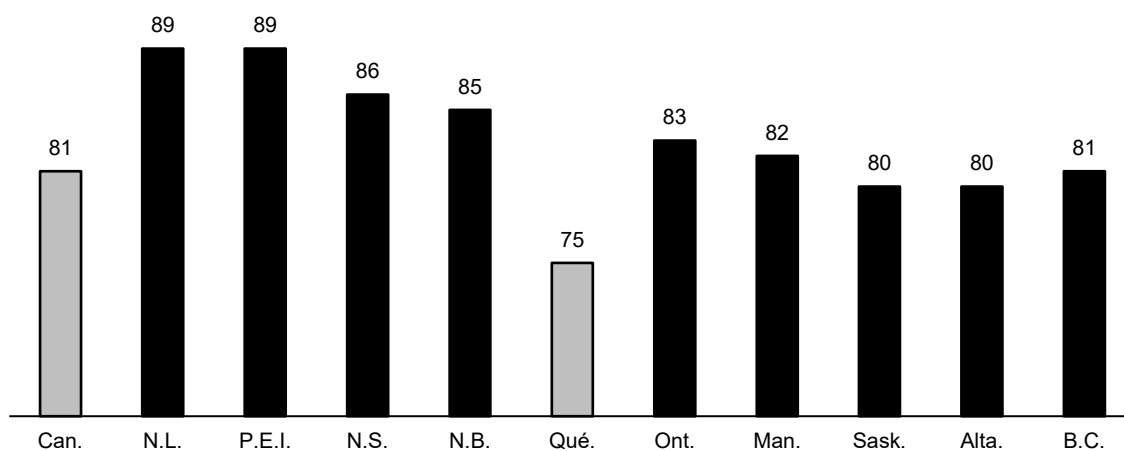
- Quality services in education contribute to collective prosperity and the development of our society. They are essential for ensuring sustainable economic growth, particularly by training skilled workers, which improves the productivity of human capital.
- In addition, labour shortages limit the capacity of Québec businesses to reach their full growth potential. Given this issue, businesses are increasing their technology investments in order to boost productivity. In-company training helps develop employees' digital skills.
- Educated people are also more likely to have the skills and knowledge needed to manage their personal finances.

However, Québec's performance in terms of schooling can still be improved.

- In 2018-2019,¹³ the on-time high school graduation rate¹⁴ was 75% in Québec compared to 83% in Ontario, a gap of 8 percentage points.
- Québec had the lowest high school graduation rate of all the provinces for the same period.

CHART 30

On-time high school graduation rates for the 2018-2019 school year (per cent)



Source: Statistics Canada.

¹³ The most recent data available cover the 2019-2020 school year. However, this period was affected by the COVID-19 pandemic. In order to exclude the effects of the pandemic from the results, the year 2018-2019 was considered in this analysis.

¹⁴ The on-time high school graduation rate is the percentage of a cohort of youth who complete high school within three years of starting grade 10 (secondary 4 in Québec).

Furthermore, progress must be achieved on graduation rates among boys.

—In 2018-2019, only 69% of boys graduated on time. This is a much lower proportion than for girls (81%).

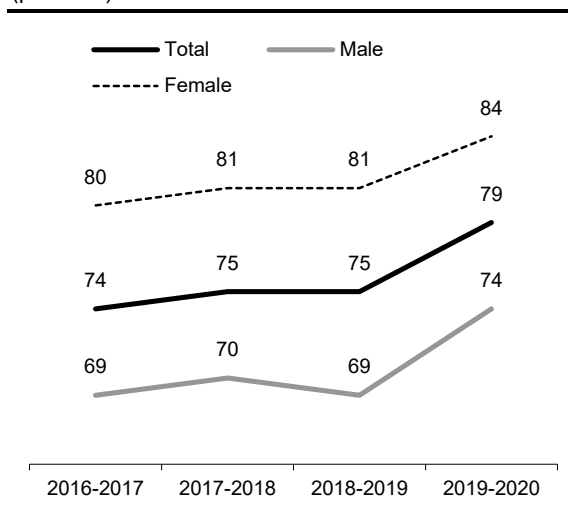
—In addition, post-secondary graduation among men is lower in Québec than elsewhere in Canada.

— In 2019, 41.6% of post-secondary graduates in Québec were men. This was the lowest proportion of all the Canadian provinces. By comparison, 45.3% of post-secondary graduates in Ontario were men.

CHART 31

On-time high school graduation rate

(per cent)

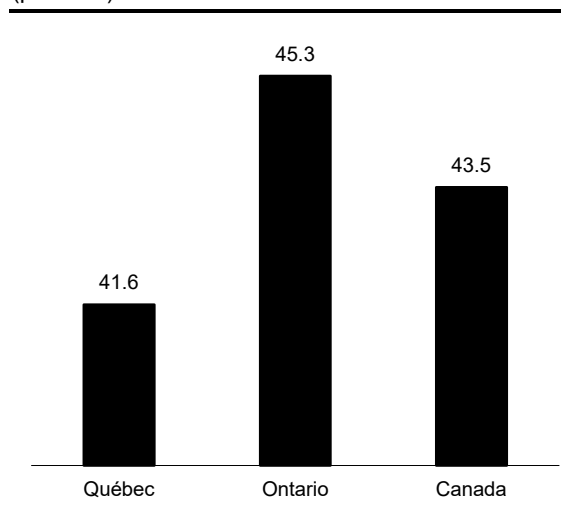


Source: Statistics Canada.

CHART 32

Proportion of male post-secondary graduates in 2019

(per cent)



Source: Statistics Canada.

Improving student retention among men

The relative undereducation of men is growing from year to year

In *La sous-scolarisation des hommes et le choix de profession des femmes*,¹ the authors analyze the phenomenon of boys' undereducation, which is growing from year to year, with increasing individual, social and economic costs.

If men earn fewer university degrees than women, it is because they attend university less or do less well there.

- According to the authors, 80% of men's lower university graduation rate is due to their lower participation in university programs.
- The same observation is made for primary, secondary and college education.

The origins of this discrepancy can be traced back to the perinatal period.

- The authors therefore recommend implementing, from pregnancy through early childhood, proven measures to reduce the growing undereducation of boys so that inequalities do not arise. Reducing the undereducation of boys must, however, be achieved while continuing to encourage the academic performance of girls.
- They stress the importance of identifying at-risk children and offering them the necessary support.
- At the high school level, the authors emphasize the importance of strengthening and expanding programs such as mentoring in order to reduce the dropout rate and increase the graduation rate.

¹ Robert Lacroix et al., *La sous-scolarisation des hommes et le choix de profession des femmes*, Les Presses de l'Université de Montréal, 2023, 232 pp.

An increased number of qualified students would improve Quebecers' standard of living

Student retention and graduation rates have risen significantly in Québec over the past few decades. However, a gap remains with Ontario and the rest of Canada.

In particular, in 2018-2019, the high school graduation rate stood at 83% in Ontario, compared to 75% in Québec, a gap of 8 percentage points.

An increase in Québec's high school graduation rate would boost the labour supply and standard of living

The Ministère des Finances¹ has evaluated the impact of an increase in Québec's high school graduation rate that would catch up with that of Ontario.

Catching up in this manner would increase the number of skilled workers on the labour market in order to fill more than 27 000 jobs, including nearly 23 000 that require a college or university education.

- The increase in the number of qualified students would have a positive impact of \$0.8 billion on household disposable income and of \$2.4 billion on Québec's real GDP.

Thus, increased schooling would raise Québec's standard of living by around \$250 per capita (+0.4%).

Québec's economic potential of an 8-percentage-point increase in the general high school graduation rate

(billions of 2021 dollars, unless otherwise indicated)

Domestic demand	1.6
Net exports	0.8
Québec's real GDP	2.4
<i>Disposable income</i>	<i>0.8</i>
<i>Jobs (full-time equivalent numbers)</i>	<i>27 400</i>
<i>GDP per capita (dollars per capita)</i>	<i>250</i>
– <i>GDP per capita (per cent)</i>	<i>0.4</i>

Source: Ministère des Finances du Québec.

¹ Estimates were made using the Ministère des Finances du Québec's general equilibrium model for education (MEGFQ-EDU). The model divides the education sector into different levels (e.g. elementary, secondary, university). It also takes into account the match between the labour market and worker training. The model thereby makes it possible to evaluate the impact of students' educational paths (e.g. graduation, attendance, dropping out), influenced by various determinants, on the labour market and the economy.

■ **Significant steps in recent years**

Education continues to be the cornerstone of Québec society's development. To this end, the government has made education its top priority in order to offer quality services, which are a guarantee of collective wealth.

As a result, public spending on education and higher education has risen from \$22.8 billion in 2018-2019 to \$30.3 billion in 2023-2024, a total increase of 32.8%.

■ **Agir tôt**

The Agir tôt program, announced in 2019, is for children aged 0 to 5 and their families. It aims to identify indicators of developmental difficulties in children so that they can be directed to the right services quickly. The objective of the program is to support the development of children's full potential and facilitate their start in kindergarten.

Agir tôt services are free and offered on a voluntary basis. The program is available at all of Québec's integrated health and social services centres (CISSS) and integrated university health and social services centres (CIUSSS).

■ **Helping youth succeed**

Since fall 2018, a number of initiatives totalling nearly \$10.3 billion have been put in place to help youth succeed, in particular to support students in vulnerable situations, improve student retention and success, boost vocational training and enhance the school building inventory.

These initiatives implemented by the government make it possible to deal with the biggest challenges facing education in Québec.

■ **Fostering student access, retention and graduation rates in higher education**

Improving higher education graduation rates is essential for meeting the current and future needs of the Québec labour market.

In higher education, the government has invested nearly \$8.9 billion since fall 2018, in particular to promote education accessibility and student success, support research, develop regional training and provide financial support for students.

Recommendations from the consultation

Greater investment is needed in education and training, at a time when the digitization of the economy, rise of artificial intelligence and aging of the population are causing upheavals in the labour market.

More specifically, the experts recommend:

- intervening earlier to identify children at risk;
- strengthening and expanding programs such as mentoring in order to reduce the dropout rate and increase the graduation rate;
- increasing math and science skills at the secondary level;
- promoting vocational training in secondary schools;
- improving financial assistance for college and university studies in certain identified disciplines;
- reviewing the university funding structure to promote programs where demand for labour is high;
- granting subsidies or tax credits to corporations for business workforce training;
- increasing university grants and scholarships for basic scientific research and improving grants and tax credits for business research.

❑ Providing an investment-friendly business environment

Québec's business environment must be competitive to foster the growth of Québec businesses and compete with comparable North American jurisdictions in attracting and retaining foreign subsidiaries. Québec must continue its efforts to ensure that its tax system is competitive in order to encourage business investment and to make it easier to do business by reducing the regulatory burden.

Non-residential business investment is a powerful driver of growth. To close the productivity gap with Ontario, Québec businesses will need to invest more.

- This transition can be facilitated by public policies aimed at promoting the attraction of capital and encouraging investment.
- Sound public finances, optimized investment tax assistance, and adequate infrastructure and public capital endowment contribute to these objectives.

Increasing business investment would raise the standard of living for Quebecers	
Québec businesses need to increase their investments by \$7 billion (+15.0%) to achieve the level of investment per private-sector job that Ontario had in 2022.	
Increasing investment would boost productivity	
According to estimates based on the general equilibrium model of the Ministère des Finances du Québec (MEGFQ), an annual increase in business investment of \$7.0 billion would have a positive effect on Québec's real GDP of \$27.5 billion annually over the long term.	
— This would boost business productivity by 2.9% and net exports by \$13.5 billion over the long term.	
These investments would improve the standard of living for Quebecers and close nearly half the gap with Ontario, boosting real GDP per capita by more than \$3 200 (+5.5%).	
Economic potential of a \$7-billion increase in non-residential business investment in Québec (billions of 2021 dollars, unless otherwise indicated)	
Domestic demand	14.0
Net exports	13.5
Real GDP	27.5
<i>Disposable income</i>	8.5
<i>Productivity (per cent)</i>	2.9
<i>GDP per capita (dollars per capita)</i>	3 203
— <i>GDP per capita (per cent)</i>	5.5
Source: Ministère des Finances du Québec.	

■ Significant steps in recent years

Since 2018, the government has introduced a series of measures that support investments and foster productivity gains.

■ Investment and innovation tax credit (C3i)

To encourage productivity gains for businesses in all regions of Québec and in all sectors of activity, the government announced the introduction of the investment and innovation tax credit (C3i) in Budget 2020-2021.

- The C3i encourages the acquisition of manufacturing and processing equipment, computer equipment and management software. The rate of assistance varies according to where the investment is made.

The C3i is one of the government's preferred tools for achieving its wealth creation objective.

- Since its inception, the C3i has supported nearly 7 000 businesses, with investments of approximately \$3 billion, representing almost \$600 million in support.

■ Tax holiday for large investment projects

The new tax holiday for large investment projects was introduced in Budget 2023-2024 with the aim of attracting more private investment to Québec and stimulating productivity gains.

The measure, aimed at corporations with investment projects of at least \$100 million, offers tax assistance of up to 25% of eligible investments over a 10-year period, in the form of an income tax holiday and an employer contribution to the Health Services Fund.

- When it was introduced, the tax holiday for large investment projects was expected to support nearly 100 new projects in Québec, representing investments of more than \$24 billion.

■ Supporting the development of the battery industry

The government announced the Stratégie québécoise de développement de la filière batterie in the fall of 2020.

In 2022, the government also introduced legislative amendments affecting the Société du parc industriel et portuaire de Bécancour to enable it to set up the infrastructure necessary to host large industrial projects in this sector in the area it covers.

These measures have already enabled Québec to attract major investments in a number of links in the battery production chain, including:

- Northvolt in Saint-Basile-le-Grand and McMasterville, for the production of battery cells and cathode active materials, as well as battery recycling;
- Volta Energy Solutions Canada in Granby, for the production of copper foil specifically for battery manufacturing;
- EcoPro CAM Canada and Ultium CAM in Bécancour, in both cases for the production of cathodes, an essential component in battery operation.

■ **Québec Enterprise Growth Fund**

The Québec Enterprise Growth Fund (QEGF) was established to better support businesses as they grow and to help protect Québec head offices.

- Its aim is to support Québec businesses that have strong growth potential or that are of strategic importance to the Québec economy.

With \$1 billion in capitalization, this fund is mainly active in the form of direct equity participation in businesses. To date, the QEGF has invested over \$300 million in 10 Québec businesses.

■ **Enhancing Investissement Québec's capitalization from \$4 billion to \$5 billion**

To increase the amounts made available to Investissement Québec, Budget 2019-2020 provided for a \$1 billion increase in its capital stock, bringing it from \$4 billion to \$5 billion.

This enhancement has enabled Investissement Québec to increase its transactions with businesses from its own equity, in the form of loans and equity investments in particular, thereby improving the ability of Québec businesses to invest in their growth.

Recommendations from the consultation

Investment and innovation are essential for fostering economic development and for tackling productivity challenges head on. It is important to target economic sectors with high productivity potential.

- It is in these key sectors that productivity gains will be the most substantial.
- In addition, it is large businesses that will generate the productivity gains needed to catch up with Ontario.

While these findings are shared by many experts, some recommend supporting the development of all industries rather than targeting specific ones, to avoid creating distortions in the Québec economy. More specifically, the experts recommend:

- maintaining tax assistance for investment and enhancing it for innovative sectors;
- encouraging the creation of incentives to investing in the capital of Québec businesses, to facilitate the start-up of small businesses, for example;
- promoting the development of large businesses with targeted measures and reducing support for under-performing businesses;
- easing the regulatory and administrative burden;
- simplifying the tax system, particularly by reviewing tax expenditures;
- eliminating outdated measures and stepping up efforts to deliver information and education about the existence and operation of the measures currently in place.

More specific amendments to the tax system are also recommended, including:

- reforming the small business deduction and reducing the general corporate tax rate by 1%;
- reducing employer contributions to the Health Services Fund;
- reassessing whether tax credits should be available on an ongoing basis and whether they should be refundable;
- reviewing the main wage-based tax credits.

3.3.1 A renewed C3i that will offer businesses a simplified investment tax assistance plan

Further to the experts' recommendations for reducing the wealth gap, the government is taking immediate action and announcing the renewal of the investment and innovation tax credit (C3i).

- Among other things, the experts recommend offering tax incentives for business investment as well as better targeting support on priorities and simplifying it.

The renewed C3i will offer fully refundable tax assistance corresponding to 15%, 20% or 25% of eligible investments, depending on the territory in which they will be made.¹⁵

In addition to providing businesses with a simplified investment tax assistance plan, the renewed C3i will represent nearly \$1.3 billion in financial support over the next five years.

- It will support approximately 10 000 companies in making innovative investments.

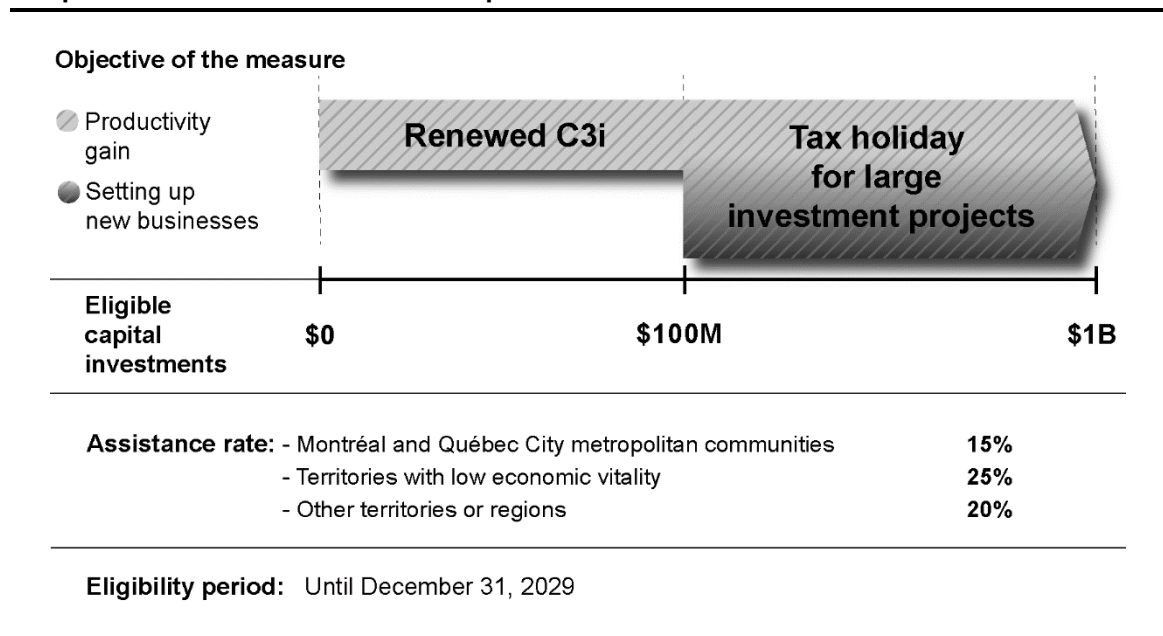
❑ A simplified investment tax assistance plan

With the tax holiday for large investment projects and the renewed C3i, the government is introducing a simplified investment tax assistance plan. This new plan will apply to two pillars of the government's investment support strategy:

- productivity gains resulting from the acquisition of new technologies;
- implementation of large investment projects for their growth-generating effects.

TABLE 6

Simplified investment tax assistance plan



¹⁵ Details of the measure are presented on page 70 of Section B, "Targeted Actions for Quebecers" of the *Update on Québec's Economic and Financial Situation – Fall 2023*.

4. UNDENIABLE PROGRESS, COLLECTIVE REFLECTION TO BE PURSUED

Raising Quebecers' standard of living is an essential objective for the development of society. Achieving this requires the commitment of all Quebecers. Despite lagging in terms of living standards, Québec has many competitive advantages. These unique advantages must be exploited to accelerate the process of closing the gap for the benefit of all Quebecers.

Québec's historically lower standard of living, the underlying factors, and the various means that could be used to boost economic potential are well known.

The findings and recommendations gathered from experts from the academic, institutional and financial communities were relatively mixed. The range of possible solutions received demonstrates the complexity of the issue. As a result, the government must remain cautious and adjust to act effectively. It must also do so in a way that is consistent with the evolution of society and the new priorities that emerge.

Government action must remain in step with the economic environment, changes to the labour market and population characteristics, and the needs of businesses. The measures put in place by the government since 2018 are part of this vision. They are bearing fruit, as the wealth gap with Ontario is narrowing.

In the *Update on Québec's Economic and Financial Situation – Fall 2023*, the government is taking strong action to encourage businesses to invest more.

- The renewal of the investment and innovation tax credit (C3i) will provide fully refundable tax assistance corresponding to 15%, 20% or 25% of eligible investments, depending on the territory in which they are made.

- In addition to providing businesses with a simplified investment tax assistance plan, the renewed C3i will represent nearly \$1.3 billion in additional financial support over the next five years, driving \$19 billion in investments by 2029.

This consultation represents a first step in the reflection process. The government will continue in this direction over the next few years.

- In particular, it will carry out an analysis of the recommendations arising from this consultation in order to identify the most promising ways of increasing Québec's economic potential and eliminating the wealth gap with Ontario. Moreover, in some cases, the proposals submitted confirm existing measures.

Boosting economic performance will benefit all Quebecers by improving their standard of living. This collective prosperity is necessary to ensure that Québec's public services are funded in the long term.

APPENDIX 1: LIST OF EXPERTS CONSULTED

TABLE 7

List of experts who participated in the consultation

Robert Asselin	Business Council of Canada
Jean-Yves Bourgeois	Desjardins Group
Nathalie De Marcellis-Warin	CIRANO
Benoit Dostie	HEC Montréal
Jean Dubé	Université Laval
Raphaël Duguay	Yale School of Management
Raquel Fonseca	UQAM
Pierre Fortin	UQAM
Robert Gagné	HEC Montréal
Luc Godbout	Université de Sherbrooke
Yvan-Pierre Grimard	Desjardins Group
Jimmy Jean	Desjardins Group
René Lalonde	Scotiabank
Sébastien Lavoie	Laurentian Bank Securities
Stéfane Marion	National Bank of Canada
Pierre-Carl Michaud	HEC Montréal
Alain Paquet	UQAM
Nicolas Parent	Caisse de dépôt et placement du Québec
Jean-François Perreault	Scotiabank
Markus Poschke	McGill University
Dalibor Stevanovic	UQAM
Thierry Warin	HEC Montréal

APPENDIX 2: OTHER STANDARD-OF-LIVING INDICATORS

Real GDP per capita calculates economic activity in constant dollars as a proportion of the total population. In particular, it makes it possible to estimate a population's standard of living as well as an economy's capacity to generate wealth.

While this indicator has the advantage of being easy to calculate, it constitutes an imperfect index of well-being.

—The measurement of real GDP per capita disregards the notions of equality and sharing of wealth.

—Furthermore, it does not take into account a number of factors relative to well-being, including individual and democratic freedoms, life expectancy and medical, housing and education costs.

There are other indicators for assessing a region's standard of living.

—In particular, real gross domestic income (GDI) per capita measures the volume of goods and services that an individual can purchase from the income generated by their production. This index is calculated by deflating the level of production by domestic demand prices rather than by GDP prices.

In addition, various well-being indexes are published by a number of organizations, measuring other more qualitative components related to the standard of living.

☐ **Progress indicators for measuring well-being and national wealth in Québec**

The Québec Progress Indicators are published by the Institut de la statistique du Québec (ISQ). They measure the multiple components of progress as a complement to GDP. They include seven indicators of well-being and eight indicators of national wealth. For each indicator, the situation in Québec is compared with the rest of Canada and Canada as a whole. The ISQ also presents the favourable or unfavourable trend in terms of progress for each indicator.

☐ **Human Development Index**

The Human Development Index (HDI) has been published by the United Nations Development Programme (UNDP) since 1990. It measures the progress of countries on three components: health, income and education.

☐ **Better Life indicator**

The OECD publishes the Better Life indicator for each of its 38 member countries, as well as for Brazil, Russia and South Africa. The index is based on indicators of the quality of life and material living conditions.

☐ **World Happiness Index**

The World Happiness Index is sponsored by the United Nations (UN). It is based on six explanatory factors: GDP per capita, social support, life expectancy based on good health, freedom of choice, perceived generosity and absence of corruption.



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