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Is Quebec's labour market weakness cause for concern?

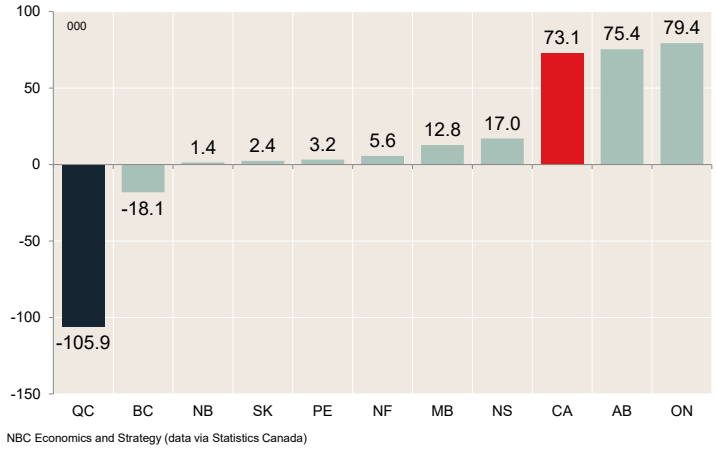
By Alexandra Ducharme and Matthieu Arseneau

Summary

- Over the past twelve months, Quebec has lost 106K jobs according to the Labour Force Survey (LFS), by far the weakest performance among Canadian provinces.
- Demographics play a key role in this underperformance. According to the LFS, Quebec's population is shrinking, while population aging is more pronounced than elsewhere in the country, as reflected in the sharp increase in retirements. This highlights the importance for the new government of carefully assessing the economic implications of its lower immigration targets, particularly against a backdrop of accelerated population aging in Quebec.
- However, the deterioration in the labour market is not solely attributable to demographics. Rising unemployment and declining participation within age groups are also contributing to employment losses, suggesting that cyclical factors are at play.
- Despite the apparent weakness in LFS employment, we remain cautious about the actual magnitude of the decline, given upcoming population revisions, the volatility of provincial data and the lack of corroborating evidence from collective layoffs. The establishment survey data will be key to assessing the extent of the weakness.

Canadian employment data according to the LFS for September, released earlier this month, pointed to a further deterioration in the labour market. Following a decline of 42K in August, employment fell by 68K nationwide in September, its largest monthly contraction since February 2026. Employment remains higher than a year ago at the national level, but the picture varies considerably across provinces. Quebec stands out for its weakness, having lost 106K jobs since September 2025, by far the worst performance among the ten provinces.

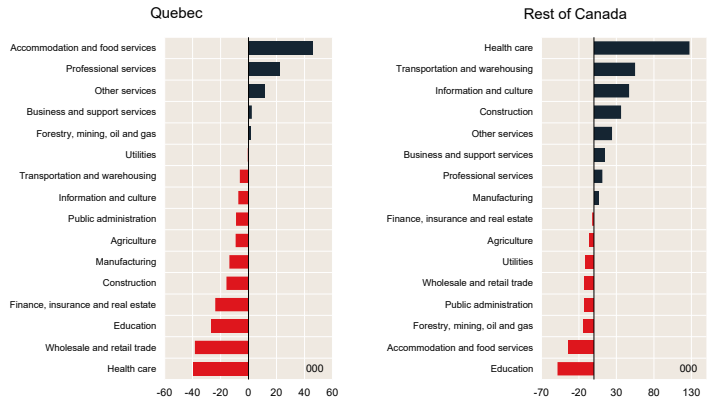
Canada: The labour market masks regional disparities
Year-over-year change in employment, in thousands, unadjusted for seasonality, September 2026



NBC Economics and Strategy (data via Statistics Canada)

What explains this concerning divergence? Against the backdrop of the ongoing trade conflict, with Quebec facing the highest effective tariff rates in the country, a shock concentrated in manufacturing and transportation naturally comes to mind. Yet these two sectors account for only 19% of employment losses over the past year. The industry breakdown instead shows that employment has weakened across several sectors over the past twelve months, pointing to a relatively broad-based deterioration. Public services, including health care and education, have nevertheless been particularly weak.

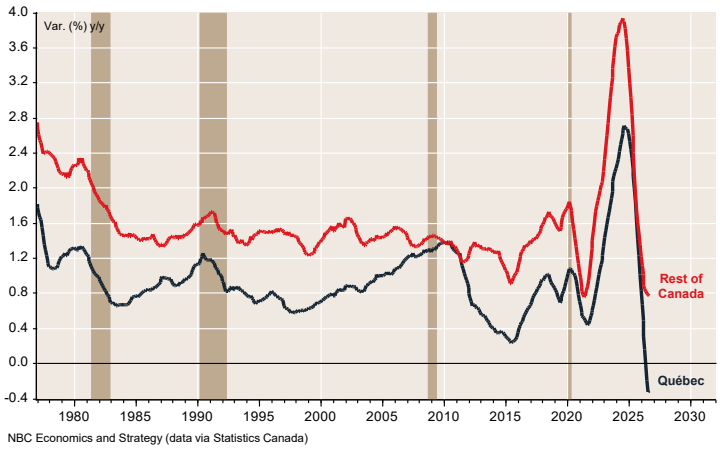
Quebec: Employment losses span multiple sectors
Year-over-year change in employment, thousands, not seasonally adjusted



NBC Economics and Strategy (data via Statistics Canada)

These findings lead us to examine the mechanisms that could be contributing to Quebec's weakness, starting with population growth. We find that the population covered by the Labour Force Survey, namely those aged 15 and over, has declined in Quebec over the past year. This contrasts with the rest of Canada, where population growth remains positive despite slowing sharply. Demographic trends can therefore explain part of the performance gap between the two regions.

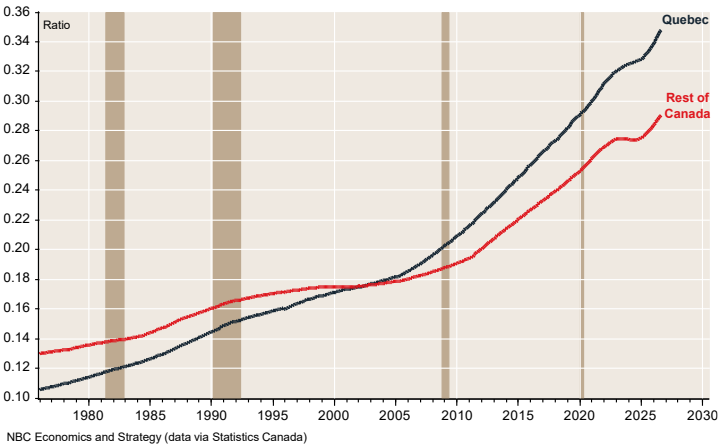
Quebec: A shrinking population
Annual change in the population aged 15 and older, based on data from the Labour Force Survey



NBC Economics and Strategy (data via Statistics Canada)

Beyond population growth, aging could also explain some of the weakness in employment. Here, the data show that the phenomenon is more pronounced in Quebec than elsewhere in the country. The ratio of people aged 65 and over to those aged 15 to 64 has risen in both regions, but much more rapidly in Quebec than in the rest of Canada.

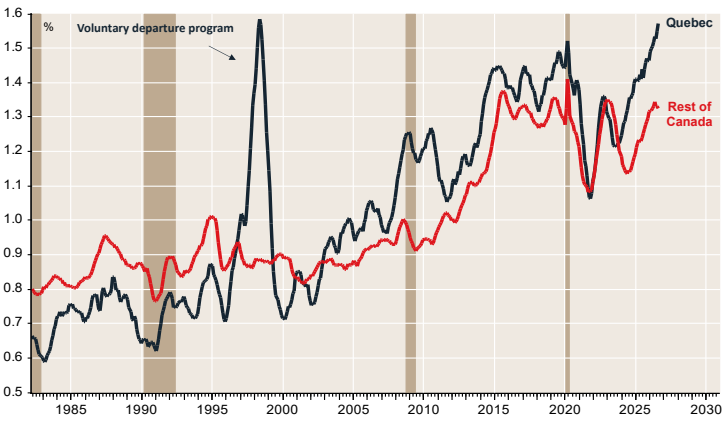
Quebec: More pronounced population aging than elsewhere in Canada
Ratio of people aged 65 and over to those aged 15–64



NBC Economics and Strategy (data via Statistics Canada)

This trend is corroborated by retirement data. Over the past year, retirements have represented a near-record share of Quebec's labour force. The only historical precedent occurred in the wake of the voluntary departure program in the late 1990s. In the rest of Canada, this share has remained essentially stable over the past twelve months.

Quebec: Rapid increase in retirements
Percentage of employees who have retired in the past 12 months out of the labour force*



*12-month moving average
NBC Economics and Strategy (data via Statistics Canada)

Population aging puts structural downward pressure on the participation rate, as older age groups are less likely to participate in the labour market. But how much of the deterioration over the past year does this explain? To answer this question, we estimated the path of the participation rate while holding each age group's participation rate constant at its September 2025 level and allowing the population's age composition to evolve in line with official data. Under this scenario, Quebec's participation rate would have reached 64.1% in September 2026, compared with the observed rate of 63.7%.

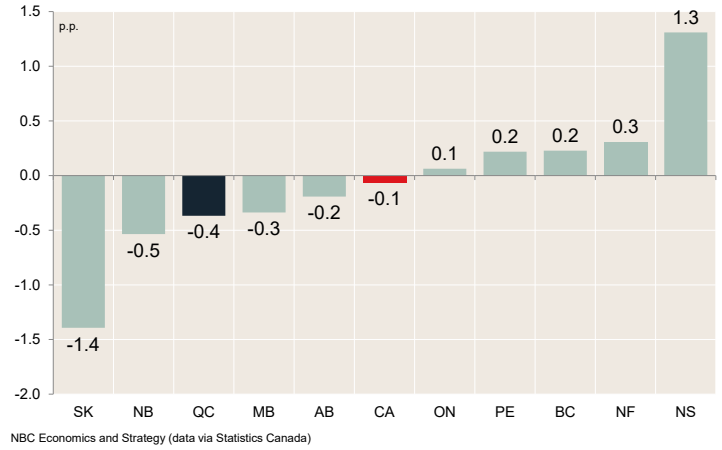
Quebec: A decline in the part. rate that surpasses population aging
Participation rate and participation rate implied by population change



NBC Economics and Strategy (data via Statistics Canada)

The 0.4 percentage point gap suggests that the deterioration in the labour market extends beyond changes in the population's age structure alone. This gap is the third largest among Canadian provinces and the largest among the four biggest provinces.

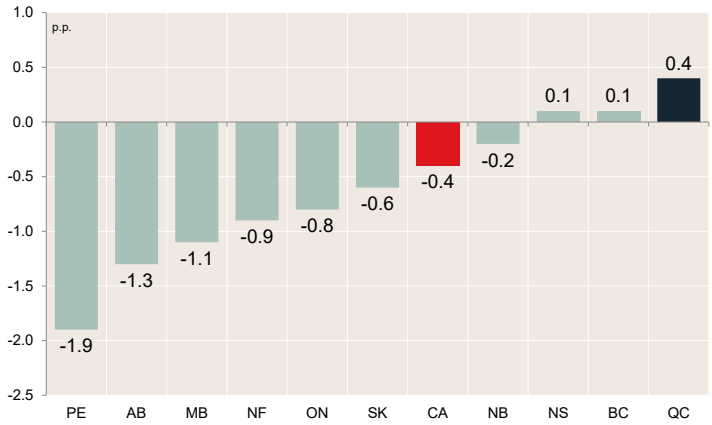
Quebec: A decline in the part. rate that surpasses population aging
Participation rate and participation rate implied by population change



NBC Economics and Strategy (data via Statistics Canada)

Population decline and aging therefore appear insufficient to explain Quebec's labour market underperformance. The change in the unemployment rate over the past year reinforces this conclusion. Quebec's unemployment rate has risen by 0.4 percentage points, compared with a decline of 0.4 percentage points nationally. Quebec has recorded the least favourable change among all provinces over this period.

Quebec: Unemployment rate rises over the past year
Year-over-year change in the unemployment rate, unadjusted for seasonality

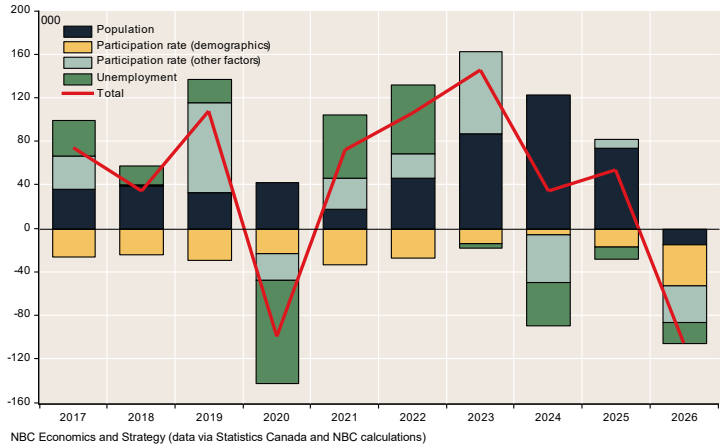


NBC Economics and Strategy (data via Statistics Canada)

We now have a clearer picture of the factors behind Quebec's weak employment performance over the past year. Population decline, aging and cyclical conditions have all contributed. To estimate each factor's contribution, we use a Shapley decomposition, with the methodology outlined in the appendix. This approach allocates the change in employment across three components: population, the participation rate and the share of the labour force that is employed. We then apply a second Shapley decomposition to the participation rate to distinguish changes attributable to shifts in the population's age structure from those resulting from changes in participation within age groups.

We find that population aging has been the largest contributor over the past year, accounting for 35% of employment losses. Population decline explains a further 14%. Together, these two mechanisms suggest that structural forces account for roughly half of the decline in employment over the past year. The remaining half appears more cyclical in nature, with 20% of the total decline associated with rising unemployment and 32% with lower participation within age groups, potentially reflecting temporary withdrawals from the labour market.

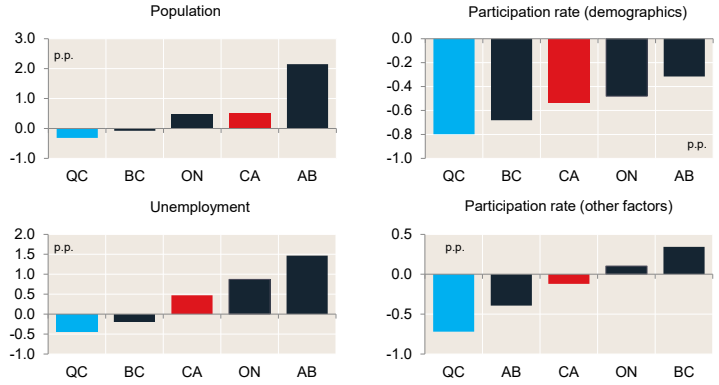
Quebec: A breakdown of annual employment changes
Contributions to year-over-year employment changes, September of each year, Shapley decompositions



NBC Economics and Strategy (data via Statistics Canada and NBC calculations)

Among the four largest provinces, Quebec has recorded the weakest performance across all components examined.

Canada: A regional perspective on annual employment changes



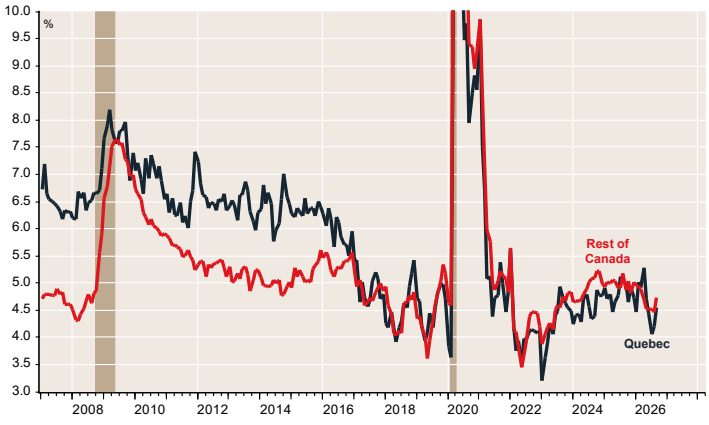
BNC Économie et Stratégie (données via Statistique Canada et calculs BNC)

Conclusion

Our analysis of Quebec's LFS data suggests that the decline in employment has multiple causes. The province appears to be experiencing both a significant population contraction and a more pronounced aging than elsewhere in the country. Together, these factors would explain roughly half of the employment decline over the past year. These demographic trends highlight the importance for the new government of carefully assessing the economic implications of its lower immigration targets, particularly against a backdrop of accelerated population aging in Quebec.

While acknowledging the labour market weakness associated with these factors, we remain skeptical about the actual magnitude of the employment decline reported by the LFS. We will first closely monitor how demographic revisions are incorporated into the population estimates (**link**). On the cyclical side, the survey does show a slight increase in layoffs, but this trend is not corroborated by collective layoff data. Canadian employment data are particularly volatile, especially at the provincial level, warranting caution before placing too much weight on recent fluctuations. We will closely watch upcoming employment releases from the establishment-based Survey of Employment, Payrolls and Hours, which could confirm or call into question the extent of the weakness suggested by the LFS.

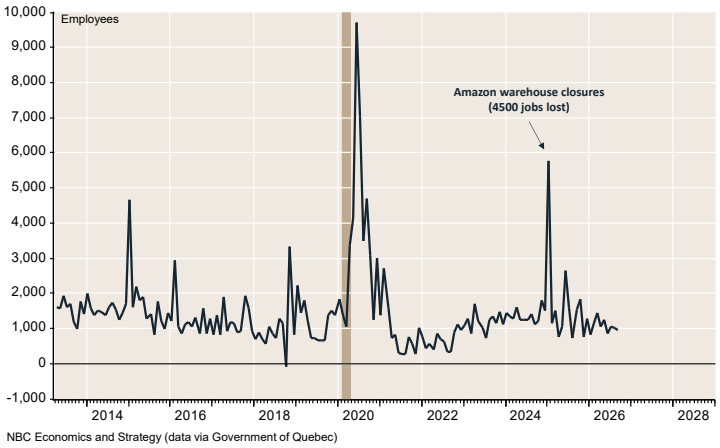
Quebec: Layoffs remain under control
People who have lost their jobs in the past 12 months as a percentage of the sum of the labour force and layoffs



NBC Economics and Strategy (data via Statistics Canada seasonally adjusted by NBC)

Quebec: No material increase in mass layoffs

Number of employees affected by a notice of collective dismissal (seasonally adjusted by NBC)



NBC Economics and Strategy (data via Government of Quebec)

Appendix: Methodology

We begin with the following identity:

$$\text{Employment} = \text{Population} \times \frac{\text{Labour force}}{\text{Population}} \times \frac{\text{Employment}}{\text{Labour force}}$$

The first component captures population size, the second labour force participation, and the third labour market conditions.

Since all three factors change over time, we seek to isolate each factor's contribution to the change in employment between two periods.

To do so, we use a three-factor Shapley decomposition. This method considers all possible sequences in which the three factors can change, calculates each factor's contribution under each sequence, and then averages those contributions across sequences.

For example, let x represent population, y the participation rate and z labour market conditions, measured by the share of the labour force that is employed.

The contribution of x is calculated by considering the six possible sequences:

$$\text{x, y, z ; } \Delta x\, y_0 z_0$$

$$\text{x, z, y ; } \Delta x\, z_0 y_0$$

$$\text{z, y, x ; } \Delta x\, z_1 y_1$$

$$\text{z, x, y ; } \Delta x\, z_1 y_0$$

$$\text{y, x, z ; } \Delta x\, y_1 z_0$$

$$\text{y, z, x ; } \Delta x\, y_1 z_1$$

The contribution is therefore $C_x = \Delta x \cdot \frac{2y_0z_0+2y_1z_1+z_1y_0+y_1z_0}{6}$

The same procedure is applied to the other two factors.

The next step is to decompose the change in the participation rate. Two mechanisms can drive this change: population aging and changes in participation within age groups, which may reflect cyclical conditions, a new childcare program, shifts in retirement behaviour or other factors.

To separate these mechanisms, we apply a second Shapley decomposition, this time using the following identity:

$$\frac{\text{Labour force}}{\text{population}} = \sum(\text{Population share of age group} \times \text{Participation rate of age group}).$$

Economics and Strategy

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