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Canada's Prospects:

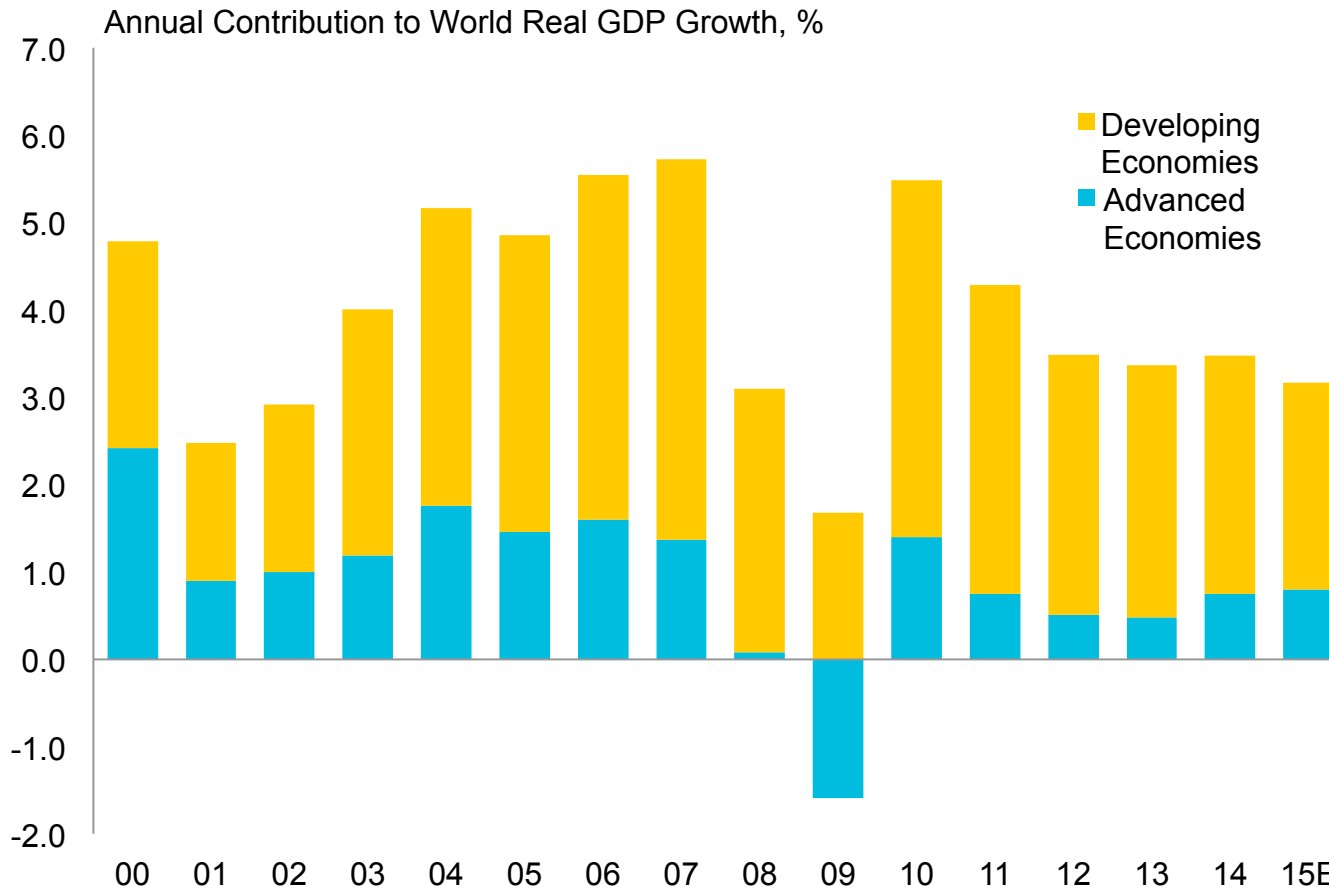
Implications From A Slow Growth Environment

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Incoming SVP and Chief Economist, The Conference Board of Canada

August 2016

Global Economy Struggling to Grow

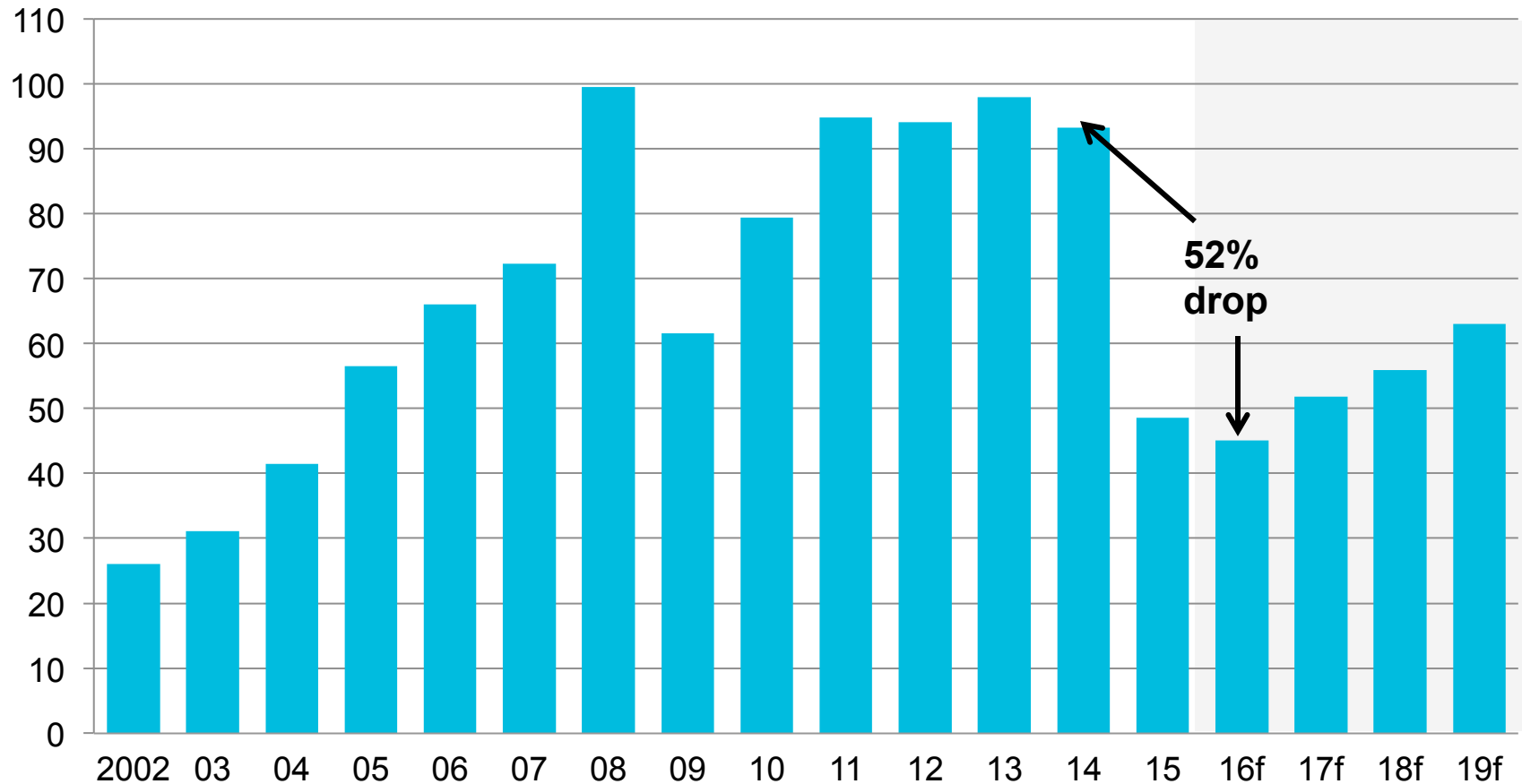


Source: IMF



Sustained Commodity Price Shock

WTI Crude Price, US\$ per barrel



Sources: Bureau of Economic Analysis The Conference Board of Canada.

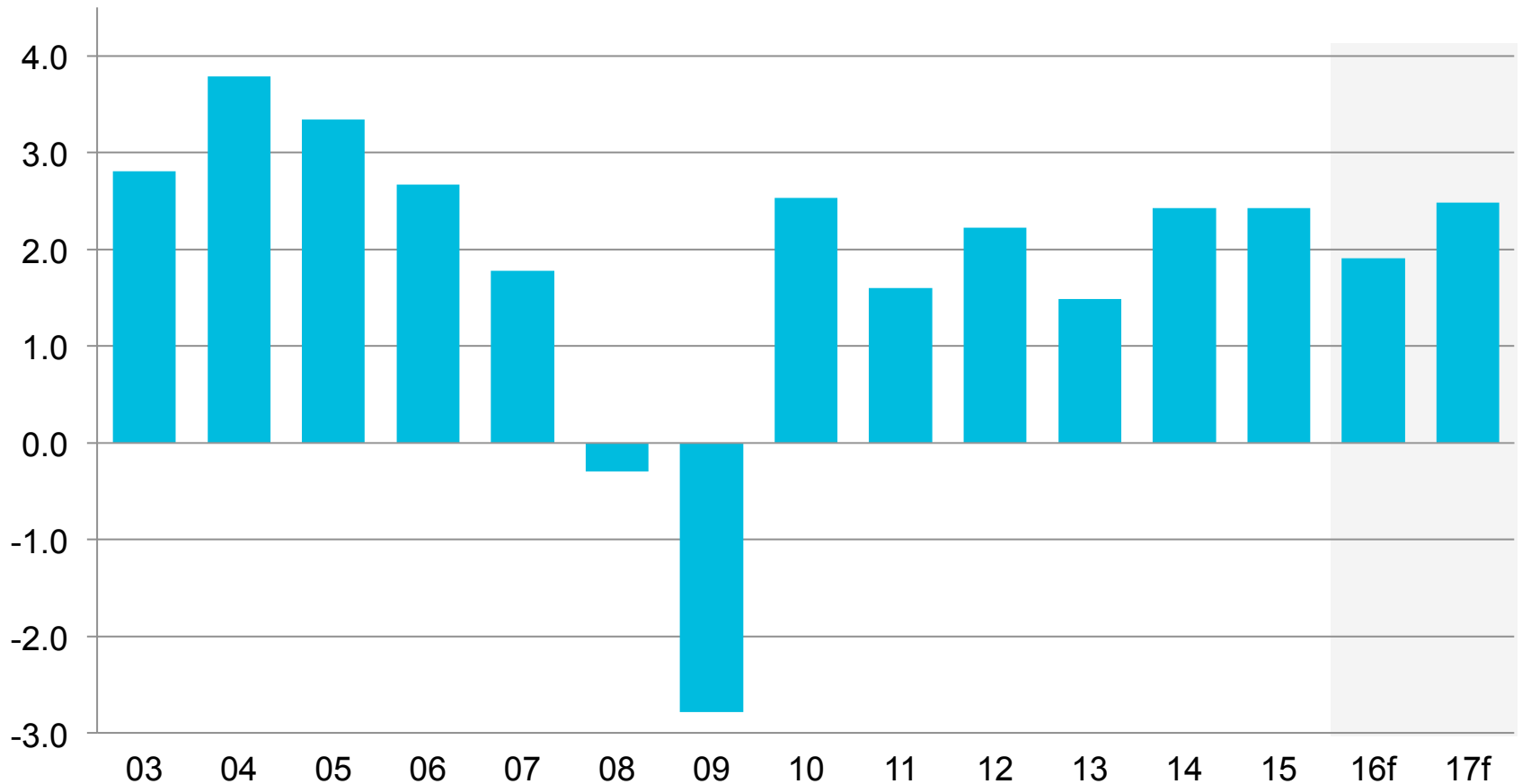


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U.S. Economic Growth

per cent change



Sources: Bureau of Economic Analysis The Conference Board of Canada.

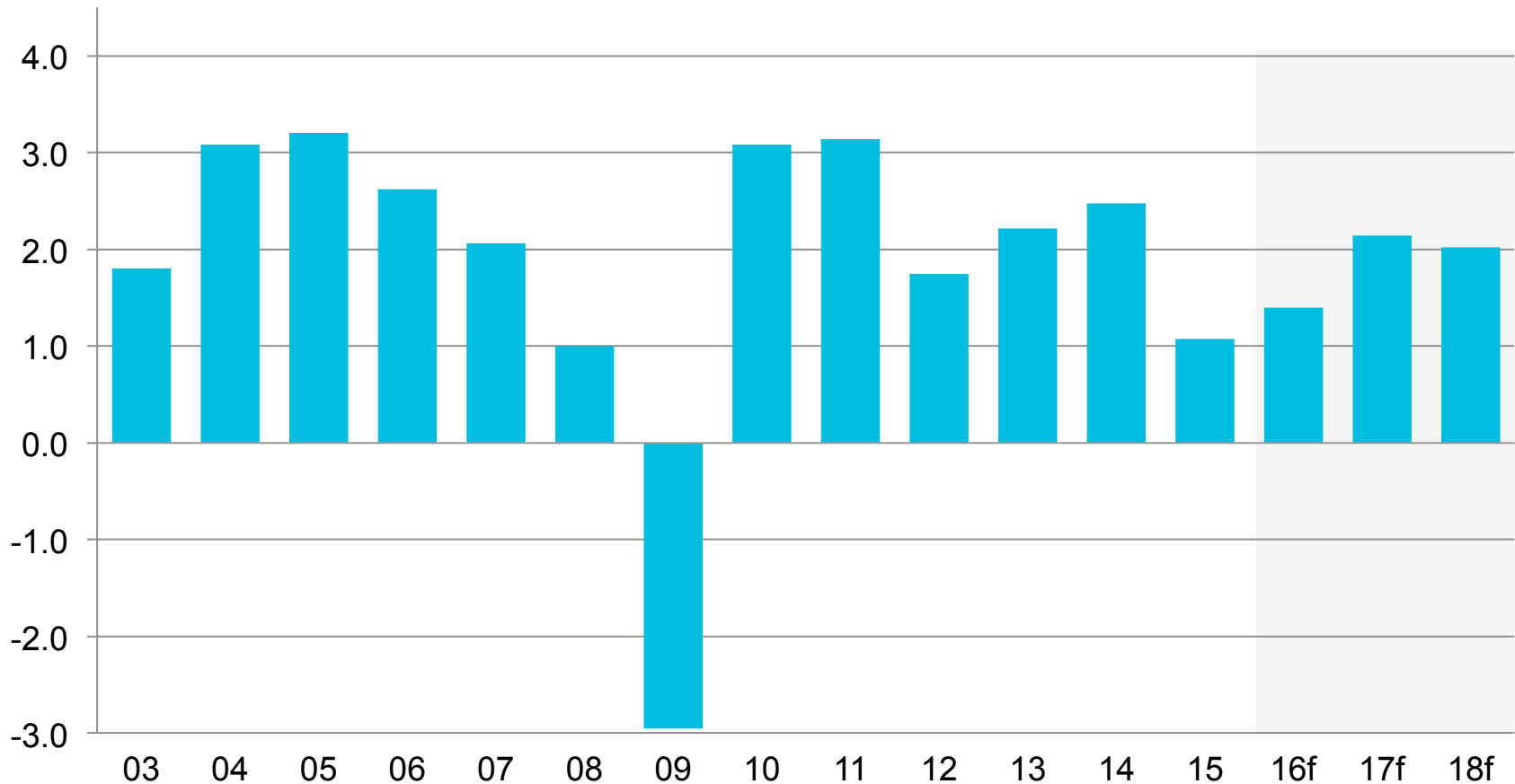


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Canada's Real GDP: Continued Slow Growth

per cent change



Sources: Statistics Canada; The Conference Board of Canada.

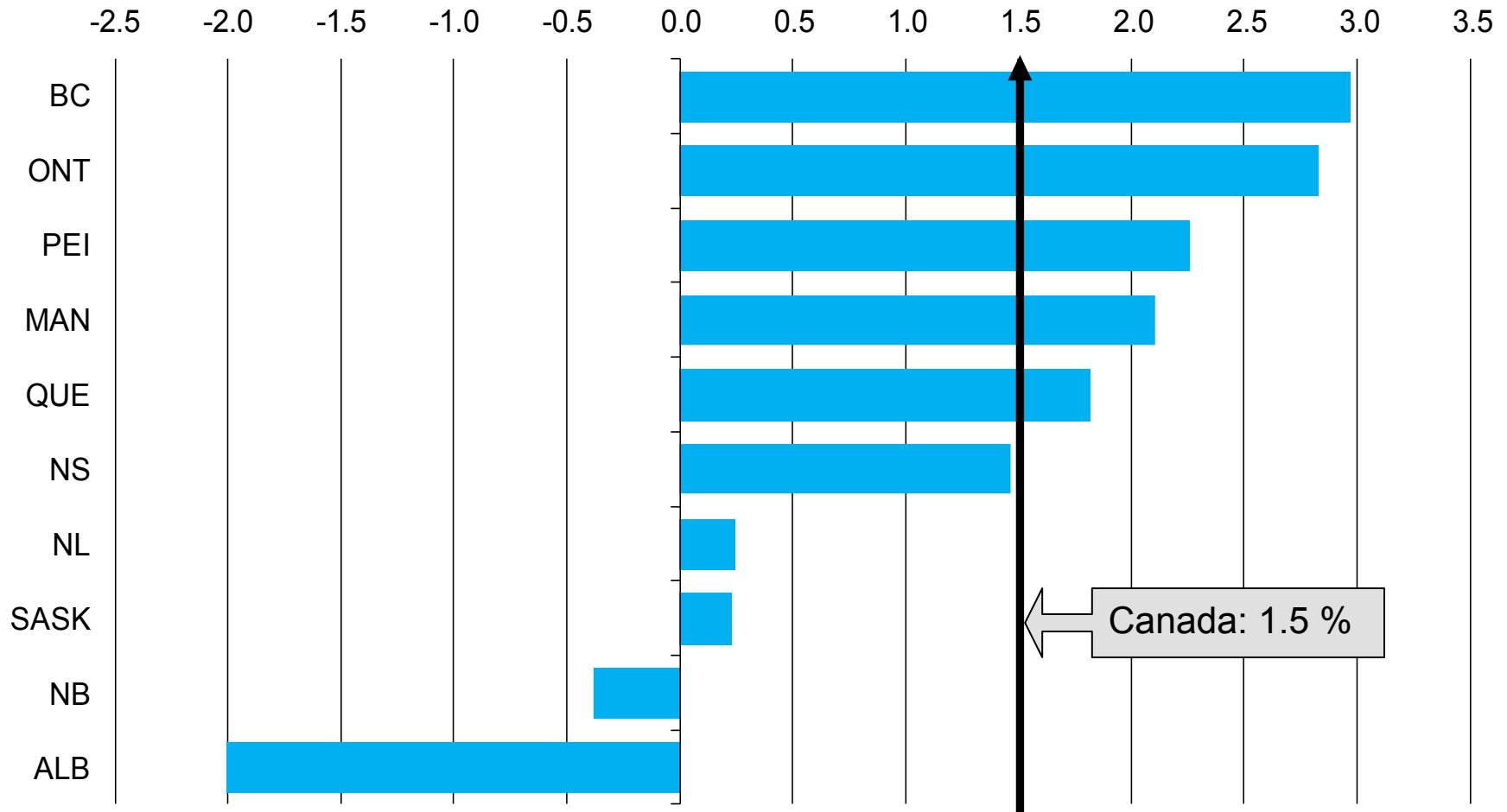


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2016 Real GDP by Province.

per cent change, basic prices, \$2007.

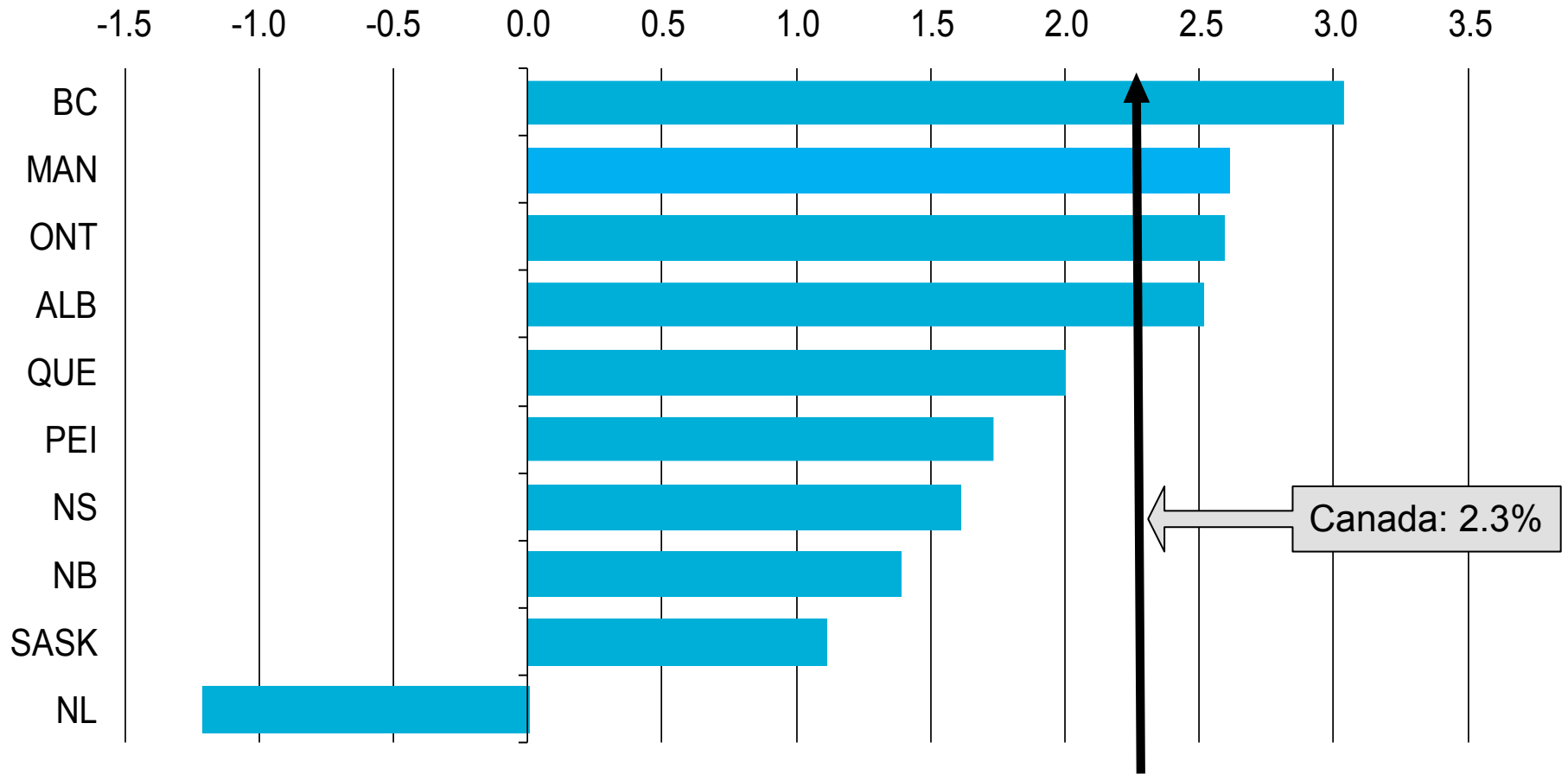


Sources: The Conference Board of Canada; Statistics Canada



2017 Real GDP by Province.

per cent change, basic prices, \$2007.



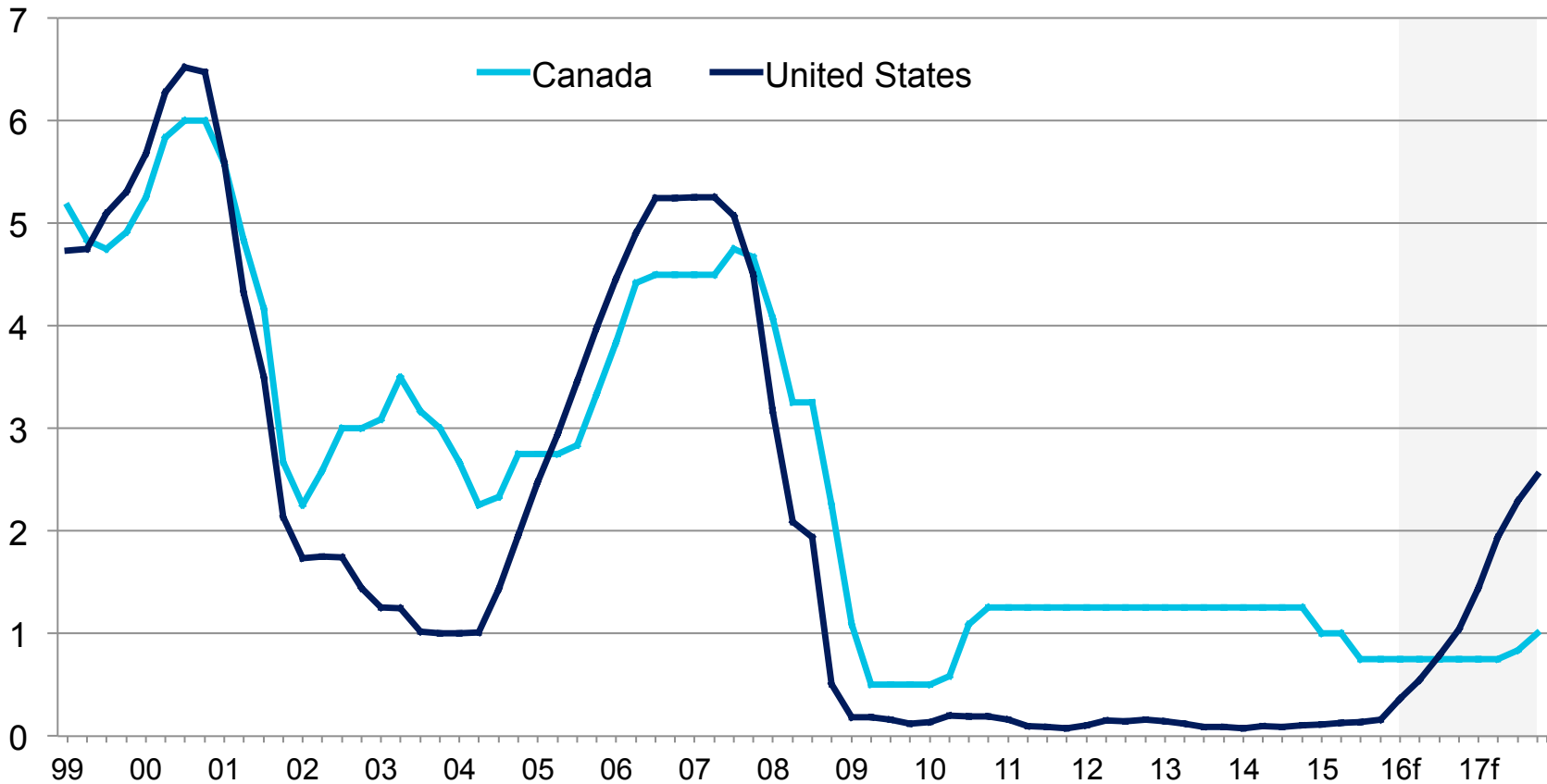
Sources: The Conference Board of Canada; Statistics Canada





Short-Term Interest Rates

Canadian Bank Rate and U.S. Federal Funds Rate.

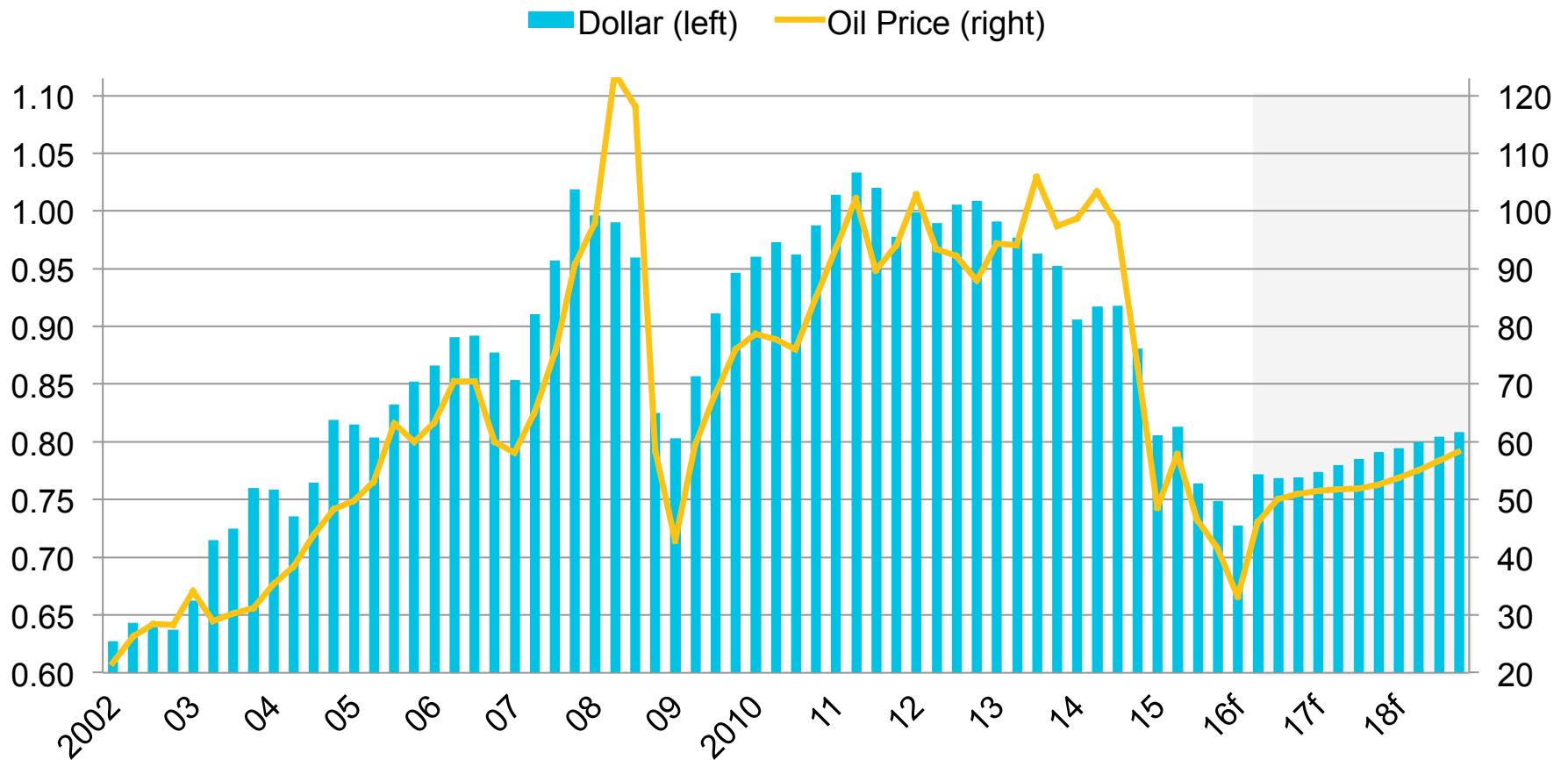


Sources: The Conference Board of Canada; Statistics Canada.



The Loonie and the Oil Price

(WTI \$US, \$US/\$C)

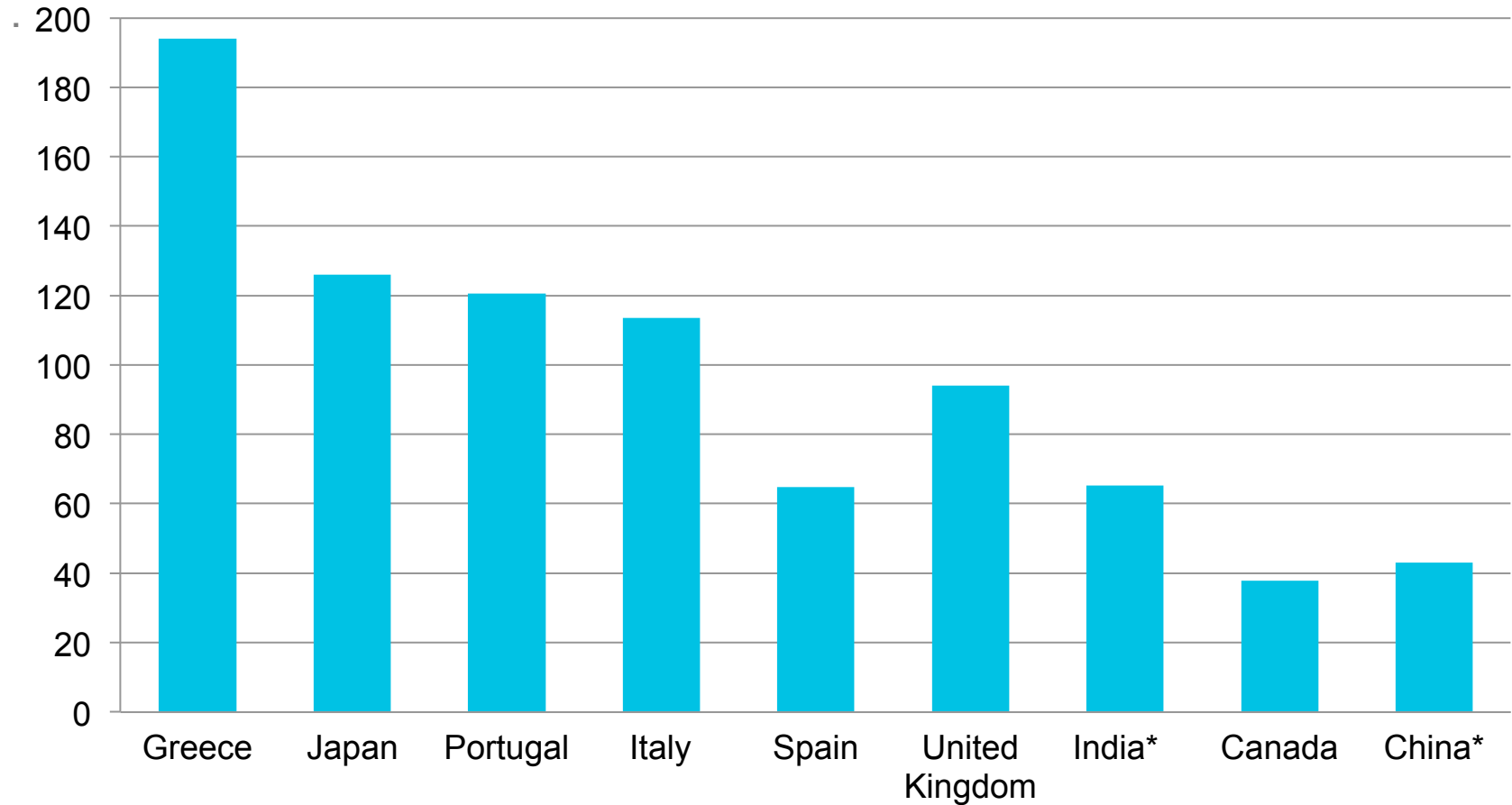


Sources: The Conference Board of Canada; U.S. EIA; Statistics Canada.



Government Debt as a Share of GDP

per cent, 2015 estimates, net debt, * reporting gross debt for India and China



Source: International Monetary Fund.

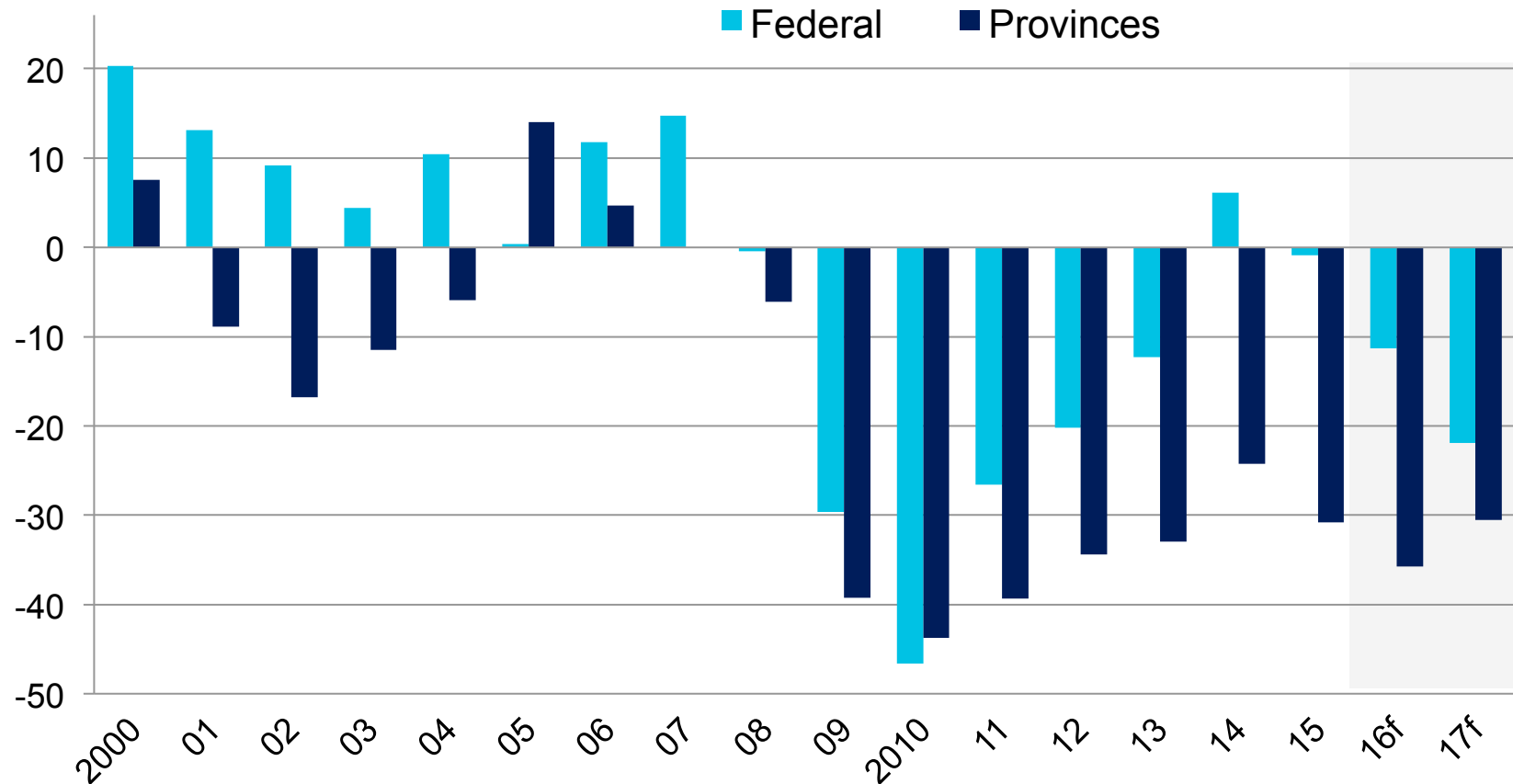


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Canada Federal and Regional Deficits

National Accounts Basis, \$billions

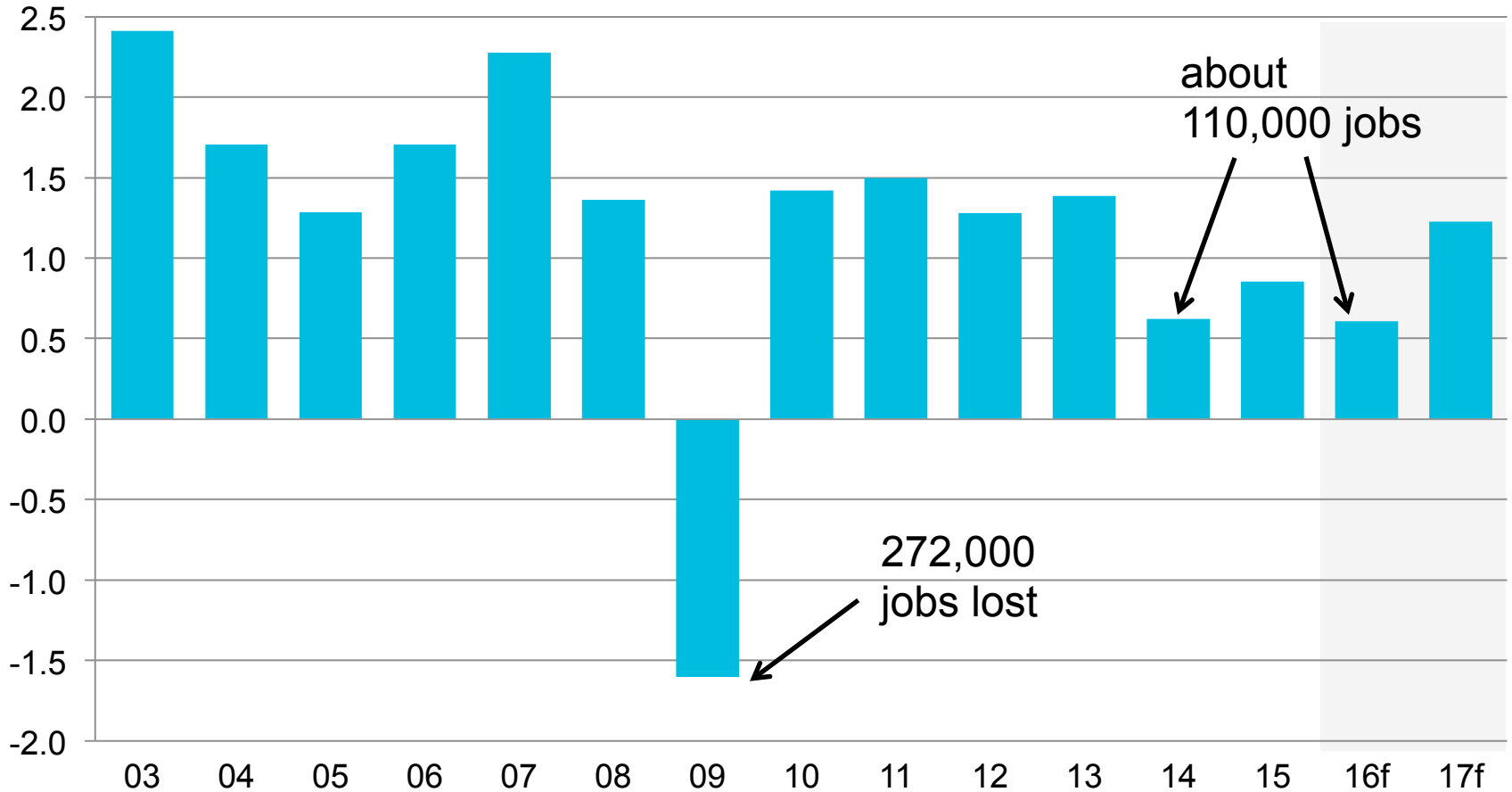


Sources: Statistics Canada; The Conference Board of Canada.



Employment Growth

per cent change



Sources: Statistics Canada; The Conference Board of Canada.

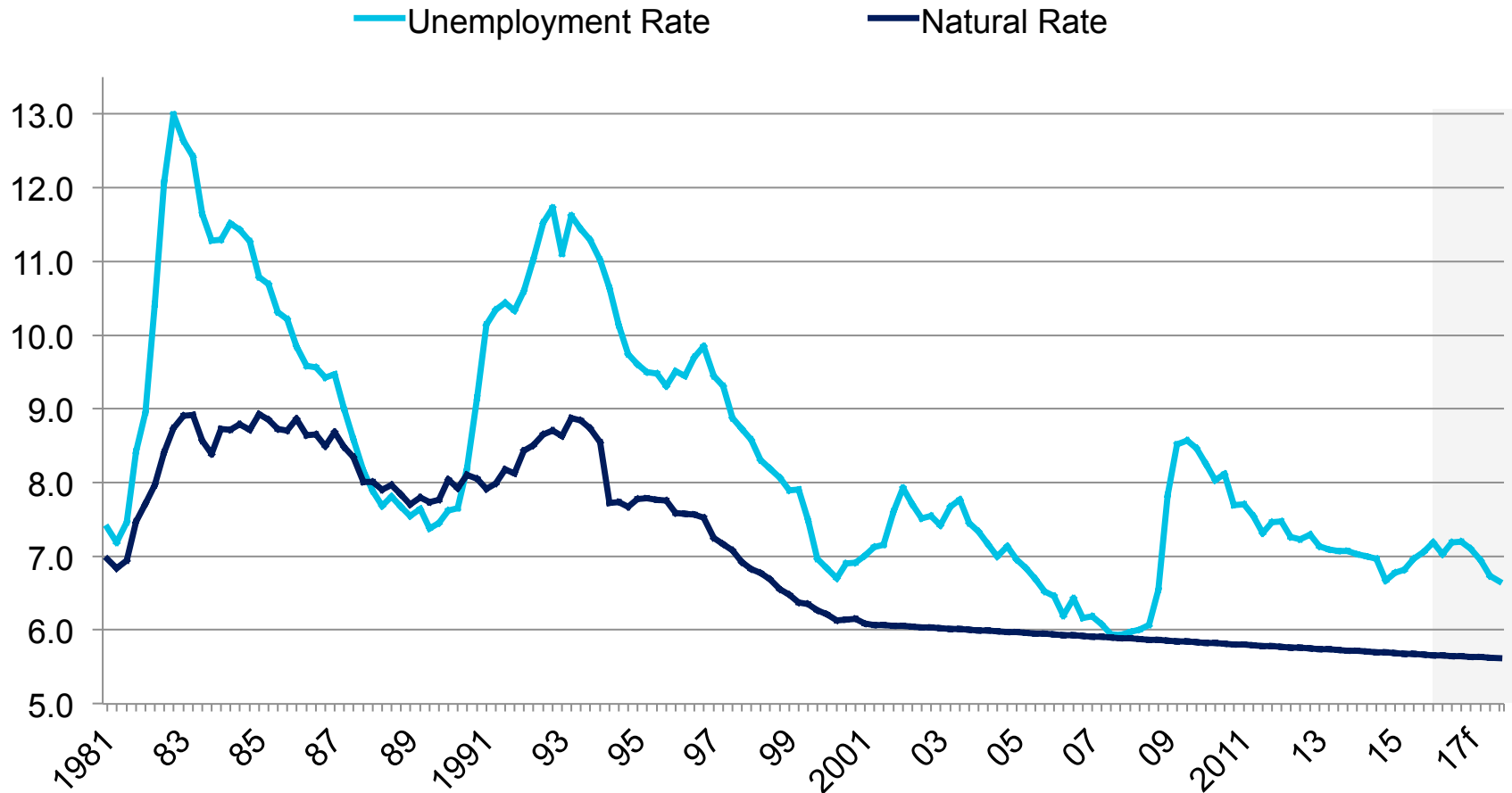


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Unemployment Rate vs. Natural Rate

per cent



Sources: Statistics Canada.; The Conference Board of Canada.

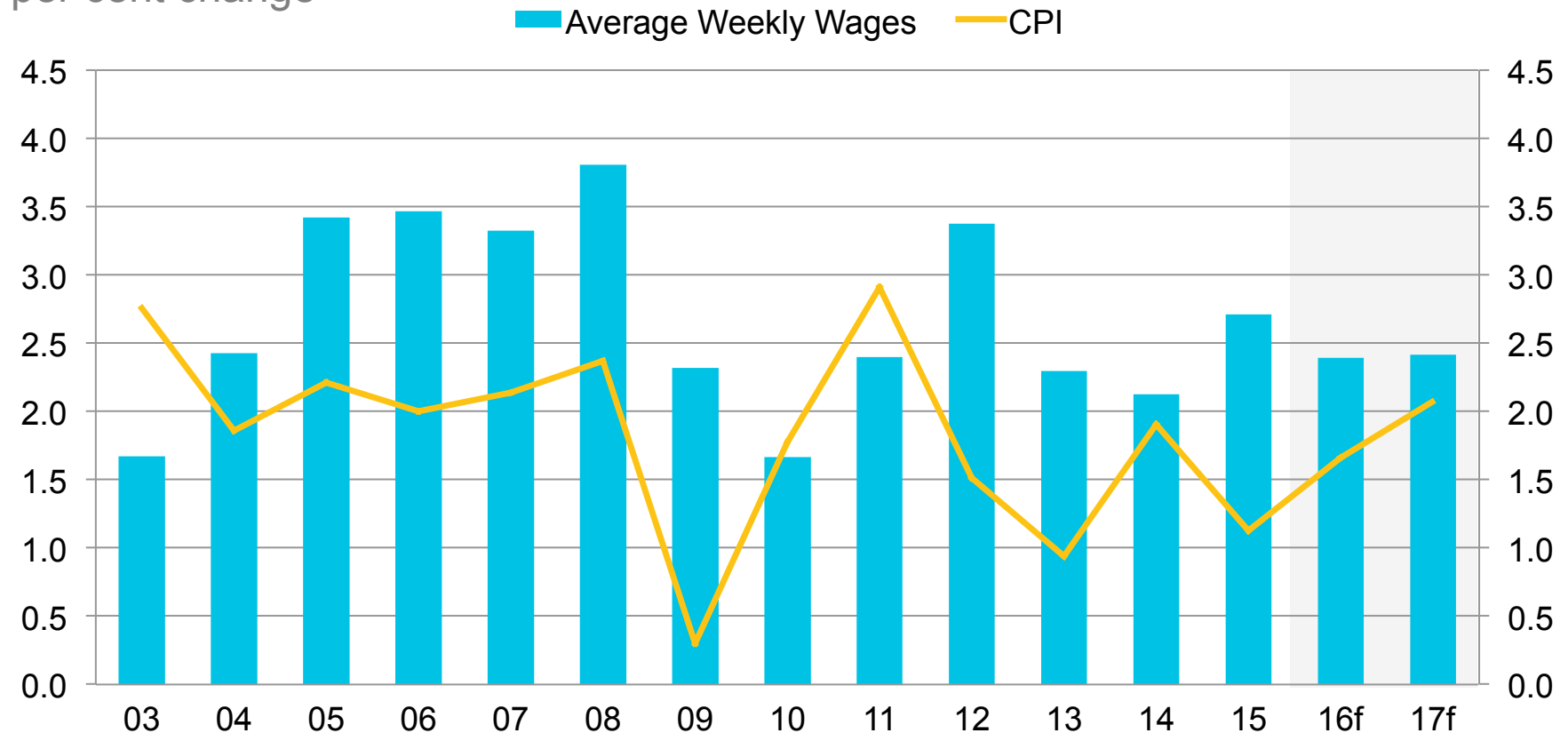


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Growth in Industrial Composite Average Weekly Wage versus CPI

per cent change

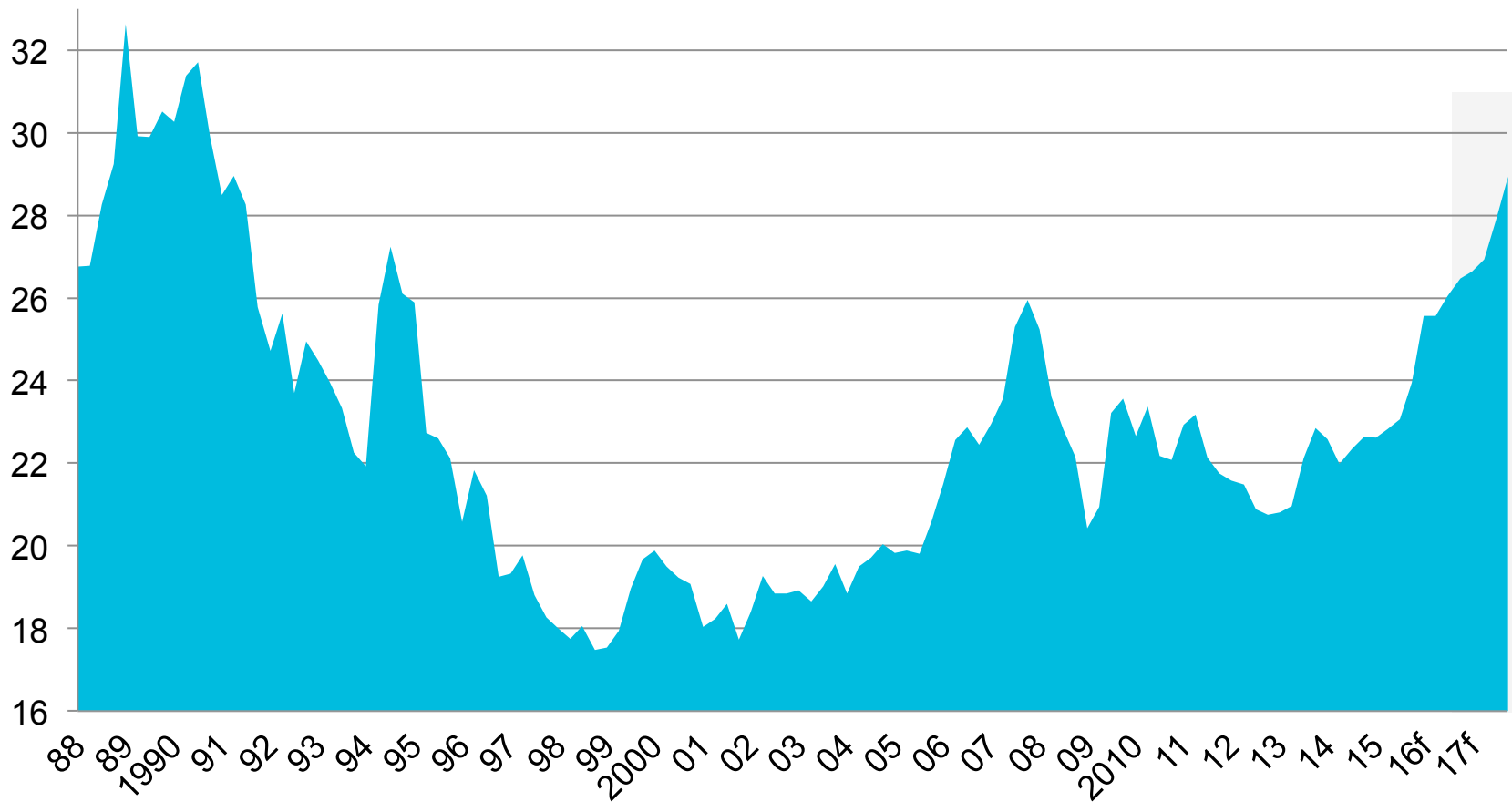


Sources: Statistics Canada; The Conference Board of Canada.



Housing Affordability Becoming A Problem

average home payments as a share of income



Source: The Conference Board of Canada.



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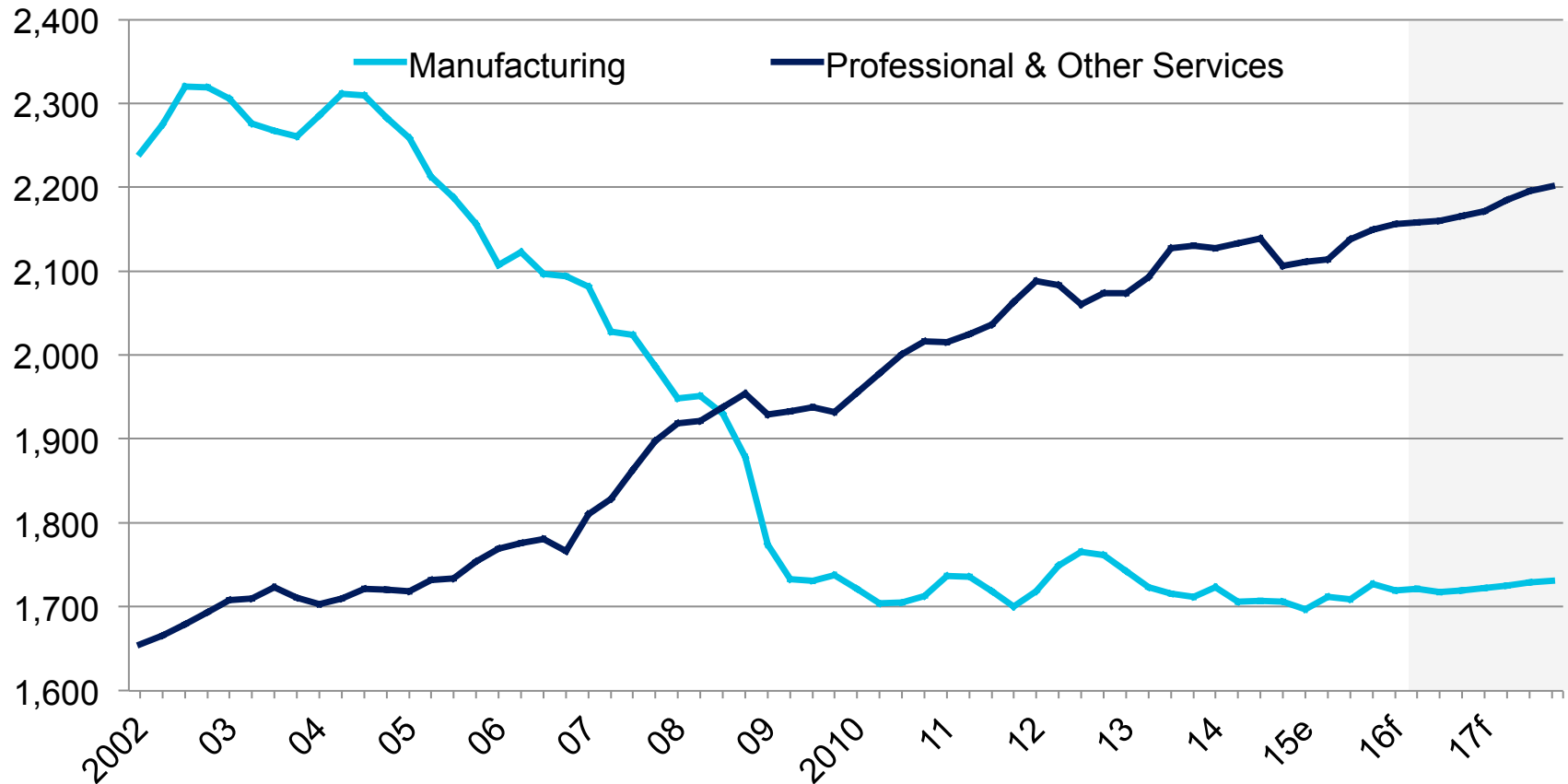
Structural Forces also Shaping Outcomes

- Globalization
- Technical Change
- Leading to Shifts in Labour Demand
 - Deindustrialization
 - Decline in unionization
 - Increase in high skill, decrease in middle skill jobs
- Aging Demographics
- Urbanization



Employment Key Sectors

000's, 2002-2017



Source: Statistics Canada.

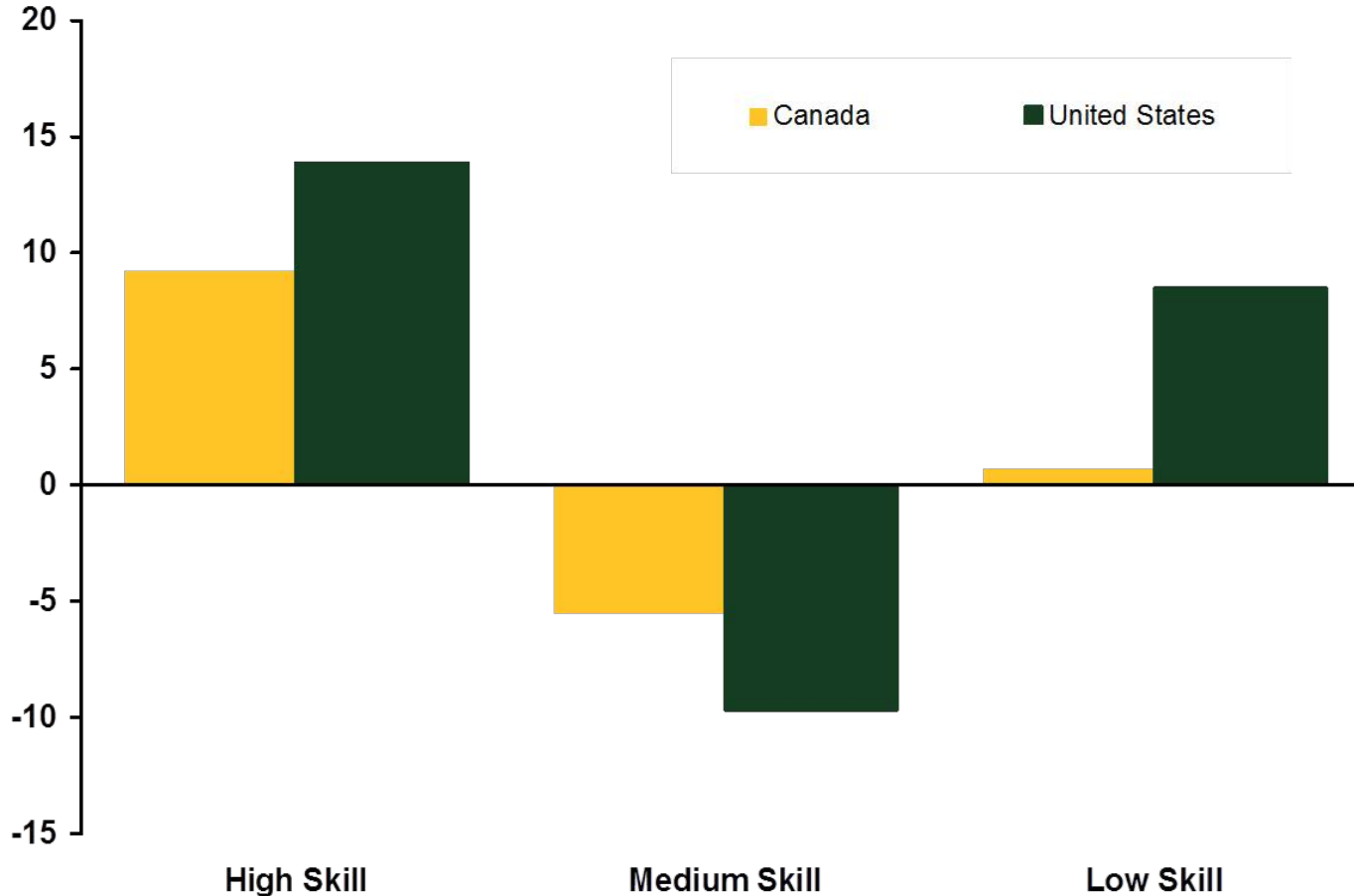


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Employment Creation by Skill Level

% Change in Occupation Share Since 1999

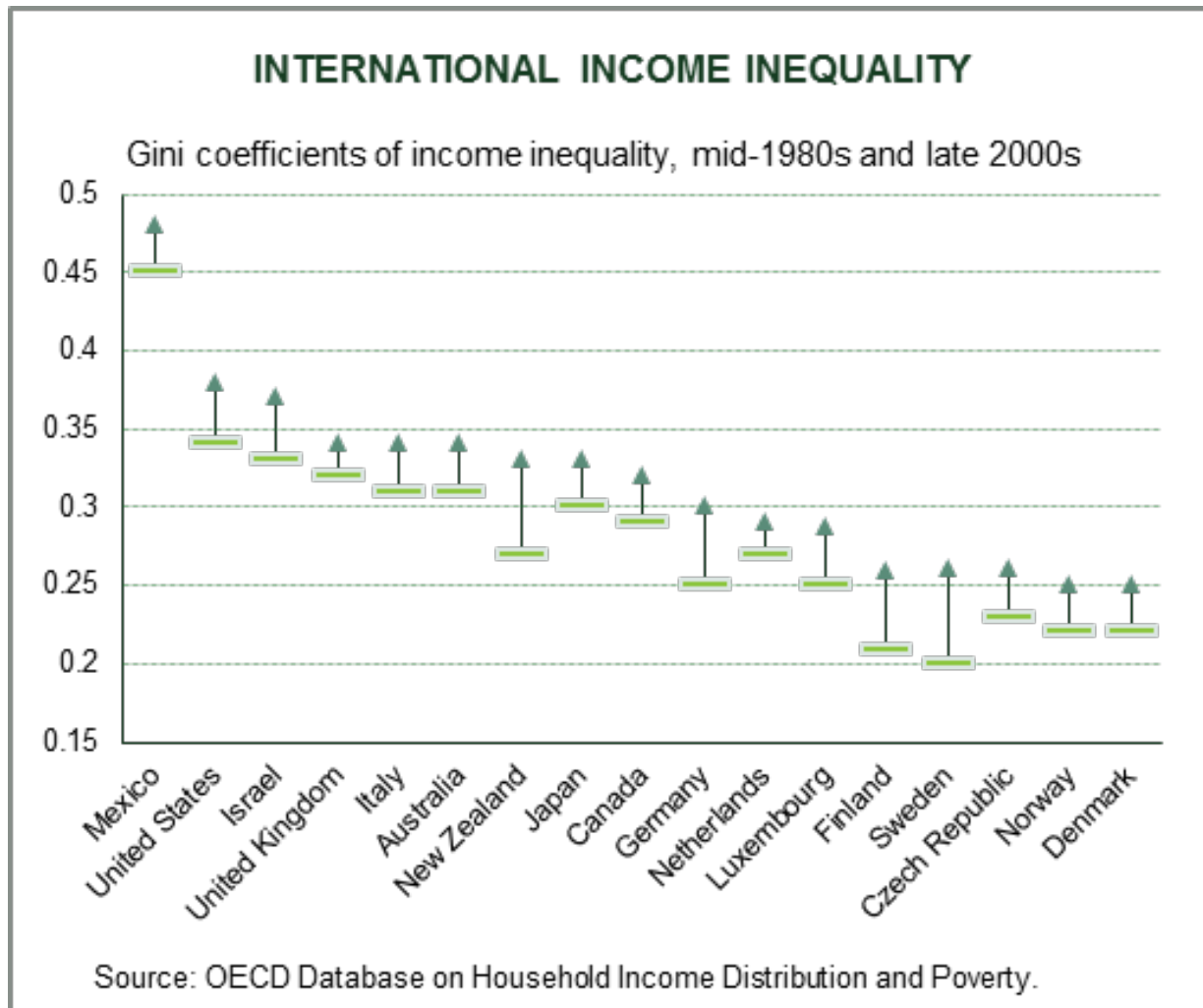


* Canada's data encompasses 1999-2012, whereas U.S. data cover 1999-2009.

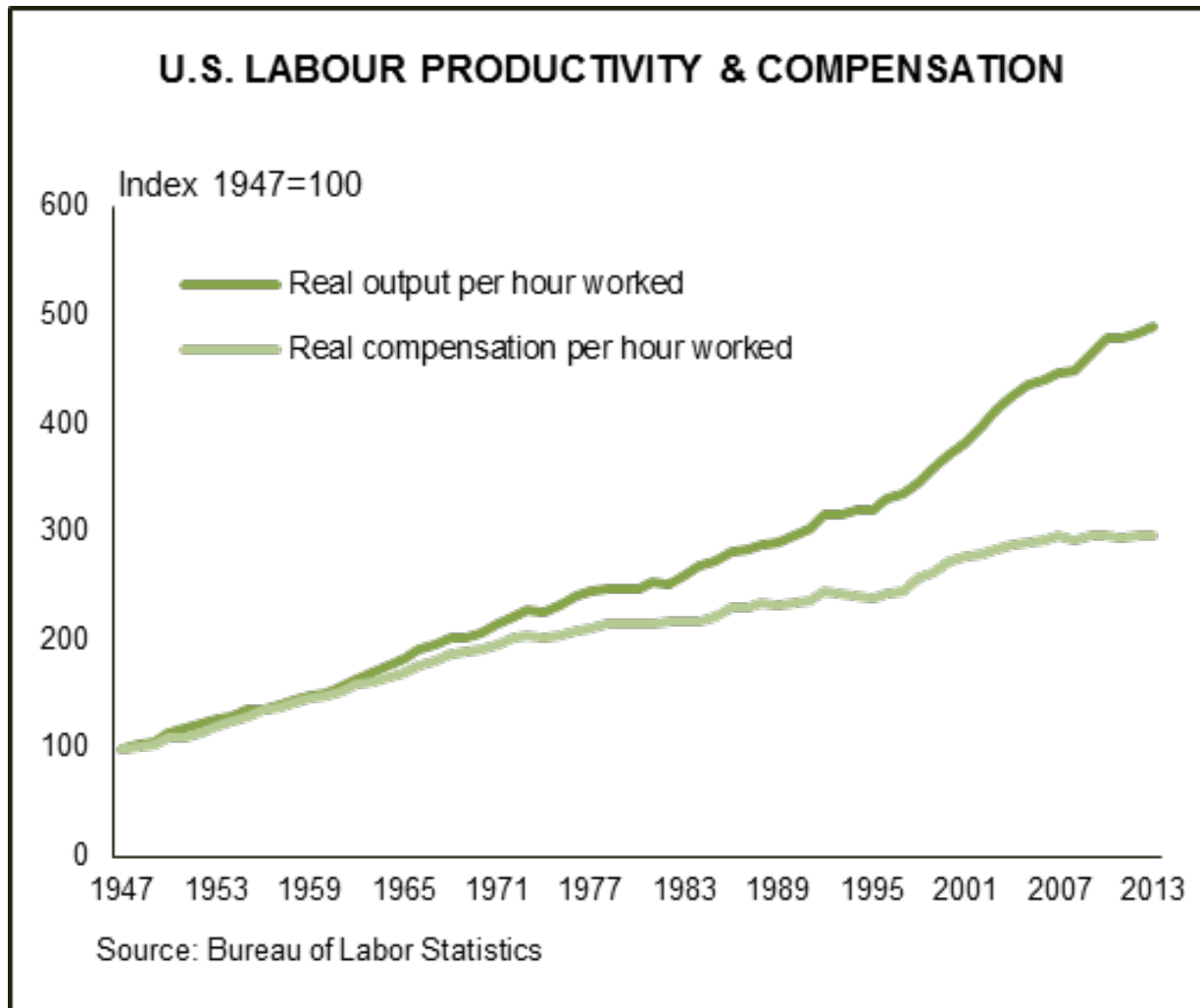
Source: TD Economics, Statistics Canada, BLS, David Autor (MIT)



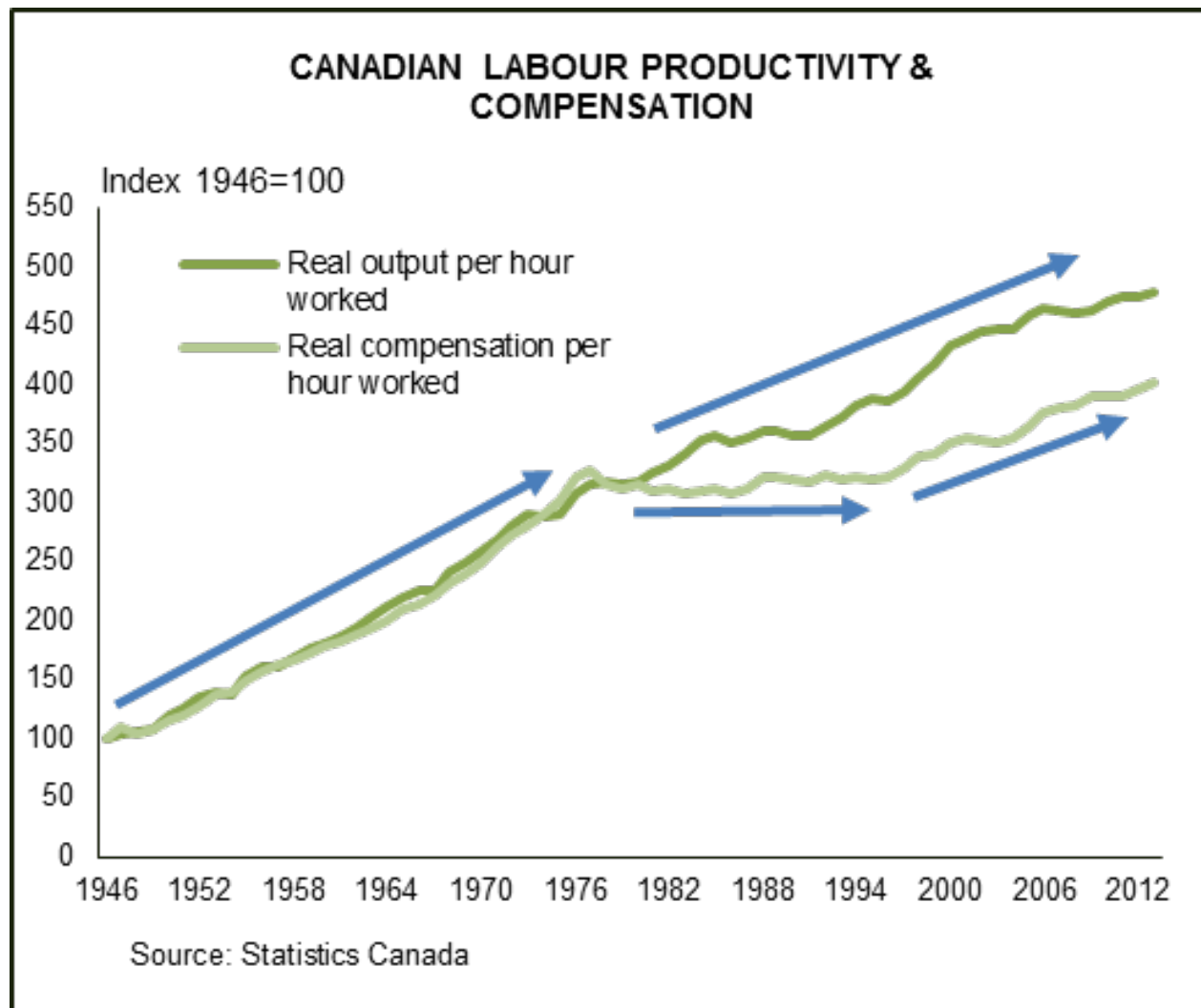
Inequality on the Rise



U.S. Workers Not Benefiting From Productivity

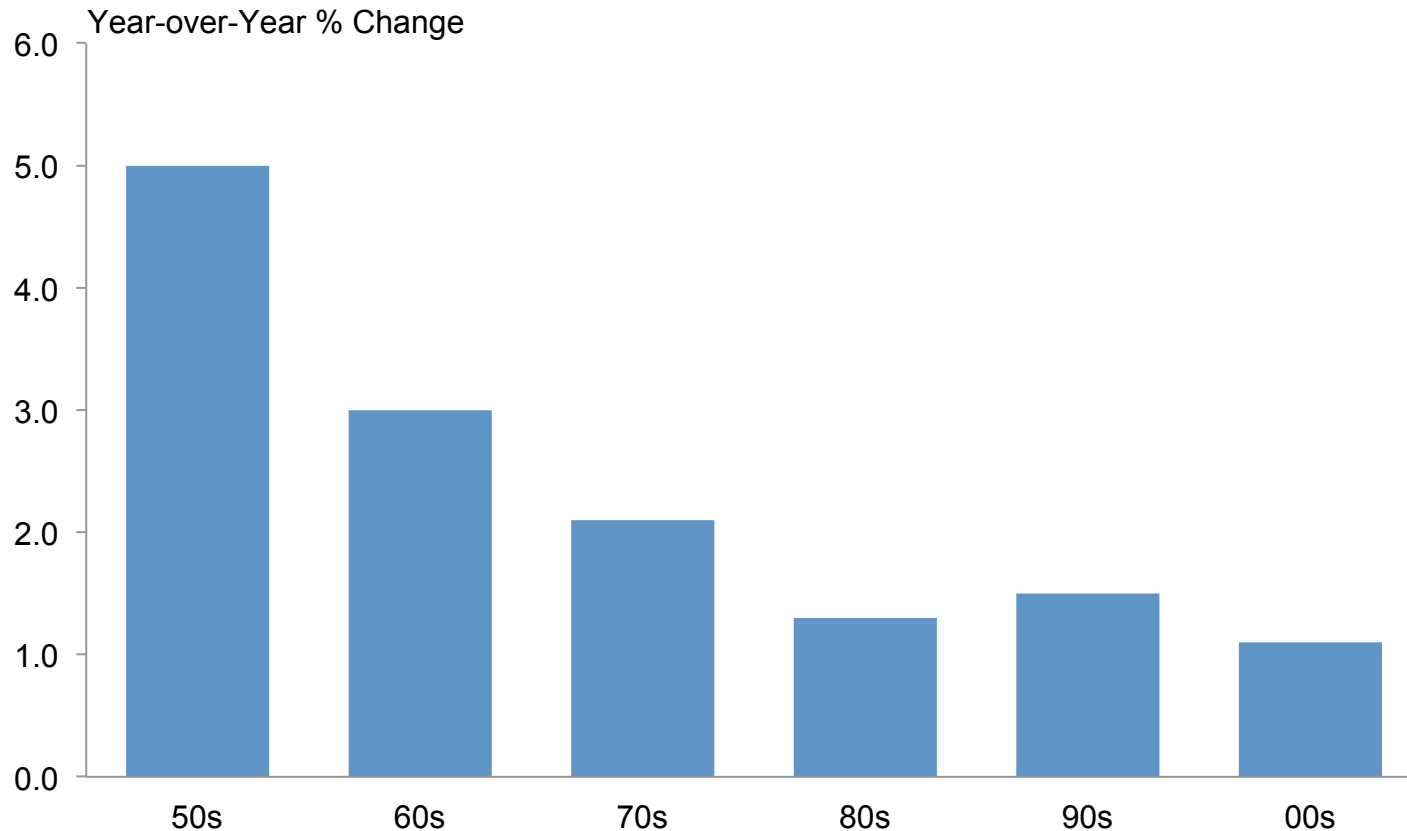


Canadian Worker Income Tied to Productivity



Canada Has A Productivity Problem

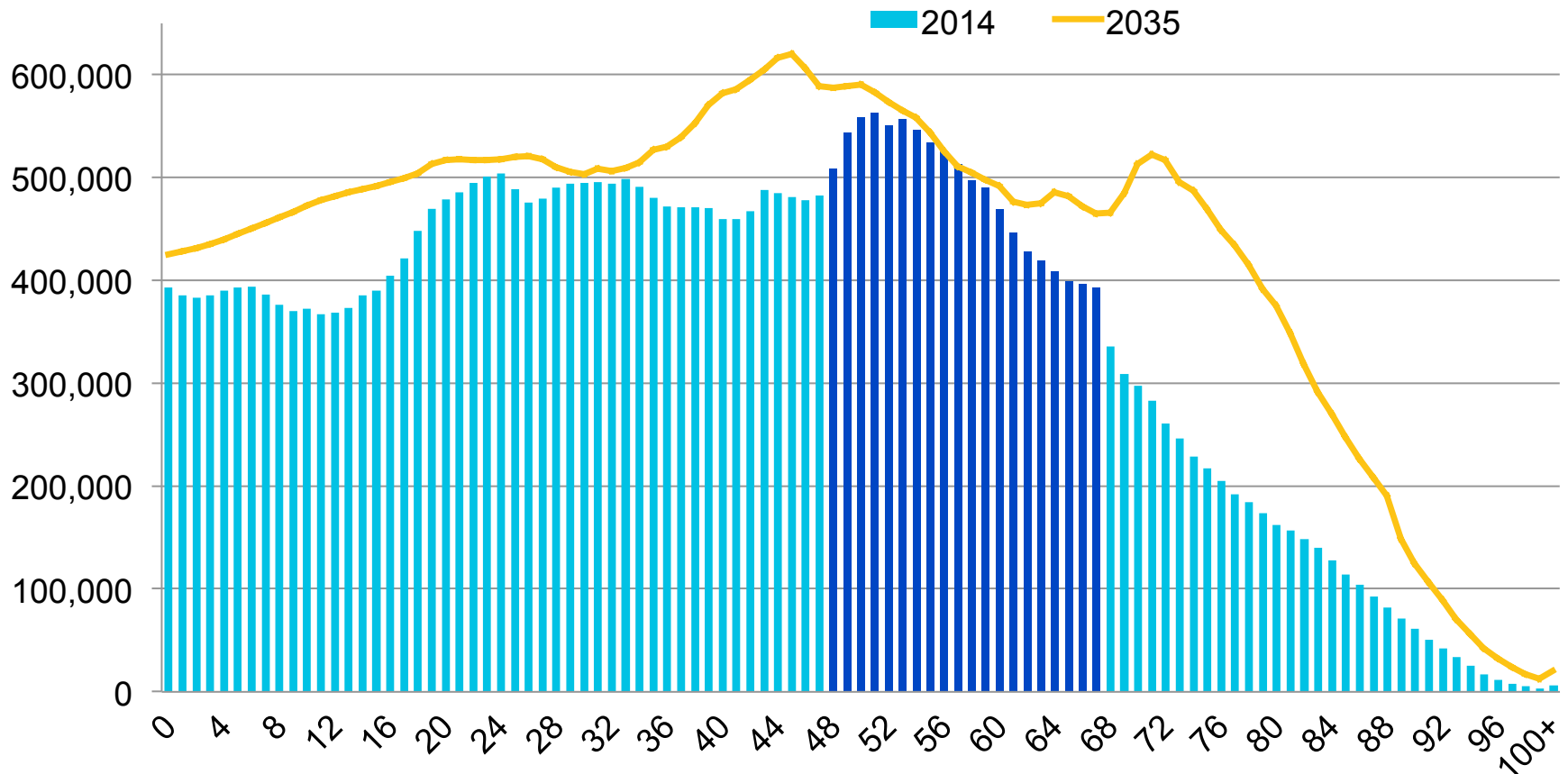
CANADA BUSINESS SECTOR LABOUR PRODUCTIVITY



Source: Statistics Canada, Centre for Study of Living Standards



Population Aging: Distribution By Age, 2014 and 2035

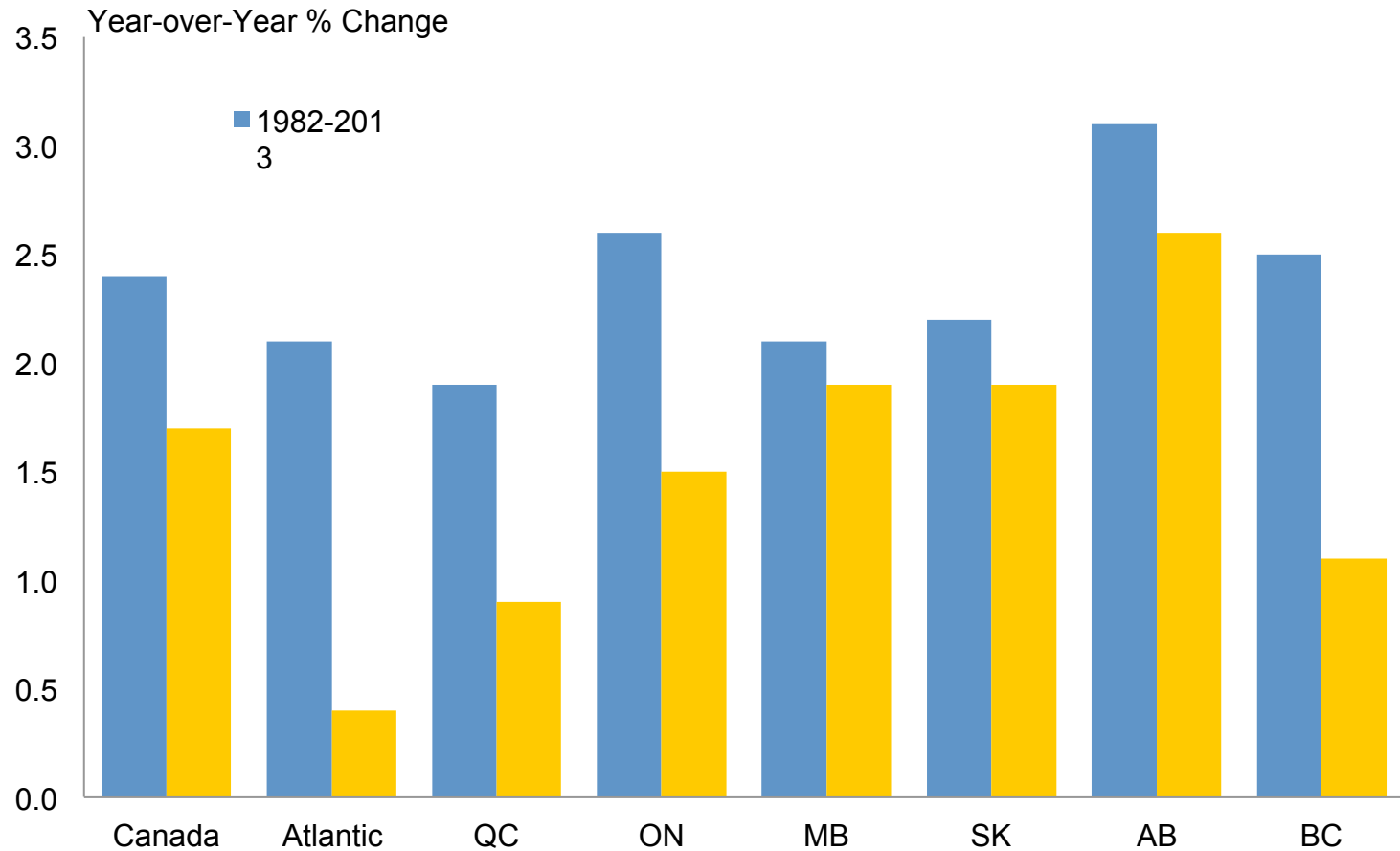


Sources: The Conference Board of Canada; Statistics Canada.



Slower Economic Growth A Fiscal Challenge

HISTORICAL & PROJECTED LONG-TERM GROWTH



Source: Statistics Canada, Forecast by TD Economics



Implications

- Slack in labour markets suggest that continued monetary and fiscal stimulus is appropriate, but policy levers unlikely capable of fuelling above sustained above trend growth.
- Given fiscal constraints, governments will need to target their efforts. Understand cannot reverse globalization, technical change, etc.
- Inflation is not a substantive risk, so focus should be on measures to promote full employment and broad-based gains in living standards (i.e. inclusive growth).
- In labour markets, need to support displaced and vulnerable workers more effectively. Provide adequate income support while providing training to reengage in labour market or move up the skills curve.
- Remove barriers to success of underutilized or underemployed workers (e.g. Youths, Immigrants, Aboriginals, Unemployed older workers)
- Build workforce of the future: early childhood development, strengthen education outcomes, improve essential skills, education outcomes.



Implications

- While improving labour supply, must strive to improve productivity and competitiveness of the Canadian economy. This will underpin labour demand.
- Address undesired or unintentional socioeconomic consequences from the slow growth and low interest rate environment. For example, lean against rising income inequality and address inadequate affordable rental housing.
- On a positive note, there has been a decided shift in public attitudes. Evident in last federal election. Government has been given a mandate to make progress along these lines and the last budget put a focus on inclusive growth.
- Importance of labour market reforms has not been lost on policymakers. Progress is being made, but this is a marathon, not a sprint. And, the labour market is continuing to evolve, meaning that labour market policies cannot be static.
- Canada's productivity conundrum has yet to be resolved by economists, so the policy prescription is ambiguous.





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