Canada’s Prospects:
Implications From A Slow Growth Environment

Craig Alexander
Incoming SVP and Chief Economist, The Conference Board of Canada
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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.
U.S. Economic Growth

per cent change

Sources: Bureau of Economic Analysis The Conference Board of Canada.
Canada’s Real GDP: Continued Slow Growth

per cent change

Sources: Statistics Canada; The Conference Board of Canada.
2016 Real GDP by Province.

per cent change, basic prices, $2007.

Canada: 1.5 %

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

Canada: 2.3%
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.
Canada Federal and Regional Deficits

National Accounts Basis, $billions

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

per cent change

272,000 jobs lost

about 110,000 jobs

Sources: Statistics Canada; The Conference Board of Canada.
Unemployment Rate vs. Natural Rate

per cent

Unemployment Rate vs. Natural Rate

Sources: Statistics Canada.; The Conference Board of Canada.
Growth in Industrial Composite Average Weekly Wage versus CPI

per cent change

Average Weekly Wages
CPI

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.
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.
Employment Creation by Skill Level

% Change in Occupation Share Since 1999

- **High Skill**:
  - Canada: 10%
  - United States: 15%

- **Medium Skill**:
  - Canada: -5%
  - United States: -10%

- **Low Skill**:
  - Canada: 5%
  - United States: 10%


Source: TD Economics, Statistics Canada, BLS, David Autor (MIT)
Inequality on the Rise

INTERNATIONAL INCOME INEQUALITY

Gini coefficients of income inequality, mid-1980s and late 2000s

Source: OECD Database on Household Income Distribution and Poverty.
U.S. Workers Not Benefitting From Productivity
Canadian Worker Income Tied to Productivity

CANADIAN LABOUR PRODUCTIVITY & COMPENSATION

Index 1946=100

- Real output per hour worked
- Real compensation per hour worked

Source: Statistics Canada

The Conference Board of Canada Le Conference Board du Canada
Canada Has A Productivity Problem

CANADA BUSINESS SECTOR LABOUR PRODUCTIVITY

Year-over-Year % Change

50s 60s 70s 80s 90s 00s

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**

Year-over-Year % Change

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.