Canada’s Economic Outlook: Prospects Rising but Risks Remain

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Global Outlook

• Global growth building into 2015
• U.S. private sector recovery picking up after negative Q1
• Can Japan restore growth through structural reform – third arrow of Abenomics?
• EU emerging from recession, but uneven recovery with serious structural issues
• Mixed results in emerging markets
  – China stabilizing in 7-8 per cent range
  – Mexico undertaking market-opening policy change
  – Growth in India, Brazil has slipped – reforms required
  – Russia on verge of recession
Principal geopolitical risks
Autumn 2014

“There’s a lot of uncertainty out there these days. Or not. Who knows”

Principal geopolitical risks

Autumn 2014

• Russia-Ukraine conflict
• Middle East tensions
• EU slips back into recession
• Will reform efforts in Japan succeed?
• Path for monetary policy in the U.S., EU
• Ebola: added risk if it spreads beyond West Africa
U.S. Outlook

• Deficit declining over near term but could start to increase again due to aging population

• QE likely ends in the autumn

• Economy to expand at 3 per cent pace in second half of 2014

• Increasing U.S. energy self-reliance, is leading to re-shoring of investment (and jobs)

• Growing recovery in the domestic economy—jobs, housing, autos, investment
U.S. Real GDP Growth
per cent change

Sources: Bureau of Economic Analysis The Conference Board of Canada.
Weak Canadian Performance: the “New-Normal”

- Canadian growth continues to hover at 2 per cent, stronger in 2015
- Fiscal restraint will continue through the foreseeable future
- Rising interest rates (eventually) will limit increases in household spending
- Business investment growth remains weak
- Labour markets will slowly tighten, limiting growth
- Canada’s export sector recovery should boost GDP growth next year
Canada’s Real GDP Growth

per cent change

Sources: Statistics Canada; The Conference Board of Canada.
Raw Material Price Index

Sources: Statistics Canada; The Conference Board of Canada.
Excluding Energy, Exports Remain Weak

Export volumes, indexed, 2007 = 1.00

Source: Statistics Canada.
The Loonie and the Oil Price

(WTI $US, $US/$C)

Sources: The Conference Board of Canada; U.S. EIA; Statistics Canada.
Relative Unit Labour Cost Index
Canadian/U.S. Industrial Composite, 2007=100

Source: Statistics Canada.
Canada’s Employment Gains 2003 to 2013, level change in 000’s

Sources: Statistics Canada; The Conference Board of Canada.
Employment Key Sectors

000’s, 2001-2015

Source: Statistics Canada.
Population distribution by age, 2012 and 2035

Sources: The Conference Board of Canada; Statistics Canada.
Labour Force Growth

average annual compound growth, per cent

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

per cent

Sources: Statistics Canada.; The Conference Board of Canada.
Youth employment rate — 15-24 years of age

per cent

Source: Statistics Canada.
Employment Gains Since Recession
percentage change from pre-recession peak, October 2008 to August 2014

Sources: Statistics Canada.
Temporary Foreign Workers in Canada.

Source: Citizenship and Immigration Canada.
Average Retirement Age

1976–2013

Source: Statistics Canada.
Growth in Industrial Composite Average Weekly Wage versus CPI

per cent change

Sources: Statistics Canada; The Conference Board of Canada.
Real Wage Gains by Province.

per cent change over the period

Sources: Statistics Canada; The Conference Board of Canada.
Total Consumer & Mortgage Credit (Debt) as Per Cent of Disposable Income

quarterly, 1990Q1 2014Q2

Source: Statistics Canada.
Mortgage and Consumer Debt Service
share of disposable income 1990Q1 to 2014Q2

Source: Statistics Canada.
Real Consumer Spending
per cent change

Sources: Statistics Canada; The Conference Board of Canada.
2015 Real GDP by Province.
per cent change, basic prices, $2007.

Sources: The Conference Board of Canada; Statistics Canada
Implications

• Resurgence in U.S. economy should bolster global economy and Canada’s trade performance

• Canadian growth moderate due to government and consumer de-leveraging

• Wages growing faster than inflation as labour markets slowly tighten

• Canadian businesses adapting to aging workforce, strong(er) currency and embracing innovation

• Fiscal situation remains a challenge for many provinces
Across the Sea with CETA: What New Labour Mobility Might Mean for Canadian Business

Global Commerce Centre Research
November, 2014
Why another bilateral trade agreement?

Economic theory points to many benefits

– Direct lift to real GDP

– Indirect impacts on productivity, innovation, investment

Canada is suffering from a soft domestic economy, need to look abroad for opportunities
Why Look for Markets Abroad?

Canada’s real GDP growth, average annual compound growth, per cent.

Sources: Statistics Canada; The Conference Board of Canada.

Sources: The Conference Board of Canada; Statistics Canada.
EU, An Important Destination for Commercial Services and Other Manufacturing

Share of Canadian exports to the European Union for select products, per cent

Source: Statistics Canada; The Conference Board of Canada.
Imports From the EU are Diverse
Share of Canadian imports from the European Union, per cent

- Other manufacturing
- Commercial services
- Machinery
- Motor vehicles and parts
- Transport and government
- Travel
- Electronic and electrical
- Food and beverage
- Energy products
- Chemicals and plastics

Source: Statistics Canada; The Conference Board of Canada.
Share of Merchandise Exports to EU in 2013 (per cent)

Crude Metals and Minerals 37.1%
Other Consumer Goods 11.0%
Other Transportation Equipment 0.1%
Computers and Electronics Equipment 4.0%
Chemicals, Rubber and Plastics 6.6%
Agriculture 6.7%
Mineral Fuels 7.0%
Primary Metals 7.4%
Industrial M&E 9.5%
Aircraft and parts 5.4%
Pulp and Paper 1.5%
Motor Vehicles and Parts 1.0%
Wood Products 1.3%
Food, Beverage and Tobacco 1.5%

Total: $32.6 billion

Source: Statistics Canada, Industry Canada
Where are we at with CETA?

- Builds on 2004 Canada-EU Trade and Investment Enhancement Agreement (TIEA)
- Negotiations on Comprehensive Economic and Trade Agreement (CETA) began in 2009
- Agreement in principle was signed in October 2013
- Official text and signing in September 2014
- Translation, legal scrub, ratification will likely take us to 2016
EU Trade Deal

• Biggest bi-lateral trade deal since NAFTA?

• The EU is a big market, representing significant opportunities:
  – population 509 million
  – GDP per capita US$34,500 (PPP)

• Services currently account for about 1/3 of Canada’s exports to the EU
EU Trade Deal:

- AT Austria
- BE Belgium
- BG Bulgaria
- CY Cyprus
- CZ Czech Republic
- DE Germany
- DK Denmark
- EE Estonia
- ES Spain
- FI Finland
- FR France
- EL Greece
- HR Croatia
- HU Hungary
- IE Ireland
- IT Italy
- LV Latvia
- LT Lithuania
- LU Luxembourg
- MT Malta
- NL The Netherlands
- PL Poland
- PT Portugal
- RO Romania
- SK Slovak Republic
- SI Slovenia
- SE Sweden
- UK United Kingdom
Canada-European Comprehensive Economic and Trade Agreement (CETA)

• Expected to be finalized by 2016

• With CETA, nearly 98 per cent of the EU’s 9,000 tariff-lines will be duty-free

• Over 95 per cent of agricultural and agri-food products will be duty-free

• All duties on non-agricultural products are to be fully eliminated
Tariffs Are Already Low for Most Items

trade weighted tariff rate on Canadian exports to the EU, per cent

- Food & beverage
- Motor vehicles and parts
- Agriculture
- Chemicals, rubber and plastics
- Wood products
- Aerospace
- Electronics
- Primary metals
- Other consumer goods
- Industrial M&E
- Other transp. equip.
- Mineral fuels
- Pulp and paper
- Crude metals and minerals

Post-CETA
Pre-CETA
Food Will Experience the Largest Percentage Gains

impact of CETA on exports, difference from baseline, per cent

- Food, Beverage and Tobacco
- Chemicals, Rubber and Plastics
- Motor Vehicles and Parts
- Agriculture
- Other Transportation Equipment
- Other Consumer Goods
- Computers and Electronics
- Total
- Aircraft and parts
- Wood Products
- Industrial M&E
- Primary Metals

The Conference Board of Canada
Implications for Merchandise Trade

• For many of the industries, European demand rather than prices is the bigger driver of our exports.

• Still, CETA’s removal of tariffs will be beneficial and provide opportunities for Canadian exporters.

• Industries expected to gain the most from CETA are agriculture, food and beverage manufacturing, and chemicals, plastics and rubber manufacturing.

• In real terms, nearly $900 million will be added to Canada’s merchandise exports by 2022—about 0.2 per cent.
What About Services?
What are Current Barriers?

Canadian business sending workers to EU face difficulties re entry, work permit and permit renewal under Schengen agreement

Hard to get reliable information on rules across different EU countries

Problems created by widely varying definitions/terminology

Long processing times

Spousal visa and work permit
Canada’s Services Exports Doing Better

real export index, 2000q1=1
Why is CETA/Labour Mobility a Big Deal?

Moving workers easily and reliably across borders is more important as global economy becomes more integrated

Easier intra-corporate transfers make it easier for Canada and EU to sell goods and particularly services, and invest directly in each others’ markets

More potential to trade in markets beyond EU

Addressing barriers to services trade, which represent fast-growing exports
What CETA Offers

The labour mobility issues treated under CETA fall into two general categories:

– gaining temporary entry and permission to work in another country,
– and getting recognition of professional and technical qualifications to be able to practise abroad.
What CETA Offers

• Businesspeople and professionals gain ability to work temporarily (from 90 days to 3 years) in each others’ markets

• Will enable entry and work in 28 EU countries

• Will provide a framework for professional associations to negotiate mutual recognition agreements with EU
What’s New in CETA: What We Know

Negative list of services excluded

Provinces participate in negotiations

Who’s covered: corporate transfer employees, investment-related visitors, contract and independent service providers, short-term business visitors

Varying stay durations according to category of worker

Short-term entry for spouses

Framework for professional groups to negotiate mutual recognition agreements
What’s New in CETA: What We Don’t Know

Negotiating MRAs is voluntary – will professional associations take it up? How do they call up the EU?

Will spousal entry and work permit rules be family-friendly?

How will visa and work permit issues be made transparent and consistent across all EU states?

Will border officials be trained to know and apply CETA labour mobility rules consistently and transparently?
Actions to Take Now

Professional associations need to negotiate MRAs

Learn lessons from Quebec-France and NAFTA

Make rules simple, predictable and transparent

Get spousal visas and work permits right

Ensure border officials trained to be make fair and predictable entry decisions

Facilitate professional associations’ MRA negotiations

Educate business in how to prepare for CETA
Professional associations are in the driver’s seat

Canada’s provinces and territories have responsibility for regulating professions and trades

In many cases, occupational regulation has been delegated to professional associations

Over 440 occupational regulatory bodies in Canada, representing millions of workers in more than 100 different occupations

Labour mobility will be one of the trickiest elements of CETA to implement
Who Wins, Canada or EU? Or Does it Matter?

Long-run benefits of free trade are well documented, both in theory and in empirical research

Not much impact on merchandise exports, but a few industries will benefit

Service sector could see larger gains, competition will be two way

Aligning credentials could benefit EU trade, access to other markets including Asia and the United States (under bilateral trade between EU and US)

Benefit labour mobility across provinces