COLLEGES ONTARIO | COLLÈGES ONTARIO

ACAATO ARCHIVE DOCUMENT

2005 Environmental Scan

Chapter 6: Economy

655 Bay Street, Suite 1010, Toronto ON, M5G 2K4
t: 416.596.0744 f: 416.596.2364
www.collegesontario.org

ECONOMY

Section Six

CONTENTS OF SECTION SIX: ECONOMY

SECTION SIX: ECONOMY

1.0 HIGHLIGHTS

Ontario

- **Real GDP** grew at an estimated 2.7 per cent in 2004, approximately twice the poor 1.3 per cent growth in 2003 following the SARS crisis and August power outage. Growth in 2005 is forecast at 3.4 per cent.
- **The unemployment rate** in Ontario decreased by 0.1 per cent to 6.9 per cent, as a result of strong employment in an environment of fairly steady labour force growth.
- **Export-oriented business** and the manufacturing sector continued to adjust to the higher Canadian dollar, **while tourism** began to improve after the SARS scare.
- **Investment in machinery and equipment** increased as the higher Canadian dollar allowed companies to make these capital purchases from the U.S. at considerably cheaper levels. This trend will continue in 2005.
- **Employment growth** is expected to have decreased to 1.8 per cent in 2004 from 2.6 per cent in 2003. Growth in 2005 is forecast around 1.7 per cent in 2005 (please see Table 1 for more information).

Canada

- **The overall economy** in Canada is very solid and this will continue in 2005, supported by low interest rate levels, low inflation and high commodity prices. Corporate balance sheets are also strong. Strong growth in the USA economy will support global demand for Canadian goods.
- **Real GDP is expected to grow** approximately 3.4 per cent in 2005. While bank forecasts may differ slightly for both countries, all agree that GDP growth in Canada will be lower than that in the US which is forecast to grow approximately 3.6 per cent.
- **The higher Canadian dollar** meant changes for many companies in 2004, especially in the manufacturing sector. This trend will continue in 2005.
- **Job growth** was up 1.4 per cent (+228,000 jobs) in 2004. Growth in 2004 was mainly in full-time jobs, in contrast to 2003, where growth was greater in part-time jobs. Total number of hours worked rose by 2.2 per cent.
- **Consumer spending is** expected to be strong in 2005, due to continuing low interest rate levels and the strong Canadian dollar.

USA

- **The general outlook** for the US is one of strong growth with real GDP forecast to grow approximately 3.6 per cent. The US will experience low interest rates, low exchange rates and an improving trade position. The risk of inflation due to higher oil prices will be controlled, although at least one bank does not see any decrease in US energy consumption.
- **The US dollar** is expected to further decline against other major world currencies in order to keep the current account from widening further. The cheaper US dollar will continue to drive exports.

2.0 ECONOMIES: 2004 REVIEWS AND 2005 FORECASTS

2.1 Ontario Economy

2.1.1 Ontario Economy: 2004 Review

- **In 2004, the Ontario economy** gradually recovered from the negative impacts of SARS, the strong Canadian dollar, the August blackout and a weaker US demand for Ontario's exports.[1] This recovery was due in part to improved business spending and a hot housing market.[2]
- **Real GDP** grew at an estimated 2.7 per cent in 2004, approximately twice the poor 1.3 per cent growth in 2003 following the SARS crisis and August power outage.
- **The unemployment rate** in Ontario decreased 0.1 per cent to 6.9 per cent in 2004, as a result of strong employment in an environment of fairly steady labour force growth.[3]
- **Export-oriented business** and the manufacturing sector continued to adjust to the higher Canadian dollar. [4,5]
- **Tourism** began to improve after the SARS scare receded.[6] However, tourism-related sectors have still not yet returned to the pre-SARS and pre-September 11 levels.[7]
- **Retail sales** growth in the first eight months of 2004 was 2 per cent, less than half, and as fast as in the rest of Canada, indicating little real growth after factoring in rising prices (particularly gasoline).[8]
- **Investment in machinery and equipment** increased as the higher Canadian dollar allowed companies to make these capital purchases from the US at considerably cheaper levels. Companies made these investments to improve their productivity, although the impacts on productivity may not be felt for least two to three years. [9,10,11]

2.1.2 Ontario: 2005 Economic Forecast

- **Real GDP growth** is forecast to be around 3.4 per cent in 2005.
- **The high Canadian dollar** will have very different regional impacts. Western Canada will tend to see growth above the national average while Ontario, which is export–oriented, will see growth at (or below) the national average.[12]
- **Employment growth** is expected to have decreased to 1.8 per cent in 2004 from 2.6 per cent in 2003. Growth in 2005 is forecast around 1.7 per cent in 2005 (please see Table 1 for more information).
- **Investment in machinery and equipment** is expected to continue in 2005 as the Canadian dollar is expected to remain at high levels, making such purchases cheaper for Ontario companies. [13]
- **The housing market** is expected to cool in 2005, due to slightly higher mortgage rates and a narrowing gap between demand and supply.[14, 15]
- **Auto makers**, facing strong competition from foreign automakers, have decreased vehicle production at Ontario assembly plants and it will continue to decrease in order to reduce bloated inventories.[16,17] Government incentive funds aim to encourage investment in this industry, with millions intended for major plant upgrades.[18]

- **The new provincial health care levy** ($2.4 billion) and the elimination of an electricity subsidy are already having a dampening effect on consumer spending.[19] Some forecast that strong performances in the service and manufacturing sectors in 2005 will boost employment and mitigate any downturns in consumer spending. [20]

2.2 Canadian Economy

2.2.1 Canada: 2004 Review

- **The higher Canadian dollar** meant that many export companies continued to have to make adjustments in order to strengthen their productivity.
- **Job growth** was up 1.4 per cent (+228,000 jobs) in 2004.[21] Growth in 2004 was mainly in full-time jobs, in contrast with 2003, where growth was greater in part-time jobs.[22] Total number of hours worked rose by 2.2 per cent.[23]
- **Retail sales** were driven by a healthy job market, with 228,000 more jobs than a year earlier.[24, 25]
- **The manufacturing sector** regained the jobs lost in 2003 during the first half of 2004, but was hard hit in the second half, leaving employment down 1.2 per cent for the year.[26,27] This sector was hit by the higher Canadian dollar and large increases in crude oil prices, as well as other raw material inputs.[28]
- **High commodity prices** saw Canada's resource sectors do well.
- **Foreign-controlled firms** accounted for 21.7 per cent of the $4.35 trillion corporate assets in 2002 (latest data available).[29]

2.2.2 Canada: 2005 Economic Forecast

- **The overall economy** in Canada is very solid and this will continue in 2005 supported by low interest rate levels, low inflation and high commodity prices. Corporate balance sheets are also strong. Strong growth in the US economy will support global demand for Canadian goods.[30]
- **Real GDP is expected to grow** approximately 3.4 per cent in 2005. While bank forecasts may differ slightly for both countries, all agree that GDP growth in Canada will be lower than that in the US, which is forecast to grow at about 3.6 per cent.[31]
- **The higher Canadian dollar** meant changes for many companies in 2004. In 2005, companies will therefore be more ready for this environment, although some banks economists believe the full extent of the impact of this currency appreciation on Canada's economic performance has not yet been seen. Past impacts may have been covered by hedging arrangements, fixed medium and long-term contracts that manufacturers had in place with their customers, and profits on commodities. However, impacts may be seen if commodity prices cool slightly as expected due to slower growth in China (7 per cent down from 9 per cent growth) and if manufacturers' new contracts are be influenced by currency exchange.[32]
- **Forecasts for the Canadian dollar** range between a low of US$75 to a high of $90/C$.[33]
- **Interest rates:** Forecasts for interest rates vary between slight increases to slight decreases but all agree that any movement will be quite small either way.

- **Low borrowing rates** should continue to provide support for business investment and household spending. [34]
- **Exports will be slowed** by the high Canadian dollar. However, like 2004, the overall growth in the U.S.A. economy is expected to mitigate this impact.[35]
- **Productivity** in Canada is expected to begin to match that in the US by 2005 after lagging since 2000. This will in part reflect firms meeting demand by increasing labour productivity rather than by hiring more workers. [36]
- **Companies will rely on the domestic economy** for growth due to the appreciation of the Canadian dollar continuing to negatively impact exports. [37]
- **Downside risks to forecasts of the Canadian economy** would include weaker growth in the US than expected, and a further marked appreciation of the Canadian dollar.[38]
- **Investment in machinery and equipment** is expected to continue in 2005 as the Canadian dollar is forecast to remain at the high levels.[39]
- **Housing market** is expected to moderate.[40]
- **Consumer spending is** expected to be strong in 2005 due to continuing low interest rate levels and the strong Canadian dollar. [41]

Table 1: Key Statistics for Canada and the Provinces

	Historical		3-Bank Average			Bank of Montreal		Royal Bank		CIBC	
	1990-01	**2002**	**2003**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
Employment Growth (Yr/Yr per cent Change)											
Nfld. Labrador	0.2	1.3	1.8	1.7	0.9	1.8	0.3	1.5	1.2	1.9	1.3
P.E.I.	1.5	1.8	2.5	0.5	1.0	0.3	0.8	0.2	1.1	0.9	1.2
Nova Scotia	0.9	1.2	1.6	1.9	1.3	2.4	1.0	1.3	1.3	2.1	1.6
New Brunswick	1.0	3.4	-0.2	2.1	1.7	2.4	1.2	1.8	2.2	2.0	1.8
Quebec	0.9	3.4	1.6	1.6	1.6	1.7	1.3	1.5	2.1	1.6	1.5
Ontario	**1.2**	**1.8**	**2.6**	**1.8**	**1.7**	**1.7**	**1.3**	**1.7**	**2.5**	**1.9**	**1.4**
Manitoba	0.7	1.6	0.3	0.8	1.3	1.1	0.8	0.2	1.7	1.2	1.5
Saskatchewan	0.3	2.0	1.0	0.5	1.1	0.4	0.5	0.2	1.5	1.0	1.3
Alberta	2.2	2.5	2.9	2.0	1.9	2.0	1.8	2.0	2.0	1.9	1.9
B.C.	2.1	1.6	2.5	2.0	1.9	2.0	1.6	2.1	2.4	2.0	1.8
Canada	**1.3**	**2.2**	**2.2**	**1.8**	**1.7**	**1.7**	**1.3**	**1.8**	**2.2**	**1.8**	**1.5**
Unemployment Rate per cent Change (Year Over Year)											
Nfld. Labrador	19.3	16.9	16.7	16.1	16.0	16.3	16.5	16.3	16.4	15.7	15.2
P.E.I.	15.0	12.1	11.1	11.7	11.6	11.6	11.6	11.9	11.9	11.6	11.2
Nova Scotia	11.6	9.7	9.3	8.9	8.7	8.9	8.8	9.1	8.9	8.8	8.5
New Brunswick	11.8	10.4	10.6	10.1	10.0	10.2	10.0	10.2	10.0	10.0	9.9
Quebec	11.0	8.6	9.1	8.4	8.2	8.3	8.1	8.5	8.2	8.4	8.3
Ontario	**8.1**	**7.1**	**7.0**	**6.9**	**6.7**	**6.9**	**6.7**	**6.9**	**6.5**	**6.9**	**6.8**
Manitoba	7.1	5.2	5.0	5.3	5.2	5.2	5.1	5.4	5.4	5.4	5.2
Saskatchewan	6.6	5.7	5.6	5.4	5.4	5.5	5.4	5.5	5.6	5.3	5.2
Alberta	6.9	5.3	5.1	4.8	4.7	4.7	4.7	4.8	4.7	4.8	4.7
B.C.	8.7	8.5	8.1	7.6	7.5	7.7	7.5	7.7	7.6	7.5	7.3
Canada	**9.1**	**7.6**	**7.6**	**7.3**	**7.1**	**7.3**	**7.1**	**7.3**	**7.0**	**7.3**	**7.1**
Real GDP per cent Change (Year Over Year)											
Nfld. Labrador	1.7	13.4	6.5	1.9	1.5	1.7	1.2	2.5	2.2	1.6	1.0
P.E.I.	2.6	5.6	1.9	1.8	2.3	1.5	2.0	2.0	2.4	1.8	2.5
Nova Scotia	1.8	3.8	0.9	2.1	2.8	2.1	3.0	2.3	2.6	2.0	2.9
New Brunswick	1.9	3.3	2.6	2.8	3.0	3.0	3.0	2.6	3.0	2.9	3.0
Quebec	2.1	4.3	1.6	2.8	3.4	2.7	3.5	2.8	3.4	2.8	3.2
Ontario	**2.4**	**3.9**	**1.3**	**2.7**	**3.4**	**2.6**	**3.5**	**2.9**	**3.6**	**2.7**	**3.1**
Manitoba	1.8	2.4	1.4	3.0	3.1	3.0	3.0	3.1	3.5	3.0	2.8
Saskatchewan	2.3	-1.4	4.5	3.1	2.5	3.0	2.5	2.9	2.9	3.5	2.2
Alberta	3.6	1.7	2.2	4.0	4.0	4.0	4.0	3.9	4.1	4.1	3.9
B.C.	2.3	1.8	2.2	3.3	3.7	3.1	3.5	3.6	4.0	3.1	3.5
Canada	**1.9**	**3.3**	**2.0**	**3.0**	**3.4**	**2.9**	**3.5**	**3.1**	**3.6**	**2.9**	**3.1**
CPI per cent Change (Year Over Year)											
Nfld. Labrador		2.2	2.9	1.7	1.7	1.9	1.4	1.2	1.2	1.9	2.4
P.E.I.		2.7	3.6	2.0	1.5	2.0	1.2	2.2	1.4	1.9	2.0
Nova Scotia		3.0	3.4	1.5	1.7	1.8	1.3	0.8	1.7	1.8	2.2
New Brunswick		3.4	3.4	1.3	1.9	1.4	1.1	1.1	2.4	1.5	2.1
Quebec		2.0	2.5	1.8	1.8	1.7	1.3	1.7	2.3	1.9	1.9
Ontario		**2.0**	**2.7**	**1.9**	**2.0**	**1.8**	**1.3**	**2.0**	**2.9**	**1.9**	**1.8**
Manitoba		1.5	1.8	2.0	1.8	2.0	1.4	2.2	2.0	1.9	2.0
Saskatchewan		2.8	2.3	2.1	1.8	2.1	1.3	2.0	1.8	2.2	2.2
Alberta		3.4	4.4	1.5	1.8	1.5	1.8	1.4	2.0	1.5	1.7
B.C.		2.3	2.1	2.1	2.2	2.1	1.7	2.2	3.0	2.1	2.0
Canada		**2.2**	**2.8**	**1.9**	**2.0**	**1.8**	**1.4**	**2.1**	**2.6**	**1.9**	**1.9**

Source: BMO Financial Group, Economics Department, "Outlook 2005", October 2004, Royal Bank Financial Group, Economics Dept. "Provincial Outlook" October 2004, CIBC World Markets, "Provincial Forecast", September 1, 2004

2.3 U.S.A.: 2005 Economic Forecast

- **The general outlook** for the U.S.A. is one of strong growth with real GDP forecast to grow around 3.6 per cent (See Table 2 below). The USA will experience low interest rates, low exchange rates and an improving trade position. The risk of inflation via oil will be controlled although at least one bank does not see any decrease in USA energy consumption.[42]
- **U.S. dollar** is expected to further decline against other major world currencies in order to keep the current account from widening further.[43] The cheaper U.S. dollar will continue to drive exports.[44]
- **GDP** in 2004 is expected to have averaged around 4.4 per cent, the best performance sine 1999. In 2005 growth will be dampened by rising bond yields, a surplus of inventory in the housing market and diminishing monetary and fiscal stimulus. Growth is therefore expected to be in the 3.6 per cent range in 2005 and to drop further in 2006.[45]
- **Employment** is forecast to increase by 1.7 per cent in 2005 up from 1.0 per cent in 2004.[46]
- **Unemployment rate** will average 5.4 per cent down very slightly from a forecasted 5.5 per cent in 2004.[47]
- **USA deficit:** Although President Bush has vowed to cut the federal budget deficit by 50 per cent during his second term, other pledges by the Bush government, including the introduction of social security savings accounts and the intention of making the 2001/03 tax cuts permanent, will put further pressure on the government finances in the near term.[48]
- **The USA current account deficit** reached close to 6.6 per cent of GDP in the second quarter of 2004 reflecting inadequate savings in the economy especially by USA households and the federal government. This will put pressure on the government in 2005 to live within the spending limits it has set itself.[49]
- **Corporate balance sheets** are strong due to corporate profits haven risen at double-digit rates in both 2004 and 2003. These profits will provide funding for continued investment in machinery and equipment.[50]
- **Consumer spending** is expected to slow in 2005 mainly as a result of three factors: 2001/03 tax cuts are now past, rising interest rates will make carrying mortgages more costly, and equity markets will probably be delivering only single-digit returns.[51]

Table 2: Key Statistics for the U.S.A.

	2003	2004	2005	2006[1]
Real GDP - per cent Change (Yr/Yr)	3.0	4.3	3.6	3.4
CPI - per cent Change (Yr/Yr)	2.3	2.7	2.4	2.0
Unemployment Rate	6.0	5.5	5.3	5.2

Source: Based on the average of three banks' forecasts: TD Bank Financial Group, "TD Quarterly Economic Forecast", December 16, 2004, RBC Financial Group, "Forecast Detail Tables", Autumn 2004, BMO Financial Group, "North American Outlook", December 2004

1. Figures are a two-bank average (TD Bank & Bank of Montreal)

3.0 FORECASTS FOR VARIOUS INDUSTRIES IN CANADA

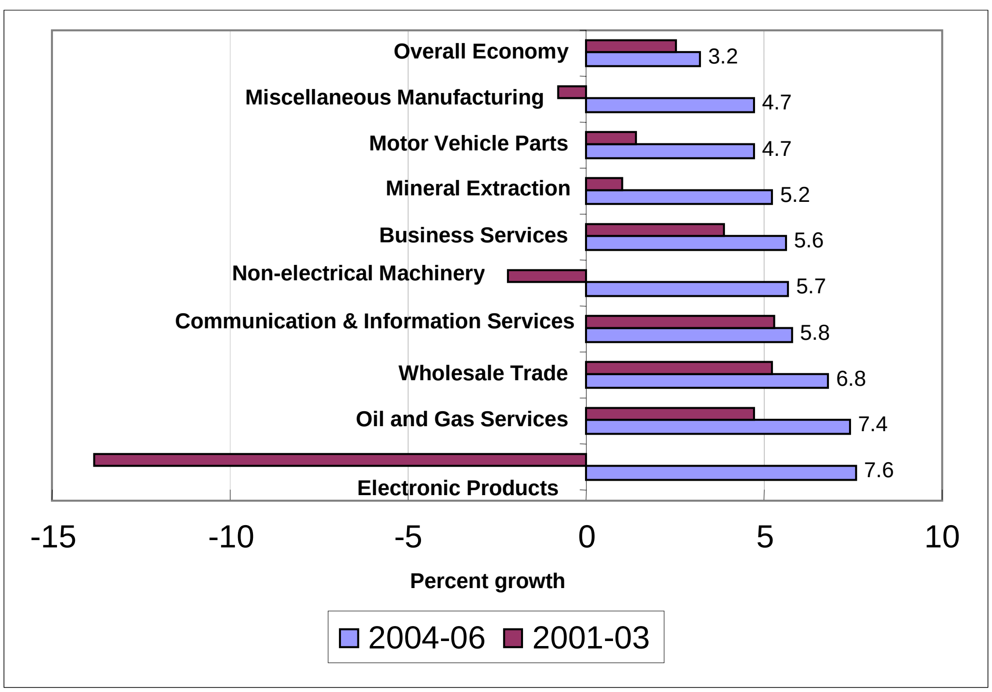
Table 3: Growth Forecasts for Each Industry Sector for 2005 and 2006

	Average Growth		Forecasts			Comments Where Available
	1998-00	2001-03	2004	2005	2006	
Primary Sectors	**1.7**	**1.1**	4.2	3.6	3.4	
Agricullture	4.4	0.3	3.1	3.6	3.0	
Forestry	3.9	-1.3	-2.6	2.6	2.3	
Fishing, Hinting & Trapping	-0.5	3.5	5.4	0.3	1.4	
Oil & Gas Extraction	-1.4	1.8	4.3	3.3	3.5	
Oil & Gas Services	2.4	4.7	8.5	7.1	6.7	Strong growth. Growth expected via the outsourcing of many non-core processes by extraction companies (whose bolstered cash flows are forecast to drive increased maintenance and provided funding for new projects).
Mineral Extraction	2.8	1.0	8.7	3.5	3.4	Forecast to do well. Industry will be bolstered by high commodity prices and new projects
Manufacturing Sectors	**8.1**	**-0.5**	**2.6**	**3.8**	**3.8**	
Food & Beverages	3.4	2.0	2.3	3.3	3.1	
Tobacco	-3.3	-6.4	-4.4	-1.0	-0.5	
Rubber Products	1.1	0.6	2.9	2.5	2.8	
Plastic Products	12.0	6.5	5.1	3.4	4.3	Sector should see strong growth supported by trends like the use of light weight plastic products in lieu of metals in automobiles and wood products in construction.
Textiles, Clothing & Leather	5.4	-6.3	-7.5	1.0	1.6	
Wood	7.4	3.5	2.7	3.3	3.3	
Paper	3.4	-0.8	-0.7	3.0	2.4	
Furniture	14.6	-1.1	0.6	4.2	3.3	
Printing	5.2	-2.2	4.9	2.5	2.1	
Primary Metals	6.5	1.2	2.5	3.0	3.4	
Fabricated Metals	12.7	0.2	3.0	3.5	3.7	
Non-electrical Machinery	5.6	-2.2	2.1	7.0	8.0	Forecast to do well. Industry will be bolstered by high commodity prices and new projects
Electronic Products	28.3	-13.8	8.9	7.5	6.5	Industry is sensitive to business cycles. Sector will rebound in 2005.
Electrical Equipment & Appliances	12.9	-6.8	2.9	2.2	1.8	
Aerospace Products	8.3	-1.2	-6.3	2.5	3.8	Conditions will be challenging for the next few years due to excess global capacity, ongoing terrorist concerns and high fuel costs.
Motor Vehicles	12.2	-2.8	2.8	2.9	3.5	
Motor Vehicle Parts	5.2	1.4	5.2	4.5	4.5	
Other Transport Equipment	1.6	3.7	6.5	4.4	4.3	
Non-metallic Mineral Products	7.6	5.3	6.1	3.0	2.5	
Refined Petroleum & Coal Products	-0.3	3.8	0.5	2.8	2.6	
Chemical Products	5.1	4.1	3.9	4.2	3.5	
Miscellaneous Manufacturing	7.8	-0.8	5.6	4.5	4.0	Manufacturers of building materials will do well although there will be some cooling as housing starts decline.
Service Sectors	**4.6**	**3.3**	**2.8**	**3.5**	**3.2**	
Construction	4.1	4.1	4.8	-0.2	1.6	
Transport, Warehousing, Postal	4.4	3.4	3.1	3.8	3.3	
Pipelines	2.6	1.2	3.6	2.5	3.0	
Utilities	-0.3	-0.8	-1.0	1.5	1.0	

	Average Growth		Forecasts			Comments Where Available
	1998-00	2001-03	2004	2005	2006	
Primary Sectors	**1.7**	**1.1**	4.2	3.6	3.4	
Wholesale Trade	7.1	5.2	6.9	7.3	6.2	Forecast to do well. Industry will be bolstered by high commodity prices and new projects
Retail Trade	6.2	4.2	3.1	3.7	3.3	
Communication & Information Services	8.9	5.3	3.5	7.4	6.6	Restructuring in the telecommunications industry is now expected to bring positive results.
Cultural Services	9.3	4.4	-2.5	5.1	5.1	
Finance and Insurance	4.4	3.2	4.9	3.9	3.3	
Real Estate (excl. owner occupied)	4.3	3.7	2.1	1.4	1.8	
Real Estate (owner occupied)	4.3	3.7	2.2	2.1	1.9	
Rental & Leasing	14.2	3.3	0.6	4.8	6.0	
Business Services	9.4	3.9	3.4	7.3	6.3	Forecast to do well. Industry will be bolstered by high commodity prices and new projects
Education Services	1.5	1.0	0.3	1.3	1.0	
Health & Social Assistance	2.2	3.2	0.9	3.0	2.2	
Accommodation & Food Services	4.7	0.1	2.6	3.4	2.8	
Art, Entertainment & Recreation	4.6	4.0	1.3	3.5	4.1	
Personal Services	4.6	2.9	1.2	2.4	3.5	
Public Administration	2.5	2.8	1.9	2.0	1.4	
Total of all Sectors	**5.0**	**2.5**	**2.8**	**3.5**	**3.3**	

Source: BMO Financial Group, "Sectoral Outlook – Prospects for Canada's Industries: 2004 – 2006", August 2004

Figure 1: Forecast of the Fastest Growing Industries Between 2004-2006



Source: BMO Financial Group, "Sectoral Outlook - Prospects for Canada's Industries: 2004-2006", August 2004

4.0 IMPACT OF OIL ON THE ECONOMY IN 2005

General

- High oil prices reflect both the market's concern about geopolitical risks to the available supply of oil (terrorist strikes against oil infrastructure, political unrest in Venezuela and Nigeria, the Yukos affair in Russia and the possible overthrow of the Saudi Arabia government by strongly anti-west factions), and OPEC's reduced margin of excess capacity after it increased production to better meet demand. The risk premium in oil prices is expected to decrease somewhat over the next couple of years.[52]
- The impact of an increase in oil prices is felt more keenly in a weak economy than a strong one. The impact is also worse if the price increase comes at a time when oil prices are already high.

Canada and Ontario

- Oil prices are expected to decrease from current levels but remain fairly high at $US33-38/barrel in 2005 and between US $28-33 per barrel in 2006. However this is expected to have only a minimal impact on Canadian growth overall.
- Canada is a net exporter of oil (albeit a small one) so it has been argued that in fact Canada would benefit overall from higher increases. There would however be very different impacts on the oil producing provinces (e.g. Alberta and Saskatchewan) and the oil consuming provinces (especially Ontario and Quebec)[53]
- Canada's overall economy will be solid in 2005 but GDP growth in Ontario will be dampened as manufacturing, (which in 2004 accounted for 20 per cent of Ontario's economic activity GDP)[54] continues to be challenged by high input costs
- Increases in oil prices in 1999 ($10) and 2002 had a minimal impact on GDP growth as they corrected for previous drops in prices. The economic impact of the $10 increase in oil prices between February and August 2004 was four times greater than the 1999 increase and twice the impact of that in 2002. [55]

5.0 CANADIAN PRODUCTIVITY

5.1 Canada's Productivity Growth

TD Bank Financial Group forecasts that the overall labour productivity growth will average roughly 1.7 per cent per annum through 2010 and then rise to about 1.9 per cent through to 2030, assuming that the quality of labour and multifactor productivity continue to in similar ways to that experienced now.[56]

5.2 Canada-USA Productivity Gap

The productivity gap between Canada and the USA is increasing. Productivity levels are now at 84 per cent of USA levels, translating into an income gap of $6,078 per Canadian.[57]

The Conference Board of Canada released in 2004 the results of a major, joint study on productivity that it conducted with the Centre for the Study of Living Standards (a non-profit organization whose mandate includes research on trends in and determinants of productivity).

The study found that the average level of productivity in the Canadian business sector was 82 per cent of that in the United States in 2001. That year, of the 29 industries that make up the business sector, the labour productivity levels of 19 were less than the levels of their U.S. counterparts (please see Table 4 below) while 10 were above the U.S. level. More importantly, the 19 industries whose productivities were below their U.S. counterparts account for 73 per cent of Canada's GDP in the business sector, while those 10 sectors that were above account for only 27 per cent.[58]

Please see Chapter 2 in the Conference Board of Canada's report, "Performance and Potential 2004-05", for more information on this study.

Table 4: Canadian Industries Whose Performance is Below That of Counterpart Sector in USA

Industry	Productivity Level as per cent of the USA Level
Food, Beverage and Tobacco	99 %
Mining	98 %
Other Services	90 %
Business Services	86 %
Agriculture	84 %
Retail Trade	82 %
Plastic & Rubber Products	77 %
Utilities	75 %
Furniture & Related Products	73 %
Wholesale Trade	69 %
Machinery	68 %
Textile & Clothing	62 %
Petroleum and Coal Products	61 %
Information & Cultural Industries	60 %
Electrical Equipment	56 %
Miscellaneous Manufacturing	56 %
Finance, Insurance and Real Estate	55 %
Fabricated Metal Products	52 %
Computer & Electronics	47 %

5.3 Reasons for the Productivity Gap

Much research has been done on the reasons for the productivity gap and only a very small sample of highlights is included here. Further information and studies can be obtained from the Conference Board of Canada (www.conferenceboard.ca) the OECD (www.oecd.org/home), the World Economic Forum (www.weforum.org/), and the Task Force on Competitiveness, Productivity and Economic Progress (www.competeprosper.ca).

Some possible reasons for the productivity gap between Canada and the U.S.A. are:

- Differences in industrial structure. These differences account for a significant part of the productivity gap, i.e. Canada has large involvement in the primary industries which, as mentioned earlier, tend to have lower productivity due to their reliance on early-stage natural resource industries.
- The OECD found that Canada has very low barriers to entrepreneurship and a relatively liberal environment in which to do business, but that it is one of the "most restrictive in the OECD when it comes to regulatory barriers to trade and investment."[59]
- Canadian companies have historically tended to compete on the basis of a low Canadian dollar and slower growth in labor costs rather than on the basis of new products, skills and processes.[60] This has started to change with the appreciation of

the Canadian dollar which has allowed Canadian firms to purchase productivity-enhancing capital equipment at lower prices.

- Lack of comparability between the statistics collected.[61] This problem will lessen now that USA and Canada use identical classifications of industries to compare output and productivity estimates (North American Industrial Classification System).

6.0 FAST FACTS ON CHINA

- **GDP growth** has averaged 9.3 per cent for the last 24 years. It now has the sixth largest economy in the world. GDP annual growth is expected to average close to 7 per cent over the next decade, approximately double that of the USA and over three and a half times that of Canada.[62,63]
- **Exporting and importing:** China is the world's fourth largest exporter and third largest importer.[64]
- **Manufacturing**: China accounts for 30 per cent of the world manufacturing output.[65]
- **Per capita income** stood at only $5,187 US on a purchasing power parity basis. Although low, it has been increasing recently at over 9 per cent per year, and is now over 150 per cent above levels a decade ago.[66]As the income levels have risen so has demand for consumer goods an opportunity for Canadian exporters.
- **Wages levels** presently stand at about one-twentieth of those levels in the USA.
- **Autos:** Some projections show sales of light vehicles increasing five-fold by 2010 to over 10 million units.[67]
- **Foreign direct investment (FDI)** was close to $53 billion US in 2002. In 2003, even beleaguered by SARS, FDI reached $53.5 billion, 69 per cent of which was in the manufacturing sector.[68] In the first eight months of 2004, FDI had already risen 39 per cent over 2003 levels.[69]
- **Foreign portfolio investment** was 75 per cent higher in early 2004 than a year earlier. Since 2000, returns on Chinese equities have been in excess of 200 per cent. However this equity market is still in its early stages and has experienced some significant volatility.[70]

6.0 WEBSITES OF INTEREST

ORGANIZATION	WEBSITE
Statistics Canada	http://www.statcan.ca
Bank of Montreal - Economics Dept.	http://www.bmo.com/economics
Royal Bank – Economics Dept	http://www.rbc.com/economics/index.html
TD Bank – Economics Dept	http://www.td.com/economics/index.html
Scotiabank – Economics Dept	http://www.scotiabank.com/cda/content/0,1608,CID6083_LIDen,00.html
CIBC World Markets	http://research.cibcwm.com/res/index.html
Conference Board of Canada	http:// www.conferenceboard.ca
Centre for the Study of Living Standards	http://www.csls.ca/
Government of Canada – Stats on Canadian Economy	http://www.canadianeconomy.gc.ca
Department of Finance Canada	http://www.fin.gc.ca
Industry Canada – Economic Analysis and Statistics	http://strategis.ic.gc.ca/sc_ecnmy
Ontario Government - Economic Indicators	http://www.2ontario.com/welcome/bc_000.asp
Ontario Government Budget Papers	http://www.gov.on.ca/FIN/bud04e/pdf/papers_all.pdf
Ontario Ministry of Finance – Economic Indicators	http://www.gov.on.ca/fin/english/oecoeng.htm
Bank of Canada	http://www.bankofcanada.ca/en/index.htm
Task Force on Competitiveness, Productivity and Economic Progress	http://www.competeprosper.ca
Organisation for Economic Co-operation and Development (OECD)	http://www.oecd.org/home/
Canadian Federation of Independent Business	http://www.cfib.ca
Canadian Manufacturers & Exporters	http://www.cme-mec.ca
Job Futures Website	http://www.jobfutures.ca

7.0 ENDNOTES

[1] BMO Financial Group, " Outlook 2005," October 2005

[2] TD Economics, "Commentary – Provincial Economic Accounts - A Tale of Two Economies," November 9, 2004

[3] BMO Financial Group, "Commentary – Canadian Employment Finishes 2004 on a Strong Note," January 7, 2005

[4] RBC Financial Group, "Provincial Outlook," October 2004

[5] BMO Financial Group, " Outlook 2005", October 2005

[6] RBC Financial Group, "Provincial Outlook," October 2004

[7] CIBC World Markets Inc., "Provincial Forecast," September 1, 2004

[8] CIBC World Markets Inc., "Provincial Forecast," September 1, 2004

[9] RBC Financial Group, "Provincial Outlook," October 2004

[10] BMO Financial Group, " Outlook 2005," October 2005

[11] CIBC World Markets Inc., "Provincial Forecast," September 1, 2004

[12] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004; three bank average calculated in Table 1.

[13] RBC Financial Group, "Provincial Outlook," October 2004

[14] RBC Financial Group, "Provincial Outlook," October 2004

[15] BMO Financial Group, " Outlook 2005," October 2005

[16] RBC Financial Group, "Provincial Outlook," October 2004

[17] CIBC World Markets Inc., "Provincial Forecast," September 1, 2004

[18] CIBC World Markets Inc., "Provincial Forecast," September 1, 2004

[19] RBC Financial Group, "Provincial Outlook," October 2004

[20] BMO Financial Group, " Outlook 2005," October 2005

[21] Statistics Canada, "The Daily - Latest Release From the Labour Force Survey," January 7, 2005

[22] RBC Financial Group, "Canada EcoTrends," December 14, 2004

[23] Statistics Canada, “The Daily - Latest Release From the Labour Force Survey,” January 7, 2005

[24] RBC Financial Group, “Canada EcoTrends,” December 14, 2004

[25] Statistics Canada, “The Daily - Latest Release From the Labour Force Survey,” January 7, 2005

[26] CIBC World Markets Inc., “Provincial Forecast,” September 1, 2004

[27] Statistics Canada, “The Daily - Latest Release From the Labour Force Survey,” January 7, 2005

[28] Statistics Canada, “The Daily - Latest Release From the Labour Force Survey,” January 7, 2005

[29] Statistics Canada Infomat, Spotlight: Foreign Control,” November 16, 2004

[30] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[31] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[32] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[33] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[34] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[35] BMO Financial Group, “ Outlook 2005,” October 2005

[36] BMO Financial Group, “ Outlook 2005,” October 2005

[37] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[38] BMO Financial Group, “ Outlook 2005,” October 2005

[39] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[40] Economic Club of Toronto presentation by 5-bank panel, “Economic Outlook 2005,” January 5, 2005

[41] Economic Club of Toronto presentation by 5-bank panel, "Economic Outlook 2005," January 5, 2005

[42] Economic Club of Toronto presentation by 5-bank panel, "Economic Outlook 2005," January 5, 2005

[43] CIBC World Markets, "Economic Flash! US Trade Gap: Still Not a Pretty Picture," December 14, 2004

[44] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[45] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[46] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[47] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[48] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[49] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[50] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[51] TD Bank Financial Group, "TD Quarterly Economic Forecast," December 16, 2004

[52] BMO Financial Group, " Outlook 2005," October 2005

[53] BMO Financial Group, " Outlook 2005," October 2005

[54] Windsor Essex County Development Commission "Good News – CME Holds Successful Community Forum," Volume 25, Issue 6. November/ December 2004

[55] CIBC World Markets, " Occasional Report #49 – Oil and the Economy: A Slippery Slope," October 21, 2004

[56] TD Bank Financial Group, "TD Economics Topic Paper: 2030 Vision – A Long-Term Economic Forecast for Canada," July 14, 2004

[57] Conference Board of Canada, "Performance and Potential 2004-05 – How Can Canada Prosper in Tomorrow's World?," 2004

[58] Conference Board of Canada, "Performance and Potential 2004-05 – How Can Canada Prosper in Tomorrow's World?," 2004

[59] Conference Board of Canada, "Performance and Potential 2003-04 – Key Findings," 2003

[60] Canadian Manufacturers and Exporters, " Striving For Excellence," 2003

[61] BMO Financial Group, Economics Department, "Outlook 2004," November 2003

[62] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[63] TD Bank Financial Group, "TD Economics Topic Paper: 2030 Vision – A Long-Term Economic Forecast for Canada," July 14, 2004

[64] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[65] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[66] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[67] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[68] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004

[69] RBC Financial Group, "Current Analysis China – Recent Developments," November 2004

[70] TD Bank Financial Group, TD Economics Topic Paper, "Profiting from China's Economic Boom," April 2004