The Canadian Economy 2009-2019

The 10-Year Challenge

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A new decade marks a new beginning; a fresh start. It is also a time for reflection. This month, we look back at the trends and challenges the Canadian economy faced in 2009 and contrast them to what we see now, 10 years on. Based on these observations, we then contemplate what 2029 may bring.

Before we begin, a note is needed on the analysis. Unless otherwise stated, most of the data for comparison is based on the averages for the decades. This is done for the purpose of adjusting for cyclical factors such as the 2008 financial crisis, which biased numbers for 2009. For instance, when we state that GDP growth for the decade ending in 2009 was 2.0%, that number represents the average annualized growth rate for the decade ending in 2009. For clarity, any factor that is an average for a decade has an asterisk ("*") beside it.

		10-Year Average		Change
		2009	2019	
Economic	Real GDP growth rate	2.0%	2.2%	+0.2%
	% of GDP			
	Final household consumption	55.2%	57.1%	+2.0%
	Final general government consumption	19.7%	21.0%	+1.3%
	Gross fixed capital	21.4%	23.4%	+2.0%
	Investment in inventory	0.4%	0.4%	0.0%
	Exports	36.9%	30.7%	-6.2%
	Imports	-33.6%	-32.6%	+1.0%
	Unemployment	7.0%	6.9%	-0.1%
	Hourly wage growth	3.2%	2.5%	-0.7%
	CPI inflation	2.1%	1.8%	-0.4%
Demographics	Population (milliion, latest value)	33.6	37.6	+4.0
	Population growth	1.0%	1.1%	+0.1%
	Dependency ratio	44.9%	46.8%	+1.9%
	Life expectancy (years)	80.0	81.6	+1.6

Source: StatCan, BoC, World Bank, United Nations, UNDESA, Macrobond

Gross Domestic Product (GDP)

At the end of 2009, Canadian real GDP was at $1.70 trillion. Ten years later, the latest data shows Q3/2019 real GDP at $2.10 trillion, a 23% increase over the decade, or an average 2.2%* annual rate of growth. Population, meanwhile, stood at around 33.6 million in 2009, and grew at an annual average rate of 1.1%*, to 37.6 million in 2019.

The average growth rate for Canada's real GDP for the decade ending in 2009 was only 2.0%*, so growth has actually picked up over the latest decade by 0.2%*, while population growth increased 0.1%* over the same time period. Of course, the 2000 to 2009 period includes both the 2001 tech bubble and the great recession of 2008, which likely negatively biased the average for that timeframe.

The composition of GDP shows that on average over the last decade, household consumption, government spending (labelled "Final general government consumption"), and investment spending (labelled "Gross final capital") increased. Meanwhile, net trade, as measured by exports minus imports, decreased over the period, as measured by its weight in GDP.

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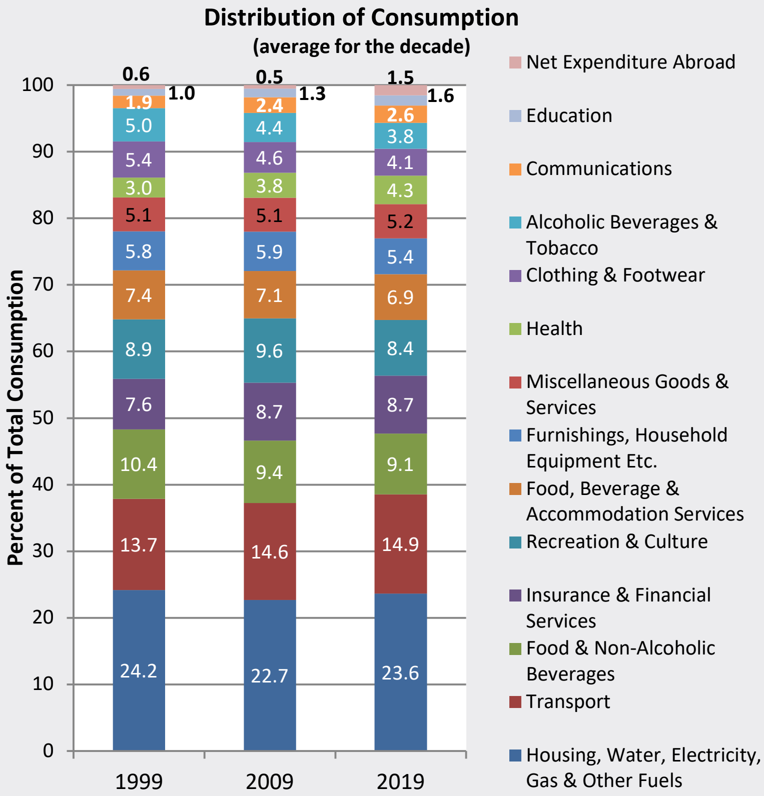


Source: Beutel, Goodman & Company Ltd., Macrobond, StatCan

Consumption

In terms of where Canadian consumers spent their money (i.e., share of total consumption), the largest increase over the decade was in housing and its related expenses. However, this increase is still below the average for the decade ending in 1999. This decrease from the 1990s was likely due to the decline in interest rates, but was offset somewhat in the last decade by the strong escalation in housing prices.

The other increase in relative consumption over the decade was expenditures abroad, while the largest decreases were in clothing and alcohol/tobacco consumption.

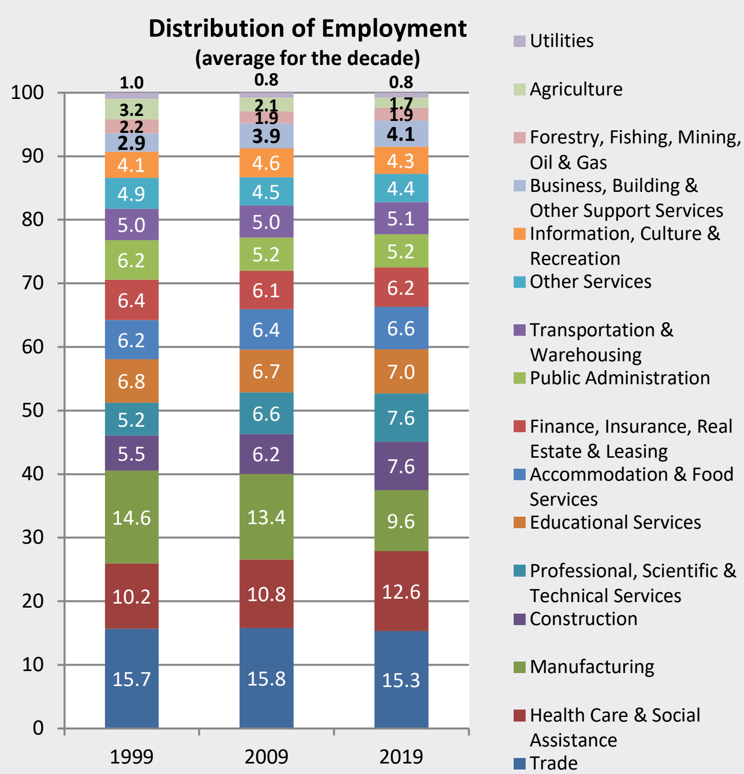
Over the last 20 years, the largest increases in consumption were in Health and Transportation, likely due to the aging population and increases in gasoline prices, respectively. (Average gasoline prices rose from $0.65* per litre in the 1990s to $1.00* per litre in the 2000s to $1.33* per litre in the 2010s.)

Employment

Unemployment averages for the decade remained steady, while hourly wage growth and CPI decreased by 0.7%* and 0.4%*, respectively (see Economic table on page 1). Real wage growth thus declined from 1.1%* (3.2%* nominal less 2.1%* inflation) in 2009 to 0.7%* (2.5%* nominal wages less 1.8%* inflation) by 2019.

The distribution of labour over the decade has shifted as well. Employment rose in Health Care, likely due to aging baby boomers; in Construction, from the rise of the real-estate market; and in Professional, Scientific & Technical Services, due to the continued advancement of the technology economy.

By far the largest drop in employment came from Manufacturing. Interestingly, these trends in distribution have been continuing over the last two decades (from 1999 averages).



Source: Beutel, Goodman & Company Ltd., Macrobond, StatCan

Debt

General government debt (provincial and municipal) increased over the decade, but not as much as household debt, which increased almost 40%* over the decade. Federal debt over the period was fairly stable.

		10-Year Average 2009	10-Year Average 2019	Change
Debt	General government debt/GDP	101.2%	110.7%	+9.5%
	Federal government debt/GDP	47.5%	47.4%	-0.1%
	Household debt to income	127%	166%	+39%

Source: StatCan, BoC, Macrobond

Markets

The S&P/TSX Composite Index returned 12.5%* per year over the decade ending in 2009, but has only risen by 9.5%* per year over the last 10 years. The 10-year bond average yield fell 2.5%* over the same period, from 4.6%* to 2.1%*. The Teranet-National Bank House Price Index, which represents 11 cities across Canada, increased on average 7.4%* per year in the 2009 decade, while the current decade saw it rise by 6.0%* annually.

		10-Year Average 2009	10-Year Average 2019	Change
Markets	House Price Index (Composite 11)	7.4%	6.0%	-1.4%
	CAD/USD	1.29	1.17	-0.12
	TSX return	12.5%	9.5%	-3.0%
	10-year government bond yield	4.5%	2.1%	-2.4%

Source: TMX, Teranet, Macrobond

Global

Global real GDP growth, as measured by purchasing power parity, has fallen from an average of 3.7%* to 3.3%* (the average for the decade ending in 1999 was 5.9%*). The share of GDP has also shifted, with China increasing the most and the U.S. share decreasing the most.

World population grew 11.8% over the decade, while the growth rate declined marginally.

		10-Year Average 2009	10-Year Average 2019	Change
Economic	PPP real GDP growth rate*	3.7%	3.3%	-0.4%
	% of world GDP			
	High income countries	56.8%	47.9%	-8.9%
	U.S.	19.0%	15.9%	-3.0%
	Canada	1.7%	1.4%	-0.3%
	Low and middle income countries	43.3%	52.2%	+8.9%
	China	9.8%	16.1%	+6.3%
Demo-graphics	Population (milliion, latest value)	6,873	7,631	+758
	Population growth*	1.3%	1.2%	-0.1%

Source: World Bank, United Nations, Macrobond

What's Next?

Looking forward too far into the future is almost a futile endeavour. Nevertheless, examining the last decade, we see some trends that tempt us to make some general conclusions as to what could happen over the next 10 years.

Firstly, real economic growth will likely continue to fall. Growth is driven, to a large degree, by population, and global population growth is expected to continue to decelerate. We are also unlikely to see a pick-up in population growth in Canada. In addition, we believe it is reasonable to assume that inflation will remain stable, with the Bank of Canada in firm control of its mandated inflation target.

The developed world's share of the global GDP pie will likely continue to fall, and emerging markets in general, and China in particular, should continue to increase. This assumption is driven by the simple math of their larger populations and the natural rise in emerging markets' GDP per capita, which should continue to converge with the high-income economies. China's continued increase in share of GDP and the U.S.'s sustained decline will likely lead to lingering tensions between the two superpowers.

Secondly, we expect health and expenditures abroad to increase for the Canadian consumer as the population ages. We also anticipate housing prices will stabilize and Food, Clothing and Transportation will continue to decrease moderately.

On the employment front, the share of workers in Manufacturing and Agriculture is likely to continue its downward trend, although Agriculture may stabilize as it's already very low. Health Care and Professional, Scientific & Technical Services, meanwhile, may see growth while Construction is expected to be relatively flat over the next decade.

Turning to markets, returns for equities and real estate will also likely fall and bond yields remain low. The large push of real estate and equities was partially driven by the secular fall of bond yields, which have little room left to run.

Lastly, there will likely be some risks in the coming decade. We may see environmental risks take a greater role and this could affect inflation, especially around essential items such as food. Life expectancy, which increased steadily over the last 100 years, has recently declined marginally in some countries and could continue to fluctuate.

Computers are likely to continue to grow exponentially, and by the middle of the next decade, a $1,000 desktop computer will have the same processing power as a human brain, increasing the risk of job replacement and wealth inequality. All of these issues will have to be addressed.

Every decade has its cyclical challenges and risks. However, despite these challenges, the long-term secular trends remain stable and continue to show improvements in overall well-being vis-a-vis increased income per capita, increased education and large declines in extreme poverty. BG

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