The Conference Board of Canada

Re-Investing in Canada: Strategies for Long-Term Prosperity

Transcript
Canada in a Changing World Series

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Moderator

Richard Forbes (Rich), Principal Economist, Economic Forecasting, The Conference Board of Canada

Speakers

Pedro Antunes, Chief Economist, The Conference Board of Canada

Cory Renner, Associate Director, Economic Forecasting, The Conference Board of Canada

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Transcript

Richard Forbes (Rich), 00:00-01:52
Hi everyone. Welcome today. My name is Richard Forbes, and I'm a principal economist at The Conference Board of Canada. I'm going to be your moderator for today's session.

I'd like to thank you all for joining us today, today to discuss this important topic on how Canada can rethink its investment strategy for long term prosperity.

Before we begin, I'd like to acknowledge that I'm joining you from Ottawa, the traditional unceded territory of the Algonquin Anishinaabe people, and extend this acknowledgement to the Indigenous caretakers of the land where you are joining us from.

I now have the pleasure of introducing you to two of our speakers for today. First is Pedro Antunes, our Chief Economist at the Conference Board. Pedro is our key spokesperson for all of our economic forecasting products. His recent work includes work on climate change, inequality, and, of course, all things related to tariffs. Thanks, Pedro, for joining us today, and I also have the pleasure to introduce Cory Renner. Cory is an associate director of our Economic Forecasting team. He oversees all of our economic forecasting products, our modeling development, and the creation of our new economic products for our clients. Welcome, Cory.

And before I turn it over, just one final thing is we'll have a session or a time for Q and A at the end of the session. So, if you could kindly just put your questions in the Q and A session section there, and I'll be monitoring that throughout the webinar, and we'll have time to answer questions at the end.

So, with that, I'll turn it over to you, Pedro.

Pedro Antunes, 01:52-5:56

Terrific, thank you Rich. And welcome everyone to our webinar today, middle of the summer. So, thank you for joining us.

You know these this kind of time of more rest and relaxation, but we do certainly think that this is an important topic, and there's certainly been a lot of talk about how we're going to rebuild our the strength in our economy, and we thought we'd take a look at some of these things. How do we, in fact, generate more prosperity? What we mean by that, to start with, and you know, how does the government's plan look?

So far, we don't have a budget yet, but we're trying to get a sense of how that might look. And by the way, I do have a sense that we might be getting a budget fairly soon, perhaps, you know, in August or September, we'll have to wait and see. Let me start with what is prosperity. Now, you know, Rich and I and Cory, we're all economists. We always think income when we think prosperity, and when we think income, we think GDP. So, it's hard to move us three folks away from that kind of definition. But there's here. We're going to take a kind of a limited view around prosperity. I would say one is that pie, that pie of income or GDP, how is that going to grow? And the other piece of prosperity, which we certainly agree with is really important, is, how do we share that pie as we look at the, you know, essentially, the growth among different cohorts, among different.

How should I say different age groups in the economy as well. So, I'm going to, actually, I'm going to start us off by, you know, what is this growing the pie piece. We're going to talk about that first. Cory is going to dig into some of the numbers through that as well. I so we'll be bouncing back and forth through this presentation. Then I'll kind of take the lead on the sharing the pie piece and really talk a little bit about how does, how do Canada fare in terms of its income distribution? I think there's still some myths floating out there about how we're doing on that. And then we'll finish off the presentation with a look at, you know, how are we seeing the budget, the finances, and can we really, really afford all of these pieces that were talking about recently with this new Liberal government, some of the strategies that are being looked at.

Let me just say, on the growing the pie again, we're going to take a very simple look at this only one piece of it, really. When you think about what drives income or GDP in a nation, there's three things that economists tend to agree on that drive that one of course, is the quality and quantity of labor. How are we doing in terms of our labor force, or how are we doing in terms of the skills and the quality of that labor force? The other piece is, how are we doing in terms.

Terms of the capital accumulation. In other words, what is the growth in our productive capital? And that is our investments in infrastructure, investments by businesses in in structures and in machinery and equipment. And how are we doing in terms of investing in what we call intellectual property? And that tends to be research or software, these kinds of things. And of course, how those two tie together is the third piece that grows the pie, and that's productivity. But today we're really going to focus on just that second piece, and that is, how are we doing in terms of growing our physical stock of productive capital? And the title here tells it all, one of the most, one of the pieces where we're essentially, obviously lagging is on our investment, especially on our private investment.

So, Cory, I'm going to bounce it off to you to get us going on that piece.

Cory Renner, 05:56-13:15
Yeah. Thank you very much. Pedro, Thanks Rich for the kind introduction, and thanks to everyone for joining us today.

I think we need to start by apologizing. We're going to use the word pie a lot. And I think if you're especially joining us from the West Coast, you know, hopefully we can get you to lunchtime without thinking about it too much.

So, as Pedro alluded to you know, there's really a few factors that economists think right back to our sort of general growth models, which is, as you mentioned, capital, the amount of physical goods you can use in production, labor, the amount of workers and their skills. And then there's a productivity factor on all these things, how good they are, basically. And we're starting with the chart that summarizes our problem a little bit. I think anyone who's been following the economy for the last couple of years, especially coming out of covid, we talk a lot about, well, our GDP per capita is declining. That's a big concern.

You know, of course, there's all kinds of reasons for that, but this chart summarizes the main reason, and that is that we are really not growing our capital stock. Pedro has mentioned very clearly that this is the amount of tools that our workers in the economy ultimately have to produce output, to produce GDP. For many years, there we were quite good. Actually, you can see this trend has, you know, this chart can be interpreted two ways. It's that we've done very poorly lately. That's worrying.

We're not accumulating capital for our workers, you know. And when you think of capital, I think it's good to just take it back to basics. You know. This is trucks for truck drivers. This is new computers for our office workers. This is software for office workers. It's all kinds of these things. It's the tools that trade the tractors for the farmers and this and that. And we've really seen a decline, that in recent years, we have seen some progress intellectual property. You know, this is really the software side, and we could imagine that's related, especially to our office worker sector. But even there, we like, actually, since 2008 you know, the US has almost doubled their intellectual property investment per worker, whereas Canada's really only increased by 25% so even in areas where we might feel like we're actually doing okay. It's actually been a little bit of a struggle. So, this chart and calculate and Captain slaves the problem. We're not investing enough our capital stocks not bringing up. We're not giving our workers the tools to really grow the economy the way we think we can.

You know, to avoid being too negative with the whole story, we do want to point out one little positive side, and that's on the public infrastructure side. So, you know, government fixed capital formation, that's really government investment that's actually been okay lately. And you know, there might be some negative perceptions of what that might be, but actually it can be a real catalyst for growth. You know, Pedro is going to touch on it a little later, but you know, transportation productivity as an example, is actually a quite a bit weak spot for Canada. You know, one of the reasons we have trouble getting things to market is we actually have trouble moving it between our country, rather that be because of interferential barriers or because of issues with transportation bottlenecks. And that's where government infrastructure spend really helps this. You know, it tends to have a fairly high multiplier, um, that means it contributes, you know, in a good way to the economy for more than spend. And when we think of this, we really can think of we can think of roads, we can think of highways, we can think of bridges, we can think of ports, we can think of utilities, all really important things for growing the economy.

But this is the chart where we start to worry a little bit, and this is where I think a lot of the focus will be on through the presentation is this is again, back to the first chart. What tools are we giving our workers to grow the economy? It's shrinking, and this is very unique. We're one of the very few countries in the OECD, of the companies, of the countries that we compare ourselves to, who very much struggle on this metric. Since 2014 it's actually been declining. And you can just think of what that is. I mean, that's the truckers. They don't they're not getting a new truck. You can, again, think of the office worker who's got a computer that's depreciated away, and they can't do what they can with it. So, this, ultimately, is the area that we need to focus on. To the first slide, it's not growing enough.

And to this slide, it's become a really big problem, and we hear more and more about it. And to put the problem in context, you know, some of the flow throughs that it has, you know, we think of the surge in population growth we've had in recent years. Well, that's great, but workers without capital, they don't produce as much as they otherwise could, but they still use government services. So, as we can become a more capital intensive economy, we can actually start building our revenue sources for the government that don't necessarily have an attached expenditure. And so that's where this chart really highlights very much. The promise is we need to get businesses to invest, and we struggle with understanding why there's certain competition reasons about the Conference Board, we actually run a survey, and the businesses have been mixed on reasons for the why they do this. You know, in one case, they actually, for a long time, highlighted shortage of workers. Well, that would be a reason to invest. So, it's really convincing our businesses to invest more and giving them that, you know, success channels for doing that.

You know, we'd love to compare ourselves to United States, no doubt. And then this chart does it better than any other. There was a point in time, especially when resource markets were booming, that Canada was investing quite well. Know, a lot of this was in resource and the structures related to resources. But, you know, other industries are doing well. We then slipped off as the kind of resource boom faded and we never found other sources to grow the economy. Pedro is going to focus in a short while on some of the opportunities that can be created there, but this chart is the worrying one, and there's a secondary worry in this chart when we compare ourselves to United States, is this is as a share of GDP. What we also know is that the United States is broadly richer than Canada, and their economy has been growing faster than Canada. So, not only as a share of GDP, are we losing ground, and we've lost ground, but actually, because their economy is growing so much faster, we're not even accumulating capital in the same kind of way. It's almost like they're laughing us in some ways. And so, it's a real problem. We really got to get our heads around and figure out what to do. We do have upcoming reports on strategic industries that that we think we should look at and how to kick start business investment these reports are going to come out later in the summer.

So, keep, keep your eye on our website for those but one of the obvious challenges we face is that we do not compete that well with the Americans when it comes to corporate taxes. For a long while there, they were fairly similar. And just you know, for the non economist who maybe need to have that.

Basically, the X axis described here. This is basically implied corporate tax, the share of business profit. So, this is kind of the actual calculation that you get once you take away all the all the various incentives there. And we've seen a really big divergence, you know, really, since 2014 the device divergence has increased, you know, it's improved a little bit, but not much. And we know that the big, beautiful bill, which Pedro is about to touch on, isn't going to help the situation. So, we it's really time for us to think, you know, think about how to get investment in the country. I think the conversation has accelerated. It's been there for really decades now. I know we've been talking about the Conference Board for a long time, but the conversations become ever more important, so I'm going to pass it on to Pedro to you know, maybe give a little more positive take on some of the opportunities we have.

Pedro Antunes, 13:15-28:11
Yeah, thanks, Cory and absolutely so the our competitiveness in attracting investment comes from many, from many perspectives. Obviously, we're dealing with the US trade policy, which is pushing against investment in Canada. In fact, everything that the US administration is talking about is now to pull investment away from other countries, including close partners, close trade partners into the US, and they're doing that with these tariff threats and this uncertainty about access to the US market.

But also, as Cory just showed, the effective, essentially, tax rates that corporations are paying in Canada versus us that has diverged strongly, even though our posted rates are posted tax rates, may be, as our finance department will, would like to tell us very close to those in the US when we look at the effective tax rate, which includes subsidies. Obviously, Biden's inflation Reduction Act included a lot of subsidies to promote green tech that plays out in that role, as well as to how much corporate tax is paid. So, we're not keeping up on both those fronts. And of course, it's a major challenge to try and keep up on both those fronts, because the US is running deficits that we don't want to run here in this country. The US is running deficits that are close to six 7% of GDP.

That's likely going to get worse, but between the time that we have now and the challenges that we have now and the time that the US is eventually forced, we're hoping forced to redress its tax generosity, to address a deficit that they're running, we're going to be losing out. So, we need some strategies to address this.

And when we talk about the big beautiful bill, one of the things that is in that bill is essentially the ability for firms in the US, when they invest $100 today, they can write that off immediately with this new big, big beautiful bill. So, the generosity of the tax system, as we just saw in Cory's chart, is actually going to get bigger in the US. In other words, that that, how should I say that gap between Canada and the US is going to get even bigger? How to deal with it?

Well, we're hearing a lot from our government about what we can do, but certainly, I think one of the things we need to do, absolutely need to do, is at least review the tax incentives that we have in comparison to the US we need to be at least assessing where we're not competitive in the last not the last budget, but the last fall economic statement, there was actually mention of a few pieces. One was that we were going to, how should I say we were going to continue the accelerated depreciation allowance for certain sectors.

So, in certain sectors, we have a 30% depreciation that was a positive, but certainly not going to keep up with this 100% depreciation that the US is putting forth. The other thing that was focused, that was talked about in the fall economic statement, that we're hopeful to see in the budget, is essentially a Patent Box, and that is an incentive that allows or that helps generate more investment in research and development. And that's an area where I think if we focus our tax system to play on those areas that we do well on this could be a real positive. Bill c5 we're hearing a lot about how contentious that is. Obviously, yes, there's going to be some issues with that bill, but we do absolutely need to do something to expedite the review process for major projects. And it's, it's, it's more about certainty that businesses are looking for.

We've had a real situation here, not just with the tax regime, but with essentially the approval process for major projects, and that's been a real hang up for investment in Canada. We hear it all the time, and Canada is not showing up as a very attractive place to invest when it takes years and years and budget overruns to even know whether a project will be approved or not.

I do think there's potentially here some things that we could gain on. We're not going to talk a lot about this, but the opportunity on provincial trade barriers is here. Let's we're really hopeful that we don't miss out on that, and that's certainly important. We need to remove essentially and open up our internal market here to businesses in Canada. And then the last piece, you know, we've we tried to address what was happening with the IRA Biden's very generous bill, with some very directed policies here in Canada. But most very specifically, we were essentially subsidizing battery plants and electric vehicle production. That seems to not have worked very well, very well, especially given the change in in policies with the new US administration.

But I think one thing that we've been talking about for a long time here at the Conference Board is we could do better at boosting our defense spending if we're going to apply industrial policy, then let's meet two targets at the same time here, let's be boost defense spending. Let's meet our NATO commitments, which were laggards on and at the same time, we can leverage some of that investment to do positive things for the private sector, for the economy, and there's lots of examples of other countries doing that. And Cory is going to take us through some of that thinking in a few minutes before we get to that though, let me talk about, essentially our trade infrastructure. And when I say trade infrastructure, it's not just a private sector infrastructure. It can also be, and in fact, it often is public sector infrastructure. We need to do better on that. Look at the other incentive here for investment. If we look at our country.

We're a trade dependent economy. We have been not doing well at all on growing our exports outside of energy and services. That's the middle blue bars in there. And if you actually size them up, what you can see is that in 2024 we've only grown our total exports of goods, excluding energy, by 2% over that entire period. In fact, not at all on an annual basis. Essentially, we've not grown that segment at all. We have grown the exports of services. They've grown by about 80% so that's a segment that we're doing really well in. And by the way, this is inflation adjusted, so this is the volume of stuff and services that we're producing.

The other piece that we've grown is our energy. Our energy has grown by almost 70% over that same period, energy being mostly our oil and gas sector, as we've increased capacity, and most recently, we've opened up that pipeline to Tidewater that allows us to get a better price for that production. That we've invested in on the energy sector. So that's been a positive, certainly, but where we need to focus in on is the goods, excluding energy, especially as we're trying to diversify our trade away from the US economy. So, growing our trade has been challenging.

We're limited by capacity. We haven't seen the investment, as Cory clearly pointed out when we look ahead. Certainly, the oil and gas sector has done well up to now. We're seeing a recovery in investment in oil and gas, but it's mostly maintenance investment. It's not adding to new capacity. There's a little bit more drilling that we might see, but in essence, that's a sector that, on the long term. We know that the world is moving away from non renewable resources, and we know that there's not going to be massive investments in that sector. You know, possibly for the good of the emissions targets that we have in this country, the resource sector, this is where we, you know, a lot of talk, every budget I hear about, talks of provincial and federal, talks about critical minerals. But yet, we've seen very, very little investment in the resource sector. And this place part and parcel to essentially that transportation infrastructure, that's needed, investment, climate, taxes and others, labor constraints.

We need to do better on these pieces to improve and drive our long-term growth. One segment where I do want to finish, where on some a couple of positives, but agri food is one where Canada has seen some strong investments, and I think we're doing well in those segments.

Just quickly on transportation infrastructure and productivity. Think about Canada. Think about how we get our product across the country, to the US, to international markets. It's all through the transportation network that we have. It's very important. It's very large. We're a big, big country, and yet, over the last number of years, we've seen productivity in the transportation sector, essentially since 2017 on the decline. This is all index productivity compared to where we were in 2017 you can see some of these segments are still down almost 25% this is output per hour work.

The income that we're earning per hour worked in real terms, has declined by 20% 25% I should say, in some segments, a little less than others. But any decline in productivity is bad news, because it is the transportation sector that facilitates our access to the to the world, our access to internally and externally, to our markets. And you know, we can't forget we are an export dependent economy. This is what drives our economy. And I think it's really important that we look at some of these segments. We've been talking a lot about, for example, investing in critical infrastructure. We've had a whole report come out talking about how we need to ensure that we have critical infrastructure projects, for example, to get access to the ring of fire in Ontario or Quebec now as well, they are talking about access to these critical minerals that we need, that we know we need for our energy transition, and yet we haven't. We've seen very little in terms of that infrastructure to get us there.

The other one I wanted to point out here truck transportation. You can see that productivity has declined in that segment. Very, very important. You know, the number of trucks we have in this country to get our goods to market. And decline in truck transport means that we're suffering in terms of our competitiveness and getting stuff to market. And I just want to give you a little perspective on that. One of those, one of the, one of that, some of that productivity decline in trucking is actually related to urban transit productivity. You can see how far that is down, about 25% still, and that is because people are no longer using as much as they used to our urban transit system. You know that the trains and the and that and the busses are back up and running. We have the staff back in there, but there's not as much usage.

So, that's led to a lot of congestion in our major cities, and that has caused truck transportation productivity to also decline. Trucks are stuck in traffic too, essentially, and I think there's a link between all of these modes of transport. And again, very important that we focus on this when we think about essentially growing our economy long term, because that is what's going to drive the investment in other areas.

Here's our energy investment. I already told you the story on this. We had a boom time. This is billions of dollars of invested annually during the peak years when oil prices were near $100 a barrel. Us. You can see where 2011 to 2014 that generated a lot of growth in new capacity. Since then, it's been a recession in Alberta from 2015 to 2019, as that investment came down from 80 billion to under 40 billion. That caused all those problems, especially in Alberta, but Saskatchewan, Newfoundland and Labrador as well. Of course, since then, we've seen a little bit of a recovery. In investment. But again, this is good news for the sector where profitability is up. That drives government revenues as well, but we're not going to see that return to these strong investment levels.

So, we need to focus on other areas where, where should we focus in and how can we stimulate that? So, this is one of the good news stories. This is investment in the food manufacturing sector. We've seen, especially a lot of investment out west in some of these, in some of the some of these segments. And I think there's a lot of potential. I mean, the world is getting richer when we think of Asian markets in particular, a lot of wealth being generated, a lot of income being generated there. And there's a transition that's happening in terms of global demand for food and potash and other, sorry, I should say fertilizers and other and other agri food products. So, this has been a good news story for Canada. Here's the other good news story.

Now, Cory mentioned our IP investment wasn't necessary. Was good. It looks good on its own, but it's he's absolutely right. When we compare our software investment, for instance, here in Canada, it's been growing very, very strongly over the last number of years. This is great news. It's been driving employment in what we call professional scientific technical services that's been doing very well in this country. And it's been driving our service sector exports that are I talked about earlier. So, this is good news, but again, when we compare ourselves to the US here on this metric, we're not doing nearly as well as us is.

So, this is really important. Let me just show you the next chart which is related to this. This is employment in this is professional, scientific, technical services in comparison to manufacturing on the same scale, you can see manufacturing jobs really declined since from 2004 to 2020, 10. Essentially since then, it's been rather stable. But on the same scale, we've seen employment and professional technical and other services, professional scientific and technical services, increasing from 1.7 million by over a million now, since those numbers first came out, and the growth over the last number of years has been exceptionally strong. In fact, employment in professional, scientific technical services has been four times this is private sector. It's been four times greater than employment in other private sector jobs, 4% relative to 1% annually since 2015 so this has been a sector where we're, you know, we have a comparative advantage. We're winning. We're able to export these services. And we need to focus in on these segments. And when we look at some of the work that's being done in our Future Skills Centre, from our economics research group and our education group, what we're seeing is the potential that AI might have on this sector as a real positive for even boosting our productivity further in as we look as we look out.

All right, so on that note, I'll pass it back to Cory, who is going to talk to us a little bit more. On the other the other pillar, I think of some potential for growth, which is our defense spending.

Cory Renner, 28:11- 37:08

Right? Thank you, Pedro, so defense spending is obviously been in the news. I also see it in in the chat. So, I think it's a real concern. I think what we know is that we were a lagger in defense spending. We knew that. I think we got some warning shots about that in Trump's first term, as I'll show in a slide here, we didn't really make a whole heck of a lot of progress. When we did get to 2% the targets changed.

You know, there's kind of two targets, there's the three and a half and a half and the 5% a lot of what I'll talk about the three and a half just because they narrowed around the extra one and a half percent. It's infrastructure. It's good stuff. We're going to do anyway. So don't necessarily see that as incremental spending. So we will focus on the three and a half percent. But what's true is that there's a movement towards defense spending globally. You know, many of the European countries have announced that they're making progress, even starting now, but many of them actually made progress over the last four years, especially when you look at the Eastern European countries. So, there was a time with our kind of generally low levels of defense spending where we could say, you know what, we're with a lot of other countries here. We're just not really valuing defense spending. We got other things to do.

You know, it's not on our border that's changed. It's hard to do that now. Lots of countries have made progress, and there's a bit of a carrot element here. So as noted here, you know, we did some work here, and we meet the three and a half target. If you go 92 billion more than we spend today, by 2030 that's a lot of money. I mean, if you think about it, that's like 25% of federal government tax revenues. That's more than the Canadian Health Transfer, and that's not a one-time cost. I mean, this isn't every single year cost. So, when we think of the government spending not much money on a program effectively permanently, you know where we really need to get the thinking is, how do we absolutely maximize the amount that we get out of that?

Domestically, I think that's really the critical point here, is we've committed to this money, you know, presuming we actually ended up end up spending it. So how do we maximize what we get out of that? Um, you know, as economist Pedro and I, we won't focus too much on the needs, you know, but, but there's a defense strategy coming out, and there's a previous defense strategy that had already identified the needs. So, we'll trust the experts there. We'll talk the economics. And as I've mentioned, it's really about getting the most value of money. It's going to be a new way of defense spending quickly. On the chart here, this is, you know, military spending as a share of GDP across all the NATO countries.

If you're wondering where Canada is, we're over there to the right, close to the right-hand side. So that's sort of one of the things that has spurred all this moment, is all this this spending, all this talk, is that, you know, we have really not been holding our own. And if you look at the gap between the two bars, well Canada is one of the few that's really made almost no progress over the last four years.

And I think that's the difficult situation we're finding ourselves in is we used to be with a lot of like-minded countries, sort of not really doing the defense spending. We become more alone in that bucket. And obviously it's been, it was in the news really beating up. It's obviously part of any negotiation for a new deal. It was part of negotiation for new deals in Japan and Europe as well. So, it's sort of, you know, we're, we're having harder trouble not doing this now. So, what's the positive?

I mean, so now we know we need to do a lot of spending for the military. That's fair enough. Well, we've got a lot of money to spend. Actually, we did. I went and grabbed the NATO data here. I used their estimates just all over the place, just to use a consistent data set. And I said, you know, let's get every country up to three and a half percent of GDP. Um, their data is in us billions. So, apologize, this is also in us billions. And what do we hear on a nominal terms, the amount of available money to spend Canada is the second one. The second fur is from reaching that, um, 23 billion, according to this estimate, in in US dollars. But I think it's really the rank here to show that we've got a lot of money to spend, this is going to be a challenge for the budget, but it also gives us a big carrot when we're going down this path, to say we really want a lot out of this spending, like we've got a lot of money, it's going to be tough. But, you know, we want to get we want to get a good deal here, right?

We hear a lot about making good deals these days. Well, we're probably going to want to try to get a good deal on our defense spending quickly, an example of, you know, the way of thinking that I think we want to go with. This is the ship building strategy. So, some years ago, we decided we want to build ships. Not only do we want to build ships because we need them, we also want to get our ship building industry back to where it could be, and from there, we also want to get as much domestic benefit as we possibly can. And that's where the national ship building project came in. You know, we've done our own estimate that'd be out of about 11 20 billion over 12 years of the economy support 9300 jobs. And we have this little thing in there called the industrial and technological benefit, which basically says, If you're buying anything abroad, you need to also spend a similar amount in Canada so that we get the full pass through. That's an okay program. It's a good starting point. And as we build up our industrial base, I think it's going to be a good one to go for which at least gives some domestic content to what we're doing, some domestic benefit.

But ultimately, we're still importing, right? We're still it kind of increases the cost as we import. So we need to be a little bit careful that long term we don't depend on this kind of program, and that we actually really are able to do it here. And then we'll talk to you a little bit more on the next slide. But you know, some of the benefits of the strategies, you know, our ship building industry is better than it used to be. That was one of the really benefits when we look at an industrial policy lens, to the defense side, that's really something we need to go for is we need to be able to do some of this at home, because that's good for our economy. When we go back to that depleted capital stock, this is an example that might help count that to say, let's build our own capacity to do this. And the program is, of course, health, R and D spending. It's given us more knowledge of how to do this going forward. But you know, ultimately, this is a small program compared to what we're about to embark on, and so we seem to kind of double down on the overall strategy here. And we framed this as two birds one stone.

So, what are we doing here? Well, we want to build our military while at the sign same time, building the economy. That really goes back to this whole point I made, where we need to get as much of this domestically as possible. One of the things to do is to really capitalize on that. What I call it; I call it a carrot. Capitalize on the carrot and say, Look, we need to extract as much value if we want, if you want us to buy from you. We need as much value as possible. Again, we need to keep as much spending as we can at this at home, build domestic site, supply chains with Canadian materials, with Canadian workers. The reality is, we don't have a big defense base right now when we were actually, in fact, when we were spending more on military you know, back when we're getting 2% we're actually also exporting more and producing more military capacity at home. So, it's actually been a dual decline, where less military spending less a smaller industry in Canada. We need to reverse. Those trends. I think the reality is, we're not going to be able to do that right away.

It's going to take a little bit of time. But we need to do this, you know, realizing that this is a long-term spending project which will grow, you know, if you follow the target based on nominal GDP, it'll grow up the rate of nominal GDP. We've actually had revenues declines a share of nominal GDP over the last, really, decade plus. So, this is actually a real burden if you consider that. So, we need to, I'll say here, maximize the GDP and multiplier. Back to an earlier discussion. What does that mean?

We need to get a lot of bang for our buck. We need to get economic support. When you look at defense spending more broadly, and I think was brought up in the chat, it's typically below one. Why is that? Well, if we buy an airplane and we don't want to go to war, we don't really use the airplane actually, so it's really an asset that we don't use too much. So we gotta find ways to increase the multiplier. You know, one is personnel has a higher multiplier. Why? Because they spend in the economy. They boost our troop numbers. They give revenue back to the government. Military equipment is generally involved, especially if it's imported. But if we build more home use Canadian materials, we actually then use the middle parts of the value chain to help build those people spend we build jobs and increase the multiply further. And dual use technology has really the highest multiplier. That's when you're looking at the US. They have DARPA, which is basically a dual purpose research organization, and they have a lot of really good things that come out of that, internet, GPS systems, just name a few. Canada can get there. That's one side where we can really build our innovation performance, which has also been struggling with our event performance. It's all really packing it in. And there's some examples in Germany in particular, where they're using underutilized or stranded assets, especially auto manufacturing, broader manufacturing. Canada, we may be able to do that. We find ourselves struggling to manufacture. We have long term care side United States, while we can maybe repurpose some factors for military procurement. So, that's the defense side.

And because we started with this nerdy economic concept at the start, we decided to throw in an Adam Smith quote here before we go into sharing the finance. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. And the point here is, as we build the pie, we also want to share the pie.

Pedro Antunes, 37:08-41:27

Oops, thanks. Cory, yes, sharing the pie. So that's the second section, which is going to be very short, because I'm essentially just going to talk a little bit about Well, essentially present three charts that we pulled together for a report that we did a while back. These are now updated with the latest numbers. But the point of the report was that there was a lot of talk about growing inequality in the US and in Canada. And in fact, that might have been true for the US, but it certainly wasn't in the case in Canada. So, we put that report together. I think we're not necessarily doing a terrific job of lowering our inequality, but certainly it's not growing, and has been, in fact, declining slightly, excuse me, over the last few years. This is the Gini Coefficient. It is the standard measure to assess inequality. The OECD uses this measure, as I'll show you in a second.

The OECD being essentially the collection of all of the of developed economies across the world. But the Gini Coefficient, essentially is a mathematical rendition of how income is distributed in the in the economy. The numbers don't really mean anything, except that if an economy has everyone earning exactly the same amount, then your GD coefficient would fall to zero. If only one person has all the income, then you'd be at one, so every country is between that. And what this shows here is just for Canada, our market income is what we earn, essentially what we take home after employment or interest income or whatever that source of income might be. And so that's not, you know, obviously leans itself not to be, how should I say, very equivalent across all cohorts in Canada. But when you add in the total income, and that includes subsidies, or even then, if you add in the after tax income, so our, our disposable income after tax and subsidies, you end up with that bottom line, which is the comparable metric that suggests that, yes, we have market income, but we do have programs and subsidies that are generous in this country that help make things more equal.

And you can see that essentially, our income inequality has been stable for at least the last two decades, and it's been declining with some programs that have been put in place since 2018 in 2020 we have this, the CERB program, you may remember that generated a lot more income inequality, if you'd like, but since that's come off, income inequality has bounced back up a little bit, but still remains a little bit below where we were, let's say, pre pandemic.

So that's not bad news, necessarily. We are sharing the pie. What about how are we doing in comparison to other nations? Well, if you look on the far right of this chart, you see the United States there as being one of. The kind of worst countries I think the US administration is now moving to move that bar even further right. We're sitting about middle of the pack. We're not doing too badly on income inequality. Certainly, we could do better. And in the report that we put out, we did dig into some of the numbers. It doesn't mean income inequality, isn't it? I mean the numbers I've showed you suggest income inequality isn't growing, but it doesn't mean it doesn't exist in some areas. And when we look at this next chart, you can see just some of the discrepancy we have still a very large wage gender gap. This is what the 2021 census now. And you can see among different ethnic groups, including our First Nations, Indigenous groups, you can see that there is still a fair bit of inequality among our income earners, among especially our average employment income. And if we add to this a comparison of, sorry, of population by age group, we also see some discrepancies there that are that may or may not be growing but certainly are do exist. So, there's things and more things that we can do. But the point here is that the inequality in Canada is at least not growing. So, on that that's the sharing the pie, not doing too badly. But what about affording the pie?

Cory, how are we doing on that?

Cory Renner, 41:27- 48:06
Right? So, thank you. Affording the pie probably the toughest section here, and I think it's a somewhat philosophical question realistically, because in some sense, we're committed to some of these things. And I think it will ultimately be a situation where there's trade offs, but we've somehow committed ourselves to avoiding the pie. So the first thing to start with is, you know, where are we today?

This is our latest long term forecast. It's actually hot off the presses as of just a couple weeks ago. We're projecting deficits, really, for quite a bit, quite a wider This is balances the share of GDP. Obviously, it sits below zero, especially for the federal government. That indicates, you know, we're kind of stuck in a bit of a deficit position. I think that's not surprising. I mean, this is the pre budget estimate, but I think we all know that, you know, the federal government has been stuck in deficit for a little bit, as have many provinces, and the latest budget actually has that continuing for sort of the latest Fiscal Update that was released in the fall. And the spending priorities are more on the spending more side of things right now. So, I think it's fair to say that, you know, we're probably going to spend more. And you know, how do we do that? Well, probably it's some combination of our options, taking up debt, trying to find new sources of revenue, and lowering expense growth. And we're overall, so this is gross debt.

So, this is, it's a little unfair comparison for Canada, because of our funded pension, but, but this is what we do pay interest on. So, what's our debt looking like? Well, we picked up more during covid, but overall, some, some period there of being, you know, response with our finances, getting our debt down, we're now a little bit able to utilize that. So, our debt position is broadly okay. Look, it's not great. And as economists, I think we never want to say, let's just take on more debt, because, to one of Pedro's points of inequality, well, there's inequality among groups, but there's also intergenerational inequality. So, if we spend a lot today, ultimately, that could lower prospects for people down the road, unless we get a lot of bang for our pocket investment.

So, taking on more debt when we need to great, accumulating debt during a point of full employment, probably not so great, but we're an okay position here. Interest payments as a share of revenue, they're starting to chip away a little bit. We're starting to pay a little more on debt. You know, as interest rates rise, bond yields rise, the global the global marketplace for government debt, increases. You have to pay higher yields. This is likely to increase going forward, especially with the magnitude of defense spending we have. I think we can at least assume that we will be taking on some debt. And so over time, we're going to see interest payments take on an ever-growing share and chip away ever more to our fiscal position, to when we look at expenses. Obviously, government balances revenue expenses. The rest is the balance. We're expecting revenue growth to moderate, really. That's been a trend that we've been seeing for quite some time. It picked up a little bit because of the strong population growth we had in the periods of inflation. But as inflation changed itself and population growth moderates, I think we'll go back to seeing slightly lower revenue growth without new revenue sources. Obviously, healthcare costs are rising, and we have an ever-aging population, and these costs are expected to rise even further. You know, one of the points about productivity that we had made earlier was, you know, one way to grow, to improve the fiscal balance, is to grow the revenue side of the economy, GDP, without the expense side. You know, having more people.

So, that's where the productivity picture actually really plays in. Is if you can get that GDP per worker up, well, that means. Basically, you have a revenue per worker increase compared to the cost. And there's benefits there. When we compare ourselves globally, our deficit is manageable, right? So we long, this is the federal mostly, we long say that, you know, we're worried about our fiscal you know, we're kind of known actually, globally, as a fairly fiscally responsible country, less so lately, less so lately, with the kind of deficits we've really seen across the country, but in this chart, we're doing okay. But one of the reminders in this chart, all these countries are in deficit, and so it's not exactly something you celebrate. We've come out of a period of full employment with deficits that causes its problem, because now we're seeing the economic slowdown, and we're seeing the need to spend, and we're likely to see deficits rise.

Of course, we don't want to be all the way the left side of the United States there. They have some unique capabilities take on debt, but globally, we're in an okay position debt. This is gross debt, so it's again, a little bit of unfair comparison because of our funded pension plan, but our debt position is okay, especially if you remove that, this kind of goes down to the 30s to 40s, and it looks a little bit better. So, we do have some room fiscally. But when we get to the question, can we afford it, it's a very philosophical question, because, in principle, we can afford it, it feels like we have to the question is, what are the trade offs, right? We have intergenerational trade offs.

We're looking we're spending almost 60 billion a year right now on interest charges at the federal level. That is likely to rise, and ultimately future generation pay for that. New defense spending alone, as we mentioned, is going to be difficult to manage. It's going to lead to higher debt. Okay? It's probably gonna lead to less spending. That might cause some problems too, and it's gonna require new revenue sources, and we need to be created with that. And you know, to the whole point of presentation, of building the pie, the new revenue sources are hopefully coming through better economic growth. If we're doing everything right at the end of the day, and we sit back and we hoard it, the answer will be, if we could really grow the economy we can afford. I think that's the takeaway. Is growing the economy is the way to afford this. But the reality is, there's no free lunch. Something's going to have to give, especially in the short term, we're going to have to run a bigger deficit, especially even just touching on military loan, not even touching on some of the infrastructure projects. And our debt metrics, while in good shape, are going to become a little bit more of a problem. Bond yields for us, you know, the cost of government debt are okay right now, but they are rising, and we can't take it for granted.

A few charts ago, I said, basically everyone in the rich world is running deficits. Well, how do you run a deficit? You basically send out bonds and you try to get the global marketplace to buy them. As there's more government debt available, you have to charge a little higher of an interest rate to get people to buy it. So that could challenge us a little bit as well. Again, in the context of can we afford it, we need to focus on programs that boost long term prosperity. And I think the fair way to end it is probably going to be some tough decisions here, so I don't know.

I'll maybe go to Pedro if you have any final comments on the Can we afford it? Otherwise, we can go to your question.

Pedro Antunes, 48:06- 50:16

Yeah, thanks Rich. I Sorry. Cory. I just want to make the point that you know, when we talked about our disadvantage on, essentially, tax rates, one place we do have an advantage on is that the that our rating on our debt is a lot better than in other countries, and even as the US is now paying essentially a bond yield.

That's a 10-year bond yield that's about a percentage point higher than Canada. That's something that plays against them in terms of attracting private investment and does favor Canada a little bit. So, we need to keep that in mind. That's one of the, one of the areas that is, as you say, a trade off. If we start to add to our debt, if we start to be irresponsible in terms of managing that, then that can lead to essentially, higher bond yields. Markets will, will boost our bond yields. And even, you know, we often look to the central bank and what's happening there, but the central bank lowers its rates. It's the overnight lending rate most borrowers are borrowing at five year and 10 year, that includes businesses and households. And those are the rates that are set or driven off of bond yields, essentially. So that's the market we need to look at.

So yeah, in summary, I think what we're seeing is an opportunity here from this challenge that we're facing with our trade partners, an opportunity perhaps that will shake us out of some of our old habits here. You know, when we talk about experiential trade, when we talk about making projects, and how should I say, facilitating that approval process on these big investment projects, these are things I think that we're going to get pushed on with this, the situation we're in. And hopefully, you know, we can take some advantage of that and redress some of these issues and see our way through stronger growth. And if we invest and grow our bigger def the death deficit and debt load. By investing in things that are adding to our capacity, I think that's a positive, not only for this generation, but even intergenerational.

So, thanks a lot, Cory and Rich. How are we doing on the questions?

Richard Forbes (Rich), 50:16- 50:48
Yeah, thanks Pedro and Cory for that. That was very insightful. So yes, just a reminder to everyone, feel free to put questions in the Q and A section below, and we'll get to as many as we can. We have about 10 minutes left, so I can start here. So, there is a question on, how can we achieve prosperity if we're spending, you know, hundreds of billions more on defense in the coming years, which I think we touched on. But I...

Cory Renner, 50:48- 52:33
I can take that one, I, you know, it's a really good question, and I think I The answer is, it's tough, right? The answer is tough. Going back a few years, you know, 100 a new 100-billion-dollar program, basically, let's just use the easy number there, that's expensive. And so to achieve prosperity with that, we really need to get back to that point where we're getting the most out of it. Broadly speaking, it is government stimulus, right? So, so the so there is a, we do have $100 billion in government stimulus, but I think it's, it's really got to go down to if we can also build a large industrial, military economy out of it. Let's say, you know, we get really good at building ships. Who knows? Maybe we'll get good at building airplanes again. We become a world leader in ammunition manufacturing using Canadian metals.

Over the long term, we may get prosperity from that. And if we can sort of get the R and D component I saw a lot in the chat about DARPA and how exciting that would be, we can get to the point where we use that kind of money to really get ourselves dual purpose technology and dual purpose research and boost innovation for civilians as well. I think that would be another way. And lastly, you know that last one and a half percent on infrastructure in particular that I glossed over maybe unfairly. If we can really improve our infrastructure and help that for both cross country, inter country transportation as well as export oriented infrastructure such as ports, I think those will be too so it's got to be investment that ultimately supports the near term, gets us to a target, but does get us rethinking about things long term, towards innovation, building industry and increasing our infrastructure.

I know Pedro if you had anything to add, yeah.

Pedro Antunes, 52:33- 53:27
I mean, just, just, obviously, we're not here judging whether we should spend more on military or not. You know, obviously that's a call that I think we're going to be we're being forced to make. Really, the thing we're looking at is if we are forced to spend, and what Cory was looking at is, if we are forced to spend all of this on military, how can we make the most of it to ensure that we grow our economy, that it stays within our borders? And, you know, there's we, Cory, I don't know if you mentioned a lot, but there's an opportunity here to do more on the R and D side, on things that will add to private sector productivity as well. So, that's what we're looking at. But you're absolutely right. I mean, to spend on military. It's just a sad situation that the world is in these days that we have to do that. Thank you.

Richard Forbes (Rich), 53:27- 53:52
Thank you. So just going so there's been a few comments on if we've done any research, comparing things like corporate taxes and productivity to countries other than the US, because I know we had that slide comparing us to the US.

Do we have any thoughts on how we're doing relative to, you know, European countries, or Japan or Australia, for example?

Pedro Antunes, 53:52- 55:24
Yeah, maybe I can touch on that. Because I do. I have looked at the numbers. So, we when Cory showed that chart, our investment is a shared GDP. This is private sector, non residential investment. So, what builds that capacity to grow our economy, machines, structures, R and D, or software and that kind of investment? The US is at about 15% of GDP. Canada was about 10-11%, I think we're at 11% in the latest numbers, if we go to Europe, there tend to be higher. 13% for France, 14% for Germany, countries like Germany.

So, we absolutely need to do better on that, and it ties in directly to our productivity performance. I mean, there's lots of things that can affect productivity when we dig down at the at the industry level, but just broadly speaking, that's a metric that we need to absolutely do better on. And if we compare to Australia, I think Australia has had a much better performance on productivity. I don't know what their investment is as a shared GDP in that metric, but I do know that they've had a better productivity performance over the last number. Of decades. And one of the things that Australia has that is very different than us, is a free internal market. They have Memorandum of understandings. Sorry, not memorandum but, sorry. They have free trade agreements, essentially within the provinces in Australia. So that is one of the ways we can possibly do better as well here in this country.

Richard Forbes (Rich), 55:24- 55:48
Great. Thank you. Yeah, yeah. So just going through here, there were, I mean, there were, there's been some talk on, you know, corporate taxes. So, you know, I'm going to kind of paraphrase here. But do we have thoughts on whether cutting corporate taxes to spur investment is actually a good idea given the fiscal situation.

Pedro Antunes, 55:48- 58:13
Yeah. I mean, I could touch on or if you like it, I can, you can jump in. But I think we just need to be careful, as I mentioned early on. You know, we don't want to compete on taxes and subsidies that bring us to a deficit level. That's where the US is at. We were hopeful that in you know, when the tax cuts that were announced in 2016 by President Trump, we were hopeful that those would expire in in 2025 rather than getting renewed and, in fact, enlarged. So, if the US isn't addressing that issue and it's not addressing its deficit, it seems, what can we do?

Well, I think we have to be a little more strategic and targeted, and that's why we talked about some of the pieces that we mentioned, professional, scientific, technical services. Let's invest in things that help our, you know, invest in things that help us, not only perhaps in the military, if we were forced to do those investments, but that can help us generate better productivity gains with our you know, investments in R and D, investments in in research. I think those are really important on the tax pieces, I do think we can have targeted tax cuts as well, or targeted benefits in in, you know, kind of a little more broadly. We want to open the playing field. We don't necessarily want to pick a specific industry, but we can target, you know, the Patent Box, which I talked about, that essentially allows a firm to invest in something, and if that technology works, the profits earned on that are tax free for a certain portion of time. These are things that have been shown to drive investments in these areas. It's a tough a tough bind that we're in. And then the last thing I'd say is, when we do make a tax change, for example, the capital gains exemption that we saw in the last budget that then was canceled. I mean, it's fine if we, if we're looking internally and saying, Oh, well, we want to be more balanced in how we, you know, how we tax Canadians, that's great. But we also need to look, how is that going to change the incentives vis a vis other countries if we're changing these tax regimes within our country.

So, let's just do a do a careful review, and if we make changes, let's make sure we understand the consequences. Yeah.

Cory Renner, 58:13- 58:38
I think you nail on the head for me too, racing the US to the bottom for corporate taxes with their ability to take on such a large deficit for us, I think would be problematic, and I think the key is to be strategic in finding ways to get investment and growing the pie, especially, I think that's our best way to sort of make this all work.

Richard Forbes (Rich), 58:38- 59:02
Thank you. So we have time from one maybe two more questions, but this one, I think, is very relevant. Um, so how much impact will finding new trade partners? How much will finding new trade partners impact our investment outlook?

So, shifting trade from the US to Europe or Asia, for example.

Pedro Antunes, 59:02- 59:03
Do you want to start, Cory? Or...

Cory Renner, 59:03- 59:07
I'll let you start. You're so good at answering the questions.

Pedro Antunes, 59:07- 1:00:58
That's a great question. We've been doing a lot of work. In fact, Cory and rich you folks on the forecast team have been putting together a lot of how should I say, research, looking at the opportunities for expanding our trade. I mean, the point is that, over the last, well, since 1994 since our free, free trade agreement, the US, it's been just so easy to have trade with that markets, a big markets right next door.

We speak the same language. We have almost no we had almost no barriers. You know, it was just a an easy, an easy country to trade with. Now we're obviously forced to look elsewhere. The good thing is, we do have free trade agreements with many, many other countries in the world, and I think we are already starting to see some movement on adjusting those supply chains, especially as some of these tariffs come into place, coming into bite.

So. Um, now we will never move completely away from the US. Us is too important to market. The US, by the way, is over a quarter, at current exchange rates, a quarter of the global economy. The US consumer is huge, and we need that market. And that's, this is why we're, you know, clamoring to find a trade deal here with that very important market. But it doesn't mean that we can't, at the margin, grow our trade, especially in areas where we're being hit directly with tariffs, where we can grow our trade and look for opportunities elsewhere.

And by the way, countries all over the world are looking to move their supply chains as well. So, we are dual partners in in looking for these trade opportunities, these changes to supply chains. And I think we’re; we're already seeing some signs of that happening, and even in the latest data from Statistics Canada. So, it won't make up for the losses that we might feel with the US completely, but certainly it can. It can absorb some of that shock.

Richard Forbes (Rich), 1:00:58- 1:01:27
Great. Thank you. So, we are out of time now, so we tried to answer as many of the kind of common themes in the questions as we could. So, thank you, Pedro, and Cory for today's webinar. Very insightful, great discussion. And thank you everybody for joining. We hope you joined or enjoyed the webinar. Sorry. And thank you for your thoughtful questions. Yeah, thank you very much. Thanks everyone.

Pedro Antunes, 1:01:27- 1:02:07
Have a nice afternoon, folks.