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The Conference Board of Canada

A Need to Shift Gears

Canada's Economic Outlook to 2045

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Overview

A restructuring is in order

Canada's economy is beginning its path toward the next 20 years from a standing start. With zero growth through most of 2023 and into 2024, the nature of how well it can recover structurally will set the tone for Canada's long-term prospects. We hold the view that the U.S. Federal Reserve and the Bank of Canada are in the final stages of beating inflationary pressures back into submission. Current pricing indicators in Canada and the United States look promising, but despite the ticker tape, we are not calling for a victory parade just yet.

Central banks, and the Bank of Canada in particular, will not want to be too hasty in lowering interest rates from current highs. There is still much risk of reigniting speculative tinder in the housing markets, so rates will be brought down in a measured and cautious way—even if it means constraining output growth to some degree in the short term. We believe growth in 2025 will make up some of the slack left from the current slowdown and that later years' prospects will depend on underlying fundamental drivers—population and productivity growth.

Beyond that, there are a great deal of unknowns ahead on how well Canadian policy-makers can set the direction for some necessarily significant shifts in direction. From a variety of sources, there are positive signs in addressing the housing crunch. After a late start, governments are incentivizing more housing development with long-called-for policy changes. It is too soon to see the results of these efforts, so the imperative will be in holding the public's support for these types of measures into the long term and resisting any backsliding into status quo thinking.

Good housing policy, along with effective community support and workplace training efforts, is critical to rightsizing Canada's pace of accepting new permanent and non-permanent residents. We implicitly expect these policies to be at least partially successful because we are building in continued high immigration assumptions into the future, though rates will ease from their current torrid pace.

Climate change is not a passing issue, and it will continue to affect Canadian policy-making and economic performance. Although we expect substantial progress on greenhouse gas (GHG) emission reduction, we don't expect the shifts to meet current federal targets. Adoption of electric and hybrid vehicles, for example, is picking up pace and driving investments in infrastructure, manufacturing products and processes, and raw materials extraction. On the other hand, movement away from carbon-based fuels for transportation, processing, and heating will affect industries in Canada that have a very large economic footprint currently. In addition, some capital equipment now used in other parts of the economy will become out of date more quickly.

Consumer and business behaviours dramatically changed during the pandemic, and many of these shifts will continue to make their mark on the future economy. Online shopping preferences, shifts in downtown commercial real estate, and work-from-home trends are permanent, but there will be room for niche differentiation. Demand will also be coloured by the age profile of Canadians.

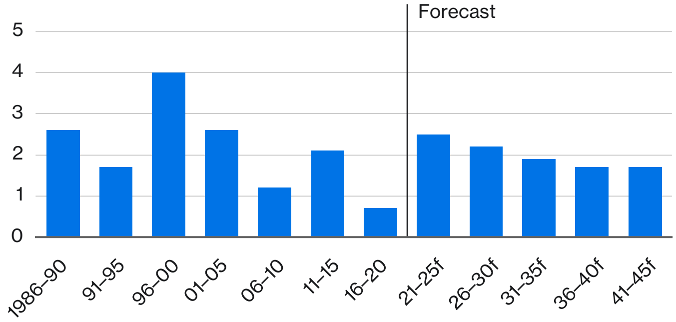
The growing numbers of seniors will tilt consumer spending toward services, while a higher proportion of foreign-born residents in the country will foster new trends and preferences.

Finally, Canada will continue to be drawn along in the current of the world economy. Although the United States will remain the dominant foreign influence, many more developing and developed countries will also advance as well. The opening up of new markets will be a plus for Canadian businesses, but competition from new players will arise as well. In sum, once the recovery takes hold, we expect real gross domestic product to expand at an annual pace near 2.5 per cent through 2028 before settling to 1.9 per cent growth annually to 2035. (See Chart 1.) Growth will then drop to an estimated 1.7 per cent per year over the following 10 years.

Chart 1

Real GDP growth in Canada

(compound annual average growth, per cent)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

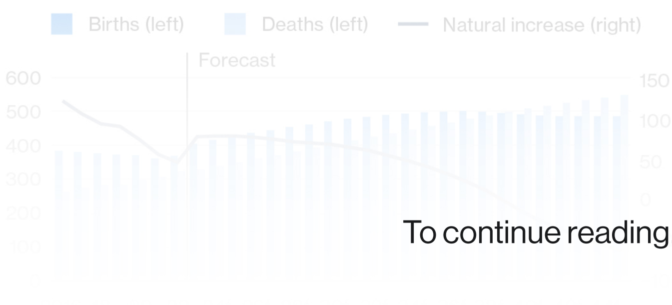
Demographics and labour markets

Hatching and dispatching

Canada's shifting population profile will significantly affect the country's labour markets through 2045. The baby-boomer generation has influenced these markets since the 1960s, but that influence will gradually fade in the coming years. Many older baby boomers have already retired, and the rest are on the cusp. More people are now leaving the workforce for retirement than entering it from school. Without immigration, Canada's labour force would decline.

We expect death rates to remain relatively stable across age groups, with modest advances in health outcomes. Improvements in treatments for chronic diseases like cancer and declines in rates of smoking, however, will be partially offset by a rise in unhealthy lifestyle choices that will lead to higher incidence of obesity and the adverse health conditions that accompany it. The greatest influence on deaths remains age—and the number of deaths will rise over the forecast period. From 328,000 deaths expected in 2023, the numbers will rise steadily to roughly 550,000 per year by 2045. (See Chart 2.)

Chart 2
Natural increase in population
(000s)



Similarly, although we expect consistency in fertility rates across female age categories, changing age patterns will bend annual birth numbers downward by the mid-2030s. Declining fertility and the postponement of fertility are tied to improved socio-economic conditions of families and higher female labour force participation. Most of those gains have already been made in decades past, and so future declines in fertility will be more modest. With high immigration of late, however, there is a chance that the fertility patterns of new Canadians in later years may differ from those of Canadian-born women.

Balancing these influences, the numbers of births will peak at around 500,000 per year by the late 2030s and then fall below the numbers of deaths. For the first time ever, Canada's rate of natural increase will turn negative, and at that point immigration will be the only net positive source of population gains.

Working through change

A rising median age, peaking in the next decade, will weigh on labour force growth, helping to keep labour market conditions tight. Low fertility will weigh more on the labour force growth rate in the outer years of the forecast. (See Chart 3.) The combination of population aging and low fertility means Canada is increasingly reliant on international migration for labour force growth. Over the next decade, the influence of the middle-aged millennial cohort will become the dominant force in population and labour market dynamics. This transition will see labour force