
Global Policy Network

<http://www.GlobalPolicyNetwork.org>

Overview of Current Economic Conditions in Canada

Submitted by:

CCPA — Canadian Centre for Policy Alternatives

Suite 410, 75 Albert Street, Ottawa, ON, K1P 5E7

Tel: 613-563-1341

Fax: 613-233-1458

<http://www.policyalternatives.ca/>

Posted to GPN on October 5, 2000.

Overview of Current Economic Conditions in Canada

After impressive gains in the first quarter, economic growth in Canada has slowed in April and May, largely as a result of fluctuating exports and a softening in household demand. The real gross domestic product (GDP) rate expanded by an impressive 4.9% on an annualized basis in the first quarter of the year, but posted no growth in April. GDP bounced back by 0.6% in May, but if growth in June does not match this latest increase, then the economy will experience its first quarterly increase of less than 1% since mid 1998.

Nevertheless, robust growth has finally begun to reverse the decline in living standards and incomes that was a chronic feature of the Canadian economy in the 1990s. Real GDP per capita is up 2.8% in the first quarter of 2000 over 1999, and personal disposable income per capita rose 6.3%.

National accounts				
	1997	1998	1999	2000 Q:I
GDP*	815,013	842,002	880,254	908,008
GDP per capita*	27,179	27,838	28,869	29,667
Personal disposable income per capita*	15,882	16,224	16,578	17,615
Corporate profits (% of GDP)	9.9%	9.1%	10.6%	12.0%

* Millions of 1992 Canadian dollars.

Employment growth stalls

Following strong gains in 1999, employment growth in the first six months of 2000 has been surprisingly sluggish. Between April and July, employment grew by just 0.1%. The slack in the job market, coupled with an increase in the active labour force, helped push the unemployment rate up from 6.6% in April to 6.8% in July. Despite the increase, the unemployment rate is still a full percentage point less than in July 1999. The youth unemployment rate has fallen significantly since 1997, but still remains high at 12.6%.

In terms of job quality, there has been a real improvement over the past year, with job growth tilted towards full-time employment. Both the part-time and self-employed rates have continued their downward trend.

Goods-producing industries have borne the brunt of the recent slowdown in the labour market, primarily as a result of higher energy prices and weakening consumer demand for automobiles and housing. Slower housing sales contributed to a 20% drop in housing starts between February and June.

Key labour market indicators (%)				
	1998	1999	July 1999	July 2000
Unemployment rate	9.1	7.6	8.3	6.8
Men	8.6	7.8	7.8	6.7
Women	7.9	6.3	7.3	6.7
15-24 year olds	15.1	14.0	14.0	12.6
Part-time rate	18.9	18.5	18.6	18.1
Self-employed rate	17.1	16.9	16.9	16.2
Unionization rate	30.7	30.1	30.9	30.9

Imbalances in the economy

Many economists are optimistic that consumer demand will rebound modestly in the months ahead as the tax cuts announced in the February federal budget take effect. However, the massive \$C58 billion reduction in personal and corporate income taxes, scheduled to be phased in over five years, could also create further imbalances in the economy. The cuts will benefit mainly the wealthy, exacerbate growing income inequality, and delay urgently needed investments in health, education, income assistance, and other social programs that bore the brunt of deficit reduction measures in the 1990s. The worry is that, if growth begins to slow, future finance ministers will find that the commitment to planned tax cuts will further pre-empt any new social spending and may, in fact, lead to further spending restraint.

A further imbalance and potential problem in the Canadian economy is that economic growth has not yet fully spilled over to working people in the form of wage gains. Pre-tax corporate profits have soared to new heights, reaching a decade high 12% of GDP in the first quarter of 2000. By contrast, average hourly wages rose by less than 1% during the same period, failing to keep pace with the rise in the consumer price index. Real average weekly earnings have also fallen. Real hourly wages in the manufacturing sector have rebounded from 1999, but remain virtually unchanged from 1998 levels. For the first four months of 2000, contract settlements for unionized employees average 2.3%, just below the inflation rate of 2.5%.

The stagnation and decline in real earnings, of course, has been a long-term feature of the Canadian economy since at least the mid 1970s. In fact, as of May 2000, real hourly earnings had finally recovered to roughly its 1985 level.

Real average hourly and weekly earnings (\$C1999)				
	1997	1998	1999	2000
Average hourly earnings				
Industrial aggregate	15.27	15.38	15.33	15.52*
Manufacturing	17.30	17.51	17.23	17.54*
Average weekly earnings				
Industrial aggregate	614.38	616.92	610.40	611.99**
Manufacturing	756.55	769.15	755.86	763.06**

* January-to-May average.

** January-to-June average.

Minimum wages across Canada		
Province	Current minimum hourly wage (\$C)	Date of last increase
Newfoundland	5.50	Oct. 1/1999
Prince Edward Island	5.60	Jan. 1/2000
Nova Scotia	5.60	Oct. 1/1999
New Brunswick	5.50	July 1/1996
Quebec	6.90	Jan. 1/1998
Ontario	6.85	Jan. 1/1995
Manitoba	6.00	April 1/1999
Saskatchewan	6.00	Jan 1/1999
Alberta	5.90	Oct. 1/1999
British Columbia	7.15	April 1/1998

Unionization rate rises

Union membership in Canada grew in the first half of 2000. About 3.7 million workers belonged to a union in the first six months of 2000, compared to 3.6 million during the same period in 1999. All of the increase occurred in the private sector, where the unionization rate rose from 18.2% to 18.7%. By contrast, the rate in the public sector fell from 70.5% to 69.9%.

The overall unionization rate, as of July 2000, stood at 30.9%, up from 30.1% in 1999. Unlike the United States, Canada has experienced only a very slight fall in the unionization rate since the late 1970s when the rate stood near 32%.

Energy prices soar, but core inflation remains low

Rising energy prices pushed the year-over-year inflation rate to 3% in July. However, higher energy prices have not yet translated into generalized price increases for other goods and services. Consequently, the core inflation index for all items excluding energy rose just 1.5% in July, which is well within the Bank of Canada's strict anti-inflation targets.

Despite no evidence of "overheating" in the Canadian economy, the Bank of Canada has nevertheless matched several interest rate hikes by the U.S. Federal Reserve. The bank rate rose from 5% in January to 6% in May. The recent slowdown in growth and weakness in the labour market may, in fact, be a symptom of these rate hikes working their way through the economy. Clearly, the danger now is that any further interest rate increases will raise unemployment long before the underlying slack in the economy is eliminated and long before Canadian workers begin to win any real wage gains.

Income inequality in Canada

Statistics Canada recently released detailed income data covering the years 1989 to 1998 that reveal an alarming trend toward greater inequality. If families are ranked by their income level from lowest to highest, the top 20% of families earned 45.2% of all market income in 1998, against 3.1% for the bottom 20%. Looked at another way, for every dollar earned by the least well-off families, 14 dollars were earned by the top families. In 1989, the top 20% of families received 41.9% of market income (compared to 3.8% for the lowest quintile), equalling \$11 for every \$1 earned by the bottom 20%.

Despite the impact of government transfers and taxes in reducing market inequality, the disparity in after-tax income also rose throughout the 1990s. Families in the lowest income quintile saw their share of after-tax income fall from 7.6% to 7.1%. The second- and middle-income quintiles also experienced drops.

Moreover, families in the lowest-income quintile witnessed a substantial drop in real, after-tax income. Between 1989 and 1998, the average after-tax income for these families fell by 5.2%. Average after-tax income of families in the second and middle quintiles also fell by 4.3% and 1.0%, respectively.

In fact, only the top two quintiles experienced any real after-tax income gains over this period. Those in the top quintile posted the largest gain of 6.6%, while families in the fourth quintile increased their after-tax incomes by 1.6%.

Average after-tax family income, 1989-1998 (\$C1998)			
	1989	1998	% change
Lowest quintile	\$18,624	\$17,662	-5.2%
Second quintile	33,188	31,754	-4.3
Middle quintile	44,447	44,019	-1.0
Fourth quintile	57,605	58,533	1.6
Highest quintile	90,189	96,175	6.6

Low income in Canada

Recently released data show that an estimated 725,000 Canadian families fell below the low-income cut-off in 1998, down from 852,000 in 1997. The low-income rate fell from 10.8% in 1997 to 9.3% in 1998, the lowest rate since 1990.

Although the low-income rate fell in 1998, the depth of poverty for those families falling below the low-income cut-off showed signs of further deterioration. These families had incomes that, on average, were 32.1% below the low-income cut-off. They would have needed after taxes an additional \$C6,638, on average, just to reach the cut-off. In 1997, the income gap for families was \$C6,404, or 30.5%.

Among unattached individuals, 1,288,000, or 30.3%, fell in the low-income category in 1998, down slightly from 32% in 1997. In relative terms, their low-income gap was 37% in 1998, virtually unchanged from 1997. Poverty rates for unattached women have remained stubbornly high throughout the 1990s while the rate climbed noticeably for unattached men.

Child poverty, while dropping significantly since 1996, remains very high in Canada at 13.8%. Amongst children living in lone female households, the low-income rate is an astounding 45.6%.

Prevalence of low income (%)					
	1990	1992	1994	1996	1998
All persons	11.0	12.2	12.5	14.2	12.2
Males	9.7	11.2	11.3	13.5	11.4
Females	12.4	13.2	13.7	15.0	13.0
Families	8.5	9.5	9.8	11.4	9.3
Persons under 18	13.2	14.3	15.0	17.2	13.8
Unattached individuals	28.2	30.5	30.4	32.5	30.3
Males	24.9	28.5	27.5	30.9	28.3
Females	31.3	32.6	33.4	34.1	32.2