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LONG TERM CHANGE IN CANADA'S INDUSTRIAL MIX: Five Emerging Frictions

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Major Hydraulics in Industrial Mix

- Less Manufacturing
- More resource extraction
- Higher demand for services (particularly health)

Meet the Real Transformers
shaping supply and demand

- Climate Change
- Growing Inequality
- Demographic Transitions

Five Emerging Frictions

- Equalization
- Low growth world
- 2-tier recovery
- Sustainability
- The new globalization

Equalization

- Oil-rich, commodity-rich provinces will recover most quickly
- Manufacturing as share of economy shrinking
- Ontario a have-not province for longer term?
- Impact on fiscal federalism
- Impact on nature of federation

Low Growth

- Answer to most fiscal dilemmas (growth) not on horizon (deleveraging, aging, reduce wage bill)
- Lower wages, growing public debt
- Inflation risk?
  - Consensus in monetary policy focus of last 20 years in jeopardy because of US
  - Low rates still a priority (fragile recovery, high level of private indebtedness, biggest cohort of retirees coming on stream)
- Bald choices – higher taxes, lower spending, rawer politics

2-Tier Recovery

- Follows 2-tier prosperity, 2-tier recession
- Downward pressure on incomes and benefits, but not for all (greater inequality)
- Growing number of people scrambling to cover basics (housing, electricity, transport, utilities, food….)
- Response to debt: Greater demand to go to two-tier services as bills come to be paid for stimulus (health)?
- Response to growth: More pressure for tax reforms to shield income and savings, tax consumption?
- What will be effect of responses on aggregate demand for consumer goods and services? (Continuation of low growth?)

Sustainability

- Means learning to consume differently, less
- Now: Need more energy efficiency
- Later: what is the right production/ consumption balance?
- Manufacturing matters – back to global supply chain or more local production?
- How will "basics" be produced and distributed (health, care, education, housing, water)

Productivity

- Productivity gains key to maintaining standard of living (smaller labour force)
- Long-term downward trend in labour productivity reversed after recession (hours/wages dropped faster than GDP)
- Industrial mix shifts leads to lower productivity (as currently measured)
- If labour productivity gains achieved, how will they be distributed? (Time? Money? Neither?)