

## **The Impact of the Recession on Canadians' Standard of Living**

The recession which hit the Canadian economy in mid 2008 is now probably behind us. Economic growth is expected to be positive in the third quarter of 2009, after three successive negative quarters. While the Canadian economy shrinks by 2.4% this year, one of the most remarkable features of this recession is that it is leaving no part of the country unscathed. Every province is expected to have negative growth this year. The release of the Provincial and Territorial Economic Accounts by Statistics Canada in mid November provides the updated and revised data on economic growth by province through 2008 which triggers this report on how Canadians across Canada have been affected by the recession.

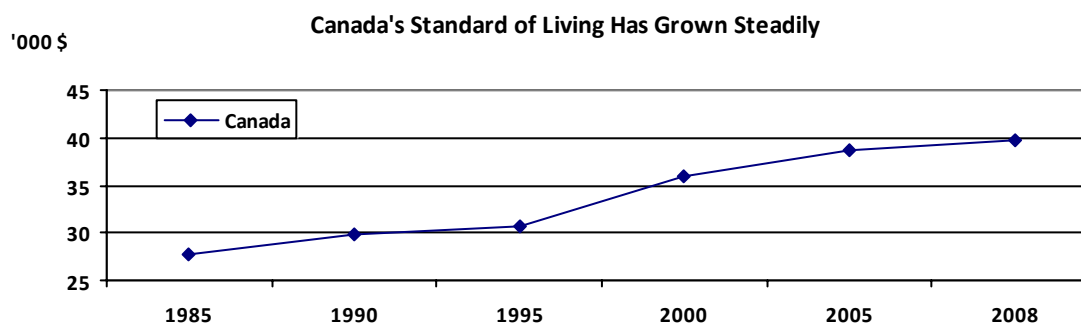
This paper focuses on how the recession has affected Canadians living in the major provinces, by examining the leading indicator of our economic well being: that is, our standard of living. Standard of living is measured by real GDP per capita, the most common and accepted single measure of economic well – being. We recognize however, that real GDP per capita is only a useful first approximation to living standards, no more and no less.

### **Going Into the Recession of 2009**

Since we got out of the recession of the early 1980's, Canada's standard of living has increased virtually every year. Moves backward have been very rare. In fact, only for three years in the recession of the early 1990's did Canada's standard of living move down rather than up, before the dip in 2008. With population growing about 1.2% per year, as long as real GDP grows by a greater amount ( i.e. 1.2%), our standard of living (real GDP per capita) will move upward. This is not a high hurdle when the potential rate of growth of the economy was about 3% over the period. Indeed, our standard of living grew at an average (simple) rate of 2.3% per year over the 1985-2008 period.

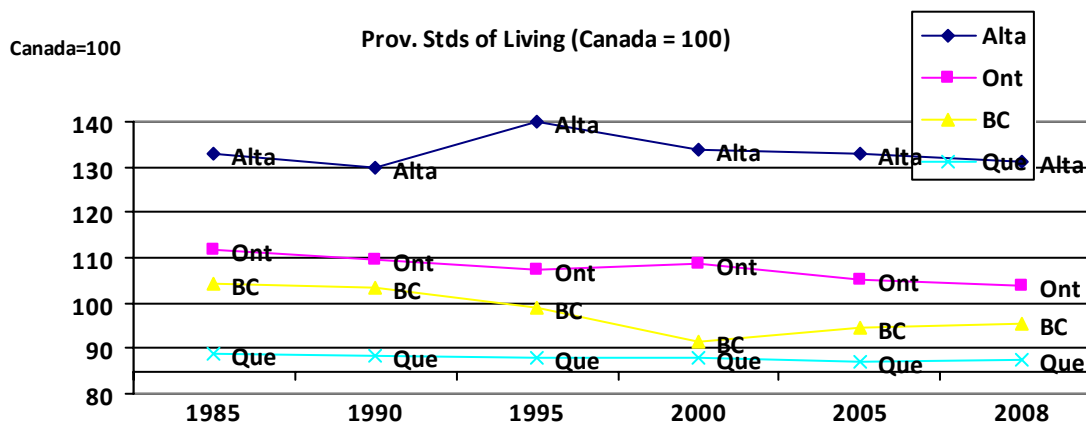
While the standard of living of Canada overall suffered only four years of reversal over the 24 year period 1985-2008, some provinces were hit harder. Amongst the major provinces, Quebec was hit harder and for an extra year in the early 1990's. Ontario, like Quebec had four years of declining growth in the early 1990's, but also experienced small dips in 1996 and 2000. The volatile Alberta economy, in addition to the recession of the early 1990's, had three more bouts of year over year declines in its standard of living in the 1999-2002 period. B.C.'s experience was roughly similar.

Chart 1



Relative standards of living across the major provinces have been remarkably stable over the past several decades. In fact, real GDP per capita has been higher in Alberta than in any other province - and much higher - every year since 1985. Note however, that Alberta's margin over the Canadian average has been trending downward from 140% of the Canadian average in the mid 1990's to 131% in 2008. Ontario has been in second place every year since 1985. But Ontario's margin over the Canadian average has been in general decline from the 113% level since 1985. It took a further downward trend in 2000, falling from 109% then, now standing at just under 104% of the Canadian average. B.C.'s standard of living was above the Canadian average consistently over the 1985 - 1994 period. In 1995 B.C.'s economic growth took a tumble, and they have not been above the Canadian average ever since. In 2008 B.C.'s standard of living was almost 96% of the Canadian average. Quebec's standard of living has been consistently about 88% of the Canadian average.

Chart 2

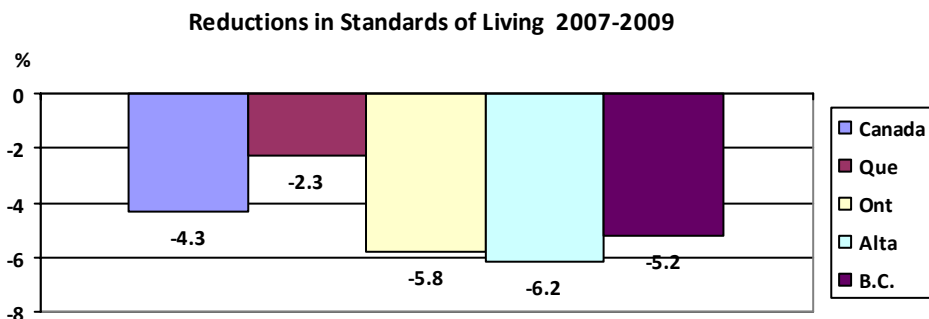


### The Impact of the Recession on Living Standards

Canada's standard of living fell by 4.3% from 2007 through 2009, comprised of a small decline in 2008 and a whopping 3.5% decline in 2009. I forecast real GDP growth will be -2.4% this year against population growth of 1.1%. Each of the major provinces will be hit harder than Canadians overall, except for those in Quebec. From this it follows that the prairie provinces and PEI will not be hit nearly as hard as other Canadians by the recession.

Quebec's pain (-2.3%) has been muted since its domestic economy, housing and retail sector, have fared better than most other provinces. Quebec's manufacturing sector, dominated by aerospace rather than autos, is doing reasonably well.

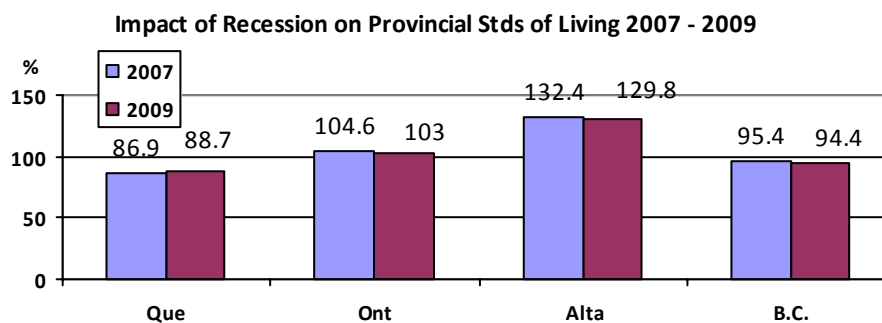
Chart 3



Ontario (-5.8%) has been recession central, being the locus of auto manufacturing and other manufacturing exports to the struggling U.S. consumer. Business investment has also been relatively weak in Ontario during the recession. Given the steaming pace of the Alberta economy over much of the past decade, it is easy to understand a strong cooling off over the recession (-6.2%). The Alberta housing sector tumbled to a more sustainable pace. Business investment and the natural gas sector have also been weak this year. With the build up to the 2010 Olympics it is surprising and disappointing that the B.C. standard of living has fallen so much (-5.2%) over the recession. Exports from B.C. have been particularly weak, including forest products. Home construction has also taken a big hit.

We turn next to examine how the recession impacted each major province's standard of living relative to the Canadian average. As a result of its relatively less weak performance than other provinces, Quebec now stands at 88.7% of the Canadian average standard of living relative to the 86.9% of 2007. Ontario has lost yet another point and now is only 3% above the Canadian average. Alberta remains comfortably ahead of all other provinces, but just slightly less so (129.8% vs. 132.4%). B.C. dropped another point, to 94.4%, as a result of being hit harder than most other provinces.

Chart 4

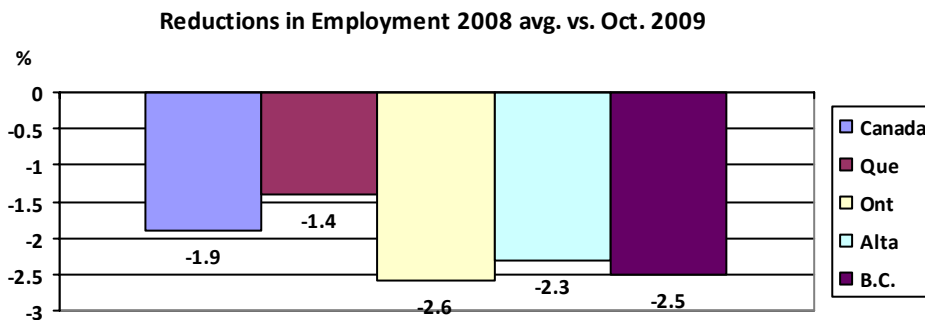


I did note at the outset that, while real GDP is the best single measure of our standard of living, it leaves many important considerations inadequately accounted for. As a first step to provide some supplementary information to the real GDP measure, we examine another economic indicator very important to many households standard of living, that is employment levels. When employment levels fall, as they do during a recession, those who lose their job often suffer a calamitous decline in their standard of living.

We measure changes in the level of employment from the pre-recession 2008 average level, to the most recent level available, that is, of October 2009. Employment did not begin to decline until late 2008. In October 2009 employment in the Canadian economy was 1.9% lower than the 2008 average.

It is comforting to note that we find roughly the same conclusions when we examine labor market performance as when we measured standard of living by real GDP per capita. The profile in Chart 5 below, of inter-provincial comparisons of employment losses during the recession, appears very similar to the earlier profile of real GDP per capita in Chart 3.

Chart 5



As with real GDP per capita, each of the major provinces was hit harder than the Canadian average except for Quebec. Where Alberta took the largest relative hit to its real GDP per capita, Ontario took the largest relative hit from the recession when measured by relative employment loss. Again it was the prairie provinces which came out relatively least affected by the recession.

## Conclusions

- This paper focuses on how the recession has affected Canadians living in the major provinces, by examining the leading indicator of our economic well being: that is, our standard of living.
- While the standard of living of Canada overall suffered only four years of reversal over the 24 year period 1985-2008, each major province was hit harder.

- Relative standards of living across the major provinces have been remarkably stable over the past several decades.
- Canada's standard of living fell by 4.3% from 2007 through 2009, comprised of a small decline in 2008 and a whopping 3.5% decline in 2009. By this measure, each of the major provinces will be hit harder by the recession than Canadians overall (-4.3%), except for those in Quebec (-2.3%). Ontarians (-5.8%) and Albertans (-6.2%) have suffered sharper declines in their standard of living than other provinces, but the hit in B.C. (-5.3%) has been almost as sharp.
- This recession was notable in its unusually even impacts across Canada. However, Ontario, Alberta and B.C. suffered worse hits to their standard of living than other provinces. After 2009, Alberta, at 130% of the Canadian average, will still remain well ahead any other province in standard of living. Ontario, whose standard of living has been falling relative to the Canadian average for years, will probably fall to about 103% of the Canadian average and lose second spot to Saskatchewan in 2009. B.C., at about 95% of the Canadian average continues in fifth spot. Quebec remains, as it has been for years, at about 88% of the Canadian average, in seventh place.