




Challenges and opportunities: Current economic conditions and structural challenges

December 12, 2023

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Context

- Economic activity has slowed as households and businesses adjust to higher borrowing costs.
- Population growth has outpaced recent employment gains as the unmet demand for labour eases.
- Per capita output and business productivity are trending lower and are currently below or near levels observed before the COVID-19 pandemic.
- Pressures on affordability show little signs of easing.
- Financial pressures are continuing to build on younger households and those with lower and middle incomes.



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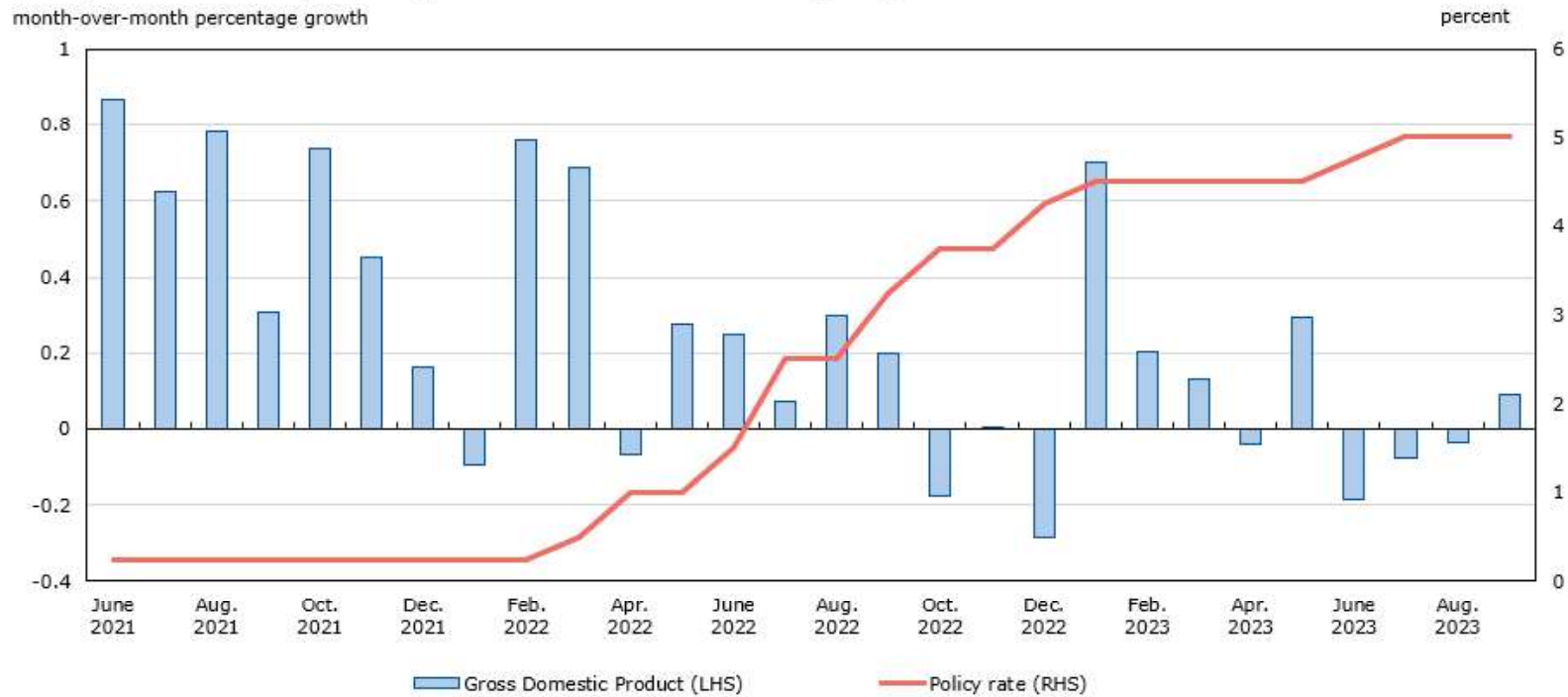
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Economic Overview



Economic activity slows as consumers rein in spending

Real gross domestic product growth and Bank of Canada policy rate



Notes: RHS refers to right hand scale and LHS refers to left hand scale.

Sources: Statistics Canada, table 36-10-0434-01 and Bank of Canada.



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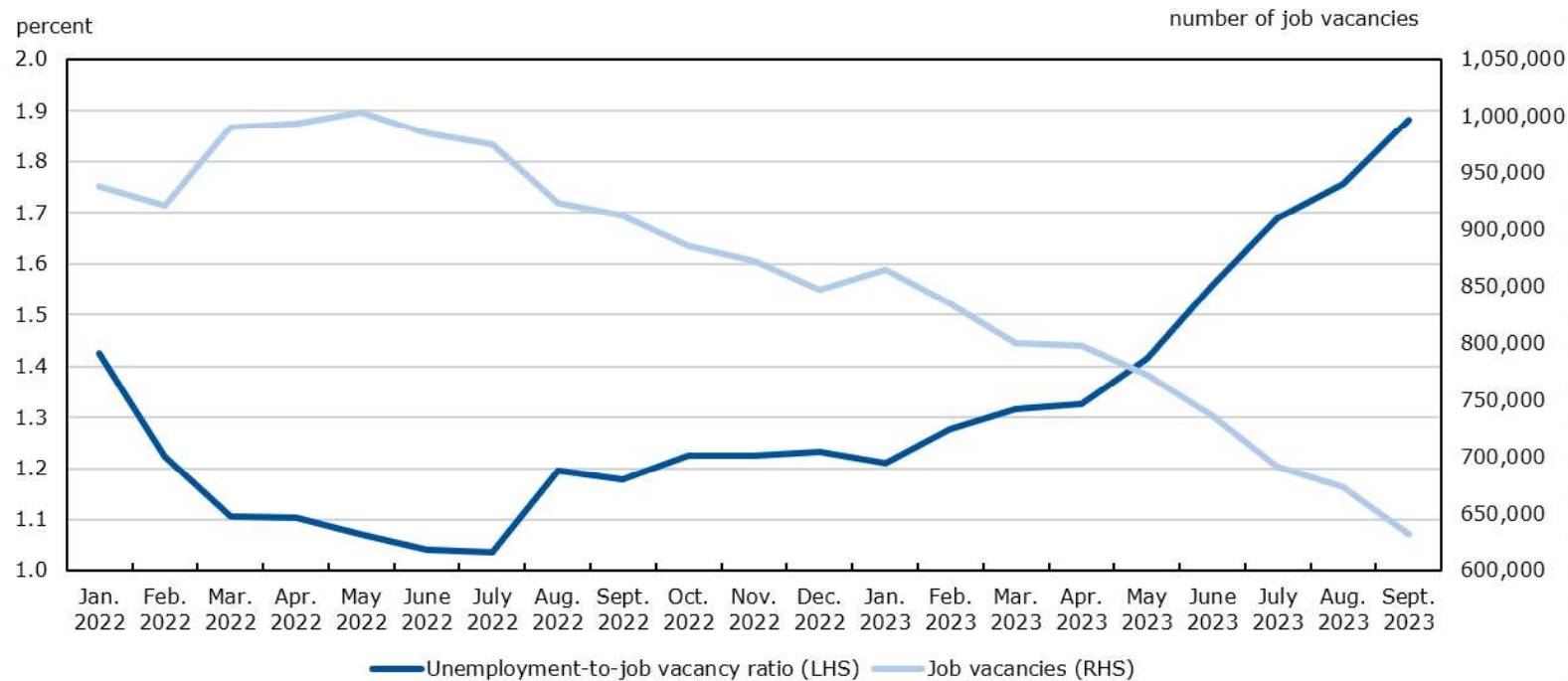
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Employment growth moderates as job vacancies ease

Unemployment-to-job vacancy ratio rises as job vacancies ease



Notes: RHS refers to right hand scale and LHS refers to left hand scale.

Sources: Statistics Canada, tables 14-10-0287-01 and 14-10-0432-01.

For more information: [Unemployment and job vacancies by education, 2016 to 2022.](#)



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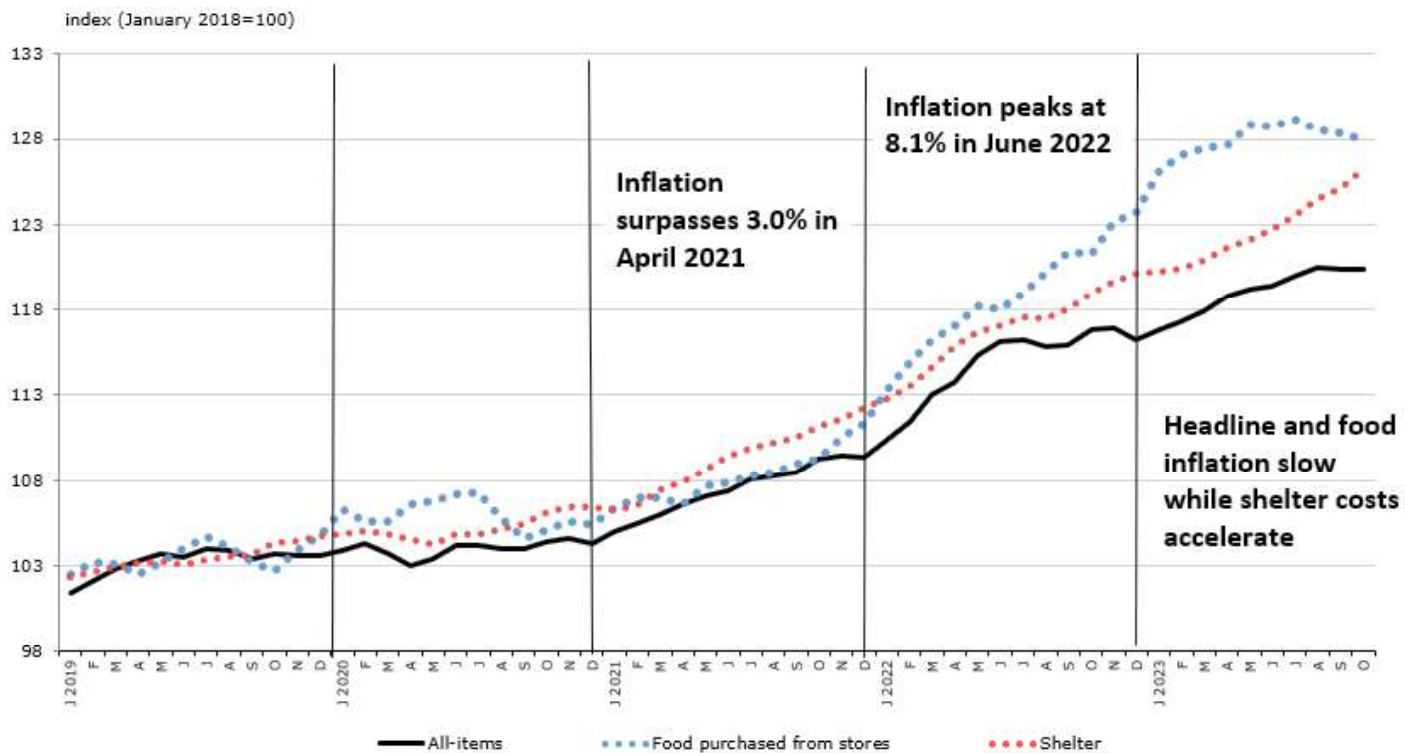
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Broad-based inflation has resulted in elevated prices for many household staples

Consumer price index, selected commodities



Source: Statistics Canada, table 18-10-0004-01.



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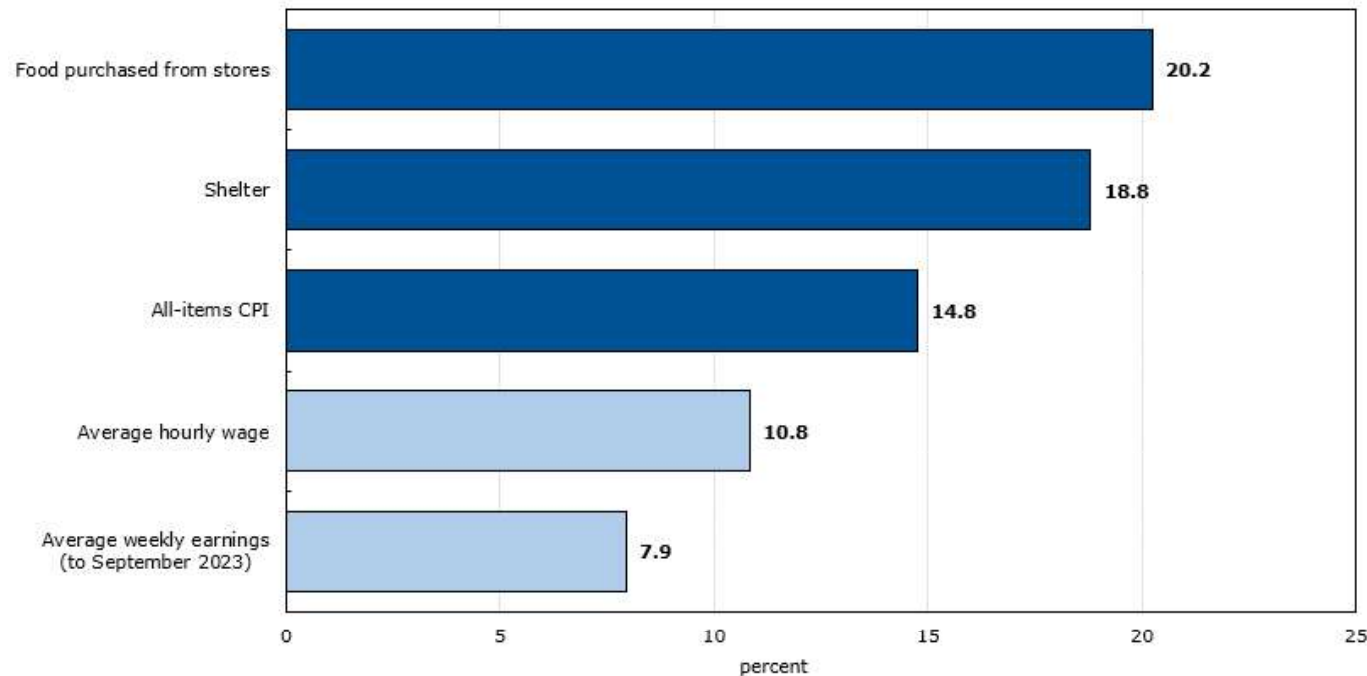
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As headline inflation eases, pressures on living costs remain

Cumulative percentage change in consumer prices, average hourly wages, and average weekly earnings, January 2021 to October 2023



Sources: Statistics Canada tables 18-10-0004-01, 14-10-0065-01, and 14-10-0223-01.

October 2023

Headline consumer inflation:
3.1%

Increase in grocery prices (y/y):
5.4%

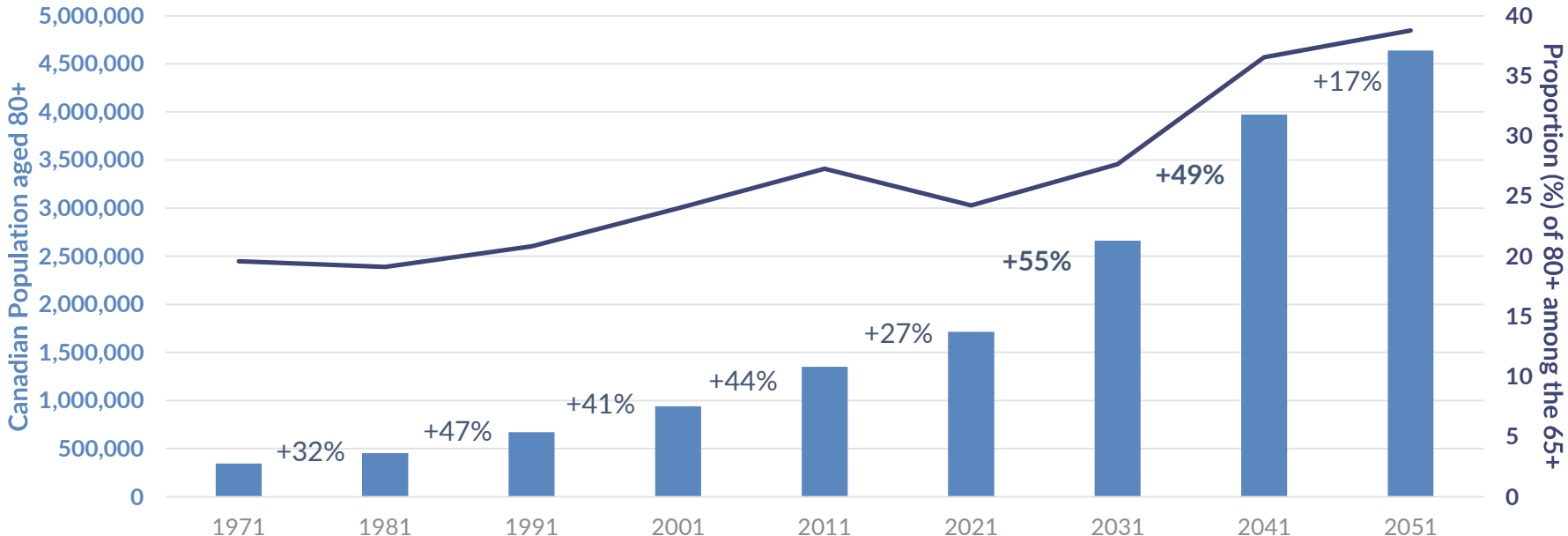
Increase in shelter costs (y/y):
6.1%

Structural challenges



Most of the current population aging is related to the increase in the number of people 65 to 79—starting in 2026, the senior population 80+ will increase quickly

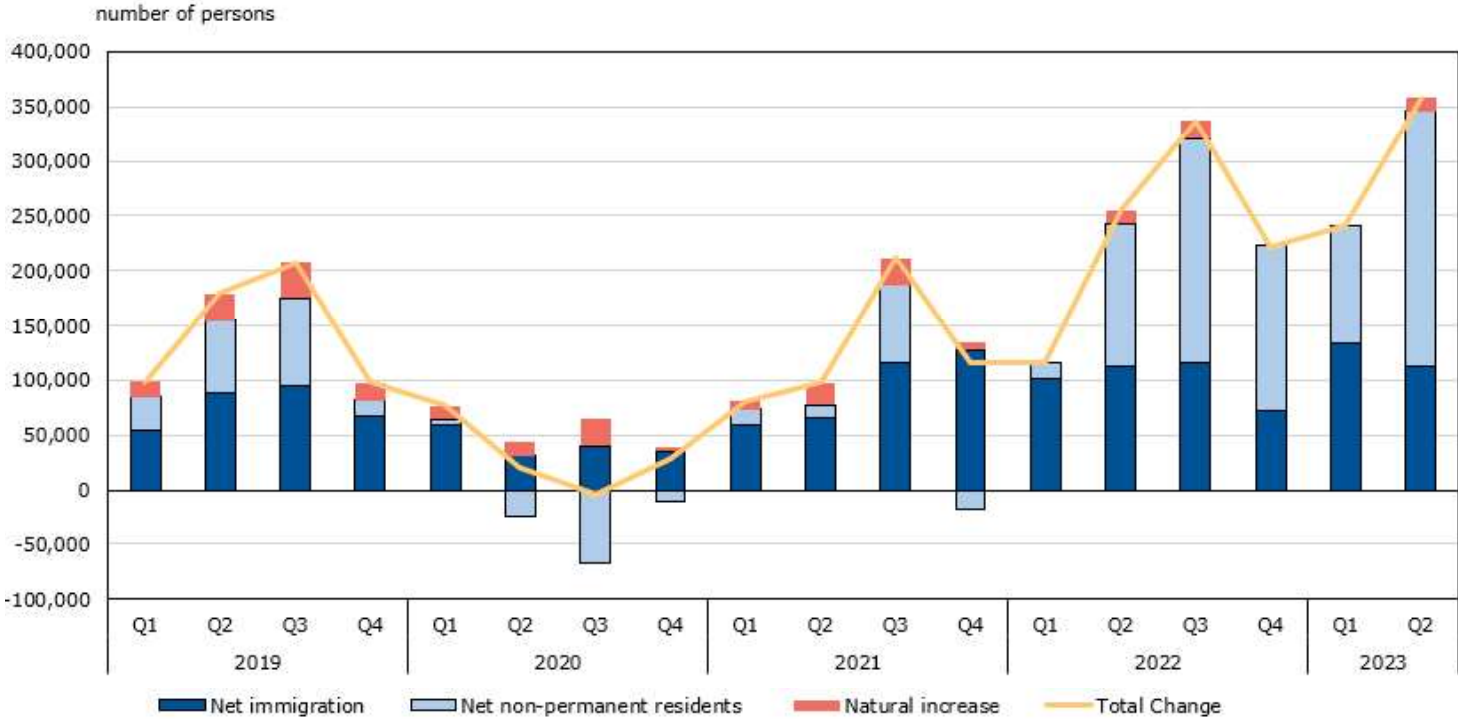
Population aged 80+ and proportion (in percentage) of the 80+ among the 65+, 1971 to 2021 (estimated) and 2031 to 2051 (projected)



Sources: Canada Population Estimates; Statistics Canada, Population Projections for Canada (2021 to 2068), Provinces and Territories (2021 to 2043), catalogue no 91-520-X.

Highest population growth since 1957 driven by temporary immigration

Components of quarterly population change, Canada



Sources: Statistics Canada, tables 17-10-0059-01 and 17-10-0040-01.



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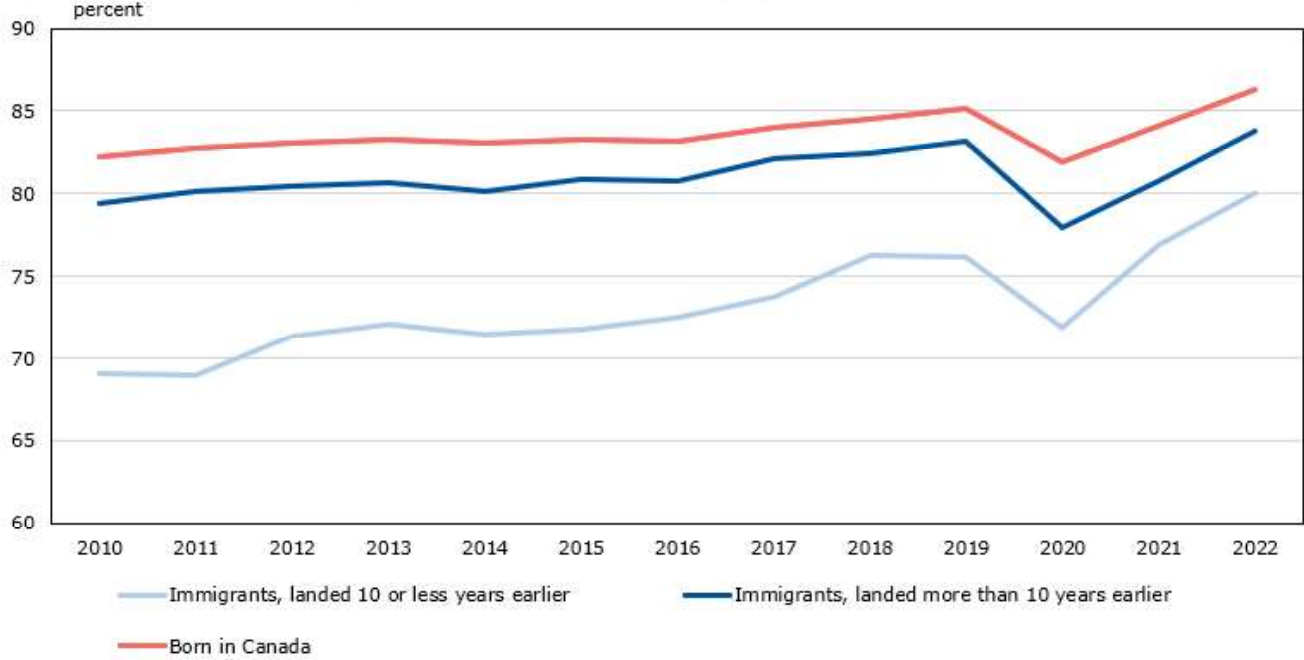
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Employment gap narrowing between immigrants and Canadian-born

Employment rate for immigrants and Canadian born, aged 25 to 54

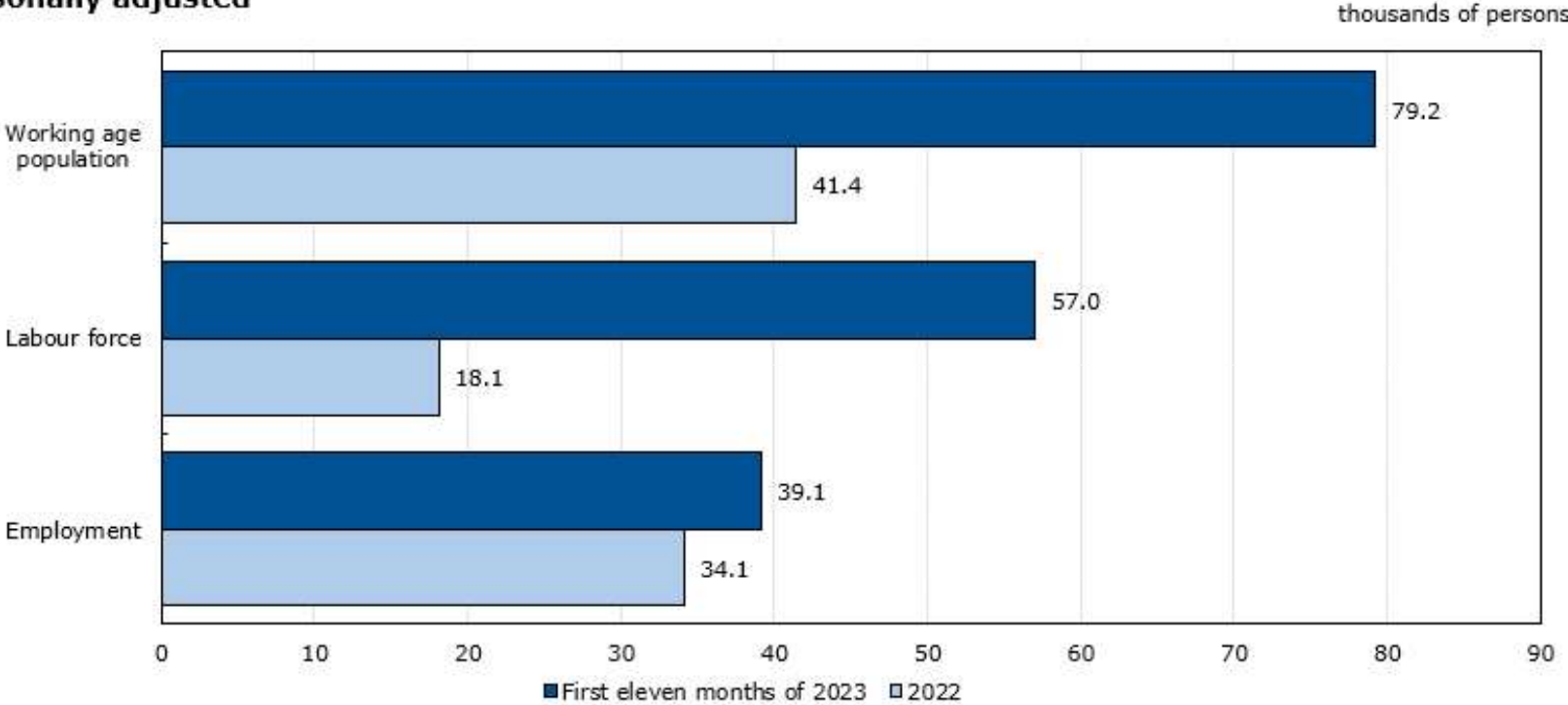


Source: Statistics Canada, Labour Force Survey.

- In 2022, the employment gap between Canadian born and recent immigrants was around 8%.
- This represents a halving of the gap from one decade prior.

Population growth outpacing employment growth

Labour market indicators, 2022 vs 2023 year-to-date average monthly change, seasonally adjusted



Source: Statistics Canada, table 14-10-0287-01.



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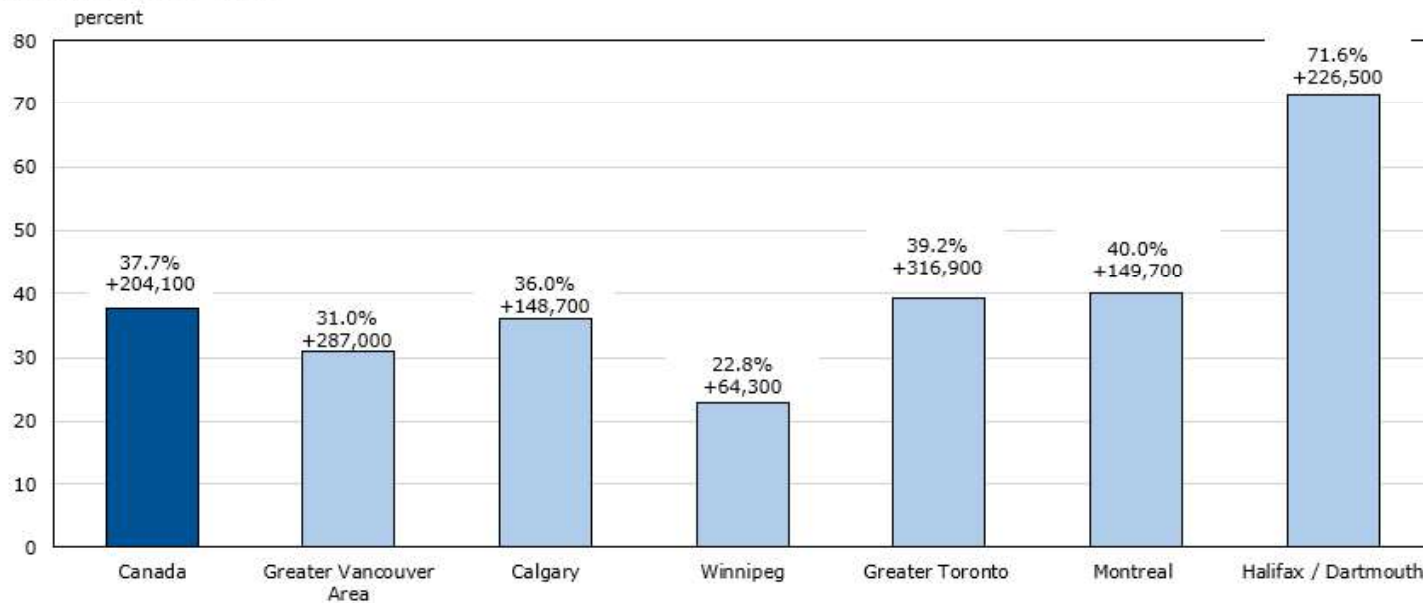
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Escalating homeownership and rental costs create barriers to mobility

Change in benchmark home prices since the onset of the pandemic, selected cities, October 2023



Source: Canadian Real Estate Association.

- Rising borrowing costs have pushed many potential homeowners out of the market, straining an **already hot rental market**.
- Average asking rents rose to a record **\$2,178 in October 2023** (Rentals.ca).



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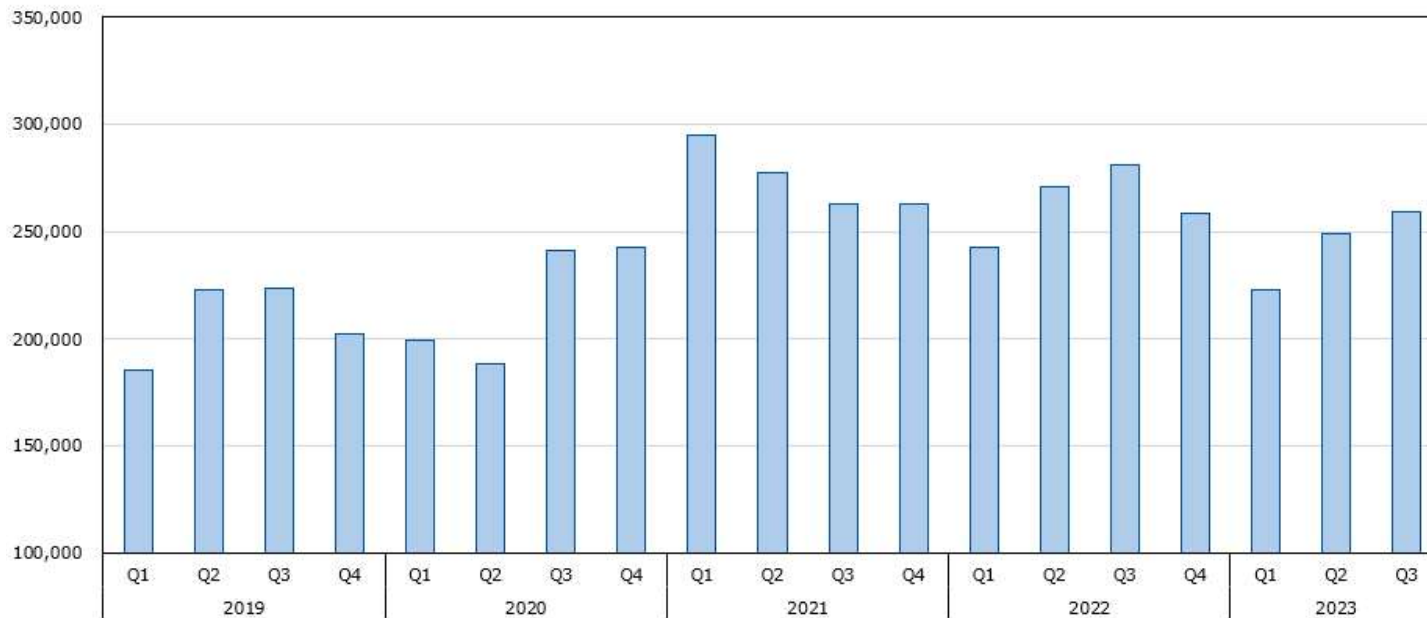
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The pace of homebuilding well behind affordability goals

Housing starts within Canada, annualized



Source: Statistics Canada, table 34-10-0158-01.

- **Canada Mortgage and Housing Corporation** has estimated that Canada will need an additional 3.45 million homes by 2030 to address affordability pressures in the housing market.
- To meet this target, the pace of homebuilding would have to **double to over 500,000 units annually**.



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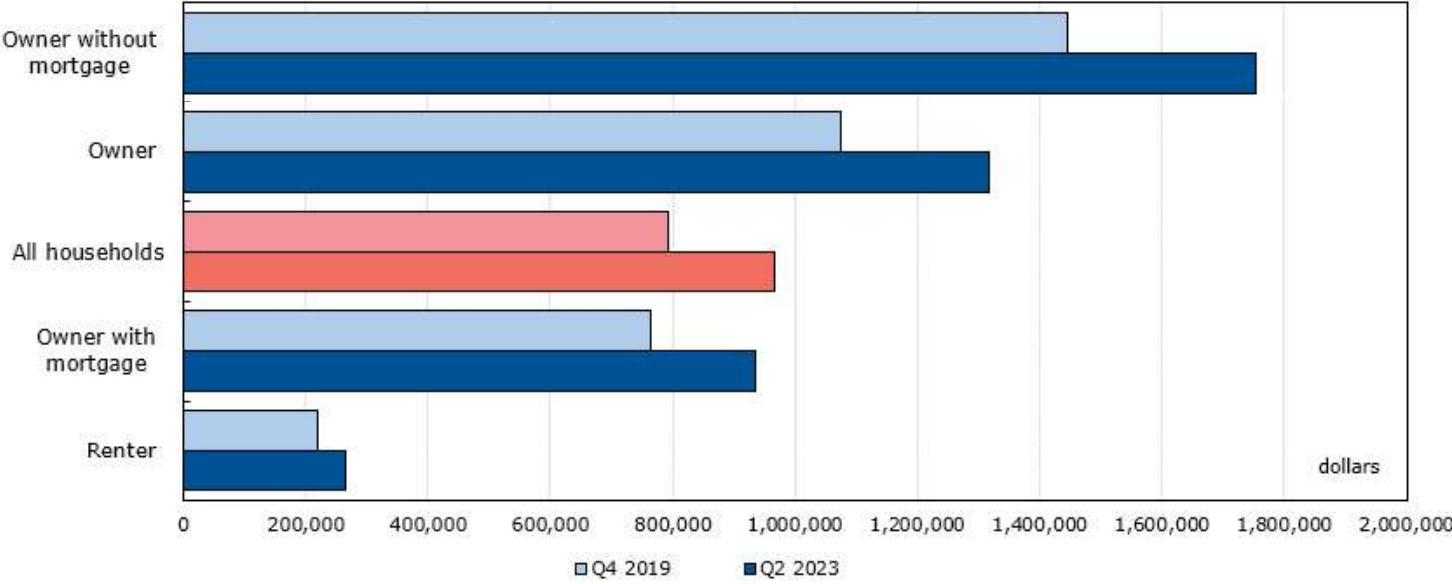
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Importance of home ownership as a driver of wealth creation

Homeowners and renters have both seen their average net worth rise



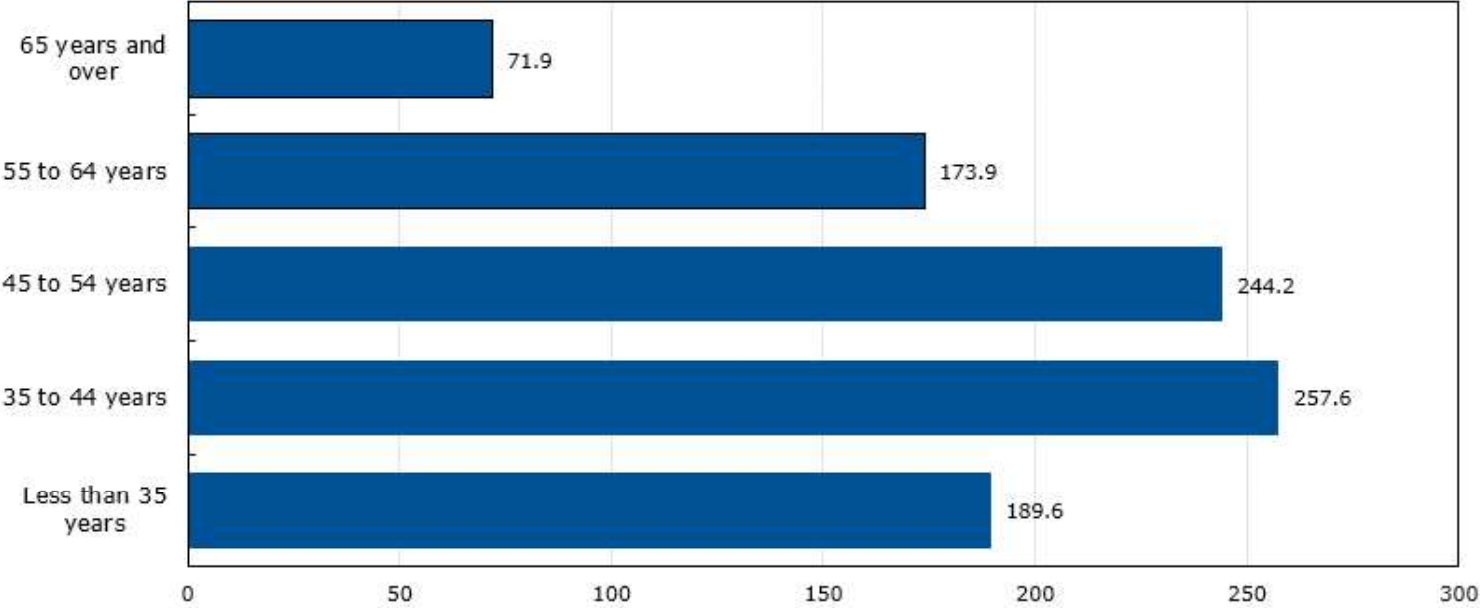
- Average per capita net worth of **homeowners without a mortgage** is **\$1.7 million**.
- While **renters** have an average of **\$232,000**.

Source: Statistics Canada, table 36-10-0066-01.

For more information: [The Wealth of Immigrant Families in Canada](#).

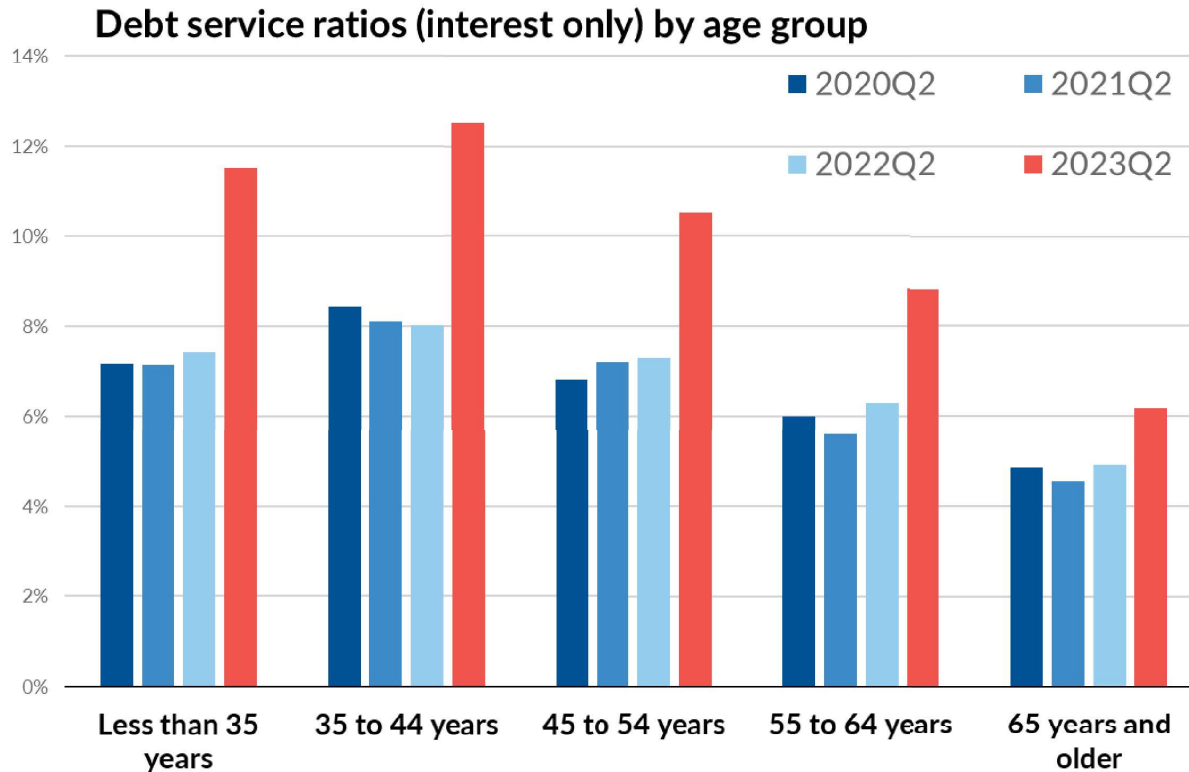
Leverage ratios across age groups are generally similar to pre-COVID benchmarks

Debt to disposable income ratio, by age group, Q2 2023



Source: Statistics Canada, table 36-10-0664-01.

Younger households are harder hit by rising debt servicing costs

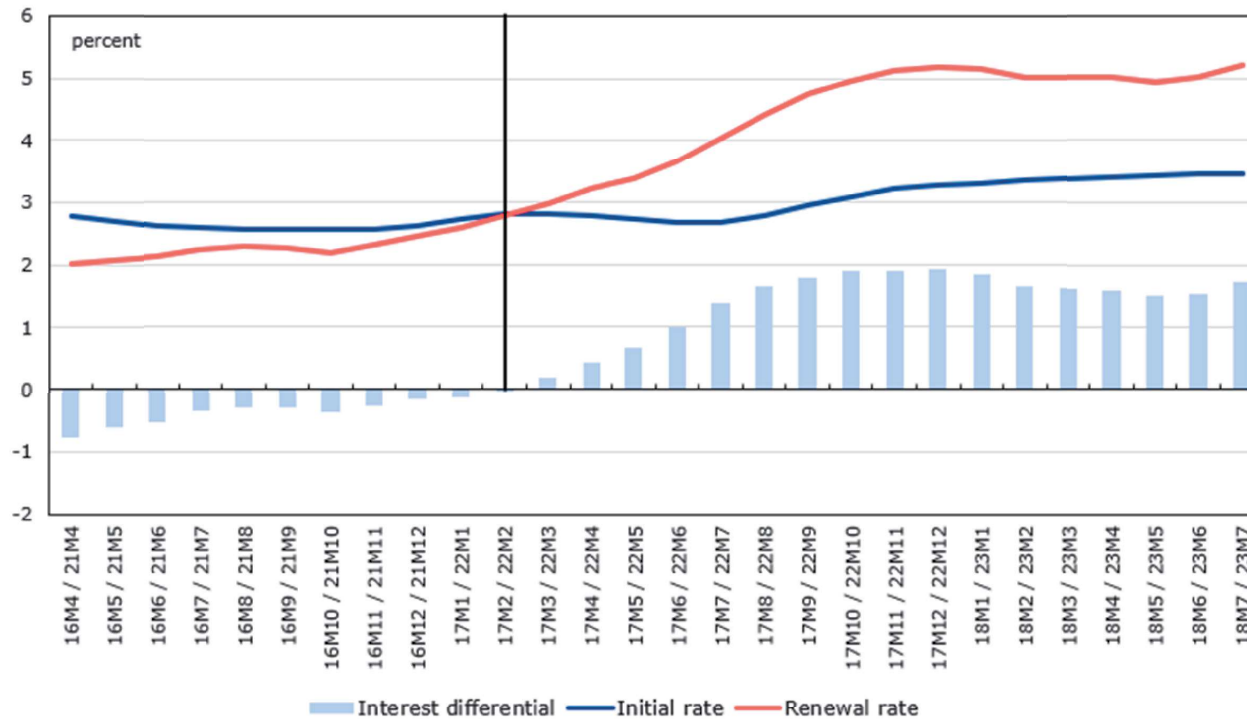


- Over the last year, younger households have seen the largest increases in their debt service ratio:
 - <35 years (+4.1 p.p.)
 - 35-44 years (+4.5)
 - 45-54 years (+3.2)
 - 55-64 years (+2.5)
 - 65+ years (+1.2)
- Each age group well above pre-pandemic rates

Looming debt service costs expected to impact consumption

5+ year fixed term mortgage interest differential on renewal

Borrowers able to renew at lower interest rates

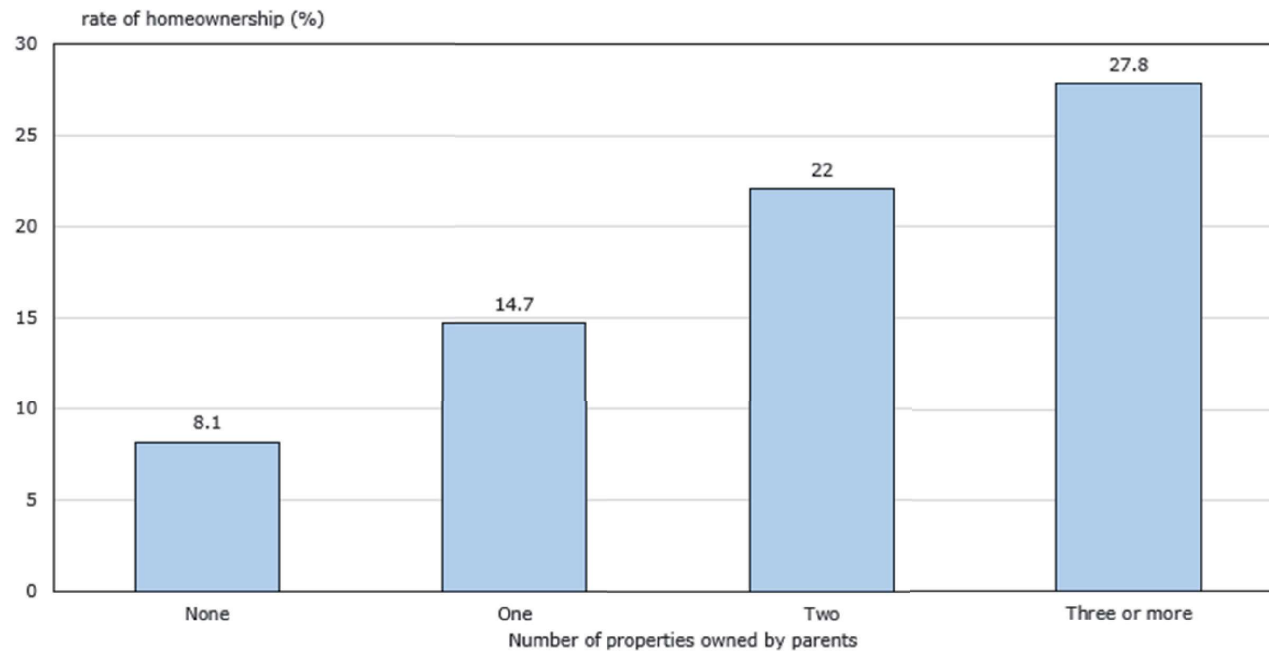


Borrowers facing higher mortgage renewal rates

Source: Statistics Canada, table 10-10-0006-01.

“Bank of mom and dad” supporting home ownership for young adults

Adult child homeownership rates by parental property ownership, 2021



- Homeownership within Canada has been on the decline after **peaking in 2011**.
- Growth in renter households is **more than double** the growth in owner households.

Source: Statistics Canada, Canadian Housing Statistics Program (CHSP).

For more information: [Parents and children in the Canadian housing market](#).



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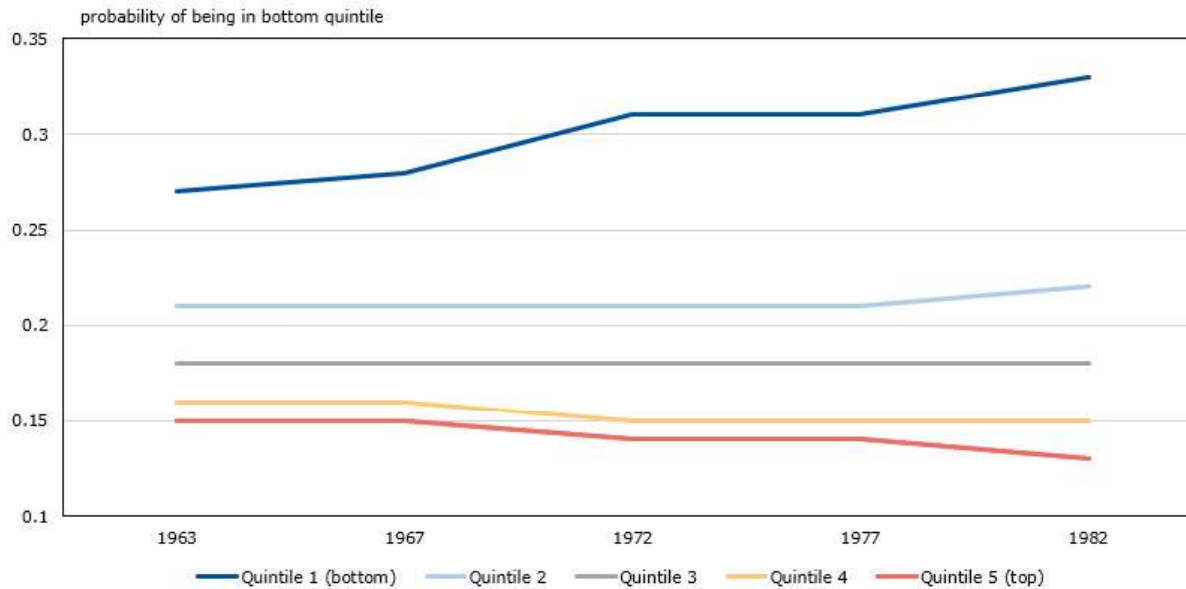
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Fewer opportunities to move into middle class and deteriorating income mobility may further strain social cohesion

Probability of a child being in the bottom income quintile, by parental income quintile and birth cohort



Source: Statistics Canada, Intergenerational Income Database.

More info: [Trends in Intergenerational Income Mobility and Income Inequality in Canada \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/95-009-x/2016001/article/14861-eng.htm)

- Canada has been “going up” the Great Gatsby curve, meaning **greater income inequality for parents and less mobility among children.**
- It’s now less likely for a child from the bottom income quintile to make their way out by their late 20s.



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Top heavy distribution of household wealth led by financial assets and real estate

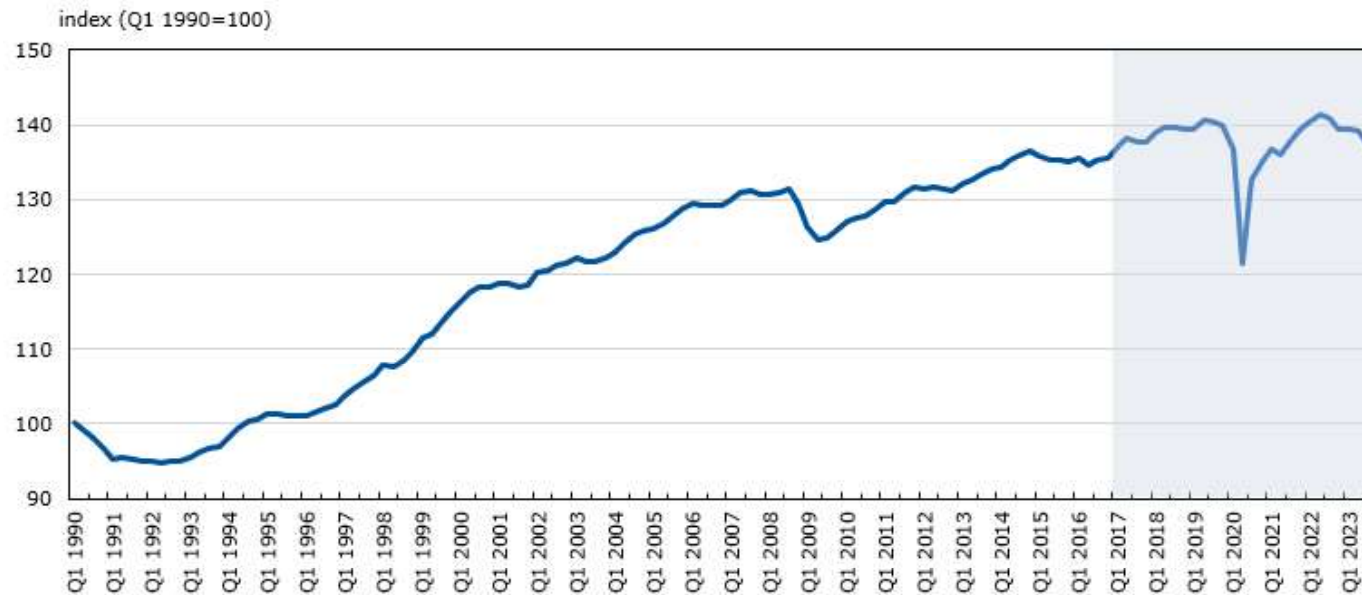
Distribution of household wealth, by characteristics, Q2 2023



Source: Statistics Canada, table 36-0660-01.

Declines in gross domestic product per capita portend lower living standards

Real GDP per capita



Sources: Statistics Canada, tables 36-10-0104-01 and 17-10-0009-01.

- Real GDP per capita has been **essentially flat since 2017**.
- Increases in GDP per capita can be driven by three factors:
 - **Higher labour productivity** (output per hour worked)
 - **Higher work intensity** (hours worked per job)
 - **A higher employment-to-population ratio**



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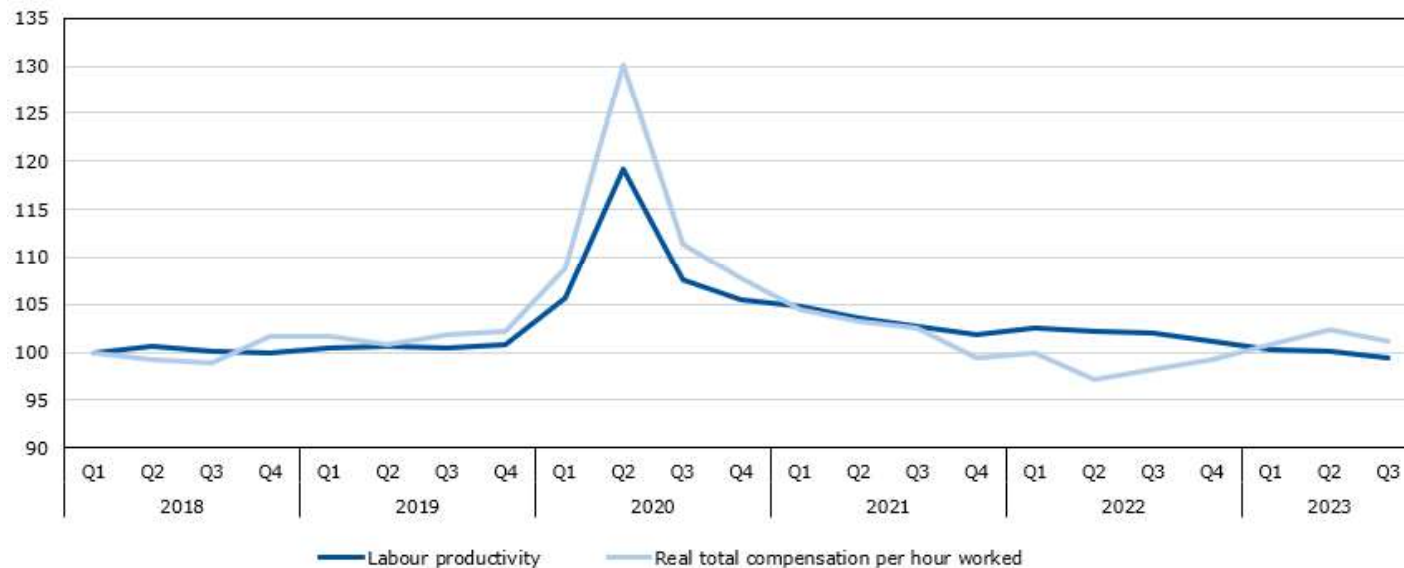
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Improving living standards will depend on productivity growth

Labour productivity and real total compensation per hour worked

index (Q1 2018=100)



Source: Statistics Canada, table 36-10-0206-01.

- **Labour productivity growth** accounted for the **vast majority** of growth in GDP per capita over the **last four decades**.
- After rising sharply in the early stages of the pandemic, labour productivity has declined in **12 of the past 13 quarters** and is **below pre-pandemic levels**.



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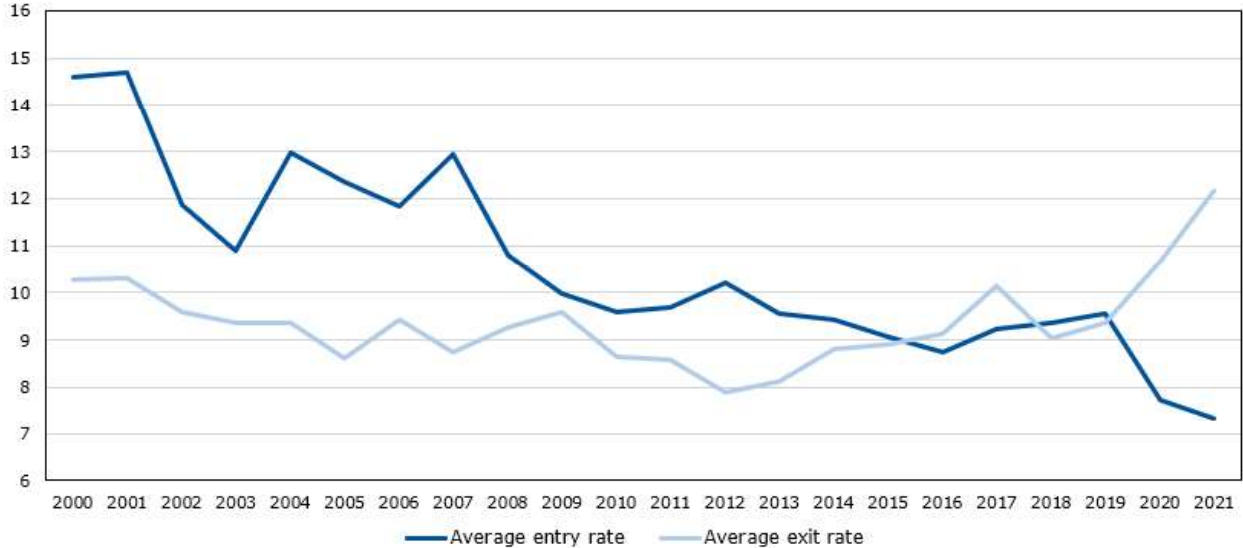
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Opportunities to increase output and labour productivity through capital investment and innovation

Average entry and exit rates in Canadian industries (%), 2000 to 2021

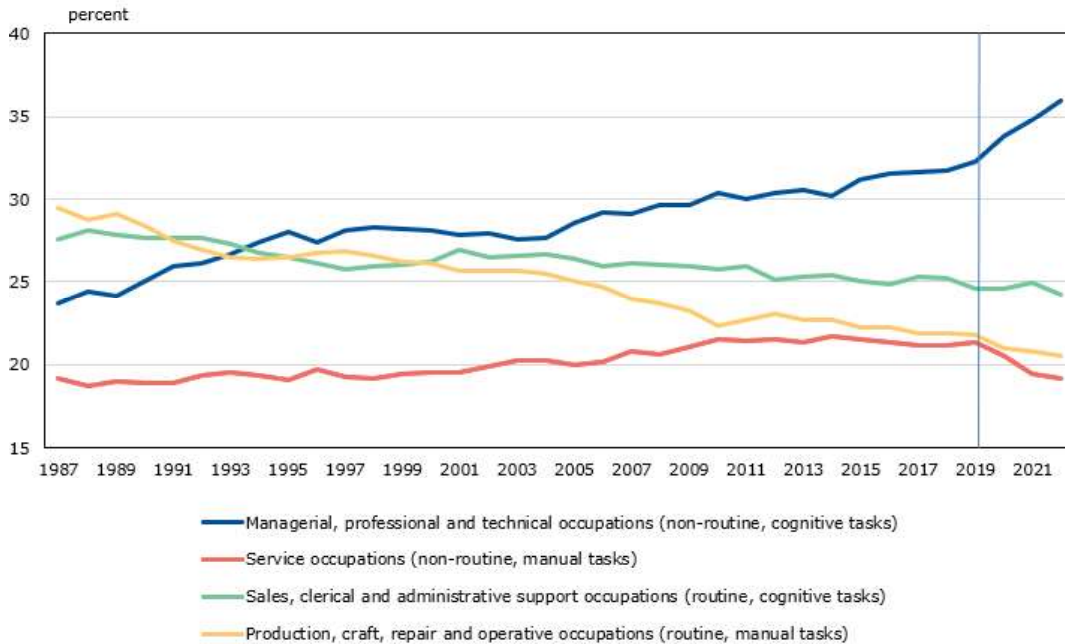


Source: Gu, forthcoming and The National Accounts Longitudinal Microdata File of Statistics Canada.

- Heavy regulatory burden on firms, as requirements rose by 40% from 2006 to 2021, weighing on firm output growth and labour productivity.
- Weaker competition may have contributed to lower investments and productivity growth, as business entry rates have declined.

Advances in AI and robotics suggests opportunities for workers who can adapt, while vulnerable workers may see greater job loss or transformation

Share of employed individuals by occupational task group, 1987 to 2022



Source: Statistics Canada, Labour Force Survey.

[The changing nature of work since the onset of the COVID-19 pandemic \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/75-662-x/2021001/article/00001-eng.htm)

[Job security in the age of artificial intelligence and potential pandemics \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/75-662-x/2021001/article/00001-eng.htm)

- Currently witnessing an acceleration towards jobs of the future (**non-routine, cognitive tasks**).
- Younger workers who are in a better position to re-invest in their skills and pivot are already seeing greater gains.
- Lower educated and lower wage workers are more vulnerable.



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Takeaways

- Affordability challenges will persist even as consumer inflation eases. Soaring housing and rental prices, owing to strong demand and weak supply, pose substantial risks to social and economic mobility. Financial and economic risks are amplified for certain demographic groups, particularly young families.
- Recent employment gains are not keeping pace with increases in the working-age population, putting downward pressure on the employment rate. Over the first eleven months of 2023, the working-age population expanded by nearly 80,000 per month, almost twice the average pace observed in 2022.
- The improvement of living standards over the longer term will require sustained increases in labour productivity, which has continued to trend lower in recent quarters. Strategies to bolster investment, innovation and skill utilization will be important drivers of improvements in GDP per capita.



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Recent research:

[Research to Insights: Perspectives on growth, inflation and affordability \(statcan.gc.ca\)](#)

[Recent Developments in the Canadian Economy: Fall 2023 \(statcan.gc.ca\)](#)

[Switching stores to cope with high inflation: Food sales at food and beverage stores and general merchandise stores \(statcan.gc.ca\)](#)

[Labour market imbalances: Evidence from the Canadian Economic Tracker \(statcan.gc.ca\)](#)

Upcoming research:

Risks to Canada's corporate sector as interest rates rise

Household wealth and debt

The improvement in the labour market outcomes of recent immigrants since the mid-2010s

Long-term trends in GDP per Capita



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