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Canada's Incomplete, Mediocre Recovery

Jim Stanford

Economists are often accused of inhabiting their own abstract world, removed from the daily bread-and-butter concerns of average people. But rarely has the gap between the measurements of economists, and the reality of Canadians, been highlighted more dramatically than in a recent public opinion poll conducted by the Pollara firm for the Economic Club of Canada. According to this survey,[1] a full 70 percent of Canadians think the country is still in an economic recession — even though, according to the "official" definition used by economists, the recession actually ended 30 months ago.[2] Real GDP continues to edge ahead (albeit unspectacularly and unsteadily so), employment has increased, the economy seems headed in a forward direction. So why are Canadians so pessimistic?

The cognitive dissonance between statistical data and the still-gloomy perceptions of Canadians is further reinforced by the repeated claims of Canadian political leaders that the national economy has in fact fully recovered from the recession. After all, there are more Canadians working today than were when the recession hit in the fall of 2008. Total employment was 169,000 higher in December 2011, than at the pre-recession peak reached in October 2008. Similarly, national output (measured by real GDP) has also regained and surpassed its pre-recession peak, reaching a level 2.6 percent higher in the third quarter of 2011 than three years earlier when the recession landed in Canada. This claim that Canada has fully recovered from the recession is complemented by a similar claim that the recession was not as severe in Canada as in other countries. In short, the story goes, while times have been tough, Canadians should be grateful (and pay homage to their economic stewards) that the recession was relatively mild here, and is now firmly behind us.

It turns out that both components of this dual boast — that the damage from the recession has been repaired, and that Canada fared much better than other countries — are false. And both claims founder on the same simple empirical fact: Canada's population grows over time, and relatively quickly. On average over the last five years, Canada's total population has increased by about 1.2 percent per year. The working age population (aged 15 years and over, by Canadian statistical definitions) has been growing slightly faster than that: about

TABLE 1 Population Growth Rates, OECD Countries

1. Hungary	-0.17%	**13.** Denmark	0.47%	**24.** Switzerland	1.02%
2. Germany	-0.15%	**14.** Czech Rep.	0.55%	**25.** New Zealand	1.11%
3. Estonia	-0.09%	**15.** France	0.62%	**26.** Norway	1.12%
4. Japan	-0.03%	**16.** U.K.	0.65%	**27. Canada**	**1.13%**
5. Poland	0.01%	**OECD: Avg.**	**0.65%**	**28.** Turkey	1.20%
6. Slovak Rep.	0.16%	**17.** Italy	0.68%	**29.** Spain	1.20%
7. Slovenia	0.24%	**18.** Belgium	0.71%	**30.** Iceland	1.45%
8. Portugal	0.25%	**19.** Sweden	0.76%	**31.** Luxembourg	1.50%
9. Netherlands	0.30%	**20.** Mexico	0.84%	**32.** Ireland	1.58%
10. Austria	0.39%	**21.** U.S.	0.89%	**33.** Australia	1.84%
11. Greece	0.40%	**22.** Korea	0.97%	**34.** Israel	1.91%
12. Finland	0.44%	**23.** Chile	1.00%		

SOURCE Author's calculations from OECD.stat database. Five-year average annual growth rate total population to 2010 or most recent year.

1.3 percent per year. With a growing population, therefore, the economy must be *continuously* generating new employment opportunities, and new output and income, simply to support a *constant* standard of living and a *constant* degree of labour market health. Comparing either the total number of jobs, or the total volume of output, over time requires adjustments for this ongoing expansion in the Canadian population.

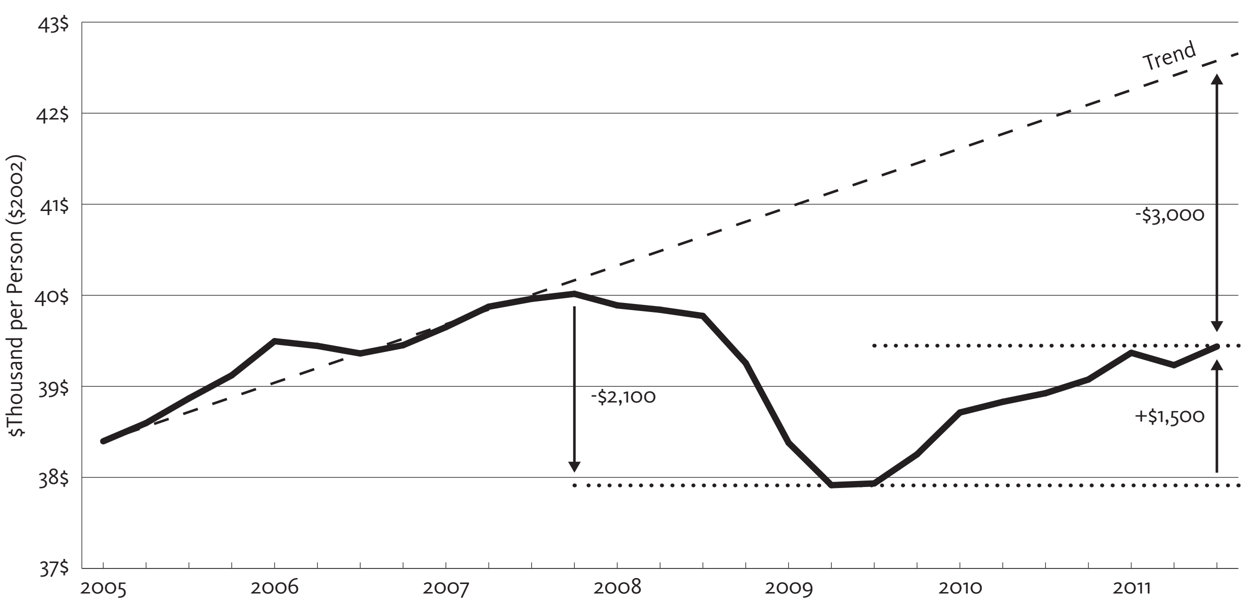
In fact, Canada's population growth is among the fastest in the industrialized world. Table 1 summarizes 5-year average annual population growth rates among the 34 member countries of the Organization for Economic Cooperation and Development (OECD). Canada's population growth rate is faster than any other G7 economy, and nearly twice the OECD average. Strong population growth generates a certain underlying economic momentum (since growing population naturally stimulates certain ongoing growth in consumer spending and other variables). But it also sets a higher "bar" in order to maintain a steady-state economic standard: the economy must generate hundreds of thousands of new jobs each year, and billions of dollars in new GDP, just to maintain existing economic and labour market conditions. When Canadian officials boast that the pace of job-creation or GDP growth is relatively high, they neglect to mention that Canada's economy *must* generate more growth and jobs, just to stand still. Other industrialized countries (like Japan or Germany), where population is stagnant or even declining, do not need to generate such significant annual expansion in order to protect existing benchmarks.

Therefore, any comparisons of economic and employment performance, whether over time or across countries, must take account of the impact of population growth on measures of utilization or prosperity. Once those adjustments are made, then the tone of self-congratulation which typifies so many official pronouncements on Canada's recent economic performance is shown to be utterly unjustified.

This commentary will consider in turn the twin claims made repeatedly by Canadian political leaders: namely, that the damage done by the recession to our economy and labour market has now been repaired, and that Canada (thanks, presumably, to "prudent economic management") has escaped the more negative circumstances experienced by other industrialized countries. After adjusting for population growth, neither GDP nor employment growth since the recession has yet to recoup the ground lost during the 2008–09 downturn. In the labour market, in particular, the pace of employment-creation has lagged far behind the pace of population growth; so that after adjusting for population growth, less than one-fifth of the damage done by the recession has been repaired. Moreover, labour market indicators have not improved since the spring of 2010, highlighting the stalling of the Canadian recovery since that time.

Internationally, Canada's economic reputation similarly loses considerable lustre when the data are adjusted for Canada's faster-than-average population growth. In per capita terms, the change in Canada's real GDP since the pre-recession peak (in 2007) ranks an uninspiring 17th among the 34 countries of the OECD — exactly at the midpoint. Similarly, after adjusting for growth in the working age population, Canada's employment performance has been equally middling: once again ranking

FIGURE 1 Real per Capita GDP in Canada, 2005–11



SOURCE Author's calculations from Statistics Canada CANSIM Variables 1, 1992067

17th (out of 33 reporting countries) in terms of the change in the employment rate since the pre-recession peak (in 2008). If there is one word to summarize Canada's economic standing among its industrialized peers, it should be "mediocre."

Part I: Historical Comparisons

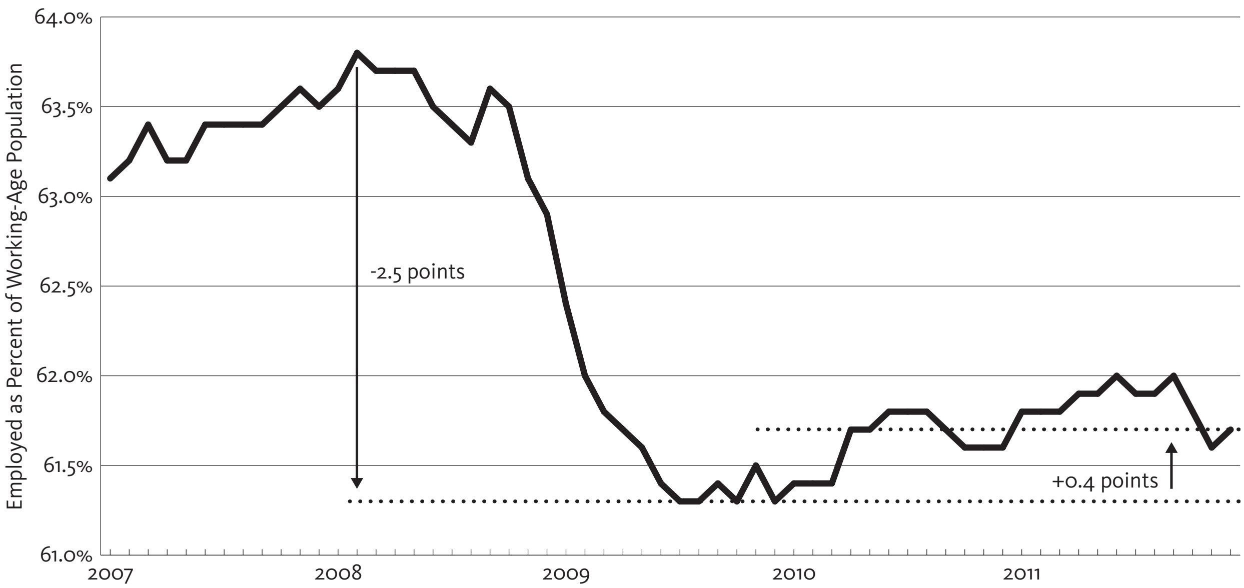
Canada's economy (measured by real output) began to shrink in the third quarter of 2008, and declined close to 4 percent by summer 2009, when the official recession ended and real GDP began to recover. In per capita terms, however, the downturn began somewhat earlier: at the beginning of 2008, when slowing economic expansion began to lag behind ongoing population growth. Real per capita GDP then fell by over 5 percent by summer 2009. The decline in the per capita measure was worse than the fall in total GDP, because of the impact of ongoing population growth that continued even as the economy was in recession.

As indicated in Figure 1, real per capita GDP has improved fairly steadily but slowly since mid-2009, with the exception of the second quarter of 2011 when total GDP (and, of course, per capita GDP) declined. However, those 9 quarters (over two years) of economic progress have repaired only about 70 percent of the reduction in real per capita GDP that occurred during the downturn. Real per capita GDP remains 1.4 percent lower as of the third quarter of 2011, than it was at the beginning of 2008. In fact, real per capita GDP is still lower in Canada than it was at the beginning of 2006 (when the Harper Conservative government first took power); during almost six years of Conservative "stewardship," therefore, Canadians have experienced no economic progress (by this measure) whatsoever.

Put differently, real GDP declined by some $2100 per Canadian (measured in 2002 dollar terms) during the 9 months of the official recession. The subsequent 27 months of recovery recouped some $1500 of that loss, leaving GDP per person $600 lower than before the recession.[3]

In fact, the lasting damage from the recession is considerably worse than that. It is normal for an economy to demonstrate *rising* real per capita output over time, as a result of technological improvements and productivity growth. The pre-recession trend in Canada was for real per capita GDP to increase by 1–1.5 percent per year. Trend *potential* output has thus continued to grow during the years of recession and subsequent slow recovery (as indicated in Figure 1). Relative to that potential, current real per capita GDP (of about $39,400 per person, in 2002 dollar terms) is at least 6 percent (or $3000) below the level it *would* have reached if the pre-recession trend had been sustained. In this regard, the fact that Canada's econ-

FIGURE 2 Employment Rate in Canada, 2007–11



SOURCE Statistics Canada CANSIM Variable 2062817

omy continues to operate well below its potential costs each Canadian thousands of dollars in foregone income each year. And the modest rebound in real per capita GDP experienced since summer 2009 has not been strong enough to even begin to close that gap with potential output that was opened up as a result of the recession. This is different from previous recoveries, which featured periods of above-trend growth which allowed the economy to catch up to potential output.

Adjusting employment statistics for population growth results in an even starker comparison to pre-recession benchmarks. Because the potential labour force (represented by the working age population) grows by some 1.3 percent (or over 350,000 Canadians) each year, it is not enough for the Canadian economy to simply create new jobs. It must produce *enough* new jobs to keep up with ongoing population growth; in fact, during a recovery job creation must be even faster, in order to repair the damage done by the recession. The best statistic for comparing the pace of job creation with the pace of population growth is the employment rate, which is the ratio of total employment to the working age population. Especially during periods of sustained labour market slackness, the employment rate is a more appropriate indicator of labour market well-being than the unemployment rate; in particular, it is unaffected by factors such as the decline in formal labour force participation which results when discouraged workers simply give up looking for work.[4] Falling labour force participation reduces the unemployment rate, making it *seem* like the labour market is strengthening, when in fact discouraged workers are simply throwing in the towel. In this context, the employment rate provides a more accurate reading on labour market conditions than the unemployment rate.

Like real per capita GDP, Canada's employment rate peaked some months before the official onset of recession (Figure 2). The employment rate peaked at 63.8 percent of the working age population in February 2008, after which point the decelerating pace of job creation no longer kept up with ongoing population growth. During the next 17 frightening months, the employment rate plunged by 2.5 percentage points, reaching a trough of 61.3 percent of the working age population in July 2009. That represented the fastest decline in the employment rate of any recession since the 1930s.

The subsequent bottoming and recovery of real output in Canada has hardly put any dent in this downturn. From July 2009 through December 2011, the employment rate recovered to 61.7 percent. But this 0.4 point rebound offsets less than one-fifth of the damage that was done to Canadian labour markets by the recession. Indeed, the employment rate actually *declined* during 2011, as the pace of GDP expansion and job creation slackened. No net employment was created in the second half of 2011, a time in which Canada's working age population grew by over 150,000 people.

TABLE 2 Change in Real Per Capita GDP, OECD Countries, 2007–11

1. Poland	15.2%	**13.** Sweden	-0.1%	**25.** Norway	-4.0%
2. Chile	9.4%	**14.** Netherlands	-0.3%	**26.** U.K.	-5.4%
3. Slovak Rep.	7.3%	**15.** Belgium	-0.6%	**27.** Denmark	-5.5%
4. Korea	7.3%	**16.** New Zealand	-1.2%	**28.** Luxembourg	-5.7%
5. Turkey	7.0%	**17. Canada**	**-1.4%**	**29.** Spain	-5.9%
6. Israel	6.5%	**18.** France	-2.2%	**30.** Italy	-6.7%
7. Germany	2.8%	**19.** United States	-2.6%	**31.** Estonia	-8.6%
8. Austria	1.6%	**20.** Hungary	-2.7%	**32.** Iceland	-9.8%
9. Mexico	0.7%	**21.** Finland	-2.9%	**33.** Ireland	-13.1%
10. Czech Rep.	0.6%	**22.** Slovenia	-3.4%	**34.** Greece	-13.9%
11. Australia	0.1%	**23.** Portugal	-3.4%		
12. Switzerland	0.1%	**24.** Japan	-3.6%		

SOURCE Author's calculations from OECD.stat database and OECD Economic Outlook. 2011 GDP as estimated by OECD Dec. 2011.

Whether measured by output or employment, therefore, it is clear that Canada is still grappling with the after-effects of the 2008–09 downturn. Especially from the perspective of a labour market that was hammered by the recession, and has barely recouped any of that damage since, it is quite understandable why average Canadians could be forgiven for concluding that the recession is still with us. In terms of the employment rate, it clearly still is.

Part II: International Comparisons

Failing to take account of population growth also distorts international comparisons of economic and employment performance, just as it distorts comparisons over time. For example, Canada experienced the 9th fastest rate of GDP expansion in the OECD, on average, since 2007. However, Canada has a higher-than-average rate of population growth, and hence must generate faster GDP growth simply to "stand still" in terms of per capita standards. If we adjust for differential population growth rates, then Canada's GDP performance is only mediocre within the sample of industrialized countries.

Table 2 reports the cumulative evolution of real per capita GDP across the OECD from 2007 (when Canada's real per capita GDP, like that of most other industrialized countries, peaked before the recession) through 2011.[5] Of the 34 countries in the OECD, Canada ranks only 17th — right in the middle. Real per capita GDP for 2011 was still 1.4 percent lower than in 2007. Twelve countries have regained and surpassed their pre-recession levels of real per capita GDP (including Germany, Korea, Australia, and several others). These countries could more honestly claim to have repaired the economic damage from their recessions. Canada, in contrast, can make no such claim. Other countries (including Sweden, the Netherlands, Belgium, and New Zealand) have yet to regain their pre-recession real per capita GDP benchmarks, but have experienced smaller declines in that measure than Canada has.

Canada's international standing is similarly mediocre in terms of our labour market recovery. Recall, Canada's economy must generate something like 225,000 new jobs per year just to keep pace with the ongoing expansion of the working age population.[6] It is hardly sufficient, then, for politicians to point out that the total number of jobs now exceeds the pre-recession peak. In the nearly four years since that time, the working age population has grown by over 1 million. We needed a much faster pace of job creation in order to create opportunity for new labour force entrants, as well as re-employ those who were displaced by the downturn.

Many other industrialized countries, in contrast, do not face that same challenge. As was highlighted in Table 1, population in some countries (like Japan, Germany, much of eastern Europe, and several other countries) is stagnant or growing very slowly. In that context, total employment might not grow at all — yet a given employment rate could still be sustained.

Table 3 reports the change in each OECD country's employment rate from 2008 (when Canada's employment rate peaked) to 2011.[7] Canada's employment rate for 2011 is estimated at 1.2 points below its average level for 2008.[8] That ranks

TABLE 3 Change in Employment Rate, OECD Countries, 2008–11

1. Turkey	3.2%	**12.** Hungary	-0.5%	**23.** Norway	-2.3%
2. Germany	1.9%	**13.** Japan	-0.7%	**24.** Slovak Rep.	-2.3%
3. Israel	1.2%	**14.** Czech Rep.	-0.8%	**25.** Iceland	-3.5%
4. Poland	1.0%	**15.** Netherlands	-0.9%	**26.** United States	-3.8%
5. Luxembourg	0.9%	**16.** France	-0.9%	**27.** Estonia	-4.2%
6. Mexico	0.7%	**17. Canada**	**-1.2%**	**28.** Slovenia	-4.4%
7. Korea	0.5%	**18.** Sweden	-1.2%	**29.** Denmark	-4.6%
8. Switzerland	0.2%	**19.** New Zealand	-1.6%	**30.** Portugal	-4.7%
9. Austria	-0.1%	**20.** U.K.	-1.8%	**31.** Greece	-5.9%
10. Belgium	-0.1%	**21.** Italy	-1.8%	**32.** Spain	-6.7%
11. Australia	-0.4%	**22.** Finland	-1.8%	**33.** Ireland	-8.3%

SOURCE Author's calculations from OECD.stat database and OECD Economic Outlook. 2011 employment and working age population as estimated by OECD Dec. 2011.

Canada 17th out of the 33 reporting OECD countries included in Table 3. Eight countries (including Germany, Korea, and Switzerland) achieved a higher employment rate in 2011 than was experienced before the recession. These countries, then, can more genuinely claim to have repaired the labour market damage of the recession. In eight other countries (including France, Japan, and Australia) the employment rate declined, but not as steeply as it did in Canada.

Conclusion

Since the onset of the recession, Canadian political leaders have stressed that while things may be difficult for Canadians, they are getting better, and by several key measures (like total employment or total GDP) we have fully regained the ground we lost in the recession. Moreover, Canada is said to have escaped the worst effects of the recession, which hit home more painfully in other industrialized countries. Many Canadians have accepted this argument, and do indeed believe that Canada's economy has performed better during this turbulent period than most.[9]

In fact, however, the damage of the recession is still very much with Canadians. Real per capita GDP is still well below its pre-recession peak — and several thousands dollars per person below where it *could* be today on the basis of pre-recession trends. And the labour market is still much weaker (measured by the employment rate) than it was before the recession. Indeed, measured by the employment rate, less than one-fifth of the damage has been repaired, and things have gotten worse in the last 18 months, not better.

Internationally, Canada's performance according to both standards is at best mediocre. Certainly, Canada has done better than those countries which experienced major banking and financial crises during the 2008–09 downturn (such as the U.S., the U.K., Ireland, Iceland, Greece, and Italy). But among the *broader* set of industrialized countries our performance in terms of output and employment ranks exactly at the midpoint of the sample. Instead of allowing them to claim credit for doing better than America or Italy, we could just as easily challenge our politicians to explain why we have lagged so far behind many other industrial countries (including Germany, Korea, Australia, and others) in our sluggish recovery from the recession.

The self-congratulatory tone of so many official economic pronouncements in Canada is clearly unjustified. In terms of its implications for economic and fiscal policy, the incomplete and relatively weak state of Canada's economic recovery should give considerable pause to policy-makers before embarking on a campaign of fiscal austerity — a campaign which would clearly further undermine output and employment which are still weak. Instead, top priority needs to be placed on expansionary measures to strengthen Canada's incomplete, mediocre recovery.

Jim Stanford *is economist with the Canadian Auto Workers and a Research Associate of the CCPA.*

Notes

1 Pollara report available at http://www.pollara.com/eclub2012/report.pdf. Poll of 2878 Canadians conducted December 1–7 2011, margin of error ± 1.8 points 19 times out of 20.

2 The traditional "rule of thumb" of economists in Canada is that a recession occurs when real GDP declines for two consecutive quarters, and a "recovery" commences when real GDP begins to expand again. By this definition, the recession lasted for three quarters beginning in the autumn of 2008, and recovery began in the summer of 2009.

3 It should be kept in mind that GDP per capita is a highly imperfect measure of "living standards." Average GDP per capita takes no account of the distribution of income. And many components of GDP (including corporate profits, depreciation, and others) are never fully reflected in individual incomes or living standards. For this reason, the decline in real per capita personal incomes has been slightly worse than the decline in real per capita GDP; the former measure was 2.3% below its pre-recession peak as of the third quarter of 2011.

4 It should be noted, however, that even the employment rate does not capture the deterioration in the *quality* of work (represented by trends such as increased part-time, contract, and precarious work) that is another feature of a chronically depressed labour market.

5 Data for 2011 reflect OECD estimates as published in the December 2011 edition of the *OECD Economic Outlook*, based on part-year 2011 data from each country.

6 This estimate represents the product of the annual absolute growth in the working age population times the pre-recession employment rate.

7 Again, data for 2011 reflect full-year estimates published in the *OECD Economic Outlook* on the basis of part-year reports from member countries. Luxembourg does not report this data and hence is excluded from Table 3.

8 Figure 2 indicates that Canada's employment rate in December 2011 was 2.1 points lower than the pre-recession peak in February 2008. Table 1 reports the decline as only 1.2 points. The reason for the difference is because Table 2 reports the difference in full-year averages (in order to facilitate international comparisons), whereas Figure 1 illustrates the more dramatic evolution in the monthly series.

9 For example, the same Pollara survey cited in the Introduction to this report asked Canadians whether they expect the Canadian economy to perform better than, the same as, or worse then other countries. A full 82% of respondents reported Canada's downturn to be less severe than other countries, 14% judged it about the same, and only 1% perceived it as more severe.

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CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

205–75 Albert Street, Ottawa, ON K1P 5E7
TEL 613–563-1341 FAX 613–233-1458
EMAIL ccpa@policyalternatives.ca

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