

## Presentation to the Canadian Economic Club – January 9, 2019

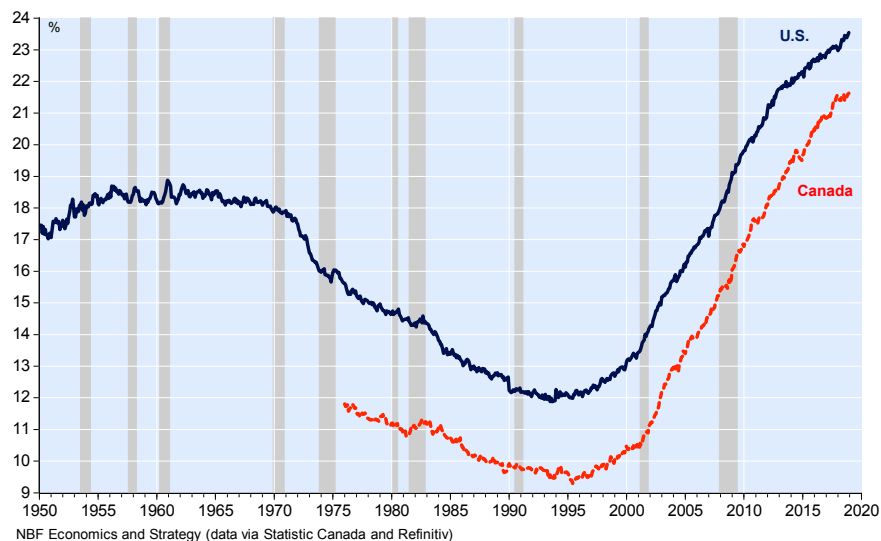
By Stéphane Marion

It's humbling to be an economist trying to forecast the path of our economic life in the midst of unprecedented demographic change and the rapid introduction of innovative technologies. The structure of the economy has evolved dramatically since the 2008 financial crisis and I'm not sure that economic models have been properly calibrated to account for these changes. Also, policymakers may not grasp how much is at stake.

- Over the past decade, workers aged 55+ have surged from 16% of total employment to a record 22% (24% in the U.S.) and that share will keep growing. **Message to central banks: don't expect much in terms of wage inflation.** This cohort of workers is not prone to ask for pay increases and its turnover is much lower than that of other age groups.

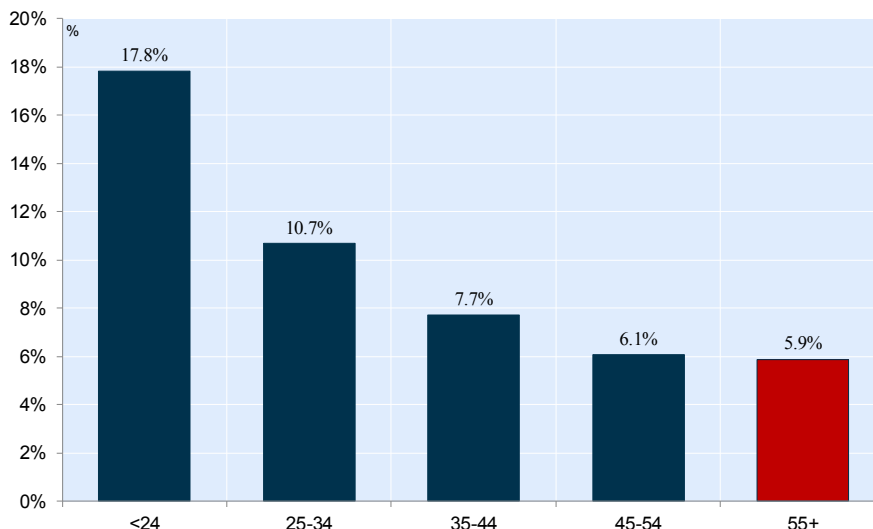
### World: An aging workforce

Share of workers aged 55+ in total employment



### U.S.: Labour turnover rate is lower for older workers

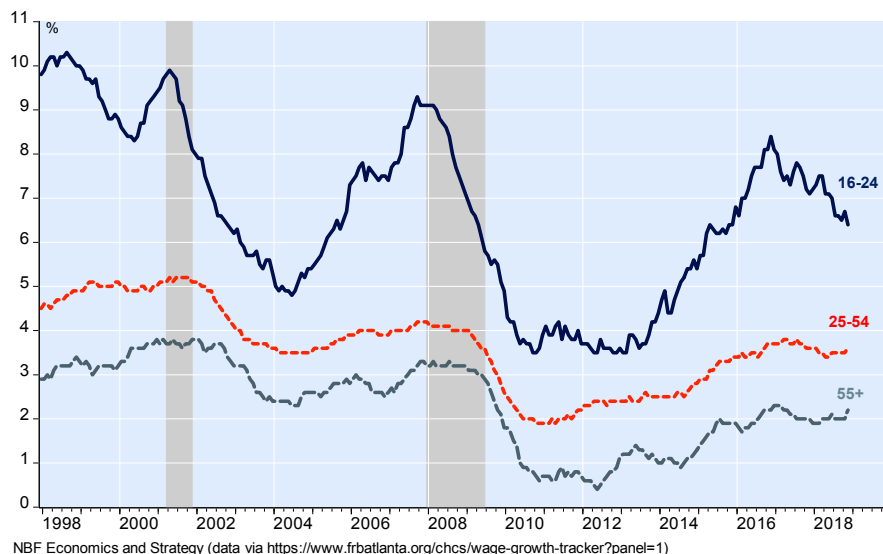
Turnover rate by age group



NBF Economics and Strategy (data via BLS)

## U.S.: Wage increases are smaller for older workers

12-month moving average of median wage growth



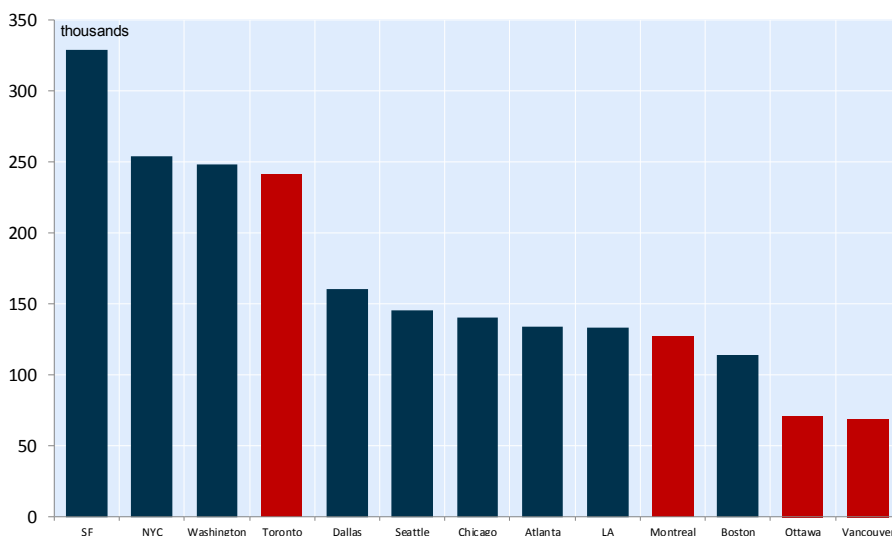
2. At the same time, the rapid shift of the economy toward the innovation sector is forcing us to reassess how we read the economic tea leaves (remember, the iPhone was introduced just a decade ago). What does it all mean?

In the previous century, competition was about accumulating physical capital. *Today, it's about attracting the best human capital.* So perhaps we should stop fretting about muted growth of traditional business investment in machinery and equipment.

But the knowledge economy tends to cluster in large urban areas for their thick labour markets and knowledge spillovers. **The GTA is on the verge of becoming the second largest tech talent pool in North America, second only to the San Francisco Bay area.** Montreal is now in the top 10 and Vancouver and Ottawa are not far behind (chart).

## Canada: Tech talent pool on the rise

Tech talent labour pool in metropolitan areas (Canada and the U.S.)\*

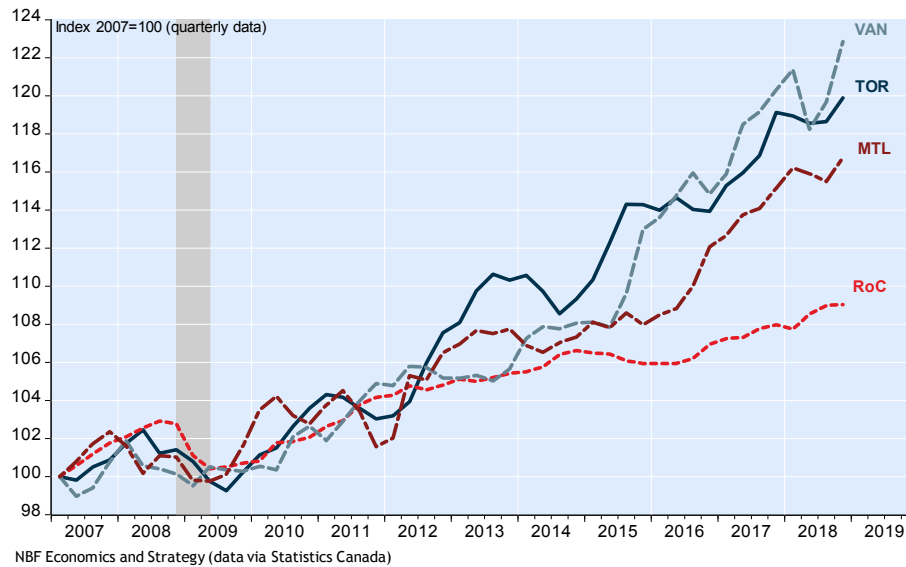


\* Software developers, programmers, computer support, database & systems, technology & engineering related, computer & information system managers  
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Enrico Moretti estimates that the innovation sector has a multiplier effect three times greater than that of manufacturing.<sup>1</sup> That helps explain why Toronto, Montreal, and Vancouver currently account for a disproportionate share of job creation in Canada – 60% in the last decade and 74% in the last three years (chart). The need to upgrade and build new infrastructure will remain an issue for the foreseeable future. Housing supply will also be a big issue for these metropolitan areas.

### Canada: Job creation in the main cities

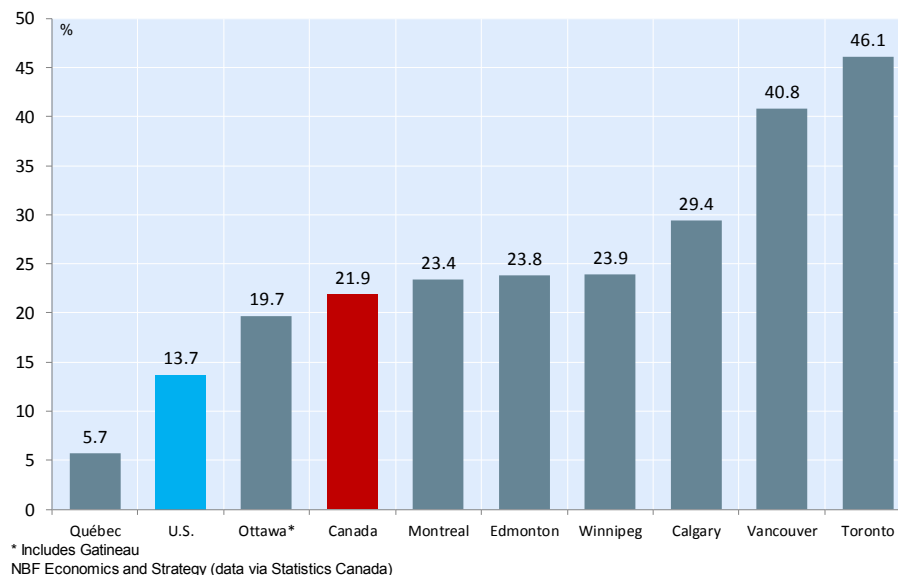
Job creation in greater Vancouver, greater Toronto, greater Montreal and rest of Canada (RoC)



Immigration has been a key source of labour supply. **Skilled immigrants generate substantial local spillovers (46% of Toronto’s population is foreign born – chart). Some 70% of Canada’s population growth is due to immigration, and more than 60% of immigrants aged 15–64 have post-secondary education – the highest proportion in the world (chart). Canada has turned out to be the world’s most successful talent poacher.**

### Canada: Perspective on foreign-born population

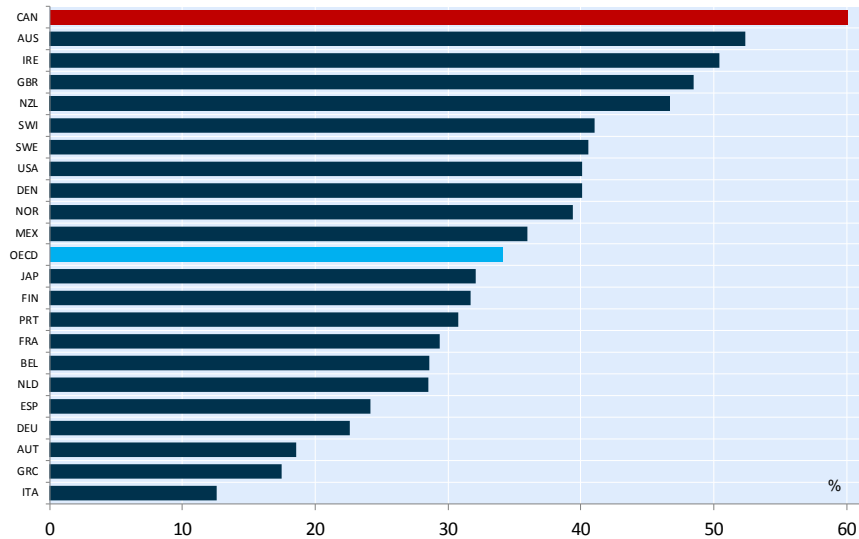
Foreign-born population as a share of total



<sup>1</sup> Enrico Moretti, “The new geography of jobs” (2013).

## Canada: The most educated immigrants in the world

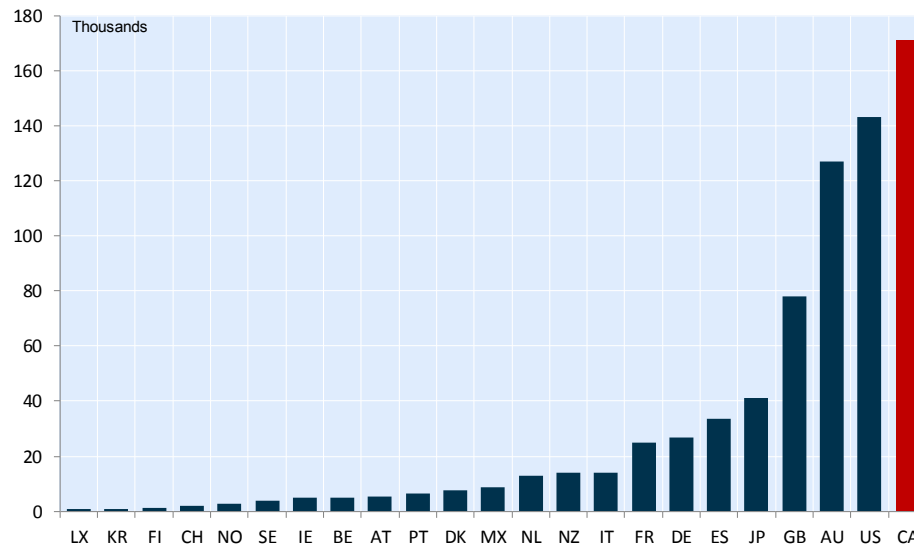
Percentage of foreign-born 15-64 with post-secondary education



NBF Economics and Strategy (Indicators of Immigrant Integration 2018: Settling In - ©OECD 2018, figure 3.1)

## Canada: Highest inflow of workforce-ready immigrants in the OECD

Annual "economic category" admissions to permanent residence (2015)

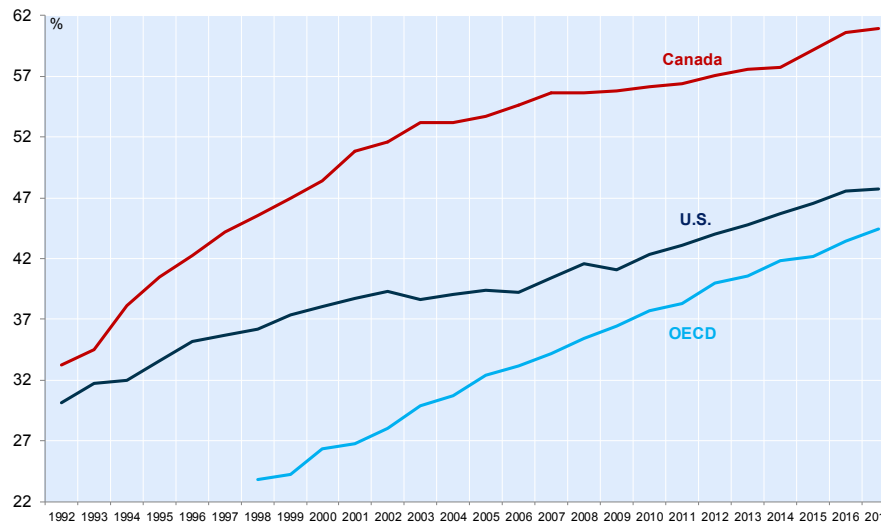


NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

**This has served us well.** More than 60% of our total population aged 25-34 has post-secondary education, the highest percentage of any OECD country and a massive 13 percentage points higher than the U.S. percentage.

### Canada: An educated workforce can support higher debt

Share of population aged 25-34 with tertiary education

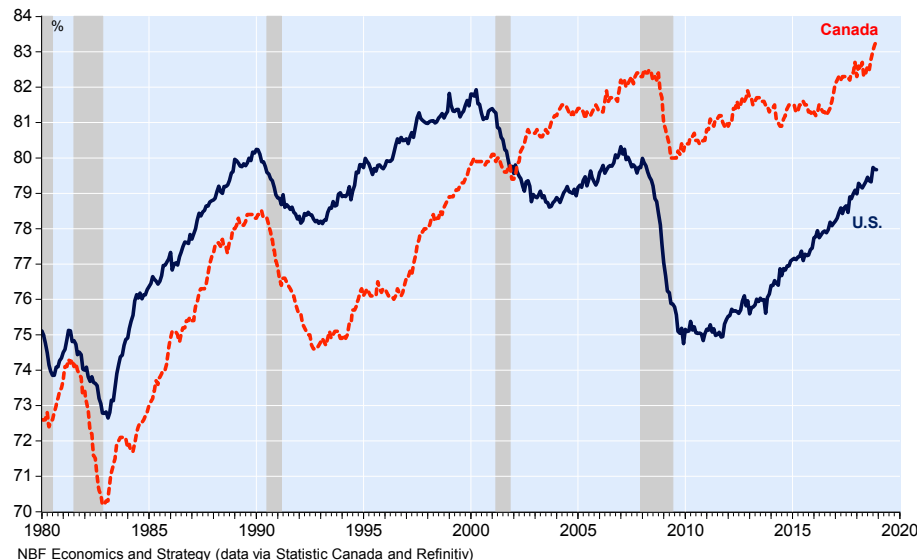


NBF Economics and Strategy (OECD data via <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>)

An educated workforce is key to maximizing the employment rate of prime-aged Canadians, which last month exceeded **83% for the first time ever**. That's a whopping 4 percentage points higher than the U.S. rate (a difference equivalent to 5 million U.S. workers). Canadian labour markets have done a superb job of adapting to globalization and technological changes. That's the story of our resilience.

### Canada: Record employment for prime-aged workers

Employment-to-population ratio for people aged 25-54

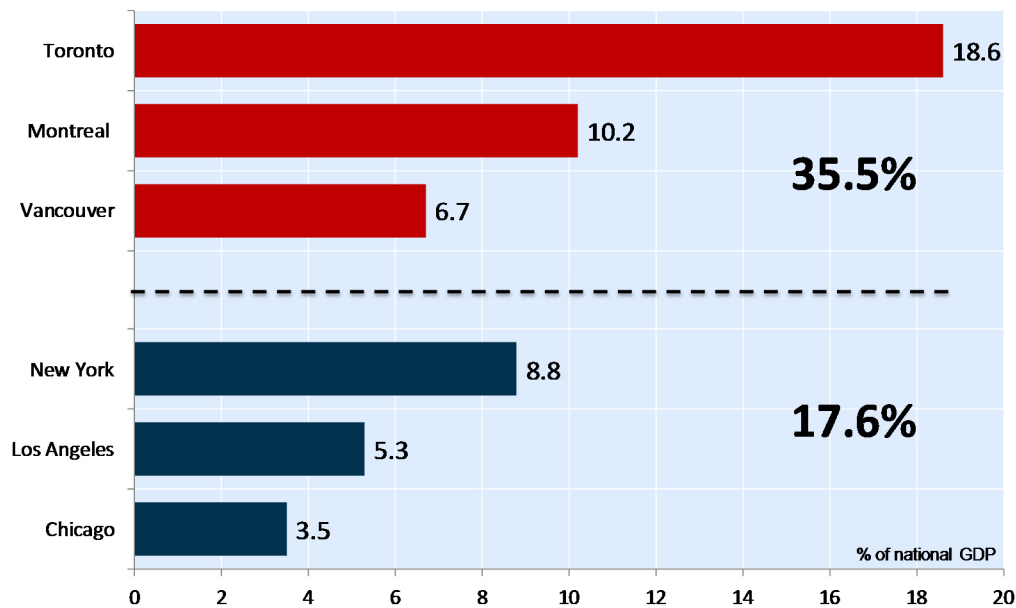


NBF Economics and Strategy (data via Statistic Canada and Refinitiv)

But there's a flip side. Canada's big-three metro areas (GTA, Montreal, Vancouver) account for 35.5% of our country's economic output, compared to only 17.6% for the U.S. big three (NYC, LA, Chicago).

## Canada: Extreme concentration

Share of national output accounted by top-3 metropolitan areas: Canada vs. the U.S.



NBF Economics and Strategy (data via BEA and Statistics Canada)

This development has led to large decline in the social acceptance of developing Canada’s all-important resource sector. City dwellers nowadays have a sense of entitlement to the use of rural areas only as their playground.

The International Institute for Sustainable Development quotes the United Nations as ranking Canada first among G7 countries in comprehensive wealth, thanks to its vast reserves of natural capital. Canada has nearly five times the natural capital per capita of the next best-endowed G7 country (the U.S.). If not for its natural resources, Canada would fall near the bottom of the G7 group in comprehensive wealth.

Why are we ashamed of exploiting our resources when we are so blessed to have them? It’s high time that people in Canada’s large metropolitan areas be better informed of the key role of the resource sector in the funding of our social programs. The responsible exploitation of our resources is critical to a fair distribution of wealth and to the socioeconomic well-being of regions.

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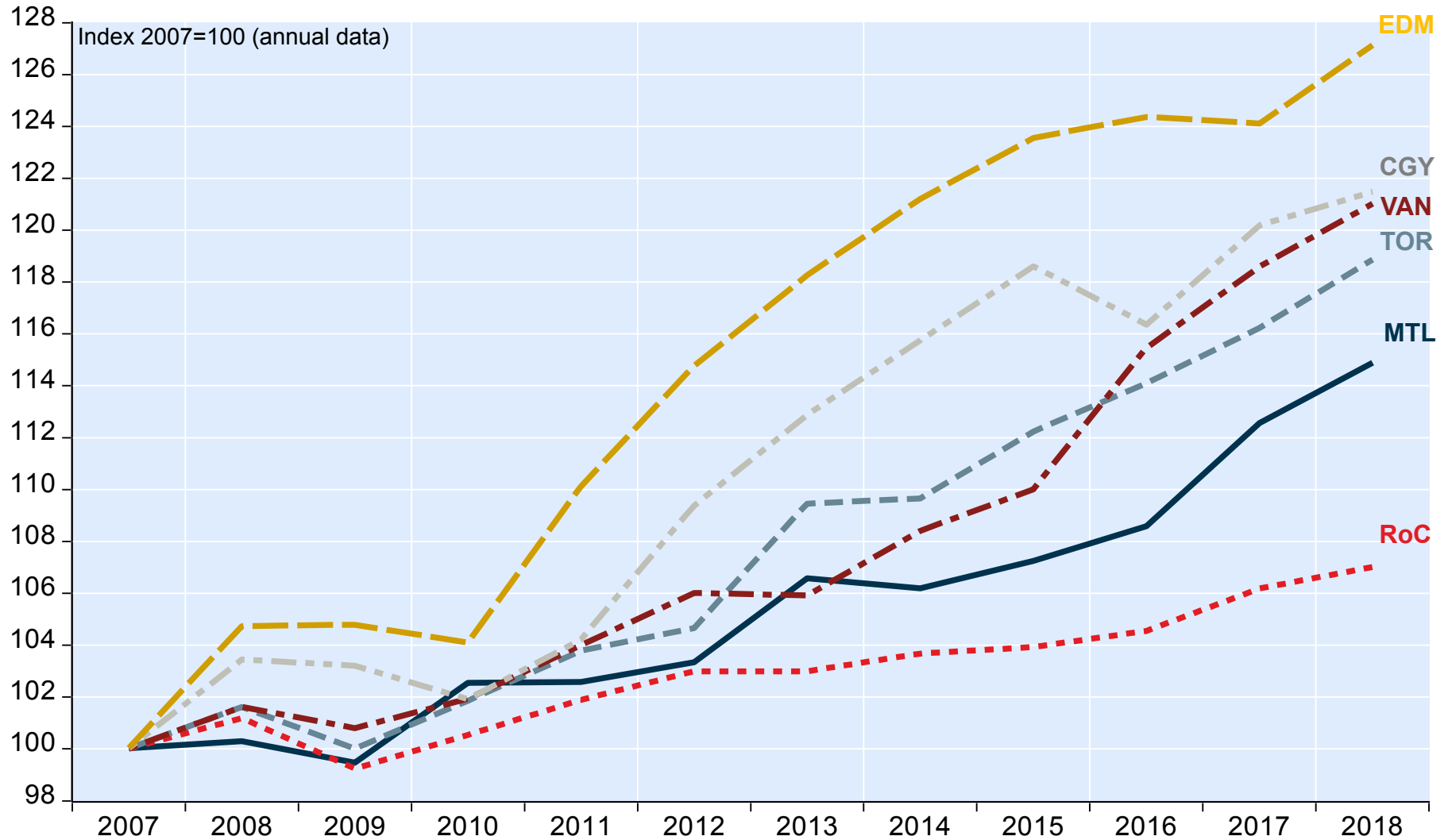
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# Canada: Job creation in the main cities

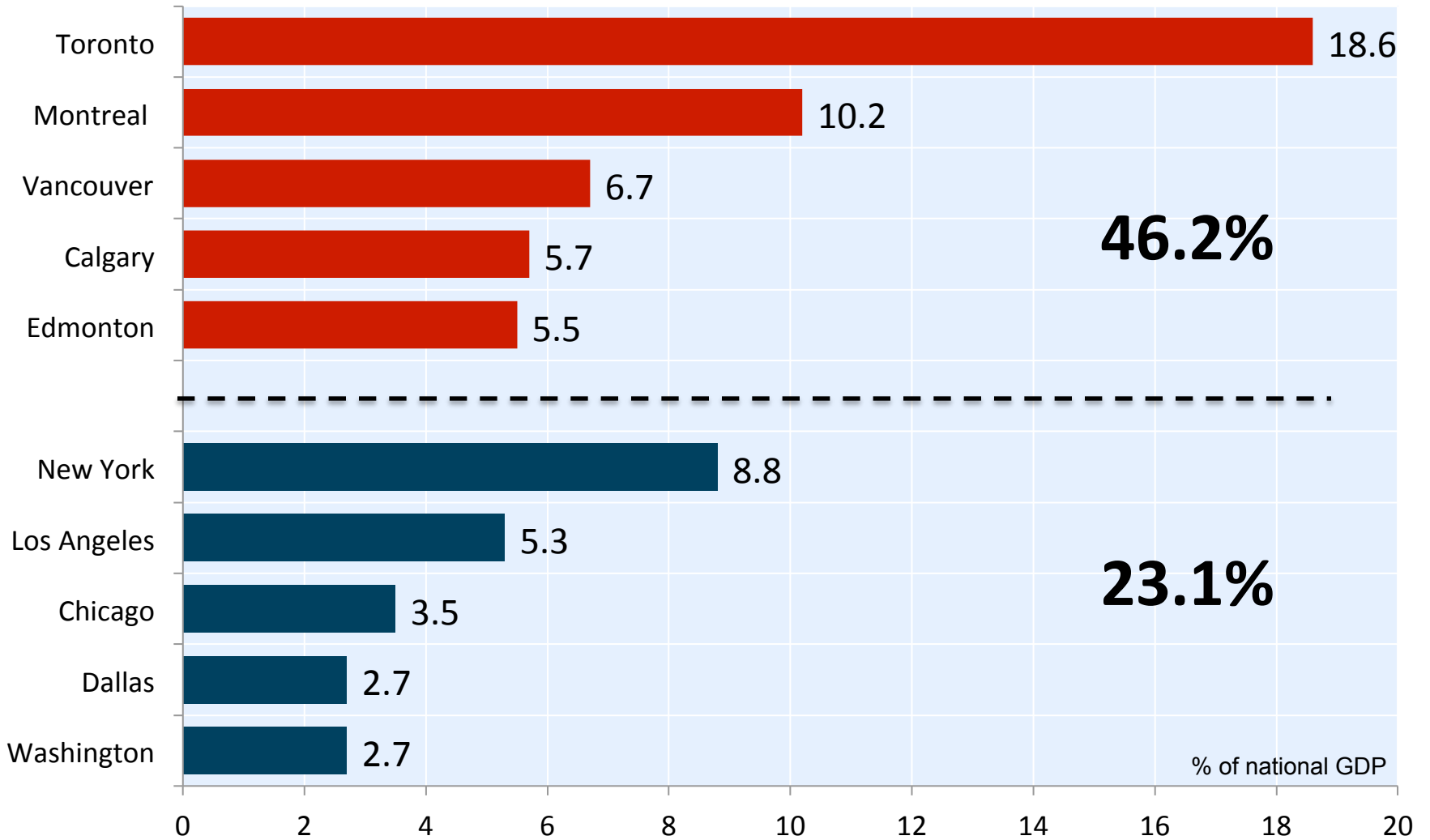
Job creation in the top-5 census metropolitan areas vs. the rest of Canada (RoC)



NBF Economics and Strategy (data via Statistics Canada)

# Canada: Extreme concentration

Share of national output accounted by top-5 metropolitan areas: Canada vs. the U.S.



NBF Economics and Strategy (data via BEA and Statistics Canada)