

# INTO THE 21<sup>ST</sup> CENTURY: CANADA, COMMODITIES AND THE GLOBAL ECONOMY

*Livio Di Matteo, Economics, Lakehead University  
Presentation for Fields on Wheels Conference,  
Winnipeg, Manitoba, November 9<sup>th</sup>, 2012*

# Outline

- Short Run Economic Environment
  - Quick Economic Overview: World, Canada, Manitoba
  - Canada's Global Strategy
- The Long Run
  - Trends and Issues
- Questions

# SHORT RUN ECONOMIC ENVIRONMENT

# Economic Overview

- World economy is still mired in crisis; the situation is still precarious – ongoing Eurocrisis; slowing economy in China and Asia. Situation may get worse before it gets better. IMF revised its projections downwards in October – high debt, sluggish growth.
- Canada doing as well as can be expected under the circumstances but economy is slowing; also a large public and private debt burden.
  - *“Toronto-Dominion Bank economist Craig Alexander, for example, said in a recent forecast that he believes the debt-to-income ratio among Canadians could climb to about 160 per cent, the level that caused such trouble for the U.S. and Britain.” Globe & Mail, April 17, 2012*
  - Household credit market debt to disposable income — a key measure of household debt — hit 163 per cent in Canada in the second quarter of 2012, well above the previous 152 per cent figure, the revision found. *Toronto Star, October 15, 2012.*
- Canadian housing prices a concern. Correction underway. Growth in Canada held back by slow U.S. recovery.
- U.S. economy showing signs of life but still burdened by large amount of debt; fiscal cliff issue.

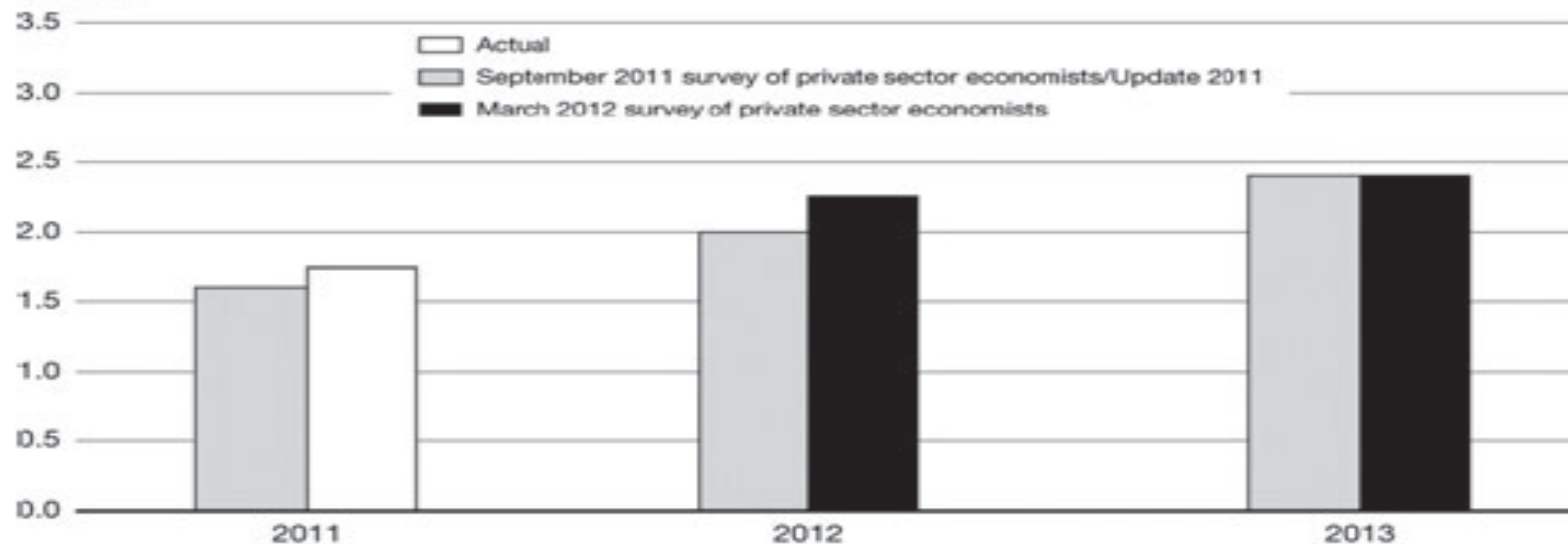
# US Economy Recovering Slowly

## Economists continue to expect modest U.S. growth

Chart 2.4

### U.S. Real GDP Growth Outlook

per cent



Sources: U.S. Bureau of Economic Analysis; September 2011 and March 2012 Department of Finance surveys of private sector economists.

# World Output

	Actual	<i>Projections</i>			
	2009	2010	2011	<b>2012</b>	<b>2013</b>
World	-0.7	5.1	3.8	3.3	3.6
United States	-3.5	2.4	1.8	2.2	2.1
Germany	-5.1	4.0	3.1	0.9	0.9
France	-2.6	1.7	1.7	0.1	0.4
Italy	-5.2	1.8	0.4	-2.3	-0.7
Spain	-3.7	-0.3	0.4	-1.5	-1.3
UK	-4.9	1.8	0.8	-0.4	1.1
<b>Canada</b>	<b>-2.8</b>	<b>3.2</b>	<b>2.4</b>	<b>1.9</b>	<b>2.0</b>
Japan	-6.3	4.5	-0.8	2.2	1.2
China	9.2	10.4	9.2	7.8	8.2
India	6.8	10.1	6.8	4.9	6.0
Brazil	-0.6	7.5	2.7	1.5	4.0
Mexico	-6.2	5.6	3.9	3.8	3.5

Source: IMF World Economic Outlook September 2011, April 2012, Update October 2012

# Recent Indicators: Canada

- Real Annual GDP Growth: **+2.5%** (2<sup>nd</sup> Q 2012) (GDP shrank in August...)
- Real Annual Business Investment (Machinery & Equipment): **-1.4%** (2<sup>nd</sup> Q 2012)
- Merchandise Exports: **+0.5%** (July 2012).
- Unemployment Rate: **7.2%** (March 2012); **7.3%** (August 2012); **7.4%** (September 2012); **7.4%** (October 2012).
- Retail Trade: **+4.7%** (Jan 2012); **+3.0%** (July 2012)
- Residential Building Permits: **+11.7** (Feb 2012); **+4.5%** (July 2012)
- According to IMF, Canada's economy grew 2.4 percent in 2011 and will grow 1.9 percent (down from 2.1 percent) in 2012. According to the IMF:  
*"External threats are the main risk, while household debt and high house prices are the main domestic concern."*

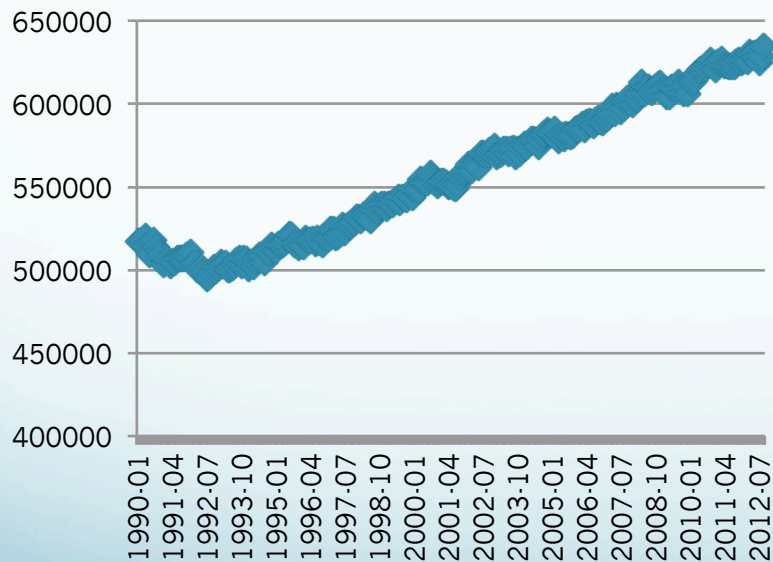
# Recent Indicators-Manitoba

- Unemployment Rate: **5.4%** (August 2012) **5.6%** (October 2012)
- Residential Building Permits: **+38.1%** (July 2012)
- Retail Trade: **+2.2%** (July 2012)
- New Motor Vehicle Sales:
  - 2011 Manitoba: **+7.0%**
  - 2011 Ontario: **+2.4%**
  - 2011 Saskatchewan: **+7.3%**



# Employment Performance

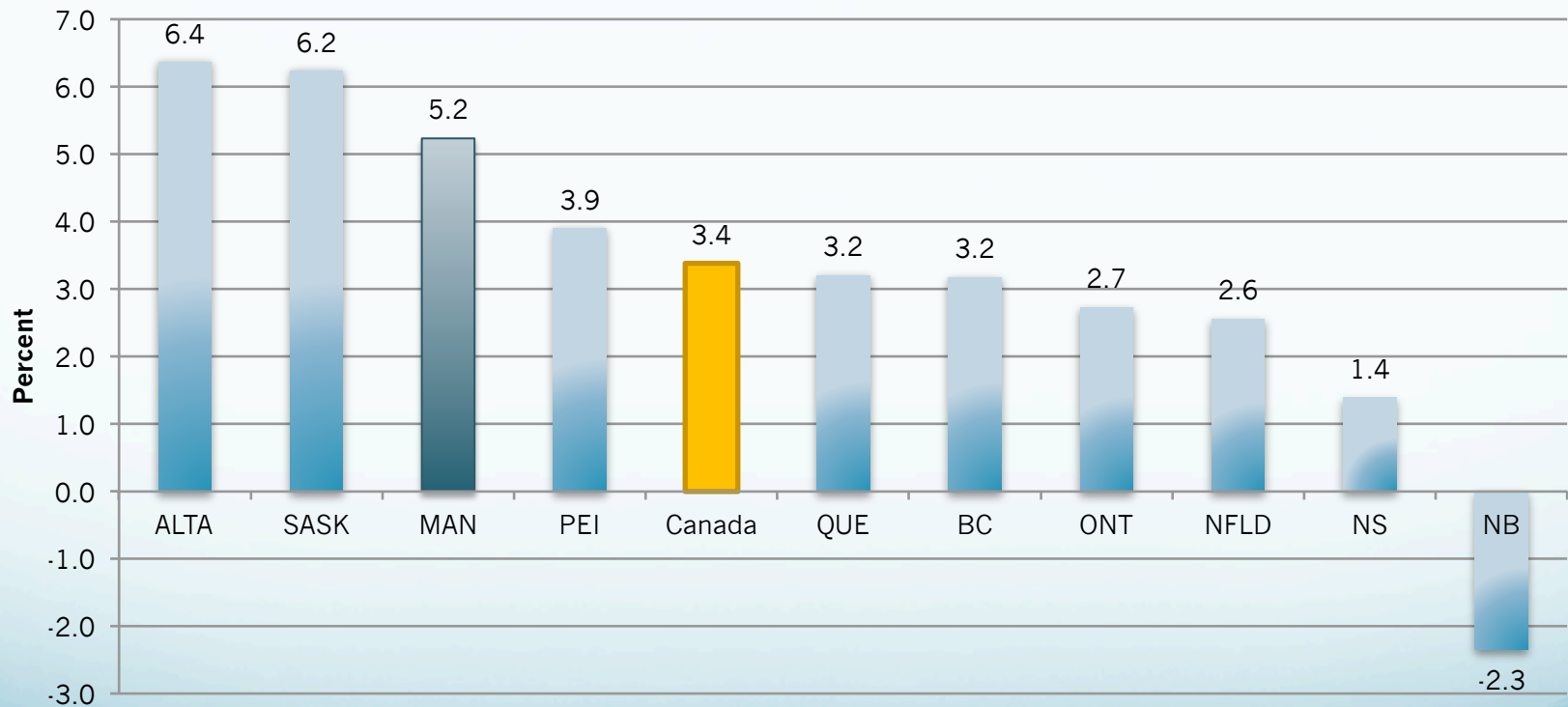
**Monthly Employment in  
Manitoba, Seasonally  
Adjusted, 1990-2012**  
(Source: Statistics Canada  
v2064134)



- Since January 2000, Manitoba has added 85,800 jobs to its economy.

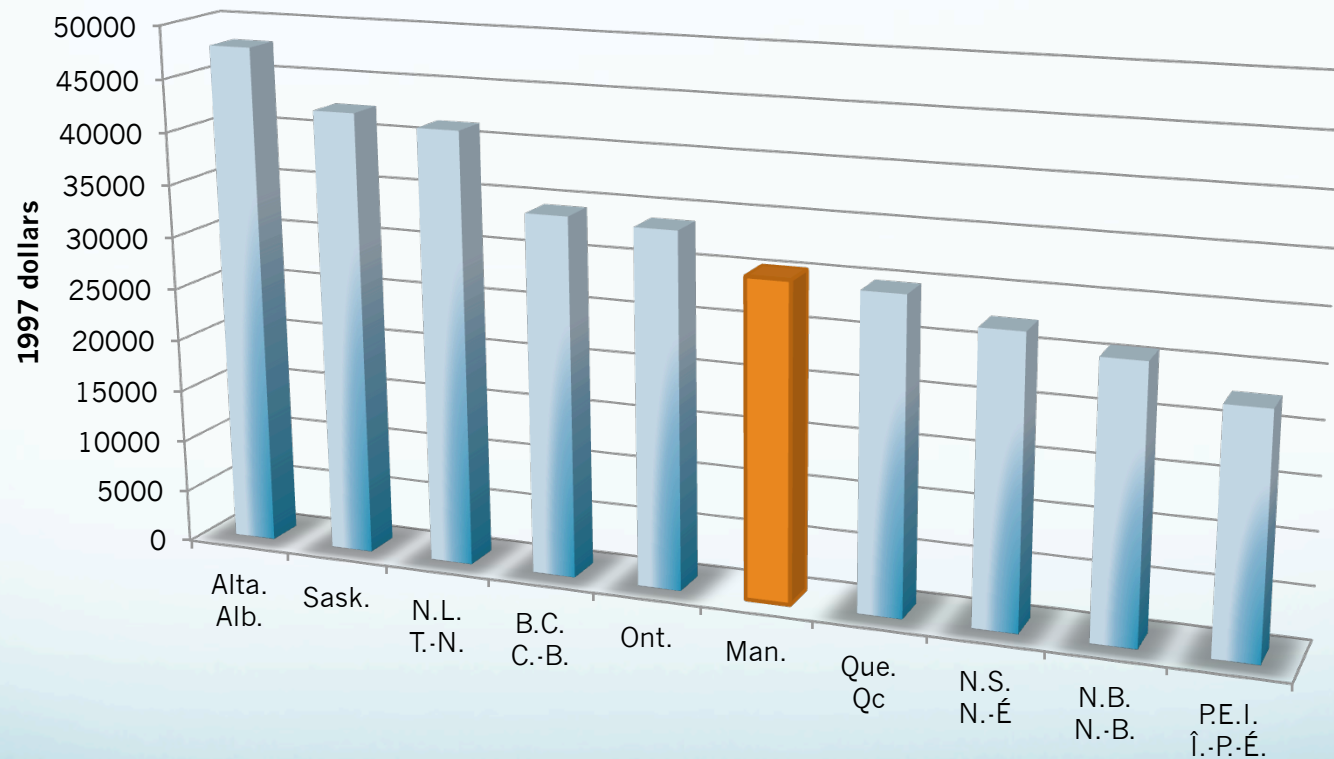
# Provincial Comparison

**Percentage Change in Total Employment, January 2008 to September 2012 (Data source: Statistics Canada)**

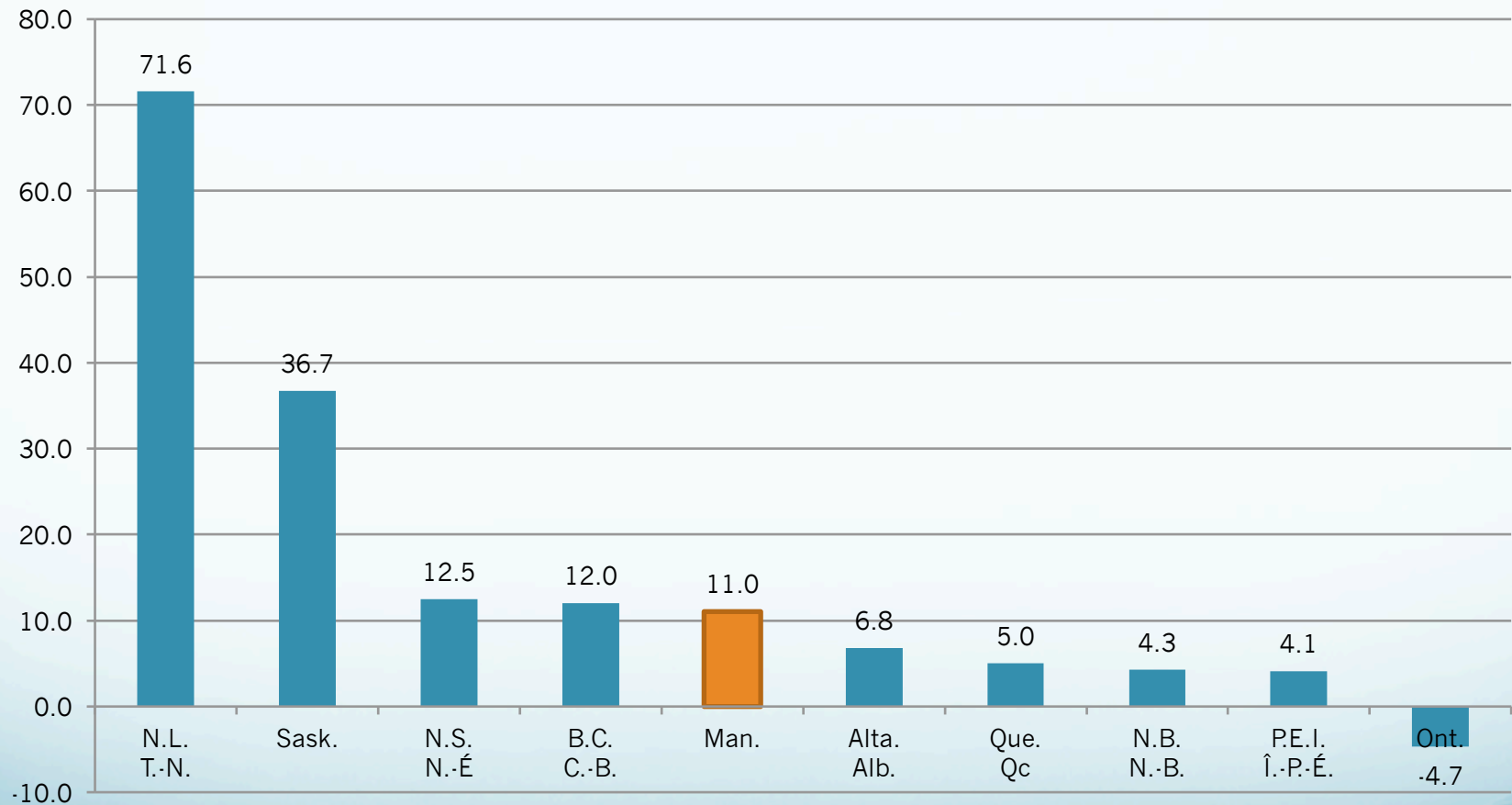


# Real Per Capita GDP Ranking

**Estimated Real Per Capita GDP, 2011(f/p)**



# Estimated Change in Real Per Capita GDP, 2000-2011(f/p)

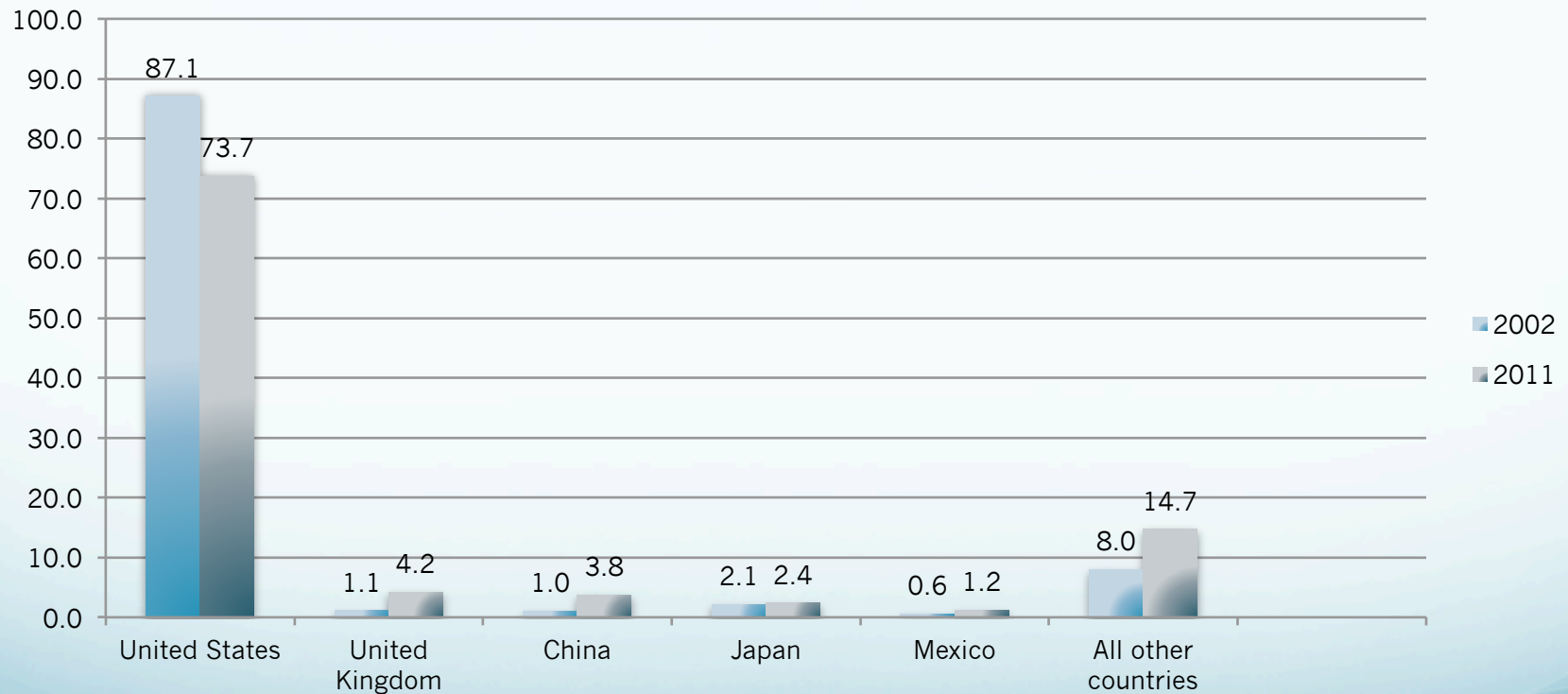


# Canada's “*Economic Strategy*”

- Federal vision can be summarized as a “*sustainable Canada*”.
- Two dimensions:
  - 1. Securing the public finances
    - Balancing budget
      - 9.7 billion dollars reduction in program spending over the next three years (total spending still rises but slower than revenue)
    - Restricting growth of individual and governmental transfers (eg. Raising OAS age to 67 by 2023; new health transfer formula)
  - 2. Long term economic growth policies:
    - Smaller government
    - Export market diversification away from US; pursuit of China, Asia and Europe
    - Natural resource development especially in West –result will be to continue shifting economic power westwards.

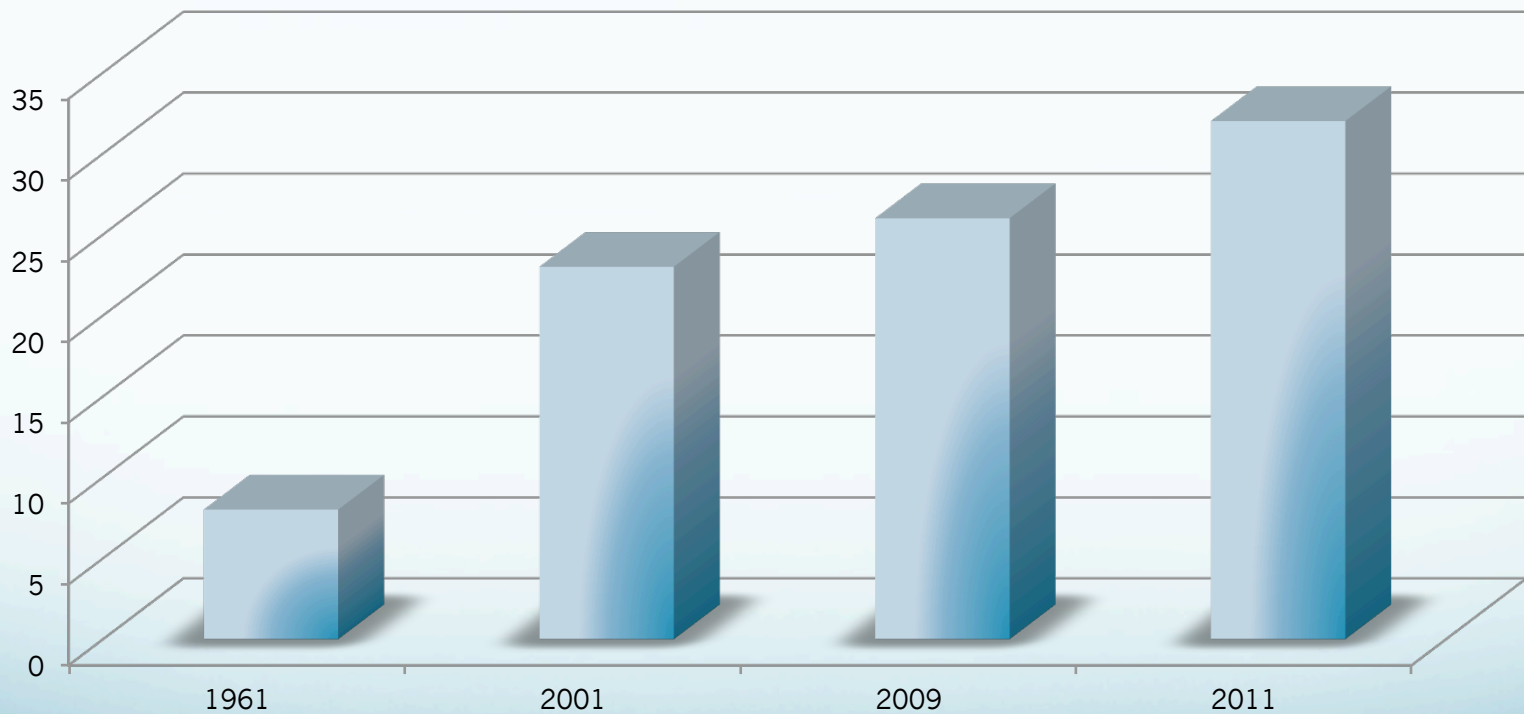
# US Share of Our Exports Declining

**Canadian Export Share by Destination (Source: Statistics Canada Daily, April 4th, 2011)**



# World Trade Growing

**Value of World Trade to World GDP(%) (Data Source: WTO Trade Statistics Report 2011)**



# THE LONG RUN:TRENDS AND ISSUES



# BASIC ECONOMICS

- Demand for resource and commodity products
  - $Q_D^R = f(\text{Price, Income, Population, } z)$
- Long run income and population growth bode well for market growth despite short term fluctuations.
- Income Elasticity- the percentage change in quantity demanded in response to a given percentage change in disposable (after tax) income.
  - Can be positive or negative

**A. Azzam "Estimates and Interpretation of Income Elasticities of Demand for Food Products" (2003). *Cornhusker Economics*. Paper 103.**

- Sausages & prepared meats +0.635
- Poultry +0.533
- Creamery butter -0.939
- Cheese -0.509
- Ice cream +0.803
- Vegetable oil -2.199
- Distilled liquor +0.820

# Rocks & Trees Still Important

Catalogue no. 11F0027M — No. 076  
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## Research Paper

Economic Analysis (EA) Research Paper Series

### Natural Resources, the Terms of Trade, and Real Income Growth in Canada: 1870 to 2010

by John R. Baldwin and Ryan Macdonald

Economic Analysis Division  
18-F, R.H. Coats Building, 100 Tunney's Pasture Driveway  
Telephone: 1-800-263-1136



Canada



- From 1870 to 2010, the cumulative growth in the volume of real gross national income (GNI) due to trading gains is 18% larger than the more common measure of production, gross domestic product (GDP).
- The 1970s and the post-2000 petroleum and resource boom continued the long-term trend of an increasing differential between real GNI and real GDP

# Resources and Commodities an Economic Engine

THE JOURNAL OF ECONOMIC HISTORY

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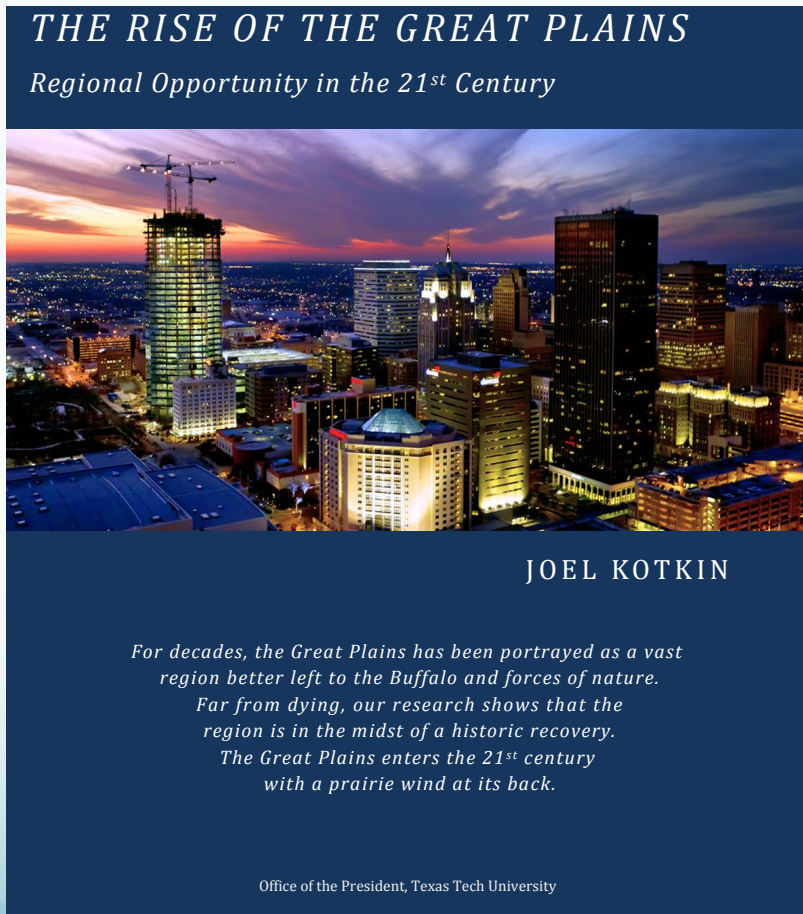
## *The Engine or the Caboose? Resource Industries and Twentieth-Century Canadian Economic Performance*

IAN KEAY

The Canadian economy, already wealthy, diverse, and relatively industrial at the dawn of the twentieth century, had not yet outgrown its reliance on resource-intensive production. Empirical evidence indicates that the exploitation of Canada's natural resource endowment made direct and indirect contributions to the size and efficiency of the twentieth-century domestic economy. I conclude that the concentration of capital and labor in resource industries did not constrain the rate of change of Canadian real GNP per capita between 1900 and 1999, and it appears to have had a substantial positive impact on the level of real GNP per capita.

- “What would twentieth-century Canadian real GNP per capita have been in the absence of any resource extraction or processing activity?”
- He finds: “...real GNP per capita would have grown at virtually the same rate that is observed in the actual data: 2.07 percent versus 2.01 percent per year, respectively.”
- *The average ratio of counterfactual to observed real GNP per capita is 0.823...A ratio of 0.823 is pretty close to saying natural resources contribute 20 percent to the economy.*

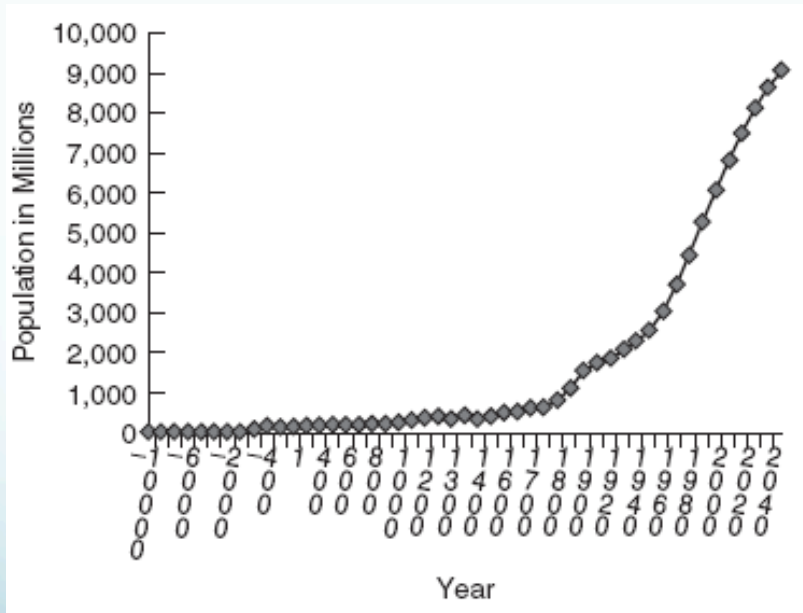
# Resources a Regional Driver



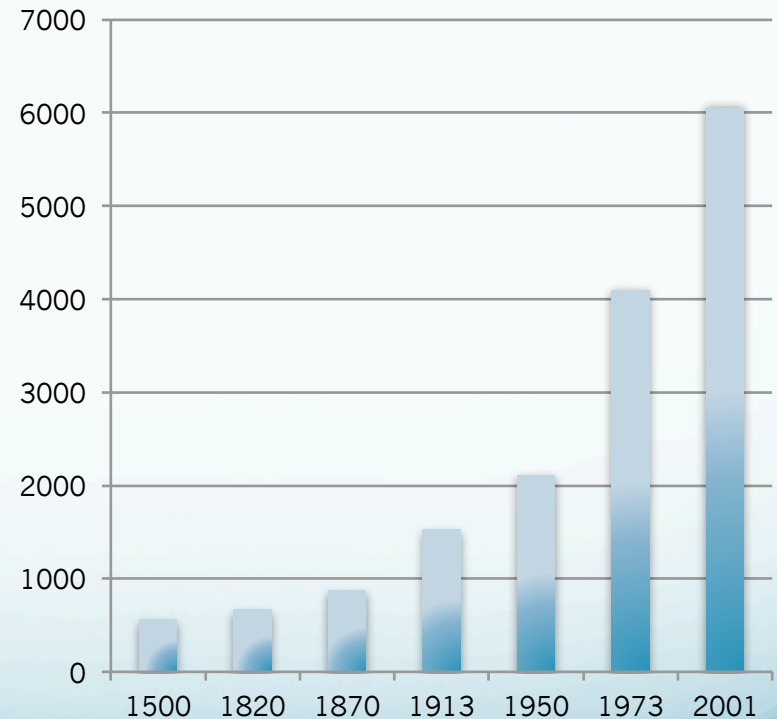
- Recent report by Joel Kotkin on US Plains region
- Over last decade region has surpassed US average in population and employment growth.
- Resurgence driven by agriculture, energy and manufacturing

# Population & Income: The Long Run

**World Population** (Source: Folland, Goodman & Stano)

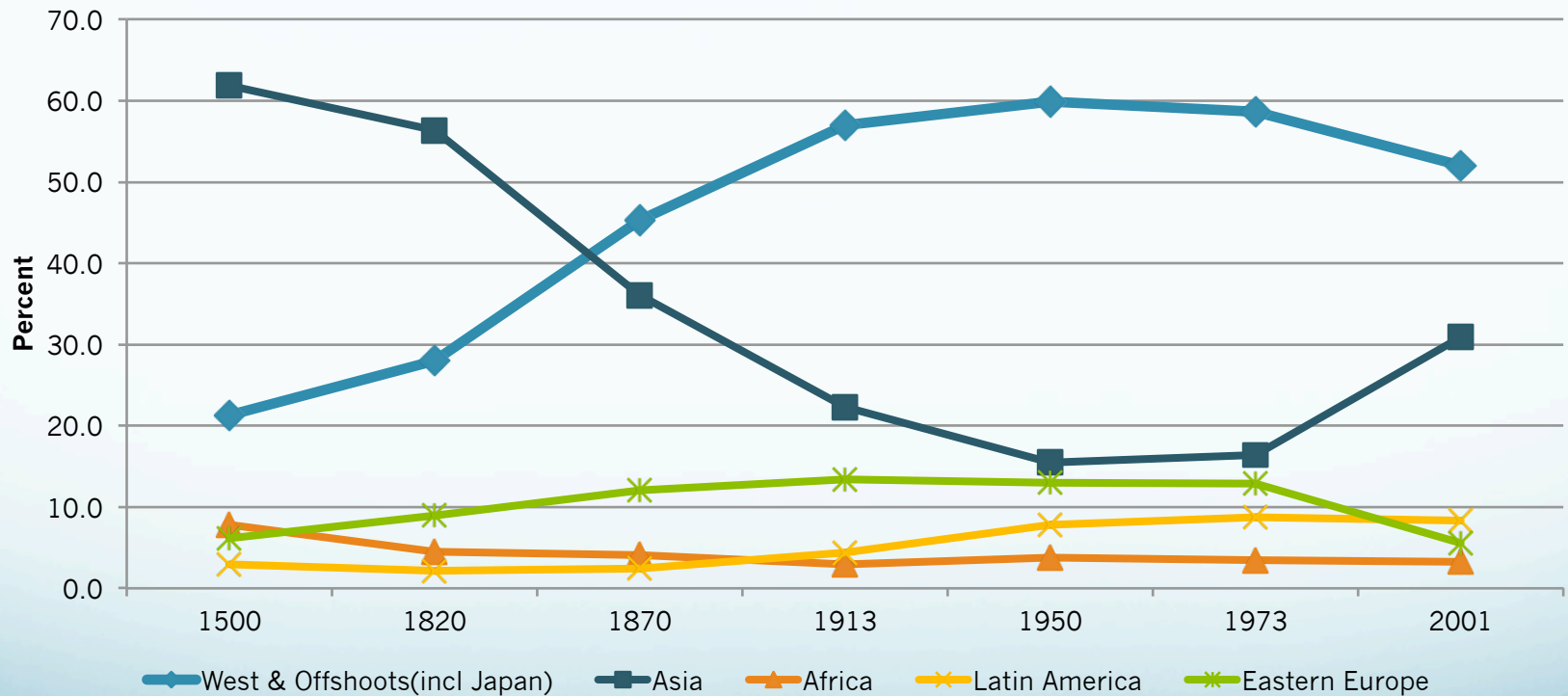


**Real Per Capita World GDP 1990 dollars** (Source: Angus Maddison (2005))



# Distribution of World Income Changing

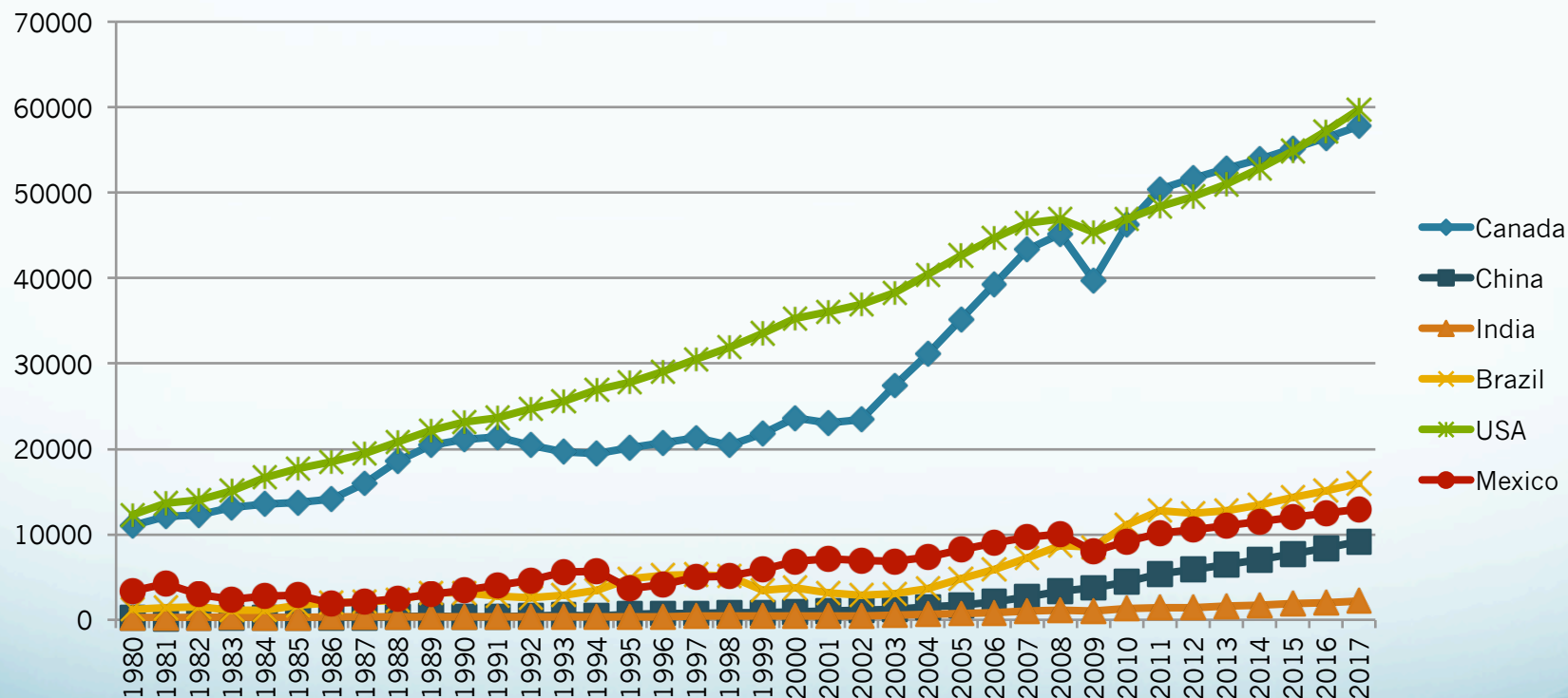
**Distribution of World GDP 1500-2001** (Source: Maddison (2005))





# Recent Income Trends: Per Capita GDP 1980-2017 (Source: IMF World Economic Outlook Database 2012)

## Nominal Per Capita GDP in US Dollars: 1980-2017 (Estimates after 2010)





# Things to Watch For

# 1. Rise of Asia & Latin America

- Rising incomes
- Rising middle class
- Demand for North American style food products & diets (eg. More meat).

# 2. European & North American Malaise

- Financial crisis & effects a North American/ European issue
- U.S. economy is still a major market but may not be a source of robust growth
- Don't count Europe and USA out:
  - Are still very wealthy economies-more resilient than you think.
  - Also still an opportunity with respect to specific products

# 3. Trade & Globalization

- Europe & North America
  - Aging populations – shift in consumer product demand.
  - Service/knowledge exports important here.
  - Possibility of US oil self-sufficiency will have global implications
- New trade opportunities for Canada w,r,t resources & commodities:
  - China
  - India
  - Latin America (Especially Mexico & Brazil)
  - Africa (South Africa particularly)

# 4. Food Prices

## Factors in Recent Increase

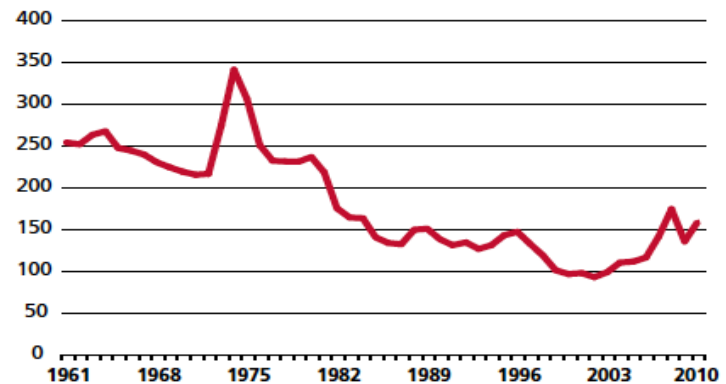
- Rising demand due to income & population growth
- Weather shocks (drought)
- Bio-fuel subsidies (corn)
- Higher input prices (eg. Oil, fertilizer)

## Is Era of Cheap Food Ending?

FIGURE 3

Apart from a peak in the early 1970s, the cost of food declined from the early 1960s until 2002, since when it has started an upward trend

Index (2002–04 = 100)



Note: FAO Food Price Index, adjusted for inflation, 1961–2010, calculated using international prices for cereals, oilseeds, meats, and dairy and sugar products. The official FAO Food Price Index has been calculated since only 1990; in this figure it has been extended back to 1961 using proxy price information. The index measures movements in international prices, not domestic prices. The United States gross domestic product deflator is used to express the Food Price Index in real rather than nominal terms.

Source: FAO.

# Questions?