

Translating today's decisions into economic growth

How supporting the growth of Canadian tech companies alters the path of the economy



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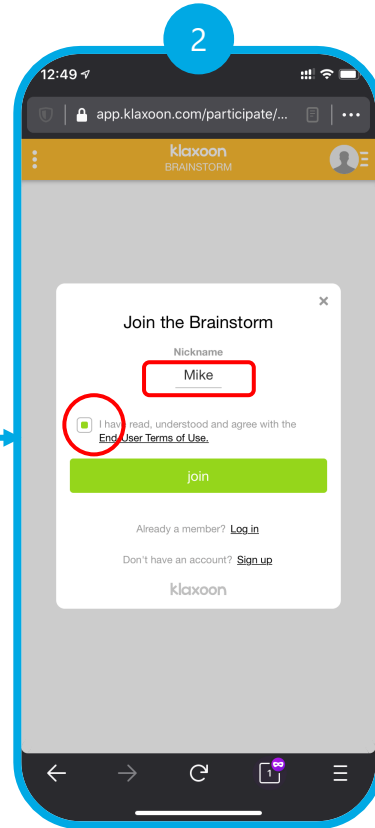
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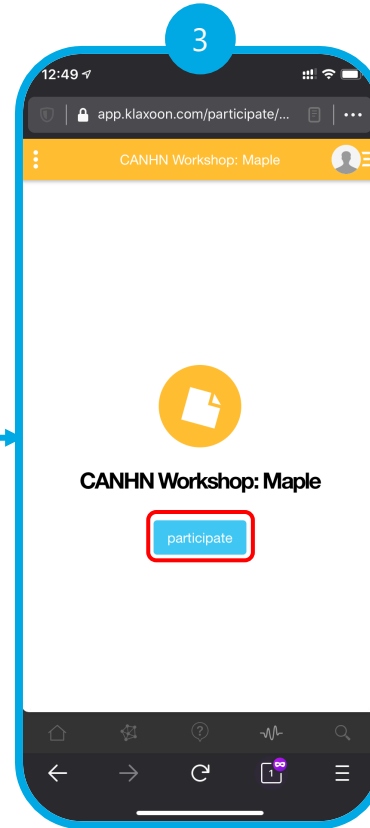
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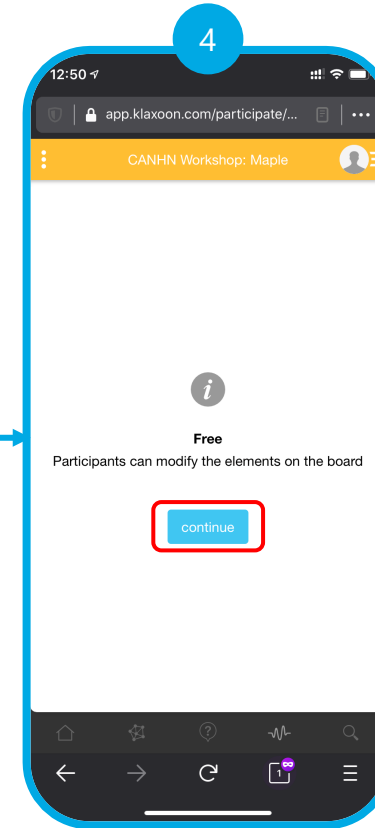
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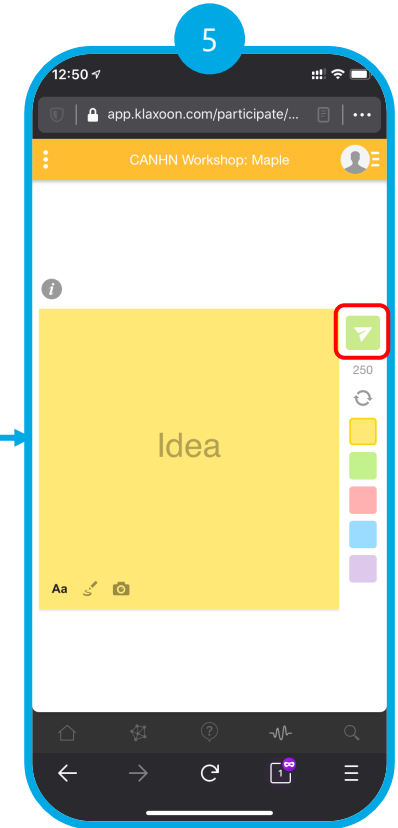
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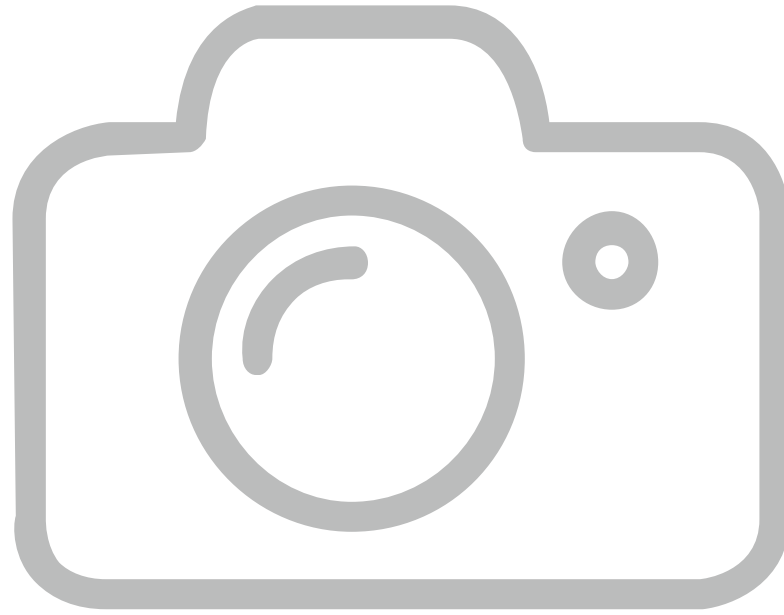
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Group Photo!



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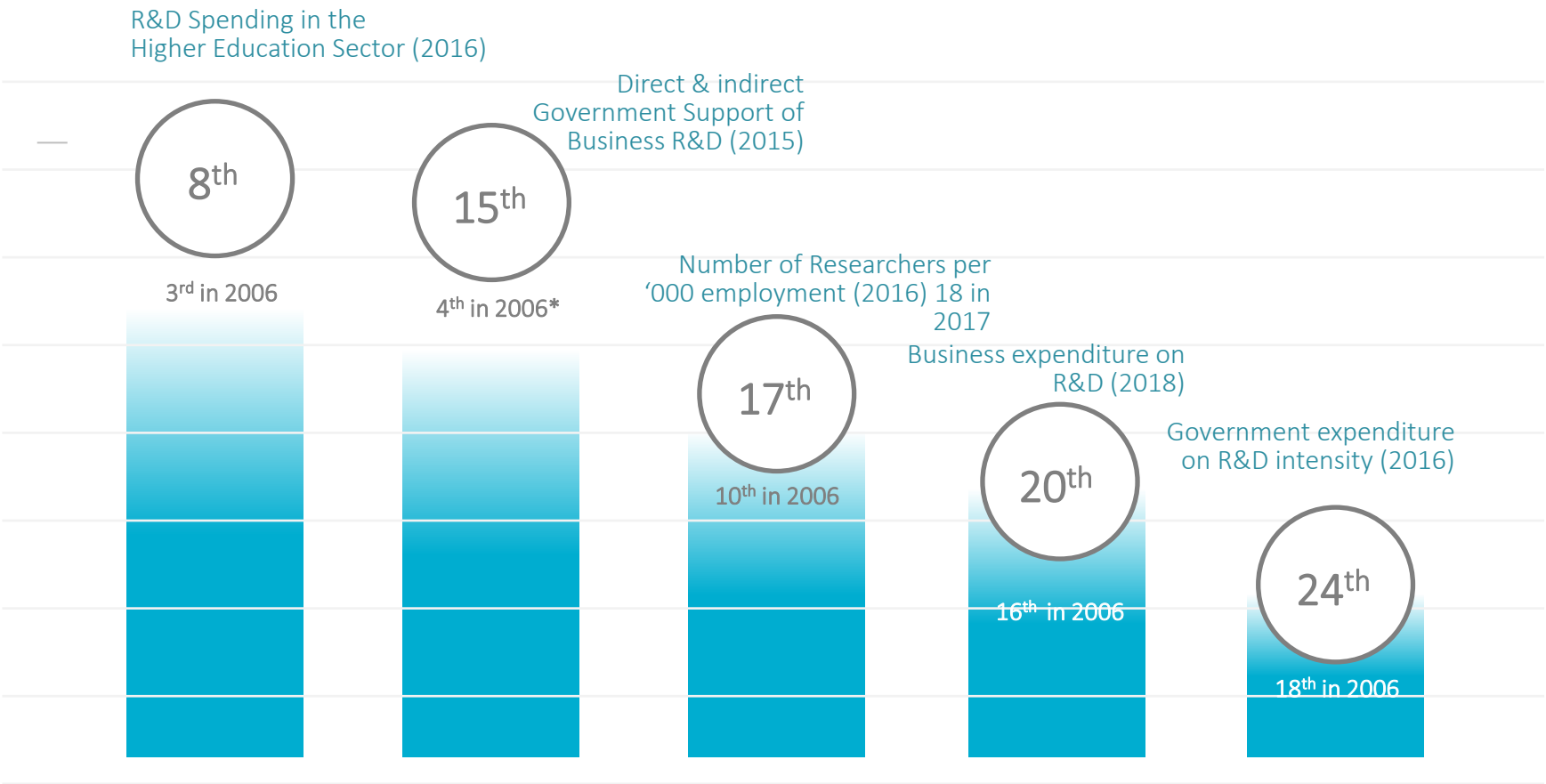


Imperative to build the foundations for a resilient economic recovery



Competitors pulling ahead over the past 20 years

Canada's Ranking on Key Indicators Among 35 OECD Countries



Canada

SUPPORTING INNOVATORS



Economic Strategy Tables



Strategic Innovation Fund



Innovation Superclusters



Regional Growth



Innovative Solutions Canada



IRAP

4 AREAS OF ACTION

Investment & Scale



VC Catalyst Initiative

VC Bridge Financing Program

BDC programs

Public – Private Partnerships



Industry Strategy Council

Economic Strategy Tables

Health and Biosciences
Economic Strategy Table

Research, Technology,
Commercialization



Strategic Innovation Fund

- Digital Health and Discovery Platform /
Industry Consortium for Image-Guided
Therapy

Innovation Superclusters / NRC-IRAP

Technology &
Procurement



Innovative Solutions Canada

NRC COVID-19 Challenge

CAN Health Network

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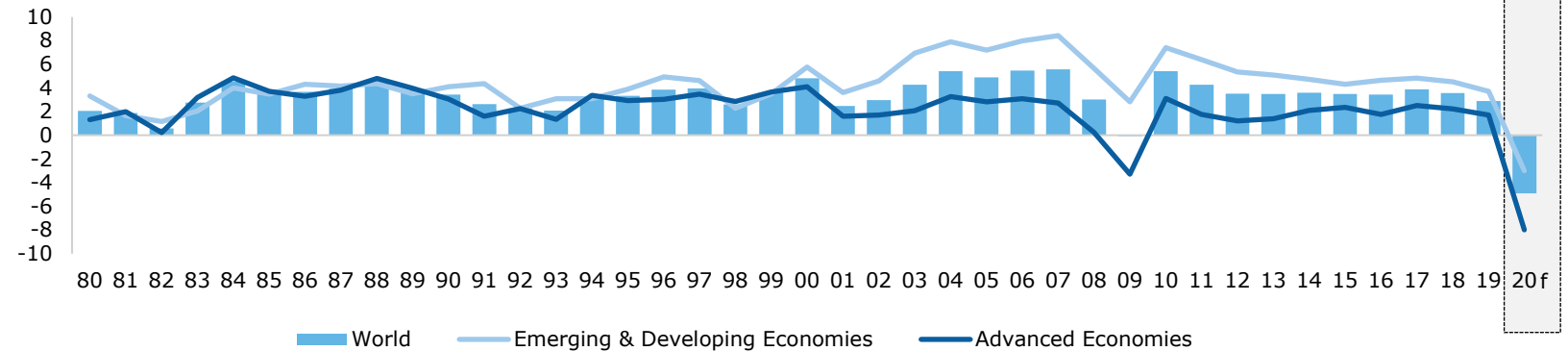


The global and North American economies are in the midst of the worst recession since the Great Depression

- The COVID-19 pandemic is a public health crisis which quickly evolved into an economic crisis with lasting global effects
- The Canadian economy experienced an estimated drop in GDP of 40 per cent in 2020Q2, putting it on track for the largest annual decline on record, following the Great Depression
- Several factors, including timing for a vaccine, vastly different public health/re-opening policies and the possibility of a second wave of infection is creating elevated uncertainty around the pace of recovery
- Both advanced and emerging economies will feel the economic impacts of COVID-19 for years to come, as they contend with large debts, poor labour outcomes, and growing political unrest



Real GDP Growth
IMF and Deloitte LLP, Percent Change



Real GDP Growth in Canada
Statistics Canada and Deloitte LLP, Percent Change



Possible Economic Recovery Scenarios

The economic contraction we are witnessing is a result of businesses being forced to close – the forecasted recovery could look different.

Optimistic

A Steep but Short-lived Downturn

Pandemic containment efforts prove successful, economic activity manifests in a steep but short-lived decline.

- Shutdowns result in a global recession in 2020, with **global growth slowing to zero**.
- Real GDP in Canada experiences a sharp decline of 40% in Q2 as a result of social-distancing measures. **GDP declines by 6.7% in 2020.**
- Canadian economy hit by a “perfect storm” of pandemic shutdowns, transitory slump in global demand, and a collapse in oil prices.
- Containment efforts are relaxed in the summer.
- Gradual recovery of the Canadian economy begins in late 2020, followed by a **large rebound of 8 per cent growth in 2021.**

Prolonged Pandemic & Delayed Rebound

Pandemic lasts longer than we’re ready for with a virus resurgence leading into 2021.

- The **global economy experiences a 2-3% decline** in real GDP in 2020. Recession expected to last 9 Quarters.
- In the first half of the year, the Canadian economy experiences a similar decline as scenario 1, with a short rebound in Q3 of 2020.
- A resurgence of the virus occurs in late 2020, stifling further recovery efforts. There is a projected **GDP decline of 7.5% in 2020.**
- Canada’s economy faces another shutdown in the first few months of 2021.
- Advanced economies struggle to fully reopen for business as the virus resurges towards the end of 2020. Emerging countries ramp-up containment measures in Q2 and Q3.
- The government is quick to respond to the second wave of infections, with safe re-openings being possible by Q2 of 2021. A gradual recovery begins in late-spring 2021.
- **Canadas recovery is slower than in scenario 1 with 6.4 per cent growth in real GDP in 2021**

Pessimistic

Worst Case Scenario

Containment fails. The virus continues to mutate preventing the development of a successful vaccine.

- The **global economy experiences a 6% decline** in real GDP in 2020.
- The Canadian economy declines by a similar amount as the other two scenarios in the first half of the year. However, the recovery in the second half remains muted. **GDP declines 11.5% in 2020.**
- Unprecedented contractions in advanced and emerging economies keeps global demand subdued for 2.5 years.
- Socio-political unrest materializes in a large number of countries.
- We expect another mild contraction in Canadian GDP in 2021, followed by a **modest rebound in 2022.**

SCENARIO DETAILS

COVID-19 has reoriented the direction and speed of certain trends impacting the Canadian economy



EMERGING TRENDS

Disrupted or changing supply chains

Industrial sovereignty/protectionism

Increased role of government

Change in consumer behaviour



ACCELERATING TRENDS

Increased debt for households, businesses and government

Shift to digital

Changing nature of work

Increase in automation and AI



PERPETUAL CHANGE

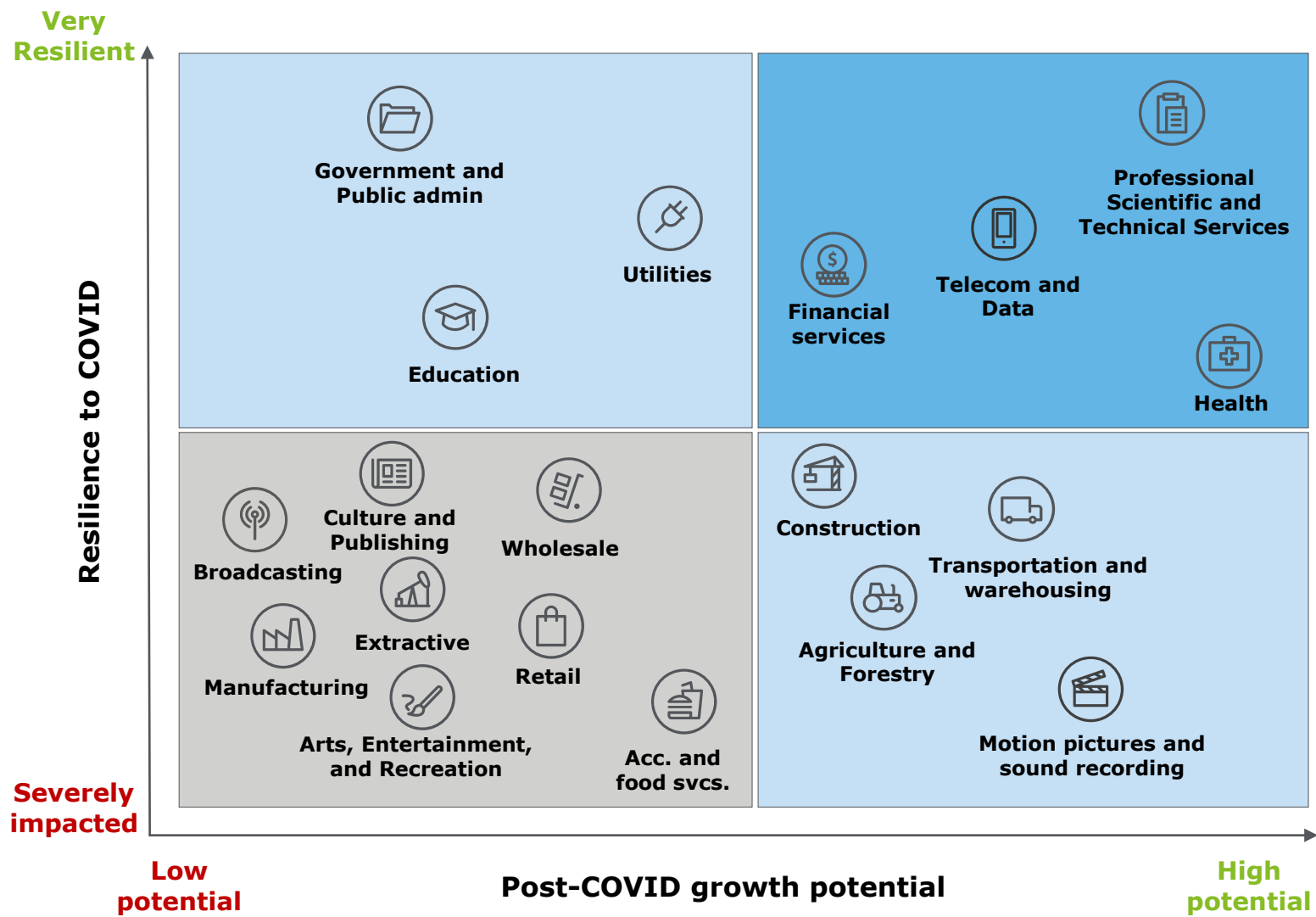
Addressing climate change

Demographic change

Weak investment and poor productivity

Populism

The pandemic has varying impacts on industries' recovery depending on the degree of exposure to economic closures, and the ability and speed of adaptation



Beyond the immediate recovery, prospects for economic growth will be held back by falling labour participation, weak business investment, and sluggish productivity growth

Long-term economic growth will be determined by growth in Canada's underlying potential.



The estimate of potential economic growth is based on three key components:



The number of available workers

The stock of productive capital

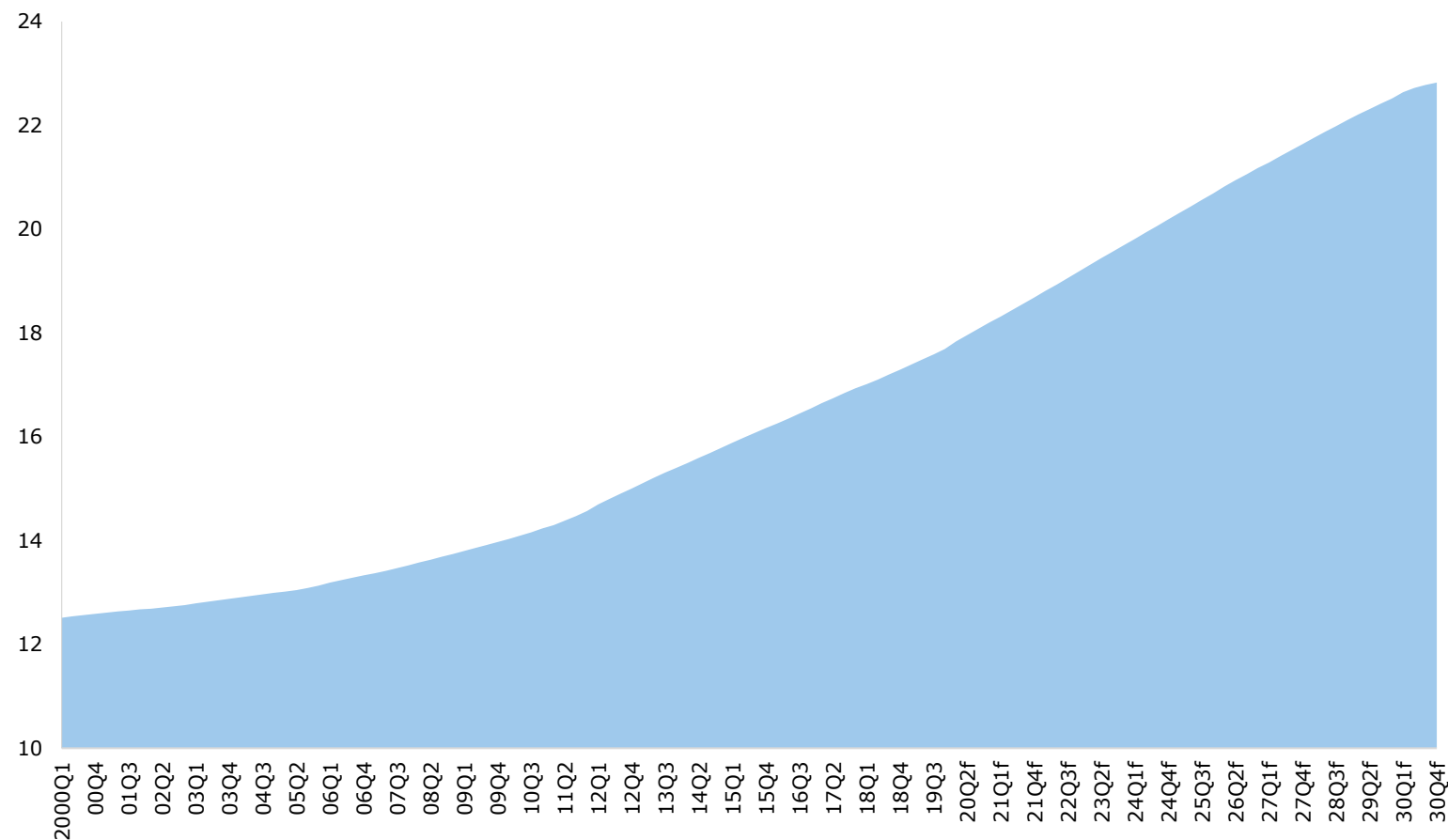
Productivity, or the efficiency with which capital and labour mix to produce output

Aging demographics will result in a rapid increase in the share of Canadians over 65



Share of the Population Over 65 is Rising

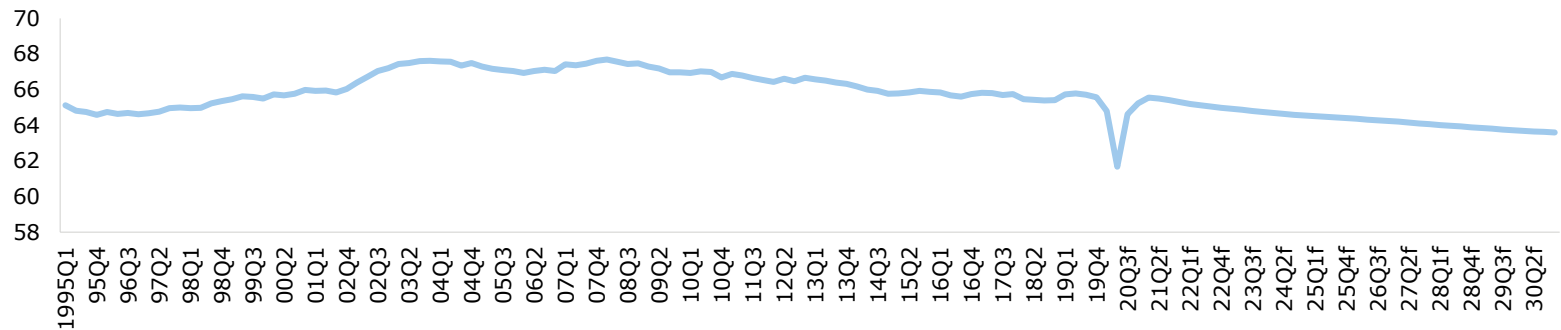
Statistics Canada and Deloitte LLP, Share of the population over 65, percent



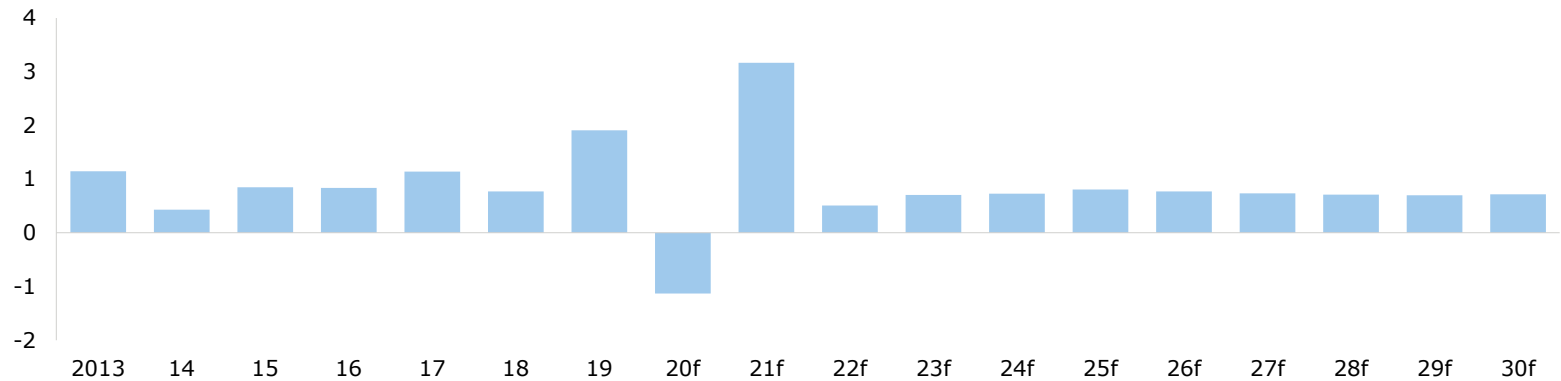
Population aging will reduce our labour force growth



Labour participation rate
Statistics Canada and Deloitte LLP, Percent



Labour force growth
Statistics Canada and Deloitte LLP, Percent Change

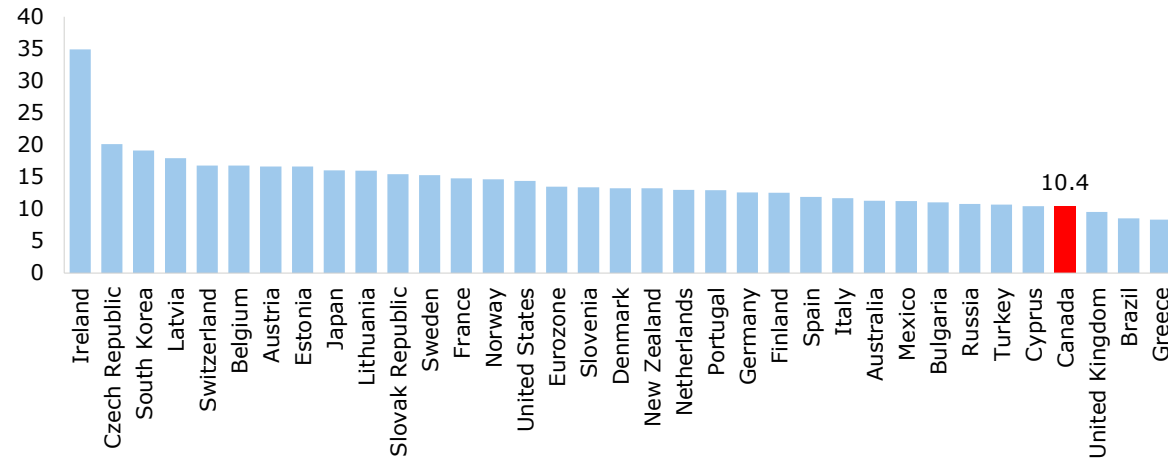


Weak business investment limits growth in Canada's productive capital



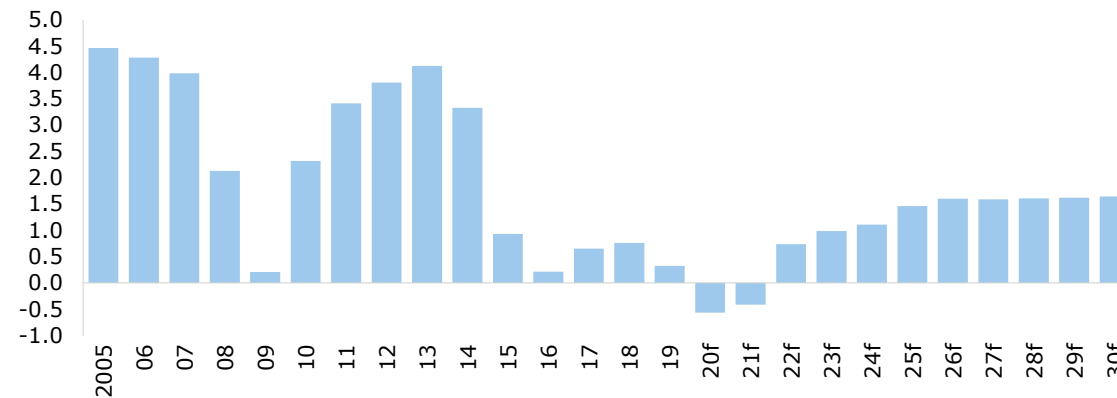
Private sector business investment, 2019

Percent of GDP

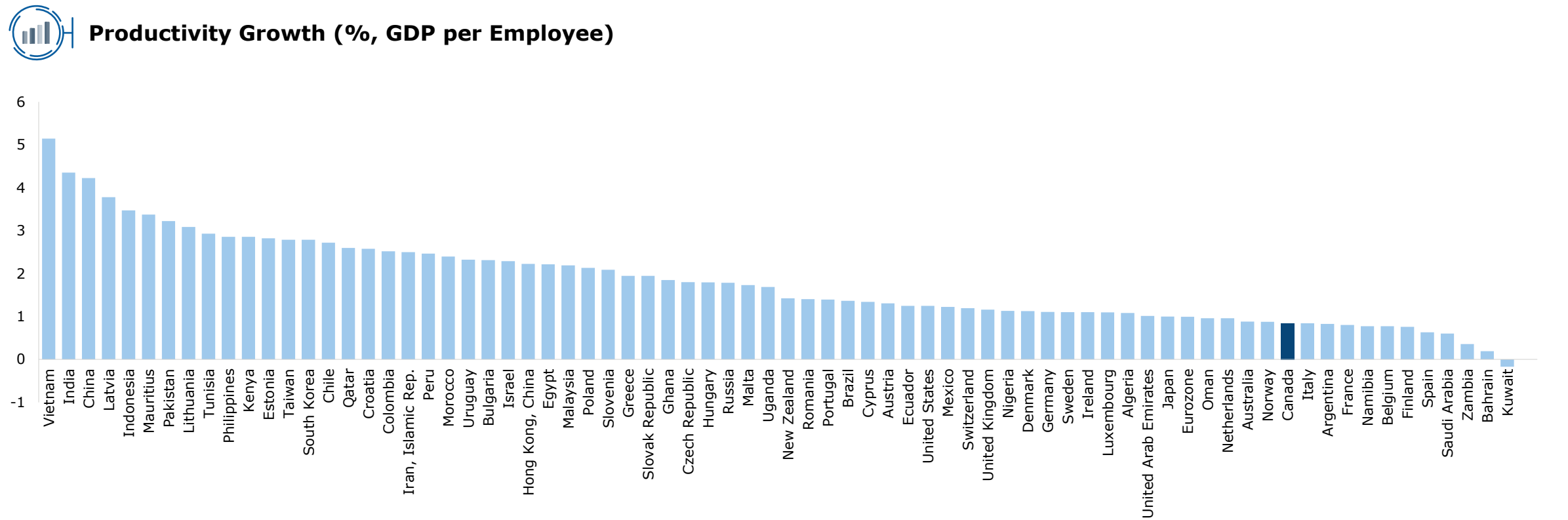


Growth in productive capital (business capital stock)

Statistics Canada and Deloitte LLP, Percent Change



Canadian labour productivity has been slowing and is weak compared to peers

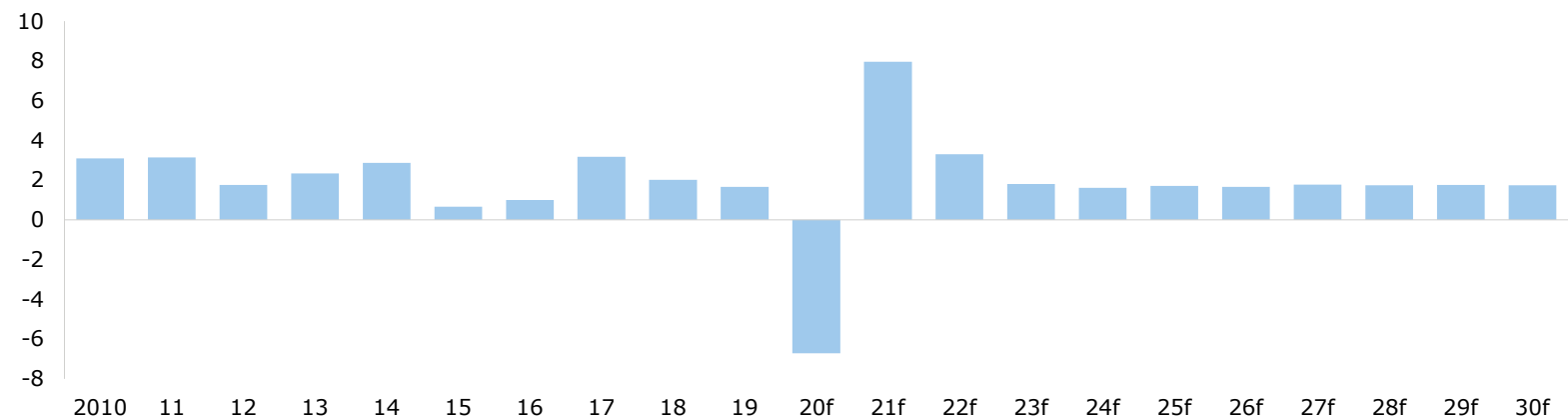


Weak potential output growth translates into a subdued outlook for GDP and Income



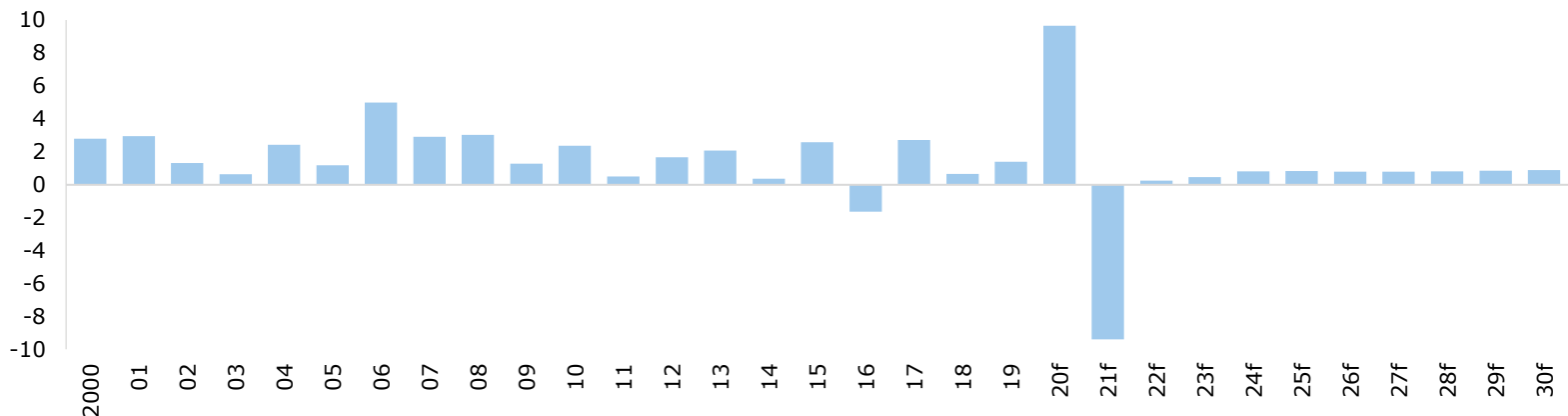
Real GDP growth to slow

Statistics Canada and Deloitte LLP, Percent Change



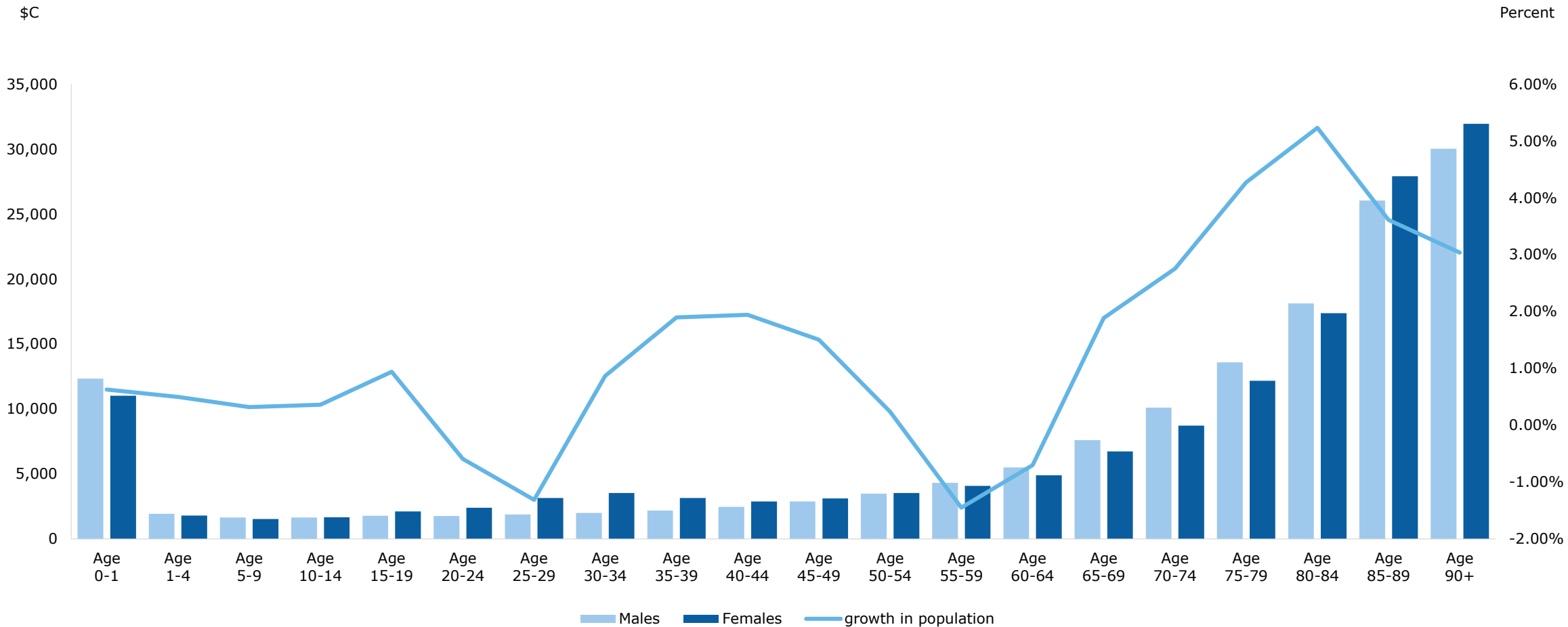
Real Personal Disposable Income Growth per person

Statistics Canada and Deloitte LLP, Percent Change



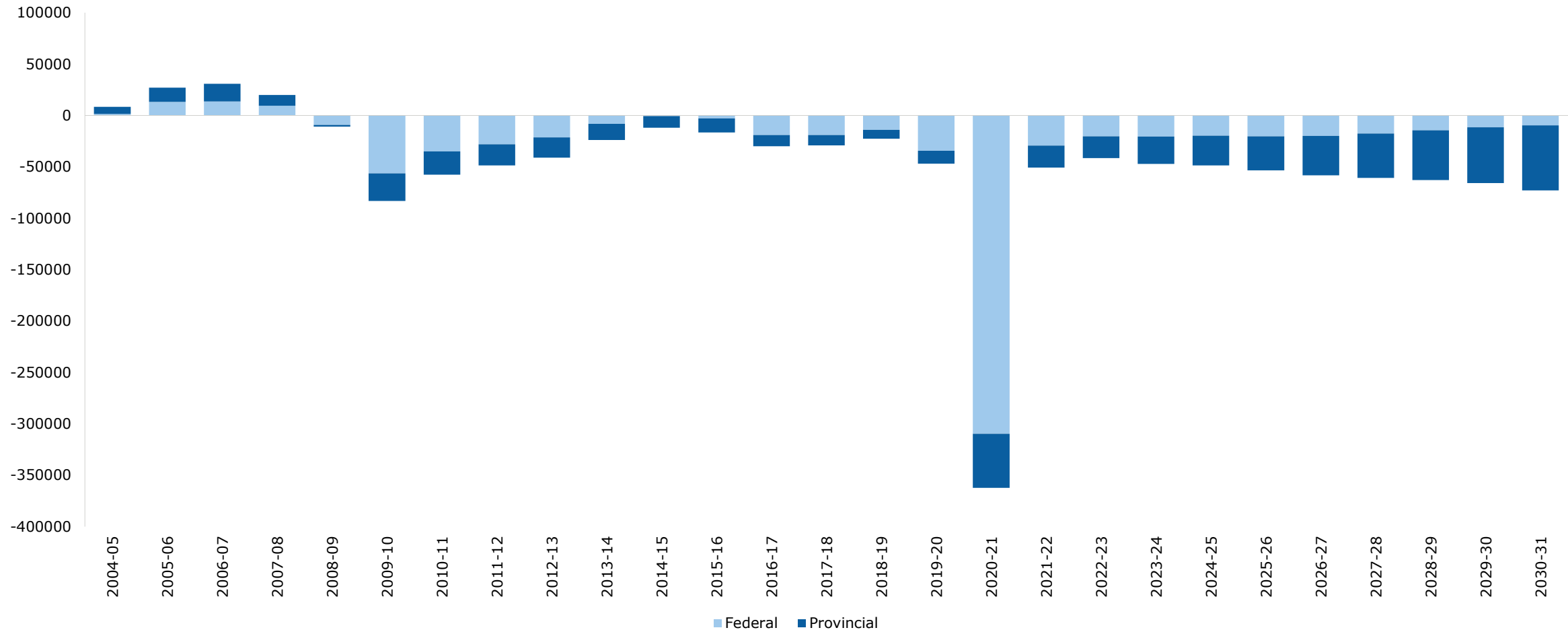
While GDP growth slows, aging demographics and rising health care costs will add fiscal strain

 **Average health care costs per age cohort and growth in population**
CIHI and Deloitte LLP



Federal and provincial governments will have trouble balancing its books as revenue growth slows

 **Federal and provincial deficits**
Public Accounts (federal and provincial) and Deloitte LLP; Millions \$C



What areas can we focus on to make Canada more prosperous

Labour Markets

- Boosting labour market participation for women
- Keeping older Canadians in the labour market
- Boosting the number of Immigrants
- Improving labour market outcomes for Canada's Indigenous population

Investment Spending

- Improve Canada's business investment to match peer countries in relative terms
- Boost investment in software and development

Productivity Performance

- Investments in labour and capital work contemporaneously to boost productivity
- Make changes to improve wage gaps that prevail in our country, with the added benefit of fostering equality.
- Improve retraining to place employees in today's higher value added occupations

Removing barriers to entering the job market among Canada's most under-represented groups adds 1.7 million workers to the labour force in the Prosperous Scenario



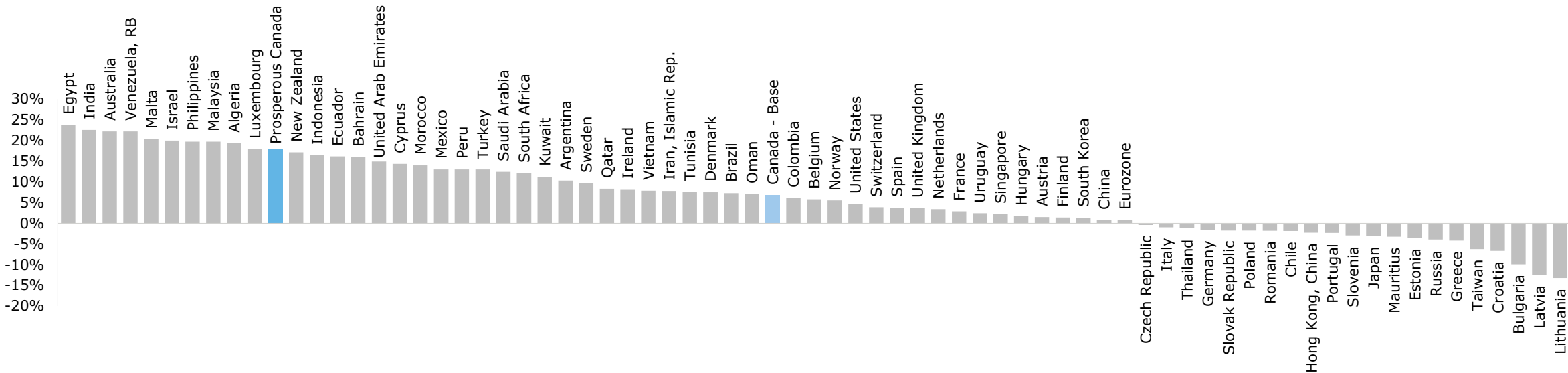
1.7 Million workers are added to the workforce in the Prosperous Scenario as compared to the base case as a result of increased opportunities for disabled and elderly Canadians, women, and aboriginal populations. This contributes to a rise in aggregate participation rates, placing a Prosperous Canada in a much better position as compared to its global peers.



Canadian labour force participation rate: Base vs Prosperous; Deloitte LLP, Percent



Projected labour force growth between 2020-2030 (number of workers)



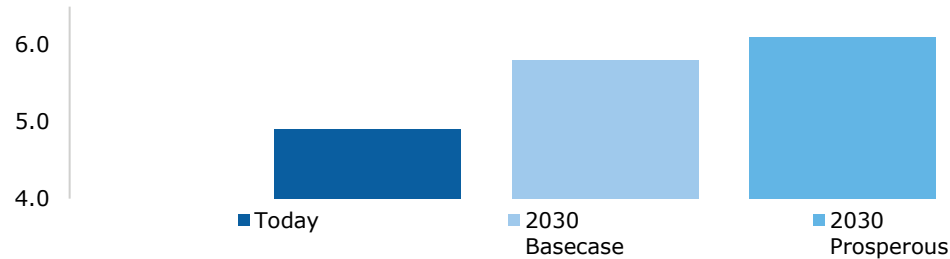
Lifting investment as a share of GDP to match the average in advanced countries makes a huge difference to Canada's investment outlook.

In the prosperous scenario, private investment accelerates to the share of GDP seen in other advanced countries, boosting the country's capital stock. This allows businesses to be more competitive on a global scale. The prosperous scenario assumes that policies are implemented to encourage technological enhancing investment that transform services-oriented sectors as well as resource and goods-producing sectors. This investment has the potential to boost GDP by 0.3 percentage points per year.

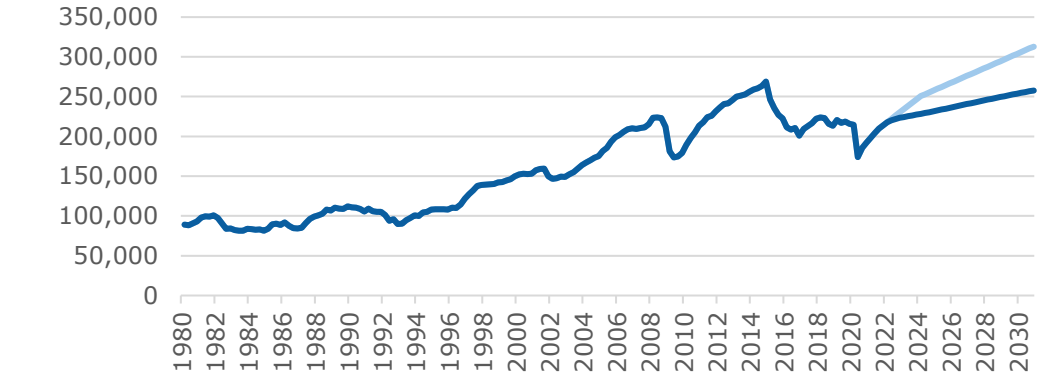
2022 - 2030 average			
	Investment Growth	Investment share of GDP	Cumulative boost to GDP relative to baseline ppts.
Baseline	2.4	10.3	
Prosperous (ranking in the OECD top quartile)	5.6	12.8	2.7

After accounting for demolitions and depreciation, this pace of investment would raise the capital stock by **25%** (from \$4.9Tn dollars today to \$6.1Tn by 2030). This is about \$250 billion dollars more than in the base case.

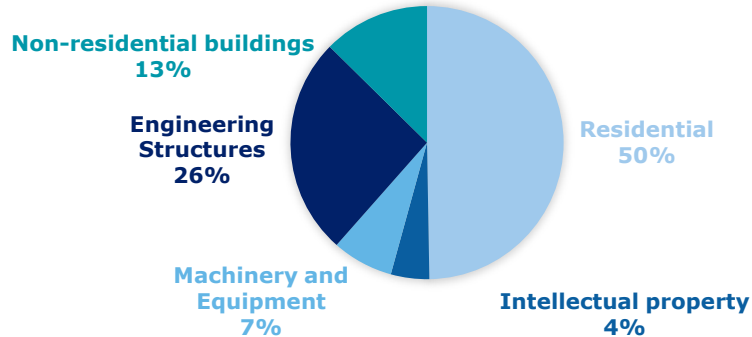
Capital Stock projection \$Tn (inflation adjusted)



Projection out to 2030 Canadian private sector business investment

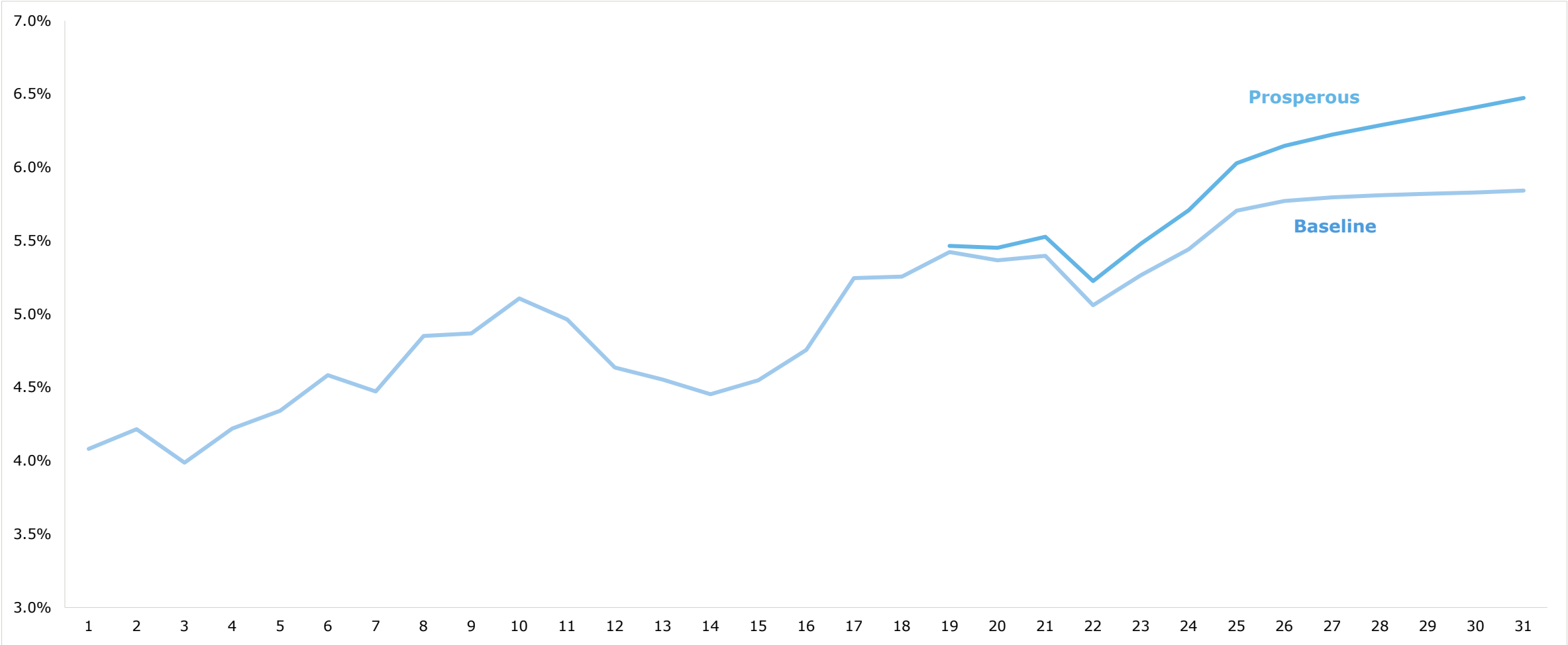


Distribution of Capital stock



In the Prosperous Canada scenario, a shift to digital will result in a boost to software development

 **Software investment share of private investment**
Percent



Stronger economic growth allows governments to ramp up spending on critical and productivity enhancing infrastructure



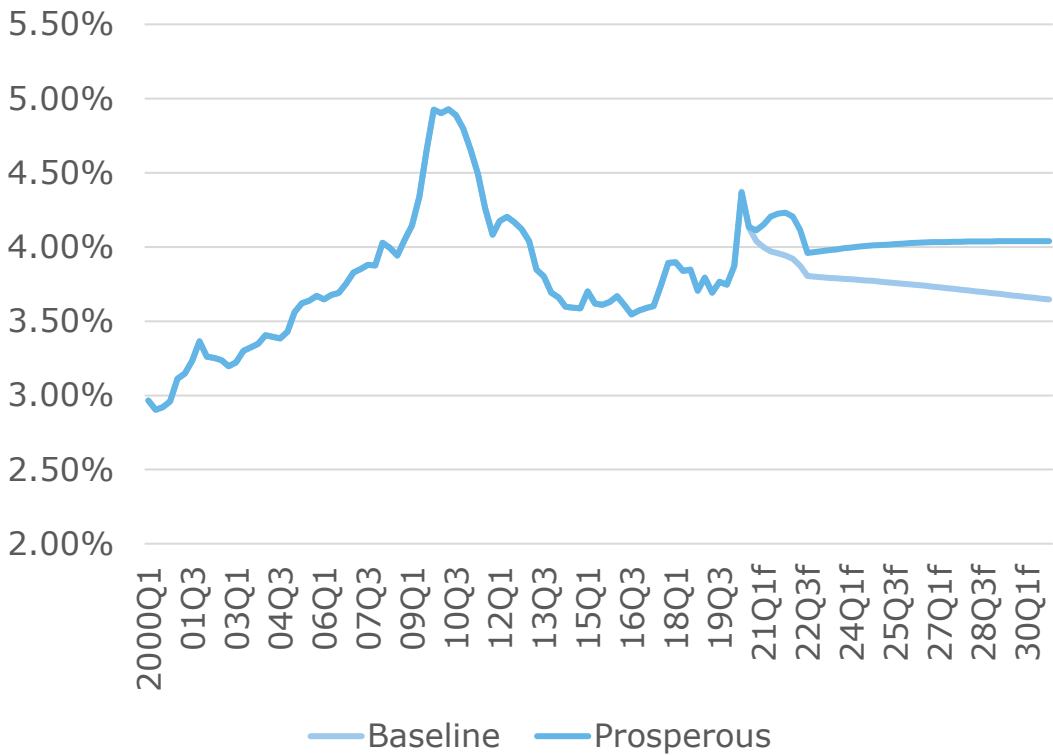
Public sector infrastructure gets a boost

- In the Prosperous scenario, Canada experiences stronger economic growth. This will boost government revenue collection given that nominal GDP is the broadest measure of the tax base from which government revenues are generated.
- With a boost to their revenues, governments will ramp up their investment spending resulting in numerous benefits.
- Infrastructure spending contributed directly to GDP growth as people are employed to create or upgrade the infrastructure and demand increases throughout the supply chain for component parts. The economy is further stimulated as the profits generated and wages paid are spent.
- There are also lasting economic impacts to infrastructure spending with broad consensus that public sector infrastructure boosts the economy's productivity performance. In fact, research has shown that public infrastructure is behind half of Canada's multifactor productivity growth.
- Furthermore, investments in public infrastructure can have wide reaching societal benefits from providing shorter and safer commutes to improving the quality of our drinking water.



Government Investment as a Share of GDP

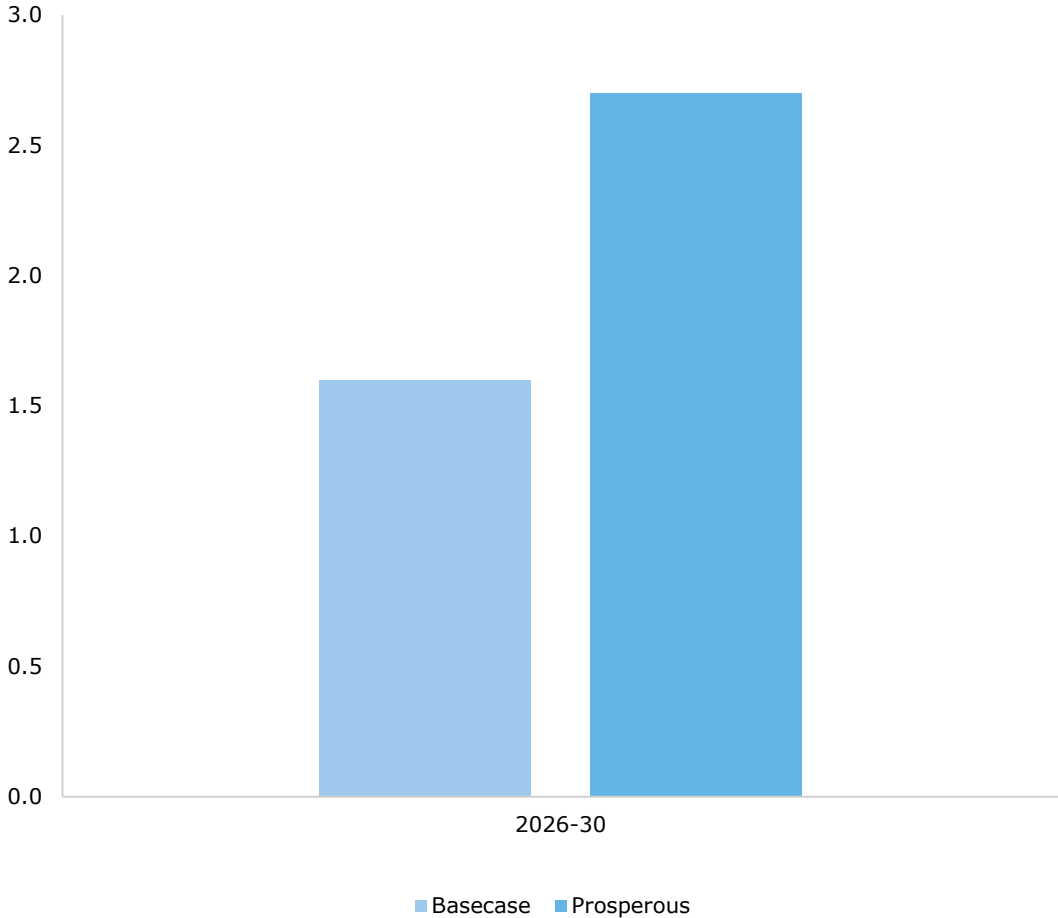
Statistics Canada and Deloitte LLP, Per cent



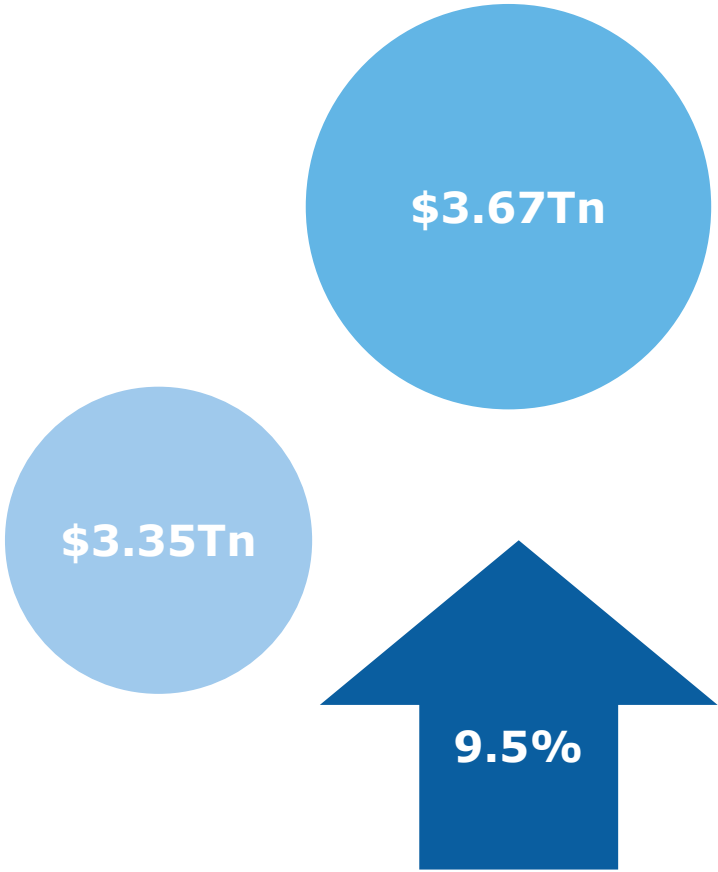
Achieving a stronger sustainable pace of growth would support a much stronger economy



Post-recovery sustainable pace of real GDP growth



This pace would increase nominal GDP by \$300 billion—a 9.5% increase over the basecase



A Prosperous Canada means more Canadians with Jobs



22.6 Million
Canadian workers will be
employed by 2030 in the
prosperous scenario



That means there would be
17.5% More
Jobs relative to 2019 levels



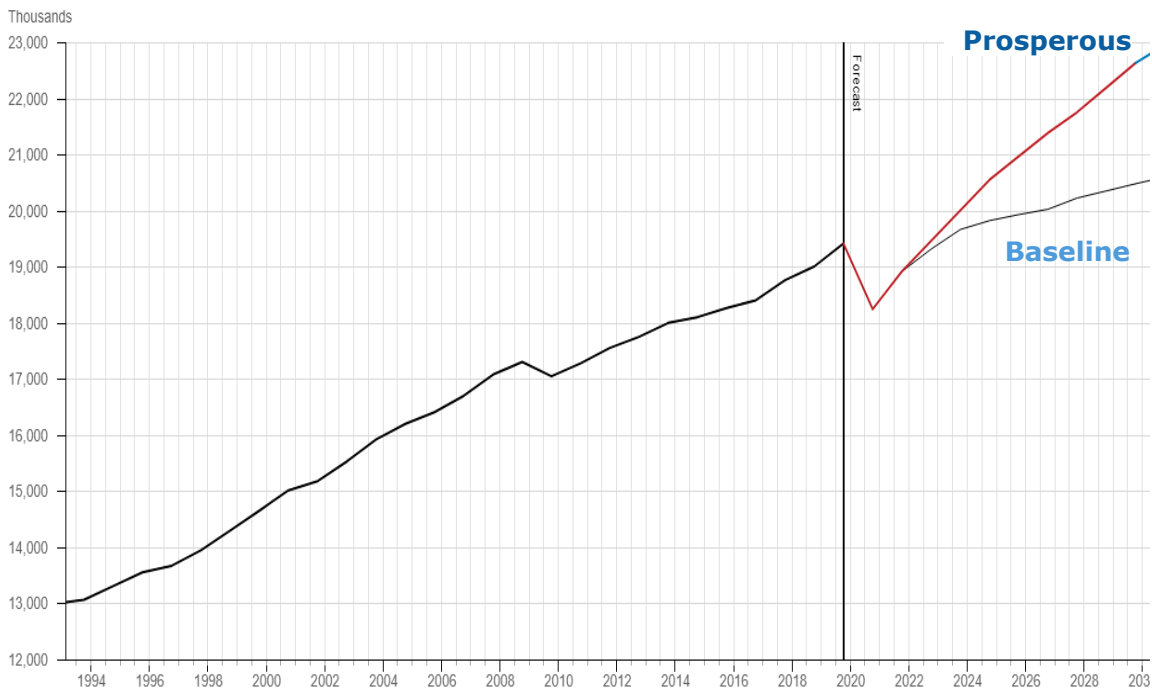
~2.26 Million
workers are employed in the
prosperous scenario that were not
accounted for in the base case



8.1% More Jobs
are created in the prosperous
scenario relative to the base case



Canadian Employment projection

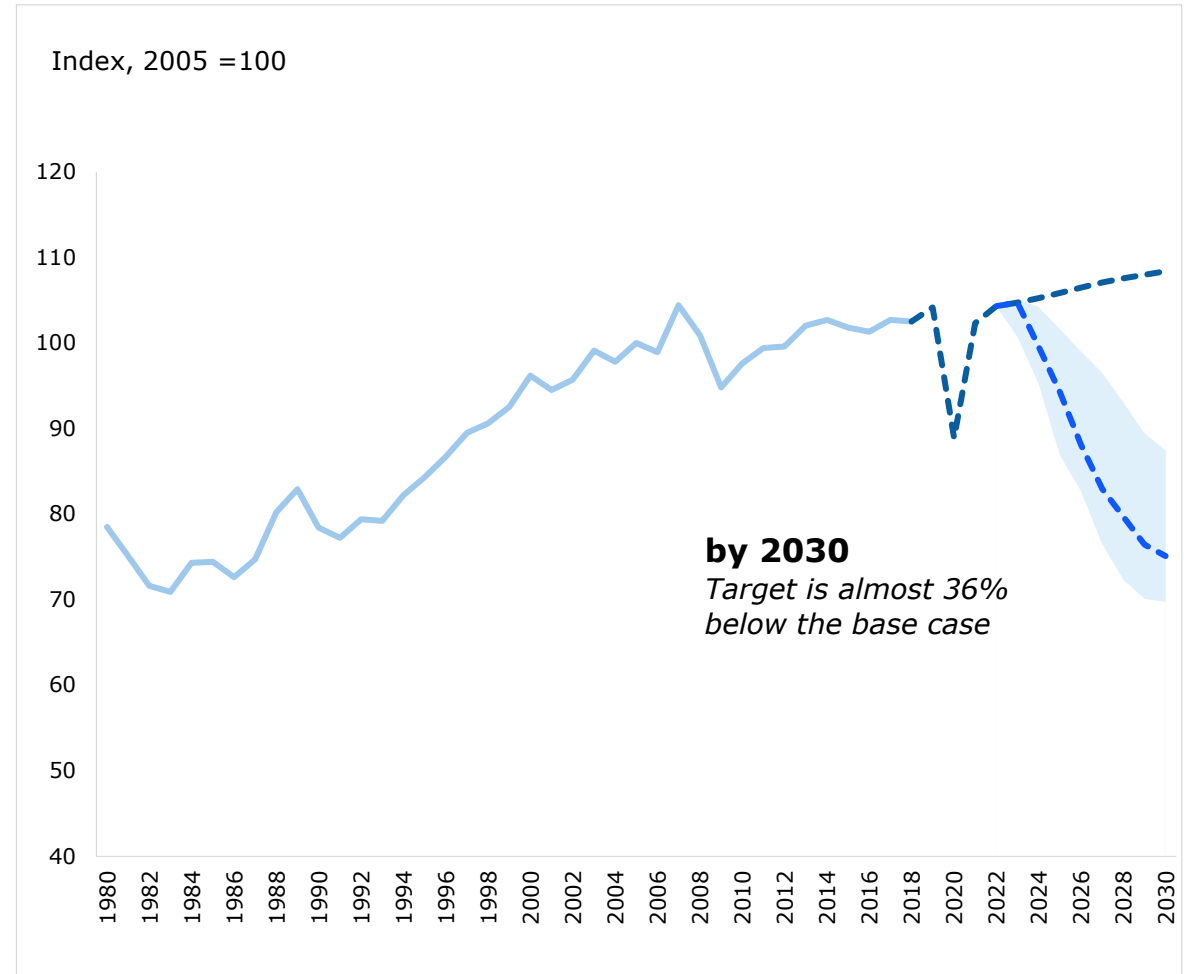


In the prosperous scenario we assume Canada is able to achieve their Paris Agreement emissions target through a carbon-pricing strategy that incrementally increases the price of emissions.

- To meet its 2015 Paris Agreement commitments, Canada must reduce greenhouse gas emissions by 30% below 2005 levels by 2030. In the prosperous scenario, we assume Canada is able to achieve this target through a carbon-pricing strategy that incrementally increases the price of emissions.
- Deloitte's modelling shows that Canadian GHG emissions can steadily decline and stay on track with the reduction targets outlined in the Paris Agreement. The main policy tool would be a steady increase in the carbon tax to \$114/tonne of CO₂ in 2030 and to \$200 /tonne of CO₂ in 2040.
- This lever would be complemented with other regulations including the implementation of ambitious standards and incentives that accelerate the adoption of clean technologies to support positive environmental outcomes across all industries.
- Through these measures, Canada will reach its emissions goals and be on track to becoming net zero by 2050. While the carbon tax leads to a 0.5 percent contraction of Canada's GDP versus a status quo scenario, the energy industry would still grow and continue to make a considerable contribution to the overall economy.



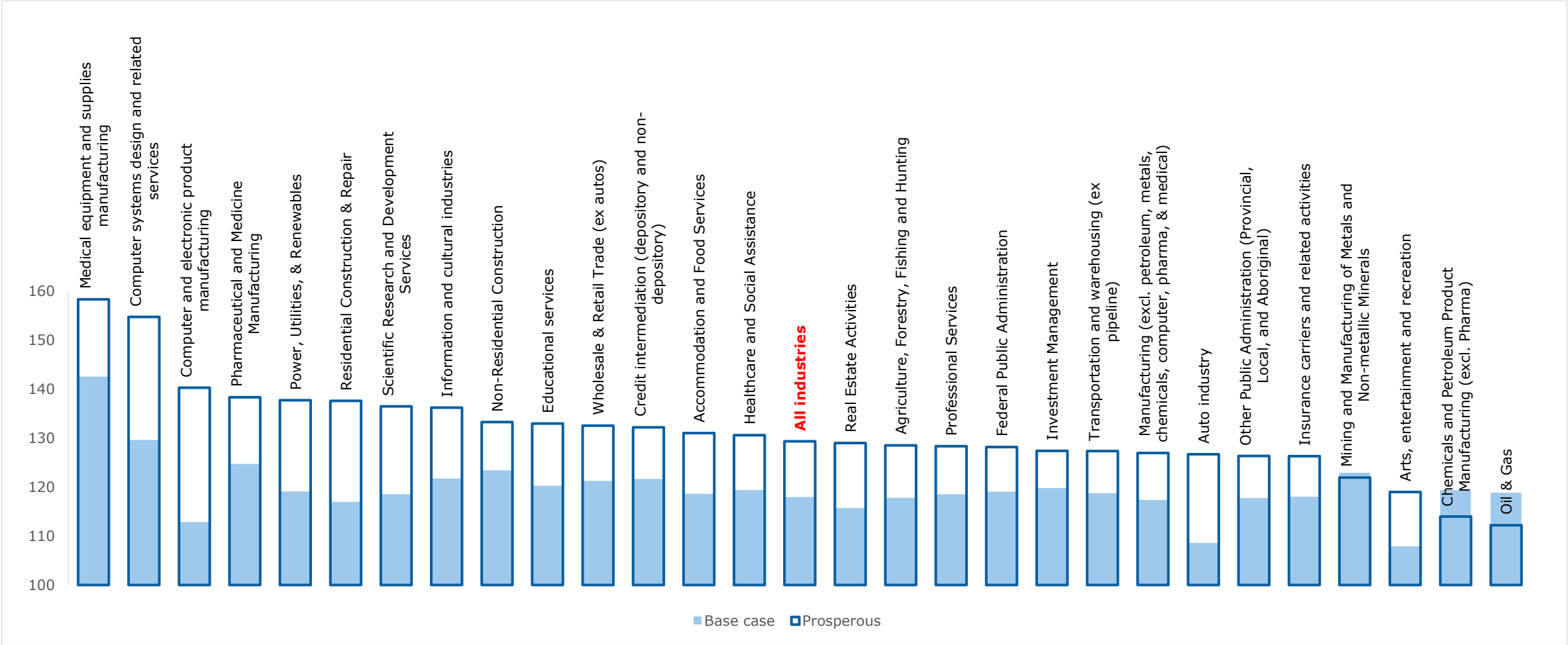
CO2 Emissions



Industries – base vs prosperous



Relative Industry Size by 2030
Index; 2019 = 100 (Inflation adjusted)

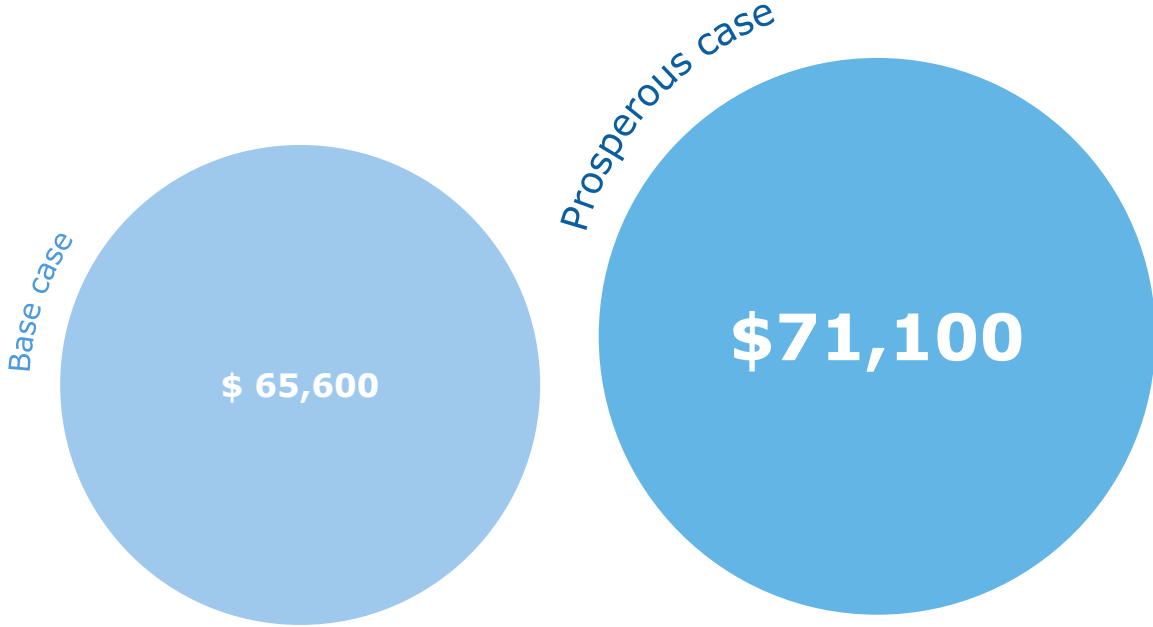


A stronger and more environmentally sustainable pace of GDP growth will lift our standard of living

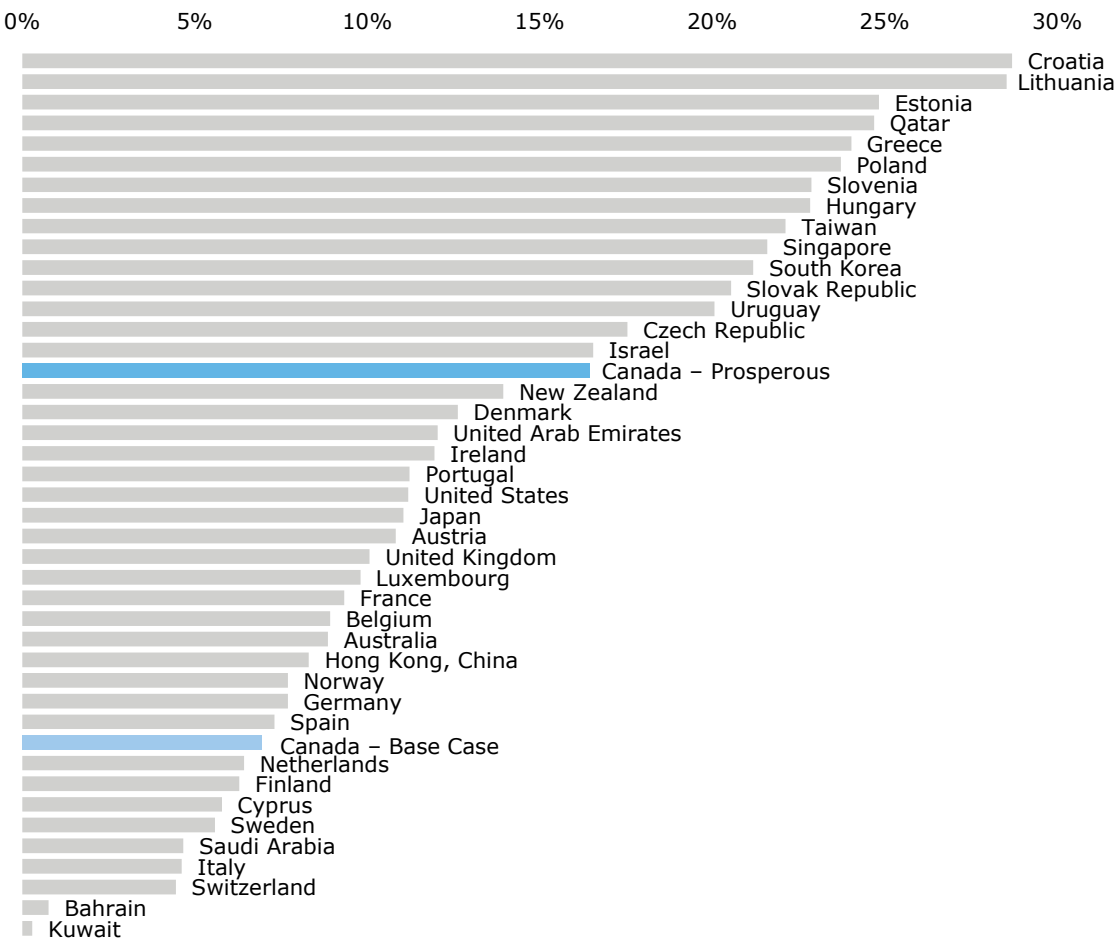
- A higher pace of GDP growth will boost our standard of living and move us from a growth trajectory that sees us amongst the slowest growing advanced economies to one that is comfortably in the top half of the faster growing countries.



**GDP per capita in 2030
C\$ (2020 prices)**



Projected growth in real GDP per Capita 2020-30

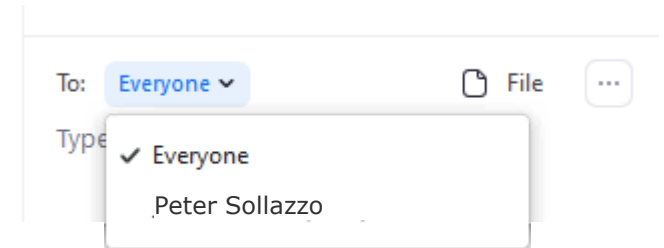
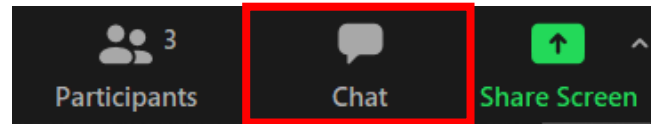


Q&A





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