OECD Economic Surveys
CANADA

MARCH 2021

LAUNCH VERSION

OECD Economic Surveys: Canada 2021

BETTER POLICIES FOR BETTER LIVES

LAUNCH VERSION

Please cite this publication as:
OECD (2021), *OECD Economic Surveys: Canada 2021*, OECD Publishing, Paris, *https://doi.org/10.1787/16e4abc0-en*.

ISBN 978-92-64-96414-3 (print)
ISBN 978-92-64-80479-1 (pdf)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Canada
ISSN 1995-302X (print)
ISSN 1999-0081 (online)

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Corrigenda to publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Canada were reviewed by the Committee on 21 January 2021. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 8 February 2021. The Secretariat's draft report was prepared for the Committee by Philip Hemmings (Senior Economist) and Peter Jarrett (Consultant), under the supervision of Isabelle Joumard (Head of Division). Statistical research assistance was provided by Béatrice Guérard and editorial assistance by Michelle Ortiz and Héloïse Wickramanayake. The previous Survey of Canada was issued in July 2018. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys

BASIC STATISTICS OF CANADA, 2019[1]

(Numbers in parentheses refer to the OECD average)[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	37.6		Population density per km² (2018)	4.1	(38.0)
Under 15 (%)	15.8	(17.9)	Life expectancy at birth (years, 2018)	81.9	(80.1)
Over 65 (%)	17.6	(17.1)	Men (2018)	79.9	(77.5)
International migrant stock (% of population)	21.3	(13.3)	Women (2018)	84.1	(82.8)
Latest 5-year average growth (%)	1.2	(0.6)	Latest general election	October-2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2016, OECD: 2019)		
In current prices (billion USD)	1 741.4		Agriculture, forestry and fishing	2.0	(2.6)
In current prices (billion CAD)	2 310.7		Industry including construction	25.0	(26.8)
Latest 5-year average real growth (%)	1.8	(2.2)	Services	73.0	(70.5)
Per capita (000 USD PPP)	51.5	(49.3)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure	41.0	(40.6)	Gross financial debt (OECD: 2018)	92.7	(107.7)
Revenue	41.5	(37.5)	Net financial debt (OECD: 2018)	19.4	(67.8)
EXTERNAL ACCOUNTS					
Exchange rate (CAD per USD)	1.33		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	1.19		Machinery and transport equipment	26.7	
In per cent of GDP			Mineral fuels, lubricants and related materials	22.1	
Exports of goods and services	31.9	(54.2)	Manufactured goods	10.9	
Imports of goods and services	33.5	(50.6)	Main imports (% of total merchandise imports)		
Current account balance	-2.1	(0.4)	Machinery and transport equipment	43.8	
Net international investment position	44.5		Miscellaneous manufactured articles	12.2	
			Manufactured goods	11.4	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	62.0	(57.6)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	5.7	(5.4)
Men	65.9	(65.6)	Youth (aged 15-24, %)	11.0	(11.7)
Women	58.2	(50.0)	Long-term unemployed (1 year and over, %)	0.5	(1.4)
Participation rate (aged 15 and over, %)	65.7	(61.1)	Tertiary educational attainment (aged 25-64, %)	59.4	(38.0)
Average hours worked per year	1,670	(1,726)	Gross domestic expenditure on R&D (% of GDP, 2018)	1.6	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe)	8.0	(3.9)	CO2 emissions from fuel combustion per capita (tonnes)	15.2	(8.3)
Renewables (%)	16.4	(10.8)	Water abstractions per capita (1 000 m³, 2015)	0.9	
Exposure to air pollution (more than 10 g/m³ of PM 2.5, % of population)	1.8	(61.7)			
SOCIETY					
Income inequality (Gini coefficient, 2018, OECD: 2016)	0.303	(0.310)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2018, OECD: 2016)	11.8	(11.4)	Reading	520	(487)
Median disposable household income (000 USD PPP, 2018, OECD: 2016)	35.6	(24.4)	Mathematics	512	(489)
Public and private spending (% of GDP)			Science	518	(489)
Health care	10.8	(8.8)	Share of women in parliament (%)	29.0	(30.7)
Pensions (2018, OECD: 2017)	4.9	(8.6)	Net official development assistance (% of GNI, 2017)	0.3	(0.4)
Education (% of GNI, 2018)	4.9	(4.5)			

1. The year is indicated in parentheses if it deviates from the year in the main title of this table.
2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

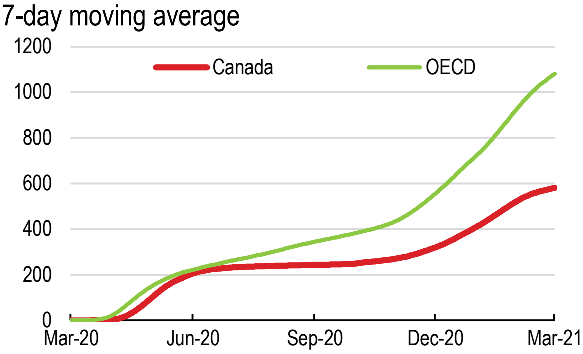
Executive Summary

Canada's vaccine rollout is bringing the prospect of an end to the crisis

Vaccine rollout is underway, but contagion remains an issue and confinement measures are still in place. Overall, Canada's COVID-19 related fatalities on a per capita basis have been below those for the OECD as a whole and considerably below the most severely affected countries. As elsewhere, age has been the key vulnerability, with around 90% of COVID-19-related deaths among those aged over 70 years. Also, racialised minorities have had a higher risk of COVID-19 infection and mortality. The first wave of the pandemic was concentrated in Quebec and Ontario, but case numbers became more widespread in the second wave. The second wave has seen provinces and territories selectively extending and re-imposing limits on activity. Canada's mass vaccination began in December, under a plan that envisages enough vaccine for every Canadian that wants one by September 2021. Some limits on activity are now being lifted.

Figure 1. Canada's per capita COVID-19 fatalities have been below the OECD average

COVID-19 cumulative deaths per million inhabitants, 7-day moving average



Source: Our World in Data, as of 2 March 2021.

StatLink https://stat.link/rboyhq

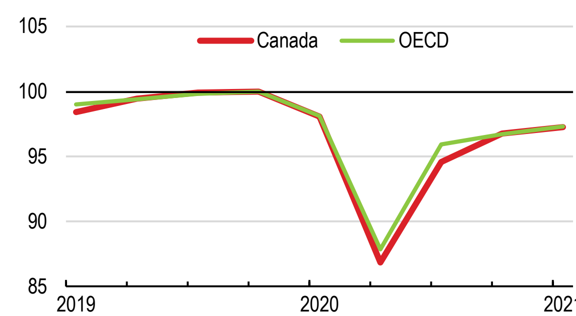
Those in low-wage jobs, notably young workers, women and racialised minorities have been hit hardest economically by the crisis, implying a potential widening of inequality. In addition, data confirm deteriorations in mental health during the lockdowns. Opioid-related harms and deaths have risen sharply.

Economic recovery has slowed

Canada's economy made a rapid partial rebound from the spring 2020 confinement but has since slowed. Output dropped by more than 15% in the first wave of the pandemic, and the rate of unemployment spiked up to nearly 14%. The initial rebound in economic activity was rapid, but the pace of growth has since diminished. Activity in the travel, leisure and entertainment sectors remains well below pre-crisis levels. Output shrank by 5.4% in 2020.

Figure 2. Output has followed a similar path to the OECD average

Real GDP, index Q4 2019 = 100



Note: The last quarter is an estimate.
Source: OECD Economic Outlook, Interim Report March 2021.

StatLink https://stat.link/37rqua

Risks and uncertainties remain large, notably around how quickly restrictions can be lifted as vaccine rollout proceeds. There are also upside and downside risks in how rapidly households will unwind precautionary saving. Volatile global energy prices have discouraged oil and gas investment. On the upside, the expected fiscal stimulus in the United States could bring a large boost to Canadian exports.

OECD projections envisage annual output growth of around 4.7% in 2021 and 4% 2022. This will bring output close to pre-crisis trends and drive falls in the rate of unemployment. Headline consumer-price inflation will be affected by energy prices in the near term, core inflation will pick up gradually.

Table 1. Recovery will be pick up again

(Annual growth rates, unless specified)	2019	2020	2021	2022
Gross domestic product (GDP)	1.9	-5.4	4.7	4.0
Private consumption	1.7	-6.1	3.5	3.1
Government consumption	2.0	-1.1	2.8	1.3
Gross fixed capital formation	0.3	-3.6	6.3	4.4
Exports of goods and services	1.3	-9.8	4.7	4.5
Imports of goods and services	0.4	-11.3	6.3	3.2
Unemployment rate (% of labour force)	5.7	9.5	8.5	7.0
Consumer price index	2.0	0.7	2.0	1.4

Source: OECD Economic Outlook, Interim Report March 2021 and provisional projections.

Continuing monetary support

An ultra-low policy rate and other monetary measures continue to provide substantial support for the economy.

The Bank of Canada cut its policy rate to 0.25% in the early stages of the crisis. The Bank's forward guidance on the policy interest rate, reinforced by its purchases of government securities, have eased borrowing conditions for households, firms and governments. Dissipating risks on some fronts have allowed the Bank to withdraw some liquidity support introduced at the beginning of the crisis. The upcoming 2021 renewal of the inflation-targeting regime provides an opportunity to adapt the Bank's monetary policy framework to achieve its 2 % inflation target, over time, and maintain well-anchored inflation expectations in the context of persistently low global policy interest rates and risks to real-side recovery.

House prices have been increasing since late spring, when easing of the initial round of containment measures began. Household debt (especially in the form of mortgage borrowing) remains high, but debt service is less onerous. Low borrowing costs may also be amplifying already substantial high-risk corporate bond funding.

Fiscal measures to support a greener and more inclusive economy

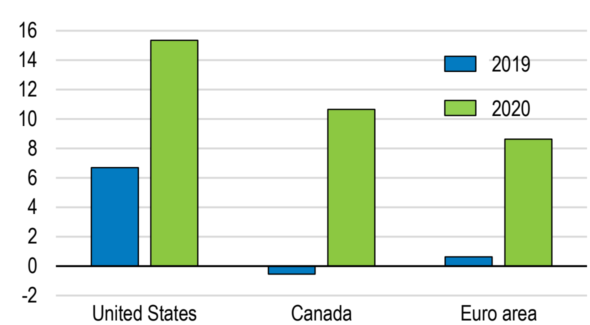
The priority should be to ensure fiscal policy provides the best assistance for households and businesses to recover from the crisis. Canadian governments have acted on a broad front to bolster demand and assist both households and businesses. Federal government measures have accounted for most of the fiscal response, which has been substantial. Prudent fiscal policy in recent years has helped provide scope for the large stimulus.

A high priority on fiscal support should remain while the economy is fragile. Crisis-related fiscal support can be withdrawn as the economy recovers. Nevertheless, a clear and transparent roadmap for preventing a spiralling public debt burden is needed.

A fiscal roadmap would help accommodate the need for additional resources in certain areas of public spending. Solutions to the gaps in socio-economic support and shortfalls in health care revealed by the crisis are likely to require additional resources for the longer term. Furthermore, the ageing-related spending pressures present before the pandemic will continue. Accommodating these fiscal demands in the medium and long term should be met through either savings in public spending elsewhere or tax increases.

Figure 3. Canada's fiscal boost has been large

General government deficit, % of GDP



Source: OECD Economic Outlook 108 database; and Statistics Canada.

StatLink https://stat.link/digsrf

There is scope to re-orient the tax system in ways that would bring structural improvement and generate some additional revenue. In particular, Canada's environmental tax revenues are smaller relative to GDP than for most other countries. The carbon price floor needs to steepen if Canada is to meet its official commitments. Recent federal government proposals for carbon-price increases announced as part of a strengthened climate plan are encouraging.

Helping business recover and adapt to the post-COVID economy

Many businesses continue to struggle, and the crisis is accelerating structural change in demand and business operations. The federal government should be prepared to step in with further measures to help businesses. Schemes offering them credit are welcome, but encouragement of other forms of financing and improvement to insolvency procedures should be considered.

Non-tariff barriers arising from inter-provincial differences in product, service and labour market regulation continue to hamper business activity. With respect to broadband services, there are longstanding concerns about the strength of provider competition, and provision for rural and remote households, notably for Indigenous peoples, remains a challenge. Canada scores well in international indicators of domestic corruption. However, its property register system is often exploited for money laundering.

Hard-wiring well-being into policymaking could help with recovery

A more structured policy approach to well-being would help Canada achieve a resilient and healthy post-COVID economy and society. The federal government is exploring how to incorporate a comprehensive dashboard of quality-of-life measurements into decision-making and budgeting. Many countries are using such dashboards, including indicators of individuals' current and future well-being and, often, measures of social inclusiveness and environmental sustainability. Canada is in a strong position to develop such a dashboard. It has good data on measures of well-being and has experience in integrating some dimensions of well-being into policy through its Gender Based Analysis Plus (GBA+).

Once agreed following public consultations, the dashboard should be hardwired into budgeting so as to ensure that all government ministries and agencies base their economic and social policy reforms on the same criteria. A key choice is whether to use the dashboard solely for budget policy changes or whether to apply it across the entire tax and spending baseline, as well as for regulatory impact and cost-benefit analyses.

Strengthening health care and welfare policy

COVID-19 has brought to light shortfalls in Canada's elderly care and welfare support. The initial wave of the pandemic saw around 80% of COVID-19 fatalities in long-term care facilities and retirement homes. In addition to highlighting challenges in containing the virus, this revealed broader problems in the quality of long-term care. The pandemic also revealed resource issues for public health services and has underscored the downsides of pharmaceuticals not being included in national public health coverage and Canada's limited provisions for sick-leave compensation.

The crisis has increased the prominence of a number of socio-economic challenges. Canada's gender wage gap for full-time workers is almost 5 percentage points above the OECD average. Addressing this would be helped by further progress in improving access to affordable childcare so that women can pursue fulfilling careers more easily. In addition, a wider problem of weak backing for those unemployed or experiencing poverty remains, despite the recently implemented National Poverty Strategy.

Housing affordability and homelessness are key issues. The prolonged low-interest environment has contributed to increases in the price of housing. Social and other forms of affordable housing are limited, and waiting lists are long. The policy initiatives underway are welcome, but more could be done.

Indigenous peoples remain underprivileged in most socio-economic dimensions, including income, employment, security, housing, life expectancy and physical and mental health. Some progress has been made in empowering their governments, including through a distinctions-based approach that makes greater efforts to tailor policy to each of the three Indigenous groups, First Nations, Métis and Inuit. However, a further strengthening of self-determination is needed, as are more resources to eliminate gaps with other Canadians.

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring a solid recovery in output and jobs	
Economic recovery from the pandemic looks set to pick up again following the second wave of the pandemic, but the outlook remains surrounded by considerable risks.	- Continue fiscal support until the economic recovery is well underway. Adjust crisis-related support as the recovery progresses to ensure assistance focuses on jobs and viable companies.
Underlying consumer-price inflation will probably pick up only slowly.	- Accommodative monetary policy should be maintained to help economic recovery.
Longstanding concerns about high household and corporate debt are becoming more acute with the crisis due to the prolonged low-inflation environment.	- Maintain a close watch on housing and corporate debt, and, if needs be, tighten macro-prudential rules.
It is important to ensure that large fiscal deficits and public debt accumulation do not persist once the economy is on a solid path to recovery. Although the pension system is mostly funded, ageing will put pressure on public finance over the long term.	- Ensure a credible medium-term plan for controlling and lowering federal government debt. - After the pandemic subsides, debt stabilisation and the accommodation of additional spending commitments should be achieved through efficiency gains in public spending, where feasible. Should substantial additional revenues be required, prioritise an increase in the rate of the federal goods and services tax.
The business sector remains fragile in the wake of the crisis. Government schemes offering credit on favourable terms are welcome but need complementing with measures that help businesses in financial difficulties. Advancing on some of the longstanding structural issues in Canada's business environment would help recovery.	- Augment the insolvency system with an early-warning mechanism and a pre-insolvency regime for businesses in difficulty. - Expedite the removal of non-tariff barriers to internal trade. - Reduce the cost and improve the quality of telecommunications services, including broadband to rural and remote communities. - Tackle money laundering via the property market by tightening property registration rules to prevent the creation of opaque business structures.
Bringing well-being to the fore in the wake of the pandemic	
Canada has no official well-being framework.	- Develop a well-being framework including a dashboard of indicators for use in government decision making. - Use the well-being dashboard initially to identify policy challenges and to measure progress in outcomes.
Improving health and long-term care	
COVID-19 exposed shortfalls in the quality of long-term care and has raised the importance of mental health and public health policies.	- Seek efficiency gains and reduced waiting times in health care through better patient prioritisation, improved co-ordination between primary-care providers and specialists, greater use of telemedicine and the reallocation of some tasks from physicians to nurses. - Increase support for high-quality institutional and home-based long-term care. - Shift more resources towards mental health and public health.
Canada is among the few countries with a public health-care system that does not cover pharmaceutical drugs at the national level.	- Follow through with the plan to negotiate with the provinces and territories the gradual adoption of universal drug coverage ("Pharmacare").
Strengthening social welfare and creating more affordable housing	
Despite past policy efforts, the supply of affordable, high-quality child care remains inadequate, prompting involuntary part-time working and career breaks among women and contributing to gender inequality.	- Boost childcare provision through increased subsidies of services, tougher quality control, and more support for families to pay for these services.
Housing affordability has become an issue through prolonged growth in house prices and inadequate policy attention to social housing.	- Improve housing supply by ensuring a competitive construction sector, reducing rent controls and relaxing strict zoning and land-use regulations and urban containment policies. - Put more resources into social housing, and encourage alternative ownership arrangements.
Supporting the well-being of Indigenous peoples	
Canada's Indigenous peoples continue to suffer from deep disadvantages, despite substantial targeted schemes.	- Enhance self-determination among Indigenous peoples. - Maintain the distinctions-based approach to policy, and ensure adequate funding to eliminate gaps with other Canadians.
Building a more sustainable environment	
Without stronger incentives for economically efficient greenhouse gas emissions cuts, Canada will miss its official climate change goals.	- Follow through with the recent plan to accelerate the increases in carbon pricing and taxation through 2030 while protecting the poorest from the impact on their living standards. - Make greater use of taxation and charges to tackle environmental externalities, including from vehicle fuels, waste water treatment and solid waste disposal.

1 Key Policy Insights

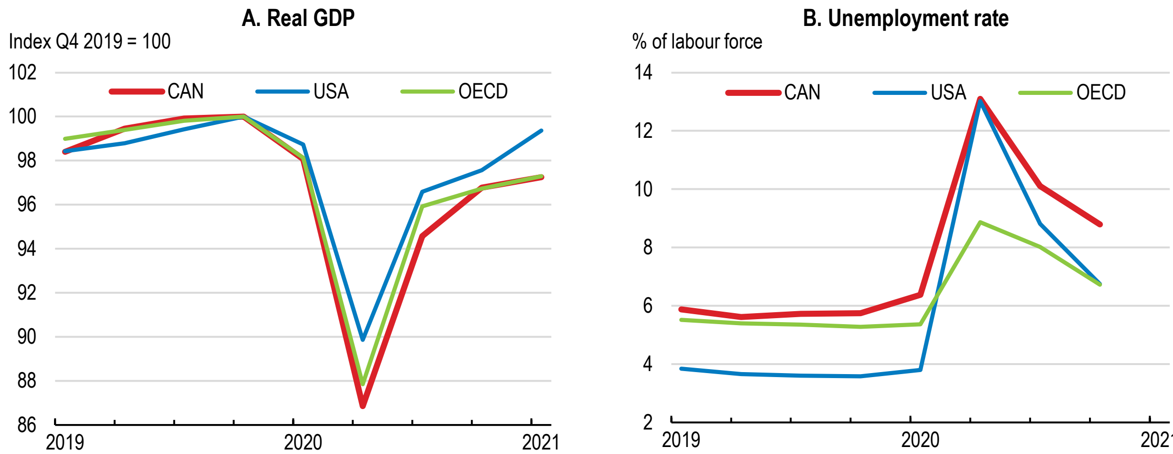
Contagion and fatalities from COVID-19 have been less severe in Canada than in the hardest-hit countries, and vaccine rollout is underway. However, the economy remains heavily affected by the crisis with the latest round of containment measures slowing the recovery in activity and employment (Figure 1.1). The crisis has highlighted economic and social strengths. Canada's federal system of government proved capable of a rapid and co-ordinated policy response. Low public debt prior to the crisis has helped provide headroom for substantial tax and spending measures. The acceleration in teleworking and use of online services during the crisis has opened the door to new ways of working and living for the future. Reduced noise and air pollution during confinement raised environmental awareness. The prospect of a structural downshift in demand and employment in some sectors is creating potential for more green jobs and investment.

COVID-19 has also highlighted weak points and brought new issues. In health care, the pandemic has shone a light on shortfalls in the quality of some of Canada's long-term residential care homes, co-ordination difficulties in public health and the absence of common nationwide pharmaceutical coverage. Concerns have emerged about the effects of prolonged restrictions on social interaction and mental health. The concentration of layoffs in low-wage jobs has underscored that this downturn has widened economic inequalities. Also, gaps in income support among those losing jobs and income have been exposed. The crisis has heightened the prominence of other socio-economic challenges, including vulnerabilities among low-skill, low-income households, Indigenous peoples and racialised groups.

The key messages of this *Economic Survey* are:

- Canada's economy remains vulnerable in the ongoing COVID-19 crisis. There are substantial risks and uncertainties, and potentially deep scars to some sectors. Fiscal policy should continue to prioritise bolstering economic recovery but also prepare the groundwork for containing public debt when the recovery is well under way. With the prospect of prolonged ultra-low interest rates, asset-price inflation and high investor risk-taking add to medium-term concerns.
- Canadian policy makers need to maintain a balanced perspective across income, health, social conditions and the environment if well-being is to improve. Attention to distributional issues, including inequality, inclusiveness and disadvantage are also central to societal well-being. Canadian governments should hardwire the well-being perspective into the policy-making processes.
- Nurturing recovery and transition in the business sector is key to a successful post-pandemic economy and society. Policy needs to continue encouraging transition to a greener economy. Canada's longstanding structural impediments to business efficiency also need addressing.

Figure 1.1. As elsewhere, recovery in output and employment is taking time



Note: Panel A: The last quarter is an estimate. Panel B: The unemployment rate series are not fully comparable; labour-force surveys in Canada and the United States classify temporary layoffs as being unemployed, elsewhere they are counted as employed. Thus, the United States and Canada saw sharper initial spikes in the rate of unemployment in the wake of the COVID-19 crisis.
Source: OECD Economic Outlook database.

StatLink https://stat.link/quic5f

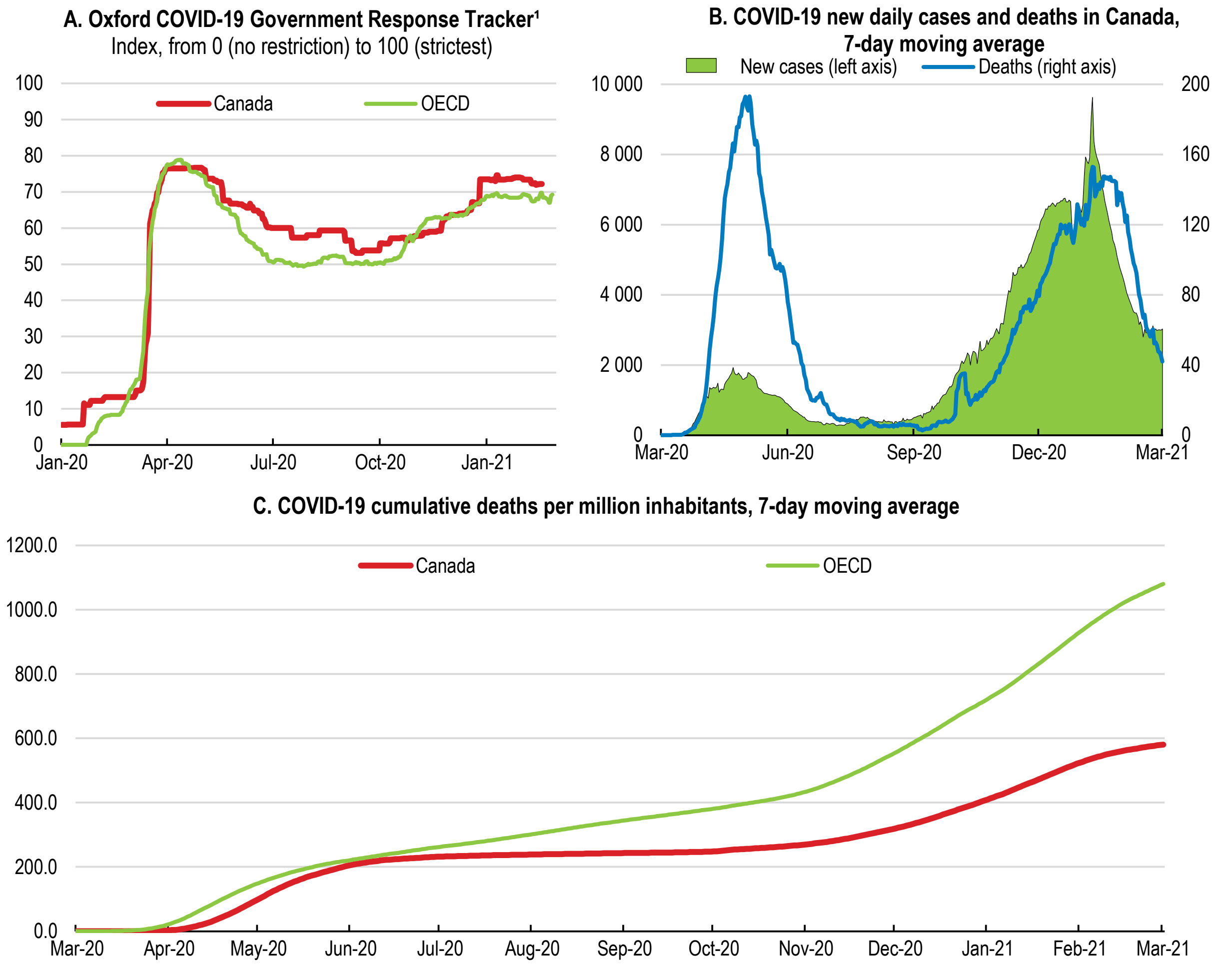
Vaccine rollout is underway

Canada's first cases of COVID-19 appeared in mid-January 2020, with substantial acceleration in cases from early March (Figure 1.2). However, the initial wave of the pandemic in Canada was not as severe as that seen in some other countries. Daily COVID-19 cases in the second wave have exceeded those of the first, while fatalities reached similar levels. The first wave of the pandemic was concentrated in Ontario and, especially, Québec, which had the largest number of fatalities in absolute terms and on a per capital basis. The second wave saw per-capita cases and fatalities surge again in Québec and Ontario, but also in other provinces, notably in Alberta and Manitoba (Government of Canada, 2020).

As elsewhere, older adults, especially those with underlying medical conditions, have been more at risk of contracting COVID-19 and developing severe complications. Around 90% of COVID-19-related deaths have been among those aged over 70 years (Government of Canada, 2020). The spread of the virus in care homes has been a key concern and the crisis has revealed instances of poor quality care and overcrowding. Echoing developments in some other countries, racialised minorities have had higher risk of COVID-19 infection and mortality (racialisation is a term used for when groups come to be socially constructed as races, based on characteristics such as race, ethnicity, language, economics, religion, culture and politics). Explanatory factors include high poverty rates, over-representation in socio-economically disadvantaged neighbourhoods, crowded housing conditions and disproportionate numbers working in occupations at risk of exposure to the virus (Statistics Canada, 2020a). In addition, surveys confirm deteriorating mental health during the lockdowns (Statistics Canada, 2020b), with social isolation, loneliness and increasing substance use playing a role.

The initial phase of containment measures came into force from mid to late March. Provinces and territories played a central role given their responsibilities in health care and public health (Box 1.1). States of emergency and other measures brought school closure, regulation on distancing, operational restrictions on various types of businesses, and public health advice for people to stay at home. These measures started to unwind in May and June under provincial re-opening plans. In the second wave of the pandemic provinces and territories selectively extended and re-imposed limits on activity (often at a localised level), as well as strengthened public-health requirements and testing capacities. As of February 2021 some restrictions were being lifted in the wake of declining caseloads and fatalities.

Figure 1.2. An end in sight for the Canada's second wave of COVID-19



1. The Oxford COVID-19 Government Response Tracker index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, and is scaled from 0 (no restrictions) to 100 (highest category of restrictions). The unweighted OECD average covers all OECD countries where data are available for all components. Data for Canada are a weighted average of Canadian provinces data based on population data.
Source: Oxford University; Our World in Data, as of 2 March 2021.

StatLink https://stat.link/blqt69

Roll-out of mass vaccination began in mid-December following approval of a vaccine shortly beforehand. Canada's immunisation plan envisages sufficient supply to vaccinate 3 million people by the end of the first quarter of 2021 (i.e. around 8% of the population) and enough supply for all Canadians who want to be vaccinated by September (Public Health Agency of Canada, 2020).

A clear picture is yet to emerge of what has determined the course of the pandemic in Canada relative to other countries, and the reasons for the substantial differences across provinces and territories. Low population and housing density compared with, for instance, many European countries may be part of the explanation. Differences in containment policies and in the public's response to them are also likely to be a factor explaining how the pandemic has spread. For instance, OECD work points to the efficacy of test-trace-isolate policy, so differences across countries, and within them, on this front are probably affecting outcomes (OECD, 2020a). The strength of sanctions for non-compliance of quarantine measures may also be playing a role. Québec, for instance, introduced very high maximum penalties: CAN 750 000 and up to six months in prison. Also, as exemplified by the long-term care issues mentioned above, capacities and vulnerabilities in the health-care system influence rates of infection and recovery. There is scope for other factors: some research suggests the earlier timing of Québec's March school break compared with Ontario's brought accelerated infection from returning travellers (Godin et al., 2020).

Box 1.1. All levels of government have been heavily involved in responding to COVID-19

Federal elections in October 2019 saw the centre-left *Liberal Party* returned to office, though with a minority government. The *Conservative Party* is the largest opposition party (and the official opposition). Under Canada's fixed terms of office, the next federal election will be in October 2023, unless the government loses the confidence of the House. Meanwhile, three of the four most populous provinces currently have centre-right governments (Ontario, Québec and Alberta) –- British Columbia has a centre-left government. Among the eight other provinces and territories, five are led by centre-right governments and the remainder by centre-left governments.

Emergency response to the COVID-19 crisis has inevitably occupied most policy-making in recent months. The federal government has provided most of the financial support for households and businesses and imposed the restrictions on international travel. Canada's highly decentralised system of government means provincial, territorial and municipal authorities are playing a core role in tackling COVID-19. Health-care services are run by the provinces and territories, which also have jurisdictional powers to impose containment measures, such as restrictions on businesses and social distancing rules.

Nevertheless, policy making has been looking beyond immediate concerns. The federal government's programme, as outlined in the "Speech from the Throne" in September 2020, includes a theme centred on strengthening resiliency, which covers issues such as filling gaps in welfare assistance, enhancing workforce skills and tackling climate-change risks.

Confinement and other public-health measures taken in spring 2020 resulted in a drop in gross domestic product in excess of 15% between February and April. Most sectors experienced substantial output reductions. And, as expected, retail, travel, leisure and entertainment-related activities were especially hard hit from the combination of supply disruptions and weak demand. In addition, construction and many other sectors suffered supply issues from manufacturing stoppages, and some have also struggled to get a significant portion of workforces back to work.

Canada has taken many steps to head off macroeconomic instability, bolster demand and support households and businesses (Table 1.1). The Bank of Canada responded with cuts in its policy rate and measures to bolster liquidity and financial markets. Federal-government actions have accounted for most of the fiscal response. Containment of the public-debt burden through prudent fiscal policy in the years prior to the pandemic has helped provide scope for a large stimulus. Federal outlays on direct support measures are estimated at 12% of GDP, which is among the largest packages announced by OECD governments (Figure 1.3, Table 1.1). Estimates suggest that the fiscal package will have bolstered output by around 5 percentage points of GDP in both 2020 and 2021, implying a considerably smaller increase in unemployment than would have occurred otherwise (Figure 1.4).

Table 1.1. The scale of monetary and fiscal support has been substantial

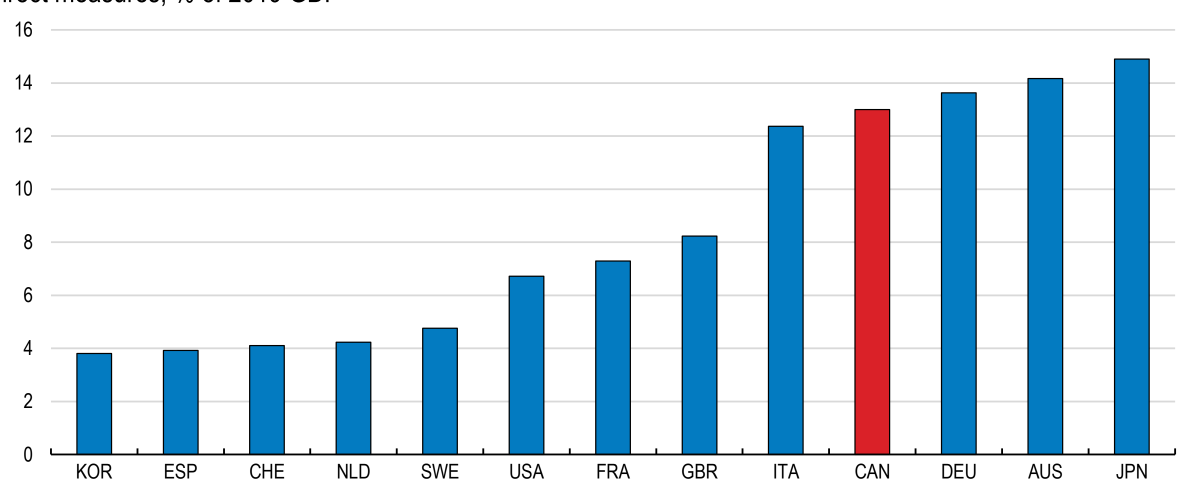
Support estimates as of December 2020, most support is expected in financial year 2020-21.

	Estimated value of measures CAD billion	% of annual GDP (2019 value of GDP)
Direct support:	**294**	13
Federal, notable items	270	12
- Canada Emergency Response Benefit (CERB)	83	
- Canada Recovery Benefits (follow-up to CERB)	23	
- Canada Emergency Wage Subsidy (CEWS)	84	
Direct support, provincial (consolidated, estimate)	24	1
Deferrals on tax, customs duty and fees (generally of short duration)	**88**	4
- Federal	85	
- Provincial and territorial	3	
Government liquidity support (potential value of additional lending)	**87**	4
- Federal, largely the Business Credit Availability Program (BCAP)	84	
- Provincial and territorial	3	
Other liquidity support (largely Bank of Canada, potential value of additional lending, value)	**600**	26
- Liquidity support through Bank of Canada, Canada Mortgage and Housing Corporation, commercial lenders	300	
- Capital relief via reduction in the Domestic Stability Buffer requirement	300	

Note. The estimates are the sum of support from financial year 2019-20 onwards (the Canadian government financial year runs from 1 April to 31 March). Nearly 85% of total support is expected to occur in financial year 2020-21.
Source: Department of Finance*: Canada's COVID-19 Emergency Response: Biweekly Reports*; Department of Finance, *Economic and Fiscal Snapshot* (July 2020) (for Provincial and Territorial estimates); Department of Finance Canada (2020), *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, November.

Figure 1.3. Canada has committed substantial resources to direct support measures

Direct measures, % of 2019 GDP



Note: The figure shows announced envelopes of emergency packages in selected advanced economies based on available official estimates as of 30 September, which may not be fully comparable among countries. The ultimate costing of these packages is uncertain as it will depend on the duration of the crisis and the take-up of various programmes by the private sector. Not all of these programmes will be reflected in government budget balances and debt according to the national account conventions. Direct measures include tax and social security contribution cuts, income support measures (e.g. short-term wage compensation schemes, and support for self-employed, very small firms and vulnerable households), extra spending on public sector (e.g. transfers to lower-level governments and funding to the health sector), transfers to private firms without equity acquisition, funding of state-owned institutions providing loans or guarantees and early pension withdrawals. Direct measures are not equivalent with an impact on budget balance.
Source: National authorities; and OECD calculations.

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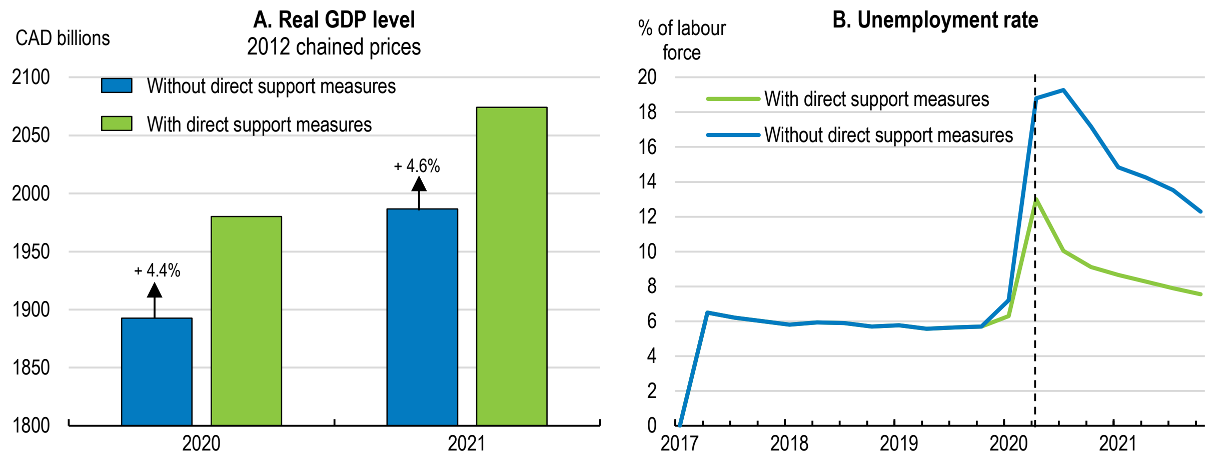
Figure 1.4. The support measures prevented an even deeper downturn



Note: The numbers above the blue columns indicate the percentage difference between the estimated GDP without direct support and that with direct support.
Source: Department of Finance Canada (2020), *Supporting Canadians and Fighting COVID-19: Fall Economic Statement 2020*, November.

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Central to the support measures have been the Canada Emergency Response Benefit (CERB), and its successors (notably the Canada Recovery Benefits, CRB), along with the Canada Emergency Wage Subsidy (CEWS). According to government estimates (Table 1.1), these programmes will cost CAD 190 billion, around 70% of the total spend on direct support measures. CERB provided income support for workers across all sectors losing income and employment due to COVID-19. It expired in September 2020 and was partially replaced by more targeted schemes. The need for CERB's introduction raised questions regarding the adequacy of income support in Canada (discussed further below). A continuing role is anticipated for the CEWS scheme – it has been extended until mid-2021. Other federal measures for businesses include rental subsidies, credit support and loan guarantees (many have also been extended into 2021). Federal government also introduced provisions for banks to offer mortgage deferrals to households.

Provincial and territorial governments have been doing the heavy lifting on the health response, while the federal government has provided most of the economic support. Accordingly, the scale of provincial and territorial government economic-support measures has been comparatively small. Outlays are estimated at around 1% of GDP. Provincial governments have provided supplementary safety nets for households. For instance, Ontario introduced an emergency assistance benefit and Alberta a one-off payment for those isolating. Québec has introduced a temporary aid programme for employees not covered by other schemes. Provinces also introduced eviction moratoria for renters. Assistance for business has included payment deferral of provincially administered taxes (Ontario, Alberta and British Columbia), deferrals of utility bills (British Columbia), and subsidies covering the fixed costs of businesses affected by public-health restrictions (Québec).

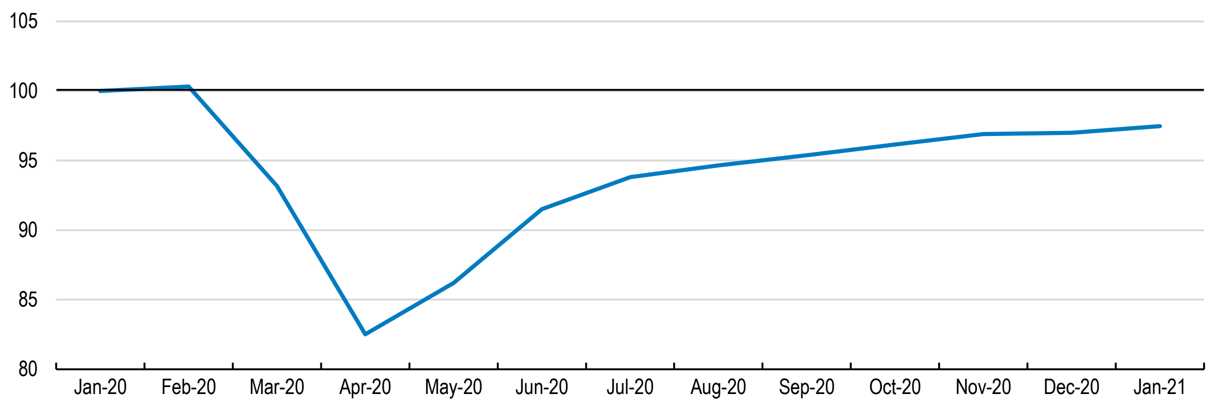
The economy is recovering, but the pace has slowed and risks remain elevated

With the beginning of the lifting of restrictions in May 2020, activity picked up sharply. By August, real GDP was around 5% below the pre-crisis level. The substantial monetary and fiscal support played an important role in bolstering household incomes and enabling businesses to survive lockdown. The household saving ratio soared in the early phase of the crisis, driven by limited consumption opportunities due to lockdowns and increased precautionary saving but also by the policy support to household incomes.

Continued constraints on economic activity and the strengthening of some public-health measures due to the second wave of the pandemic have slowed the pace of economic recovery. The rate of monthly output growth declined substantially by the end of 2020 (Figure 1.5) with a halt to recovery in manufacturing and construction and renewed decline in some service sectors (Figure 1.6). Uncertainty on economic prospects is affecting households and businesses. The end of payment-deferral provisions, notably in taxation and mortgage payments, has not so far prompted critical problems but will nevertheless have impacted household finances.

Figure 1.5. The recovery in output has weakened

Real monthly GDP, index January 2020 = 100



Note. The latest month is a flash estimate.
Source: Statistics Canada.

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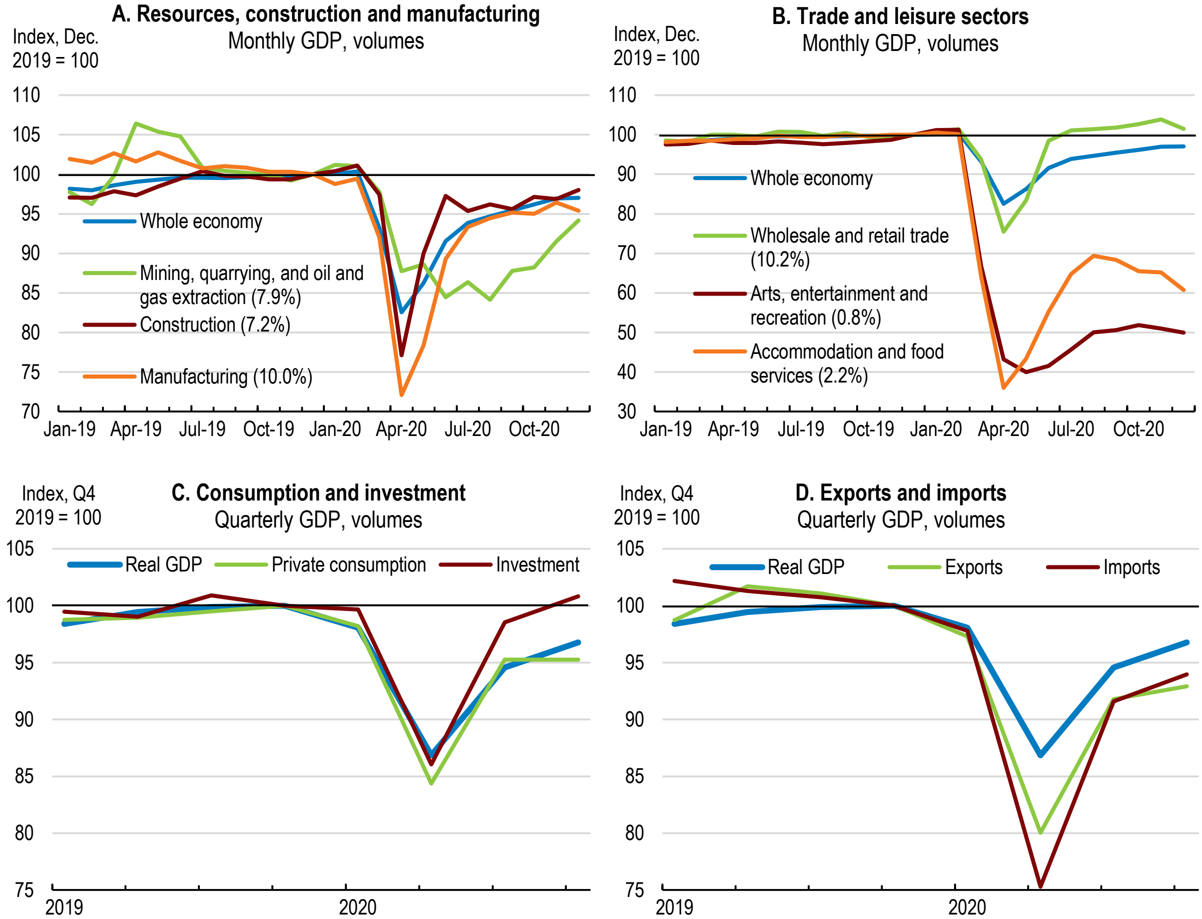
Unemployment is still elevated and has recently been increasing. Canada's rate of unemployment was 8.7% in the fourth quarter of 2020, in the upper half of OECD countries and high compared with the pre-crisis level of just over 5% (Figure 1.7). Echoing the impact of renewed confinement measures, employment has fallen markedly in some service sectors since the end of 2020 impacting employment among young people in particular (Figure 1.8). An OECD survey reveals that young people see employment and disposable-income concerns arising from COVID-19 as the most challenging issues for them, along with mental health (OECD, 2020b).

Figure 1.6. Recovery in output and demand is uneven



Note: In Panels A and B, the percentages in brackets indicate the share of these sectors in 2019.
Source: OECD Economic Outlook database and Statistics Canada.

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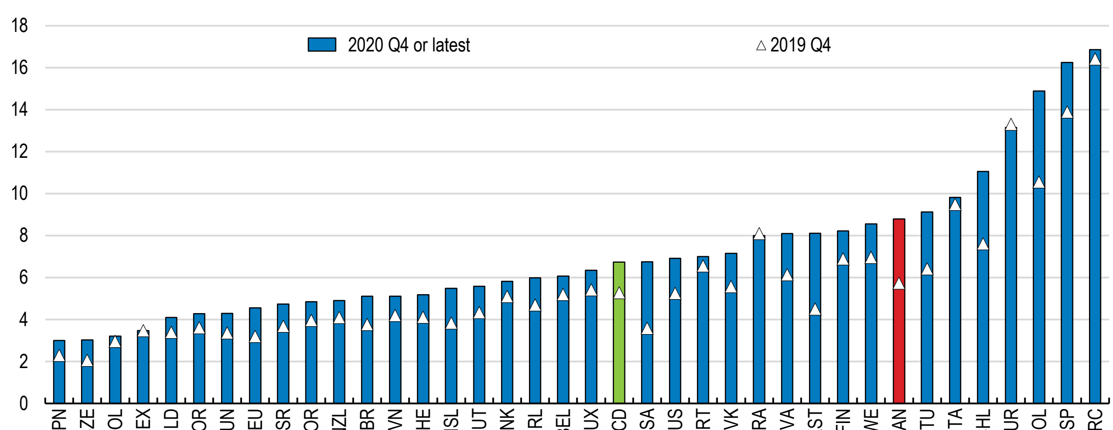
Figure 1.7. The rate of unemployment is above the OECD average

Unemployment rate in Q4 2020 (or latest) compared with Q4 2019, % of labour force



Note: The increases in the unemployment rates over the pandemic are not fully comparable; labour-force surveys in Canada and the United States classify temporary layoffs as being unemployed, elsewhere they are counted as employed. Thus, the United States and Canada saw sharper initial spikes in the rate of unemployment in the wake of the COVID-19 crisis.
Source: OECD Economic Outlook database

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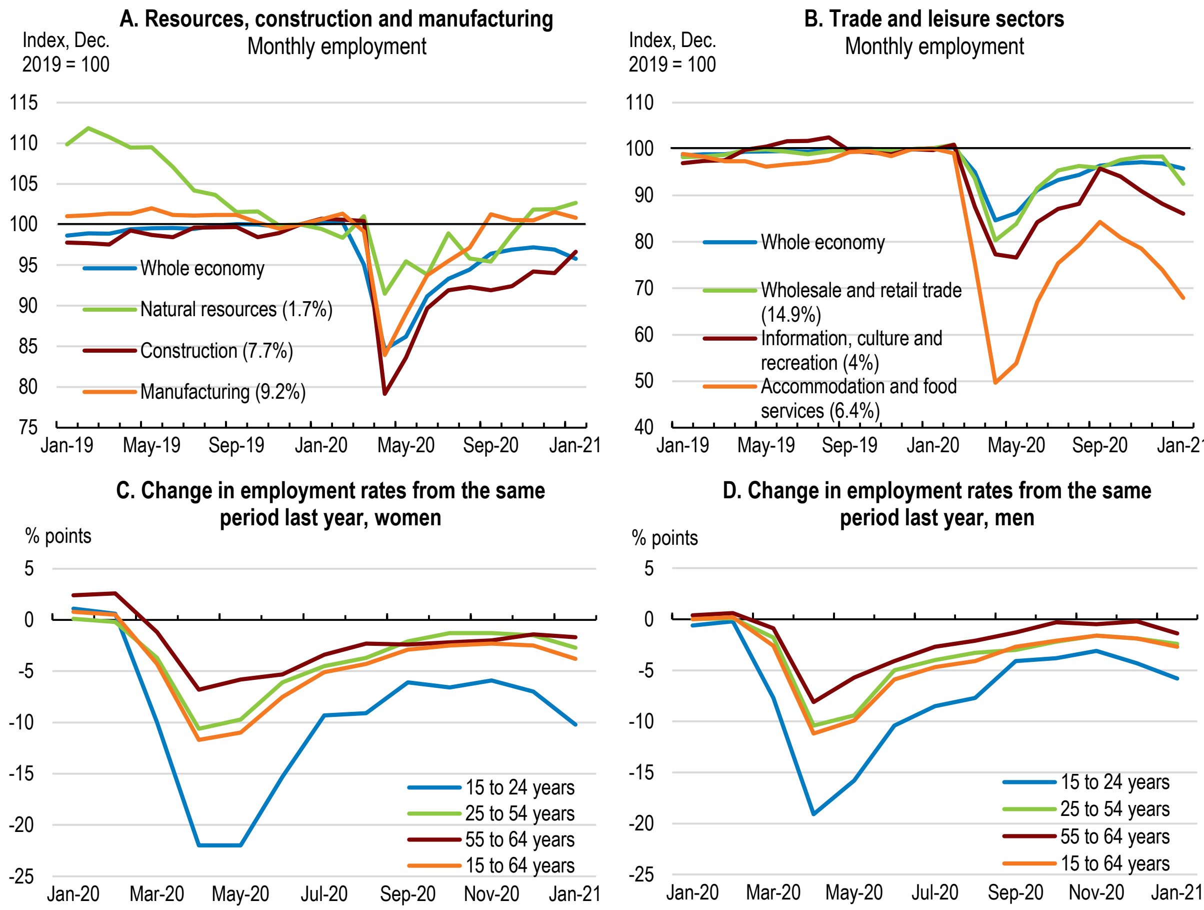
Figure 1.8. Employment rates are still below pre-crisis levels, especially among young people



Note: In Panels A and B, the percentages in brackets indicate the share of these sectors in 2019.
Source: Statistics Canada.

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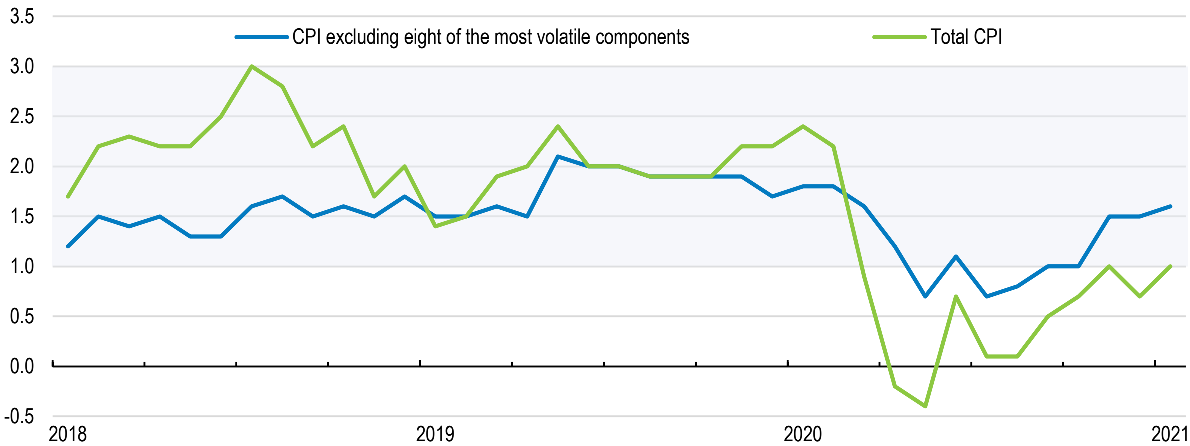
In the initial months of the crisis, consumer-price inflation slowed, but house-price growth picked up after the relaxation of the first round of containment measures. The large fall in oil prices in the early stages of the pandemic had a substantial impact on consumer-price inflation (Figure 1.9), and also the price of accommodation fell substantially (discussed further below). Meanwhile, in the housing market lower interest rates have encouraged demand, and government income support and mortgage-payment deferrals have limited forced sales, contributing to an increase in prices (Figure 1.10). In addition, time spent at home during lockdown and the prospect of a permanent shift to more teleworking may have ramped up demand for first-time purchases and upgrades (Statistics Canada, 2020c). With the end of mortgage-payment deferrals and the emergence of longer-term effects on household finances, it is likely that price growth will soften. A moderate house price correction would be welcome, given the longstanding concern that prices may be over-inflated (Box 1.2) and the affordability challenges that were already evident prior to the pandemic (Chapter 2). Also, moderate correction in the near term would reduce the risk of a large and destabilising price adjustment later on (discussed further below).

Figure 1.9. Consumer-price growth has been picking up

Consumer price inflation, year-on-year % changes



Note: The shaded area indicates the Bank of Canada's inflation-control target range. The Bank aims to keep inflation at the 2 per cent midpoint of the range.
Source: Bank of Canada.

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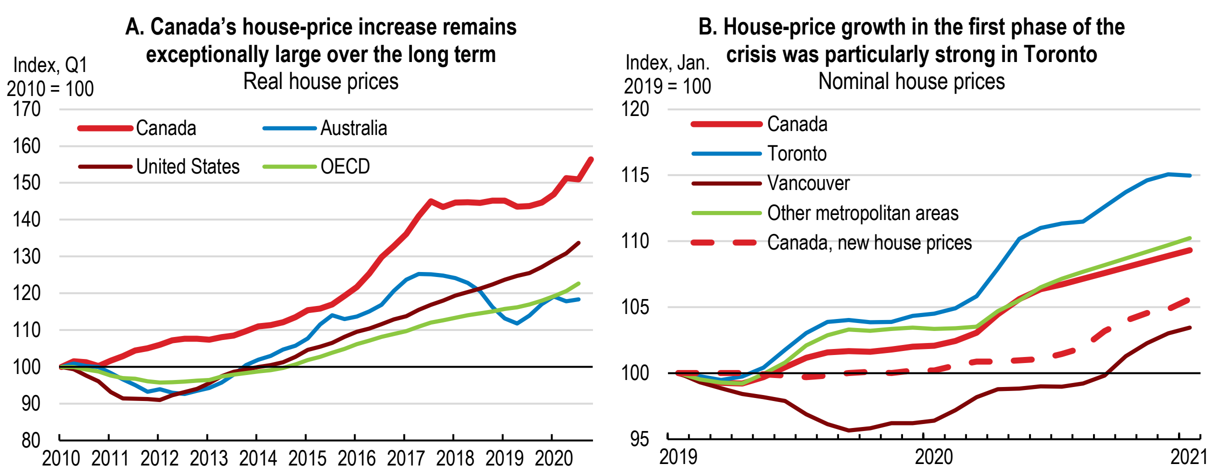
Figure 1.10. House prices have been rising



Source: Panel A: OECD Economic Outlook database; Panel B: Teranet-National Bank of Canada House Price Index (housepriceindex.ca), except "Canada, new house prices" which are Statistics Canada data.

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Annual output growth of 4.7% is projected for the Canadian economy in 2021 and 4% 2022 (Table 1.2). Continued weakness is expected in the near term until the fall in COVID-19 caseloads and progress in vaccination allow most restrictions to be unwound. Reduced constraints on supply and the release of pent-up demand will bring strong growth in the second half of 2021, with a substantial carry over effect to growth in 2022. These developments will be echoed in the labour market. Growth in underlying consumer prices will pick up gradually.

Box 1.2. Evidence on the extent of house-price over-valuation

Overvalued house prices are not a necessary ingredient to risks from the housing market and related borrowing but certainly widen the range of downside scenarios.

- The federal government's Canada Mortgage and Housing Corporation regularly assesses "market vulnerability" for a number of cities using indicators of overheating, price acceleration, over-valuation and over-building. Recent assessments identify price overvaluation specifically as present only in some of the smaller cities. However, the markets are classified overall as moderately vulnerable for some of the bigger cities, including Toronto and Vancouver (Canada Mortgage and Housing Corporation, 2020).
- Calculation of "attainable" house prices by the IMF point to overvaluation in Toronto, Vancouver and Hamilton. For instance, for Toronto households' borrowing capacity suggests an attainable average price of around CAN 550 000 compared with average market price of around CAD 850 000 (IMF, 2019a, 2019b; Andrie and Plašil, 2019).

Table 1.2. Macroeconomic indicators and projections

	2017	2018	2019	2020	2021	2022
	Current prices (CAD billion)	Percentage change, volume (2012 prices)				
Gross domestic product (GDP)	2141	2.4	1.9	-5.4	4.7	4.0
Private consumption	1241	2.5	1.7	-6.1	3.5	3.1
Government consumption	443	2.9	2.0	-1.1	2.8	1.3
Gross fixed capital formation	486	1.8	0.3	-3.6	6.3	4.4
Housing	171	-1.4	-0.3	3.7	12.9	4.7
Final domestic demand	2170	2.5	1.4	-4.5	4.0	3.0
Stockbuilding[1,2]	17	-0.2	0.2	-1.6	0.8	0.0
Total domestic demand	2188	2.3	1.6	-6.1	4.7	3.0
Exports of goods and services	673	3.7	1.3	-9.8	4.7	4.5
Imports of goods and services	720	3.4	0.4	-11.3	6.3	3.2
Net exports[1]		0.0	0.3	0.6	-0.6	0.4
Other indicators (growth rates, unless specified)						
Employment	..	1.6	2.2	-5.1	3.6	2.7
Unemployment rate (% of labour force)	..	5.9	5.7	9.5	8.5	7.0
GDP deflator	..	1.8	1.7	0.8	2.4	0.5
Consumer price index	..	2.2	2.0	0.7	2.0	1.4
Core consumer prices	..	1.9	2.1	1.1	1.1	1.3
Terms of trade	..	0.7	-0.1	-3.4	3.5	0.0
Household saving ratio, net (% of disposable income)	..	0.8	1.4	14.7	11.2	7.2
Trade balance (% of GDP)	..	-1.9	-1.6	-2.0	-1.4	-1.1
Current account balance (% of GDP)	..	-2.3	-2.1	-1.9	-1.1	-0.7
General government fiscal balance (% of GDP)	..	0.3	0.5	-10.7	-7.0	-1.8
General government gross debt (% of GDP)	..	92.8	92.7	122.2	127.6	127.8
General government net debt (% of GDP)	..	21.7	19.4	32.9	37.7	37.9
Three-month money market rate, average	..	1.8	1.9	0.6	0.2	0.2
Ten-year government bond yield, average	..	2.3	1.6	0.8	0.7	0.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
Source: OECD Economic Outlook, Interim Report March 2021 and provisional projections.

Risks and uncertainties are elevated

Although vaccine roll-out is underway, there is uncertainty on the speed of deployment, and, related to this, uncertainty on how quickly containment measures can be lifted. This relates to another key uncertainty, the speed with which the household sector will ramp up consumption spending as the pandemic subsides, running down the savings accumulated during the confinements. In addition, fall-out from hard-hit sectors may affect the economy more than expected. The leisure, travel and entertainment sectors comprise only a small share of Canada's GDP. However, in the event of widespread bankruptcies, the rest of the economy may struggle to absorb the layoffs. Furthermore, activities with links to the hard-hit sectors, such as aircraft manufacture, are affected. In addition, there are structural impacts whose scale is uncertain, including the accelerated shift to online retail and the possibility of permanent downshift in commuting and travel. The significant government support still being provided to households and businesses will help offset these risks. Among the upside risks, the expected fiscal stimulus in the United States could bring a substantial a boost to Canadian exports.

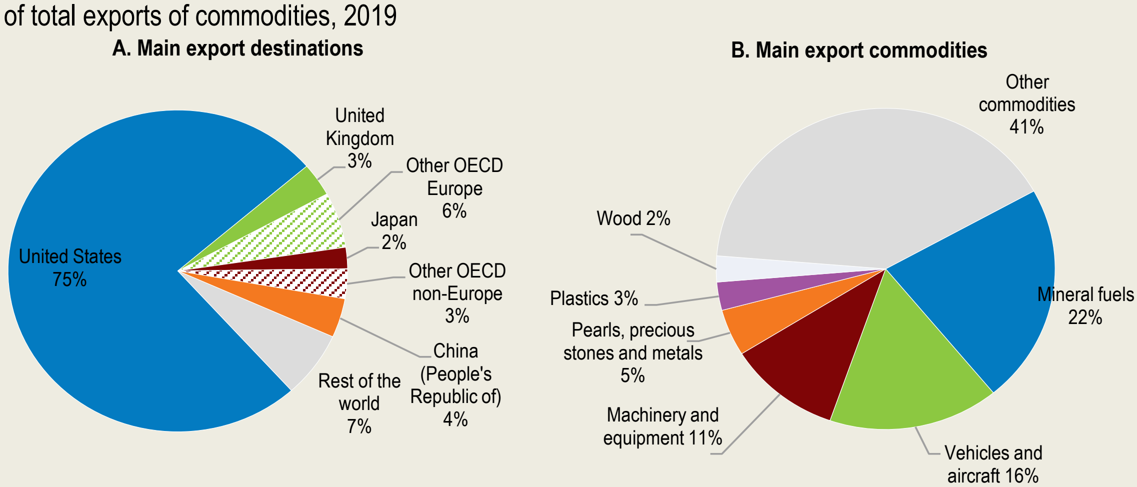
Trade tensions, a risk prior to COVID-19, continue. Canada's economic recovery from the pandemic crisis will depend substantially on developments in the United States, given the close economic ties between the two countries. The conclusion of the United States-Mexico-Canada Agreement (USMCA) has reduced uncertainty for much of Canada's international trade (Box 1.3). However, the Agreement's 16-year sunset implies uncertainty for the long term. Furthermore, global trade tensions and uncertainties are still elevated. Although political changes in the United States and some European trade partners bring the prospect of contributing to improved global trade relations, risks remain (e.g., uncertainty about the trajectory of China's trade policies). For example, Canada's trade relations with China have seen a number of developments since the previous *Survey*, including blocks by China on sales of pork and beef and suspension of the licenses of Canadian canola exporters in 2019.

Box 1.3. Recent developments in international trade agreements

Canada's economic activity involves substantial international trade, particularly with the United States. Imports and exports together are typically equivalent to 60-65% of GDP in nominal terms, with exports alone accounting for a little over 30%. Mineral fuels and vehicles and aircraft are the largest export items. In recent years some exports have faced considerable uncertainty due to trade measures imposed by the United States on Canadian goods, for instance softwood lumber, certain dairy products and aluminium.

Figure 1.11. Exports by main destinations and main commodities

Share of total exports of commodities, 2019



Source: OECD, International Trade by Commodity Statistics database.

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There have been important developments in Canada's international trade agreements in recent years:

- Replacement of the North American Free Trade Agreement (NAFTA) with the United States-Mexico-Canada Agreement (USMCA) entered into force in July 2020. The conclusion of the agreement ended uncertainty from the renegotiation process itself. On many topics, the USMCA is essentially the same as NAFTA and is expected to broadly imply the same economic benefits. Rule changes for the auto industry include higher local-content requirements and wage requirements. However, Canada's auto sector is seen as being able to adjust without huge cost (TD Economics, 2018). Higher *de minimis* import thresholds (i.e., increases in import valuation thresholds below which no duty or tax is charged) potentially benefit households while disadvantaging retailers in Canada. Protected agriculture industries, such as dairy, are likely to see greater import competition (the federal government has indicated that some compensation may be made).
- The Canada-EU trade agreement came into force in 2017, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership came into force for Canada in 2018. In November 2020, the Canada-United Kingdom Trade Continuity Agreement was struck. As the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) will no longer apply to the United Kingdom beginning January 1, 2021, this new agreement will provide continued access to the benefits of CETA on a bilateral basis.

Pre-crisis macro-financial risks relating to housing debt and corporate-bond financing are in some respects greater. Government support measures have gone a long way in preventing widespread financial problems among highly indebted households. However, the earnings prospects for many households will remain weakened for some time, raising default risk. Because household debt is large, the impact of any future weakening of income growth implies a significant impact on household consumption. Furthermore, the economic downturn may expose the fragilities of the significant share of low-grade corporate debt. The prospect of an even more prolonged low interest-rate environment gives cause for continued concern about investor risk-taking and asset valuations and their distributional implications (discussed further below).

Table 1.3. Possible further shocks to the economy

Shock	Likely impact	Policy response options
Prolonged and deep lockdown for instance due to problems in vaccine supply, concerns about the spread of new variants of COVID-19.	Prolongation of containment measures could potentially see a substantial fall in economic activity, with deeper scarring in shutdown-vulnerable sectors, and increase the risk of a sluggish recovery and prolonged socio-economic damage.	Renewed central-bank emergency measures to support liquidity and financial markets. Ramping up of government support for households and businesses.
Substantial housing market adjustment	Reduced residential investment and diminished household consumption, inter alia due to wealth effects are the most likely channels. A sufficiently large shock could threaten financial stability. IMF calculations suggest a 30% decline in house prices in Canada could reduce GDP by 3% including an 18% reduction in investment (IMF, 2017). Fiscal costs from Canada's government-backed housing insurance would arise only under very large price falls with widespread defaults, as insurers hold substantial capital reserves.	Central-bank emergency measures to support liquidity and financial markets, especially mortgage markets. Measures to reduce risk of future problems including macro-prudential measures.
Financial asset price correction (for instance in corporate bonds) from the distortions already present pre-crisis due to high levels of risk taking.	Deepened economic downturn from negative wealth effects, reduced business confidence and investment, potentially also destabilised financial markets.	Central-bank emergency measures to support liquidity and financial markets. Additional fiscal measures to counter the negative impact on real side of the economy.

Challenges for monetary policy and financial-sector stability

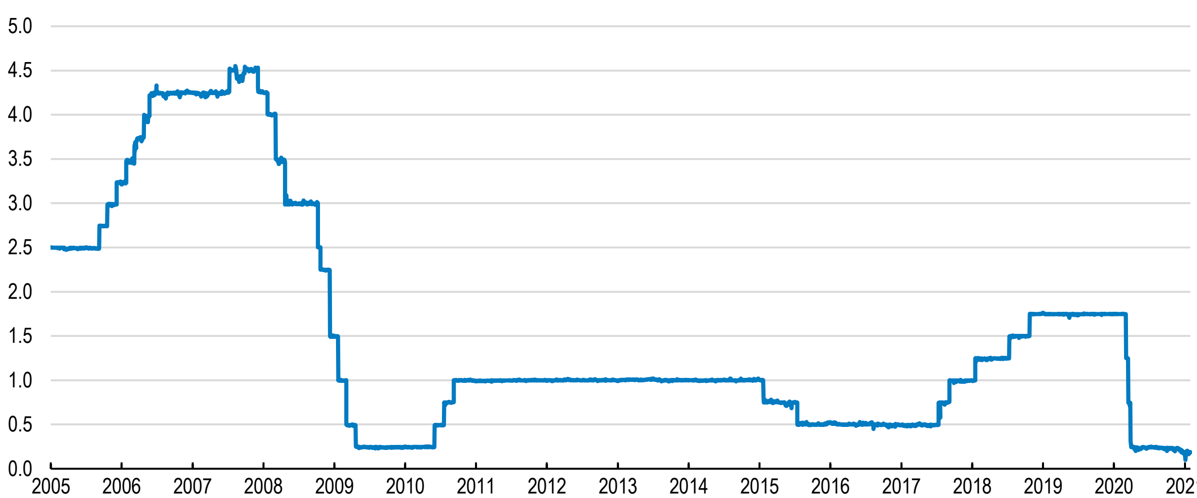
A rapid policy response in the early stages of the crisis, through policy-rate cuts and other measures that bolster liquidity, helped Canada avoid a financial-market meltdown. The Bank of Canada used practically all the scope for rate cuts (while remaining in positive territory), cutting the policy rate to 0.25%, the same as that in the aftermath of the global financial crisis (Figure 1.12). This was accompanied by other measures to provide liquidity and ensure financial markets continued to function (Table 1.4). These were broadly successful. By May 2020, market liquidity for federal-government bonds, provincial debt and corporate paper had returned to pre-crisis levels. In addition, funding pressures on banks have receded (Bank of Canada, 2020a). The Bank's forward guidance on the policy interest rate reinforced by its purchases of government securities has also eased borrowing conditions for households, firms and governments. The purchases of government securities has resulted in a substantial increase in the Bank's balance sheet (Figure 1.13).

Ultra-accommodative monetary policy can, and should, be maintained until the economy is on an even keel

In the initial phase of the crisis, assessing consumer price inflation was complicated by the diverse effects on prices in different segments of the economy. The large fall in crude oil prices early in the crisis pushed down gasoline prices. Also, the price of accommodation fell. Meanwhile, retail food prices rose. Shifts in purchasing patterns were significant, but Bank of Canada research suggests that accounting for these did not generate a substantially different picture of overall price developments (Bank of Canada, 2020b).

Figure 1.12. The policy rate has been cut to 0.25%

Canada overnight money market rate



Source: Refinitiv, Datastream.

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