Briefing Note

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Issue / Background: Presentation from Economist Benjamin Tal

To complement the information it receives regularly on the Toronto economy, the Economic Development Committee periodically hears presentations from researchers and topical experts. At its meeting of September 22nd, the Committee heard a presentation from CIBC Senior Economist Benjamin Tal. As a close monitor of trends and leading advisor in the global financial system, Mr. Tal previously delivered a presentation to Councillors and City staff at the Ontario Investment and Trade Centre, in which he discussed economic shifts at the international, national and regional levels. He was again invited to speak before Committee to specifically address issues facing the Toronto economy.

Overview:

This brief summarizes the issues and general recommendations discussed in Mr. Tal's presentation and the Q&A session that followed. The presentation focussed on the challenges that the Toronto economy is facing, but offered a generally optimistic view. In particular, an unemployment rate above the national average has attracted a lot of attention, but Mr. Tal suggested that the duration of unemployment is a more important indicator. Toronto fares much better on this measure. Further, Toronto continues to attract immigrants and youth. These two groups face barriers within the labour force but their presence is a tremendous regional advantage.

Mr. Tal foresees continued difficulty in the region's manufacturing sector as U.S. consumers switch to saving and the Canadian dollar rises. Yet with appropriate policy support, Toronto can maintain an innovative manufacturing base and be a leader in growing sectors, including financial services and 'green' technology.

Mr. Tal offered an assessment of Toronto's economic development prospects over the next five years, and suggested some policy areas for the Committee and the City to focus on. These include building on the city's status as an R&D mecca, particularly as relates to green technology; providing support to immigrants, youth, and Toronto's growing number of self-employed; and marketing the city globally.

Key Points:

The presentation provided context for the policy discussion that followed. Mr Tal's key points are summarized here:

- <u>The recession is over but things will never be the same</u>

Following the near collapse of its financial system last year, the U.S. government and central bank moved quickly enough with stimulus spending to restore confidence and provide the basis for recovery. Although the recession is effectively over, it is very significant that for the first time recovery will not be driven by consumers. Instead, the U.S. government is funding employment creation and credit availability and 'buying time' until consumers are again in a position propel growth.

While Mr. Tal suggested that this was the only realistic option available to the Obama administration, he cautioned that the American consumer will never again be as willing to borrow and spend. Further, this recession possibly marks the beginning of the end for the U.S. as the world's superpower as China continues to grow and build a massive middle class with an even greater propensity to consume.

- What this means for the Toronto region economy

Mr. Tal related how these trends in the global economy present some significant short term challenges for the Toronto economy and particularly the manufacturing sector. Specifically, Canadian exporters cannot rely on previous levels of demand from U.S. consumers, and neither are President Obama's stimulus measures likely to be of much stimulus here. These funds are focussed on the domestic economy in sectors like health and education where there is little opportunity for Canadian suppliers. As demand from the U.S. wanes, demand from China will increase but primarily for commodities rather than manufactured goods.

Growth of the Canadian economy, predicted to be modest but to lead all G7 countries through 2011, will therefore be driven by the western provinces and their commodity base. High commodity prices, particularly for oil, will drive the Canadian dollar up. At the same time, as the U.S. economy weakens and stimulus spending eventually leads to inflation, the U.S. dollar will decline, putting further pressure on Canadian manufacturers with American customers. Therefore, Tal sees further contraction in Ontario's manufacturing sector from its current 11 percent share of GDP down to the 8 or 9 percent seen in other regions like Quebec.

- Reasons for optimism

But despite these troubling external factors, Mr. Tal's analysis suggests reasons for optimism. Generally, it is a widely known story that Canada, and particularly its financial system centred in Toronto, has weathered the global recession relatively well. Consumer confidence remains high and business bankruptcies have actually declined.

Further, although the unemployment rate in the City of Toronto has risen over the past year, and remains above the national average, the *duration* of unemployment is the more telling indicator. Here, Toronto has seen little change. While many people have been laid off, they often report finding new work relatively soon after. Mr. Tal explained that many have been forced into self-employment which is more precarious but, as seen in previous recessions, is likely to result in many successful new businesses.

A (permanent) shift to more self-employment is an indication that the high unemployment rate in Toronto is a structural issue rather than a cyclical one. Another factor is that the region remains a primary destination for immigrants and young people from other parts of the country. These are two demographic groups that currently face barriers to labour force entry and advancement, but whose presence, given appropriate policy support, is a very significant regional advantage.

Taken together, the stable and comparatively short duration of unemployment; the shift to more self-employment; and the continued attractiveness of Toronto to immigrants and youth demonstrate to Mr. Tal the dynamism of the Toronto economy. Although in his view the manufacturing sector will continue to decline, the regional economy is set to adapt well. In particular, the financial services sector has received additional attention and investment as a result of its perceived stability. Additionally, the region is a 'green' technology R&D mecca which will be in particular demand if the U.S. imposes a carbon tariff on imported goods. Finally, despite contraction, the manufacturing sector will continue to be a source of employment, innovation and highly valued goods.

Recommended Policy Focus:

Mr. Tal's message to the Committee was that these developments will require policy support, and he offered a suggested 'recipe' of policy areas to focus on:

Immigration **-** Enabling immigrants to transition into the Canadian labour force and bring all of their skills to bear remains the most critical labour force development issue.

Self-employment **-** Mr. Tal suggested some ways to support the structural transition to more self-employed work. First, banks are leery of over-optimistic entrepreneurs so alternatives sources of capital can be encouraged. Second, he suggested reducing taxes on small business. Finally, he indicated that business training is essential and that the City could support a network of small business training options.

Transition from school to work **-** To improve the labour force prospects of youth, the transition from school to work is a critical moment.

Research and development of 'green' technology **-** The U.S. is actively trying to reduce its dependence and oil and protect its domestic economy, and will achieve both of these goals with the imposition of a carbon tariff. The way for Toronto to avoid being a victim of this particular trade restriction is to build on its green R&D strength and develop the sustainable technologies that will be in much greater demand.

Marketing **-** Despite the reasons for optimism Mr. Tal listed and Toronto's ability to weather the recession relatively well, these messages are not being shared and the city is not being sufficiently marketed.

The time to invest is now **-** In addition to the specific policy areas discussed, Mr. Tal also offered a caution on timing. The primary economic opportunities in Toronto will come only after a period of transition where commodities and western provinces will lead Canadian growth. But the time to make significant investments that position Toronto as a leader in a structurally different global economy is now.

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