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Economy recovering, but challenges remain, economist says

BY CHUCK HOWITT, RECORD STAFF

WATERLOO — The global economy seems to have recovered from the "Great Recession" of 2008-09, but there is still plenty of pain ahead, says the chief economist of the TD Financial Group.

Don Drummond, a former associate deputy minister with the federal government who co-ordinated the planning of federal budgets during the 1990s, painted a mostly bleak picture of where the world economy is headed over the next 10 years during an economic forum Tuesday night in Waterloo.

The global economy is a much more synchronized entity than it was 10 to 20 years ago, he said. Trade has been twice as high as output for two decades, financial products are much more integrated, the world's 35 central banks are moving virtually in lock-step and the G20 countries are exerting "a much higher degree of peer pressure" on other countries to follow the correct policies, he told Wilfrid Laurier University's annual economic outlook forum.

"This could be a wonderful thing if everybody is wise," Drummond said. Since we know that is not true, "a little diversity is not such a bad thing."

Three years ago, the prevailing view was that if the U.S. went into a recession, "the rest of the world would blast right through it."

Yet, when the U.S. housing market and financial markets went into a nosedive in the fall of 2008, "everyone went down with them," he said.

"The good side is that everyone is coming back up in a synchronized fashion."

However, most countries ran up staggering debt levels to pull themselves out of recession. By 2013, that strategy is not going to look so good, he noted, because getting out of debt is much more difficult than getting into it.

The high American deficits do not bode well for the Canadian economy which relies heavily on trade with our southern neighbour, said Drummond.

Normally during a global recession, Canada suffers more than the U.S. That didn't happen this time. With the U.S. losing 7.4 million jobs, Canada should have lost about 740,000, he said. In reality, we have lost just over 400,000 jobs.

Drummond had harsh words for the Ontario economy. The auto industry used to make up seven per cent of the province's gross domestic product. That will drop to 3.5 per cent in five to 10 years, he predicted.

The deficit situation is worse than it was when Bob Rae was premier in the early 1990s, Drummond said, and the welfare system is "totally broken." The rates are too low for most people to survive on, yet wage rates are so low that single mothers can't escape welfare, he noted.

"We've created the perfect box. It's impossible to get into it, but once you get in, you can't get out."

Infrastructure spending has been starved for decades in Ontario and industries have been propped up by artificially low electricity rates. With rates needing to rise, this could be a "huge potential burden" on growth in the future, he said.

On the environmental front, each province has imposed its own regulations which will be a nightmare for industries active in more than one province.

The way out of the recession is to move into the production of higher-value products. To do that, a top-quality labour force is required, he said. Compared to other countries, Canada is doing well in the undergraduate sector but not so well in graduate studies, he noted. "And we're doing a terrible job of integrating immigrants."

On the positive side, corporate tax rates across in Ontario have dropped from 45 per cent in 2000 to 25 per cent now, "a phenomenal improvement," he said.

In Waterloo Region, Drummond said there is a "labour force divide" characterized by plenty of job openings in the tech sector and advanced manufacturing, but high unemployment among unskilled workers.

The area's strength in information technology, advanced manufacturing, education, financial services and insurance stand us in good stead, he

noted. Manufacturing will make a comeback, but there won't be as many jobs.

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