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An Assessment of Recent Economic Performance and Business Investment Growth in Ontario

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SUMMARY

- Over the first two decades of the 21st century, Ontario has been mired in a prolonged period of slow economic growth.

- This bulletin provides the context for this situation by examining the extent of Ontario's economic weakness since the turn of the century while paying particular attention to economic growth, job creation, public finance performance, and business investment in the province.

- Ontario has underperformed relative to its own recent past. The province's economic growth was substantially faster in the 1980s and 1990s than in the 2000s and 2010s.

- Ontario has also underperformed relative to other jurisdictions in North America. The province's average rate of economic growth from 2000-2019 was weaker than in the other large Canadian provinces and nearby American states in the Great Lakes region.

- Ontario has also been near the bottom of the Canadian pack in business investment. The province's rate of average annual inflation-adjusted business investment growth from 2000-2019 was the third lowest in Canada—ahead only of New Brunswick and Nova Scotia.

- Business investment is an important driver of growth and prosperity, and Ontario's position near the bottom of the Canadian pack is therefore a negative indicator for the province's future growth prospects.

Introduction

Historically, Ontario has been one of the most prosperous provinces in Canada and an engine of national economic growth. Its per-person gross domestic product (GDP) was above the national average for most of our history, and for decades following the Second World War, household incomes in Ontario were consistently 10 to 20 percent above the national average (Cross, 2015: 1).

Over the first two decades of the 21st century, however, Ontario's economic performance took a substantial turn for the worse. Between 2000 and 2019 (we exclude 2020 from this analysis because of the unusual character of that year due to the COVID-19 pandemic), Ontario was mired in a prolonged period of economic weakness. During this period, the province underperformed its own growth record in recent prior history and also lost ground compared to the rest of the country. The decline of Ontario's manufacturing sector in the 2000s, a steep recession in 2008/09, and a tepid recovery in the subsequent years have combined to create an extended period of economic weakness for Ontario.

This bulletin provides context for this situation by examining the extent of Ontario's economic weakness since the turn of the century while paying particular attention to economic growth, job creation, public finance performance, and business investment in the province.

Ontario's economic performance from 2000 to 2019

This section reviews Ontario's economic performance since the turn of the century in comparison to other provinces and the rest of the country as a whole.

Inflation-adjusted economic growth per capita

There are several ways to measure economic progress. The most comprehensive metric that economists use is Gross Domestic Product (GDP). GDP is essentially the value of all the goods and services an economy produces in a given year. To compare jurisdictions of different sizes, economists often use GDP per person as a useful though imperfect measure of a jurisdiction's overall prosperity.

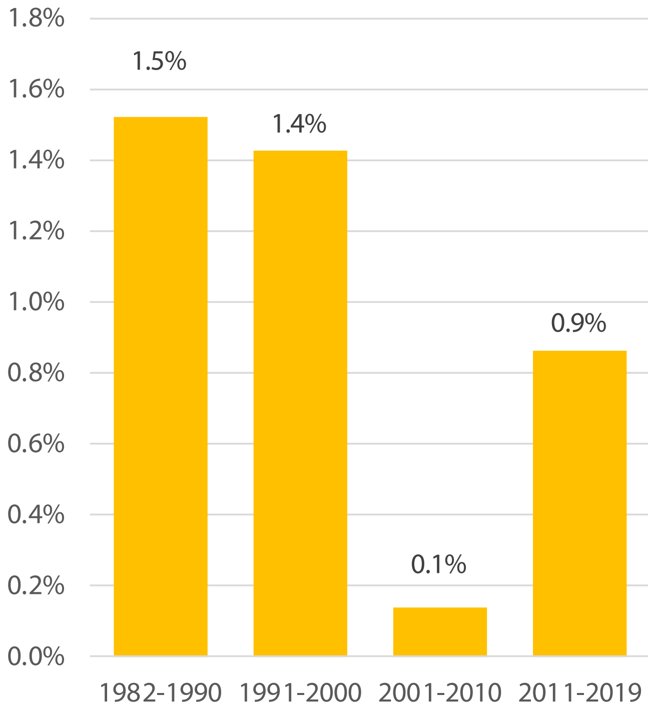
Ontario's performance on this metric has been weak over the past two decades, both relative to the province's own historical performance and compared to the rest of Canada. As figure 1 shows, economic growth in Ontario was much slower in the early decades of the 21st century than in the late decades of the 20th.

Figure 1 shows the average annual inflation-adjusted per capita economic growth for various periods since the early 1980s. These periods more or less cover the 1980s, the 1990s, the 2000s, and the 2010s. The slight variation from the use of the exact decades is due to data availability.

Figure 1 shows that in the 1980s real per person economic growth in Ontario averaged 1.5 percent per year. This figure was similar in the 1990s (1.6 percent annually). In the 2000s, average real per capita economic growth plummeted to a much lower 0.1 percent, largely due to a decline in manufacturing during the decade and to the steep recession in 2008-09.

Real per person annual growth picked up in the following decade, but still remained much lower than in the 1980s and 1990s. A tepid economic recovery from the steep recession of 2008-09 is largely responsible for this result.

Figure 1: Average Annual Real per Capita GDP Growth Rates in Ontario in Four Periods



Sources: Statistics Canada (2021a, 2021b); calculations by authors.

During the 2010s, real growth rose a bit to average 0.9 percent annually.

Ontario is not alone in experiencing a slowdown in its economic growth over the past 20 years. However, the province's economic challenges have been more severe than those of its neighbours and key trading partners in the United States. One recent analysis showed that while Ontario's growth in real GDP per capita since 2000 was substantially below the regional average, and amongst the lowest in the Great Lakes region (Eisen and Palacios, 2021), Canada's oil-producing regions have also seen substantial slowdowns in their growth rates over the past decade. Low oil prices have contributed to lower growth, especially in Alberta, Saskatchewan, and Newfoundland & Labrador.

Nevertheless, in the 2000 to 2019 period as a whole, Ontario underperformed relative to the other Canadian provinces. As figure 2 shows, there was substantial variation in real per capita economic growth across Canada during this period. Ontario posted the slowest rate of inflation-adjusted per-person aggregate economic growth over this period, at just 9.1 percent. By comparison, the growth rate in the rest of the country excluding Ontario was 26.1 percent from 2000-2019.

These data demonstrate that over the past 20 years, Ontario's economic performance on the broadest indicator, GDP per capita, substantially lagged the national average and the province was the worst performer in Canada in overall inflation-adjusted per capita economic growth.

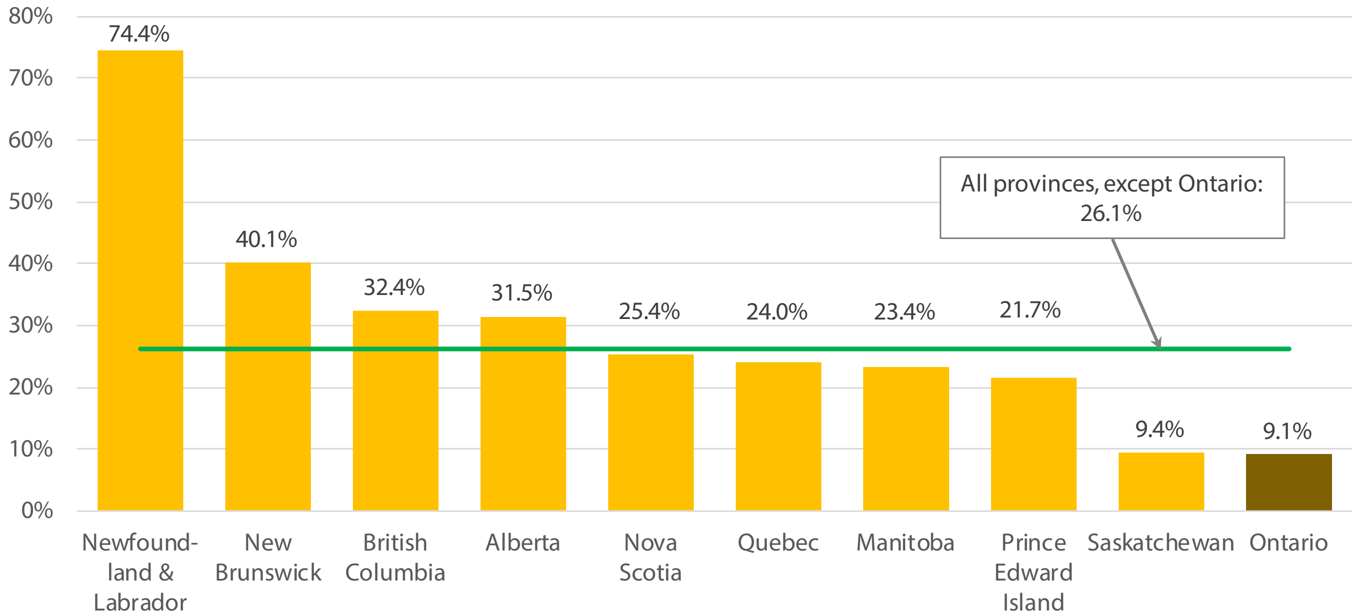
Private sector job creation

Ontario's weak economic performance over the past two decades is also reflected by the province's slow rate of private sector job creation.

Figure 3 illustrates this point by comparing the growth in overall private sector job creation between 2000 and 2019 for each province, and the overall total for the nine provinces other than Ontario.

On this indicator as well, Ontario lags well behind most of the country. Over the 20 years in question, the net number of jobs in Ontario increased by 23.2 percent, the lowest of the four large Canadian provinces. This compares to an increase of 31.7 percent in the rest of the country. Ontario's rate of job creation was nearly identical to that of Newfoundland & Labrador

Figure 2: Aggregate Real per-Capita Economic Growth in Canadian Provinces, 2000–2019



Sources: Statistics Canada (2021a, 2021b); calculations by authors.

and Manitoba. In fact, Ontario's net job creation from 2000-20019 was significantly higher than only two provinces, Nova Scotia and New Brunswick. Further, Ontario also underperformed relative to Quebec, which had lagged Ontario throughout most of the 20th century.

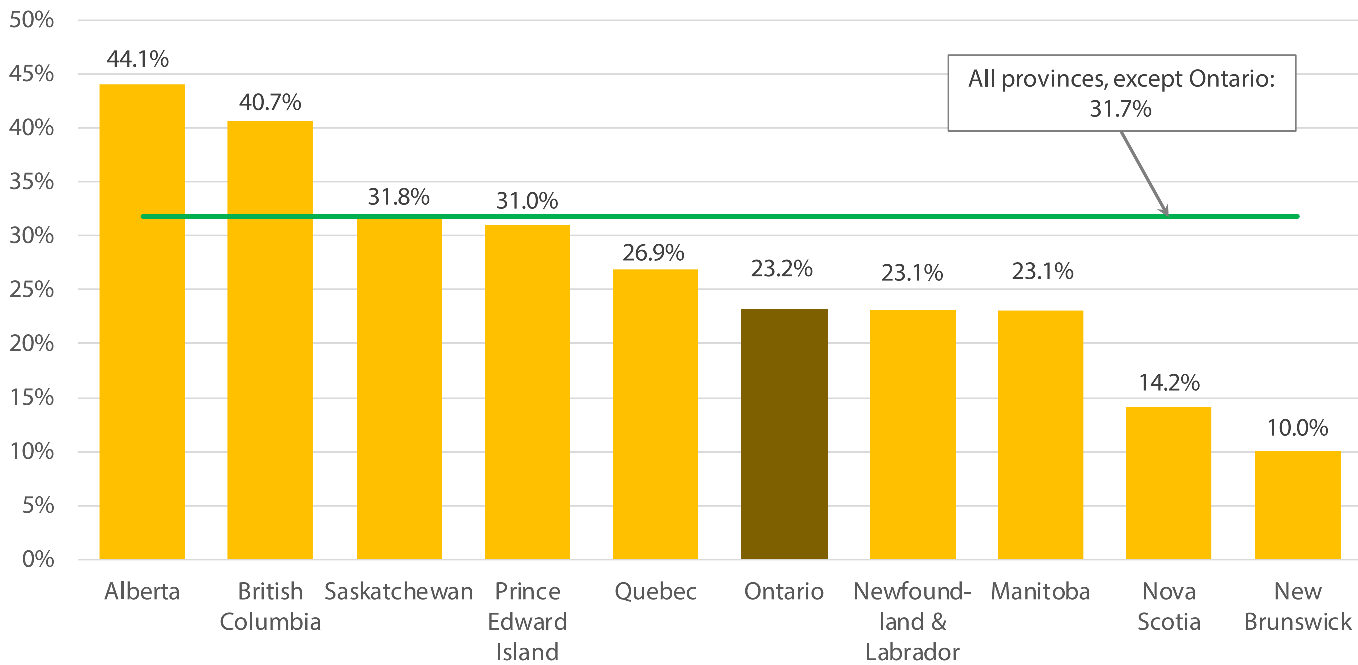
Public debt accumulation

Another important metric that highlights Ontario's weak economic performance is its accumulation of public debt. Net debt is all of the debt a government holds minus its financial assets. Figure 4 shows that Ontario has added substantially more debt per capita than any other province. This per-capita debt growth is even more concerning in light of the fact that Ontario's population growth has also been amongst the highest in Canada during this period.

Partly due to economic conditions and partly due to its policy choices, from 2000 to 2019 Ontario's net debt per capita increased by $12, 952 (again, we exclude 2020 because of the extraordinary increase in debt and deficits in all the provinces related to the COVID-19 pandemic). Figure 4 shows the substantial variation between provinces: British Columbia, Nova Scotia, and Saskatchewan all added less than $3, 000 per person in net debt.

As a result of its rapid increase in net debt, Ontario's debt-to-GDP ratio has gone from being the 6th highest in Canada in 2000, the middle of the Canadian pack, to the second highest in fiscal year 2019 prior to the COVID outbreak and related recession. In that fiscal year, Ontario was projected to have a higher debt-to-GDP ratio than Quebec, a remarkable historical re-

Figure 3: Total Private Sector Job Growth, 2000-2019



Note: Some jurisdictions appear to have the same values but this is due to rounding. Ranking in the figure is based on the actual and not the rounded values.

Sources: Statistics Canada (2021c); calculations by authors.

versal, and the second highest level in Canada behind Newfoundland & Labrador.

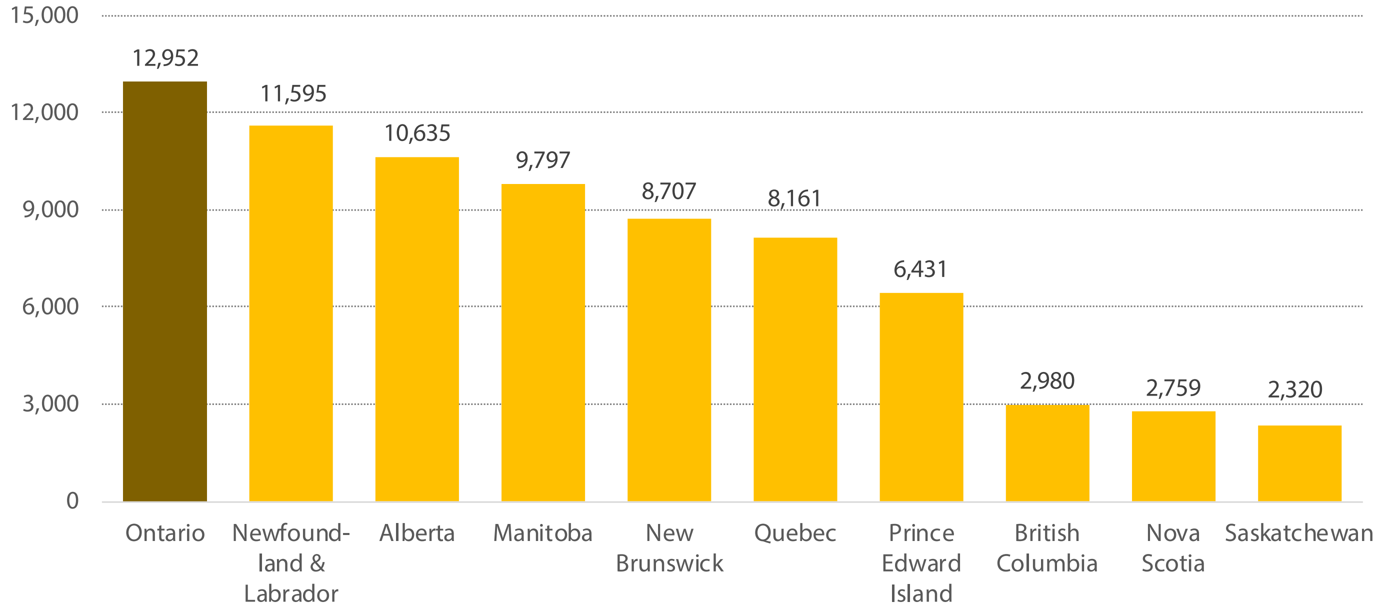
Clearly, as is the case for the other economic indicators considered earlier in this bulletin, Ontario underperforms the rest of Canada on the health of its public finances. Ontario has added debt per capita faster than any other province in the country and its overall indebtedness relative to the size of the economy has gone from being in the middle of the pack to being the second most indebted province behind only Newfoundland & Labrador. Moreover, since 2000, both Newfoundland & Labrador and Quebec, which were respectively first and second in net-debt-to-GDP that year, have seen their ratios decline, while Ontario has done the reverse.

Business investment

Productivity growth is a primary driver of economic performance and wage growth (Globerman, 2020). Investment in capital, one of the elements necessary for funding productivity-enhancing machinery, is therefore an important determinant of labour productivity and growth. Here we consider business investment growth in Ontario compared to that in other jurisdictions to better understand the province's future prospects.

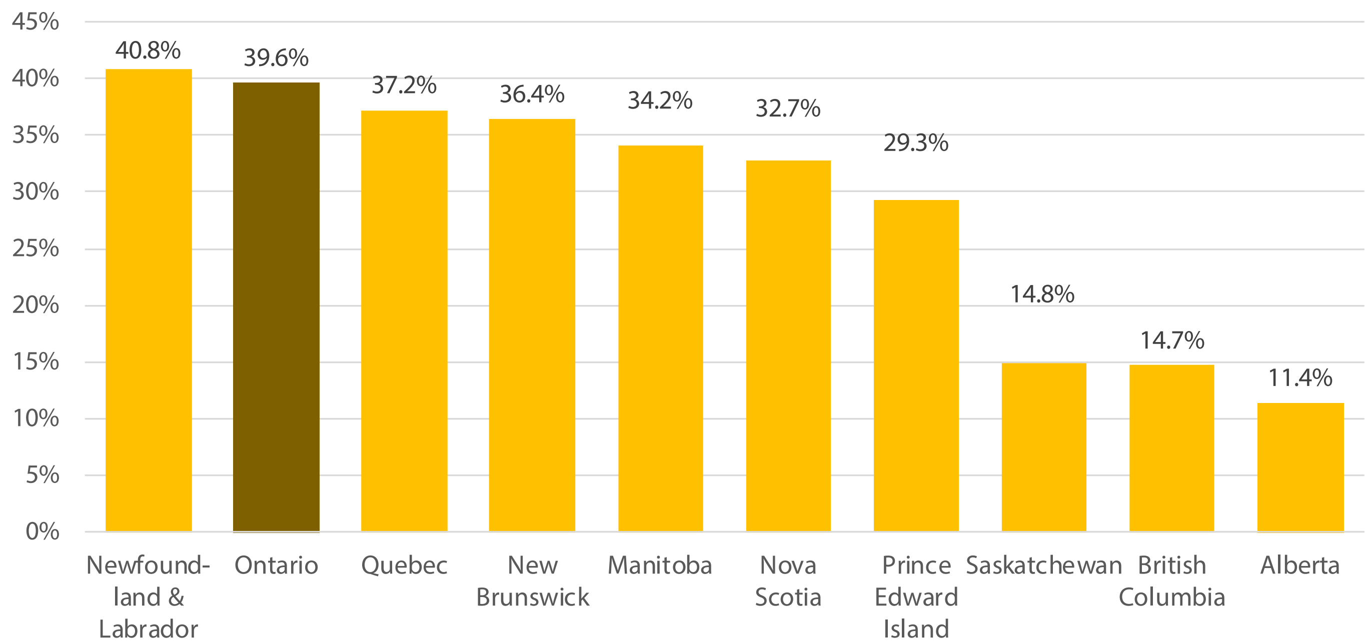
Before discussing Ontario's performance, it is important to note that in recent years business investment across Canada has generally been weak. For instance, one recent

Figure 4: Change in Net Debt per Capita by Province, 2000–2019 (nominal $)



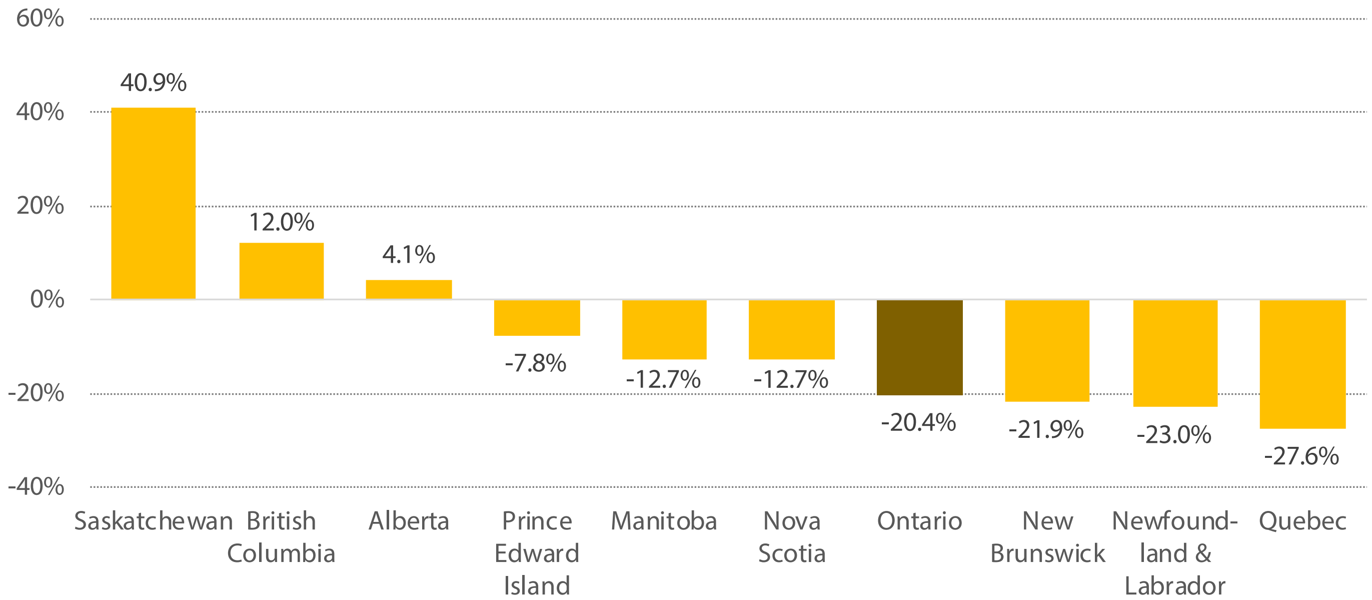
Sources: Canada, Department of Finance (2020); Provincial Public Accounts 2019/20; calculations by authors.

Figure 5: Net Debt as a Share of GDP in All Provinces, 2020



Sources: Canada, Department of Finance (2020); Provincial Public Accounts 2019/20; Statistics Canada (2021b); calculations by authors.

Figure 6: Overall Change in Investment in Machinery and Equipment, 2000-2019 ($2019)



Sources: Statistics Canada (2021d); calculations by authors.

analysis showed that half of all private sector industries saw a significant drop in investment between 2015 and 2019 (Globerman and Emes, 2021). However, over the past 20 years Ontario's business investment outcomes have been even worse than the national patterns indicate.

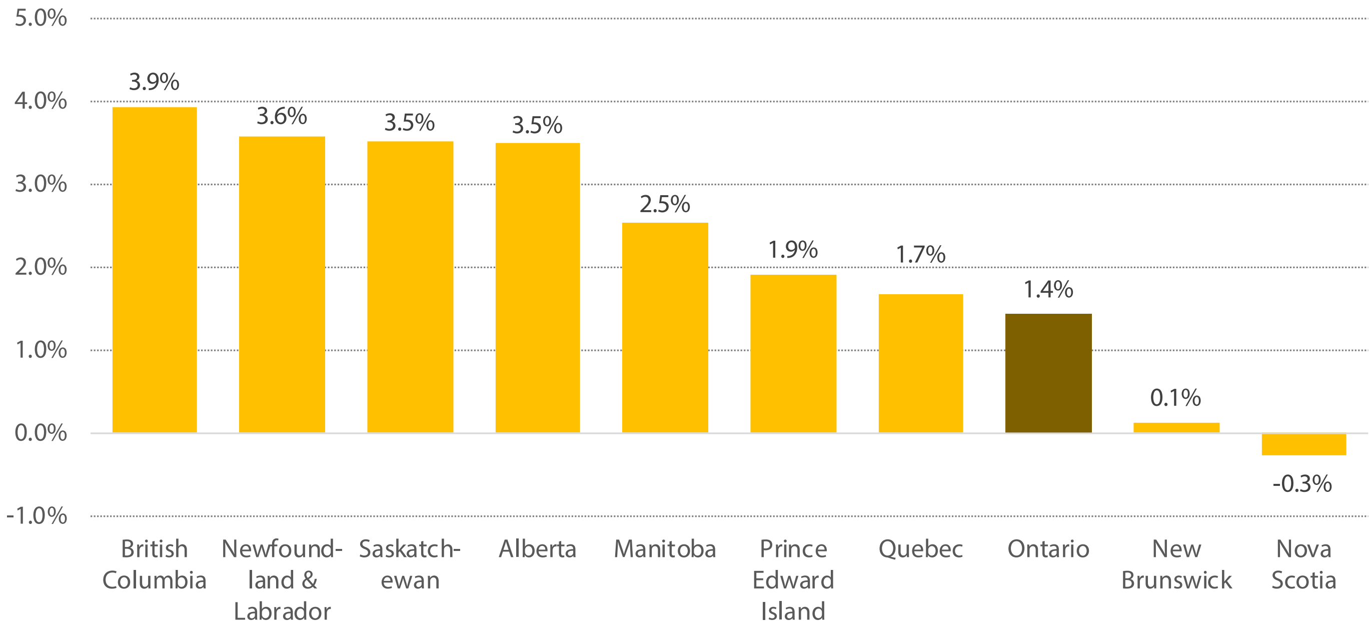
One important dimension of business investment is expenditures by firms on machinery and equipment. Investment in this category can help drive future productivity growth. Since 2000, Ontario has lagged most of the country on this indicator.

As figure 6 shows, inflation-adjusted investment in machinery and equipment in Ontario declined between 2000 and 2019—by 20.4 percent during this period.

A broader measure of overall business investment shows that Ontario's performance is again amongst the worst in the country. Figure 7 shows that from 2000 to 2019, average inflation-adjusted annual business investment growth in Ontario was 1.4 percent, the third lowest in Canada ahead only of New Brunswick and Nova Scotia. Making an adjustment for population growth further demonstrates Ontario's weak performance for this metric. From 2000-2019, inflation-adjusted business investment growth per person increased at an average annual rate of just 0.3 percent.

We have seen that Ontario's economic performance over the past two decades has been weak. The data presented raise concerns about future economic growth in the province.

Figure 7: Real Average Annual Business Investment Growth, 2000-2019



Note: Some jurisdictions appear to have the same values but this is due to rounding. Ranking in the figure is based on the actual and not the rounded values.

Sources: Statistics Canada (2021d); calculations by authors.

Business investment is an important driver of growth and prosperity, and Ontario's position near the bottom of the Canadian pack is a negative indicator for the province's future growth prospects.

More recent developments

In more recent years (prior to the COVID pandemic), weak economic performance in several jurisdictions, particularly Canada's oil-producing regions, have led to a slight improvement in Ontario's relative economic performance within Canada on economic growth. However, Ontario should take no comfort in this development. The reversal is the result of weakness in other jurisdictions, not improvement in Ontario *per se*.

In short, in recent years Ontario has stopped being the economic growth laggard in Canada, but that is primarily because of more economic weakness elsewhere in the country, particularly in provinces with large oil and gas sectors, not because of improvements in Ontario. Overall growth in Ontario has remained tepid and weak business investment over the past 20 years remains a source of concern about the province's long-term economic prospects.

Conclusion

While Ontario has historically been an engine of economic growth in Canada, this has not been the case in the first two decades of the

21st century. Ontario has, in fact, been a laggard on key economic performance indicators. This bulletin has shown that with respect to overall real economic growth per person, job creation, business investment, and public finance performance, Ontario has lagged the Canadian average and in several areas has been one of the worst performers amongst the provinces.

Over the past five years, Ontario's relative performance within Canada has improved, primarily due to severe economic weakness in Canada's oil-producing provinces. However, in absolute terms, economic growth in Ontario has remained tepid.

Ontario's weak economic performance over the past two decades is not just a matter of academic concern. Slow growth has meant a low job creation rate in Ontario and, over time, the number of jobs needs to grow to help drive wages up. In short, in the absence of strong economic growth, fewer good and high paying jobs will be created in Ontario, which will result in the continuation of the trend the province has experienced in recent decades and will eventually lead to a declining standard of living for Ontarians.

Ontario's recent economic past is disappointing and there are good reasons to be concerned about its future. Specifically, business investment in Ontario has been particularly low over the past 20 years. Business investment in machinery and equipment particularly helps boost labour productivity and therefore overall economic well-being. Therefore, the province's weak business investment performance over the past 20 years should raise concerns about Ontario's economic future—there is no certainty that it will be brighter than its recent past.

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