Opportunity in the turmoil
Opportunity in the turmoil
Report on Canada 2009

Roger L. Martin
April 15, 2009
Opportunity in the turmoil

• Seizing opportunity in the turmoil

• Canada’s prosperity gap

• AIMS and the long-term opportunities for Canada

• A long-term Prosperity Agenda to guide us through the turmoil
The 2020 Prosperity Agenda Creates Opportunity To Realize Canada’s Prosperity Potential

<table>
<thead>
<tr>
<th>The Goal: Realize Canada’s prosperity potential</th>
<th>Target 2020</th>
<th>Threats from economic turmoil</th>
<th>Opportunity for Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitudes</td>
<td>Shared determination to close gap</td>
<td>Excessive concern about short term</td>
<td>Address short-term challenges while keeping eye on long-term prosperity potential</td>
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<tr>
<td>Investment</td>
<td>Investment for tomorrow’s prosperity</td>
<td>Investment to meet current needs</td>
<td>Continue to invest in long-term prosperity</td>
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<td>Motivations</td>
<td>Smart taxation</td>
<td>Tax increases to fund spending</td>
<td>Adopt bold tax innovations for long-term prosperity</td>
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<tr>
<td>Structures</td>
<td>Creativity and growth</td>
<td>Along with other countries, policies of insularity</td>
<td>Make Canada a competitive and open economy for the Creative Age</td>
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</tbody>
</table>
Recent Economic Trends Are Worrisome

Economic status and recession in Canada since 1990

- Manufacturers’ sales change
- Unemployment rate
- Real GDP change
- New house price change

Change from previous year same quarter


Q1 2007 Q2 Q3 Q4 Q1 2008 Q2 Q3 Q4

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Canada Is More Prosperous Than Most International Peers

2008 GDP per capita (C$ 2007)

- United States: $55,000
- Netherlands: $48,200
- Canada: $46,300
- Australia: $45,700
- Belgium: $43,200
- United Kingdom: $42,600
- Germany: $42,000
- Japan: $40,000
- France: $39,500
- Italy: $36,700
Canada Trails The United States In GDP Per Capita


<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per Capita (C$)</th>
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<tr>
<td>'81</td>
<td>$2,600</td>
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<tr>
<td>'85</td>
<td>($4,100)</td>
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<td>'90</td>
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<td>'95</td>
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<td>'07</td>
<td>($8,300)</td>
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<td>'08</td>
<td>($8,700)</td>
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</table>
Closing the prosperity gap would increase annual personal disposable income for the average Canadian household by:

Average annual household spending in Canada, 2007 (C$ 2007)

- Mortgage payments: $11,900
- Rent payments: $7,500
- Recreation & vacation: $4,100
- Post secondary tuition: $4,000
- RRSP contributions: $3,500

Closing the prosperity gap affords higher living standards for Canadians.
The Current Recession Has Similar Effects In Canada And The United States

Real GDP annualized quarterly growth rate
Canada vs US, 2007-2008 (quarterly)
We Measure Four Components Of Prosperity

<table>
<thead>
<tr>
<th>Prosperity</th>
<th>Profile</th>
<th>Utilization</th>
<th>Intensity</th>
<th>Productivity</th>
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</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>Potential labour force</td>
<td>Employed persons</td>
<td>Hours worked</td>
<td>GDP</td>
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<tr>
<td>Population</td>
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<td>Potential labour force</td>
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- Participation
- Employment

- Industry mix
- Cluster mix
- Cluster effectiveness
- Urbanization
- Education
- Capital investment
- Productivity residual
Productivity And Intensity Are The Main Sources Of Canada’s Prosperity Gap

Elements of GDP per capita (C$ 2007)

Prosperity Gap
$8,300 or 15.1% of US GDP per capita
The Share Of Creativity-Oriented Jobs Is Increasing
New Jobs In The Coming Decade Will Be In Creativity-Oriented And Routine-Oriented Service Occupations

Proportion of net new job creation by occupation group 2006-2016

Occupation types

- Routine-service: 36%
- Routine-oriented: 50%
- Routine-physical: 11%
- Creativity-oriented: 53%

Canada

- Routine-service: 8%
- Routine-oriented: 42%
- Routine-physical: 8%
- Creativity-oriented: 53%

United States
Clustered Industries Draw More On Creativity-Oriented Occupations

Proportion of occupational groups across industry types, 2005
Canada and US

<table>
<thead>
<tr>
<th>Occupation types</th>
<th>Clustered industries</th>
<th>Dispersed industries</th>
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<td>Routine-service</td>
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</table>
Creativity-Oriented Clusters Generate Higher Earnings

Average employment income* (000 C$ 2005)  
Canada and US

Creativity-oriented occupations  
Clustered industries

Creativity-oriented occupations  
Dispersed industries

Routine-oriented occupations

Creativity-oriented occupations

Routine-oriented occupations

$83.3

$65.1

$38.0

$28.2
Productivity And Intensity Are The Main Sources Of Canada’s Prosperity Gap

Elements of GDP per capita (C$ 2007)

Prosperity Gap
$8,300 or 15.1% of US GDP per capita

US GDP per capita vs. Canada's Current GDP per capita
(84.9% of US)
Prosperity Gap Has Grown With Rising Productivity And Intensity Gaps


- Productivity gap
- Intensity gap
- Utilization lead/gap
- Profile lead

Prosperity gap

Prosperity lead

000 C$
Canada’s Productivity Trails That In International Peers

Decomposition of Canada's prosperity gap vs international countries (C$ 2007) 1990-2007

Prosperity lead
Prosperity gap
Utilization lead
Profile lead
Intensity lead / gap
Productivity gap

000 C$
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AIMS Drives Prosperity; Prosperity Drives AIMS

Capacity for innovation and upgrading
- Attitudes
- Structures
- Investment
- Motivations

Prosperity

VIRTUOUS OR VICIOUS CIRCLE
Canada Leads The United States On Tolerance But Lags On Talent And Technology

**Tolerance**
- Foreign-born as % of population
  - Canada: 20.0%
  - US: 12.0%

**Talent**
- % of population over 25 with university degree
  - Canada: 19.7%
  - US: 27.0%

**Technology**
- Patents per 10,000 people
  - Canada: 1.0
  - US: 2.5
Canadian Businesses Under Invest In Productivity Enhancing Technology

Business sector machinery, equipment, and software investment per worker, 1987-2007

Annual investment per employed person

Information and Communications Technology (ICT) +

All other machinery, equipment and software

Total investment in machinery, equipment, and software

$12,000

Canada

US

Canada

US

Canada

US

Canada

1987
2007
1987
2007
1987
2007

Current C$

6,000

3,000

0

Canada/US investment per worker

1987
61%

2007
63%

87%

100%

80%

84%

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Public Investment In Education Trails Health Spending

Expenditure per capita
C$ (2007)

$3,500

$3,000

$2,500

$2,000

$1,500


Public health and education expenditure
Canada and US, 1992-2008

Canada health

Canada education
Public Investment In Education In Canada Trails US Significantly
Canada’s Marginal Effective Tax Rate On Business Investment Is Among The Highest
No Other Country's Tax System Penalizes Services Like Canada's

Manufacturing-service sector differences in marginal effective tax rates on business investment, 2008

Tax rates are higher for service providers than manufacturers

Tax rates are higher for manufacturers than service providers

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Pressure And Support Drive All Three Elements Of The Innovation System

The Innovation System

Supply of Innovation
- Government funding for R&D
- University education of Masters and PhD students

Financing of Innovation
- Favourable tax treatment of R&D
- Skilled investor

Demand for Innovation
- Capable managers who understand need for innovation

Support
- Competition for funding
- Sophisticated financiers of innovation

Pressure
- Need for high returns from innovation
- Competition for risk capital

SUPPORT

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Workers Draw On Three Sets Of Skills

Analytical skills

- Highest: Surgeon
- 75th Percentile: Accountant
- Median: Dental assistant
- 25th Percentile: Cashier
- Lowest: Pile-driver operator

Social intelligence skills

- Highest: CEO
- 75th Percentile: Film director
- Median: Fitness instructor
- 25th Percentile: Telemarketer
- Lowest: Fashion model

Physical skills

- Highest: Firefighter
- 75th Percentile: Sheet metal worker
- Median: Home health aide
- 25th Percentile: Fashion designer
- Lowest: Lawyer
Earnings Rise With Increases In Occupations’ Analytical Skills

Skills’ impact on earnings, Canada

Average employment income (000 C$ 2005)

Analytical skills

Skill percentile

Moving from 25th to 75th percentile increases earnings by $15,200
And With Social Intelligence Skills

Average employment income (000 C$ 2005)

Skills' impact on earnings, Canada

Analytical skills

Social intelligence skills

Moving from 25th to 75th percentile increases earnings by $15,200

Moving from 25th to 75th percentile increases earnings by $20,600

Skill percentile
Earnings Decrease With Increases In Physical Skills

Average employment income (C$ 2005)

Skills' impact on earnings, Canada

Analytical skills

Moving from 25th to 75th percentile increases earnings by $16,200

$100

Social intelligence skills

Moving from 25th to 75th percentile increases earnings by $20,600

$90

Physical skills

Moving from 25th to 75th percentile reduces earnings by $7,800

$80

Skill percentile

Lowest 25th Median 75th Highest

Lowest 25th Median 75th Highest

Lowest 25th Median 75th Highest
Canada Under Values Increases In Analytical And Social Intelligence Skills

Impact on earnings as occupations move from 25th to 75th percentile in skill content

- Analytical skills:
  - Canada: $15,200
  - US: $21,800

- Social intelligence skills:
  - Canada: $20,600
  - US: $32,200

- Physical skills:
  - Canada: -$7,800
  - US: -$13,800
Canada Had 15 Billion-Dollar Global Leaders In 1985

1985*  
15 Companies

<table>
<thead>
<tr>
<th>Company</th>
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<td>Abitibi-Price</td>
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<td>Alcan</td>
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<td>AMCA</td>
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<td>Atco Ltd.</td>
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<td>Bombardier</td>
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<td>Cominco</td>
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<td>CCL Industries</td>
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<td>Falconbridge</td>
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<td>Hiram Walker</td>
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<td>Inco</td>
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<td>Lavalin</td>
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<td>McCain</td>
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<tr>
<td>Moore Corporation Ltd.</td>
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<td>Northern Telecom</td>
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<td>Seagram Co.</td>
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*Departures between 1985 and 2003
Canada Created 24 New Billion$ Global Leaders, 1985-2003

**1985**
- Abitibi-Price
- Alcan
- AMCA
- Atco Ltd.
- Bombardier
- Cominco
- CCL Industries
- Falconbridge
- Hiram Walker
- Inco
- Lavalin
- McCain
- Moore Corporation Ltd.
- Northern Telecom
- Seagram Co.

Departures between 1985 and 2003

**2003**
- Abitibi-Price
- Agrium
- Alcan
- Atco Ltd.
- ATI Technologies
- Barrick Gold
- Bombardier
- CAE
- Cantor
- CCL Industries
- Celestica
- CGI
- CN Rail
- Cott
- Couche-Tard
- Domtar
- Falconbridge
- Finning International
- Inco
- Intrawest
- Linamar
- Magna
- Manulife Financial
- Masonite International Corporation
- McCain
- MDS
- Methanex
- Moore Corporation Ltd.
- Nexfor (Norbord)
- Nortel
- NOVA Chemicals
- Placer Dome
- Potash Corp
- Quebecor World
- SNC-Lavalin
- Teck-Cominco
- Tembec
- Thomson Corporation
- Weston Foods

Departures between 2003 and 2008
Canada Created 5 New Billion$ Global Leaders, 2003-2008

1985* 15 Companies

Abitibi-Price
Alcan
AMCA
Atco Ltd.
Bombardier
Cominco
CCL Industries
Falconbridge
Hiram Walker
Inco
Lavalin
McCain
Moore Corporation Ltd.
Northern Telecom
Seagram Co.

Departures between 1985 and 2003

2003 39 Companies

Abitibi-Price
Agricul
Alcan
Atco Ltd.
ATI Technologies
Barrick Gold
Bombardier
CAE
Cantau
CCL Industries
Celestica
CGI
CN Rail
Cott
Couche-Tard
Domtar
Falconbridge
Finnings International
Inco
Intrawest
Linamar
Magna
Manulife Financial
Masone International Corporation
McCain
MDS
Methanex
Moore Corporation Ltd.
 Nexstar (Norbord)
Nortel
NOVA Chemicals
Placer Dome
Potash Corp
Quebecor World
Research in Motion
Russel Metals
Samuel, Son & Co.
Shawcor Ltd.
SNC-Lavalin
TD Waterhouse
Tec-Mec
Tembec
Thomson Corporation
Weston Foods

Departures between 2003 and 2008

2008 44 Companies

AbitibiBowater
Agricul
Atco Ltd.
Barrick Gold
Bombardier
CAE
Cameco
Cantau
Catalyst Paper Corporation
CCL Industries
Celestica
CGI
CHO Helicopters
Cinram
CN Rail
Comers Bros.
Cott
Couche-Tard
Finning International
First Service Corp (Colliers International)
Fording (Elk Valley Coal)
Goldcorp Inc
Linamar
Magna
Manulife Financial
McCain
MDS
Methanex
Nobord
Nortel
NOVA Chemicals
PotashCorp
Quebecor World
Research in Motion
Russell Metals
Samuel, Son & Co.
Shawcor Ltd.
SNC-Lavalin
TD Waterhouse
Tec-Mec
Tembec
Thomson Corporation
Transat AT
Weston Foods

Departures since 2008

Departures between 1985 and 2003
Canada Has 42 Billion-Dollar Global Leaders Currently

<table>
<thead>
<tr>
<th>2003</th>
<th>39 Companies</th>
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<td>Abitibi-Price</td>
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<td>Alcan</td>
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Departures between 1985 and 2003

Departures between 2003 and 2008

Departures since 2008

Arrivals since 2008

*GDP threshold for 1985 was $617 million to equate to $1 billion current dollars.
Notes: Companies that have sales revenue above $1 billion and are in the top five of their market globally. Foreign acquisition of NOVA Chemicals is expected to be completed by mid-2009.
Few Companies Acquired Since 2002 Were Innovative Global Leaders

Foreign takeovers of Canadian companies since 2002

57 foreign takeovers

- 57 companies with less than half their business outside Canada
- 29 companies with more than half their business outside Canada, but not significant competitors in their market
- 15 global leaders bought by private equity firms – still with significant Canadian presence
- 3 global leaders who had ceased to be innovative
- 5 innovative global leaders taken over by foreign firms
Opportunity in the turmoil

• Seizing opportunity in the turmoil

• Canada’s prosperity gap

• AIMS and the long-term opportunities for Canada

• A long-term Prosperity Agenda to guide us through the turmoil
Opportunity in the turmoil

Attitudes

We urge the Prime Minster, Premiers, and business, labour, and community leaders to turn up the volume on the importance of prosperity and productivity even in these times of economic uncertainty.
Investment

We encourage more investment to upgrade technology, enhance educational opportunities, and support groups at risk of falling into poverty.

- Step up investments in information and communication technology
- Raise our investment in people
Opportunity in the turmoil

Motivations

Canada should pursue innovations in tax policy to gain advantage for Canadians

- Reduce overall taxes on new business investment, especially in the service sector
- Consider a carbon tax
- Pursue bold new approaches to taxation
Opportunity in the turmoil

Structures

Enhance our market structures to build skills and management capabilities, encourage competition, and stimulate innovation and at home and abroad

- Continue to draw on creativity-oriented and international skills for our prosperity
- Continue to expand innovation policy to build strong management capabilities
- Pursue the reduction of barriers to investment and trade
The 2020 Prosperity Agenda Creates Opportunity To Realize Canada’s Prosperity Potential

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Opportunity in the turmoil
Report on Canada 2009

Roger L. Martin
April 15, 2009