Productivity and Competitiveness — Solutions for Sustained Prosperity

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Introduction

Good afternoon everyone, and thank you for being here.

I'd like to start off with a story... a true story about my father, who arrived in Canada in 1961 as a Croatian refugee in search of a better life. Coincidentally, his first bank account was with the Bank of Commerce, a lifelong relationship that he had until his passing 3 years ago.

When I became CEO of CIBC, my dad gave me every single one of his CIBC bank passbooks he'd saved for the first 15 years.

I looked through them all and noticed two things:

1. Entries went from handwritten to computer print – progress!
2. Every week there was a deposit, and in 15 years, only two withdrawals

He was a hard worker and a saver – he chose to manage and protect his resources to ensure a solid future for himself and his family.

This was also a man who kept a folded 5, then 10, and ultimately, 20 dollar bill hidden in his wallet his entire life – to be prepared for a rainy day.

And that's really what my remarks are about today...

Even when the economic storm clouds appear to be far off in the distance, it's important to be prepared for the inevitable change in weather. We can't cross our fingers and hope for a bright sunny day every day. We need to take deliberate steps to be prepared for any forecast.

A Prolonged Period of Expansion

And being prepared can look an awful lot like being lucky.

Everyone knows that Canada endured the financial crisis of 2008 better than most countries. Was that good fortune? Or was it the result of important decisions made years earlier by policy makers and business leaders alike?

Were we lucky – or were we relatively well prepared?

There's nothing wrong with enjoying a well-earned moment of satisfaction. Certainly, we can raise a glass to the fact that we are living today in an era of economic expansion and low unemployment. You could reasonably argue that today is the best time in the world's history to be alive.

In the developed world, a decade ago this month, the last economic cycle came to a dramatic end, and the post-2008 recovery has ultimately led to one of the longest periods of sustained growth in recent history. And in many emerging markets, economic opportunity continues to expand.

All around us, we see the power of technology and innovation to challenge, disrupt and improve on the status quo.

There is ample reason to feel optimistic and hopeful about the world today.

Here in Canada, our national economy is doing well. We're looking at growth of around 2% for this year and next.

Our unemployment rate is at an historic low. We have recovered well from the oil shock of 2015. Housing markets in our big cities have become more balanced.

That doesn't mean that every Canadian is experiencing the full benefits of this prosperity. There will always be challenges, even in the most robust periods of growth.

But, by the numbers we use to gauge relative economic strength, Canada is enjoying a period of expansion and success.

But we instinctively know that all good things come to an end. History has taught us that nothing lasts forever. People have learned this the hard way, time and time again.

Think of the Alberta oil boom of the 1970s. Or the dot-com boom of a generation later.

Or think about this: In 2007, the Chairman of the U.S. Federal Reserve said he did not, and I quote, "...expect significant spillovers from the subprime market to the rest of the economy or to the financial system."

A year later, in his own words, 12 of the 13 most important financial institutions in the United States were at risk of collapse.

And while many of the traditional warning signs of an imminent downturn are not evident, there are reasons to "proceed with caution" and plan ahead for the next cycle. Similarly, complex geopolitical situations - like the ones we're living through now - can create noise in the markets. It's our job to look past that noise and make sure our decisions are based on a sound understanding of market fundamentals.

Too Low for Too Long – Low Interest and High Debt Challenge

In particular, I want to talk about debt.

When the economic historians take stock of the past decade a few years from now, they are likely to see it as a unique monetary experiment. The reality of this period of expansion is that interest rates have been very low for a very long time. Perhaps too long.

I know that may sound counter-intuitive. But the same low-rate environment that helped the world recover from the crisis of 2008 is now infusing risk into the global financial system – and could generate headwinds for us. Central banks are moving from "quantitative easing" (QE) to "quantitative tightening" (QT).

Specifically, recent stresses have highlighted the issues with higher level of foreign-denominated (largely U.S. dollars) debt in some emerging economies.

Here's the challenge in a nutshell:

Global debt is rising. Just in the last year, it increased by $25 trillion between March of 2017 and March of this year. This brought the total amount of personal, government and corporate debt at the end of March to around $247 trillion globally.

Many emerging market countries borrowed in U.S. dollars to finance their growth and development, attracted largely to the lower interest rates associated with the greenback.

But now, two things are happening. The U.S. dollar is strengthening and interest rates are going up. This has caused turmoil as equities in some emerging markets have fallen sharply as investors flee to less risky alternatives.

The situation in Turkey, where currency markets have lost 40% of their value this year alone, is just the most salient example.

Argentina and Indonesia are also struggling with severely weakened currencies. The Argentinian peso has fallen by roughly 50% since the beginning of the year and the central bank has raised interest rates to 60%. And earlier this month, the Indonesian rupiah hit its lowest point against the greenback in two decades.

So, what are the implications? In these and other emerging markets, foreign debt suddenly becomes a lot harder to service. As a result, more and more pressure is being put on these countries.

Just imagine if your mortgage was taken out in U.S. dollars, but your job paid you in Canadian currency. If the American dollar rises, you effectively owe more – and potentially substantially more. We must not lose sight of the interconnected nature of global markets – how a ripple in a far-off country or region can reverberate around the world, ultimately affecting even the strongest economies.

It's perhaps worth mentioning that what we're beginning to see today, bears some similarities to 1998, as well as some other past cases. Though the numbers may not be as large as they were in the late nineties, there we saw increased market risk-aversion to certain economies with substantial foreign denominated debt. This left their domestic currencies depreciated, making their foreign debt more difficult to pay back, adding to economic stress, and further fueling the cycle.

On a global scale, then as now, many did and do not fully appreciate the implications of the foreign-denominated debt issue.

What's happening in Turkey, Argentina and Indonesia are not one-off events, isolated from the global economy. There has been tremendous growth in the debt market, and cracks are starting to appear in certain areas. This may be the beginning of what could well turn out to be a serious global challenge – the hangover that follows the low-interest rate party.

We can't control what happens around the world…

…. not the foreign debt situation in emerging markets that I've just described

… not the bond market in Italy, which I won't address today, but is a growing concern

… not the fact that some lenders are opting to relax certain constraints at the riskier end of the U.S. debt market, or that the amount of U.S. corporate debt maturing is going to jump significantly between now and 2020. From $393 billion this year to $967 billion in 2020 [combined High Yield, Leveraged Loans, and Investment Grade Debt].

But no matter what ultimately triggers the next economic slowdown or when it comes, we can work to limit the potential downside here at home.

There are steps we can take to ensure that Canada is as prepared as best as possible to be "lucky" once again during the next economic downturn.

In particular, there are two areas of opportunity I will highlight today.

1. Developing Our Human Capital – The Labour Market Challenge

First, we need to do more to grow our economy and reclaim our status as a nation focused on long-term competitiveness. We can do this by increasing the number of people we welcome into our country, particularly those with the skills we need. And we can do it by improving our educational outcomes.

I'll start with immigration. Put simply, we need more of it. I could lull you into a lunchtime coma with pages of statistics that support this position. But I'll make my case using just a few numbers.

Back in the 1960s, women in Canada gave birth to 2.7 children on average. Today, it's 1.6.

In the 1990s, less than half of our population growth came from immigration. Today's it's more than 75%.

Mull those numbers over for a moment.

The government has announced higher immigration targets for the years ahead – and that's a good start. But we need to welcome even more people.

There is very little slack in the labour market right now. That's great for all the Canadians who have jobs – but it can also serve as a limit on GDP growth moving forward.

Already, we see labour shortages across our country.

According to the most recent numbers from the Canadian Federation of Independent Business, the rate of job vacancies in our country is at a record high. Their survey found that 400,000 jobs had been left unfilled for four months or longer.

Businesses are finding it more difficult to find qualified candidates. That's true for both high-skilled and low-skilled work.

Canada is known the world over for its historic and continued openness to newcomers. We have the opportunity to further bolster that sentiment – and importantly, to put it to work for our long-term economic advantage.

We need an effective policy on immigration that helps to support Canada's long-term economic growth. Even the federal government's own Advisory Council on Economic Growth recently recommended a significant increase in our annual permanent immigration numbers.

It also called for the streamlining of entry for top talent, including specialized workers and executives.

Making its Start-Up Visa program permanent was a good start. This is an innovative and low-cost program. It connects select Canadian investors – like venture capital funds and business incubators – with immigrant entrepreneurs who are eager to start a business in Canada. As a part of the program, those who are admitted are given permanent residency.

More recently, the government created another pilot project called the Global Talent Stream. It's designed to help a broader cross-section of firms access highly-skilled global talent in a timely fashion. Making this program permanent would be another positive step, giving more Canadian companies access to a global talent pool, and shoring up their long-term competitiveness.

Immigration is only part of the solution. We also need to improve educational outcomes.

That means doing a better job of creating the skilled labour force we need to compete in the world.

It means more young women and men graduating in science, technology, engineering and math (the so-called STEM disciplines). And it means having students leave school prepared to work in growth sectors or where we have a skill shortage and be ready to hit the ground running.

Young Canadians with a post-secondary education do better in the workforce than those with just a high-school degree. But in a time of low unemployment, 9% of university graduates aged 24 or under are out of work.

Right now, there is something of a disconnect. A study by McKinsey found that 83% of university educators felt that their graduates were ready for employment. But only two thirds of employers felt the same way. And graduates themselves were even less confident about their own readiness.

Many employers are frustrated that they can't find graduates with the skills they're looking for. By next year in the high-tech sector alone, as many as 200,000 jobs will need to be filled.

Post-secondary institutions, government and employers must collaborate more closely – so that everyone understands the skill sets and expertise that are needed today, and that will be needed in the future. And so that we guide more students toward careers that will improve our standard of living and their own.

Many universities and colleges have made significant progress here in recent years, with our colleges leading the way. Still, there's much more room for progress, especially with respect to the skilled trades, where countries like Germany are simply miles ahead of us.

What's more, we also need to bring increased focus to meeting the demand for jobs in the lower-skilled industries like transportation.

In that sector, the unemployment rate is only 3.6% - a full 2% lower than the national average. Businesses are struggling to find enough qualified workers to fill the jobs that keep our goods moving and the economy growing.

A programmer and a truck driver take different paths in life and bring different skills to the table – but both play an important role in keeping our economy strong and growing.

And both immigration and improved education outcomes are foundational to our long-term economic prosperity.

2. Improving the Sentiment for Canada – The Foreign Investment Challenge

To prepare for the next downturn, we also need to move with purpose to enhance our competitiveness and attract more foreign investment.

Given that our government is in the midst of a complex negotiation around NAFTA as we speak, it wouldn't be appropriate for me to speak about that right now. I'd just say that we are - and should remain - a trading nation, and that only through free trade can we achieve a higher standard of living.

More broadly speaking though, foreign direct investment in Canada is falling – both in dollar amounts and in global rankings. Last year alone, FDI fell by 26% to its lowest level since 2010.

There are several reasons for this: U.S. tax cuts and regulatory rollbacks. Trade uncertainty. And more. But some of it is on us.

The debate over the Trans Mountain Pipeline has been a difficult period for Canada – and not only in terms of the project itself. The ongoing conflict broadcast to the world, sends a message of uncertainty.

Let there be no doubt about it: Canada needs stable, patient and long-term foreign investment to thrive and grow. Sustainably harnessing our natural resources, has been and will continue to be critical to our nation's long-term economic success. We can be a world leader in responsible resource development, but we need to find a system that Canadians and international investors can trust and rely on.

As a country, we must find a way to balance our economic, environmental, and security interests with the need to stay globally competitive and open to the world.

When I speak with business leaders and clients around the world, despite many unique perspectives, they often find common ground in their feelings about investing in Canada.

Time and time again, I hear the same thing: The regulatory burden is too high. The lack of clarity on foreign investment rules is hampering their ability to invest. And as a result, they are hesitant to make significant investments in our country.

What they are missing is a sense of confidence. A sense that our "brand halo" can translate to economic results for all Canadians.

And to have confidence, they need an element of certainty. They need to know the rules. They need a clear understanding of how deals get approved.

As a country, we need a regulatory system that is effective but also efficient. And we need our approval systems to work better and more predictably.

We don't have to say yes to everything and consultation needs to be an important part of the process. But we need the rules to be clear. We need to reach a decision more quickly. And when it comes to large infrastructure projects, we need for the ones that are approved to get built in a timely manner.

And when we say no, we need to explain why the project or investment was not in our national interest. We must be open and transparent.

Together, that's how we broadcast to the world that Canada is an attractive destination for foreign capital – and the jobs that it creates.

And that's how we begin to prepare ourselves for the inevitable downturn in our economic fortunes – by putting ourselves in an even stronger position when times are good.

And while I have the stage today, I'd like to take the opportunity to stress the importance of three smaller – but still important – initiatives that Canada can undertake to enhance our competitiveness.

First, the federal government should allow companies to expense their capital investments with a one-year period – like it's now done in the U.S. This would spur immediate capital investment and help ensure that our businesses keep pace with their international competitors. Given the current climate south of the border, it's difficult to compete with them on corporate taxes. Changing the rules around the capital cost allowance would help level the playing field.

Second, while we work as a nation to promote investment and trade beyond our borders in order to further diversify and balance our economy, we must also bring new focus and meaningful progress to removing our own interprovincial trade barriers. The time for progress on this issue is now. Removing these barriers would instill confidence and afford businesses new opportunities to grow within Canada – and beyond.

And third, we must continue to invest in the infrastructure that our communities need to help them grow and compete today and into the future. We can do this by using all the levers at our disposal, including private investment, and innovative government finance tools like the recently created Canadian Infrastructure Bank.

Conclusion

Ladies and gentlemen, I started today by telling you a story about my father, and how he prepared for those rainy days. I want to end now by sharing with you a story of another Canadian, who took the time to think ahead and prepare. And it's not about an industrialist or a CEO… it's about one of the founding members of the famed group of Canadian artists known as the "Group of Seven".

The artist A.Y. Jackson traveled our country. He visited some of its most remote places – and used his unique eye and talents to capture their stark beauty.

His trips would often last for weeks, or longer. These were tough slogs. He needed to travel light.

When it came to preparation, each journey informed the next. Each time, Jackson was better prepared. He learned from Tom Thomson how to get by in the wild at night without a tent – or even a blanket.

He learned that he didn't need to bring along a pillow – he could rest his head each night on his prospector boots.

He learned that in the height of summer, he'd need to pack an extra supply of paints – because mosquitoes would frequently get caught up in his oils.

We learn from our experiences as people. We get better at being prepared. And our preparation leads to better outcomes.

My message is that we must learn from our economic experiences as a country.

We know that periods of expansion come to an end. We know that hard times are best endured when we have readied ourselves for the challenges they bring.

Today, the global economy is strong. Our national economy is doing well. But there are economic storm clouds ahead, which suggest for both caution and action!

What will our next downturn look like? And how easily will we ride it out? Now is the time to prepare.

We can build more resilience into our economy…

…by increasing immigration and welcoming more skilled workers.

… by improving education outcomes and better aligning skills with demand.

… and by making policy changes to attract more foreign investment.

We need to use this sunny time not only to enjoy our success, but to grow stronger.

Not to revel in our prosperity, but to protect and make sure that it endures.

It's time to fold our own proverbial 20 dollar bill in our wallet to prepare for a rainy day. It's time to get to work.

Thank you.