



## Ontario's Lost Decade: 2007–2016

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### SUMMARY

- Between 2007 and 2016, Ontario was mired in a prolonged period of economic weakness during which it lost ground compared to the rest of the country on many important economic indicators.
- This bulletin examines the extent of Ontario's economic weakness during this decade by examining a range of economic metrics.
- Ontario underperformed the rest of the country in each of the metrics examined in this study, specifically, real economic growth per person, private sector job growth, progress in real median household incomes, or debt accumulated per capita.
- In fact, out of the 10 provinces, Ontario finishes near the bottom of the provincial pack (between 7th and 10th place) for each of the indicators examined.
- Such a prolonged and severe period of economic weakness will have long-lasting implications for Ontario's prosperity. As such, we characterize the period as a "lost decade" of economic growth for Ontario.
- Ontario's economy picked up in 2017, but it will take more than one year of solid growth for Ontario to make up for the lost ground of the preceding decade and reclaim its historical place as a leading economy within Canada.

# Ontario's Lost Decade: 2007–2016

## Introduction

Ontario has historically been one of the most prosperous provinces in Confederation and an engine of national economic growth. Ontario's Gross Domestic Product (GDP) per person has historically been above the national average, 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).

Unfortunately, in recent years, Ontario's economic fortunes have taken a substantial turn for the worst. Specifically, between 2007 and 2016, Ontario was mired in a prolonged period of economic weakness and lost ground compared to the rest of the country. Between a severe recession in 2008/09 and a tepid recovery (relative to the extent of the recession) in the subsequent years, Ontario now finds itself looking back, essentially, at a “lost decade” when it comes to economic progress and growth.<sup>1</sup>

In 2017, Ontario's economy had a stronger year. This has led the provincial government to issue several triumphant media releases about the state of the Ontario economy (for example, see Government of Ontario, 2017). However, the medium-term context of Ontario's recent lost decade must be kept firmly in mind to put the recent uptick in growth into perspective. This short bulletin will provide this context by examining the extent of Ontario's economic weakness in the decade from 2007 to 2016 by examining a range of economic metrics. In light of the severity and length of this period of eco-

nomics weakness, it will take several years of strong growth, not just one or two, to make up for the economic ground Ontario has lost over the past decade.

## Ontario's lost economic decade: 2007-16

### *Inflation adjusted economic growth per capita*

There are several different ways to measure economic progress. The most comprehensive metric that economists use is to measure Gross Domestic Product (GDP). GDP is essentially the value of all the goods and services produced in the economy in a given year. In order to compare jurisdictions of different sizes, economists usually measure the prosperity of a jurisdiction by considering its GDP per person.

Canada's overall performance on this metric has not been particularly strong. However, Ontario's performance was weak even relative to the national standard. As figure 1 shows, Ontario ranked 7<sup>th</sup> out of the 10 Canadian provinces in inflation-adjusted GDP growth per person. Thanks to a steep recession starting in 2014, Alberta experienced negative real per-person growth over this period. Of the nine provinces that did experience real inflation adjusted economic growth, Ontario's was greater than only that of PEI and New Brunswick, two Maritime provinces with weak long-term historical growth records.

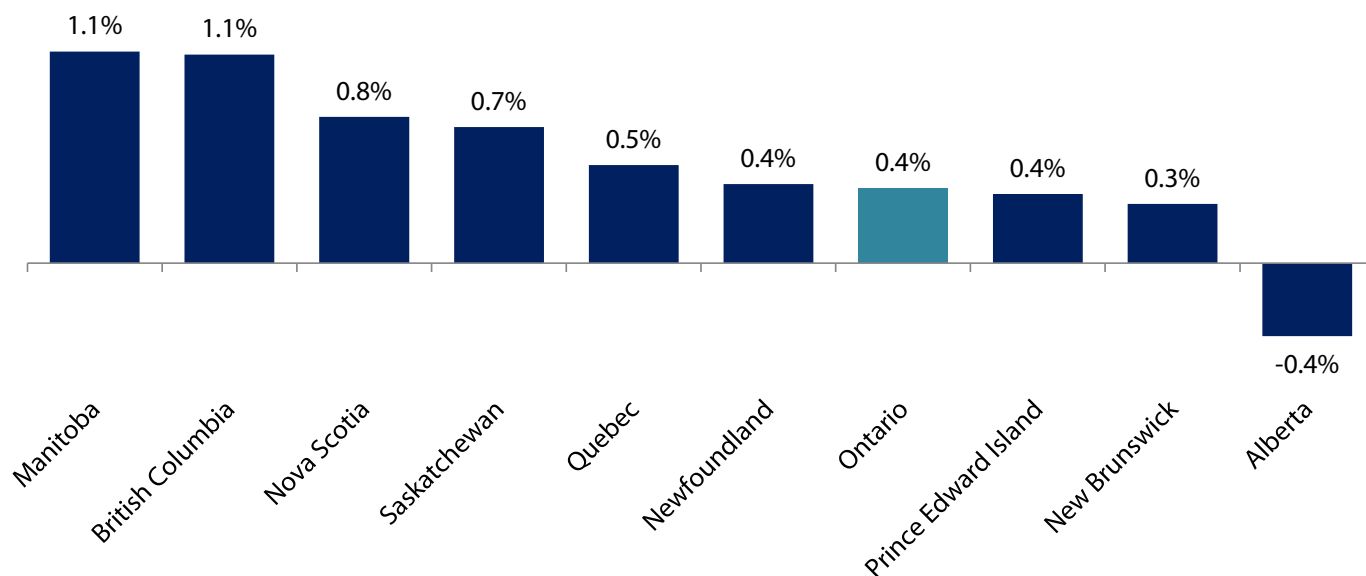
Ranking near the bottom of the economic growth pack, it is not surprising that Ontario's real per person economic growth rate during this period fell below that for the rest of the country, which was itself weak. Excluding Ontario, the rest of Canada saw average real per person economic growth of 0.6 percent, compared to 0.4 percent in Ontario. While Canada's overall performance on this measure of economic per-

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<sup>1</sup> The term “lost decade” came into popular usage to describe the period of economic stagnation in Japan during the 1990s. Clemens and Emes (2001) also used the term to describe the weak economic and fiscal performance of British Columbia during the 1990s.

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Figure 1: Average Annual Real per-Capita GDP Growth Rates of Canadian Provinces, 2007–2016



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 (2018a and 2018e); calculations by authors.

formance was weak during the decade under analysis, Ontario's was especially poor.

## Private sector job creation

Economic growth is not merely a matter of academic concern. It reflects a number of important factors that directly influence people's lives, such as the rate of job creation, the pace of wage growth, and household income levels. One important economic metric where Ontario's performance was especially poor during its "lost decade" of 2007–2016 is private sector job creation.

In the rest of Canada excluding Ontario, the average annual rate of job creation was 1.1 percent. As figure 2 shows, Ontario significantly underperformed the rest of this country for this metric, recording average annual private sector job growth of just 0.6 percent. Ontario

rates 8<sup>th</sup> out of the 10 provinces on this metric, besting only New Brunswick and Nova Scotia, again, two Maritime provinces with historically weak job creation records.

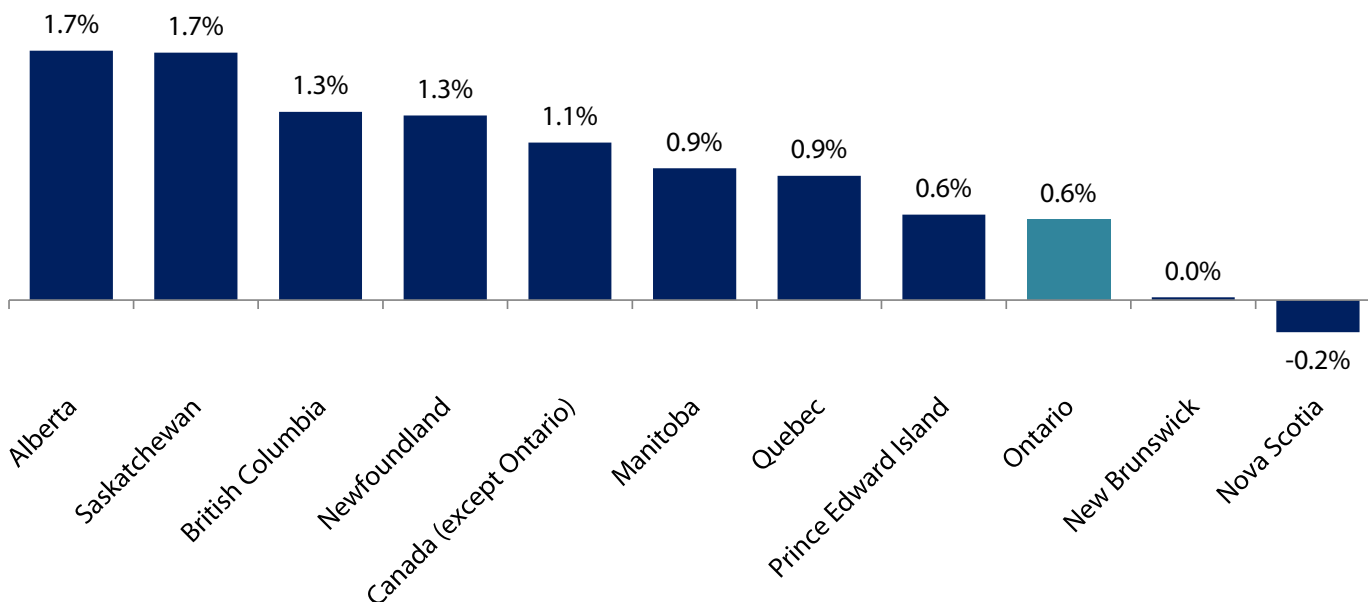
## Real median household income

Perhaps no economic indicator demonstrates the weakness of Ontario's economic performance more clearly than the change in real median household income. Median household income in a given jurisdiction simply means the level of household income at which there are an equal number of households above and below it. In short, median is the unit in the very middle of any sample.

Due to data availability constraints, we are required to examine a slightly different period of analysis for this metric, looking at the years

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Figure 2: Average Growth Rate in Private-Sector Employment in Canada and the Provinces, 2007–2016



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 (2018c and 2018d); calculations by authors.

from 2005 to 2015.<sup>2</sup> This period captures the recession as well as the immediate recovery, and so is a reasonable replacement period given the absence of available data for the precise years we have been using in the rest of this bulletin.

As figure 3 shows, Ontario's performance on this metric is abysmal. Ontario ranks last in Canada in the change in real median household income over this period. After adjusting for inflation, the median household income in Ontario increased in total by just 3.8 percent over this period. This is far slower than the second lowest performer on this metric, Quebec,

<sup>2</sup> The results described in this section come from the 2016 Census, which presents incomes of Canadians measured in 2015, and looks at trends in the period from 2005 to 2015. For further details, see Statistics Canada, 2017.

where median household income increased by 8.9 percent.

The near stagnation in the median household income during this decade is perhaps the clearest indicator of how Ontario's anemic growth record has adversely affected the lives and economic prospects of Ontarians.

## Public debt accumulation

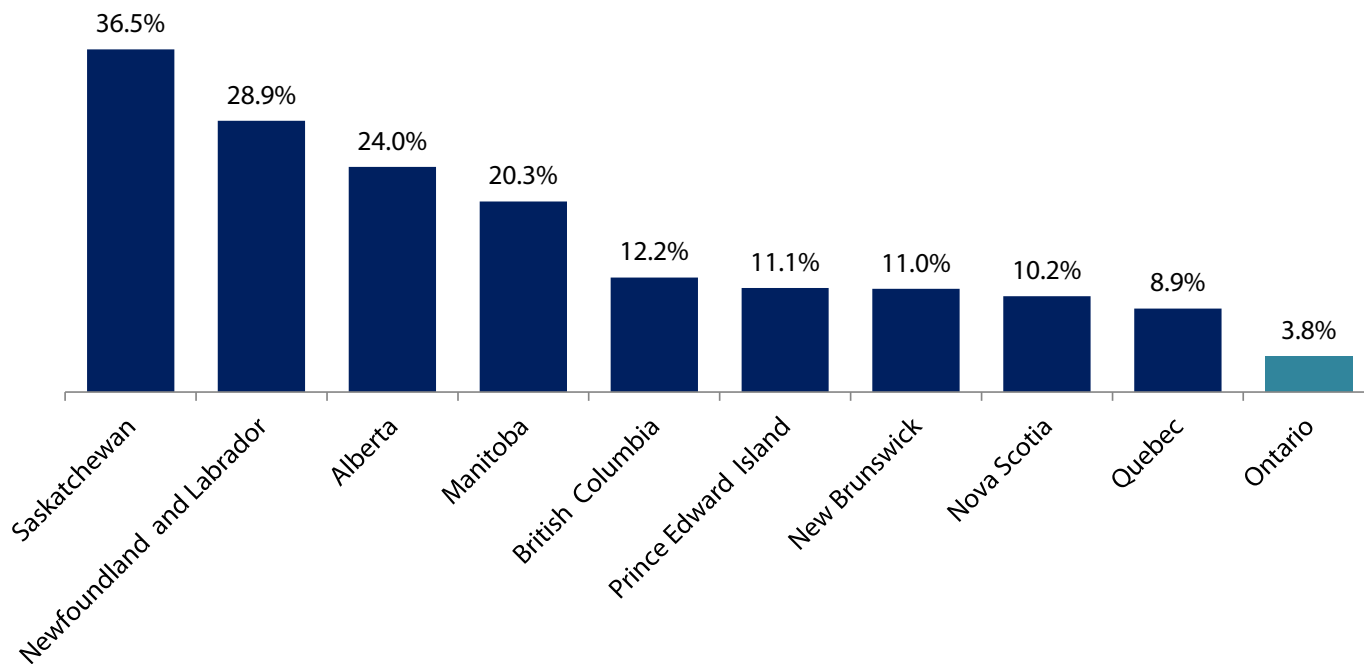
Another important economic metric where Ontario's weak performance stands out is in the accumulation of public debt.

Net debt is simply all of the debt held by a government minus the financial assets it holds. During the period under analysis, all 10 provinces added to their nominal net debt burden. Ontario, however, added far more debt than any other province. This is not entirely a func-



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Figure 3: Real Median Household Income, Percent Change, 2005–2015



Source: Statistics Canada (2017).

tion of the fact Ontario's population and economy are larger than any other jurisdiction. Once we adjust for population size by measuring net debt added per capita,<sup>3</sup> we see that Ontario has added substantially more debt than most other provinces in the country.

Between 2007 and 2016, Ontario's net debt per capita increased by \$9,313. This is the second worst per-capita deterioration of financial assets of any province in Canada. Only Alberta fares worse on this metric. Alberta's net asset position deteriorated by \$12,074 over the decade.

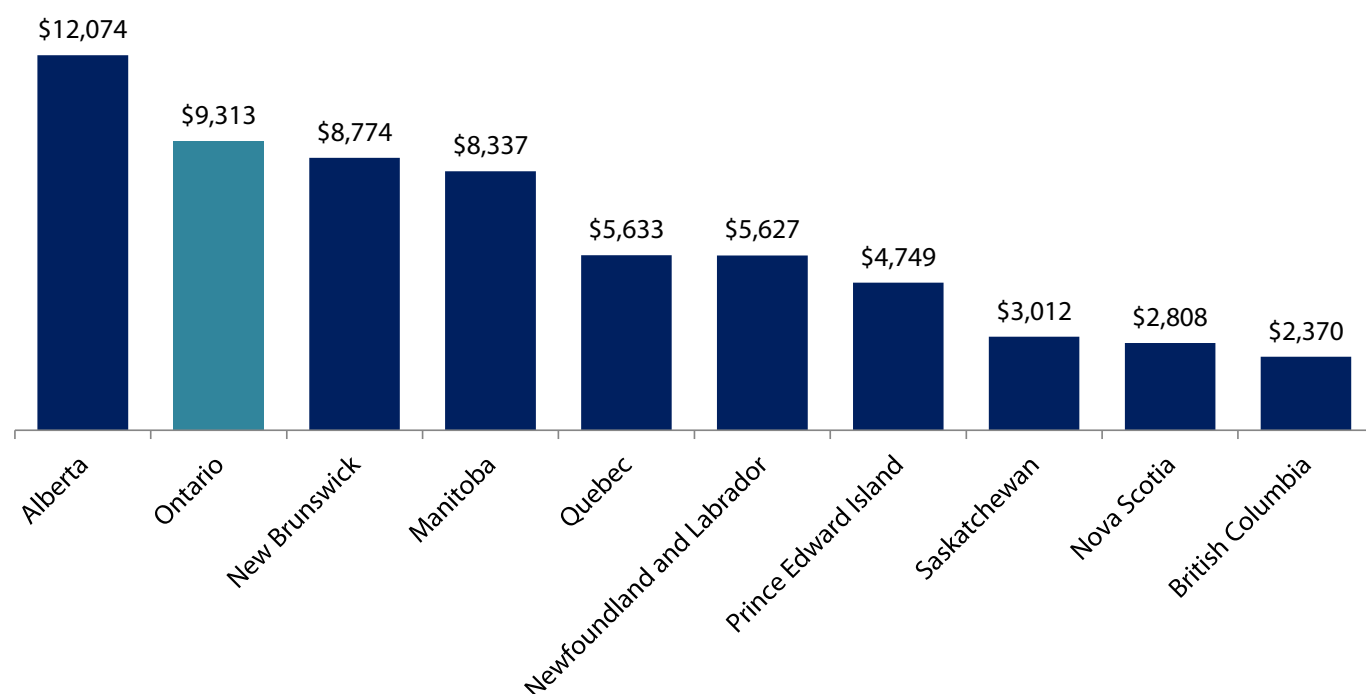
<sup>3</sup> In the case of Alberta, the term "new net debt" actually refers to total deterioration in net financial assets, since it began the period in question with positive net financial assets.

Ontario acquired slightly more new debt per capita over this decade than either New Brunswick or Manitoba, and much more than the remaining provinces. Ontario accumulated approximately four times as much new debt per person as British Columbia, the best performer on this indicator.

If you consider the other nine provinces excluding Ontario, provincial debt across Canada increased by \$5,770 per person over this 10-year period. In other words, on this indicator as well, Ontario underperformed the rest of the country by far, adding approximately 60 percent more provincial debt per person than the rest of the country.

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Figure 4: Change in Net Debt per Capita, 2007–2016 (nominal \$)



Sources: Canada, Department of Finance (2017b); Provincial Public Accounts 2016/17; calculations by authors.

Table 1: Summary of Economic Indicators

2007-2016	Avg. Real GDP / Person Growth	Avg. Annual Private Sector Job Growth	Real Median Household Income (2005–'15)	Debt Accumulated per Capita, in nominal \$
Ontario	0.4%	0.6%	3.8%	9,313
Rest of Canada	0.6%	1.1%	15.7%	5,770
ON Rank (/10)	7 <sup>th</sup>	8 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup>

Sources: See details on figures 1 to 4.

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## Summary

Ontario underperforms the national standard and, indeed, is among the worst performers for all four of the economic indicators considered in this short bulletin. This reality is summarized in the table below, which shows each of the four indicators of Ontario's performance, the performance in the rest of the country excluding Ontario, and finally, Ontario's rank out of the 10 provinces.

As the summary table shows, Ontario ranks below the national average and near the bottom of the pack on all four indicators. In fact, Ontario finishes between 7<sup>th</sup> and 10<sup>th</sup> out of the 10 provinces for each of the four indicators. While Canada's overall economic performance during this period was weak, Ontario has underperformed even the weak standard set by the rest of the country.

## Discussion and conclusion

The data in the preceding section clearly show that Ontario's economic performance has been weak, relative to the rest of the country, during the decade from 2007 to 2016. Ontario's economic weakness is reflected in several other political and demographic developments over the same time.

For example, since 2009, Ontario has been eligible to receive equalization payments. Equalization works by using federal dollars to boost the “fiscal capacity,” or the ability to provide public services of economically weaker provinces deemed to have insufficient economic strength to generate enough revenue without help from equalization (Eisen et al., 2017). Throughout its history, Ontario has been a “have” province, so has not been a recipient of equalization payments. In every year since 2009, however, Ontario has received equaliza-

tion. In total, Ontario has received \$18 billion in equalization payments since 2009, more than any other province aside from Quebec (Canada, Department of Finance, 2017a).<sup>4</sup>

Provincial net migration offers a further sign of Ontario's economic decline. This metric simply compares the number of people who leave Ontario for other provinces to the number who come to Ontario from elsewhere in Canada. In the decade under analysis, Ontario experienced negative net migration within Canada in 8 out of 10 years. In other words, people consistently voted with their feet and expressed greater economic confidence in other parts of the country. In total, approximately 50,000 more people left Ontario for other provinces than the other way around (Statistics Canada, 2018b).

All of these signs point to the fact that Ontario's overall economic performance from 2007 to 2016 was exceptionally weak, even compared to the lacklustre performance of the whole country. Canada underperformed the rest of the country in all of the key indicators examined here, suffered net negative provincial migration, and became eligible for equalization payments for the first time in its history. Meanwhile, provincial debt grew quickly, casting a shadow on the province's future prosperity.

The improved economic performance of 2017 is certainly good news, but remembering this medium-term context is critical. Ontario's economy suffered what essentially amounts to a “lost decade” between 2007 and 2016, and it will take more than a few quarters of strong economic growth for Ontario to retake its historical place as a leader and driver of the national economy.

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<sup>4</sup> Of course, Ontario is very populous, so even small per-capita payments result in large aggregate payments relative to smaller provinces.

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