

Boosting business sector productivity in Canada

Category: Canada

written by oecdecoscope | June 16, 2025



Katja Schmidt & Gilles Thirion, OECD.

Canada's economy has shown resilience to crisis, including the recent Covid19-crisis. However, growth in per capita GDP has lagged in recent years. Business investment per worker in Canada has remained significantly below that of peer OECD countries, particularly in key areas such as information and communication technology (ICT), machinery and equipment, and intellectual property products. Moreover, the business innovation intensity remains comparatively low, despite the availability of various government support programmes. As a result, productivity growth has remained subdued (Figure 1). Between 2015 and 2023, labour productivity per hour worked grew by just 0.8% annually, below the OECD average and significantly behind the United States.

The Canadian economy is now facing new headwinds in the form of rising tariffs from its most important trading partner, the US. The effective tariff rate on US imports from Canada is expected to rise by about 13 percentage points, up from a near-zero effective bilateral tariff rate. Although the tariff exemptions under the United States-Mexico-Canada Agreement will help shield the Canadian economy from more severe impacts, the tariffs will still significantly weigh on economic growth. They could also further undermine

productivity growth. However, if tariffs help to prompt structural reforms, particularly those weighing on productivity, this could help mitigate some of the negative effects of tariffs in the long-term.

In this context, the new 2025 OECD Economic Survey of Canada highlights four key priorities to strengthen business sector productivity:

- **Reduce interprovincial barriers to trade and labour mobility** to strengthen the efficiency and integration of the internal market;
- **Enhance competition and support firm growth** by removing remaining regulatory restrictions in network sectors, improving access to financing for young and innovative firms, and reinforcing competition policy;
- **Scale up and streamline government innovation support schemes** to increase accessibility;
- **Ensure full utilisation of skills** by addressing labour market mismatches, reducing underemployment, and improving pathways for credential recognition and upskilling.

Canada's interprovincial trade barriers have been widely recognised as undermining the efficient allocation of resources across the country and effectively reducing the size and integration of its internal market. These barriers span a range of areas, including occupational licensing, transportation and procurement regulations, and divergent technical standards. Accelerating the reduction of these barriers, such as by expanding the scope and enforcement powers of the Canadian Free Trade Agreement, would enhance market efficiency, foster competition, and support productivity growth.

Interprovincial barriers also constrain labour mobility, particularly in skilled trades and professional services.

Differences in provincial certification requirements continue to hinder mutual recognition, limiting the ability of workers to move freely. Policy efforts should focus on further harmonising standards and expanding mutual recognition frameworks across provinces.

Policies to enhance competition and business dynamism span multiple policy domains. One possible area of reform is the removal of existing foreign entry restriction in some key network sectors, such as telecommunications. Another area is to support the growth of small and medium-sized enterprise (SME), which struggle to scale. Addressing this requires different tools, such as reviewing the preferential small business corporate tax rate; improving access to affordable financing; and strengthening managerial capabilities. In addition, ensuring a robust competition policy framework in digital markets is essential to foster innovation

Third, existing government support programmes for business innovation should be better coordinated and simplified, to increase Canada's comparatively low business R&D spending (Figure 2). R&D incentives should be harmonised across small, medium-sized, and large firms to ensure neutrality. Additionally, there is scope to reallocate public R&D funding towards some more direct support instruments, which tend to be more targeted. The proposed Canada Innovation Corporation (CIC), envisioned as a new nationwide platform for supporting business R&D, represents a promising step toward streamlining and enhancing the effectiveness of R&D incentives.

Finally, the Survey highlights opportunities to better harness the potential of Canada's highly educated labour force, notably by better integrating immigrants and enhancing female participation. Overqualification remains prevalent among immigrants. Expanding mutual recognition agreements for foreign qualifications could help mitigate the risk of skill underutilisation of immigrants. In addition, women continue to be under-represented in some key technical fields and

leadership positions. Policy efforts should focus on continuing expanding access to affordable childcare, promoting equal parental leave, enforcing pay equity, and supporting flexible work arrangements.

Visit the OECD's Canada Economic Snapshot page for further information.

References:

OECD (2025), OECD Economic Surveys: Canada 2025, <https://doi.org/10.1787/28f9e02c-en>, OECD Publishing, Paris.

Canada: five messages from the latest OECD Economic Survey

Category: Canada

written by oecdecoscope | June 16, 2025



The latest Economic Survey finds Canada needs to tame inflation, further build fiscal buffers, strengthen productivity and prioritise the green transition.

Improving the Well-Being of Canadians

Category: Canada

written by oecdecoscope | June 16, 2025



By Peter Jarrett, Consultant to the OECD Economics Department

Version française: Améliorer le bien-être des Canadiens

For many years now, a growing number of economists, policy makers and civil society groups have pointed to the limits of using only GDP to measure national economic progress. Accordingly, a progressively greater focus is being placed on the concept of well-being and its optimal measurement, as well as its appropriate use in budgeting and other aspects of policymaking. In principle, well-being can be used at all the stages of policy-making: agenda and priority setting, ex ante policy formulation, implementation, monitoring and ex post evaluation. Canada has had a long history of measuring subjective well-being and a good pre-COVID 19 record on many of its determinants but has not yet decided on an official government-wide framework.

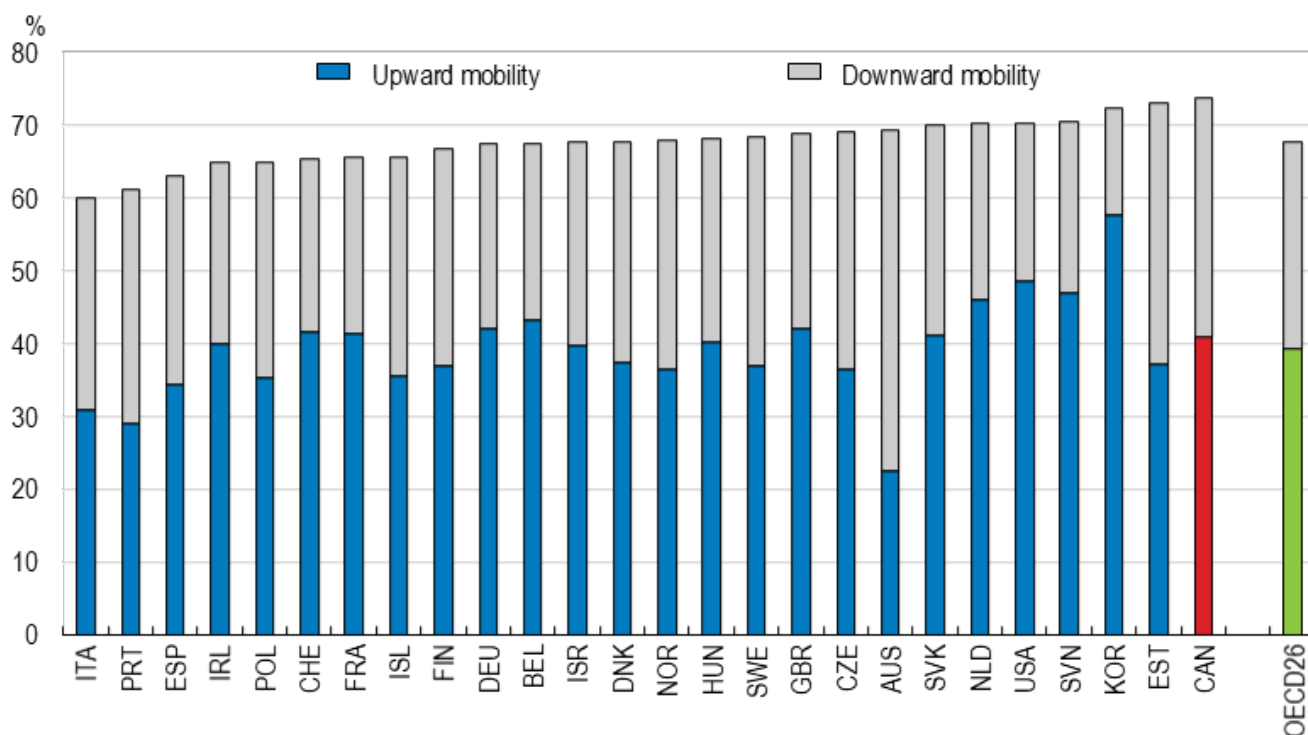
In general, Canada ranked well in international comparisons of well-being indicators measured prior to the COVID-19 pandemic. For instance, the OECD's *How's Life?* measure shows Canada as having strong well-being scores on many fronts, including average life satisfaction, prevalence of exposure to air pollution and share of students with low skills. Most prominently social mobility is among the highest in the OECD

(Figure 1). But there are some weaknesses in current well-being, resources for the future and persistently inferior First Nations outcomes as well as consistent trend deterioration as regards household debt and housing affordability, threatened species, students' science skills and aggregate social connections.

Figure 1. Social mobility is high

Absolute social class mobility

Percentage of 25-64 years old whose social class is higher or lower than that of their parents, 2002-14



Note: Social class is based on the nine European Socio-Economic Classification (ESEC) categories constructed based on occupation.

Source: OECD (2018), A Broken Social Elevator? How to Promote Social Mobility, <http://dx.doi.org/10.1787/9789264301085-en>.

Evidence shows that the COVID-19 pandemic is exacerbating a number of existing well-being problems. For example, the data show that Canada's minorities have been harmed to a greater extent than those of the white majority; neighbourhoods with greater numbers of visible minorities have suffered COVID-19 mortality rates about double those in other localities; and

Indigenous peoples have had less of a recovery in employment outcomes.

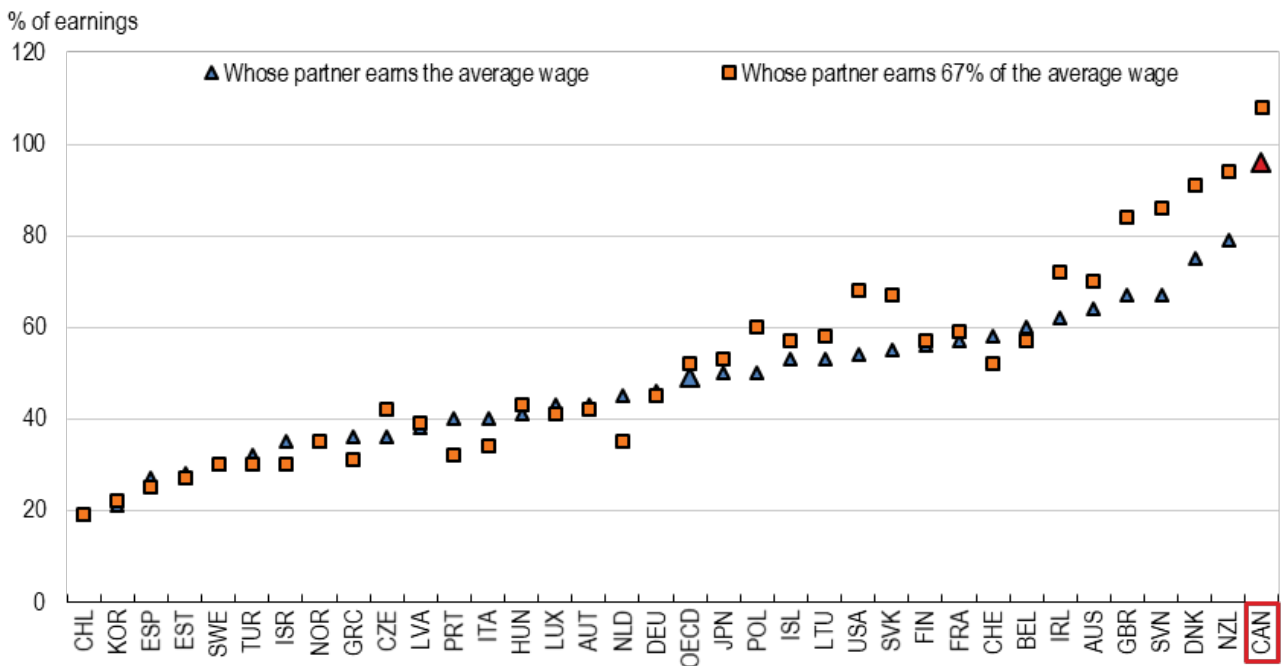
Research has also looked at well-being for different demographic groups, including children. The Public Health Agency of Canada is now developing a Positive Mental Health Surveillance Indicator Framework for children. Indicators show a worrying picture of child well-being in Canada, particularly for Indigenous children whose disadvantages include greater ill health and a poverty rate more than five times as great as among non-Indigenous children, twice as much infant mortality and various other disadvantages.

The quintessential aspect of well-being that GDP neglects is arguably income inequality. Policymaking needs to recognise that there is no sharp over-arching trade-off between income inequality and average income. Eleven OECD countries have both higher per capita GDP and less income inequality than Canada, demonstrating that improvement along both dimensions is eminently possible.

There are a number of policy changes that could improve both average well-being and reduce gaps among Canadians. One is along gender lines, where lowering the cost of childcare would encourage more second earners (mainly women) to enter the labour market and contribute to their own well-being as well as their family's and to society as a whole. Currently the set-up in provinces other than Québec is the most dissuasive in the OECD (Figure 2). Another is public health insurance: too many people lack drug coverage and thus suffer financial hardships, especially during a pandemic, while the lack of grouped buying power boosts the cost of drugs for all Canadians.

Figure 2. Combining work and family life continues to be challenging

Financial disincentive to enter employment with childcare costs, 2019 or latest available



Note: Calculations refer to a couple with two children where the other parent works full-time at 67% of the average wage. Source: OECD (2020), Financial disincentive to enter employment with childcare costs (indicator).

Well-being involves a multitude of aspects of life over which governments have important influence. These include: social mobility, poverty, food insecurity, housing adequacy and homelessness, gender inequality, health and longevity, social relations, and environmental quality and sustainability. Thus, Canada’s policymakers have many levers to improve well-being outcomes for their citizens.

References:

Jarrett, P. (2021), “Improving the well-being of Canadians”, *OECD Economics Department Working Papers*, No. 1669, OECD Publishing, Paris, <https://doi.org/10.1787/6ab6b718-en>.

OECD (2021), *OECD Economic Surveys: Canada 2021*, OECD Publishing, Paris, <https://doi.org/10.1787/16e4abc0-en>.

Améliorer le bien-être des Canadiens

Category: Canada, Posts in French, Uncategorized
written by oecdecoscope | June 16, 2025



Par Peter Jarrett, Consultant auprès du Département des affaires économiques de l'OCDE

English version: Improving the Well-Being of Canadians

Depuis plusieurs années déjà, les économistes, les responsables publics et les membres de la société civile sont de plus en plus nombreux à souligner les limites de l'utilisation du seul PIB comme indicateur des progrès économiques d'un pays. L'attention se porte donc progressivement sur le concept de bien-être et sa mesure optimale, ainsi que sur les moyens de l'utiliser de manière appropriée dans le processus de budgétisation et les autres domaines de l'action publique. En principe, le bien-être peut intervenir à toutes les étapes de l'élaboration des politiques publiques : programme et définition des priorités, formulation ex ante des politiques, mise en œuvre, suivi et évaluation ex post. Depuis fort longtemps, le Canada s'emploie à mesurer le bien-être subjectif et, avant la crise de la COVID 19, il obtenait des résultats satisfaisants dans bon nombre de ses déterminants, mais le pays n'a pas encore adopté de cadre officiel à l'échelle de l'ensemble de l'administration.

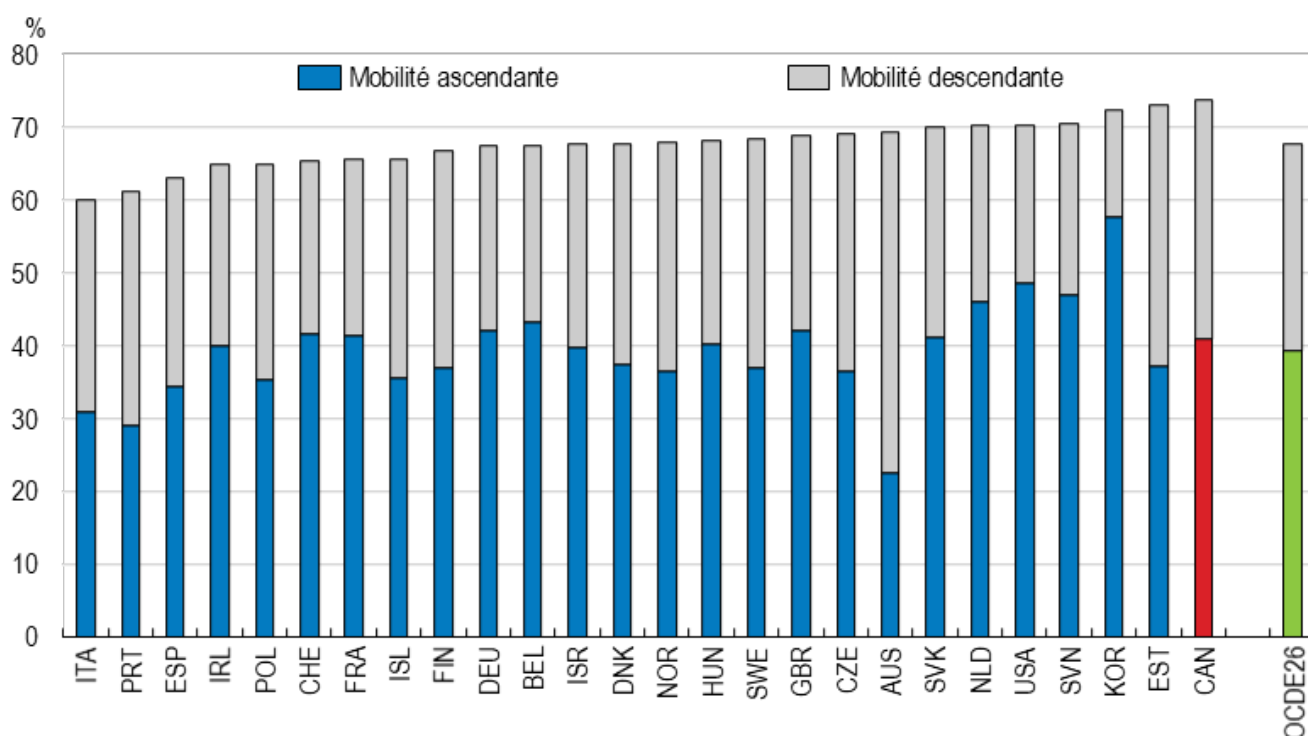
Avant la pandémie de COVID-19, le Canada était d'une manière générale bien classé en comparaison internationale au regard

des indicateurs de bien-être. Par exemple, les mesures ressortant de l'initiative de l'OCDE « Comment va la vie ? » montrent que le Canada affiche des scores élevés dans plusieurs dimensions du bien-être, notamment concernant le niveau moyen de satisfaction à l'égard de l'existence, mais aussi l'exposition à la pollution atmosphérique ou encore la part des étudiants peu qualifiés. Surtout, la mobilité sociale y est l'un des plus élevées de la zone OCDE (graphique 1). Cependant, les indicateurs montrent des faiblesses concernant le bien-être actuel et les ressources nécessaires au bien-être futur, et font ressortir des résultats toujours inférieurs en ce qui concerne les Premières Nations ainsi qu'une dégradation tendancielle constante sur le plan de la dette des ménages et de l'accessibilité financière du logement, des espèces menacées, des compétences des élèves en sciences et des interactions sociales globales.

Graphique 1. La mobilité sociale est élevée

Mobilité sociale absolue

Pourcentage des 25-64 ans appartenant à une classe sociale supérieure ou inférieure à celle de leurs parents, 2002-14



Note : Les classes sociales correspondent aux neuf groupes de

la nomenclature européenne ESEC (European Socio-Economic Classification) définis sur la base de l'activité professionnelle.

Source : OCDE (2018b), L'ascenseur social en panne ? Comment promouvoir la mobilité sociale, <https://doi.org/10.1787/bc38f798-fr>.

Les faits donnent à penser que la pandémie de COVID-19 est venue exacerber un certain nombre de problèmes de bien-être qui existaient déjà auparavant. Ainsi, les données montrent qu'au Canada, les minorités ont été davantage touchées que la population majoritairement blanche ; les taux de mortalité attribuables au COVID-19 ont été deux fois plus élevés dans les quartiers où vivent des personnes appartenant à des minorités visibles que dans d'autres ; et la reprise de l'emploi a été plus faible chez les peuples autochtones que pour d'autres populations.

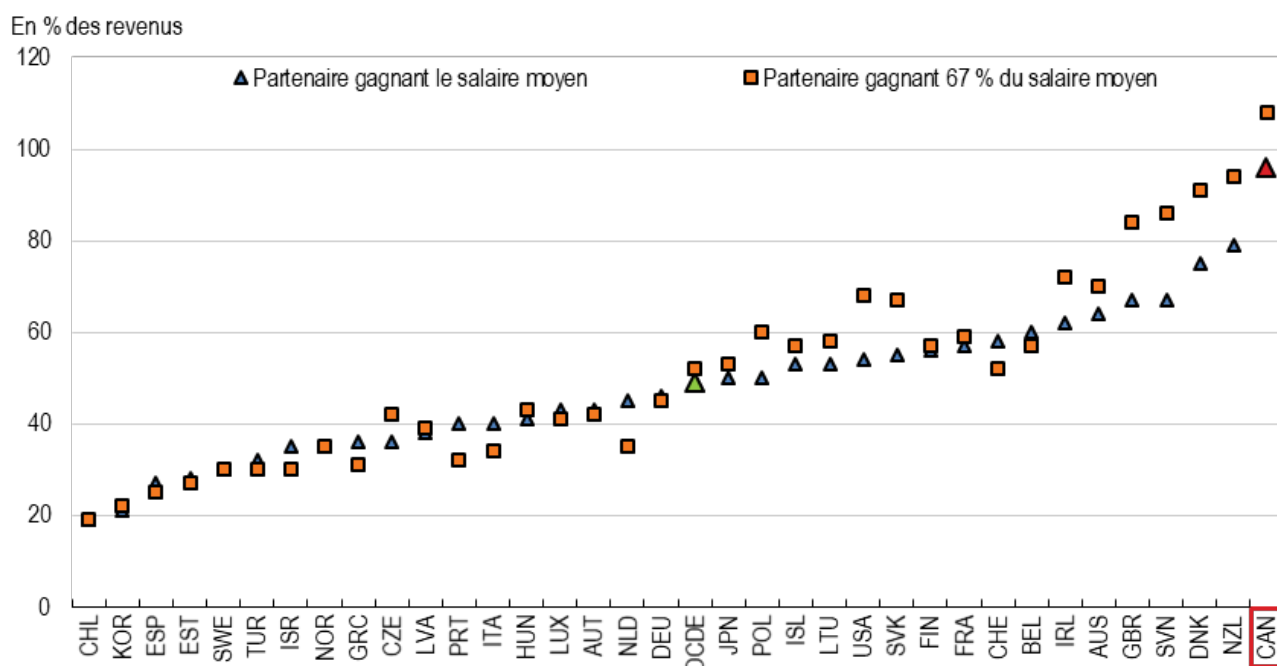
Des études ont également été menées sur le bien-être dans différents groupes démographiques, dont les enfants. L'Agence de la santé publique du Canada s'emploie actuellement à élaborer un Cadre d'indicateurs de surveillance de la santé mentale positive destiné aux enfants. De fait, les indicateurs dressent un tableau préoccupant du bien-être des enfants au Canada, en particulier des enfants autochtones qui sont notamment en plus mauvaise santé, dont le taux de pauvreté est plus de cinq fois supérieur à celui des enfants non autochtones et le taux de mortalité infantile deux fois plus élevé, et qui sont désavantagés à plusieurs autres égards.

Enfin, le principal aspect du bien-être que le PIB ne fait pas ressortir réside sans doute dans les inégalités de revenu. Force est de constater qu'en matière de politique publique, il n'existe pas d'arbitrage évident et limpide entre inégalités de revenu et revenu moyen. Onze pays de l'OCDE enregistrent à la fois un niveau de PIB par habitant plus élevé et des inégalités de revenu plus faibles que le Canada, ce qui montre qu'il est tout à fait possible de progresser sur les deux fronts.

L'action publique pourrait être modifiée de plusieurs manières pour à la fois améliorer le bien-être moyen et réduire les fractures entre les Canadiens. L'un de ces axes concerne l'égalité femmes-hommes, dans la mesure un abaissement du coût de la garde d'enfants encouragerait les deuxièmes apporteurs de revenu (principalement les femmes) à entrer en plus grand nombre sur le marché du travail et contribuerait ainsi à améliorer leur propre bien-être; mais aussi celui de leur famille et de la société dans son ensemble. Actuellement, les dispositifs en place dans les provinces autres que le Québec sont les plus dissuasifs de l'OCDE (graphique 2). Un autre axe concerne le régime public d'assurance maladie : en effet, trop de personnes ne bénéficient pas d'une couverture des médicaments et connaissent de ce fait des difficultés financières, surtout en période de pandémie ; en outre, l'absence de mécanismes d'achats groupés fait monter le coût des médicaments pour tous les Canadiens.

Graphique 2. Concilier vie de famille et activité professionnelle reste difficile

Réticence à l'emploi au regard des frais de garde d'enfants, 2019 ou dernière données disponibles



Note : Les valeurs indiquées valent pour un couple avec deux

enfants dont l'autre parent travaille à temps plein à 67 % du salaire moyen.

Source : OCDE (2020), Réticence à l'emploi au regard des frais de garde d'enfants (indicateur).

Le bien-être recouvre une multitude d'aspects de l'existence sur lesquels les pouvoirs publics peuvent avoir une influence importante, notamment la mobilité sociale, la pauvreté, la précarité alimentaire, l'offre de logements et l'itinérance, les inégalités femmes-hommes, la santé et la longévité, les relations sociales, ainsi que la qualité et la durabilité de l'environnement. Aussi les responsables publics du Canada ont-ils à leur disposition de nombreux leviers d'action pour améliorer le bien-être de leurs concitoyens.

Références :

P. Jarrett (2021), « Improving the Well-Being of Canadians », Document de travail du Département des affaires économiques de l'OCDE, n° 1669, Éditions OCDE, Paris, <https://doi.org/10.1787/6ab6b718-en>.

OCDE (2021), Études économiques de l'OCDE : Canada 2021, Éditions OCDE, Paris, <https://doi.org/10.1787/55949ebb-fr>

Canada: Ensuring sustainable economic recovery

Category: Canada,Uncategorized

written by oecdecoscope | June 16, 2025

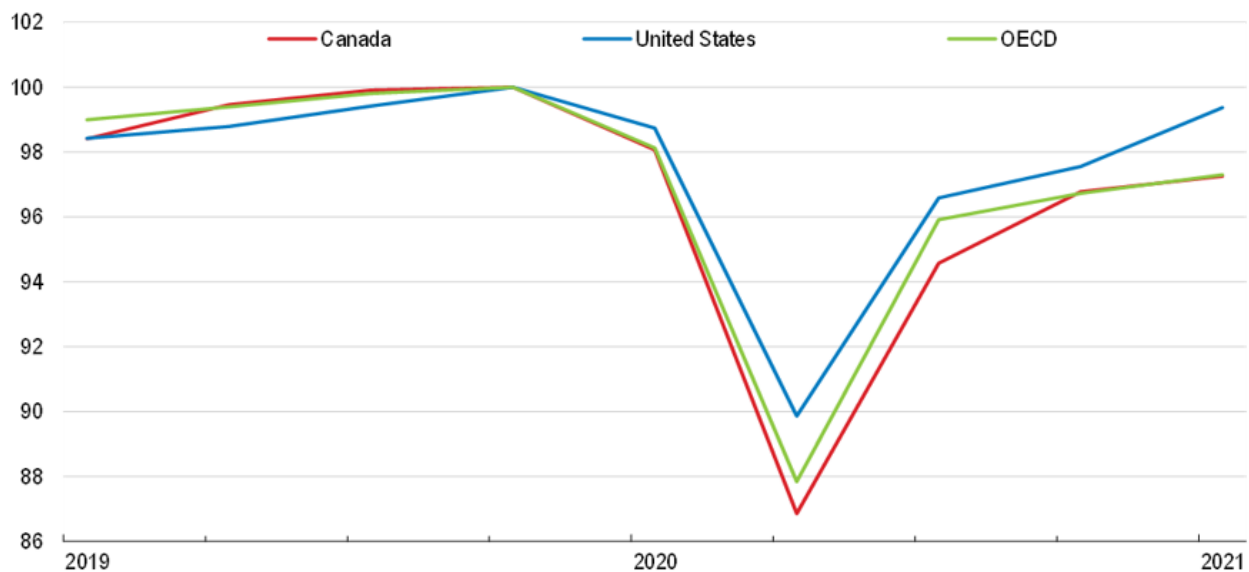


by Philip Hemmings, OECD Economics Department

Canada's economic support averted an even larger downturn in 2020. The latest OECD Economic Survey of Canada underscores that the economic policy response to the crisis has been rapid, entailing one of the biggest support packages of OECD countries. Even with this support, the economic activity fell by over 12% between Q4 2019 Q2 2020.

Recovery in output is taking time

Real GDP, index Q4 2019 = 100



Note: The last quarter is an estimate.
Source: OECD *Economic Outlook database*.

Economic recovery is in sight. Although the latest round of containment measures has slowed the rebound in activity, the easing of restrictions as vaccination progresses will see the recovery gather momentum. Following a shrinkage in output of 5.4% in 2020, the *Survey* sees growth of 4.7% for 2021 and 4% in 2022.

Substantial risks and uncertainties surround the economic outlook:

- Many households accumulated sizable savings during lockdowns. How fast consumer confidence, and therefore spending, will rebound is uncertain—implying risks to the projection.
- On the upside, the boost from US stimulus could be larger than expected.
- On the downside, high household and corporate debt contributes to macro-financial vulnerabilities.

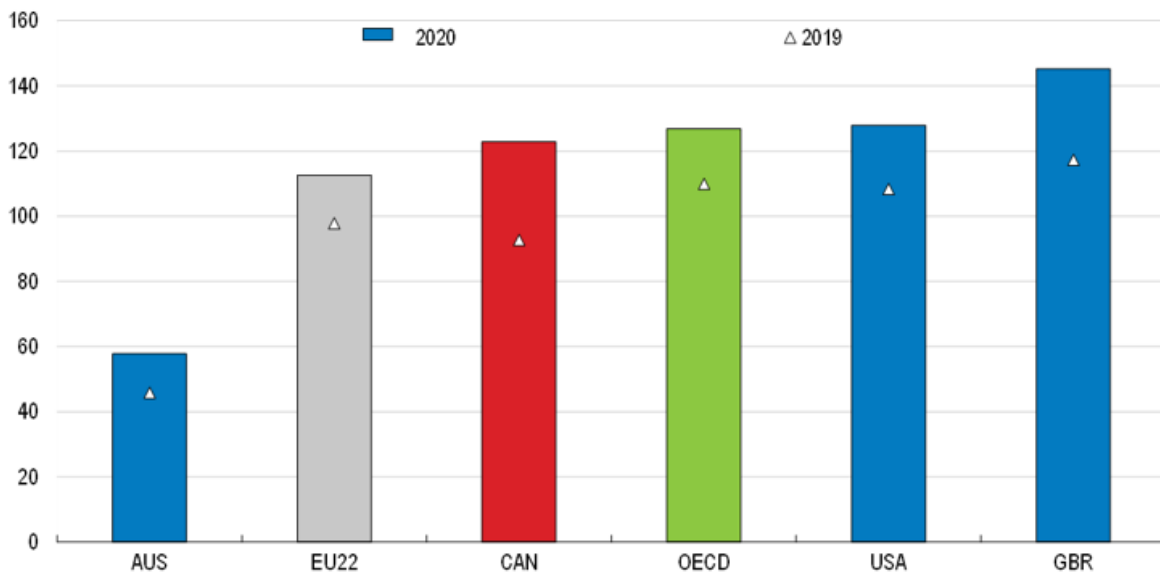
The economy still needs macroeconomic support while the economy is fragile:

- Monetary policy should continue to be geared towards supporting the recovery.
- The targeted fiscal support to people and businesses should evolve as the recovery progresses to ensure assistance focuses support policies for workers in hard-hit sectors and youth and viable companies.

Fiscal policy needs to look ahead. After the pandemic subsidies, it will be necessary to stabilise public debt and find ways to accommodate additional spending commitments. Canada's significant policy support also means the public debt has increased substantially. Furthermore, the ageing-related spending pressures present before the pandemic will continue. There is need for a clear and transparent roadmap in fiscal policy that ensures the public debt burden does not spiral out of control.

Public debt has increased

Gross public debt, % of GDP

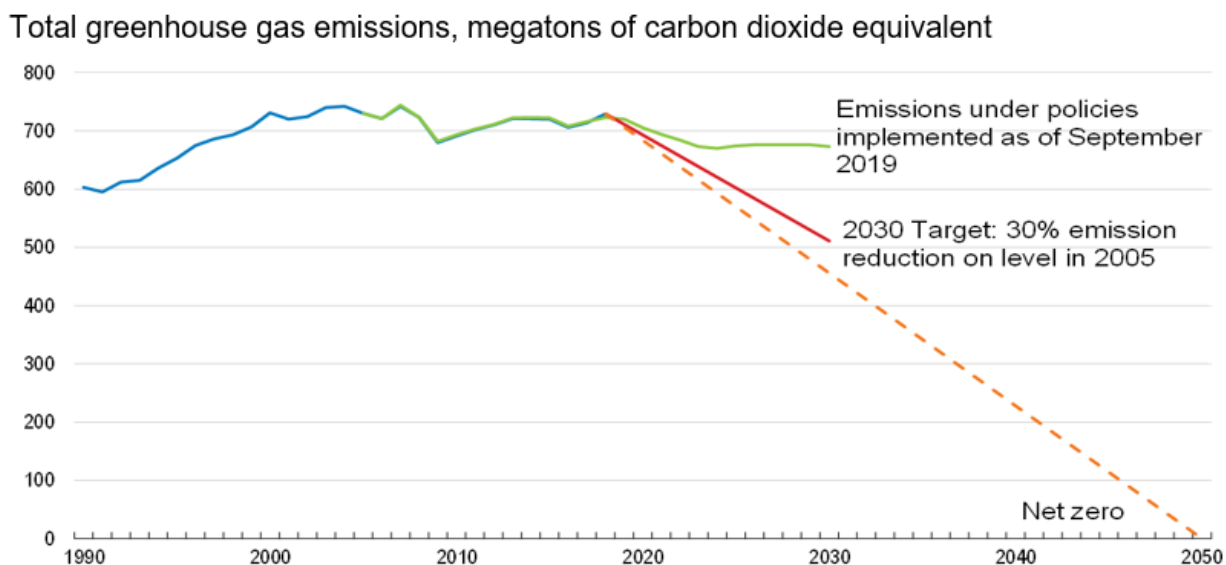


Source: OECD Economic Outlook108 database; and Statistics Canada.

Structural reform is also needed to reach a stronger and greener growth in the post-covid era. Businesses need conditions that will help them adapt to the future:

- Stronger incentives for business to become greener are also needed to help drive decline in greenhouse gas emissions—Canada has a long way to go to achieve its goals. The report supports the recent federal government proposals for substantial carbon-price increases, announced as part of a strengthened climate plan. It also suggests Canada could expand its use of environmental taxes more generally, which are low relative to other countries’.
- The economy would benefit from lower barriers to inter-provincial trade and better high-speed Internet infrastructure.
- Evidence points to a need to re-examine insolvency procedures to ensure that viable companies running into difficulty have an opportunity to recover.

Greenhouse gas emissions have yet to begin a substantive downward path



Source: Environment and Climate Change Canada.

The crisis has exacerbated socio-economic inequalities. Job losses have been greatest in low-wage sectors that employ substantial numbers of young people and women. The crisis has also highlighted disadvantages among ethnic minorities and Indigenous groups, who tend to fare poorly in terms of income, life expectancy, housing and health, even in normal times. It has also exposed shortcomings in areas like long-term care for the elderly, health policy and the provision of affordable housing. The recovery should be used to address these vulnerabilities. These issues are covered in the *Survey's* in-depth chapter on well-being.

Reference:

OECD (2021), *OECD Economic Surveys: Canada 2021*, OECD Publishing, Paris, *OECD Economic Surveys: Canada 2021* – OECD.Kappa <https://doi.org/10.1787/16e4abc0-en>

Are there ways to protect economies against potential future housing busts?

Category: Canada,Germany,Sweden,Uncategorized

written by oecdecoscope | June 16, 2025

by Boris Cournède, Maria Chiara Cavalleri, Volker Ziemann, OECD

Housing, a large and volatile sector, is often at the centre of economic crises, as a trigger or amplifier. The current situation, which is characterised by house prices approaching or exceeding pre-crisis levels in many countries, raises questions as to whether these price levels may be indicative of a possible impending correction and what can be done to reduce housing-related macroeconomic risks.

Figure 1. House price developments since the global financial crisis



Note: The right panel depicts average price movements per country group using local regression techniques. "Boom" and "Stable" countries encountered a limited prices correction (<20%) during the global financial crisis. The former witnessed sharp increases thereafter (>20%) and the latter did not. "Recovered" and "Gloom" countries experienced a major real house price correction during the crisis (>20%). The former benefited from an equally strong rebound while the latter did not.

Source: Cavalleri, M. C., B. Courmède and V. Ziemann (2019), "Housing Markets and Macroeconomic Risks", *OECD Economics Department Working Papers*, No. 1555, OECD Publishing, Paris.

The OECD has been developing models that allow assessing to which extent economic trends associated with housing booms, such as steep house price increases or strong debt expansion, can fuel the risk of a severe economic downturn (Turner, Chalaux and Morgavi, 2018). About half of the countries covered by the models are estimated to face real yet limited risks (above 20% but below 30%) of experiencing a severe downturn over the medium term, with housing trends playing a significant role." Model results suggest that housing booms can fuel crisis risk domestically but also across borders as a consequence of international financial links (Cavalleri, Courmède and Ziemann, 2019).

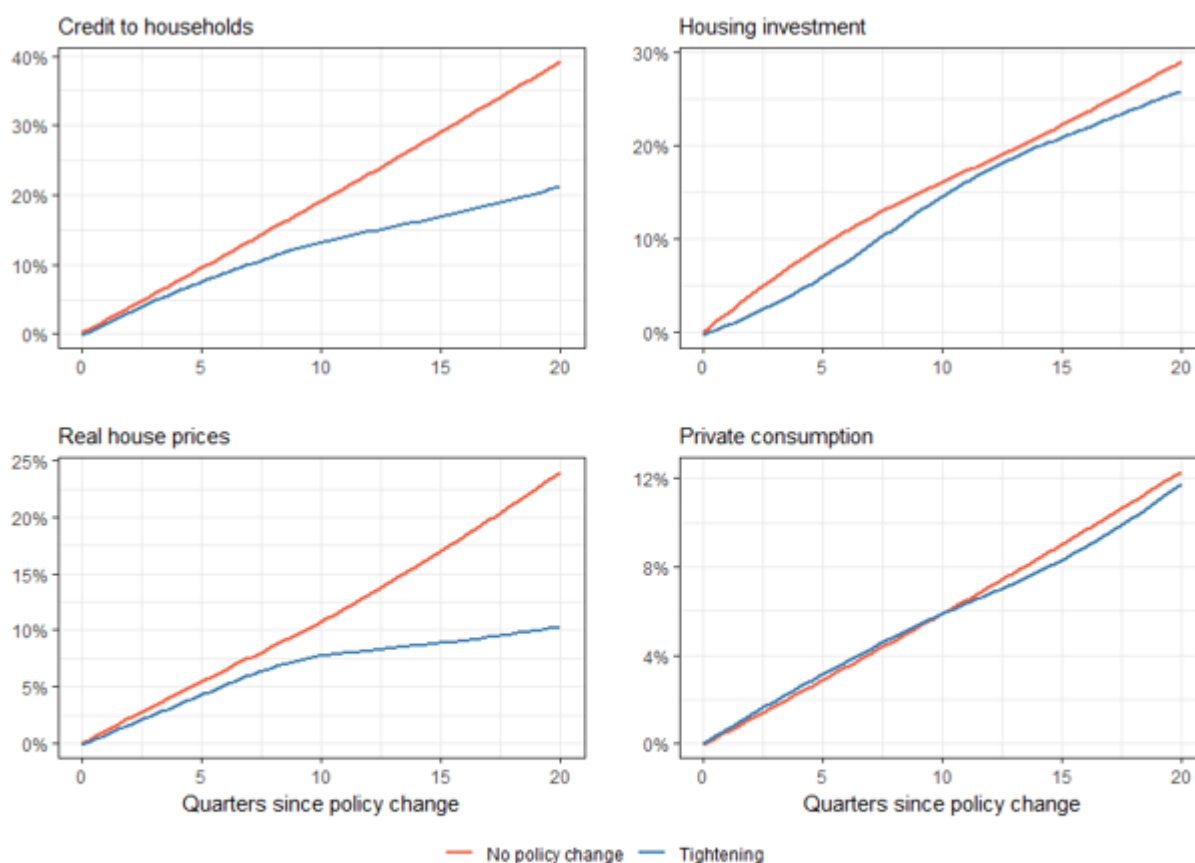
Countries can reduce housing-related risks in particular by:

- Capping the size of loans relative to house prices. New evidence suggests that such caps are capable of containing house prices and mortgage lending incurring limited economic cost (Figure 2): housing investment is only marginally reduced and there is very little effect on consumption. Tighter loan-to-value ratios are also

linked with a lower risk of severe downturns.

- Limiting the size of loans relative to income. This measure holds promising potential but has been seldom used so far, which means there is little scope yet to evaluate it ex post.
- Tightening bank capital requirements for riskier housing loans. Measures of this nature are linked to more moderate output fluctuations and stronger recoveries after downturns.
- Reducing the tax advantages given to housing assets. Higher effective taxation of housing assets (which can come from higher property taxes or lower income tax breaks for housing) favours smoother housing cycles.

Figure 2. Effect of tightening LTV caps



Note: The treatment group consists of episodes where countries tightened their LTV caps at time=0. The control group comprises episodes where countries did not implement such a policy change although their conditions were otherwise similar. This treatment group has been determined by propensity matching techniques using a probit model with real and financial variables as covariates. The lines show averages for each group.

Source: Cournède, B., S. Sakha and V. Ziemann (2019), "Housing Markets and Economic Resilience," *OECD Economics Department Working Papers*, forthcoming, OECD Publishing, Paris.

References:

Cavalleri, M. C., B. Cournède and V. Ziemann (2019), “Housing Markets and Macroeconomic Risks“, OECD Economics Department Working Papers, No. 1555, OECD Publishing, Paris.

Turner, D., T. Chalaux and H. Morgavi (2018), “Fan Charts around GDP Projections Based on Probit Models of Downturn Risk“, OECD Economics Department Working Papers, No. 1521, OECD Publishing, Paris.

Delivering on the promise of better outcomes for Canadian women

Category: Canada, Gender, Labour markets, Uncategorized

written by oecdecoscope | June 16, 2025

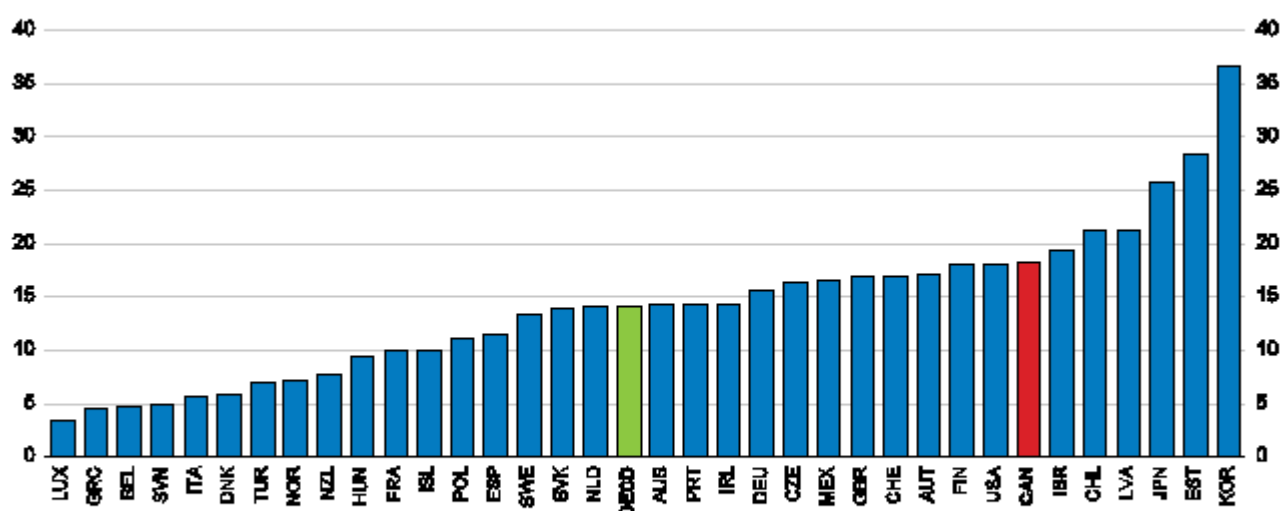
by Andrew Barker, Canada Desk, OECD Economics Department

The current Canadian government has declared itself feminist and has taken a number of steps to improve labour market outcomes for women. This includes increased funding for early learning and child care and improving equality of parental leave by introducing five weeks of leave for the second parent (generally fathers) on a take it or lose it basis. In terms of employment and labour force participation, Canadian women do much better than the OECD average.

However, there remains a sizeable gap in earnings between Canadian men and women (Figure 1).

Figure 1. The gender earnings gap is above average in Canada

2016 or latest year available¹



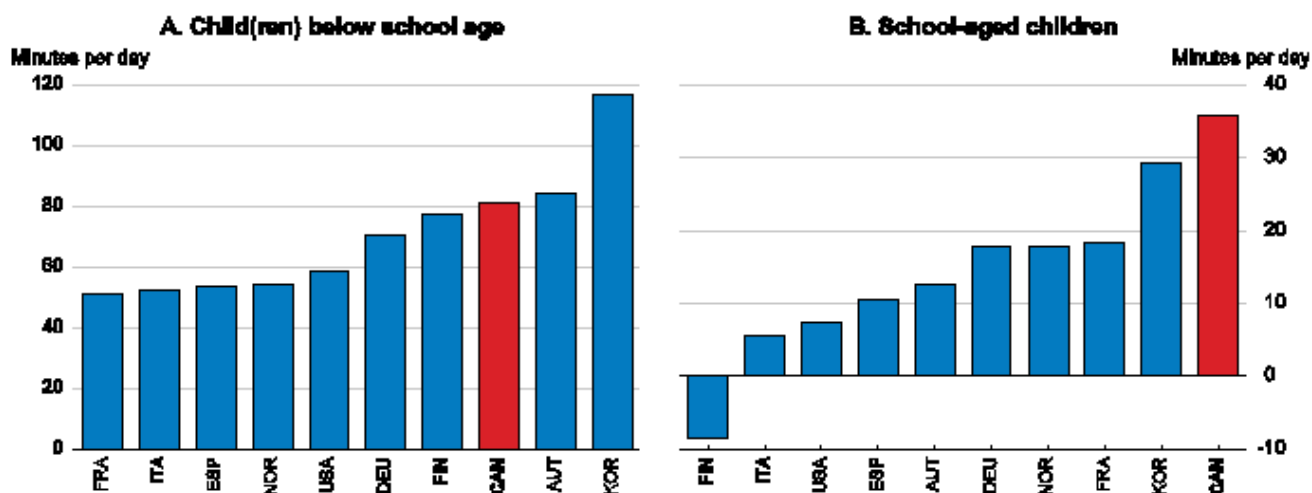
1. The gender wage gap is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees and to self-employed. For Canada data are based on weekly earnings.

Source: OECD (2018), *Gender Database*, <https://data.oecd.org/eamwage/gender-wage-gap.htm>.

The earnings gap is particularly large for women with children, in part explained by fewer years of work experience and more hours devoted to unpaid work (Figure 2). This might be fine if it was the result of personal choices on how to split paid and unpaid work between couples, but international survey evidence indicates that women would like to work more and, within Canada, comparison with Quebec – where women have for many years enjoyed affordable child care and more equitable division of parental leave – indicates that Canadian women would choose to work more if given access to more family-friendly policy support.

Figure 2. Canadian fathers spend less time on childcare activities than mothers¹

Time spent on childcare activities by women less time spent by men, by youngest child's age



1. Data for partnered men and women (those who live in the same household as a spouse or cohabitating partner, married or not) in couples with a female partner aged 25-45, only. Pensioners and students excluded. Data restricted to 'carers', i.e., mothers and fathers who are engaged in at least one childcare activity during a time-use diary day.

Source: OECD (2017), *The Pursuit of Gender Equality: An Uphill Battle*, Figure 15.2.

An important step in this regard is to make sure that new fathers use the additional leave that they are now entitled to. Governments need to work with businesses and lead by example to create a culture where men are encouraged to take leave to look after their young children. Payment rates for parental leave may need to be adjusted if take-up remains low, as it has in some other OECD countries with low payment rates.

Improving access to high-quality, affordable early childhood education and care (ECEC) is the best way to improve labour market outcomes for Canadian women. Canada stands out among OECD countries for the high cost of childcare (in the comparison province of Ontario, at least) and the low share of Canadian youth who have attended ECEC for two years or more. Affordable and high quality ECEC can address barriers to mothers' labour force participation, reduce the motherhood wage penalty and support child development, particularly for disadvantaged children. While there are upfront fiscal costs, these are offset over a longer period through women's higher participation and productivity. Women's productivity, and thus incomes, would also be assisted by further steps to promote

female entrepreneurship and to boost women's representation in senior management, computing and engineering.

References:

OECD (2018), OECD Economic Surveys: Canada 2018, OECD Publishing, Paris.

Enhancing labour-market integration of immigrants in Canada

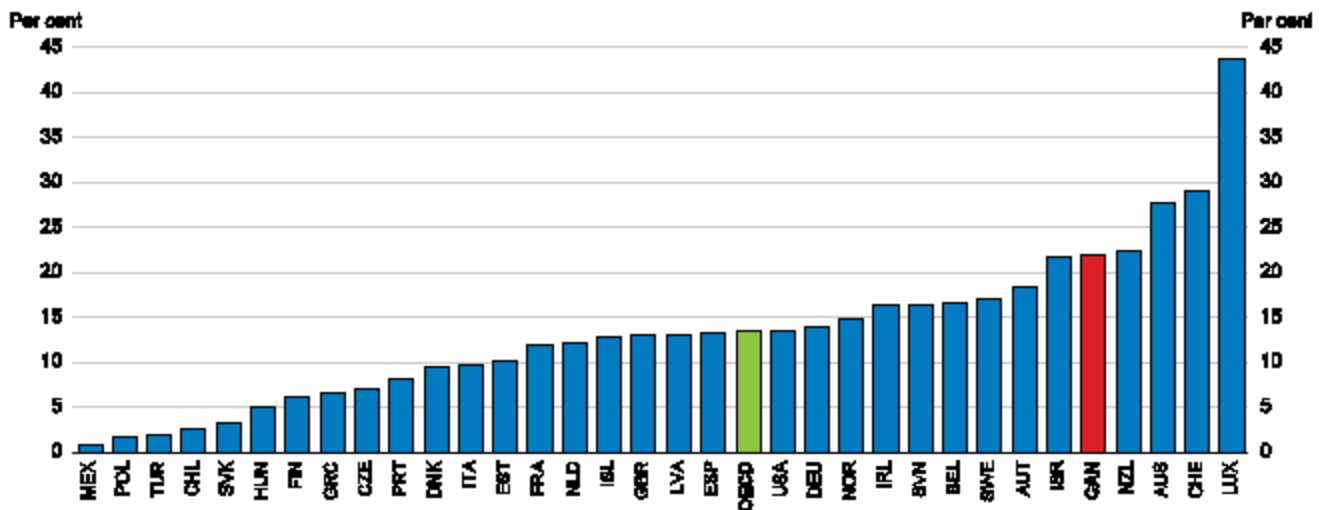
Category: Canada, Immigration, Labour markets, Uncategorized

written by oecdecoscope | June 16, 2025

by David Carey, Head of Canada Desk, OECD Economics Department

Canada has long taken in more immigrants relative to its population than most other countries. Immigration policy in Canada aims to promote economic development by selecting immigrants with high levels of human capital, to reunite families and to respond to foreign crises and offer protection to endangered people. Economic immigrants, who are selected for their skills, are by far the largest group. The immigration system has been highly successful and is well run. Outcomes are monitored and policies adjusted to ensure that the system's objectives are met. Immigrants and their children are better integrated in Canada based on a variety of indicators than in most other countries. Immigrants selected for their skills earn substantially more than other immigrants, indicating that selection is succeeding in identifying immigrants with the greatest potential for labour market integration.

Figure 1. Immigrant share of the population
Share of the foreign-born in the total population, 2015¹ or latest year available

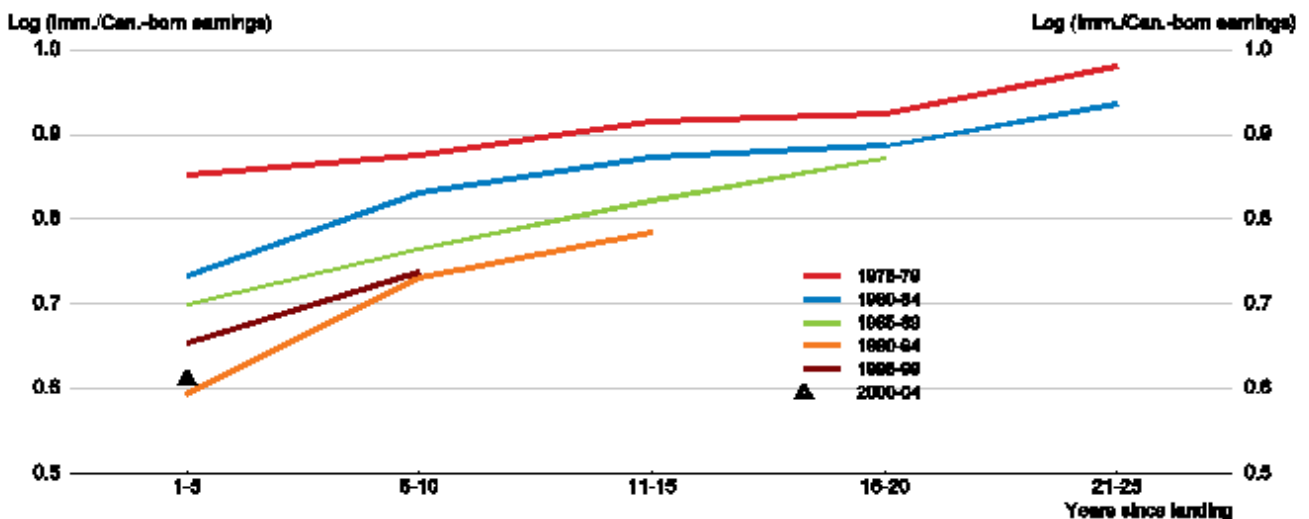


1. 2016 for Canada.

Source: OECD, *International Migration and Economic Outlook* databases; Statistics Canada, 2016 Census Program.

A problematic development is that immigrants' entry earnings fell sharply relative to those of the comparable native-born in recent decades. Important causes of the fall include weaker official language skills and a decline in the returns to pre-immigration labour market experience.

Figure 2. Predicted male immigrant earnings¹ relative to those of comparable Canadian-born
Full-time, full-year male workers,² by years since landing, 1975-2004



1. Predicted values based on a model.

2. Aged 16 to 64.

Source: G. Picot and A. Sweetman (2012), "Making It in Canada - Immigration Outcomes and Policies", *IRPP Study*, No. 29, April, Figure B1.

In response, immigration policy has been changed to select immigrants with better earnings prospects. More are selected for their human capital, and greater weight has been given to official language competence, age (inversely related to foreign work experience) and Canadian work experience. Recently, the selection system was overhauled with the introduction of Express Entry, which only invites candidates with the highest point scores to apply for permanent residence and gives employers a greater role in selection. The system would be still more effective if more weight were given to skilled Canadian work experience in selection and applications from candidates with skilled work experience and a relevant job offer were processed before others.

Canada also has an extensive array of programmes that facilitate integration. The Targeted Employment Strategy for Newcomers facilitates foreign-credentials recognition and helps immigrants gain Canadian work experience in their profession. Bridge programmes, which help with post-secondary credentials recognition in regulated occupations, and mentoring programmes, which help immigrants overcome underrepresentation in high-quality jobs by developing professional networks, have proved effective and should be expanded. The federal government's settlement programmes are extensively used but it is not clear whether utilisation patterns reflect differences in needs or availability. There are large differences in efficiency of government language programmes, pointing to possibilities for reorganisation to improve outcomes.

References:

OECD (2018), OECD Economic Surveys: Canada 2018, OECD Publishing, Paris.

Boosting Canada's productivity through greater small business dynamism

Category: Canada, Productivity, Uncategorized

written by oecdecoscope | June 16, 2025

By David Carey, Head of Canada Desk, Country Studies Branch, OECD Economics Department

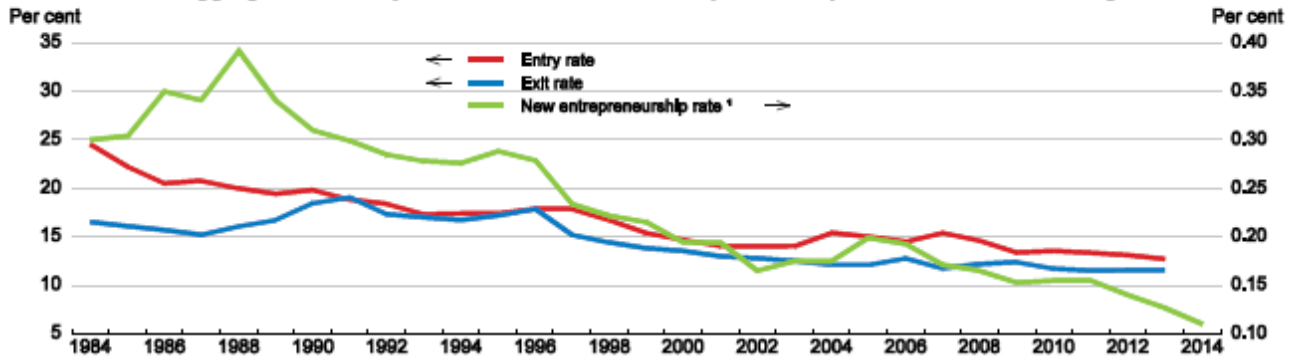
A dynamic small business sector can heighten competition and underpin productivity growth, as discussed in the 2016 *OECD Economic Survey of Canada* and Carey et al. (2016, forthcoming). Dynamism tends to be reflected in high start-up rates and strong 'up-or-out' dynamics. Entry can be viewed as a form of experimentation that introduces new ideas, business models and technologies into the marketplace while exits can be viewed as the end of unsuccessful experiments. High start-up rates increase both the likelihood of radical innovation and competitive pressures on incumbents to innovate. OECD (2015) finds that an increase in the share of firms younger than six years old relative to firms aged 12 years and over is associated with higher multi-factor productivity growth and that this effect is mainly attributable to start-ups.

Firm entry and exit rates (which are highly correlated) have been falling since the early 1980s (Figure 1, Panel A) in Canada as in other countries. Canada's start-up rate appears to be relatively low by international comparison (Panel B), while the share of older small firms is relatively high (Panel C). The relatively low share of younger SMEs (Panel C) may point to weak dynamism, as it is these firms that contribute disproportionately to job creation, destruction and net

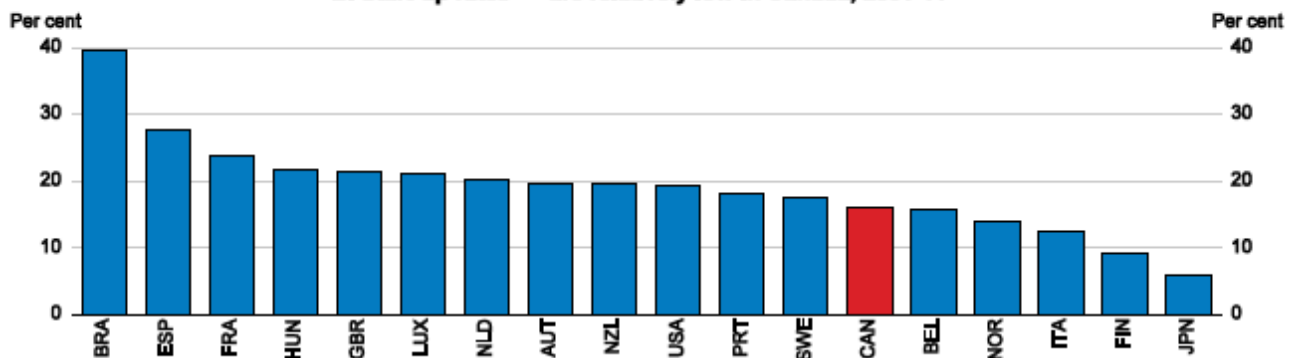
employment growth (Figure 2), not SMEs in general.

Small business dynamism has declined but remains in the middle of the range

A. Aggregate firm entry and exit rates and the entrepreneurship rate have been declining

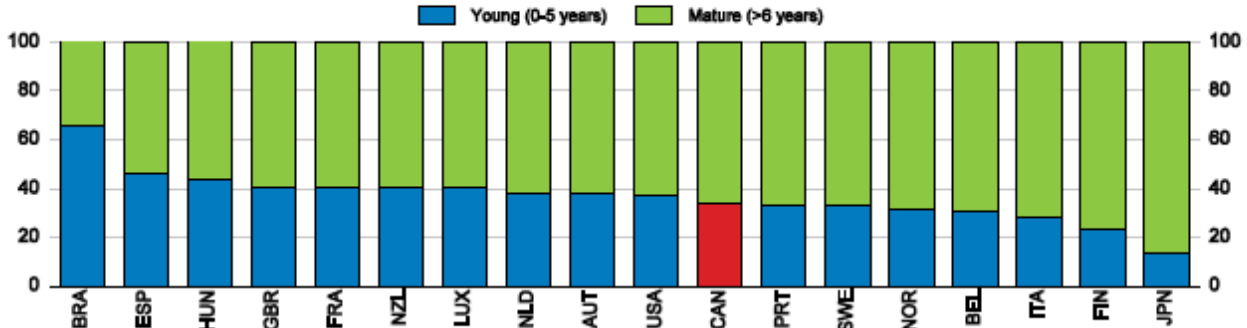


B. Start-up rates^{2,3} are relatively low in Canada, 2001-11



C. Age composition of small firms^{3,4}

Average over time, firms below 50 employees



1. The number of new self-employed workers who hire employees as a fraction of the working-age population.
2. Start-ups are defined as those firms which are 0 to 2 years old. Start-up rates are defined as the fraction of start-ups among all firms, averaged across the indicated period. For more details, see Figure 7 in Criscuolo et al. (2014).
3. Data are preliminary. Owing to methodological differences, figures may deviate from officially published national statistics. Data for Canada refer only to organic employment changes and abstract from merger and acquisition activities.
4. Share of firms by different age groups in the total number of micro and small firms (below 50 employees) in each economy on average over 2001-11 (or available years). For more details, see Figure 6 in Criscuolo et al. (2014).

Source: S. Cao et al. (2015), "Trends in Firm Entry and New Entrepreneurship in Canada", *Bank of Canada Discussion Paper 2015-11*, October, Charts 1 and 3; C. Criscuolo, P.N. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

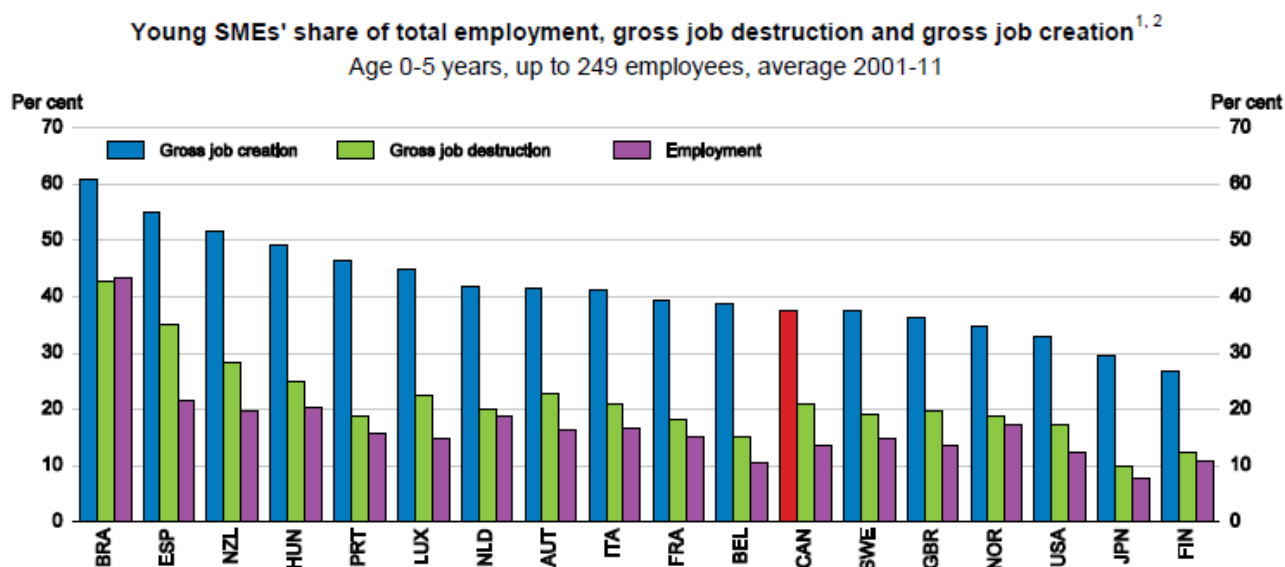
Canada's framework policies, such as product and labour market regulation, are generally supportive of small business dynamism. Labour market regulation, in particular, poses few

barriers to the reallocation of labour, which is critical for a vibrant small business sector. Likewise, product market regulation generally does not obstruct resource reallocation from less to more efficient firms. An exception is Canada's relatively high barriers to foreign direct investment. Such barriers inhibit allocative efficiency. Another is its high regulatory protection of incumbents, which arises from an above-average use of anti-trust exemptions.

Small business dynamism and productivity would also benefit from focusing small business programmes more clearly on market failures. The most costly programme is the preferential tax rate for small companies (the Small Business Deduction). It is intended to overcome a capital market failure, which starves SMEs of funding, by leaving beneficiaries with more after-tax profits to invest. However, the economic literature on capital market failures does not establish a case for subsidising SMEs based on their size alone. The 2010 UK Mirrlees Review of taxation concluded that there was no evidence of any general capital market failure affecting small firms but rather of a financing gap for new and start-up firms that could be more effectively addressed through targeted measures (Crawford and Freedman, 2010). Canada's SME financing programmes should be reviewed to identify clear capital market failures and the best instruments for addressing them. For the preferential federal small company tax rate, this should be done in the recently announced federal tax expenditure review.

The other high-cost measure whose review should be a priority is the higher (refundable) R&D tax credit for small companies than for other companies. It is not clear from the economic literature whether market failures warrant a higher or a lower subsidy rate for SMEs than the standard rate: information failures that make it more difficult for SMEs to obtain external finance for innovation justify a higher rate while lower SME R&D spill-overs point in the opposite direction. To resolve this and other R&D subsidy issues, such as the

appropriate balance between direct and indirect support and level for the standard tax credit rate, Canadian governments should evaluate R&D subsidy policies to ensure that they are providing good value for money.



1. For details, see notes in Figure 17 of Source.

2. See note 3 in Figure 2.1.

Source: C. Criscuolo, P.N. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, <http://dx.doi.org/10.1787/5jz417hj6hg6-en>.

References:

Carey, D., J. Lester and I. Luong (2016, forthcoming), 'Boosting Productivity in Canada Through Greater Small Business Dynamism', *OECD Economics Department Working Paper*.

Crawford, C. and J. Freedman (2010), "Small Business Taxation", in J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford: Oxford University Press for Institute for Fiscal Studies.

Criscuolo, C., P. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, Paris.

The risks in Canada's unusual housing market(s)

Category: Canada,Uncategorized

written by oecdecoscope | June 16, 2025

By Peter Jarrett, Head of Division, Country Studies, OECD Economics Department

Local housing markets are presently highly disparate in Canada. While in most smaller localities real estate prices are fairly stable and not out of line with the fundamentals (incomes and rents), 10 of the 15 large Census Metropolitan Areas monitored by the Canada Mortgage and Housing Corporation (CMHC) show signs of overvaluation, and seven show moderate or strong evidence of overbuilding. By contrast, prices have fallen quite sharply from previously lofty levels in a few communities whose economies are heavily dependent on resources (Calgary in particular). But house prices in Toronto and especially Vancouver, which together make up one third of the national housing market, are such that, in tandem with high household debt (which nationally reached 167.6% of disposable income at end-2015, near the top of the OECD country range), they represent a significant financial vulnerability. A sharp fall in house prices triggered by a shock that results in a large increase in unemployment could weaken households' ability to service their debts, resulting in a rise in mortgage defaults that could endanger financial stability.

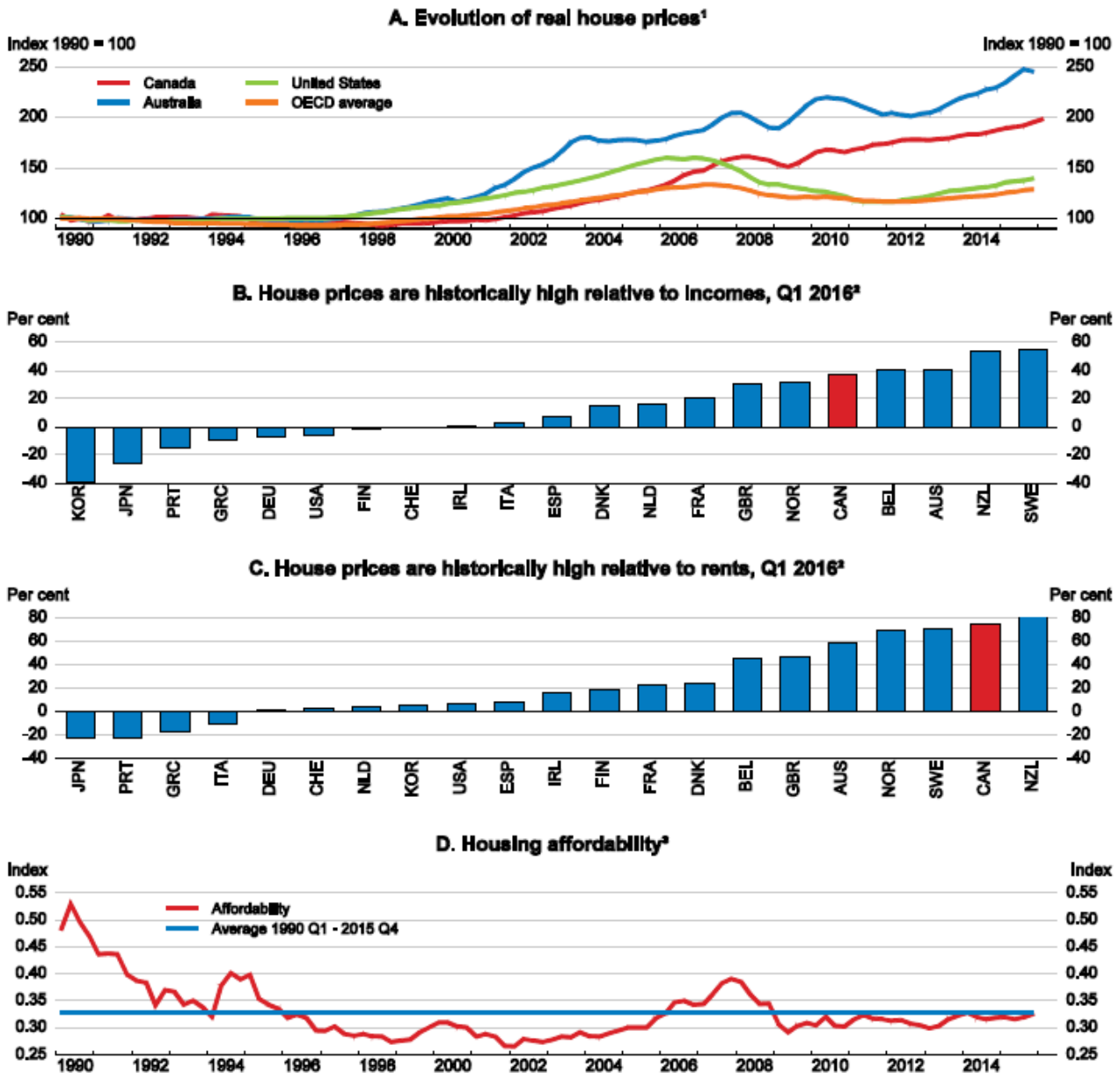
One factor driving market strength in Vancouver and Toronto is foreign buying. Unfortunately, limited data are available on such purchases, but the federal government has allocated some funding for Statistics Canada to begin to gather such data. Another is building site supply constraints: these are both

physical – Vancouver is bounded by the Pacific Ocean and coastal mountains, while Toronto is bordered by Lake Ontario – and regulatory – such as Toronto’s green belt of some 800 000 hectares and Vancouver’s provincial zone of protected farmland. These constraints curb the normal supply response to appreciating property prices. Nevertheless, the share of residential investment in Canada’s GDP is currently the OECD’s highest, even if well below earlier peaks in Ireland and Spain. Strong residential investment may in principle reflect robust demographic growth, but Canada’s outcome appears stronger than what can be justified by underlying population increases. And the larger the share the further it could fall if the boom ends with a bang.

While low interest rates have helped to reduce interest-related obligations and safeguard affordability, broader debt-service ratios including required principal payments are above historical averages. In addition, according to the Bank of Canada, debt has become more concentrated in the hands of highly indebted younger households, who may be less able to cope financially with a job loss or interest rate increases. Nevertheless, Canadian mortgages are issued on a recourse basis, and most households have plenty of equity in their homes (73% on average). In addition, banks must test mortgage qualification for insured mortgages with terms less than five years or with variable interest rates against a benchmark five-year interest rate, which is currently about two percentage points above market five-year mortgage rates, affording some degree of protection. In December 2015, OSFI (the Office of the Superintendent of Financial Institutions), the financial supervisor, announced planned changes to the regulatory capital frameworks for residential mortgages for large federally regulated lenders and private mortgage insurers so that capital requirements keep pace with housing market developments and risks, such as when regional house prices are high relative to incomes. Moreover, following a series of macro-prudential measures implemented since 2008,

the federal government boosted down-payment requirements for insured mortgages in February 2016 from 5 to 10% for the portion of each insured home priced between CAD 500 000 and CAD 1 million, which is the ceiling on availability of public mortgage insurance. Stress testing on the six large banks has been carried out regularly in the last few years, and, while results are not published, the Bank found that all balance sheet ratios exceed minima required by OSFI. Moreover, nonperforming loans remain low at only 0.5% of gross loans. This said, macro-prudential measures should be tightened further and targeted regionally, as in New Zealand, where the authorities imposed lower ceilings on loan-to-value ratios in 2015 in the booming Auckland market and are considering further steps. Targeted measures could go beyond OSFI's planned changes to capital guidelines in regions with high house price-to-income ratios or strong house price growth to make capital requirements more responsive to market developments and risks.

House prices are high and rising but still affordable given low mortgage rates



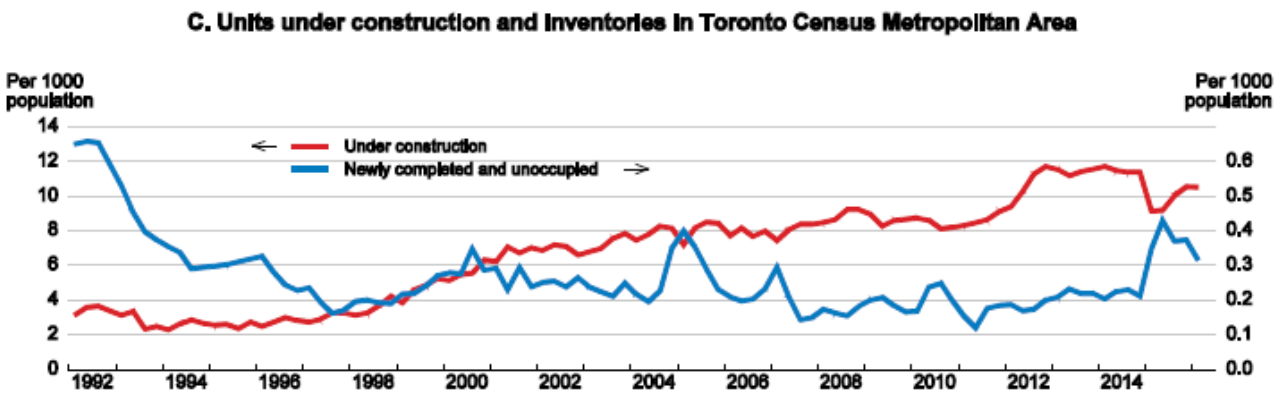
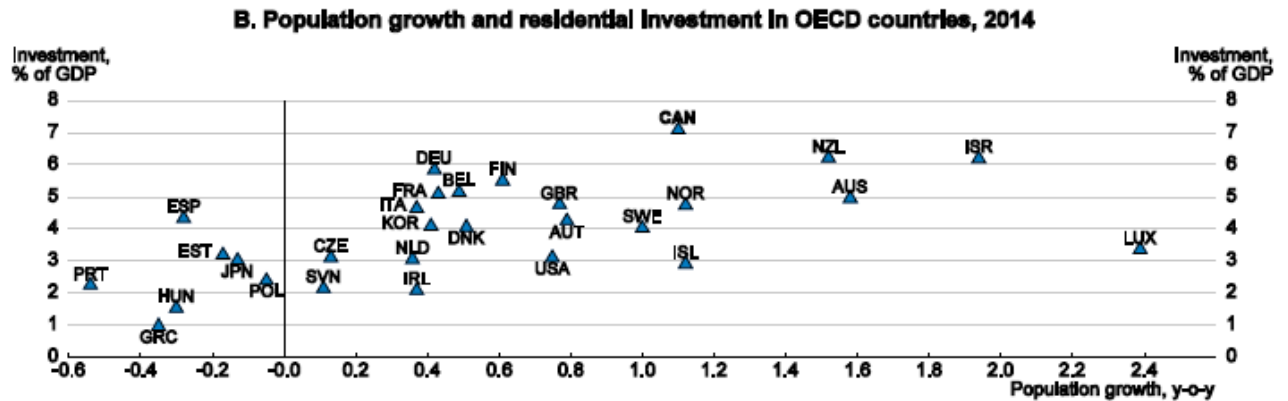
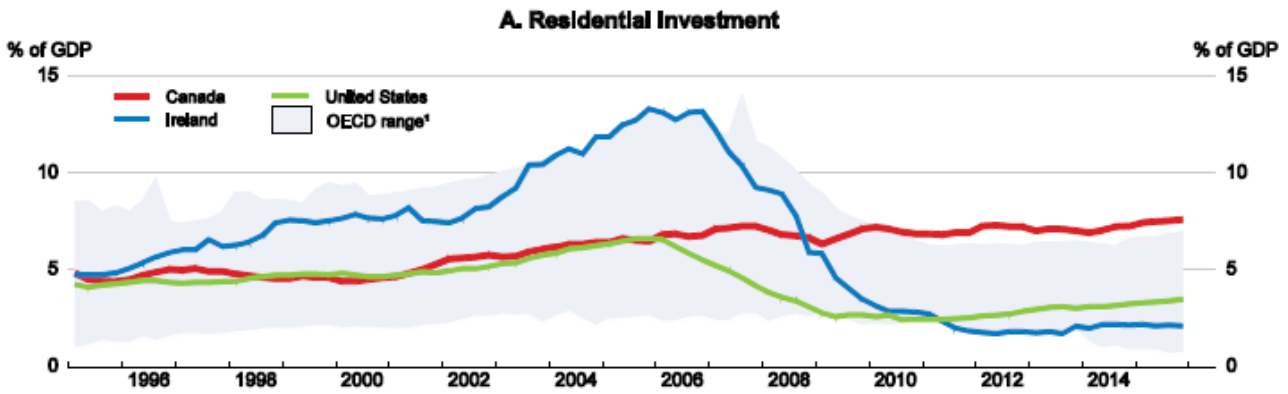
1. Nominal house prices deflated by the private consumption deflator.
2. Deviation of the ratio of nominal house prices/nominal disposable income per capita (respectively /rent prices) over the long-term average. The long-term average starts in Q1 1980 for most countries, with a few exceptions. The price-to-income ratio starts in Q1 1981 for Denmark, Q1 1986 for Korea and New Zealand, Q1 1987 for the United Kingdom, Q1 1995 for Portugal and Q1 1997 for Greece. The price-to-

rent ratio begins in Q1 1986 for Korea, Q1 1988 for Portugal and Q1 1997 for Greece. The latest observation is Q4 2015/Q1 2016.

3. The affordability index provides an estimate of the share of disposable income that a representative household would put toward housing-related expenses. The measure is a ratio, where the numerator, housing-related costs, is the sum of the average quarterly mortgage payment plus utility fees and the denominator is the average household disposable income. The higher the level, the more difficult it is to afford a home.

Source: OECD, Economic Outlook database; Bank of Canada, Financial Indicators, <http://credit.bankofcanada.ca/financialindicators>.

Residential investment is a larger share of GDP than can be justified by demographics



1. Excluding Canada.

Source: Statistics Canada, Tables 027-0060, 027-0047 and 051-0056; OECD, Economic Outlook database.

Reference:

OECD (2016), *Economic Surveys: Canada*, Vol. 2016, No. 16, OECD Publishing, Paris.

Presentation of the 2016 Economic Survey

of Canada: