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Canada Canada

Implications of U.S. Events for the Canadian Economy



Presentation to the Standing Committee on Industry by

**The Honourable Brian Tobin
Minister of Industry**

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Canada

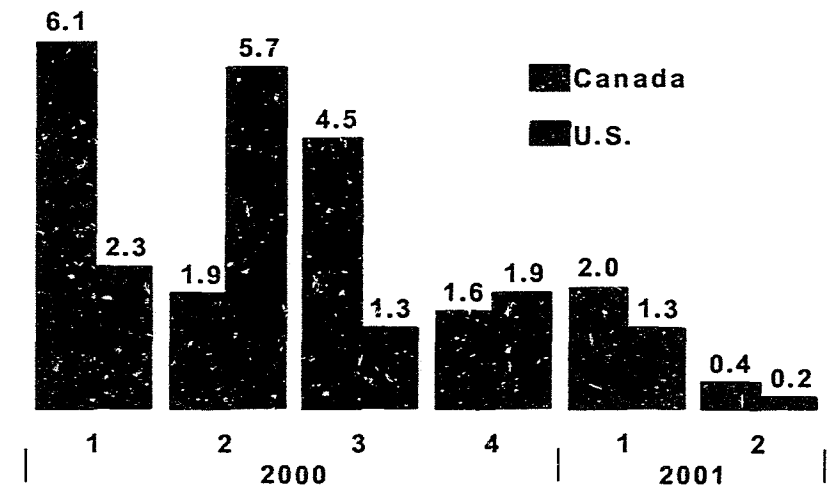
Scope of Presentation

- **Economic Situation in Canada**
- **Federal Government Actions**
- **Sectoral and Regional Impacts**
- **Canada/U.S. Trade and Investment**
- **Conclusions**

The Canadian Economy

- Canadian outlook deteriorating but tax cuts and higher social spending providing some support.
 - Downturn in the U.S. hitting manufacturing and other export-oriented industries. Retail sales weakening.
 - Output up 0.4% (annual rate) in second quarter. GDP edges down in July, and consumer and business confidence down.
 - Employment rose in September, after losses in three previous months.
- Stock markets initially down sharply following attack, but recovered some lost ground.

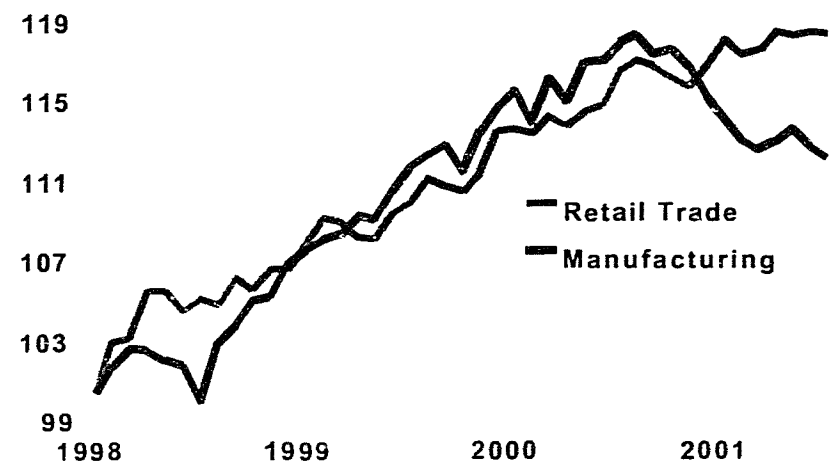
Real GDP Growth



Source: Statistics Canada

Real GDP by Key Sectors

January 1998 = 100



Source: Statistics Canada (latest data July 2001)

Security & Border Facilitation

- Concern about border congestion predates September 11.
- U.S. at Alert 1 Level and has suspended some facilitative measures at the border.
- Waiting times at most border crossings into U.S. close to pre-September 11th levels.
 - U.S. has put additional resources into inspection.
 - Traffic volumes reduced. Commercial traffic almost same as before but passenger traffic down.
- Ensuring that border does not act as impediment to trade and investment is priority of government.

Federal government actions

- **Sustaining the Economy**

- 125 basis point cut in interest rates: 50 points on September 17th in concert with the U.S. and other central banks, and further 75 points on October 23rd.
- Fiscal stimuli (e.g. previously announced tax reductions)
- \$160 million assistance package for airline industry to compensate for two-day shutdown, 90-day fix to backstop insurance for airlines and airports, and recently announced \$75 million loan guarantee for Canada 3000.

- **Enhancing Security**

- Anti-terrorism act (Bill C-36).
- Freezing of terrorist assets in Canadian banks.
- Increased security at airports, border, ports of entry.
- CCRA to expedite exchange of information with USCS.
- Sub-Committee on Public Security and Anti-terrorism.

Directly-Affected Sectors -- Airlines

- **Airline industry was slowing before attacks.**
- **Reduced travel will lead to probable revenue losses of 20-25% through year end, with modest improvement expected in 2002.**
- **Increased costs for security, insurance and airport expenses.**
- **Expected job losses at Air Canada and other carriers will impact all regions.**
- **No doubt that other carriers potentially experiencing financial difficulties as a result of September 11th.**
 - **They may also be seeking government assistance.**
 - **A sound business plan for recovery is essential.**

Directly-Affected Sectors -- Aerospace

- Major reductions announced by all aircraft manufacturers globally since September 11th:

- Boeing, Airbus, Bombardier

- As a major global player, the Canadian aircraft and parts industry also impacted.

Announced job reductions include:

- Pratt and Whitney Canada (600)
 - Honeywell Canada (100)
 - Bell Helicopter (285)
 - Boeing Canada (325+)
 - CAE (possibly up to 400)

- Some upside potential in defence and maintenance; sales of private aircraft.

Directly-Affected Sectors – Tourism

- **Hotels, resorts, airlines, cruise ships, car rental firms and entertainment have been impacted. All regions have been affected.**
- **Association of Canadian Travel Agents (ACTA) estimates 30-40% drop in business over the next three months.**
- **Signs that travel is picking up again, but weakness expected to extend into 2002, particularly for long-haul travel and businesses associated with airlines (e.g. car rentals and airport hotels).**
- **Tourism marketing will focus on domestic and near border states.**
 - **\$20 million CTC campaign to target northern U.S. states and Canadian residents.**

Other Sectors

Auto Industry

- Canadian auto industry produced a record 3.0 million vehicles in 1999 and 2000. Post September 11th forecasts still call for production of 2.5 million vehicles, possibly the 3rd highest year ever.
- Auto sales partially being sustained by increasing incentives which are now averaging \$1,665 US per vehicle in the U.S.
- September 11th events caused several auto plant closures, however effects were short-lived and production was back to normal by second week.

Energy and Commodities

- Oil and other energy prices plunging as demand weakened by deeper economic slowdown, in particular the sharp decline in air travel.
- Non-energy commodity prices have also been hit by slowing global demand.

Other Sectors

Other Industries

- Short-term border delays affected plants relying on “just-in-time” delivery. Consumer and business confidence will determine consumption and investment spending and pace of economic recovery.
- Office of the Superintendent of Financial Institutions monitoring financial institution’s exposure in most vulnerable sectors.
- Overloaded networks in the communications sector in short-term and security concerns. Potential upside in shift to internet video-conferencing, etc.
- Increased activities expected in defence-related industries.

Regional Impact

Atlantic Canada

- Most immediate impacts in airline and tourism industries.

Québec

- Affected by layoffs in airline and aerospace industries.
- Government actions: ministerial committee to coordinate response, budget to be presented on November 1st with possible acceleration of infrastructure projects, security enhancing measures.

Ontario

- Affected by layoffs in airline and aerospace industries.
- Sensitive to U.S. economic downturn (93% of exports to U.S.).
- Government actions: accelerated 2003 tax cuts, \$6 million for tourism marketing, additional security initiatives, supports a "perimeter approach" to the border, November roundtable with New York partners.

Western Canada

- Layoffs in airline and aerospace industries to affect Vancouver and Winnipeg.
- Energy sector: lower oil prices to affect government revenues and business investment.

Canada/U.S. Trade and Investment

- **Integration of the North American economy on a north-south basis has resulted in \$1.9 billion a day two-way flow across the border.**
- **Rapid growth in trade had already created strains at the border.**
- **Responding to September 11th will require new security measures.**
- **Government committed to finding solutions so that border is not a barrier to trade and investment.**

Conclusions

- Events of September 11th had a major impact on few industries, although all sectors continue to be affected by the economic slowdown.
- Importance of border issues recognized – government priority.
- Continuing need to support development of innovative Canadian economy.