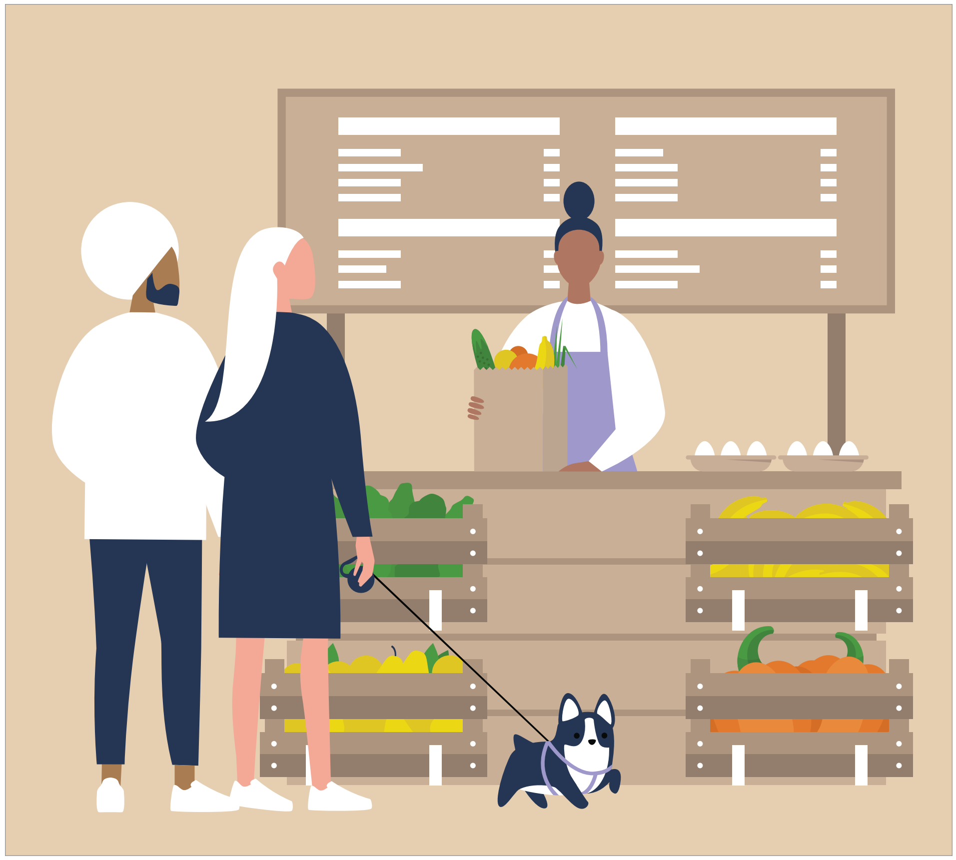
# Buying local



Like workers, small businesses in our communities have faced challenges in recent years. COVID-19 restrictions that applied to small businesses, but not to big box stores, made it tough. Rising costs due to supply chain problems and high interest rates have added to the struggle. In response, CUPE members voted at our 2021 convention to support buying locally.

"Buying local" means choosing products and services that are made or offered in your own community instead of getting them from large, international corporations. Overall, buying local supports good community jobs and is better for environmental sustainability. That's why CUPE advocates for Canadian trade and investment deals that protect and prioritize our governments' ability to buy local.

As consumers, we usually know more about how local businesses treat their workers and the environment. These businesses are also more receptive to community feedback. Buying from them means more of your money stays in the local economy, which can lead to the creation of good local jobs. Additionally, local businesses often source their materials nearby, creating a positive ripple effect. By supporting these businesses, we can ensure that a larger portion of our spending remains in our communities, enhancing economic resilience and stability.

Buying local products can also reduce environmental impact. Goods that are made locally don't need to travel thousands of miles to reach consumers. This reduction in transportation-related emissions can play a significant role in fighting climate change and decreasing air pollution.

Buying local also helps us feel a sense of belonging and connection in our communities. Local businesses often reflect the cultural identity of a region, offering unique products and experiences that contribute to the distinct character of a place. These small businesses can pay more attention to what each customer needs because they cater to a smaller customer base. This can be true for locally grown produce, handmade crafts or uncommon requests. For example, CUPE purchased custom COVID-19 wellness kits from a small local supplier when we first returned to in-person conferences.

The BDC Small Business Week will be held October 15-21 this year. It's organized by the Business Development Bank of Canada (BDC) and supported by many local Chambers of Commerce. Check out the BDC website for information about events being held across Canada: https://www.bdc.ca/en/small-business-week

# Home ownership affordability

High interest rates are making it harder to afford a home. In July 2023, the Bank of Canada increased its interest rate to 5%. This is the highest it's been since 2001.

The bank is raising rates to fight inflation. The idea is that since higher interest rates make loans more expensive, people will spend less and businesses will make fewer investments, creating fewer jobs. Less spending in turn is supposed to help slow down rising prices.

However, despite the bank's intentions, rising mortgage rates have become one of the biggest factors keeping inflation high. Mortgage interest costs, which are included in the Consumer Price Index (CPI) basket, rose by over 30% in July compared to the previous year. According to Statistics Canada, mortgage interest costs were the single largest contributor to inflation in July. Excluding these costs, inflation would have been 2.4% instead of 3.3%.

We can see how the recent increase in mortgage rates is affecting home ownership affordability by looking at the Bank of Canada's "housing affordability index." This index compares average mortgage payments and utility bills to the average household disposable income. To approximate average mortgage payments, the bank uses real estate data on the average resale price for all housing sold in Canada, and a weighted average of discounted fixed and variable rate mortgages. In fall 2022, this index hit just over 0.5. This means that more than half of a household's disposable income goes to home costs. The last time it was this high was when it peaked at 0.54 in 1990. Back then, the Bank of Canada's interest rate was over 13%.

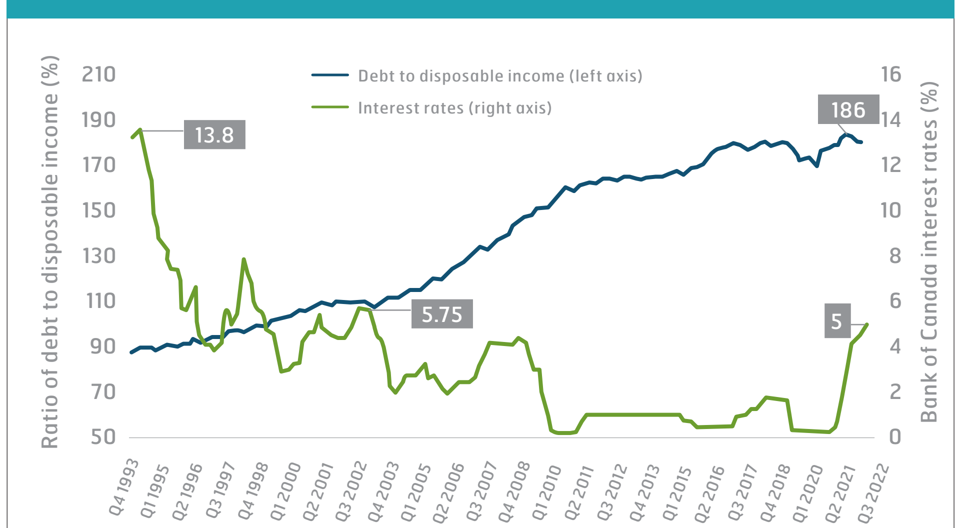
You might ask, why are 5% rates having the same effect as higher rates in the late 1980s and early 1990s? The reason is households today have more debt. Home prices have risen for many reasons, including relatively low interest rates and people and businesses treating housing like an investment. But because incomes haven't kept pace with rising prices, people have had to take on much more debt to buy their homes. In 1990, the average household's debt was only 90% of its disposable income. By fall 2022, this had more than doubled to 186%.

After the affordability bubble peaked in 1990, house prices in Toronto fell by over 30%. In the rest of Canada, the average home price remained stable throughout the rest of the decade. Stable prices and falling interest rates made home ownership more affordable for a period of time. Economists have been waiting for a similar correction in Canada's housing market since the financial crisis in 2008, but it never materialized. Whether housing becomes more affordable over the next decade depends on a variety of factors, including interest rates, government housing policy and wage growth.

## Housing affordability index


Source: Bank of Canada

## Interest rates are lower than the early 1990s, but households have much more debt




Source: Statistics Canada table 38-10-0235 and 10-10-0139-01

# Labour market update

Since the Bank of Canada started increasing interest rates in April 2022, there's been talk of a possible recession. Normally, rapid increases in interest rates lead to job losses and decreased economic activity. Canada has dodged a recession so far due to factors like global commodity prices and a strong US economy. Still, some signs suggest our economy might weaken.

Construction is a leading indicator for overall economic activity. The value of residential building permits can inform us about job security in the construction industry. It also indicates how much our housing supply is likely to grow. This is important because more housing helps stabilize costs for both homeowners and renters. A high value of residential building permits therefore suggests a healthy economy. However, after controlling for inflation, this value has fallen to an average of $3.5 billion in the first half of 2023, compared to a high of $5 billion in the first half of 2021.

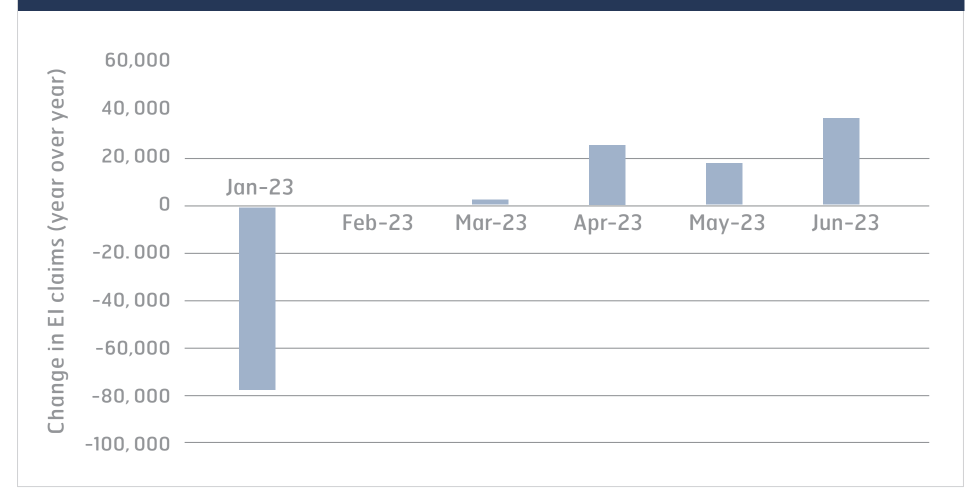
Employment trends also shed light on Canada's economic health. Employers reported over one million job openings in the second quarter of 2022. Since then, the number of job vacancies has decreased by 150,000 across a broad range of occupations and sectors, but especially for jobs that require a high school diploma or less.

Moreover, while the number of employment insurance claims significantly dropped at the beginning of 2023, we began to see more workers applying for regular EI benefits in the second quarter of the year.

The headline unemployment rate remains fairly low at 5.5%, though it has risen slightly in the last three months. But there are other factors to consider. These include part-time workers who want more hours, workers who are waiting to be called back to their old jobs and those who want to work but have given up looking. When we add these workers to our unemployment statistics, we can see that there were 2.5 million unemployed or underemployed workers in Canada in July 2023 — an increase of 260,000 from July 2022. This increase comes from 190,000 more people being unemployed and 70,000 part-time workers who want full-time work.

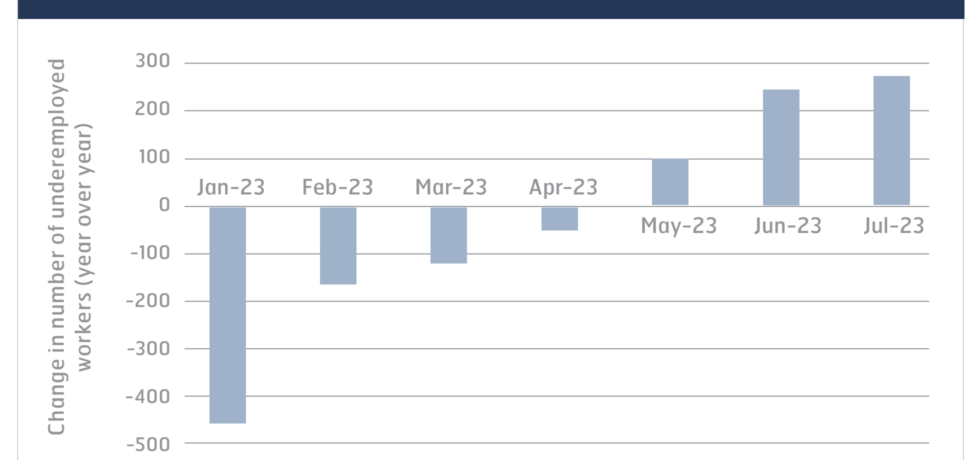
While these data points don't guarantee an upcoming recession, they are important signs to watch as we head into the fall.

## Change in 2023 EI claims compared to 2022

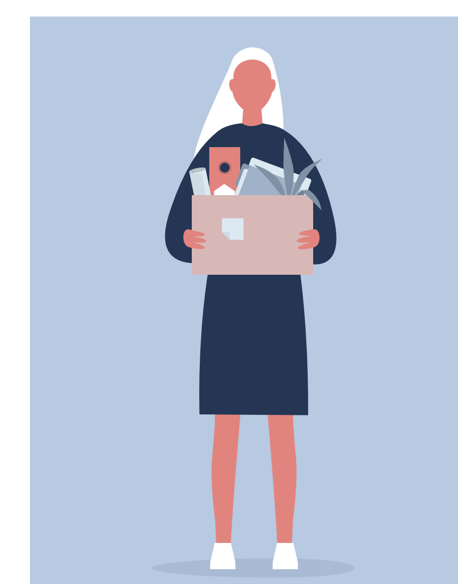



Source: Statistics Canada table 14-10-0005-01

## Underemployment increasing in 2023




Source: Author's calculations from Statistics Canada's Labour Force Survey, January 2022 – July 2023



# Progress on international tax fairness

Every year, governments across the globe miss out on an estimated $240 billion USD in revenue due to companies avoiding or evading taxes. Prominent tax economist Gabriel Zucman estimated that corporations shifted more than $25 billion USD in profits out of Canada in 2019 by reporting income earned in Canada in another tax jurisdiction. This cost us an estimated $4.5 billion CAD in corporate income tax revenue for 2019 alone.

The Organisation for Economic Co-operation and Development (OECD) and the G20 have been trying to fix this issue for over a decade. We're coming up to some critical deadlines for implementing their solutions.

The OECD and G20 have established a two-part plan, with input from over 140 nations. The two parts of the plan are called Pillar 1 and Pillar 2.

Pillar 1 aims to make multinational corporations pay appropriate taxes where their customers are located, and not just where taxes are lowest. This is crucial for Canada's domestic businesses, which pay taxes that international giants like Amazon and Google have so far been able to avoid.

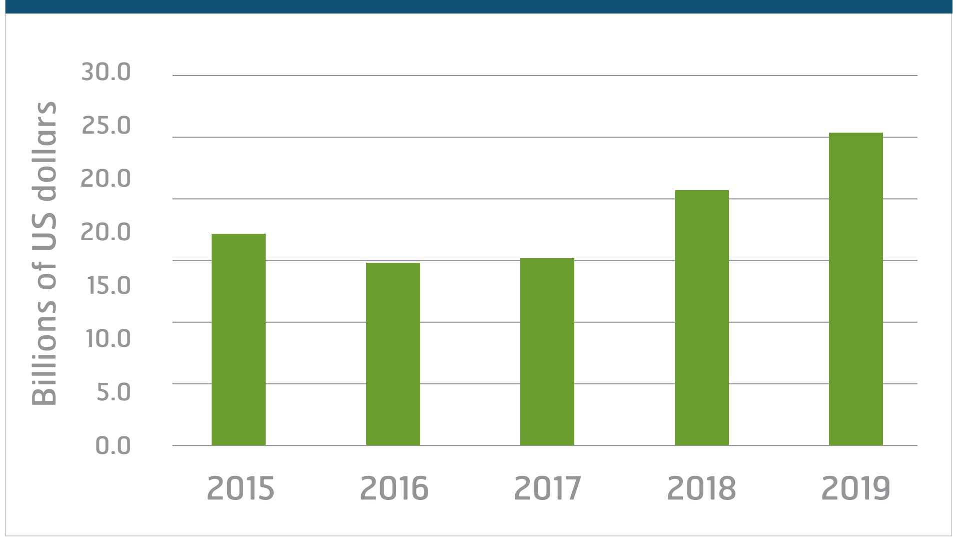
Pillar 2 seeks to eliminate the use of tax havens, partially by setting a global minimum tax rate of 15% for multinational corporations.

Pillar 1 was supposed to be in place in mid-2023. However, the United States opposes this measure and at the last meeting, in July 2023, succeeded in delaying Pillar 1. This delay includes preventing participating countries from introducing any new domestic digital taxes until the end of 2024, instead of the end of 2023. The government of Canada disagrees with this postponement. Canada promised a digital tax in 2019 and planned to launch it in 2022. The Canadian government had already pushed this deadline back to January 1, 2024, in hope of negotiating an international agreement but is unwilling to delay any further.

Fortunately, the United States is more supportive of Pillar 2. A framework for new laws and a tool for updating existing treaties to make them consistent with the agreements reached under Pillar 2 should be ready by mid-2024. Although Canada pledged in the 2023 federal budget that it would introduce Pillar 2 legislation, it has not yet done so.

Frustrated with the delays on Pillar 1, the United Nations (UN) passed a resolution in late 2022 to advance international tax cooperation themselves. The Secretary-General issued a report in July 2023 with three UN-member led options: 1) a binding multilateral convention on tax, 2) a binding framework convention on international tax cooperation, or 3) a voluntary framework for international tax cooperation. The UN plans to discuss a new resolution to implement one of these options later this year.

## Corporate profits shifted out of Canada




Source: "Global profit shifting, 1975-2019," Wier and Zucman (UNU-Wider: 2022).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