Is a recession coming?

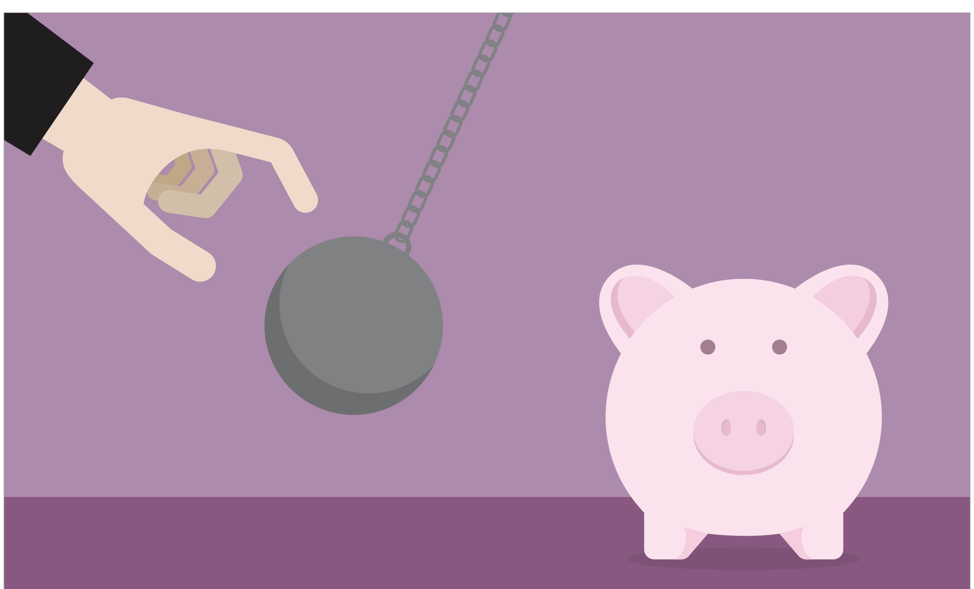
When central banks increase interest rates in response to high inflation, it almost always causes a recession. Since central banks in Europe, Canada and the United States increased interest rates sharply over the last half of 2022, many economists expected 2023 to open in a recession for these economies.

Despite these predictions, global economic growth has been more resilient than forecasters expected, and unemployment is historically low in the European Union and North America. But while we may not be in a recession yet, we're starting to see signs that economic growth is slowing.

Forecasters at major Canadian banks are now predicting that Canada's economy will experience two quarters of near zero or negative real economic growth in 2023.

Provincial forecasts predict that British Columbia, Ontario and Quebec will be hit the hardest. Since both Ontario and Quebec rely heavily on their trading relationships with the United States, a slowdown in the US will translate into less economic activity in these regions. Meanwhile, Ontario and BC have the highest cost of home ownership in the country. High interest rates have slowed the real estate market in these provinces and are putting pressure on household budgets.

Data also shows that our economy is not in a strong position. Change in the gross domestic product, or GDP, is often used to approximate how healthy an economy is. GDP is the total value of the goods and services produced in a country during a specific time. Adjusted for inflation, GDP growth in Canada slowed to almost zero in the fourth quarter of 2022.



Looking into the details behind overall GDP growth shows signs of future weaknesses. Final domestic demand is the total amount of money that is spent on goods and services by the people, companies and government in a particular country. It measures the strength of domestic purchasing by excluding build-ups of inventories and exports of goods and services. Comparing final domestic demand to GDP can show us if there are economic weaknesses coming from changes in exports or inventories. While final domestic demand improved in the fourth quarter of 2022, the dynamics behind this suggest a continued slowing of economic growth. GDP was higher than final domestic demand in the third quarter of 2022 because businesses were building up inventories that they hadn't been able to sell. In response, businesses slowed new production in the fourth quarter. Higher domestic demand in the final quarter of 2022 shows that businesses have been able to sell some of their built-up inventories, but the slowdown in production lowered overall GDP growth.

Real business investment also shrank in the third and fourth quarters of 2022, partly in response to higher interest rates. After adjusting for inflation, businesses invested less in residential structures, machinery and equipment.

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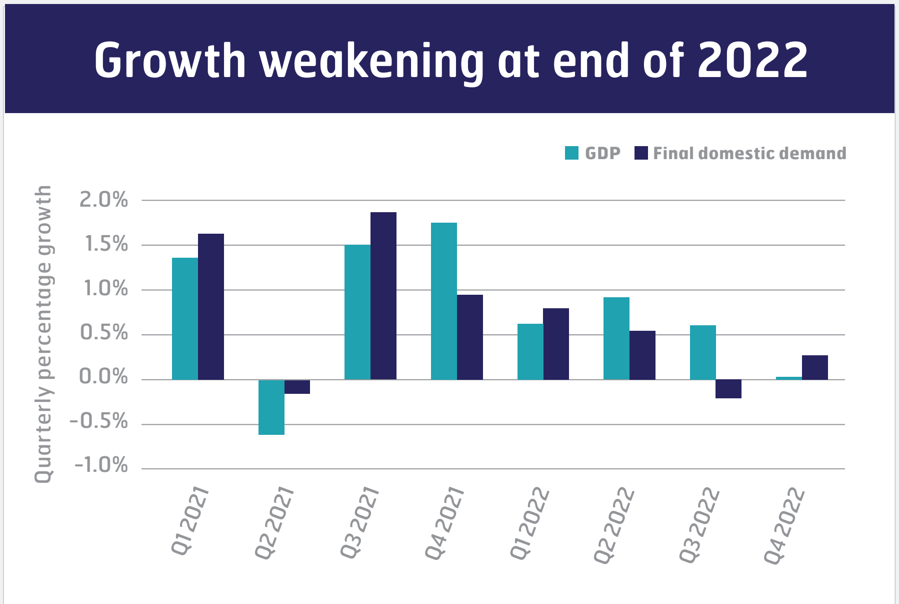

Source: Statistics Canada, Table 36-10-0104-01

So what does this mean for workers? Things are tough – but are we in a recession?

While economic growth is expected to be weaker in 2023 than it was in 2022, this slowdown may not qualify as a recession. A common definition of a recession is two consecutive quarters of negative economic growth. But that's not a fixed rule. In Canada, the C.D. Howe Institute's Business Cycle Council decides when a recession starts or ends. They look for "a pronounced, persistent, and pervasive decline in aggregate economic activity" to declare a recession. This means if trends continue, including a stronger than expected American economy, Canada may avoid a 2023 recession.

However, the most recent unemployment and inflation data from the US shows that there is a significant risk that their interest rate hikes will continue, even as some US and European banks are showing the strain from higher interest rates. Continued US interest rate increases make a recession in the US more likely, which would negatively affect Canada's economy.

Whether we are officially in a recession or not, provincial governments will be pressured by banks and economists to limit spending as long as inflation is above the Bank of Canada's target of 1-3%. Some governments may suggest that this means they have to be cautious with upcoming budgets. It will be important to remember that the bottom line for all provinces has been significantly improved over 2022. Despite economic challenges, governments still have the room needed to invest in public services, which support our economy in the long run.

Pierre Poilievre is wrong about inflation

Federal Conservative leader Pierre Poilievre claims he has the answers when it comes to inflation. But when you look at his policies, it's clear—Poilievre's got it all wrong. Working people can't trust him to solve the very real problem of rising prices and stagnating wages.

Poilievre argues that the Bank of Canada caused inflation by printing money to fund government spending. As such, he says the way to fight inflation is to impose legal limits on government spending. But neither of these claims hold up.

First, recent price increases have been caused primarily by pandemic-related supply shortages. To make things even worse, corporations in critical sectors used supply chain issues as an excuse to increase their own profit margins. A report by the Centre for Future Work found that 15 sectors dramatically increased their profit margins in 2022, including oil and gas extraction and refining, financial institutions, motor vehicle dealers, food manufacturers and food retailers. In some of these sectors, a small number of businesses control most of the market, making it much less competitive and easier for companies to profiteer.

Second, while it's true that the Bank of Canada increased the money supply during the pandemic, this increase helped people and small businesses, and allowed our economy to bounce back quickly. At the beginning of the pandemic, the Bank of Canada created money to buy debt from private banks in the form of bonds. Commercial banks were nervous they would lose money if no one bought their bonds at a reasonable price. The purchase of bonds by the Bank of Canada gave private banks confidence to keep lending money. Increasing the money supply also made it cheaper for the government to borrow money. This assisted small businesses and households in turn because the government was able to pay out temporary benefits like CERB with the money it borrowed.

Importantly, this increase in the money supply was only temporary. When the bonds the Bank of Canada bought mature, the amount that they borrowed gets paid back to them. Instead of reinvesting in new bonds, the Bank will use this income to reduce the extra debt they created during the pandemic. This is called quantitative tightening. Quantitative tightening is already happening. Two key measures of money supply (M1+ and M1++) show Canada's money supply shrinking as of the last quarter of 2022.

In this context, Poilievre's claims about inflation don't hold up. While Poilievre is right that inflation is a problem, he's wrong about the answers. The sharp increase in global oil prices, for example, is due to supply chain issues and profiteering. The amount of money our government spends has no effect on these prices. Moreover, temporarily increasing the money supply during the pandemic helped us avoid an increase in bankruptcies and longer-term economic destruction. If we had limited government spending during the pandemic, like Poilievre says we should have done, we would not have been able to fund programs like CERB that helped households and small businesses survive the crisis.

In fact, despite Poilievre's claims, almost no one benefits from limiting the government's ability to spend in response to emergencies. It's just a bad idea that was popularized by libertarian conservative economists in the 1970s and 1980s—along with busting unions, cutting taxes, shrinking public ownership and investment in infrastructure and services and offshoring manufacturing to 'low-cost' countries.

The policies Poilievre wants would shift the power from consumers, small businesses and workers to big corporations. They would concentrate power in the hands of a privileged few. And they would limit the ability of governments to intervene positively in our economy. History shows us that the kinds of policies Poilievre is putting forward as a solution to inflation have only made our economic problems worse. Let's not fall for it again.

Growth rates of Canada's money supply

Source: Bank of Canada

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CUPE Canadian Union of Public Employees

The federal carbon price is going up. What does this mean for you?

We're hearing a lot about carbon pricing. But what is carbon pricing? Why have we implemented it? And how will carbon pricing going up affect workers?

When the carbon in fuels like gasoline or heating oil is burned, it creates carbon dioxide. Carbon dioxide traps heat in the atmosphere, leading to global warming. This rise in temperature can have negative impacts, including species loss, problems with food production and more severe weather.

In response, the Canadian government decided to implement carbon pricing. Carbon pricing is a tax or a fee placed on carbon-based fuels and industries that produce carbon emissions. In other words, carbon pricing makes it more expensive to use products or industrial processes that create carbon dioxide. The idea is that if it is more expensive to create carbon-based emissions, individuals and companies will choose to invest in "greener" energy.

Canada's federal carbon pricing system has two components: a charge added to carbon-based fossil fuels like gasoline and home heating oil, and a separate system for industries, based on emissions output.

In 2019, the federal government mandated that all provinces and territories need to have their own carbon pricing systems. Provinces and territories can implement their own system for either fuel or industrial emissions output, for both or for neither. The federal government's standards apply when a province or territory chooses not to implement their own plans.

Right now, the federal fuel charge applies in Alberta, Manitoba, Nunavut, Ontario, Saskatchewan and the Yukon. As of July 2023, the federal fuel charge will be introduced in Newfoundland and Labrador, Nova Scotia and Prince Edward Island. The federal output-based pricing system applies in Manitoba, Nunavut, Prince Edward Island, the Yukon and partially in Saskatchewan. British Columbia, New Brunswick, the Northwest Territories and Quebec have their own independent plans for both parts.

In 2022, the federal carbon price was $50 per ton of carbon dioxide. The price will be going up by $15 a ton each April until it reaches $170 a ton in 2030.

What does all this mean for you?

Provinces that create their own carbon pricing systems can use the revenue they generate however they want. But if the federal government back-stop applies, the federal government decides where that revenue goes. And right now, 90% of the revenue from the federal fuel charge goes directly back to households through the climate action incentive payment (CAIP). This is a tax-free benefit the government pays to individuals and families to help offset the cost of carbon pricing. The average household gets back more than they've paid into the system. Only higher income households pay more than they get back. This is because higher income households tend to use more fossil fuels by having larger homes, owning more vehicles and traveling more often than the average family.

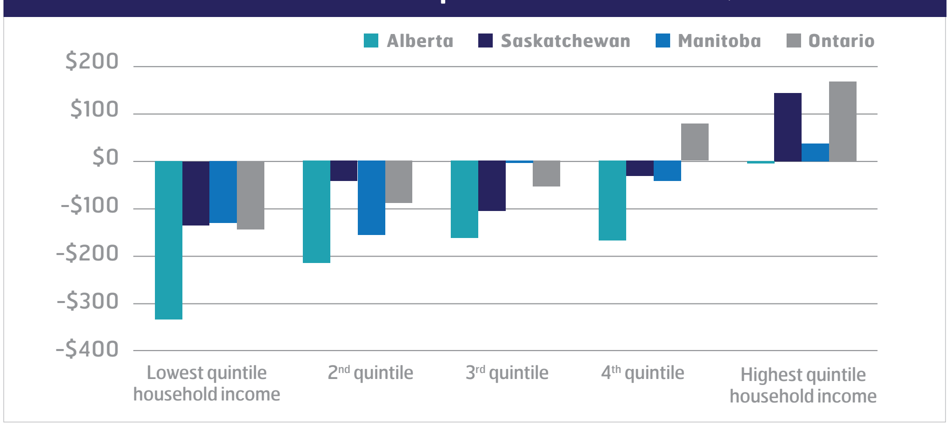
To get the climate action incentive payment, you must file a tax return. The Canada Revenue Agency will decide if you are eligible and how much you will get, based on your province of residence and the number of people in your household.

Starting in 2022, the incentive will be paid out four times per year directly into your bank account. If you live in a rural area, you qualify for an additional 10% supplement. To receive this supplement, you have to fill out a Schedule 14 (except for residents of PEI, who will get the supplement automatically).

Starting in 2023, the Northwest Territories will replace their rebate on home heating oil with a $135 increase to their cost-of-living offset. Residents of BC also get a carbon tax rebate, but the amount varies depending on household income. New Brunswick is using some of the revenue from their carbon pricing to reduce income taxes, a strategy which is less effective for lower-income individuals. Quebec was the first province to introduce carbon pricing in 2006 and has had a cap-and-trade system since 2013. Quebec uses revenues from this system to invest in climate action, and so is the only province or territory without a rebate for households.

The higher carbon price is intended to convince households to reduce their consumption of fossil fuels. The rebate is intended to make sure those who aren't able to make any changes to their consumption levels aren't negatively affected. In general, the more you can do to reduce your consumption, the better off you are, because you will pay less tax and get the same rebates. So—be wary of anyone who tells you about the costs of this system without also mentioning the benefits!

Estimate net cost of carbon price for households, 2021–2022



Source: Parliamentary Budget Office, 2020