This issue snapshot is excerpted from Unmasking the Future (2021), a scan of major current socio-economic trends and developments, at local, provincial, national and international scales, authored by James Stauch of the Institute for Community Prosperity, commissioned by the Calgary Foundation.

AN ECONOMIC FORECAST:

A Roaring, but Shackled, Twenties

The pandemic shaped the economy during the past year so profoundly that any economic recovery, at any level, is tied indelibly to a COVID recovery. The global economy contracted by 4.7% in 2020, the worst single-year decline since the start of global GDP tracking in 1961, though notably only modestly worse than 1974 and 2009, the second and third worst years, respectively.[18] Easy to overlook is that this is actually the third consecutive year of global contraction. Some industries will likely never return to their pre-pandemic level of vigour due to permanent structural changes in consumer behaviour or business models, notably bricks and mortar retail and airline travel. Business travel is forecast by some analysts to permanently decline by as much as 36%.[19]

With four effective vaccines (and counting) having finished clinical trials, two of which have already begun to roll out to the Canadian public, the economic outlook for 2021 is substantially brighter, particularly in the second half. Short term, growth will be hampered by temporary trade restrictions, continued shortages of pharmaceutical supplies, and the ongoing US-China trade war (which may not necessarily be expected to improve under a Biden administration).[20] Longer term, rising economic nationalism, "de-globalization", de-risking of supply chains, and buy-local movements will centre more production domestically, virtually everywhere.[21] But this aside, there is a lot of pent-up consumer demand, particularly for deferred big-ticket item purchases that households have delayed due the uncertainty. It may mean that by 2022, the economy could be roaring back. Anticipating this, stock markets are already rocketing, with November having been the best month on record globally.[22] While some have warned about a post-pandemic "Great Depression", another "Roaring Twenties" is a more likely scenario, at least in the near term.[23]

Canada's economic outlook is slightly less rosy than the globe as a whole, weathering a slightly deeper contraction in 2020 than the world as a whole (a 5.5% contraction).[24] The Canadian economy will likely make up for most, if not all, of this contraction

“What’s true of all the evils in the world is true of plague as well. It helps [people] to rise above themselves.”

Albert Camus, *The Plague* (1947)

“The long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us when the storm is past and the ocean is flat again.”

John Maynard Keynes, *A Tract on Monetary Reform* (1923) Ch. 3.

with a minimum 4.5% bounce-back in 2021.[25] Also, because of the extensiveness of the federal employment and business support programs, both the labour market and small and medium enterprises have greater resiliency than south of the border. This was revealed during the partial re-openings of late spring/summer when Canada had stronger recovery numbers than either the US or Europe. The real estate, finance and insurance sectors have been particularly resurgent (though more tepidly in Alberta), buoyed by low interest rates. Some sectors have actually *thrived* under the pandemic – notably online retail, tech and pharma – while others have been disproportionately hit – notably airlines, oil and gas, hospitality, and ‘experience’ economy sectors (sports, arts, entertainment, etc.). One thing that is clear is that the retail industry will never be the same, nor will work patterns and workplace set-ups (explored further in a later section).

The calls for a “green recovery” and #BuildBackBetter will be a particular challenge in Canada, despite the federal government’s stated ambitions. Canada, while ranked a healthy 21st out of 193 nations on our performance on the UN Sustainable Development Goals, is actually underperforming or stagnating on most indicators.[26] There are more seniors in poverty. Renewable energy as a percentage of energy consumption has been declining. Homicides, obesity and artificial fertilizer use are all rising. And we are faltering on some key innovation metrics, such as patent filing. One area where we excel is as a desired destination for potential immigrants the world over: Canada was far and away the number one choice, based on a recent global analysis of Google search terms relating to immigration inquiries (though interestingly it was not the number one choice of Americans).[27] Expect Canada to capitalize on this by upping immigration numbers, as the population ages and productivity and global influence are both challenged. The Century Initiative advocates for a massive increase in immigration to Canada to ensure continued national productivity, as does Doug Saunders in his book *Maximum Canada*.[28] Also expect more calls as well for temporary foreign workers, deemed “essential” during the pandemic, to become permanent immigrants, (or at minimum to be compensated as if they were landed immigrants or Canadian citizens).[29]

The pandemic has massively deepened public deficits. Canada is on track for a $381 billion deficit this year, which will result in the highest deficit-to-GDP ratio among the G20 nations this year.[30] For perspective, the federal government’s *total* expenditure in 2019 was $355 billion. It remains to be seen whether this level of public expenditure was worth it, or whether it will be well spent. One argument in favour is to compare to the US, which was comparatively focused on “keeping the economy open”, yet shed more jobs per capita than Canada, and of course has been decimated by COVID-19. Similarly, the US is more likely than Canada to have a “K-shaped” recovery (thriving equity and money markets, and growing high-income jobs, but stagnating employment at lower wage levels).[31] Also, despite Canada’s record high deficit - Canadian Taxpayers Federation’ Aaron Wudrick noting that we will hit the “sadly historic milestone” of $1 trillion within weeks[32] - we are a long way from the so-called “fiscal cliff”, as our net debt-to-GDP ratio of 50.7% is the lowest of any G7 country (compare to Japan at 250%, for example), and is also historically manageable (Canada’s debt-to-GDP at the end of World War II, for example, was 110%).[33] Also, the cost of servicing the debt is low, due to low interest rates, which are likely to remain low for at least another 3 years, and the fact that most of the debt is domestically-owed (in the 1990s, for comparison, most the debt was to foreign creditors). Canada’s bond yields also remain modestly positive for the time being (compared to over half of sovereign bonds worldwide trading in negative territory).

At the provincial level, the Alberta deficit rocketed from $7 billion to an estimated $24 billion in 2020, as oil and gas revenues dried up, as few new revenue opportunities are rolled out (the carbon tax having also been eliminated), and as the UCP government has political room and pressure to provide economic stimulus to select sectors. But Alberta’s debt-to-GDP level remains low at 22%, roughly in line with Saskatchewan and B.C., and substantially lower than the remaining provinces.[34] The bottom line is that both federal and provincial governments have a long runway to spend, and there is little political pressure to reign spending in anytime soon. Scotiabank, for example, estimates conservatively that a 65% debt-GDP is likely the upper limit of what is manageable before we see large inflationary effects and/or major calls for fiscal austerity.[35] Some economists are warning that in the near term, rising inequality (gender, class and race-based) is a much greater risk to economic prosperity and social stability than the fiscal imbalance.[36]

Others have warned that the building blocks of another 2008-style market crisis are in the works, due mainly to excessive “moral hazards” like profiteering (rent-seeking by shareholders at the expense of productive investment and labour) and, in particular, financialization.[37] *Financialization* is the trend by which a greater portion of national incomes and economies – including Canada's – are in financial services (banking, insurance, financial trading, and so on). Easy credit and a tolerance for high levels of debt (vis-à-vis equity) has permitted households to be dangerously overleveraged, while their financial assets (ballooning mortgages in particular) are exchanged via increasingly exotic financial instruments in the money markets. The trigger could come from a prolonged, supercharged post-pandemic consumer spending spree that would lead to higher interest rates, leading to mortgage foreclosures and other lending defaults. The origin of such a crisis would again be the U.S., as Canada has a stronger regulatory environment and Canadians are not as over-leveraged (in fact, many Canadians have accumulated a large store of savings during 2020, despite rock bottom interest rates). But as with all U.S. shocks, the impact would be felt globally, and profoundly in Canada.

Alberta continues to dwell in the purgatory of the "lost decade of growth"[38], which began in 2014. The economy having contracted by just under 0.6% the previous year, our economic woes have of course been compounded by the stubbornly low price of oil. However, Alberta's economy is forecast to bounce back modestly by over 3% in 2021, assuming oil prices remain stable.[39] Global demand for oil is expected to remain flat through 2023.[40] More troubling has been Alberta's unemployment rate, higher than any other jurisdiction in Canada through 2020. Alberta also has a structural revenue problem: The 2021 Budget, to be tabled in February, will no doubt reveal continued declining provincial revenues alongside infrastructure investments and targeted austerity measures. Alberta's public accounts remain hazardously tied to the market value of petroleum, rather than depending upon a more sustainable array of taxes and levies (although it is worth noting the new fee-for-use based approach to certain new public works). As energy writer Katherine Dunn opined in a recent article in *Fortune*, "paired with current sinking demand for oil and volatile prices, and broad shifts towards climate policies worldwide, the world's petrostates must find other ways to sustain their economies."[41]

After disparaging 'diversification' out of the gate, replacing targeted industry tax incentive schemes with an across-the-board corporate tax cut, and removing certain high tech-focused subsidies and incentives, the Province has warmed of late to the diversification imperative.[42] It has been a steep learning curve to understand the new economy, but the new government has moved from pipelines to hyperloops in fairly short order. Minister Doug Schweitzer, speaking at Calgary's Economic Outlook in October, acknowledged that diversification is both necessary to a recovery plan and desirable in its own right, pointing to Texas as an example. Schweitzer noted emerging Alberta tech success stories like Attabotics and Benevity, and the role of Alberta researchers in the vanguard of AI technology.

But so far, the investment still lags the rhetoric: The "Invest Alberta" strategy, focused on supporting innovation, entrepreneurship and the commercialization of research, is budgeted at $6 million, a far cry from the oil and gas "war room's" $30 million.

Calgary's volatility is even more dramatic, as the economy contracted by an alarming 10% in 2020, yet is poised for a 6.9% recovery in 2021.[43] The accommodation and food sector were hardest hit locally, with revenue shrinking by 36.9%. The arts and entertainment industry were also decimated, shrinking by 26.2%.[44] Unemployment will remain well above 10% for the coming year, with a lot of "unabsorbed labour" – those who are underemployed, misemployed or too discouraged to look for employment. Downtown office space can be expected to hover between 25% and 35% vacancy.[45] It will remain a tenant's market, with offices also reconfiguring to cater to smaller and medium sized enterprises. Philanthropist David Bissett's visionary $30 million gift to SAIT to establish an advanced technology centre could prove to be a major catalyst. A renewed emphasis on reskilling, work-integrated learning and micro-credentialing, and much deeper applied community-researcher partnerships will help with this transition. These are themes emphasized in the work of *LearningCITY YYC*, by Calgary's economic development authority, and which will likely be a cornerstone of where the Province's post-secondary strategic emphasis lands in 2021.[46] It is highly unlikely that most of the jobs that have been shed in recent years will come back. They will be mainly new jobs, in new industries, requiring new knowledge and skills.[47]