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How does labour availability compare in Canada versus the United States?

Speaker Participants

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Frances Donald, Global Chief Economist and Strategist, Manulife Investment Management

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Presentation

Frances Donald

Global Chief Economist and Strategist, Manulife Investment Management

A while ago, I used to be obsessed with the concept of potential GDP. So much so that I did a TED Talk on it, which is the worst watched TED Talk of all time, because who would watch a TED Talk on potential GDP? But it seemed like a good idea to me at the time.

So, potential GDP is basically the run rate of your economy: how fast can an economy grow if everything is perfect, if everybody who wants a job has a job, if all companies are, you know, spending and growing as much as they want to grow. And we calculate it as the change in labour force participation rate, plus the change in productivity rates.

Now, the different way to talk about it, as I do in my poorly watched, not critically acclaimed TED Talk, is I say, think about the economy like a McDonald's, and the GDP, the potential of that economy, is just how many hamburgers it makes, and how many hamburgers an economy makes is the amount of people you have behind the counter and how fast each one of them makes a hamburger. That's it. That's all of my overly expensive degrees, just a McDonald's metaphor. That's all they teach you effectively at the end of it, right?

Now in Canada, we have one side of the equation very, very good, which is that we figured out a way to compensate for our very low replacement rate. Basically, Canadians don't have enough babies. I have two; I am so tired. I get it, okay? So, what are we doing? We're

supplementing with immigration policy. Now let's assume that we figure out a better balance. We figure out the better number. What we're doing is raising one side of that equation so that we do have better potential in Canada.

The problem with the youth component of it, is that what we tend to witness in practical terms, there are differences, of course, in individuals, is that more experienced individuals, they tend to be more productive because they have more knowledge. Example, Eric has so much experience, so, so much experience, Eric, that you might be more productive than me. In that particular situation, what we're seeing is that the productivity side in Canada is very low. But on net, potential growth in Canada may turn out to be higher than it is in the United States, and this is why we look for investment opportunities in Canada in the long run.

We're a global firm; Eric sits in Boston. We talk about Canada because of that higher long run potential. So, Eric, how do you think about it when we as macroeconomists tell you there are opportunities in Canada in the longer run, how do you think about that economy as being investable?

Eric Menzer

Head of Advisory Solutions, Multi-Asset Solutions Team (MAST), Manulife Investment Management

Yeah. I mean, well, I mean, we're always thinking about the longer run. I think, you know, you made the point in your, your talk about short termism, which I think was a very good point to make because there's so much noise out there right now that having that short term view from an asset allocation perspective is not the way to go.

On the longer-term aspect of it, you know, we're very much focused on those downstream impacts into real estate, how that impacts home prices, how that impacts, I mean, everybody's talking about office now. Obviously, what is that going to look like in terms of labour that needs to come into the city centres and go to work, and whether that remote is going to be kind of the new norm. You know, how is that going to affect real estate prices? How is that going to affect production and new home building?

So, when we think about real assets and timber, timber is very much directly related to housing starts and new construction. So, you know, those are factors that play into how we think about that asset class. And then when we go into, you know, things like farmland, you know, food prices and supply demand imbalances. You talked about the floods earlier in Brazil. You know, these climate issues are having a big impact on food production, and how does that... the supply-demand imbalances in terms of the growth and population, but also the demand for goods that's going to obviously, you know, have a

downstream impact into ultimately long-term valuations and prices.

So, we take all that input and we factor it into valuations. Everything we think about is on a fundamental term and on a long-term basis and how it impacts growth and how it impacts the fundamentals are really, really critical to us.

Leslie Brophy
Assistant Vice President, Head of Investment and Head of Sales, Manulife Private Wealth

So, if we look at sort of what the economists are saying, Sean, how does that affect what you do with your portfolios and the conversations you have with your clients?

Sean Lasko
Senior Investment Counsellor, Manulife Private Wealth

I think, you know, what's really important and you know, these two individuals have already alluded to it, is that we need to focus on the long term. You know, right now I'll meet with a client and they'll tell me, "I can get 5 percent in a GIC right now. I can get five and a half percent in a GIC. I want to pull my money out of the portfolio, I want to lock in. I want to get this rate." And you know what? For one year, you're going to be really happy. You're going to get this locked in rate of five to six percent. What could very well happen is that a year later, you've missed out on a 20 to 25 percent return in the stock market.

You know, Frances alluded to that we're eventually going to get to a point where interest rates are going to start coming down. And if you look back at the five previous economic cycles, and I've mentioned this to clients before, you know, right at the 12-month period following peak rate, the average return in the US stock market for the 12 months following peak rate is 20 percent for the last five economic cycles over that 12-month time frame.

In the Canadian market, the average return is 13 percent for the 12 months following peak rate. So, I always advise clients, you know, you need to focus on the longer-term aspect of things and try and take that short-term piece and block it up.

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