BUSINESS PROSPERITY INDEX

Hollinger Open Pit Project, Timmins
by Goldcorp-Porcupine Gold Mines

The OCC, in partnership with the Canadian Centre for Economic Analysis (CANCEA), presents the Business Prosperity Index (BPI), an original measure of the ability of Ontario's businesses to invest in the future exclusive to the Ontario Economic Report.

The BPI looks beyond GDP and instead considers the process of wealth generation from business production and investment activities.[5] Using the latest data, we track business prosperity in Ontario from 2000 to 2017 with preliminary 2018 estimates.[6]

As an index, the BPI is benchmarked against all the resources available to businesses in a year. An upward change in the BPI generally represents an increase in assets that could be invested in the future. Conversely, a downward change in the BPI represents a decrease in a business' ability to invest in the future.

Changes in the BPI primarily reflect changes in:

- **Income from production and services:** Business performance as measured by profitability and/or productivity.
- **Fixed capital investments:** The use of resources to generate wealth in the future. An increase in fixed capital puts downward pressure on the BPI in the year of investment, and upward pressure in subsequent years.
- **Asset and liability management:** This includes revaluations from the trading of, or investment in, financial securities and cash flow changes in the balance sheet (e.g. new debt or the reduction of equity capital) that do not immediately affect the profit and loss statement.

Interpreting Ontario's BPI

The estimated BPI for 2018 for all Ontario businesses is 58.1 percent, an increase of 1.8 percentage points since 2017. The 2018 results are expected to be driven by improved profit performance and an increase in non-residential construction activity that offset the decline in residential construction activity.

In 2017, the BPI was 57.1 percent, which represented an annual average increase of 2.4 percent since 2001. While GDP has increased 1.8 percent per annum, on average, since 2001, the liquid assets held by Ontario businesses increased by 2.4 percent over the same period. This wealth could be used for a variety of purposes, such as to pay down debt, pay dividends, or make non-financial investments. Sectors that have had the greatest impact on the Ontario business prosperity landscape since 2001 are:

- Construction, wholesale and retail trade (industries driven by population growth);
- Professional, scientific and technical services; and
- Financial asset and debt-driven industries.

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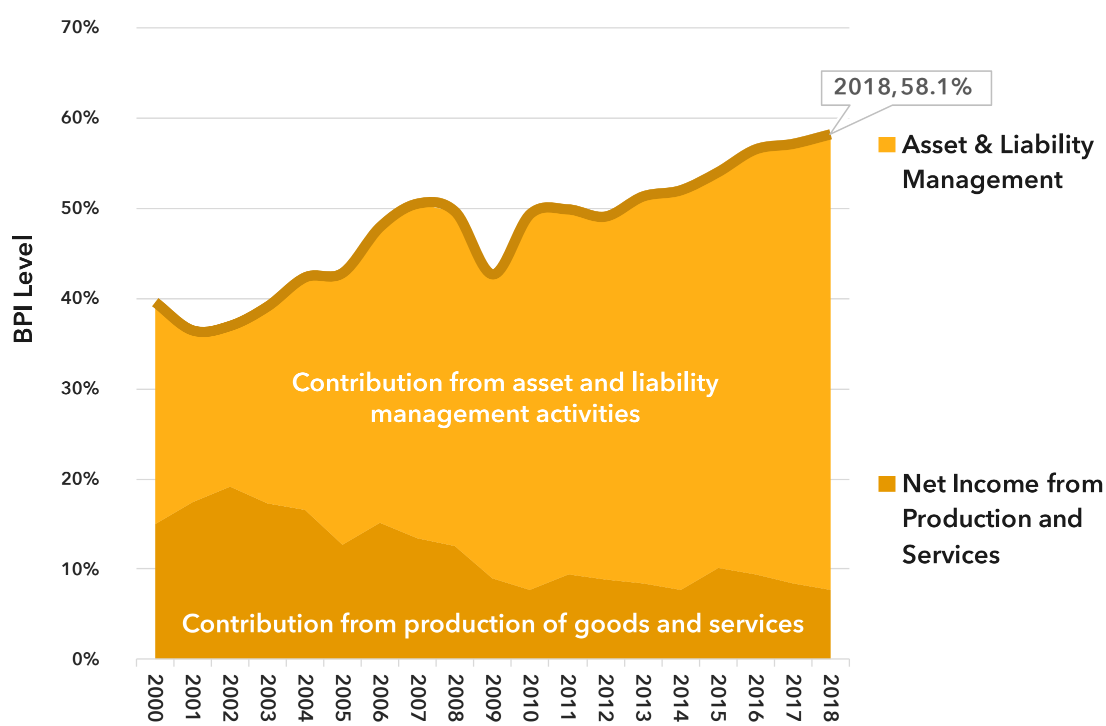
5 It is designed to be consistent with data used by Statistics Canada to calculate GDP, with the goal of providing a better understanding of business conditions and decisions in Ontario than that offered by GDP. The BPI is calculated by: (total resources available - total resources used) / total resources available.

6 Note that Statistics Canada estimates of assets and liability values are subject to adjustment year to year. This may change the level of BPI estimates upon each revision, but not the shapes.

The index below shows the general contributions to the BPI from the production of goods and services has changed considerably over the years. It is evident that the contribution of the production of goods and services to BPI has stagnated since 2010.

Figure 9: Ontario Business Prosperity Index



Source: Canadian Centre for Economic Analysis, Statistics Canada.

BPI: Auxiliary Indicators

In supplement to the BPI, there are four indicators that provide insight into Ontario's economic prosperity:

- **Labour Market Activity:** As Ontario's businesses struggle to find employees to fill positions, key labour measures can indicate which labour cohorts are most underused or thinly spread.
- **Exports:** Measures of Ontario's export performance illustrate improvements made in alleviating Ontario's trade deficit.
- **Public Capital Investment:** Infrastructure investment and the government's ability to meet infrastructure demands is critical to the advancement of Ontario's economy. If Ontario's labour is to be effectively allocated, and manufacturers and service providers are to expand their foreign market presence, Ontario's businesses must have adequate public infrastructure to bring these opportunities into scope.
- **Corporate Taxes:** In offering the necessary services and infrastructure investment needed to keep Ontario's economy moving, the government must be diligent in its collection of tax revenue and avoid overburdening the economy or obscuring growth opportunities.

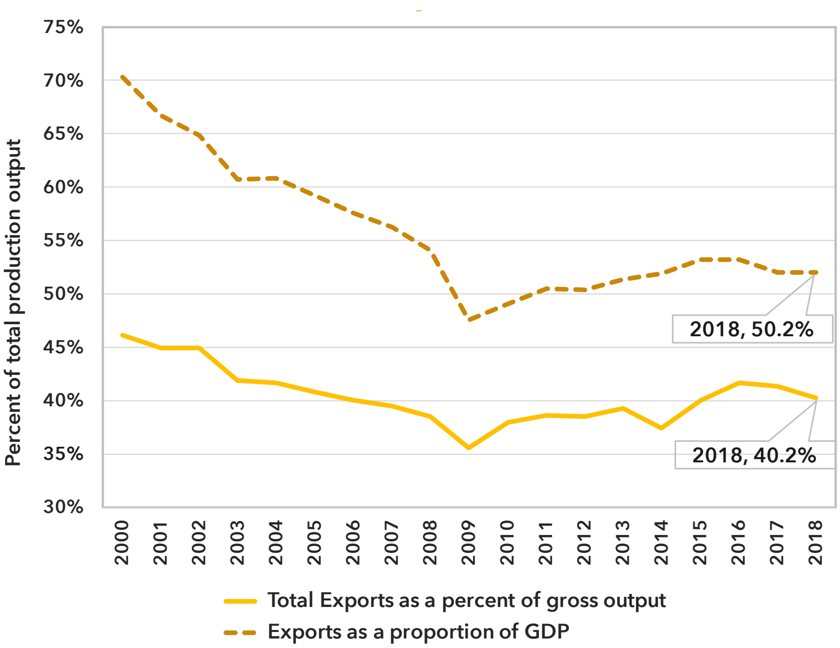
Labour Market Activity[7]

Employment growth in 2018 favoured people between the ages of 25 to 54 with part-time jobs, which was up 5.9 percent, and full-time jobs, up 2.5 percent. However, both younger and older generations experienced negative changes in employment in 2018. Specifically, people between the ages of 15 to 24 experienced a 7 percent and a 2.6 percent decrease in full-time and part-time work, respectively, and those aged 55 years and older experienced a 2.2 percent decrease in full-time work.

Export Performance

With an increased emphasis on global trade, Ontario exports have been slowly recovering to their pre-2007 levels. Export performance in 2018 remains lacklustre, evidenced by the flat trend of export production to GDP. As exports tend to be focused on real goods and services, continued increases in exports would be required to slow or reverse the trend of declining BPI for non-financial businesses.

Figure 10: Exports



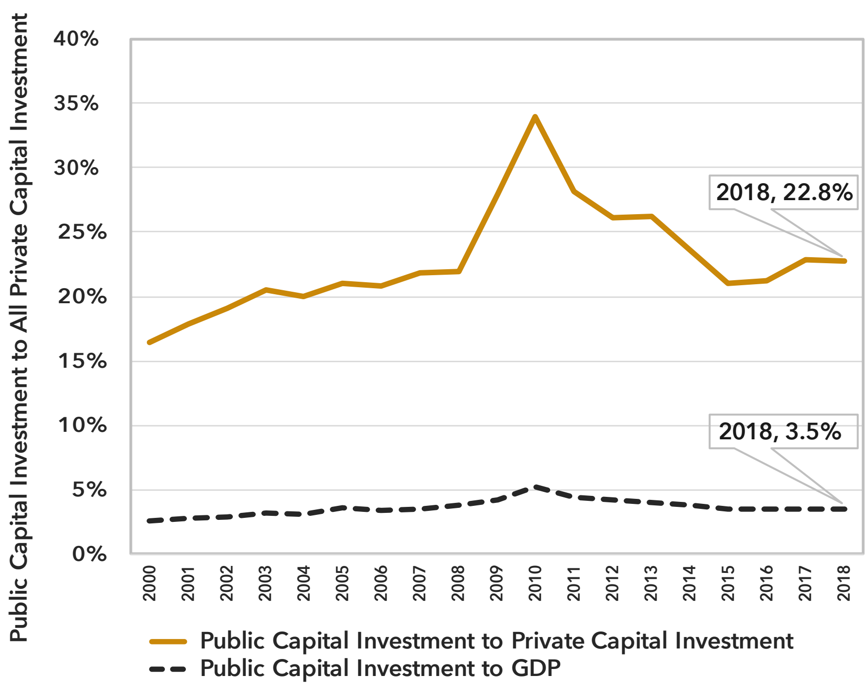
Source: Canadian Centre for Economic Analysis, Statistics Canada.

7 The labour market activity section uses labour market statistics reported in Statistics Canada's Labour Market Survey.

Public Capital

While there was a large increase in infrastructure investment in the late 2000s, overall levels have tended to fall once again. CANCEA research suggests that given Ontario's infrastructure deficit, the level of infrastructure investments and maintenance should be equal to 4.5 percent to 5 percent of provincial GDP. The recent uptick in the ratio of public infrastructure investment (e.g. bridges and electricity networks) to private capital investment (e.g. investment in transport trucks and assembly line machines) is a sign of slowing private capital investment relative to public sector investment.

Figure 11: Public Capital Investment



Source: Canadian Centre for Economic Analysis, Statistics Canada.

Taxes

With respect to the corporate tax index, the generally declining trends seen over the last decade have positively influenced the prosperity of business by reducing the cost of doing business in the province. However, it is important to note that taxes paid by businesses vary considerably with prevailing economic conditions and profitability. In 2018, income and production taxes paid as a proportion of business total costs decreased, due in part to increasing relative costs of production.

Figure 12: Corporate Tax (Income & Production Index)

Source: Canadian Centre for Economic Analysis, Statistics Canada.

Final Remarks

While the BPI, which measures the ability to access resources and make investments, suggests total business prosperity in Ontario is strong, challenges remain with respect to business fundamentals, particularly in the non-financial industries.

Business prosperity in Ontario has benefited from the significant financial resources available for productive use, yet the share of those resources used to produce goods and services continues to deteriorate. Improving the rate of productivity growth is a fundamental aspect of unlocking the build-up of underinvested financial resources. Given that Ontario's productivity growth has averaged 1.2 percent since the early 1980s and is currently below the national average, there is room—and need—for improvement. Similarly, Canada's share of global foreign direct investment (FDI) has declined over the years. Reducing barriers to FDI will help Ontario become a more attractive place for both domestic and international firms to invest.

Equally as important is continued capital investments in both the public and private sector to support long-term economic prosperity and the efficient execution of long-term public infrastructure plans, designed to account for the changing economy. Ultimately, supporting long-term prosperity requires regulatory certainty and efficiency, investment in skills, and harmonized capital investments in both the public and private sector.