

Canadian Economic Overview and Potential Impacts to the Public Sector

Extract, PSA Discussion Group Report on the Public Meeting – June 8, 2023

As an introduction to support the two agenda topics of the meeting, CPA Canada's Chief Economist, David-Alexandre Brassard, presented economic trends and considerations of potential impacts to the Canadian public sector. They include the following:

- The initial spike in inflation originated from an imbalance between the overall supply and demand in the economy. Constrained labour shortages remain prevalent while supply chain issues have recovered.
- The consumer price index (CPI),¹ which is a metric used to track inflation, remains elevated:
 - It reached 8.1 per cent in June 2021 and 4.3 per cent in March 2023.
 - The proportional increases of various items in the CPI calculation have fluctuated. Food prices remain disproportionately higher than other goods and services.²
- Wages drive inflation as they are rising at a similar pace. Increased wages in part drive up consumption, contributing to the rise in inflation.
- Canadian banks project Interest rates will remain at 3 per cent or higher until at least 2025. This means debt will remain more expensive for an extended period.
- Inflation has increased revenue for many public sector organizations with nominal gross domestic product (GDP), outpacing real GDP due to inflation.³
- The Canadian economy has shown more resilient than anticipated. Recessionary trends remain and could prompt a mild recession or an economic slowdown in 2023 or 2024.
- Employment in the public sector has grown significantly compared to the rest of the labour market. This growth has varied by province.
- The retirement wave will continue to impact the labour market. This impact will be more pronounced for the public sector as the average retirement age is lower (62.7) than the private sector (64.7).
- Fiscal imbalances remain within the country as some provinces maintain an unsustainable amount of debt.

In summary, challenging economic conditions are expected to persist. Public sector organizations must assess financial reporting and disclosure requirements to ensure financial statements consider the implications of the current economic environment.

¹ The Bank of Canada uses the CPI to track how much the average Canadian household spends, and how those changes over time. Further details on how the CPI is used as a metric to measure inflation can be accessed found at the following link: [Understanding the consumer price index - Bank of Canada "Understanding the consumer price index" on the Bank of Canada website.](#)

² Statistics Canada, "[Consumer Price Index, March 2023.](#)" *The Daily*, April 18, 2023.

³ Government revenues, which mostly come from nominal measures such as personal and corporate taxes, have been higher than forecast.