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Chair

Mr. James Rajotte

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•(0905)

[Translation]

The Vice-Chair (Hon. Dan McTeague (Pickering—Scarborough East, Lib.)): Good morning everyone. At the request of several members, we will begin this morning's meeting.

This is the fourth meeting of the Standing Committee on Industry, Science and Technology. On the agenda, pursuant to Standing Order 108(2), we are studying the services sector in Canada.

[English]

Colleagues, we have with us today three witnesses: Tom Wright, who is the assistant deputy minister, industry sector; Janet King, director general, service industries and consumer products branch; and from the Department of Finance, Ms. Colleen Barnes, acting director, financial institutions, financial sector policy branch.

Witnesses, welcome here this morning.

This is our first meeting since last June, so our colleagues may be a little peppy this morning. In fact, you won't have to worry about me at this point, because the chair will be taking over.

You will each have 10 minutes for opening statements, at which point colleagues will then be asking you questions.

Thank you for being here. We look forward to hearing what you have to say.

[Translation]

Mr. Tom Wright (Assistant Deputy Minister, Industry Sector, Department of Industry): Thank you very much, Mr. Chairman.

Given that the decision to study the services sector is a recent one, we did not have much time to prepare the data. However, we have distributed a deck—I am sorry that it was not available earlier—which we will use to try and give you a general overview.

[English]

We'll try to share with the committee today a little bit of a 30,000-foot look at the services sector, and particularly at key trends. Perhaps this will point your deliberations towards some of the challenges.

My plan is to go through this deck and then turn to my colleague Colleen Barnes, from the Department of Finance, who will be able to speak in a little more detail about the finance and insurance sector within that global umbrella of the services sector.

I'll turn to page one of the deck I've distributed to members. The first point to make in looking at the services sector is that it is hugely

diverse. We're not talking about a sector that is homogeneous in very many respects. It is important, and unambiguously. Two-thirds of GDP and employment get affected through this sector.

It encompasses both public and private sectors, and so what you're going to be seeing is government and non-market services as well as producer services. That will become important as you pursue your investigations, because this is a segment of the economy that is inextricably linked with manufacturing. Their role vis-à-vis the balance of the economy is something that is important to understand.

This is particularly the case if you start taking a look at marketing, procurement, logistics, and that sort of thing. In fact, there are studies out of the OECD that would suggest to you that services account for upwards of 25% of the value-added activity. So it's a very important sector, but understand that wide element of diversity.

I mentioned to you that it accounts for over two-thirds; in fact, it's close to 70% of the economy. It's important to recognize as well—if you look at the chart on the bottom right-hand side—that the share of services in total economic activity has been increasing over time. So this isn't a stagnant portion of our economy; there has, in fact, been shift there. You'll see that as a portion of the economy it's been relatively stable over time, at some 70%. There's been a dimension of growth, and we'll see that in some of the subsequent slides.

On slide three, you see some of the detail. I made the point at the outset that this is not a homogeneous sector. You can't look at it as being all the same jobs, all the same kind of activity. Here you get a snapshot of some of that variation. This particular snapshot tries to outline the relative contributions to GDP. You'll see that the largest components are real estate, wholesale, retail, finance, and insurance, and yet down at the other end you have a series of things such as tourism, which are far smaller contributors to the overall GDP of the economy.

In the centre, you'll see that there are large segments that are industries performed with the assistance of public funding, and by that I'm referring to health care, government, education. Those are major contributors as well.

Slide four starts to point out that, while this has been a relatively stable component, growing somewhat at 70% of the economy, there have been elements of growth, and in a sense they have grown faster than other elements of the economy. You'll see there that the total economy has grown by some 2.8%—I'm talking about the last five years here—whereas the services sector has grown at an average of some 3.2%.

The fastest elements of growth are wholesale and retail, associated with a healthy economy. Also among the areas, you're seeing growth in arts and entertainment, albeit at the bottom end. I would note that none of them are demonstrating negative growth; there has been growth in all segments of services.

● (0910)

Turning to slide five, clearly the contribution of service industries to employment has increased over time, and here you will see that there was a bit of a change around 1958, when services started to exceed the goods-producing sector in terms of employment. Back in 1946, 40% of Canadian workers were in the service sector, and today you'll see that it is a far higher proportion. The service sector accounted for some 90% of the increase in employment in Canada between 2005 and 2006, so you'll see that there is clearly activity going on in this sector.

Slide six starts to take a look at retail trade accounts, and that is the largest share of employment. The retail trades account for a huge amount, fully 16%, but if you take a look at total employment in the economy, we're talking in the order of 10.9 million people as of 2006. Retail and health care are the largest ones. That's not particularly surprising, I don't suspect. In the overall composition—you see that we have bars indicating 2002 and 2006—there is relative stability. You see the variation through the sub-sectors, but there is relative stability across time.

As you would expect, given all of those facts so far, retail has created the most jobs within the services sector since 2002. Over the past five years, you'll see, the increases are in retail, health care, and administrative support, and again, it hasn't fallen in any of them. It's an important dimension to recognize. This is a segment of the economy that is, in fact, growing.

It's important to understand what the distribution of wages looks like in this sector. The hourly wage in the services sector, on average, was \$20.59 in 2006. It's below manufacturing, which over that period of time clocked in at \$23. However, there are significant differences. At the outset I suggested to you that the services sector is not homogenous, and again, you see that lack of homogeneity reflected here in terms of wages. Perhaps not surprisingly, we have a number of sub-sectors in services that are above the national average, and it comes as no surprise, obviously, that there is a group that is below the national average.

As show on slide nine, productivity growth has in fact been quite high in the services sector relative to other portions of the economy. It has been gaining ground, and it's outperformed the other sectors. It's an important dimension to recognize that this labour productivity growth rate is greater in the services sector.

In terms of exports, services account for a relatively small share of total Canadian exports, but it's been somewhat consistent over time. Exports totalled about \$64 billion and about 13%. Imports constitute about 16%, and the bulk of this is in what economists would term commercial services. Commercial services comprises a broad basket of activities that covers communications, construction, insurance, and the financial sector.

There is a whole host of sub-elements there. I think if you were to talk to economists about some of this, they might get into some of

the challenges of data in this sector. It's important that data be consistent. With the evolution in the economy, global value chains, and inter-firm commerce, keeping accurate records of some of this data becomes a bit of a challenge on some fronts.

● (0915)

There has been absolute growth in exports, and I think that's an important dimension.

On slide 11 I've tried to capture a bit of a summary of some of these slides. Services is a large portion of the economy. It does provide an essential support to the other segments of the economy. It has accounted for most of the job gains of late. There's always an assumption that it has low-paying wages, but a number of components of this sector offer very good and above-average wages. It's a diverse sector. It has been experiencing increased investment that has led to its increased productivity. And the exports are there. They're significant. They're growing somewhat. There is opportunity for the future.

[*Translation*]

I will stop there.

I do not know if I used the ten minutes allotted to me, Mr. Chairman, but with your permission, I will give the floor to my colleague from the Department of Finance, Colleen Barnes, who will talk a bit more about the services sector elements that affect the financial industries.

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Thank you, Mr. Wright.

Ms. Barnes.

Ms. Colleen Barnes (Acting Director, Financial Institutions, Financial Sector Policy Branch, Department of Finance): Thank you very much.

I want to talk to you today a little about what we could pull together quickly for the committee on the financial services sector. I'm open to responding to questions and getting you more information, depending on the questions you might have.

I'll give you a little bit of a profile of the sector overall and talk a little bit about the financial performance we've seen recently of the banks and life insurers, which we tend to track pretty closely, and then just talk a little bit about the global activities of Canadian banks and life insurers.

The financial sector is one of the key pillars of the economy. It's one of those infrastructure sectors that's there for both manufacturing and the other services industries. It's made up of a variety of different entities, including banks, trust and loan companies, credit unions and caisses populaires, life insurance, property and casualty insurance, securities dealers, leasing advisers—a full range of entities. These entities vary from having federal regulation, joint federal-provincial regulation, or some just provincial regulation.

The sector accounts for about 700,000 jobs in Canada. That constitutes about 4% of national employment. It also has been growing in terms of its contribution to GDP as a sector. Two decades ago it was running about 4.5% and now is up to 6.2%. It's a source of high value-added jobs. If you look at Mr. Wright's presentation, the wage level in that sector, finance and insurance, is quite high. As I said, it plays a critical role in the economy in terms of the allocation of capital and the distribution of risk across the economy.

I'll take you through some of the big sectors, or big sub-sectors, in the financial services areas starting with banks and deposit-taking institutions in general. We have about 21 domestic banks in Canada, 24 foreign subsidiaries operating here, 22 full service branches—these are entities that lever off of the capital in the home markets, as they don't need to have as much capital in Canada—and we have six lending branches.

It is, however, a sector that is fairly concentrated in Canada. The big six banks, which would be Royal, TD, Scotia, CIBC, Bank of Montreal, and Banque Nationale, account for about three-quarters of the assets in the deposit-taking sector in Canada. The provincial entities, such as the caisses populaires and the credit unions, would account then for about 12%, and foreign banks about 8.5%. So the other Canadian institutions are relatively small and account for only about 2% of our deposit-taking sector.

Our banks are very prominent in our capital markets in Canada. If we just take the year to date, the equity raised in Canada, the five large banks accounted for about 65% of that underwriting. So not only are they big on the deposit-taking side, they're also big in our capital markets. The capital markets activity has grown for our Canadian banks. It's about 27% of their assets right now and it used to be about 19% maybe a decade ago, so it's an area they're doing more in.

On life insurance, we have about 100 life insurance companies in Canada. These companies employ about 51,000 people full time, but the sector overall accounts for about 120,000 people once you include the advisers and the assessors and adjusters. We've got some concentration here as well. The big three, which would be Manulife, Sun Life, and Great-West Life, account for about 60% of domestic net premiums. The foreign players then are the next biggest. There are about 53 of those, accounting for 22% of the premiums, and then the other domestic smaller companies, about 18%.

On property and casualty insurance, we have about 214 players in the market and that sector accounts for about 110,000 people in Canada, 40% directly working for the property and casualty insurers and 60% being the brokers and adjusters. This industry is not as concentrated. The largest entity, which I think is probably ING, would account for about 11% of net premiums. It's not as concentrated as life insurance and banking and it's more heavily foreign-dominated. So foreign players in Canada earn about 58% of the net premiums earned.

● (0920)

There are other elements of this sector. If the committee wants more information on those, I would be happy to get that for you. For example, there are 476 credit unions in Canada. Those are provincially regulated. Also, there's Desjardins in Quebec. Then

the securities industry, for example, employs about 41,000 people in Canada, so that's a significant industry segment as well.

We had done a presentation looking at what the recent performance of banks and life insurance companies has been in Canada. Both sides of this industry have been very profitable and doing very well. Even through the August market turmoil, they seemed to be weathering those developments quite well.

We've seen over the last decade or so the banks averaging between 15% to 20% return on equity. There was a dip in 2002 when a lot of companies pulled out of the United States commercial loan market. Scotiabank had a big writeoff in Argentina, so there was a little dip there. Then in 2005, when CIBC did their Enron writeoff, there was a little bit of a dip. But they've certainly been trending now up over 20% in terms of returns, so they're doing well.

Also, since 1990 we've been looking at impaired loans as a percentage of all the loans that the banks are carrying. It looks like the intermediation function is getting even better in Canada. That could be a function of the strong economic times that we have been enjoying, but it does look like credit underwriting decisions are getting stronger. Both the banks and insurers have very strong capital positions vis-à-vis the requirements that OSFI, the Office of the Superintendent of Financial Institutions, requires of them.

In terms of the size of the Canadian banks, they are mid-sized players when you look at all global banks. You have the Royal sitting at about 40th. That would be our largest bank in terms of assets, compared with global banks. Going all the way down, the CIBC would be about 58th. So we rank in the mid-tier group of banks in the world.

On the insurance side, again, we see very good capital ratios. We have three very strong companies there in Manulife, Sun Life, and Great-West Life. It's a sector where there's been a lot of consolidation in the last few years. In 2002 Sun Life acquired Clarica. In 2003 Great-West Life acquired Canada Life, and in 2004 Manulife bought John Hancock in the United States. These transactions have really improved the performance of Canadian life insurance companies, or those three in particular. Unlike the banks, the insurance companies globally are within striking distance of the top players. Manulife ranks about third or fourth in the world in terms of global insurance companies, and Great-West and Sun Life would also be in about the top 12.

One thing we watch with these institutions, particularly the large Canadian banks and life insurers, is their global activity, because it's interesting to see what they're doing abroad. With Canadian banks, in terms of their assets, about 65% are domestic, but 34% would be coming from their foreign operations. It's weighted a little more heavily on the life insurance side, where they're getting about 54% of premium income from their operations outside of Canada.

Each of these institutions has its own strategies in terms of its global aspirations. We've seen BMO, TD, and Royal really focusing on the U.S. retail market in recent years. Scotiabank is the most global of the Canadian banks. They have a global retail strategy and they have significant presence in Mexico and many Caribbean and Latin American countries. They're also focused on Asia, as are most of the other institutions. CIBC's building on the Caribbean, and all banks are pursuing global wholesale banking, as well, outside of Canada and pursuing wealth management opportunities abroad.

● (0925)

There's been a lot of consolidation of the large life insurance companies domestically, as I mentioned, and also the big Hancock deal with Manulife. Manulife's now a major global player and has significant operations in North America and Asia. Sun Life is looking at operations in Europe, in the U.S., and also in parts of Asia, and Great-West Life is looking for acquisitions and growth in the U.S. and Europe.

That is what I've prepared. I'd be happy to take any questions.

● (0930)

The Chair: Thank you, Ms. Barnes, and thank you very much, Mr. Wright.

We'll now go to questions from members. The first round will be six minutes and the second round will be five minutes.

We'll begin with Mr. Brison, for six minutes, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you very much for being here with us today.

I have a question on the linkage between manufacturing and the service sector, particularly around design and engineering. With a global supply chain economy, the question for any country is: where are you in that supply chain?

I think it was in the eighties that there was so much concern in the U.S. and Canada about the trade deficit with Japan. Ultimately it was determined that a lot of that trade deficit was on low-margin products. The design for the televisions was still in North America, but the low-end manufacturing had evolved toward Japan.

I'm interested in what the trend line is around the design and engineering part of the manufacturing sector, which is still in the service domain. With the emergence of countries like India particularly, in this range, are we keeping up or is the trend line negative in terms of our capacity to compete and succeed in what has traditionally been considered an area of comparative advantage for Canada or the United States?

Mr. Tom Wright: To answer your question precisely, we'd have to get some data. You're talking about a trend line, so I'd have to try to get some data to answer that element of your question.

I think you're referencing a couple of other very important elements, and one is the notion of the global supply chain. That very much touches engineering and design. It also touches a whole host of the other elements of whatever business an entity may be in. We've actually done some work on global supply chains with some elements of the industry. My colleague may be able to speak to you a little bit about that in detail.

I wanted to pick up on the anecdotal notion. I actually was asking a similar question of a senior executive of an aerospace company the other day: what does the future hold? I was sort of looking out. The explanation I got back is that...less concerned about trend, and wanting to seize the comparative advantage of being able to have 24-hour engineering. This particular executive was associating value to the notion that the project could be worked on here today in Canada, and later tonight, whether it was India or wherever else in that portion of the globe, that same piece of research was going to evolve another step.

In this executive's mind, it had been determined that the comparative advantage that would accrue to the success of his company here in Canada in a global business was going to be at the pace at which that work could take place.

Hon. Scott Brison: So just to clarify, he was assuming that geography would be an advantage in terms of response time.

Mr. Tom Wright: That's correct, using the 24 hours of a day with geography to keep the design and the engineering going for the full 24 hours rather than just the 9-to-5 environment.

So that was an important piece of the puzzle. But he also cautioned that in some of the areas where there's a high degree of proprietary work going on, you want to keep a lot of it here in Canada.

This is anecdotal, so I apologize for...

Hon. Scott Brison: So with the death of distances as a determinant in the cost of telecommunications and with the advances in telco, the other question is whether or not geography will continue to be an advantage when somebody can be working on an R and D project in India and just as effectively liaise with a manufacturing design group here in Canada as if they were next door.

If we're looking towards the future and we believe that higher-margin jobs and the research and development and design and engineering sides are really important to our economy, we ought to be augmenting and strengthening tax and regulatory measures to focus on those to make Canada more effective in that particular space. We can't be great at everything, but it strikes me that we should be considering that.

The other thing is that in terms of outsourcing, even on the service side, we've seen the call centre-type jobs that were in Canada and servicing North America increasingly go offshore; we're seeing a trend in that. Those had been considered low-margin or low-value service jobs, but now they're actually evolving into higher value-added jobs, because you're dealing with the engineering- and IPC-type service jobs.

For all members, I just think that as we're trying to understand this, we ought to really drill down on what is happening in this high-value area.

If you could help me with that trend line or get back to us with that trend line, particularly around India but not exclusively India, it would be helpful.

● (0935)

The Chair: Thank you.

Did you want to respond to that, Mr. Wright?

Mr. Tom Wright: I would just say that, yes, we will do some research on the trend line and get back to the committee on that.

Also, I would note your observation that jobs such as call centre jobs, which were viewed as lesser-skilled jobs some time ago, are in fact evolving. When one starts to look at trend lines, one has to be careful of the apple and the orange...because of some of those changes.

The Chair: Thank you.

We'll go now to Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle (Trois-Rivières, BQ): Good morning and thank you for being here.

I will continue in the same vein as Mr. Brison. Competition from emerging countries, including China, has meant that things are really very complex and that we have lost a number of markets. This is particularly true in the case of the manufacturing sector. We have had a tendency to tell ourselves that we should invest more in research and development and make our engineering firms work more in order to develop leading edge expertise. Moreover, I am told that more and more emerging nations, whether it is China or India, are also training engineers.

If the federal government does not act more forcefully in this matter, will we not see a situation develop where the research and development sector and the high technology sectors will experience the same difficulties as the manufacturing sector? If that is the case, should the government intervene? What should we do?

Mr. Tom Wright: I'm not sure I have the answer to all of your questions. Having said that, I understand very well.

It is clear that China and other countries are making progress. There are an enormous number of engineering and other science graduates. It is obvious that that will create competition. The government has set up the framework for science and technology advice, which deals with some of these aspects in terms of the possibilities for Canada. The government has already tabled an approach for this aspect.

I will quote the example I used earlier. Mr. Brison spoke of global value chains. The globalization of business is very important today. That means we must find a way of using the fact that China and India are making progress. The example I gave to the person I was talking about earlier was obviously the aerospace sector. That person explained to me that she would use it and that she would find an advantage for Canada in the fact that China and industry are developing their engineering sector.

We have to work on both levels. We have to increase our domestic capacity in Canada and find a way to deal with the reality of those countries as well.

• (0940)

Ms. Paule Brunelle: Do you have the impression that the government is playing catch-up with what is happening elsewhere? Do you find that we are always two steps behind? Do you think we

could develop a vision and try and establish an industrial policy and development policies that are more proactive?

Mr. Tom Wright: As a good public servant, I am always proud of my government.

Voices: Oh, oh!

Ms. Paule Brunelle: Which does not prevent us from doing better.

Mr. Tom Wright: We can always do better in everything.

Ms. Paule Brunelle: Do I have a bit more time, Mr. Chairman?

The Chair: You have three minutes.

Ms. Paule Brunelle: Ms. Barnes, you talked about banks and insurance companies. They seem to be in a strong position. They make a lot of profits. The criticism we most often hear comes from the users, from the people. The complaints have to do with interest rates and with insurance companies that write up clauses in very fine print in their contracts, to the degree that people always have the impression they are being had.

Is the role of your department to defend the interests of the people, or those of the companies?

Ms. Colleen Barnes: The financial institutions established here in Canada come under our department. We must always maintain a balance between the consumers and the industry. The companies must be very strong, because that generates spinoffs for the people who are shareholders in the banks and for retirees whose pension funds are invested in these institutions.

But we must never lose sight of the other two goals: that consumers be well protected and served by the institutions, and that the stability of the framework be maintained.

Ms. Paule Brunelle: We saw the debt overload of the American population. Loans were granted for up to 80% of the value of a house, for example, and that created a major crisis. Will this have any effect on Canada?

Ms. Colleen Barnes: Here, in Canada, there are very few sub-prime loans, and that is a good thing for us, but the institutions did invest in some securities where there was a bit of that. According to their recent results, the banks seem more or less comfortable and seem to be able to manage their investments, for the moment.

Ms. Paule Brunelle: Thank you.

[*English*]

The Chair: Thank you.

We'll go now to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

First I'd like to thank Ms. Barnes, Mr. Wright, and Dr. King for being here on such short notice.

I really enjoyed your presentation. Some of the things you stated were a bit of a surprise for me, the first being that 75% of jobs are in the service sector. I come from Oshawa, and there's a real concern with the manufacturing sector. There are certain job losses in the automotive sector. I know there is some rebalancing and some shifting there, but I was wondering if you could clarify some statements I've heard.

The first one is that if people lose manufacturing jobs, they are getting McJobs—jobs that really aren't secure jobs—in the service sector. Would you say that most service sector jobs are quality jobs and secure jobs?

Mr. Tom Wright: Well, I think it's always a dangerous game when you start to aggregate and average and make broad, sweeping statements. I certainly can't sign up to the notion that all of these are McJobs, because, no, they are not.

I think on slide eight I tried to pick up a little bit of that diversity. One of my key points was trying to suggest that the service sector is not homogeneous. We've talked a little bit about the engineering and the importance of that. There are jobs within the food and accommodation business that are at the lower end of the wage scale. Unambiguously, they exist; unambiguously, people end up going into some of those industries. We need people there, but in services there are quite a number of jobs in the higher end, and we have seen in here some growth in those areas.

Yes, there are changes, and yes, there are people exiting some elements of manufacturing. I would stop well short of suggesting that the only jobs they then get are jobs at the lower end of the scale. There are quite a number of skilled people in the manufacturing industry who are able to apply those skills elsewhere within the service sector.

● (0945)

Mr. Colin Carrie: We hear comments quite often that the service sector actually relies on the manufacturing sector. In other words, if you don't have people manufacturing products, there's not the money to buy and use these services.

Could you comment on that statement?

Mr. Tom Wright: I think there are two dimensions to your observation. One is the sheer magnitude of the service sector within the economy. At the end of the day, the goods-producing side of the economy wants a market to sell into. If we have 70% of the employed people in Canada doing well in the services sector, there's a piece of the market. Health there is good, and there is a symbiotic relationship on that front.

But also, when you take a look at the nature of the manufacturing industry and start to peel the layers of that onion, you're going to find that the manufacturing industry can't go very far very fast without the use of the service sector, be it in the ICT or the informatics end of the things, in logistics, in trucking, in engineering, in design. Their productivity, their efficiency, their fundamental elements of competitiveness can in some cases be found within the service sector. I think that relates to some of the questioning I had earlier.

There's very much a symbiotic relationship, and I don't think you can consider these in isolation. I'm not an economist, but in my

experience, you have to take a look at how these elements of the market work together.

Mr. Colin Carrie: I've heard comments as well that Canada has great opportunities in emerging markets. One sector that is not doing as well as it could in emerging markets is the service sector. With the potential for export and opportunities worldwide, are there things the government could do even better to help promote global champions in the service sector?

Mr. Tom Wright: There are certainly opportunities. We are already exporting, but I think the observation is accurate. Our export of services has been fairly stable. It hasn't experienced the same levels of growth that some might expect. I think the deliberations of the committee might be able to shed some light on what might facilitate this.

In my experience, there are some areas where we have done quite well. Some of the financial institutions have made inroads into some of the new and emerging markets, be they in China or elsewhere. We have in Canada niche elements of expertise. If you were to talk, for instance, to the architectural community, green architecture at a point in time was making some tremendous inroads into China. The Chinese government was seized suddenly of green, and we had some expertise here in Canada. So there were opportunities.

In the marketing and trade promotions we do, as the government embraces a global commerce strategy, unambiguously there are ways in which we can continue to promote the services. We have expertise in a variety of these areas, and they can and should be promoted.

The Chair: Ms. Barnes, do you want to comment briefly? Then we'll go to Ms. Nash.

Ms. Colleen Barnes: Yes. It's on the financial services element.

We have companies like Scotiabank who are really active in some of the small emerging markets. There are the free trade negotiations we're trying to do, for example, right now with Peru, and we just finished a financial services chapter with Chile. These are things that Scotiabank really likes to have in place, because it gives them some legal certainty when they go into these emerging markets that there's at least some agreed international framework that, should things go wrong, they can rely on.

On the financial services side, you'll see in one of the charts that exports from the finance and insurance sector are very small. The reason for this is that many if not most countries require a physical presence when you want to go into a country, in China and all of these areas. What we're showing is that we don't have a lot of exports, but we have a lot of foreign direct investment in these emerging markets. So when you're looking at the financial services sector, bear that in mind.

● (0950)

The Chair: Thank you.

Thank you very much, Ms. Barnes.

We'll go now to Ms. Nash for six minutes.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair, and thank you to the witnesses for your presentations.

I'm interested in employment in the service sector. I noticed on slide six of your presentation, Mr. Wright, that the composition in terms of employment starts off with retail, health care, education, and accommodation as the largest sectors of employment.

I'd like to ask you about the private service sector. If we look at, say, the first five sources of employment, three of them are in the public sector, not exclusively but primarily in the public sector. That would be health care, social assistance, education, and public administration.

If we set those aside for a moment and look at the private sector, which would be the retail trade and accommodation, this accounts for—it simply is a guesstimate, looking at the graph you have here—roughly 25% of the employment. Could you tell us what would be the average wages in the retail sector and the accommodation and food sector in Canada?

Mr. Tom Wright: We tried to capture some of the averages of the salaries in those sub-sectors on, I believe, slide eight. You'll find accommodation and food there, and you will find the retail trade. Accommodation and food is at the lower end, and retail trade is the third one from the bottom.

Ms. Peggy Nash: Looking at your chart on page eight, accommodation and food is maybe around \$11 or \$12 an hour—this would be an average wage—and retail trade looks to be just over \$15 an hour. Again, this would be an average wage, so some would be higher and some would be lower.

I'm thinking about people who are losing their jobs in the manufacturing sector. I had the opportunity to be part of the finance committee yesterday. What we heard there was quite chilling—namely, that the more than 300,000 manufacturing jobs that have been lost so far reflect fiscal conditions of two and three years ago. The incredible rise in the value of the dollar and other factors will have an impact on the manufacturing sector that we will only see over the next couple of years. So while we've had significant job losses, we're about to face much more.

I ask you, given that the average wage in the manufacturing sector is, as you have said, higher than the service sector; given that not only the largest source of employment but the fastest growing sources of employment is in retail; and given that by your own chart here, retail and food and accommodation are among the lowest-paying jobs in the service sector, do you not think it's reasonable to assume that many workers who lose good-paying, secure jobs in the manufacturing sector could be faced with jobs that bear a relatively low wage in the service sector? More importantly, rather than being full-time jobs with benefits, and in many cases pensions, these jobs are precarious jobs, where one can never count on the hours of work. These jobs offer no security or benefits to support the workers or their families.

• (0955)

Mr. Tom Wright: I understand the issue, and I wouldn't dispute that this in fact has happened. Equally, I would not dispute that we may well see some more of that.

I don't have data to quantify that observation. I get nervous about the clarity of my crystal ball, looking forward, but—

Ms. Peggy Nash: I'm not asking you to project job losses. At the finance committee yesterday, that's what witnesses said.

Mr. Tom Wright: Indeed, and I wouldn't refute that there is a degree of that. I just can't quantify that. But I do take your point, unambiguously.

Ms. Peggy Nash: Do I have one more minute?

The Chair: You have about a minute left.

Ms. Peggy Nash: The question I would ask you, then, is do you not think it is of concern to Canadians, and to us as parliamentarians on this committee and in the House of Commons, that we are losing manufacturing jobs and the security of those jobs, and that the growth in employment is in the parts of the service sector that are relatively less secure and low-paid?

Mr. Tom Wright: There will be a dimension of that, and yes, I think the committee wants to be aware of that. But I think one also has to have the context of the overall employment levels. One also has to take a look at the balance of growth elsewhere within the service sector.

If your initial starting point is manufacturing, I think you have to go back and consider and understand manufacturing in all of its various aspects. Again, that will bring you back to the services sector, and comparative advantage, in more and more of these companies, coming from a high level of productivity—of technology, the engineering—of a number of those services at the higher end of the wage scale.

I think there is growth in some of those areas as well, albeit not as high a rate of growth. But I think there's opportunity, and that's where we want to grow. So the opportunity for the future is to see how we can move into some of those areas.

The Chair: Thank you.

Thank you, Ms. Nash.

We'll go to Mr. Simard, please.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Mr. Chair.

I'd like to thank our witnesses for being here this morning.

Given that the service sector accounts for approximately two-thirds of the GDP in employment, I'd like to know if we also have some idea of how this split compares with other industrialized countries. It would seem to me that given that you have an average lower wage in the service sector, 70% may not be a good figure to have.

If the States are at 50:50 or if the European countries are somewhere closer to 50:50, maybe that's where we should be.

Could you give us an idea of where we stand there, please?

Mr. Tom Wright: I don't have the international comparisons. As I was going through the deck this morning, it was a question I was putting to my colleagues.

Taking the suite of data that I have here—your question included—and how we look vis-à-vis the United States, Australia, the G-7, and what that tells us in terms of where we're at...

My apologies.

Hon. Raymond Simard: You can get that for us?

Mr. Tom Wright: Indeed.

Hon. Raymond Simard: Thank you.

Do we have any idea how the various sectors are impacted when you face a downturn, for instance? I think it might be interesting, historically, to go back and see if the impact is more severe or less severe, if fully 70% of your GDP is in the service sector, when you face a recession or some kind of a downturn.

Mr. Tom Wright: Yes, indeed. With a little more time, I think we could do some longer-term trend analysis. I think we're back to one of the questions earlier on trends—if I understand your question correctly—to capture downturns and how the economy responded vis-à-vis the service sector, we would have to do some very long-term.... We can try to pull some data to offer comparisons.

Hon. Raymond Simard: And you would also give comparisons between the sectors? For instance, is the manufacturing sector hit less severely than the service sector? I think that might be interesting, given that fully 70% of our service sector is....

Mr. Tom Wright: We'd be happy to do a little bit of analysis and dig into some of the data. We'll do some long-term trends and compare those trends to, say, the G-7. We can do that.

•(1000)

Hon. Raymond Simard: Okay.

You also spoke of some of our champions—Manulife, Great-West, Sun Life. Actually, a lot of the Canadian champions, our big corporations, are in the service industry. Obviously some of their growth came about through very good management, but a lot of it came about through mergers. We also know that the reverse is possible, that you could be bought out by foreigners.

I wonder if you've looked at the possible impact of that, if Manulife or Great-West would be bought out by somebody else, because just the purchase of one or two of these corporations would have a huge impact on our economy.

Ms. Colleen Barnes: Manulife and Sun Life are large demutualized insurers, and the government policy position is that they have to remain widely held. So there is, I guess, a policy prohibition in place for anyone to acquire those entities.

Great-West is a little different. It's owned privately by Power Corporation of Canada.

Hon. Raymond Simard: Thank you.

We're facing now the possibility of the impact of a labour shortage, but it's going to get a lot more severe down the road. I'm just wondering if you've looked at that.

I remember that Great-West Life has its headquarters in Winnipeg. When you used to get a Great-West Life job, it was a very low-paying job, very menial stuff, but I'll tell you, today they're very well-paid, sought-after jobs. I'm just wondering if you've anticipated, with the upcoming labour shortage, whether or not the service sector

will be gaining. We're talking now a small difference in terms of average salaries.

Do you foresee that industry or that sector growing in wages comparatively to the manufacturing sector?

Mr. Tom Wright: The question is a very good one. Again, I get hesitant with crystal balls, but suffice it to say that if you break it down into the sub-sectors where you can get some digestible chunks of data, and if you took a look at a sector like tourism, they are forecasting a labour shortage. I forget the precise figures, but by 2015 they think they're going to be short a sizeable number of people in that sector, so supply-demand is going to come to the fore one way or another.

Yes, in the longer-term, looking out, there is something coming. So the question I think is a legitimate one.

Hon. Raymond Simard: Is that it?

The Chair: Yes, unless you have a two-second question.

Hon. Raymond Simard: I was always told that tourism is the biggest employer in the world in that sector. Can you confirm that for me? It's not in Canada, obviously, but could you verify for us that the tourism sector is where most people are employed?

[Translation]

Ms. Paule Brunelle: We do not have enough sunshine.

[English]

Mr. Tom Wright: Yes.

Hon. Raymond Simard: It's just that I've been telling everybody that about tourism, and I want to make sure it's true.

Mr. Tom Wright: We'll attempt to find the data. I hadn't heard it quite that way.

The Chair: Thank you, Mr. Simard.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, visitors, for your presentation. It's excellent. There are so many questions. I have just a few small ones.

Mr. Simard actually touched on the first question I was going to ask. We do need that information from the other G-8 nations to see whether or not we are in line with them.

I'm wondering, though, whether modernization is a result in manufacturing decrease and service increase. Has there been a study done on modernization of a nation? As we mature as a nation, is the result a lowering in manufacturing jobs and an increase in service jobs?

Mr. Tom Wright: I'd have to go to look to see whether the OECD or some of the academic institutions have done some studies along those lines. I think I understand your question and the thesis underlying it, but I'd have to go to take a look and consult with our people.

Mr. Dave Van Kesteren: The other thing I was rather surprised to see, in fact more than surprised, was that this trend has continued since 1946. That's why I'm wondering if this is as we change as a country and as we start to have different needs, or if it's just a result of modernization. I'm thinking of computers. Perhaps we could just get some information on that.

There was some great information from the finance department. I'm glad to hear that we don't anticipate what has happened in the U. S. We have good Scottish bankers, and that's a trend.

On Canadian savings, where are we in comparison with other nations?

•(1005)

Ms. Colleen Barnes: In terms of savings rates?

Mr. Dave Van Kesteren: Yes. Historically, are we moving away from saving? Or are Canadians beginning to save a little bit more?

Ms. Colleen Barnes: I'd have to go and look at the data. Certainly, I think in countries where capital markets are more developed you might find over time savings have gone down as people are more comfortable investing in capital markets and equities and corporate debt and that kind of thing, but I don't have the data here.

Is it comparisons as well that you'd be interested in?

Mr. Dave Van Kesteren: Yes. Again, I think that's a healthy indication.

The other thing you mentioned, Ms. Barnes, was that 50% of the insurance industry is foreign. Is that something we can grow? Can we become a Swiss banking nation? It seems like we do a very good job. We have some big players.

Mr. Bruce Stanton (Simcoe North, CPC): We have the lowest taxes in the G-8.

Mr. Dave Van Kesteren: Is that something we can grow as a country? Will the result be net good jobs in this country? For instance, when we visited China, we found out that the Chinese are very interested in life insurance. Do most of the jobs stay in China or is there a net benefit here in this nation?

Ms. Colleen Barnes: On the first point, as these companies acquire entities abroad and establish operations in China, it's conceivable that the proportion of their income that's coming from abroad will grow.

Insurance, especially the large guys, has always had a really healthy and strong international component. It's coming for the banks, Scotiabank being certainly the most aggressive in terms of going all over the place in the world, and the others focusing more on the United States. We've seen the bank proportion of income actually go up and then come back down because of, as I was mentioning, in 2002, the commercial loan trouble they had in the U. S. They retrenched the retail market in Canada. So depending on conditions and what makes sense for each corporate entity, you

could indeed see that level of income coming from abroad increasing.

In terms of what they do abroad in a country like China, yes, you have job growth there, but the nice thing is that the headquarter, high value-added activity stays in Canada. That's part of the reason we try to encourage these companies to go abroad and to have success abroad, because it strengthens the headquarter functions here in Canada. Too, the mind and management stays in Canada, and that's important.

Mr. Dave Van Kesteren: Bringing it a step further to foreign investment in banking, I found it interesting that you said our free trade agreements seem to....

Is there a good net benefit there for Canadians as well? For instance, with the Bank of Nova Scotia, are we creating more jobs? It seems to me that those are high-value jobs.

Ms. Colleen Barnes: Yes. You want to talk to Scotiabank, or Manulife. I work on the trade files myself, so I hear from them all the time. They find these pieces of infrastructure really helpful when they're going abroad.

Mr. Dave Van Kesteren: Thank you.

The Chair: Mr. Van Kesteren, we just want to clarify, when you said "bankers", were you talking about Scottish or Dutch bankers?

Voices: Oh, oh!

Mr. Dave Van Kesteren: Well, actually, ING, so Scottish, Dutch...same thing, isn't it?

The Chair: I just wanted to clarify that for the record.

Monsieur Vincent.

[Translation]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

In an article I read in yesterday's *La Presse*, Mr. Stéphane Tessier, Vice-President, Industry, Cushman & Wakefield LePage, said that he expects:

[...] an impact of the strong dollar on manufacturers, particularly as they are already in difficulty. Particularly because of Chinese imports, manufacturers already have to manage negative growth and switch to the service sector. We are therefore very troubled by the vacancies in industrial sites.

In his opinion, it is clear that industrial workers are turning to jobs in the service sector. I was therefore surprised to find, on page 6 of your document, that the increase in the number of people working in the service sector was not more significant. Where did the jobs go that were lost in the manufacturing sector and that do not reappear in the service sector? For the 14 categories mentioned, including retail, it is an even 7 to 7: seven saw a slight increase, seven have seen a decrease and one has not changed. I did consider this increase as such but it is not significant. For example, in the last categories, that is arts, entertainment and recreation and real estate, rental and leasing, the figure is 0, and in the information and culture category there was a decrease.

Where are those jobs?

Mr. Tom Wright: What slide are you referring to? Is it on page 6?

Mr. Robert Vincent: Yes, page 6 of your document.

•(1010)

Mr. Tom Wright: On page 6, we are talking about composition of employment, whereas on page 7, we're talking about changes in employment. Therefore, if you want to know about the rate of growth in employment, you would have to look at page 7.

Mr. Robert Vincent: On page 6, you are talking about the composition of services employment.

Mr. Tom Wright: Precisely.

Mr. Robert Vincent: In 2002, you see a grey line and a blue line above it, which means that in retail trade, employment increased by a certain percentage.

Mr. Tom Wright: Exactly.

Mr. Robert Vincent: That is what I am telling you.

Mr. Tom Wright: The details are on page 7.

Mr. Robert Vincent: If I understand correctly, there were 175,000 new jobs in the retail trade sector.

Mr. Tom Wright: Precisely.

Mr. Robert Vincent: You make reference to the hourly wage in the service sector, which was \$20.59 in 2006, compared to \$23.38 in manufacturing. My question concerns workers in the manufacturing industry. I am not talking about those in management. In order to come up with this figure of \$20.59, I presume that notaries, lawyers and engineers were taken into account on the payroll. Regular workers, factory workers, their salary loss... If you are earning \$23.38 and you go down to \$20.59, for example at Bombardier, as a welder earning \$23.38...

Do you believe that a worker with only a grade 9 education would be able to find a job paying \$20.59 an hour in the service sector?

Mr. Tom Wright: I do not have any statistics to that effect. We brought this point up earlier. We wanted to know what the changes were exactly.

Mr. Robert Vincent: You understand what I am getting at. The \$3-an-hour difference is so slim that it is almost unimaginable. I know that you crunched the numbers, but I would like to know exactly what the situation is. If I am a factory worker, I lose my job, and I find myself working in the services sector where as I am not a lawyer nor an engineer, what kind of salary could I earn, in your opinion? Have you not done a study on that? Have you not checked on that?

Mr. Tom Wright: I do not have any study in hand.

Mr. Robert Vincent: Have you done one?

Mr. Tom Wright: I have not seen the details. We can check on whether or not we have more information on the subject, but I do not have any study with me this morning.

The Chair: Do you have another question?

Mr. Robert Vincent: Yes, I have not finished.

On page 2, we can see that the service sector has been thriving. Why do you think it has expanded as much as it did? The service sector has seen real growth as a share of real GDP. However, the growth rate of the manufacturing sector has slowed down, which has resulted in increased job losses, contrary to the service sector, which has seen approximately a 50% growth rate.

The Chair: What is your question?

Mr. Robert Vincent: Where did all those jobs go? We cannot put all of them in the service sector.

Mr. Tom Wright: Page 7 indicates the growth rates and the areas within the service sector in which jobs were created. In terms of the health of the economy, obviously there is a...

Mr. Robert Vincent: I know that you are referring me to page 7, but take page 2 and look at the decline.

[English]

The Chair: Monsieur Vincent, we're well over time here.

Mr. Wright, do you want to make a final comment?

Mr. Tom Wright: I simply want to indicate that slide seven shows where the growth has been. That's where jobs have occurred; that's the change. You can explore things in more detail.

The Chair: Thank you.

We'll go to Mr. Stanton, please.

Mr. Bruce Stanton: Thank you, Mr. Chair, and thank you to our witnesses this morning for taking the time to shed some light on this rather diverse sector of our economy.

First of all, for the purposes of our discussion, when we start looking at various components of the service sector, pitting one against the other, trying to determine where one group of jobs fits, and so on, that can end up being a very difficult thing to track.

I can see there's a perception that somehow when job losses happen in one sector and move to another, they will only go to the low-paying portion of the service sector. In fact, quite the reverse is true. We have some stats here from October showing 66,000 new jobs in health care, social services, other services, and public administration.

That supports what you've said, Mr. Wright, on slide seven, that while retail trade has the greatest amount of increase, look at the top several others before you hit accommodation and food. So we have to deflate this myth that somehow manufacturing jobs are only going to the low end of the sector. I think it would also be true that if one looked at the diversity of sectors, even in manufacturing alone, there would be components in the lower end of the wage scale. So every sector has their highs and lows. I think we have to keep this at the higher level and look at what we're doing here.

I have a couple of specific questions for you, Mr. Wright. I wasn't sure where a couple of sectors would show up, and one was the building trades sector. Would that be in wholesale or part of the service sector?

•(1015)

Dr. Janet King (Director General, Service Industries and Consumer Products Branch, Department of Industry): Construction is a separate component, so it's not included in these data.

Mr. Bruce Stanton: Okay. So that was a good question; what about utilities like power companies?

Dr. Janet King: It's the same situation. They're unique and separate.

Mr. Bruce Stanton: They're not in the service sector.

Dr. Janet King: That's correct.

Mr. Bruce Stanton: Okay, excellent. That was just a question that I had come up.

I'll direct this question to Mr. Wright. We skirted around some of the discussion here this morning on the degree to which this sector does, in fact, create primary employment. You can see that certain portions of it are in support of the manufacturing sector, or what one might consider primary jobs as opposed to secondary jobs, secondary being those that are really only feeding off the wealth creation that's happening on the primary employment side. So I'm captivated by this notion of the degree to which the service sector—the component of the service sector that is primary jobs—is creating wealth.

Second, as we look ahead, and I think there's been some talk of that already, where do the opportunities lie in creating more? I was interested, actually, in the degree to which the financial sector, for example, had quite a large amount of export capacity or investment in other parts.

I'm rambling on here. Let me get back to my question.

Could you give us some thoughts on the degree to which it's a primary sector of our economy and not just secondary?

Mr. Tom Wright: It's an interesting question to try to take apart, and it would be interesting to listen to some academics grapple with that concept. At the outset, I would observe that quite a number of these sub-sectors are finding a capacity to export, so in that respect, it would account for it being a primary employer. So the architect who specializes in green who sells into Shanghai, that's primary, I think, in your analogy. But if you were just designing a building for Manulife, maybe that's secondary. I think there is, in fact, a growing capability, and there is growing evidence that in Canada it is primary.

The fundamentals of the question are interesting, because I would argue that, more and more, the determinants of success for your manufacturing, your goods and services, come out of the service sector, whether it's informatics or whether it's design and engineering.

So they're secondary in the purest sense, but boy oh boy they're integrated with regard to the success factors for your goods-producing sector. While I think it's interesting in an academic sense, I'm not sure where we end up at the end of it. Still, I'm fascinated by the notion.

The Chair: Thank you.

Thank you, Mr. Stanton.

Time runs when you're on an interesting topic.

We'll go to Ms. Nash for five minutes, please.

Ms. Peggy Nash: Thank you, Mr. Chair.

I'd like to pursue that line of discussion that Mr. Stanton was just raising with respect to the professional, scientific, and technical sector.

Would you agree, Mr. Wright, that the manufacturing sector is one that involves a lot of innovation and investment in new technology?

• (1020)

Mr. Tom Wright: Generally, that's what we had hoped it would include, absolutely.

Ms. Peggy Nash: Would you agree that when we lose manufacturing capacity, and companies go out of business and we no longer produce goods in a certain area, the jobs that involved technical capability, innovation, and design, that relied on that part of manufacturing, cannot function any more? Because if the manufacturing capacity is not there, then the design jobs that went with those manufacturing jobs are no longer there either.

You're frowning, so let me ask you—

Mr. Tom Wright: If the job goes away, the job's gone. There is design and there is innovation. If you talk to some companies, they have design and innovation right on the factory floor.

Ms. Peggy Nash: Do you think we lose some capacity for innovation and new technology when we lose the manufacturing sector that relied on that design and innovation?

Mr. Tom Wright: I have no way of having a comprehensive answer to that. Certainly there is design and engineering; as we were discussing earlier, it is coming in from separate companies—

Ms. Peggy Nash: Let me ask you a quick question.

If we're building ships, for example, and there are innovations in shipbuilding, in new communications technology, and in new production methods, and we become specialists in that area, I think you'd agree that would be a good thing. If we stop producing ships—if we no longer manufacture them and only import them—then perhaps we lose the capacity for that innovation here domestically.

Mr. Tom Wright: That may well be the case, yes.

Ms. Peggy Nash: “May well”? Can you give an example in which that would not be the case?

Mr. Tom Wright: As I was saying, you still have the individuals. If you're going to use them elsewhere in the economy, if this is an expertise, and if the welding you're doing with your ship is something that is going to apply to the oil and gas industry, then it may not be lost.

Ms. Peggy Nash: Innovation as it pertains to that specific industry—shipbuilding, for example—would be lost because we would no longer be producing in that sector.

Mr. Tom Wright: I'm not sure I understand what you want me to agree to.

Certainly there are skills. The people have the skills; it's intellectual property, and somebody will own the intellectual property, and it would carry on. The individuals have their skills; the intellectual property exists, and sometimes they are transferable with ease. At other times there is difficulty, and it takes time for them to transfer.

Ms. Peggy Nash: Your point on slide 11 says that services provide essential support to other key sectors. If we lose a major part of our manufacturing sector, do we not lose the services that support that manufacturing?

Mr. Tom Wright: I don't see that as necessarily a one-to-one correlation.

Ms. Peggy Nash: I'm not saying it's one-to-one.

Mr. Tom Wright: As I said earlier, the individuals will have skills; the company—or somebody—will own the intellectual property, and that is all transferable, one way or another.

Ms. Peggy Nash: So you're not concerned about losing innovation in a declining manufacturing sector? You're not concerned about the loss of skill and design capability or productivity capability in the manufacturing sector?

Mr. Tom Wright: It's always a concern when there are changes and when people lose their jobs, but with the balance of the suite of policies, one hopes the individuals will find jobs elsewhere, and that the economy will in fact provide opportunity. The skills that the individuals have with design and engineering and the intellectual property that has been developed will continue to help other parts of the economy.

• (1025)

The Chair: Okay.

Thank you.

Ms. Peggy Nash: Can I ask another question?

The Chair: You are over your time, Ms. Nash.

Ms. Peggy Nash: Do you mean my time is up?

The Chair: Your time is up.

Ms. Peggy Nash: It is always too short.

Thank you, Mr. Chair.

The Chair: Mr. McTeague is next, please.

Hon. Dan McTeague: Thank you for being here today.

I had a number of questions. They have been skilfully asked by a number of my colleagues, so I will be left to conjecture, with the permission of the committee.

Mr. Wright, you said earlier that in the last five years, services output grew by an average of 3.2%. You associated this with a healthy economy. I'm wondering if in your mind the success we've seen in the past...

I want to talk about where we're going to go in the next few months. I think this is what the committee is most concerned about—anticipation of the strength of the services sector—particularly in light of the looming credit crisis south of the border in the U.S., which threatens to drag the U.S. into a recession. As well, there is obviously the high value of the Canadian dollar and its overall impact on the challenges you have cited here, one being, from a trade dimension, our ability to export services.

I'm wondering if the lower interest rates, the robust resources economy that we've seen of late, and the U.S. economy tend to be the three areas that can account for the success in the services sector. If that is the case, are we now looking at a very different potential set of circumstances that could rapidly have a negative impact on the growth in output and the success story of the services sector in Canada?

Mr. Tom Wright: That's an excellent question.

I'm not sure I would want to attribute the success strictly to a currency situation. Certainly we have lots of anecdotal evidence to suggest that we do have some comparative advantage, some

fundamental capability, that others do not have and want to buy, so I don't think I'd jump immediately to that conclusion.

In terms of where we go from here, certainly margins are affected by all of that, unambiguously, but I think there's a lot more to the question of where Canada can and should go, and it has to do with the fundamentals of what we are offering in these areas. As you go through each of the sub-sectors, you can start to see some opportunities for innovation. We've worked with a number of the associations on things as anodyne as logistics, which seem boring on the one hand, but become rather critical to the operations of a lot of companies, and we find people wanting to learn and to acquire that kind of knowledge and understanding.

Hon. Dan McTeague: On pages three and six, in the GDP composition of service sector, real estate, rental, leasing are number one by a substantial amount, representing almost one in six jobs...or one in four or five jobs. Sorry, I'm looking the other way; my math is a little backwards this morning.

Again, I don't want to make it sound like the sky's falling, because it certainly isn't. But if we see a decline in the U.S. economy, particularly as it relates to the credit crisis...the subprime, affecting Canadian companies, affecting the ability of banks to lend money, with higher interest rates or interest rates that are not reflective of the propensity for people to spend, could we see a decline in that industry?

The second one, of course, is with the high value-added trade, the high cost of our Canadian dollar, the prospect of Canadians. There are comics and editorial pictures today about people running south of the border. I am wondering if we're really at a time where this could have a very serious impact on the sector, particularly, as you state, in its two leading areas, retail trade and real estate rental and leasing. If these two chickens come home to roost in the next couple of months, by the time we conclude a study here, it may look a little different in terms of outcomes.

Perhaps you could give some guidance to this committee on some of the challenges we can impose or contemplate that might help us to anticipate these problems. Because they are coming, sure as the night.

Mr. Tom Wright: I'm not sure I have a silver bullet for all of that. I'll let my colleague from Finance talk about the effect of real estate and the financial institutions south of the border and here in Canada, and how that may or may not overflow here.

Within the presentation of your question is the notion that if the American economy is in fact going to suffer some rough times, is that going to back up and affect us here? I think you'll find a certain consensus that, yes, indeed we will feel an element of that. So we're going to be challenged in terms of being able to carry on and find the strengths.

I'll turn to my colleague just to get to the heart of this.

• (1030)

The Chair: Ms. Barnes.

Ms. Colleen Barnes: I think it's the same story for the financial services sector. We're heavily in the United States, so even though we may not have been directly affected by the subprime events in the United States, we rely on that economy.

Now, the forecasters are still saying there will be growth in the United States. They're not yet predicting a recession. So we'll be watching that closely.

It's not just the entities in the United States that it matters for. Scotiabank, for example, is in Mexico. Mexico is even more integrated with the U.S. economy. So if there's a problem in the U.S. that would drag even Scotiabank's operations in Mexico, it would be a challenge for them because the Mexican economy suffers.

So it's something that everybody is watching. Right now the dire predictions still aren't on the table, but....

The Chair: Okay, thank you.

We'll go to Mr. Carrie, please.

Mr. Colin Carrie: Thank you, Mr. Chair.

There was some inference that high-paying manufacturing jobs are getting transferred to low-paying service jobs. But I note the last year-to-year increase in average wages was up 4.1%, and with inflation and consumer prices at a 2.5% increase, it appears to me in that our overall wages, Canadians are actually getting richer. Would that make sense to you?

Mr. Tom Wright: The Canadian economy is healthy, yes.

Mr. Colin Carrie: It seems to be.

How do you think the government's economic policy of cutting corporate and small business taxes is going to affect this sector?

Mr. Tom Wright: Between the government's policies, the fiscal update budget, and the S and T statements that the government has made, they will effectively be freeing up money within the one sector, which will unambiguously go to parts of the service sector.

Again, my thesis has been that a lot of the determinants of success, the comparative advantage, emanates from elements of the service sector, be that on the design and the engineering that we talked about earlier, or be that on things like logistics. So with regard to the cash that's made available within a corporation, one would fully expect it to get reinvested into some of these areas and to ultimately result in a healthier situation.

Mr. Colin Carrie: You brought up the government's S and T strategy. One thing that was heard from this committee last year in our manufacturing report was that we should be investing more in research and development. The government responded with record amounts for R and D; I think we put \$9.2 billion into our S and T strategy.

I'm curious, do you have any statistics about who invests more in R and D and equipment? Is it the manufacturing sector or the service sector?

Mr. Tom Wright: I'd have to check the numbers—I don't have them here—but you'll find that the service sector makes healthy investments as well. When you start looking at informatics and the role played there, think of something as simple as buying your

groceries. That element of the service sector has invested in technology; you can now do the checkout yourself.

So investments are made and technology has a place even within the service sector.

Mr. Colin Carrie: Dr. King, did you have something to add?

Dr. Janet King: No, I was just going to say that we can get that information for you.

Mr. Colin Carrie: Okay, good.

Do you have an idea of Canada's best corporation? Are the best performers, the healthiest corporations, actually in the service sector? Do you keep stats in that regard?

Mr. Tom Wright: If you were to take a look at some of the published data, you could find about eight of the top ten. If go to the special report on the "Global 2000", the *Forbes* list, you'll find most of the ones named earlier by my colleague from Finance—Royal Bank, Manulife, TD, down to and including BCE. They are all part of the top ten.

If you go through that list, you see that Canada has quite a number of large, active corporations. We do well on that scale, with eight out of the ten.

• (1035)

Mr. Colin Carrie: You commented a bit earlier about how we're doing internationally. Are there countries out there that are actually doing better than us in service sector strength?

Mr. Tom Wright: I think it goes back to one of the earlier questions, where we wanted to do a little bit of comparison with the G7 and the G-8 and I had to apologize for not having it in the deck. It was actually one of the questions that I had.

But if we start taking a look at, say, the export of services as an area of interest, I think some of the other countries—i.e., the U.S., Australia—are doing better than we are. So there is opportunity for us to improve there.

I have made an undertaking to get back to the committee with some more of the comparisons on that score.

So I think we do have some successes; we also have some opportunities to move forward.

Mr. Colin Carrie: Do you think there's enough competition in the banking and service sector in Canada?

Mr. Tom Wright: Oh, I would let the Commissioner of Competition deal with that one.

The Chair: Thank you, Mr. Carrie.

We'll go to Mr. Eyking, please.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chairman.

I thank the presenters for coming here today.

My question is on small and independent businesses. I know they're in amongst all these service sector companies. There are many statistics out there stating that small independent businesses are a driver in our economy, and many times when the economy goes through swings, they seem to keep us stable or to keep things on track.

Do you see in the near future, with the changes we may face, any challenges for the small business sector? How can we as government continue to foster that sector and even enhance it? Because it's a stable factor when we go through these swings.

Mr. Tom Wright: Again, my apologies for not having data I could use to respond to your question. I think there is data to affirm your starting point, which is that small- and medium-sized enterprises of this country account for a huge amount of economic employment activity and as such constitute a solid base. One can explore that. I have a colleague in our department who works in that area constantly.

In terms of what's going to make the lives of those people easier and what's going to facilitate their growth, one constantly hears about issues of paper burden. They find that the government is there all too frequently to help them. There's a bit of a challenge on that front. So I think paper burden is one of the areas.

CFIB reviews the irritants with their membership on a regular basis. Financing seems to be one of the challenges; I'd have to update myself on their current top three.

S and T is an area that starts to affect that sector. Even small businesses have to deal with, or take advantage of, technology to get their comparative advantage going in the marketplace.

Certainly the government has had small business loans in place. It has made some steps forward in terms of how to deal with paper burden.

It's a bit of a roundabout answer to your question. Sorry, I don't have the data.

Hon. Mark Eyking: Do I have a few more minutes?

As some of our sectors go through these changes—for instance, a forestry mill in northern Ontario goes through a collapse and there are 200 to 300 people laid off—many regions of this country have regional development agencies. Sometimes when that industry is taken away, those development agencies try to foster growth. A lot of times it's with small businesses. If there was a forestry sector, for instance, maybe we could have a tourism sector in that region. Sometimes you can't just bring a call centre in to some of these regions.

How important are these regional development agencies in helping us through the changes in our economy?

• (1040)

Mr. Tom Wright: In my experience, one area in which they are quite helpful is in the instance of single-industry communities. Take a look at that scenario you were describing. In those areas of the country where they're having a lot of hardship, and those single-plant communities, the degree of freedom they have to respond to that crisis if a plant is going down is pretty limited compared to the larger communities.

It strikes me that this is where regional development agencies have knowledge, awareness, and programs where they can bring together the key players to, as you say, take a look at alternatives, whether it's tourism or something else for the community. You end up having government programs that look at the individual, and a regional agency that's able to work with the community.

Hon. Mark Eyking: Just to sum up, with our economy changing as much as it is, it's going to be critical for those development agencies to be proactive and to connect the dots to help the communities get through.

The Chair: Okay, thank you.

We'll go to Monsieur Arthur.

[Translation]

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Thank you, Mr. Chairman.

Good morning, Mr. Wright and Ms. Barnes.

In the area of services, where is Canada the best in the world?

Mr. Tom Wright: Do you mean domestically? Do you mean in Toronto versus Vancouver?

Mr. André Arthur: No, in what area of the service sector is Canada the best in the world and unbeatable when compared to all its competition? In what area are we the best?

Mr. Tom Wright: It is difficult to say. Earlier on, I said that we had 8 of the 10 biggest companies in the service sector. Seven of those eight companies are in the financial services sector. In order to determine the best in the world, you would have to study each of the sub-sectors.

To come back to architecture, do we have the best architects for the green building services, the environmental sector? It is possible. In another sector, do we have the best health care services?

You would have to study the situation within each of the sub-sectors in order to determine if Canada is the best or the second-best.

Mr. André Arthur: I will correct the word "best" by asking you if there is an area of the service sector where Canadians are leaders.

Mr. Tom Wright: In the financial sector. The financial institutions are among the biggest and the best.

Ms. Colleen Barnes: This is also true for the institutions in the insurance sector, because they are among the five or six biggest insurance companies in the world.

There are several ways to answer your question. Is it better to be a good place to work? That is one way in which to answer. Or is it good to be the biggest in the world? That is another way to answer.

Mr. Tom Wright: If I may, Mr. Chairman, I would like to talk about the engineering sector and the projects carried out by SNC-Lavalin globally. These people are sought out by countries to carry out enormous projects. They are among the best in the world. In the area of information technology, we could talk about Research In Motion, RIM, with their BlackBerry and related services. I think if I asked officials to study each sub-sector, we could start identifying those that would be the pride of Canadians.

•(1045)

Mr. André Arthur: Does my question trouble you?

Mr. Tom Wright: Only because I do not have the list before me. It is not because I believe we do not have any.

Mr. André Arthur: Since the creators of wealth in the service sector are those doing business on the international front—you explained that to us earlier—who is our competition globally in the service sector? Is it China, Switzerland? Who would be our most significant competition, the ones we fear?

Mr. Tom Wright: Once again, we would have to study each of the sub-sectors and each of the components. For some services in the environmental sectors, some might suggest it would be the French, because of their performance in the heavy industries. In other sectors, for example in computer systems, some might say it would be the United States, because of what they are able to do. Yes, we have competition, and it comes from several countries. It all depends on what you are talking about exactly.

Mr. André Arthur: Manufacturers told us about the problems they were having getting skilled workers that would allow them to grow and even just to maintain their business activities.

Is this a problem that is affecting the service sector in Canada as strongly?

Mr. Tom Wright: It would have to be confirmed with them. I have not had any discussions concerning the current situation. Earlier on, I alluded to the fact that there were fears that this might happen. I used the example of the tourism industry. They have looked to the future and they are worried. They believe there will be a labour shortage—I do not remember the figure, but it was rather impressive—by 2015. If those fears exist within that industry, they certainly also exist in other sectors. Therefore, I do not know why we would not be facing a challenge.

[English]

Mr. André Arthur: Thank you, sir.

The Chair: Okay, thank you.

I'm going to take the next Conservative spot here.

My question relates to what is stated on page nine and page 11 with respect to productivity growth. As you know, productivity growth has been a challenge for the Canadian economy as a whole, and yet you state on page nine that in fact the service sector is doing well in terms of productivity growth, in terms of labour productivity.

On page 11 it says that “increased investment is helping spur productivity gains”.

Can you expand on why in this sector the productivity growth is better than it is in other sectors?

Mr. Tom Wright: Again, I apologize for not having a slide on this.

They have been making investments in plant and equipment in that sector. It is a very impressive number. I don't have the specific number in my hands here, but there is a correlation between the investment they have made in technology, plant and equipment, and their resultant productivity.

We can take the example that I used earlier, the everyday example of grocery shopping and checking out your groceries yourself using the scanner technology and investment. I think one could take each of these sub-sectors and find examples of where the investment has been able to result in that increase in labour productivity.

The Chair: That leads to the second question I have. It relates to page three.

I appreciate the fact that you've outlined today that the services sector has a variety of positions. You can't define it by any one particular subset within the sector, especially in terms of productivity related to adoption of new technologies. This is a very simple question, but where would you put companies like Microsoft and IBM? A company like Intuit, I assume, would be in the finance and insurance subset, but where would you put companies like Microsoft and IBM that provide ICT service support?

Mr. Tom Wright: If I can consult quickly with my economist...I believe they are in professional services.

•(1050)

The Chair: Professional, scientific, and technical.

Mr. Tom Wright: Yes, and part of it could be in information and culture. As you get into the finely divided parts, we almost have to go back to Statistics Canada to understand how they've compiled the data and how the North American codes work.

I can get you that breakdown.

The Chair: Okay.

Now, this is where it gets very complicated for me. Take a company like Intuit in Edmonton. It does provide tax advice, so it's a financial company, and yet it has an incredible call centre. It's one of the best employers in Canada. It has a call centre that is just state-of-the-art. It's unbelievable.

So that is in both categories, correct?

Mr. Tom Wright: It should be. I would want to get my economist to confirm that's the way it would get coded, but that would be my understanding.

The Chair: Okay.

My last question or point is something that perhaps you can provide further information on. There is a genuine concern about a loss of employment in the manufacturing sector and increasing employment in the service sector, but there is a concern about those who have been working in manufacturing for a number of years trying to make the transition, particularly if the median wage is lower in the service sector than in the manufacturing sector.

When you analyze that problem, is there something Industry Canada can give us to highlight the relationship between various sectors? It seems to me the more you delve into this, the more complicated it is for a company like Intuit, but even more for a sector like oil and gas. Everybody assumes it's natural resources. That's what it is, yet manufacturing is huge in that sector. Forty per cent of the contracts for the oil sands go to the province of Ontario. Yet in terms of the services sector, this is an oil field service company. Is that a service sector or is that energy? What is that?

Is there something you could provide, say a pick-up between those who perhaps lose a job in one sector and move to another sector? Is there anything you have on that, but also the relationship between the sectors, such as an OEM, an anchor that then draws in the other services? For instance, the GM plant in Oshawa, what is the impact on the related services if you go to two shifts? The economy is so dynamic. Is there a way for any information you have to help the committee understand that, as well as the fact that perhaps there is a simple way of looking? We look at energy, manufacturing, and service. I don't know if that is the perfect way of analyzing the economy.

So those are just some general thoughts. I don't know if you have any reaction or if there is any information you can provide to help the committee to better understand. That would be helpful.

Mr. Tom Wright: I certainly think we can provide some information to understand the data and how it is collected. There are challenges in the data. The economy has evolved over the years. As I think we talked about earlier, what we counted 10 years ago and what we're counting today may be slightly different. So we'll try to explain some of that.

With regard to your idea of going from one shift to another shift and how that impacts on the service economy, I think we should be able to pull together a bit of information. To what extent you can extrapolate that would be questionable. But most assuredly, if you start taking a look at the oil and gas industry, there is lots of high-end engineering informatics technology. There are lots of services. It is not as most people would think at first blush; there is a whole host of things.

We could perhaps provide a primer of sorts, if that would be helpful.

The Chair: Thank you.

Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle: My questions tie in exactly with your concerns, and they deal with job losses in the manufacturing sector. I see that sector as being very central to the economy, a little like the engine of a car, with the service sector built around it.

Do you not share my concern, which is that if there are job losses in the manufacturing sector, which is collapsing because of a major crisis, the service sector will be in worse shape as well?

Of course, when we talk about services, we need to think not just about the manufacturing sector and the textile sector, but also about the pharmaceutical and aerospace sectors, where there is research and development and other important things that need to be considered.

Will there not be repercussions in the medium and long term?

On page 6, you showed the breakdown of jobs in the service sector, with retail, health care and social services coming at the top.

Do you think that this distribution has more to do with the aging population, and that the situation is more sporadic, which surprises me a bit, or is it that baby-boomers who have made a good income are now getting into the service sector? However, with the collapse of the manufacturing sector, the service sector will lose ground.

•(1055)

Mr. Tom Wright: With respect to problems in the manufacturing sector, things are what they are. Moreover, the economy has created other jobs in the industry sector. So, to this point, there has not been a crisis.

How long will that go on? There we get into making predictions, and the crystal ball does not give us a very clear picture. However, I understand that there may be some problems.

As far as the sub-sector of health care is concerned, I do not see aging as a sporadic issue. It is definitely a day-to-day phenomenon. Science also plays a role by enabling us to get a little older all the time. The numbers show that there will be more people with grey hair amongst us. That comes as no surprise. In my opinion, we will be living with that situation for some time to come.

Ms. Paule Brunelle: Thank you, Mr. Wright.

[*English*]

The Chair: Thank you very much for coming in. We appreciate your presentation. If you have anything further you'd like to provide, please do so.

Ms. Barnes, I know that you have a presentation, which we will have translated for the members as well.

Thank you very much for your attendance.

The meeting is adjourned.

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