Executive Summary

Buffeted by a deepening crisis in financial markets, global economic activity slowed to 3.2 percent in 2008, from 5.2 percent in 2007. However, the financial crisis entered a tumultuous new phase in September of last year that has badly shaken markets and provoked an unprecedented contraction of economic activity and trade. The advanced economies experienced a 7.5 percent decline in real GDP during the fourth quarter of 2008, and output is estimated to have continued to fall almost as fast during the first quarter of 2009. Emerging economies too are suffering badly and in the fourth quarter contracted 4.0 percent in the aggregate. While the rate of contraction should moderate from the second quarter onward, the IMF projects that world output will decline by 1.3 percent in 2009 as a whole and recover only gradually in 2010, growing by 1.9 percent.

The U.S. economy slowed for the fourth straight year in 2008, as real GDP in that economy managed to expand by 1.1 percent, compared to increases of 2.0 percent and 2.8 percent in the two preceding years. Performance was anaemic over much of the first half of 2008, before turning negative in the second half of the year. Real GDP fell 0.5 percent in the third quarter before plunging 6.3 percent in the fourth quarter, as the full force of the recession took hold. Growth in the euro area slowed to 0.9 percent last year, down two thirds from the 2.7 percent rate registered in 2007. As in the United States, economic activity in the region suffered a sharp contraction in the fourth quarter of 2008, declining by 6.0 percent. Growth in Japan fell 0.6 percent for the year while the U.K. economy managed to expand by 0.7 percent in 2008, as both economies posted declines in real output over the last three quarters of 2008.

The emerging economies were initially thought to be relatively shielded from the crisis as they had improved macroeconomic fundamentals and limited exposure to U.S. securitized assets. However, the crisis has spread to the emerging economies via the trade channel and has dramatically affected these economies. Growth fell from 13.0 percent in 2007 to 9.0 percent in 2008 in China, from 8.1 percent to 5.6 percent in Russia, from 9.3 percent to 7.3 percent in India, and from 5.7 percent to 5.1 percent in Brazil.

In line with the deteriorating global economic situation, the pace of real activity in Canada fell sharply, as growth in real GDP fell from 2.7 percent in 2007 to 0.5 percent in 2008. The economy contracted in the first quarter, rebounded over the next two quarters, then declined sharply in the final quarter of the year. Half of the provinces—Prince Edward Island, Nova Scotia, Quebec, Manitoba, and Saskatchewan—and two territories—Nunavut and the Yukon—posted growth for the year, while the remaining five provinces and one territory experienced a contraction in economic activity in 2008. Net new job creation, at 259,400, slipped to its lowest level since 2005, as the Canadian labour market was buffeted by the economic downturn experienced in the second half of 2008. Employment had been on an upward trend and reached a peak in October. However, the economy shed 83,700 jobs over the final two months of the year, and the unemployment rate climbed to 6.6 percent to close out 2008. Consumer prices rose by 2.3 percent over the year as the rate of inflation edged up from the 2.2 percent rate posted in 2007.