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**THE ECONOMICS OF
WELL-BEING**

Don Drummond, SVP & Chief Economist
November 25, 2009

 **Bank Financial Group**

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TD Economics provides analysis of economic performance and the implications for investors. The analysis covers the globe, with emphasis on Canada, the United States, Europe and Asia.

Contact Information
Phone: 416 982 8065
Email: td.economics@td.com

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THE ECONOMY & MENTAL HEALTH INTERTWINED



- Mental illness a major economic cost
- Economic well-being a determinant of mental health
- We know a bit about the relationship, but more research is needed

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ECONOMIC COSTS OF MENTAL ILLNESS



- Reduces labour productivity through:
 - Increased absenteeism
 - nearly half the time off that employees take for all illnesses during the year is due to mental illness
 - Increased presenteeism
- As a result, in Canada:
 - 35 million workdays lost every year (0.8% of total usual hours)
 - Disability from mental illness: 4-12% of payroll costs
 - Mental health claims: fastest growing category of disability costs
 - Overall cost to Canadian economy: \$33 billion per year (2.1% of GDP)

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THE HEALTH OF CANADIANS



NINTH ANNUAL NATIONAL REPORT CARD ON HEALTH CARE IN CANADA (AUGUST 2009)

	Total population	Earning less than \$30,000
Canadians say that economic downturn has affected how they take care of health	23%	31%
Canadians worried about their health	52%	n.a.
Canadians worried about their financial security	57%	n.a.
Canadians worried about losing their job	27%	n.a.
Canadians feeling stressed and/or overwhelmed due to financial concerns	40%	51%
Canadians who have delayed or cancelled a dentist appointment as a result of financial concerns	25%	34%
Canadians having skipped meals as a result of financial concerns	20%	28%
Canadians losing sleep over economic worries	23%	n.a.

Source: Canadian Medical Association

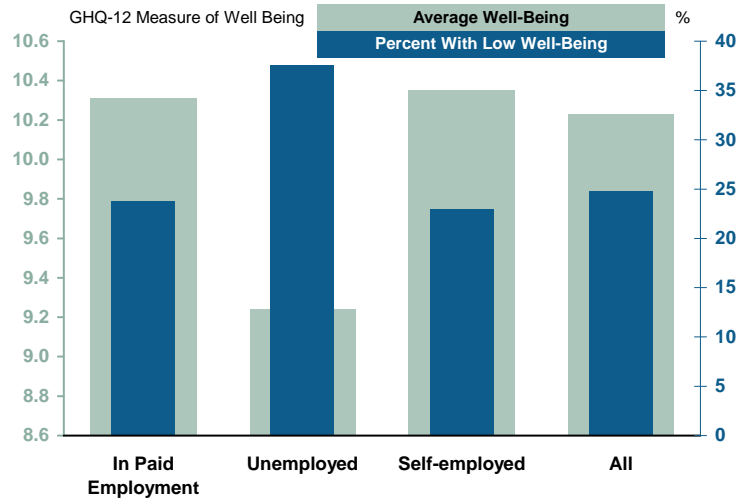
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LINKS BETWEEN UNEMPLOYMENT AND HAPPINESS



INCOME & HAPPINESS



Source: Unemployment as a Social Norm: Psychological Evidence from Panel Data; Clark 2003

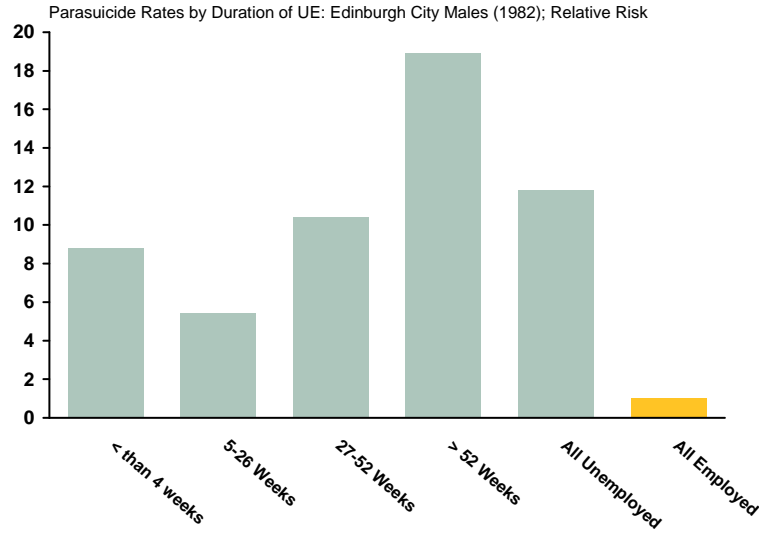
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UNEMPLOYMENT INCREASES RISK OF PARASUICIDE



INCOME & HAPPINESS



Source: Platt & Kreitman (1985)

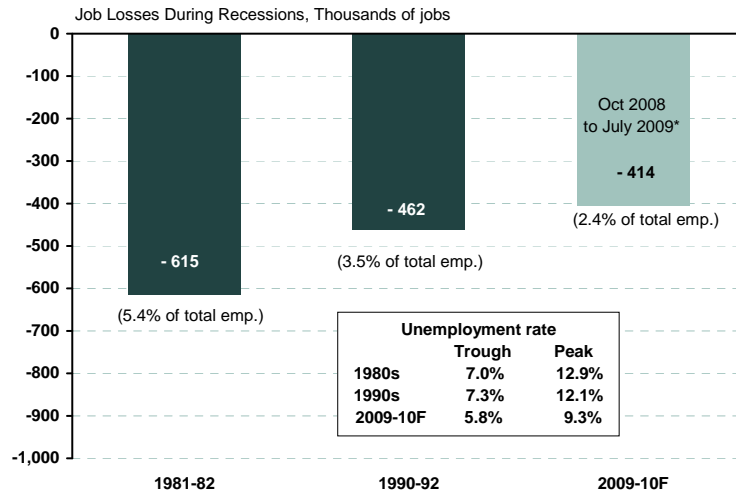
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UNEMPLOYMENT WILL EDGE HIGHER, BUT WILL NOT RISE TO PRIOR PEAKS



CANADA



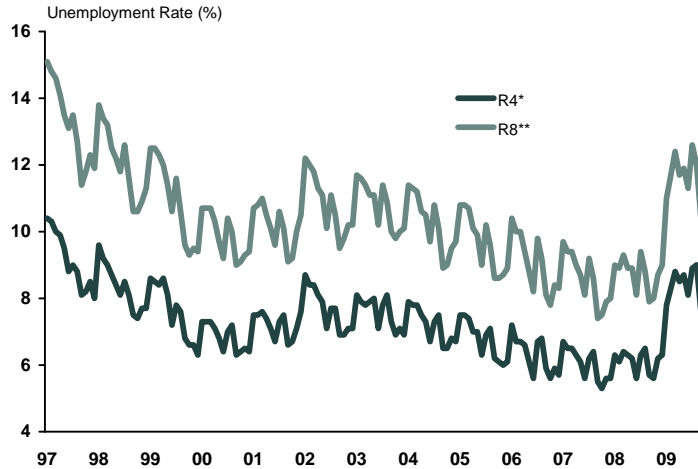
F: Forecast by TD Economics as at October 2009; Source: Statistics Canada.

* Current peak to trough

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UNEMPLOYMENT HAS RISEN IN THE CURRENT CYCLE



* R4=Official Rate; ** R8=Official Rate plus discouraged searchers, waiting group and portion of involuntary part-timers; Source: Statistics Canada.

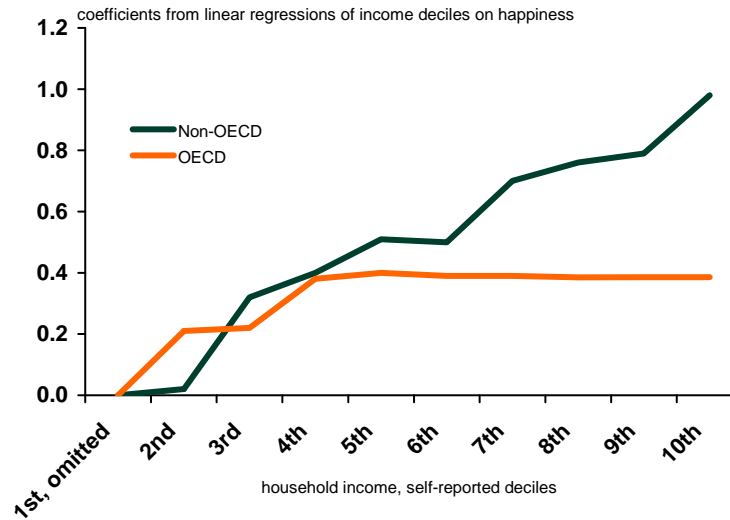
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INCOME BUYS HAPPINESS – TO A POINT



HELLIWELL ET AL.



Source: Helliwell & Putnam; "The Social Context of Well-being"

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METHODOLOGY USED IN SUBJECTIVE MEASURES OF WELL-BEING



HELLIWELL ET AL.

- Research by Helliwell et al. identifies factors strongly correlated with subjective evaluation of well-being
- Strong positives:
 - God/religion;
 - Friends;
 - Age;
 - Married/living with partner; and
 - Health.
- Strong negatives:
 - Unemployed;
 - Divorced/separated; and
 - Male.

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JOB CHARACTERISTICS CAN BE SIGNIFICANT CONTRIBUTORS TO LIFE SATISFACTION



HELLIWELL ET AL.

NET EFFECTS OF JOB CHARACTERISTICS ON LIFE SATISFACTION EXPRESSED IN MONETARY TERMS*

Job:	Equal to a Rise in Income of:
Requires skill	20.4%
Have enough time	11.2%
Have variety of tasks	21.7%
Trust in management	34.5%

* By moving by an amount roughly equal to 10% of the sample mean of a given job characteristic.
Source: Helliwell et al.

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WHY GDP IS A POOR MEASURE OF ECONOMIC WELL-BEING



SHARPE ET AL.

- Measures effective consumption poorly by ignoring the value of leisure and of longer life spans
- Ignores the value of accumulation for the benefit of future generations
- Per capita GDP is representative of the **average individual**; in reality, incomes are uncertain and unequally distributed

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ALTERNATIVE: INDEX OF ECONOMIC WELL-BEING



SHARPE ET AL.

- Index developed by Sharpe et al. is comprised of:
 - Current effective per capita consumption flows;
 - Net societal accumulation of stocks of productive resources;
 - Income distribution; and
 - Economic security.

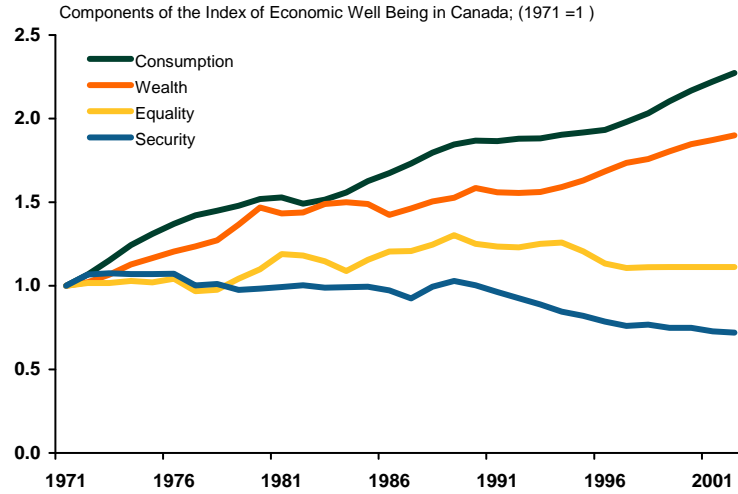
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CANADA HAS MIXED RESULTS WHEN COMPONENTS OF WELL BEING ARE CONSIDERED



SHARPE ET AL.

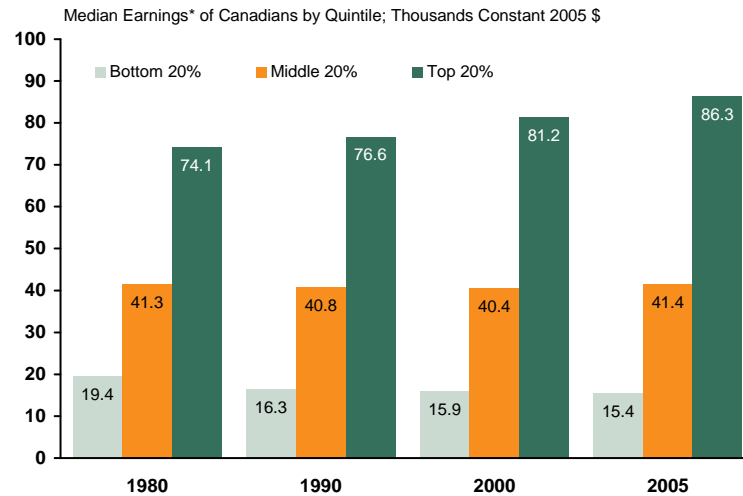


Source: Center for the Study of Living Standards

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GROWING INCOME INEQUALITY



*Full-time, full-year earners; Source: Statistics Canada, Censuses of Population

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IS THE CANADIAN WORKPLACE CHANGING DRAMATICALLY AND WHAT ARE THE IMPLICATIONS?



THE "STRAWMAN VIEW"

■ Past

- Stable employment in a job with benefit

■ Present & Future

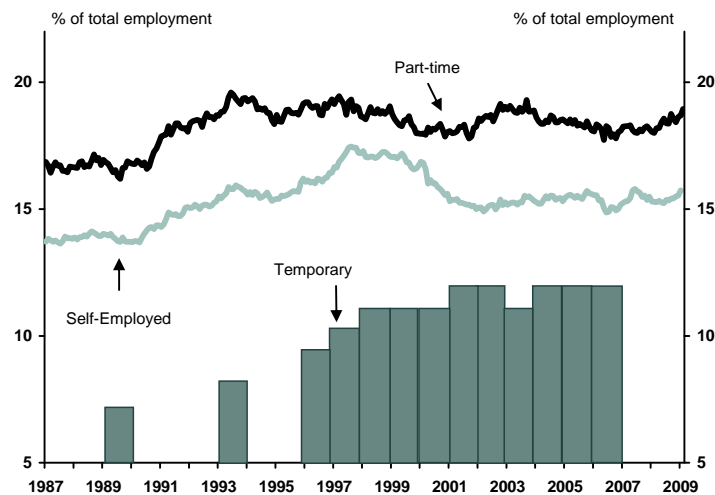
- Unstable employment without benefits
- Hollowing of the "middle"

■ Hard to obtain facts, never mind decipher

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GENERAL RISE IN NON-STANDARD EMPLOYMENT



Source: Statistics Canada LFS, GSS

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JOBS WITHOUT NON-WAGE BENEFITS OUTPACING GROWTH IN JOBS WITH BENEFITS



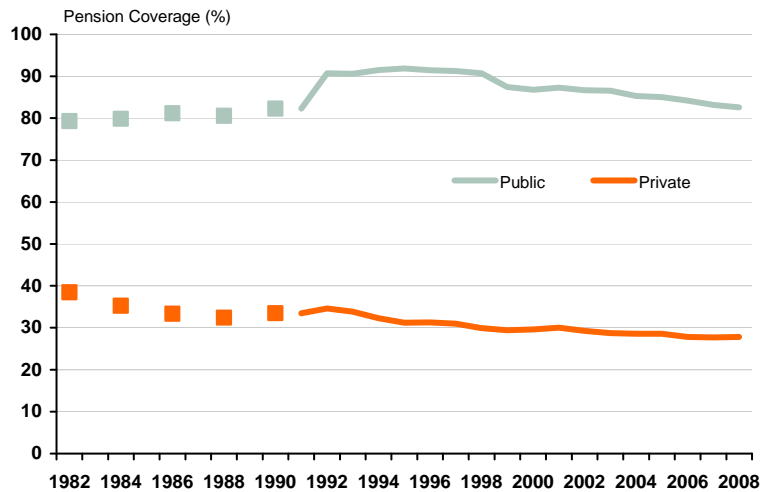
	Job growth* (%)
Jobs with benefits	1.83
Jobs without benefits	4.76

Source: Workplace and Employee Survey
*Annual rate, 1999-2005 Average

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PENSION COVERAGE DECLINING



Source: Statistics Canada

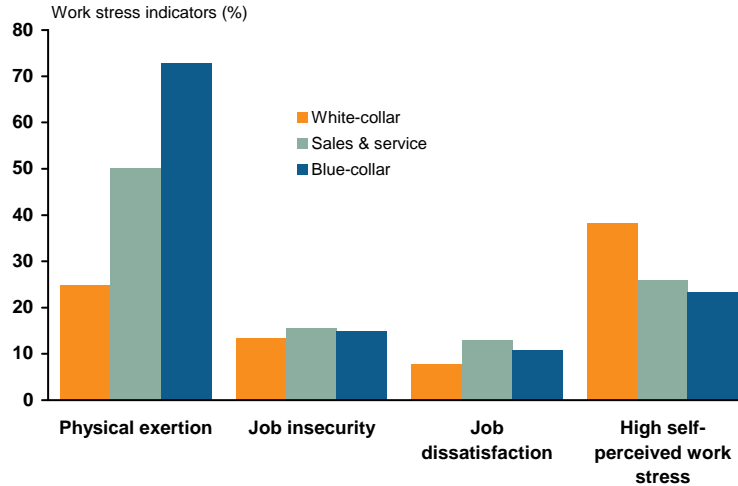
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TYPE OF JOB AFFECTS WORK STRESS...



WORKPLACE STRESS



Source: Statistics Canada; Work Stress & Job Performance

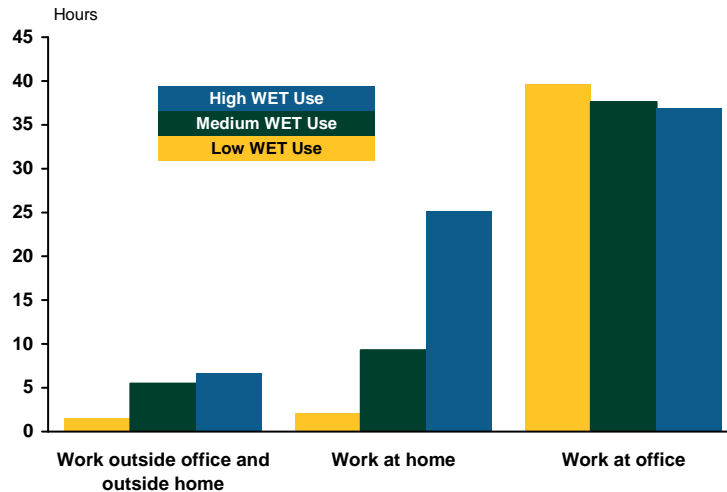
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WORK ENHANCING TECHNOLOGY (WET) ALLOWS PEOPLE TO WORK AWAY FROM THE OFFICE



WORKPLACE STRESS



Source: Linda Duxbury's "Time thieves and space invaders"

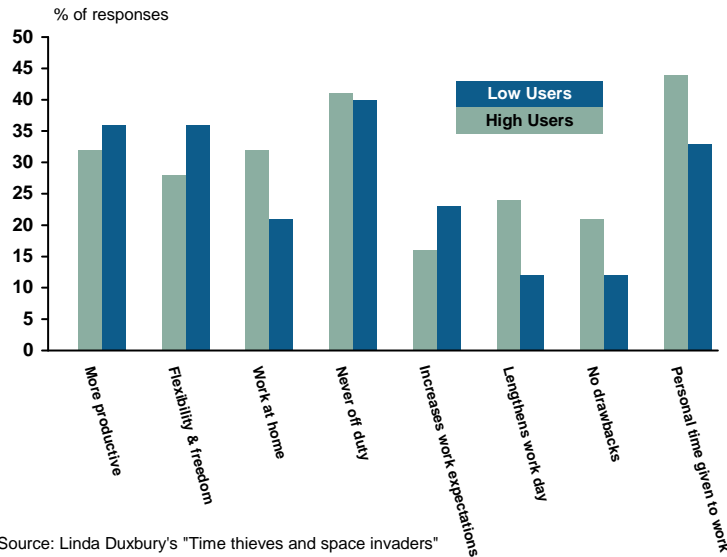
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BENEFITS OF WET ARE MIXED



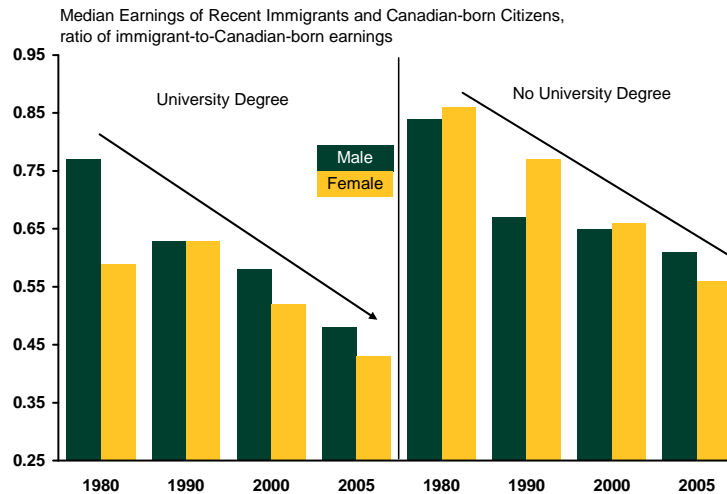
WORKPLACE STRESS



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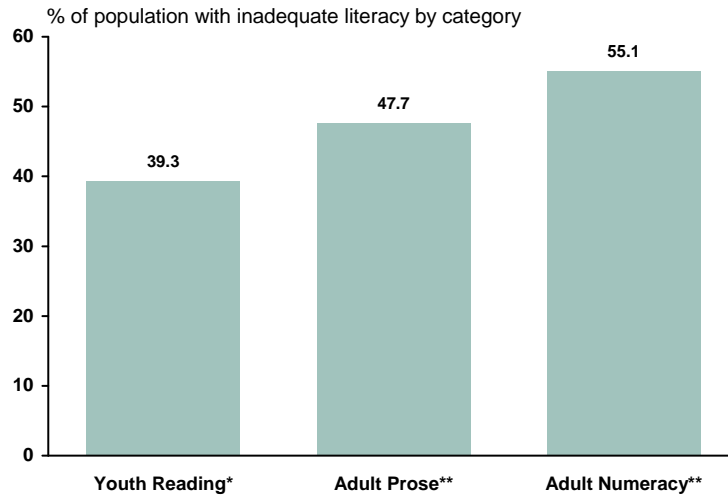
HIGH PROBABILITY OF LOW-INCOME STATUS FOR IMMIGRANTS



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BASIC LITERACY SKILLS REMAIN A CHALLENGE



* Students aged 15 ** Adults aged 16 and over; Source: Statistics Canada, Learning Metrix Inc.

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PUBLIC SAFETY NETS ARE FAILING CANADIANS



- Many Canadians are exhausting regular EI benefits and will not qualify for social assistance
- Will have to liquidate assets in order to become eligible to social assistance
- Individuals who qualify for social assistance are not provided with economic incentives to exit program (marginal effective tax rate can be over 100%)

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WHAT SHOULD BE DONE



- Many thought that preserving a low and stable inflation rate would reduce the impact of economic cycles
- Recession proved that this is a necessary but not sufficient condition
- What should be done?
 - Raise productivity growth;
 - Focus on education and reduce drop out rate;
 - Improve public safety nets;
 - Improve immigration system;
 - Raise literacy; and
 - Improve retirement income system.

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