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Canadian Cities: An Economic Snapshot

Toronto Leads the Pack

by Benjamin Tal

Economics

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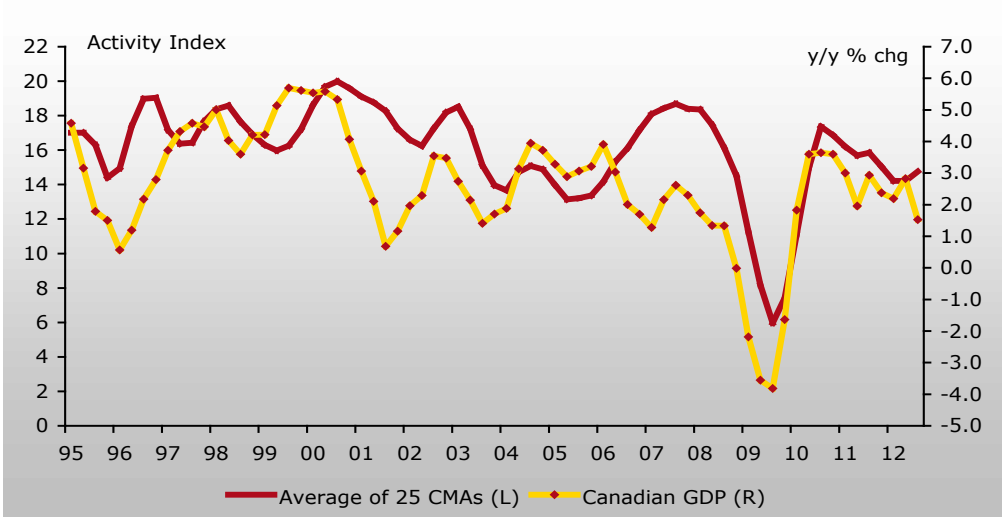
The *CIBCWM Metropolitan Economic Activity Index* is a measure designed to assess the relative performance of Canada's major cities using yearly changes for nine key macroeconomic variables and drivers of economic growth. For any given city, the index provides a consistent base for comparison with other cities and/or with the aggregate performance of all other Census Metropolitan Areas (CMAs).

As of the third quarter of 2012, the city of **Toronto** ranked first, closely followed by Calgary. What's so impressive about Toronto's performance is that the city has topped our ranking for more than a year. Given that our index measures momentum as opposed to a level of activity, Toronto's ability to maintain momentum for such a long period is impressive. Also note that Toronto ranked in the top five for more than seven consecutive years, with the only exception being the 2009 recession when the city's ranking slipped to 7th place.

Interestingly, Toronto did not lead the pack in any of our sub-measures of economic momentum, but it ranked high enough in many categories—a fact that gave the city the top position in our standing. Simply put, the multi-channel nature of Toronto's economic engine is the secret not only behind its current top position, but also behind its ability to maintain a relatively high

Chart 1
CIBCWM Metropolitan Economic Activity Index vs. GDP

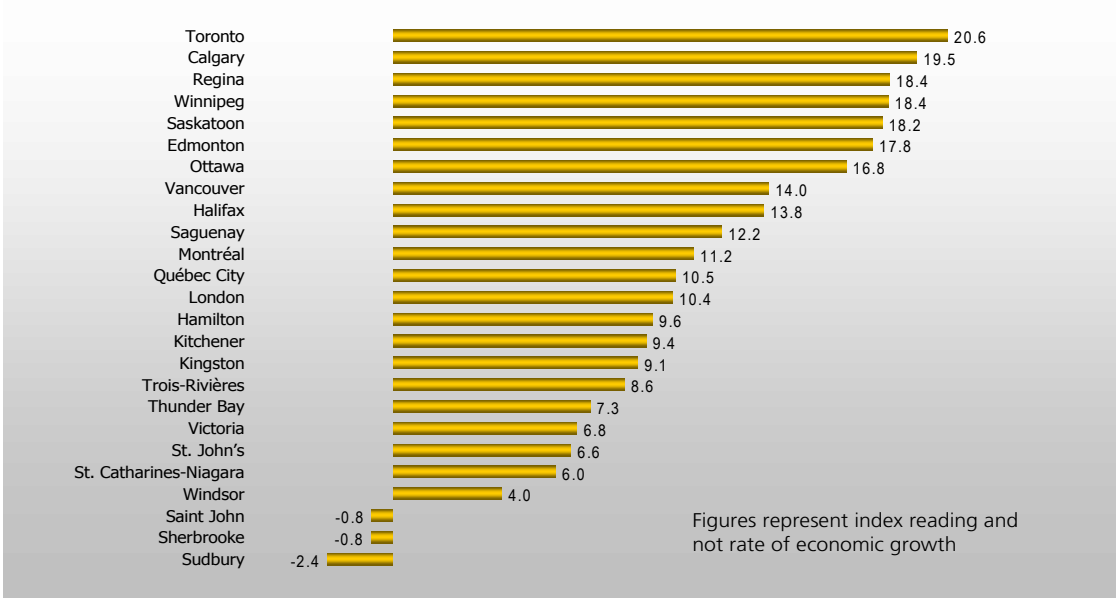


Source: Statistics Canada, CIBC

http://research.cibcwm.com/res/Eco/EcoResearch.html

Chart 2

CIBCWM Metropolitan Economic Activity Index (2012Q3)



(For more details on each CMA, please refer to ***http://research.cibcwm.com/res/Eco/ArEcoMEA.html***).

Chart 3
Toronto

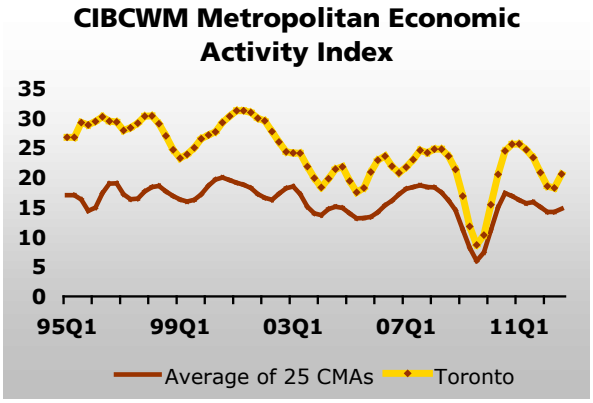


Chart 5
Regina

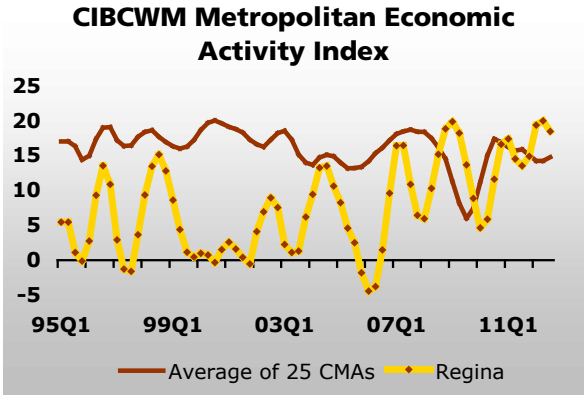


Chart 4
Calgary

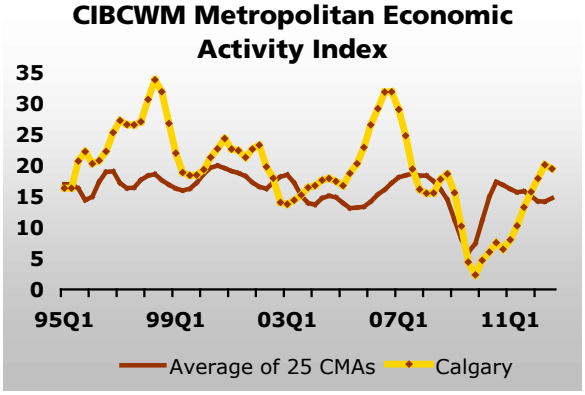
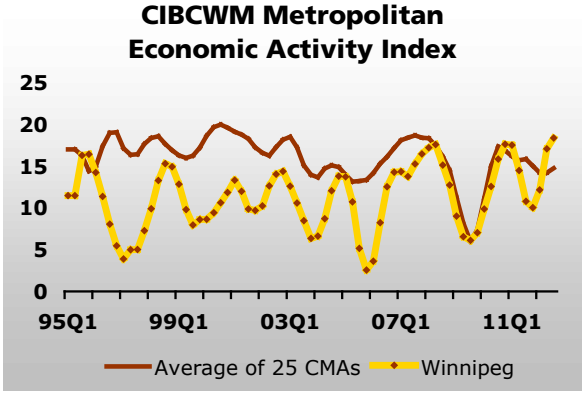


Chart 6
Winnipeg



grading over the past two years. This can be easily seen in the robust activity of the city's economy during the economic recovery, with the city outpacing the national average by a wide margin.

Over the past year, Toronto has been benefiting from a recovery in the manufacturing sector, helped by the positive spin-off of the improvement in US auto demand. The construction sector, spurred on by activity in both the residential and non-residential segments of the industry, also played an important role in the city's consistent outperformance. As of the third quarter, housing starts in the city rose by a dazzling 30% (y/y), with 99% of this growth coming from the condominium market. Population in the city is rising at a strong pace of just over 2% on a year-over-year basis, while employment growth is hovering around its strongest showing in more than a decade.

The coming year, however, will pose a major challenge to the city's ability to maintain its current economic momentum. A softening housing market, the end of many federal and provincial governments' infrastructure stimulus projects, a projected slower growth trajectory in the manufacturing sector and softer retail trade activity will work to slow overall economic momentum in the city in 2013.

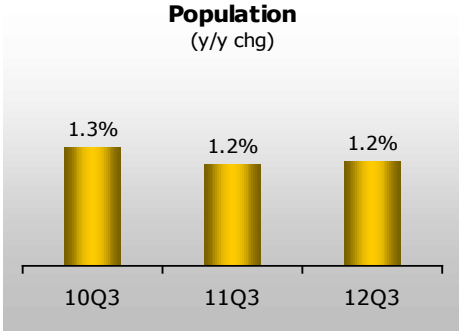
Calgary ranked second in our momentum index, reflecting strong population growth and a healthy labour market. Calgary enjoys one of the lowest unemployment rates in the nation (5.1% as of the third quarter of 2012) while the quality of employment is relatively elevated (ranked 2nd among all cities). As a result, consumer spending in the city has been relatively strong, with retail sales rising by an estimated 9% over the past year. Note that as opposed to Toronto, the residential housing market is playing only a marginal role in supporting activity in the city.

The city of **Regina** continues to show positive momentum and is currently ranked third in our index. Momentum is helped by very strong population growth (ranked 4th in the nation) and a healthy labour market, with the city experiencing the second lowest unemployment rate among the country's 25 CMAs. The city's robust population growth has spurred housing market activity, with housing starts rising by a strong 80% (y/y) in the third quarter. Regina is also supported by an improving manufacturing sector, with activity in 2012 estimated to outpace the national average for the second year in a row.

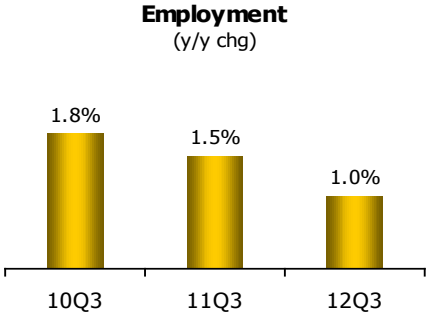
Winnipeg's high ranking reflects strength in both the construction and the manufacturing sectors. Housing starts in the city rose by a hefty 50% in the year ending September 2012 while non-residential activity rose at a rate second only to Saskatoon. At the same time, some improvement in demand for transportation equipment has boosted activity in the manufacturing sector. Consumer fundamentals in the city are in good shape with a relatively healthy labour market and the nation's second lowest personal bankruptcy rate.

Selected Economic Variables — CANADA

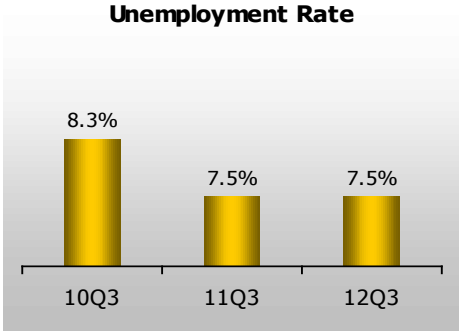
Population
(y/y chg)



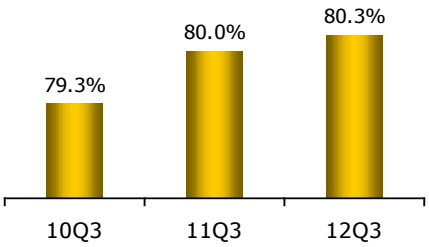
Employment
(y/y chg)



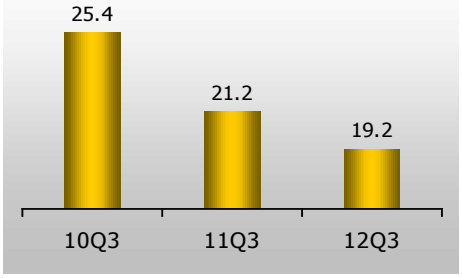
Unemployment Rate



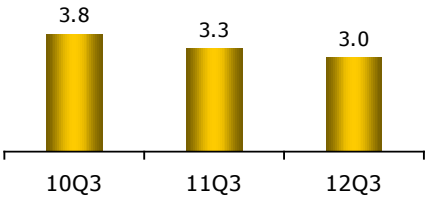
Full Time as a Share of Total Employment



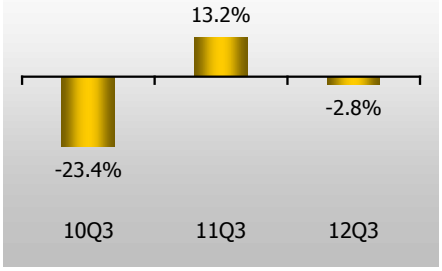
Consumer Bankruptcy Rate
(per 10,000 people)



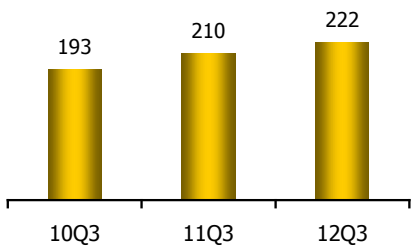
Business Bankruptcy Rate
(per 1,000 businesses)



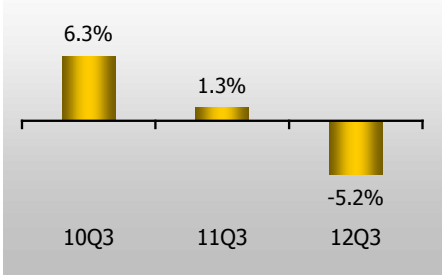
MLS Unit Sales
(y/y chg)



Housing Starts
(000s)

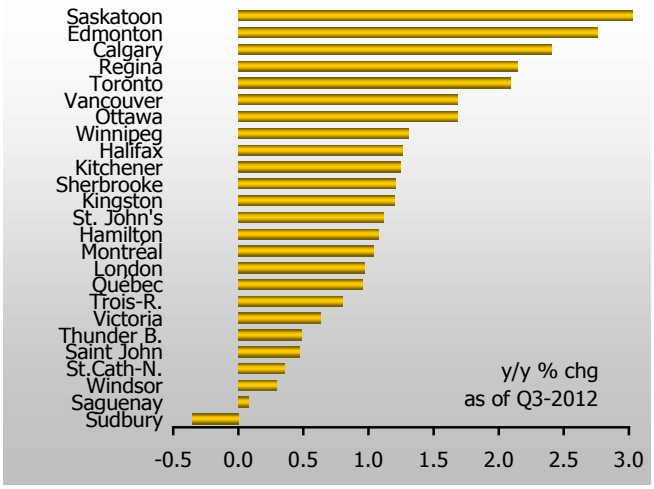


Non-Resid. Building Permits
(y/y chg)

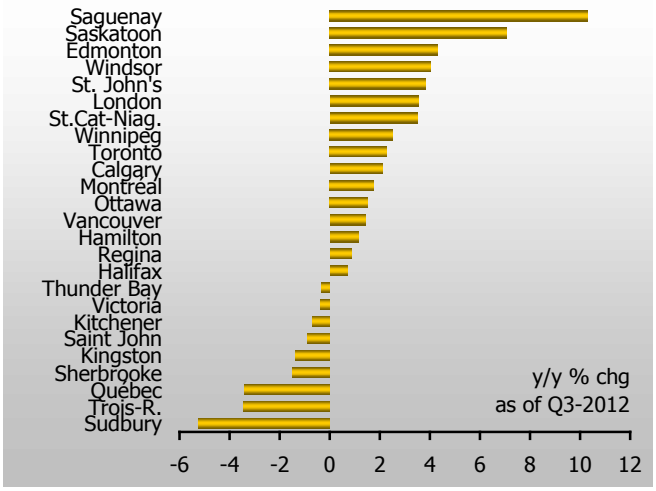


CMAs by Selected Economic Variables

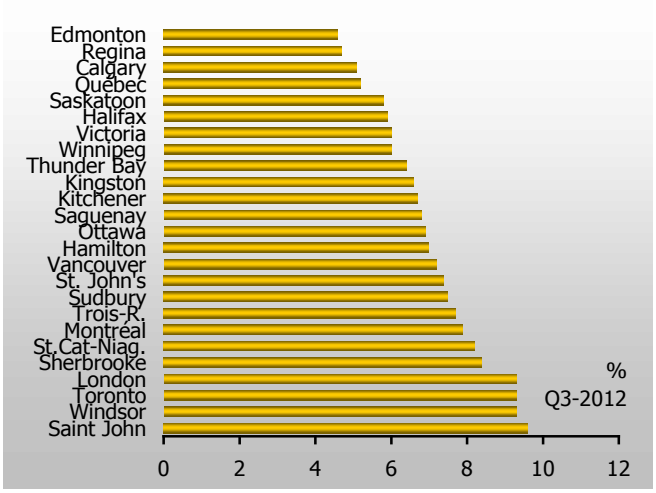
Population



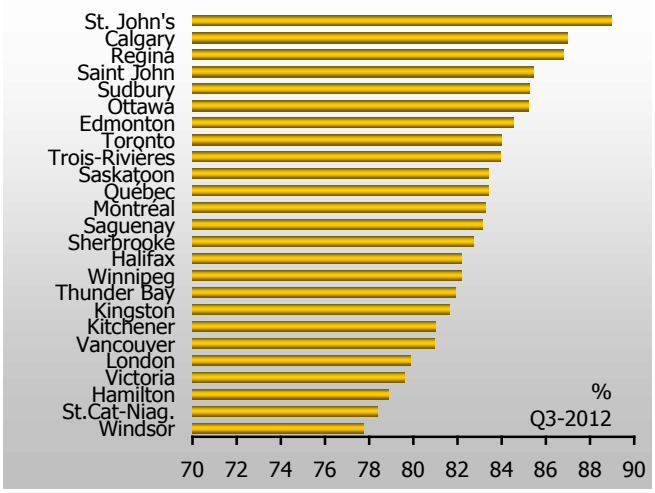
Employment



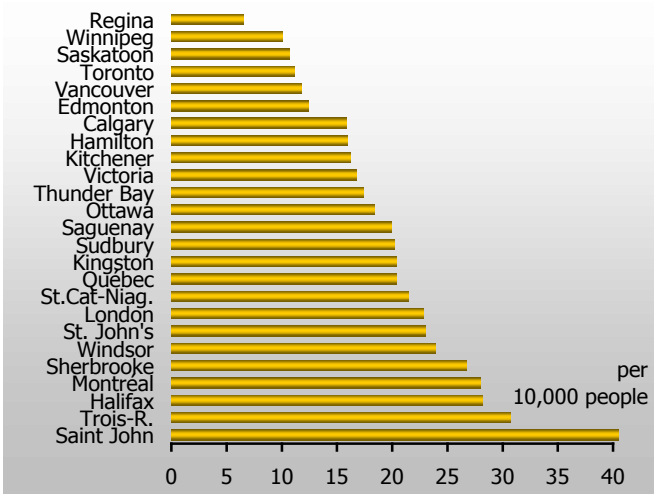
Unemployment Rate



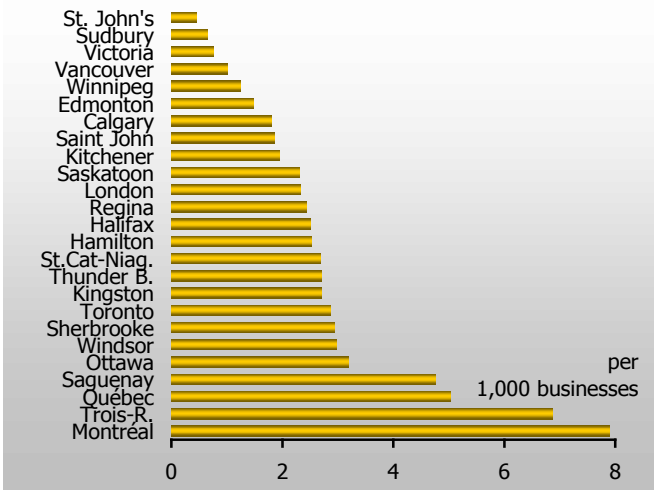
Full Time as a Share of Total Employment



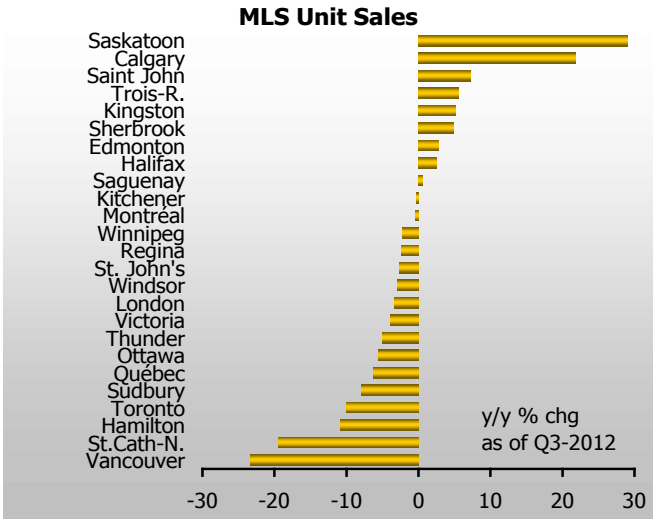
Consumer Bankruptcy Rate

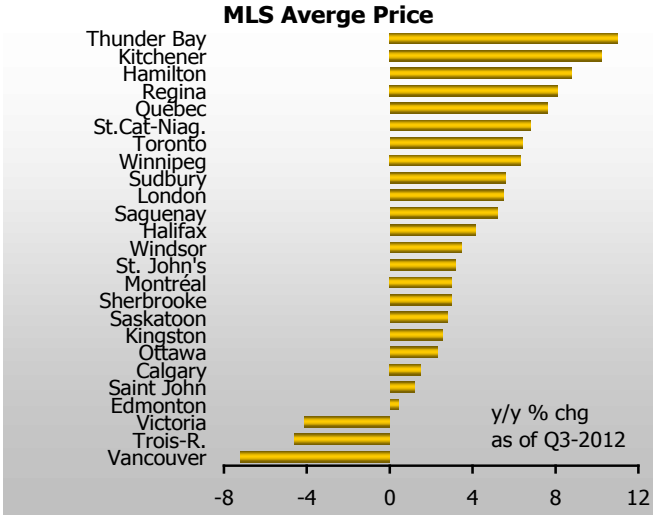


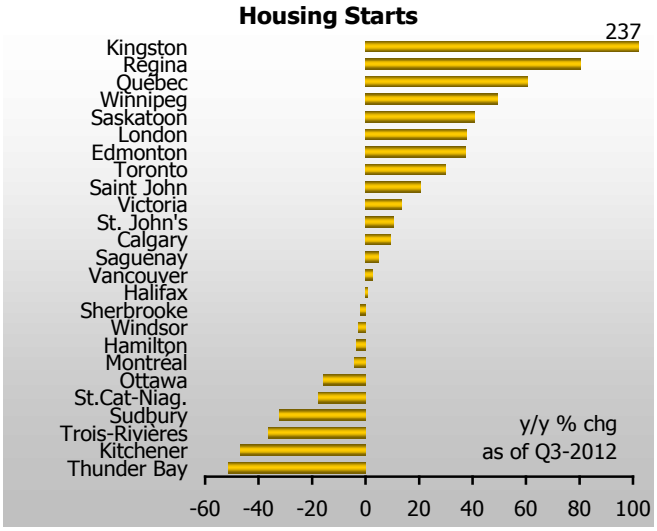
Business Bankruptcy Rate

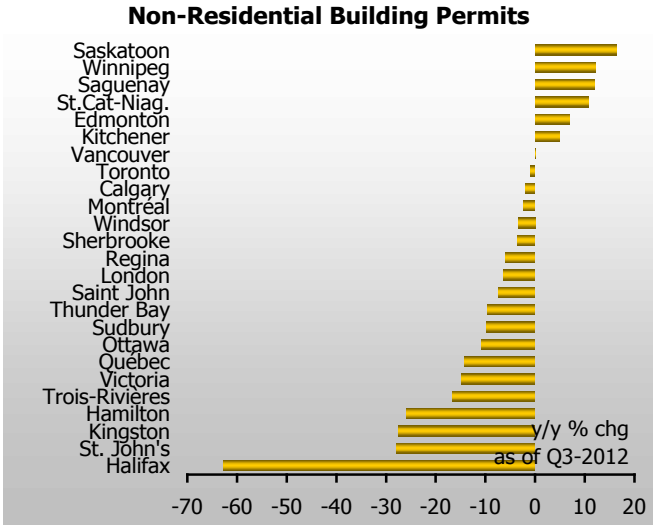


CMAs by Selected Economic Variables









Sources:
Canadian Mortgage and Housing Corporation (CMHC)
Office of the Superintendent of Bankruptcy Canada
Statistics Canada
The Canadian Real Estate Association (CREA)
Québec Federation of Real Estate Boards (QFREB)
CIBC World Markets Inc.

Appendix

The CIBCWM Metropolitan Economic Activity Index

Using 9 key macroeconomic variables, we have developed a metropolitan index of economic activity, which is structured in a way that approximates the change in each city's level of economic activity. With data going back in history, our index enables us not only to monitor the current performance of a given city but also to track its cyclical behavior against the national economy and other census metropolitan areas (CMAs)[1]. The focus is on the 25 largest CMAs in Canada.

The macro variables used to develop the index are: (1) Population growth, (2) Employment growth, (3) Unemployment rate, (4) Full-time share in total employment, (5) Personal bankruptcy rate, (6) Business bankruptcy rate, (7) Housing starts, (8) MLS Housing resales, and (9) Non-Residential building permits. We combined all the above information into one index per city: "The CIBCWM Metropolitan Economic Activity Index"[2].

Notes:

1. *According to Statistics Canada, a census metropolitan area is delineated around an urban area (urbanized core having a population of at least 100,000, based on the previous census). Across Canada, 27 census metropolitan areas have been defined (according to the 2001 Standard Geographical Classification). Once an area becomes a census metropolitan area, it is retained as a census metropolitan area even if its population subsequently declines.*
2. *Each city's index was derived by combining the nine economic variables into one measure. In order to determine the appropriate weight that each economic variable receives, we correlated those variables with overall GDP for the economy as a whole. That is, we treated the overall Canadian economy as a city, and using real GDP growth as published by Statistics Canada to determine the relevant coefficient for each variable. The technology we use for this model is neural networks — an artificial intelligence based system.*

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