

### Overview

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The Greater Toronto Area (GTA)<sup>1</sup> economy was hit hard by the global financial crisis and resulting downturn that began in September 2008. Real GDP tumbled by 2.5 per cent in 2009, the GTA economy's worst showing since the recession of the early 1990s. The job market was sideswiped by the global recession. Employment fell by 1 per cent in 2009, the first decline in 16 years.

Fortunately the GTA economy began to recover surprisingly quickly with economic growth returning in the second half of 2009 and strong gains posted early in 2010. As a result, real GDP growth exceeded 4 per cent in 2010, the strongest expansion in ten years. The recovery has been a boon to the local labour market. Employment climbed by 2.4 per cent in 2010 and is projected to expand a further 2.2 per cent in 2011. Nevertheless, the pace of job growth has not yet been enough to bring down the unemployment rate to pre-recession levels. The unemployment rate averaged 9.1 per cent in 2010, much higher than the 6.8 per cent average in 2008.

Although growth has been slower recently, the 2011 outlook for the GTA is still generally positive, with real GDP growth expected to reach 3 per cent in 2011. Over the medium term, the Toronto GTA is expected to boast one of the fastest growing metropolitan economies in Canada. From 2012 to 2015, the economy is expected to expand by an average of 3.3 per cent per year, and job growth is expected to average a solid 2.1 per cent annually. Continued solid job gains over the medium term, along with lower labour force growth, will put downward pressure on the unemployment rate. By 2015, the unemployment rate is expected to fall to 6.3 per cent – which is more or less sustainable full employment as estimated by economists.

### Industrial Breakdown

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#### **Manufacturing Sector Finally Growing**

The 2000s decade was one the local manufacturing sector would like to forget. Real output in GTA manufacturing fell by an average of 3.5 per cent per year from 2001 to 2009. Many factors conspired to punish the sector: a rapidly rising Canadian dollar, rising energy prices, increasing offshore competition, and a deep global recession. The worst year was 2009, when manufacturing output tumbled by a record 13.8 per cent. The automotive sector particularly struggled through late 2008 and 2009 due to a huge drop in U.S. vehicle sales, prompting government bailouts for two of the so-called Detroit Three automakers (General Motors and Chrysler) that have plants in the GTA.

The North American economic recovery allowed the automotive sector to ramp up production. Other areas of manufacturing benefited from improving economic activity. As a result, GTA manufacturing output expanded by 9 per cent in 2010, with much of the strength in the first half of the year. However, as the U.S. recovery began to wane, manufacturing output in the GTA fell once again in the third quarter of 2010. Accordingly, expectations for the GTA manufacturing industry this year are more modest, with output forecast to rise by 3.2 per cent, accelerating to 4.1 per cent in 2012. Employment levels will continue to be an issue in the sector as many firms need to restructure in an effort to remain competitive, particularly with the Loonie roughly at par or even beyond against the U.S. dollar for the foreseeable future.

#### **Construction Growth to Moderate**

The recession and the resulting drop in consumer confidence hit the GTA's housing market hard in 2009. Housing starts fell to 28,800 units, their lowest level since 1996. But low interest rates and stronger economic growth brought buyers back to the market in 2010, with starts rising to an estimated 34,800 units. With the recovery now moderating and interest rates forecast to begin to rise again in the second half of 2011, total housing starts are expected to fall slightly, to 33,900 units this year.

Meanwhile, non-residential construction in the CMA has continued to do well thanks to government stimulus spending and several building projects across the GTA. Some of the larger non-residential projects completed in 2010 include the Bell Lightbox, the Ritz-Carleton, Maple Leaf Square and the three-storey CANMET Materials Technology Lab at McMaster Innovation Park. Ongoing projects include the Shangri-La Toronto, Trump Tower, the Four Seasons Hotel and Residences, Number One Bloor, a new waterfront campus at George Brown College, and the Energy Research Centre at the University of Ontario Institute of Technology (UOIT). But these construction projects will be partly offset by weaker housing market activity and the winding down of government stimulus spending. As a result, total construction output growth is forecast to moderate from 8.6 per cent in 2010 to 2.4 per cent in 2011.

The construction sector's medium term outlook is bright. The 2015 Pan Am Games, which will be held across the GTA, will require the construction of many venues. Sustained population growth will also fuel solid gains in new home construction. From 2012 to 2015, construction activity is forecast to increase by an average of 4.3 per cent per year—a growth rate that most other regions would welcome.

### **Services Sector Growth Steady**

Activity in the GTA's services sector last year was driven by strong gains in wholesale and retail trade and in transportation and warehousing. Indeed, wholesale and retail trade output expanded by 7.1 per cent in 2010, as gains in employment, income and consumer confidence helped boost domestic demand. But with the pace of the recovery moderating, wholesale and retail trade output growth is projected to slow considerably this year. Likewise, output growth in the transportation and warehousing sector is forecast to slow, in line with smaller gains in manufacturing output. Meanwhile, business services output is finally expected to gain momentum after a slow start last year. Output growth in this sector is forecast to reach 4.2 per cent in 2011, following a small dip in 2010. Overall services sector output should climb by 3 per cent in 2011—comparable to the growth attained last year.

## **GTA: A Magnet for People**

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Twenty per cent of all Canadians called the GTA home in 2010, up from 17 per cent in 1987. One reason why population growth in the GTA continuously outpaces the overall Canadian rate is the fact that the GTA is a magnet for immigrants, the country's main driver of population growth. From 2005 to 2009, net international migration into the GTA averaged 88,600 persons per year, 44 per cent of the national total.

The GTA is expected to remain a popular destination for immigrants over the forecast period. From 2010 to 2015, net immigration is expected to average nearly 104,000 persons per year, as we anticipate national immigration levels to be slowly ramped up. Overall population growth is forecast to average 1.8 per cent per year from 2011 to 2015 compared with 1.2 per cent for the country as a whole. As a result of these forces, The GTA share of Canada's population is expected to continue to climb, reaching close to 21 per cent by 2015.

The GTA is a magnet for people, which provides it with underlying strength in terms of its economic growth potential for years to come. Nevertheless, underlying challenges will remain in terms of integrating immigrants into the GTA workforce and ensuring they have the skills needed in a dynamic modern economy. The wages of recent immigrants have slipped in recent years relative to other labour market participants, and immigrants experienced a disproportionate share of job loss during the recent recession. These negative trends will have to be stabilized and reversed if immigrants are to become truly the driving force of the GTA.

## **Higher Incomes, but Gap is Shrinking**

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People living in the GTA region have traditionally had higher average annual incomes than those in the rest of Canada. In 1987, the average annual income of a person living in the GTA was about 20 per cent higher than the income of an average Canadian. However, this income gap has been shrinking over time; in 2010, the income of a person living in the GTA was only about 3 per cent higher than the national average. This income gap is expected to continue to shrink to 2 per cent by 2015. Why is the gap shrinking? Much of the answer is a shift in national income generation. Income growth has been much stronger out West, particularly in Alberta, which has benefited from being an energy-rich province.

The evolving distribution of income across society is also a factor that should be acknowledged. The Toronto GTA economy is certainly subject to the forces of globalization—growing competitive pressure from the major emerging markets, firms needing to restructure to stay competitive, and the rise and fall of specific skills and occupations—that are all leading to pressure on income distribution in many parts of the globe. Individuals without the requisite skills to compete in the new global marketplace are being marginalized, with a corresponding increase in the gap between rich and poor.

## **Conclusion**

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The GTA economy struggled in 2008 and 2009 largely due to the impact of difficult global and U.S. developments, but bounced back strongly in 2010 – real GDP expanded by 4.2 per cent. Economic output is expected to climb by a more moderate 3 per cent in 2011. The economic recovery resuscitated the GTA's labour market, which had suffered its first drop in employment in 16 years in 2009. Employment climbed by 2.4 per cent last year and is projected to increase a further 2.2 per cent this year.

The GTA's medium term outlook is bright and its attractiveness to people is a big reason why. The GTA is Canada's number one destination for immigrants. This accounts for the area's strong population growth, which in turn helps to explain the region's robust domestic demand. Export-oriented industries should perform better than in recent years, although they will still feel pressure from a strong Canadian dollar and increasing foreign competition.

The bright economic outlook bodes well for the GTA's labour market, which is expected to enjoy 2.1 per cent average annual job growth between 2012 and 2015. This will drive the unemployment rate down to 6.3 per cent by 2015, which signifies more or less a full employment economy. This, in turn, will fuel solid personal income growth, although per capita income gains will continue to lag the national average. Overall, we expect real annual GDP growth in the GTA to average 3.3 per cent from 2012 to 2015 – a solid outlook compared to many other major urban regions in Canada and North America.

*This paper was prepared by Glen Hodgson and Alan Arcand of the Conference Board of Canada, for the Greater Toronto Summit 2011, February 2011.*