

Economic Performance in Ontario CMAs: A National Comparative Perspective

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Summary

- Several recent Fraser Institute studies have documented the weak economic performance in Ontario over the past 20 years outside of the Greater Toronto Area (GTA), and to a lesser extent Ottawa.
- This bulletin builds on that analysis by examining economic performance data from the Census Metropolitan Areas (CMAs) of southwestern Ontario including London, Windsor, Brantford, Kitchener-Waterloo-Cambridge, and Guelph.
- While generally the southwestern region of the province has struggled economically in recent years, there was substantial variation between the CMAs.
- Income growth has been significantly stronger in the CMAs immediately proximate to Toronto than in those further away in London and Windsor.
- A national analysis shows that between 2005 and 2015, Windsor fell from having the tenth highest median household income in Canada to having the 25th highest out of Canada's 36 CMAs. This 15-place decline was the largest fall of any CMA in Canada. London fell from having the 15th highest median household income in Canada to having the 27th highest, the second largest decline in Canada.

Introduction

Several recent Fraser Institute studies have documented the uneven nature of Ontario's economic performance over the past twenty years, particularly with respect to job creation. Whereas the Greater Toronto Area and to a lesser extent Ottawa have generally seen comparatively strong job creation, nearly all other regions of the province have not. More specifically, many Census Metropolitan Areas (CMAs) experienced significant job loss in the years leading up to and during the 2008–09 recession and then experienced weak recoveries in subsequent years (Lafleur and Eisen, 2017).

This short bulletin builds on that analysis by providing analysis of additional data surrounding economic performance in the larger cities of southwestern Ontario.

We define southwestern Ontario as the region of approximately 2 million people living in the CMAs of London, Windsor, Brantford, Kitchener-Waterloo-Cambridge, and Guelph, as well as surrounding smaller towns and rural areas. Due to data constraints, the measures of sub-provincial economic indicators measure developments in the large cities (CMAs),¹ but not in smaller urban areas (CAs) or rural areas outside of the CMA and CA boundaries.²

This bulletin builds on past Fraser Institute studies by including measurements of changes in household income over the past two decades and also considers the relative change in the region's prosperity in a national context, as

1 The combined population of the five southwestern Ontario CMAs is 1.8 million.

2 In 2019, 82 percent (11,940,946) of Ontario's population resided in CMAs while 8 percent (1,176,057) resided in CAs and 10 percent (1,449,544) in other areas. Statistics Canada (2020e).

well as that of the individual CMAs within the region. We show that the extent of this relative decline for several cities in the region is unique amongst Canadian CMAs.

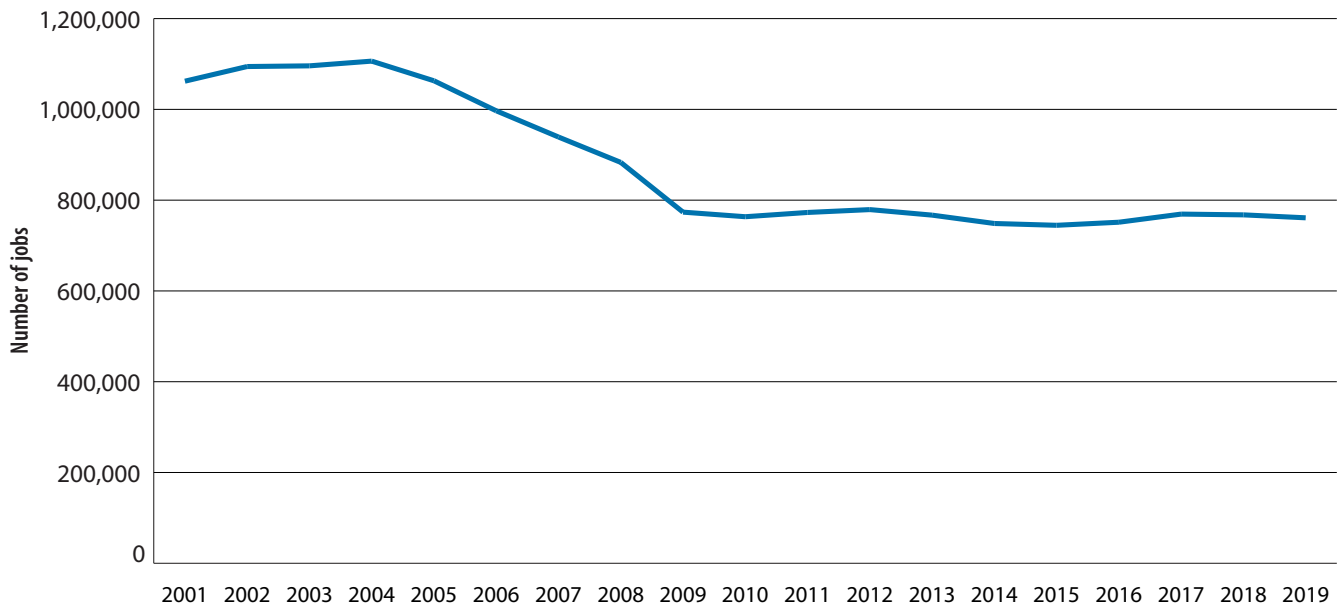
Ontario's economic performance—overall, and manufacturing

Although there have been brief periods of stronger growth, Ontario's overall economic performance in the early years of the 21st century has been weak. Ontario's economy was hit hard by the 2008–09 recession, and the subsequent recovery was tepid. The 2008–09 recession saw Ontario's real GDP per person fall by 5 percent, which took five years to get back to the 2007 level (Statistics Canada, 2020c, 2020d). Growth in Ontario's real GDP per person after the 2008–09 recession has averaged 1.2 percent per year compared to 1.9 percent in the previous period between major recessions (1992–2007).

Due to the severity of the recession and the weak economic recovery, Ontario was near the bottom of the Canadian provincial pack with respect to a wide range of economic metrics. As a result, we have in the past characterized the years immediately before, during, and after the 2008–09 recession as a “lost decade” for the province's economy (Eisen and Palacios, 2018).

Although the effects of the 2008–09 recession and the fact of a weak recovery are broadly known, what is less well understood is that warning signs for Ontario's manufacturing-heavy economy were evident for several years prior to the recession's arrival. As manufacturing jobs migrated to developing economies, many North American manufacturing jurisdictions, including Ontario, started to see manufacturing employment declines much earlier in the decade.

Figure 1: Manufacturing Employment in Ontario, 2001–2019



Source: Statistics Canada, 2020a.

Manufacturing employment in Ontario peaked in 2004 at 1.1 million jobs (**figure 1**). By 2007, that number had declined to 939,000 jobs—a decrease of 15.1 percent over just three years. When the recession struck, the pace of manufacturing job loss accelerated, falling to 763,500 in 2010. Since then, there has been no rebound to speak of with respect to manufacturing employment in Ontario. Meanwhile, Quebec, another manufacturing jurisdiction hit hard by the 2008–09 recession, shows a mild rebound in the subsequent years.

Employment trends in Southwestern Ontario CMAs

The fact that Ontario’s manufacturing sector suffered such severe employment losses which have not recovered since the 2008–09 recession has created specific challenges for the southwestern Ontario region, which has the highest share of its workforce employed in that

sector of any of the province’s regions. More specifically, a 2016 report showed that manufacturing comprised just over 15 percent of total employment in the southwestern region compared to just over 10 percent in the province taken as a whole (Eisen and Emes, 2016).

As a result of widespread job losses in the manufacturing sector, southwestern Ontario was hit harder than any other region of the province by the 2008–09 recession. Total employment fell by 5 percent in the region from 2008 to 2009, compared to 2.7 percent in the province taken as a whole, after which the region experienced a slow recovery.

Although the region taken as a whole has experienced weak job creation rates and (as will be discussed in the next section), weak household income growth, there is substantial variation in terms of the job creation rates among the region’s various large cities.

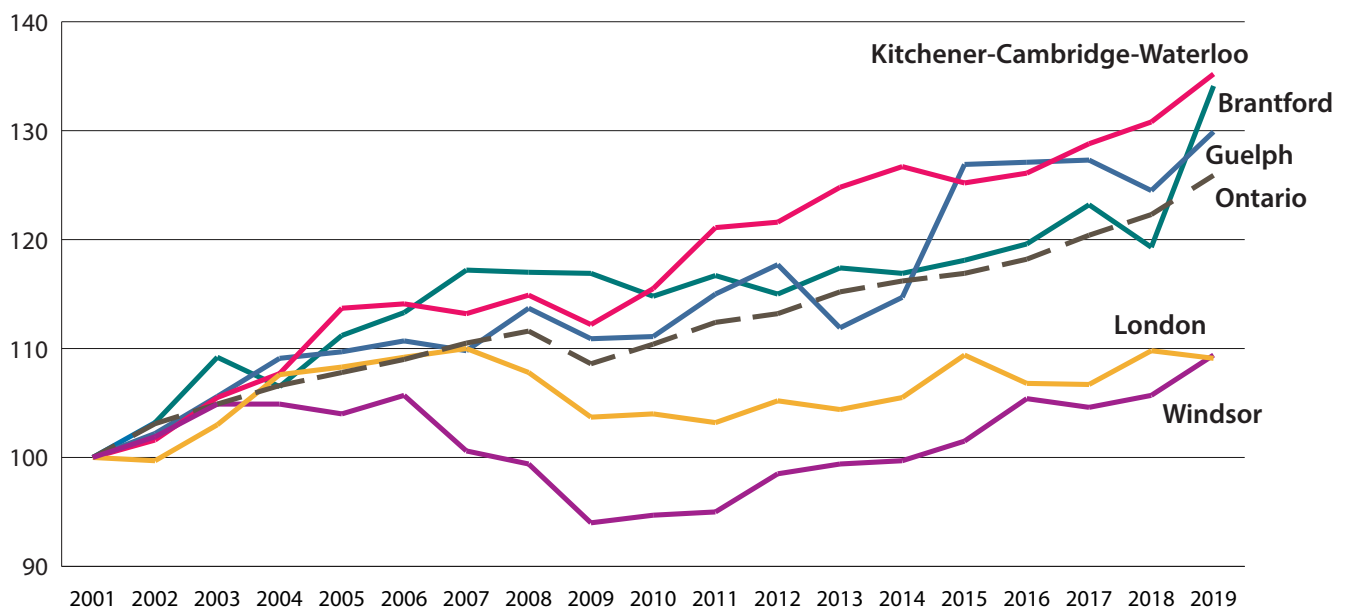
Data on sectoral jobs by economic region or CMA are not publicly available. However, an examination of total employment in southwestern Ontario's CMAs reflect the severity of the prolonged period of weak economic performance. **Figure 2** shows employment levels in the southwestern CMAs using an index, setting 2001 levels at 100. This method allows a straightforward comparison between CMAs of different sizes. Overall job creation in Ontario is shown in the dark dashed line.

Figure 2 shows us that three of the region's CMAs—Kitchener-Cambridge-Waterloo, Guelph, and Brantford—actually experienced more job growth between 2001 and 2019 than the provincial average. By contrast, London and Windsor experienced much weaker job growth over this period. While total employment in Ontario increased by 25.9 percent from 2001 to 2019, that figure was just 9.1 percent in London and 9.4 percent in Windsor. These numbers show that the weak job creation rate in these

two large CMAs (with a combined population of over 900,000) is responsible for the region's low overall rate of job creation in this period.

It is beyond the scope of this bulletin to assess all the possible contributing factors to this outcome. An almost certainly important point of difference between the stronger and weaker performing CMAs, however, is their proximity to Toronto (Moffat, 2015). The three stronger performing CMAs are much closer to Toronto, and are in fact at the fringes of that metropolis' large commuter shed. All are serviced by the regional GO Transit system. They are also proximate to Pearson airport, and so better connected to the global economy than outlying CMAs. Meanwhile, London and especially Windsor are much further away from the provincial capital (which experienced strong job creation over this period). Another potentially contributing factor is that the Labour Force Survey determines employment by CMA where employees actually live—not where they work.

Figure 2: Employment Index by CMA (2001 = 100)



Sources: Statistics Canada, 2020a, 2020b.

This means that some jobs attributed to CMAs near Toronto are actually taking place in the GTA itself. As such, employment figures in CMAs proximate to Toronto are also partly attributable to job growth that is actually taking place within the GTA itself.

Future regional economic analysis should consider whether for analytical purposes it is useful to consider the CMAs in close proximity to Toronto as distinct category of CMAs from the large outlying cities of London and Windsor, which generally share a pattern of recent economic performance that diverges sharply from that of the GTA and surrounding areas.

The relative change in prosperity in southwestern Ontario CMAs in a national perspective

The data above show that southwestern Ontario's manufacturing sector and the region as a whole suffered significant employment losses in the years prior to and during the 2008–09 recession with a tepid recovery coming in the immediately following years. Further, the data have shown that employment growth was much weaker in London and Windsor than in the southwestern Ontario regions more proximate to the GTA.

To better understand the impact of these developments at the household level, we turn now to examine changes in median household income between 2005 and 2015. Because this metric is measured using census data, 2015 is the most recent available data. This is a significant limitation in that it does not permit an analysis of this metric during the period from 2015 to today, but it is nonetheless useful in illustrating the severity of the economic challenges in southwestern Ontario's CMAs between 2005 and 2015 as well as the changes in

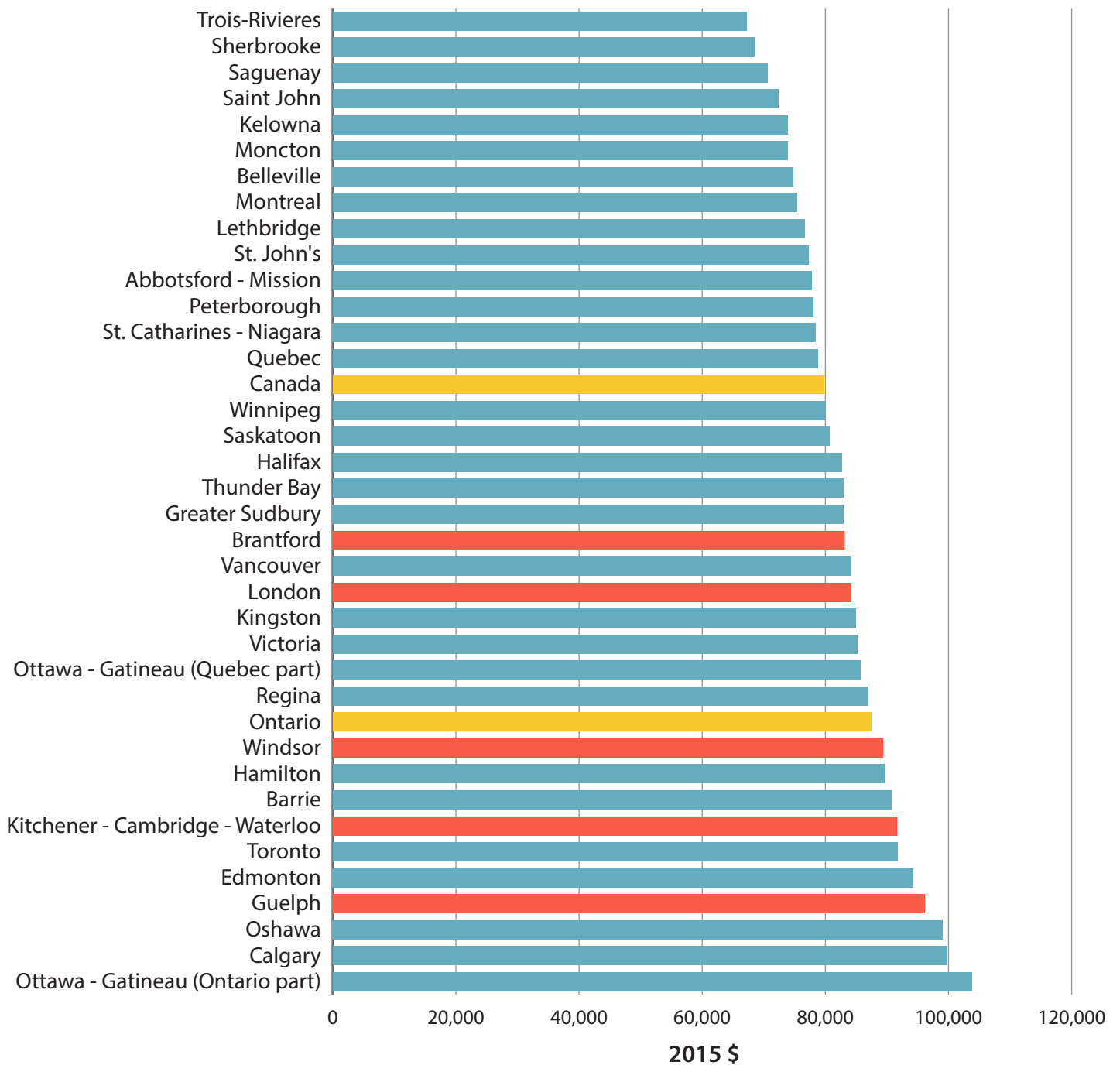
the prosperity of these CMAs relative to other regions of the country during this period.

Figure 3 shows that in 2005, southwestern Ontario was still a prosperous region of the country. Out of Canada's 36 CMAs, southwestern Ontario's five large CMAs were all in the top half of the country for this metric. Guelph had the fourth highest median household income in Canada. In 2005, Kitchener–Cambridge–Waterloo had the seventh highest median household income. Windsor had the 10th highest median income in the country. London had the 15th highest and Brantford the 17th highest median income in Canada—still in the top half of the country.

Over the next ten years, however, partly due to the manufacturing job losses described above, median household income levels (in 2015 dollars) in the SWO CMAs stagnated. Taken as a whole, Canada's median household income increased by 13.0 percent (\$10,370) over this period. By comparison, median household income in Guelph (6.1 percent, \$5,904), Kitchener–Cambridge–Waterloo (4.4 percent, \$3,997), Brantford (4.0 percent, \$3,310), and London (2.0 percent, \$1,660) increased at a much slower rate and median household income actually fell in Windsor (-3.1 percent, -\$2,815). Again, economic outcomes for this indicator were significantly worse in London and Windsor than in the rest of the region, though the difference is less stark.

As a result of these trends, by 2015 the Southwestern CMAs were much less prosperous relative to the rest of the country in terms of median household income than they had been in 2005. More specifically, the damage in the two large CMAs further from Toronto—London and Windsor—relative to the rest of the country was particularly severe. Windsor fell from having the tenth highest median household income in Canada in 2005 to the 25th highest in 2015.

Figure 3: Median household income by CMA, 2005



Sources: Statistics Canada, 2016 Census of Population.

Whereas in 2005 Windsor's median household income was 12.1 percent higher than the national average, by 2015 it had fallen to 4.0 percent lower than the national average.

The story in London, Ontario is similar to Windsor. In 2005, London's median household income was ranked 15th in the country—the top half of the national league table. In 2015, London had fallen to 27th place.

These data suggest that with respect to median household income, southwestern Ontario's economy had worse relative outcomes within Canada than any other region in the country. Windsor's fall from 10th to 25th, a drop of 15 places, was the largest decline in the table in Canada. London's drop of 12 places was the second largest fall.

The remaining southwestern CMAs closer to Toronto also moved down the league table over the course of this period. Guelph fell from fourth to eighth place, while Kitchener-Cambridge-Waterloo fell from seventh to 13th. These movements down the Canadian league table still left these CMAs in the top half of the country. Brantford fell from 17th to 26th place.

However, this movement from near the top of the list to closer to the middle was driven as much by rapid ascents to very high median household income growth in energy producing regions during this time. For instance, in 2015, six of the seven highest CMAs for this indicator were in either Alberta, Saskatchewan, or Newfoundland and Labrador. In 2005, Calgary and Edmonton had been the only CMAs from these oil-intensive jurisdictions in the top six.

Of course, the rapid ascent of oil-intensive jurisdictions for this indicator affected the relative position of all other CMAs, not just those in Ontario. The fact that Windsor and London

had the largest drops in the table of any CMAs in the country therefore can't be attributed entirely to this boom period in energy-intensive regions.

These data show that a remarkable change in southwestern Ontario's relative prosperity compared to the rest of Canada occurred between 2005 and 2015. This was especially true in the province's two large CMAs furthest from Toronto, London and Windsor. Windsor went from being in the top ten and London from the upper half of Canada's CMAs in terms of median household income to being in the bottom quarter over the course of a decade.

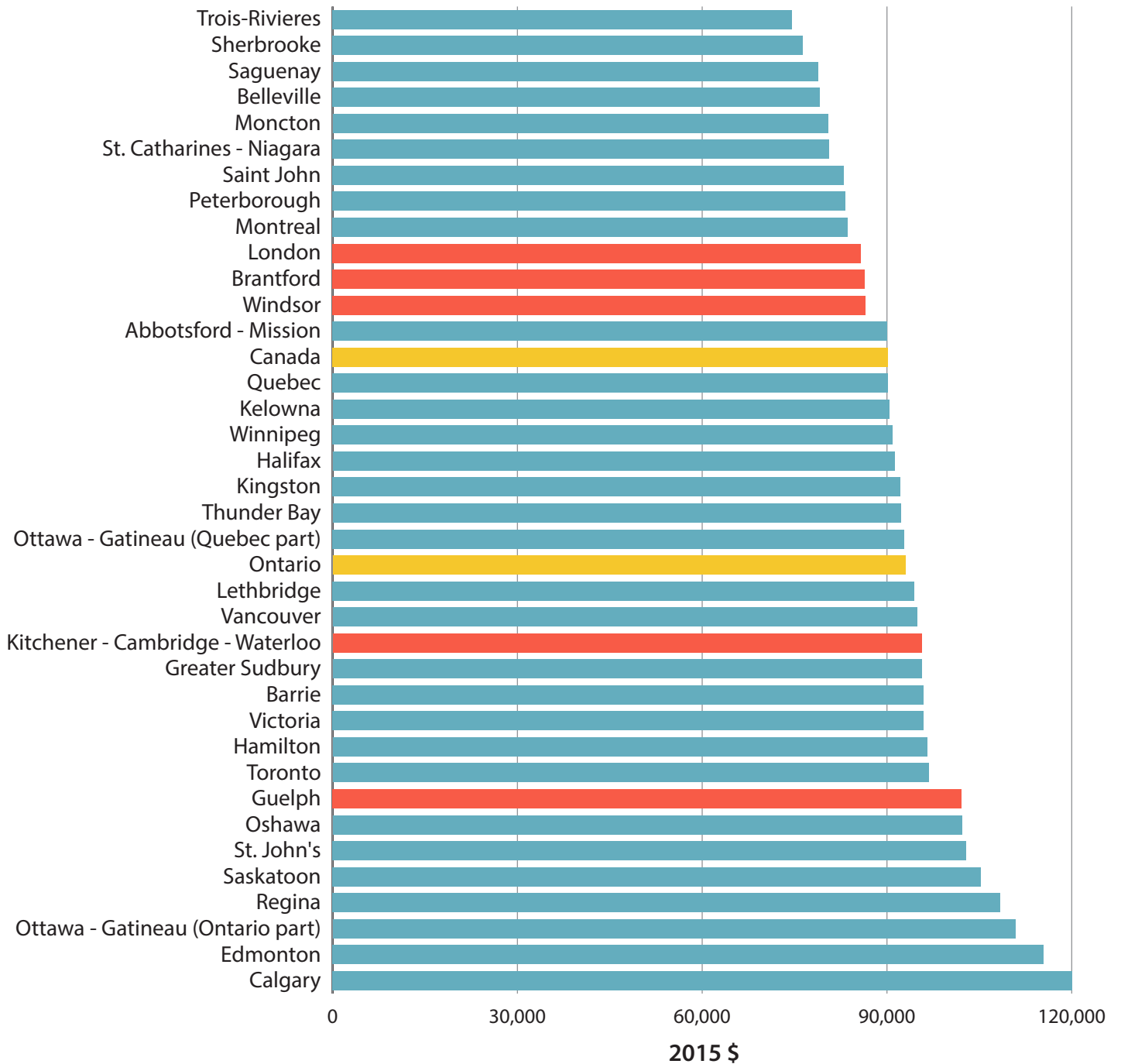
Developments since 2015

Some southwestern CMAs have experienced an uptick in employment growth in recent years, particularly since 2015 (**figure 4**). Again, this uptick has been stronger in the CMAs proximate to Toronto, although Windsor has participated in the trend to a lesser degree.

It remains to be seen how improved job performance in some southwestern CMAs will affect median household incomes since 2015. For instance, the housing boom in Toronto and surrounding areas that has taken place in recent years has increasingly spread further afield from the GTA, including in London. Labour Force Survey data suggests construction employment is driving significant job growth and may help increase median incomes in the commuter shed of the GTA as shown in the next census.

We will learn more about Ontario's recent performance on this metric when the 2021 Census results are available. Developments in the rest of the country may also cause Ontario CMAs generally to improve with respect to

Figure 4: Median household income by CMA, 2015



Sources: Statistics Canada, 2016 Census of Population.

median household income relative to other CMAs across Canada. Specifically, dismal economic performance in provinces with large energy sectors since 2015 may cause the performance of Ontario's CMAs in the 2020 census to improve relative to other cities on this metric. This is particularly true given that economic troubles in provinces with large energy sectors are likely to see negative ripple effects outside that single sector. The lack of construction employment in Calgary, for instance, may further contribute to weak performance with respect to job growth and median incomes reflected in the 2021 Census.

Conclusion

Southwestern Ontario is a densely populated part of Canada, with a population significantly larger than several provinces. The region's economic challenges over the past 15 years should therefore be viewed as an important provincial and even national problem. This short bulletin has sought to add context to public understanding of developments in the region by reviewing past research on employment gains and losses in the region while adding additional analysis of changes in household income. It has also provided a relative analysis of the performance of southwestern Ontario CMAs with respect to median household income compared to large urban areas across the country.

For both employment growth and median incomes, the most recent available data shows that London and Windsor had significantly worse recent economic outcomes than the southwestern CMAs closer to Toronto. Between 2005 and 2015, Windsor went from having the tenth highest median household income in Canada to having the 25th highest out of 36 total CMAs. London fell from 15th highest to 27th highest over the same period.

Such a dramatic change, over the course of a single decade, helps illustrate the scale of the economic challenges facing the region and provides some further insight on the nature of the economic pain, at the household level, experienced by many people in the region, particularly in the large cities that are furthest away from Toronto. New data in the 2021 Census will provide further insight on how median household incomes have changed in absolute and relative terms since 2015.³

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3 In addition to being able to update the indicators shown in this report, the 2021 Census will also include “commute to work” data that should provide deeper analysis of the extent that new jobs are actually occurring within the GTA but being filled by people living in nearby communities.

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