NIAGARA ECONOMIC UPDATE

OCTOBER 2022

Niagara Region

NIAGARA ECONOMIC DEVELOPMENT

INTRODUCTION

Niagara's economy has shown great improvement since the height of the pandemic in Q1 and Q2 of 2020 when economies throughout the world including Niagara's regional economy came to a halt in an effort to curb the spread of COVID-19.

There has been major improvements across most economic indicators for Niagara. However, there are still some stubborn challenges that pose a threat to the health of the economy in the near term. This report provides a comprehensive economic update for Niagara in an effort to highlight important characteristics of the regional economy including areas of progress, as well as challenge areas.

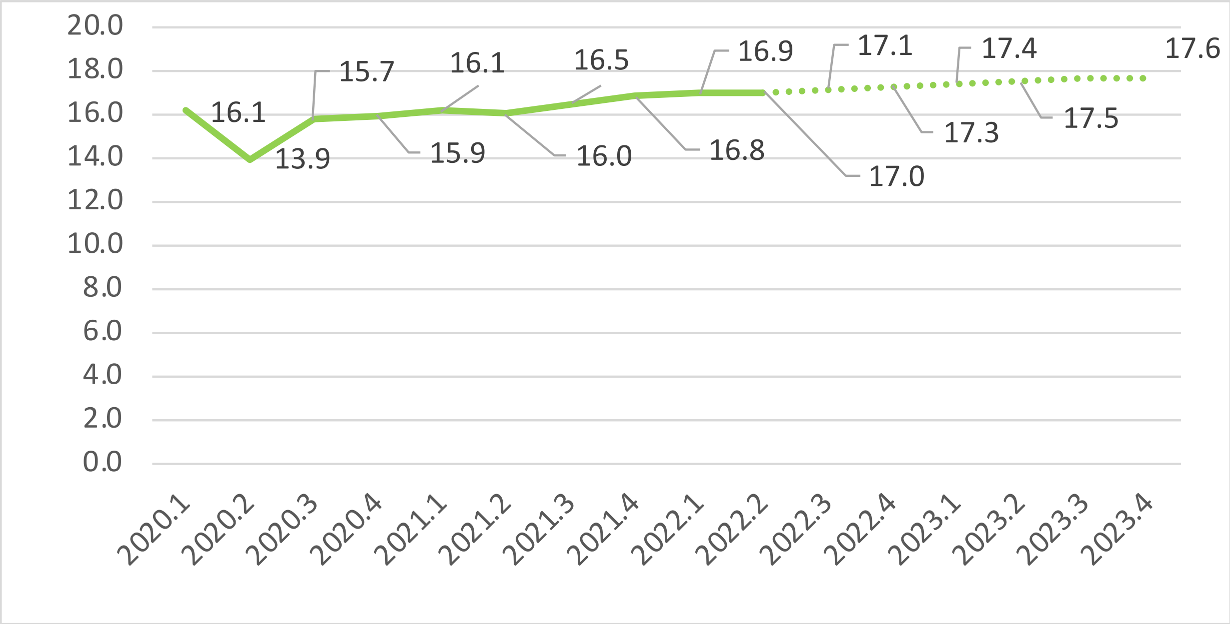
It includes detailed information on economic indicators including gross domestic product (GDP), retail sales, consumer price index (CPI), international trade, business counts, investment in building construction, income growth, and labour-related indicators such as labour force, employment, participation rate and unemployment rate. The sources of data used include Statistics Canada and The Conference Board of Canada.

REAL GROSS DOMESTIC PRODUCT (GDP)

Gross domestic product (GDP) is the total value of all finished products and services within a geographical area during a period of time. It is used to estimate the size of an economy and growth rate. Real GDP is inflation adjusted in order to measure the true growth of an economy during a specific period.

Table 1 shows real GDP values for Niagara. GDP dropped to a low of $13.9 billion in Q2 2020, which was the beginning of the COVID-19 pandemic, but rebounded by Q1 2021 to $16.1 billion. Although GDP growth stalled during Q2 2021 it resumed on a growth trajectory in Q3 2021 reaching $16.5 billion and continued to growth to $17 billion by Q2 2022. GDP is forecasted to continue strong growth reaching $17.6 billion by Q4 2023.

Table 1: Real GDP at Basic Prices (2012 $ Billions), Niagara CMA



Source: The Conference Board of Canada, June 2022

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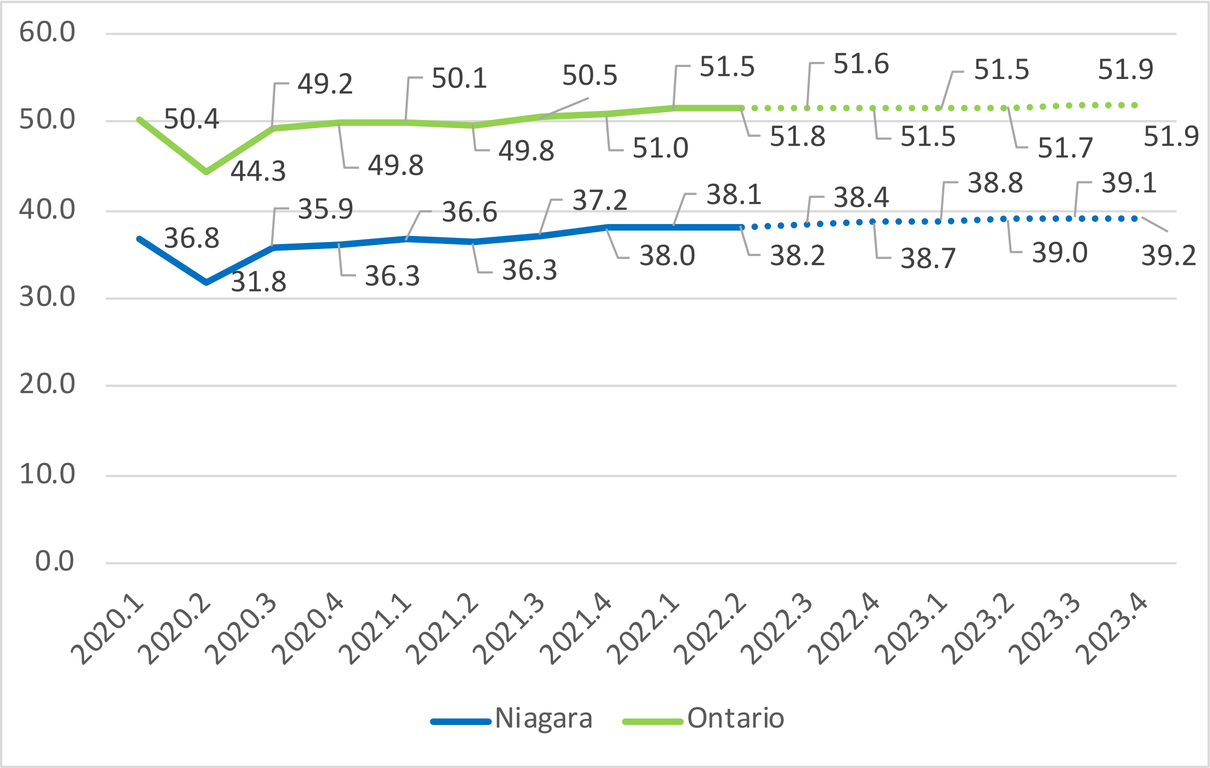
Table 2 shows GDP per capita for Niagara and Ontario. GDP per capita is a measurement of the total economic output of a defined area divided by the number of people that live in that area. It is a often used to measure productivity in an economy. It is also useful for comparing an overall standard of living between different geographical areas.

GDP per capita is significantly lower for Niagara than it is for Ontario. As of Q2 2022, GDP per capita for Niagara was $38,152 compared to $51,782 for Ontario. This indicates that Niagara's economy is less productive than Ontario. This is likely a result of an older demographic in Niagara and less labour force participation compared to Ontario.

An area of concern is that Niagara is currently not forecasted to catch up to Ontario. As of Q2 2022 Niagara $12,730 lower than Ontario and the gap is expected to increase to $13,630 by Q4 2023.

Table 2: GDP at Basic Prices (2012 $ Thousands) per Capita, Niagara CMA and Ontario



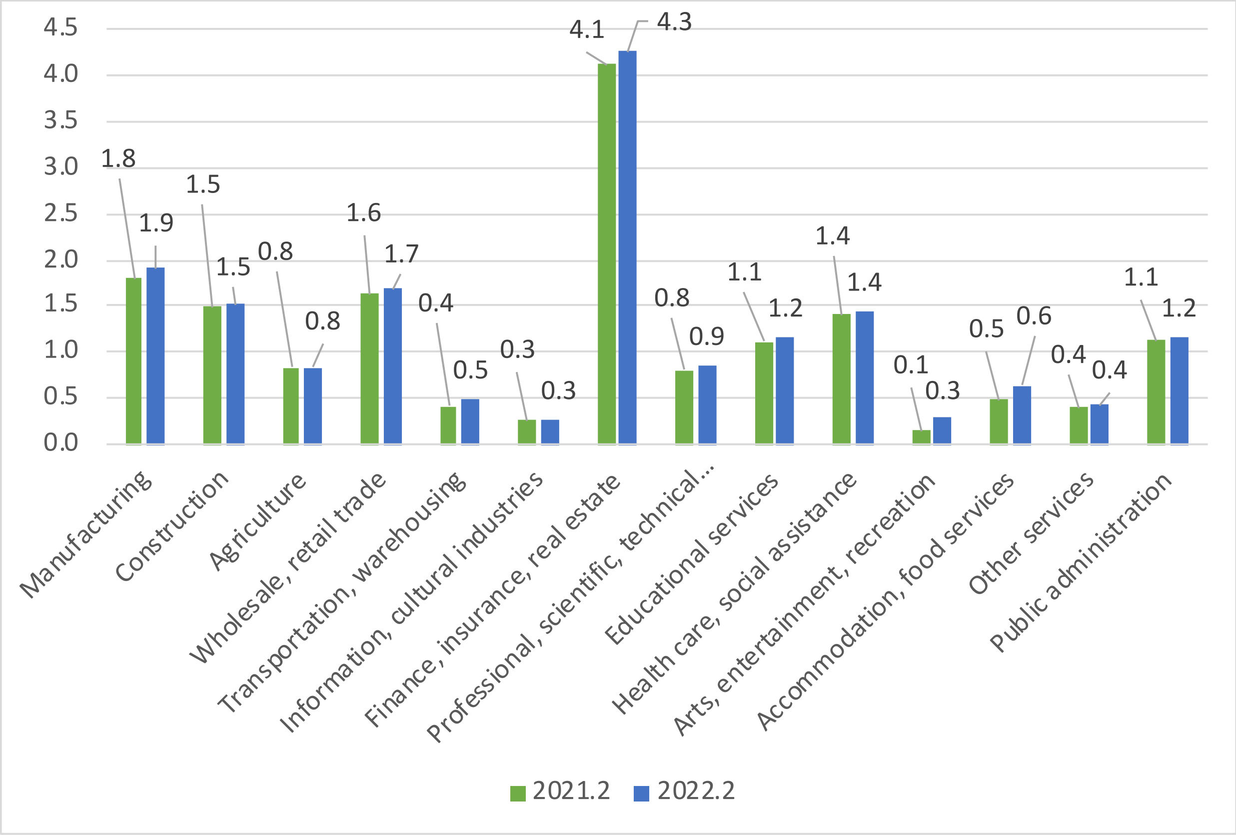
Source: The Conference Board of Canada, June 2022

Table 3 below shows GDP by sector Niagara for Q2 2021 and Q2 2021 to highlight changes in GDP by sector. All sectors of Niagara's economy experienced GDP growth during this period. The top 5 sectors by value included accommodation and food services at $161 million; finance, insurance and real estate at $150 million; arts, entertainment and recreation at $133 million; manufacturing at $100 million; and transportation and warehousing at $77 million.

In regards to relative growth, i.e. percentage change, the top 5 sectors included arts, entertainment and recreation at 91%; accommodation and food services at 34%; transportation and warehousing at 18%; other services at 9%; and professional, scientific and technical services at 8%.

The sectors with the most growth in values and relative growth are those that were the most negatively affected by the challenges imposed by the pandemic.

Table 3: GDP at Basic Prices (2012 $ Billions) by Sector, Niagara CMA



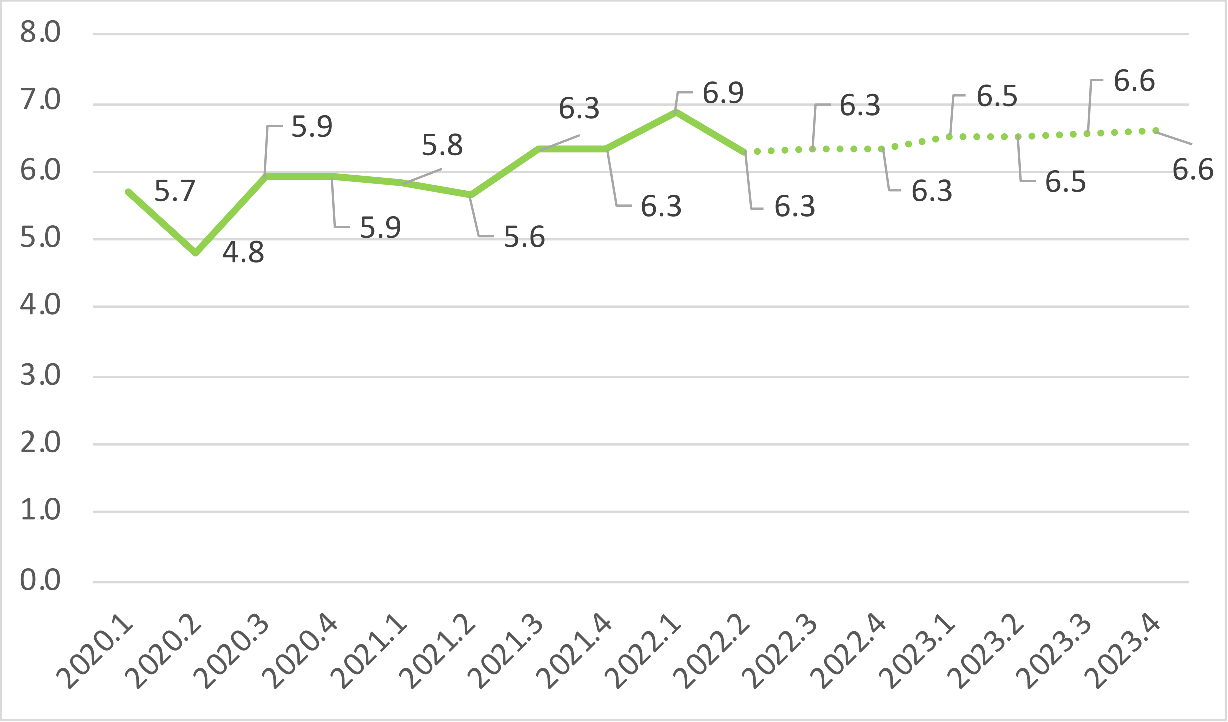
Source: The Conference Board of Canada, June 2022

RETAIL SALES

Retail sales values indicate the level of consumer spending in an economy. Table 4 shows retails sales values for Niagara. Retail sales values dropped to a low of $4.8 billion in Q2 2020, but quickly rebounded to $5.9 billion the following quarter. This is a result of the pandemic lockdown period. However, values then remained stagnant until Q3 2021 when they reached $6.3 billion. They continued to grow to $6.9 billion by Q1 2022.

Retail sales values are projected to not grow through 2023. This could be a result of a looming economic recession and decline in disposable income in the regional economy.

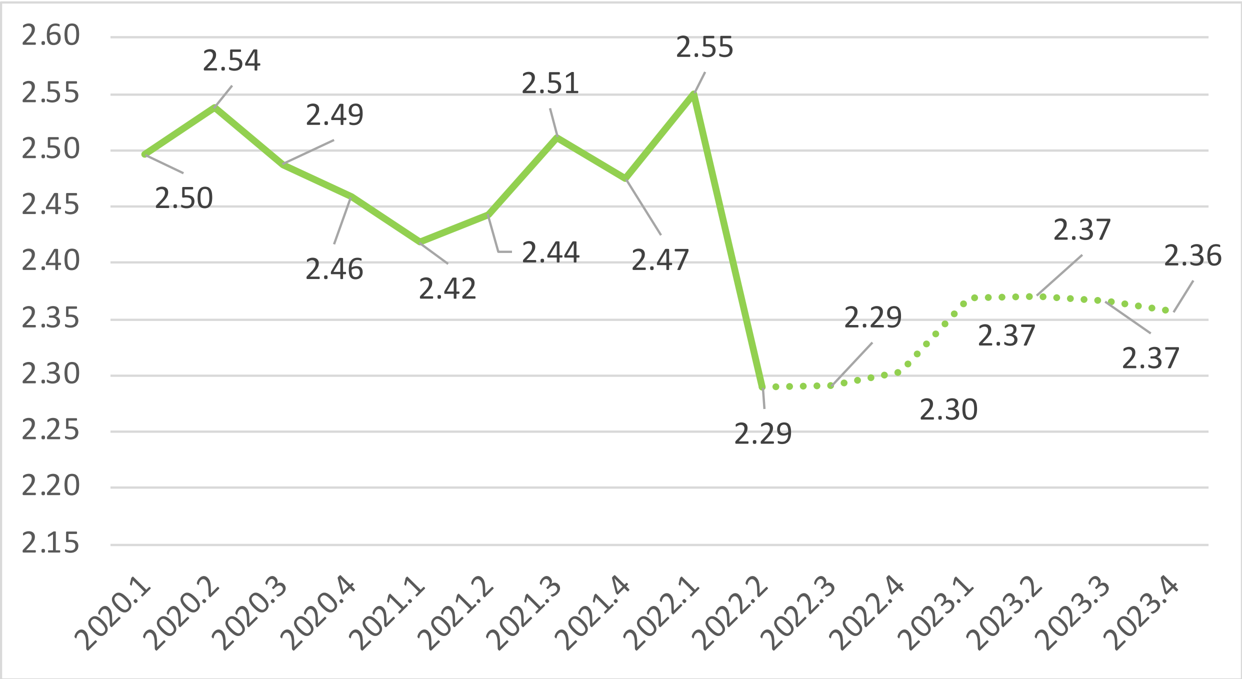
Table 4: Retail Sales ($ Billions), Niagara CMA



Source: The Conference Board of Canada, June 2022

Table 5 shows Niagara's percentage share of total retail sales values for Ontario. Niagara remained stable at slightly above or below 2.5% from Q1 2020 until Q1 2022, but declined to 2.29% in Q2 2022. It is not forecasted to improve by much by Q4 2023. This is a result of slower projected retail sales growth in Niagara relative to Ontario.

Table 5: Niagara's Share (%) of Ontario Retail Sales



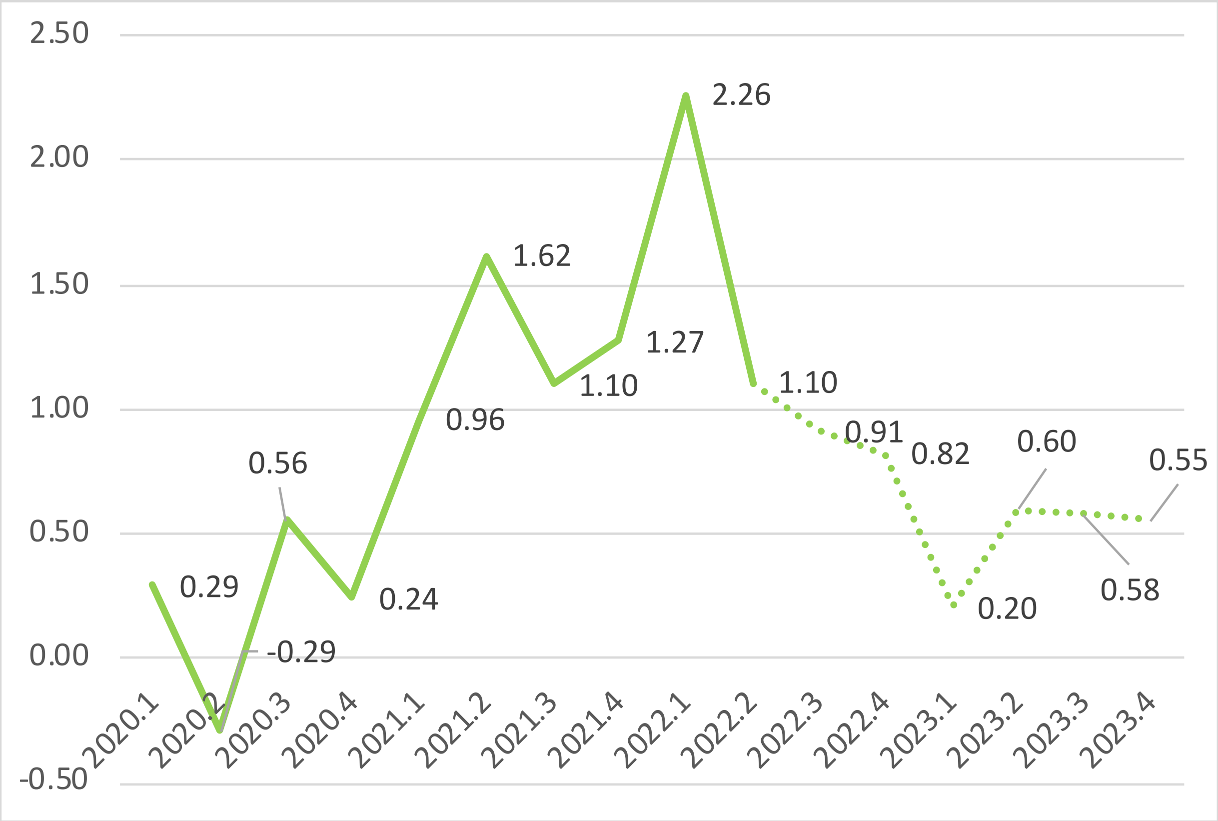
Source: The Conference Board of Canada, June 2022

CONSUMER PRICE INDEX

The Consumer price index (CPI) is a measurement of the change in prices of goods and services experienced by consumers in a specific geographical area. It includes items such as food, shelter, households, clothing, transportation, health care, recreation, education and other consumer products. It is one of the most widely used measurements of inflation.

Table 6 shows that CPI increased rapidly and significantly from the start of the pandemic in Q2 2020 (a period of deflation) at -0.29% and peaked in Q1 2022 at 2.26%. By Q2 2022, CPI decreased to 1.1% and is expected to continue to decrease through the remainder of 2022 and 2023.

Table 6: CPI Monthly Percentage Change (%), Niagara CMA



Source: The Conference Board of Canada, June 2022

INTERNATIONAL TRADE

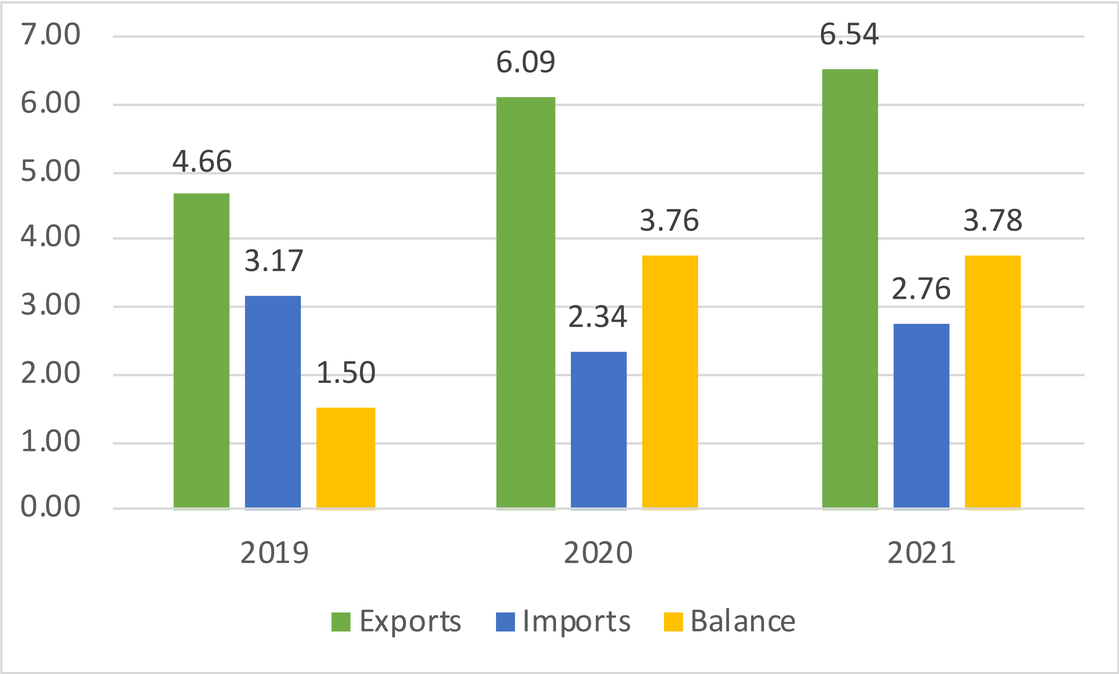
International trade values are an important indicator for Niagara given the region's reliance on international markets for manufactured goods.. Niagara is a trading region and approximately 90% of all goods exported from firms in the region are from the manufacturing sector.

Table 7 shows export values, import values and trade balance for Niagara. Exports reached a historical high in 2021 at $6.54 billion. That was $450 million (7%) growth over 2020 and $1.9 billion (40%) growth over 2019.

In 2021, import values were $2.76 billion. That was $420 million (18%) higher than 2020, but $410 million (13%) lower than 2019.

The net trade balance for Niagara was $3.78 billion in 2021. This was growth of $20 million (0.6%) over 2020 and $2.28 billion (153%) over 2019. It appears that the pandemic period had significant impacts on international trade for Niagara firms. Niagara firms exported much higher values in goods while importing lower values in goods. This may have been a result of international supply chain challenges creating new demand for Niagara products in international markets.

Table 7: International Trade ($ Billions), Niagara CMA



Source: The Conference Board of Canada, June 2022

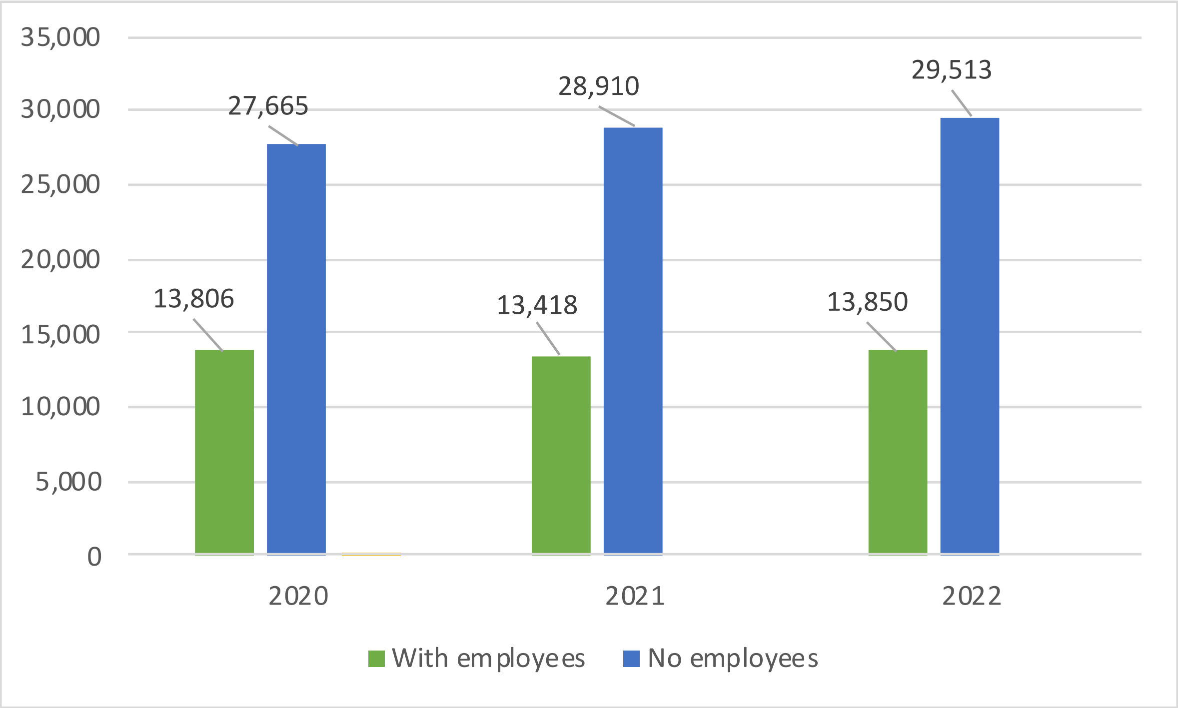
BUSINESS COUNTS

Business counts measure the number of businesses with employees and the number of businesses without employees. In order to be captured in the data, businesses must meet at least one of the following criteria: be an employer, file corporate taxes, have a GST account with sales greater than $0, and/or file an individual tax return showing business revenue greater than $0.

Table 8 shows that the number of employer businesses in Niagara grew by 432 (3%) from 2021 to 2022, and the number of businesses without employees grew by 603 (2%) from 2021 to 2022.

The table also shows that Niagara had 388 (3%) fewer employer businesses in 2021 over 2020. This is a result of employee layoffs during the pandemic. During that same period, Niagara gained 603 (2%) of business without employees, which is a result of them being re-categorized to the "no employees" classification.

Table 8: Business Counts, Niagara CMA



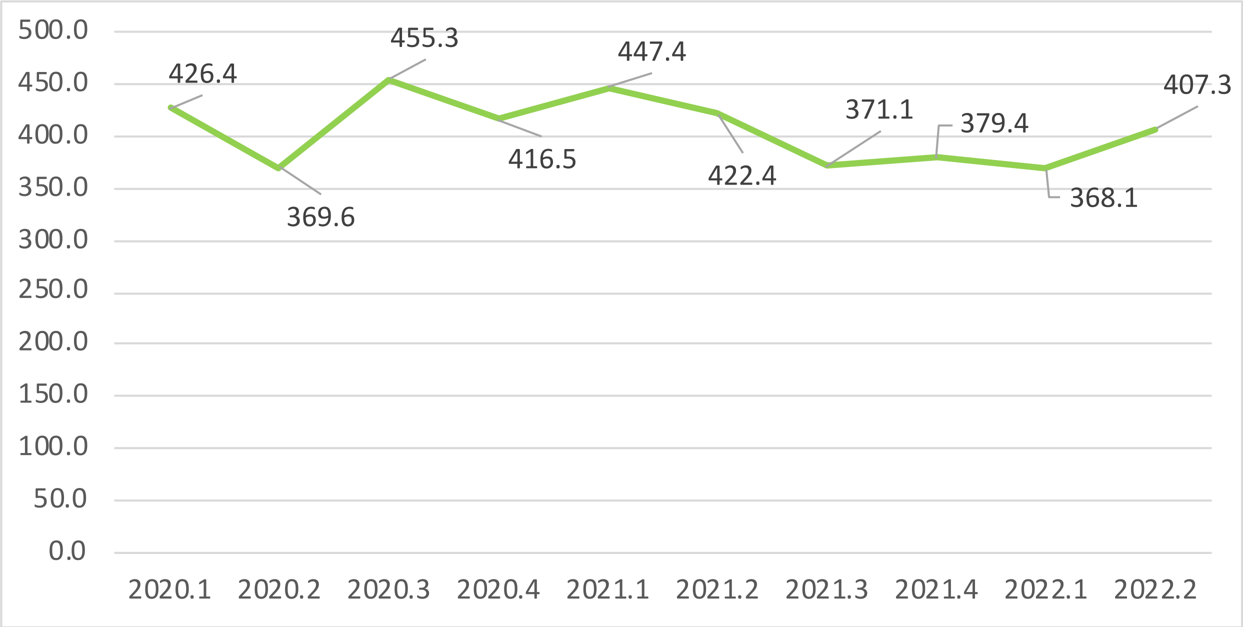
Source: Statistics Canada, Canadian Business Counts, June 2022

INVESTMENT IN BUILDING CONSTRUCTION

Investment in building construction has remained strong in Niagara despite the pandemic. The following section looks at total investment in building construction, investment in residential building construction, and investment in commercial, industrial and government building construction. The data used is seasonally adjusted and adjusted for inflation in order to assess the real growth in investment values.

Table 9 shows that there was a drop in Q2 2020 down to $369.6 million in total investment in building construction values at start of the pandemic, but levels quickly rebounded to $455.3 million the following quarter and remained consistently strong.

Table 9: Investment in Building Construction ($ Millions), Seasonally Adjusted, Constant Dollars (2002=100), Niagara CMA



Source: Statistics Canada, Table: 34-10-0175-01

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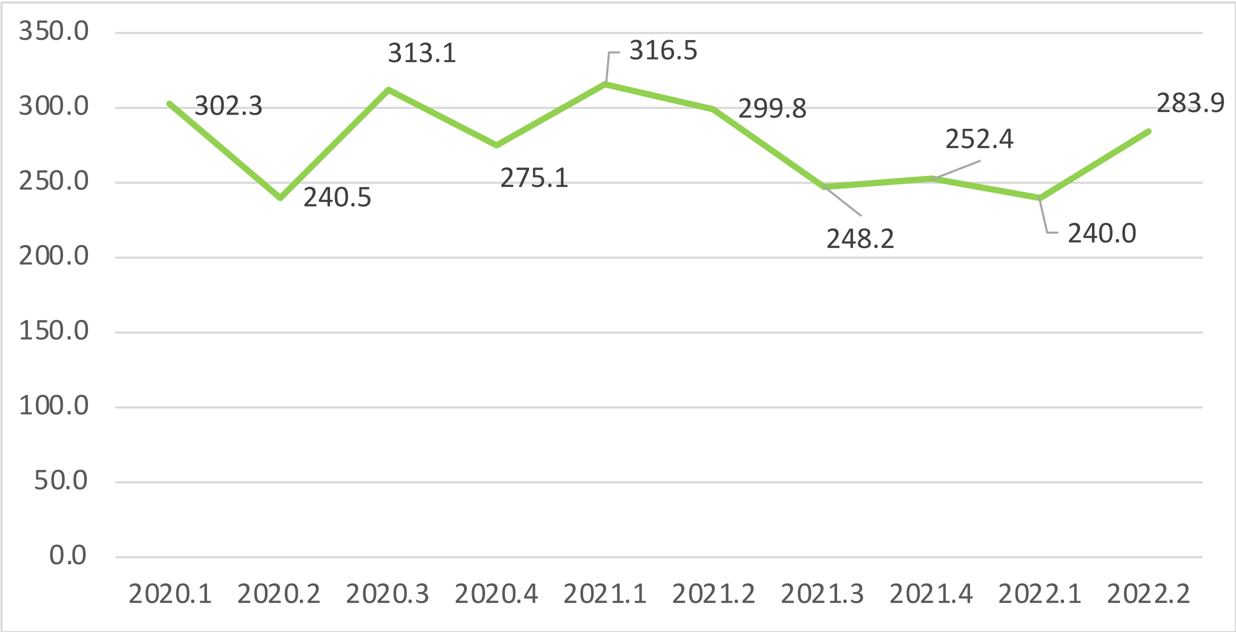
Table 10 shows that investment in residential building construction remained strong from Q1 2020 to Q2 2022 with a high of $316.5 million in Q1 2021 and low of $240.0 million in Q1 2022. However, the values seem to ebb and flow by quarter.

Table 10: Investment in Residential Building Construction ($ Millions), Seasonally Adjusted, Constant Dollars (2022=100), Niagara CMA

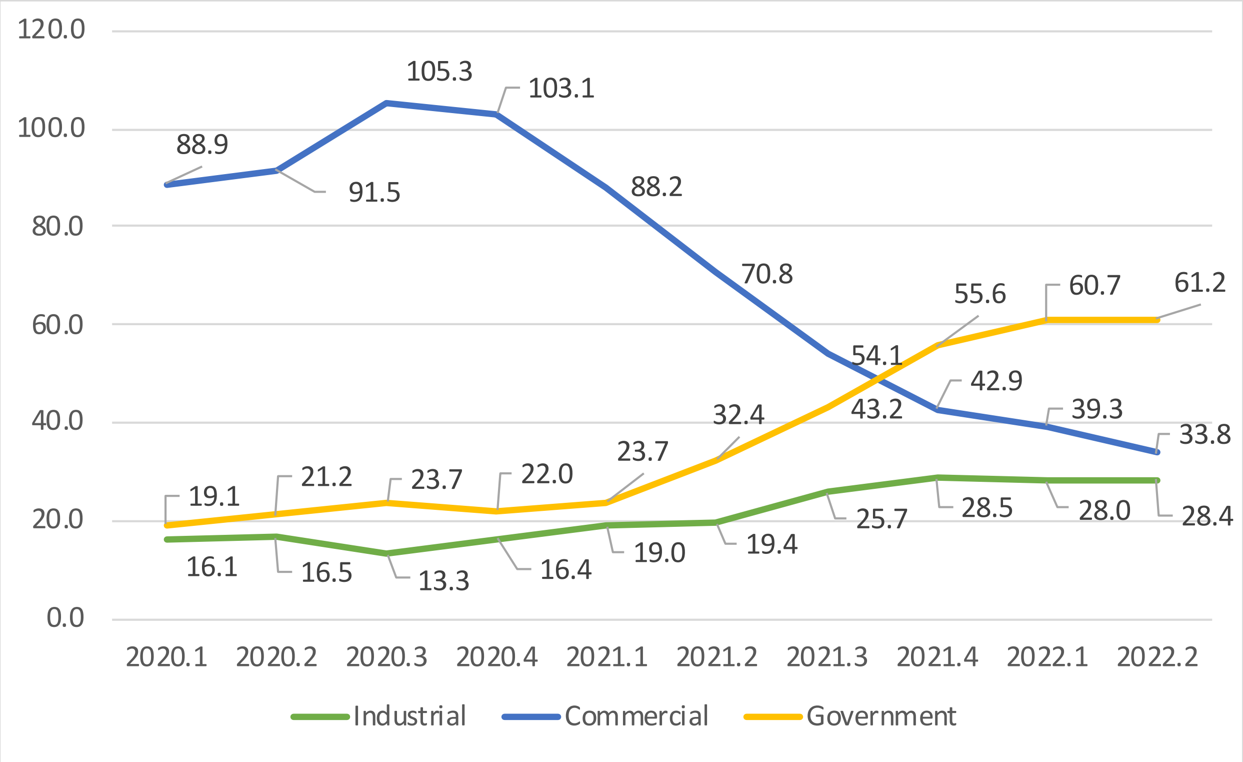


Source: Statistics Canada, Table: 34-10-0175-01

Table 11 shows that investment in non-residential building construction including commercial, industrial and government building types were not as consistent as residential. Commercial investment went from a high of $105.3 million in Q3 2020 to a low of $33.8 million in Q2 2022. Conversely, industrial went from a low of $19.1 million in Q1 2020 to a high of $61.2 million in Q2 2022. Investment in government building construction gradually grew from a low of $13.3 million in Q3 2020 to a high of $28.4 million in 2022.

The drop in investment in commercial building construction could be a result of softened demand for commercial building space due to the outcomes of the pandemic. The pandemic negatively impacted the retail, hospitality and office sectors, which could have impacted confidence in commercial building industry.

Table 11: Investment in Non-residential Building Construction ($ Millions), Seasonally Adjusted, Constant Dollars (2002=100), Niagara CMA



Source: Statistics Canada, Table: 34-10-0175-01

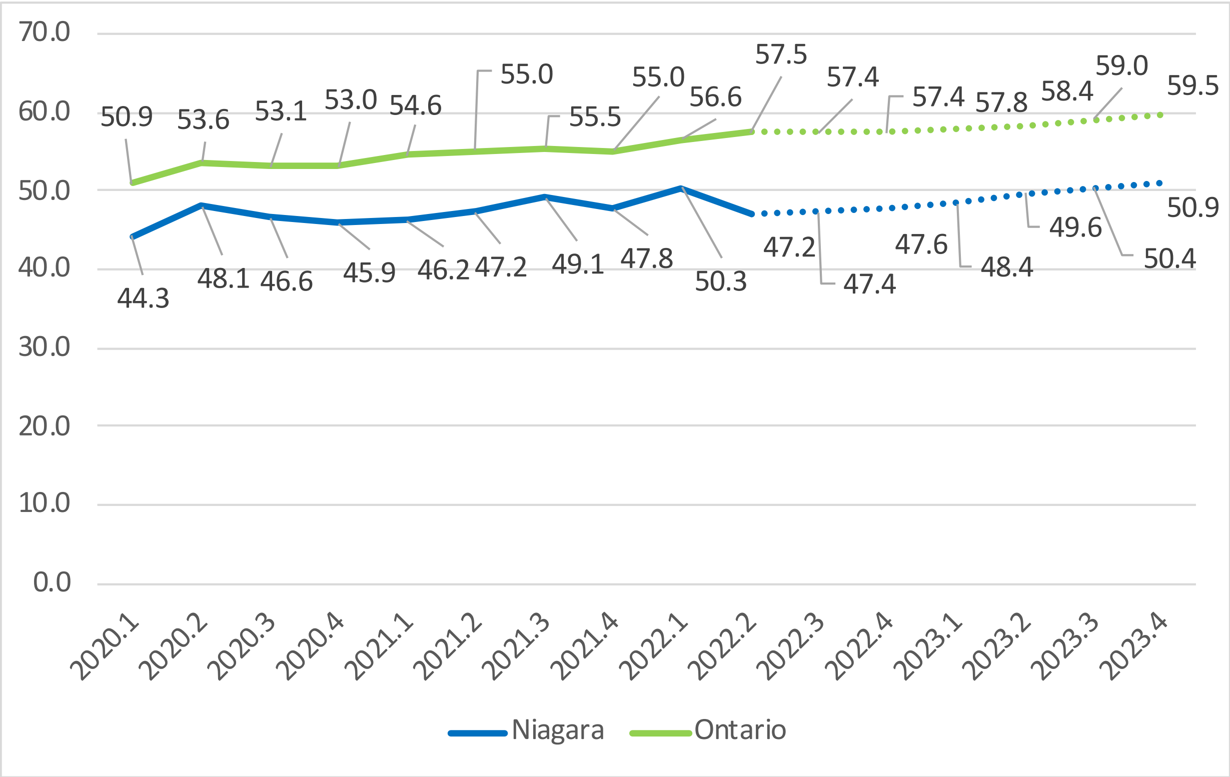
INCOME

Income levels in Niagara have historically lagged Ontario. This characteristic has remained consistent throughout the pandemic period. The following section looks at household income per capita and disposable household income per capital for Niagara and Ontario.

Household income per capita measures the total amount of money of households divided the number of people living in a specific area. Table 12 shows that Niagara household income per capita continues to remain persistently lower than Ontario and is projected to remain lower through 2023. At the height of the pandemic in Q2 2020 the gap between Niagara and Ontario was $5,531. By Q2 2022 that gap grew to $10,324. By the end of 2023, the gap is projected to decrease to $8,625.

However, from Q2 2022 to Q4 2023 household income per capita is forecasted to grow at a higher rate of 7.8% for Niagara and 3.6% for Ontario.

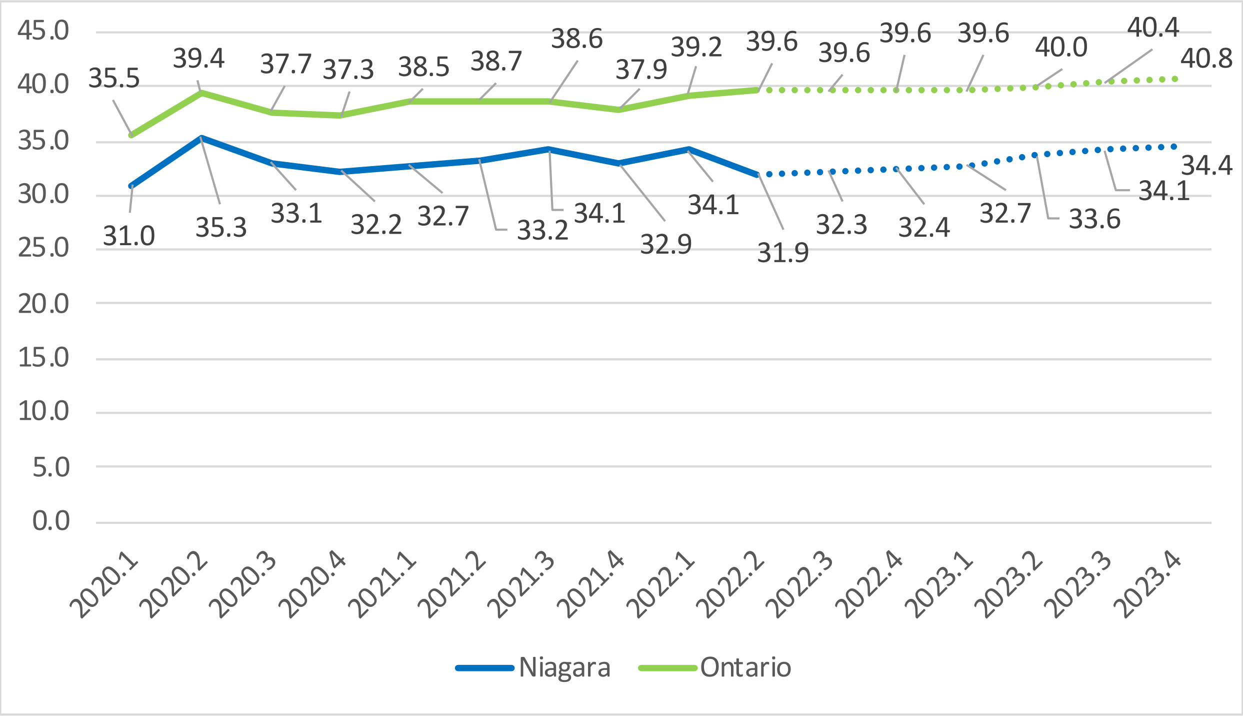
Table 12: Household Income per Capita ($ Thousands), Niagara and Ontario



Source: The Conference Board of Canada, June 2022

Household disposable income per capita measures the total amount of money left to all households after taxes in a specific area divided by the total number of people living in that area. Table 13 shows household disposable income per capita for Niagara and Ontario. In Q1 2020, Niagara lagged Ontario by $4,550. The gap reached a high of $7,645 in Q2 2022 and is forecasted to close slightly to $6,364 by Q4 2023.

Table 13: Household Disposable Income per Capita ($ Thousands), Niagara and Ontario



Source: The Conference Board of Canada, June 2022

LABOUR

Income levels in Niagara have historically lagged Ontario. This characteristic has remained consistent throughout the pandemic period. The following section looks at household income per capita and disposable household income per capital for Niagara and Ontario.

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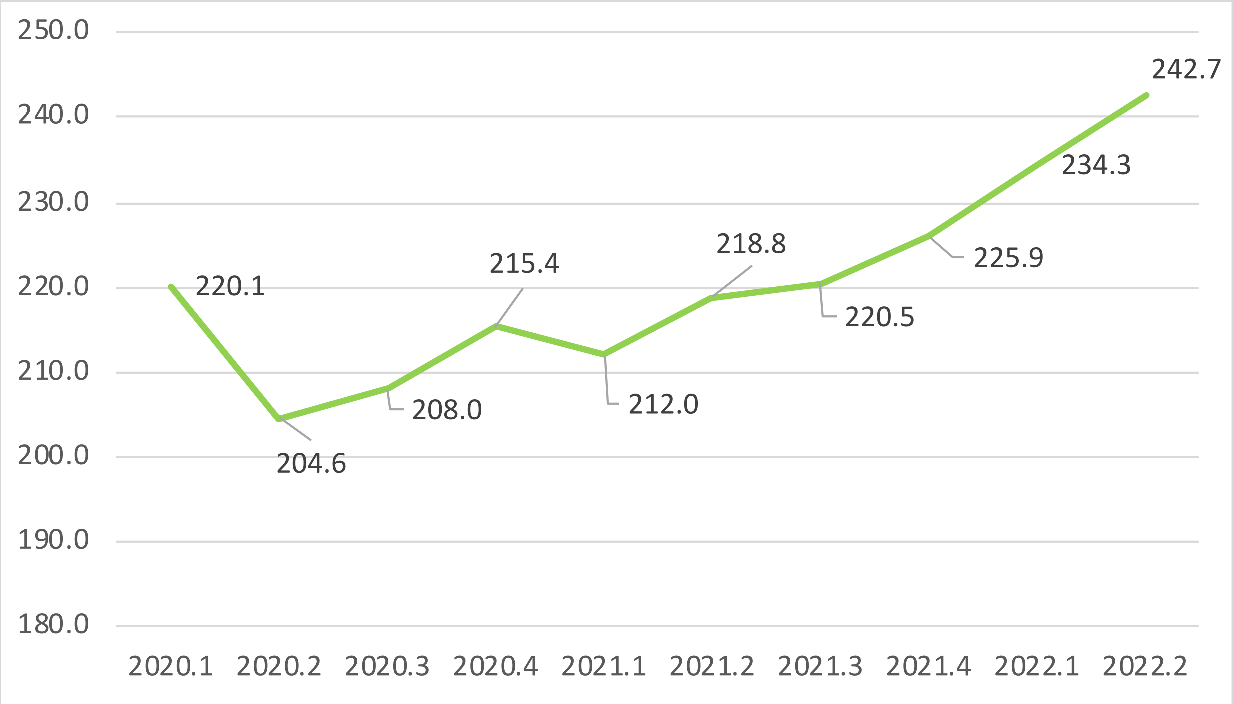
However, from Q2 2022 to Q4 2023 household income per capita is forecasted to grow at a higher rate of 7.8% for Niagara and 3.6% for Ontario.

Table 14: Labour Force (Thousands), Seasonally Adjusted, Niagara CMA

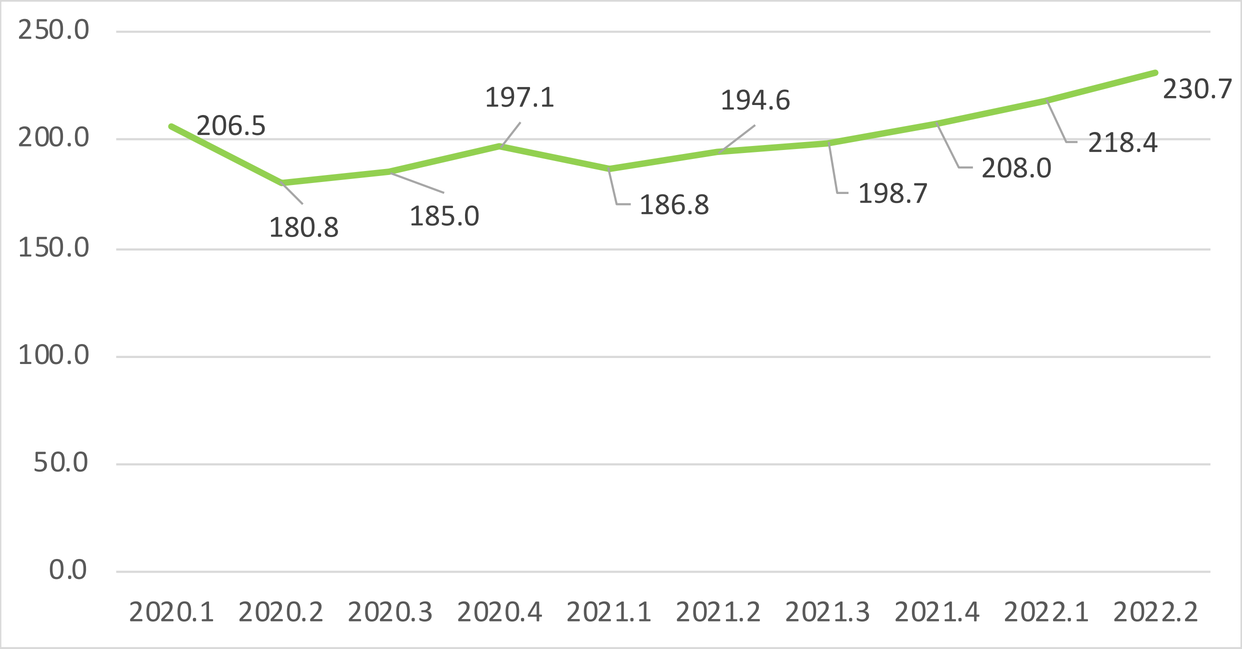


Source: The Conference Board of Canada, June 2022

Table 15 shows employment growth for Niagara. Employment hit a low of 180,800 at the onset of pandemic restrictions. Employment recovery was gradual and full recovery did not occur until Q4 2021 when it reached 208,000, which is above pre-pandemic levels.

From Q4 2021 to Q2 2022, employment continued to grow rapidly to reach 230,700, which is the highest it has even been. This is growth of 22,700 employed people or 11%.

Table 15: Employment (Thousands), Seasonally Adjusted, Niagara CMA



Source: Statistics Canada, Table: 14-10-0380-01

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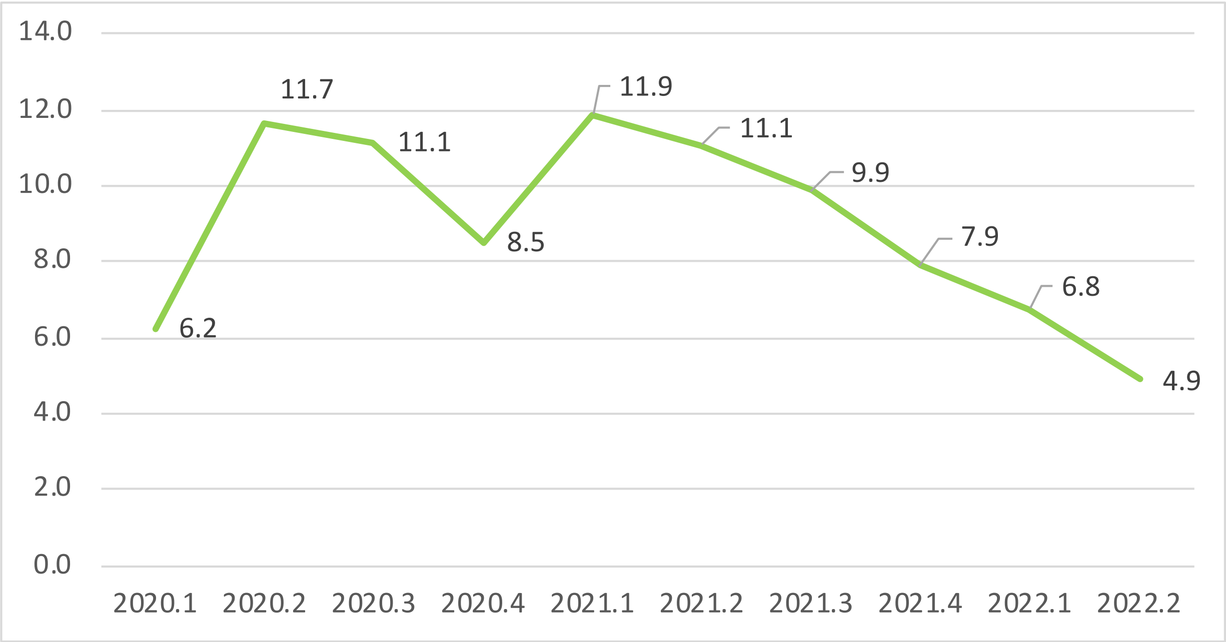
The unemployment rate reached historic highs during the height of the pandemic, but dropped significantly to a historically low rate. Table 16 shows spikes in the unemployment rate that correspond with pandemic lockdown periods, notably Q2 2020 when it reached 11.7% and Q1 2021 when it reached 11.9%.

While pandemic restrictions were removed and the economy re-stabilized, the unemployment rate continued to drop and reached the rate of 6.8% in Q1 2022. It continued to drop to a historically low rate of 4.9% in Q2 2022. However, an unemployment rate this low indicates that there is growing shortage of available workforce to fill jobs vacancies in the regional economy.

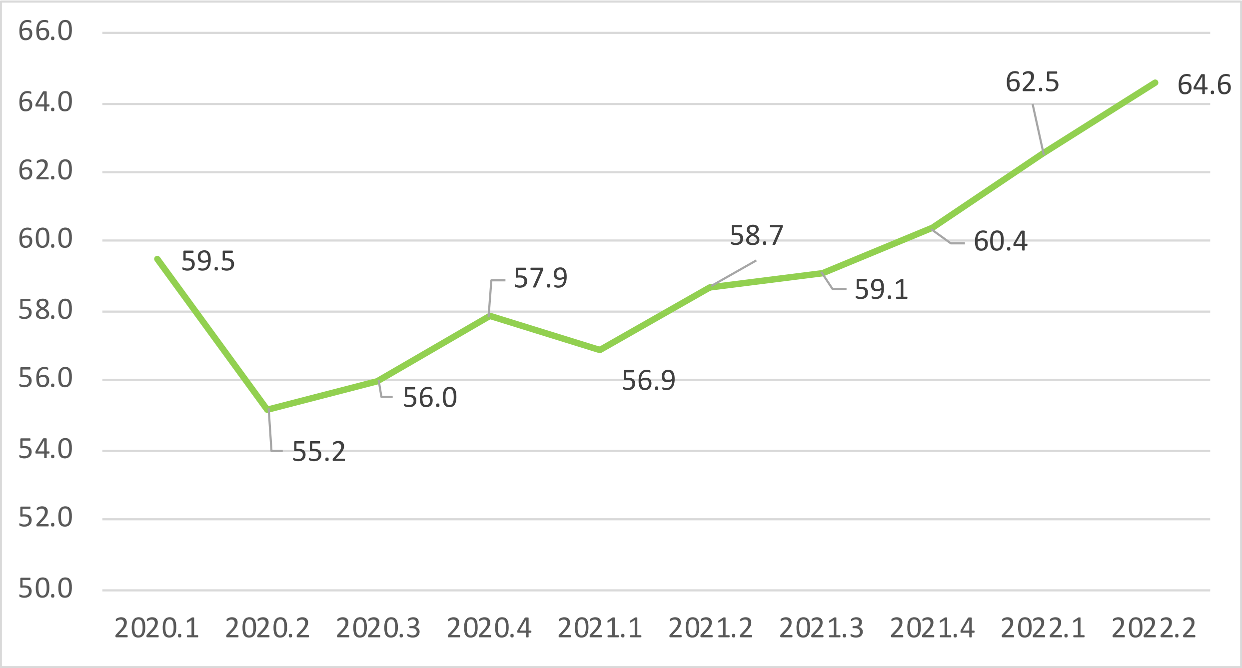
Table 16: Unemployment Rate (%), Seasonally Adjusted, Niagara CMA



Source: Statistics Canada, Table: 14-10-0380-01

The participation rate is the percentage of working age population actually participating in labour force. Table 17 shows that the participation reached a low of 55.2% in Q2 2022, but improved greatly reaching 64.6%, which is historically high for Niagara. This is a positive sign that the population in Niagara is participating in the labour at growing rate, which is important giving the existing labour shortage in the economy.

Table 17: Participation Rate (%), Niagara CMA



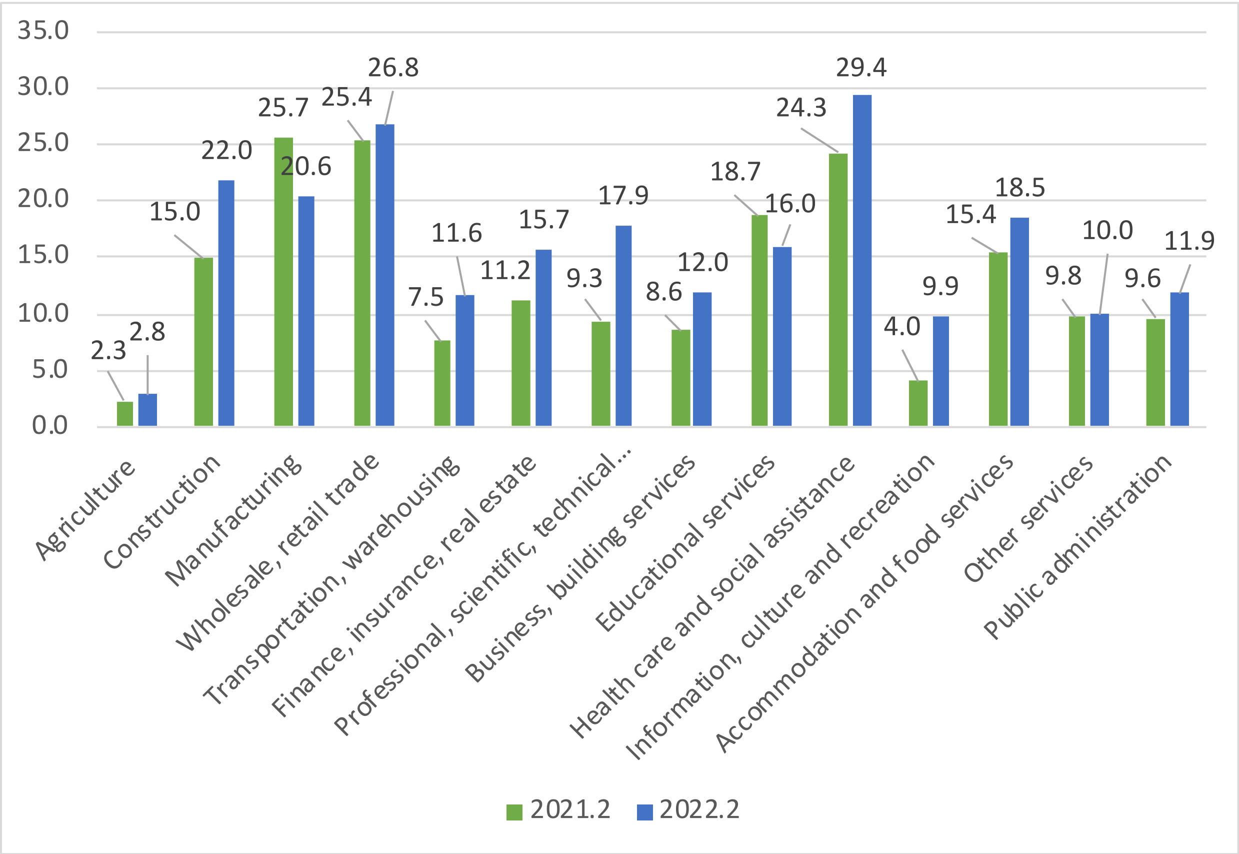
Source: Statistics Canada, Table: 14-10-0380-01

Most sectors of the economy in Niagara gained employment as the economy recovered from the height of the pandemic. Table 18 shows employment growth be sector from Q2 2021 to Q2 2022. The top 5 sectors by real employment growth included professional, scientific and technical services with 8,600 more people; construction with 7,000 more people; information, culture and recreation with 5,900 more people; health care and social assistance with 5,100 more people; and finance, insurance and real estate with 4,500 more people.

The top 5 sectors by relative employment growth (%) included information, culture and recreation at 147%; professional, scientific and technical services at 92%; transportation and warehousing at 54%; construction at 47%; and, finance, insurance and real estate at 40%.

The sectors that showed the greatest employment growth were among the hardest hit with layoffs during the height of the pandemic, and this is a sign of employment recovery.

Table 18: Employment by Sector (Thousands), Niagara CMA



Source: Statistics Canada, Table: 14-10-0379-01

CONCLUSION

Niagara has shown great improvement through the pandemic period and appears to be on a trajectory of progress across many economic indicators in the near future. However, there are some significant challenges evident in the data that could disrupt the progress.

GDP continued to grow through the pandemic period and is projected to grow through 2023. Although inflation was incredibly high as of Q1 2022 it is projected to slow down through 2023 returning to normal levels. Niagara's international trade position has improved substantially and hopefully the momentum in export growth continues into the future. Business counts have shown great improvement in 2022 having gained a substantial number of businesses both with employees and without employees. Investment in building construction remains strong with the exception of the commercial sector, which will hopefully rebound. Lastly, all labour force indicators have shown great improvement after the massive impacts of the pandemic.

Although there were major improvements made in the economy, there are still many present and potential challenges. GDP is growing and is projected to grow; however, GDP per capita for Niagara is lower than Ontario and is not projected to improve, which indicates that Niagara's economy is less productive than Ontario as a whole. Retail sales in Niagara are stagnating and Niagara's share of total Ontario retail sales is projected to be reduced, but not by a significant margin. Although Niagara exports remain strong, imports have softened which may be a result of global supply chain challenges. This could affect the ability for Niagara firms to produce more and reach international markets in the future. Investment in commercial building construction has softened. Hopefully this will rebound through the remainder of 2022 and through 2023. Lastly, income in Niagara is growing, but it is still underperforming relative to Ontario and is projected to continue underperforming through 2023. This will compound the affordability challenges in Niagara, which could become worse.

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