Niagara Economic Update Comprehensive Overview

ED 4-2022
April 6, 2022
Appendix 1

Introduction

Two years into the COVID-19 pandemic, Niagara’s economy is showing strong signs of recovery across many macroeconomic indicators. GDP is growing. Retail sales continue to rebound. International trade has expanded drastically. Investment in building construction remains very strong across residential and non-residential sectors, and labour force indicators continue to improve.

However, there are still many challenges present. GDP growth remains challenged by the hardest hit sectors that have not recovered. Inflation is very high, which increases the cost of doing business and cost of living for residents. Household disposable income for Niagara is growing much slower than the cost of goods and services. Imports have declined significantly indicating supply chain challenges for Niagara businesses.

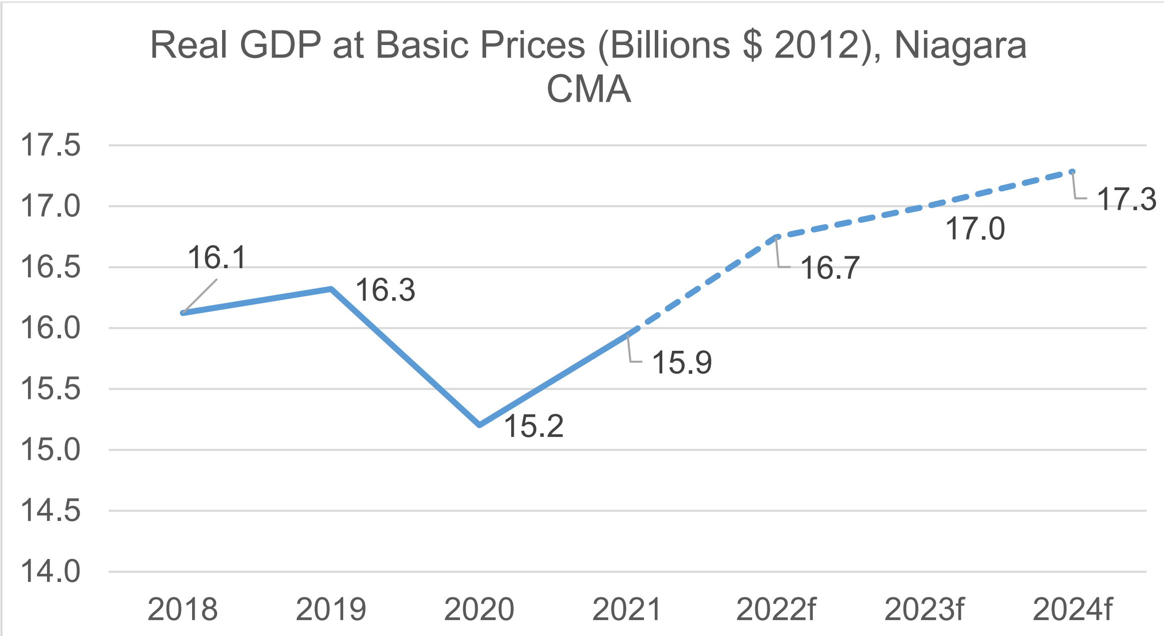
Furthermore, Niagara has also lost a significant number of employer businesses. Employment recovery has made significant progress, but is still vulnerable across many sectors. The unemployment rate remains stubbornly high at 9.8%, and the participation rate has remained lower than pre-pandemic levels.

The following report provides a comprehensive economic update for Niagara. It includes an analysis of gross domestic product (GDP), consumer price index (CPI), total income, retail sales, trade (imports and exports), investment in building construction, net business counts, and labour and employment conditions.

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. 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.

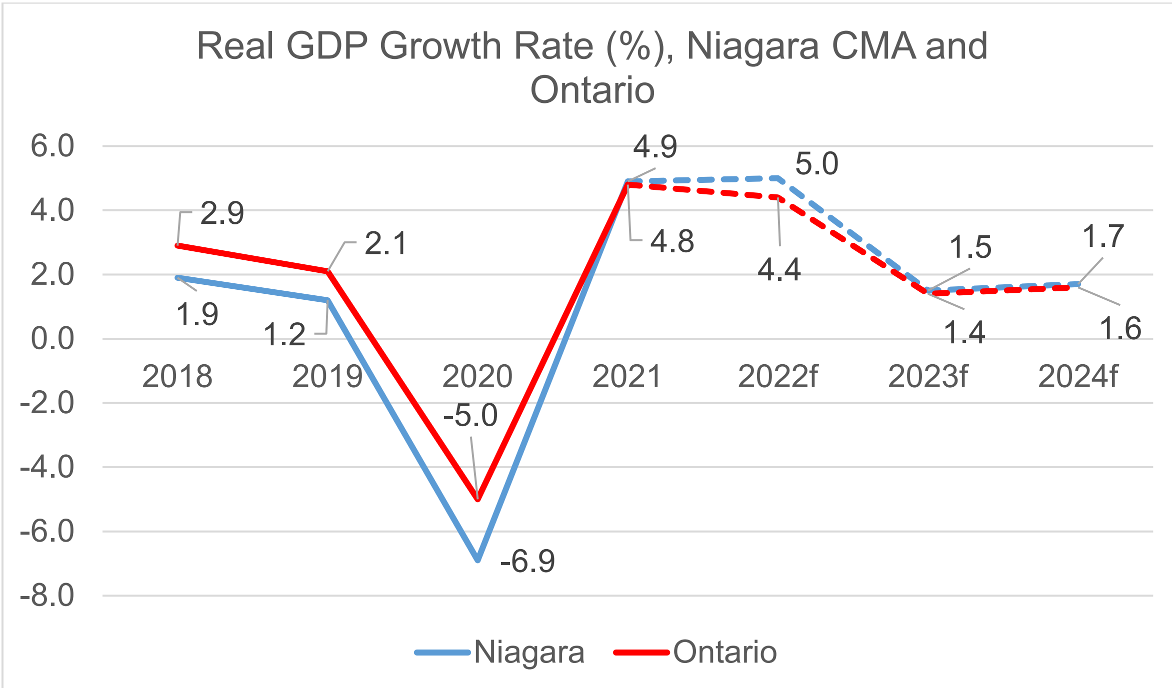
This section focuses on real GDP growth for Niagara, real GDP growth rate for Niagara and Ontario, real GDP per capita for Niagara and Ontario, and real GDP by sector for Niagara.



Source: The Conference Board of Canada, January 2022

Real GDP rebounded to near pre-pandemic levels in 2021 to $15.9 billion, up by $700 million (4.6%) from $15.2 billion in 2020.

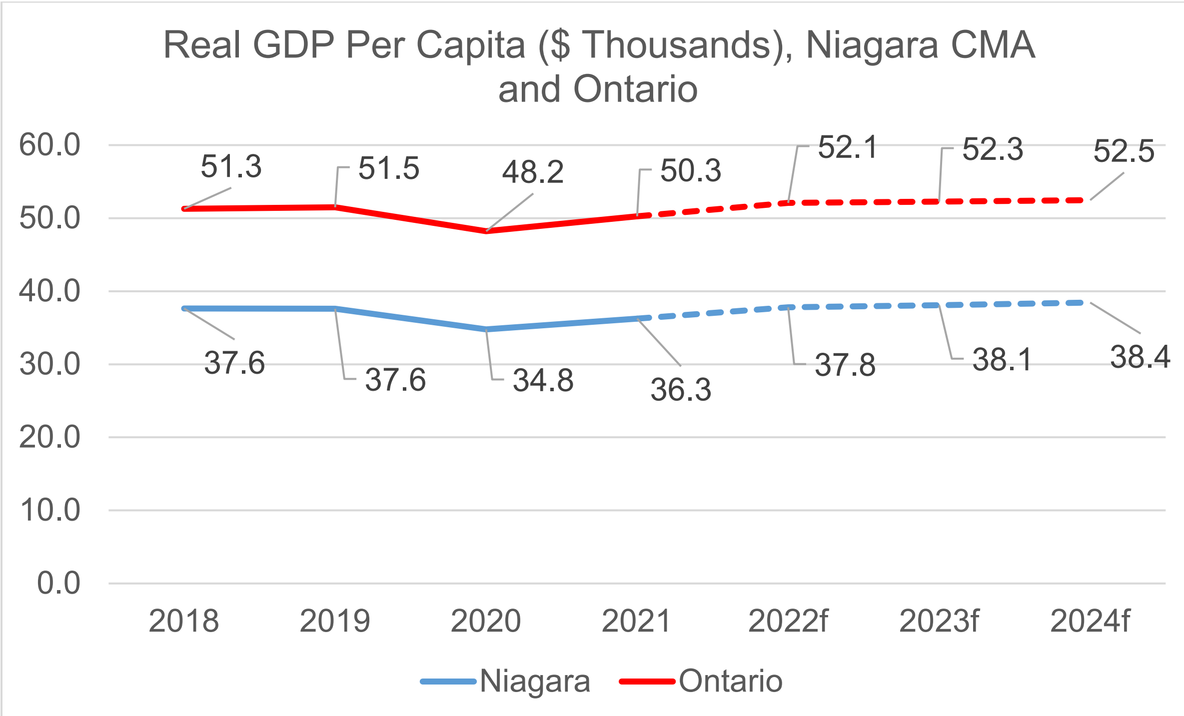
Although real GDP is still $400 million (2.3%) short of the $16.3 billion achieved in 2019, it is projected to fully recover to $16.7 billion though 2022 and remain on a steady growth trajectory through 2024.



Source: The Conference Board of Canada, January 2022

Real GDP growth rate for Niagara lagged Ontario from 2018 to 2021; however, Niagara's real GDP growth rate surpassed Ontario through 2021 indicating relatively stronger economic growth.

Real GDP growth rate for Niagara is projected to outperform Ontario through 2024. This will be supported by an eventual return to full operational capacity in the sectors that were hardest hit during the pandemic such as arts, culture and recreation; and, accommodation and food services.

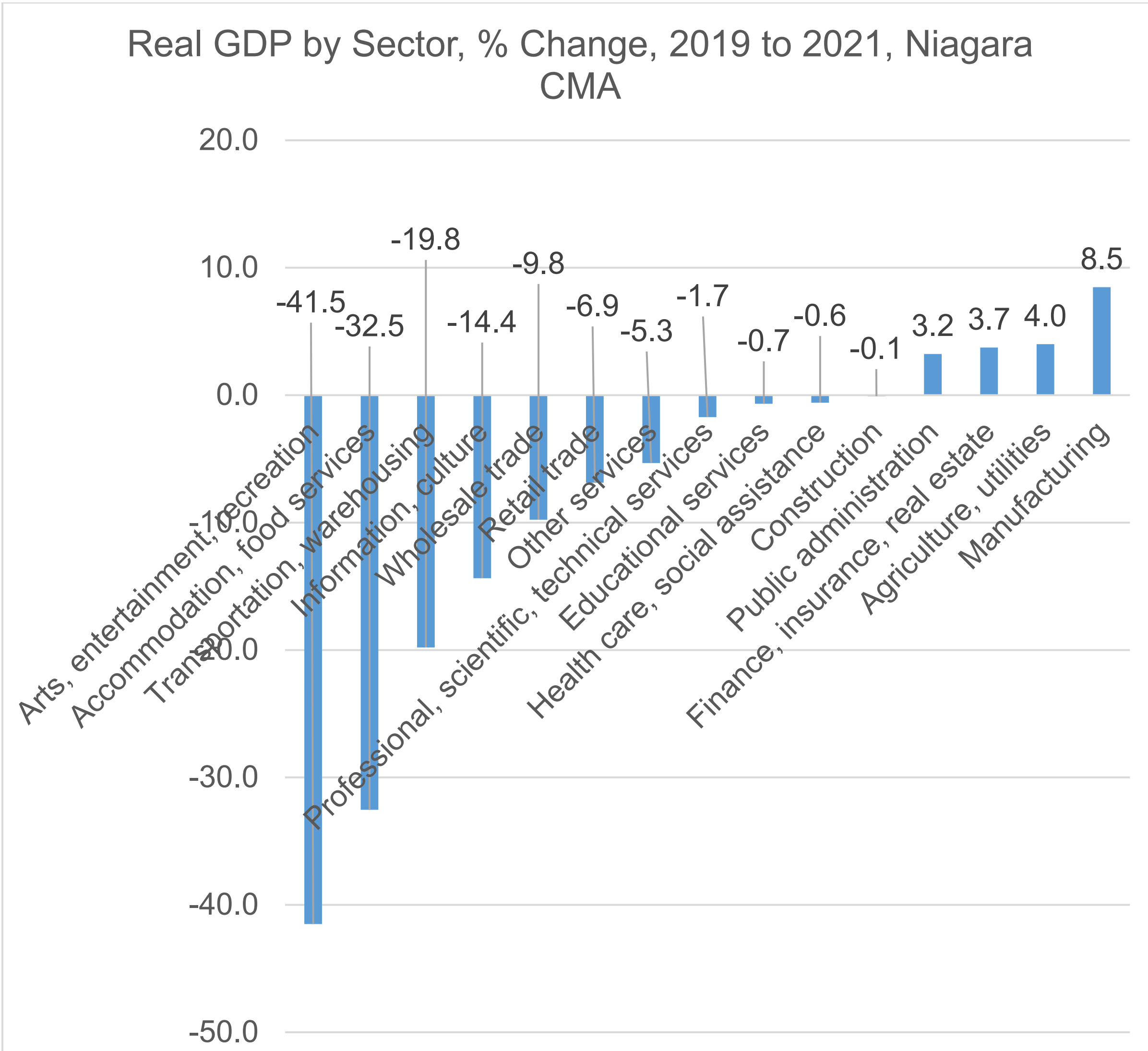


Source: The Conference Board of Canada, January 2022

Real GDP per capita is a measurement of the total economic output of a region divided by the number of people that live in that region. It is a good indicator for measuring the overall productivity of a regional economy. It is also useful for comparing an overall standard of living between different geographical areas.

Real GDP per capita is significantly lower in Niagara than Ontario. On average Niagara's real GDP per capita was on average $13,778 lower than Ontario from 2018 to 2021. It is not forecasted to improve within the next few years. The disparity is actually projected to increase on average $14,200 on average over the next 3 years.

This suggests that although Niagara's economy is expected to grow, it will be less productive relative to the total population when compared to Ontario.



Source: The Conference Board of Canada, January 2022

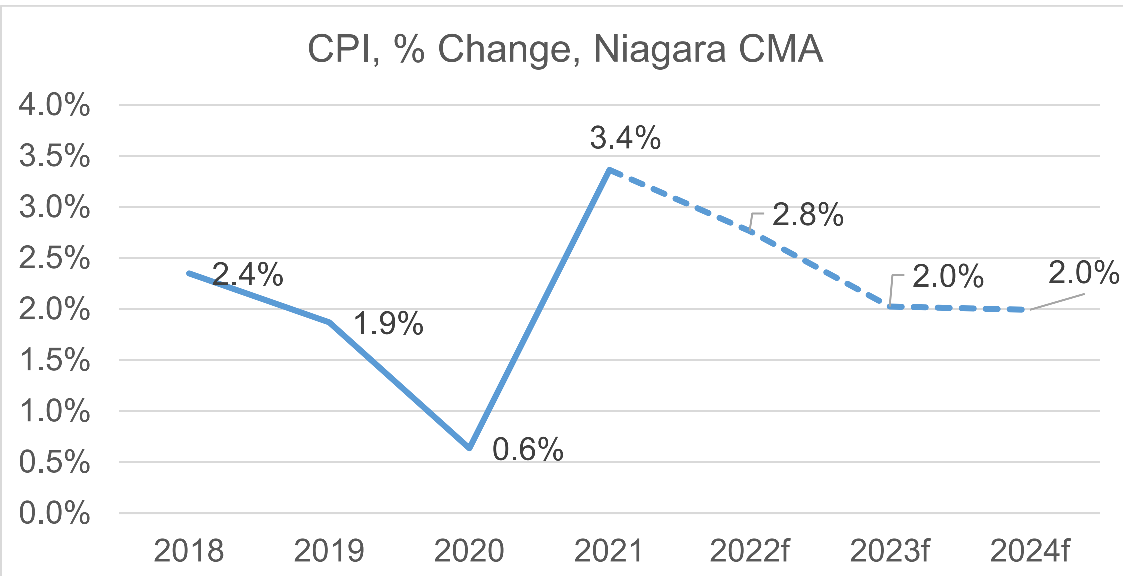
The pandemic has impacted the economic performance of certain sectors much more than others. The chart above shows the change in real GDP from the industrial sectors of the economy from 2019 to 2021.

Arts, entertainment and recreation experienced the largest contraction at -41.5% of real GDP. This was followed by accommodation and food services at -32.5%; transportation and warehousing at -19.8%; information and cultural industries at -14.4%; wholesale trade at -9.8%; retail trade at -6.9%; other services at -5.3%; professional, scientific and technical services at -1.7%; educational services at -0.7%; health care and social assistance at -0.6%; and construction at -0.1%.

The sectors that experienced real GDP growth included public administration at 3.2%; finance, insurance and real estate at 3.7%; agriculture and utilities at 4.0%; and manufacturing at 8.5%.

Consumer Price Index (CPI)

The Consumer price index (CPI) is a measurement of the change in prices for 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.



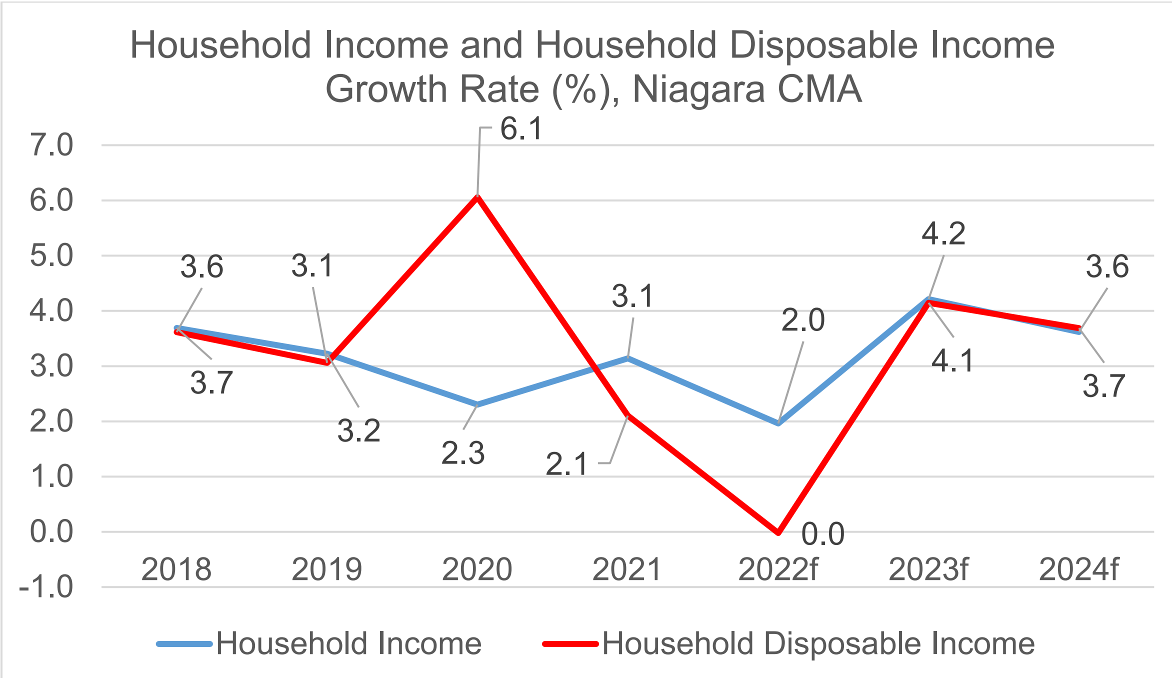
Source: The Conference Board of Canada, January 2022

Niagara experienced a steep decline in CPI in 2020 to 0.6%; however, it rose drastically in 2021 to 3.4%. As of January 2022, CPI for Niagara is 5.7% higher than it was in January 2021 indicating a steep increase in the cost of goods and services.

CPI is expected to decline but remain relatively high throughout 2022 at an annualized increase of 2.8%. It is projected to return to regular levels around 2.0% in 2023.

Income

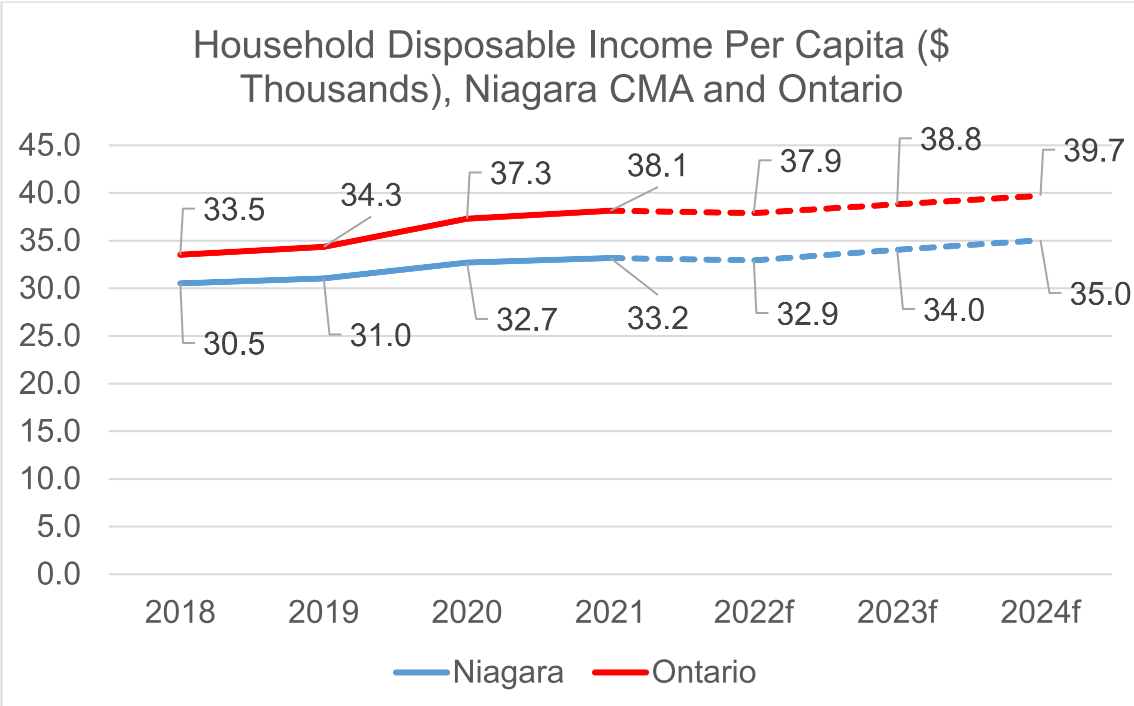
The following section looks at income growth rates for Niagara and also looks at household disposable income per capita for Niagara relative to Ontario.



Source: The Conference Board of Canada, January 2022

In 2021, Niagara's household income growth rate increased by 0.8% to 3.1% while household disposable income declined drastically by 4% to 2.1%. Household disposable income was at a very high rate of 6.1% in 2020. People with income did not spend as much in 2020, so household disposable income increased. As the economy opened more in 2021, household disposable income declined as more money was spent in the economy.

With current high rates of inflation, household disposable income is expected to not grow in 2022, but is expected to grow again in 2023 and 2024.



Source: The Conference Board of Canada, January 2022

Household disposable income per capita measures the total amount of money left to households after taxes have been paid. It is used to pay general living expenses.

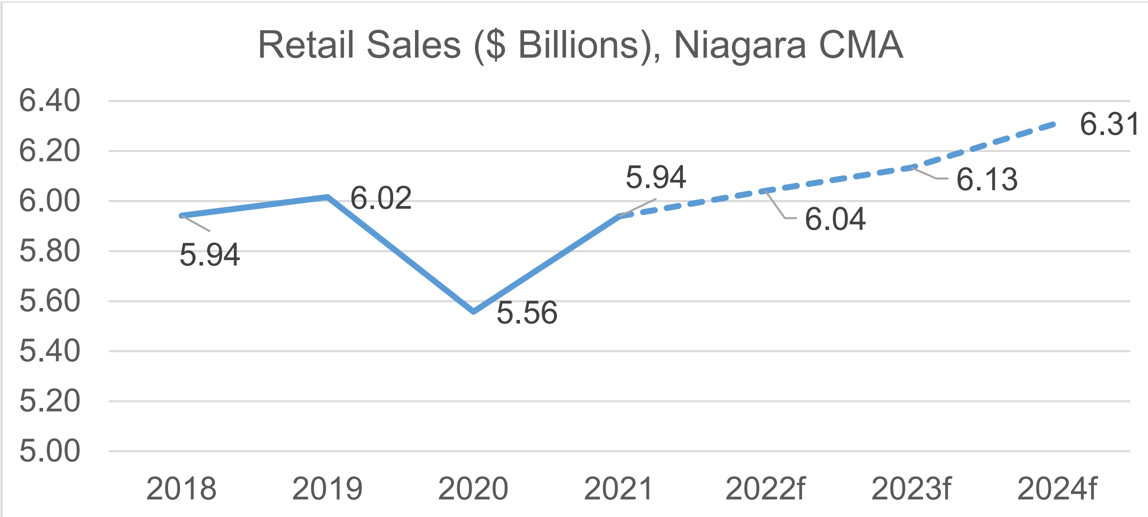
Niagara lags Ontario in household disposable income per capita, meaning that there is less disposable income and less money to buy goods and services by each person in Niagara.

In 2021, disposable income per capita for Niagara was $4,962 less than Ontario. From 2018 to 2021, that gap grew steadily; however, it is projected to decline from 2022 to 2024.

Household disposable income per capita grew significantly from 2019 to 2021 due to a decrease in consumer spending due to pandemic restrictions (people did not have a place to spend their money), but is forecasted to grow at a slower rate in 2022 going forward as household spending increases.

Retail Sales

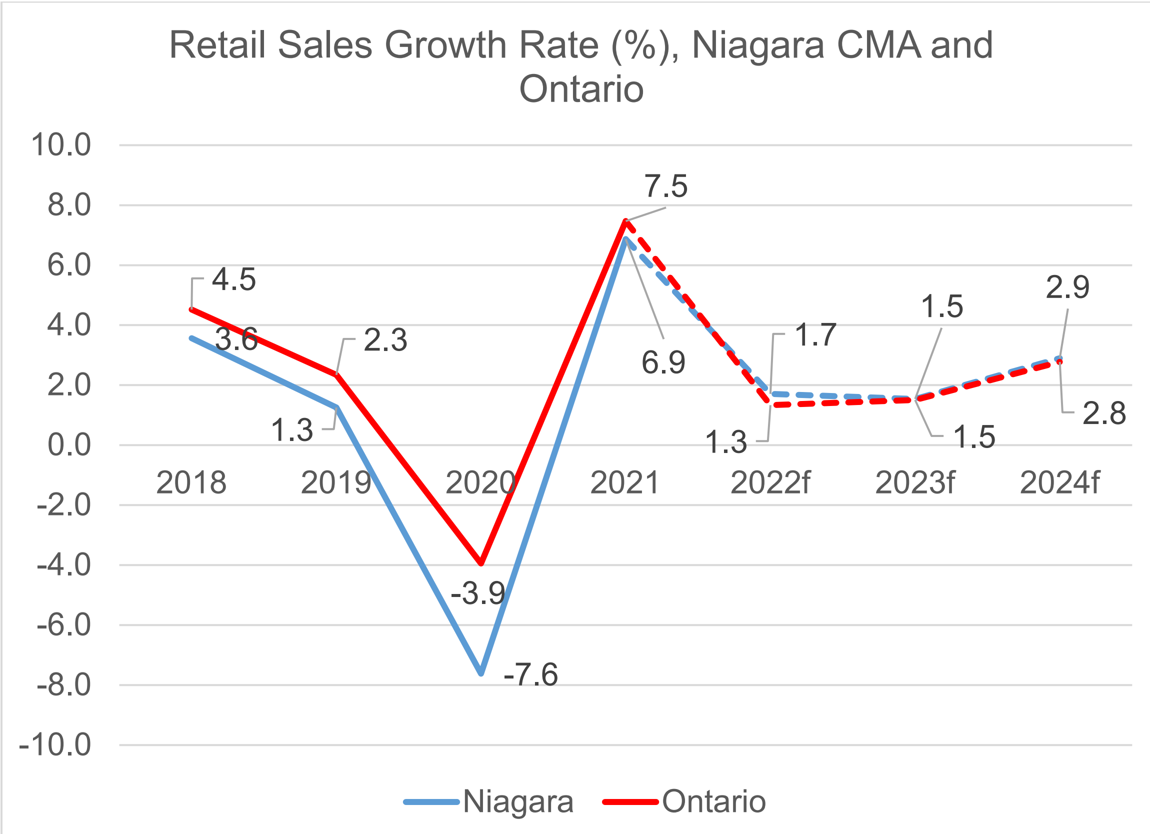
The following section looks at total retail sales values for Niagara and retail sales growth rates for Niagara and Ontario.



Source: The Conference Board of Canada, January 2022

Total retail sales made a significant recovery in 2021 growing by $382 million (7%) to $5.94 billion. However, it has not fully recovered to the pre-pandemic level of $6.02 billion in 2019.

Retail sales values are projected to reach pre-pandemic levels of $6.04 billion in 2022, which will be supported by fewer pandemic restrictions on businesses and more spending activity.



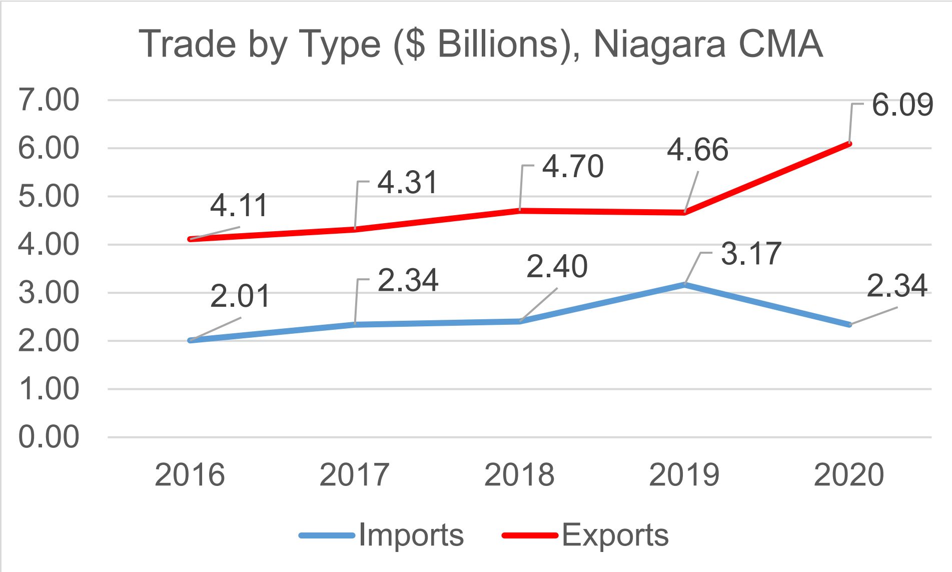
Source: The Conference Board of Canada, January 2022

Growth in retail sales values for Niagara lagged Ontario from 2018 to 2021. This is likely due to the impacts of the pandemic on the retail sector being disproportionately greater in Niagara than Ontario as a whole.

Niagara's position improved significantly in 2021, but still lagged Ontario. However, retail sales growth in Niagara is projected to outperform Ontario in 2022 and continue to perform well compared to Ontario through 2024.

International Trade

The following section looks at international trade characteristics for Niagara and Ontario. It includes trade by type (import and export) for Niagara, and export and import growth rates for Niagara and Ontario.

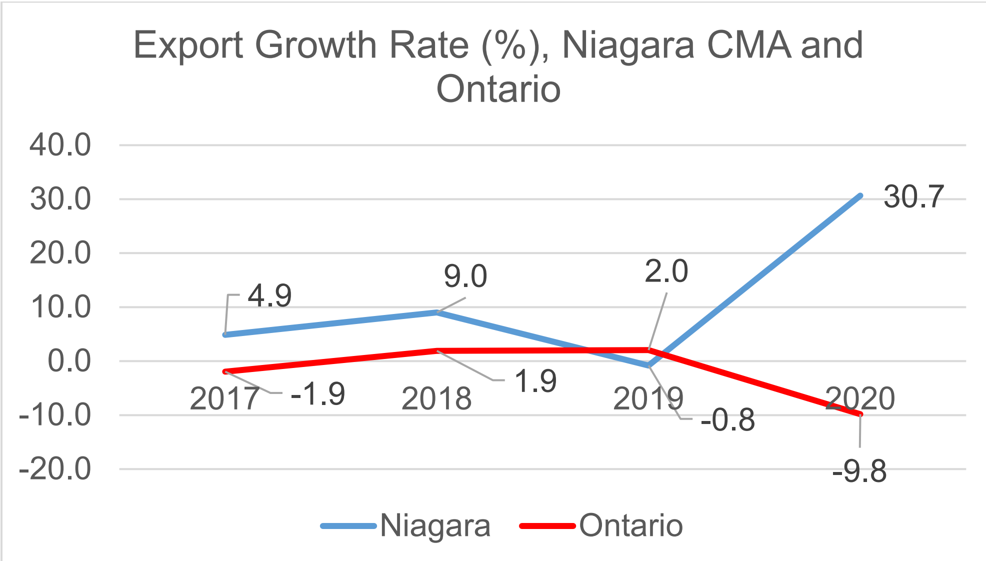


Source: Statistics Canada, Tables: 71-607-X

Trade patterns for Niagara were drastically different in 2020 from previous years. This is likely due to impacts of the pandemic on things like international markets and supply chains.

From 2019 to 2020, export values for Niagara grew by $1.43 billion (31%), which is an unprecedented amount of growth. During the same time, import values declined by $831 million (-26%), which is also unprecedented for Niagara.

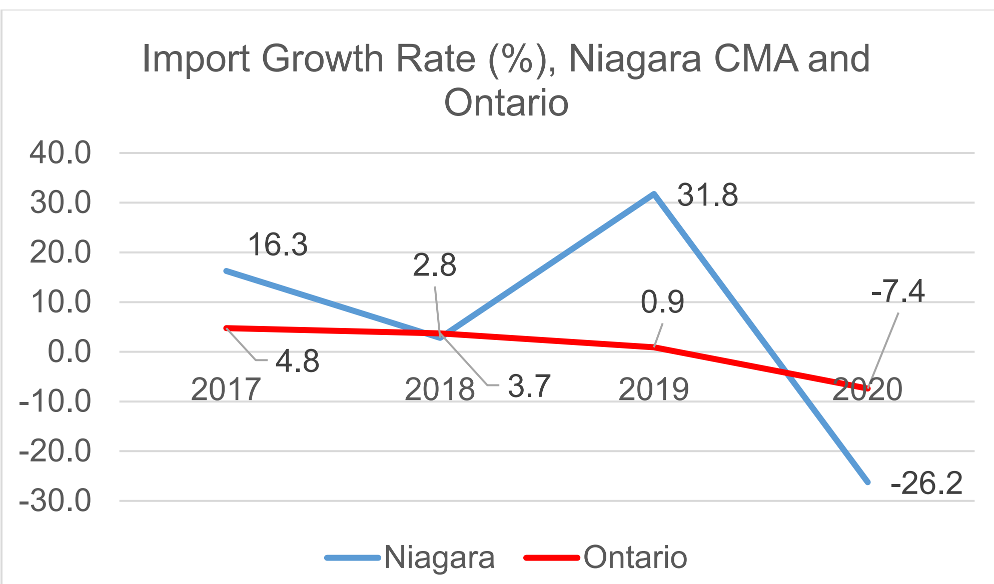
It appears that international demand for products made in Niagara grew drastically during the pandemic as evident in the large increase. However, it appears Niagara companies in general imported a lower value in goods. This could be the result of international supply chain challenges and product shortages.



Source: Statistics Canada, Tables: 71-607-X

Niagara had a significantly higher export growth rate than Ontario with the exception of 2019, but then a very high level of growth in 2020 surpassing Ontario by over 40%.

It is important to note that approximate 90% of total export values are from the manufacturing sector.



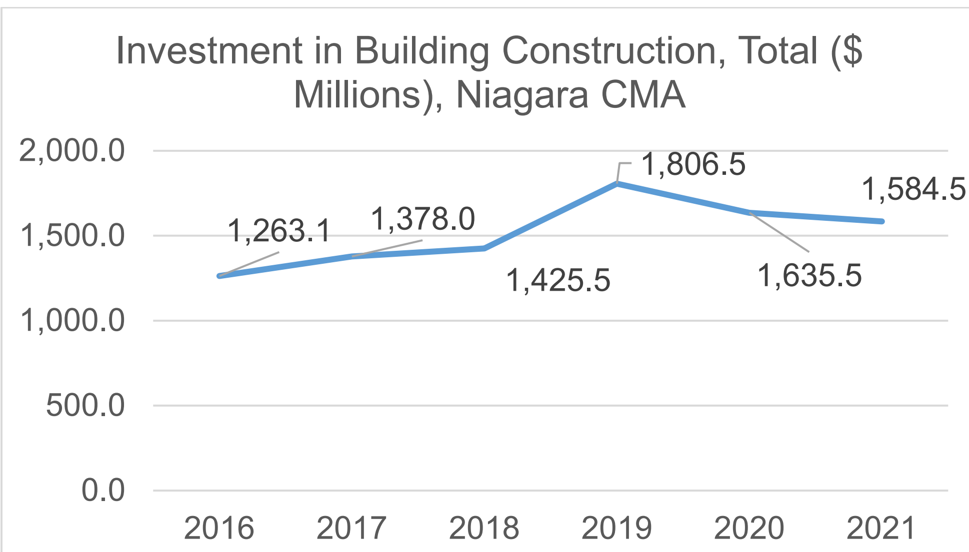
Source: Statistics Canada, Tables: 71-607-X

Import growth rate was higher in Niagara than Ontario with the exception of 2018 and 2020. In 2020, the import growth rate was -19% lower than Ontario. Firms in Niagara likely had challenges importing products due to supply chain challenges during this year. It appears to have impact Niagara more than Ontario.

It is important to note that approximately 56% of import values are from the manufacturing sector. Manufacturing companies in Niagara typically export far more than they import.

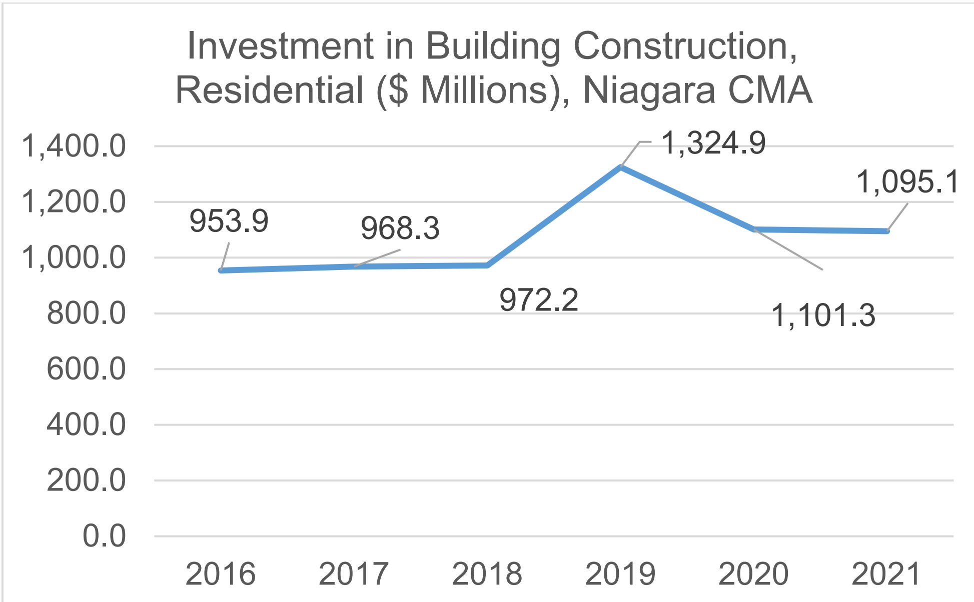
Investment

The following section looks at the value of investment in building construction in Niagara by building type, as well as a comparison of the investment growth rate between Niagara and Ontario. The dollar values are in constant values and adjusted for inflation.



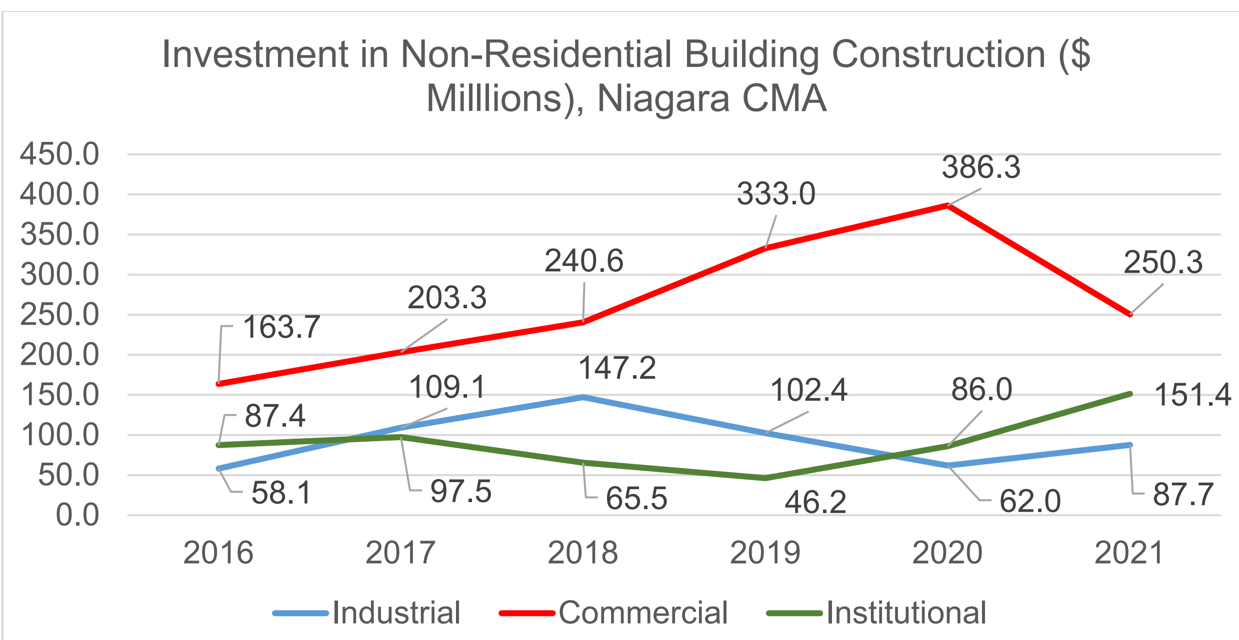
Source: Statistics Canada, Table: 34-10-0175-01

Investment in building construction remained strong in Niagara in 2021 with $1.6 billion in new investment. Although it was a decline of $51 million over 2020, this only represented a -3% change and investment trends continue to remain strong for Niagara.



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

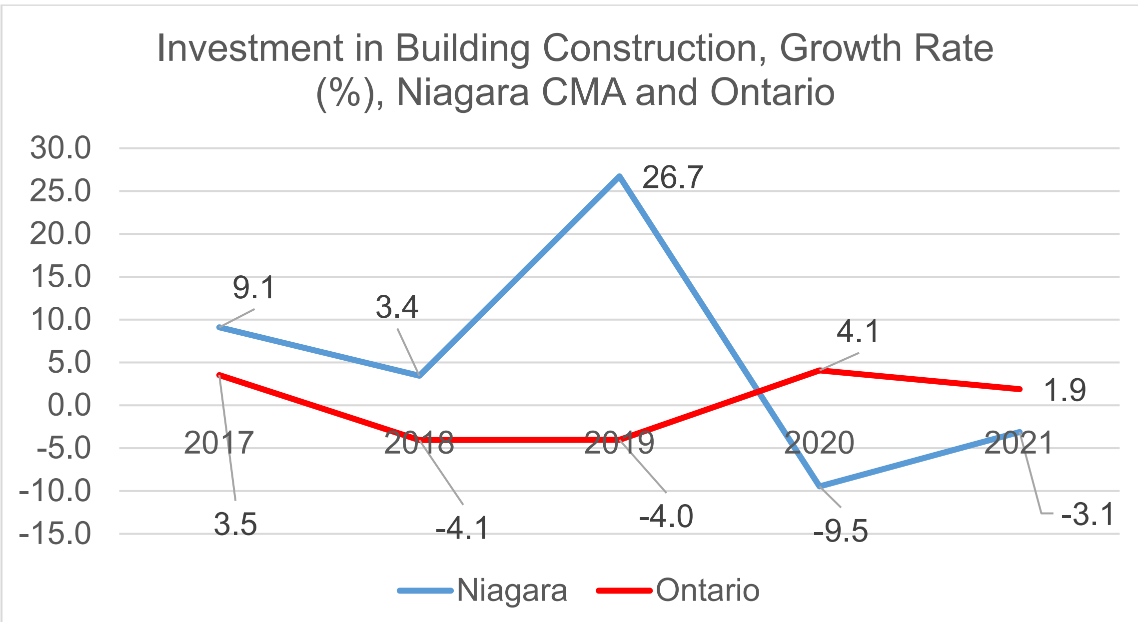
Investment in residential building construction represented 69% of total investment in building construction for Niagara in 2021. Although there was a decline in investment from 2020 to 2021, it was less than -1% and the values remain relatively high.



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

Investment in non-residential building construction also remained relatively strong in 2021 with a total of $489 million. Commercial represented 51% of total non-residential construction investment value, followed by institutional with 31%, and industrial with 18%.

From 2020 to 2021, investment in institutional building construction grew by $65 million (76%), industrial grew by $26 million (41%), and commercial declined by $136 million (-35%).



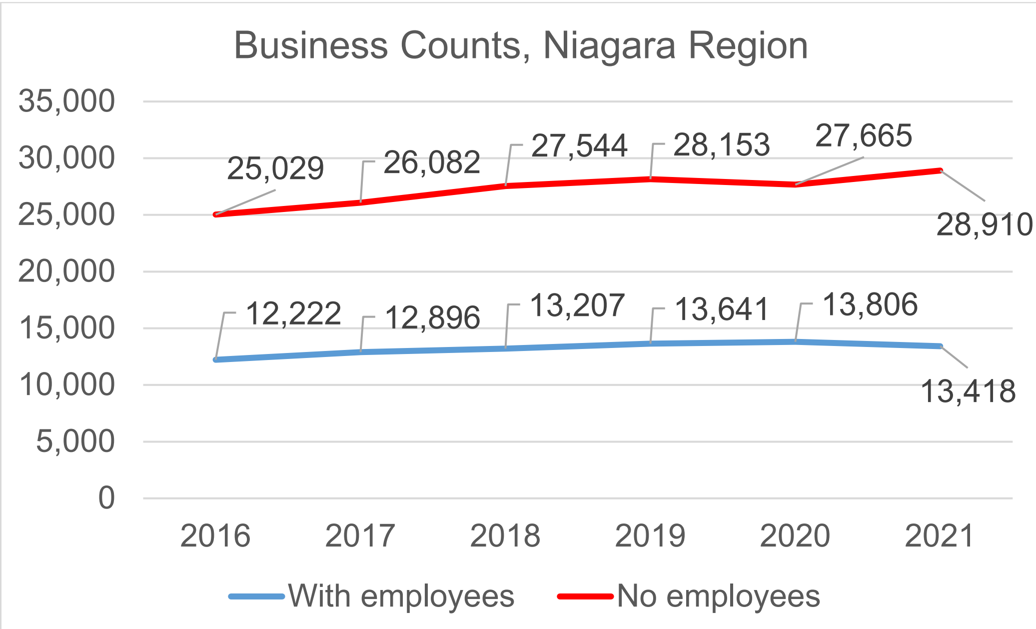
Source: Statistics Canada, Table: 34-10-0175-01

From 2017 to 2019, total investment in building construction in Niagara grew at a much higher rate than Ontario. 2019 was a banner year for Niagara where the investment growth rate was 31% greater than Ontario. However, Niagara's investment growth rate lagged Ontario in 2020 but made improvements in 2021.

Although investment in building construction has been historically strong in Niagara in recent times, Ontario is also experiencing an investment boom over the past couple of years.

Business Counts

Business counts measure the number of businesses with employees and those without employees in Niagara. The graph below shows the net number of businesses in Niagara.



Source: Statistics Canada, Canadian Business Counts

Niagara has historically gained both employer businesses and businesses without employees. However, it is apparent that the pandemic has had an effect on businesses with employees.

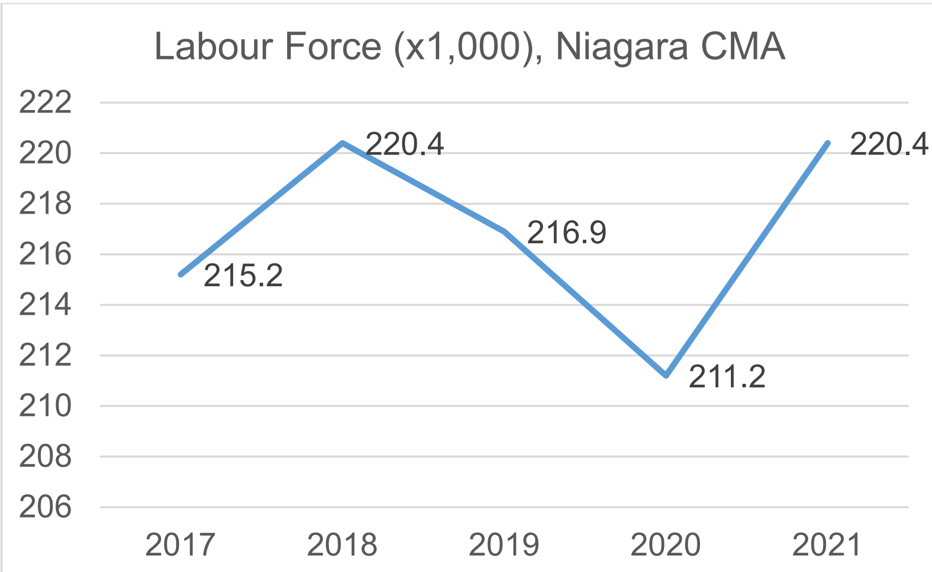
From 2020 to 2021, Niagara lost a net 388 (-2.1%) businesses with employees, but gained 1,245 (4.5%) businesses without employees.

It is possible that many businesses with employees could have reduced jobs and became businesses without employees. It is also possible that many people who worked in the hardest hit sectors opted to start new businesses during the pandemic period as alternative employment. This would influence the increase in businesses without employees.

Niagara did gain a net 857 businesses (2.1%) from 2020 to 2021, but again, these are all businesses without employees.

Labour and Employment

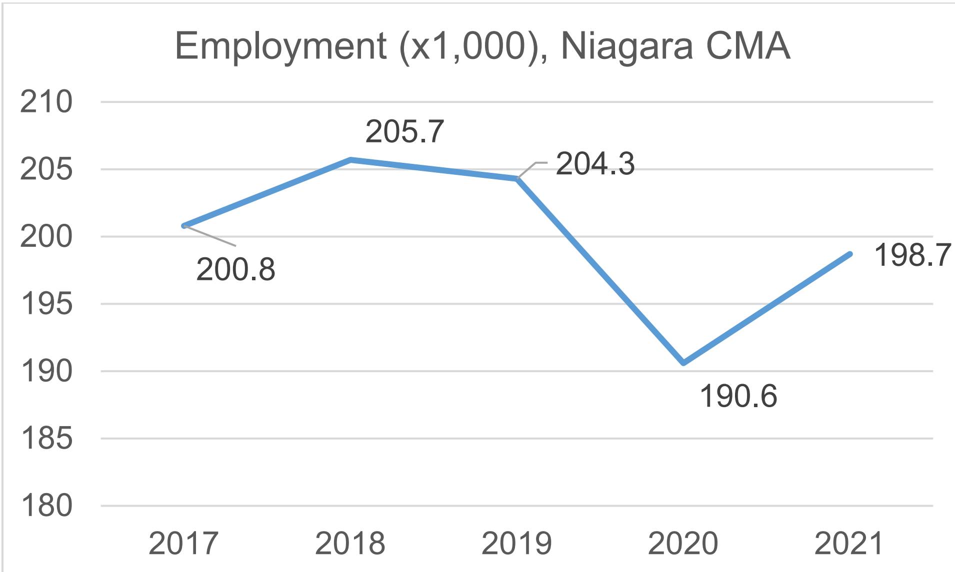
The following section looks at labour and employment characteristics for Niagara including labour force, employment, unemployment rate, participation rate, and employment growth rate by sector.



Source: Statistics Canada, Table: 14-10-0385-01

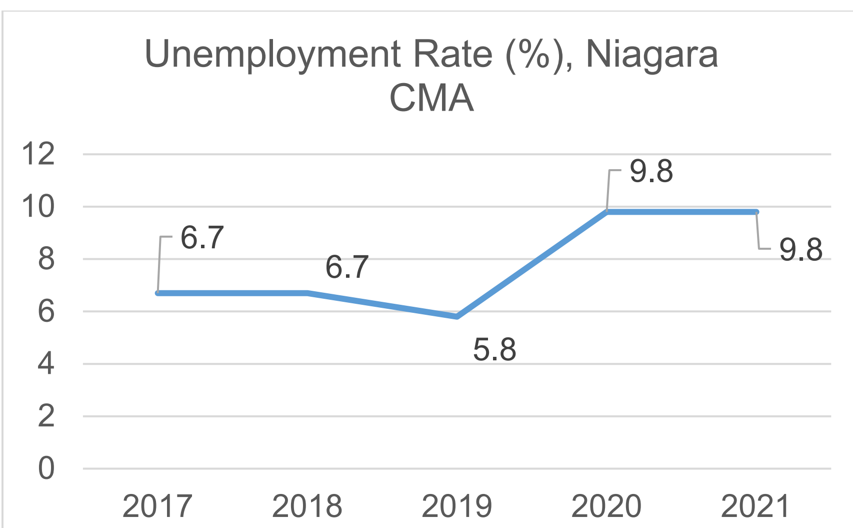
The labour force is the number of working age population (15+ years of age) who are actively working or seeking work.

The labour force took a steep decline at the height of the pandemic in 2020, but actually outperformed pre-pandemic levels in 2021 reaching 220,400 people. This was an increase of 9,200 (4%) of people in the labour force.



Source: Statistics Canada, Table: 14-10-0385-01

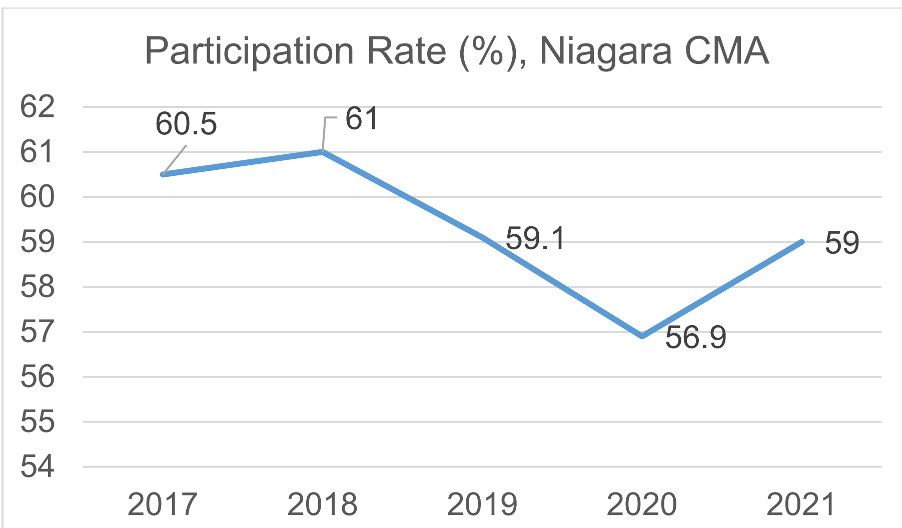
Employment in Niagara declined significantly at the height of the pandemic in 2020 by 13,700 people (7%). Employment improved significantly through 2021 growing by 8,100 people (4%), but it did not fully recover, although current monthly data indicates that the employment is already performing better than pre-pandemic levels in 2022.



Source: Statistics Canada, Table: 14-10-0385-01

The unemployment rate in Niagara continued to be high in 2021. From a relatively low level of 5.8% in 2019, the unemployment rate grew by 4% to 9.8% in 2020 and remained at that level in 2021.

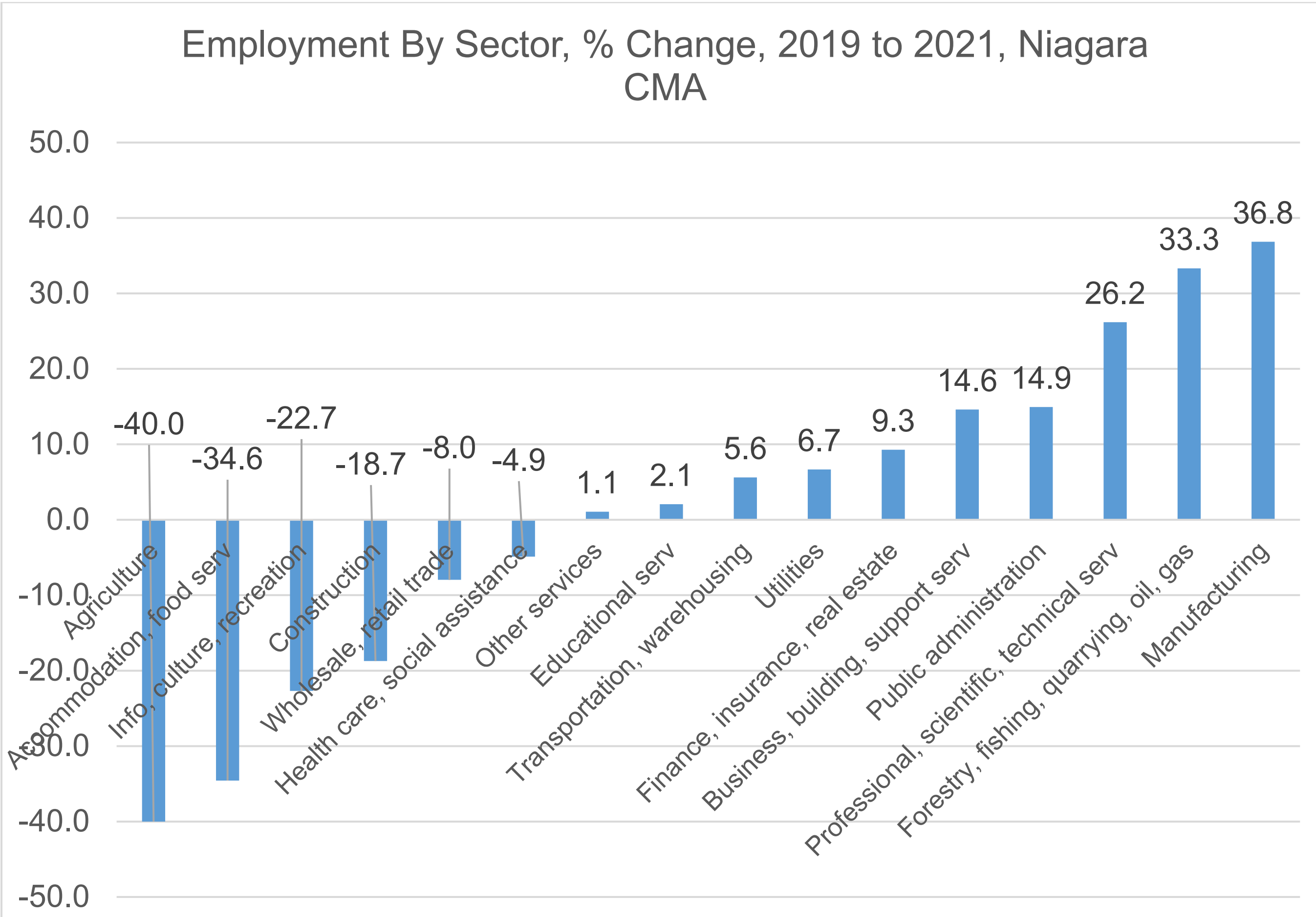
Although employment grew in 2021, the labour force also grew at a faster rate and many labour force entrants have yet to gain employment, which resulted in no improvement in the unemployment rate. However, as businesses return to full capacity those people are expected to gain employment and this will improve the unemployment rate in the future.



Source: Statistics Canada, Table: 14-10-0385-01

The participation rate is the percentage of working age population actually participating in labour force. The participation rate declined by -1.9% prior to the pandemic, but it continued to decline by -2.2% in 2020 to a low of 56.0%. This indicates that many people decided to leave the labour force and not work or seek work during 2020.

Although the participation rate is still relative low, it did grow by 2.1% from 2020 to 2021 to 59.0%. This indicates that more people are re-entering the labour force in 2021, which is also a sign of recovery.



Source: Statistics Canada, Table: 14-10-0384-01

Similar to the impacts of GDP by sector, the pandemic has had disproportionate impacts on employment by sector.

From 2019 to 2021, the sectors that had a relative decline in employment from largest to smallest included agriculture (-40%); accommodation and food services (-35%); information, culture and recreation (-23%); construction (-19%); wholesale and retail trade (-8%); and, health care and social assistance (-5%).

From 2019 to 2021, the sectors that had a relative gain in employment from largest to smallest included manufacturing (37%); forestry, fishing, quarrying, oil and gas (33%); professional, scientific and technical services (26%); public administration (15%); business, building and related support services (15%); finance, insurance and real estate (9%); utilities (7%); transportation and warehousing (6%); educational services (2%); and, other services (1%).

Conclusion

Niagara is showing many signs of economic recovery after being particularly hard hit by the COVID-19 pandemic.

From 2020 to 2021, real GDP grew by $740 million (5%), retail sales grew by $380 million (7%), investment in building construction remained steady at $1.6 billion and investment growth rate grew by 6.4%, the labour force returned to pre-pandemic levels of 220,400 people, employment grew by 8,100 people (4%), the participation rate grew by 2.1%, and certain sectors have gained substantially more employment.

Also, from 2019 to 2020, Niagara exports grew by a massive $1.43 billion (31%). If businesses can maintain these new export levels, it will have a very positive impact on Niagara's economy into the future.

However, full economic recovery has still not yet been achieved. In 2021, GDP was still behind pre-pandemic levels by $377 million (2%), CPI grew to a high of 3.4%, household disposable income growth lagged CPI by 1.3%. Niagara lost a net 388 employer businesses (-3%), employment was still down by 5,600 people (-3%), and the unemployment rate remained very high at 9.8%.

Furthermore, industrial sectors including agriculture; accommodation and food services; information, culture and recreation; construction; wholesale and retail trade; and, health care and social assistance had much lower employment in 2021 than pre-pandemic levels.

Overall, economic performance is trending in the right direction and 2021 showed a great deal of improvement over 2020, but Niagara did not achieve full economic recovery. However, changes in pandemic policy may help businesses in struggling industrial sectors bring back employment and contribute to future economic growth and opportunity.