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**Subject:** Niagara Economic Update

**Report to:** Planning and Economic Development Committee

**Report date:** Wednesday, May 10, 2023

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## **Recommendations**

1. That this Report **BE RECEIVED** for information.

## **Key Facts**

- The purpose of this report is to provide Planning and Economic Development Committee (PEDC) with a briefing on the regional economy.
- Niagara has shown good economic performance coming out of the pandemic with substantial improvements in GDP, investment in building construction, business counts, and labour force and employment.
- Niagara's GDP grew by \$1.3 billion (8%) from Q1 2021 to Q4 2022 and is forecasted to grow by \$800 million (4%) by Q4 2024.

## **Financial Considerations**

The activities described in this report are within the Council approved 2023 Economic Development operating budget.

## **Analysis**

The economic impacts from the pandemic were extensive, but Niagara has shown substantial recovery from a macroeconomic perspective. Niagara has shown improvement across most indicators; however, the impact of the Bank of Canada's policy interest rate hikes from 0.25% in January 2022 to 4.50% in January 2023 have yet to be fully reflected in most of the economic indicators currently available.

The following includes an update on key economic indicators for Niagara including Consumer Price Index (CPI), Gross Domestic Product (GDP), income, housing prices, retail sales, investment in building construction, international trade, business counts, labour force, employment, unemployment rate, and participation rate.

## **Consumer Price Index (CPI)**

CPI is a widely used measure of inflation and often presented as year-over-year percentage change. As of Q1 2021, Niagara had relatively low inflation of 1.5%. By Q2 2022, inflation surged to a high of 7.5%. Inflation is currently at 5.2% and is forecasted to decrease to 2.1% by Q2 2024 and continue to decrease through the end of 2024.

## **Gross Domestic Product (GDP)**

GDP is the end value of all goods and services produced in an economy during a period of time. Niagara's real GDP was \$16.3 billion as of Q1 2021. Coming out of the pandemic GDP grew rapidly to \$17.6 billion (8%) by Q4 2022. Niagara's GDP is forecasted to grow by \$300 million (1.7%) by the end of 2023 and by \$800 million (4.4%) by the end of 2024.

GDP per capita measures total GDP divided by total population. It is a widely used measure of productivity. Niagara's GDP per capita was \$37,016 in Q1 2021 compared to \$50,548 for Ontario. By Q1 2023, Niagara's GDP per capita grew by 6% while Ontario's only grew by 1%. Niagara's GDP per capita is forecasted to grow by 2.9% through 2024, while Ontario's expected to grow by just 1.2%.

Niagara's share of Ontario's total GDP also continues to grow steadily. In Q1 2021 Niagara represented 2.19% of total GDP for Ontario. By Q4 2022 Niagara's share grew to 2.25%. It is forecasted to grow to a high of 2.28% by Q4 2023 and then decrease slightly through 2024.

## **Income**

Niagara's household disposable income per capita lags Ontario. In Q1 2021 Niagara's was \$34,413 while Ontario's was \$38,387. However, it is growing at a faster rate in Niagara than Ontario. From Q1 2021 to Q4 2022, Niagara's grew by 8.7% to \$37,433 while Ontario's grew by 4.4% to \$40,094.

Niagara's household disposable income per capita is forecasted to continue to grow at higher rate than Ontario. By Q4 2024, Niagara's is forecasted to grow by 6.2% to \$39,757 and Ontario by 3.0% to \$41,314. Although Niagara will not reach Ontario by Q4 2024, it is still trending in a positive direction.

## **House Prices**

Housing prices reached their highest point ever in Niagara in Q1 2022. The composite housing price for Niagara was \$807,900 and Ontario \$1,053,000. Housing prices for Niagara have declined rapidly from Q1 2022 to Q1 2023 to \$628,300 for Niagara and \$862,700 for Ontario. As of March 2023, Niagara's composite housing prices continues to decrease while Ontario's has increased slightly.

## **Retail Sales**

Total retail sales for Niagara grew substantially by \$1.73 billion (28%) from \$6.15 billion in Q1 2021 to \$7.23 billion by Q2 2022. However, retail sales declined rapidly to \$7.01 billion in 2022, likely due to interest rate hikes. Retail sales are expected to grow by \$710 million (10%) by the end of 2024.

Retail sales per capita also grew rapidly from Q1 2021 to Q2 2022. Niagara's grew by \$3,720 (27%) to \$17,690 while Ontario's grew by \$2,340 (14%) to \$18,650. Retail sales per capita then declined rapidly by \$2,030 to \$15,660 (11%) for Niagara and by \$1,210 (7%) for Ontario to \$17,440 for Ontario. They are expected to rebound through 2023 and 2024, but only to \$16,960 for Niagara and \$18,260 for Ontario, which is not to the level experienced in Q2 2022 coming out of the pandemic.

## **Investment in Building Construction**

Investment in residential building construction has remained stable as of Q4 2022. However, this has the potential to change in the near future as the impacts of interest rates hikes increase the cost of construction. As of Q1 2021 investment in residential building construction (adjusted for inflation) was \$265.4 million. As of Q1 2022 it dipped to \$199.0 million, but quickly rebounded to \$322.2 million in Q3 2022. By Q4 2022 it remained relatively stable at \$270.5 million.

Investment in non-residential also remains stable with the exception of commercial. Industrial hit a low of \$17.5 million in Q2 2021, but reached \$30.3 million by Q4 2021. In Q4 2022 industrial was \$26.5 million. Institutional was \$22.9 million Q1 2021, but reached \$59.6 million in Q4 2021. By Q4 2022 it was \$44.2 million. Commercial steadily declined from \$83.3 million in Q1 2021 to \$35.5 million in Q4 2022. The impact on commercial is likely due to how the pandemic changed how we use commercial spaces including office and retail space

## **Business Counts**

Business counts remain strong for Niagara. From 2022 to 2023 Niagara gained a net 164 business with employees reaching 14,014 and 902 without employees reaching 30,415. This is a gain of 1,066 total businesses reaching 44,429.

## **Labour**

Niagara's labour characteristics are currently strong. In Q1 2021 Niagara's labour force was 209,900. By Q2 2022 the labour force reached an all time high of 238,700. As of Q4 2022 it decreased slightly to 229,400.

Employment has also been quite strong. In Q1 2021 it was 181,800, but increased substantially to 226,400 by Q2 2022 coming out of the pandemic. It remained relatively strong at 218,900 by Q4 2022.

The unemployment rate for Niagara reached historically low levels by Q4 2022 at 4.6% compared to 5.3% for Ontario. For Niagara this was a massive decrease from 13.4% in Q1 2021 compared to 9.4% for Ontario.

Niagara continues to struggle with participation rate. Although Niagara had some gains in 2022 where it reached 63.5% in Q2 2022, it dropped to 60.8% by Q4 2022. Ontario's participation rate is much higher at 65.1% as of Q4 2022.

## **Conclusion**

Niagara's economic performance remains strong with the exception of a few challenge areas. GDP growth remains strong with a positive outlook. Income continues to grow. Retail sales remain strong. Investment in building construction remains strong with the exception of commercial. Net business counts continue to grow. Labour force indicators are performing well with the exception of participation rate. The economic outlook currently looks positive; however, we have yet to see the full effects of the Bank of Canada's substantial policy interest rate hikes.

## **Alternatives Reviewed**

All activities described in this report are key functions of Regional Economic Development and the tactics being used are consistent with accepted economic development practices.

### **Relationship to Council Strategic Priorities**

This report supports the following Council Strategic Priority:

- Supporting Businesses and Economic Growth

### **Other Pertinent Reports**

- ED 4-2022 Niagara Economic Update

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