
Subject: Niagara Economic Update

Report To: Planning and Economic Development Committee

Report date: Wednesday, May 8, 2024

Recommendations

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

Key Facts

- The purpose of this report is to provide the Planning and Economic Development Committee with a briefing on the regional economy.
- Despite expectations of a slowing economy, the economy in Niagara remains resilient and growth is projected to outperform Ontario and Canada in 2024 and 2025.
- From Q2 2023 to Q2 2024, GDP growth in Niagara was minimal at 0.4% but growth is projected to resume with an expected rate of 2.4% from Q2 2024 to Q2 2025.

Financial Considerations

The activities described in this report are within the Council-approved 2024 Economic Development operating budget.

Analysis

Despite a softening national economy, Canada continues to evade recession with economic projections appearing relatively positive compared to previous forecasts. According to Statistics Canada, the Canadian economy grew by 0.6% in January, marking the fastest growth rate in a year, followed by an additional 4% growth in February, representing a significant improvement over December's 0.1% contraction.

Furthermore, in February Canada's inflation rate dropped to 2.8%, which was lower than predicted. This drop is attributed to reduced costs for cellular services, internet and groceries. However, rent and mortgage costs remained significant drivers of inflation. The Bank of Canada has maintained its policy interest rate of 5.0% since July but has agreed that the conditions for lower rates should materialize this year if the economy

performs as predicted. This has improved business and consumer confidence which has positive implications for future economic growth.

Data from the Conference Board of Canada predicts that economic growth in Niagara will slightly outperform Canada and Ontario in 2024 and 2025. The following provides an economic update for Niagara based on key economic indicators.

Consumer Price Index (CPI)

CPI is a widely used measure of inflation. CPI has been stubbornly high throughout Canada (and the world) and reached a peak of 7.5% for Niagara in Q2 2022. However, as a result of a policy interest rate of 5.0%, CPI has been reduced drastically to 3.0% as of Q2 2024 and is predicted to drop to a target rate of 2.0% by Q2 2025.

Gross Domestic Product (GDP)

GDP represents the total value of all goods and services produced in an economy. From Q2 2022 to Q1 2023, real GDP for Niagara experienced rapid growth due to increased discretionary spending following the pandemic. However, from Q2 2023 to Q2 2024, GDP growth stagnated due to rapidly increased interest rates. Real GDP growth is projected to resume, with an expected rate of 2.4% from Q2 2024 to Q2 2025.

GDP per capita measures total GDP divided by the total population. It is often used as a measure of overall economic productivity. Real GDP per capita for Niagara was \$38,678 in Q2 2024 compared to \$53,421 for Ontario. Historically, Niagara has lagged behind Ontario in GDP per capita, but over the past two years Niagara has shown improved performance. From Q2 2024 to Q2 2025, Niagara is expected to grow by 1.4% outpacing Ontario's growth rate of 0.4%.

Salaries and Wages

Historically, Niagara has trailed behind Ontario in terms of salaries and wages. As of Q4 2023, Niagara's total salaries and wages divided by the working population amounted to \$60,210; whereas Ontario's was \$67,077. However, in 2023 salaries and wages in Niagara experienced a notable increase of 5.8% surpassing Ontario's growth rate of 4.8%.

Income

Household disposable income per capita differs from salaries and wages as it encompasses all forms of income including employment income as well as government transfers, investment income, and capital gains and divides it by the total population. In Q2 2024, household disposable income per capita for Niagara was \$37,289, slightly lower than Ontario's \$39,091. Over the period from Q2 2022 to Q2 2024, Niagara's household disposable income per capita decreased by 1.4%, while Ontario's increased by 1.7%. However, Niagara is predicted to rebound to 1.8% from Q2 2024 to Q2 2025, outpacing Ontario's projected growth of 1.3%.

Housing Prices

Housing prices remain dynamic amidst evolving economic conditions. As of February 2024, the benchmark housing price in Niagara stood at \$619,000, notably lower than Ontario's \$868,000. This was a decrease of 23% from a peak of \$802,500 for Niagara and a decrease of 17% from a peak of \$1,045,000 for Ontario in April 2022.

Retail Sales

Retail sales in Niagara have exhibited volatility in recent periods. Sales values experienced a significant decline of 8.4% to \$7.9 billion in Q3 2022, coinciding with an increase in interest rates that led to a reduction in discretionary income. While retail sales have shown slow signs of recovery, a modest growth rate of 3.2% is predicted from Q2 2024 to Q2 2025.

Investment In Building Construction

Investment in residential building construction reached \$344 million in Q1 2023 but decreased by 22% to \$268.9 million by the end of 2023, Q3 2023 was the lowest point since Q3 2018.

Investment in non-residential building construction remained mostly consistent. Industrial ranged from a high of \$30.9 million in Q2 2022 to a low of \$25.3 million in Q2 2023 and was \$27.5 million in Q4 2023. Commercial had experienced a steep decrease coming out of the pandemic but has since stabilized to \$37.5 million in Q4 2023. Institutional has decreased steadily from \$66.1 million in Q1 2022 to \$37.6 million in Q4 2023. However, this is expected to rebound with the construction of the South Niagara Hospital.

Business Counts

Business counts have remained consistently strong among both employer and non-employer businesses. As of 2024, Niagara had 14,197 businesses with employees and 33,124 businesses without employees. This was a gain of 183 businesses with employees and 2,709 businesses without employees.

Labour

There was volatility in the labour force coming out of the pandemic resulting in a decrease to 225,000 in Q4 2022; however, there has been a rebound and the labour reached 234,700 by Q1 2024.

Employment followed a similar pattern. In Q1 2022 it was relatively low at 215,900 but rebounded to 217,500 in Q1 2024.

Niagara's unemployment rate reached a historical low of 4.2% in Q1 2021, compared to Ontario's rate of 5.3%. However, due to the impacts of higher interest rates and inflation on the economic environment, Niagara's unemployment rate increased to 7.3%, while Ontario's rose to 6.3%.

Niagara's participation rate has faltered coming out of the pandemic from a relatively high rate of 64.6% in Q2 2022, it dropped to 60.4% in Q1 2024. Comparatively, Ontario's was 65%. Niagara has historically been lower than Ontario and has experienced more volatility than Ontario in recent times.

Conclusion

Economic conditions appear to be improving gradually. This is expected to continue through 2024 and 2025. The Bank of Canada recently reported in their Business Outlook Survey that despite a slowing of the economy in 2023, business and consumer confidence is improving. Although demand remains subdued, it has some positive effects such as allowing price and labour market pressures to ease. Other characteristics such as population growth, market expansion efforts, and the expectation of declining interest rates are also contributing to a more positive outlook compared to previous quarters.

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 Priorities:

- Prosperous Region

Other Pertinent Reports

- ED 1-2024 Niagara Economic Update

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Appendices

Not applicable.