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Special Report

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THE MISSISSAUGA ECONOMY

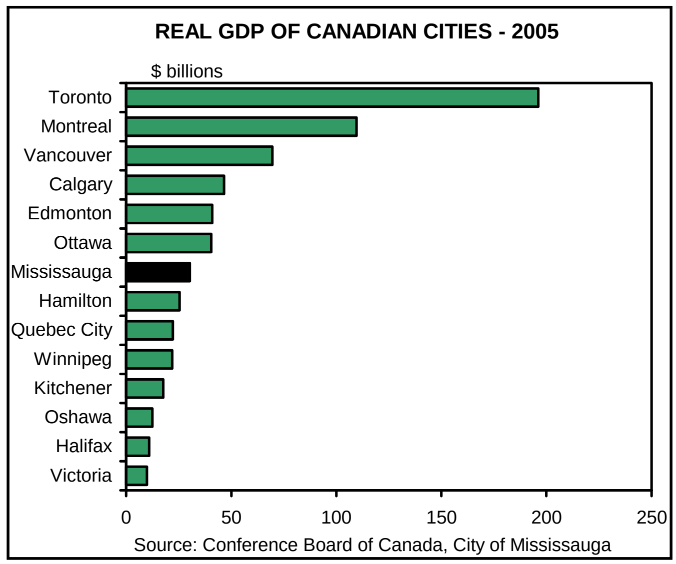
City's maturation creates growth challenges, but also opportunities

Mississauga's economy has blossomed

The availability of cheap land, low business tax rates and its proximity to the city of Toronto were the key ingredients underlying Mississauga's strong economic development over the last three decades. Today, the city stands as an economic leader in both the province of Ontario and the country as a whole.

With 700,000 residents, Mississauga is currently home to one in 18 Ontarians. The city's population has, rather impressively, doubled over the last 20 years. Real GDP has also expanded rapidly, reaching a sizeable $30 billion in 2005, making Mississauga the third largest economy in Ontario (next to Toronto and Ottawa) and seventh largest in Canada. In 2005, about 430,000 jobs, or 7 per cent of the provincial total, were located in the city of Mississauga. At $91,600, average household in Mississauga also stacks up favourably with that of Ontario ($75,700) and Canada ($66,800). Lastly, the city boasts among the most well educated populations in Canada, with an impressive 59 per cent holding either a post-secondary degree or diploma.

Assisted by its integration within the robust Greater Golden Horseshoe region and close proximity to the United States, Mississauga's economy has developed into one of Canada's most well diversified economies. It contains niches in the automotive, aerospace, biomedical, financial services, and high-tech industries. In addition, the city's fast growing population has also been a boon for the retail and construction industries. For example, the value of building permits issued has surpassed the $1 billion mark for nine consecutive years, with about two-thirds related to residential construction.



City's fiscal position also a comparative strength

On the fiscal side, Mississauga also boasts a strong fiscal position. In 2006, the Standard & Poor's agency rated the city AAA/Stable, reflecting its debt-free position – a rarity among municipalities – and stronger-than-average economy. At the same time, the city's rapid growth has helped to keep a lid on property tax rates. For example, Mississauga tax rate on industrial and commercial properties stands at 2.8 per cent. The comparable figure for the City of Toronto is 4.5 per cent. This explains in part why the city is now home to over 50,000 businesses, including many headquarters.

Mississauga economy to take a breather in 2006-07

The long list of strengths suggests that the Mississauga economy will continue to enjoy solid growth over the long term. Still, this urban area, like many of its manufacturing-based counterparts in Ontario, is likely to turn in sub-par growth over the next year. The main culprit will be a slowdown in the U.S. economy, which will, together with ongoing strength in the Canadian dollar, put a damper on the city's manufacturing exports. There is almost certain to be some knock-on effects of weaker manufacturing to the service side.

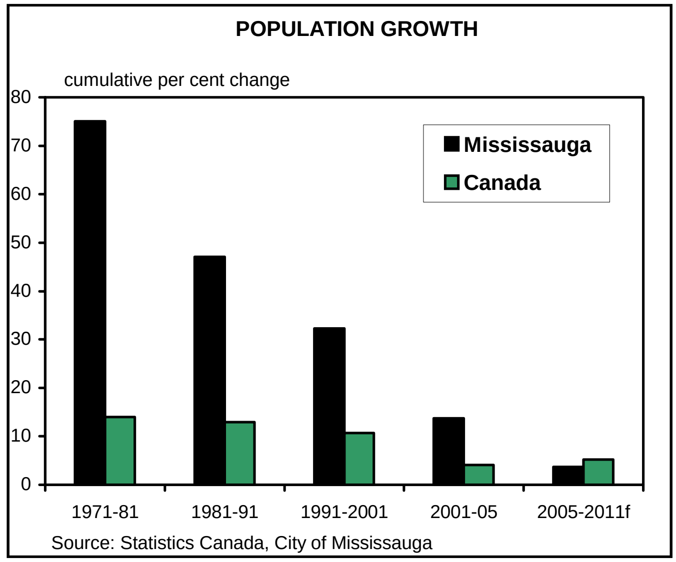
Meanwhile, there has been growing evidence that the Mississauga housing market has been losing some steam. Housing starts have been easing softly since reaching a peak of 6,700 units in 2002. In the first seven months of 2006, the number of resales fell by 3 per cent compared to a year earlier. Furthermore, gains in home prices have cooled. In the first seventh months of 2006, a home on the resale market sold for $311,000 on average, up by only 3 per cent from last year. This gradual easing, which is often referred to as a "soft landing" suggests housing activity is not poised to crumble despite recent increases in interest rates. Still, further moderation is projected. Similar to the residential sector, industrial and commercial construction activity is also on track to be a notch lower this year, even though vacancy rates remain relatively low, at 7.4 and 6.1 per cent, respectively.

In this environment of slow economic growth, Mississauga's job market will be hard-pressed to churn out net new employment. Indeed, the labour market appears to have been struggling in recent months. The Toronto Census Metropolitan Area (CMA), which includes the City of Mississauga, has recorded employment growth of only 1 per cent over the past year or half its recent trend rate. We would expect this soft trend to continue in the coming months.

On the plus side, with its highly-diversified economy standing it in good stead and housing market conditions remaining healthy, the Mississauga economy is expected to continue to grow in the coming quarters. Moreover, we expect this period of U.S. slowdown to be relatively short-lived, with the economy regaining strength by mid-2007. As a result, look for a full-fledged recovery to be underway in Mississauga in 2008.

Infrastructure needs a big challenge

This doesn't mean the economy that the sky is free from clouds beyond 2008. We are familiar with many of the long-term challenges facing urban areas, including an aging population, looming electricity shortages and increased competition from developing Asian economies. Still, one that is somewhat more unique to Mississauga is its need to adjust to the new reality of a mature, more slowly-growing economy compared to its rapid-growth days of the past. The City estimates that the dwindling availability of land for residential use will mean that by 2010, Mississauga will be fully built. In addition, population in the urban centre is expected to grow at a much slower rate, reaching about 740,000 by 2015.



One impact of this slower economic growth is that revenues flowing into the city's coffers, including development charges and property taxes, are likely to rise at a weaker rate than in the past. This wouldn't be problematic if demands on services would ease in lockstep. However, if anything, the City faces greater needs to invest in its infrastructure, given that a sizeable share now requires replacing and/or enhancing. While there will be increasing pressure on the City to dip into its reserves and raise property taxes, we would encourage the municipality to look at some newer ways of infrastructure financing, including the use of P3s. As importantly, with land short in supply, the time is no better than to pursue policies to increase densification and reduce sprawl. For more information, please see TD Economics' reports, *Mind the Gap (2004)* and *Creating the Winning Conditions for Public Private Parnterships (2006)* available on www.td.com/economics.

Sébastien Lavoie, Economist
416-944-5730