

THE METRO BEAT

TD Economics



March 4, 2014

2013 ECONOMIC DEVELOPMENTS AT THE METRO LEVEL

- In this edition of the Metrobeat, we review the economic performance of Canada's main metros in 2013. The big stories at the national macroeconomic level have been the persistently low pace of inflation and the resiliency of the housing market. We review how these developments played out at the more local level.

Western Canada

- In Western Canada, strong demographics and robust income growth in Alberta and Saskatchewan once again contributed to an overperformance of their labour market last year. Of note, price pressures are in, or near, deflationary territory in Vancouver and Victoria. Housing starts remained especially buoyant in the metros of Saskatchewan.

Central Canada

- In Central Canada, Toronto and Montréal saw no improvement in their unemployment rate despite spectacular job creation numbers. Meanwhile, fiscal restraint led to job losses in Ottawa-Gatineau. Inflationary pressures were especially soft in the two Québec metros, and housing starts tumbled in Toronto, Montréal and Québec City.

Atlantic Canada

- In Atlantic Canada, Saint John's labour market saw noticeable improvements by year's end while job markets in Halifax and St. John's mainly stood still throughout 2013. Housing starts were down across the board, but more significantly in Saint John.

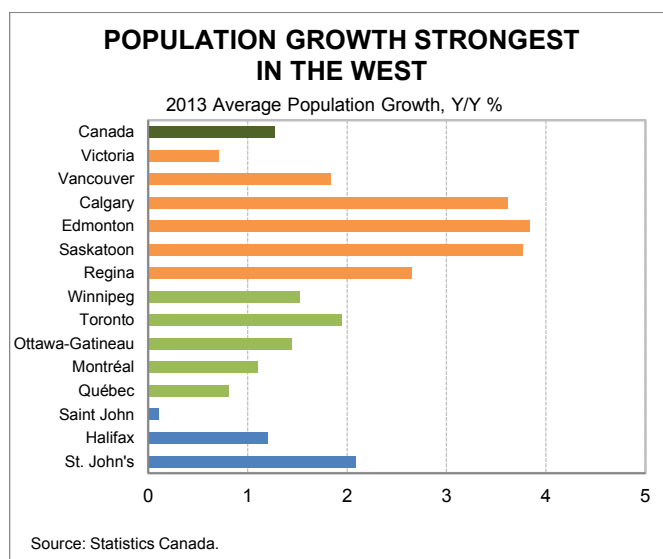
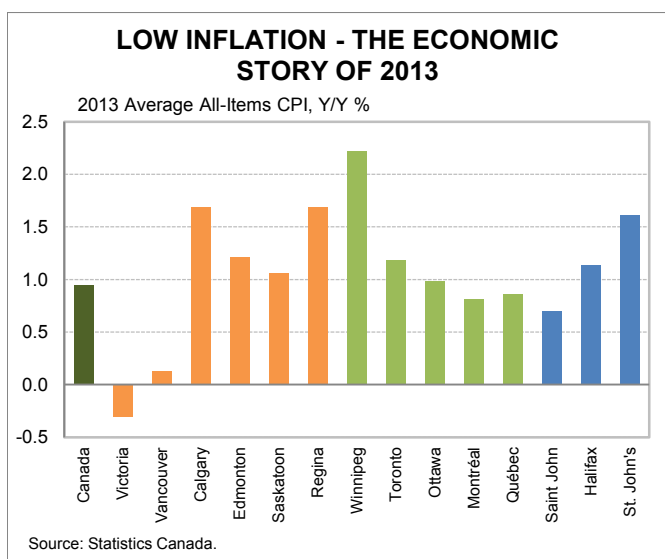
TABLE 1: TD REGIONAL OVERVIEW

Data last updated	Unemployment Rate ¹ Jan-2014	S.A. Job Creation (3rd quarter, 000s) 2013Q4	Average Home Price (\$000s) ¹ Jan-2014	Population ('000s) ² Dec-2013	Personal Disposable Income (\$) ¹ 2013Q4
Western	5.5	19.1	572	6,064	35,822
Central	7.6	6.7	427	12,965	30,595
Atlantic	6.4	4.2	257	751	31,338

Notes: ¹ Population-weighted based only on the 3 to 6 metros in each of the 3 major regions.

² For Saint John and St. John's, figures approximated using the 2011 Census and 2006-2011 average population growth rate.

Source: Statistics Canada, Canadian Real Estate Association, Conference Board of Canada.



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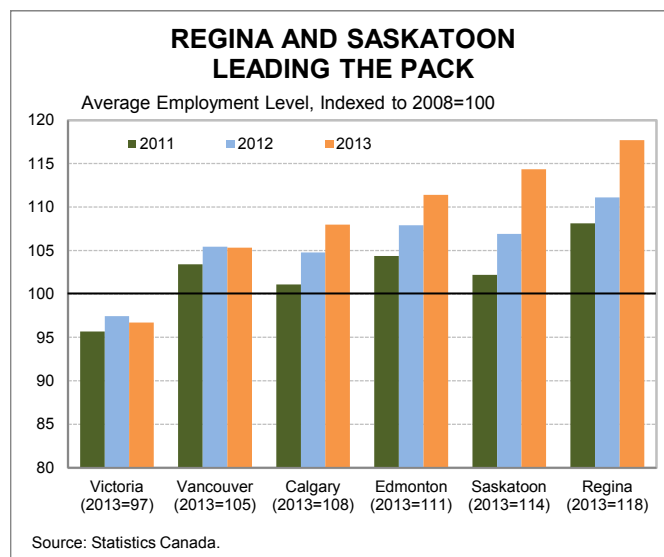
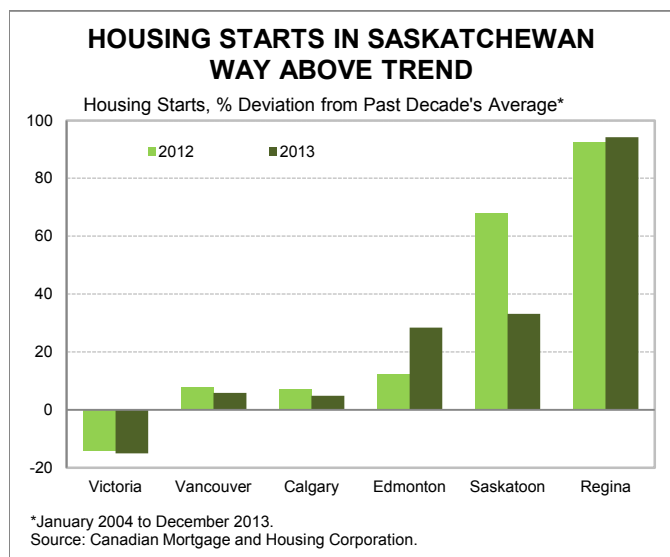
WESTERN CANADA

Last year, economic performances were mixed across the western metros. **Victoria** saw its price level deflate by 0.3% on average in 2013. The economy shed almost 1% of its jobs, and the labour market was still 3% below its pre-crisis level. The unemployment rate remained stable, as population growth was negligible. Real GDP growth stands at an estimated 0.2% in 2013, and should average 1.9% over the next two years. A significant drag will stem from housing starts, which are forecast to plummet by 31% in 2014.

Vancouver also saw negligible inflation over the year (+0.1%). The labour market had a negative tally of job creation for the first time since 2009 (-1.6k), while the unemployment rate stayed in the mid-to-high 6% range. Real GDP growth slowed down for a third straight year (estimated at 1.3%), but should pick up the pace and average 2.7% in 2014-2015, even as housing starts contribute negatively over our forecast horizon.

Another year, another strong performance for **Calgary's** labour market, which added 23k net new jobs (+3%) and saw its unemployment rate remain under 5% for the better part of the year. Real GDP growth came in at 4.0% in 2013, and is expected to slow down to 3.8% and 3.1% over the next two years. Housing construction will lend support to economic growth especially in 2014, as the post-flood rebuilding will be a factor behind the expected 25% jump in starts.

The Albertan capital also had an above-average year, as 22.5k jobs were added (+3.3%). However, this impressive growth was accompanied by a more than one point increase in **Edmonton's** unemployment rate (from 4.3% to 5.5%), as population growth tracked higher at around 4.0% year-over-



year. Real GDP growth slowed down from a nation-leading 5.9% in 2012 to an estimated 3.6% in 2013. The slowdown is expected to continue, but the metro will still likely record above-average growth, at 3.3% and 2.9% in 2014 and 2015 respectively. The discrepancy with its Albertan counterpart can be attributed to the city's stronger public sector presence and the rebuilding efforts to occur in Calgary. Housing starts are not forecast to change significantly over 2014-15.

In 2013, **Saskatoon** saw its employment level increase by 7%, as it added over 10k jobs. With population growth still at a robust 4%, the unemployment rate declined from an average of 5.5% in 2012 to 4.2% in 2013. Real GDP growth remained buoyant at an estimated 4.4% in 2013, and is forecast to be above average at 2.7% and 2.9% over the next two years. The expected slowdown reflects an anticipated pull back in crop production following a bumper crop in 2013. Housing starts have been especially strong these past two years compared to their decade running average, and should therefore pull back from 3.0k to 2.2k units in 2014.

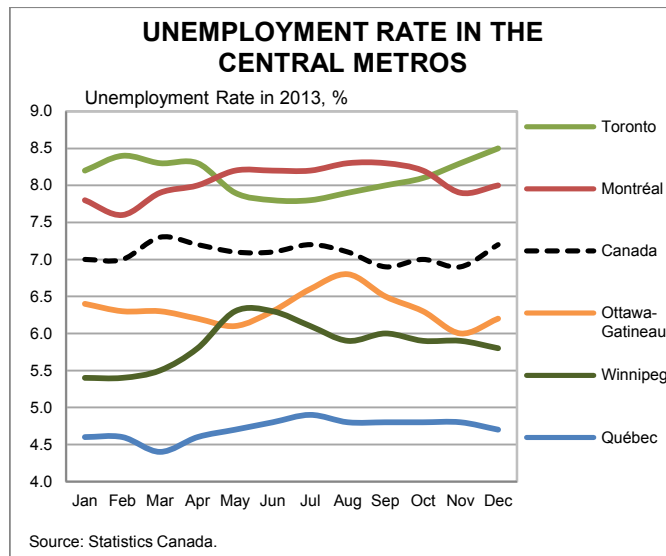
Regina also had a healthy year, with 7.5k jobs created (+5.9%). The job market has now expanded 18% from its pre-crisis level, which represents a national best. Its unemployment rate of 3.6% was the lowest in Canada, although it has trended upwards in recent months (January 2014 – +4.4%). Population growth has kept its momentum at around 3%. This will, however, not prevent a pull back in housing starts, forecast to fall by 20% each year over the two next years. Real GDP growth will decelerate from an estimated 4.0% in 2013, to 2.9% in 2014 and 2.7% in 2015.

CENTRAL CANADA

Winnipeg's unemployment rate jumped from 5.4% to 6.3% in the first half of 2013, before repairing some of the damage and finishing the year at 5.8% (December 2013). Some 3k jobs were created last year on an annual basis, which accounted for 90% of net job creation in Manitoba. Real GDP growth was at an estimated 1.9% (up from 1.5% in 2012), a pace we expect the metro to improve over our forecast horizon (2014 +2.4%, 2015 +2.0%). Population growth was second to Toronto in the Central Canada region in relative terms, which helped push housing starts up by 18% compared to 2012. A pull back is nevertheless expected in this regard in 2014. The Manitoban capital was also the only metro in Canada to see an inflation rate above 2%, as new consumption taxes entered the y/y calculation.

Toronto ended the year with the highest unemployment rate across the metros of our shortlist at 8.4%. However, the employment level was on average 4% higher than 2012's figure. A whopping 121k jobs were created in 2013 (Ontario minus the Toronto CMA shed 26k). This compares very favourably to 2012's 36k and 2011's 50k. Housing starts will be a drag moving forward: they were down some 30% in 2013 and should give up another 20% in 2014, before losing a further 7.4% in 2015. This decrease will help correct prevailing market imbalances. A lower loonie should contribute to a manufacturing revival, although that will also depend on the robustness of the U.S. recovery. Consequently, we expect real GDP growth to go from an estimated 2.0% in 2013 to 2.3% in 2014, before reaching 2.9% in 2015.

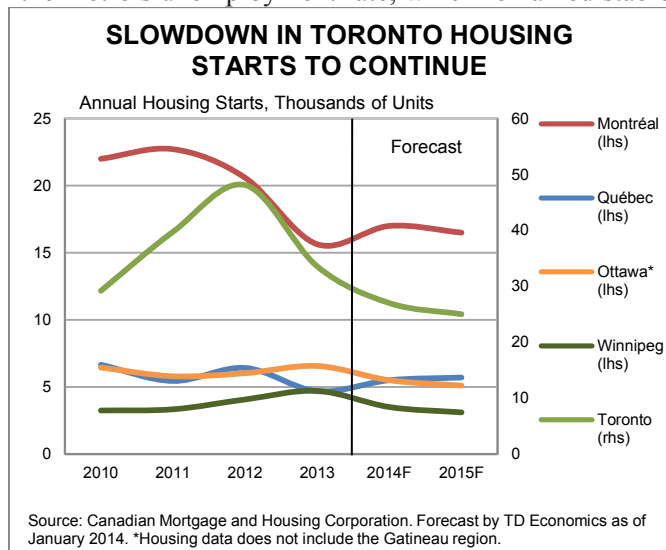
Ottawa-Gatineau continued to suffer from public sector restraint. In 2013, public administration accounted for 14k net job losses. This did not materialize in an increase of the metro's unemployment rate, which remained stable



in the low 6% range. This can be attributed to a commensurate decrease in the region's labour force. As a result, it is estimated that real GDP in 2013 failed to expand after a contraction in 2012. Looking ahead we anticipate a modest rebound in activity in 2014 and 2015. Growth in housing starts outperformed relative to the province at some 10.7% in 2015, but we expect a pull back moving forward given that the market is overbuilt.

Similarly to Toronto, **Montréal** failed to record any significant improvement in its unemployment rate, as it hovered around the 8% mark all of last year. The good news is that the CMA created almost as many jobs in 2013 (58.6k) as it did from 2008 to 2012 (64.8k). We estimate that real GDP grew by 1.7% in 2013. That performance should be followed by more robust showings of 2.2% and 2.6% in 2014 and 2015, respectively. Growth in housing starts were down 26% compared to their 2012 level, a necessary step in correcting the significant level of overbuilding in the city.

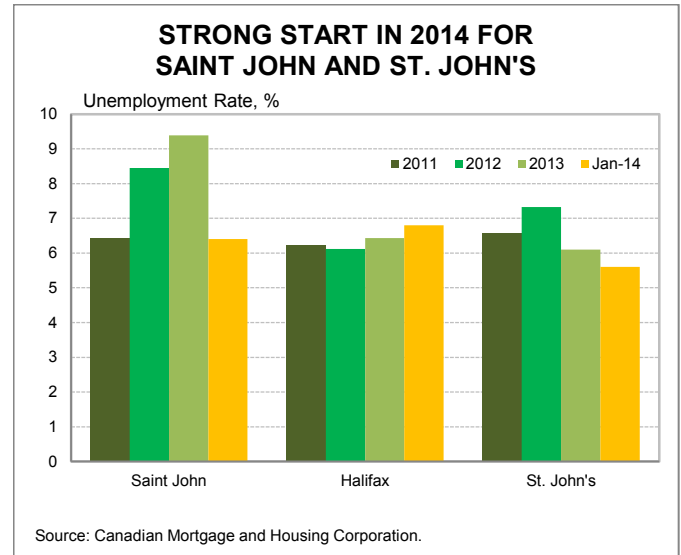
Québec City saw its unemployment rate remain slightly below 5% throughout the year as the economy lost 1.4k jobs. This marked the third straight year of weakening momentum in La Vieille Capitale's labour market, as the important public sector is being tightened. Correspondingly, real GDP growth in 2013 stands at a paltry 0.4%, way below 2012's showing of 1.6%. The forecast figures for 2014 and 2015 are at 1.9% and 2.0% respectively. Just as it was the case for Montréal, Québec City saw housing starts edge down significantly due to the oversupply of condos in the market. We expect starts to gain about 10% annually over the next two years, while the province as a whole will see modest declines in starts each year.



ATLANTIC CANADA

In 2013, the level of employment in **Saint John** was 0.9% below 2012's level on an annual basis, but this metric hides some significant progress towards year end. From December 2012 to December 2013, this New Brunswick metro showed the strongest performance in the Atlantic region in terms of employment growth, with a gain of some 5k jobs, or 8.4%. This is particularly robust given that a third of the economy is linked to the public sector and that these are times of restraint. The recent increase in jobs in Saint John brings the employment level comparable to pre-crisis levels. Correspondingly, Saint John's unemployment rate declined and hit a more than two-year low of 6.4% in January 2014. Given the weak handoff from 2012, we estimate real GDP to have contracted by 0.2% in 2013. This poor mark should be followed by stronger gains of 0.8% and 2.1% in 2014 and 2015, respectively. Negligible population growth of 0.2% kept a lid on housing starts, down some 44% versus the previous year. Our forecast projects housing starts to grow modestly in 2014 by 0.9%, before edging up more significantly in 2015 by 10%.

Halifax had a slower year on the employment front, with 0.9% average growth, while the province overall showed a decline of -0.3% (-0.2%). Momentum heading into 2014 was, however, trending downward, with no job gains since the end of the second quarter. It is expected that natural gas production (see our report [Finally Some Good News For Canadian Natural Gas Producers?](#)) from Deep Panuke in



2014 and Irving's shipyard investment will boost real GDP in 2014 and 2015 by 2.4% and 3.2%, respectively (up from 1.5% in 2013). If this forecast is realized, it would put the Nova Scotia metro at the top of our list of the strongest Canadian metros in 2015, as shipbuilding starting that year will significantly boost manufacturing. Demographic growth will track the national average, but is not sufficient to bolster housing starts. Decreasing by 5.4% in 2013, we expect further declines of 4.0% and 8.0% over the next two years, which will represent an underperformance relative to the provincial showing.

St. John's more than recouped the 2.3% contraction of its real GDP in 2012 with an estimated national best of 5.2% in 2013. Given the surge in oil production observed last year (+17% over 2012's level, which itself was 26% down from 2011's level), real GDP is expected to grow at a more modest 0.9% in 2014 and 1.7% in 2015, reflecting a deceleration in production and capital spending. Employment gains in the Newfoundland & Labrador metro did not keep pace, with the average level of employment 0.3% below 2012's level on an annual basis as routine maintenance on wells was performed. Increased production seems to have had positive spillover effects on the rest of the province's employment showing, as Newfoundland & Labrador (not including St. John's) added 3.1k jobs. Housing starts were down some 20% last year but should now remain stable over our forecast horizon.

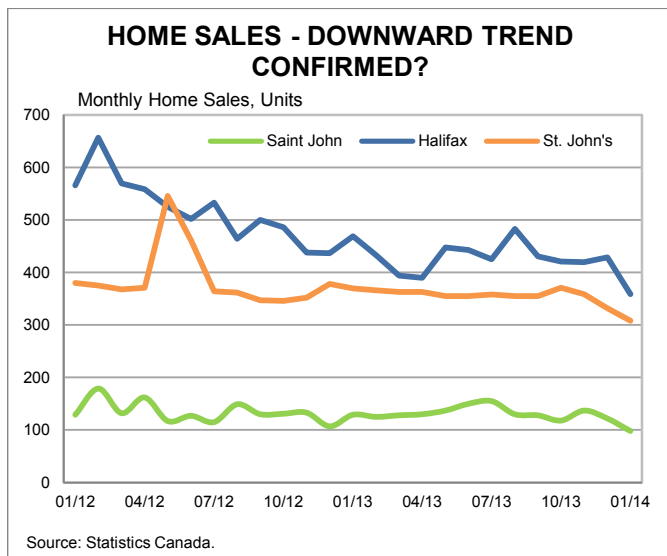


TABLE 2: TD METRO OVERVIEW

	Employment			Cost of Living		Demographics		Real GDP Forecast		
	Y/Y % Jan-2014	3-Month Moving Average Growth Jan-2014	Unemployment Rate % (Quarter Average) 2013Q4	Unemployment Rate % Jan-2014	CPI Y/Y % Jan-2014	Personal Disposable Income Growth Y/Y % 2013Q4	Population Growth Y/Y % Jan-2014	National Immigration Share (Annual Average) ² 2013Q4	2014 % Jan-2014	2015 % Jan-2014
Canada	0.8	1.0 -	7.0	7.0 -	1.5	2.3	1.3	100.0	2.3	2.4
West										
Victoria, BC	-3.3	-2.3 -	4.6	4.9 +	-0.1	0.3	0.8	0.5	1.9	1.9
Vancouver, BC	1.7	0.6 +	6.5	6.3 -	0.2	0.3	1.9	11.8	2.5	2.9
Calgary, AB	4.0	4.1 -	4.6	4.8 +	3.1	1.7	4.1	7.1	3.8	3.1
Edmonton, AB	3.5	3.1 +	5.4	5.5 +	2.2	1.4	4.0	5.2	3.3	2.9
Saskatoon, SK	5.3	6.1 -	4.3	4.3 -	2.1	4.8	4.2	1.5	2.7	2.9
Regina, SK	3.9	4.4 -	3.9	4.4 +	2.4	2.9	3.0	1.4	2.9	2.7
Central										
Winnipeg, MB	0.0	0.5 -	5.9	5.8 -	2.6	1.7	1.8	2.8	2.4	2.0
Toronto, ON	1.8	2.1 -	8.3	8.4 +	1.8	3.9	1.9	30.8	2.3	2.9
Ottawa/Gatineau, ON/QC	-1.5	-2.2 +	6.2	6.4 +	1.4	-1.7	1.4	1.6	1.7	2.4
Montréal, QC	0.5	1.2 -	8.0	7.9 -	1.2	3.6	1.1	17.0	2.2	2.6
Québec, QC	2.3	1.3 +	4.8	4.3 -	1.1	1.3	0.8	1.1	1.9	2.0
Atlantic										
Saint John, NB ³	8.6	7.1 +	7.8	6.4 -	1.6	-	0.2	-	0.8	2.1
Halifax, NS	0.9	1.3 -	6.6	6.8 +	1.5	2.2	1.2	0.3	2.4	3.2
St. John's, NL ³	0.1	-0.3 +	5.9	5.6 -	2.5	-	2.1	-	0.9	1.7

Notes: ¹ indicates if the relevant metric is above or below its 3-month trend.

² 2013 Q4 approximation as of February 2014 by TD Economics.

³ Missing data: Personal Disposable Income and Immigration for Saint John and St. John's.

Source: Statistics Canada, Canada Mortgage and Housing Corporation, the Canadian Real Estate Association, la Fédération des Chambres Immobilières du Québec and the Conference Board of Canada as of February 2014.

TABLE 3: TD METRO OVERVIEW

	Home Prices				Home Sales				Housing Construction				Housing Forecast ³			
	Average Home Price (\$000s)	Y/Y %	Q4 over Q4 %	Sales (000s)	Y/Y %	Q4 over Q4 %	SAAR (000s) ²	Permits (Units) Y/Y%	Starts (000s)	Prices (\$000s)	Sales (000s)	2014	2015	2014	2015	
	Jan-2014	Jan-2014	Dec-2013	Jan-2014	Jan-2014	Dec-2013	Jan-2014	Dec-2013	Jan-2014	Jan-2014	Jan-2014	Jan-2014	Jan-2014	Jan-2014	Jan-2014	
Canada	400.2	9.4	9.7	36.7	0.5	8.6	180.1	12.4	178.5	391.7	467.8	390.8	466.9			
West																
Victoria, BC	503.8	16.6	-2.5	0.5	13.6	23.0	0.9	-39.8	1.1	479.4	6.2	474.3	6.2	6.2	6.2	
Vancouver, BC	805.4	8.4	11.1	2.7	34.4	45.8	19.2	14.7	16.0	808.0	29.2	802.3	29.2	28.4	28.4	
Calgary, AB	455.8	5.8	5.5	2.5	13.7	14.8	17.5	13.3	16.0	452.1	31.7	457.5	31.7	32.4	32.4	
Edmonton, AB	355.0	6.2	3.1	1.5	-5.9	17.1	11.5	38.3	14.0	358.8	19.9	363.1	19.9	20.0	20.0	
Saskatoon, SK	337.6	3.5	1.1	0.5	17.3	8.5	4.9	-12.6	2.2	341.6	5.3	343.2	5.3	5.3	5.3	
Regina, SK	340.0	11.5	-1.0	0.3	-1.5	7.8	1.7	51.7	2.5	314.3	3.9	316.4	3.9	4.0	4.0	
Central																
Winnipeg, MB	275.2	5.8	6.2	1.0	-6.7	5.4	2.4	-50.3	3.5	271.8	12.3	273.9	12.3	12.2	12.2	
Toronto, ON	547.6	9.0	9.0	6.8	-5.6	11.1	36.1	161.3	27.0	535.8	89.5	529.4	89.5	88.6	88.6	
Ottawa/Gatineau, ON/QC ¹	353.9	1.5	2.8	1.1	-2.2	-2.0	3.5	-55.6	5.5	346.8	14.0	341.7	14.0	14.0	14.0	
Montréal, QC	329.6	1.6	0.4	3.0	-2.2	1.6	12.0	-30.7	17.0	323.7	38.0	325.2	38.0	38.2	38.2	
Québec, QC	266.2	-1.5	2.4	0.5	-2.2	-8.9	2.6	6.5	5.5	268.3	6.4	267.3	6.4	6.5	6.5	
Atlantic																
Saint John, NB	176.4	18.9	7.6	0.1	-24.0	1.3	0.1	-7.0	0.2	171.5	1.5	170.0	1.5	1.5	1.5	
Halifax, NS	271.4	-8.8	0.7	0.4	-23.5	-6.4	0.8	-57.3	2.5	275.1	5.3	276.5	5.3	5.4	5.4	
St. John's, NL	277.3	-1.7	1.0	0.3	-16.8	-1.3	1.0	-46.6	1.7	-	-	-	-	-	-	

Notes: ¹ For home sales, data is for Ottawa-Carleton.
² Seasonally adjusted data at annual rate.
³ These forecasts were generated by TD Economics as of January 2014. Not available for St. John's.
 Source: Statistics Canada, Canada Mortgage and Housing Corporation, the Canadian Real Estate Association, the Fédération des Chambres Immobilières du Québec and the Conference Board of Canada as of February 2014.



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