



Economics & Strategy

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Canadian Cities: An Economic Snapshot

by Benjamin Tal

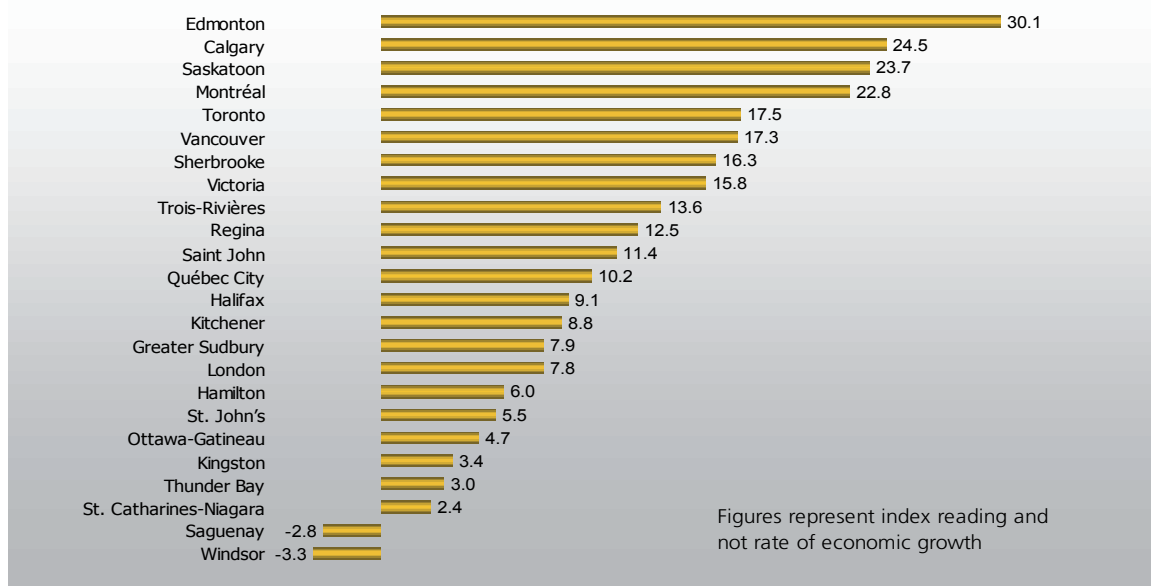
The CIBCWM Metropolitan Economic Activity Index is a measure designed to rank the pace of economic momentum in Canada's largest Census Metropolitan Areas (CMAs). Nine key macroeconomic variables and drivers of economic growth comprise the index, which enables us to approximate economic growth in each of these cities and provides a consistent base for comparison with other cities and/or with the average performance of all other CMAs.

For the first time on record the city of Edmonton tops our city ranking in term of economic momentum. Strong population growth (second only to Calgary), impressive employment gains, low unemployment rate, and well below average corporate and personal insolvency rates combined to boost Edmonton to its current ranking. In fact, if it were not for some recent softness in the

pace of the improvement in the housing market, the gap between Edmonton and Calgary would have been even larger. Note that the recent slowing in housing market activity in the city reflects deteriorating affordability as well as a natural slowing from an unsustainable pace of improvement observed earlier in the year.

Calgary is now ranked second in our metropolitan economic activity index. The city still leads the nation in population growth and the unemployment and consumer bankruptcy rates are the lowest among all other cities. But the pace of job creation in the city, while still strong, is losing momentum when compared to other cities such as Edmonton, Saskatoon and Victoria. Also note that housing market activity is not as strong as it was earlier in the year, with both housing starts and resale activity hardly

CIBCWM Metropolitan Economic Activity Index (2007Q3) 3Q Moving Average



http://research.cibcwm.com/res/Eco/EcoResearch.html

changed over the year ending September 2007. Having said that, it is important to note that this recent softening in momentum is from an extremely high level of activity. In fact, the ability of the city to continue to show strong momentum from such elevated level of activity is impressive.

Saskatoon continues to advance in our ranking, reflecting strong population and employment growth as well as a housing market that is currently the hottest in the nation. A relatively low rate of consumer bankruptcies and continued improvement in the quality of employment in the city also helped here.

Interestingly, **Montréal** is currently enjoying some renewed momentum, with a notable improvement in labour market activity and relatively strong housing starts and resale activity. Note, however, that Montréal still lags in areas such as non-residential building permits and quality of employment. Since the current ranking reflects information as of September 2007, it does not capture the impact of the recent sharp appreciation in the value of the dollar. Accordingly, it is doubtful that the recent acceleration in momentum in Montréal is sustainable.

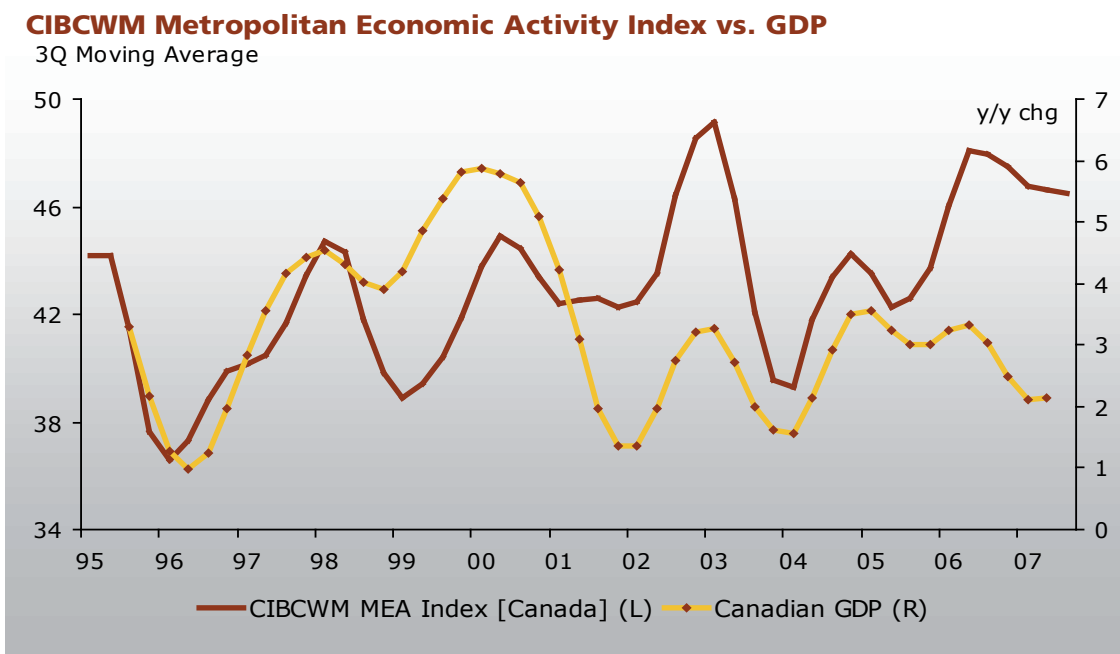
The consistent strong performance of **Toronto** reflects the growing diversity of the city. The city's population is growing fast (ranked 4th in the nation) while the quality of employment is relatively strong. As well, the pace of growth in consumer and business bankruptcies is well below the national average. Note however that the labour market in Toronto is softening somewhat with the unemployment rate at well over 7% and employment gains well below average.

While the city of **Vancouver** did not excel in any of our sub-categories, it was able to perform above average in many of them—a consistent performance that enabled the city to maintain its high ranking in our index. The recent slowing in housing resale activity in the city (with rising affordability problems) was one factor that limited growth over the past quarter. At the same time, strong population and employment growth continued to add momentum to Vancouver's overall performance.

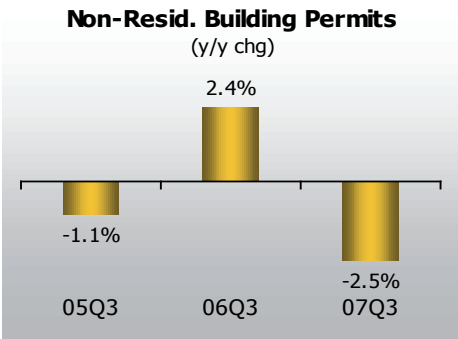
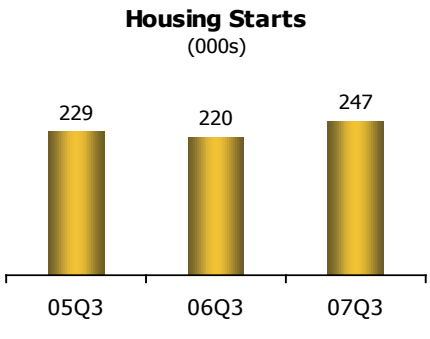
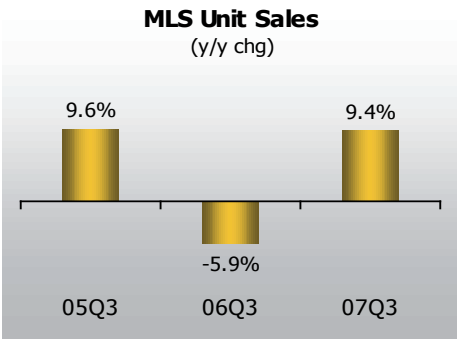
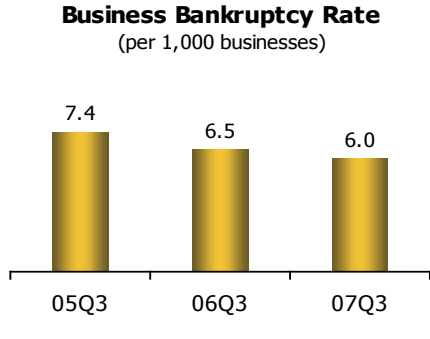
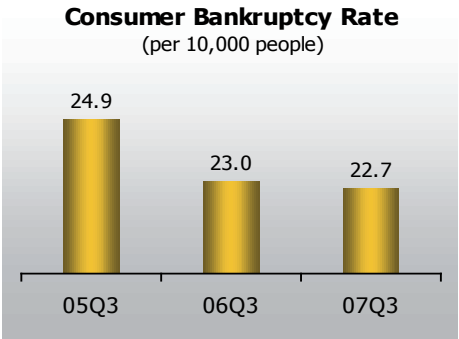
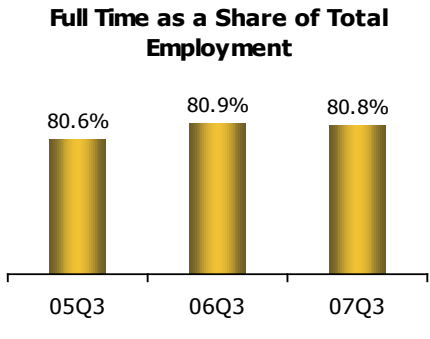
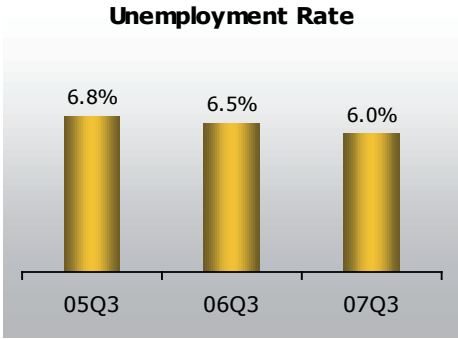
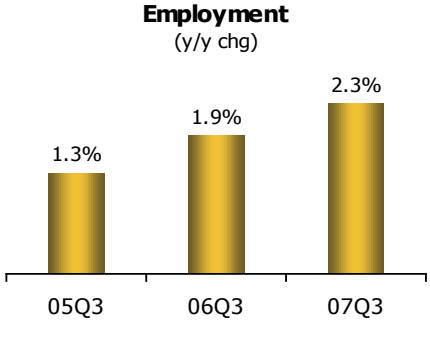
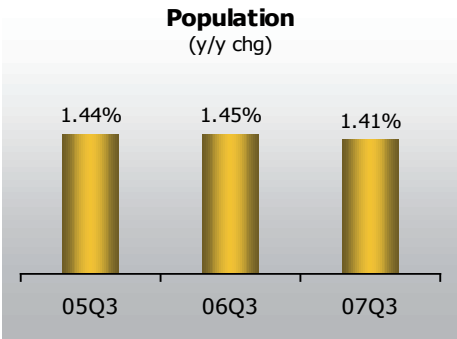
Reflecting the difficulties in the manufacturing sector, cities such as **Windsor** and **Saguenay** still face major challenges. The recent appreciation in the dollar and the weakening in the US economy are probably adding another layer of difficulties facing those cities.

Note: Due to lack of data, the city of Winnipeg was not included in the index.

(For more details on each CMA, please refer to <http://research.cibcwm.com/res/Eco/ArEcoMEA.html>).

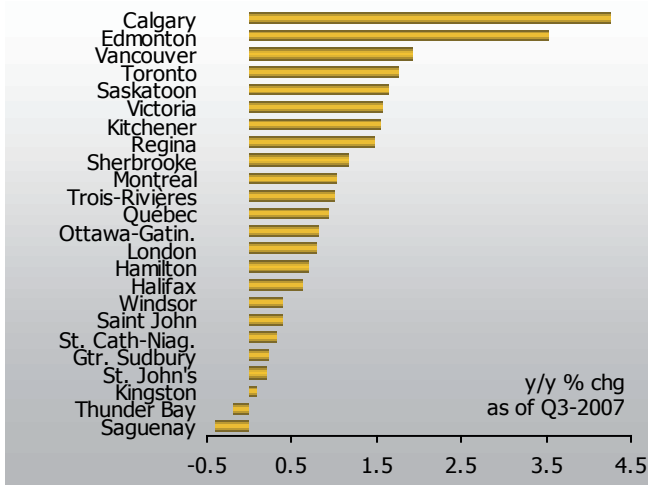


Selected Economic Variables — CANADA

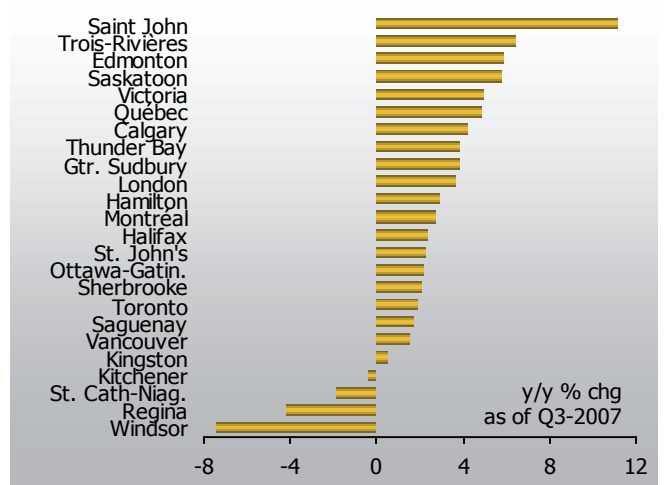


CMA's by Selected Economic Variables

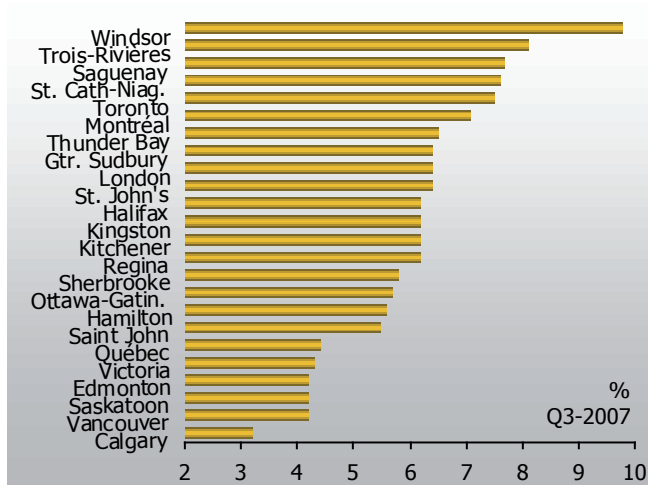
Population



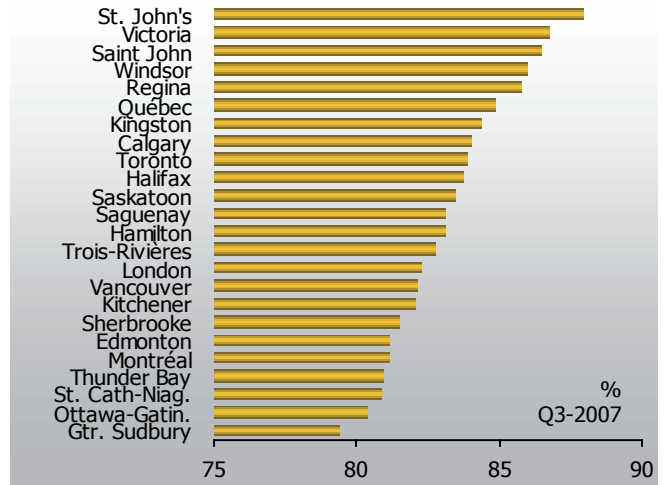
Employment



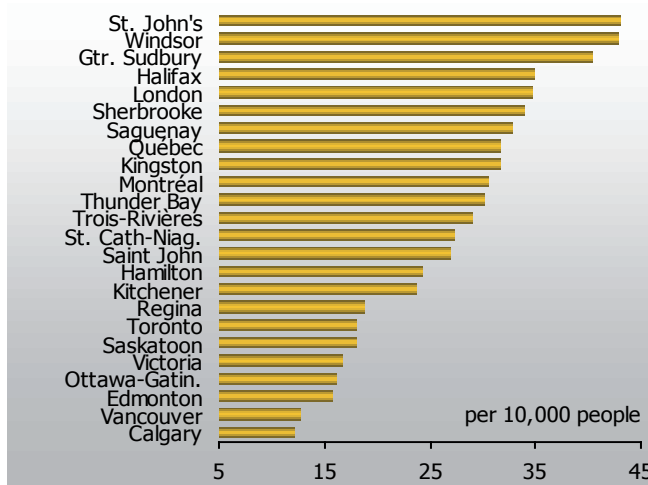
Unemployment Rate



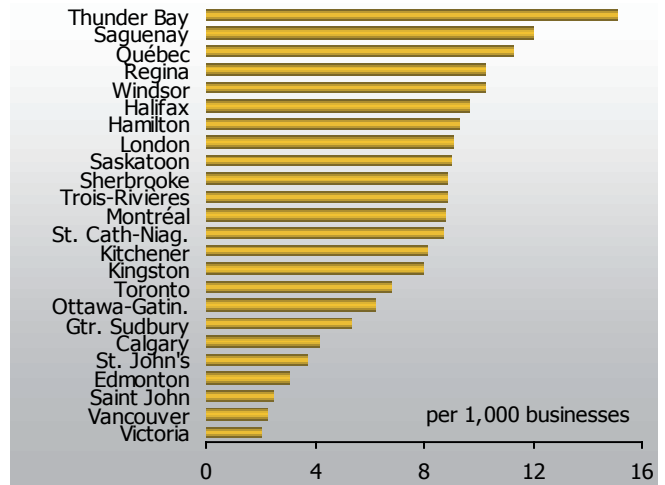
Full Time as a Share of Total Employment



Consumer Bankruptcy Rate

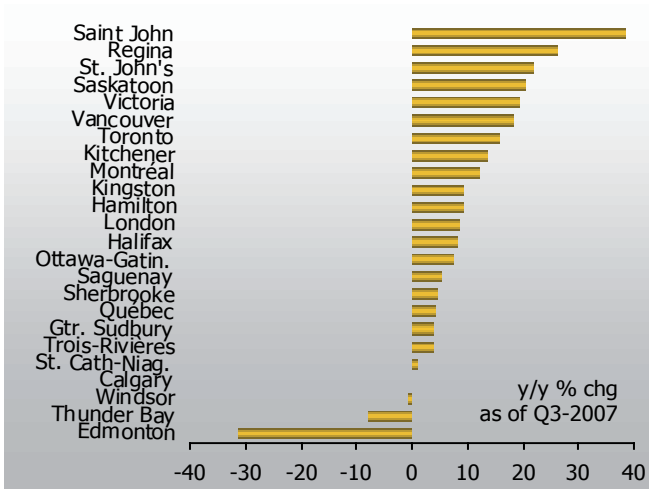


Business Bankruptcy Rate

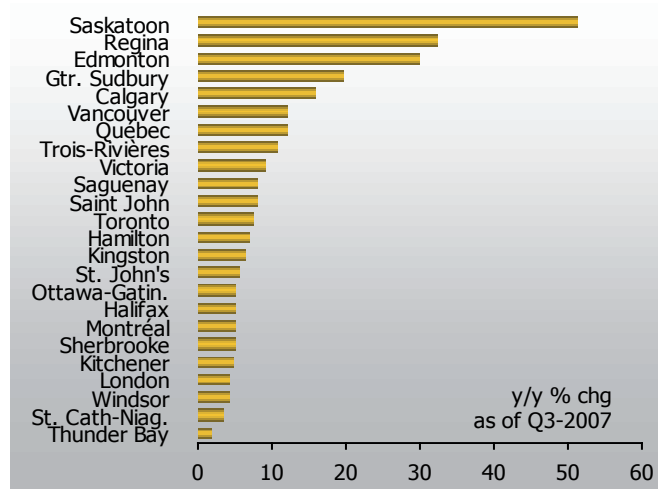


CMAs by Selected Economic Variables

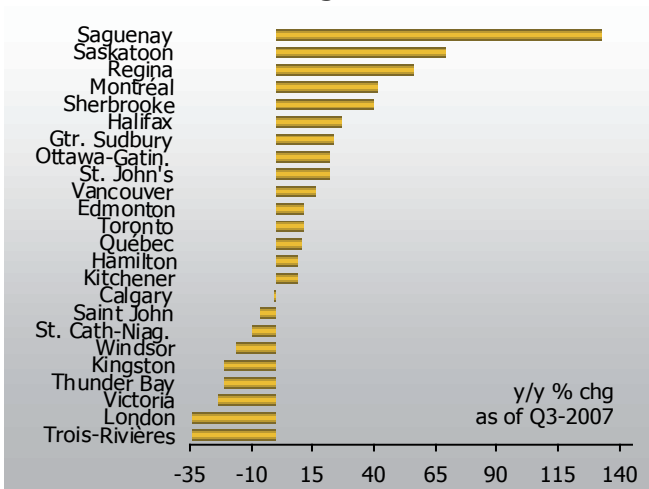
MLS Unit Sales



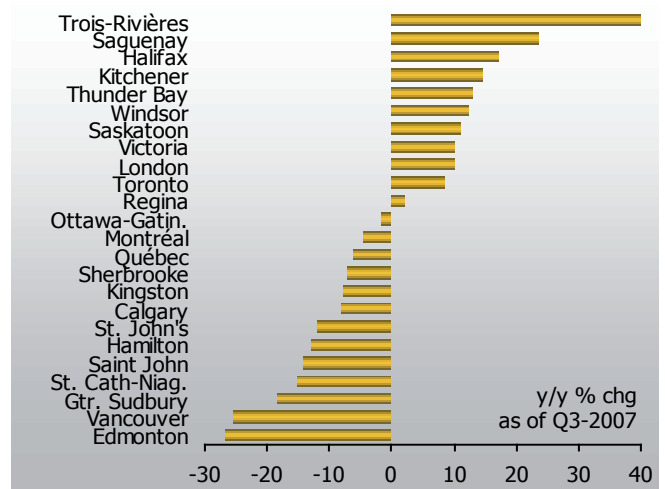
MLS Average Price



Housing Starts



Non-Residential Building Permits



Sources:
 Canadian Mortgage and Housing Corporation (CMHC)
 Office of the Superintendent of Bankruptcy Canada
 Statistics Canada
 The Canadian Real Estate Association (CREA)
 CIBC World Markets

Appendix

The CIBCWM Metropolitan Economic Activity Index

Using 9 key macroeconomic variables, we have developed a metropolitan index of economic activity, which is structured in a way that approximates the change in each city's level of economic activity. With data going back for almost 10 years, our index enables us not only to monitor the current performance of a given city but also to track its cyclical behavior against the national economy and other census metropolitan areas (CMAs)¹. The focus is on the 25 largest CMAs in Canada.

The macro variables used to develop the index are: (1) Population growth, (2) Employment growth, (3) Unemployment rate, (4) Full-time share in total employment, (5) Personal bankruptcy rate, (6) Business bankruptcy rate, (7) Housing starts, (8) MLS Housing resales, and (9) Non-Residential building permits. We combined all the above information into one index per city: "The CIBCWM Metropolitan Economic Activity Index"².

Notes:

1. According to Statistics Canada, a census metropolitan area is delineated around an urban area (urbanized core having a population of at least 100,000, based on the previous census). Across Canada, 27 census metropolitan areas have been defined (according to the 2001 Standard Geographical Classification). Once an area becomes a census metropolitan area, it is retained as a census metropolitan area even if its population subsequently declines.
2. Each city's index was derived by combining the nine economic variables into one measure. In order to determine the appropriate weight that each economic variable receives, we correlated those variables with overall GDP for the economy as a whole. That is, we treated the overall Canadian economy as a city, and using real GDP growth as published by Statistics Canada to determine the relevant coefficient for each variable. The technology we use for this model is neural networks — an artificial intelligence based system.

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