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METRO MONITOR

December 1, 2009

Canadian Cities: An Economic Snapshot

by Benjamin Tal

Third quarter headline GDP numbers in Canada came in much weaker than what was anticipated by the Bank of Canada, and many in the market, even a few short weeks ago. While the Statistics Canada report provides us with a sense of the sectoral breakdown of the disappointing performance, it is silent on the regional distribution of the pain. Our latest Metro Monitor Index looks beyond the headline numbers and assesses the relative performance of Canada's major cities during the third quarter of the year. After all, more than two-thirds of Canadian GDP is generated in Canada's major cities. So the tale of those cities is the tale of the economy.

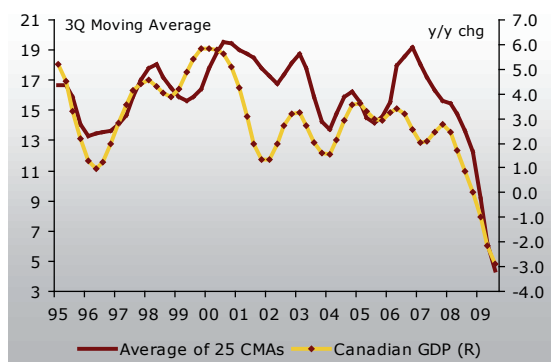
This can be illustrated in Chart 1 which correlates our aggregated Metropolitan Economic Activity Index with overall GDP growth in the economy. Note that on a year-over-year basis our index continued to

trend downward in the third quarter, giving us some early warnings regarding the soft GDP numbers during the quarter. As it stands now, our Canadian Metropolitan Economic Activity Index is at its lowest level since 1991.

No less than 10 cities out of Canada's 25 metropolitans entered negative territory during the quarter, doubling the number seen in the first quarter of the year. Nine of these cities are situated in Ontario and Quebec. Cities such as **Thunder Bay**, **St Catharines-Niagara**, **Windsor** and **Saguenay** continue to reflect the multi-dimensional challenges facing the two provinces due to weakening manufacturing and forestry sectors, soft demand from the US and the strong Canadian dollar (Chart 2).

The still soft mining and drilling activity reported in Statistics Canada's third quarter GDP report is clearly reflected in the loss of momentum in Alberta, with **Calgary** and **Edmonton**, which until recently were the stars of our index, losing ground rapidly and currently hardly above water in terms of overall economic momentum. While population growth in Calgary is still impressive, overall employment growth has been disappointing, at best, with the number of jobs in the city declining by close to 2% (year-over-year) during the quarter—one of the worst showings in the nation. While **Vancouver** is doing a bit better, its overall performance (despite the impact of the Olympic Games) is relatively weak, with the city now ranked 12th in the nation—its worst performance in years.

Chart 1
CIBCWM Metropolitan Economic Activity Index vs. GDP



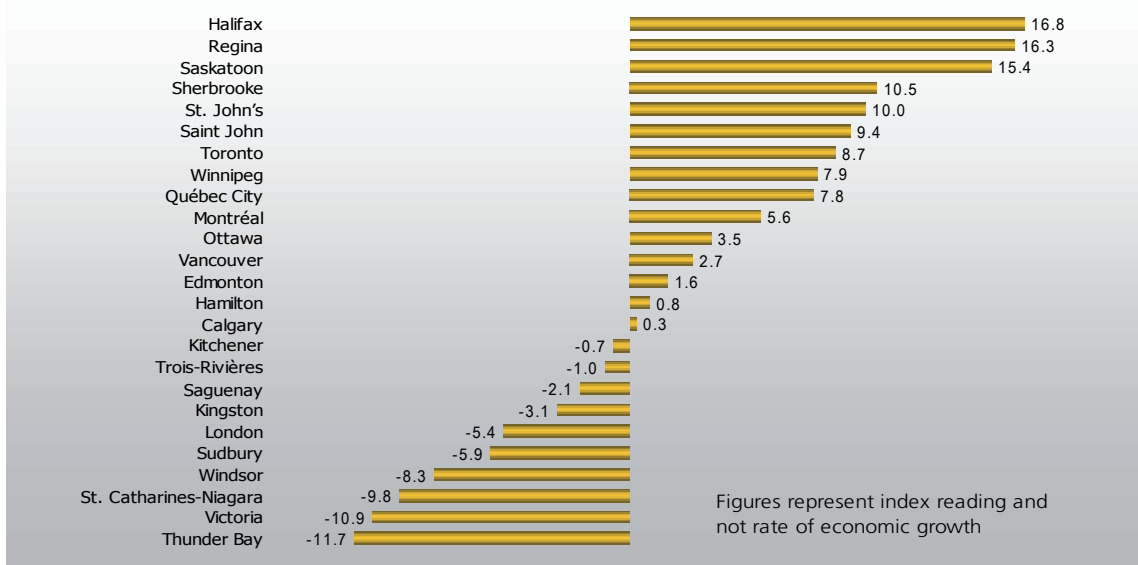
Source: Statistics Canada, CIBC

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

Chart 2

CIBCWM Metropolitan Economic Activity Index (2009Q3)

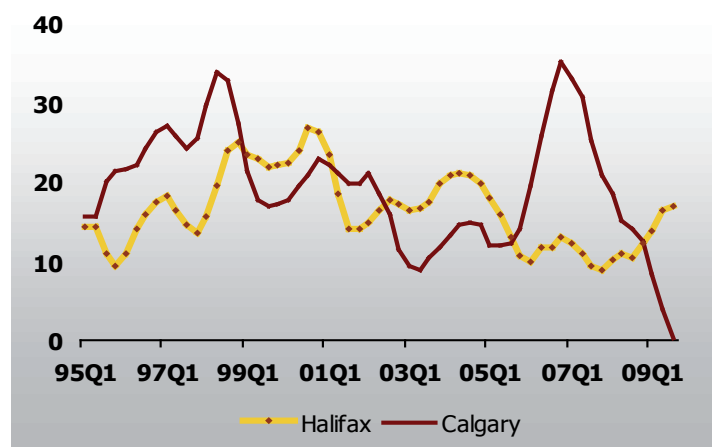
3Q Moving Average



The city of **Halifax** was able to move its way into the first spot in our third quarter ranking—a notable improvement from its fifth spot six months ago. Here it is important to remind readers that our index is a momentum-based index and reflects changes in overall economic activity and not absolute levels of activity. Thus when comparing, for example, Calgary and Halifax we can see that overall employment in Halifax has risen by more than 3% (year-over-year) during the quarter vs. a decline of 1.6% in Calgary. At the same time, the unemployment rate in Calgary has risen dramatically from less than 4% in the third quarter of 2008 to just over 7% in the third quarter of this year. The increase in the unemployment rate in Halifax during this period was much more muted—from 5.7% to 7.2%. This divergence is clearly illustrated in Chart 3 which shows the notable improvement in economic momentum in Halifax vs. the nosedive seen in Calgary. Note that the nation's leading ranking of Halifax was achieved despite the fact that the city did not lead the nation in any of our macro categories, reflecting its relatively diversified sources of economic growth and reduced vulnerability to economic shocks.

Both **Regina** and **Saskatoon** were able to maintain their high ranking reflecting rapidly growing populations and job markets that are still expanding. Both cities also enjoy very low unemployment rates as well as extremely low rates of both business and consumer bankruptcies.

Chart 3

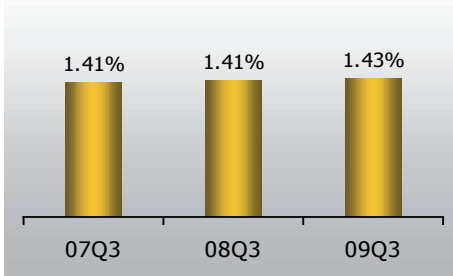
CIBCWM Metropolitan Economic Activity Index—Halifax vs. Calgary

Note that **Toronto** has lost significant ground in recent quarters, and it is now ranked 7th in the nation—down from the 2nd place in the first quarter of the year. The unemployment rate in the city is now the fourth highest among all CMAs while employment is falling by 1.3% on a year-over-year basis. As well, recent quarters have seen a relative worsening in the business bankruptcy rate in the city while housing starts has fallen by close to 50% (year-over-year) in the third quarter—one of the worst showings in the nation.

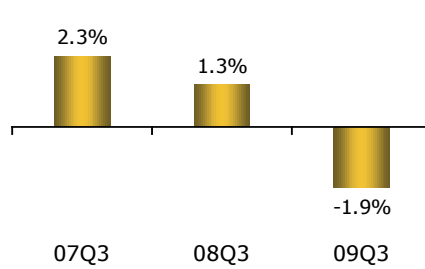
(For more details on each CMA, please refer to <http://research.cibcwm.com/res/Eco/ArEcoMEA.html>).

Selected Economic Variables — CANADA

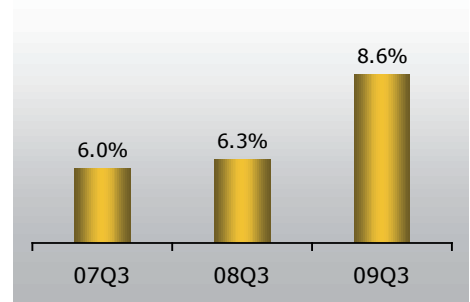
Population
(y/y chg)



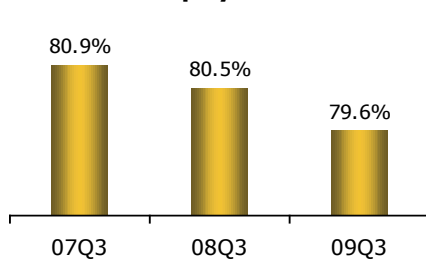
Employment
(y/y chg)



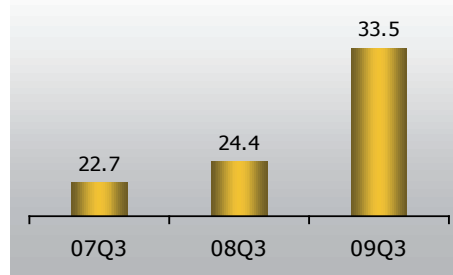
Unemployment Rate



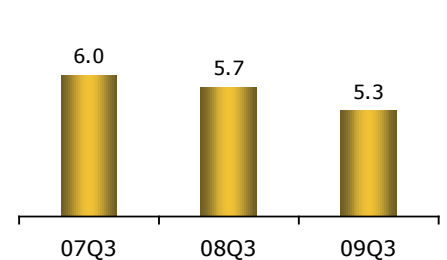
Full Time as a Share of Total Employment



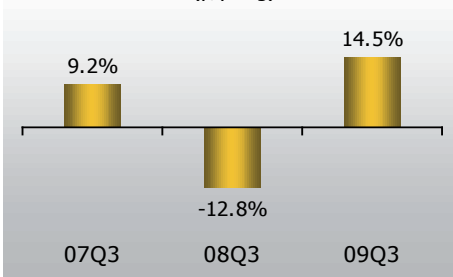
Consumer Bankruptcy Rate
(per 10,000 people)



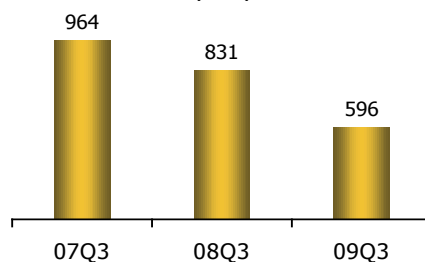
Business Bankruptcy Rate
(per 1,000 businesses)



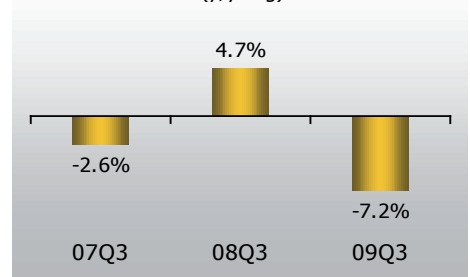
MLS Unit Sales
(y/y chg)



Housing Starts
(000s)

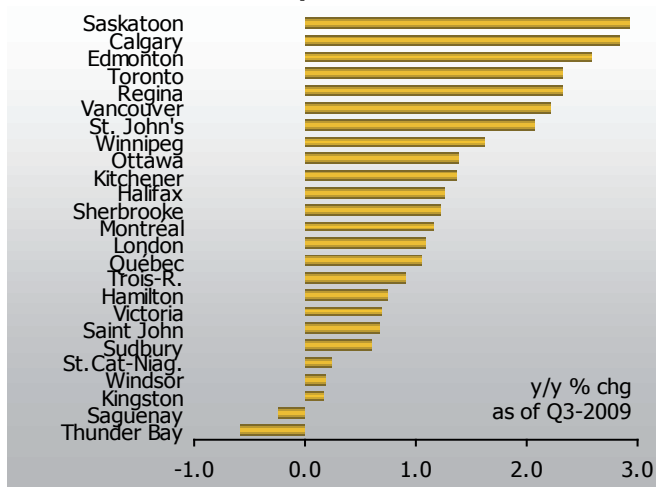


Non-Resid. Building Permits
(y/y chg)

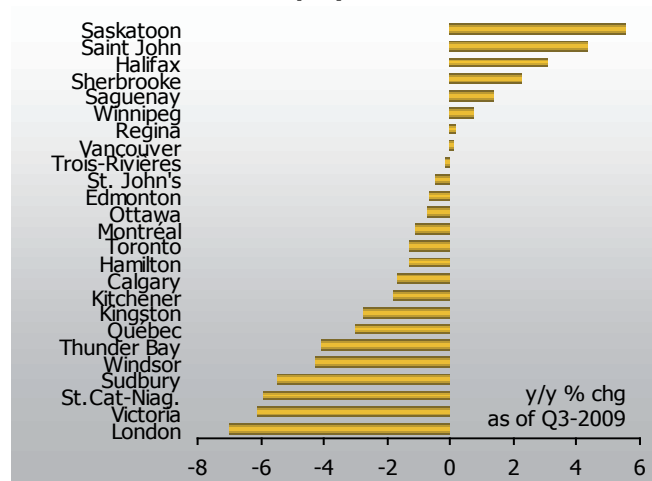


CMAs by Selected Economic Variables

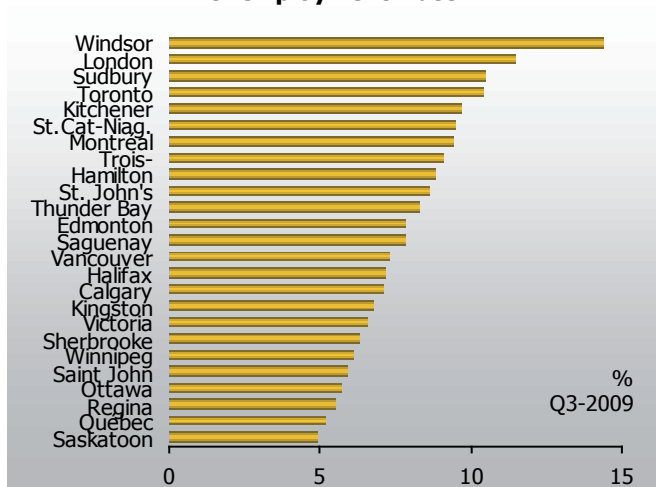
Population



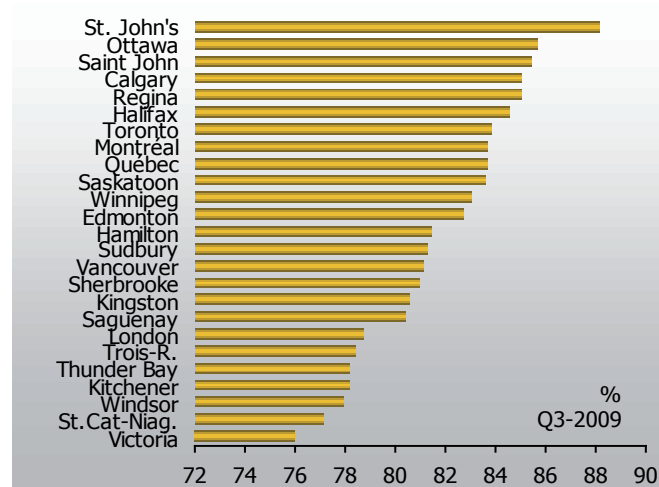
Employment



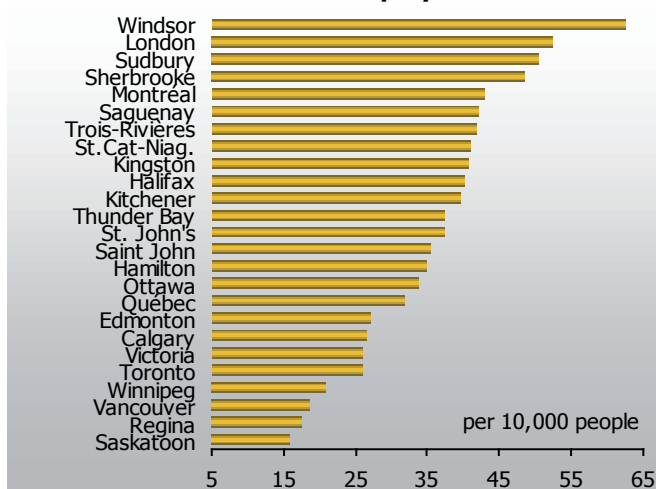
Unemployment Rate



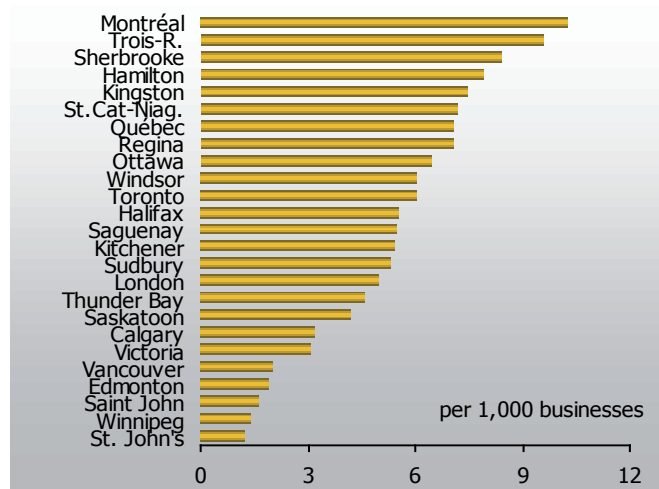
Full Time as a Share of Total Employment



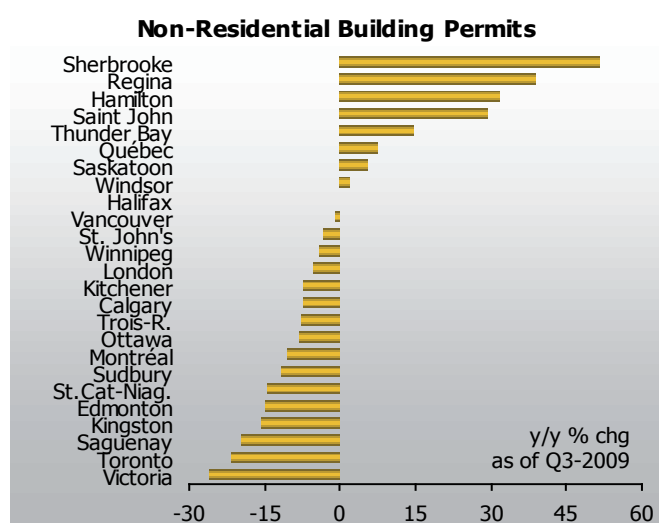
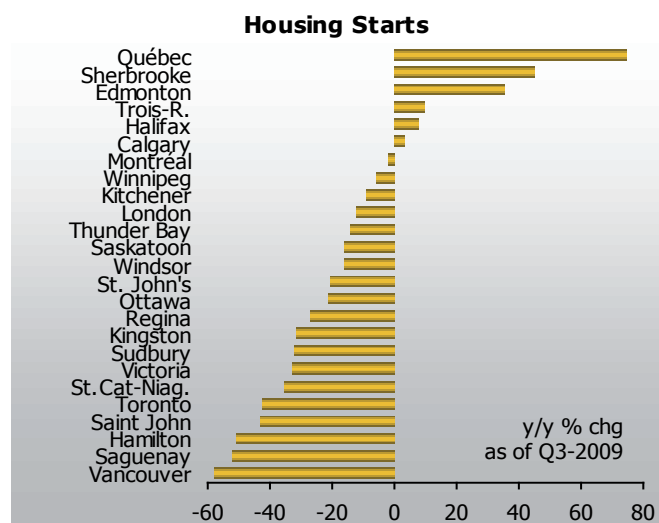
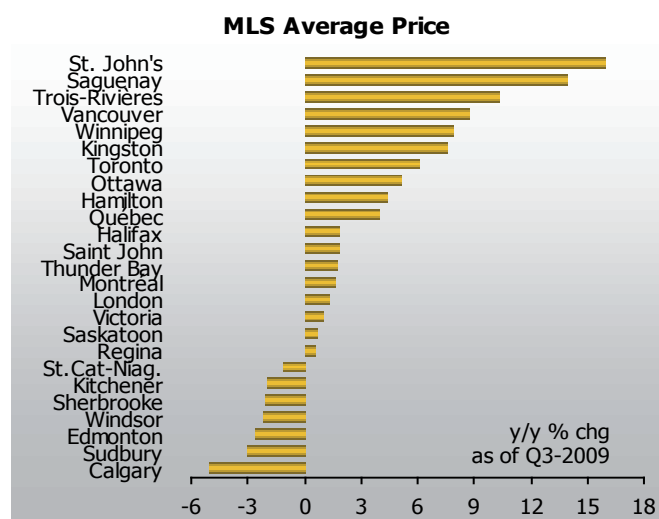
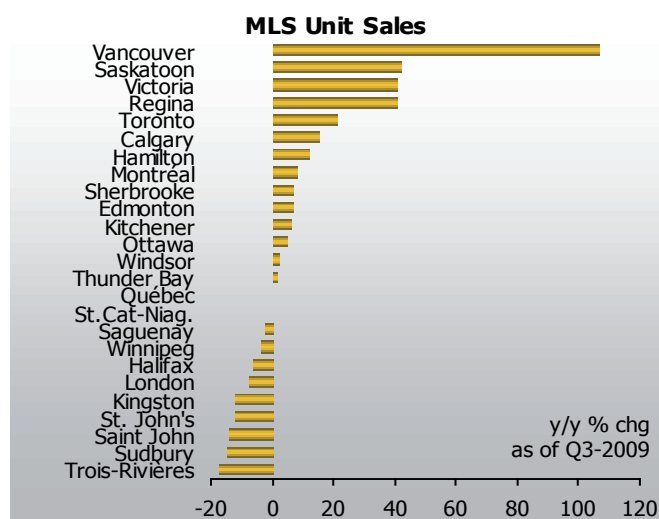
Consumer Bankruptcy Rate



Business Bankruptcy Rate



CMAs by Selected Economic Variables



Sources:

Canadian Mortgage and Housing Corporation (CMHC)
 Office of the Superintendent of Bankruptcy Canada
 Statistics Canada
 The Canadian Real Estate Association (CREA)
 Quebec Federation of Real Estate Boards (FCIQ)
 CIBC World Markets Inc.

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 in history, 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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