

Economic Performance in Southwestern Ontario's CMAs: A National Perspective 2023 Update

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SUMMARY

- Over the past several years, the Fraser Institute's Ontario Prosperity Initiative has published several studies analyzing economic developments across various regions of Ontario.
- This bulletin examines trends surrounding median household income in large metropolitan areas across Canada, with a particular focus on Census Metropolitan Areas in southwestern Ontario.
- The two large CMAs in southwest Ontario that are outside of the Toronto commuter area,

London and Windsor, were amongst the worst performers on this important measure of well-being between 2005 and 2019.

- Since the turn of the century, southwestern Ontario has gone from being one of the most prosperous regions in Canada to being in the bottom third on median household income.
- Over this span Windsor went from having the 11th highest median household income in Canada to having the 33rd highest. London fell from 13th to 28th place.
- The region's economic struggles began prior to the 2008-09 recession and following that severe economic shock its recovery was tepid.

Introduction

Since the turn of the century, Ontario has experienced more than its share of economic pain. This pain has not been spread equally across the province, however. Because Ontario is so populous and has many urban centers and because of the size of the Toronto metropolis, a narrow focus on province-wide economic statistics can easily lead analysts to ignore economic outcomes that affect millions of Canadians. For this reason, the Fraser Institute has published a number of papers analyzing economic developments across various regions of Ontario.¹

This bulletin will focus largely on southwestern Ontario. For the purposes of this analysis, we include the Kitchener-Waterloo-Cambridge, Guelph, Brantford, Windsor, and London CMAs in southwestern Ontario. With a population of roughly two million in its CMAs, southwestern Ontario has more people than many Canadian provinces. Southwest Ontario's economic challenges should therefore be considered national in scale.

Specifically, we examine how median household income in various Ontario CMAs has evolved between 2005 and 2019. We use 2019 as our final year of analysis because it is the last year prior to the COVID-19 pandemic and recession and it is difficult to interpret the long-term implications of developments since then.

We put these data into a national perspective by comparing median household income growth in Ontario CMAs with that in the rest of the country, and show the change in Ontario's metropolitan areas.

¹ See Eisen and Emes (2016; 2020) and Eisen and Lafleur (2017) for examples.

Ontario's economic performance, overall and in manufacturing, since 2005

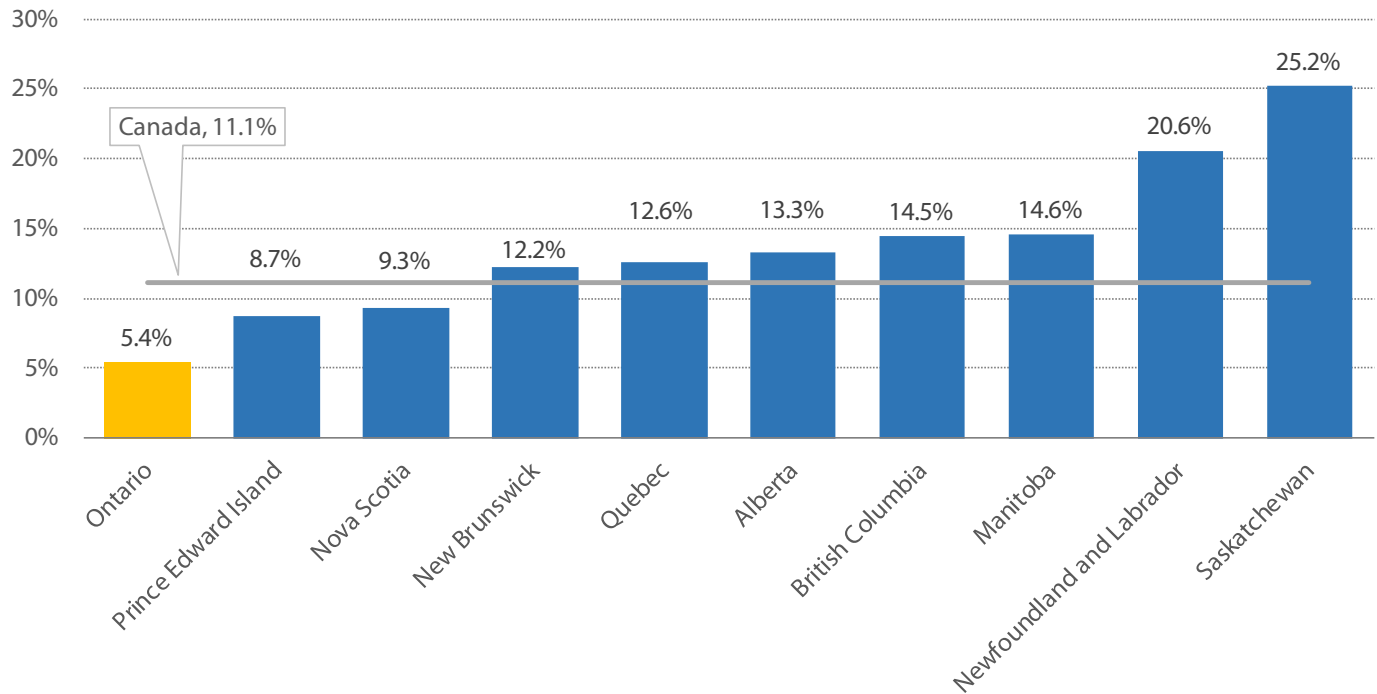
Although there have been spurts of stronger growth, Ontario's overall economic performance in the first two decades of the 21st century has been weak. Ontario's economy was hit hard by the 2008-09 recession and its subsequent recovery was tepid. The 2008-09 recession saw Ontario's real per-person GDP fall by 5 percent. Average annual growth in real per-person GDP in Ontario in the following decade was 0.7 percentage points less than between 1992 and 2007, another period in which there were major recessions (Eisen and Emes, 2020).

Figure 1 illustrates the impact of Ontario's steep recession and weak recovery on the rate of growth of median household income province-wide. Across Canada, real median household income increased by 11.1 percent during this time. In Ontario, the rate of growth was approximately half as rapid, at just 5.4 percent. Figure 1 shows that Ontario had, by far, the lowest rate of median income growth of all the provinces.

Due to the severity of the recession and weak recovery, Ontario was near the bottom of the Canadian provincial pack on a wide range of economic metrics. As a result, we have characterized the years immediately before, during, and after the 2008-09 recession as a "lost decade" for the province's economy (Eisen and Palacios, 2018).

Ontario's manufacturing sector was particularly hard hit during this era. Although the effects of the 2008-09 recession are broadly known, what is less well understood is that the decline of Ontario's manufacturing sector, and as a result its broader economy, were evident several years prior to that recession. Manufacturing employment peaked in 2004 at 1.1 million jobs. By 2007 that number had declined to 940,300.

Figure 1: Real Median Before-Tax Household Income Growth (%), by Province, 2005-2019



Note: Household units include census families and persons not in census families. Census families are comprised of: 1) couples (married or common-law, including same-sex couples) living in the same dwelling with or without children, and 2) single parents (male or female) living with one or more children. Persons who are not matched to a family become persons not in census families. They may be living alone, with a family to whom they are related, with a family to whom they are unrelated or with other persons not in census families.

Sources: Statistics Canada (2022a and 2022c); calculations by authors.

By 2010, it had fallen further, to 766,100. Since then there has been no meaningful rebound (Statistics Canada, 2022b).

A national perspective on the relative change in prosperity in southwestern Ontario CMAs

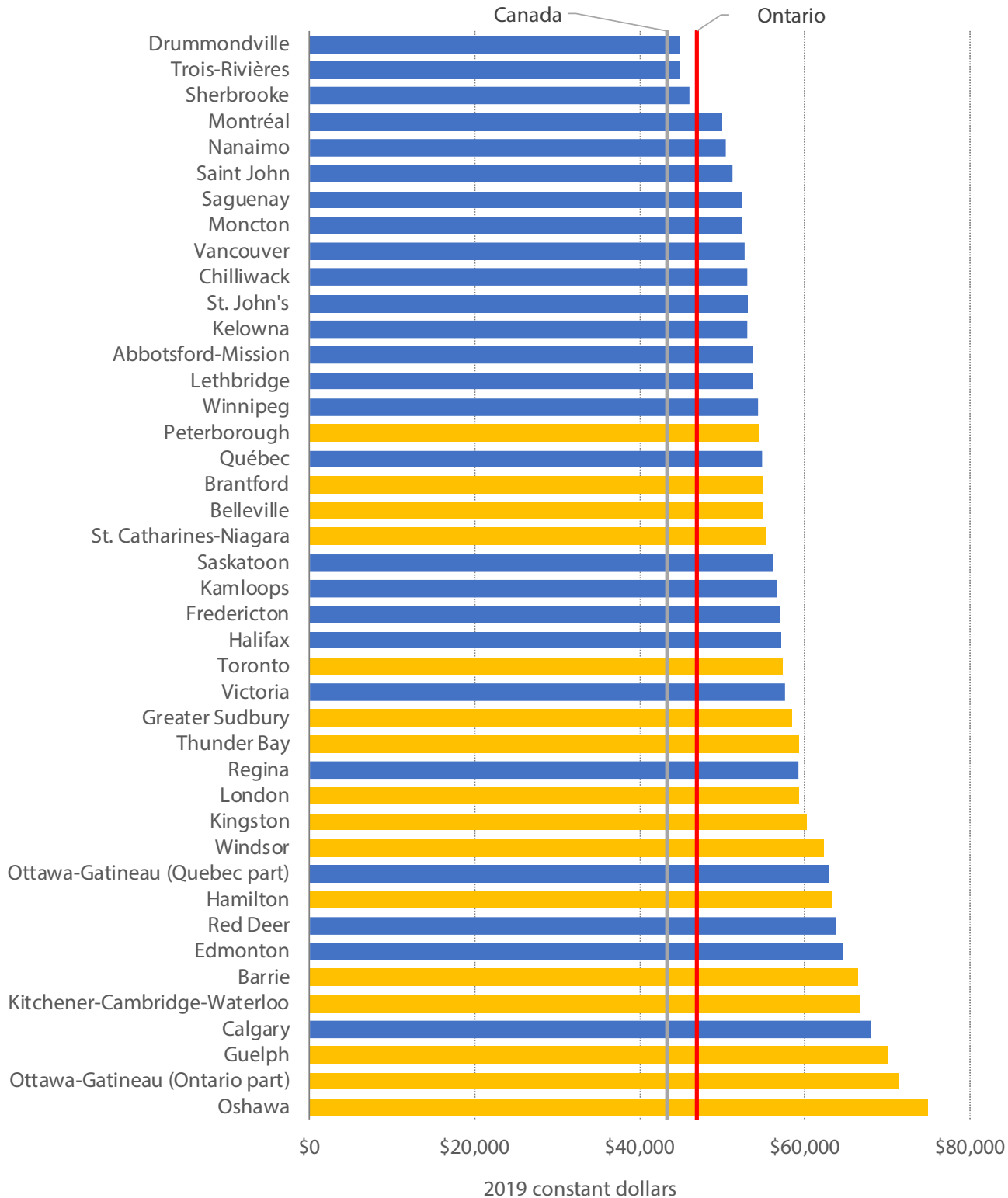
The manufacturing-heavy CMAs of southwestern Ontario felt the manufacturing job loss described above particularly acutely; they saw only tepid growth in the years following the re-

covery. Further, data show employment growth was much weaker in London and Windsor than in the southwestern CMAs more proximate to the GTA (Eisen and Emes, 2020).

This loss of jobs, many of which were high paying, produced a severe negative shock for median household income, which is the indicator upon which we focus for the remainder of this report.

Figure 2 shows that in 2005, southwestern Ontario was a prosperous region in Canada. Figure

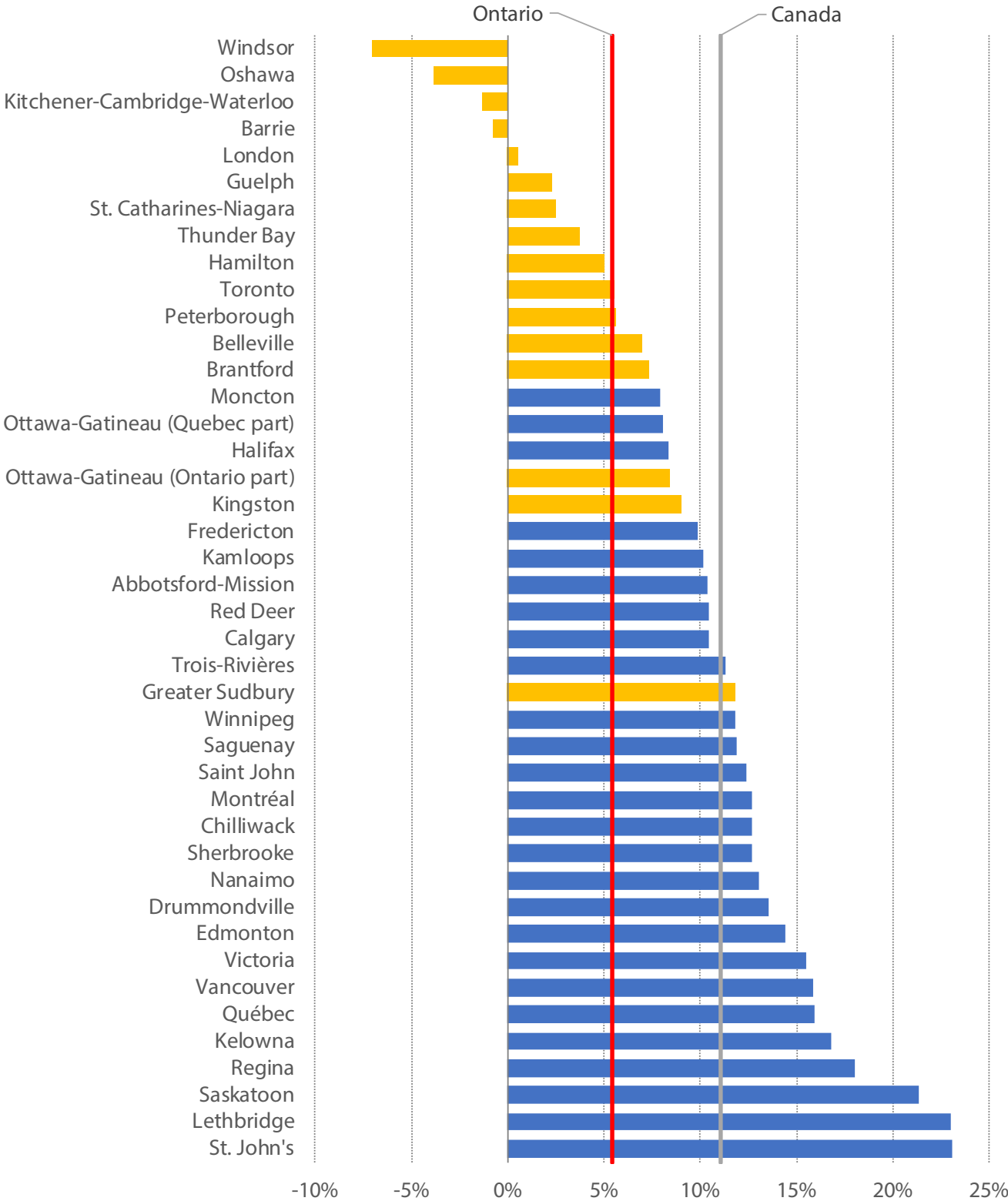
Figure 2: Median Before-Tax Household Income by CMA in 2005 (2019\$)



Note and sources: See Figure 1.

Economic Performance in Southwestern Ontario's CMAs: 2023

Figure 3: Real Median Before-Tax Household Income Growth (%), by CMA, 2005-2019



Note and sources: See Figure 1.

2 shows that in 2005, every Ontario CMA had a median before-tax household income above the Canadian average. Out of 41 CMAs, southwestern Ontario's five large CMAs had a median before-tax household income that place all in the top half of the country. Guelph had the third highest median household income. Kitchener-Cambridge Waterloo had the 5th highest, Windsor had the 11th highest, London had the 13th highest, and Brantford, the only CMA in the bottom half of the pack, had the 25th highest. Figures are shown in 2019 dollars.

Just 4 CMAs outside of Ontario had higher median before-tax household incomes than the largest southwestern Ontario CMAs, Windsor and London.

Over the next decade and a half, median household income levels in many Ontario CMAs stagnated, including those in southwestern Ontario. As noted, Canada's overall median household income increased by 11.1 percent. By comparison, median household income increased by just 2.3 percent in Guelph, 7.3 percent in Brantford, and 0.5 percent in London. Median household income actually declined in Kitchener-Cambridge-Waterloo by 1.3 percent, and by a dramatic 7.1 percent in Windsor.

As a result of much slower and in some cases negative growth compared to the rest of the country, Ontario's southwestern CMAs became much less prosperous relative to the rest of Canada as measured by median household income than was the case in 2005. Figure 3 illustrates this development.

The two large CMAs far from Toronto are particularly worth noting. Windsor went from having the 11th highest median household income in Canada in 2005 to having the 33rd highest median household income in 2019. London fell from 13th place to 28th place. Brantford fell from

25th to 30th place. Each of these large CMAs went from having median household incomes that placed them amongst the top third of Canadian CMAs to the bottom third.

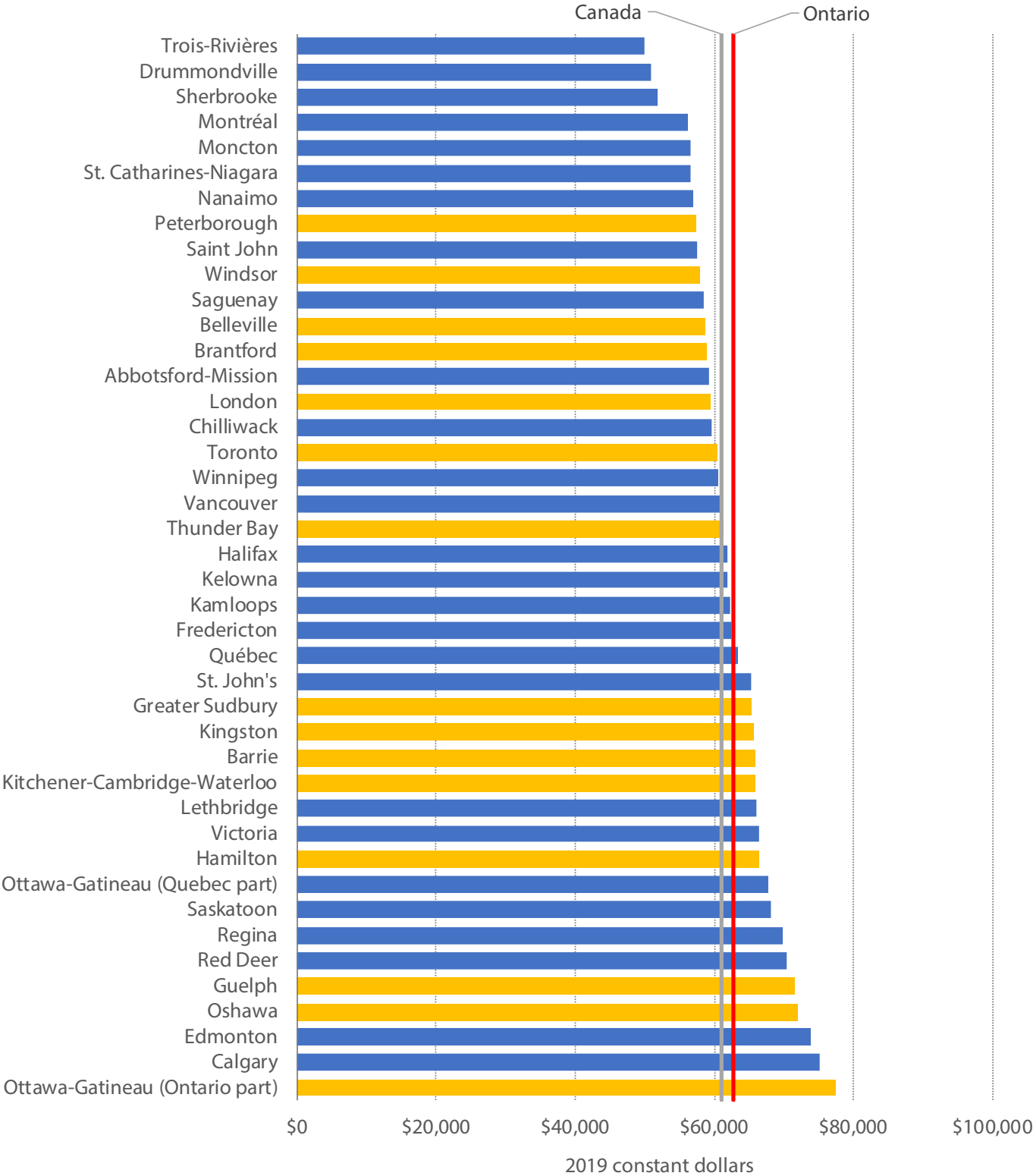
Guelph and Kitchener-Waterloo-Cambridge also slipped significantly down the league table. Guelph fell from 3rd to 5th. Kitchener-Waterloo-Cambridge moved from 5th to 13th. Both CMAs remained above the national and the top half of the Canadian CMAs, but slipped down the league table due to slow growth.

While every Ontario CMA had median before-tax household incomes above the national average in 2005, that was no longer the case by 2019. Notably, three of the five southwestern Ontario CMAs fell below both the national and provincial averages. Windsor had the 10th lowest median before-tax household income of any Canadian CMA in 2019 (\$57,840), Brantford had the 13th lowest (\$58,850), and London had the 15th lowest (\$59,510).

One important trend that emerges from these data is that CMAs proximate to Toronto have tended to have stronger median income growth than those further outside of the Toronto commuter area. We have seen the relative decline of median household incomes in large southwestern CMAs far from Toronto—Windsor and London—but much stronger results in CMAs near the Greater Toronto and Hamilton Area. Oshawa, Guelph, Hamilton, Kitchener-Waterloo-Cambridge, and Barrie all outperformed the national and provincial averages.² In fact, three CMAs in close proximity to the GTA—Oshawa, Guelph, and Hamilton—ranked among the

² This could be partially explained by young families moving out of the Toronto CMA to nearby communities. See Moffatt (2021) for a discussion of how Toronto's housing shortages are pushing people out of the GTA.

Figure 4: Median Before-Tax Household Income by CMA, 2019



Note and sources: See Figure 1.

top 10 CMAs nationally for median before-tax household income in 2019.³

In short, while southwestern Ontario was among the strongest regions in Canada economically in 2005, that was no longer the case in 2019. While many communities within the region that are in close proximity to the GTA have remained strong, traditional manufacturing communities like Windsor and London have fallen behind.

Developments in the COVID-era

We end this paper's analysis in 2019 partly because it is impossible to assess the long-term economically and socially disruptive events precipitated by the COVID-19 pandemic. During the pandemic there was significant outmigration of young families away from Toronto. This may lead to higher-income professionals making lengthy commutes to Toronto but increasing median-household earnings in the CMAs where they live, potentially as far as London or other areas within a few hours of Toronto. Further, the extent to which there is a rise in working from home may contribute to income growth in CMAs outside Toronto if knowledge workers choose to move elsewhere in the province where housing prices are lower (although it should be noted that housing prices all across southwestern Ontario have soared in recent years). Within a few years we will know more about these important questions. This paper, however, has focused on the relative performance of Ontario's CMAs during the pre-pandemic era, particularly those in the southwestern region, in an effort to demonstrate how

much ground the region has lost in absolute terms and in relation to the rest of the country.

Conclusion

Southwestern Ontario has several large urban centers, and a population significantly larger than several provinces. The region's economic challenges from 2005 to 2019 and its stagnant household incomes have imposed tremendous personal costs and suffering on individuals and families in the region. These developments should not be viewed simply as a regional problem, but also as a provincial and national problem. This bulletin update has added context to public understanding of these developments by analyzing changes in Ontario's CMAs relative to the rest of the country.

We have shown that London and Windsor specifically had amongst the worst relative economic performances in Canada. London's average real household income growth was almost completely stagnant, while Windsor's was negative. Both jurisdictions went from being in the top third of the highest median household income CMAs in Canada to the bottom third during this period.

This dramatic change over a relatively short period helps illustrate the scale of the economic challenges facing the region and provides some insight into the nature of the economic pain at the household level that many people in the region have experienced, particularly in the large cities that are furthest from Toronto. Further, this bulletin has shown that the effects of the manufacturing employment collapse that began in the mid 2005s and the recession of 2008-09 are still being felt, and have left significant scarring on these regions. New data in the years ahead will shed light on the extent to which these trends have been disrupted by changes to the workforce, living arrangements,

³ See Lafleur and Eisen (2017) for a discussion of how economic growth in Ontario has been concentrated in and around the GTA and Ottawa.

and commuting options available to younger members of the workforce that have been brought on, either temporarily or permanently, by the unprecedented economic and social disruptions of the COVID-19 era.

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