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Economics

METRO MONITOR

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Canadian Cities: An Economic Snapshot

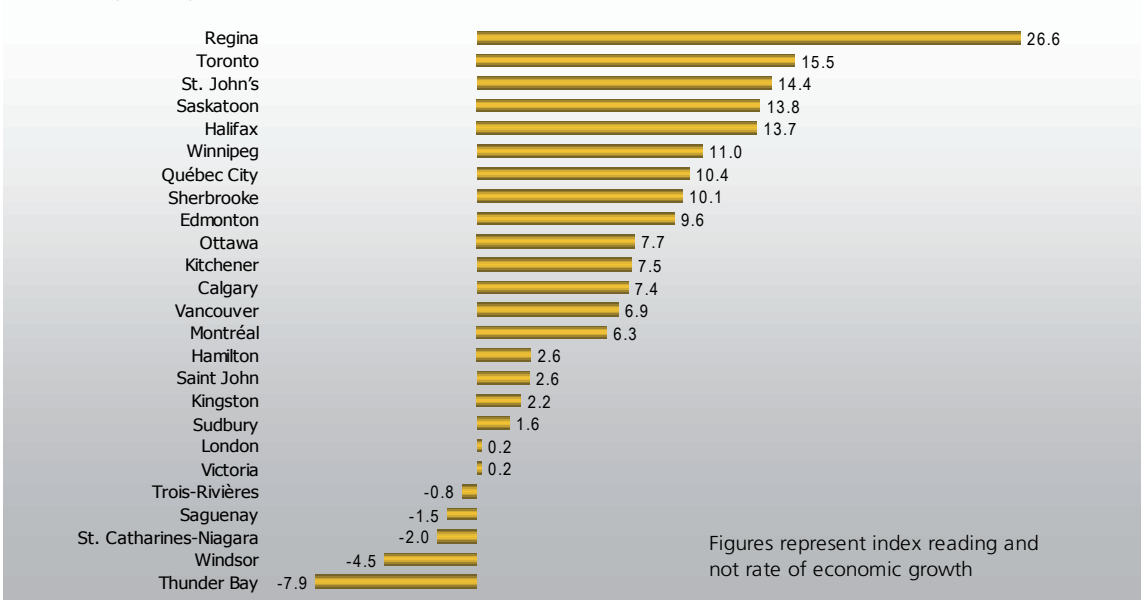
by Benjamin Tal

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.

Our aggregated metropolitan city continued to fall during the first quarter of the year and it is now a full 6 points below its recent peak of mid-2006. The index is now at its lowest level since the 1991 recession. Given that the index now covers data as of the first quarter of the year, we are in a better position to measure the relative economic position of the country's largest CMAs and assess to what extent they are able to cope during this recessionary year.

The city of **Regina** was able to maintain its first ranking position in terms of economic momentum. The city enjoys strong population growth (second only to Saskatoon), a rapid pace of employment growth (second only to St. John's), and the lowest unemployment rate in the country (around 4%). As well, the consumer bankruptcy rate in the city is the second lowest in the country while non-residential building permits is by far the most robust in the nation. The residential real estate market is still relatively healthy despite impressive gains over the past year. Note that house prices in the city are still rising by close to 15% on a year-over-year basis.

CIBCWM Metropolitan Economic Activity Index (2009Q1)
3Q Moving Average



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

Toronto is ranked second in our metropolitan economic activity index. The consistent strong performance 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 8% and employment gains below average.

St. John's is now ranked third in our index, the best performance on record. The city's ranking reflects a nation-leading jobs market, as well as the lowest business bankruptcy rate in the country. Average house prices in the city are now rising by 19.5% (year-over-year), the fastest pace in the country while housing resale activity is well above average. Non-residential real estate activity is not as strong as the residential market—a factor that works to limit the upward potential in our ranking.

Saskatoon has lost its spot in the top three in our ranking, but at the fourth spot it is still demonstrating a relatively strong economic momentum. This reflects a nation-leading population growth, a low unemployment rate as well as the lowest consumer bankruptcy rate in the country. Despite the fact that house prices in the city are still rising, the real estate market is starting to lose some momentum.

The loss of economic momentum in western Canada is reflected in the ranking of **Edmonton, Calgary and Vancouver** (ranked 9th, 12th and 13th respectively). A notable softening in labour market activity, population growth and housing market activity clearly played a significant role in the worsening position of these cities. However, it is important to note that while western Canada's largest cities are losing economic momentum, the absolute *levels* of activity in those cities are still well above average.

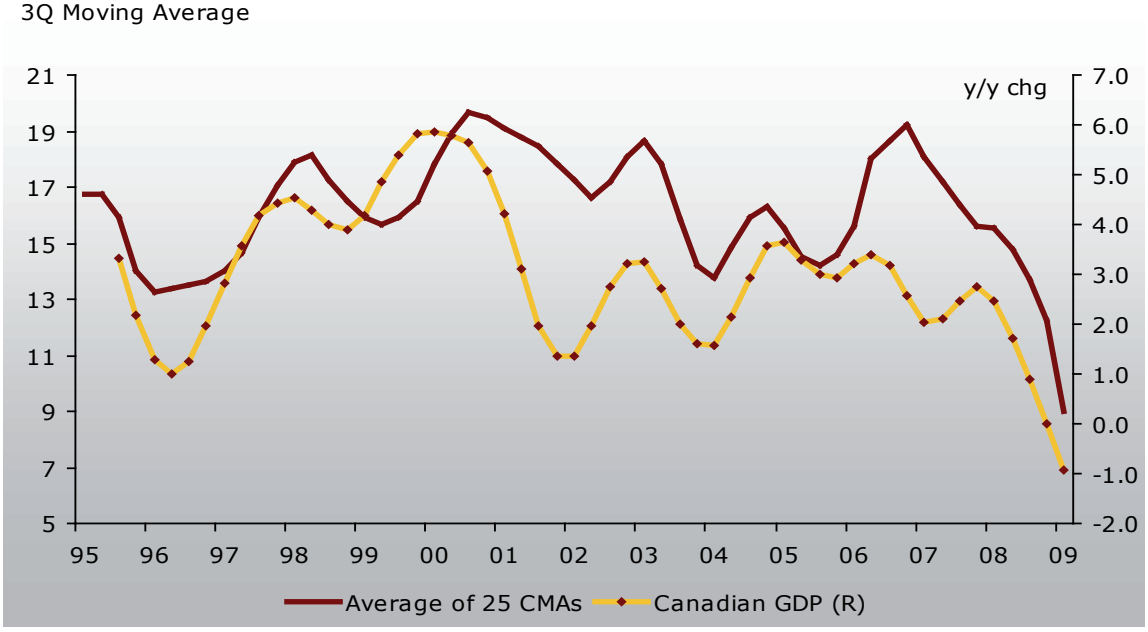
Montreal has lost considerable momentum over the past year largely due to a softening labour market, rising bankruptcies and a notable softening in housing market activity.

Reflecting the difficulties in the manufacturing sector, cities such as **Windsor, London** and **Saguenay** still face major challenges. The weakening US economy is clearly adding another layer of difficulties facing those cities.

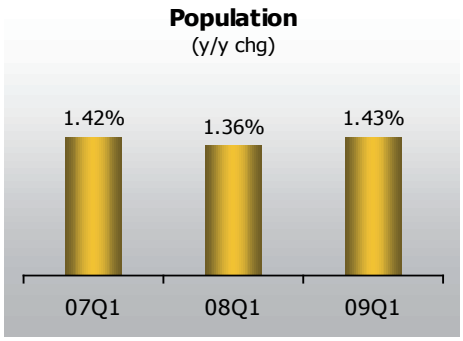
(For more details on each CMA, please refer to *http://research.cibcwm.com/res/Eco/ArEcoMEA.html*).

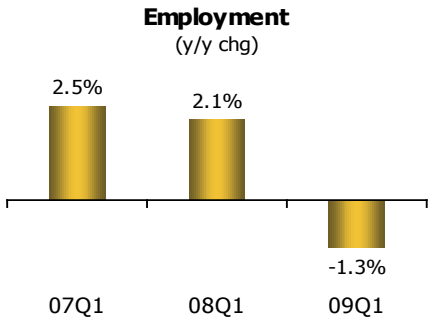
CIBCWM Metropolitan Economic Activity Index vs. GDP

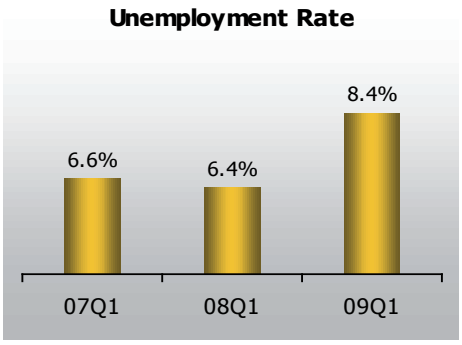
3Q Moving Average

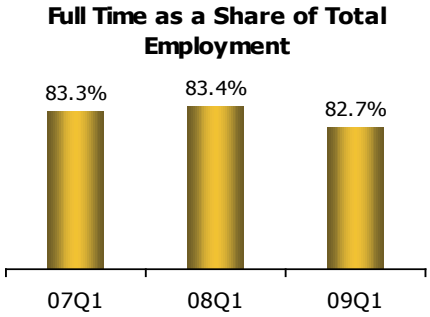


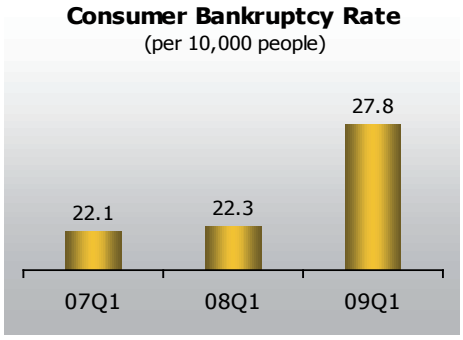
Selected Economic Variables — CANADA

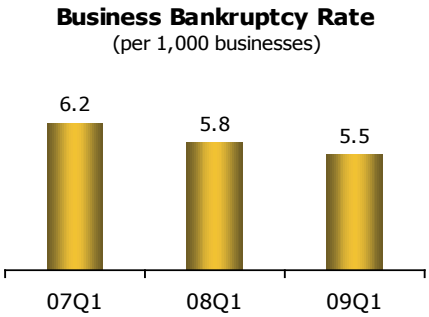


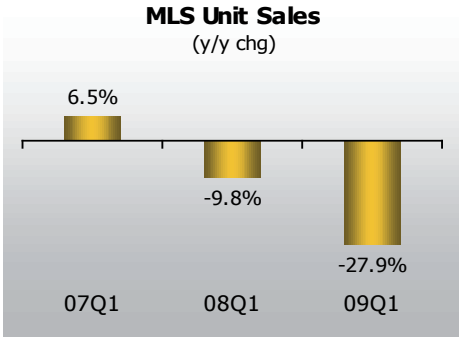


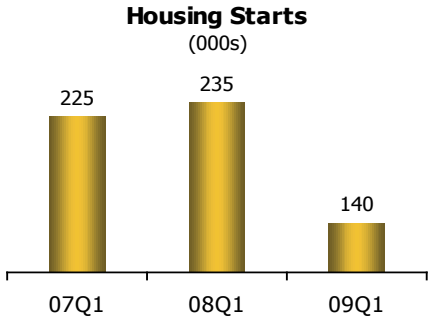


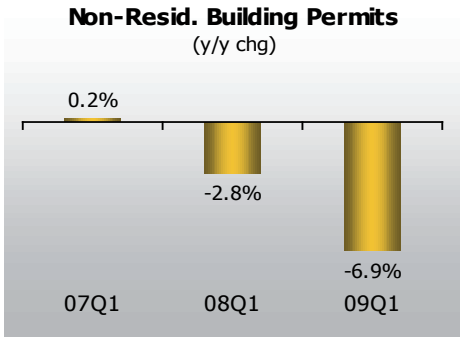




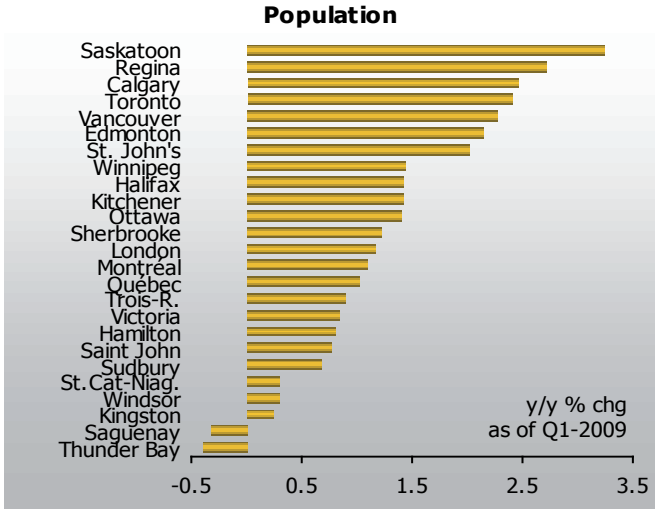


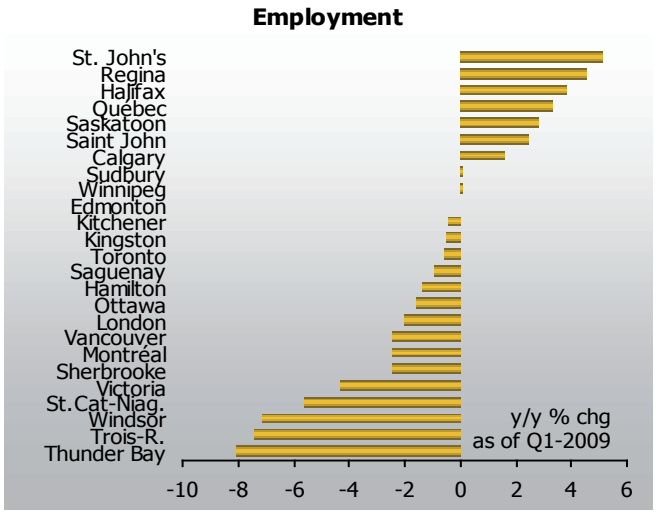


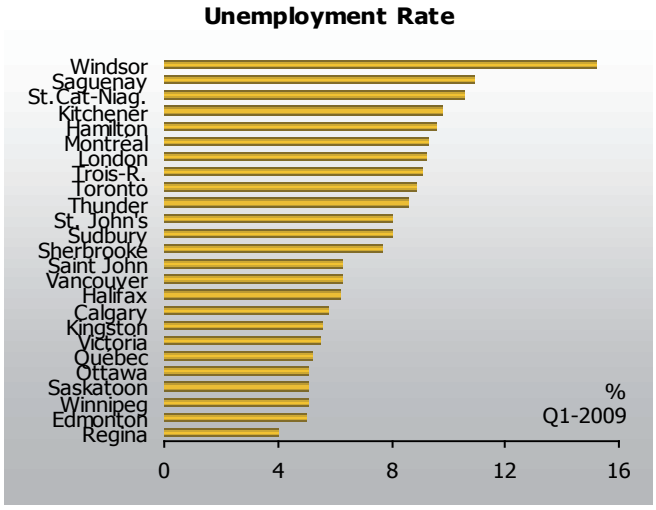


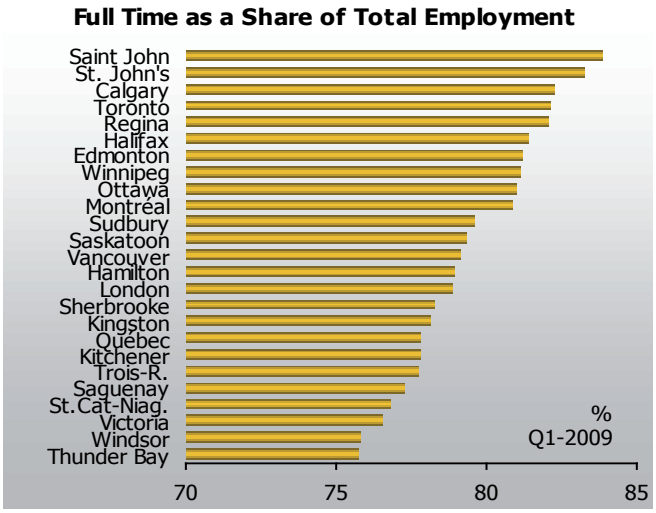


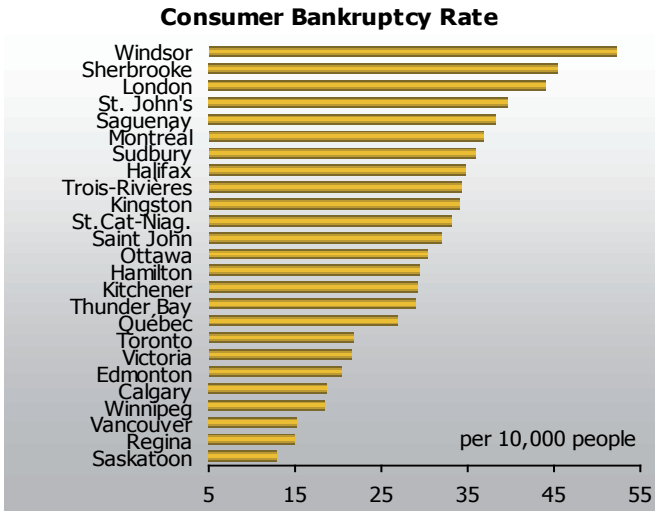
CMAs by Selected Economic Variables

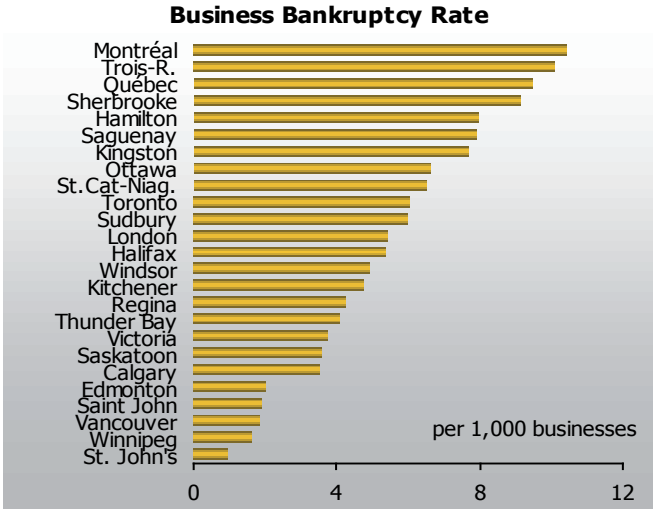




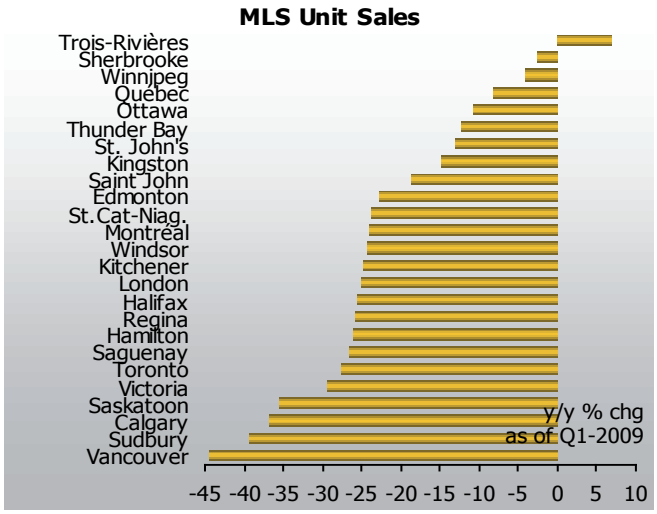


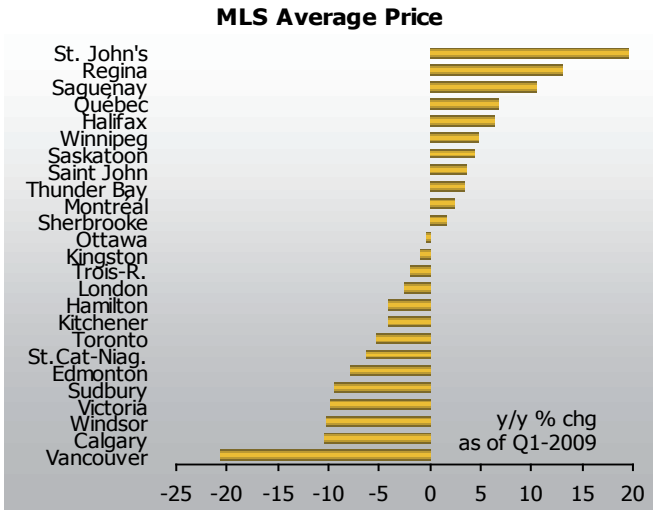


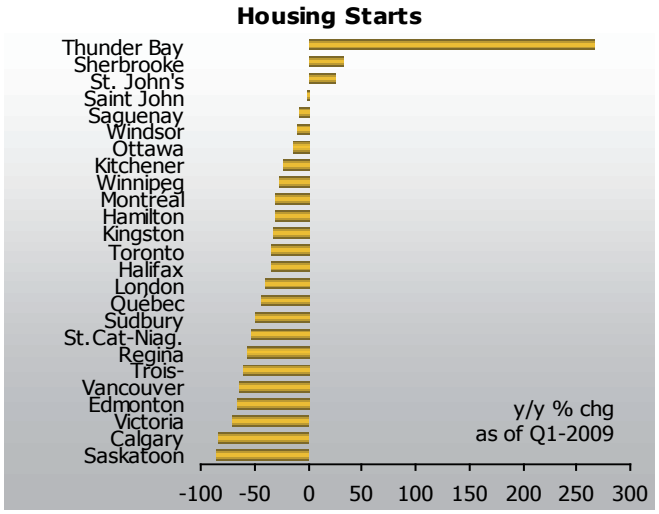


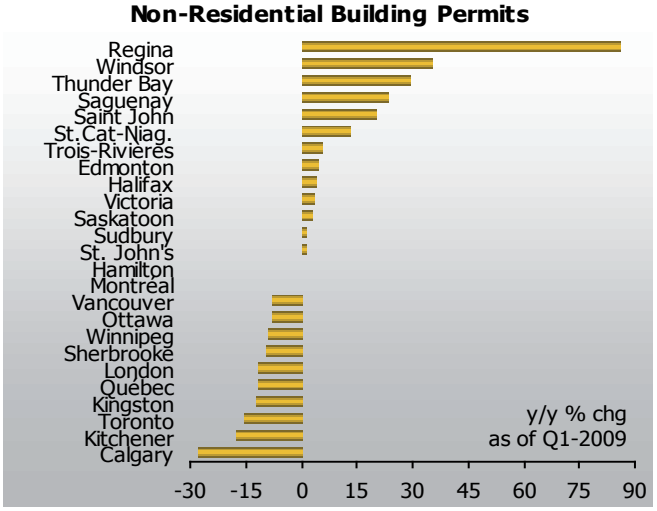


CMAs by Selected Economic Variables









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 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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