Central 1™ Economic Analysis of Ontario

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Hamilton-Niagara Peninsula Economic Region

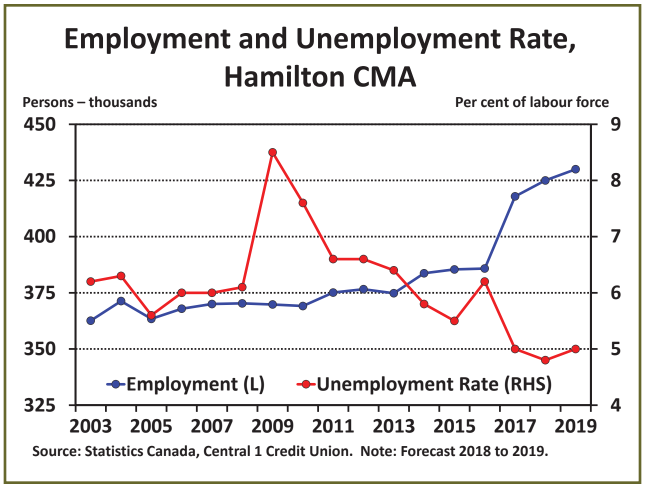
The region posted strong economic performance in 2017, which is expected to carry-over into 2018 though likely with less vigor due to fluctuations in construction activity and still challenging conditions for manufacturing expansion. This region has notable industry concentrations in manufacturing, tourism, and agriculture and its northern areas are increasingly integrated with the GTA economy.

The Hamilton-Niagara Peninsula (HNP) Economic Region spans the three Census Metropolitan Areas (CMA) of Hamilton, St. Catharines-Niagara, and Brantford and includes the Haldimand-Norfolk Census Division. The region has a population of about 1.49 million persons.

Employment in the region shot up 4.0 per cent, or 28,700 persons, during 2017, the largest absolute increase and the second fastest annual growth performance recorded. This large, statistically significant increase follows a multi-year period of modest employment growth. The Hamilton CMA accounted for the bulk of the increase with St. Catharines-Niagara CMA posting an insignificant decline and the Brantford CMA recording an increase, though not significant. Employment estimates are from the Labour Force Survey (LFS) based on a sample of resident households.

Manufacturing, wholesale and retail trade, finance, insurance, and real estate, and professional, technical, and scientific services were the leading employment growth industries in 2017. For manufacturing, it was the first meaningful employment gain in years. Expansion in the trade industries could be responsible for rising income, population growth, and housing activity, which also contributed to employment gains in finance and real estate.

The Hamilton CMA, home to more than one-half of the region's residents and comprised of Ham-



ilton City, Burlington, and Grimsby, enjoyed a very robust economy in 2017, judging by the 8.3 per cent job growth, the lowest unemployment rate in more than a decade, and a very active construction scene. Some of the job growth by residents could be linked to the GTA economy, with 35.7 per cent of the employed labour force with a usual place of work commuting to different census division, according to the 2016 Census. This figure was 40.1 per cent for Burlington. Regardless, this high job growth among Hamilton's residents translates into growing local income and increased demand for goods and services.

Job growth during 2017 for Hamilton residents was broadly based across industries, with notable gains in construction, manufacturing, trade, finance and real estate, professional services, health, accommodation and food, and government.

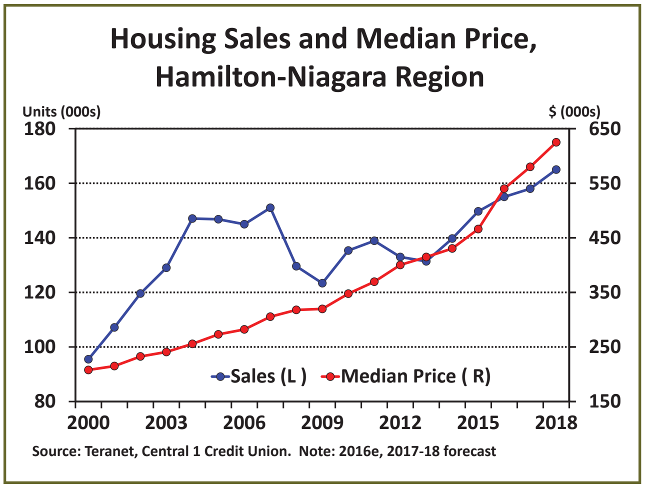
The local economic base benefitted not only from favourable external conditions but also from rising domestic demand. Hamilton's transportation sector posted a strong performance with its international airport reporting an 80 per cent increase in passenger traffic during 2017 and the Port Authority reporting a six per cent increase in tonnage. The Port of Hamilton saw new investments for a grain export terminal and a new flour mill.

Local manufacturing expanded with the SUEZ Water Technologies & Solutions newly-built ozone production facility in the Ancaster Business Park. Most manufacturing businesses were likely operating at recent or above recent levels with a still-low currency aiding exports, along with improvement in U.S. and European growth as well as in the rest of Canada with the end of the oil recession. On the downside, Stelco announced layoffs earlier in 2017.

Construction activity ramped up in 2017 in both residential, non-residential building, and engineering construction. Work started on a Courtyard Marriot hotel, a Mohawk College project, and a new Hamilton Police Service facility. Residential building permits issued increased to the highest level in more than a decade. Construction began on the Woodward Avenue Wastewater Treatment Plant costing $330 million, which is anticipated to be completed by 2020. The Confederation GO Station in Hamilton will begin construction shortly, with completion expected in 2019, and the $1B Hamilton LRT project is slated to begin construction in 2019.

The hot housing market fueled by low mortgage rates, rising incomes, population growth, and pent-up demand cooled temporarily following the introduction of the province's Fair Housing Plan in April 2017. Housing sales fell precipitously but stabilized after three months and began to climb once again. The federal government's new stress test for uninsured mortgages effective Jan 1, 2018 pulled forward some sales into late 2017. Housing prices, with a time lag, followed the sales pattern.

Hamilton's growth prospects remain positive through 2019 due to still favourable external factors, notwithstanding moderate interest rate increases and pent-up domestic demand. Last year's record employment growth is unlikely to be repeated and going forward a trend-growth performance more likely. A reported decline in 2018 employment would not be a surprise due to LFS sample variability. The unemployment rate is forecast to remain low.



Another example of economic variability is non-residential building permits, which are predicted to come off last year's high of $850 million in 2018 and to rebound in 2019. Similarly, housing sales look to begin 2018 on a weaker note due to the latest stress test rule, but to grind higher into 2019. Another gain in residential building permits is foreseen during 2018 in response to tight conditions in the ownership and rental markets.

Housing price increases are expected to slow following two strong annual gains, notably last year's 20.4 per cent jump in the residential median sale price. With the new mortgage rate stress test and the affordability squeeze from higher prices and mortgage rates, housing sales look to come in slightly lower than in 2017 resulting in some easing in market conditions. The price forecast calls for increases around five per cent annually through 2019 and is predicated on more listings coming onto the market, and if not, higher increases are likely.

Population growth picked up in 2016 and 2017. Most of the additional growth was driven by rising intraprovincial migration, primarily from the GTA by those seeking more affordable housing. This trend, along more international migration, is expected to continue keeping population growth above one per cent annually.

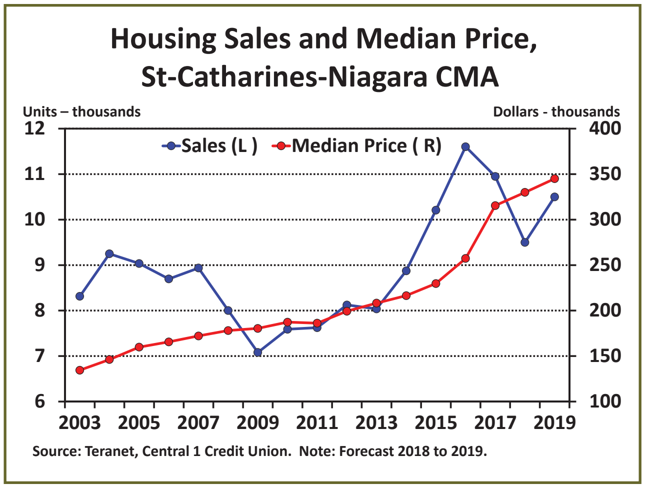
The St. Catharines-Niagara CMA covers most of the Regional Municipality of Niagara, excluding West Lincoln, Smithville, and Grimsby. St. Catharines, Niagara Falls, and Welland are its principal cities. This CMA, Ontario's sixth largest, has a population exceeding 400,000 persons. Its economy is heavily concentrated in tourism and related activities and with a substantial concentration in agriculture and related activities. Manufacturing's role in the economy has diminished but still represents an important industry with significant export and local economic linkages.

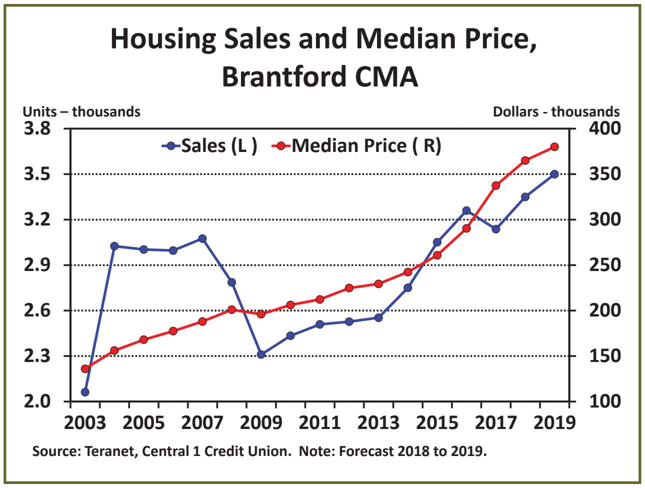
The Niagara Peninsula's wine industry is a large player in the local economy generating export and tourism revenues. The large majority of Ontario's grape growing volume is grown here and it is home to about 60 per cent of Ontario's VQA wineries. The 2017 grape harvest was bountiful, and it was considered a good vintage, according reports. Actual production data is not readily available. The CMA is home to 147 businesses with employees in agricultural fruit and nut production along with 73 businesses in beverage manufacturing, according to the 2016 Business Register.

Tourism had a good year in 2017 with more visitors to the province and more visitors from other parts of the province and country. Up-to-date visitor data at the regional level are not available. However, with provincial visitor counts up in 2017, and the Ontario economy generating faster employment and income growth to support more intraprovincial visits, the CMA very likely benefitted from these gains.

A new gas-engine manufacturing facility in Welland by GE Canada is underway, scheduled for completion around mid-2018. Manufacturing employment increased for the second year, according to the LFS. These gains were not statistically significant and only brought employment back to levels seen during 2010 to 2014.

Domestic demand is on the upswing and evident in increased housing market and building activity. Residential construction advanced 12 per cent in 2017 according to CMHC, and non-residential building permits posted gains in industrial and commercial buildings. The rental vacancy rate declined on deteriorating homeownership affordability and on a modest population gain.





While housing sales declined modestly in 2017, housing prices surged more than 20 per cent. Most of the price rise was front-end loaded in the year and a carry-over of tight market condition in 2016. Sales faltered following the province's Fair Housing Plan and recovered moderately by year end. Market conditions eased, and price increases cooled.

The St. Catharines-Niagara economy is seen growing at a moderate pace through 2019 with employment growing at an above-trend pace, albeit just above one per cent annually. The unemployment rate looks to hover around six per cent. The LFS sample results come with a large error margin and can have large swings, so the forecast predicts the underlying trend.

Residential building permits will likely post gains during the next two years in response to higher prices and a tighter rental market. Housing sales are expected to fluctuate around recent elevated levels and housing prices to rise at a more moderate pace than in the previous two years.

The Brantford CMA is comprised of the cities of Brant and Brantford and includes the Six Nations Part (40). It has a geography nearly identical to the Brant Census Division. The CMA has a population approaching 150,000 persons. The CMA's economic base has a significant manufacturing component, the largest share of the labour force at 17 per cent in the region, as of the 2016 Census. About one-third of its employed residents with a usual place of work commute outside the CMA to another census division.

The labour market has made some gains in the past two years and appears to have broken out of the range-bound employment levels of the prior ten years and all of this gain was in full-time employment. The unemployment rate in 2017, at 4.9 per cent, was the lowest in about 20 years.

Brantford's manufacturing industry received some major investments recently. Ferrero Canada is undergoing a $90 million expansion and J.P. Bowman Precision Tooling expanded. Mitsui High-tec (Canada) Inc. commenced construction on a plant specializing in motor cores for hybrid vehicles. Manufacturing employment was up in 2017 and reached its highest level since 2009 and the fourth quarter 2017 level was the highest in ten years and this upswing looks to continue into 2018.

The domestic economy is performing well as evidenced by rising housing construction. Residential building permits advanced 65 per cent during 2017 in response to a large increase in housing prices and a tighter rental market. Population growth increased, contributing to the domestic economy.

Non-residential building construction investment was at a high and rising level during 2017, closing out the year more than 60 per cent above 2016's level. Commercial building construction was the main driver, increasing more than 200 per cent, which reflected the surge in commercial building permits issued during 2016. With fewer commercial permits issued in 2017 and those 2016 buildings nearing completion, this component will very likely decline in 2018.

Brantford's economic outlook is positive. Employment gains are anticipated through 2019 with the unemployment rate remaining at or near current lows. Population growth is seen rising to 1.3 per cent on higher in-migration from other parts of the province, likely neighbouring areas.

More housing activity will play out with gains in residential building permits. Higher housing sales and prices are expected as Brantford offers a relative more attractive affordability situation than in larger urban centres and release of pent-up demand from previous weaker economic and housing conditions.

Hamilton-Niagara Peninsula Economic Region						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	706.4	719.1	721.4	750.1	765.0	775.0
% change	1.3	1.8	0.3	4.0	2.0	1.3
Unemployment Rate, %	6.5	6.0	6.4	5.3	5.0	4.9
Residental Sales, units	30,785	33,581	35,166	33,160	31,500	34,000
% change	7.9	9.1	4.7	-5.7	-5.0	7.9
Residential Median Price, $	278,114	297,717	327,030	391,169	405,000	425,000
% change	5.6	7.0	9.8	19.6	3.5	4.9
Residential Permits, units	5,091	6,589	7,150	7,746	8,500	8,000
% change	2.3	29.4	8.5	8.3	9.7	-5.9
Non-Residential Permits ($ mil.)	889.0	960.0	889.5	1,302.0	1,100.0	1,450.0
% change	-29.7	8.0	-7.3	46.4	-15.5	31.8
Population (000s)	1,446.7	1,457.6	1,473.0	1,490.0	1,508.8	1,527.2
% change	0.8	0.7	1.1	1.2	1.3	1.2

Hamilton CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	383.7	385.4	385.8	417.9	425.0	430.0
% change	2.4	0.4	0.1	8.3	1.7	1.2
Unemployment Rate, %	5.8	5.5	6.2	5.0	4.8	5.0
Residental Sales, units	16,293	17,367	17,134	15,983	15,600	17,000
% change	6.5	6.6	-1.3	-6.7	-2.4	9.0
Residential Median Price, $	324,615	350,759	393,569	474,053	500,000	525,000
% change	4.2	8.1	12.2	20.4	5.5	5.0
Residential Permits, units	2,647	3,232	3,597	3,631	4,000	3,700
% change	3.4	22.1	11.3	0.9	10.2	-7.5
Non-Residential Permits ($ mil.)	570.5	650.5	480.6	798	600	800
% change	-16.2	14.0	-26.1	66.0	-24.8	33.3
Population (000s)	764.7	770.2	778.4	788.2	798.5	808.0
% change	0.9	0.7	1.1	1.3	1.3	1.2

St. Catharines-Niagara CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	195.4	204.1	203.1	197.6	200.0	203.0
% change	1.0	4.5	-0.5	-2.7	1.2	1.5
Unemployment Rate, %	7.7	7.0	7.1	6.5	5.8	6.2
Residental Sales, units	8,875	10,208	11,604	10,950	9,500	10,500
% change	10.4	15.0	13.7	-5.6	-13.2	10.5
Residential Median Price, $	216,429	229,716	257,339	315,452	330,000	345,000
% change	4.0	6.1	12.0	22.6	4.6	4.5
Residential Permits, units	1,599	1,875	2,410	2,403	2,700	2,600
% change	7.2	17.3	28.5	-0.3	12.4	-3.7
Non-Residential Permits ($ mil.)	188	198	223.4	258	250	300
% change	-57.4	5.3	12.8	15.5	-3.1	20.0
Population (000s)	406.7	408.7	411.7	415.0	419.0	423.5
% change	0.4	0.5	0.7	0.8	1.0	1.1

Brantford CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	68.6	69.3	70.2	72.3	74.5	76.0
% change	-0.4	1.0	1.3	3.0	3.0	2.0
Unemployment Rate, %	6.8	5.7	6.0	4.9	5.3	5.0
Residental Sales, units	2,750	3,051	3,260	3,137	3,350	3,500
% change	7.7	10.9	6.9	-3.8	6.8	4.5
Residential Median Price, $	242,318	260,859	290,391	337,431	365,000	380,000
% change	5.6	7.7	11.3	16.2	8.2	4.1
Residential Permits, units	449	825	347	573	650	700
% change	3.9	83.7	-57.9	65.1	13.4	7.7
Non-Residential Permits ($ mil.)	50	63	137.9	117	100	150
% change	-49.0	26.0	118.9	-15.2	-14.5	50.0
Population (000s)	142.9	144.0	145.5	147.0	148.9	150.7
% change	0.7	0.8	1.0	1.1	1.3	1.2

Source: Statistics Canada, Teranet, Central 1 Credit Union. Forecast 2018 - 2019.