

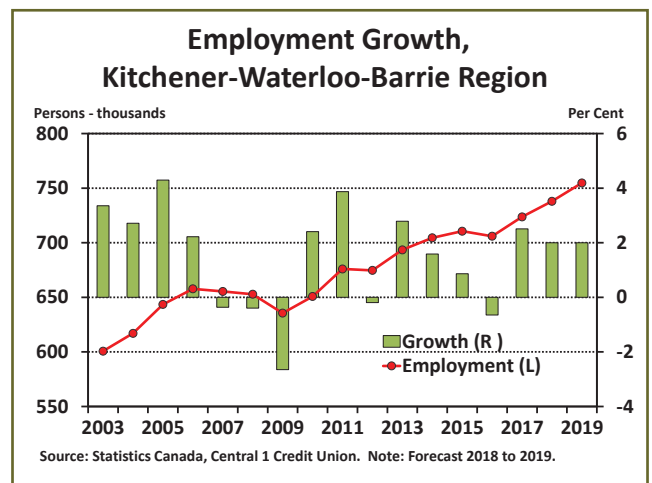
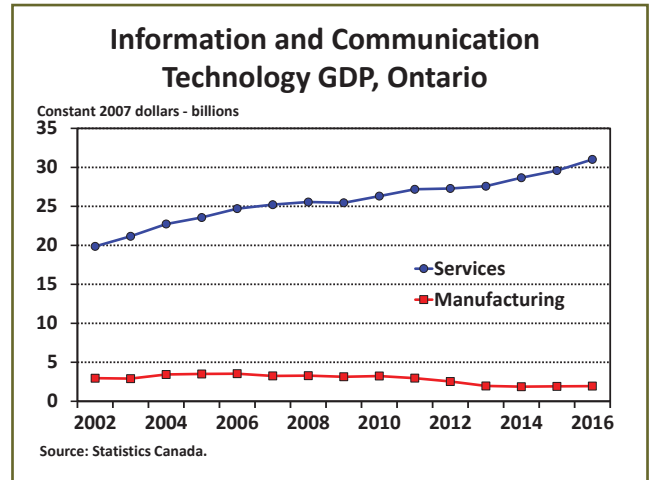
## Kitchener-Waterloo-Barrie Economic Region

The Kitchener-Waterloo-Barrie (KWB) area is anchored by the Census Metropolitan Areas (CMAs) of Kitchener-Cambridge-Waterloo along with Barrie and Guelph, which combined comprise about 65 per cent of the region’s near 1.4 million population base. Other centres in the region include the town of Collingwood, Innisfil, Centre Wellington, and Orangeville among others.

Kitchener-Waterloo-Barrie looks to maintain positive momentum after a solid 2017 when regional employment rose 2.5 per cent, driven entirely by a surge in full-time jobs, while regional unemployment fell to 5.1 per cent of the labour force. Strong gains in construction, agriculture, and services including professional services, the information, culture, and recreational sector, which includes a significant portion of high-tech jobs, health services, and accommodation-food services were key drivers of last year’s performance.

Below the headline figures were significant deviations among areas. Employment in Barrie surged 11 per cent on large gain in manufacturing employment, while the KCW area rose 2.2 per cent and Guelph held steady. The latter markets also experienced some manufacturing gains, relying mostly on domestic consumer demand such as health services.

Drivers of the KWB economy are diverse, and the region is well positioned to grow at a moderate pace over the next two years given its economic structure, which is a good mix of the new and old(ish) economy. Provincially, Central 1 forecasts average growth of about two per cent annually in the agriculture sector, with a mild one per cent gain manufacturing. Manufacturing is dragged lower by weaker auto-related expansion, due to little growth in U.S. auto sales, after strong gains in recent years. That said, other manufacturing sectors are anticipated expanding at a healthy pace including food products, computer peripherals and other products. Regional growth will expand faster in the large metro areas, with steady performance elsewhere.



Manufacturing has downshifted since the early 2000s but has seen a resurrection of sorts in recent years, and relative to other regions in the province is a more significant economic growth driver. The region’s sector generally experienced good news over the past year and held on to the substantial employment gains recorded in 2016. Honda announcement of a \$492 million investment in its Civic and CR-V producing Alliston plant highlighted a number of gains, including the opening of a Streit Manufacturing facility in Midland, expansion of Eclipse Automations’ Cambridge facility, as well as increased activity in the medical marijuana space. In contrast, there were some significant losses including layoffs at Honeywell Aerospace and Rimowa in Cambridge.

The region's role as a technological powerhouse, centred around Kitchener-Cambridge-Waterloo will fuel continued growth resulting in strong employment gains in the professional and technical services and information industries. Combined, employment in these two sectors rose 10 per cent in 2017 reflecting fast growth in the broad information communication technology (ICT) sector. ICT service output in Ontario has averaged nearly four per cent from 2014-2016 and nationally tracked above 4.5 per cent in 2017. The region has moved past the shrinking of BlackBerry, emerging as a strong high-growth start-up hub, including firms such as Eclipse Automation, Dejero, and Sortable covering a large swath of tech solutions, and adding to established global players in the region. Ottawa-based Shopify announced expansion of Waterloo operations by 300 to 500 staff over the next few years.

Rapid advancement of AI and other software solutions, investment in the region's post-secondary institutions, means KCW should thrive and generate further organic growth and business investment. Growth in the economy and investment in institutions are contributing to high levels of non-residential investment and building permits. Non-residential building permits climbed more than 10 per cent in 2017, maintaining above the decade norm and reflecting both private and public spending. Permits reflect future economic activity, which is supportive of growth in 2018. Current external risks of NAFTA could impact the investment cycle as ICT is largely an export sector, nonetheless, levels are anticipated to remain elevated.

Employment in the KWB is forecast to climb two per cent annually through 2019, outpacing the provincial pace of 1.4 per cent and 1.1 per cent. Barrie employment is expected to level out this year following 2017's outsized gain, owing at least in part to data volatility at the local level. That said, one aspect to consider is that employment estimates are based on place of residence, and regions like Barrie and Guelph are in part relatively affordable bedroom communities to Greater Toronto in the former, and Hamilton CMA in the latter, and inflow of commuting households would be included in local employment counts. In the case of Barrie, roughly a quarter

of employed workers commute outside the local census division for work, aided in part by the GO train network.

Rising population growth has followed these regional dynamics contributing to demand for retail, health and other services, and housing. Population growth in the region is anticipated to decelerate from 2016 but hold steady near 1.5 per year, exceeding the provincial trend. The draw of a low unemployment rate, strong job prospects, and affordable housing will continue to maintain healthy levels of in-migration from other parts of the province and other countries.

Underlying housing demand remains strong, but similar to other markets in the province, growth in 2017 was derailed by restrictive provincial policy early in the year. Sales fell more sharply in both Barrie and Guelph relative to Kitchener-Cambridge-Waterloo, as restrictions to rental markets and non-resident purchasers were felt most in the Greater Golden Horseshoe. However, sales recovered more quickly in these areas. Average home values were up more than 20 per cent for the year but wavered since the policy shift before tracking higher. Residential building permits issued in the region declined in the KCW metro area during 2017 but increased in Barrie and Guelph. Policy changes had little immediate impact on construction and typically lag sales. A modest dip in permit activity is expected this year with the new B-20 rules and rising mortgage rates.

A more subdued housing trend continues through mid-2018 as more stringent mortgage stress test requirements followed by a rising trend given local economic growth and higher wages. Full-year regional sales are expected to decline six per cent. Demographic factors will dominate as the strong population cycle underpins new home demand and economic strength keeps renovation activity solid holding permits at an above average rate of 11,000 units per year. Sales are forecast to rebound in 2019 to 35,000 units per annum, with price levels up a five to seven percent annually partly due to limited listings on the market.

| Kitchener-Waterloo-Barrie Economic Region |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|
|   | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    |
| Total Employment (000s)                   | 704.5   | 710.6   | 706.0   | 723.7   | 738.0   | 755.0   |
| % change                                  | 1.6     | 0.9     | -0.6    | 2.5     | 2.0     | 2.3     |
| Unemployment Rate, %                      | 5.8     | 5.4     | 5.5     | 5.1     | 4.9     | 4.4     |
| Residential Sales, units                  | 28,656  | 32,205  | 35,504  | 35,269  | 33,000  | 35,000  |
| % change                                  | 0.6     | 12.4    | 10.2    | -0.7    | -6.4    | 6.1     |
| Residential Median Price, \$              | 303,260 | 318,087 | 359,178 | 428,623 | 450,000 | 480,000 |
| % change                                  | 6.2     | 4.9     | 12.9    | 19.3    | 5.0     | 6.7     |
| Residential Permits, units                | 9,204   | 9,290   | 12,398  | 10,804  | 11,000  | 11,300  |
| % change                                  | 29.9    | 0.9     | 33.5    | -12.9   | 1.8     | 2.7     |
| Non-Residential Permits (\$ mil.)         | 1,307.9 | 1,254.3 | 1,170.0 | 1,386.7 | 1,280.0 | 1,320.0 |
| % change                                  | 33.1    | -4.1    | -6.7    | 18.5    | -7.7    | 3.1     |
| Population (000s)                         | 1,299.1 | 1,314.4 | 1,338.0 | 1,363.4 | 1,390.0 | 1,416.5 |
| % change                                  | 1.1     | 1.2     | 1.8     | 1.9     | 2.0     | 1.9     |
| Kitchener-Cambridge-Waterloo CMA          |         |         |         |         |         |         |
|   | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    |
| Total Employment (000s)                   | 283.1   | 279.8   | 281.6   | 287.8   | 294.4   | 300.0   |
| % change                                  | 1.5     | -1.2    | 0.6     | 2.2     | 2.3     | 1.9     |
| Unemployment Rate, %                      | 6.4     | 5.9     | 5.5     | 5.1     | 4.6     | 4.5     |
| Residential Sales, units                  | 9,606   | 10,522  | 11,958  | 12,806  | 11,800  | 12,500  |
| % change                                  | -0.3    | 9.5     | 13.6    | 7.1     | -7.9    | 5.9     |
| Residential Median Price, \$              | 294,327 | 308,823 | 329,803 | 401,013 | 440,000 | 470,000 |
| % change                                  | 3.6     | 4.9     | 6.8     | 21.6    | 9.7     | 6.8     |
| Residential Permits, units                | 3,728   | 3,578   | 5,214   | 3,696   | 4,100   | 4,300   |
| % change                                  | 53.4    | -4.0    | 45.7    | -29.1   | 10.9    | 4.9     |
| Non-Residential Permits (\$ mil.)         | 558.6   | 504.5   | 495.8   | 627.1   | 600     | 615     |
| % change                                  | 46.9    | -9.7    | -1.7    | 26.5    | -4.3    | 2.5     |
| Population (000s)                         | 506.3   | 510.5   | 518.7   | 527.8   | 537.5   | 547.2   |
| % change                                  | 0.8     | 0.8     | 1.6     | 1.8     | 1.8     | 1.8     |
| Barrie CMA                                |         |         |         |         |         |         |
|   | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    |
| Total Employment (000s)                   | 111.6   | 108.4   | 104.2   | 115.6   | 117.0   | 119.0   |
| % change                                  | 2.0     | -2.9    | -3.9    | 10.9    | 1.2     | 1.7     |
| Unemployment Rate, %                      | 6.0     | 7.0     | 7.8     | 5.4     | 4.3     | 5.0     |
| Residential Sales, units                  | 5,179   | 5,674   | 6,324   | 5,500   | 5,000   | 5,500   |
| % change                                  | 3.3     | 9.6     | 11.5    | -13.0   | -9.1    | 10.0    |
| Residential Median Price, \$              | 304,037 | 326,428 | 379,626 | 465,452 | 460,000 | 470,000 |
| % change                                  | 7.2     | 7.4     | 16.3    | 22.6    | -1.2    | 2.2     |
| Residential Permits, units                | 1,251   | 840     | 1,178   | 1,590   | 1,300   | 1,300   |
| % change                                  | 38.7    | -32.9   | 40.2    | 35.0    | -18.2   | 0.0     |
| Non-Residential Permits (\$ mil.)         | 232     | 233     | 124.5   | 140.3   | 135     | 140     |
| % change                                  | 39.8    | 0.4     | -46.6   | 12.7    | -3.8    | 3.7     |
| Population (000s)                         | 200.3   | 202.3   | 205.6   | 209.1   | 212.5   | 215.6   |
| % change                                  | 1.2     | 1.0     | 1.6     | 1.7     | 1.6     | 1.5     |
| Guelph CMA                                |         |         |         |         |         |         |
|   | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    |
| Total Employment (000s)                   | 81.8    | 90.5    | 90.6    | 90.8    | 92.0    | 92.5    |
| % change                                  | 2.5     | 10.6    | 0.1     | 0.2     | 1.3     | 0.5     |
| Unemployment Rate, %                      | 6.2     | 4.0     | 4.8     | 5.4     | 5.2     | 5.5     |
| Residential Sales, units                  | 3,391   | 3,913   | 3,831   | 3,777   | 3,600   | 3,700   |
| % change                                  | -4.2    | 15.4    | -2.1    | -1.4    | -4.7    | 2.8     |
| Residential Median Price, \$              | 325,097 | 338,441 | 370,750 | 458,399 | 470,000 | 475,000 |
| % change                                  | 8.7     | 4.1     | 9.5     | 23.6    | 2.5     | 1.1     |
| Residential Permits, units                | 1,124   | 1,479   | 1,281   | 1,344   | 1,400   | 1,380   |
| % change                                  | -4.4    | 31.6    | -13.4   | 4.9     | 4.2     | -1.4    |
| Non-Residential Permits (\$ mil.)         | 177     | 169     | 133.9   | 198.1   | 160     | 165     |
| % change                                  | 10.6    | -4.5    | -20.8   | 47.9    | -19.2   | 3.1     |
| Population (000s)                         | 151.4   | 153.3   | 156.6   | 160.0   | 163.5   | 167.5   |
| % change                                  | 1.2     | 1.2     | 2.1     | 2.2     | 2.2     | 2.4     |

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