Attachment 1
Council Report Attachment

The Economy of York Region

Executive Summary and Overview

Essential Economics Corporation

Community Benchmarks

May 1, 2004

Introduction

Essential Economics Corporation, in association with Community Benchmarks, has been asked to provide a description and analysis of the economy of York Region. The study was undertaken from the perspective of economic development, and it is understood that the Regional Municipality of York intends to use this data and analysis to help craft their economic development strategy.

The descriptive statistics are drawn either directly from Statistics Canada, or are based on Statistics Canada data. Much of the data was specifically tabulated by Statistics Canada expressly for this study. The exact definitions of the variables used are included in the body of the work.

It should also be noted that some of the variables are only available for census years, and hence the most current citation will be for 2001.

In the detailed sections, a wealth of data is presented. It provides a reference resource for York as it conducts its own ongoing analysis. While this study draws forth key descriptive and analytical insight, it does not exhaust the analytical potential.

Executive Summary

The economy of York Region is vibrant and prosperous. York's Gross Domestic Product (GDP) was $33.2 billion in 2002 and grew in real terms at an annual average rate of 6.2 percent between 1991 and 2001. The number of people employed in York reached 387,725 in 2001, a 43.6 percent increase from 1991. The total number of enterprises in York reached 79,600 in 2003, increasing 43.3 percent since 1999. York's enterprises exported $12.5 billion worth of (commodity) exports in 2003. These enterprises also generated $118 billion in revenue and posted $4.8 billion in profit in 2001. In addition, York's total Research and Development expenditures reached $92.5 million in 2001, up 208 percent from 1994.

Five compelling attributes characterize York's economy: Scale, Growth, Diversity, Structural Change and Expertise.

An examination of York's economic scale provides perspective and guidance for development policies.

A discussion of growth provides the context necessary to understand York's economic opportunities and challenges.

The diversity of York's economy demands equally diverse development strategies.

Structural change within the Region's economy means that development initiatives must be flexible and accommodating.

The expertise within York's economy speaks to future prosperity.

Overview

Descriptive Overview

The economy of York Region is of provincial scale. With a Gross Domestic Product (GDP) of $33.2 billion in 2002, the economy of York is larger than that of any of the provinces of Atlantic Canada. Moreover, in real terms, between 1991 and 2001 the York economy grew at an annual average rate of 6.2 percent, compared to 3.7 percent for Ontario, and 4.1 percent for the Toronto Census Metropolitan Area (CMA). Such a high and sustained rate is exceptional by the standards of the mature industrial world.

The growth of employment in York is equally extraordinary. The number of people employed in York reached 387,725 in 2001, a 43.6 percent increase from 1991. The employment increase for the Toronto CMA was 18.1 percent and for Ontario 13.3 percent over the same time period. Clearly, York is one of Ontario's leading regional economies.

The composition of York's employment base also reflects a rapidly adapting economy. For example, if York's knowledge workers are defined as those employed in Professional, Scientific and Technical Services, Information and Cultural Industries, Educational Services, and Finance and Insurance, these workers constitute 27.1 percent of the total employed. In comparison, manufacturing represents only 14.2 percent of the employed.

Consistent with changes in the broad structure of York's economic activity, the number and proportion of workers in Business Services has risen sharply from 1991 to 2001. However, while the proportion of employment in manufacturing fell from 15.2 percent, the absolute number of manufacturing workers rose: this is in sharp contrast to the situation in the United States, where both the number and the proportion are falling.

In addition, the diversified nature of the York economy is readily apparent. An examination at a detailed industrial breakdown (at the 3-digit NAICS level) reveals that the top 20 industries within York represent only 60.2 percent of employment, 18 of the 20 each represents less than 5 percent of the total and 14 of the 20 each represent less than 3 percent of the total.

The top 40 industries still represent only 82.6 percent of total employment, with 18 of the bottom 20 each representing no more than 1.5 percent of total employment.

However, growth in employment did not arise just because existing enterprises increased their work force. The number of enterprises resident in York Region has increased at a startling rate. In June 2003, York had 79,600 enterprises, up 43.3 percent since 1999. The number of enterprises without payroll employees rose a spectacular 67.6 percent.

On the other end of the scale, over the same time period, the number of enterprises with between 200 and 499 employees increased 92 percent; the number of enterprises with 100 to 199 employees increased 53 percent; and, enterprises with over 500 employees increased 42 percent.

As with employment, the industrial composition of York's enterprises has shifted considerably over this four year period. Professional, Scientific and Technical Service Industries rose from 15.4 percent of all enterprises to 18.5

percent in 2003. Finance and Insurance Industries and Manufacturing both fell as a proportion of all enterprises.

An examination of enterprise composition at a broad industrial classification (at the 2-digit NAICS level) also shows a pattern of diversified economic activity. Of the 20 industries into which all enterprises are categorized, only two of them each represent more than 10 percent of all enterprises, while 13 of the 20 each represent less than six percent of all enterprises.

A key factor driving York's growth is its export success. Again, with $12.5 billion worth of (commodity) exports, York operates at provincial scale ─ exporting more than Manitoba or Saskatchewan, or any of the provinces of Atlantic Canada. These exports represent 38 percent of GDP, a value that is on par with Canada's export activity.

While York exports to 117 countries, it is noteworthy that only 84.3 percent of its exports go to the United States, compared to 91.7 percent for Ontario and 86.1 percent for Canada. The next largest destination is the European Union, representing 5.3 percent of York's exports. Japan and China together absorb $357 million in exports, about 2.8 percent of the total. By contrast, only 1.3 percent of Ontario's exports are destined for these two countries.

Even within the United States, York's exports are diversified by destination. With exports going to every state, Puerto Rico, and the U.S. Virgin Islands, no one state represents more than 15.5 percent of total exports to the U.S. Indeed, the 7 most important states for York's exports include the geographically dispersed New York, California, Texas, and Michigan.

The exports themselves are also highly diversified. The top four exports by industry represent 55.7 percent of total exports. And each of the four industries ─ Transportation Equipment Manufacturing, Machinery and Equipment, Computer and Electronic Manufacturing, and Plastics and Rubber Products Manufacturing ─ serve quite disparate markets.

Assuming that York's enterprises reflect the financial performance of the Toronto CMA, the financial scale of York's business activity can be gauged. Business revenues in 2001 reached $118 billion, of which $4.8 billion was profit. The top ranked industry by both revenue and profit was Insurance and Finance. And while Other Wholesale had the second highest revenues, it had only the fifth highest level of profit.

It is well understood that as competitive pressures rise, the prosperity of an economy rests on its ability to adapt and innovate. While statistics on this critical activity are undeveloped, there is data on the amount of formally defined Research and Development (R&D) activity within York. In 2001, total R&D expenditures were $92.5 million, up 208 percent from 1994. Nevertheless, this is a small proportion of either corporate revenues or profit (1.9 percent).

Table 1

Economy of York Region
Key Data Summary

Gross Domestic Product	2002	33.2 billion
Real GDP Rate of Growth	1991-2001	6.3 annually
Employment		
Number	2001	387,725
Rate of Growth	1991-2001	43.6 percent
Enterprises		
Number	2003	79,600
Rate of Growth	1999-2003	43.3 percent
Exports – Value	2003	12.5 billion
Business		
Revenue	2001	118 billion
Profit	2001	3.8 billion
Research & Development		
Expenditures	2001	92.5 million
Rate of Growth	1994-2001	208 percent

Source: Statistics Canada

Analytical Overview

The detailed statistical description of the economy of York Region and a discussion of specific analytical issues are provided in the detail report. However, several analytical themes will underpin these more detailed observations. An introductory discussion of these themes is appropriate.

Scale

The economy of York Region in all its aspects ─ GDP, employment, enterprises, exports, revenues, and profits ─ are large by Canadian standards. This fact alone shapes economic development concerns. While the senior governments must of course assume responsibility for the broader economic environment, the rising volume of activity in York is irrefutably shifting more responsibility for economic prosperity to the regional government.

Since economic development strategy actively involves the general community and the business sector, it becomes important that all participants understand the scale of York's resources. It suggests both the weight that can be brought to bear and the extent of the potential that awaits.

In particular, debate about development policies are best undertaken when the various elements are put into perspective according to the overall magnitude of the variable involved. For example, initiatives that attract employment or retain enterprises must proceed at a minimum level to have a meaningful impact.

Growth

The growth of both employment and enterprises within York is very great, and has both positive and negative impacts. Rapidly growing economies do create their own forward momentum, success feeding on itself. Unfortunately, this can lead to the dangerous assumption that growth is inevitable. Of course, rapid growth generates the resources that support both public purposes and private prosperity. However, that same growth can quickly create conditions that a community has not chosen, does not want, and can not easily reverse ─ traffic congestion is such an example.

In addition, in situations of rapid growth, the marketplace can find itself unable to respond quickly enough, “Silicon Valley” in California is one such example. This condition can create bottlenecks and rising prices. The danger is that growth improperly managed can destroy part of the dynamic that is driving the growth in the first place. In effect, York is “riding a tiger” that requires both careful and emphatic responses.

Diversity

There is no doubt that the economy of York is highly diverse in its composition. And, again, this is true whether from a perspective of employment, enterprises, or exports. The result for economic development is that its policies will have to be equally diverse. There will be few policies easily transferable to all enterprises or industries. The policies that support, attract, or retain Professional, Scientific and Technical Service Industries are unlikely to be the same as those for Computer and Electronic Manufacturing. And policies that support enterprises with no employees are likely to be very different than those for enterprises with more than 500 employees.

Moreover, it cannot be said that one or another industrial sector is of overwhelming importance. Instead, York has many industrial sectors and types of enterprises, each of which is important in its own right. This suggests a complex set of inter-related policies, which may be time-consuming and perhaps contentious. Based on the data, such complicated policies are a necessity.

Structural Change

Added to the challenge of a rapidly growing, diverse economy is the fact that the industrial structure of the economy itself is shifting. Industrial activities, each very different from the other, are shifting in their relative proportion to each other. It is not just that different parts of the economy require different policies, these policies need to accommodate the fact that the sectors are shifting in relative importance. This circumstance raises the possibility that the response for a particular sector could be unintentionally too large or small for the needs involved.

Expertise

The future of the economy of York is directly dependent on its ability to attract and retain highly skilled labour. It appears that York is successfully building its reservoir of talent, for example, in the growth of consultants in the Professional, Scientific and Technical Industries.