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THE ECONOMY OF YORK REGION

The Planning and Economic Development Committee recommends the adoption of the recommendation contained in the following report, December 1, 2004, from the Commissioner of Planning and Development Services:

1. RECOMMENDATION

It is recommended that:

1. This report be received for information.

2. PURPOSE

This report provides Regional Council with a descriptive analysis of the scale and dynamics of the Region's economy and is presented as a companion report to the Draft Economic Strategy.

3. BACKGROUND

As part of the Economic Strategy development process, the consulting firm of Essential Economics Corporation was retained in early 2004 to undertake a research study on the Region's economy. T*he Economy of York Region* provided for the first time an estimate of the size of the Region's economy as measured by Gross Domestic Product as well as an assessment of the scale and diversity of the business structure of the Region.

The descriptive statistics were based on the latest data from Statistics Canada. Some of the data were specifically tabulated by Statistics Canada for this research study.

The Executive Summary and an Overview of the *Economy of York Region* is attached as *Attachment 1*. The full study and statistical tables are on file in the Planning and Development Services Department and is available on request.

4. ANALYSIS AND OPTIONS

4.1 Overview

According to the research study, the economy of York Region is vibrant and prosperous. All aspects of the Region's economy: GDP, employment, number of enterprises, export revenues, and corporate profits, are all large by Canadian standards.

In 2002, York Region's Gross Domestic Product (GDP) was $33.2 billion. Between 1991 and 2001, it grew at an annual average rate of 6.2%. The number of people employed reached 387,725 in 2001, a 43.6% increase from ten years ago. In 2003, there were 79,600 enterprises in York Region, an increase of 43.3% since 1999. The Region's businesses generated $118 billion in revenue and posted $4.8 billion in profits in 2001. Exports accounted for 38% of the Region's GDP in 2003, exceeding the exports of six provinces. In addition, the total Research and Development expenditures reached $92.5 million in 2001, up 208% from 1994.

4.2 Gross Domestic Product

Gross Domestics Product (GDP) is the value of all final goods and services produced in a region. It is the most important indicator of the size of an economy, and is the best measure of a region's economic capability.

In 2002, York Region generated an estimated $33.2 billion in total GDP. The output of York Region is greater than each of the Atlantic Provinces, as illustrated in Table 1:

Table 1
Gross Domestic Product
York Region and Canadian Provinces, 2001

Provinces and York Region	GDP ($ million)
Prince Edward Island	3,474
Newfoundland	14,196
New Brunswick	20,772
Nova Scotia	26,070
York Region	**30,733**
Saskatchewan	33,580
Manitoba	35,294
British Columbia	132,050
Alberta	151,173
Quebec	232,592
Ontario	452,923

Source: Statistics Canada, Essential Economic Corporation, and Community Benchmarks

The size of the GDP suggests that the Region's economy is driven by many factors. Its scale indicates a degree of stability that in the short term, it would require a major event to affect the economy discernibly. On the other hand, effects on an economy of this size will only grow cumulatively over time, therefore economic policies and initiatives must be pursued patiently in order to show results in the longer term.

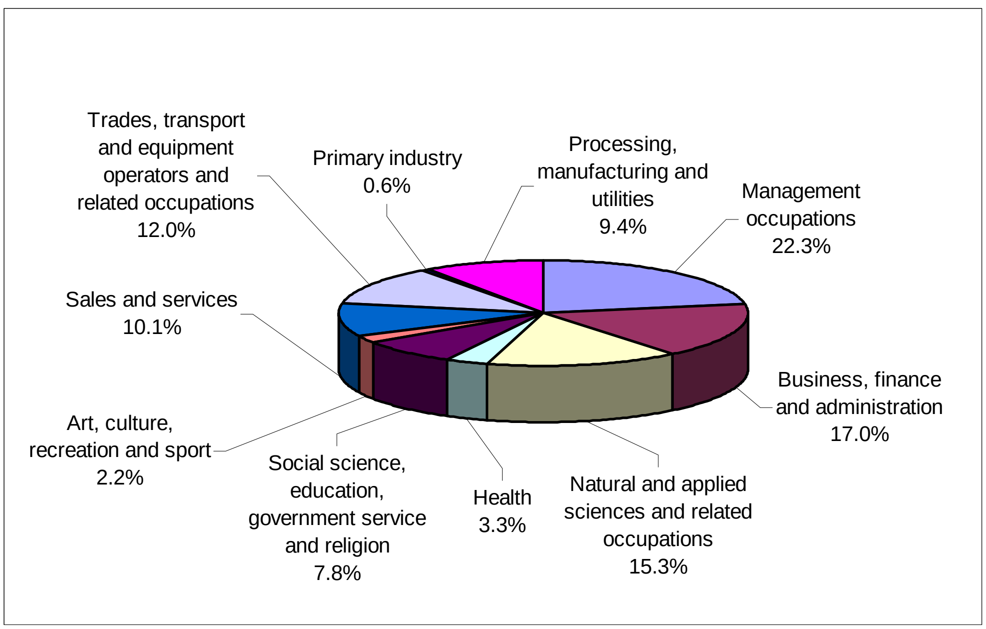
Between 1991 and 2001, York Region's GDP grew 83%, compared with 51% for the Toronto Census Metropolitan Area (CMA), and 44% for Ontario. Since Ontario and Toronto are considered dynamic economies in the North American context, York's rapid growth reflects an economic environment which is strongly supportive of employment and enterprise.

4.3 Employment

According to the latest Census, there were 387,725 people employed in the Region in 2001. Between 1991 and 2001, York's employment grew by 43.6%, and this growth has consistently and significantly outgrown employment in Ontario and the Toronto CMA. The annual average employment growth for York Region was 3.68%, compared to 1.68% for the Toronto CMA and 1.26% for Ontario over the ten-year period. Given the rapid growth of the real GDP, it is not surprising to see such high employment growth in York Region.

An analysis of the employment composition by industry further illustrates the dynamic and diversified nature of the employment base. The top 20 industries in York Region represent only 60.2% of total employment, while 18 out the 20 industries each represents less than 5% of the total. Manufacturing, Retail Trade, and Professional, Scientific and Technical Services account for the greatest proportion of employment in the Region. It is clear from the research that no one sector predominates, a trend that helps to stabilize the Region from cyclical shifts in the national and global economies.

Figure 1
Employment Growth by Occupation
York Region, 1996-2001



4.4 Enterprises

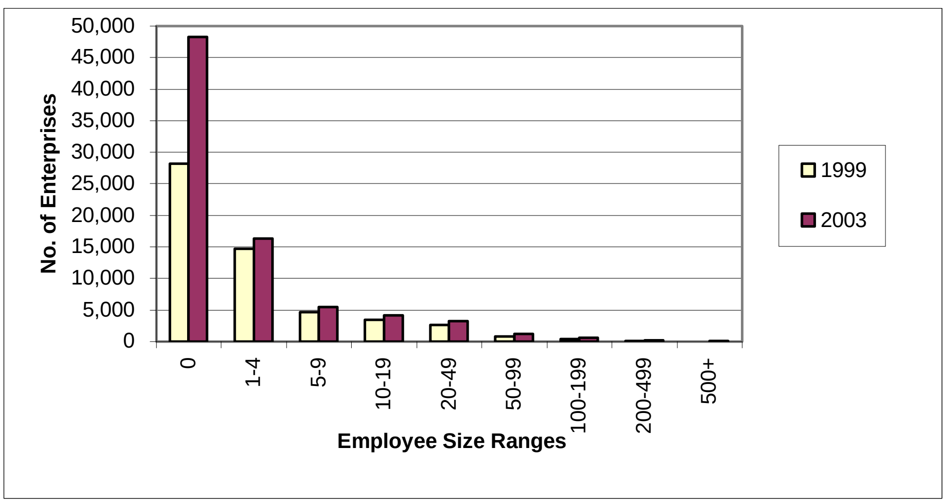
The most comprehensive count of York Region's enterprises is provided by Statistics Canada's *Canadian Business Patterns*, which identifies the number of enterprises by employee size range within an industry. The *Canadian Business Patterns* database is derived from Canada Revenue Agency business numbers and from payroll remittance numbers. This approach is different from the methodology used in the Employment Survey which identifies business establishments by places of work.

Data reveal that York Region had a total of 79,600 business enterprises in 2003, up 43.3% from 1999. It should be noted that the number of enterprises does not reflect those businesses that had less than $30,000 in business revenue and therefore undercounts the total number of business enterprises in the Region.

Small firms are the predominant form of enterprise in York Region, with over 93% of businesses having less than 20 employees each. Of the total number of enterprises, 48,282 had no payroll employees, which implies that these were owner-managed businesses. This is an increase of 67.5% compared to 1999, and clearly demonstrates the entrepreneurial capabilities of the Region's population base.

At the other end of the scale, there is also substantial growth in the number of larger firms employing over 100 employees. Between 1999 and 2003, the number of enterprises with over 500 employees increased by 42%, companies with 200 to 499 employees by 92%, and those with 100 to 199 employees increased by 53%. This rate of growth points to a dynamic and healthy economy, and suggests that the Region has both the ability to attract and accommodate new growing enterprises, as well as foster its own enterprises to expand to higher employee size ranges.

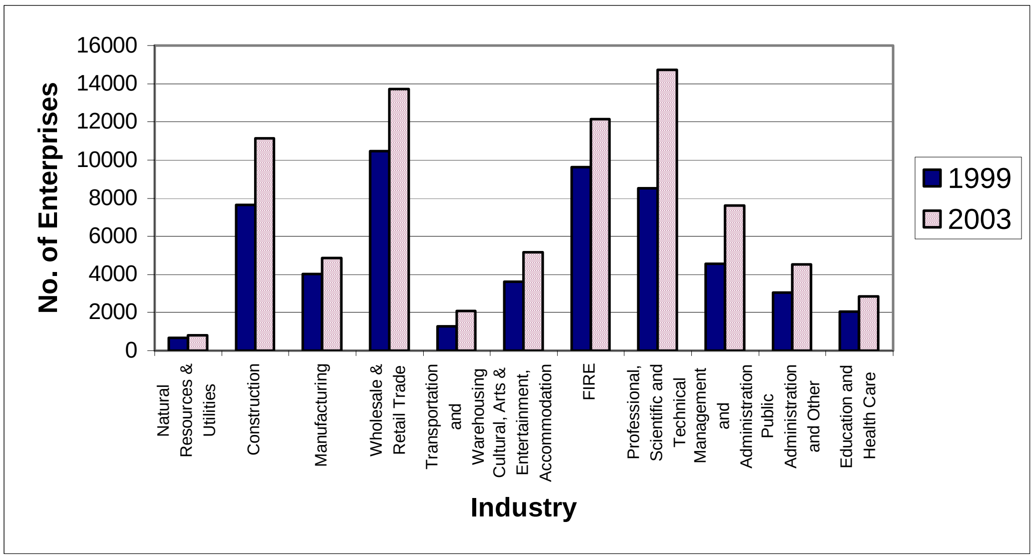
Figure 2
Enterprises by Employee Size Ranges
York Region, 1999 and 2003



The Region's largest share of enterprises is within the Professional, Scientific and Technical Services industries, which accounts for over 18% of all enterprises. The second largest industry category is Construction Industries, accounting for 14% of the total.

York's key enterprise composition trends (i.e. the increase in the number of enterprise without payroll employees, and growth in the number of enterprises within Professional, Scientific and Technical Services) speak well for the Region's economy. These trends reflect York's entrepreneurial potential and its growing inventory of expertise and knowledge-based enterprises. The growth potential of these enterprises and the services they offer are critical to the future economic success of York Region.

Figure 3
Enterprise Distribution by Industry
York Region, 1999 and 2003



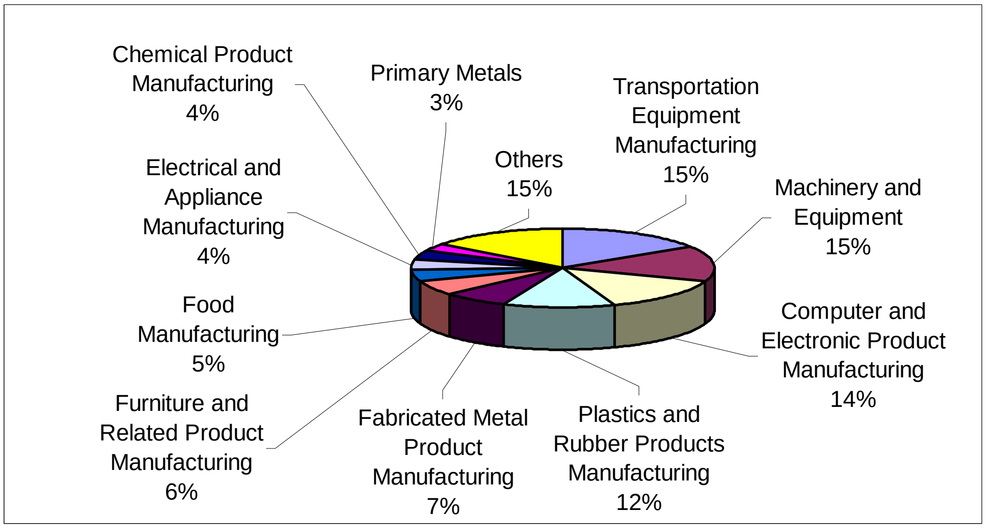
4.5 Export Activity

A key factor driving the growth of York Region businesses is their export success. In 2003, the Region's businesses exported $12.5 billion worth of commodities, representing over 37% of the Region's GDP. Exporting more than Manitoba, Saskatchewan or any of the Atlantic Provinces, its export performance is on par with that of the Canadian economy as a whole.

With commodities going to 117 countries, York Region's export markets are significantly more diversified than other jurisdictions. It is noteworthy that only 84.3% of its exports go to the Unites States, compared to 91.7% for Ontario and 86.1% for Canada. The next largest export destination is the European Union, followed by China and Japan. Within the United States, York Region's exports are diversified by destination with exports going to every state, Puerto Rico, and the U.S. Virgin Islands.

An examination of export activity by industry provides the greatest insight into the Region's export diversity. The top five exporting industries account for only 25% of total exports in York, while Ontario's top five industries account for over 37% of their exports. The Region's export base, unlike many regions in Ontario, is not disproportionately dependent on its leading export industry because of the breadth and balance of its exporting industries. The industry diversity within its export base makes the Region significantly less vulnerable to economic downturns in top performing industries.

Figure 4
Export Activity by Industry
York Region, 2003



With $7.7 billion of exports being transported by roads, the transportation system is indispensable to the prosperity of York Region. Given the importance of exports to the York Region economy, ensuring an efficient road and transportation infrastructure in the Region is therefore an economic priority. In addition, issues such as border crossing congestion also impact York Region companies and threaten the ability to attract and retain investment in industries such as automotive parts where "just-in-time" logistics and integrated supply chain management are critical to continued businesses with U.S. based automotive OEM's.

4.6 Revenues and Profitability

The structure and scale of York's economy can also be measured by the revenue generated by its industries, by showing the extent of the financial flows into York's enterprises. In 2001, York Region enterprises generated an estimated $118 billion in revenue. Enterprises in the Finance and Insurance industries ranked highest contributing over $16 billion in revenue, while the top six industries generated over $5.7 billion each. Economic diversity is clearly indicated by the revenue generated by the top ranked industries, since Service, Manufacturing, and Construction industries are each represented in the top six industries.

One of the best indicators of industry performance is a measure of profitability. While some industries may generate significant revenue, York's economic interests are best served by having profitable industries. In 2001, the enterprises of York Region generated an estimated $4.8 billion in profit. Finance and Insurance industries and Management of Companies and Enterprises industries each generated over $1 billion. The third ranked industry by profit generated was the Real Estate industries, which accounted for $397 million of the Region's profit. Profit performances are affected by many circumstances, from the amount of capital employed to the competitive conditions in the marketplace. This means that each industry faces a distinctive pattern of circumstances, and policy initiatives must understand and acknowledge these differences.

4.7 Research and Development

York Region's enterprises reported only 0.8% of Canada's R&D expenditures, and this level of activity appears to be low compared to the rest of the country. However, it should be noted that a wide variety of factors affect R&D spending such as the nature of specific industries, and that various kinds of R&D activity are not captured at all in the statistics.

An analysis of the trend over time and a more detailed analysis by industry offer more positive insights. From 1994 to 2001, the Region's total R&D spending increased by 208%, with Machinery up 557%, other Electronic Products 161%, total Manufacturing 666%, Computer and Related Services 211%, and Engineering and Scientific Services up 393%. If these rates continue into the future, the Region's total level of R&D spending will improve significantly. The challenge will be to provide the conditions to attract companies and highly skilled technical workers to sustain research and development activities within the Region. Closer linkages to the universities and colleges to stimulate contract research and commercialization potential is an important component of the Region's long-term strategy.

4.8 Implications for Economic Strategy

This research study confirms the findings of the Employment Survey conducted annually by the Planning and Development Services Department. The economy of York Region is dynamic and vibrant. Home to a diversified economic base, it is growing at a rapid rate. At the same time, the Region is evolving towards a knowledge economy. The contribution of growth of jobs in the business services sector to the Region's GDP is becoming increasingly significant. These characteristics offer a useful framework to understand the changes in the Region's economy, and provide a basis for developing new policies and initiatives to guide future economic development. The focus will be to create conditions to support the growth of knowledge-based service sector occupations in the future.

During the Economic Strategy consultation process, there was consensus among the stakeholders that communication and sharing of information is increasingly important in a growing complex environment. York Region's role as a co-ordinator was acknowledged as essential, and some participants have expressed the need for the Region to act as a central information source to provide access to information and resources. This research study has provided valuable information for the Region and its partners to understand the dynamic and changing economy and to plan for their continued success. It is recommended that similar research be undertaken by the Region on a regular basis, and that the findings be incorporated into the economic profile and the virtual information portal for sharing with businesses and other stakeholders.

4.9 Relationship to *Vision 2026*

The descriptive analysis of the Region's economy directly supports the development of the Economic Strategy, which in turn supports the Vibrant Economy goal of *Vision 2026*.

5. FINANCIAL IMPLICATIONS

The cost of this research study was included as part of the approved Economic Development budget for 2004.

6. LOCAL MUNICIPAL IMPACT

An understanding of the economy of the Region as a whole will support economic growth at the local level, and will provide useful information to support local municipal economic development programs.

7. CONCLUSION

The Economy of York Region has provided an assessment of the Region's economic performance and benchmarked it against Ontario and the rest of Canada. This research study has offered a useful framework for the development of the Economic Strategy to guide the Region's future economic development. It is recommended that this report be received for information, and that similar research be undertaken on a regular basis.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is included with this report.)