



HIGHLIGHTS

- In many ways, Toronto's economy skirted the recession that devastated many other urban economies in North America.
- For many Toronto Area families, the recession was not only real, but has worsened during the past year of rebounding real GDP growth.
- Toronto's jobless rate remains elevated, while social assistance caseloads and those on waiting lists for social housing have climbed to new highs.
- These trends are likely to continue over the next few years due to prospects for a sharp slowdown in economic growth and a move to rein in increases in public sector spending, which both tend to hurt low-income earners the hardest.
- Community and charitable organizations will be challenged by an inadequate funding supply to meet heavy demands.

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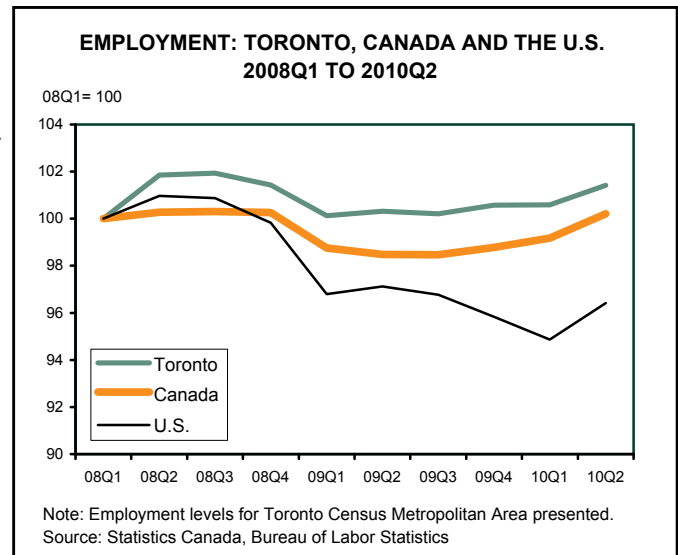
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**TORONTO'S ECONOMIC RECOVERY
LEAVING MANY BEHIND**

The Toronto area¹ economy managed to charge through the recent recession in better shape than most urban economies in North America and has embarked on a solid recovery since the autumn of last year. Real GDP growth in the region is set to reach almost 5% this year, well above the estimated national average rate of 3%. Indeed, without the pull of Toronto – which accounts for an important one in eight jobs in the country – Canada's economic recovery thus far would have been characterized as anemic.

Yet looking behind Toronto's impressive headline numbers reveals a different story. For a sizeable swath of the region's residents, the recessionary conditions have extended into 2010 and – by some measures – even deepened. The jobless rate remains elevated, the number of people receiving social assistance has climbed to new post-recession highs and so too, are the number of people on waiting lists for social housing. Worse, little improvement in these trends can be expected over the next few years in view of prospects for a sharp slowdown

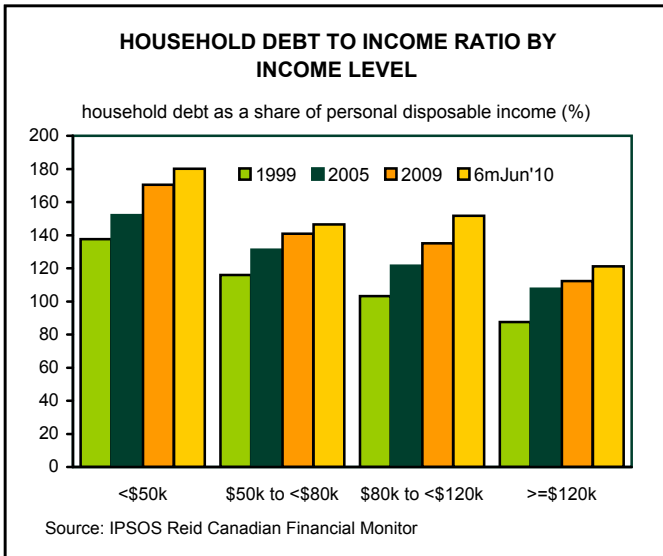
in economic growth and moves by governments to rein in deficits, which tend to hurt low-income earners the hardest. Community and charitable organizations will increasingly be looked at to assist those in need, but will continue to be challenged by an inadequate funding supply to meet heavy demands.



What recession?

The accompanying chart provides a snapshot of Toronto's recent economic out-performance, both during the 2008-09 recession, which extended from the second quarter of 2008 until the second quarter of 2009, and the subsequent recovery.

In many respects, Toronto's economy skirted the recession that devastated many urban economies across North America and the advanced world. While regional economic output fell a significant 3.9% during the one year long downturn, the drop was narrowly concentrated in the export-oriented manufacturing and transportation services sectors, which bore the brunt of the U.S. slump. If these two sectors (accounting for 18% of regional GDP) were excluded from the count, the economy would have been essentially flat over that period.



With manufacturing recording a healthy rebound this year, the economy has been firing on all cylinders. By the second quarter of this year – a mere four quarters after the end of the recession – all of the losses in output and employment had been recouped. Better still, at the midpoint of this year, total personal disposable income stood 6.5% above its recession low point. In stark contrast, during the recovery phase of the 1990s recession, it took more than two years for Toronto region GDP and employment to get back to pre-recession levels.

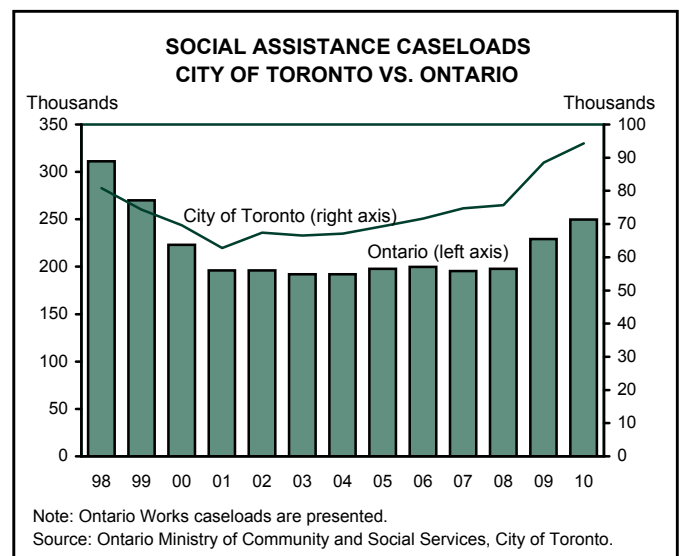
In addition to a heavy dose of monetary and fiscal stimulus, much of Toronto’s recent relative economic success can be traced to its financial services sector. This sector, which drew world attention for its soundness during the financial crisis, has bestowed enormous direct and indirect benefits on the region. During the recession, the broader financial services sector (which includes real estate and leasing) provided direct support to the economy by adding some 40,000 jobs. Indirectly, the strong balance sheets of financial institutions gave them the capacity to keep the lending tap flowing during the downturn. And that fact, combined with near-zero short-term borrowing rates, provided an enormous boost to housing activity and consumer spending. Thus, after only a brief reprieve in 2008, the domestic engines of the Toronto economy revved up.

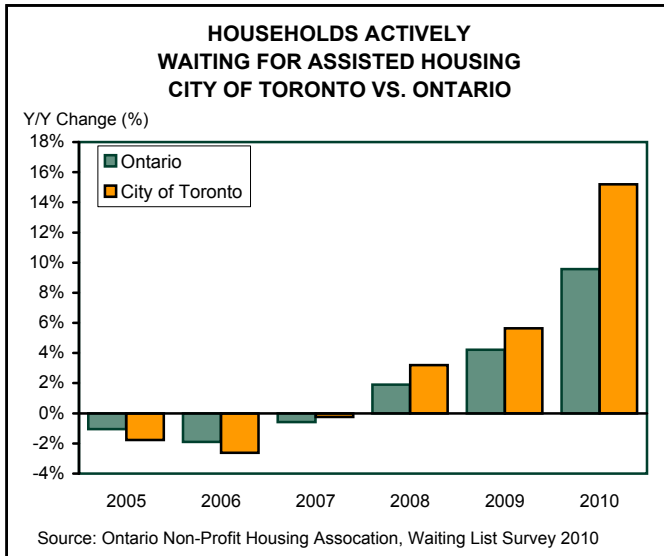
But all is not well in Toronto’s economy ...

The recent resilience of Toronto’s economy has been a surprisingly positive development, especially given the severity of the crisis in its number one trading partner, the United States. Still, this performance masks the fact that for many families in the Greater Toronto Area (GTA), the recession was not only very real, but has worsened during

the past year of rebounding real GDP growth:

- First, despite the 110,000 net new jobs created in the Toronto Census Metropolitan Area since September of 2009, the jobless rate has been stuck in the high range of 9.0-9.5% over the past six months. At about 1.0-1.5 percentage points, the positive spread between unemployment rates in Toronto and Canada has failed to narrow so far this year.
- Even for many of those that have managed to find employment, they have involuntarily taken on part-time jobs (e.g., they are underemployed). More generally, the sizeable shift from full-time to part-time employment in the regional and national job markets over the past few years has been pronounced, implying that underlying conditions in the job market have not been as robust as what meets the eye.
- High debt to income ratios have also worsened over the last twenty years, most notably for those households earning less than \$50,000. In addition, consumer bankruptcy and proposal filings increased nationally by 31% in 2009 relative to the year prior. The number of consumer insolvency filings in the GTA was nearly triple the national average.
- Social assistance dependency has been lengthy during the recession and little improvement has been recorded subsequently. Under high unemployment rate conditions, social assistance program demand has been great as people draw-down their assets and/or exhaust their unemployment benefits and in turn, become eligible for this financial support.





- According to a Ontario Non-Profit Housing Waiting List Survey, the number of households looking for assisted housing across Ontario increased by almost 10% compared to 2009. Almost half of the households on the provincial waiting list were from the City of Toronto, even though it comprises about 20% of Ontario’s population.
- Income trends have shown Toronto growing at a disadvantage and income disparities are widening within the City of Toronto. In terms of median household income, in 2005, the latest data available, the City ranked ninth out of fifteen major Canadian cities and last in the municipalities in the GTA. Also in 2005, the incidence of low-income among families in the City was at a fifteen year high, and was nearly double the rate in Canada, Ontario, the rest of the GTA, and other large Canadian urban cities such as Québec and Calgary. Although these income data are nearly five years old, it is unlikely that income disparities have narrowed since 2005 especially in light of the recent recession.

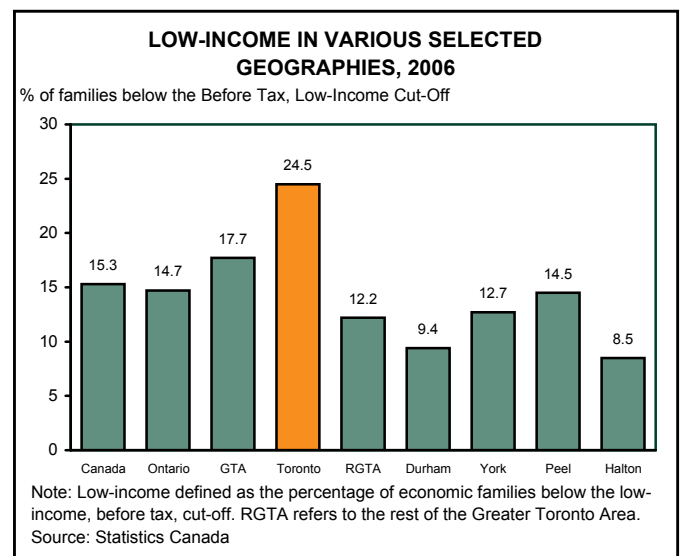
The last two bullets reference the particular struggles of the City of Toronto (the 416 area) relative to the suburban 905 area code warrants some further attention. Notably, the plentiful supply of economic data encompassing the broader Toronto Census Metropolitan Area (CMA) conceals the widening disparity between the City and its neighbouring suburbs. In fact, in the early part of the decade, the City was only one of two major Canadian municipalities (the other being Windsor) to suffer a decline in median income. During this same time, low-income individuals were migrating from areas of the downtown core to the inner suburbs. This general trend is expected to have continued during the recession and early stages of recovery. With City unemployment rates

hovering slightly above CMA rates, the underperformance in employment during the recession and early recovery in the 416 area, implies a further widening in the 416-905 gap has occurred in the past few years.

Little reprieve over the next few years

Looking ahead, little improvement in the jobless rate is anticipated. In addition, significant demand for social assistance and social housing can be expected over the medium-term. One looming challenge to progress is the prospect of a substantial downshifting in the rate of economic growth to the 1.5-2.0% range in the Toronto region over the next 4-6 quarters and only a moderately stronger performance in 2012. While a slowdown in growth as a recovery matures is natural, Toronto’s economy will face unusual pressures from ongoing softness in the U.S., a downturn in local housing activity, and a high level of consumer indebtedness. Lastly, the benefits of government stimulus are not only waning but a near-term shift to public-sector fiscal restraint appears almost certain, weighing on both output and employment prospects for the region.

Complicating the challenge of unemployment is the existence of a number of lingering structural challenges. Roughly one in two Torontonians are foreign-born, which adds to the region’s racial and ethnic diversity. However, challenges with foreign credential recognition and language represent major barriers to newcomers’ integration into the job market. In fact, a new report released by the Community Foundations of Canada suggests that recent immigrants were hit hardest by the 2008-09 recession. In particular, newcomers with a university education were four times more likely to be unemployed in 2009 than native Canadians. What’s



more, much of Toronto's past prosperity has come from a thriving and high-paying manufacturing sector. But a mix of a lofty Canadian dollar, relatively high energy prices and increased competition from developing markets has dealt a competitive blow to the income-generating potential of this sector. By 2012, manufacturing's share of total employment in Toronto is expected to climb back up to 12%, but will remain a far cry from its recent peak of 16% almost eight years ago. Service sector job creation has taken up the slack, but a sizeable share of these new jobs has been in lower-wage industries. This dramatic shift in the industrial composition and population demographics is being manifested to some extent in a growing mismatch of skills, a longer duration of unemployment and/or increasing problems with skills atrophy.

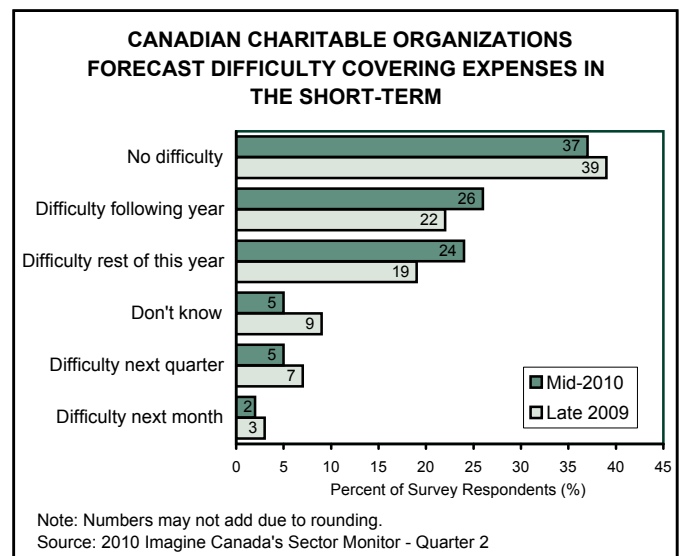
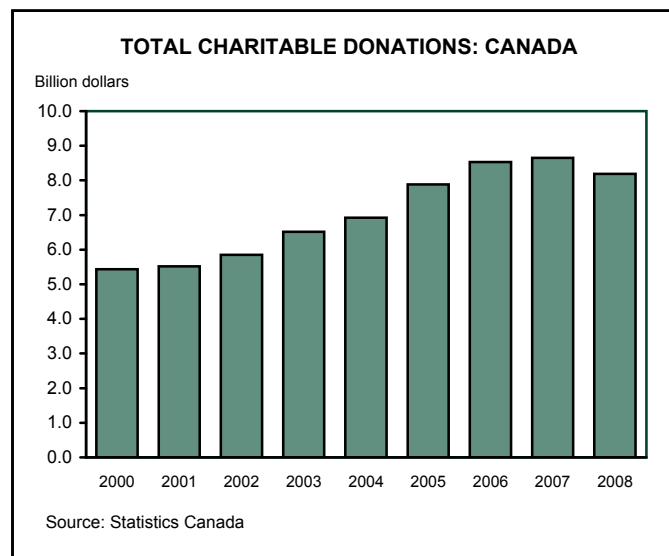
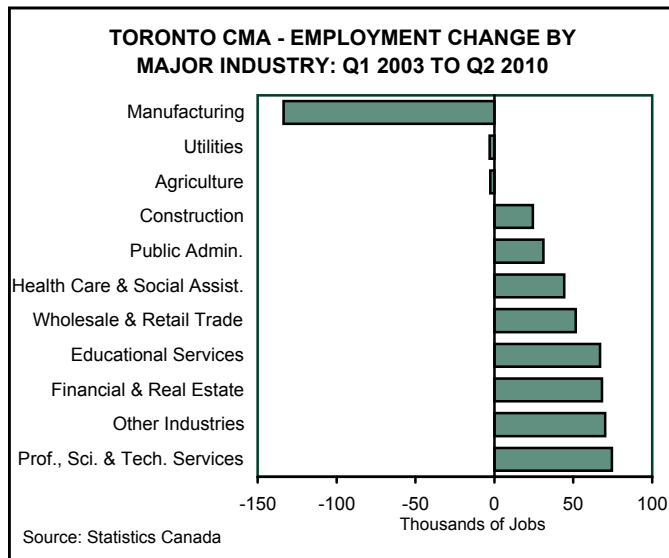
In light of these factors, we project Toronto's unemploy-

ment rate to hold above 9% on a trend basis in the near term and to slip to a still-lofty 8.5% by the end of 2012. In this environment, the number of individuals and families receiving social assistance and those on waiting lists for social housing will probably continue to drift up in the short-term and will remain elevated through 2012.

As noted at the outset, how governments manage deficit fighting over the next few years will have important implications for the most vulnerable, since these individuals rely heavily on government transfers. In the mid-1990s, governments undertook severe restraint measures that involved steep cuts in transfers and tightened qualification criteria for provincial social assistance programs and federal unemployment benefits. Although these policy changes helped to keep a lid on increases in social assistance caseloads and unemployment benefits dispersed, poverty rates more than doubled in the years leading up to and following the 1990s recession. This time around, governments plan to take a go-slow approach to restoring fiscal balance, which will provide more flexibility but could lead to a more drawn-out period of fiscal restraint.

Big job ahead for region's community groups and charities

Regardless of the pace of deficit reduction, what is clear is that reduced government spending growth will likely spill over to community groups that rely on public grants and put more pressure on charitable organizations to fill the gap. Based on the latest data available for charitable giving, overall donations in Canada fell to four-year lows in 2008, just as the recession was beginning to take hold. According to a 2010 Imagine Canada Survey of 1,500 charitable organizations and community groups, more than





half are experiencing increased demand for their products and services and/or difficulty fulfilling their mission this year when versus last year.

Some charities, such as the United Way Toronto, still managed to reach their targets last year, owing to large donations from the business sector. The challenge for fundraising campaigns taking place in the year ahead is that these drives will coincide with economic growth downshifting. As such, the gap between the demand for charitable financial assistance and its supply could continue to widen significantly.

The Bottom Line

Putting it all together, Toronto displayed an impressive showing during a recession that devastated many other urban economies. For many families, however, the recession was

real and has worsened during the past year of rebounding real GDP growth. In particular, the Toronto area jobless rate remains elevated and social assistance and social housing programs are in great demand. These trends are expected to continue in the short-term in view of prospects for a sharp slowdown in economic growth and moves by governments to rein in deficits. Reduced public spending growth will put more pressure on community and charitable organizations to assist those most in need. As many of these organizations are experiencing increased demand for their products and services, fall fundraising campaigns will be looked at to help fill the funding gap.

Endnotes

- 1 Statistics Canada defines the Greater Toronto Area (GTA) region as the City of Toronto and the surrounding regions of Durham, Halton, Peel and York and their constituent municipalities. Much of the data available through Statistics Canada, however, are for the Toronto Census Metropolitan Area (CMA) region. The Toronto CMA excludes the GTA municipalities of Burlington, Oshawa and a few others, but also includes three non-GTA municipalities in Simcoe and Dufferin Counties. The differences in the municipal composition of both the GTA and the Toronto CMA are sufficiently small. As a result, Toronto CMA data are used as a good proxy for economic activity in the GTA.

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