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The Regional Municipality of Durham
Information Report

From:	Commissioner of Finance
Report:	#2024-INFO-53
Date:	September 6, 2024

Subject:

Economic Update - Geopolitical Uncertainties Offset Rising Hope as Interest Rates and Inflation Fall

Recommendation:

Receive for information.

Report:

1. Purpose

1.1 This report updates Regional Council on the economic environment, as monitored by the Finance Department, including key economic indicators and their impacts on the local economy and Durham Region programs.

2. Bank of Canada Interest Rate Decrease

2.1 On September 4, 2024, the Bank of Canada (BOC) lowered its overnight interest rate by 25 basis points to 4.25 per cent, continuing a path of easing monetary policy and balance sheet normalization. This builds off the previous two interest rate announcement meetings on June 5, 2024 and July 24, 2024, when the BOC began this easing cycle with 25 basis point rate cuts at each meeting.

2.2 The BOCs decision was supported by evidence of inflation continuing to ease gradually, coupled with weak household spending and signs of slack in the labour market as evidenced by the unemployment rate increasing to 6.4 per cent recently. The softness in the labour market combined with the BOC anticipating a slowdown in population growth over the medium term contributes to their expectations of a slowdown in potential output growth in Canada, further supporting the latest rate cut.

2.3 In the United States, the anticipated economic slowdown is materializing with consumption growth moderating as well as government spending easing. The US Federal Reserve (The Fed) has signalled that it is ready to cut interest rates, likely at its next meeting in mid September, but questions remain on the speed and magnitude.

2.4 As noted in section seven, there are several risks to the outlook for economic growth and inflation which the BOC will be monitoring to inform future rate decisions, namely:

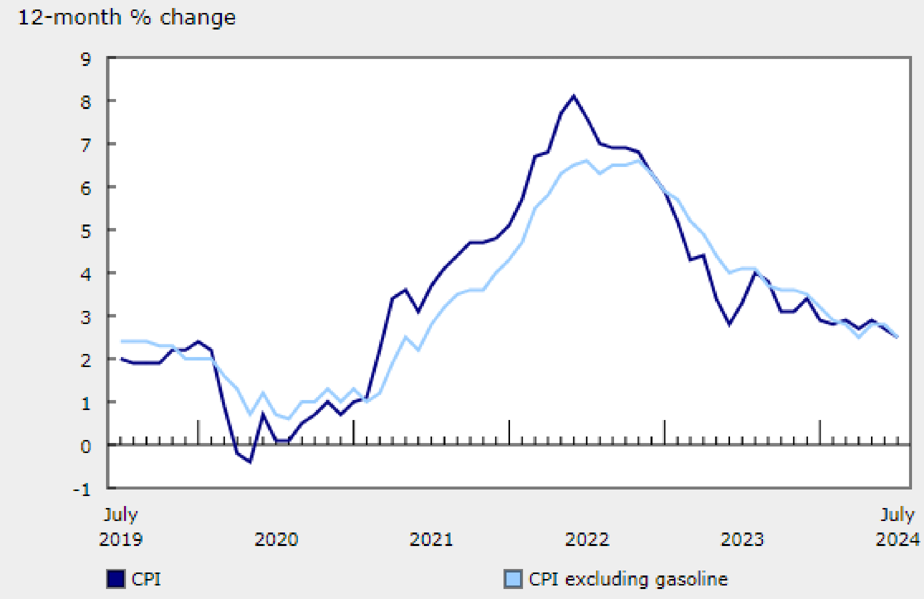
a) How the housing market responds to the previous rate cuts as well as expectations about rates continuing to decrease.
b) Persistently strong wage growth and weak productivity could lead to persisting pressures in the prices of services. Currently, disinflation in goods prices is offsetting upward pressure in service prices.
c) Global health challenges, namely the global spread of Mpox as well as lingering COVID-19 impacts.
d) New government restrictions on non-permanent residents are intended to curb population flows in the coming months, which could act as a headwind for reduced spending and output.
e) Geopolitical tensions impact on global trade and general economic stability.
f) The US Federal election and the potential impact on Canadian trade and foreign direct investment.

3. Inflation

3.1 Statistics Canada released its July update on Consumer Price Indices on August 20. Canada's Consumer Price Index (CPI) rose 0.4 per cent (+0.3 seasonally adjusted) from the previous month and 2.5 per cent compared to July 2023. One notable soft spot was recreation, with the cost of travel services rising about half the seasonal norm.

3.2 Some thematic softness in discretionary items may be emerging, consistent with consumers' ongoing struggles. Shelter saw its smallest increase in 17 months, as rent growth remained subdued and a small acceleration in mortgage interest cost was offset by lower home prices.

Chart 1: Consumer Price Index
12-month per cent Change
July 2019 – July 2024



Source(s): Table 18-10-0004-01.

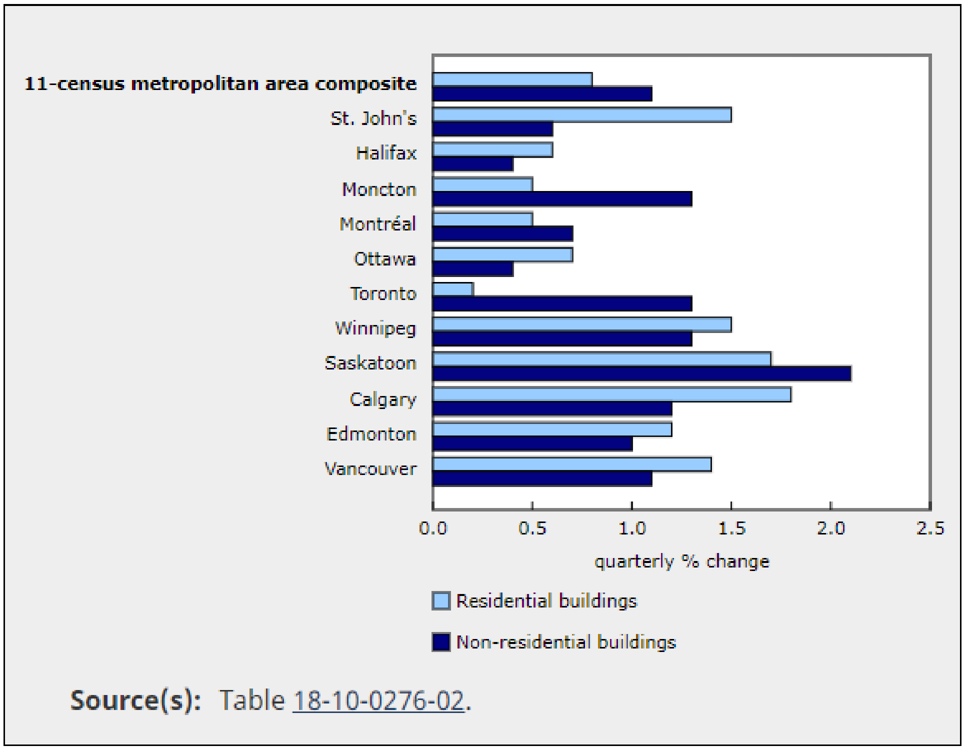
3.3 The July CPI report gave the BOC confidence to continue its easing path at its September 4, 2024 meeting, given that inflation continues to drift towards target. Rate cuts are expected to continue as inflation continues to move toward two per cent and the economy sports a sizeable output gap.

3.4 Statistics Canada released its second quarter Building Construction Price Indices (BCPI) on July 30, 2024. Residential building construction costs increased 0.8 per cent in the second quarter, following a 1.0 per cent increase in the previous quarter. Non-residential building construction costs rose 1.1 per cent in the second quarter, following a 1.0 per cent increase in the previous quarter, as detailed in section four.

3.5 The growth in residential building construction costs continued to abate in the second quarter. Toronto (+0.2 per cent) experienced the smallest increase in residential construction costs throughout the quarter.

3.6 Year over year, construction costs for residential buildings in the 11-census metropolitan area (CMA) composite rose 4.2 per cent in the second quarter, while non-residential building construction costs saw an increase of 4.3 per cent.

Chart 2: Building Construction Price Indices
By CMA: Residential and Non-Residential
2024 Q2



3.7 Skilled labour shortages and the resulting increases in labour rates, interest rate pressure and building code updates were all reported as key factors impacting the construction sector in the second quarter.

4. Commodity and Fuel Prices: Volatility and Cost Risk

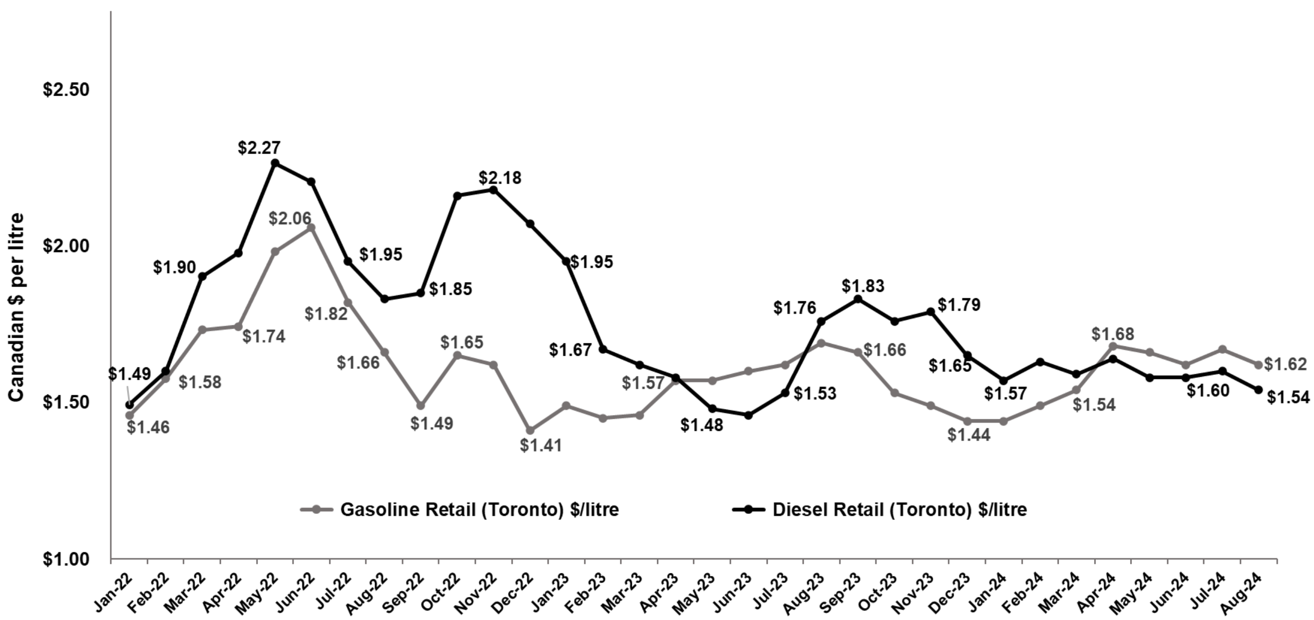
4.1 Fluctuating commodity and fuel prices have direct implications for Regional program areas, since they are largely driven by North American and global markets, beyond the direct control of the Region. The following provides trends and context for fuel and other commodity pricing deemed most relevant to Regional operational and capital planning.

4.2 In terms of Regional fuel usage, gasoline is utilized by transit, paramedic, and police fleets, as well as a portion of the Region's Works' depots. Diesel is the Region's primary fuel for transit, Works' depots and is a stationary fuel utilized at the Duffin Creek Water Pollution Control Plant. Natural gas remains the primary fuel for the Region's space and water heating needs and is also used in solid waste and wastewater processing facilities.

4.3 After Toronto Benchmark average monthly pricing for regular gasoline and diesel peaked during the Covid pandemic at $2.06 per litre and $2.27 per litre, respectively (in May/June 2022), average monthly prices were recently recorded back close to the range of pricing seen prior to these peaks during the first quarter of 2022 (when regular gasoline averaged $1.59, and diesel averaged $1.67 per litre). August 2024 pricing was recorded at $1.62 per litre for regular gasoline and $1.54 per litre for diesel.

4.4 Despite this relief for consumers, regular gasoline and diesel prices remain higher than comparable August 2021 pricing by 18 per cent to 20 per cent respectively. While retail fuel prices are anticipated to continue to weaken with slowing economic growth, geopolitical tensions and risks are heightened and could have significant inflationary impacts. Any worsening of regional conflicts abroad, labour disruptions, or climate events such as wildfires in Canada or abroad, could affect global oil, retail fuel, commodity and food prices, supply chains, and inflation.

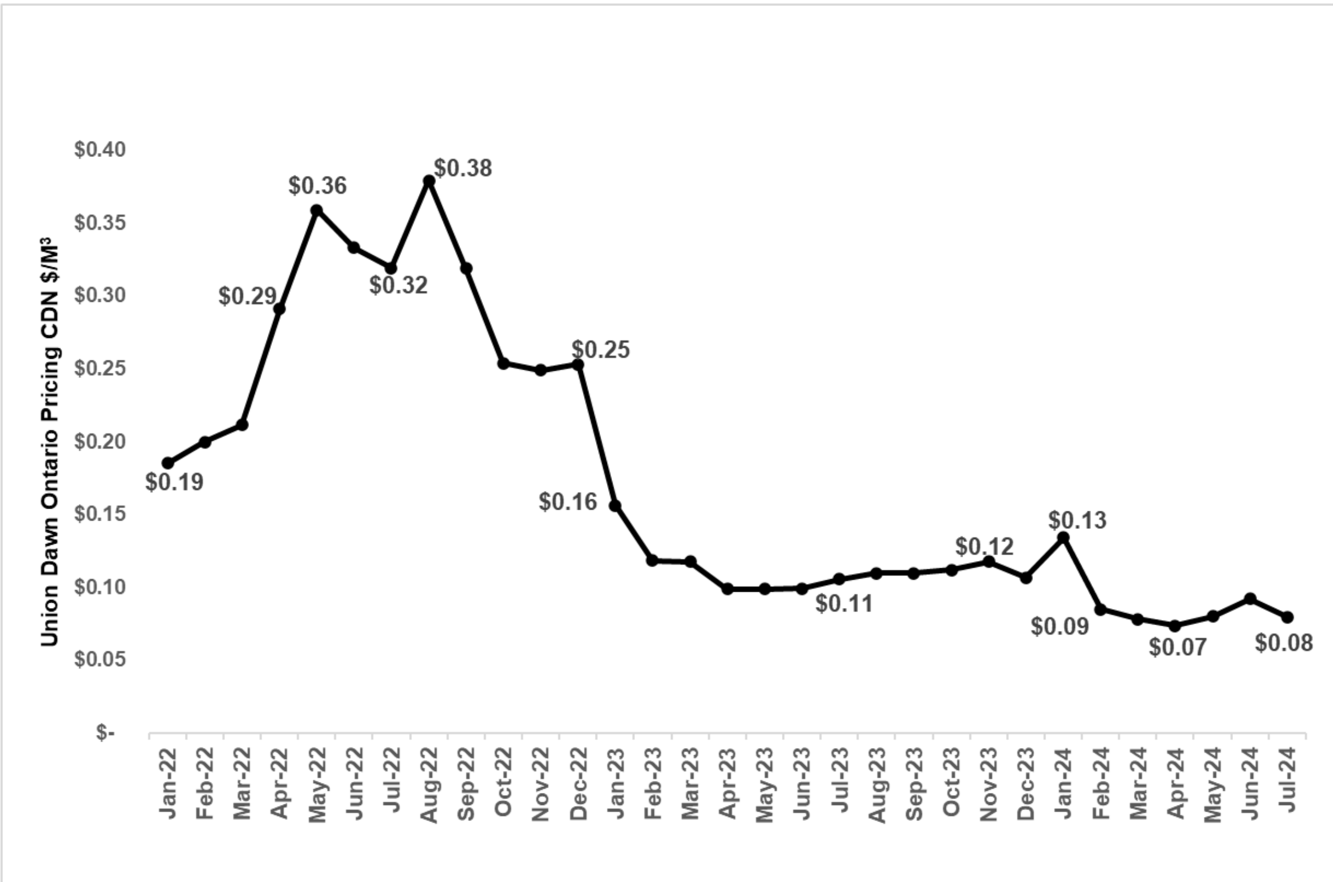
Chart 3: Diesel and Regular Gasoline
Toronto Benchmark Monthly Averages
CDN $/litre from January 2022 – August 2024)



Source: Natural Resources Canada

4.5 Chart 2 below demonstrates, based on historical data compiled by Sproule Holdings Limited, that Union Dawn hub (Ontario) natural gas prices have decreased 75 per cent in the 24 months, since July 2022, and 24.4 per cent in the 12 months since July 2023, to a level of eight cents per cubic meter for July 2024 (natural gas supply costs only - excludes pipeline transportation tolls and other distribution charges). The drop in pricing for this commodity reflects U.S. production surpassing demand growth, high storage inventory and warmer weather in the last couple of winters, which reduced demand. The 2022 spike was related to several factors, including market impacts from Russia's war on Ukraine, soaring European prices and higher Liquid Natural Gas (LNG) exports which drew down North American inventories.

Chart 4: Monthly Average Natural Gas Prices
(Union Dawn Ontario Price CDN $/cubic meter ($M^3$))



Source: Sproule Holdings Limited, July 31, 2024

4.6 The Statistics Canada Industrial Product Price Index (IPPI) measures price changes for products manufactured in Canada. It reflects 22 industrial product price categories. Chart 5 below demonstrates year-over-year changes in industrial product pricing in manufacturing, industrial processes, and construction between July 2023 and July 2024.

4.7 Industrial product prices affect Regional material processing and construction costs but can also impact Regional revenues. For example, in 2023 the Region collected just under $1.0 million in ferrous (consisting of iron content) and non-ferrous sales revenues for metals recovered and recycled from solid waste processing. These annual ferrous and non-ferrous revenues ebb and flow, depending upon market prices, disposal volumes collected and metals recovery rates, and have fluctuated from under $300,000 to just over $1.0 million, dependent upon market conditions.

Chart 5: Statistics Canada Industrial Product Price Index Price Levels by IPPI Product Category (July 2023 to July 2024)

Product Category	IPPI Price Index July 2023	IPPI Price Index July 2024	Yr over Yr %
Primary Ferrous Metal Products	148.1	140.3	-5.3%
Primary Non-ferrous Metal Products	137.8	159.4	15.7%
Lumber & Wood Products	128.4	120.9	-5.8%
Energy and Petroleum Products	134.4	136.4	1.5%
Fabricated Metal Products & Construction Materials	140.8	139.4	-1.0%
Cement/glass/non-metallic minerals	125.8	136.6	8.6%
Electric/electronic/audiovisual/telecommunication Products	127.9	134.9	5.5%
Machinery & Equipment	116.8	121.1	3.7%
Chemicals and Chemical Products	117.1	123.2	5.2%
Packaging Materials and Containers	128.7	131.5	2.2%
Total Industrial Product Price Index	**124.3**	**127.9**	**2.9%**

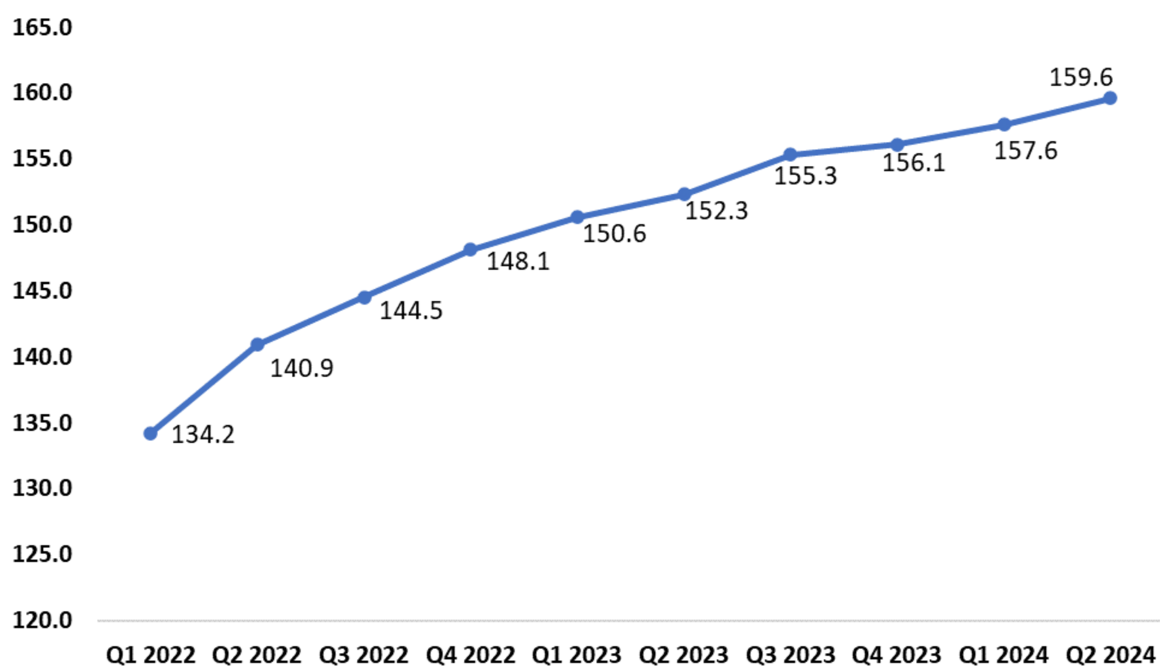
Note: January 2020 = 100
Data Source: Statistics Canada, Table 18-10-0268-01, August 21, 2024

4.8 The total IPPI index reached a high of 132.7 in May of 2022, amid the Ukraine war, and supply shortages and disruptions (IPPI base year January 2020 = 100). While each commodity reflects its own market supply and demand characteristics, by July 2024 the overall IPPI had fallen by almost four per cent from the 2022 peak. Within the basket of products however, there remain significant price increases and decreases over the same period. For example, since May of 2022, chemical and lumber/wood products have seen monthly average price declines of 9.3 per cent and 35.3 per cent respectively. Meanwhile, cement/glass/non-metallic minerals and electrical/audiovisual/telecommunications product prices continued to rise beyond the 2022 peak, rising 23.8 per cent and 12.0 per cent respectively between May 2022 and July 2024.

4.9 The Statistics Canada non-residential building construction price index is a pricing benchmark for overall construction cost changes, estimating overall construction contractor cost changes compared to the 2017 base year (index base 100). The index includes materials, labour, equipment, overhead, and profit necessary to construct a new building (it excludes sales taxes, land acquisition, assembly, and development, building design, and real estate fees). The index is based on a basket of six non-residential structures: office building, warehouse, shopping centre, factory, school, and bus depot (with maintenance and repair facilities).

4.10 Chart 4 below, provides the Toronto CMA composite non-residential building construction price index since the first quarter (Q) of 2022. Toronto is one of the 11 large CMAs across Canada for which the calculations and national composite index are tallied. The Toronto non-residential construction building cost index, at the end of the second quarter 2024, had increased 18.9 per cent since the first quarter of 2002, although the average increase since the first quarter of 2023 was only an average of 1.3 per cent quarterly, as inflation subsided, and supply chain issues continued to be addressed. Statistics Canada noted key factors still impacting the construction sector in the second quarter of 2024, include skilled labour shortages and resulting labour rate increases, interest rate pressures and building code updates which add to cost.

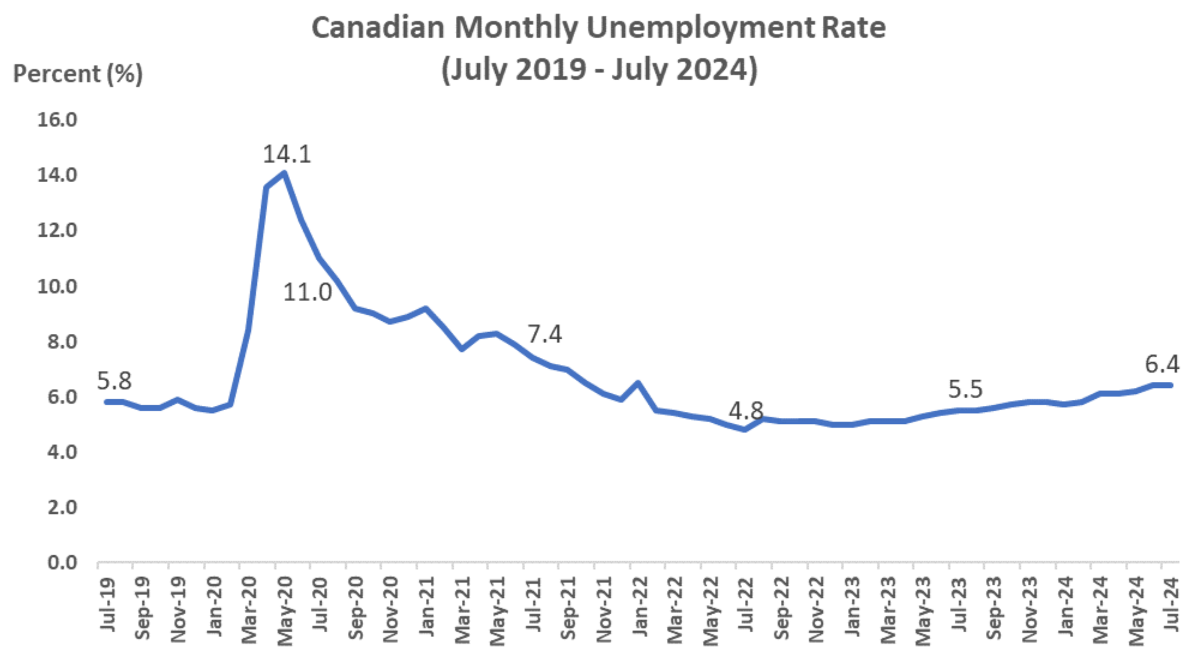
Chart 6: Statistics Canada, Non-residential Building Construction Price Index
Toronto, Ontario CMA
(Quarterly Increases Q1 2022 to Q2 2024)



Data Source: Statistics Canada, 18-10-0276-01, July 30, 2024

5. The Labour Market

5.1 The unemployment rate in Canada increased to 6.4 per cent in June 2024 and remained at that level for July 2024, sitting 0.9 percent higher than July 2023 (when it was 5.5 per cent). Since the Covid pandemic peak in the unemployment rate of 14.1 per cent in May 2020, Canada's unemployment rate has come within the range of historical pre-covid levels as shown in the chart below.



Source: Statistics Canada. Table 14-10-0287-01, Labour force characteristics, monthly, seasonally adjusted and trend-cycle, released August 9, 2024.

5.2 In July 2024, there was decreased employment in the trade, finance, insurance, real estate, rental, and leasing sectors, but with offsetting increases in employment for public administration, transportation, warehousing, and utilities.

5.3 Immigrants that arrived in Canada within the last five years have seen a significant jump in their unemployment rate for July 2024 compared to 12 months prior, demonstrating newer immigrants are struggling more to find work. According to Statistics Canada, recent immigrants (arriving five years ago or less) had an unemployment rate of 12.6 per cent in July 2024 compared to 9.5 per cent for July 2023. This increase was most notable for recently arriving immigrant youth, with their unemployment rate reaching 22.8 per cent in July 2024, up 8.6 percentage points from July of 2023. Meanwhile, immigrants that arrived beyond five years ago, along with people born in Canada, moved from an equal unemployment rate of 5.1 per cent in July 2023, to unemployment rates of 6.3 per cent and 5.6 per cent, respectively in July 2024.

5.4 In terms of Canadian labour force participation, Statistics Canada noted: “Although the aging of the baby boomers has put downward pressure on labour force participation rates over the years, the most recent year-over-year decline in July 2024 reflected declines among young men (- 2.5 percentage points to 62.4 per cent), young women (-1.3 percentage points to 63.5 per cent) and core-aged women (-1.0 percentage point to 84.6 per cent).”

5.5 Ontario gained employment in July 2024 with an increase of 22,000 jobs provincially and a resulting unemployment rate decrease of 0.3 per cent (7.0 per cent in June 2023 falling to 6.7 per cent for July 2024). Locally, Statistics Canada recorded an unemployment rate of 6.6 per cent for the Oshawa Census Metropolitan Area (CMA) in July 2024, 0.1 per cent below the provincial level.

5.6 Average hourly wages among employees increased 5.2 per cent year-over-year in July 2024, or by $1.73 per hour, reaching an average Canadian hourly wage of $34.97 per hour.

6. Housing Trends

6.1 On August 6, 2024, the Toronto Regional Real Estate Board (TRREB) reported that Greater Toronto Area (GTA) home sales in July 2024 had increased compared to July 2023. TRREB reported 5,391 home sales in July 2024, which represents a 2.7 per cent increase compared to 5,250 sales reported in July 2023. While sales were up from last year, homebuyers continued to benefit from more choice in the GTA marketplace, with annual growth in new listings exceeding sales. New listings amounted to 16,296, which represents an increase of 18.5 per cent year-over-year.

6.2 Current market supply conditions brought some relief in selling prices on average. Average resale home prices decreased by approximately five per cent on a year-over-year basis in July 2024. The average selling price of $1,106,617 was down by 1.1 per cent over the July 2023 price of $1,118,374. On a seasonally adjusted monthly basis, average selling prices increased slightly compared to June 2024.

6.3 Moving forward, home sales may begin to trend upward, as the cost of borrowing is anticipated to decline further in the coming months, with three Bank of Canada rate cuts already announced this year.

Table 1 - Toronto Regional Real Estate Board:

Summary of Select Existing Home Transactions

(All Home Types – Average Price in Canadian $)

	Year-over-Year		Monthly Changes			
	23-Jul	24-Jul	Apr-24	May-24	24-Jun	24-Jul
Durham	961,852	915,636	943,840	954,942	961,852	915,636
York	1,356,977	1,305,476	1,326,533	1,340,032	1,356,977	1,305,476
Peel	1,079,553	1,065,043	1,106,045	1,071,480	1,079,553	1,065,043
Halton	1,255,713	1,246,352	1,297,545	1,271,115	1,255,713	1,246,352
Toronto	1,066,184	1,087,436	1,152,200	1,193,202	1,066,184	1,087,436

6.4 Table 1 provides GTA municipalities' year-over-year price changes for resale homes. Prices in July 2024 decreased in 4 of 5 GTA Regions, with only the City of Toronto experiencing a year-over year average price gain (2 per cent). Durham (-4.8 per cent) and York (-3.8 percent) saw the largest year-over year average price decreases. After Durham Region's housing resale pricing peaked at $1,175,010 in June of 2022, Durham's July 2024 average price is now 22.1 per cent lower, despite increasing average resale prices between April and July 2024.

6.5 According to Canada Mortgage and Housing Corporation (CMHC), Durham housing starts increased by 23.2 per cent year over year for the period January to July, 2024 (3,141 compared to 2,549). The City of Pickering led housing starts over this period with over 1,500 starts (of which the majority were apartment dwellings). The City of Pickering had 1,533 new housing units by the end of June 2024, which is 350 more than its Provincial housing target. Pickering is one of just two municipalities in the province (the Town of Oakville is the other) to hit provincial housing targets before the year was half over.

6.6 Senior governments are currently rolling out initiatives to spur new housing development. On August 25, 2024 the Federal Government launched the Canada Public Land Bank, which is an inventory of federally-owned properties across the country that the government has identified as being able to support new housing development. Currently, 56 federal properties have been identified. This is the first step of the Public Lands for Homes Plan that the federal government committed to in Budget 2024.

6.7 However, rather than selling the properties to builders, which has traditionally been the model, the Government of Canada will instead be making the properties available via long-term leases, allowing the government to retain some control over the land and its uses, such as ensuring a certain level of affordability.

6.8 The Federal government is also hoping to improve the efficiency of the Canada Lands Company, the self-financing Crown corporation that develops excess federal land. As per Budget 2024, the government will evolve and adapt the mandate of Canada Lands Company to allow the organization to deliver housing solutions more quickly under the new Public Lands for Homes Plan. This will include "accelerating its real property disposal process to match the speed of builders and the urgency of getting affordable homes built for Canada."

6.9 In addition, as announced at the 2024 AMO conference, the Ontario government is releasing a new set of land-use planning rules for municipalities, which is intended to provide more tools and flexibility to achieve housing targets and respond to local challenges and be reflective of local priorities. The new Provincial Policy Statement, which will take effect on October 20, 2024, seeks to simplify and unify previous land use planning policies into a single, housing-focused framework designed to accelerate the development of homes in Ontario. This new policy statement emphasizes making land available for development, aligning infrastructure with housing needs, and safeguarding the environment and agricultural lands.

7. Risks, Uncertainties and Potential Volatility

7.1 The Region in recent years has faced significant operational and capital cost inflation, post-covid labour and supply shortages, and higher debt interest charges, which have significantly impacted Regional programs, services, contracts, and construction projects. While these pressures have subsided considerably since the inflationary peaks and supply issues of 2022, there remains both lagging impacts and considerable risk in the near term as Canada (and the world) transition to a slower economy, and as fears increase related to the potential for economic shocks, risks related to climate change impacts, a greater than anticipated downturn and/or further heightening of geo-political tensions.

7.2 In the Ontario Government’s report on its first quarter 2024 finances, the province highlighted several uncertainties the province continues to monitor, including:

- Declining private-sector expectations for Canada’s real GDP.
- Still elevated interest rates despite recent modest declines.
- Heightened economic and geopolitical uncertainty that could significantly impact the province’s outlook.

7.3 The Ontario First Quarter 2024 Finances report notes, “…despite the resiliency of Ontario’s economy so far in 2024, the province is not immune to any potential economic slowdown, which is why the government will continue with a responsible approach to public finances through these uncertain times.”

7.4 The Bank of Canada’s most recent Monetary Policy Report, released July 24, 2024, also noted several risks to their economic outlook, including:

- Increased political uncertainty in many of the world’s largest economies, based on recent and future elections that could result in shifts in economic policy that could affect outlooks for economic growth and inflation in Canada and around the world.

- Price inflation could be more persistent in certain sectors, including shelter price inflation, which continues to remain well above historical averages.
- Global geo-political developments could renew inflationary pressures, including new international trade tensions (e.g., tariff threats) and disruptions stemming from geopolitical tensions and conflicts which can impede supply of goods and increase commodity prices (e.g. attacks on key shipping routes).
- Slower demand growth in Canada could further increase unemployment and reduce business investment and hires.

8. Relationship to Strategic Plan

8.1 This report aligns with the following strategic goals and priorities in the Durham Region Strategic Plan:

- Economic Prosperity: To build a strong and resilient economy that maximizes opportunities for business and employment growth, innovation, and partnership.

9. Conclusions

9.1 There are increasing signs of an economic slowdown, The unemployment rate in Canada sits almost one per cent higher in July 2024 (6.4 per cent) compared to a year prior, and Canada's Consumer Price Index (CPI) is anticipated to continue to fall closer to the Bank of Canada’s 2.0 per cent target later this year and possibly into 2025.

9.2 With evidence that a slowdown is emerging, the Bank of Canada on September 4, 2024, again, lowered its overnight interest rate by 25 basis points to 4.25 per cent. The market anticipates the Bank of Canada will continue its path of easing monetary policy and balance sheet normalization to the end of this year and possibly into 2025. There was some worry that declining interest rates might cause resurgence in the housing market, but this worry has subsided considerably, especially as the Fall/Winter seasons are ahead. With annual growth in new listings exceeding housing sales, average resale home prices decreased by approximately five per cent on a year-over-year basis in July 2024, although arguably remain relatively unaffordable compared to historical norms.

9.3 While the risk of domestic inflation is subsiding, uncertainties and other near-term risks are causing enhanced worry across the spectrum of stakeholders. Canada’s GDP growth and productivity remain subpar, leaving some threat of recession and unemployment spikes. Meanwhile geo-political risk is high, with two wars continuing to rage, threats of escalation involving major powers and Canada, and other global political uncertainties that could affect economic growth and inflation in Canada and beyond. These events, should they worsen could cause price shocks, higher general inflation, and renewed supply disruptions, which would only add to existing worries of persistent household inflationary impacts and lost affordability.

9.4 The Finance Department will continue to monitor the economic environment and key indicators and report on implications as required.

Respectfully submitted,

Original Signed By

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