If this information is required in an accessible format, please contact 1-800-372-1102 ext. 2303

# The Regional Municipality of Durham
# Information Report

| | |
|---|---|
| From: | Commissioner of Finance |
| Report: | #2024-INFO-65 |
| Date: | October 11, 2024 |

**Subject:**

Economic Update - More Interest Rate Cuts Anticipated as the Economy Stalls and Geopolitical Risks Heighten

**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 As reported in September (Report 2024-INFO-53), on September 4, 2024, the Bank of Canada (BOC) again lowered its overnight interest rate by 25 basis points to 4.25 per cent, continuing its path of easing monetary policy and balance sheet normalization. At the previous two interest rate meetings on June 5th and July 24th, 2024, the BOC began this easing cycle, also with 25 basis point rate cuts at each of these meetings. The next scheduled date for announcing the overnight target rate is October 23, 2024

2.2 The BOCs decision in September was supported by declining inflation, weak household spending, and an increasing unemployment rate. On September 24th 2024, at an "Institute of International Finance and the Canadian Bankers Association" Forum in Toronto, BOC Governor Tiff Macklem noted in his speech that "…as inflation gets closer to target (currently sits at BOC 2.0% target), we want to see economic growth pick up to absorb the slack in the economy…and keep inflation close to the centre of the one per cent to three percent inflation control band. We need to stick the landing." There are increasing economist and market predictions that the BOC will cut the overnight policy interest rate by 50-basis points on October 23rd, but consensus is more solid for at least another 0.25 per cent cut in October and December of 2024.

2.3 On September 18, 2024, the Federal Reserve, the United States central bank dropped its comparable federal funds rate by 0.5 per cent to 4.75 per cent, after holding it at a 23-year high of 5.5 per cent since July 2023 in order to subdue post-covid inflation.

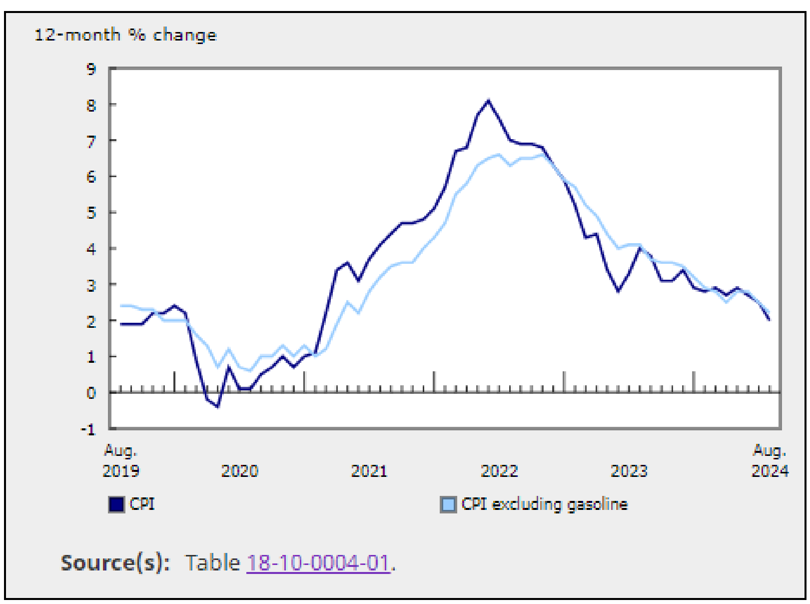
## 3. Inflation

3.1 Statistics Canada released its August 2024 update on Consumer Price Indices on September 17, 2024. Canada's Consumer Price Index (CPI) rose by 2.0 per cent on a year-over-year basis, compared to August 2023. This was down 0.5 per cent year-over-year compared to July when 2.5 per cent was recorded. While mortgage interest costs and rent remained the largest contributors to the CPI inflation rate, lower gasoline prices drove the all-items CPI down. Although mortgage interest inflation remained high at 18.8 per cent year-over-year in August 2024, this is way off the 30.9 per cent year-over-year recorded in August 2023.

3.2 According to Statistics Canada, “year over year, clothing and footwear prices fell for an eighth consecutive month, down 4.4 per cent in August following a 2.7 per cent decline in July.”

3.3 Food purchased from stores increased 2.4 per cent compared to August 2023, 0.3 per cent higher than the year-over-year inflation reported in July 2024 and despite some relief due to the seasonal decline in the cost of fresh vegetables.

**Chart 1: Consumer Price Index 12-month Percentage Change**
**Aug 2019 – Aug 2024**




*Source: Statistics Canada*

3.4 Ontario's CPI fell similar to the national rate, to 2.1 per cent year-over-year, compared to 2.7 per cent reported in July 2024 year-over-year.

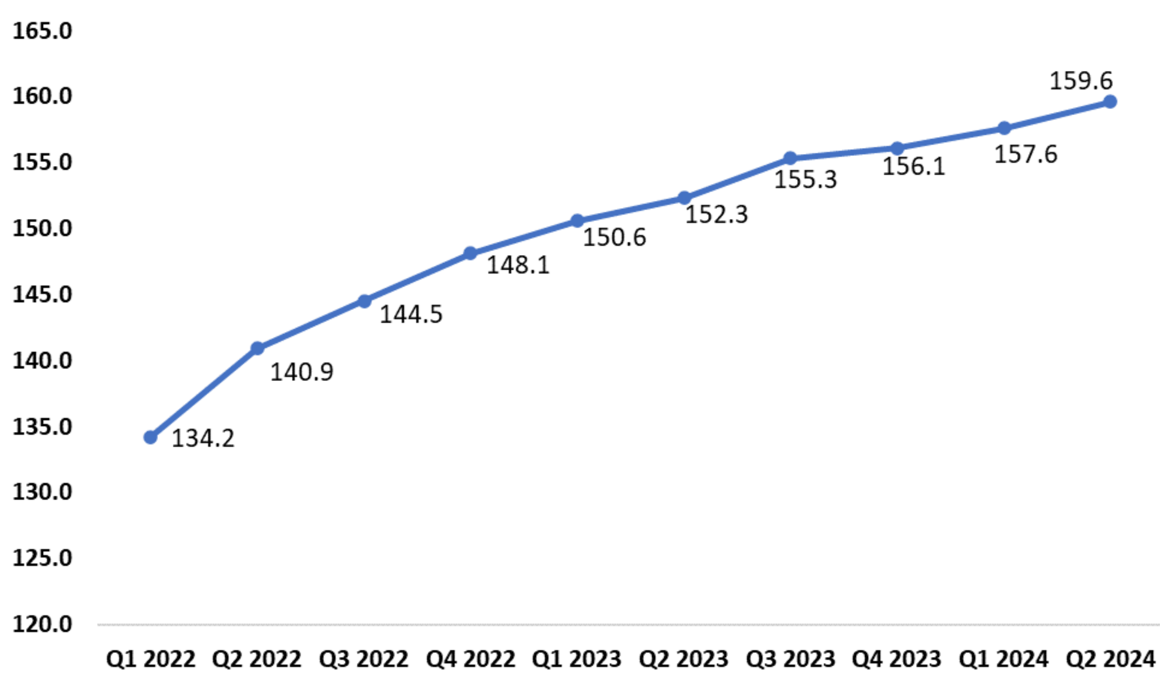
3.5 Canadian CPI data will again be updated by Statistics Canada on October 15, 2024.

## 4. Construction, Commodity and Fuel Prices

4.1 The Statistics Canada 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 2022, although the average increase since the first quarter of 2023 was only 1.3 per cent quarterly, as inflation and supply chain issues subsided.

4.2 Statistics Canada noted factors still impacting the construction sector by mid-2024, included skilled labour shortages, labour rate increases, interest rate pressures and building code updates which add to cost. Chart 2 below, provides the Toronto CMA composite non-residential building construction price index, since the first quarter (Q) of 2022.

**Chart 2: Statistics Canada, Non-residential Building Construction Price Index**
**Toronto, Ontario CMA**
**(Quarterly Increases Q1 2022 to Q2 2024)**



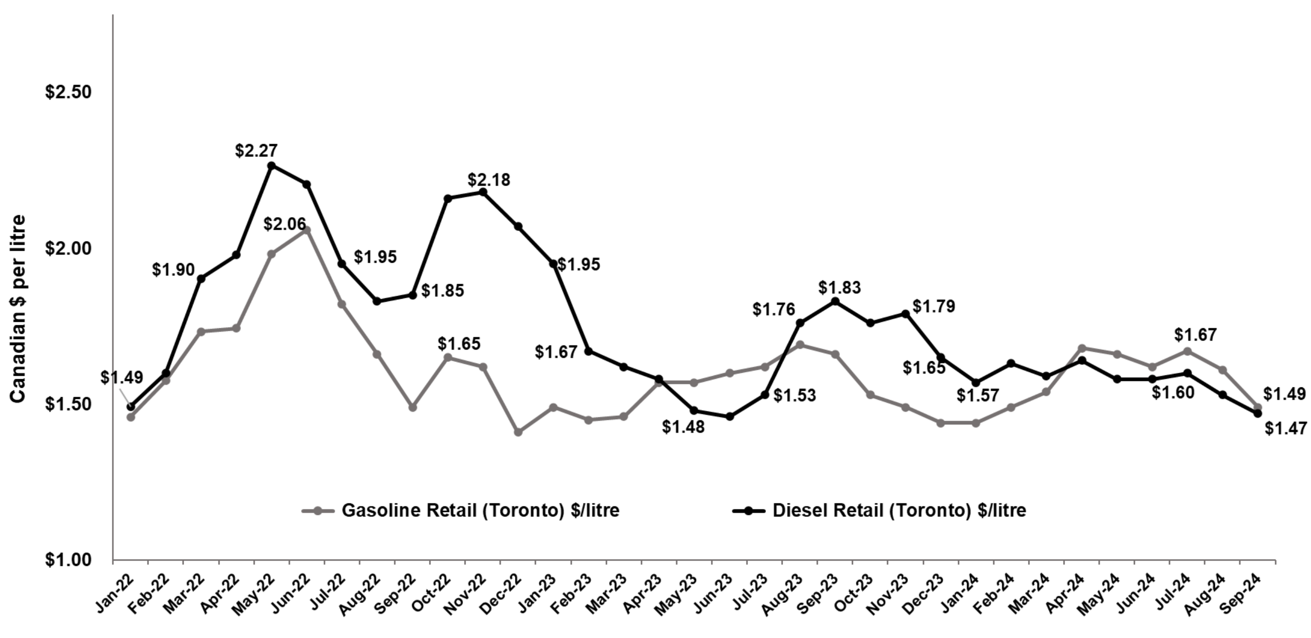

*Source: Statistics Canada, 18-10-0276-01, July 30, 2024 (latest available)*

4.3 Fluctuating commodity and fuel prices have direct implications for Regional program areas. 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 relevant to Regional operational and capital planning.

4.4 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 back close to the range of pricing seen during the first quarter of 2022 (when regular gasoline averaged $1.59, and diesel averaged $1.67 per litre). September 2024 pricing was at $1.49 per litre for regular gasoline and $1.47 per litre for diesel.

4.5 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, could affect global oil, retail fuel, commodity and food prices, supply chains, and inflation.

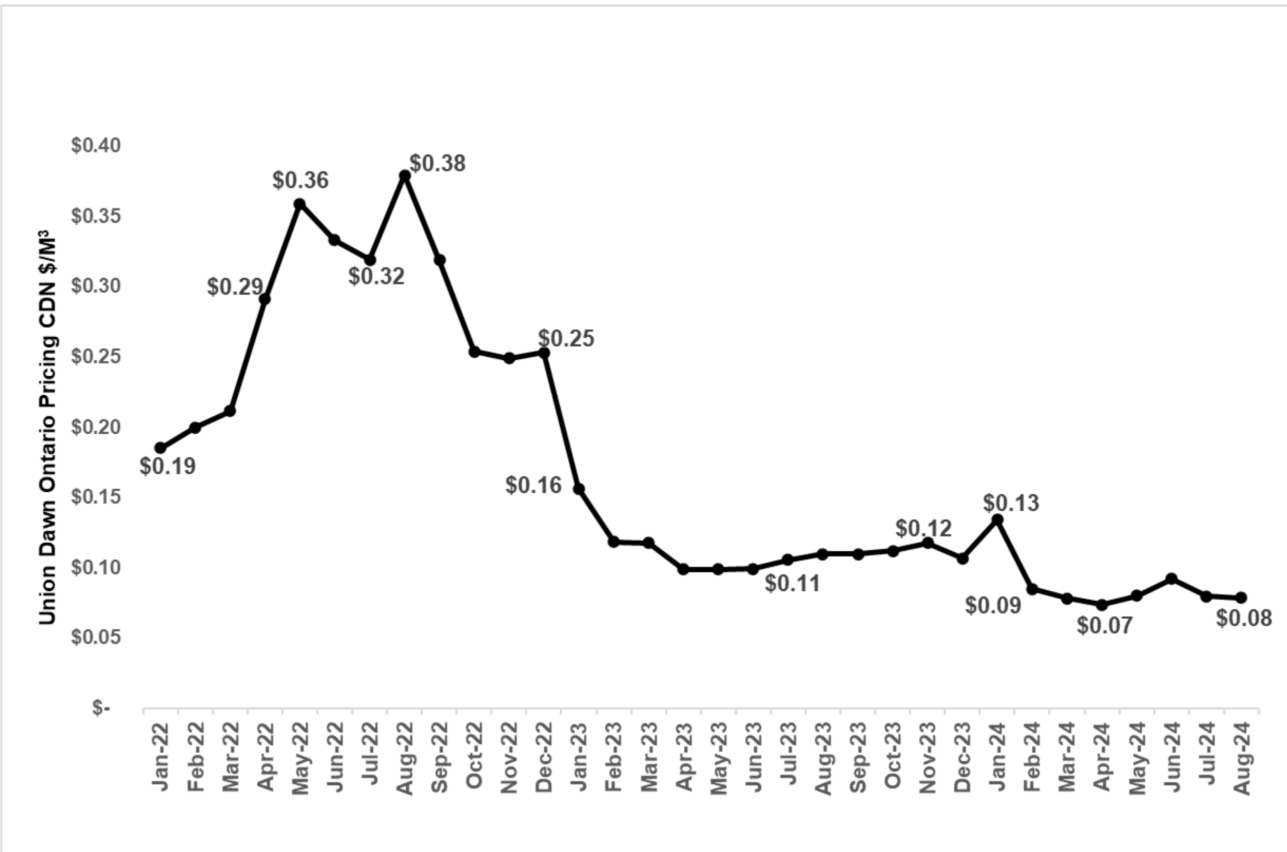
**Chart 3: Diesel and Regular Gasoline**
**Toronto Benchmark Monthly Averages**
**CDN $/litre from January 2022 – September 2024)**




*Source: Natural Resources Canada*

4.6 Chart 4 below demonstrates, based on historical data compiled by Sproule Holdings Limited, that Union Dawn hub (Ontario) natural gas prices have decreased 79.2 per cent in the 24 months since August 2022, and 28.3 per cent in the 12 months since August 2023, to a level of eight cents per cubic meter for August 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, September 26, 2024*

4.7 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 August 2023 and August 2024. Industrial product prices affect Regional material processing and construction costs but can also impact Regional revenues.

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).

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

| Product Category | IPPI Price Index August 2023 | IPPI Price Index August 2024 | Yr over Yr % |
|---|---|---|---|
| Primary Ferrous Metal Products | 147.2 | 138.2 | -6.1% |
| Primary Non-ferrous Metal Products | 137.0 | 156.9 | 14.5% |
| Lumber & Wood Products | 126.8 | 122.7 | -3.2% |
| Energy and Petroleum Products | 148.3 | 129.8 | -12.5% |
| Fabricated Metal Products & Construction Materials | 142.0 | 139.9 | -1.5% |
| Cement/glass/non-metallic minerals | 126.5 | 137.8 | 8.9% |
| Electric/electronic/audiovisual/telecommunication Products | 129.5 | 133.1 | 2.8% |
| Machinery & Equipment | 117.4 | 121.0 | 3.1% |
| Chemicals and Chemical Products | 121.0 | 125.4 | 3.6% |
| Packaging Materials and Containers | 129.3 | 132.1 | 2.2% |
| **Total Industrial Product Price Index** | **126.5** | **126.8** | **0.2%** |

*Note: January 2020 = 100*
*Data Source: Statistics Canada, Table 18-10-0268-01, September 20, 2024*

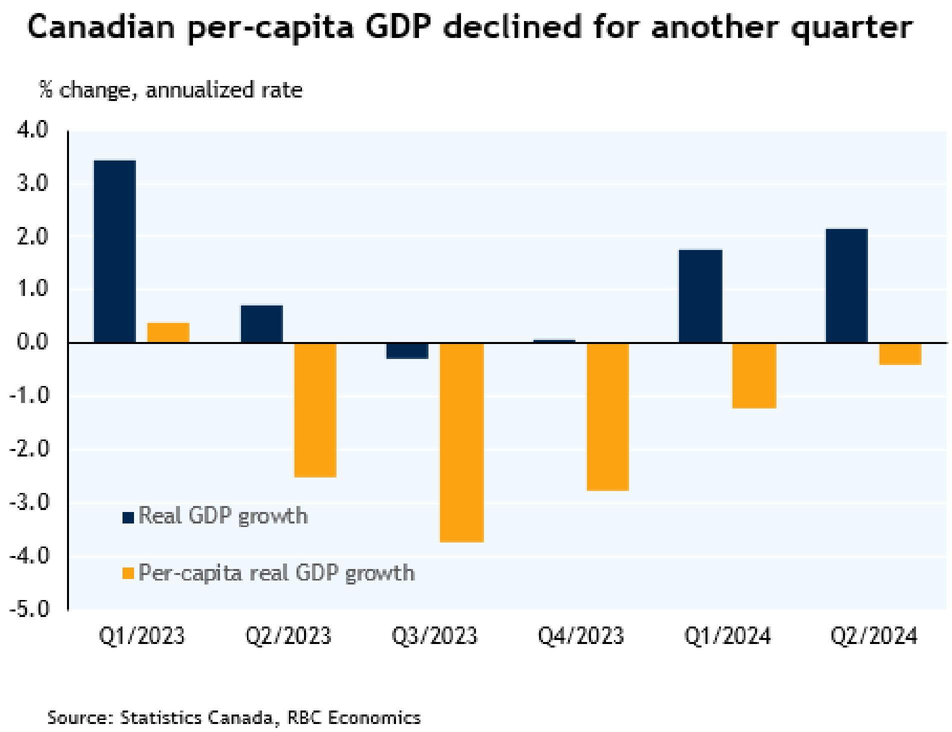
4.9 While each commodity reflects its own market supply and demand characteristics, by August 2024 the overall IPPI had fallen -4.4 per cent from the 2022 peak. Within the basket of products however, there remain significant price increases and decreases over the same period. In August 2024, year-over-year prices have fallen for fabricated metal and construction materials, energy and petroleum products, lumber and wood products and primary ferrous metal products. However, significant product price increases are still apparent for non-ferrous metal products, and cement, glass and non-metallic minerals.

## 5. Economic Growth

5.1 Economic growth, as measured by real gross domestic product (GDP), increased 0.5 per cent in the second quarter of 2024 after rising 0.4 per cent in the first quarter. On an annualized basis, Q2 2024 GDP growth was reported at 2.1 per cent, following a slight upward revision to the Q1 figure of 1.8 per cent (previously 1.7 per cent). Growth was primarily concentrated in higher government expenditures, business investment in engineering structures and machinery and equipment, household spending on services. Declines were noted in exports, residential construction and household spending on goods.

5.2 On a per capita basis, GDP fell 0.1 per cent in the second quarter – the fifth consecutive quarterly decline.

**Chart 6:**




5.3 Government expenditures rose 1.5 per cent in the second quarter of 2024, due to increases in compensation to employees and hours worked across all levels of government. According to RBC Economics, the surge in government spending accounted for 80 per cent of the Q2 GDP increase. Purchases of goods and services in the federal, provincial and municipal governments also rebounded in the second quarter, following a decline in the first quarter.

5.4 Business spending on machinery and equipment increased 6.5 per cent in the second quarter of 2024, led by higher spending on aircraft and other transportation equipment and parts. This coincided with increased imports of aircraft and ships. Business investment in non-residential structures increased 0.5 per cent in the second quarter due to higher spending on engineering structures, primarily in the oil and gas sector. Business investment in non-residential building construction fell 1.2 per cent, as investment in commercial and industrial structures declined.

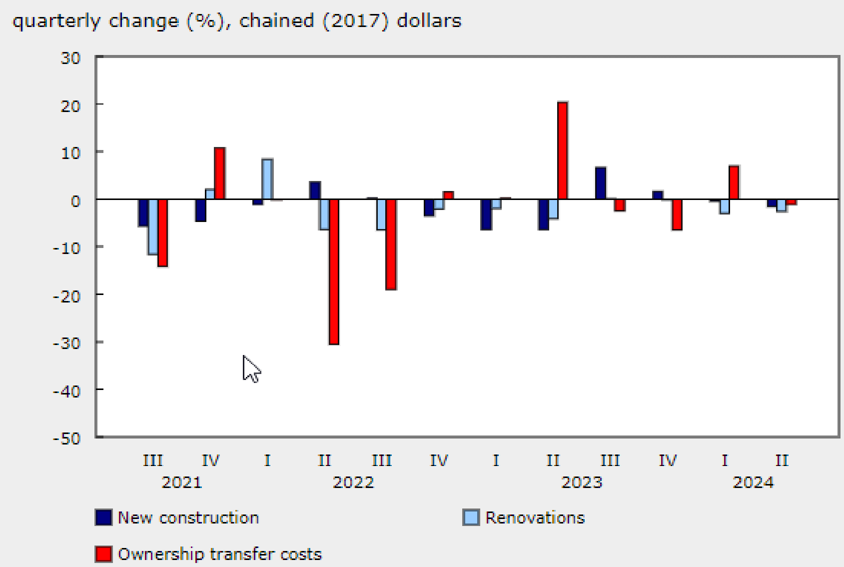
5.5 Growth in household spending slowed to 0.2 per cent in the second quarter after rising 0.9 per cent in the first quarter. Higher expenditures for rental fees for housing, food and electricity led the increase in the second quarter. Meanwhile, fewer purchases of new trucks, vans and sport utility vehicles as well as reduced expenditures by Canadians abroad tempered overall growth.

5.6 Exports of goods and services fell 0.4 per cent in the second quarter after rising 0.5 per cent in the first quarter. In the second quarter, lower exports of unwrought gold, silver, and platinum group metals, as well as of passenger cars and light trucks and refined petroleum energy products were moderated by higher exports of crude oil and bitumen.

5.7 Imports of goods and services edged down 0.4 per cent in the second quarter after recording no change in the first quarter. Lower imports of industrial machinery, equipment and parts, commercial services and refined petroleum energy products led the decrease in the second quarter, while higher imports of passenger cars and light trucks tempered the overall decline.

5.8 On an annualized basis, residential investment declined 1.9 per cent for another quarter, and at a much faster speed, in line with weaker home sales. This represents the largest decline since the first quarter of 2023. The decrease in the second quarter of 2024 was driven by lower investment in new construction, as work put in place for single-family dwellings and apartments fell, primarily in Ontario. Renovations fell 2.6 per cent, and ownership transfer costs, which represent the resale market, declined 1.1 per cent, led by less activity in Ontario.

**Chart 7: Residential Investment**




**Source(s):** Table 36-10-0108-01.

5.9 Compensation of employees rose 1.6 per cent in the second quarter after increasing 1.5 per cent in the first quarter. Growth in the second quarter was led by increased wages in health care and social assistance, educational services and finance and insurance. Retroactive payments associated with arbitration decisions for members of the Ontario Secondary School Teachers' Federation and Elementary Teachers' Federation of Ontario were a large contributor to the wage growth in educational services. Among all industries, wages and salaries in mining and oil and gas extraction (+5.6 per cent) had the strongest growth in the second quarter.

5.10 The household savings rate reached 7.2 per cent in the second quarter, as gains in disposable income outpaced increases in nominal consumption expenditure.

Disposable income gains were mainly from wages and salaries. Growth in investment income slowed in the second quarter, rising 2.8 per cent, mainly on higher interest received and dividends. At the same time, household property income payments, comprised of mortgage and non-mortgage interest expenses, rose at a faster pace (+5.7 per cent) compared with the first quarter (+4.1 per cent). The Bank of Canada announced a cut to the policy interest rate at the beginning of June, followed by a further cut in July; however, many mortgage borrowers are still facing relatively higher renewal costs following the rate hikes that began in early 2022.

5.11 Higher income households tend to earn greater share of investment income than lower income households, while lower income households tend to have interest expenses that represent a greater share of their disposable income.

5.12 Recent economic data indicate that inflationary pressures have broadly eased, with breadth of goods impacted by abnormally high inflation narrowing to pre-pandemic levels, and the softening economic backdrop should reinforce the Bank of Canada's view that the economy has softened enough to keep inflation on a downward trajectory.

## 6. Labour Market

6.1 Employment in Canada was little changed in August, as gains in part-time work were largely offset by a decline in full-time work. This was the fourth consecutive month of little overall employment change.

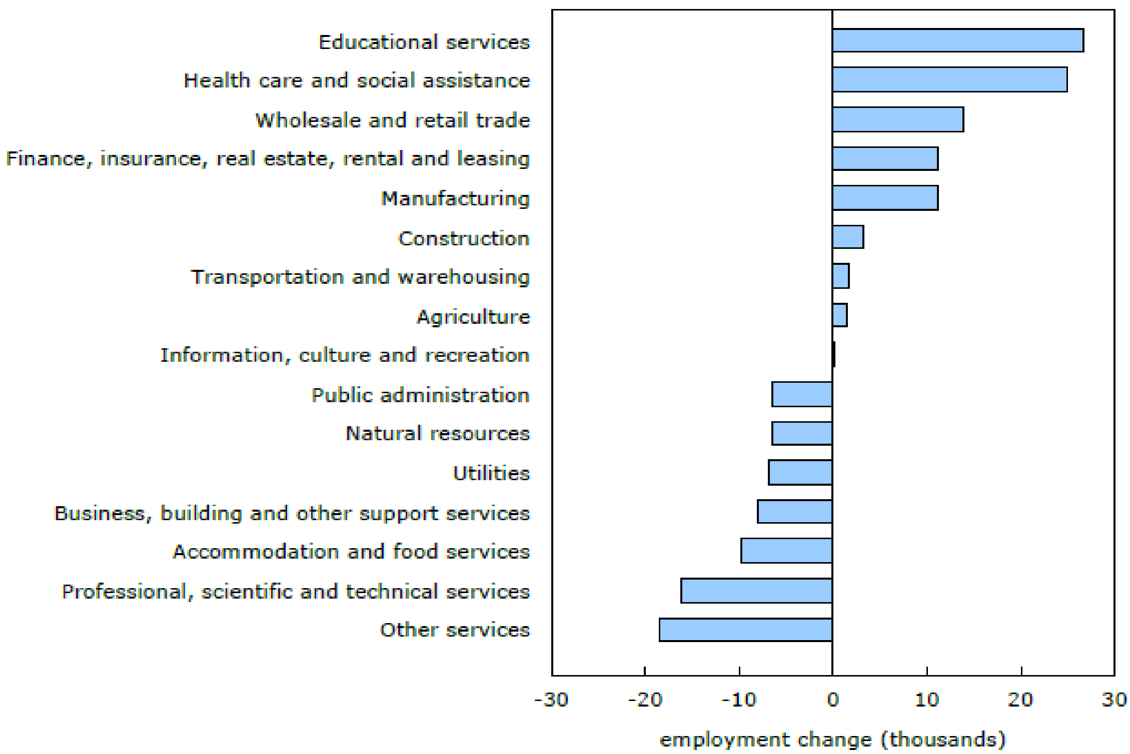
6.2 Across Canada, employment increased by 22,000 in August 2024, after edging lower in each of the two prior months. Employment grew by 20,000 (+0.3 per cent) among core-aged women (25 to 54 years old) in August and held steady across other major demographic groups. Employment gains were realized in educational services (+27,000; +1.7 per cent), health care and social assistance (+25,000; +0.9 per cent), and finance, insurance, real estate, rental and leasing (+11,000; +0.8 per cent). Employment declined in "other services" (-19,000; -2.3 per cent), professional, scientific and technical services (-16,000; -0.8 per cent), utilities (-6,800; -4.5 per cent) and natural resources (-6,500; -1.8 per cent).

6.3 The number of private sector employees rose by 38,000 (+0.3 per cent) in August, largely offsetting a similar-sized decrease in the previous month (-42,000; -0.3 per cent). The increase in private sector employment in August was the first since April. Public sector employment and self-employment were both little changed in August.

6.4 On a year-over-year basis, the employment rate was down for youth as well as for people in the core working age in August. Declines were larger for young men (-4.5 percentage points to 52.3 per cent) and young women (-3.5 percentage points to 55.2 per cent), reflecting relatively strong population growth and virtually no employment growth for the youth population.

6.5 In August, employment rose by 27,000 (+1.7 per cent) in educational services, the first increase since January. There were 75,000 (+5.1 per cent) more people employed in this sector compared with 12 months earlier. In health care and social assistance, employment increased by 25,000 (+0.9 per cent) in August. In the 12 months to August, employment gains in health care and social assistance (+157,000; +5.8 per cent) were the largest of any sector and accounted for nearly half (49.6 per cent) of total net employment growth.

**Chart 8: Employment Change - Canada**
**August 2024**



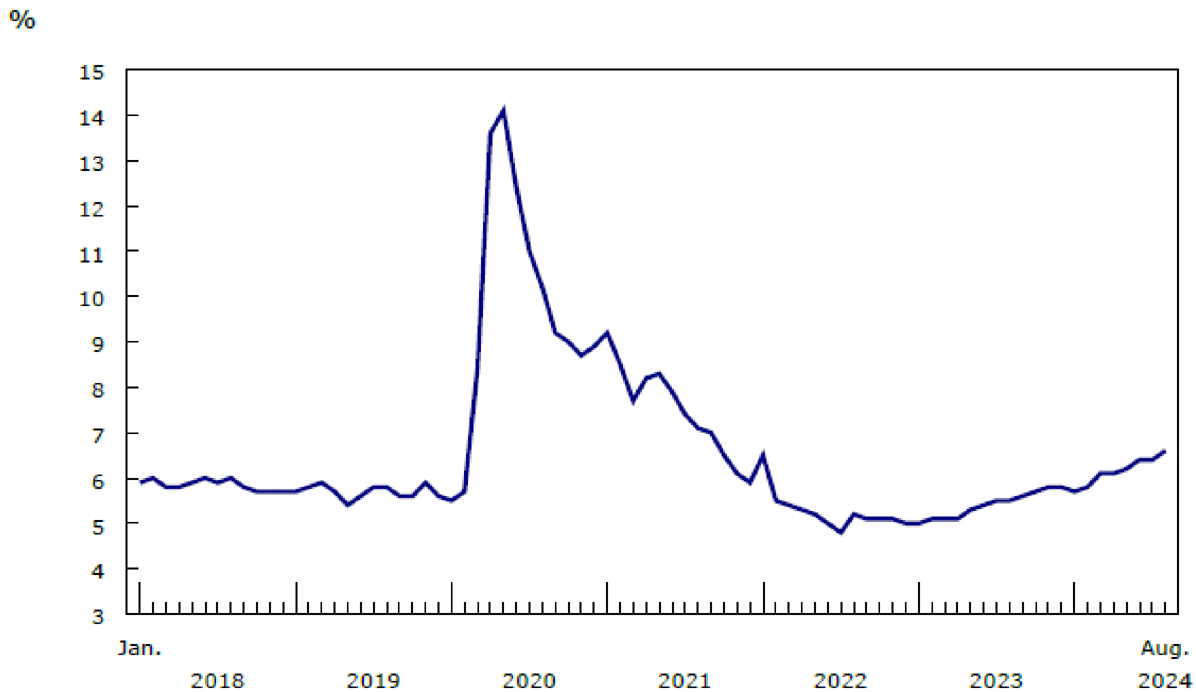

*Source: Statistics Canada*

6.6 Year-over-year employment growth in health care and social assistance was recorded both in the private sector (+94,000; +8.6 per cent) and in the public sector (+77,000; +6.1 per cent). Self-employment in health care and social assistance was little changed over the period (not seasonally adjusted).

6.7 In August, employment decreased in "other services" (which includes personal and repair services) (-19,000; -2.3 per cent) following five months of little change. Employment also fell in professional, scientific and technical services (-16,000; -0.8 per cent) in August. Despite the monthly decline, employment in the industry was up by 47,000 (+2.5 per cent) on a year-over-year basis.

6.8 The unemployment rate also ticked higher (to 6.6 per cent from 6.4 per cent in July) with an increase in the number of available workers again outpacing job growth. The unemployment rate in August was the highest since May 2017, outside of 2020 and 2021, during the COVID-19 pandemic. The unemployment rate has generally trended up since April 2023, rising 1.5 percentage points over this period.

**Chart 9: Unemployment Rate - Canada**




*Source: Statistics Canada*

6.9 There were 1.5 million unemployed people in August 2024, an increase of 60,000 (+4.3 per cent) from July and an increase of 272,000 (+22.9 per cent) from August 2023.

6.10 Among those who were unemployed in July, 16.7 per cent had transitioned to employment in August (not seasonally adjusted). This was lower than the corresponding proportion in August 2023 (23.2 per cent), an indication that unemployed people may be facing greater difficulties finding work.

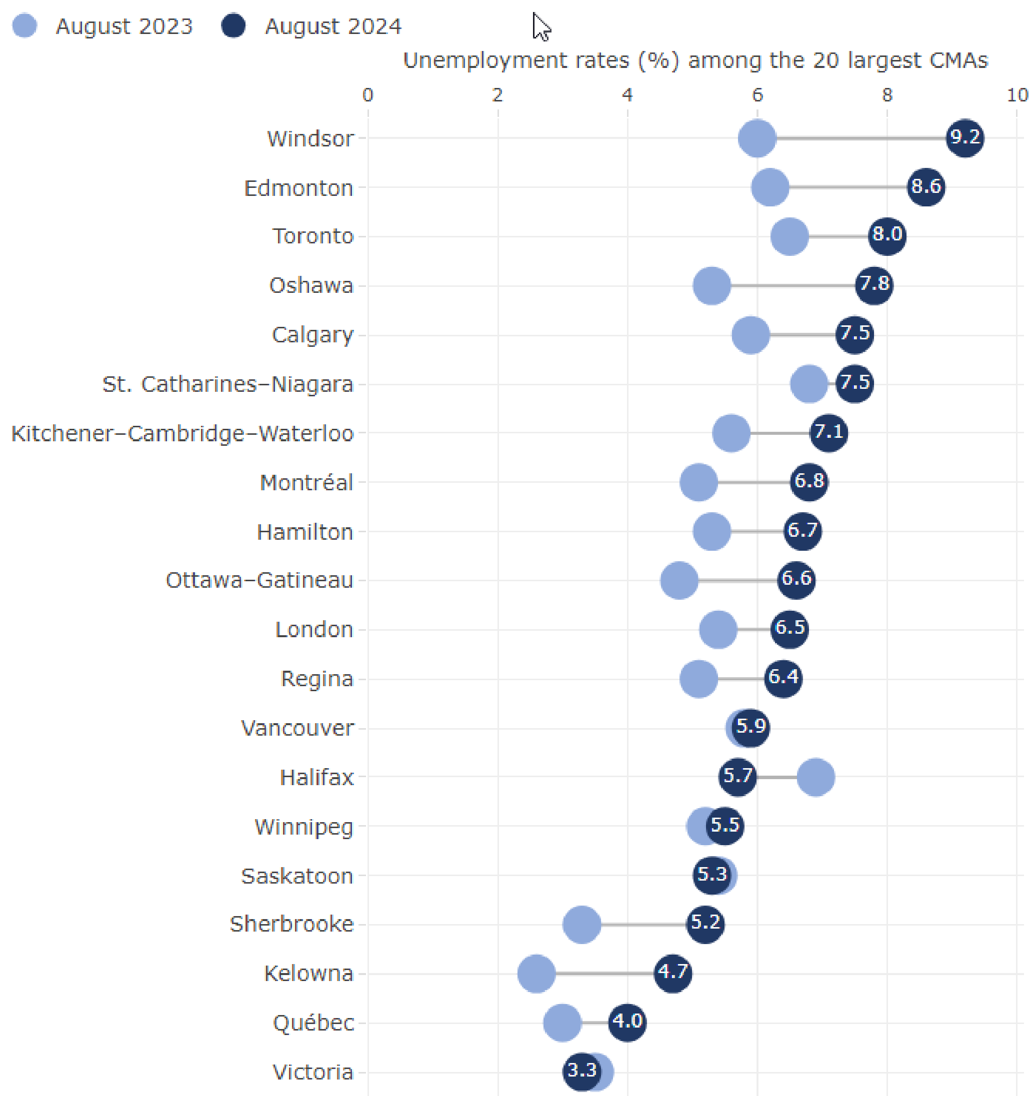
6.11 On average from May to August 2024, the unemployment rate for returning full-time students aged 15 to 24 was 16.7 per cent, up from 12.9 per cent in 2023. The unemployment rate for the summer of 2024 was the highest since 2012 (when it was 17.6 per cent), excluding the summer of 2020.

6.12 The unemployment rate of returning students over the summer months of 2024 was up for both young men (+4.5 percentage points to 18.1 per cent) and young women (+3.3 percentage points to 15.5 per cent) compared with the same period in 2023.

6.13 The unemployment rate increased for returning students across all age groups in the summer of 2024 compared with the summer of 2023. Among the youngest—those aged 15 and 16—more than one-quarter (27.0 per cent) were unemployed this summer (up from 22.1 per cent in 2023). For returning students aged 17 to 19, the unemployment rate was 17.7 per cent, up from 12.5 per cent in 2023. For older returning students—those aged 20 to 24—the unemployment rate was 11.1 per cent, up from 8.3 per cent in 2023.

6.14 The unemployment rate in Ontario increased 0.4 percentage points to 7.1 per cent in August 2024, as more people searched for work. In the Oshawa CMA, the unemployment rate increased to 7.8 per cent for the month of August; this represented an annual increase of 2.5 per cent compared to August 2023, when the unemployment rate stood at 5.3 per cent.

**Chart 10: Unemployment Rates of Large Canadian CMAs**




*Source: Labour Force Survey (August 2024), Statistics Canada*

6.15 Overall, labour markets continue to soften. Much of the unemployment rate increases to date have come from longer job searches for new labour market entrants (particularly students), but layoffs are also rising under the surface. In addition, a down-drift in job vacancies signals that hiring demand from businesses continues to slow. From the Bank of Canada's perspective, higher unemployment coupled with persistent declines in per-capita GDP will reinforce that inflation will continue to drift lower and may prompt further interest rate cuts.

**7. Housing Trends**

7.1 On September 16, 2024, the Government of Canada announced the following changes to mortgage rules with the intention to make mortgages more affordable for Canadians:

- Increasing the $1 million price cap for insured mortgages to $1.5 million. This measure would take effect on December 15, 2024.
- Expanding eligibility for 30 year mortgage amortizations to all first-time homebuyers and to all buyers of new builds. This measure would also take effect December 15, 2024.

7.2

7.3 In addition, the new cap on the value of homes that qualify for insurance means anyone buying a home that costs between $1 million and $1.5 million will no longer need a 20 per cent downpayment. Homeowners may now qualify for an insured mortgage, which typically requires a downpayment of only five per cent.

7.4 The impact of these changes mean that homebuyers will be carrying mortgage payments longer, which may tempt purchasers to spend more than they can afford because the monthly payments will be cheaper than they were under the old rules. In addition, mortgagees will also pay interest on their mortgages for longer. The changes may also have the unintended consequence of increasing home prices by stimulating demand, which may exacerbate the supply issues that these measures are trying to alleviate.

7.5 On October 3, 2024, the Toronto Regional Real Estate Board (TRREB) reported that Greater Toronto Area (GTA) home sales increased year-over-year for the month of September. Buyers were starting to take advantage of more affordable market conditions brought about by interest rate cuts and lower home prices. Going forward, it is anticipated that home sales will steadily increase in relation to population growth, as home buyers take advantage of changes to mortgage lending guidelines and borrowing costs trend lower.

7.6 According to TRREB, there were 4,996 home sales in September 2024, which represented an increase of 8.5 per cent compared to 4,606 sales reported in September 2023. There were 18,089 new listings in September – up by an even greater 10.5 per cent year-over-year. On a seasonally adjusted basis, September sales increased on a monthly basis compared to August, along with new listings.

7.7 The average resale price in the GTA was $1,107,291, representing a decrease by one per cent compared to the September 2023 average of $1,118,215. On a seasonally adjusted basis, the average selling price edged up slightly compared to August. The annual improvement in September home sales was more than matched by the increase in new listings over the same period. This resulted in a better-supplied market and increased negotiating power for buyers re-entering the market. The ability to negotiate on price, led to moderate year-over-year price declines.

7.8 The ability for existing mortgage holders to shop around for the best rate without facing the stress test may result in more affordable renewals. Longer amortization periods and the ability to insure mortgages for purchases over $1 million dollars may give home buyers more options as the GTA housing market recovers.

7.9 The Regions of Durham and York continued to see monthly resale price declines, with Duram reporting an average resale price of $894,399 and York with an average resale price of $1,263,790.

**Table 1: Toronto Regional Real Estate Board:**
**Summary of Select Existing Home Transactions**
**(All Home Types – Average Price in Canadian $)**

| | Year-over-Year | | Monthly Change | | | |
|---|---|---|---|---|---|---|
| | 23-Sep | 24-Sep | 24-Jun | 24-Jul | 24-Aug | 24-Sep |
| **Durham** | 907,359 | 894,499 | 956,428 | 915,636 | 907,997 | 894,499 |
| **York** | 1,330,636 | 1,263,790 | 1,385,139 | 1,305,476 | 1,297,868 | 1,263,790 |
| **Peel** | 1,049,968 | 1,058,346 | 1,077,628 | 1,065,043 | 1,029,214 | 1,058,346 |
| **Halton** | 1,245,146 | 1,255,112 | 1,252,642 | 1,246,352 | 1,217,477 | 1,255,112 |
| **Toronto** | 1,119,452 | 1,113,671 | 1,173,781 | 1,087,436 | 1,029,069 | 1,113,671 |

*Source: Toronto Regional Real Estate Board*

7.10 On a year-over-year basis, Durham, York and Toronto saw average resale price declines of 1.4 per cent, 5.0 per cent and 0.5 per cent, respectively. Both the Regions of Peel and Halton saw modest average price increases of 0.8 per cent and 0.8 per cent, respectively.

## 8. Risks, Uncertainties and Potential Volatility

8.1 There remains considerable risk in the near term for global and Canadian markets 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 increasing geo-political tensions in the Middle East. As with Russia's invasion of Ukraine in 2022, drastic geopolitical events can shift global markets considerably. If wider escalation of the middle eastern war cannot be averted there could be significant inflationary impacts, beginning with oil price shocks, but potentially spreading to other goods and services. As the Bank of Canada noted in its previous Monetary Policy report, "…global geo-political developments could also renew 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)."

8.2 With labour tensions higher, labour disruption impacts and risks are also front and centre. Although in August 2024, the Canada Industrial Relations Board ordered work stoppages to stop at Canada's largest railways, signaling an end to an unprecedented service disruption that threatened Canada's export-driven economy, Port of Montreal Longshore workers initiated a three-day strike September 30th, 2024, related to ongoing disputes in collective bargaining. This port (two terminals) is key to Canadian imports and exports, handling over 40 million tonnes of goods per year and representing close to 40 per cent of Canada's container traffic. Worse yet, US port shutdowns (almost 40 ports affected) could significantly affect North American and even global supply chains. On October 1, 2024, approximately 45,000 workers within the International Longshoremen's Association also went on strike, threatening an economy just coming off peak inflation and already slowing due to still relatively higher interest rates (despite a recent 0.5 per cent reduction by the US Federal Reserve). Canadian and US port strike actions will affect fuels, retail goods, automotive goods, industrial products, chemicals and perishable fruits and vegetables, with impacts depending on how long strike action continues.

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

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance and Treasurer