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The Regional Municipality of Durham
Information Report

From:	Commissioner of Finance
Report:	#2025-INFO-09
Date:	January 31, 2025

Subject:

Economic Update – Key Geopolitical and Trade Risks could Disrupt Economic Recovery

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. Consumer Price Index

2.1 Statistics Canada released its December 2024 update on the Consumer Price Index (CPI) on January 21, 2024. Overall Canadian CPI rose by 1.8 per cent year-over-year in December 2024, slightly lower inflation than the 1.9 per cent increase on a year-over-year basis recorded the month prior. While November 2024 demonstrated largely broad-based price alleviation led by lower travel and mortgage costs, in December it was lower food and alcoholic beverage prices which led the charge. However, these goods were impacted by the Goods and Services and Harmonized Sales Tax exemptions (GST/HST) implemented by the federal government and effective December 14th. The sales tax exemption will continue to affect approximately 10% of the CPI basket of goods until it ends on February 15th.

2.2 So, while prices for food in restaurants decreased 1.6 per cent largely due to the exemption, prices for food overall, including food purchased from grocery stores still increased marginally by 0.6 per cent compared to December 2023. If we compare food costs to December 2021, prices are still up 16.3 per cent in December 2024, compared to three years ago. Likewise, shelter costs are up 18.5 per cent overall over the last three years, including an increase December 2023 to December 2024 of 4.5 per cent.

2.3 The province of Ontario's CPI fell in December 2024 from 1.8 per cent in November to 1.7 per cent year-over-year.

2.4 It should be noted that if there is a broadly applied 25 per cent US tariff, including on energy, along with retaliatory Canadian measures, these will immediately impact the price of imported and exported goods, with eventual flow-through to all consumer prices. Higher energy and fuel prices alone, would impact the production and delivery of all goods, (as an input product of production and overhead for all business).

2.5 Economists are currently predicting that a US-Canada trade war, based on an initial 25 per cent across the board tariff, could lead to a seven per cent jump in Canadian All-items CPI within months and a Canadian recession within six months.

3. Bank of Canada Interest Rate Decrease

3.1 On January 29, 2025, the Bank of Canada (BOC) again lowered its overnight interest rate by 25 basis points to 3.0 per cent. This follows a 50-basis point drop December 11th and continues BOC's path of easing monetary policy and balance sheet normalization. At the previous five interest rate meetings the BOC implemented rate cuts with 0.25 per cent reductions the first three meetings and a 0.5 per cent reduction October 23rd and December 11th.

3.2 The BOCs decision was supported by weaker than anticipated growth, hampered by reduced business investment, falling exports and lower Canadian productivity. The unemployment rate also rose to 6.8 per cent (before falling to 6.7 per cent in December) with wage growth easing. The risks to employment and growth from geopolitical and trade uncertainties also weighs on the BOC's decision and the outlook, and like everyone else, central banks across the globe will be monitoring the US Trump administration's trade policies very closely.

3.3 On December 18, 2024, the US Federal Reserve announced its third interest rate cut of 2024, reducing the benchmark rate from 4.5 per cent to 4.25 per cent. A slower pace of cuts is anticipated by the Federal Reserve over 2025, given the US inflation rate still hovering between 2.5 per cent and 3.0 per cent, and that at the time, then President-elect Donald Trump, had already begun to make tariff threats on many global economies including China, Canada and Mexico. Tariff and trade wars are anticipated to drive inflation up and depending on the scope and magnitude of any eventual tariff, interest rate setting by central banks on both sides of the border may need to respond with interest rate increases to again contain inflationary forces.

3.4 The US Federal Reserve is expected to hold interest rates at its meeting on Wednesday, January 29, 2025, as it awaits further inflation and jobs data and more clarity on the economic impact of US trade policies before deciding whether to cut borrowing costs again. Preliminary data released on January 29th showed the U.S. monthly goods trade deficit may have increased nearly 18 per cent in December to $122.1 billion, with a surge in imports of industrial supplies, suggesting companies may be trying to front-run expected new import tariffs.

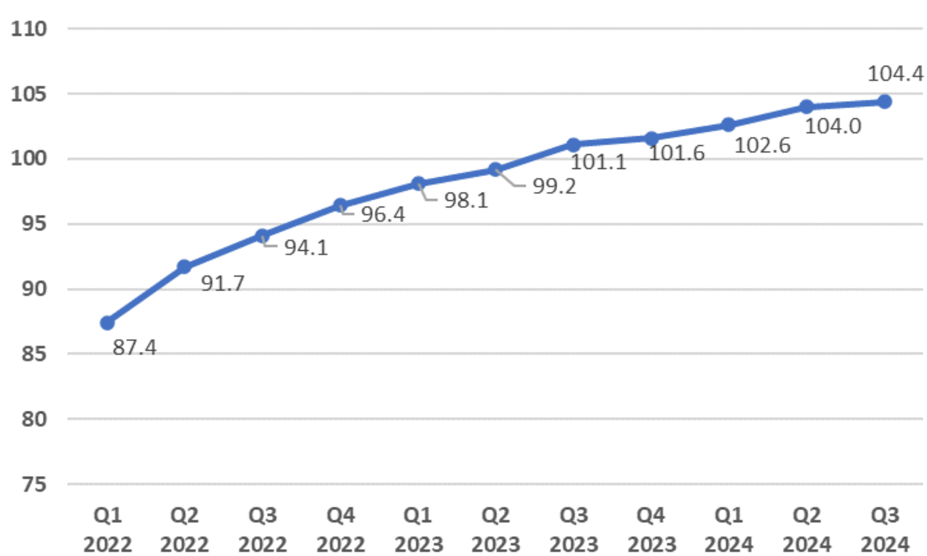
3.5 Investors and economists alike expect the Fed to reduce interest rates later in 2025, but policymakers may exercise caution until they are more certain inflation will fall to the central bank's two per cent goal and the details of US tariffs, tax and spending plans are known.

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, increased only 1.3 per cent in the first quarter of 2024, despite having increased 18.9 per cent since the first quarter of 2022, as inflation and supply chain issues subsided.

4.2 Statistics Canada noted in its November 5, 2024, release that non-residential building construction costs increased 0.5 per cent in the third quarter of 2024 following an increase of 1.4 per cent in the second quarter. The fourth quarter 2024 was the slowest quarterly growth in non-residential construction prices since the fourth quarter of 2020.

Chart 1: Statistics Canada, Non-residential Building Construction Price Index
Toronto, Ontario CMA
(Quarterly Increases Q1 2022 to Q2 2024)



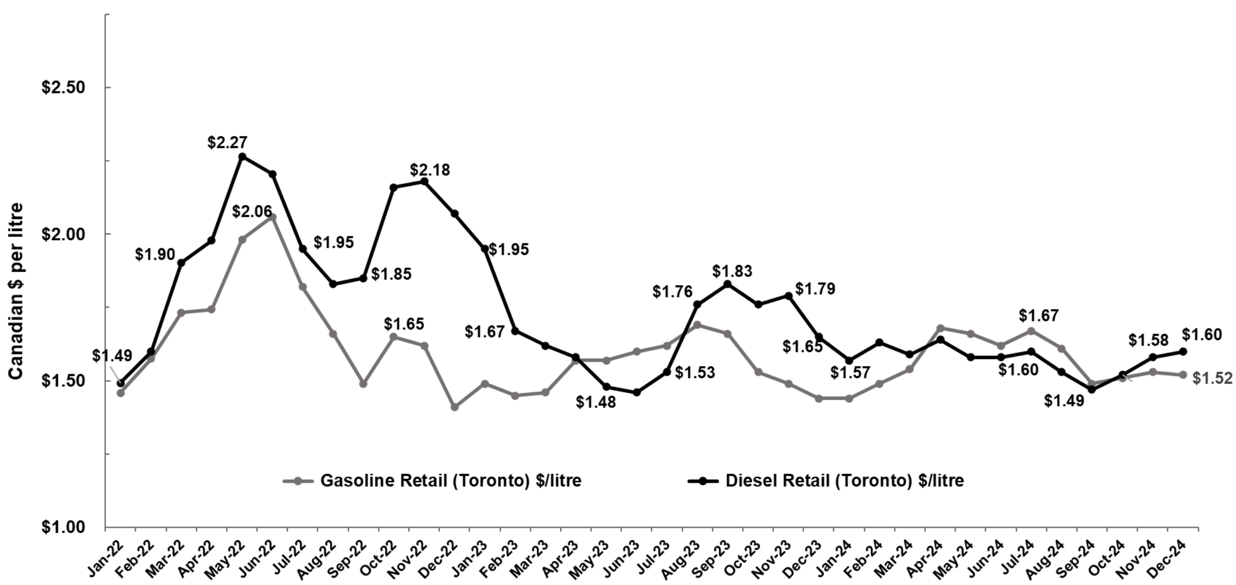
Source: Statistics Canada, table 18-10-0289-02, November 5, 2024 (latest available)

4.3 Fluctuating commodity and fuel prices have direct implications for Regional costs. Driven by North American and global markets, commodity and fuel prices are beyond the direct control of the Region and can be volatile. The following provides trends and context for fuel and other commodity pricing deemed relevant to Regional operational and capital planning. It should be noted that potential tariffs as threatened by US President Trump could result in both direct and indirect impacts related to both operational and capital programs, including volatile and rising commodity and fuel pricing and supply chain disruptions.

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 by the end of 2024 were below the average pricing seen over the first quarter of 2022 (when regular gasoline averaged $1.59, and diesel averaged $1.67 per litre). December 2024 pricing was at $1.52 per litre for regular gasoline and $1.60 per litre for diesel.

4.5 While retail fuel prices are anticipated to continue to weaken with slowing global economic growth, geopolitical tensions and risks are heightened and could have significant inflationary impacts. Any worsening of regional conflicts abroad, labour disruptions, U.S. tariffs on Canadian oil imports, or climate events, could affect global oil, retail fuel, commodity and food prices, supply chains, and inflation.

Chart 2: Diesel and Regular Gasoline
Toronto Benchmark Monthly Averages
CDN $/litre from January 2022 – December 2024)



Source: Natural Resources Canada

4.6 Based on historical data compiled by Sproule Holdings Limited, Union Dawn hub (Ontario) natural gas prices have decreased 43.4 per cent in the 24 months since December 2022. However, the market is increasingly volatile. In the month from November 2024 to December 2024, Union Dawn natural gas prices surged 46.6 per cent, from 10 cents per cubic meter to 14 cents per cubic meter (natural gas supply costs only - excludes pipeline transportation tolls and other distribution charges).

4.7 The significant monthly December price increase is related to several factors, including reduced North Sea natural gas production, heightened cold weather forecasts, and a surge in demand for North American liquefied natural gas (LNG) destined for both Asia and Europe, where low storage levels and the end of Russian oil supply transport to Europe through Ukraine play a part (the Ukraine – Russia gas transit agreement expired, increasing European reliance on North American LNG). More turbulence in natural gas markets is anticipated, due to supply-demand imbalances anticipated throughout 2025.

4.8 The Statistics Canada Industrial Product Price Index (IPPI) measures price changes for products manufactured in Canada. It reflects 22 industrial product price categories. Table 1 below demonstrates year-over-year changes in industrial product pricing in manufacturing, industrial processes, and construction between December 2023 and December 2024. Industrial product prices affect Regional material processing and construction costs.

4.9 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 December 2024 the overall IPPI had fallen 3.3 per cent from this peak. Year over year the IPPI index is 4.1 per cent higher than December 2023. Within the basket of products however, there remain significant price volatility year-over-year.

4.10 In December 2024, year-over-year prices have fallen significantly for fabricated metal and construction materials (-28.7 per cent), with energy and petroleum products also down by 2.9 per cent and primary ferrous metal products down a marginal 0.6 per cent. However, significant product price increases are still apparent for non-ferrous metal products (+ 22.3 per cent), lumber and wood products (+11.5 per cent), electric, electronic and audiovisual and telecommunications products (+8.7 per cent), and cement, glass and non-metallic minerals (+7.1 per cent).

Table 1: Statistics Canada Industrial Product Price Index Price Levels by IPPI Product Category (December 2023 to December 2024)

Product Category	IPPI Price Index Dec-23	IPPI Price Index Dec-24	Yr over Yr %
Primary Ferrous Metal Products	137.2	136.4	-0.6%
Primary Non-ferrous Metal Products	136.6	167.0	22.3%
Lumber & Wood Products	122.9	137.0	11.5%
Energy and Petroleum Products	128.5	124.8	-2.9%
Fabricated Metal Products & Construction Materials	139.2	99.3	-28.7%
Cement/glass/non-metallic minerals	127.8	136.9	7.1%
Electric/electronic/audiovisual/telecommunication Products	128.1	139.3	8.7%
Machinery & Equipment	117.0	122.9	5.0%
Chemicals and Chemical Products	119.8	123.4	3.0%
Packaging Materials and Containers	128.7	135.1	5.0%
Total Industrial Product Price Index	**123.3**	**128.3**	**4.1%**

Note: January 2020 = 100
Data Source: Statistics Canada, Table 18-10-0268-01, January 22, 2025

5. Economic Growth - GDP Totals

5.1 Economic growth, as measured by real gross domestic product (GDP), increased by 0.3 per cent overall in the third quarter of 2024 for Canada, after rising 0.5 per cent in the second quarter, according to Statistics Canada's latest release November 29, 2024.

5.2 However, on a per capita basis Canada GDP fell for the sixth consecutive quarter, by 0.4 per cent in the third quarter, 2024 (compared to a decrease of 0.1 per cent in the second quarter). Per capita GDP only increased in one quarter of the last nine quarters, pointing to continuing softness in the nation's economy.

5.3 Third quarter GDP growth was primarily concentrated in higher household and government expenditures, with declines noted in inventory accumulation, business capital investment (-7.8 per cent) and exports (-0.3 per cent). On an annualized basis GDP rose one per cent in the third quarter of 2024, lower than the Bank of Canada's 1.2 per cent forecast October 23rd and slower than the pace of population growth.

5.4 The Bank of Canada reported in its January 29, 2025, press release that the Bank "... forecasts GDP growth will strengthen in 2025. However, with slower population growth because of reduced immigration targets, both GDP and potential growth will be more moderate than was expected in October. Following growth of 1.3% in 2024, the Bank now projects GDP will grow by 1.8% in both 2025 and 2026..." The Bank of Canada forecasts currently exclude consideration of tariff threats proposed by the US Trump Administration, although they continue to monitor US trade policy closely.

5.5 Compensation of employees rose 1.7 per cent in the third quarter led by increased wages in finance, real estate and company management.

5.6 The household savings rate reached 7.1 per cent in the third quarter, up from 6.2 per cent in the second quarter, as gains in disposable income (+2.3 per cent) grew at double the pace of spending (+1.2 per cent) and interest payments on mortgages and consumer credit declined for the first time since the third quarter of 2021 (-0.6 per cent).

6. The Labour Market

6.1 Statistics Canada reported on January 10, 2025, that the December 2024 employment rate in Canada was up by 0.4 per cent, rising to 60.8 per cent. Employment increases were recorded for men aged between 25 and 54 years old (+30,000 or +0.4 per cent), and women 55 years or older (+21,000 or +1.1 per cent). The unemployment rate declined by 0.1 per cent to 6.7 per cent.

6.2 Employment rose in educational services (+17,000), transportation and warehousing (+17,000), finance, insurance, real estate, rental and leasing (+16,000) and health care and social assistance (+16,000). In Ontario employment also increased by 23,000 (0.3 per cent).

6.3 Statistics Canada reports that public sector employment increased by 40,000 (+0.9 per cent) in December, the second consecutive monthly increase and in the year to December 2024, public sector employment increased by 156,000 (+3.7 per cent), driven by education services, health care and social assistance. Meanwhile private sector employment was up 191,000 (+1.4 per cent) on a year-over-year basis.

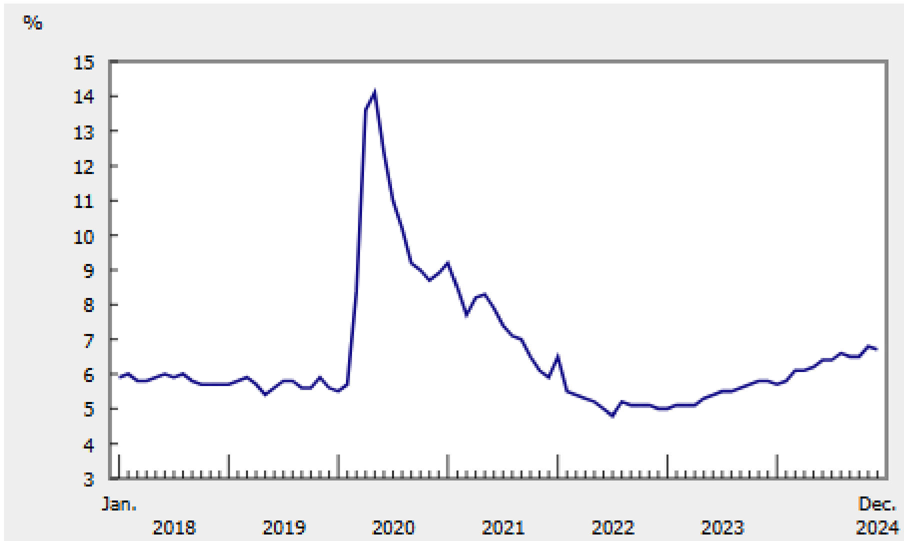
6.4 Total hours worked rose 0.5 per cent in December and were up 2.1 per cent compared with 12 months earlier.

6.5 Average hourly wages among employees were up 3.8 per cent (+$1.32 to $35.77 per hour) on a year-over-year basis in December, following growth of 4.1 per cent in November 2024 (not seasonally adjusted).

6.6 The unemployment rate fell in December to 6.7 per cent but has generally trended up since March 2023 when it was 5.0 per cent.

6.7 Provincially, the unemployment rate in Ontario fell in December 2024 to 7.5 per cent compared to 7.7 per cent the month prior and is 2.5 per cent higher than in April 2023 when it was at 5.0 per cent.

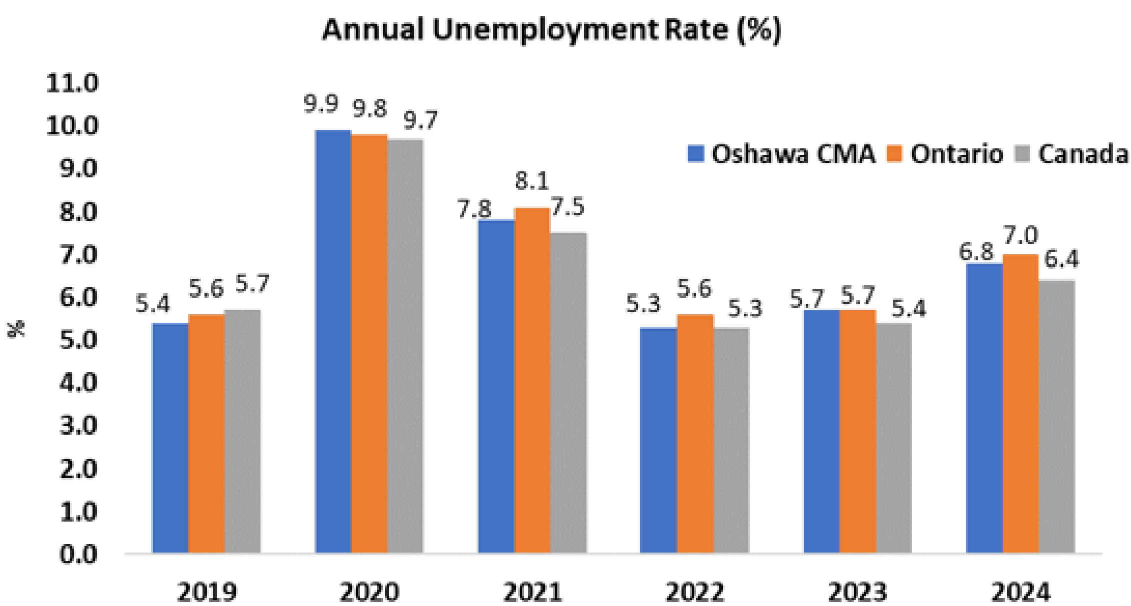
Chart 3: Unemployment Rate – Canada
(January 2018 – December 2024)



Source: Statistics Canada, Labour Force Survey (3701), table 14-10-0287-01.

6.8 Annual unemployment rates including 2024 as noted in chart 7 below, demonstrate that the Oshawa CMA continues to trend with the provincial and national rates of unemployment.

Chart 4 Unemployment Rates
in Canada, Ontario and the Oshawa CMA (2018 to 2024)



7. Housing Trends

7.1 On January 7, 2025, the Toronto Regional Real Estate Board (TRREB) reported that total Greater Toronto Area (GTA) home sales decreased 1.8 per cent year-over-year for the month of December, but total annual sales in 2024 were up 2.6 per cent to 67,610 compared to full year 2023. New listings were up significantly which benefited buyers with more negotiating power on price, especially in the condominium market. Average selling prices in December 2024 dipped by 1.6 per cent in comparison to December 2023 as a result, although still at a relatively unaffordable average GTA price of $1,067,186.

7.2 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. TRREB President Elechia Barry-Sproule noted, “All else being equal, further rate cuts in 2025 and home prices remaining below their historic peaks should result in improved market conditions over the next 12 months.”

7.3 In December 2024 Durham Region had an average home resale price of $930,207 compared to $904,226 in November 2024 and $860,622 in December 2023. This was an anomaly compared to other GTA Regions which had downward price pressures, especially in the condominium market as noted by TRREB. Where Durham’s home resale market in December 2024 had a sales-to-active listings ratio that was relatively balanced putting some pressure on price, other Regions maintained similar sales levels to December 2023, but with significantly high jumps in active listings, which put downward pressure on their prices. Halton’s active listings for example jumped 75 per cent December 2023 to December 2024, with sales increasing only 5.0 per cent.

7.4 Despite Durham’s pricing trending in the opposite direction year-over-year compared to GTA peers, Durham still maintains relative home resale affordability compared to peers. Durham’s average home resale price in December 2024 was between 5.6 per cent and 36.3 per cent less expensive than other GTA Regions.

Table 2: Toronto Regional Real Estate Board:
GTA Average Home Resale Selling Price
(All Home Types)

	December 2024	Relative Affordability	Year-over-year Price Change
Durham	$930,207	-	+8.1%
York	$1,268,118	+36.3%	-1.0%
Peel	$982,456	+5.6%	-3.7%
Halton	$1,139,611	+22.5%	-12.5%
Toronto	$1,033,742	11.1%	-2.7%

Source: Toronto Regional Real Estate Board, December Market Watch report

8. Risks, Uncertainties and Potential Volatility

8.1 While past updates have noted concerns with geopolitical risks, volatile pricing, potential trade disruptions, slow Canadian growth and productivity and rising unemployment, top of mind for Canadians in early 2025 are potential tariffs and retaliations that could result, due to threats being made by US President Donald Trump. Although as yet hypothetical, Trump's threats for an across the board 25 per cent tariff on all Canadian trade would have severe economic and financial impacts including inflationary pressures and risks, supply chain disruptions, reduced employment, and worsened affordability. Canada's annual goods and services exports to the United States, according to Statistics Canada, total over $700 billion in goods and services. Similarly, US imports exceed $600 billion in goods and services.

8.2 President Trump's tariff threats may be partly posturing, not only to achieve additional negotiated trade concessions during his term, but also other ends, including enhanced security along the US-Canadian and US-Mexican borders, reduced illegal drug trade, and in Canada's case, additional NATO funding commitments. The official January 20, 2025 "America First Trade Policy" memorandum from President Trump to nine offices of his new government, does not actually recommend a specific tariff, nor include anything radical in terms of trade policy review. The policy order directs trade reviews, investigations, findings, identifications, and recommendations which are to be delivered to the President in a consolidated report by April 1, 2025. The current Canada-United States- Mexico Agreement is scheduled for a joint review commencing July 1, 2026, although any country can leave the agreement, according to the agreement, with six months written notice.

8.3 Regardless of whether tariffs are immediate or implemented in some form later, the threat of tariffs cannot be ignored, and the uncertainty is already having an impact on the Canadian dollar exchange rate, business investment, inventory levels and supply chains, as producers and importers adjust their stock and seek alternative markets to minimize damage.

8.4 The Canadian Chamber of Commerce currently predicts the proposed 25 per cent tariff could shrink Canada's Gross Domestic Product (GDP) by 2.6 per cent and cost $1,900 per Canadian household annually. US GDP is anticipated to fall a still significant 1.6 per cent, costing US households $1,300 per year. While trade dependent industries would be the hardest hit, everything would become more expensive for Canadians as higher costs, including energy, flow through all goods and services costs. Inflationary effects could lead to another interest rate hiking cycle to contain it, and the housing crisis and food insecurity would likely worsen. This is a worst-case scenario as there is some recent experience to be drawn on. President Trump during his first term in office implemented tariffs on steel (25 per cent), aluminum (10 per cent) and softwood lumber (20 per cent) ahead of the July 1, 2020, implementation of the current trade agreement to which Canada retaliated with tariffs on close to $17 billion of Canadian goods. It took until the following year for the two countries to lift these tariffs and the Canada-United States-Mexico Agreement was subsequently ratified on July 1, 2020. Canada in anticipation of US tariffs this time, has earmarked up to $37 billion of U.S. imported goods for retaliation during President Trump's second term, and is considering an additional $110 billion of US goods to tariff, subject to consulting with various domestic stakeholders.

8.5 The Finance Department will continue to monitor the economic environment, US trade policy and key indicators and report on implications as required.

Respectfully submitted,

Original Signed By

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Commissioner of Finance and Treasurer