Where Have All The Good People Gone, Now?

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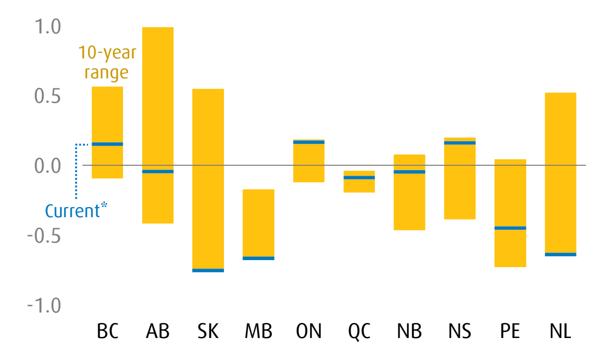
The Canadian economy is settling into equilibrium, with growth now running around potential, the output gap closed and core inflation trending near 2%. Regionally, most provinces are converging back toward potential growth as well. For example, Alberta and Ontario are both expected to grow around 2% this year, the former following a deep recession and rebound, and the latter following the best three-year run in 15 years. Indeed, 2017 saw the lowest dispersion of provincial real GDP growth rates in 23 years of data. Labour market performance is converging as well, and the June employment report showed 8 of 10 provinces with year-over-year job gains during the first six months of 2018, with all 10 in a tight -0.8%-to-2.4% range. While there are clearly areas of strength and weakness, as discussed below, the days of extreme variability in Canada's labour market appear behind us for now.

One implication of converging growth and labour market trends is that interprovincial migration has steadied, and become more balanced. Most notably, Alberta is now effectively seeing neutral net flows with other provinces. That is a stark change from both the energy boom, when 35k people per year flocked in from every other province, and the recent oil price shock, when Alberta lost nearly 20k people per year (*Chart 1*). Across the country, B.C. and Ontario remain draws, while Saskatchewan and Manitoba are still weak, especially relative to their smaller population bases. Quebec has improved slightly (though consistently loses people to other parts of Canada), while outflows from Atlantic Canada have moderated significantly relative to past-decade norms.

Employment prospects are typically the biggest factor driving migration trends, and we often simplify this by saying there are two key reasons to move: To **find a job**, if you don't have one; or to take a **better-paying job**, if you do. **Housing affordability** and **taxes** are also key economic considerations. With those factors in mind, we've ranked 21 of Canada's largest cities based on their attractiveness as an economic destination (*Table 1, next page*). We understand that mountains vs. lakes, or seafood vs. beef are among many other important considerations, but such lifestyle factors are ignored here. At any rate, the picture is telling, with a few stark changes from when we last ran such an analysis five years ago.

Chart 1
Where to Now?



Source: BMO Economics *4-qtr sum as of 2018Q1

The top three locations:

Ottawa: We've been very bullish on Ottawa for a while now (the city, not the hockey team), and it shows. The city boasts the highest median employment income per family, and has seen its jobless rate sink nearly 2 ppts below the 21-city average, while home prices remain decidedly affordable despite accelerating recently. Recall that the city went through a multi-year period of stagnation through about early-2016, before a wave of federal government hiring set the economy in motion. The masses seem to agree—population growth has accelerated to the strongest pace in 16 years.

Quebec City: Rarely a big population draw, but the city is remarkably stable from an economic perspective (note the lowest jobless rate in the comparison). To boot, it boasts some of the most affordable housing in

Table 1
Ranking of Regional Labour Market Attractiveness

	Income	Job Prospects		Housing Affordability		Tax Burden		
	Median Emp. Income[1] ($)	Jobless Rate (% : y.t.d.)	Employment Growth (y.t.d. vs. 5-yr avg.)	Avg. Home Price ($: ytd)	1-Bedroom Rent[2] ($, 2017)	Income Tax[3] (%)	Sales Tax (combined) (%)	Overall Rank[4]
Weight (%)	20	20	15	15	15	10	5	
Ottawa	98,500	4.7	3.5	403,500	1020	6.5%	13	**1**
Quebec City	78,800	3.6	4.1	267,700	700	11.2%	15	**2**
Hamilton	82,600	5.0	5.9	549,000	910	6.5%	13	**3**
Edmonton	94,300	6.8	1.4	372,200	990	6.8%	5	**4**
Windsor	70,100	5.3	3.3	280,300	720	6.5%	13	**5**
Regina	89,200	5.5	1.9	302,300	940	8.3%	11	**6**
Calgary	95,200	7.9	3.6	464,000	1030	6.8%	5	**7**
Victoria	76,500	4.2	6.8	695,400	990	5.2%	12	**8**
Guelph	91,900	4.9	1.0	521,300	980	6.5%	13	**9**
Saskatoon	85,400	6.9	1.8	330,200	900	8.3%	11	**10**
Montreal	71,500	6.0	5.4	362,600	700	11.2%	15	**11**
London	73,000	6.0	1.5	351,400	840	6.5%	13	**12**
Kitchener	85,000	5.4	-0.5	474,800	920	6.5%	13	**13**
St. Cath-Niagara	63,200	5.9	1.4	378,800	820	6.5%	13	**14**
Winnipeg	70,100	6.3	2.2	297,200	880	10.0%	13	**15**
Moncton	69,900	8.1	0.4	180,100	680	9.9%	15	**16**
Vancouver	77,100	4.1	7.1	1,027,400	1220	5.2%	12	**17**
Halifax	76,500	7.6	1.4	304,000	880	11.1%	15	**18**
Toronto	78,800	6.0	4.8	756,000	1190	6.5%	13	**19**
St. John's	89,100	8.6	-4.2	247,400	790	9.9%	15	**20**
PEI	61,900	10.2	2.4	215,900	730	10.6%	15	**21**
Average	79,933	6.1	2.6	418,167	897	7.9%	12.5	

[1] all family units; employment income; forecasted for 2018 [2] average 1-bdrm privately-initiated rental
[3] provincial income taxes paid as a share of taxable income, at income level of $70,000
[4] based on weighted-average no. of standard deviations away from 21-city average, for each category. This penalizes/rewards extreme differences.
Cities are grouped into tiers based on relative strength or weakness. For example, Guelph is much closer to Victoria than Saskatoon.
Sources: BMO Economics, Statistics Canada, CREA, CMHC, B.C. 2018 budget

Canada. The tax burden, however, remains a drag, while there are surely some language and cultural factors that hold back in-migration from other areas of Canada.

Hamilton. This speaks to the strength of the broader Toronto-area labour market, even though Toronto itself ranks low (the largest city will often show less favourable median income and jobless rate metrics). Keep in mind that labour force metrics reflect the location of home, not work. And, given that Toronto has been held back by significant pressure on housing affordability, cities like Hamilton and **Guelph**, within commuting distance of Toronto jobs, have served as a release valve.

Fundamental factors:

Jobs and wages: It is here that regional growth convergence is most evident. With Ontario, Quebec and B.C. showing signs of fading back toward potential, while Alberta has moved beyond recession, jobless rates are converging across the country. Note that the average absolute deviation of these 21 cities' jobless rates currently matches the lowest level in 18 years of data. Still, the biggest change from five years ago is the relative deterioration of the cities previously powered by the energy boom. In 2013, the ranking was topped by Regina, Calgary, Edmonton and Saskatoon, and it wasn't even close—there was a wide performance gap between that group and the rest of the country. While still solid thanks to low taxes and high income levels (if you've held your job), the group looks more pedestrian today, with a previously yawning wage differential between Alberta and the rest of the country (as one example) narrowing (*Chart 2*). So far this year, we see more stability in those markets, contributing to a narrower overall gap in job and wage conditions across Canada.

Housing affordability: Despite considerable media attention, this is really only an issue in a few pockets of the country. **Vancouver** ranks well down the list despite some of the best labour market metrics in the country. Housing affordability holds the city back in a major way (less so in the also-attractive **Victoria** market), illustrating why this issue has become a serious policy item—it's safe to assume that inward migration would be meaningfully higher if not for the lack of quality affordable housing. That said, some of the more dramatic changes in housing affordability have actually been around **Southwestern Ontario** (*Chart 3*). When adjusting price gains over the past five years for income growth, Niagara, Kitchener and Guelph dot the top of the list. This reflects a spillover of demand (both commuting workers and investors) from Toronto's strong market into these locales that were far more affordable.

Taxes: Some major economic and political shifts have brought about meaningful taxation changes in recent years. Alberta, British Columbia and parts of Atlantic Canada have raised **income taxes** in recent years, with most changes targeted at the higher end of the income spectrum (these rankings are based on a $70k income level). Meantime, Saskatchewan, New Brunswick, PEI and Newfoundland & Labrador have raised **sales taxes** in the past five years. Quebec is the standout on the tax front, with a strong fiscal position allowing modest income tax reductions. However, the province still has ground to make up given a relatively high burden to begin with (before consideration for programs like subsidized childcare).

Implications for policymakers

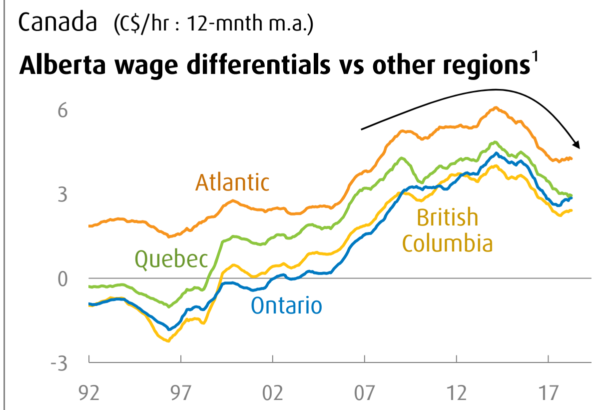
While the gap in regional performance is currently low, these rankings highlight the benefit of policies that grease **labour mobility**, allowing resources to move where they are needed most.

Housing affordability remains a major issue in B.C. and Ontario, to the point that it is constraining growth. Measures to reduce 'bad' demand (i.e., speculation and nonresident investment) have been taken, but supply constraints for detached housing remain.

In regions such as Atlantic Canada, weaker labour markets make **retention** of international immigrants and new graduates a challenge. Losing prime-age working (tax paying) population to other regions exacerbates the longer-term fiscal challenge.

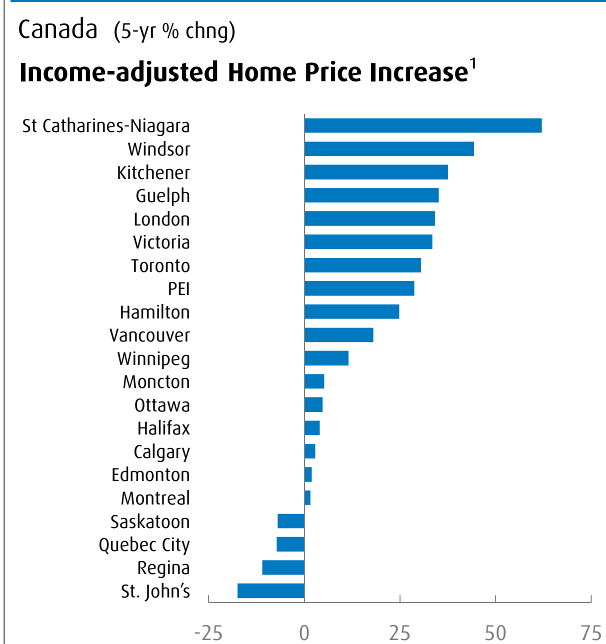
For **monetary policy**, the narrowing growth gap is consistent with an economy operating near capacity and settling into potential. Contrast this to 2015 when the BoC cut rates twice, effectively for three struggling oil-producing provinces.

Chart 2
Alberta Wage Gap Narrows



[1] based on average hourly earnings including overtime
Sources: BMO Economics, Haver Analytics

Chart 3
Hunting for Affordability



[1] Change in average home price minus change in median household employment income, year-to-date 2018 vs. 2013
Source: BMO Economics