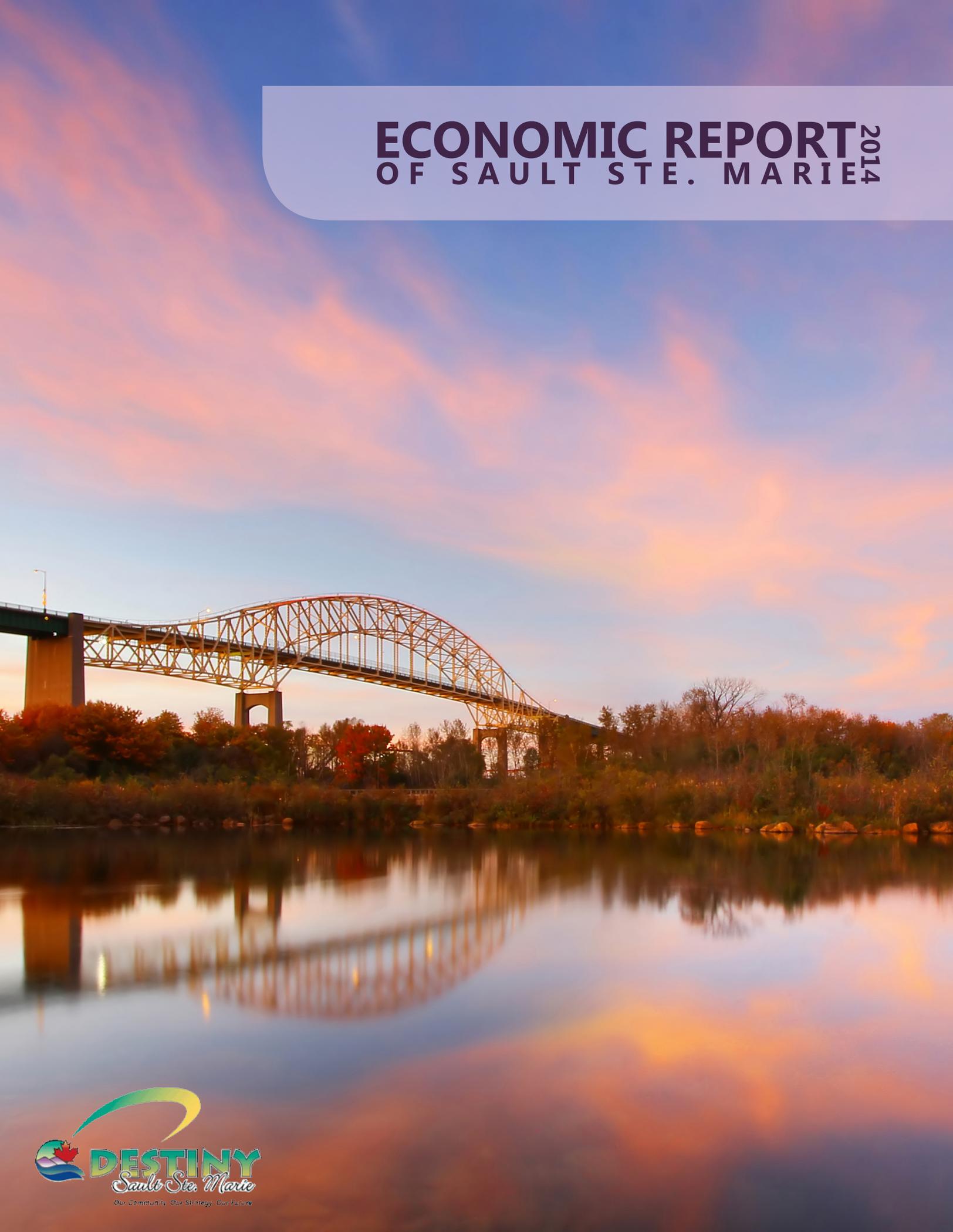


ECONOMIC REPORT 2014 OF SAULT STE. MARIE



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Destiny Sault Ste. Marie (Destiny SSM) initiated the development of this Indicator Report. Destiny SSM was established in 2003 and is a partnership of public and private sectors, providing economic leadership to create a prosperous, diversified, growing and sustainable economy in Sault Ste. Marie. The goals of Destiny SSM are to:

- Conduct strategic community planning related to economic diversification,
- Analyze key economic indicators and communicate important trends and track progress, and
- Support and align priority community initiatives.

The following are members of the Destiny SSM partnership:

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Two individuals who went above and beyond to produce this report are Laurie Gravelines, Economist, who authored the report in partnership with Steve Zuppa, GIS Analyst (editing and graph creation) from the Community Geomatics Centre. The time and dedication they put into producing this report is to be commended.

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EXECUTIVE SUMMARY

Destiny Sault Ste. Marie (Destiny SSM) initiated the development of this Indicator Report. Destiny SSM was established in 2003 and is a partnership of public and private sectors, providing economic leadership to create a prosperous, diversified, growing and sustainable economy in Sault Ste. Marie (see Acknowledgements). The goal of this report is to “enhance community economic decision-making and communication efforts of local economic development initiatives” supported with “well-sourced, accurate, consistent and widely accepted economic-related data for the local area.”

This report documents the Baseline against which future development and indicators can be measured. A Baseline is necessary to establish the marker to measure future performance against the past. It enables us to illustrate the direction of change – better or worse or stationary – and it allows us to measure speed of change. In the absence of a Baseline, there is no knowledge of past performance and the current economic state. Economies are dynamic, reacting to economic developments at the local, national and international levels, all of which will impact many indicators, therefore the Baselines are the best paths forward. The indicators must be regularly reviewed for trends and relevance, but the Baseline they establish is a strategic milestone for local economic development pathways.

Thirty-two primary economic indicators and further secondary supporting indicators were analyzed and each was clustered into one of seven themes. The most current value will be interpreted relative to its previous year’s performance, against its recent trend and, if the information is available, compared to a similar jurisdiction.

Findings

Gross Domestic Product (GDP) is the headline statistic of the size of the economy. It is not an indicator; it is the measure of the size of the economy and is the macroeconomic outcome of all the individual economic activities occurring at the local, provincial, and international levels as they impact Sault Ste. Marie. The GDP in Sault Ste. Marie has still not recovered to pre 2008 recession levels.

Five indicators were included in the Building Permit Cluster. Short-term indicators of private business investment are down while indicators associated with resident and the non-profit sector is up. Examining the long-term indicators, industrial building permits are down considerably



while resident indicators on the supply-side are at average levels, and Institutional investment is very strong.

Three indicators were included in the Funding Awarded cluster. This included research institutions, financed through the provincial and federal governments: the Great Lakes Forestry Centre, Algoma University, Sault College of Applied Arts & Technology and the Ontario Forest Research Institute. Their intellectual legacy in Sault Ste. Marie is lengthy, but poorly documented and quantified.

The Economic Sector Growth Cluster has the largest number of primary and secondary indicators. Two of the indicators, the number of new business starts and a measure of entrepreneurship, provided insufficient information for this exercise. Entrepreneurs are responsible for the production of goods and services that are measured in the GDP, but entrepreneurship itself is not measured. Entrepreneurs are a critical ingredient to a dynamic marketplace. It includes those who succeed and those who don't equally. This is a gap in the data.

Much of the balance of this cluster focuses on economic potential; that is the amount of labour in the workforce, by economic sector and their productivity. It also discusses how much money residents have to spend and save for future spending; a measure of local demand potential, and the volume of retail spending today.

The Labour Force Thematic Cluster included five primary indicators which changed in a positive direction. The attributes of the existing labour force, size, participation rate and the employment rate all improved in all dimensions. The three primary indicators focusing on the quantity of labour force, which was readily available and the investment in the future quality of labour, with its direct impact on increased economic productivity, was not as readily available. This is an important gap in our information. It is possible to foster a growing economy without investing in productivity growth, but to foster a growing economy with rising GDP per capita, it is necessary to increase productivity. Education is an element in fostering higher productivity, and it is a statistic as of yet not readily available for a local analysis.

The Population Growth Cluster has three primary indicators. Trends in the Sault are typical of northeastern Ontario: an older population and a population that is not growing. International net migration was not significant for northern Ontario locations.

The Resilience/Real Estate Thematic Cluster has five indicators, three of which had limited supporting data, but the

available data was positive. Two indicators each of which could affect the quality of life and the ability of students and persons facing difficult circumstances to remain in Sault Ste. Marie to remain in the city were unavailable.

The Tourism Thematic Cluster has two indicators which conveyed only marginal information about future economic developments in the sector. A third indicator was added, namely the volume of U.S. licence plated non-truck vehicles entering Canada through Sault Ste. Marie. This was interpreted as an indicator for tourism in the economic region serviced by suppliers located in Sault Ste. Marie as well as visits to the Sault. Passport laws and the recession created a collapse in American border crossings into Canada that was evident, and the levelling off of the collapse in recent years is also evident.

Observations

In summary, Sault Ste. Marie perceives itself as a goods-producing, steel manufacturing community. This sector was severely affected in the last recession, although it is attempting to adapt to the new circumstances. If steel/manufacturing is settling to a lower "new normal", what sector is emerging to "fill the gap"? In other words, the legacy effects of the last recession will last for some time unless Sault Ste. Marie develops a new economic base to support future growth and this may mean that Sault Ste. Marie may have to embrace a new vision for itself.

The impact of the recession was somewhat mitigated by the timely upswing in public investment. This could not have been better timed, but the effect will be a more one-off type of impact unless steps are taken to ensure that these investments can grow (i.e., regional or provincial centres of education/research excellence, health services, a dynamic entrepreneurial environment to perceive and pursue new opportunities, etc.

The residents in Sault Ste. Marie continued to spend, mitigating the impact on the service sector and the housing sector. The question is how did they finance the spending? Increased consumer debt is in a sense borrowing from tomorrow to get through today and is only sustainable if the future economy is strong. There was not enough information to determine future growth and the impact of resident spending.

In short, the economy of Sault Ste. Marie may not have been as severely hurt by the recession as some may have thought; but the impacts of the recession will linger through its impact on consumer spending for some time.

Conclusion

Destiny SSM published extensive “Progress Reports” in the past to illustrate and communicate the economic conditions in the Sault and area. This Indicator Report was initiated by Destiny SSM to give leaders in the community the necessary information required to make effective decisions, to communicate more effectively and to initiate positive changes in our community. With a focus on outcome measures, the Destiny SSM partners worked together to investigate, evaluate and select indicators to be collected for this initial report. Indicators were chosen based on their importance, not on the basis that information was available and/or accessible.

Moving forward it is strongly recommended that Destiny SSM review and evaluate indicators to determine the state economy on an annual basis with a strong mandate to facilitate the growth of the Sault Ste. Marie economy. It is anticipated that Destiny SSM will continue to improve this report, to enhance indicators, to provide and analyze community economic indicators, and to determine the state of the Sault Ste. Marie economy on an annual basis. In addition, KPMG will provide an overview of this report in presentation form, at the Greater Community Forum 2014, to outline the impact for the community along with recommended actions.

INTRODUCTION

Destiny Sault Ste. Marie (Destiny SSM) initiated the development of this Indicator Report. Destiny SSM was established in 2003 and is a partnership of public and private sectors, providing economic leadership to create a prosperous, diversified, growing and sustainable economy in Sault Ste. Marie (see Acknowledgements). The goal of this report is to “enhance community economic decision-making and communication efforts of local economic development initiatives” supported with “well-sourced, accurate, consistent and widely accepted economic-related data for the local area.”

Indicators

Project team participants identified primary economic indicators and further secondary supporting indicators for the local economy.

The selection of economic indicators was based on three factors. First, many of the indicators have been referenced in earlier reports and had been used in the decision-making process previously, so there was a sense of comfort and confidence in their usefulness.

Second, these indicators had to be measurable at the local level, in part in the normal operations of the city government.

Third, other indicators are provided by Statistics Canada at the local scale component of provincial and national statistics programs.

The individual indicators were grouped into seven thematic clusters:

1. **Building permit values.** The building permit cluster is a leading indicator for future investment.
2. **Funding awarded by government.** This measures funding awarded by senior levels of government to city based institutions and are leading indicators for the future quality and productivity of the resident labour force.
3. **Economic Sector Growth.** This measures the level and direction of current economic activity within the city.
4. **Labour Force.** This measures the available capacity of the exiting labour force and available increased productivity of the resident labour force in the near term.
5. **Population Growth.** This monitors key attributes of demand factors within the local economy.
6. **Resilience and real estate affordability.** This is a measure of economic resilience of the local economy.

7. **Tourism.** This measures the available capacity and level of demand in the tourism industry.

Indicators can be three different types:

- **Lagging:** lagging indicators are available after the economic activity takes place;
- **Coincident:** coincident indicators are available as the activity is occurring; or
- **Leading indicators:** leading indicators are available before the activity happens.

Indicators vary in terms of their timeframe. Certain indicators of stable economic sectors provide guidance based on the short-term trend; for example, last month's seasonally adjusted value of retail trade would be expected to be a good predictor for next month's value of retail trade. Other indicators are directly linked to future economic activity; an increase in the value of commercial building permits is an indicator of future commercial construction. Other indicators are tied to very long term economic outcomes, and represent long term increases in economic capacity, and these include investments in public infrastructure, education and health.

Each indicator was framed in terms of its:

- short-term performance, defined as its latest period change from the immediate preceding time period;
- long-term performance, defined as its latest period change from its long-term average; and
- its comparative performance relative to a comparator jurisdiction, defined as the ratio of Sault Ste. Marie's long-term performance to that of a comparator, whether a similar jurisdiction or the province of Ontario. In effect this is a simple statistic to measure whether “all boats are rising or falling at the same rate” in response to the changing economic surroundings.
 - If this ratio is greater than 1.0, Sault Ste. Marie is performing at a higher level than the comparator jurisdiction.
 - If the ratio is less than 1.0, Sault Ste. Marie is performing at a lesser level than the comparator jurisdiction.
 - If the ratio is 1.0, Sault Ste. Marie is performing the same as compared to another jurisdiction.

Where there is sufficient data each indicator is illustrated on two figures. The first figure shows the performance of the indicator over time and against its long-term average. The rate of change is also graphed as a per cent over the previous period. The second figure is the Sault Ste. Marie indicator and the same indicator for the comparator jurisdiction each re-scaled to their long-term averages set

to equal 100. The shape of the graphs are not affected, only the fact that they can now be illustrated on the same graph.

The choice of the “most current” period compared to its short-term, long-term, or comparator’s value may be somewhat biased by the choice of year. To partially address this issue, most indicators are plotted on a graph over time to provide a visual overview of its performance.

The summary statistics for each indicator will be presented at the end of each thematic cluster.

Characteristics

Two of the indicators are outcome measures: gross domestic product measures the value of all goods and services produced within Sault Ste. Marie and population, in this case the working age population. The headline measure of the size and health of an economy is measured by the level and the change of the gross domestic product (GDP). GDP is a comprehensive measure of the economy and, not surprisingly, each of the Sault Ste. Marie indicators can be associated with various components of the GDP. To provide insight of the relative importance of Sault Ste. Marie indicators, the following section states the share of Ontario GDP attributed to each component over the latest five year period. As an accounting framework, GDP is calculated three different ways, each of which results in the same value: (1) the sum of all expenditures in the economy; (2) the sum of all incomes generated in the economy; and (3) the value all goods and services produced in the economy. Each accounting framework is for the same year, and each has many accounting details to ensure its correctness.

Using the sum of all expenditures, the components are:

- *total expenditures on consumer goods and services* (**58** per cent of GDP) comprised of three categories of goods expenditures: durable, semi-durable, non-durable goods and services
- *total expenditures on production equipment and supplies*, commonly known as investment (**15** per cent of GDP) comprised of:
 - business gross fixed capital formation
 - residential structures
 - non-residential structures, machinery and equipment
 - intellectual property rights
 - non-profit institutions serving households’ gross fixed capital formation
- net government expenditures (**26** per cent of GDP)
- the net trade balance between

- exports (**51.8** per cent of GDP)
- and imports (**51.3** per cent of GDP).

Using the *sum of all incomes* approach, the components are:

- compensation to employees (**54** per cent of GDP)
- gross operating surplus which includes profits and depreciation (**23** per cent of GDP)
- gross mixed income which includes unincorporated businesses (**12** per cent of GDP)
- taxes and subsidies on production and on imports (**11** per cent of GDP)

Using the *sum of the value of output* by all industries is too long to detail here. Instead we will simply note that goods producing industries, such as steel production and forest products account for 23.8 per cent of Ontario’s GDP over the four year period ending 2010, service industries accounted for the balance, just over three quarters of GDP.

The size of the working age population is a direct outcome of a successful and growing economy, and providing meaningful employment for its citizens is a major objective for communities.

Table 1 summarizes the list of selected indicators, organized by theme and its related GDP component.

Table 1: Indicators by Theme and GDP Component

Indicator	GDP Component
1. Building Permit Values 1.2. Commercial 1.3. Residential 1.4. Industrial 1.5. Institutional 1.6. Housing Starts	These are all investment leading indicators <ul style="list-style-type: none"> • Commercial and industrial are private • Institutional is non-profit sector • Housing starts are residential and a co-incident indicator
2. Funding Awarded 2.1. Government Grants e.g., NOHFC, FedNor, SRED, IRAP 2.2. Academic Research Funding (e.g., CIHR, SSHRC, etc.) 2.3. Fields of Study for The Region 2.4. Job growth in Researchers	These are all human capital investments <ul style="list-style-type: none"> • Long-term capacity building • Diversity contributes to innovation
3. Economic Sector Growth (by Employment) 3.1. GDP for Sault Ste. Marie 3.2. New Business Starts 3.3. Employment by Sector 3.4. Unemployment Rate as a % 3.5. Personal Income per Capita 3.6. Productivity 3.7. Retail Sales 3.8. Entrepreneurship	These are generally coincidental indicators of activity <ul style="list-style-type: none"> • GDP is the gold standard but with reservations • Business starts and exits • Employment by sector – trends towards productive sectors • Personal income per capita – driver • Retail sales – coincidental consumption supported by personal income per capita
4. Labour Force 4.1. By Sector 4.2. Employment Insurance 4.3. Average of Weeks Paid EI 4.4. Students 4.4.1. Algoma University Enrolment 4.4.2. Sault College Enrolment 4.4.3. Top Five Programs 4.4.4. Education Rates - Post-secondary graduation rates	Labour force indicators are coincidental; students are capacity investment <ul style="list-style-type: none"> • Trends by sector leading indicators • Average weeks paid EI – quality of employment • Students are all human capacity, buildings and diversity supports innovation
5. Population Growth 5.1. Working Age Population 5.2. Median Age 5.3. Immigration and Outmigration	Population growth – basic coincidental indicator <ul style="list-style-type: none"> • Median age quality indicator
6. Resilience / Real Estate Affordability 6.1. Home Sales and Prices (Average House Price) 6.2. Vacancy Rates 6.3. Average Rental Rate 6.4. Affordability Index (MMAH) 6.5. Poverty Index	Resilience indicators are leading indicators <ul style="list-style-type: none"> • Home price trends and vacancy rates are direct evidence of residents movements • Affordability index and the poverty index relate to quality of life
7. Tourism 7.1. Hotel occupancy rate 7.2. Average Daily Hotel Prices 7.3. US vehicles entering Sault Ste. Marie	Tourism is a co-incident indicator <ul style="list-style-type: none"> • Tourism outlook trends link to tourist facility investment

Sources

Most indicators are sourced from public agencies which apply levels of rules to protect the confidentiality of individual data providers. Statistics Canada, for example, ensures that “[v]arious confidentiality rules are applied to all data that are released or published to prevent the publication or disclosure of any information deemed confidential. If necessary, data are suppressed to prevent direct or residual disclosure of identifiable data.”

Data sources for some indicators used for this exercise are sourced directly from specific agencies and have not been filtered through a formal process such as that used by Statistics Canada. For these circumstances this report will convert raw data to an index. Although the index will not provide information of the magnitude of the raw number, it will provide specific information regarding its trend and relative performance to its recent performance.

Summary

Each indicator will be cast against its recent trend to inform us whether it is moving in a positive or negative direction. It will also be compared to its trend in another similar jurisdiction to inform us whether its trend is atypical in a positive or negative way. Finally it will be viewed against its role in the provincial economy as a whole to inform us of its relative significance.

Each of the identified indicators is clustered into one of seven themes; the value of each indicator will be interpreted relative to its previous year’s performance, against its recent trend and, if the information is available, compared to a similar jurisdiction. In other words, each indicator is related to one of the three accounting stances for calculating GDP and the components share of provincial GDP and its contribution towards economic growth over the last decade.

Please note that Quality of Life indicators were considered for this report with the intention of including them in future reports, provided they can be quantifiable and comparable to other jurisdictions. It complements the hard economics statistics and compliments youth retention strategies as one element of a population growth program.

SAULT STE. MARIE GROSS DOMESTIC PRODUCT

GDP is measured in dollars, sometimes adjusted for inflation and/or subsidies, sometimes it is not. For purposes of this indicator, GDP is measured in inflation-adjusted chained 2007 dollars.

Gross Domestic Product (GDP)¹ is the headline statistic of the size of the economy. It is not an indicator; it is the measure of the size of the economy and is the macro-economic outcome of all the individual economic activities occurring at the local, provincial, and international levels as they impact Sault Ste. Marie.

GDP has come under some criticism because it is not as inclusive as some would want; for example agencies have developed alternative measures of “happiness”, “well-being”, and so forth. However this exercise is less ambitious, it focuses on indicators of the performance of the local economy as traditionally measured.

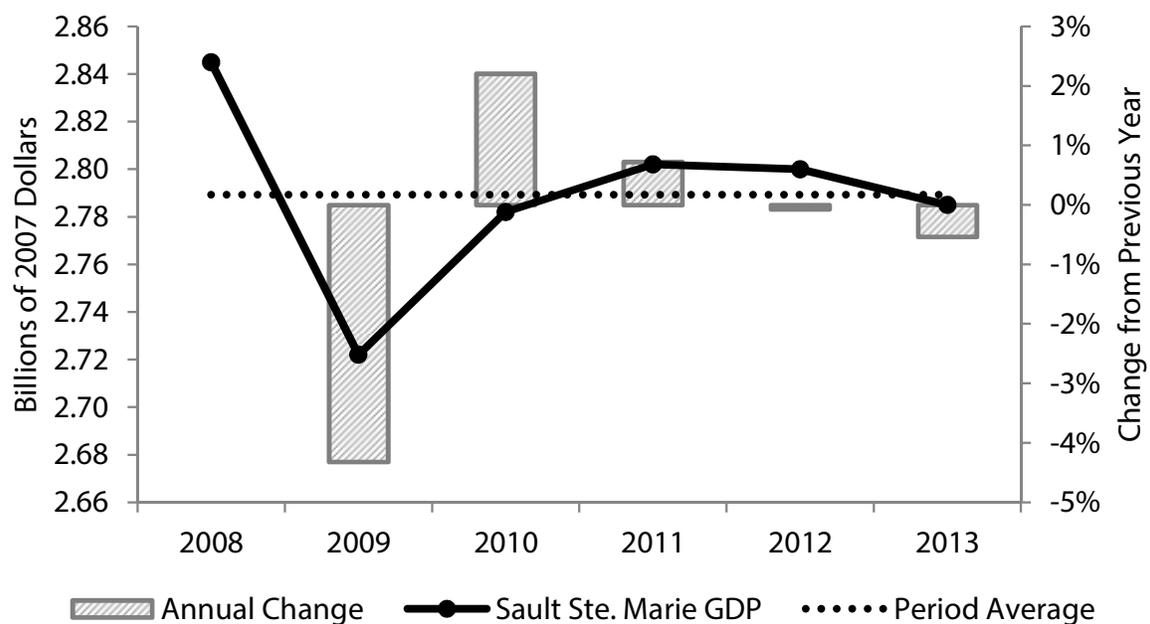
Few people understand the details of the calculation of the GDP, but it conveys meaning: if GDP drops by one or two per cent people understand that the economy is in a rough patch and unemployment may increase and retail sales will slow. The question is whether the economy has encountered mild “head winds”, or a somewhat more serious recession, or, much more seriously, whether the economy is in danger of a depression.

GDP measures both the economic activity of the for profit business sector and also measures the not-for profit components of the economy. The transactions-based economy includes the value of goods and services produced by the business sector, and the costs incurred in the not-for-profit sector. The not-for-profit sector includes religious institutions, many non-government organizations, governments themselves, hospitals, schools and education facilities, etc. Values created through the not-for-profit sector manifest through social and political stability, rule of law, and a healthy and educated labour force.

Statistics Canada has made certain updates to their methodology thereby limiting the GDP estimates for Sault Ste. Marie to 2008 to 2013. Over the six year period 2008-2013 Sault Ste. Marie’s GDP averaged \$2.789 billion having begun at its peak in 2008 at \$2.845 billion. In 2013 Sault Ste. Marie’s GDP was estimated to be \$2.785 billion, down 0.5 per cent from 2012, 2.1 per cent below the peak year in 2008 and down 0.2 per cent from its six-year average. See Figure 1.

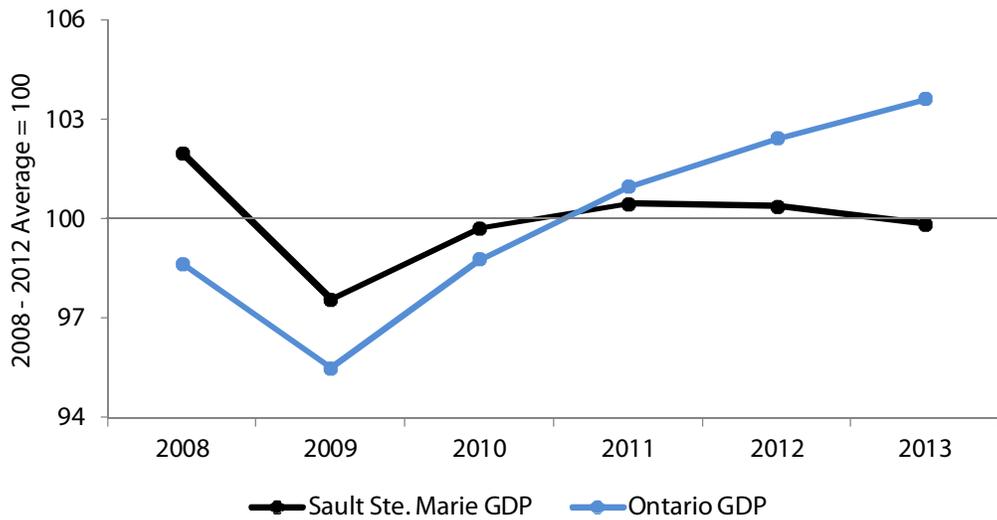
¹ The total unduplicated value of the goods and services produced in the economic territory of a country or region during a given period. A valuation expressed in terms of the prices actually paid by the purchaser after all applicable taxes and subsidies. (Statistics Canada)

Figure 1: Gross Domestic Product, Sault Ste. Marie Trend



Source: Conference Board of Canada

Figure 2: Gross Domestic Product, Sault Ste. Marie and Ontario Comparative Trend



Sources: Conference Board of Canada and Statistics Canada

Figure 2 illustrates the economic performance of Sault Ste. Marie with the provincial economy. Ontario GDP reached its pre-recession peak in 2007 at 98.8 per cent of its six year average of \$563.787 billion. Ontario continued to fall during the next two years, 2008 and 2009, until it returned to economic growth and surpassed its pre-recession level in 2010. In 2013 Ontario GDP was \$584.231 billion, 1.2 per cent above 2012 and 3.6 per cent above its period average.

OBSERVATION:

The economy of Sault Ste. Marie is struggling to maintain its six year average and has not recovered to pre-recession levels, and is down 2.1 per cent from 2008. By contrast the Ontario economy as measured by GDP has experienced a more severe decline but has recovered from the recession and in 2013, was 3.6 per cent above 2008.

THE INDICATORS

SECTION 1: BUILDING PERMIT VALUES CLUSTER

Five individual indicators are included in this cluster. The first four indicators are the value of building permits for four different sectors. Building permits do not measure actual on-the-ground economic activity, rather they measure the intention to begin on-the-ground activity sometime in the future. They are a measure of economic intentions and as such are leading indicators.

Two of the indicators, commercial building permits and residential building permits reflect investor confidence in the local economy and rely on recirculating incomes within the Sault. Industrial building permits reflect investor confidence in their industry-specific larger national and international markets and earn incomes by selling products to customers outside of the Sault. Institutional building permits reflect government capital financial intentions and may bring in public financing from outside of the Sault. The four classes of building permits also cover a range of time frames; investments for the local market is more towards medium term returns while industrial investment have a longer time horizon. Finally the time horizon associated with institutional investment is perhaps the longest outlook, spanning generations in some cases.

The last indicator included in this cluster is the value of housing starts, which measures current on-the-ground economic activity and investor confidence that the local market is strong enough to support the new inventory. The penalty for over estimating local demand by over building is extra carrying costs and downward pressure on house prices.

The supporting database for the thematic cluster is 24 years from 1990 to 2013.

Commercial Building Permits

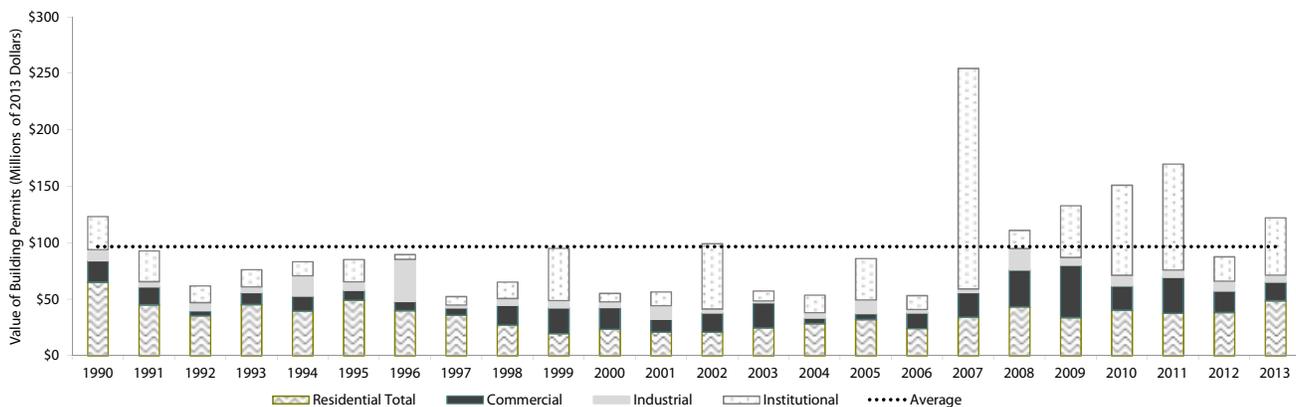
Commercial building permits are for “all buildings used to house activities related to the tertiary sector, such as stores, warehouses, garages, office buildings, theatres, hotels, funeral parlours and homes for the aged”².

Figure 4 illustrates commercial building permit activity for the 24 year period. Commercial building permits are to finance establishment of companies primarily servicing the local market, as such they reflect investor expectations regarding the health of the local economy.

In 2013 the value of commercial building permits was \$16.6 million down 13 per cent from \$18.9 million in 2012 and almost level with its long-term average of \$17.1 million.

² Statistics Canada 64-001-x April 2014 p. 36

Figure 3: Value of Sault Ste. Marie Building Permits, all purposes



All building permit values have been inflation-adjusted and are expressed in 2013 dollars using the consumer price index. Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

The value of commercial building permits reached a low in 2004 when it fell to \$4.8 million. Despite the Great Recession of 2007, commercial building permits have performed above average since mid-2000. By 2008 it had returned to its long-run average, reaching a new high in 2009. The value has fallen in three of the last four years but has remained above or very close to its long-run average.

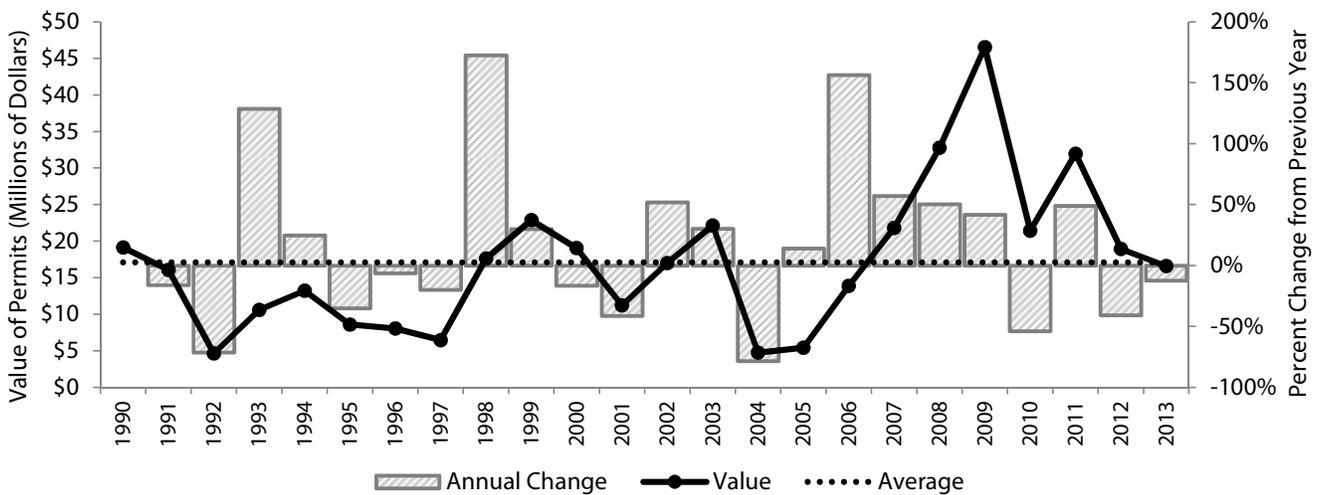
rates. By 2008, the Sault was performing much better than the province when compared to its long term average.

OBSERVATION:

Since the beginning of the Great Recession in 2007, the value of commercial building permits has, with the exception of 2013, remained above its long-term average and is performing strongly in comparison with the Ontario sector.

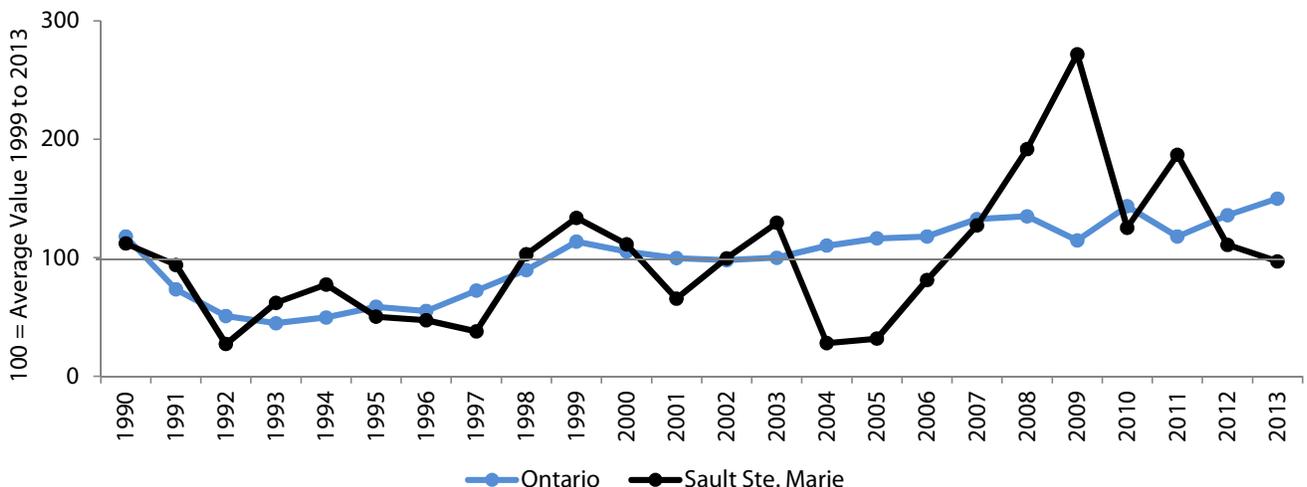
Figure 5 compares the value of commercial building permits for Sault Ste. Marie and Ontario against their long run average. Starting in 1990, activity fell during the first half of the 1990s then reached their long-run average by the early 2000's. The activity in the Sault dropped off dramatically while at the provincial level, it maintained above average

Figure 4: Value of Commercial Building Permits, Sault Ste. Marie Trend



Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

Figure 5: Value of Commercial Building Permits, Sault Ste. Marie and Ontario Comparative Trend



Sources: City of Sault Ste. Marie Engineering and Planning Department - Building Division and Statistics Canada

However during the last two years the value of commercial building permits has returned to its long term average while it has maintained an upward trend at the provincial level, reaching 150 per cent of its long run average in 2013.

Residential Building Permits

Residential building permits are for “all buildings intended for private occupancy whether on a permanent basis or not”³.

Figure 6 illustrates residential building permit activity for the period 1990-2013. Residential building permits reflect the expectations of investors regarding the health of the local housing market, including its price outlook.

In 2013 the value of residential building permits was \$48.8 million, an increase of 27 per cent from \$38.4 million in 2012 and more than one-third above its long-term average of \$35.7 million.

The value of residential building permits fell below its long term average for a decade beginning in 1998 and ending in 2008. Since 2007 the value of Sault Ste. Marie residential building permits has increased in five of the past seven years. Building permits have been above the average since 2010, exhibiting strong growth in 2010 and 2013.

Figure 7 compares the value of residential building permits for Sault Ste. Marie and Ontario against their long run averages. Between 1990 and 1999 the value of residential building permits underwent a cyclical decline in the Sault,

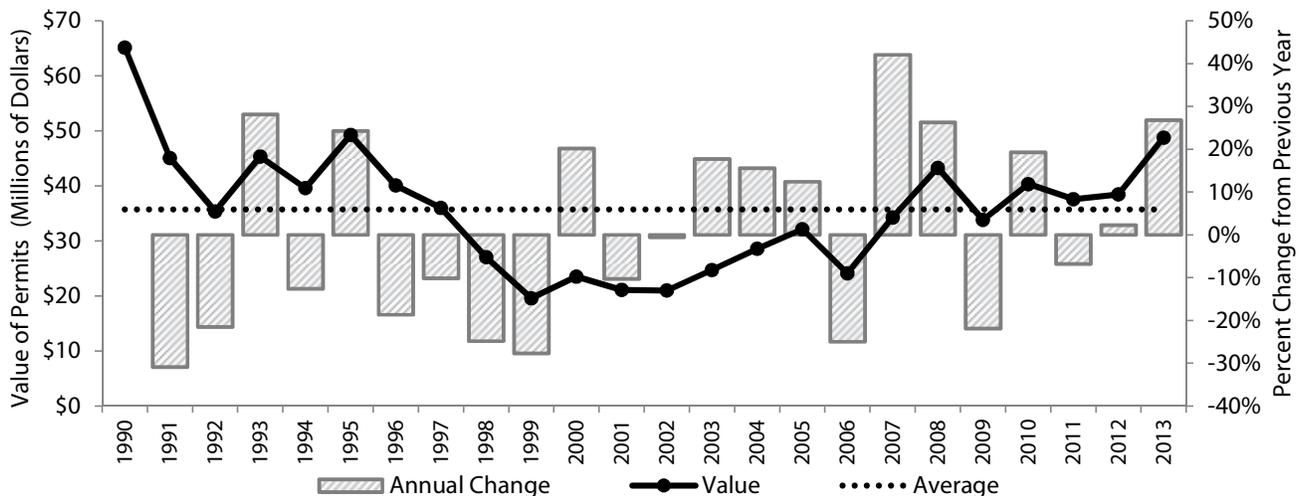
³ Statistics Canada 64-001-x April 2014 p. 36

falling from \$65.1 million in 1990 to \$19.6 million in 1999. This represented a fall from 183 per cent of its long-term average to only 55 per cent of its long-term average a total decline of 128 points. The corresponding fall for the provincial residential permits was from 86 per cent of the Ontario long-term average in 1990 to 59 per cent in 1993 a drop of 27 points, both a shallower decline and much shorter in duration. After this decline, it took until 2008 for the Sault Ste. Marie value to reach the same level relative to its long-term average as the provincial value at around 120 per cent of the long-term average.

OBSERVATION:

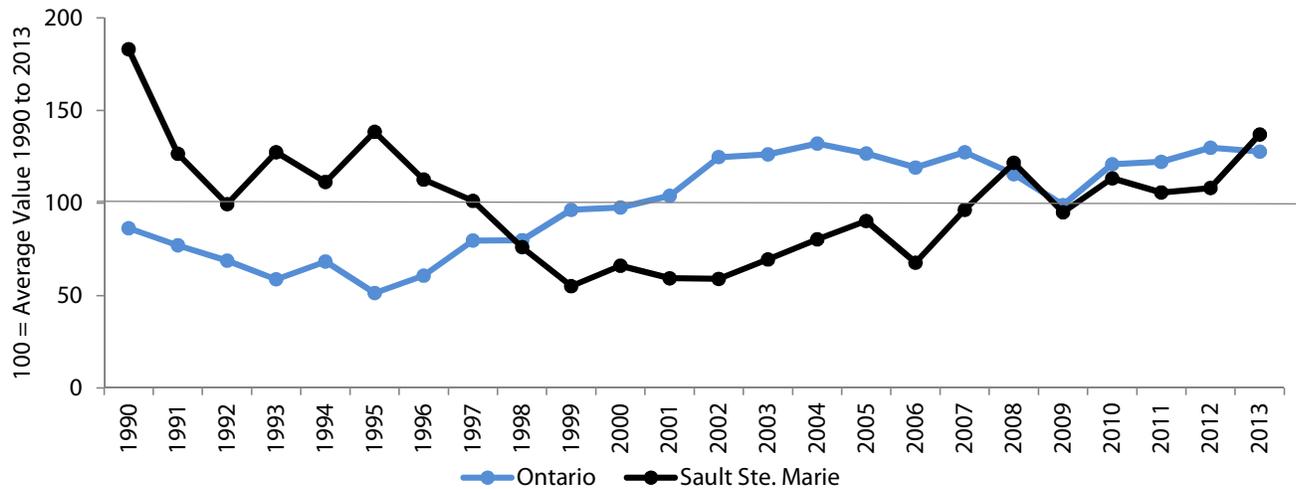
The value of residential building permits in Sault Ste. Marie has remained firmly above its long term average since the mid-2000s recovering from a decade of relatively weak performance. Since 2007 the value for permits has remained in line with the provincial average.

Figure 6: Value of Residential Building Permits, Sault Ste. Marie Trend



Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

Figure 7: Value of Residential Building Permits, Sault Ste. Marie and Ontario Comparative Trend



Sources: City of Sault Ste. Marie Engineering and Planning Department - Building Division and Statistics Canada

Industrial Building Permits

Industrial building permits are for “all buildings used for manufacturing and processing; transportation, communication and other utilities, and agriculture, forestry, and mining”⁴.

Industrial investment is related to national and international market conditions, not the local investment climate. Increased industrial investment activity may lead to an injection of money into the city when construction occurs, when operations begin and as money from workers involved with the investment project circulate money on personal consumption.

Figure 8 illustrates industrial building permit activity from 1990 to 2013. The average value over the period was \$8.6 million, but it ranged from a low of \$1.6 million in 2003 to a high of \$37.2 million in 1996. It is also very volatile in part as evidenced by the consistently large year to year changes.

In 2013 the value of industrial building permits was \$6.0 million down 31 per cent from \$8.6 million in 2012. Since 2008 the annual rate of change has been stable around its long-term level. The value of industrial building permits has been the most volatile element of the building permit cluster with an average annual rate of change of over 100 per cent.

As illustrated in Figure 9, the value of industrial building permits increased rapidly compared to the province in the

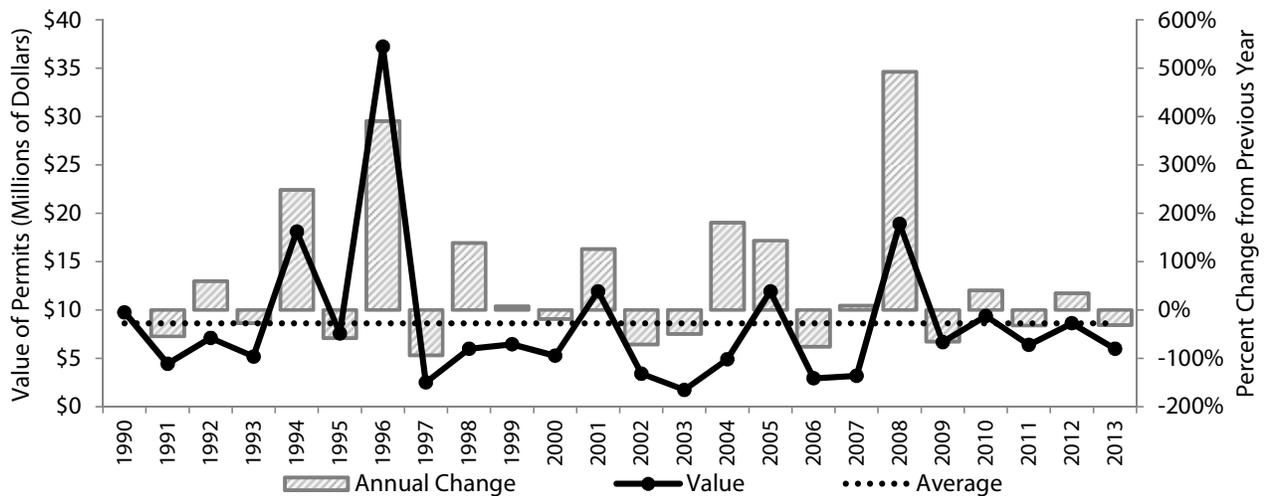
mid-1990s, peaking in 1996 at over 4 times the long-term average. It is also noticeable that Ontario’s provincial performance over the period has been very stable, around the long-term average, while Sault Ste. Marie has been relatively volatile. Since 2010, both Sault Ste. Marie and Ontario have stabilized around the long term average.

OBSERVATION:

The value of industrial building permits is relatively stable around its long-term average over the last few years, which is consistent with the provincial industrial building permits.

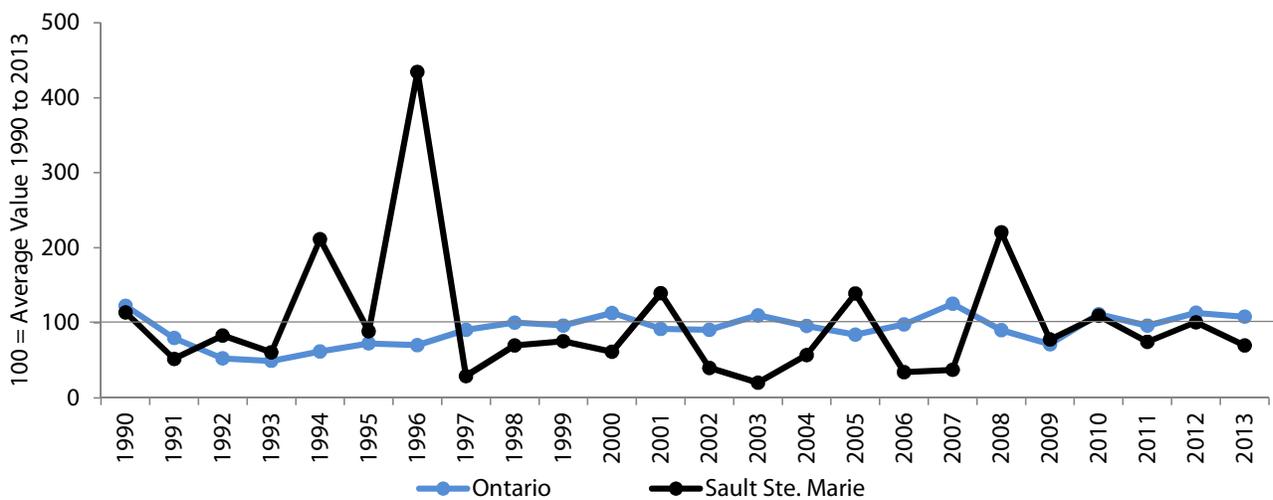
⁴ Statistics Canada 64-001-x April 2014 p. 36

Figure 8: Value of Industrial Building Permits, Sault Ste. Marie Trend



Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

Figure 9: Value of Industrial Building Permits, Sault Ste. Marie and Ontario Comparative Trend



Sources: City of Sault Ste. Marie Engineering and Planning Department - Building Division and Statistics Canada

Institutional Building Permits

Institutional and Government building permits includes "expenditures made by the community, public and government for buildings and structures like schools, universities, hospitals, clinics, churches, and homes for the aged"⁵. Values in this section are in millions of inflation-adjusted 2013 dollars.

Figure 10 illustrates institutional building permit activity from 1990 to 2013. The average value over the period was \$35.2 million, but it ranged from a low of \$4.2 million in 1996 to a high of \$195.1 million in 2007. The historic

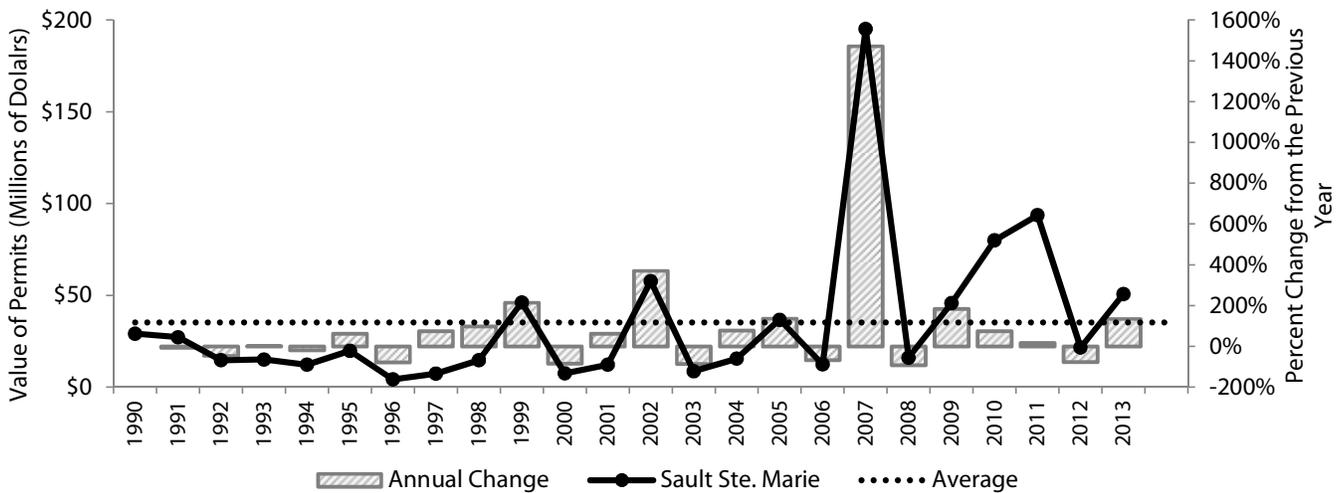
spike in 2007 attributed to construction of the new Sault Area Hospital the rate of change was over 150 per cent with construction occurring over the following three years.

The value of permits for institutional buildings and structures in Sault Ste. Marie increased to \$50.1 million in 2013 from \$21.7 million in 2012 a rise of 135.1 per cent. The value in 2013 was 44 per cent above its 24 year average of \$35.2 million and in 2013 the average value of permits was 44 per cent above its long-term average.

Figure 11 compares the performance of the Sault Ste. Marie institutional permits with the Ontario performance. At a very granular level both jurisdictions experienced a dip

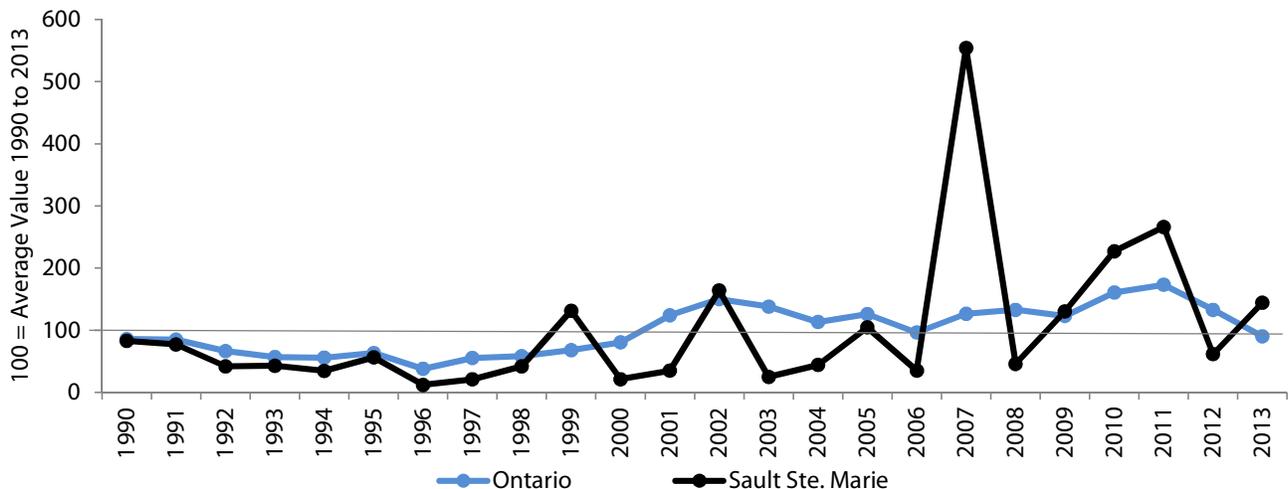
5 Statistics Canada 64-001-x April 2014 p. 36

Figure 10: Value of Institutional Building Permits, Sault Ste. Marie Trend



Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

Figure 11: Value of Institutional Building Permits, Sault Ste. Marie and Ontario Comparative Trend



Sources: City of Sault Ste. Marie Engineering and Planning Department - Building Division and Statistics Canada

during the 1990s returning to above long-term average values in the 2000s. Also, the value of permits in Sault Ste. Marie has been much more volatile than at the provincial level. Each jurisdiction had strong levels during the recent recession.

2013. Since 2007 housing starts have been stable around an average of 134 units.

Figure 13 compares the overall housing start trend in Ontario with Sault Ste. Marie. During the late 1990s, Sault Ste. Marie housing starts fell dramatically measured against its long-run trend, but also diverged from the Ontario trend. After 1999, local housing starts staged a gradual but steady recovery converging on the long-term trend and the Ontario pace by 2011.

OBSERVATION:
The value of institutional building permits in Sault Ste. Marie was so large that it helped lessen the negative local effects of the 2007 recession. As seen in Figure 2 the depth of the recession in Sault Ste. Marie was not as deep as the provincial economy.

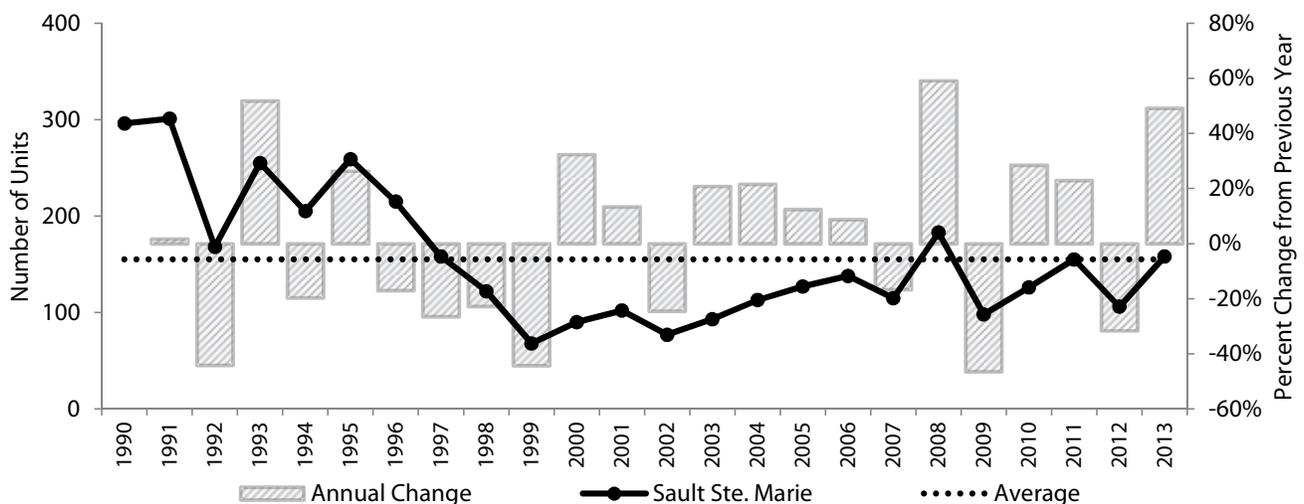
OBSERVATION:
Since 2007 both Sault Ste. Marie and Ontario have settled around their long-term averages.

Housing Starts

Housing starts measures the initiation of on-the-ground economic activity within Sault Ste. Marie. It directly employs labour and management, initiates supplier linkages and also lays the necessary conditions for future economic activity with its post construction linkages including the sales efforts, lawyers, movers, and residential supplies. It is also an indication that investors believe the local economy, in the near term, is strong enough to support the added inventory at the expected house price levels. Figure 12 illustrates Sault Ste. Marie housing starts since 1990.

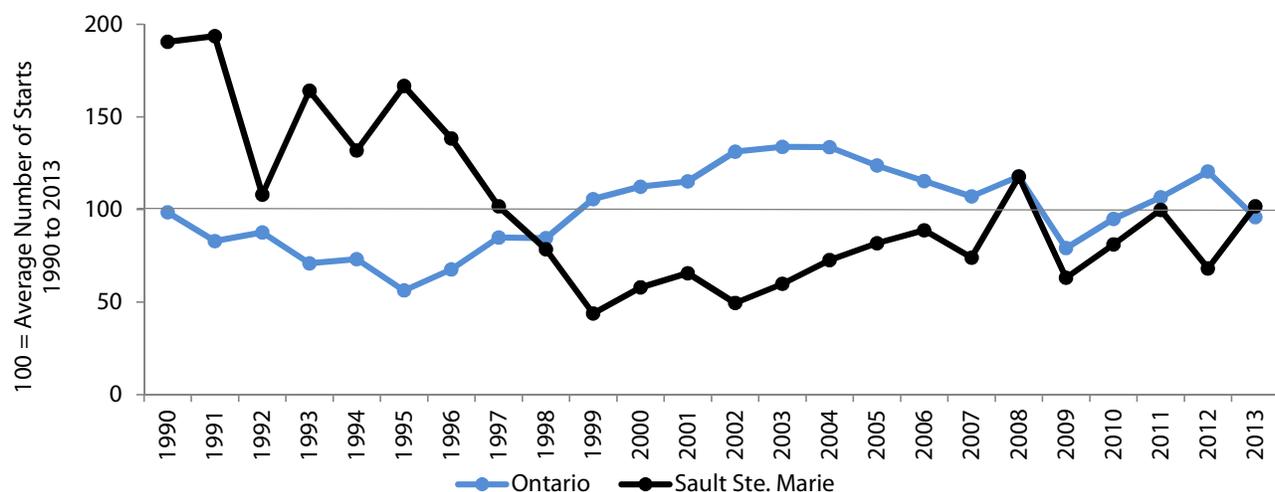
In 2013 housing starts were 158 units, an increase of 49 per cent from 106 units in 2012. The long term average is 155 units per year, but this average was heavily skewed by the housing boom of the mid-1990s. The low point was 1999 with 68 starts. Since 1997 housing starts have been above its long term average in only two years, 2008 and

Figure 12: Housing Starts, Sault Ste. Marie Trend



Source: City of Sault Ste. Marie Engineering and Planning Department - Building Division

Figure 13: Housing Starts, Sault Ste. Marie and Ontario Comparative Trend



Sources: City of Sault Ste. Marie Engineering and Planning Department - Building Division and Canada Mortgage and Housing Corporation

Building Permit Cluster Findings

Findings for this thematic cluster are summarized in Table 2. Short-term indicators of private business investment are down while indicators associated with resident and the non-profit sector is up. Examining the long-term indicators, industrial building permits are down considerably while resident indicators on the supply-side are at average levels, and institutional investment is very strong. On the comparative scale, institutional investment is very strong at 60 per cent above the Ontario performance while business related permits are at 35 per cent below the Ontario performance.

Table 2: Building Permit Cluster Summary

	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
Commercial Building Permits	Investors supply-side for local market	Down 13%	Down 3%	0.65
Residential Building Permits	Consumers demand-side	Up 27%	Up 35%	1.07
Institutional Building Permits	Long-term structural investment	Up 35%	Up 44%	1.60
Housing Starts	Coincidental activity	Up 49%	Up 2%	1.06
Industrial Building Permits	Long-term investment, supply-side	Down 31%	Up 30%	0.65

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION 2: FUNDING AWARDED CLUSTER

Four individual indicators have been included in this cluster and all are treated as investment in the GDP. Two of the indicators focus on the value of scientific grants and research funding for establishments located in Sault Ste. Marie. Intellectual property rights are measured at cost in the GDP, not at an estimate of their values as it may take many years before its value manifests as market-based transactions. It is noted however that the knowledge may be employed through Canada's large not-for-profit sector (e.g. governments, medical, social agencies, and education) and be responsible for significant non-market benefits.

The other two indicators focus on the breadth of scientific study and the quantity of researchers and experts contributing to the Sault Ste. Marie labour force. Each of these two indicators will impact labour productivity now and in future years as knowledge, providing the foundation for innovation, reaches critical mass levels.

Government Grants

Comparative quantitative information was not readily available on the value of government grants. It has nevertheless been identified as an important economic indicator. Government grants provide a source of seed fi-

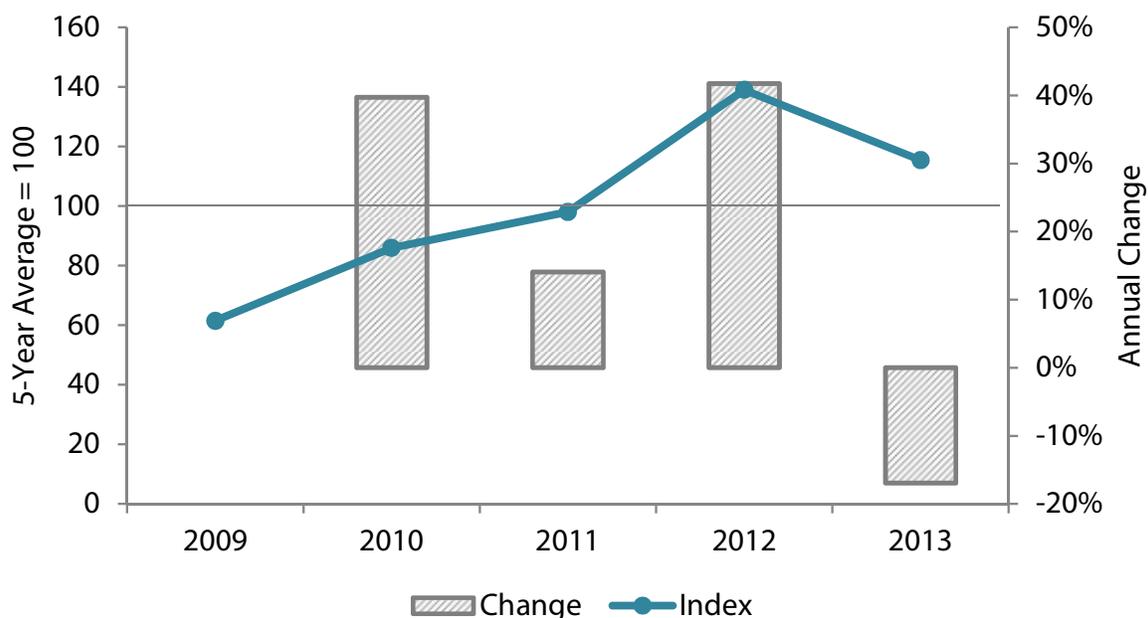
ancing for undertakings which may provide a basis for, or remove obstacles for economic growth and development. They can support the development of a knowledge-based comparative advantage, the emergence of a centre of excellence or world-class tourist destinations. Much will depend on the focus of the grants, the partnerships supporting the projects and the length of the commitment.

Academic Research Funding

Academic funding is treated as an investment in the calculation of GDP. Academic research funding has been identified as an important economic indicator. Academic research funding can contribute to the development of a competitive advantage in a specialized field, provide direct support for the local economy, provide accessible expert support for local businesses, and can enrich the academic experience for students, which could lead to establishing Sault Ste. Marie as a leader in selected fields of study.

Funding for academic research fell by 16.9 per cent in 2013 from 2012. Funding peaked in 2012, 39 per cent above its 5-year average, nevertheless it ended the period 15.5 per cent above its 5-year average, recording an average annual increase of 17.1 per cent, well ahead of inflation, see Figure 14.

Figure 14: Research Funding to Algoma University



Source: Algoma University

Financial Support for the Region

Sault Ste. Marie has a strong presence in natural resource sciences. The Great Lakes Forestry Centre (GLFC) is one of five research centres within the Canadian Forest Service, and its research priorities include forest pests, climate change and forest fire studies, as well as forest ecosystem research.

The Ontario Ministry of Natural Resources maintains the Ontario Forest Research Institute (OFRI) in Sault Ste. Marie. The Institute "is home to top-notch scientists and monitoring specialists who are focused on understanding forests and how they respond to natural disturbances and management activities." It specializes in "...helping to ensure that Ontario's forest management policies, planning and practices are rooted in the best possible science"⁶.

Figure 15 is based on total expenditures by each of the two forest agencies. Due to different levels of detail provided by each agency, only an index based on their aggregate expenditures is presented. Also, each government provides financial information on a fiscal year basis; Figure 15 provides the information for the fiscal year beginning in the year specified on the axis.

In the fiscal year beginning in 2013, research expenditures are expected to increase 3.0 per cent above the previous year, but remains 12.6 per cent below its five year average.

⁶ Ontario Forest Research Institute

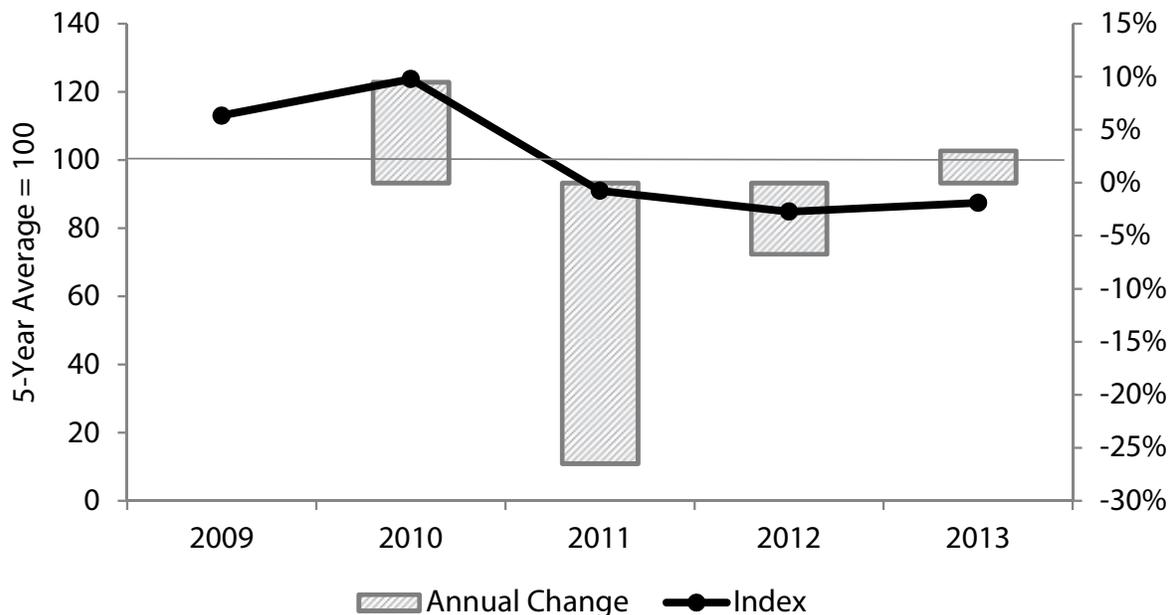
Research expenditures were at their highest in 2010. 2013 expenditures are 29.9 per cent below their 2010 levels.

Data for a comparable jurisdiction was not identified.

OBSERVATION:

Fiscal consolidation by the federal and provincial governments has impacted research budgets. It is unknown what portion of research is undertaken with external partners who enter into financial contracts with the research agencies.

Figure 15: Funding Research



Sources: Great Lakes Forestry Centre, Natural Resources Canada and Ontario Forest Research Institute, Ontario Ministry of Natural Resources

Job Growth in Researchers

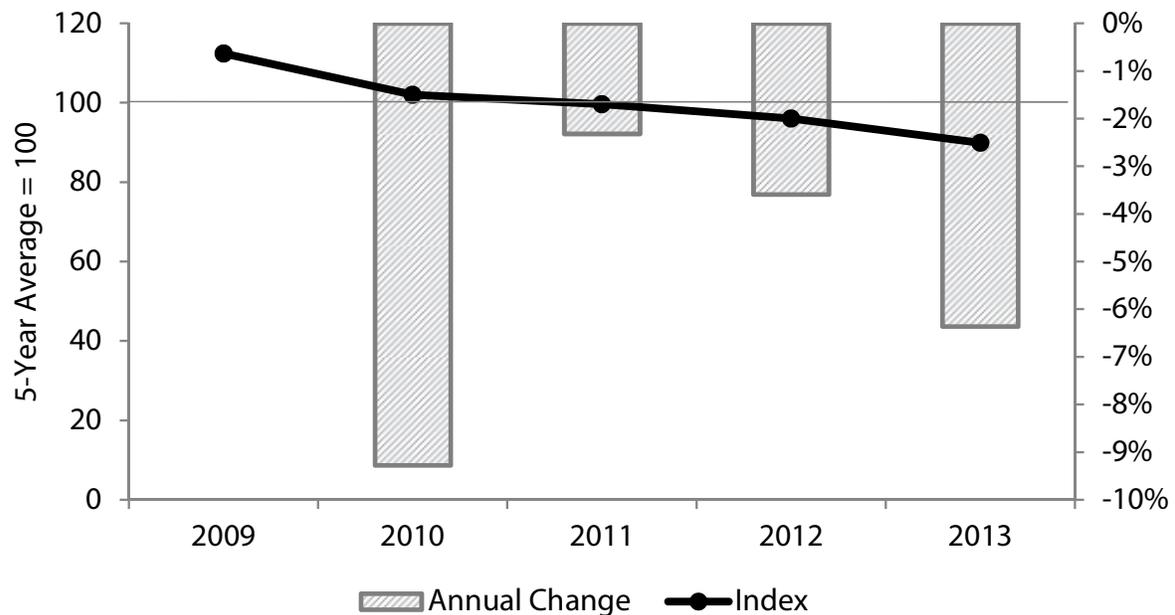
Included for the number of researchers is scientific, technical and professional staff. Not included is support staff including management support. It is also recognized that organizations have their own classification systems for occupations and allocations to budget categories. As such, this indicator is presented as an index.

In 2013 it is estimated that the number of researchers declined by 6.4 per cent from the prior year, a continuation of annual declines from the beginning of the review period. 2013 staff levels were 11.1 per cent below its 5-year average. From 2009 to 2013 staff levels have declined by 20 per cent, see Figure 16.

OBSERVATION:

Fiscal consolidation by the federal and provincial governments has impacted research budgets and staffing levels. It is unknown what portion of research is undertaken with external partners who enter into formal contracts with the research agencies.

Figure 16: Number of Researchers



Sources: Great Lakes Forestry Centre, Natural Resources Canada and Ontario Forest Research Institute, Ontario Ministry of Natural Resources

Funding Awarded Cluster Findings

Findings for the Funding Awarded Cluster are presented in Table 3. Data was sparse for this cluster. Almost all funding was from public sources so it was disappointing that the basic information was not available for a significant time horizon. The principle research institutions, financed through the provincial and federal governments have been established in Sault Ste. Marie for a number of years.

The findings for the indicators included in this cluster are ambiguous. Important data was not available for two indicators and there was insufficient data to determine the relative performance to another jurisdiction. The third indicator, fields of study was mixed for the short-run trend, but negative compared to its longer-term trend in Sault Ste. Marie.

Table 3: Funding Awarded Cluster Summary

Indicator	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
Government Grants	Seed Financing for long-term visions, high risk		Data was not available	
Academic Research Funding	Seed development of centres of excellence	Down 16.9%	Up 15.5%	
Fields of Study for the region	a. Funding	Up 3.0%	Down 12.6%	Insufficient Data
	b. Number of Researchers	Down 6.4%	Down 11.1%	Insufficient Data

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION 3: ECONOMIC SECTOR GROWTH CLUSTER

Seven individual indicators have been identified for inclusion within this cluster, most of which are lagging indicators.

Many of the indicators in this cluster measure economic capacity. Entrepreneurs are the risk takers willing to invest in new economic opportunities, potentially contributing to economic growth and diversification. The number of new business starts is a measure of entrepreneurial vitality. Employment by sector documents whether growth is taking place in growing, higher productivity areas, or in mature sectors. The unemployment rate measures unused labour capacity. Personal income per capita and productivity are measures of the economic quality of the employment opportunities in the current economy. Retail sales are an indicator of the largest component of the GDP, which is part of consumer expenditures and represents well over one half of GDP.

New Business Starts

In a recent scholarly study of the role of entrepreneurship in the US economy, the authors note that “[s]tartups and young firms are important contributors to job creation and productivity growth. However, the contribution of startups

and young businesses to jobs and productivity is a noisy and complex process”⁷.

New business starts is a lagging indicator and provides an insight into entrepreneurial assessment of the economy and its available economic resources. Information for the number of new business starts in Sault Ste. Marie was available for the five year period 2009 to 2013. In 2013 the number of new starts increased 28.6 above its 2012 level, but remained almost one-quarter below its 5 year average. 2013 new starts were only one half of the period peak attained in 2009, see Figure 17.

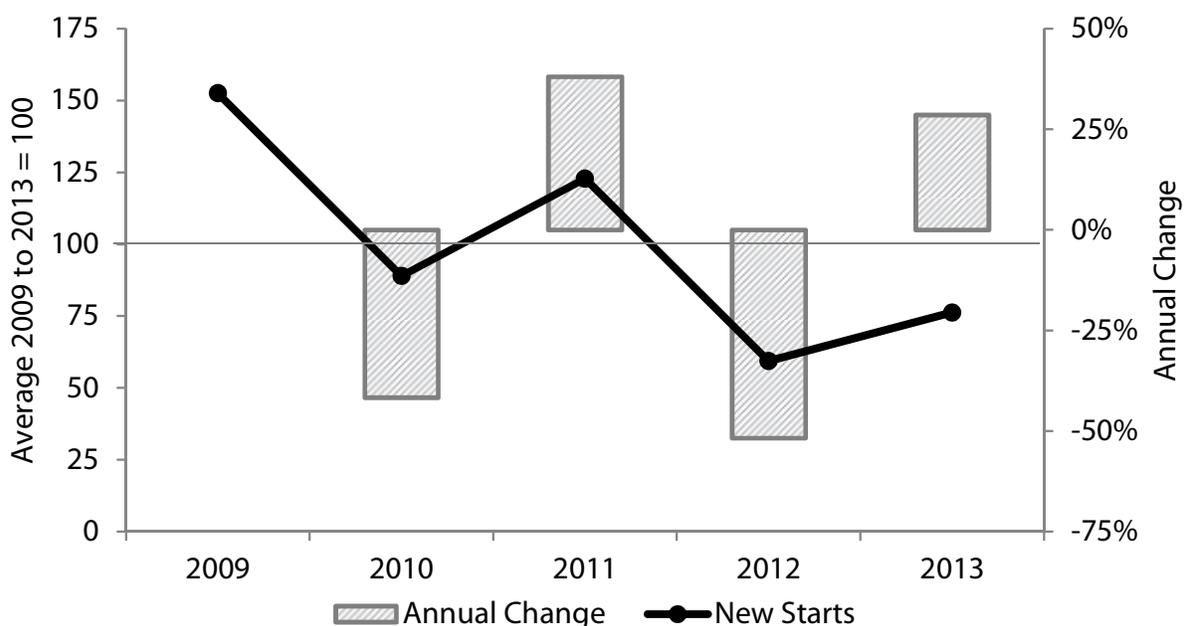
Data for comparative jurisdictions was not readily available.

⁷ Decker et al p. 21. Journal of Economic Perspectives

OBSERVATION:

The economy of Sault Ste. Marie absorbed a major external shock from the global financial and economic recession of 2007. As a result of the Great Recession of 2007, previously committed skilled labour had the opportunity to set up new business and be entrepreneurs or were available for the workforce. It is uncertain how long the learning curve will be, but it is expected that certain new businesses will find the combination for prosperity.

Figure 17: New Business Starts



Source: Sault Ste. Marie Economic Development Corporation

Employment by Sector

Aggregate employment information is available on a reasonably current basis and, as such, is a coincidental economic indicator, and a direct indicator of economic health. Employment by sector is available for 2008 to 2013. The labour force is classified into the goods-producing sector and the service-producing sector. Although there are exceptions, the goods-producing sector sells its product to external markets (steel, forest products) or competes against products that would be imported into the community (such as electricity) and brings money from outside markets into Sault Ste. Marie. The service-producing industry provides products that are largely sold within the community or its regional market (retail and wholesale services). The service-producing industry produces products which are consumed within the local market and has the effect of circulating money within local market. One service-producing industry, public administration (including federal and provincial departments) draw their funding from outside the community to provide services consumed within the local and regional market. Therefore public administration is separated from the service-producing sector.

Goods-producing sector

Over the six year period 2008 to 2013 the goods-producing sector accounted for 20.8 per cent of total employ-

ment in Sault Ste. Marie, from a 2008 peak of 9,200 people, it fell to 5,400 in 2012 then increased to 6,100 in 2013. Over the same six year period the Ontario goods-producing sector accounted for 17.9 per cent of the employed labour force, falling from 1.103 million in 2008 to 985,900 in 2009 but struggling to recover to the 2008 level. In 2013 it had reached 1.027 million, essentially unchanged from 2012 and only 0.3 per cent above its six year average of 1.025 million, see Figure 18.

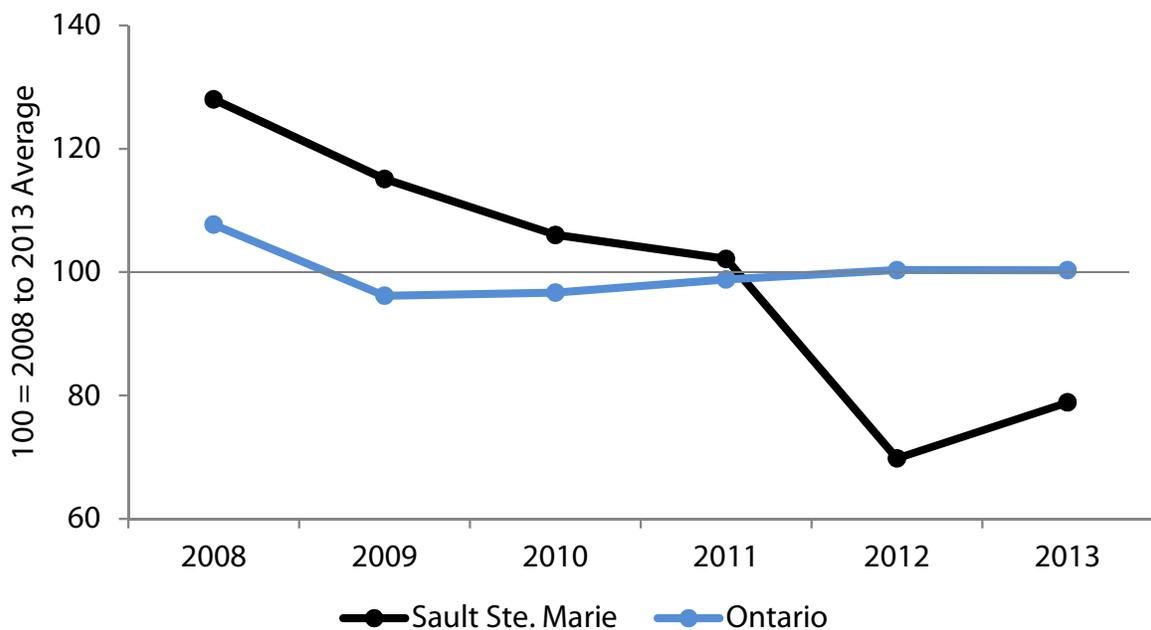
OBSERVATION:

Sault Ste. Marie's goods-producing sector has lost 40 per cent of its employment since 2008 and to a much more severe extent than the Ontario sector.

Service-producing sector (excluding Public Administration)

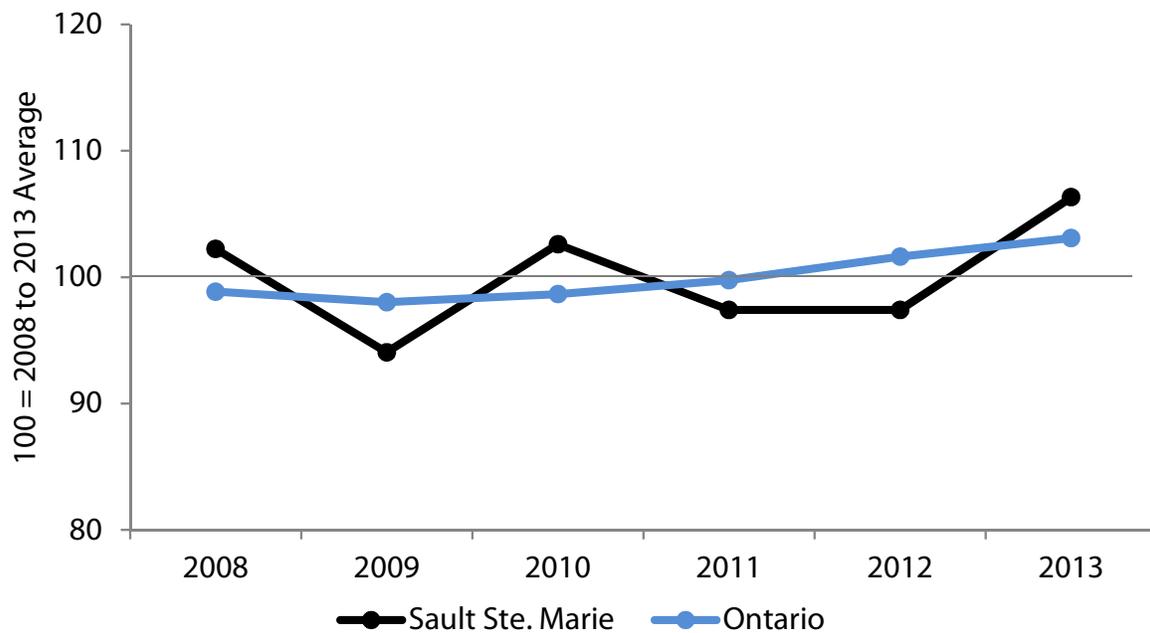
Over the six year period 2008 to 2013 the services-producing sector (excluding public administration) accounted for 72.4 per cent of total employment in Sault Ste. Marie, averaging 26,900 persons per year and falling from 27,500 in 2008 to 25,300 in 2009 and reaching 28,600 in 2013. 2013 employment was 6.3 per cent above its six year average.

Figure 18: Employment Goods-Producing Industries, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

Figure 19: Employment Services-Producing Industries, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

OBSERVATION:

Given the major job losses in the goods-producing sector, at the provincial and the Sault Ste. Marie level, the service producing sector has mitigated the short-term impact of job losses in the goods-producing industries.

Over the same period Ontario employment in the services-producing sector (excluding public administration) fluctuated mildly around its six year average of 4.198 million, but never varying by more than 4 percent from the average. Employment in the Ontario services-producing sector, excluding public administration, increased 1.5 per cent in 2013 over 2012. 2013 employment was 4.2 per cent above 2008 and 3.1 per cent above its long-term average, see Figure 19.

Public Administration Industry

The public administration industry was separated from services-producing sector because it is funded through the funding from all three levels of government. Federal and provincial expenditures in Sault Ste. Marie are outside sources of monies to propel the local economy. The public administration industry also purchases supplies and materials from private companies in Sault Ste. Marie, referred to as the indirect economic linkage, and public sector employees purchase goods and services for their own personal consumption with their salaries, referred to as an induced economic linkage.

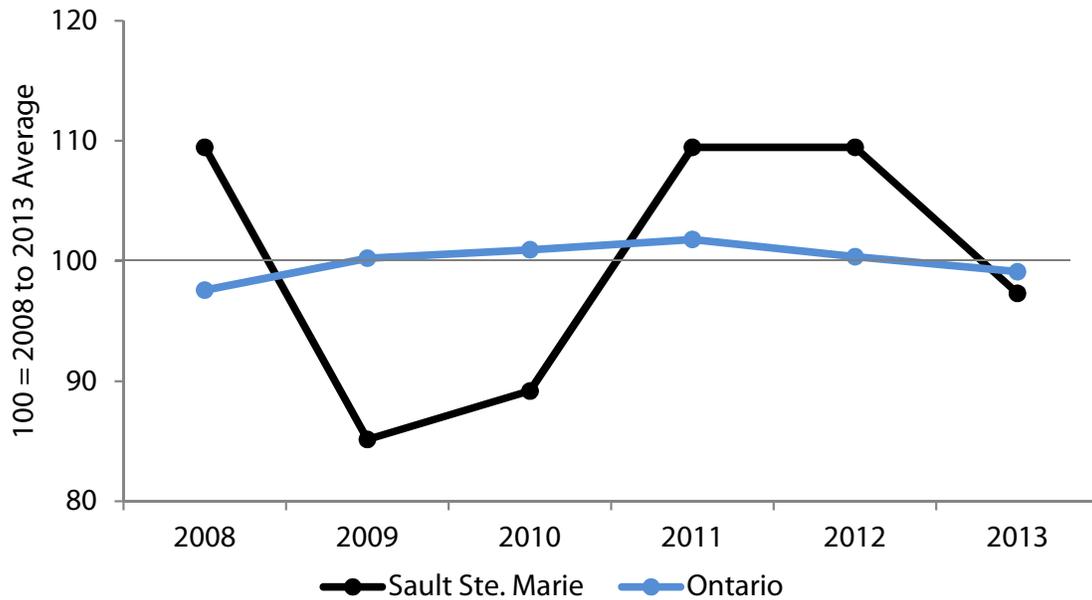
Over the six year period 2008 to 2013 the public administration industry accounted for 6.6 per cent of total employment in Sault Ste. Marie, averaging roughly 2,500 people. Employment fell 22 per cent in 2009, recovering to pre-recession levels by 2011 and then fell 11.1 per cent in 2013 from 2012.

Over the same period, Ontario employment in the public administration industry peaked in 2011 at 407,400 then fell in each of the following two years reaching 396,600 in 2013, see Figure 20.

OBSERVATION:

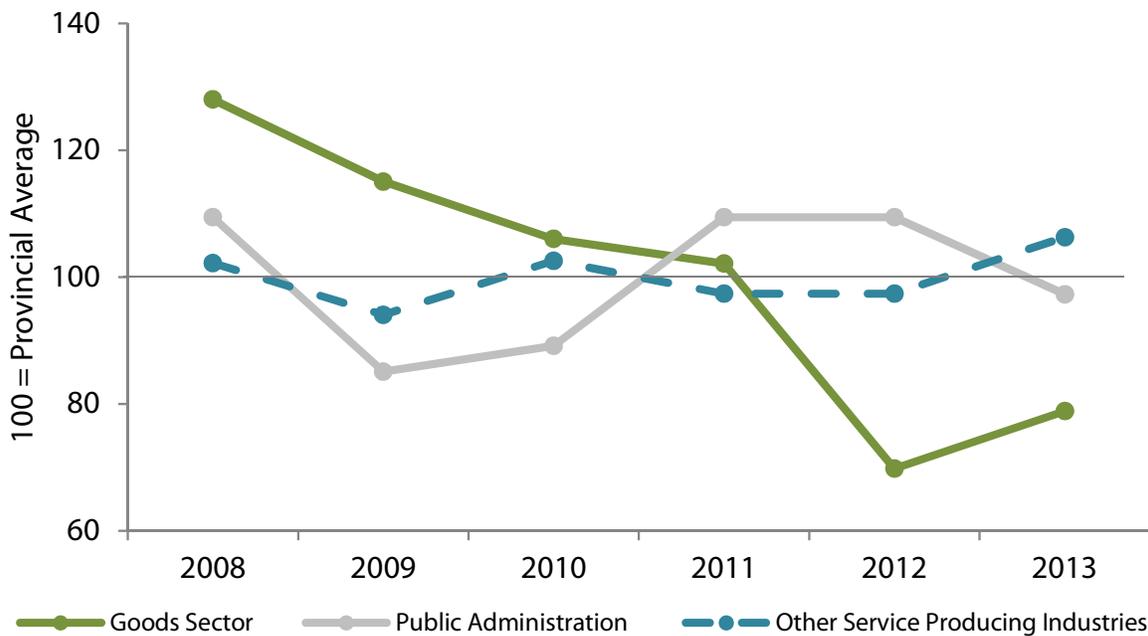
The public sector employment tends to be full-time, stable and above-average salaried positions, contributing to support the service-producing and residential sectors. In 2013 public administration employment was reduced in both jurisdictions.

Figure 20: Employment Public Administration Industry, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

Figure 21: Labour Force Structure, Sault Ste. Marie



Source: Conference Board of Canada

Structure

In 2008 the service-producing sector not including public administration accounted for 68.6 per cent of the jobs in Sault Ste. Marie; by 2013 it had risen to 77.1 per cent directly because of the shrinking share provided by the goods-producing industries. Goods-producing employ-

ment had fallen from 24.7 per cent in 2008 to 16.4 per cent in 2013. Public administration accounted for 6.7 per cent of jobs in 2008, rose to 7.9 per cent in 2012 but ended 2013 accounting for 6.5 per cent.

Figure 21 compares the employment performance of the three sectors in Sault Ste. Marie against their provincial

counterparts. The poor relative performance of the local goods-producing sector is very pronounced. The service producing sector performed at the provincial level while public administration showed some above average strength in the early years but began to fall back to the provincial normal in 2013.

Manufacturing includes activities such as the steel mill and processing wood products such as engineered wood. Manufacturing accounted for almost sixty per cent of the employment in Sault Ste. Marie's goods-producing sector. Employment in Sault Ste. Marie's manufacturing industries fell 45.6 per cent from 5,700 persons in 2008 to 3,100 in 2012 then recovered modestly in 2013, rising to 3,500 persons, see Figure 22.

OBSERVATION:
Sault Ste. Marie's services-producing sectors emerged from the six year period keeping pace with their provincial counterparts. The local goods-producing sector has not kept pace with the provincial sector even though the pace has been on a negative growth path.

The Ontario manufacturing industry accounts for two-thirds of employment in the goods-producing sector. The provincial manufacturing industry also declined significantly in 2009, decreasing 13.2 per cent from 2008 but then it stabilized at the 2009 lower level, see Figure 23.

Employment by Industry

Data for this subsection, employment by industry, was available for the six year period 2008 to 2013.

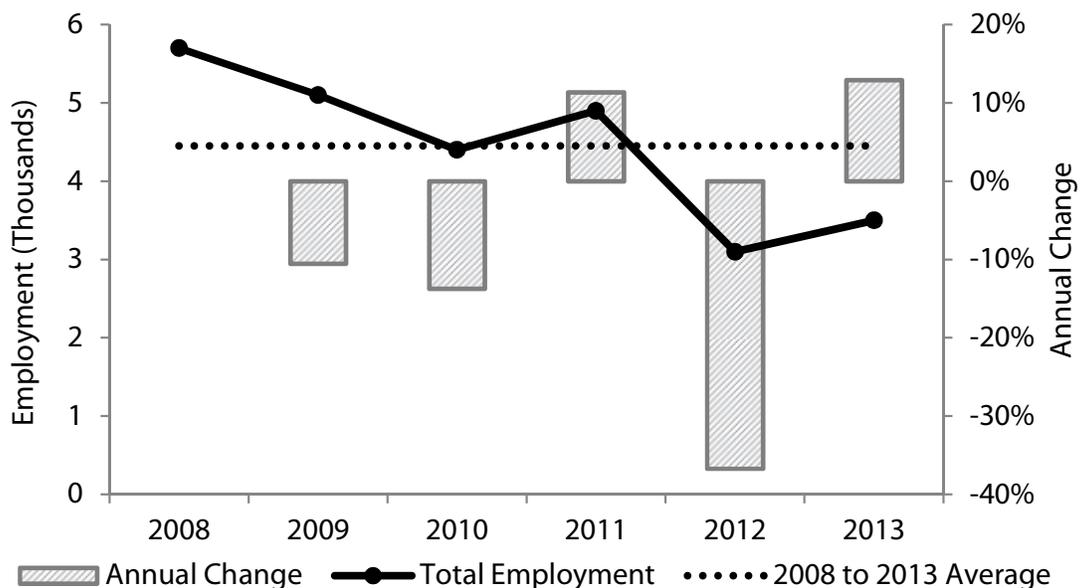
Manufacturing Industry

This sector comprises establishments primarily engaged in the chemical, mechanical or physical transformation of materials or substances into new products. These products may be finished, in the sense that they are ready to be used or consumed, or semi-finished, in the sense of becoming a raw material for an establishment to use in further manufacturing⁸.

⁸ Statistics Canada, North American Industry Classification System (NAICS) Canada 2012,

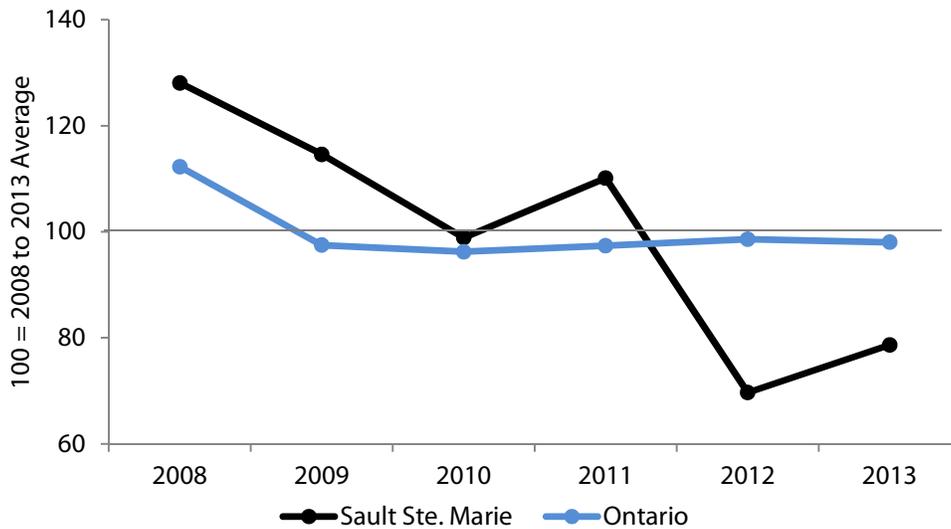
OBSERVATION:
The Sault Ste. Marie manufacturing industry was severely impacted by the last recession, whereas the provincial industry appears to have stabilized at its 2009 level.

Figure 22: Manufacturing Employment, Sault Ste. Marie Trend



Source: Conference Board of Canada

Figure 23: Manufacturing Employment, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

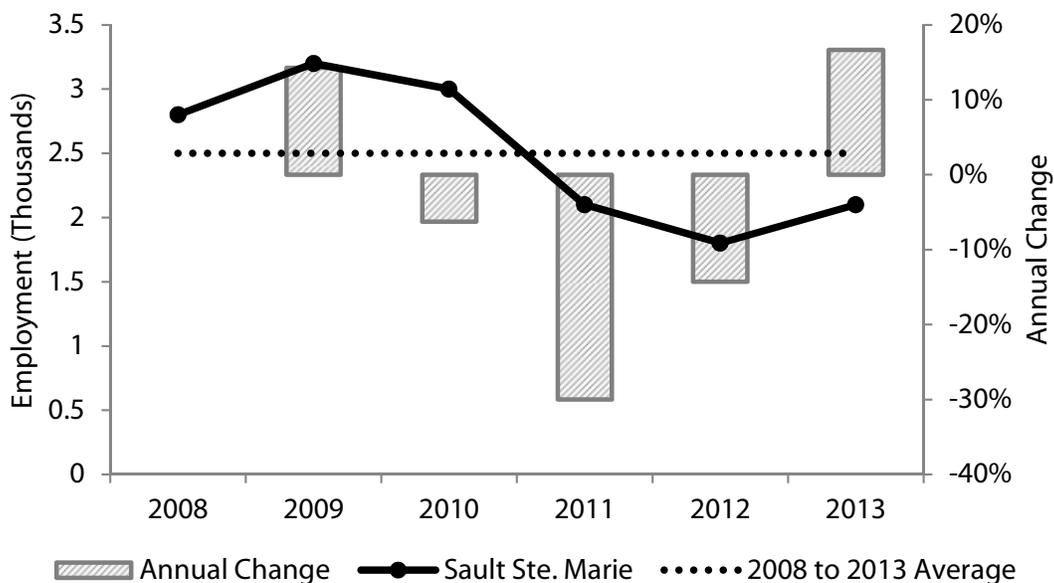
Construction

This [industry] comprises establishments primarily engaged in constructing, repairing and renovating buildings and engineering works, and in subdividing and developing land. These establishments may operate on their own account or under contract to other establishments or property owners⁹.

The construction industry accounts for 40 per cent of employment by the Sault Ste. Marie goods-producing sector. In 2013 employment in Sault Ste. Marie's construction industry was 2,100, an increase of 16.7 per cent from 2012 but 16.0 per cent below its 2008 to 2013 average level of employment and one-third down from peak employment in 2009 when it reached 3,200 persons, see Figure 24.

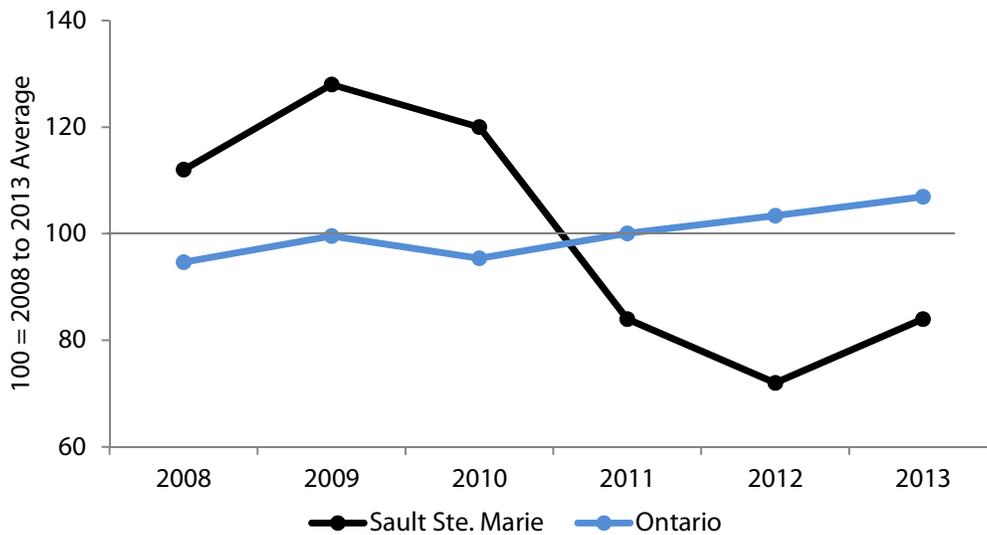
⁹ Statistics Canada, North American Industry Classification System (NAICS) Canada 2012

Figure 24: Construction Employment, Sault Ste. Marie Trend



Source: Conference Board of Canada

Figure 25: Construction Employment, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

As can be seen in Figure 25, the provincial construction sector was stable or rising through the six year period, rising from 2008 to 2013 at an average growth rate of 2.5 per cent, whereas the Sault Ste. Marie construction was much more volatile.

OBSERVATION:

The employment bulge may be the exception and the normal moving forward is employment somewhat below the period average.

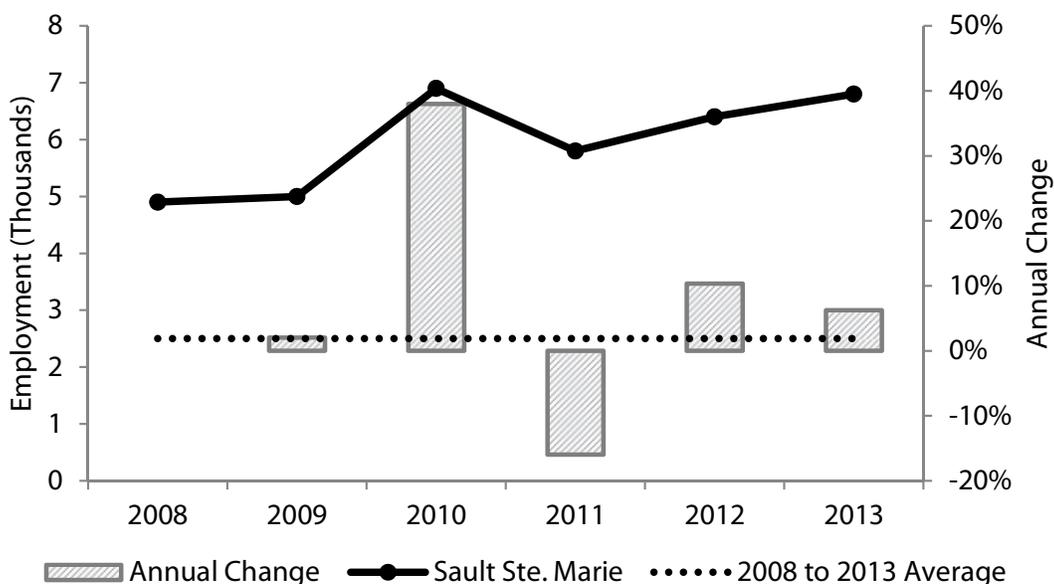
Wholesale & Retail Trade

Sales of capital goods or durable non-consumer goods used in the production of goods and services, such as farm machinery and equipment, heavy duty trucks, and industrial machinery, are always included in wholesale trade.

The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public¹⁰.

¹⁰ Statistics Canada, Catalogue no. 63-005-X, Retail Trade, 2014, <http://www.statcan.gc.ca/pub/63-005-x/63-005-x2014007-eng.pdf>

Figure 26: Wholesale & Retail Trade Employment, Sault Ste. Marie Trend



Source: Conference Board of Canada

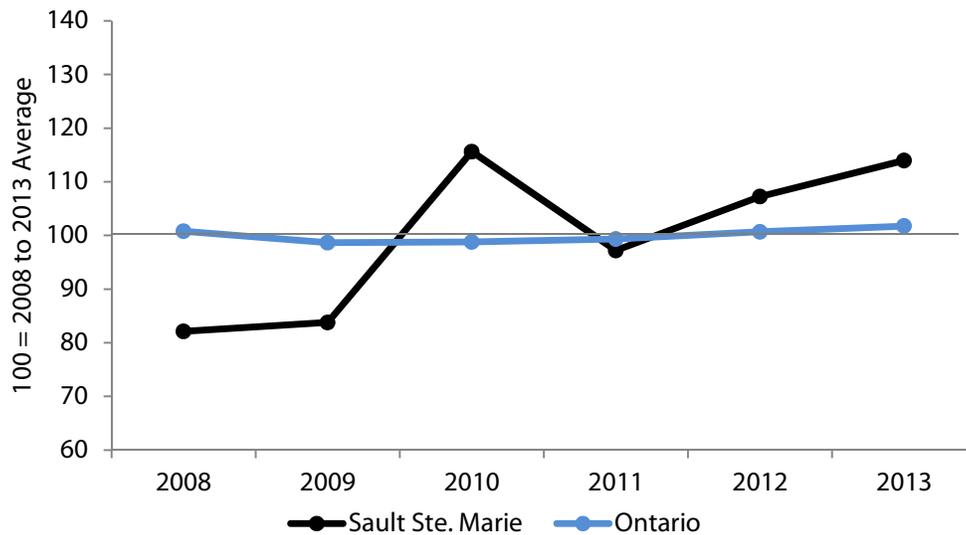
In 2012, employment in Sault Ste. Marie's wholesale & retail trade industry increased to 7,300 employees from 6,600 in 2011, a 10.4 per cent increase. Employment averaged 6,500 people between 2005 and 2012 with a noticeable bulge in 2010 before returning to below average, see Figure 26.

OBSERVATION:

The wholesale & retail trade sector has provided a stable employment base for Sault Ste. Marie and the provincial economy.

The provincial wholesale & retail trade sector was stable through the eight year period, averaging 15 per cent of employment and 1 million people never varying by more than 2 per cent around its average, see Figure 27.

Figure 27: Wholesale & Retail Trade Employment, Sault Ste. Marie and Ontario Comparative Trend



Source: Conference Board of Canada

Unemployment Rate

The unemployment rate is the number of unemployed persons expressed as a percentage of the labour force. The unemployment rate for a particular group (age, sex, marital status) is the number unemployed in that group expressed as a percentage of the labour force for that group. Estimates are percentages, rounded to the nearest tenth.

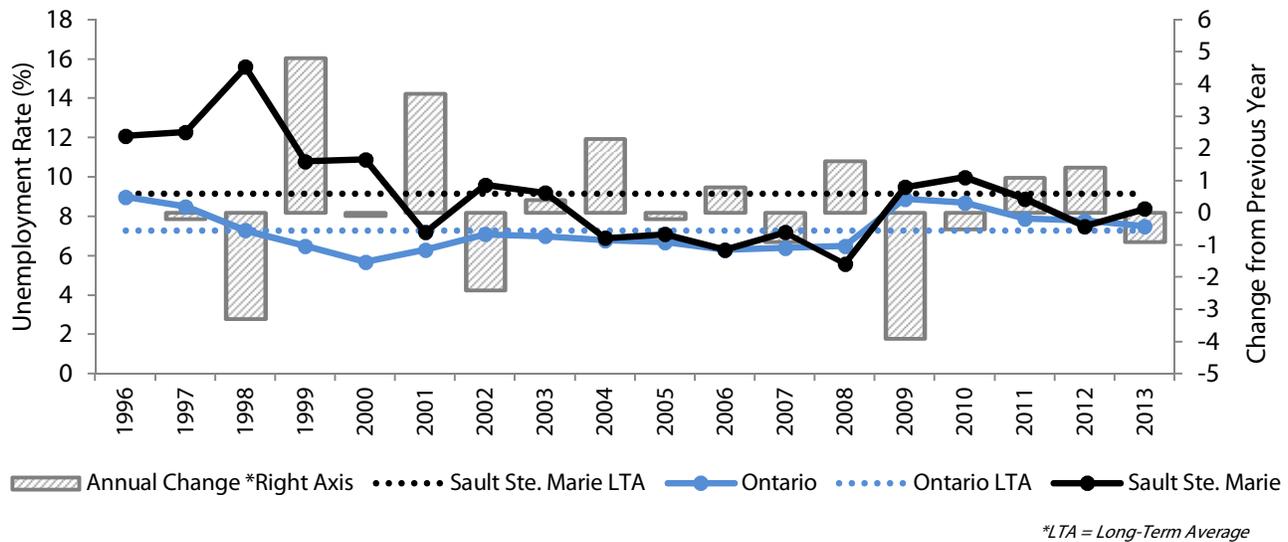
In 2013 the unemployment rate in Sault Ste. Marie was 8.4 per cent an increase of 0.9 per cent points from 7.5 per cent in 2012, and down 0.8 points from its long-term average. The long-term average unemployment rate from 1996 to 2013 is 9.2 per cent. The late 1990s experienced very high levels of unemployment that greatly influenced the long-term average. Sault Ste. Marie's unemployment remained below its long-term average from 2004 until 2009, see Figure 28.

The comparator jurisdiction is northeastern Ontario. Over time, Sault Ste. Marie and northeastern Ontario have followed a similar path, from relatively high unemployment rates during the late 1990s falling until the Great Recession of 2007. In 2013 the Sault Ste. Marie unemployment rate was 0.8 points below its long-term average rate while the unemployment rate for northeastern Ontario was 0.9 points below its long-term average of 8.5 per cent.

OBSERVATION:

Sault Ste. Marie's 2013 unemployment rate was below its long-term average and similar to the performance of northeastern Ontario.

Figure 28: Unemployment Rate Sault Ste. Marie, Northeast Ontario



Source: Statistics Canada

Personal Income per Capita

Personal income includes income from all sources before tax. Two thirds of personal income is from wages, salaries and supplemental income.

Personal income per capita is a lagging indicator; the statistics are available well after the income is earned. In 2013 personal income per capita in Sault Ste. Marie was \$39,906, an increase of 3.7 per cent from \$38,480 in 2012. Personal income per capita data is available for Sault Ste. Marie over the six year period 2008 to 2013. 2013 per-

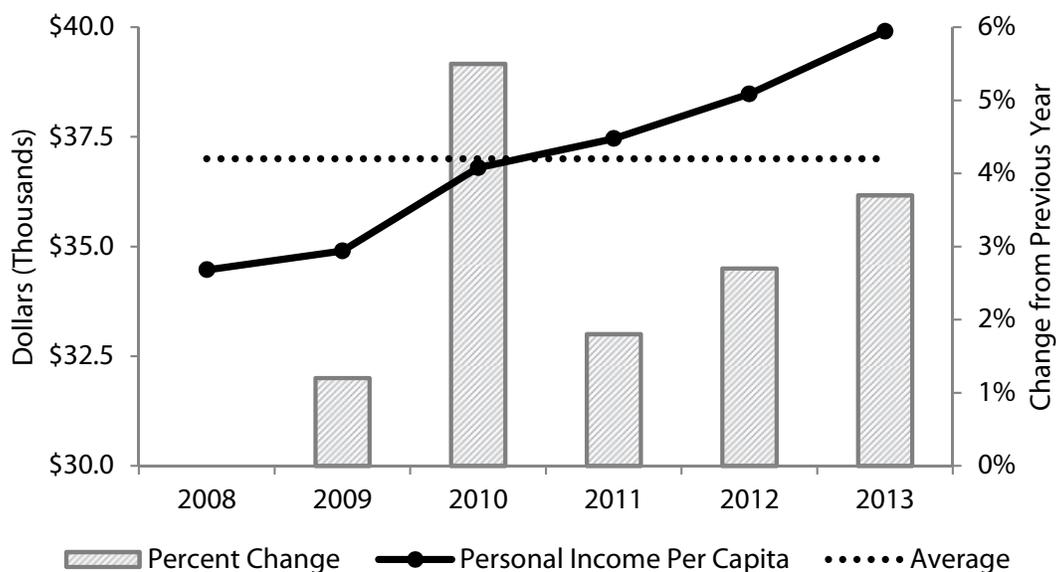
sonal income per capita was 7.8 per cent above the six year average of \$37,002, see Figure 29.

Personal income per capita is no longer provided for Ontario by Statistics Canada.

OBSERVATION:

Personal income per capita has been increasing at a rate above inflation as measured by the consumer price index.

Figure 29: Personal Income per Capita, Sault Ste. Marie



Source: Conference Board of Canada

Productivity

Labour productivity, which is a lagging indicator, is defined as output per unit of labour input. For Sault Ste. Marie it is calculated as the ratio between value added and the number of employees in the industry.

Increases in labour productivity are associated with higher economic growth, higher standards of living and higher real incomes. An increase in productivity reflect improved machines and equipment, training workers, appropriate plant scale, changes in the organizational structure, and improvements in technology.

Productivity of the two major business sectors, goods-producing and services-producing is presented using the standard approach established for employment. Given the amount of detail, productivity trends for individual industries will be presented as a master table. Note that values are expressed in inflation-adjusted 2007 dollars. The information in this section is based on the System of National Accounts; one output is GDP, which uses a different, more comprehensive methodology to measure labour and productivity.

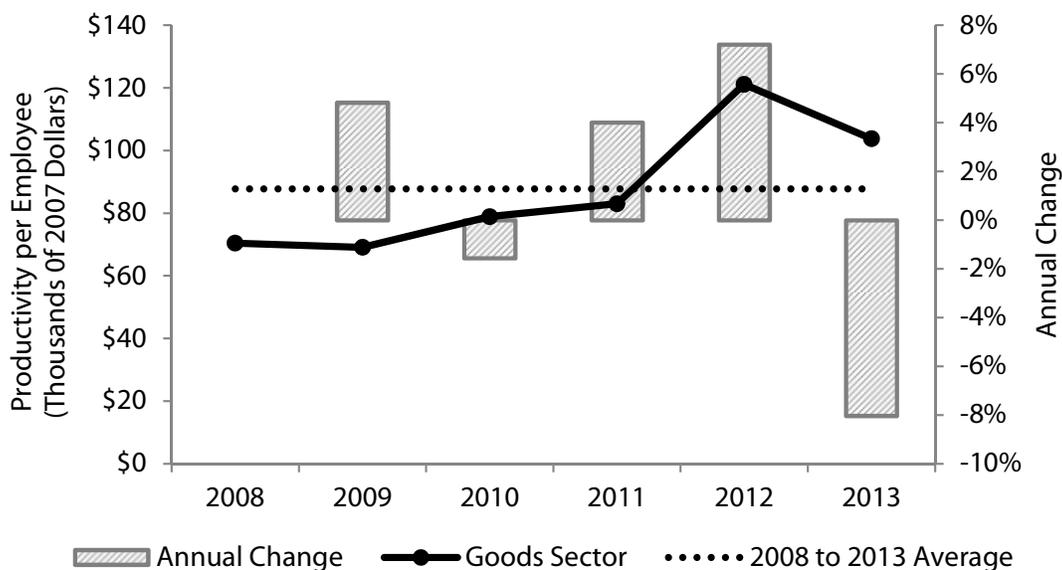
Goods-Producing Industries – Productivity

In 2013, productivity for Sault Ste. Marie goods-producing industries declined to \$103,770 per employee from \$121,111 per employee in 2012, a decrease of 8.0 per cent. 2012 marked a recovery from the decline in productivity that troughed in 2009 at \$69,101 per employee.

2013 productivity was 18.3 per cent above its six year average of \$87,721 per employee, see Figure 30.

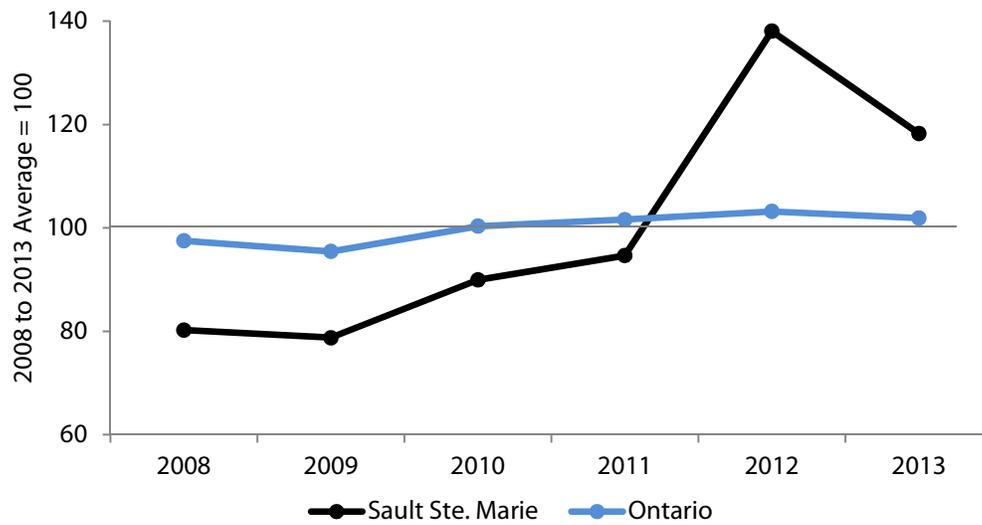
Productivity for the Ontario goods-producing sector has struggled to recover to its six-year period high of \$95,034 reached in 2008. In 2013 it fell to \$93,747 from \$94,931 in 2012, a decline of 1.2 per cent but it did remain 1.9 per cent above its six-year average of average of \$92,002. The Sault Ste. Marie -based goods-producing sector surpassed provincial productivity in 2011 and continues to maintain a higher level, see Figure 31.

Figure 30: Productivity Goods Producing Industries, Sault Ste. Marie



Source: Conference Board of Canada

Figure 31: Productivity Goods Producing Industries, Sault Ste. Marie and Ontario



Sources: Conference Board of Canada and Statistics Canada

Services Producing Industries

In 2013, productivity of Sault Ste. Marie services-producing industries fell to \$65,629 per employee from \$71,629 per employee in 2012, a decrease of 8.1 per cent. The productivity in 2013 was 5.8 per cent below its long-term average of \$69,681 per employee. Service sector productivity has been very stable over the six year period 2008 to 2013, see Figure 32.

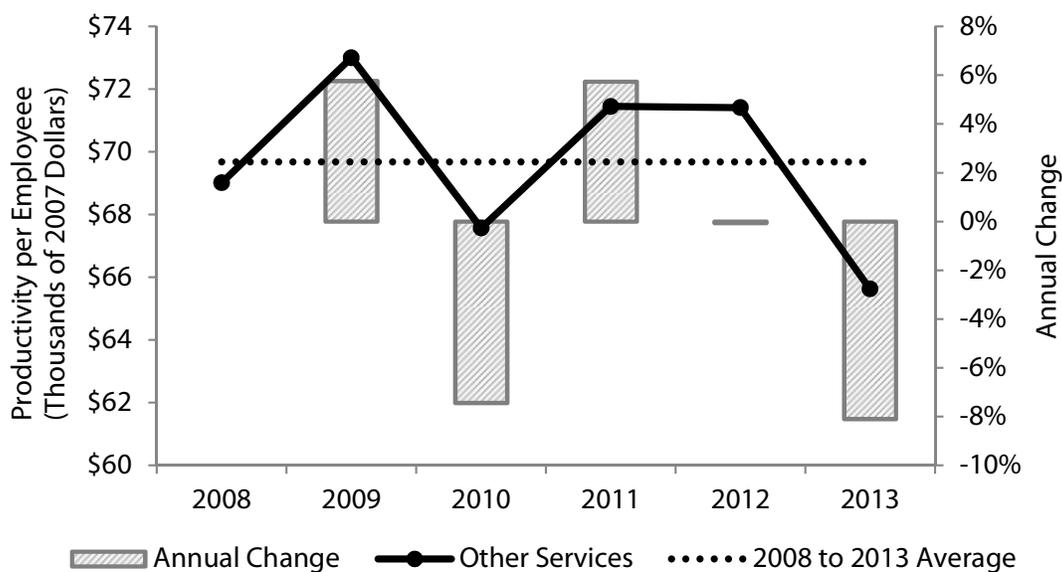
Productivity for the Ontario services-producing sector has been stable over the period 2007 to 2013 averaging \$79,791 per year. In 2013 it remained stable from 2012 but

it did remain 0.6 per cent above its long-term average. The Sault Ste. Marie -based services-producing sector was also fairly flat, see Figure 33.

Major Industries

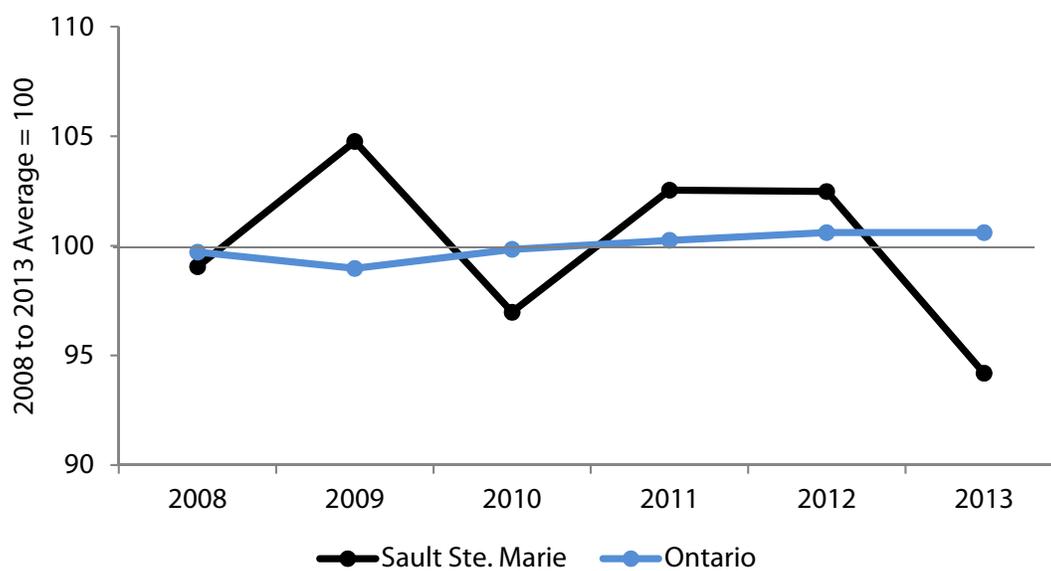
An alternative tabular format has been selected to present the selected indicator statistics for selected major industries. The indicator statistics are the annual rate of change for 2013, the change from its six year average, and the ratio of change for the latest available year for Sault Ste. Marie and the Ontario industry, see Table 4.

Figure 32: Productivity Service Producing Industries, Sault Ste. Marie



Source: Conference Board of Canada

Figure 33: Productivity Services Producing Industries, Sault Ste. Marie and Ontario



Sources: Conference Board of Canada and Statistics Canada

Data for the Sault Ste. Marie industries was prepared by the Conference Board which aggregated industries in order to publish estimates. The Ontario productivity information was sourced from Statistics Canada which employs established industry definitions and adheres to a strict confidentiality protocol. As such, certain industry aggregations were not readily available.

OBSERVATION:

Sault Ste. Marie's goods-producing sector is leading the local economy in improving its levels of productivity and its performance compares favourably to the provincial economy. Productivity is influenced by a variety of business inputs including better business models, management structures and better equipment and technology to mention a few factors beyond labour force training. Sault Ste. Marie's service sector is performing at its long-term average.

Table 4: Productivity, Selected Industries

	Number of People ('000)	Share of Labour Force (%)	Latest Annual Change	Change from 6-year average	Comparative Ratio
Total	37.1		8.2%	-0.1%	0.97
Goods sector	6.1	16.4%	13.0%	-21.1%	0.79
Manufacturing	3.5	9.4%	12.9%	-21.3%	
Construction	2.1	5.7%	16.7%	-16.0%	
Primary & utilities	0.5	1.3%	0.0%	-36.2%	
Services sector	31	83.6%	7.3%	5.6%	1.02
Transportation & warehousing	1.3	3.5%	0.0%	-6.0%	
Information & cultural industries	0.2	0.5%	-33.3%	-25.0%	
Wholesale & retail trade	6.8	18.3%	6.3%	14.0%	
Finance, insurance, & real estate	1.5	4.0%	25.0%	16.9%	
Business services	4.2	11.3%	16.7%	11.5%	
Personal services	6.6	17.8%	15.8%	17.2%	
Non-commercial services	8.1	21.8%	5.2%	-5.4%	
Public administration	2.4	6.5%	-11.1%	-2.7%	

Sources: Conference Board of Canada and Statistics Canada

Retail Sales

This sector comprises of establishments primarily engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.

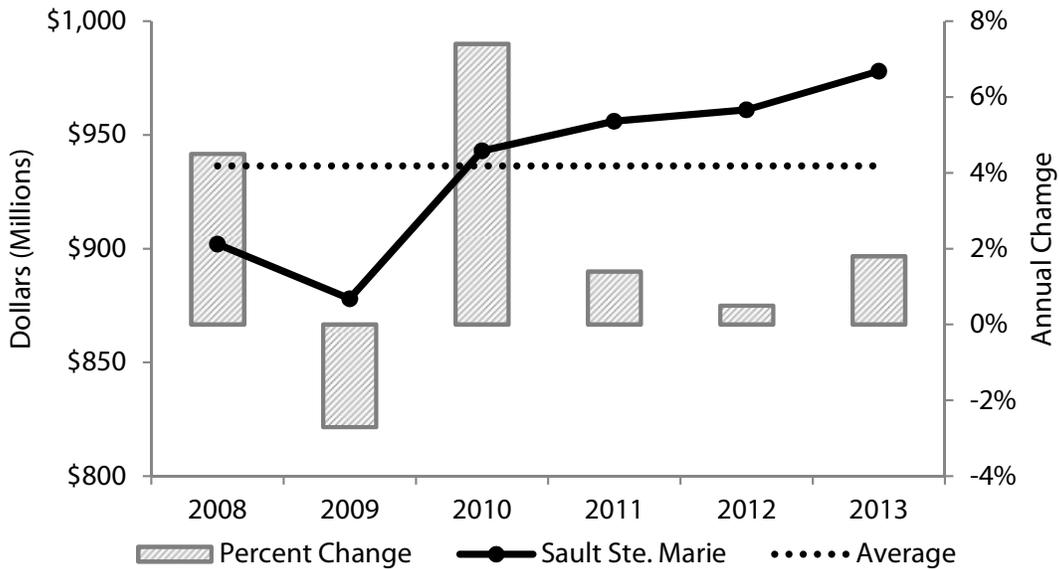
The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public¹¹.

¹¹ Statistics Canada, Catalogue no. 63-005-X, Retail Trade, 2014

Statistics Canada conducts a monthly survey to determine the value of sales. Annual total sales will be reported here. In 2013 the value of retail sales increased to \$978.0 million from \$961.0 million in 2012, an increase of 1.8 per cent. 2013 retail sales were 4.5 per cent above its six year average of \$936.3 million.

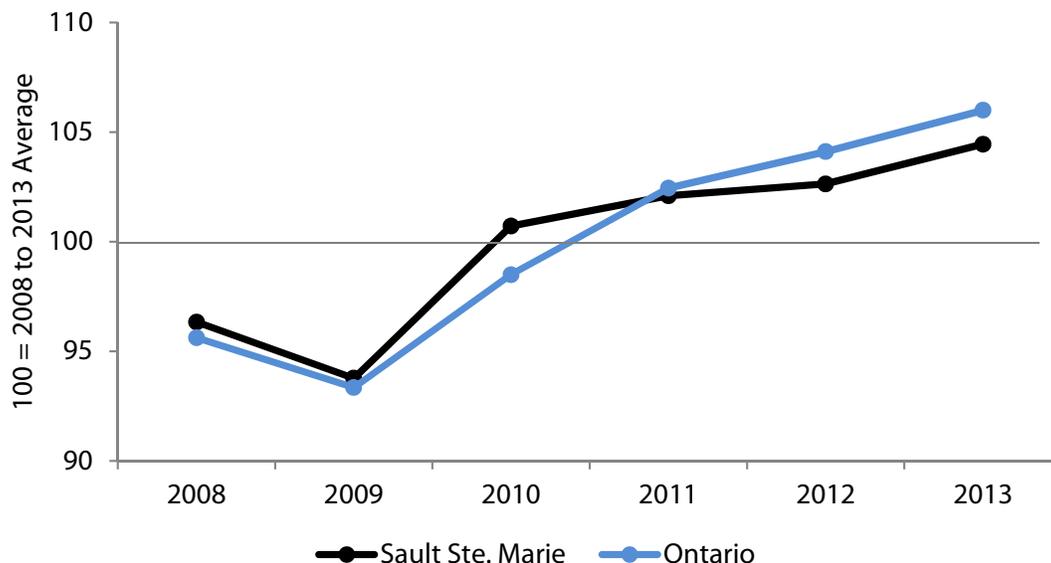
From 2008 to 2013 the value of retail grew in Sault Ste. Marie from \$902.0 million to \$978.0 million, an average annual rate of growth of 1.63 per cent, see Figure 34.

Figure 34: Annual Value of Retail Sales, Sault Ste. Marie



Sources: Conference Board of Canada and Statistics Canada

Figure 35: Value of Retail Trade Comparative Trends



Sources: Conference Board of Canada and Statistics Canada

Relative performance of the value of retail trade of Sault Ste. Marie compared to the province as a whole is presented in Figure 35.

In 2013 the value of retail trade for the province of Ontario increased from \$164.5 billion in 2012 to \$168.3 billion, an increase of 2.3 per cent and 6.2 per cent above its long term average of \$158.4 billion. From 2008 to 2013 provincial retail sales grew at an average annual rate of 2.1 per cent.

OBSERVATION:

The value of retail trade in Sault Ste. Marie has been increasing at a faster rate than inflation but slower than the provincial growth rate.

Entrepreneurship

Entrepreneurs are responsible for the production of good and services that are measured in the GDP, but entrepreneurship itself is not measured. Entrepreneurs are a critical ingredient to a dynamic marketplace that includes those who succeed and those who don't and equally, those who don't. This is a gap in the data. See New Business Starts at the start of Section 3.

Economic Sector Growth Cluster Findings

Findings for this thematic cluster are summarized in Table 5. The cluster includes seven indicators with a total of 24 secondary indicators.

Many sub-indicators showed that Sault Ste. Marie's goods-producing industries were severely impacted by the Great Recession but, since 2012, have stabilized and have begun to see some growth. The service-related industries were not as severely impacted by the recession and performed in a similar manner as the provincial sector. Notably, personal income per capita increased over the six years providing strength to Sault Ste. Marie consumers. Personal income is not credit and is not liquidating assets, it is income from various sources including labour, investments and pensions.

Table 5: Labour Force Cluster Summary

	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
New Business Starts	Leading indicator		Insufficient data	
Employment by Sector	Coincidental Indicator			
	Goods Producing Sector	Down 32.3%	Down 34.3%	0.67
	Service Producing Sector	Down 1.7 %	Down 2.0%	0.93
	Public Administration	Up 1.2%	Up 5.0%	0.97
	Manufacturing Industry	Down 38.8%	Down 40.3%	0.66
	Construction industry	Down 11.3%	Down 19.0%	0.78
	Wholesale and Retail Industry	Up 10.4%	Up 11.9%	1.13
Unemployment Rate	Coincidental Indicator	Up 0.9 points	Down 0.8 points	Up 1.1 points
Personal Income per Capita	Lagging indicator	Up 3.7%	Up 7.8%	N/A
Productivity	Lagging indicator			
	Goods Producing Sector	Up 35.1%	Up 28.1%	1.26
	Service Producing Sector	Up 0.9%	Up 2.6%	1.02
	Manufacturing	Up 50.4%	Up 37.8%	1.31
	Construction	Up 3.4%	Up 3.1%	1.07
	Primary & utilities	Up 64.5%	Up 37.1%	N/A
	Transportation & warehousing	Up 3.1%	Up 5.9%	1.06
	Information & cultural industries	Down 0.4%	Up 3.8%	N/A
	Wholesale & retail trade	Down 4.1%	Up 4.4%	.97
	Finance, insurance, & real estate	Down 2.5%	Up 1.3%	N/A
	Business services	Up 5.9%	Down 11.8%	N/A
	Personal services	Down 9.4%	Down 2.9%	N/A
	Non-commercial services	Up 16.3%	Up 2.5%	N/A
	Public administration	Up 2.3%	Down 0.9%	N/A
Retail Sales	Coincidental Indicator	Up 1.8 %	Up 4.5%	0.98
Entrepreneurship	Leading indicator		Insufficient data	

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION 4: LABOUR FORCE CLUSTER

Labour is one of the classic factors of production along with capital and natural resources.

The quantity of local labour available is drawn from the population aged 15-plus and represents the maximum size of the potential labour force. The total active labour force includes all persons employed and actively seeking a job during the reference time period. The portion of the population aged 15-plus that actively seeks employment as well as those who have employment make up the participation rate and defines the supply of labour in the short run.

The portion of the population aged 15-plus that are employed is the employment rate and is generally seen as a more meaningful statistic than the unemployment rate. For example, persons discouraged from seeking employment are treated as leaving the labour force, and therefore the unemployment rate has been reduced, even though they are technically unemployed which would reduce the participation rate in spite of the possibility that they would accept an opportunity to take a job.

The unemployment rate is the headline statistic referenced in the media. It represents the portion of the active labour force without a job and actively seeking one.

The quality of the labour force is a function of skills, often using educational attainment as the measure of quality.

In summary, the size of the labour force can be affected by a change in the size of the population and by the willingness of people to be available for work. Productivity manifests as an effective change in the size of the labour force. Employment feeds directly into total wages and labour compensation, supporting consumer consumption expenditures in the GDP. Quality of employment feeds indirectly into consumption through the credit channel.

Labour Force

Number of civilian, non-institutionalized persons 15 years of age and over who, during the reference week, ... [were employed] worked for pay or profit, or performed unpaid family work or had a job but were not at work due to own illness or disability, personal or family responsibilities, labour dispute, vacation, or other reason [employed] ...and ... [unemployed] persons on layoff or who had a new job to start in four weeks or less¹².

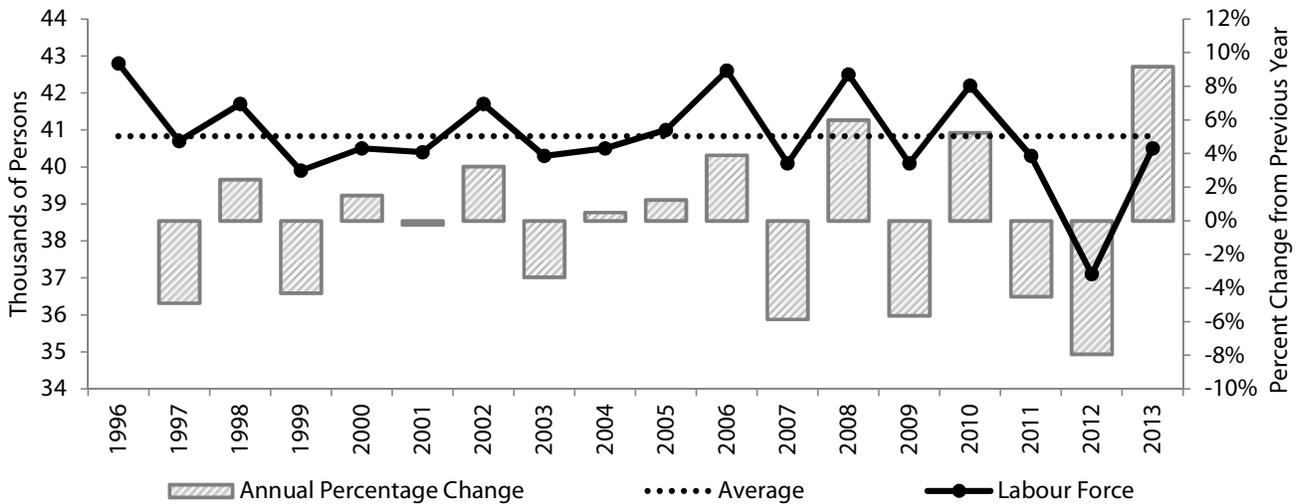
¹² Statistics Canada, CANSIM Table 282-0001. Footnotes 1 and 2,

In this section Sault Ste. Marie refers to Statistics Canada's census agglomeration, a larger geographic area than the city of Sault Ste. Marie.

Labour force by sector has already been addressed in the economic sector growth cluster. This section focuses on indicators describing the quantity of labour available to support local economic growth.

Sault Ste. Marie's labour force increased from 37,000 people in 2012 to 40,500 people in 2013 representing an increase of 9.2 per cent. This increase was due to a very large increase in the participation rate from 53.9 per cent in 2012 to 59.9 per cent in 2013. The increase brought the labour force within 3.4 per cent of its 18 year average of 40,700 from 1996 to 2013, see Figure 36.

Figure 36: Labour Force, Sault Ste. Marie



Source: Statistics Canada

The comparator area for the Sault Ste. Marie labour force is northeastern Ontario.

The number of persons in the northeastern Ontario labour force has been more stable than the Sault Ste. Marie labour force. In 2013 each area was within one per cent of their 18-year averages although it is evident that Sault Ste. Marie has been somewhat more volatile. The drop in the Sault Ste. Marie labour force in 2012 without a comparable event stands out, see Figure 37.

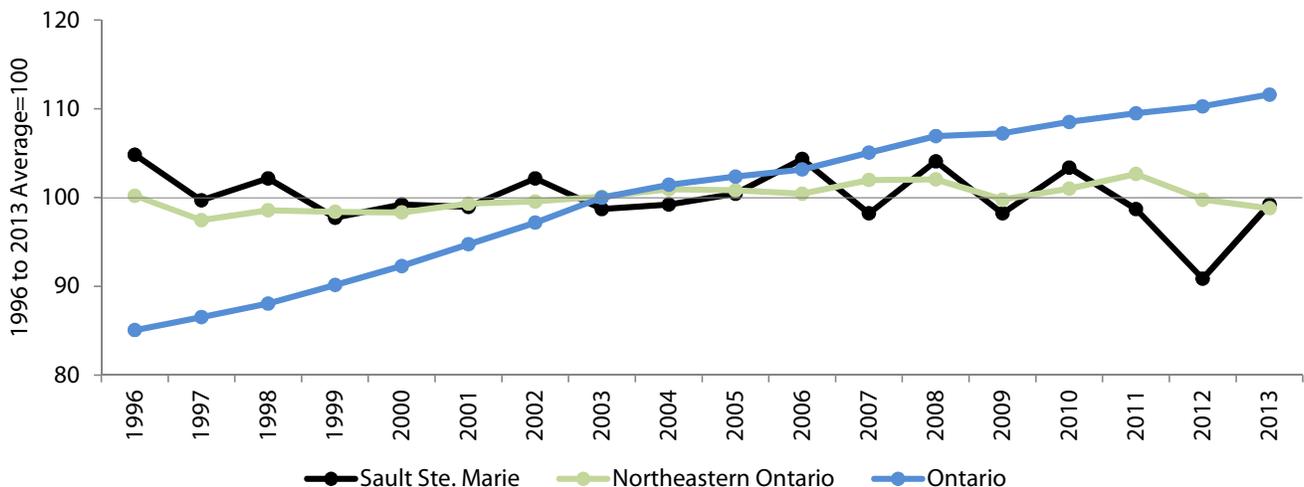
Long-term changes in the number of people in the labour force can be attributed to a shrinking population and a smaller share of people looking for work, i.e. a lower participation rate.

As illustrated in Figure 38, the participation rate for Sault Ste. Marie has been consistently lower than northeastern Ontario by 1 percentage point which translates into, on average, 700 workers.

In 2013 the population 15 years of age and over was only 1 per cent lower than the 18 year average and the participation rate was 59.4 per cent as compared to an 18 year average of 59.1 per cent.

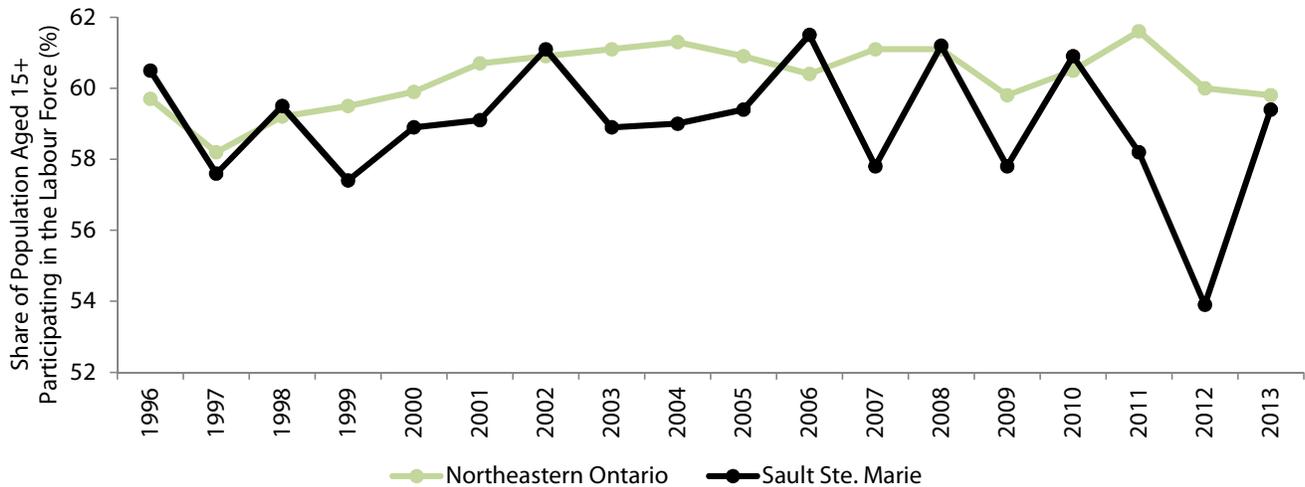
The labour force of northeastern Ontario decreased from 276,200 people in 2012 to 273,500 people, a decline of 1.0 per cent. 2013 was 1.2 per cent below its 18 year average of 276,800 and the participation rate was down 0.9 per cent from its long-term average of 60.3 per cent.

Figure 37: Labour Force, Sault Ste. Marie and Northeastern Ontario



Source: Statistics Canada

Figure 38: Participation Rates



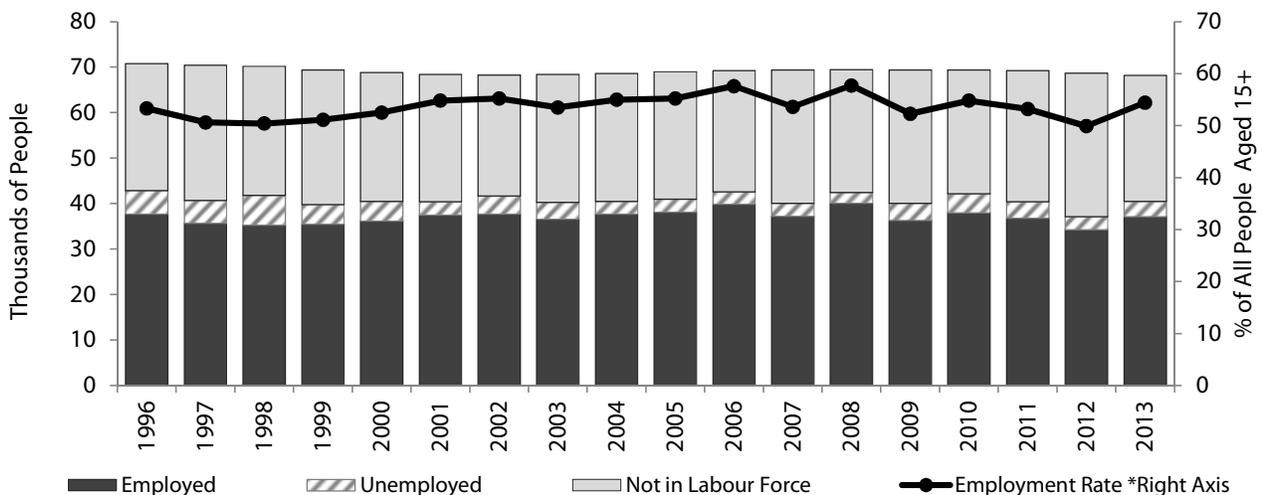
Source: Statistics Canada

Figure 39 illustrates the various characteristics of the Sault Ste. Marie labour force in one graph. The employment rate is the number of persons employed expressed as a percentage of the population 15 years of age and over. The employment rate for a particular group (age, sex, marital status) is the number employed in that group expressed as a percentage of the population for that group. Unlike the unemployment rate, the employment rate is not affected by people moving in and out of the labour force.

The employment rate for northeastern Ontario declined from 60.0 per cent on 2012 to 59.8 per cent in 2013, slightly below its long-term average of 60.3 per cent.

In 2013 the employment rate for Sault Ste. Marie increased from 49.9 per cent in 2012 to 54.4 per cent and returning to its long-term average. This was the strongest one-year increase over the 18 year period.

Figure 39: Labour Force Characteristics, Sault Ste. Marie



Source: Statistics Canada

Employment Insurance

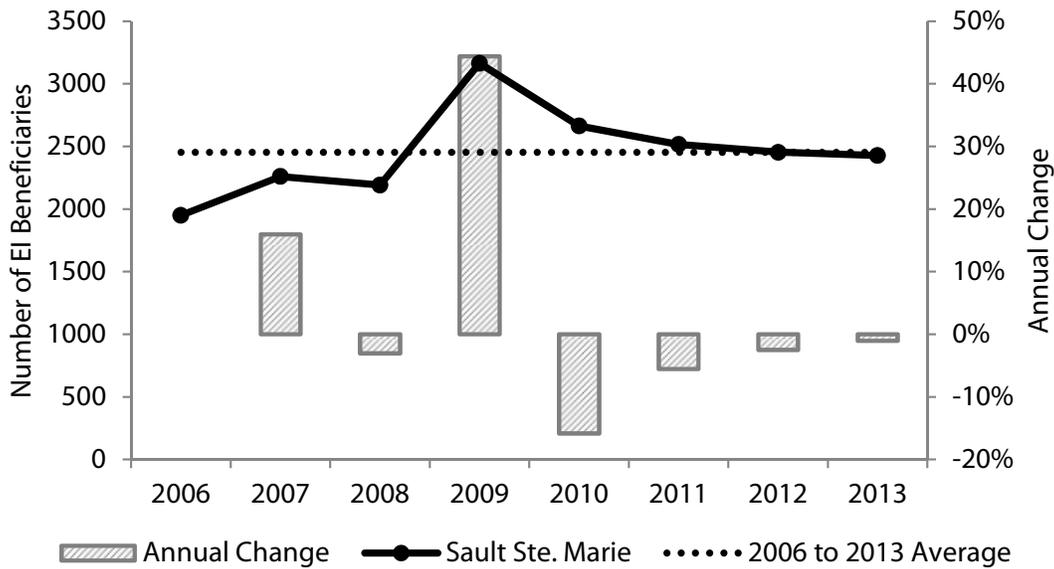
Regular Employment Insurance (EI) benefits are available to eligible individuals who lose their jobs and who are available for and able to work, but cannot find a job. To receive EI benefits, individuals must first submit a claim. The number of claims provides an indication of the number of people who could become beneficiaries¹³.

In 2013, the number of people in Sault Ste. Marie receiving regular Employment Insurance benefits fell from 2,254 in 2012 to 2,428, a decline of 26 or 1.1 per cent. Over the eight year period 2006 to 2013, the average number of Sault Ste. Marie beneficiaries was 2,453. After peaking in 2009, the number of EI beneficiaries has declined in each year such that by 2013 there were 25 fewer Sault beneficiaries than the long-term average, see Figure 40.

Over the eight year period 2006 to 2013 Sault Ste. Marie and northern Ontario followed a similar path regarding EI

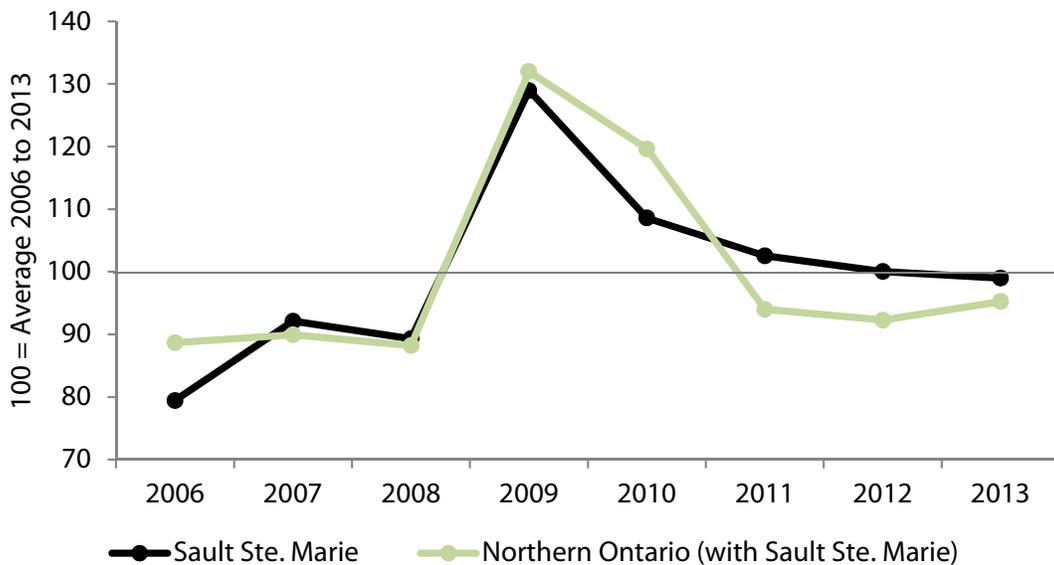
13 Statistics Canada, Employment Insurance, 2014

Figure 40: Employment Insurance Beneficiaries



Source: Statistics Canada

Figure 41: Employment Beneficiaries Comparative Trend



Source: Statistics Canada

Claimants. Until 2009 the number of EI beneficiaries was below their long-term averages. In 2009 the number rose to 30 per cent above their long-term averages falling to their long-term averages by 2013, see Figure 41.

OBSERVATION:
Sault Ste. Marie is almost indistinguishable from the experience in northern Ontario as a whole.

Average Weeks Paid EI

Average weeks paid employment insurance was identified as an economic indicator; however the data was not available for this report.

The availability of employment insurance provides short-term assistance to the newly unemployed. It provides liquidity to reside locally while conducting a job search, or until employment adjusts to market fluctuations. From the worker’s perspective the alternatives may be to either withdraw from the labour force or seek employment elsewhere.

Students

Two postsecondary education facilities are located in Sault Ste. Marie contributing to a skilled workforce: Algoma University and Sault College of Applied Arts and Technology.

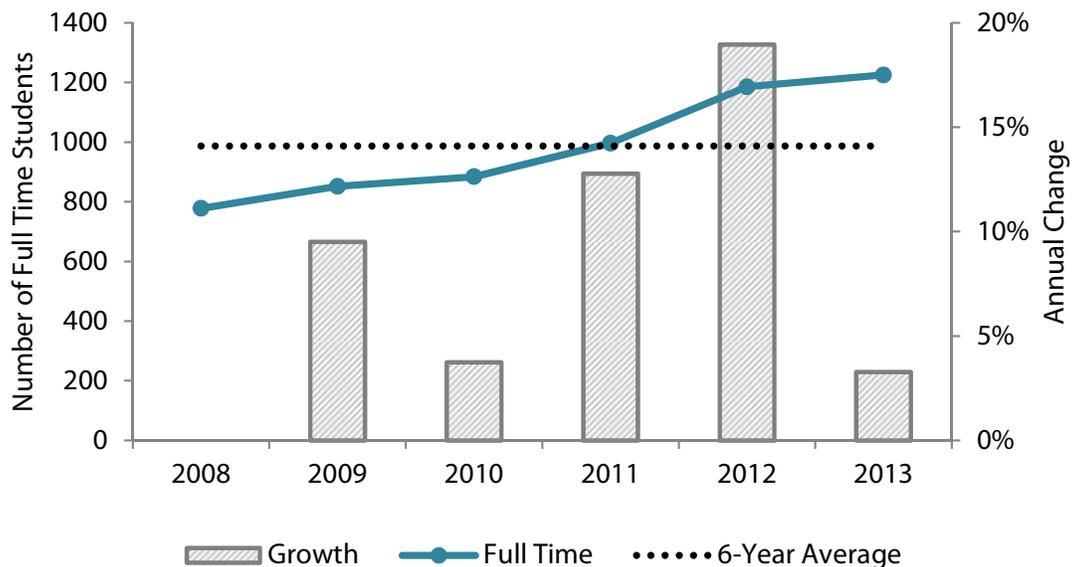
In 2008, **Algoma University** was established as an independent, degree-granting institution with a special mission to be a teaching-oriented, primarily undergraduate university focused on the needs of Northern Ontario, and also to “cultivate cross-cultural learning between aboriginal communities and other communities, in keeping with the history of Algoma University College and its geographic site”¹⁴. The University has consistently met growth targets designed to increase enrolment from approximately 1000 students to approximately 3000 students by the year 2020. Several new buildings have been added to campus, including the Essar Convergence Centre in 2011 and a New Residence in 2012.

Full time enrolment increased from 1,186 students in 2012 to 1,225 in 2013 an increase of 3.3 per cent, its lowest annual increase over the six year period 2008 to 2013. From 2008 to 2013 full time enrolment increased by an average annual rate of 9.5 per cent, see Figure 42.

Over the six year period there has also been a shift of students into business administration, see Figure 43.

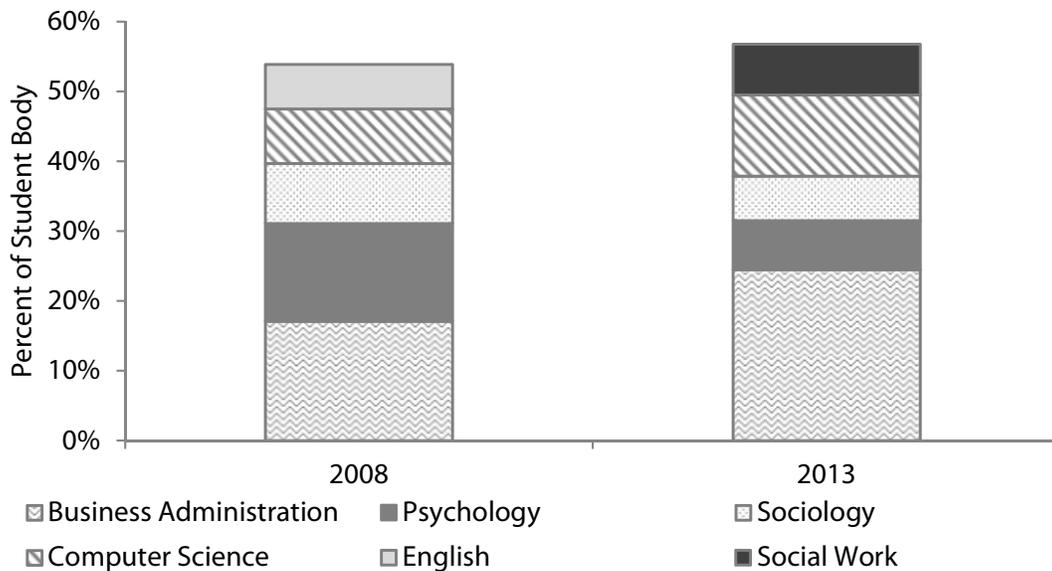
14 Algoma University

Figure 42: Full Time Enrolment at Algoma University



Source: Algoma University

Figure 43: Top Five Programs at Algoma University



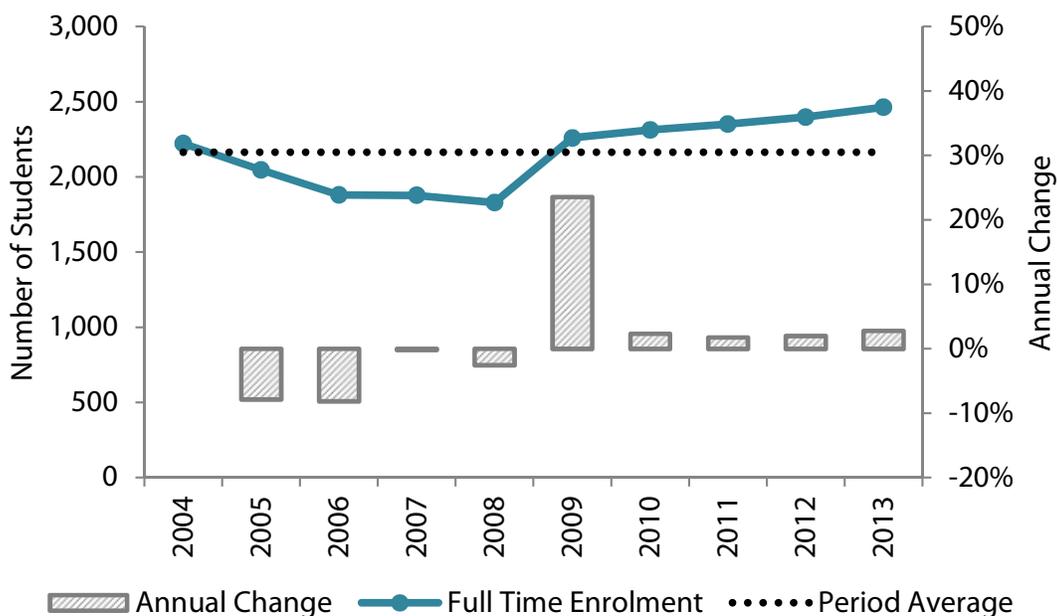
Source: Algoma University

In the academic year beginning the autumn of 2013 enrolment at **Sault College of Applied Arts and Technology** increased to 2,464 full-time students from 2,398 the year before. As shown in Figure 44 this was the fifth straight year of enrolment increases. 2013 enrolment was 13.9 per cent above the College's ten year average of 2,164 students.

Education Rates

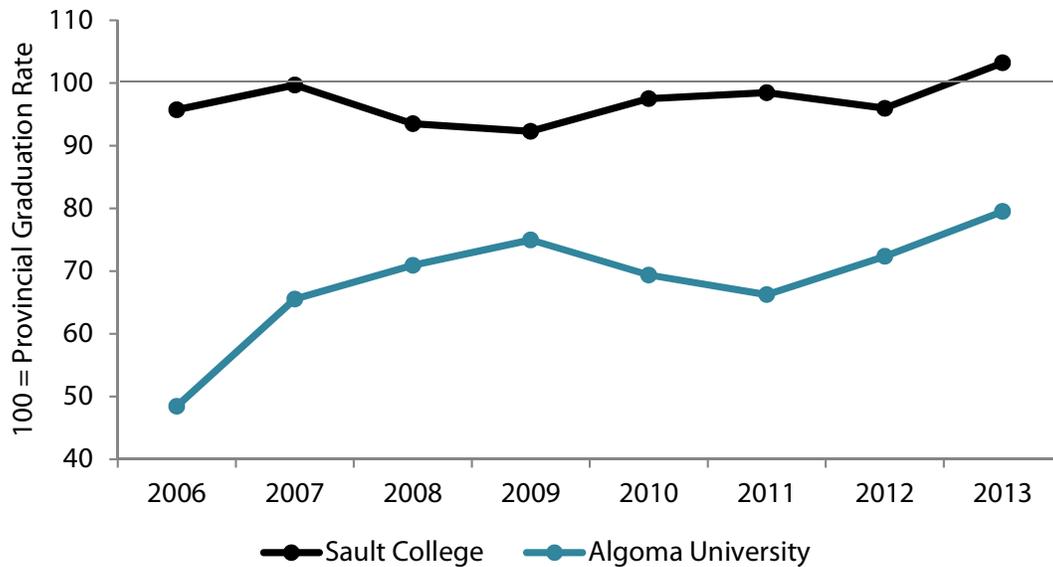
Education rates were identified as an economic indicator; it is measured as graduation rates for Algoma University and Sault College. Education rates have a direct effect on the quality of labour. Literacy and numeracy are obvious qualities, but the effects become more pronounced given higher levels of education and training.

Figure 44: Enrolment, Sault College Trend



Source: Sault College of Applied Arts and Technology

Figure 45: Graduation Rates, Sault College and Algoma University



Sources: Algoma University and Sault College

Figure 45 presents the graduation rates for the two education facilities as a percentage of the provincial rate. A value of 100 means that students are graduating at the same rate as the provincial system; and if the value is below 100 it means that the graduation rate is below the provincial rate.

As illustrated in Figure 45, Sault College graduates students at near the provincial average with an eight-year rate of 97 per cent of the provincial average. Algoma University has improved their graduation rate from 48.4 per cent of the provincial rate in 2006 to 79.5 per cent in 2013.

Labour Force Cluster Findings

Findings for the Labour Force Thematic Cluster are presented in Table 6.

The labour force cluster had considerable information regarding the quantity of labour force provided by Statistics Canada. Algoma University has had increasing enrolment and graduation rates since 2006 and Sault College has strengthened its graduation rate. Education is treated in the GDP accounts as an investment with one of its important economic outcomes being an enhanced quality of labour, with its direct impact on increased economic productivity. It is possible to foster a growing economy without investing in productivity growth, but to foster a growing economy with rising GDP per capita, it is necessary to increase productivity. Education is an element in fostering higher productivity, and it is a statistic as of yet not readily available for a local analysis.

Table 6: Labour Force Cluster Findings

	Indicator	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
Labour Force	Size of Labour Force	Short-term labour supply	Up 9.2%	Even	1.00
	Participation Rate	Flexibility around short-term labour supply	Up 10.2%	Up 0.7%	1.02
	Employment Rate	Effectiveness of labour market	Up 9.0%	Up 0.7%	1.01
Employment Insurance			Down 1.1%	Down 1.0%	0.96
Students	Number by institution	Investment in quality of labour			
	Algoma U		Up 3.3%	Up 24.1%	0.79
	Sault College		Up 2.8%	Up 13.9%	1.03

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION 5: POPULATION GROWTH CLUSTER

The population growth is comprised of the natural growth, international migration and interprovincial migration. The working age population are persons 15 years of age and older.

The total population for Sault Ste. Marie was only available for each of the five year population censuses.

Working Age Population of Sault Ste. Marie

The working age population is the number of civilian, non-institutionalized persons 15 years of age and over whom, during the labour force survey, are participating in the labour market and are either employed or unemployed.

In 2013, the working age population of the Sault Ste. Marie census agglomeration, an area extending around the City of Sault Ste. Marie, was 68,200 persons, down 600 persons from 2012 and down 700 persons from its average over the 13 year period 2001 to 2013. Sault Ste. Marie experienced a period of population growth from 2003 to 2008 when it peaked at 69,900. Since 2008 the population has declined every year, see Figure 46.

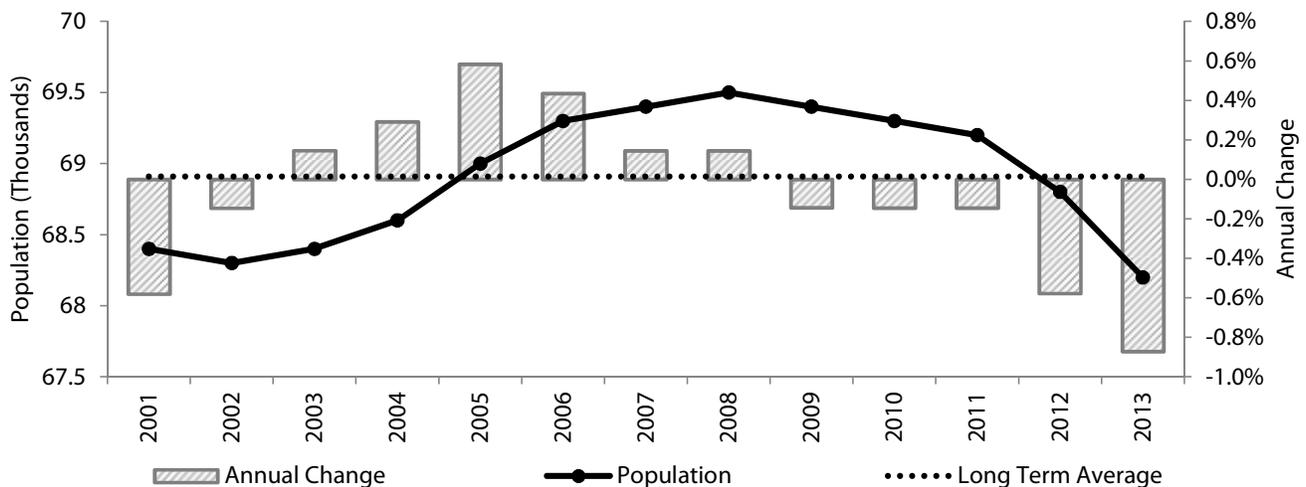
Growth of Sault Ste. Marie's working age population is compared with northeastern Ontario in Figure 47.

The working age population of Sault Ste. Marie fluctuated around its period average, beginning movement in 2002

until it peaked in 2008. Northeastern Ontario illustrated a stabilization in 2003 but resumed its downward trend in 2008. By 2013 both jurisdictions were in the same position relative to their 13-year averages.

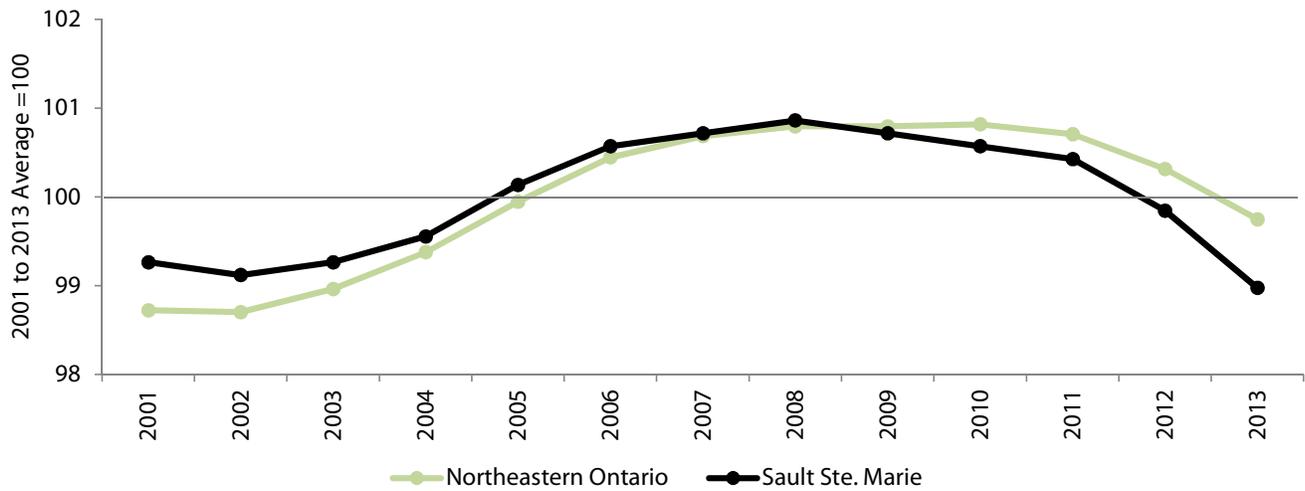
Please note that the working age population comes from the Labour Force Survey that is conducted on a monthly basis, and then calibrated with Statistics Canada's procedures. Statistics Canada may have population intra-census estimates at some of their higher order geographies. Total population is released by Statistics Canada every five years through the census. The Ontario Ministry of Finance or another agency may have a model to provide estimates of the local population subject to revision and recalibration after the next census. For this exercise, total population estimates were not available.

Figure 46: Working Age Population, Sault Ste. Marie



Source: Statistics Canada

Figure 47: Growth of the Working Age Population, Comparative Trend Sault Ste. Marie, and Northeastern Ontario



Source: Statistics Canada

Median Age

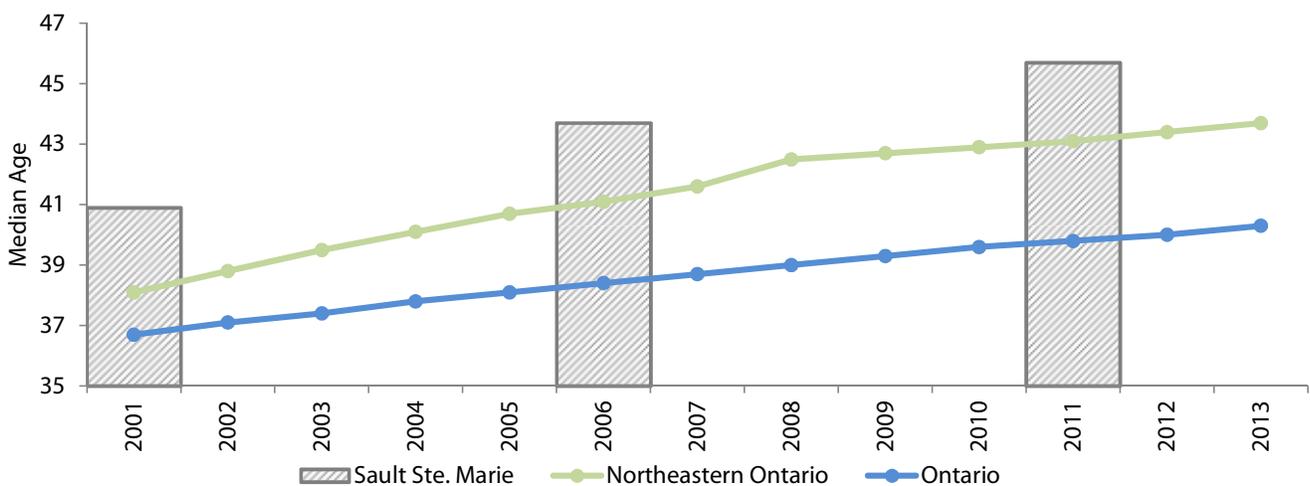
The median age is an age 'x', such that exactly one half of the population is older than 'x' and the other half is younger than 'x'.

As illustrated in Figure 48, the population is aging; the median age has increased for each of the three areas, Sault Ste. Marie and the two comparator areas, northeastern Ontario and the province as a whole.

The median age of residents of Sault Ste. Marie rose from 43.7 years in 2006 to 45.7 years in 2011, an increase of two years. In 2001 the median age was 40.9 years, almost five years younger than 2011.

The age gap between Sault Ste. Marie and northeastern Ontario narrowed in 2006 from Sault Ste. Marie's median age being 2.8 years older than northeastern Ontario, to 2.6 years, the same gap as in 2011. However, although Ontario is also aging as the median age increased from 36.7 in 2001 to 39.8 in 2011, the gap between Ontario and the north, including Sault Ste. Marie, has increased from 4.2 years in 2001 to 5.9 years in 2011.

Figure 48: Median Age, Sault Ste. Marie, Northeastern Ontario and Ontario



Source: Statistics Canada

Immigration and Outmigration

Immigration: Sum of all entries into Canada of landed immigrants from other countries, involving a change in usual place of residence.

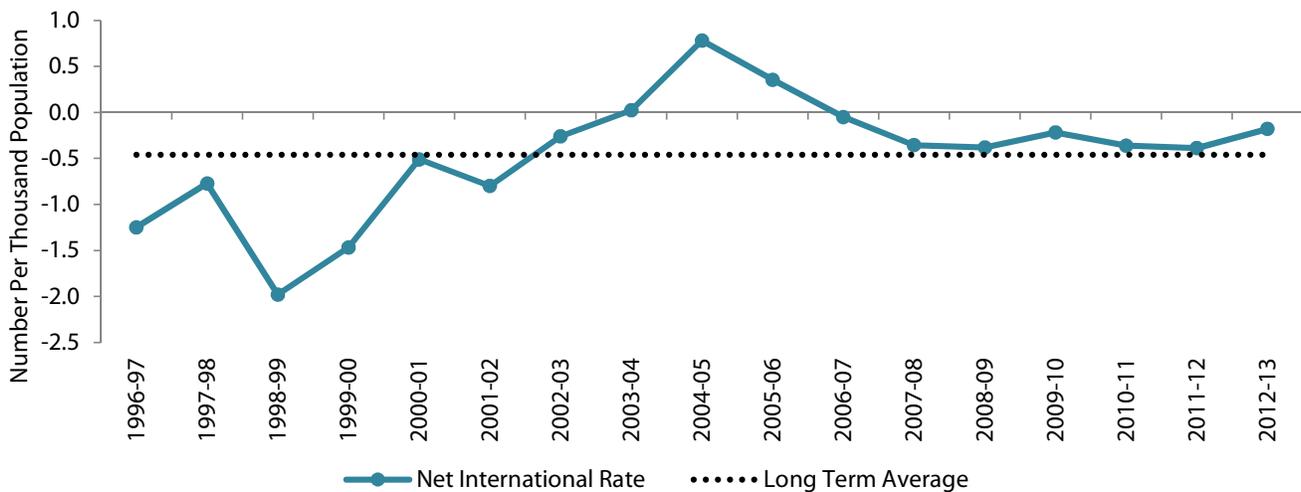
Emigration: Departures of Canadian citizens or landed immigrants in Canada to another country that implies a change in the usual place of residence. Emigration can either be permanent or temporary.

The immigration rate is the number of immigrants per thousand population of the destination jurisdiction. The net migration rate is number of net migrants, immigrants minus emigrants, per thousand population of the destination jurisdiction. In 2012-13 the net migration rate for the Algoma Census Division was 0.388 meaning that for every one thousand residents of the Algoma Census Division just over a third of a person, net, migrated to Algoma. Another way of expressing this is that Algoma gained one net migrant for every 2,576 residents. In 2012-13 the net migration rate fell to 0.179 per thousand residents, or expressed another way, Algoma had one net migrant for every 5,602 residents. 2012-13 was above the 17 year average net emigration rate of 0.459 per thousand persons. For a three year period from 2003-04 to 2005-06 the migration rate was above zero indicating there were more immigrants than emigrants, see Figure 49.

The net migration rate was similar over time for the Algoma Census Division and the Northeast Census Division: it was below average until the early 2000s and then it has stabilized around the average, as illustrated in Figure 50.

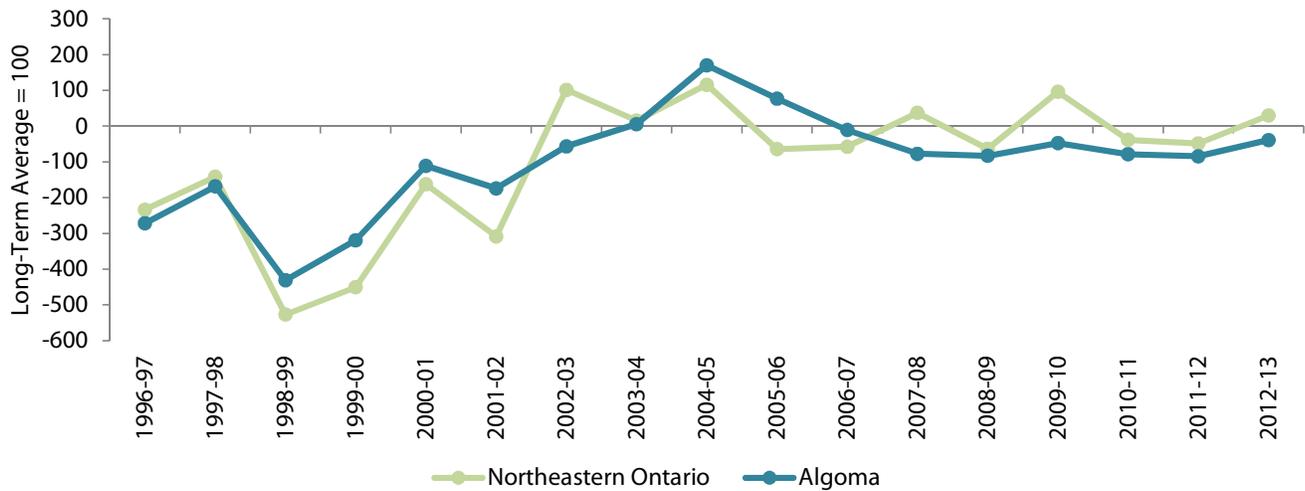
OBSERVATION:
Immigration and emigration are a small factor in the recent demographic performance of Sault Ste. Marie and northeastern Ontario. Over the seventeen year period 1996-97 to 2012-13 there were a total of 1,286 immigrants to the Algoma Census Division.

Figure 49: Net Migration Rate, Algoma Census Division



Source: Statistics Canada

Figure 50: Comparative Net Migration Rates, Algoma and Northeastern Ontario



Source: Statistics Canada

Population Growth Cluster Findings

Findings for the Population Growth Thematic Cluster are presented in Table 7.

Population trends in the Sault are typical of northeastern Ontario; an older population and a population that is not growing. International net migration was not significant for northern Ontario locations.

Table 7: Population Growth Cluster Findings

Indicator	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
Working Age Population	Impacts consumer consumption and the size of the labour force	Down 0.9%	Down 1.0%	Even
Median age	Data is only every five year for Sault Ste. Marie	Insufficient Data from Statistics Canada		
Immigration and out migration	Less net emigration is better	Down 54%	Down 64%	Reversed

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION: 6 RESILIENCE/ REAL ESTATE AFFORDABILITY CLUSTER

Five indicators are included in the cluster, two of which will require further development. Economic resilience describes the ability of a local economy to absorb economic downturns, and respond with new economic opportunities. The resiliency of the local economy is dependent on local entrepreneurial capacity. Residences can be an important source of capital for new ventures, and a source of collateral for new purchases. Prices, liquidity and the rental markets all affect the economic resilience of local economies.

Home Sales and Prices

House sales and prices are a sensitive indicator of the economic outlook for a community. It reflects confidence of consumers to make what for many is their primary lifetime investment and is an indicator of their confidence that the residential market will remain healthy such that prices will not fall.

Data regarding home sales and home prices is more difficult to collect in smaller communities than in very large and very competitive communities in southern Ontario. In smaller markets as in many communities in northeastern Ontario, a single large (or small) sale can skew the published averages, and can impact market expectations in an incorrect direction. As such the information provided to Destiny SSM is treated somewhat cautiously. Data is limited to three years, 2011 to 2013.

The focus of this section is on the relative rate of change of house prices and house sales. The level of prices is given: prices in southern Ontario are significantly higher than northern Ontario due to relative demand conditions. The

indicator of relative economic conditions is how the rate of change differs. If sales and prices change at a faster rate in Sault Ste. Marie than in the other markets it is a direct market signal that the economy is relatively strong.

Given the limited data and sensitivity of the information, both the number of sales and average house prices are indexed by their three year averages. For example the house price reported for 2012 in Sault Ste. Marie divided by the average price reported for the three year period 2011 to 2013, equals 101.0, or expressed another way, an average house price in 2012 was 1 per cent more than the 3 year average. In this way, trends can be tracked without publicizing what could be sensitive price information within and between housing markets. Three jurisdictions are included: Sault Ste. Marie, the province of Ontario and a basket of northern communities (including Thunder Bay, Sudbury, North Bay and Timmins) based on a simple average value.

As illustrated in Table 8 the number of house sales remained stable around their three year averages for all communities. Prices did increase at a faster rate than inflation in all areas, ending 2013 between 4 and 5 per cent above their averages.

Vacancy Rates

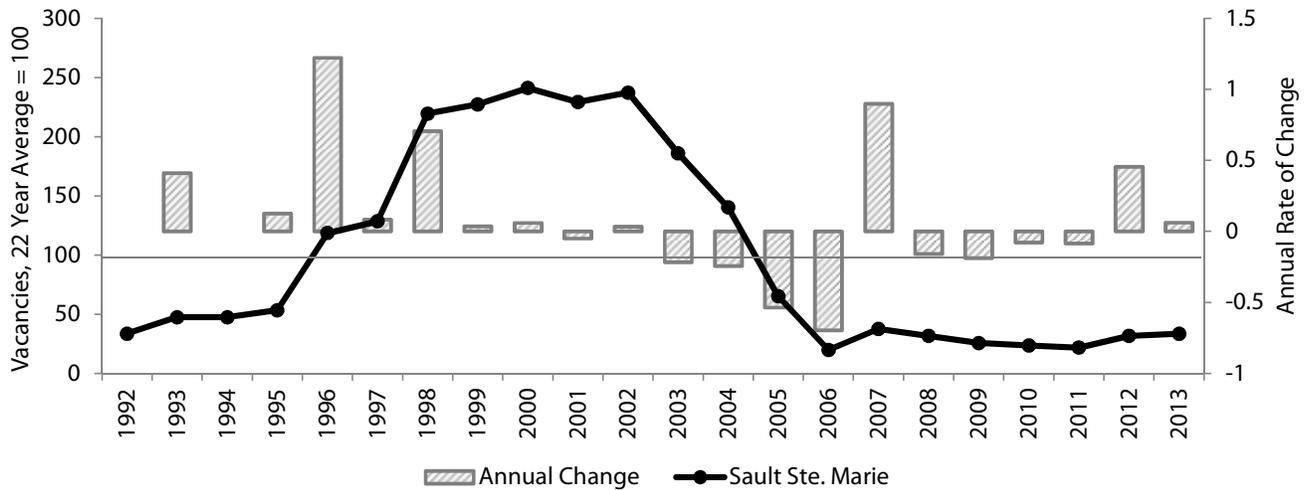
Vacancy statistics are reported and presented as indexed values for the same reason that house sales and prices were presented in this manner. Vacancy rates are an indicator of surplus residential supply.

Vacancy data is available for the 22 year period from 1992 to 2013. In 2013, Sault Ste. Marie vacancy rates increased 6.3 per cent above 2012. As illustrated in Figure 51, Sault Ste. Marie vacancy rates peaked in 1999 at a level more than twice the long-term average. Since 2003 vacancy rates have generally declined with the exceptions of 2007 and 2012.

Table 8: Residential House Sales and Prices, three year average = 100.0

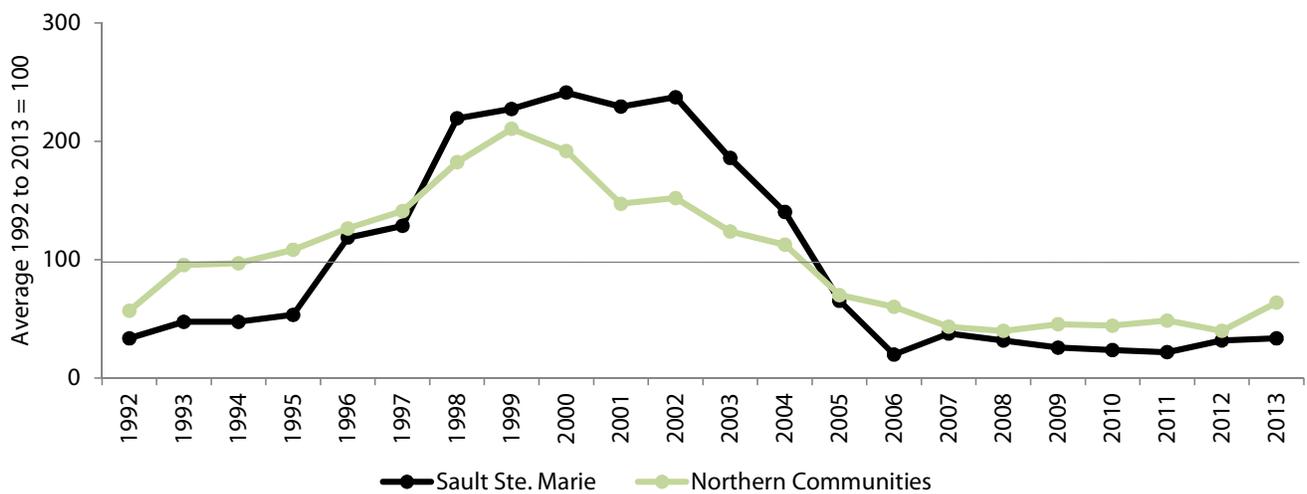
	2011	2012	2013
Number of Houses			
Sault Ste. Marie	101.8	98.6	99.6
Ontario	100.7	99.4	99.9
Northern Communities	102.7	101.0	96.3
House Prices			
Sault Ste. Marie	95.1	101.0	103.8
Ontario	95.3	99.8	104.9
Northern Communities	94.6	100.7	104.7

Figure 51: Vacancies, Sault Ste. Marie



Source: Canada Mortgage and Housing Corporation

Figure 52: Vacancy Rates, Indexed



Source: Canada Mortgage and Housing Corporation

Vacancy rates in selected northern Ontario communities (North Bay, Greater Sudbury, Sault Ste. Marie, Thunder Bay and Timmins) experienced above average levels for the period from the mid-1990s to 2005. Since 2005 Sault Ste. Marie vacancy rates have stabilized at a level two-thirds below its 22-year average and the northern communities have stabilized at a level approximately one-quarter below its long-term average, see Figure 52.

Average Rental Rate

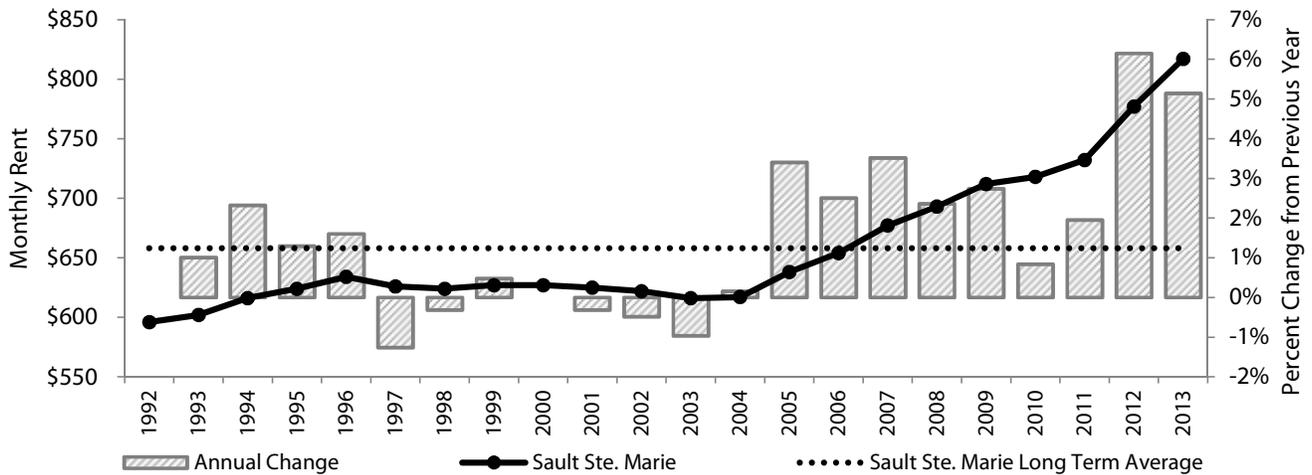
The reference standard used for this discussion is a two bedroom unit in an apartment structure of six units or over. Data is for the 22-year period 1992 to 2013. Note: all rents are in current dollars, they have not been adjusted for inflation.

In 2013 the monthly rent for the reference unit in Sault Ste. Marie increased from \$777 in 2012 to \$817, an increase of 5.1 per cent. The 2013 rent was 24.2 per cent above its 22-year average rent of \$658.

After vacancy rates fell below their 22-year average in 2005, monthly rent rates have increased each year as shown in Figure 53.

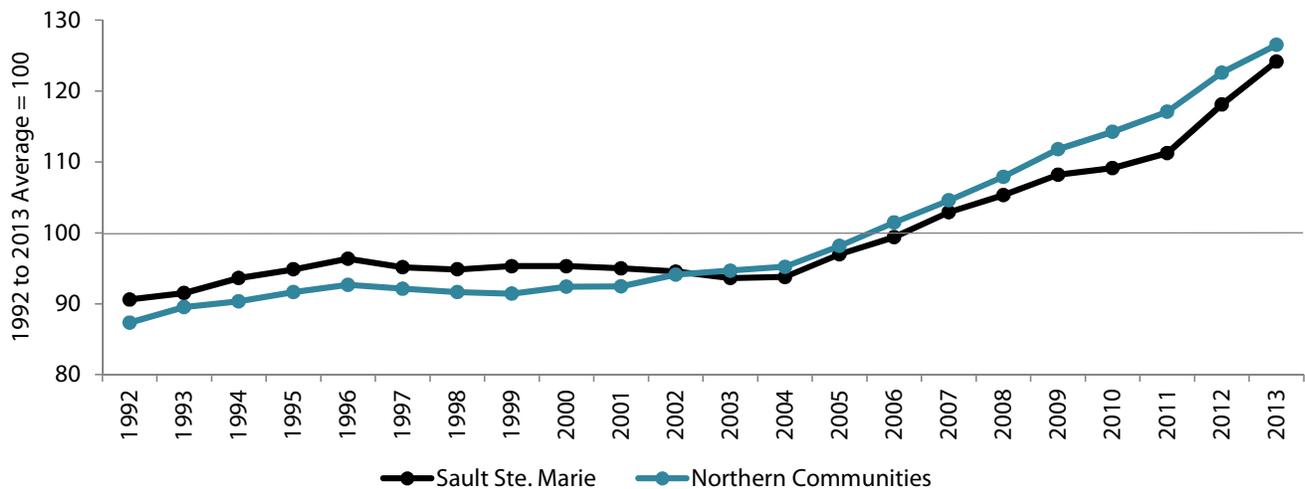
Sault Ste. Marie is compared with selected northern Ontario communities (North Bay, Greater Sudbury, Thunder Bay and Timmins) in Figure 54.

Figure 53: Average Rental Rate



Source: Canada Mortgage and Housing Corporation

Figure 54: Average Monthly Rents, Sault Ste. Marie Compared with Northern Communities



Source: Canada Mortgage and Housing Corporation

Affordability Index

The Affordability Index was identified as an economic indicator; however the data was not available for this report. This Affordability Index provides information covering a wide range of issues including the ability of newly unemployed and the newly graduated to continue to job search within the Sault Ste. Marie and support themselves. It also becomes a factor influencing decisions to migrate.

This is an important indicator, however data was not provided for this report.

Poverty Index

Similar to the Affordability Index above, the Poverty Index was identified as an economic indicator but data was not available for this report. The Poverty Index serves a similar purpose as the Affordability Index.

This is an important indicator, however data was not provided for this report.

Resilience / Real Estate Affordability Cluster Findings

Findings for the Resilience/Real Estate Affordability Thematic Cluster are presented in Table 9.

The residential housing market is showing signs of strength coupled with lower rental vacancies. Houses can be an important source of capital for new starts and a healthy and improving housing market reduces the perceived risk by lenders. The Sault market was typical of northern Ontario.

Table 9: Resilience/Real Estate Affordability Cluster Findings

Indicator	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
House Market	Sales	Up 1.0%	Down 0.4%	1.04
	Price	Up 3.0%	Up 4.0%	0.99
Vacancy Rates		Up 6.3%	Down 66.4%	1.40
Average Rents		Up 5.1%	Up 19.4%	1.05
Affordability Index			Not available	
Poverty Index			Not available	

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging the behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing better.

SECTION 7: TOURISM THEMATIC CLUSTER

Tourism contributes to the local economy through a number of channels. From the demand side, there are at least four types of tourists. First, there are local residents who spend money on local attractions and do not spend their pleasure dollars outside the community for at least a portion of their discretionary expenditures. Second, non-residents spend money in Sault Ste. Marie as their primary or secondary destinations. Third, people attracted to Sault Ste. Marie for business purposes or as travelers will spend money on tourist-related industries. Fourth, non-residents with destinations within the commercial periphery of Sault Ste. Marie businesses will be a source of expenditures with direct links to Sault Ste. Marie.

Supply side indicators would include assets that attract people to Sault Ste. Marie and area.

Two tourism indicators were identified to be included in the tourism cluster: hotel occupancy rates and average rental rates.

Hotel Occupancy Rate

Hotel occupancy rate is an indicator of capacity utilization at the prevailing price. Hotel occupancy statistics were provided for the 13 year period beginning 2001 and ending 2013.

In 2013 the hotel occupancy rate Sault Ste. Marie fell to 50.7 per cent in 2013 from 51.6 per cent in 2012, a decline

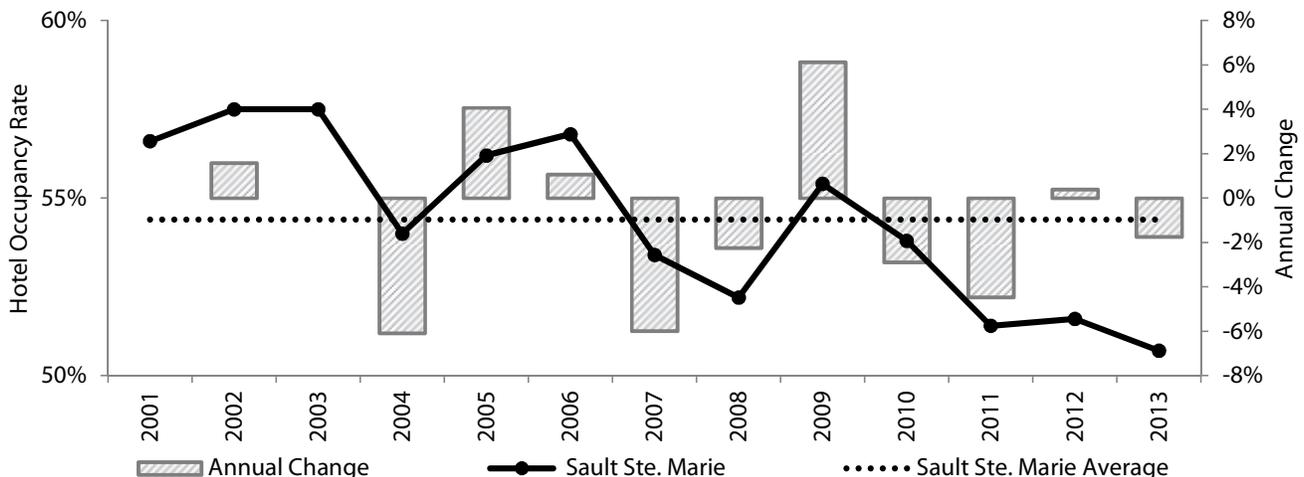
of 1.7 per cent. Over the thirteen year period, the city's occupancy rate reached its peak of 57.5 per cent in 2002 and 2003 and has struggled since. 2013 was 6.8 per cent below its 13 year average of 54.4 per cent, see Figure 55.

As illustrated in Figure 56 the Sault Ste. Marie industry has been less resilient than the provincial industry. The provincial industry reached a trough in 2009 and has increased its occupancy rate in each of the following four years. The Sault Ste. Marie industry has had the opposite experience: it reached a minor cyclical peak in 2009 and has declined in three of the following four years. In 2013 the provincial industry's occupancy rate was 2.1 per cent above its thirteen year average; Sault Ste. Marie's rate was 6.8 per cent below.

OBSERVATION:

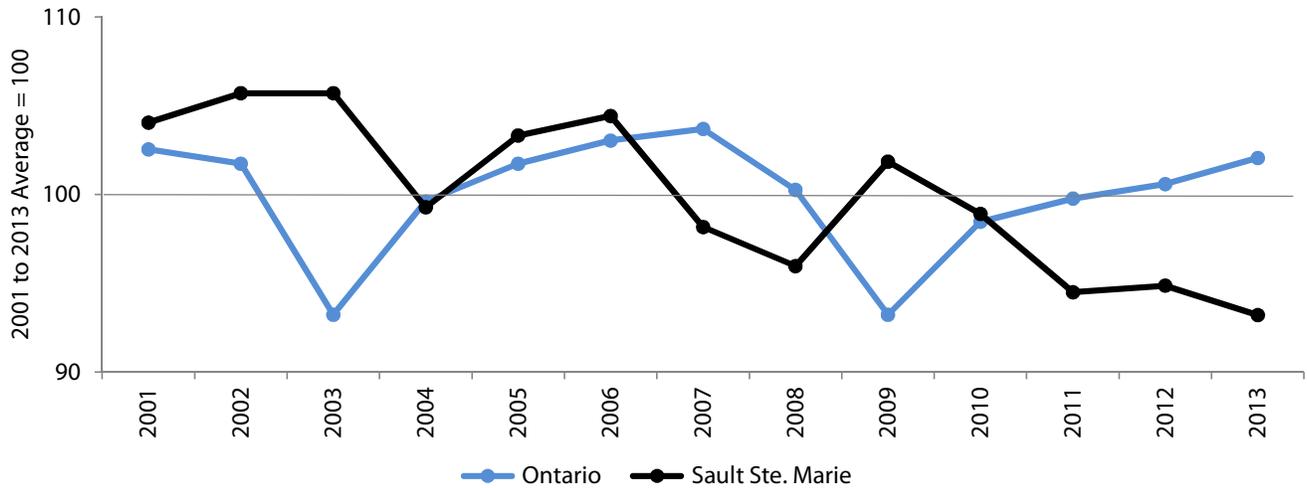
Sault Ste. Marie and provincial trends were consistent until 2008 after which they began to move in opposite directions. Ontario has regained its thirteen year average while Sault Ste. Marie struggles.

Figure 55: Hotel Occupancy Rate, Sault Ste. Marie



Source: PFK Consulting

Figure 56: Comparative Hotel Occupancy Rates, Sault Ste. Marie and Ontario



Source: PFK Consulting

Average Daily Hotel Prices

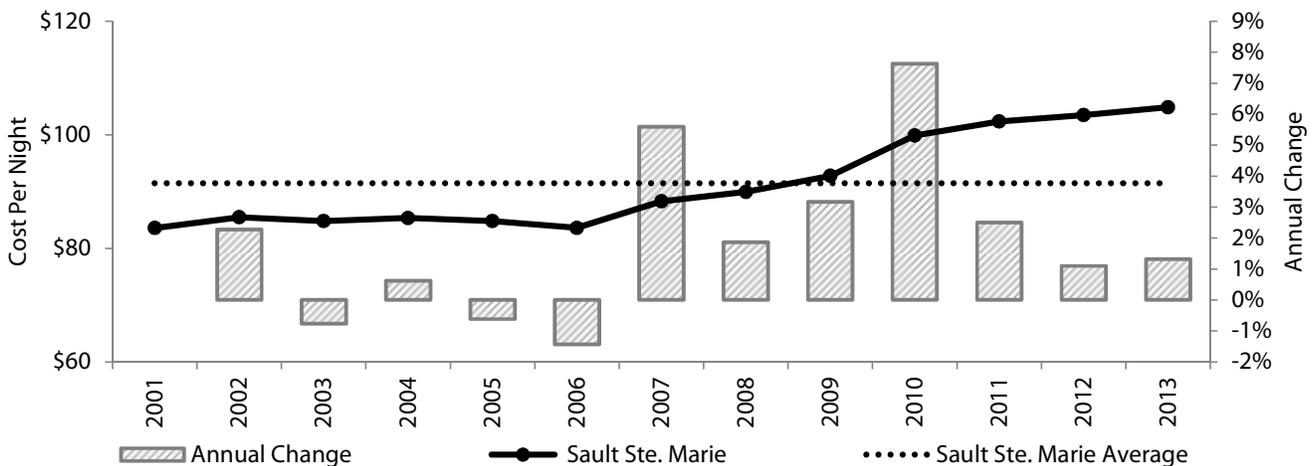
The average cost of a hotel room in Sault Ste. Marie was \$104.86 per night in 2013, and increase of 1.3 per cent from 2012 and 14.6 per cent above its thirteen year average of \$91.48.

As illustrated in Figure 57, the average price remained stable from 2001 to 2006, after which it began to increase modestly.

Figure 58 illustrates the price of rooms for the province has been stable throughout the thirteen year period, within plus or minus 5 per cent of the 13 year average. Sault Ste. Marie prices began to accelerate relative to the provincial average in 2006. By 2009 Sault Ste. Marie hotel prices

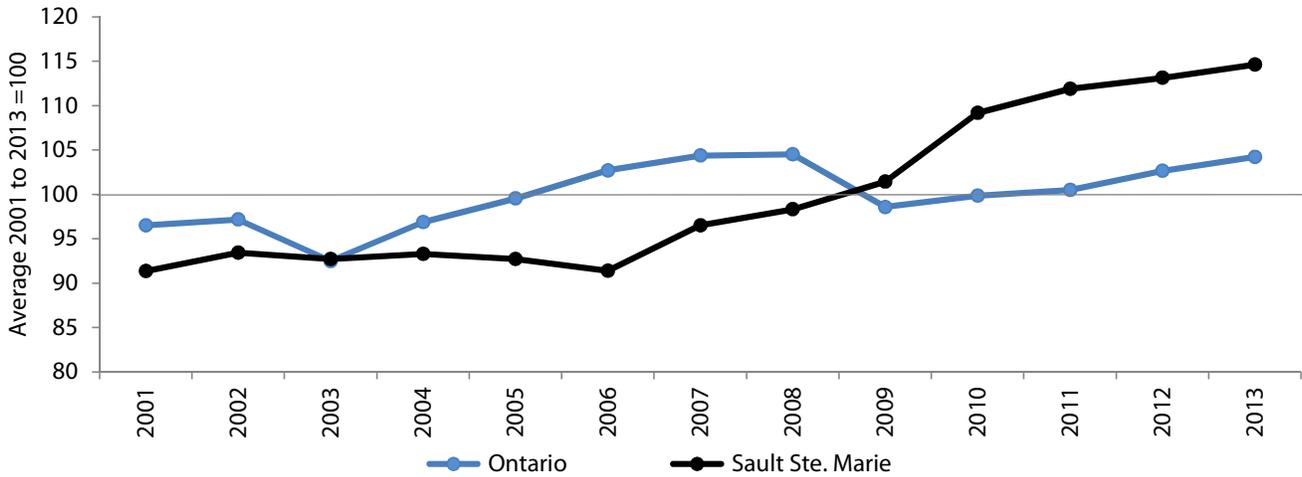
have been stronger than the provincial average. This may reflect a strengthening demand for visitor accommodation in Sault Ste. Marie, or it may represent movement by the industry to penetrate higher quality markets.

Figure 57: Average Price of a Hotel Room



Source: PFK Consulting

Figure 58: Comparative Hotel Prices, Sault Ste. Marie and Ontario



Source: PFK Consulting

U.S. Vehicles Entering at Sault Ste. Marie

This is an indicator of non-resident demand for traveler services. Vehicles included in the count are automobiles, trucks and other vehicles. The following discussion is based on the number of non-truck United States vehicles entering Canada at the Sault Ste. Marie border. The period examined is 2001 to 2013.

In 2013 the number of non-truck United States vehicles entering Sault Ste. Marie was 145,929, down 0.3 per cent from 146,321 in 2012. As illustrated in Figure 59, the number of United States vehicles entering Canada at Sault Ste. Marie fell every year from 2001 to 2009, when the decline

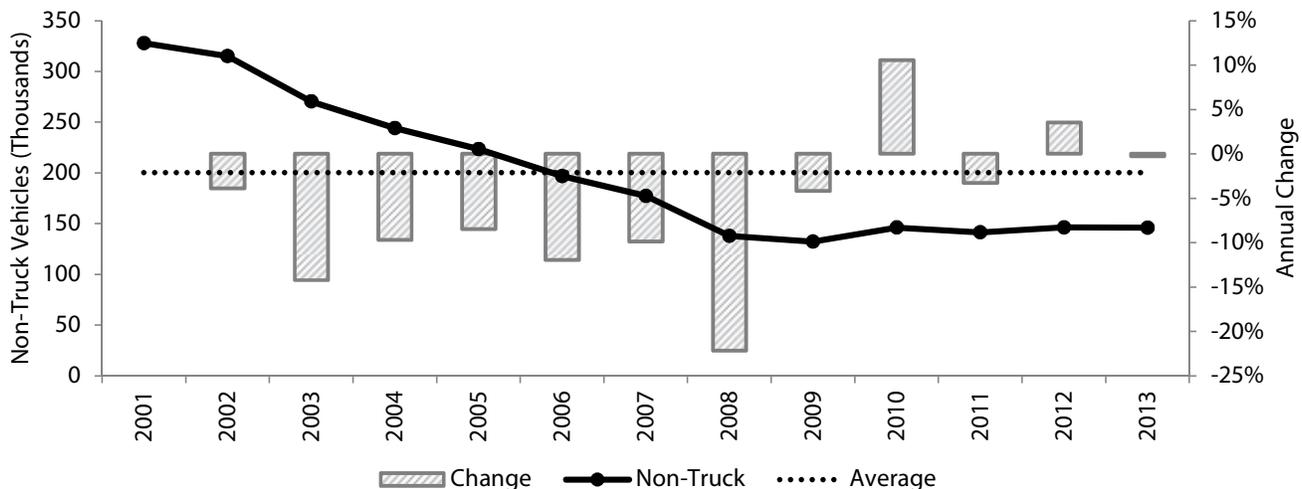
was stopped in 2010. The number of vehicle entries since 2010 has stabilized. Between 2001 and 2009, the number of vehicles dropped a total of 59.7 per cent.

The province as a whole experienced a similar drop in non-truck United States vehicles entering Ontario. As illustrated in Figure 60 the patterns are almost identical, after 2001 United States vehicular traffic dropped by more than one-half.

OBSERVATION:

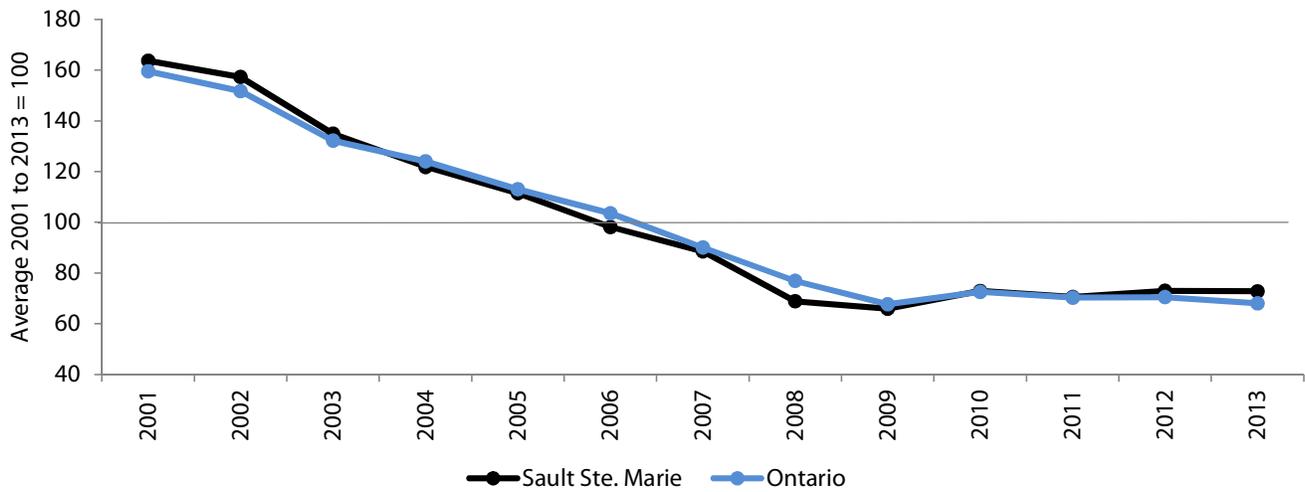
The dramatic collapse of United States traffic may have had a devastating impact on the demand for tourist-related supplies. The investment environment for tourism infrastructure may have been undermined. The cessation of the decline in 2009 may be the beginning of a re-think of the investment opportunities.

Figure 59: Non-Truck United States Vehicles Entering Through Sault Ste. Marie



Source: Statistics Canada

Figure 60: US Non-Truck Vehicles Entering Canada, Sault Ste. Marie and Ontario



Source: Statistics Canada

Tourism Thematic Cluster Findings

Findings for the Tourism Thematic Cluster are summarized in Table 10.

A new indicator, US non-truck entries to Canada at the Sault Ste. Marie border, was added to the cluster. The two cluster indicators, hotel occupancy rates and average room price, reflected outcomes of a unique event in Canadian tourism history: namely the hardening of the US-Canada border in reaction to the events of September 11th and the collapse of American tourists visiting Canada wide. Cross border traffic reflects tourist prospects given the adjustment on both sides of the border and both sides of the marketplace. The two sides of the marketplace being (1) American tourists adjusting to the new American

international travel rules including the need for passports to re-enter the United States, and (2) the Canadian tourist industry.

The Sault Ste. Marie tourist industry reached a 'bottom' after the collapse of American international tourism and is showing signs of a recovery.

Table 10: Tourism Thematic Cluster Findings

Indicator	Comments	Short-term Change ¹	Own Long-term Trend ²	Comparative Trend ³
Hotel	Occupancy rate	Down 1.7%	Down 6.8%	0.90
Hotel	Room Price	Up 1.3%	Up 14.6%	1.1
US Non-Truck Entries at SSM Border Entry	Demand indicator	Down 0.3%	Down 27.2%	1.07

¹ Per cent change from prior reporting period

² Per cent change from long-term average

³ Ratio of Sault Ste. Marie long-term index to comparator's long-term index. A value of "1" indicates that Sault Ste. Marie is comparable to the comparative jurisdiction; below "1" indicates that Sault Ste. Marie is lagging behind the comparator jurisdiction and a value greater than "1" indicates that Sault Ste. Marie is performing

CONCLUDING FINDINGS

The value of goods and services produced in Sault Ste. Marie as measured by the Gross Domestic Product has struggled to recover from the 2007 global financial and economic crisis. The Sault Ste. Marie GDP is now fluctuating around its long-term average adjusted for inflation, but is below its pre-crisis level and not recovering at the same pace as the province.

The Building Permits Thematic Cluster has five primary indicators corresponding to the investment element of the GDP. Three of the five indicators were responsive to the local and regional markets, namely residential, institutional and house building permits. As a group they experienced strong short-term growth and strong growth against their long-term averages, and were generally in line with the provincial performance although the very strong growth in the institutional building permits is noteworthy. The remaining two building permits are directly related to the Sault Ste. Marie business community, commercial and industrial permits. Both were strongly down in the short-run and in comparison with provincial performance, although split on long-run performance. Commercial building permits were close but down from their long-term average; industrial permits were down by almost one-third.

There was a paucity of data to form the second thematic cluster. This cluster also corresponded to the investment category of the GDP accounts and provides funding for pure and applied research and the building blocks of a centre of excellence that could provide a competitive advantage for Sault Ste. Marie. Much is funded through the two senior levels of government, each of which has undergone fiscal consolidation in recent years.

The Economic Sector Growth Cluster had the largest number of primary and secondary indicators. Two of the indicators, the number of new business starts and a measure of entrepreneurship, provided insufficient information for this exercise. Although not directly measured in the GDP, the products of entrepreneurship, namely the production of goods and services is. Entrepreneurs are a critical ingredient to a dynamic marketplace and that includes those who succeed and equally, those who don't. As a result, this is a gap in the data.

Much of the balance of this cluster focuses on economic potential that is the amount of labour in the workforce by economic sector and their productivity. Also, it discussed how much money residents have to spend and save for future spending; a measure of local demand potential, and the volume of retail spending today.

Employment levels in the goods-producing industries were down significantly in the short- and the long-terms. However their productivity levels were significantly even in comparison to the provincial average. The service-producing sector is approaching its long-term average from previously lagging behind the provincial average.

The Labour Force Thematic Cluster included five primary indicators which changed in a positive direction. The attributes of the existing labour forces, size, participation rate and the employment rate all improved in all dimensions.

The Population Growth Thematic Cluster has three indicators. One indicator, the working age population, was at average levels; a second indicator, median age is dependent on the five-year population census. The immigration and out migration indicator had very large movements in the negative direction but overall did not account for a large share of the population change. Provincial internal migration from Sault Ste. Marie to elsewhere in Ontario was the largest factor accounting for the limited population growth. International net migration was not significant for northern Ontario locations.

The Resilience/Real Estate Thematic Cluster had five indicators, three of which had limited supporting data, but the available data was positive. Two indicators each of which could affect the quality of life and the ability of students and persons facing difficult circumstances to remain in Sault Ste. Marie were unavailable.

The Tourism Thematic Cluster had two indicators which conveyed only marginal information about future economic developments in the sector. A third indicator was added, namely the volume of U.S. licence plated non-truck vehicles entering Canada through Sault Ste. Marie. This was interpreted as an indicator for tourism in the economic region serviced by suppliers located in Sault Ste. Marie as well as visits to the Sault. Passport laws and the recession created a collapse in American border crossings into Canada and the levelling off of the collapse in recent years is also evident.

OBSERVATION

Between 2008 and 2013 Sault Ste. Marie met the challenge of the Great Recession. The goods producing sector and the manufacturing industry serving the international market downsized. The services producing sector struggled but in the end held its ground because Saultites found the wherewithal to spend, and consumer expenditures are almost 60 per cent of the economy.

Investment is a true leading indicator of future activity. Investment in institutional buildings, in health and also the secondary education infrastructure of Sault Ste. Marie supported short-term economic activity and provided a foundation for developing regional centres of excellence. It can also contribute to the development of a dynamic environment in which local entrepreneurs develop new products and exploit new opportunities. But timing is all important. The pieces must be available at the right time.

Perhaps the tourist industry may provide an example of the importance of timing. Post-2001 American tourism to Canada as measured by vehicle crossings at land borders fell dramatically. The drop has levelled off, and given increasing hassles with air transport the local tourist industry is investing to attract the future wave of tourists. And that is what entrepreneurs do: they look forward and prepare for the next market opportunity. Sometimes they are wrong, and sometimes they are right. When they are right, our economic returns grow.

In summary:

- Sault Ste. Marie perceives itself as a goods-producing, steel manufacturing community. This sector was severely affected in the last recession, although it is attempting to adapt to the new circumstances. If steel/manufacturing is settling to a lower “new normal”, what sector is emerging to “fill the gap”? In other words, the legacy effects of the last recession will last for some time unless Sault Ste. Marie develops a new economic base to support future growth and this may mean that Sault Ste. Marie may have to embrace a new vision for itself.
- The impact of the recession was somewhat mitigated by the timely upswing in public investment. This could not have been better timed, but the effect will be a more one-off type of impact unless steps are taken to ensure that these investments can grow (i.e., regional or provincial centres of education/research excellence, health services, a dynamic entrepreneurial environment to perceive and pursue new opportunities, etc.

- The residents in Sault Ste. Marie continued to spend, mitigating the impact on the service sector and the housing sector. The question is how did they finance the spending? Increased consumer debt is in a sense borrowing from tomorrow to get through today and is only sustainable if the future economy is strong. There was not enough information to determine future growth and the impact of resident spending.

In short, the economy of Sault Ste. Marie may not have been as severely hurt by the recession as some may have thought; but the impacts of the recession will linger through its impact on consumer spending for some time.

CONCLUSION

From 2005 to 2008, Destiny SSM published extensive “Progress Reports” to illustrate and communicate the economic conditions in the Sault and area. Destiny SSM also published a brief report in 2010 after the partnership restructured in 2009. This Indicator Report was initiated by Destiny SSM to give leaders in the community the necessary information required to make effective decisions, to communicate more effectively and to initiate positive changes in our community. With a focus on outcome measures, the Destiny SSM partners worked together to investigate, evaluate and select indicators to be collected for this initial report. Indicators were chosen based on their worth, not on the basis that information was available and/or accessible. As a result, this report documents the Baseline against which future development can be measured.

A Baseline is necessary to establish the marker to measure future performance against the past. It enables us to illustrate the direction of change – better or worse or stationary – and it allows us to measure speed of change. In the absence of a Baseline, there is no knowledge of past performance and the current economic state. Economies are dynamic, reacting to economic developments at the local, national and international levels, all of which will impact many indicators, therefore the Baselines are the best paths forward. The indicators must be regularly reviewed for trends and relevance, but the Baseline they establish is a strategic milestone for local economic development pathways.

It is anticipated that Destiny SSM will continue to improve this report, to enhance indicators, to provide and analyze community economic indicators, and to determine the state of the Sault Ste. Marie economy. The Great Recession was the result of a global financial and economic crisis that spread almost instantly throughout the global economy and into Sault Ste. Marie. Destiny SSM must be vigilant and nimble, first to anticipate global disruptions that become local, and also:

- to encourage the growth of the resident entrepreneurial culture,
- to identify and pursue economic opportunities, and
- to support advancement into the global marketplace.

Moving forward, it is strongly recommended that Destiny SSM review and evaluate indicators to determine the state economy on an annual basis with a strong mandate to facilitate the growth of the Sault Ste. Marie economy.

KPMG will provide an overview of this report in presentation form at the Greater Community Forum 2014 to outline the impact for the community, along with recommended actions.

