THE CHANGING TORONTO-AREA ECONOMY

An Overview Prepared for the Forum on the Future of Industrial Land

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Introduction

In a complex regional metropolitan economy like Toronto’s, manufacturing is not an isolated activity. Its success is dependent upon a high-quality labour force, a wide ranging and excellent producer services sector, and the presence of an efficient transportation, communications and urban infrastructure. In turn, exports from the region of products of industry is one of the principal driving forces of the regional economy.

The interdependence between manufacturing industry and other economic sectors is one of the themes of this brief overview paper, and it carries with it the message that a consideration of the future of industrial land must acknowledge the changes that are occurring in the regional economy. Many of these changes are secular; they entail long-run adjustments. Others are of shorter duration and coincide in part with the 1990/91 recession that hit the Toronto area with particular force. Some changes induced by the recession will endure, others will not. There is always a tendency to allow oneself to be mislead into placing too much emphasis on the short run state of the economy, whether in times of boom or of bust, while neglecting the persistent underlying forces that tug at and shape the region over the longer run.

In the following sections, the current state of the regional economy is examined from the perspective both of the recent recession and of longer-run changes. Principal among these persistent changes is the decline in both absolute and relative terms of employment in the manufacturing sector and the rapid growth until 1989 of employment in the services sector. While this was occurring, the interdependency between industry and high-level producer and institutional services was becoming even more pronounced, partly in response to the changing
nature of manufacturing. While becoming more automated and flexible, the manufacturing sector also came to depend more heavily on a highly skilled labour force, on improved transportation connections to accommodate among other things reductions in on-site warehousing and storage, and it has come to require government land-use policies that recognize modern building needs and the changing local environmental impact of manufacturing operations. The next section turns to look at the broader context within which these changes were occurring.

**Growth of the Service Sector**

The Toronto-area economy is the dominant component of a highly successful provincial economy. While absorbing with relatively low unemployment rates during the past two decades the most rapidly rising labour force of any OECD economy, Ontario has maintained a level of output per person that has persistently remained in the order of 10 per cent above the Canadian average. Even in the post-1989 period, Ontario’s output per person has been at about this relative position, as Chart 1 shows.
These last two decades, and particularly the period since 1980, have also been years of enormous structural change in economies around the world, with the rise of the service sector measured by a striking shift in employment from manufacturing to services. This shift in Ontario and across the country is shown graphically in Charts 2 and 3, where the changing percentages of the employed labour force in manufacturing, in the finance, insurance and real estate (FIRE) sector and in other services are plotted year-by-year.

The increasing importance of the service sector is reflected as well in trade figures. Service exports from Ontario both to other countries and to other regions of Canada have constituted a rising proportion of total exports. Interprovincial trade-flow data, which are available only up to 1989, show, for example, that the value of service exports to British Columbia as a proportion of the value of goods exports rose from about 55 per cent in the 1984 to above 85 per cent in 1989. The proportionate rise in service exports to Quebec has been equally remarkable, although at a lower level overall. Internationally during the same period, the value of services exports rose steadily but gradually to a level of 20 per cent of the value of goods exports. These trends are illustrated in Chart 4.

More interesting than the growing relative importance of trade in services is the extent to which this trade during the 1980s served to strengthen Canada’s intranational, inter-regional economic ties. Chart 5 shows the value of goods and services exports from Ontario to other Canadian regions as a proportion of the value of international goods and services exports. While goods exports to the regions has been a relatively constant proportion of international goods exports, the value of service exports to elsewhere in Canada has been rising as a proportion of international service exports. As more recent data become available it will be interesting to see whether the strength of this inter-regional service trade will continue to climb, or whether the creation of free trade areas with the United States and Mexico and the growing interconnectedness of the global economy will lead to a gradual redirection of trade from east-west across Canada to north-south and elsewhere globally. In his compelling paper prepared for
the economic forum on the future of the Greater Toronto Area, Ian Bromley speculates that this is already happening and that the loss of “Toronto’s National Empire” has been among the causes contributing to the intensity of the recent recession and among the reasons why Toronto has to redefine its trading regions and trading partners.¹

The Changing Geography of Economic Activity

At the Metropolitan level, the shift in employment away from manufacturing and towards services is even more pronounced. This is not just a relative shift, as until recently it has been in the province as a whole and in the country, but a drop in absolute levels of manufacturing employment. This year-by-year reduction in numbers of manufacturing jobs has persisted for some time; it represents a secular shift in the nature of the Metropolitan Toronto economy that is independent of the recession. Consistent data for employment within Metro Toronto are available from the annual employment survey conducted by the Metro Planning Department, but only for the period since 1983.² Charts 6 and 7 make use of data from these surveys to show the changing employment pattern for several economic sectors within Metropolitan Toronto and within the central area, known to planners as “PD1”.³ Until 1989, office employment in Metro was rising rapidly, so much so that an office building boom in the mid and later part of the decade led to an oversupply that, with the onset of the recession, instantly became translated into a collapsed construction sector, high vacancy rates and re-possessed buildings, all of which worsened the local economic situation.

The boom and bust cycle of office employment shown in these charts does not have a counterpart, however, in the manufacturing sector. There, the dominant forces have been

²The aggregate data for Metro Toronto as a whole are available for the years up to 1992. For most parts of Metro, including the central area, the data are available up to 1993. Occasionally an alternative source of data, the federal labour force survey, is used as the basis of job estimates within Metro, but that survey is of households resident within the area and not of workplace jobs.
³This is the area south of the CPR rail tracks to the Lake, from (approximately) Bathurst on the west to the Don River on the east.
long-run. For Metro as a whole, manufacturing employment was stable in the early part of the decade,
and then began to decline in 1987, well before the onset of the 1990-91 recession. In the central area, manufacturing employment has been declining throughout the period since 1983 (and before); looking at Chart 7, one can scarcely notice the post-1989 recession reflected in the plot of manufacturing employment, which shows a steady secular decline. By 1993, the level of employment in the entertainment sector in the central area had risen to become equal to that in the manufacturing sector, and across Metro, institutional employment (principally employment in hospitals and post-secondary educational institutions) by 1992 was roughly equal to employment in manufacturing.

In Chart 8, manufacturing employment in Metro and in the central area of Toronto from 1983 onwards is superimposed on the longer run levels of manufacturing employment in Canada and in the province. All data series in this chart are indexed to 1983 = 100. The difference between the pattern of Toronto manufacturing employment levels and those of the country and the province is evident: nationally, manufacturing employment rose, slowly but steadily, during the boom years of the 1980s until forced down by the recession at the end of the decade. The contrasting steady decline in Toronto manufacturing employment suggests that throughout the decade, and indeed for a longer period of time, structural changes have been changing the geography of the Toronto-area economy, with manufacturing decentralizing within the Greater Toronto Area and beyond.

The corresponding growth of office employment within Metro is shown in Chart 9. There, service sector employment nationally and provincially since 1975, and office-sector employment for Metro Toronto and the central area since 1983 are plotted, again with each series indexed to 1983 = 100. Growth in office employment in Metro in the 1980s outdistanced the provincial and national growth, as the role of the central municipalities of the GTA became increasingly defined as a service provider across the whole of the region, and across the province and the country.
Chart 8

Manufacturing Employment, 1983 = 100%

Sources: Cansim and Metro Toronto, Annual Employment Survey

Chart 9

Service Sector and Office Employment, 1983 = 100%

Sources: Cansim and Metro Toronto, Annual Employment Survey
Chart 10 illustrates the current outcome of these changes. Using data from the recent *Ontario Economic Outlook*, the concentration of employment relative to the provincial total is shown for various economic sectors for the Census Metropolitan Areas (CMAs) of Toronto, Kitchener and Hamilton. The dominant pattern is the relative strength of manufacturing in Kitchener and Hamilton, and the equal relative strength of the business services and FIRE sectors in Toronto.

The increasing concentration of office and service sector jobs in the central municipalities of the Toronto area extracted a heavy price during the recent recession. As can be seen from Chart 9, in contrast to service-sector employment elsewhere in the province and in the country, office employment, especially in the central area, fell precipitously after 1989 and is only now beginning to recover. The Metro economy had come by 1989 to develop a reliance on high-order service sector jobs that were hit hard not only by the recession but also by the deregulation of the financial sector that occurred during the 1980s and that put enormous pressure on firms in that industry to become leaner and more productive. This pressure coupled by the technical opportunity to introduce computers more widely into their operations resulted in a great many jobs being shed, especially those held by less well educated and lesser skilled employees. While this process has positioned the financial and business services sector to be more competitive, it has been one of the causes of the unexpectedly, for Toronto, high unemployment rates.

The changing pattern of employment, of the regional economic geography, that is described above is of course not unique to Toronto. Large metropolitan urban areas around the world are undergoing the same secular transformation, with the deconcentration of manufacturing activities paralleled by the continuing and even increasing reliance on central clusters of high-level services. Because of the bias of national data-collection agencies towards the national and provincial or state level of analyses, consistent data for municipalities over reasonably long periods of time are often nonexistent, but the U.S. Department of Labour recently published an interesting look at the employment makeup of New York City in 1960 and 1991. This comparison among the top ten employment sectors in each of the two years, shown in Table 1, illustrates very nicely the changes that are typical of many large cities: health services and business services have replaced wholesale trade (a New
York specialty) and apparel
manufacturing as the top two employment sectors, while banking and brokerage services have pressed down the relative importance of eating and drinking places and real estate services. None of social services, educational services or engineering-management services, now on the list, were in the top ten for 1960.

Ranking by Employment of Private-sector Industries in New York City, 1960 and 1991

<table>
<thead>
<tr>
<th>Rank</th>
<th>Sector</th>
<th>1960 00's</th>
<th>1991 00's</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>wholesale trade</td>
<td>315</td>
<td>health services</td>
</tr>
<tr>
<td>2</td>
<td>apparel manufacturing</td>
<td>268</td>
<td>business services</td>
</tr>
<tr>
<td>3</td>
<td>printing and publishing</td>
<td>127</td>
<td>wholesale trade</td>
</tr>
<tr>
<td>4</td>
<td>eating and drinking places</td>
<td>125</td>
<td>banking</td>
</tr>
<tr>
<td>5</td>
<td>business services</td>
<td>120</td>
<td>security brokers</td>
</tr>
<tr>
<td>6</td>
<td>real estate</td>
<td>104</td>
<td>social services</td>
</tr>
<tr>
<td>7</td>
<td>insurance</td>
<td>102</td>
<td>eating and drinking places</td>
</tr>
<tr>
<td>8</td>
<td>banking</td>
<td>101</td>
<td>educational services</td>
</tr>
<tr>
<td>9</td>
<td>health services</td>
<td>97</td>
<td>real estate</td>
</tr>
<tr>
<td>10</td>
<td>construction</td>
<td>88</td>
<td>engineering and management services</td>
</tr>
</tbody>
</table>


Table 1

Sectoral Interdependencies

While the geography of economic activity in the Toronto area is changing in a way that is typical of many of today’s metropolitan regional patterns, with the core of the region becoming more specialized in high-level producer services, including institutional services, and with manufacturing and some types of consulting-service activities becoming more decentralized, this does not imply that the different parts of the Toronto area are becoming disconnected economically. Faced with the partial geographic partitioning of the economy and with strongly emerging international trading flows, it would be easy to envisage each part of the region changing and developing independently, in response to different economic drum beats. The evidence, much of it still indirect, suggests that the opposite is in fact occurring.
and that the interdependency among parts of the region is becoming more pronounced. What was once a simple flow of workers from suburban areas to the downtown and back, with separate local economies for those communities beyond the commuter shed, has now become a two-way flow, and not just of workers. The highly specialized services of central Toronto provide a regional resource, the export trade that is fueling the current economic recovery is coming from plants on the periphery of the region, and shopping and entertainment have become dispersed throughout the area.

The nature and details of the relationship among parts of the changing Toronto-area economy is something that should be high on our research agendas, for the answer to questions posed about this relationship have a signal bearing on the type of governance and policy environment that we should be creating for the region. The indirect and circumstantial evidence all points in the direction of a growing interdependency. Nowhere is this likely to be more important than the dependency that flows from the role of services not as an item of final consumption but as an intermediate input to production.

One of the last studies undertaken by the Economic Council of Canada was a 1991 look at employment in the service sector. In this remarkable piece of research, the myth was shattered of the services sector as a low productivity, low skill employment dump for uneducated workers. While there is a low-skill component in the traditional services of retail trade and food and beverage outlets, the dominant and growing segment of the services sector embraces knowledge-intensive activities with high-skill employee needs. These include institutional health and educational services and also the “dynamic services,” a category of private economic activity that directs most of its output into other firms, as inputs to their productive

| Share of Canadian Service Industry Output Going to Intermediate Inputs, 1985 |
|---------------------------------|----------------------|
| **Service Sector**             | **Used as Intermediate Input (% of output)** |
| transportation                 | 77.3                 |
| pipeline transport             | 58.8                 |
| storage                        | 76.8                 |
| communications                 | 57.4                 |
| utilities                      | 50.8                 |
| wholesale trade                | 47.2                 |
| finance and real estate        | 51.2                 |
| insurance                      | 51.2                 |
| business services              | 81.1                 |


Table 2
activity. Table 2, using Canada-wide data from the ECC study, shows the proportion of output from firms in this dynamic services sector that is sold as intermediate input to other firms. The numbers range from 51 per cent to over 80 per cent, a striking demonstration of the extent to which private firms in the service sector are connected to each other and to other sectors of the economy.

The interdependency between the service sector and manufacturing sector is shown in another way in the ECC study. The authors have calculated the increase in output for each of a number of service industries that results from a one-dollar increase in output in the goods sector of the national economy. For the finance and real estate and the wholesale trade industries, this increase is between $0.80 and $1.00, for each additional dollar of goods output, while for business services and utilities, it is around $0.40. These results are indicative of a highly interconnected economy. Since the ECC study is of the national economy, the economic feedback structure that underlies the numbers might reasonably be expected to be even more tightly coupled within a single metropolitan area such as the Toronto area.4

In Conclusion

The economy of the Toronto area is experiencing both long-term structural change and the aftermath of a difficult recession. The strain of the recession has not been unrelated to structural change, since the secular decline of manufacturing in the central part of the region continued unabated during the recession, and the corresponding increase in the role of services left the centre vulnerable to the competitive pressures that shook the financial sector just at the onset of the recession. Productivity gains have been made during the recession, and although these gains have been at the expense overall of low-skill jobs they are essential to the well being of a regional economy that is increasingly exposed to international competition.

4A growing number of studies of specific cities provide support for this statement. See, for examples, W. Z. Michalak and K.J. Fairbairn, “The Producer Service Complex of Edmonton,” Environment and Planning A, Vol. 25, pp. 761-777, 1993 and

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Success for the Toronto region requires that the interdependency among its economic sectors and among its geographic parts be recognized in its regulatory, tax and institutional structures, and through environmental and social policies that provide some good balance between the costs and the attractiveness of doing business and of living in the region. Today’s economy requires across all sectors the skill to innovate and the ability to be flexible. To support these requirements, governments at all levels must re-think their approaches to land-use and environmental regulation.

In many circumstances, especially with respect to industrial lands, increasingly flexible land-use designations are called for, with a stronger move towards performance zoning. Environmental standards must be reasonably set and some way must be found to lift the deadening hand of uncertainty that currently surrounds responsibility for pre-existing environmental contamination. Systematic support and promotional policies need to be framed and pursued. One such set of policies might encourage the clustering of manufacturing industries—environmental technologies on the port lands, for example—another might seek to improve telecommunications for the region.

As the Forum turns from this overview to more specific considerations of the manufacturing sector and of industrial lands, the principal point to carry forward is that success in the manufacturing sector is highly dependent on what happens in other parts of the regional economy: on the efficiency of transportation infrastructure and urban land-use patterns, on the vitality and quality of producer services, on success in creating a living environment that attracts the increasingly skilled labour force that industry needs, and on access to best-practice technologies and to good research partnerships within industry consortia and with public institutions. No sector is an island onto itself, certainly not in today’s metropolitan economies.
Ontario Service Exports as a Proportion of Goods Exports

Chart 4
Ontario Interprovincial Exports as a Proportion of International Exports

Chart 5
Employment Quotients by Industry, Toronto, Kitchener and Hamilton CMAs Relative to All Ontario

Chart 10