



## New economy jobs and economic health, prosperity in Canada's mid-size urban areas



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### ABSTRACT

Many large North American metropolitan areas are becoming increasingly reliant on services (financial, health and education) and high tech manufacturing as local economic drivers. Have mid-size metropolitan areas (population 50,000 to 500,000) been able to similarly restructure their economies to remain prosperous and competitive? This paper examines the recent changes in the economies and prosperity of mid-size Canadian urban areas, comparing them to the Canadian economy as a whole. Mid-size urban areas are found to have had mixed success in economic restructuring and attracting New Economy jobs. Overall, this decade has seen a substantial decline in the average Economic Prosperity Index of these communities, relative to the nation as a whole.

In many cases, Economic Prosperity appears to be path dependent: prosperous communities with substantial proportions of New Economy jobs are likely to remain prosperous and to attract more such jobs. There are, however, few significant correlations between metropolitan employment profiles and maintaining or increasing prosperity. Higher levels of economic prosperity are found in urban areas with a well-educated, diverse population.

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### Introduction

Two important trends increasingly shape perspectives on urban economic prosperity in the 21st Century. The first of these is the “deindustrialization” of much of North America, as the manufacturing of goods has increasingly been shifted to locations (generally overseas) where wages and other production costs are lower. Canada has been somewhat more successful than the United States in retaining its manufacturing jobs. While US manufacturers were shedding some 5.5 million jobs in manufacturing over the past two decades, Canadian manufacturing employment decreased by just 34,000.<sup>1</sup> Nevertheless, the proportion of Canadian jobs in manufacturing has fallen from 1 in 6 in 1986 to 1 in 10 in 2011.

In many communities, the loss of manufacturing jobs has been largely offset by the rise in Services, especially higher order business and financial services, engineering and information technology. These jobs typically pay well but also require considerable education and training (Duderstadt, 2005; Erickcek & McKinney,

2004). As a result, these new employment opportunities may be of little value to displaced manufacturing workers, who often lack the necessary education.

The second important trend is a renewed interest in human capital based strategies. Since the early 1990s, Harvard's Edward Glaeser (Feser, 2003; Glaeser, Kallal, Scheinkman, & Schlieff, 1992) has advocated economic development strategies based on investments in education and skills development. Rapid changes in technology and work environments place a premium on workers who are not only well educated and skilled, but who are also flexible and creative (Chappele et al., 2004; Glaeser & Mare, 2001; Malecki, 1997). Communities with a lively cultural scene may also attract talented individuals (Florida, 2002).

The impact of these changes are evident in large metropolitan areas across North America. Some metropolitan areas (Chicago, Toronto) have restructured their economies, developing a greater reliance on higher order services and high tech manufacturing. Others (Detroit, Cleveland) have been less successful in replacing lost heavy manufacturing jobs with New Economy jobs. This transition has been difficult for many mid-size urban areas (Chappele et al., 2004; Coffey & Shearmur, 1996; Gottlieb, 1995).

Mid-size urban areas typically have less diverse economic bases, providing them with fewer resiliencies when faced with a plant closing or other economic downturn (Erickcek & McKinney, 2004).

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<sup>1</sup> The decline in manufacturing's share of total employment mentioned above is largely the result of the more rapid growth of other industries, rather than because of a decrease in manufacturing jobs. See also Wial & Friehoff, 2006.

Demographics also work against these communities; relatively low birth rates and few immigrants limit population growth.<sup>2</sup> Young adults and seniors may leave for jobs and retirement homes, respectively. Geographic isolation, measured by distance from a major metropolitan area, appears to have a negative effect on the prospects of these urban areas (Polese & Shearmur, 2002).

This paper considers the following questions:

- Are mid-size Canadian urban areas becoming less prosperous when compared to the Canadian average?
- What factors explain differences in the relative prosperity of these communities? Are mid-size urban areas dependent on their ability to attract New Economy industries and jobs for their economic well-being?

The next section of the paper describes the variables used in the analysis and briefly profiles the mid-size communities. The third section looks at employment restructuring in these local economies over the 1996–2006 decade. This is followed by an examination of the growth of New Economy industries and jobs, comparing mid-size urban areas to larger cities and to the nation. Finally, we will consider the implications of our findings for local economic development policy.

### Methodology and definitions

Our focus is on the 42 Canadian Census Metropolitan Areas (CMAs) and Census Agglomerations (CAs) with populations between 50,000 and 500,000 in 1996.<sup>3</sup> Urban areas in this size range are found in eight of Canada's provinces and include five Provincial capitals. The majority are located in Ontario (17 metros) and Quebec (8 metros). In the aggregate, mid-size urban areas are home to about one of every six Canadians, roughly the same proportion that resides in the Greater Toronto area.

Table 1 summarizes the employment profiles of the mid-size metro areas (Sands, 2010). The majority of these areas have a significantly higher than average concentration of employment in the broadly defined categories of Natural Resources (agriculture, mining, forest products), Manufacturing or Services. The Manufacturing centers are concentrated in Ontario and Quebec, and Natural Resources based communities are predominantly located in Quebec and Western Canada. The metropolitan areas that are regional services centers are in outlying areas of Ontario and western Canada. The communities categorized as Diversified do not have a single economic specialization that is significantly above average.

#### *Economic prosperity index*

Community economic prosperity reflects the economic well-being of the individuals and households that live there.<sup>4</sup> Three measures are used here to define the Economic Prosperity Index: median family income, employment rate (the complement of the unemployment rate) and the proportion of income from private sources (the proportion that does not come from government transfer payments), based on 1996 and 2006 data from the Canadian Census. Higher values for the individual indicators indicate greater prosperity. Each measure was given the same weight. The Economic

**Table 1**  
Mid-size metro areas by region and economic Specialization, 1996.

Region	Natural Resources	Manufacturing	Services	Diversified	Total
Maritimes	0	2	1	2	5
Quebec	3	5	0	0	8
Ontario	1	7	3	6	17
West	0	4	3	5	12
Total	14	8	7	13	42

Source: Calculated from Statistics Canada data.

Prosperity Indices for each of the mid-size metropolitan areas are presented in Appendix 1, along with their 1996 population. A number of other variables were tested including: per capita and median family income, average earnings, labor force participation rates (total and female). None of these alternative measures produced results that differed significantly from the more parsimonious three variable model. Consequently, the basic model was retained.

To facilitate comparisons between urban areas that differ widely in size, the elements of the economic prosperity index are standardized as location quotients, utilizing the national averages as the base; for example, an urban area with a median household income 20 percent higher than the national average median household income would have a location quotient of 1.2. The location quotients for the three indicators are summed, then multiplying the result by 100 to create the index.

#### *New economy industries*

The definitions of primary (natural resources) and secondary (manufacturing) industries are generally well understood. But, as the proportion of all jobs in the broad category of services increases, the standard industry categories become less useful as labels for identifying new economy employment. Employment in health care, for example, includes substantial numbers of cooks, laundry workers and parking attendants, as well as highly skilled physicians and technicians. Similarly, aerospace and motor vehicle manufacturing employment totals include skilled engineers and designers, as well as production workers.

For this study, we categorize employment in the Finance, Insurance and Real Estate industry and in the Business Services industry as knowledge-based, new economy jobs. In addition, we calculate a separate variable, Professional Employment, using occupational (rather than industry) data from the Census to identify professional employees in Engineering, Information Technology, Consulting and Business Services, University Faculty, Health Care Professional and Designers.

In addition to the industry and occupational data, we also include several demographic and socio-economic variables in the analysis, including total metropolitan area population, the proportion of immigrants, visible minorities and university graduates. Other variables included proportion of homeowners, average housing values and knowledge of French and English, Canada's official languages. The importance of the city center in each area was measured by a rating developed by Filion, Hoernig, Bunting, and Sands (2004) and by the proportion of work commuting that is done by public transportation.

#### *Economic restructuring*

The 1996–2006 period began and ended with periods of prosperity, with a mild recession in the middle.<sup>5</sup> The overall Canadian

<sup>2</sup> Three-quarters of immigrants to Canada move to Montreal, Toronto or Vancouver.

<sup>3</sup> A number of regional municipalities (Chatham–Kent ON, Ft. McMurray AB, for example) have been excluded because their population density is very low and they lack a large, high density population center.

<sup>4</sup> It is important to remember that this definition omits other significant aspects of city prosperity. See UN-Habitat, 2012.

<sup>5</sup> This timeframe ends before the Great Recession of 2008–09; pending data availability, extending this analysis through 2011 could provide interesting results in terms of the factors contributing to urban resilience.

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