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CLIMATE FOR DEVELOPMENT ONTARIO REGION

One of a series of supplementary working papers
prepared for submission to the Standing
Committee on Regional Development by the Minister of
Regional Economic Expansion.

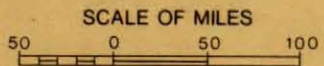
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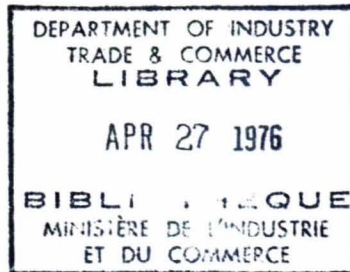


Regional Economic Expansion
Économique Régionale



ONTARIO





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FOREWORD

The establishment of the Department of Regional Economic Expansion in 1969 underscored federal government concern for regional development. Experience and analysis since then have helped to forge a much broader and more comprehensive approach to the subject.

To arrest the trend toward increased concentration of economic activity in Canada's industrial heartland and to ensure that the potential of each region is tapped, it has been recognized that a more closely integrated approach by all levels of government is required. Many policies and programs at all levels of government affect economic development and a high degree of coordination is necessary to achieve progress in this field.

Each province has its own set of social and economic circumstances and developmental opportunities. Effectiveness in regional development policy therefore depends to a considerable extent on a continuing process of regional and provincial analysis. This report is designed to help ensure that regional and provincial circumstances, priorities and concerns are reflected when new or modified public policies are being formulated.

The report is in three sections. The first section presents a summary of the report and outlines developmental prospects. The second section highlights economic circumstances in Ontario that have an important bearing on the process of economic development. Section three describes a number of constraints to development in Ontario and, more positively, some major opportunities for future development.



ONTARIO

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SUMMARY AND PROSPECTS

Preliminary data indicate that in 1975 Ontario's gross provincial product declined slightly in real terms from the 1974 level. This reduction reflects the impact of the recent recession in the western industrialized nations. Ontario has been significantly affected by the economic slowdown particularly in regard to its manufacturing sector. The slump in automobile trade with the United States has underscored the importance of the industry in Ontario. The housing sector has also suffered setbacks. The unemployment rate in Ontario reached a high of 6.4 per cent in 1975, a sharp increase over the 4.3 per cent average for the period 1972-74.

Based upon 1975 mid-year investment intentions, new capital investment reached \$13,032 million, an increase of about 13 per cent over 1974. Petrochemicals, primary steel, pulp and paper and electric power are expected to be major contributors to business fixed investment. Construction expenditures in the manufacturing sector rose by 50 per cent in 1975, compared to an increase of 54 per cent in 1974.

In 1975, decreasing production, declining corporate profits and capacity under-utilization were evident in the manufacturing sector, the backbone of the provincial economy. For 1976, a reversal of these trends is expected in conjunction with the improving international economic scene. External trade and housing starts are also expected to improve over 1975 levels, but to remain below levels achieved in earlier years. Unemployment, however, should continue to be relatively high as labour force growth is strong and there is scope for labour productivity gains within the economy.

An important constraint, which eventually could adversely affect the continued growth of Ontario, involves energy supplies. The moderate rise in the price of Alberta crude oil and natural gas, as announced in the June federal budget, should not unduly impair the Ontario economy provided that the resulting new price levels are competitive with those prevailing in the United States and elsewhere. For the longer term, much will depend on future world supplies and the extent to which alternative energy sources can be developed.

Although the province is committed to the principle of decentralizing growth, the large urban areas of the south continue to grow at the expense of the rural and northern areas. As a result of sharpening world and national competition, the emphasis of the Ontario government has been and will continue to be on the attraction of industry to the province.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Ontario's population was about 8.3 million in 1975. During the period 1969-75, Ontario's population grew at an average annual rate of 1.8 per cent and, by the end of this period, the province had increased its share of the national population to 36 per cent. Of the 218,465 immigrants to Canada in 1974, Ontario attracted 120,000 or 55 per cent, with Toronto a major destination.

Within Ontario, population growth varied considerably by region over the last five years. The most rapid growth, in absolute terms, occurred in south-central Ontario. This part of the province, which is centred on Toronto and includes Northumberland County in the east, the Muskoka and Haliburton Districts in the north, and the Regional Municipalities of Waterloo and Haldimand-Norfolk in the west, accounted for over 60 per cent of the Ontario population in 1974. From 1971-74, estimates indicated that the rate of population growth was highest, as previously mentioned, in south-central Ontario; followed, in order, by the southeastern, southwestern and northeastern planning regions. There were marginal population increases in northwestern Ontario.

Employment Trends

By December 1975, the Ontario labour force exceeded 3.8 million. Average annual labour force growth between 1971 and 1975 was 4.1 per cent, exceeding the national average by 0.3 per cent.

Ontario participation rates have risen substantially in recent years, averaging 61.3 per cent during 1975. While female participation rates have been increasing for some time, male participation reversed its falling trend and rose during the 1972-74 period, but declined again slightly in 1975. The increase in male participation was particularly noticeable within the 14-24 age group.

Between 1971 and 1974, employment in Ontario grew at the unusually high average rate of 4.5 per cent annually. In contrast, the employment growth rate in 1975 dropped to 1.8 per cent while total employment averaged over 3.5 million. The unemployment rate, 6.0 per cent in 1975, was higher than usual but substantially below the 1975 national rate of 7.1 per cent. Little improvement in the unemployment picture is likely in 1976 because of continuing labour force growth.

Industrial Trends

In real terms, Ontario's gross provincial product (GPP) increased at an average rate of 5 per cent from 1969-74, marginally exceeding the national rate of growth. For 1975, however, preliminary data indicate that the GPP declined slightly in real terms.

Ontario's economic structure is dominated by the service industries. In 1973, they accounted for 57.1 per cent of total value-added in comparison to the 42.9 per cent contributed by the goods-producing industries. Manufacturing, however, was the single most important industry in Ontario during 1973, accounting for 30 per cent of aggregate value-added.

The structure of economic activity in Ontario has been changing slowly and unevenly. Between 1966 and 1974, employment in agriculture, forestry and mining dropped from 7 per cent to 5 per cent of the overall provincial total. During these years, the share of manufacturing and construction employment dropped from roughly 38 to 33 per cent. Utilities, trade, finance, service and public administration accounted for 62 per cent of total employment in 1974, as opposed to 55 per cent eight years earlier.

In order of importance, the main growth industries of Ontario prior to the recession were services, finance, trade, public administration, communications and manufacturing. In manufacturing, strength had been exhibited mainly by the motor vehicle, machinery, textile, electrical, foundry, steel mill, furniture and metal fabrication industries. Durable goods, both consumer and capital, tended to dominate.

In 1975, however, the performance by the manufacturing sector was generally weak, especially in the early months, although there were some indications of improvement later in the year. For example, a strong surge of new motor vehicle sales in the final quarter of 1975 occurred partly in response to the provincial sales tax rebate in effect from July 6 to December 31. Total vehicle sales for the year were 12 per cent higher than in 1974. Strikes and difficult market conditions in 1975 seriously affected both the forestry and mining sectors.

Private and Public Investment

Private and public new capital investment in Ontario exceeded \$9.7 billion in 1973 and \$11.6 billion in 1974. For 1975, new capital investment rose by 13 per cent to \$13.0 billion. Ontario's share of the national total has been approximately 36 per cent for many years. Ontario continues to account for 50 per cent of all new capital investment expenditures on manufacturing machinery and equipment. Business fixed investment has helped to stabilize the provincial economy during the economic difficulties of 1975. During this year, the sectors experiencing heavy capital expenditures were manufacturing, utilities, finances and commercial services.

While growth in new capital investment slowed somewhat in 1975, it is anticipated that 1976 will see growth close to that observed in 1974. Contributing most heavily to this new investment will be expenditures on the petrochemical, primary metal, and paper industries.

Housing

Preliminary data for Ontario indicate a 6.5 per cent decline in housing starts during 1975. In comparison, there was a 4.2 per cent increase at the national level. In the second half of 1975, however, there was evidence that Ontario's decline in housing starts had come to an end. This result could have been due to federal and provincial incentives. The province's total outlay on housing and townsite development was expected to rise to \$526 million in fiscal year 1975-76, double the budget commitments of 1974-75.

Consumer Expenditure and Personal Income

In line with its increasing population share, Ontario over the years has increased its share of aggregate personal income. By 1974, Ontario residents were receiving 41 per cent of Canadian personal income and 40 per cent of personal disposable income, while contributing 48.6 per cent of 1973 federal revenues through personal taxation.

Retail trade statistics indicate that the value of sales was \$18.7 billion in 1975. Consumer spending remained strong, with record sales being achieved during the 1975 Christmas season. Sales have been strong for automobiles and clothing; however, markets for appliances, furniture and food have softened slightly. The lowering of the Ontario sales tax from 7 per cent to 5 per cent for the April-December period in 1975 assisted in maintaining consumer spending at a high level.

Government and Trade

Current account spending by all levels of government in Ontario is more than four times the amount of their capital spending, transfer payments excluded. Over the past decade, government expenditures for goods and services increased at about the same rate as the GPP - about 5 per cent per year in real terms. This rate of increase more than doubled in 1974 and 1975 to over 10 per cent in real terms. Ontario budgetary expenditures rose by 22.8 per cent to \$11.3 billion, with inflationary cost increases accounting for approximately half the gain.

Ontario had a consistently favourable trade balance from 1963-73. In 1974, however, this trend was interrupted, largely due to reduced automobile sales to the U.S.A. From January to October 1975, the Ontario deficit reached \$5.2 billion, again largely due to conditions in the automotive industry. Some slow improvement in the province's external trade position is expected for 1976.

Sub-Provincial Economic Circumstances

Ontario is a large province and aggregate data obscure many important sub-provincial differences. It is

particularly appropriate, therefore, that attention be drawn to the five planning regions used in recent years by the Ontario government. The five regions are south-central, northwestern, northeastern, southwestern, and southeastern Ontario. While the three southern Ontario regions compare favourably with Canada as a whole, the northern regions fall behind in a number of key areas. Individual counties and districts throughout Ontario may vary substantially with their regional norm.

South-central Ontario

Between 1971 and 1974, population in this region grew by 6.4 per cent against an overall growth of 5.1 per cent for Ontario. The average personal income between 1971 and 1973 rose faster than the whole of Ontario, but in absolute terms was still 3 per cent above the provincial average and 6 per cent above the national average in 1973. Within this large territory, population growth was most rapid west and southwest of Toronto, i.e. in the counties of Peel, Halton, Waterloo and Wellington. In recent years, south-central Ontario has benefited from the rapid employment expansion in finance, commercial services, manufacturing and trade. Much of the growth occurred in places like Brampton, Barrie, Midland, Port Hope, Kitchener, Orillia, Guelph, Metropolitan Toronto and Brantford. On the other hand, a few localities like Welland, Peterborough and St. Catharines grew more slowly.

Given the expectation that the population of south-central Ontario will increase by 60 per cent between 1974 and the year 2001, there will be a significant demand for new housing. Of concern is the decision to extend sewer services into areas that are contiguous to Metropolitan Toronto, such as the York Regional Municipality, and to emphasize the creation of new cities such as Townsend in the Haldimand-Norfolk Regional Municipality, North Pickering in the Durham Regional Municipality, and the proposed major expansion of the Cobourg-Port Hope area in Northumberland County. The areas closest to Metro are likely to be settled most quickly. An exception may be Haldimand-Norfolk where Stelco has begun the construction of a steel complex that will ultimately rival its Hamilton plant and where Ontario Hydro has a large thermal power plant under construction.

Northwestern Ontario

This region had almost no population growth between 1971 and 1973, and the provincial forecast predicts only a 3 per cent increase over the entire 1971-2001 period. As late as the mid-1950s, population in this region was increasing at about the same rate as in Ontario generally. The current near-zero growth situation is of fairly recent origin and does not reflect provincial planning goals under the Design for Development Program. Average personal incomes in the region are 4.5 per cent below the Canadian average with the Kenora and Rainy River sub-areas falling even further below the regional average.

Despite the foregoing picture, a number of communities within the region are showing considerable vitality. In this category is Thunder Bay, where the employment level in 1975 was 47 per cent greater than in 1961, and 10 per cent greater than in 1971. Activity has also increased substantially at Ear Falls, Dryden and Ignace, and more moderately at Longlac, Manitouwadge and Fort Frances. However, large municipal deficits are creating problems for some northern communities. A deficit of \$218,000 recently compelled the town of Ignace to enter into a financial supervision and management agreement with the Ontario government. Sioux Lookout has also been brought under the supervision of the provincial government.

There are opportunities for increased natural resource processing in Thunder Bay's hinterland. Increased transport, trade and service employment, and some added manufacturing activity, largely to service the resource industries of the north, are indicated for the city itself.

Of particular interest to Thunder Bay is the possibility of a \$35 million coal transfer station of Neptune Terminals Ltd. In the initial stages, this plant would handle three million tons of western Canadian coal annually. After 1980, this figure would rise to 12 million tons, largely to fire thermal-generating stations and feed steel mills in southern Ontario. Ontario Hydro has now received sufficient commitments for western coal, but a final decision as to the development of the terminal is understood to be dependent on an announcement by Alberta of a position on royalties and taxation.

Northeastern Ontario

Between 1971 and 1974 the population of northeastern Ontario rose by 2.4 per cent, somewhat less than the national average. Growth was strongest in the Sudbury District at 4.0 per cent. In the Districts of Algoma and Timiskaming, however, there was population decline. With the high wages at Sudbury and Sault Ste. Marie, personal income per capita is above the Canadian average in the Sudbury and Algoma Districts. Low income levels are most evident in the Manitoulin, Parry Sound, Timiskaming and Nipissing Districts.

In the northeast, the problems and opportunities are akin to those of the northwest, except that the region is more accessible. As in the northwest, it is the province's intent to have the region's natural resources processed locally to the extent that costs will permit.

Because of its size and population, northeastern Ontario can probably support more extensive secondary manufacturing than is possible in the northwest. One may note, for instance, the relative success which DREE's RDIA program has had in diversifying industry in the region. New or expanded plants involve the production of steel plate, fire-resistant roof boards, polyolefin structures, steel drums, ferroalloys, furniture components, explosives, mining machinery, construction and logging equipment, clothing and phenolic powder resin. North Bay has benefited particularly from these developments.

Although employment growth in North Bay and Sault Ste. Marie was steady at more than 20 per cent between 1961 and 1971, mid-1975 figures indicate that growth was approximately 5 per cent since 1971. In Sudbury, employment had risen by over 35 per cent by 1971, but thereafter declined sharply to the point that the 1975 level was only 5 per cent above the 1961 figure. The decline reflected in part a decrease in construction activity following an expansion program by the International Nickel Company. Also, world markets for nickel have softened. As they recover, greater plant efficiencies should allow a rise in production without an accompanying rise in employment. A moderate rise in employment is likely due to increased activity in the service

sector. At Timmins, the opposite has occurred, as employment dropped by 24 per cent in the 1960s with the decline of gold mining, and then began to rise again with increased base metal output and the advent of the new zinc smelter and refinery.

Southeastern Ontario

As in the southwest and the northeast, southeastern Ontario's population increased moderately over the 1966-74 period, but the region's share of the provincial total decreased. Only the Ottawa-Carleton regional municipality prospered over this period. In Prince Edward County, the population actually declined between 1966 and 1971. The average 1973 income in the region approximated the Canadian average, largely because of Ottawa-Carleton where it stood at 15 per cent above the national figure. Elsewhere, only in Frontenac County did the average level surpass the Canadian average. Levels below 80 per cent of the national average were found in Glengarry, Prescott, Lennox-Addington, Dundas and Prince Edward Counties.

Employment declined in the rural areas but increased in the larger towns and cities. In Ottawa-Carleton, the employment level is now 70 per cent above the 1961 level. In Belleville and Kingston, the corresponding increase was 39 per cent in each case, with Cornwall and Pembroke at 27 and 14 per cent respectively.

Southwestern Ontario

Southwestern Ontario's prosperity is only limited. In Middlesex County, which surrounds London, the population has risen sharply in recent years, but in Huron County it actually declined between 1966 and 1971. With regard to income, Essex, Lambton and Middlesex Counties generate high personal income levels, but in Huron, Grey, Bruce, Perth, Elgin and Oxford Counties, personal income levels are below the Canadian average. The region as a whole slightly exceeds Canada in terms of average income.

While rural employment in the region continues to decline, the shrinkages are being more than offset by increased urban employment. During the 1960s, the most noteworthy gains were in St. Thomas, Stratford, Chatham, Owen Sound, Windsor, Sarnia and London, but since 1971 they have been restricted to Chatham, Owen Sound, Stratford, London and Sarnia.

Besides steel and related manufactured products, opportunities for the region seem to exist in agriculture, petroleum and coal products, including petrochemicals and chemicals generally. Construction has started at Sarnia on the \$570 million Petrosar facility which is to have an ethylene production capacity of one billion pounds a year.

In agriculture, good conservation measures and more intensive land uses will be necessary to replace areas lost to urbanization. London is a thriving finance and insurance centre. Vulnerable to a degree, however, on account of their close ties with the automobile industry are Windsor, Chatham and St. Thomas.



DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS

Mining

Vast areas of northern Ontario with high or moderate mineral potential have yet to be adequately explored. The new processing allowances and other incentives in the recent regulation under the Ontario Mining Tax Act are anticipated to encourage further development opportunities in the Ontario northlands. The new regulation was of critical importance in the Texasgulf decision to proceed with its major \$300 million expansion project at Timmins, including a new copper smelter and refinery to complement the existing zinc refinery. At a later stage, a phosphate fertilizer complex and cement plant may be added to allow a better use of sulphuric acid and gypsum by-products. In late 1975, Falconbridge Nickel Mines was granted a four-year exemption from the Ontario requirement to process ores in Canada. Moreover, tax concessions to Ontario's nickel industry are expected shortly which will allow all producers to defer, for five years, the disallowance of foreign processing costs in calculating mining tax payments. These measures are designed to maintain the competitiveness of the Ontario nickel industry. Future developments, particularly in the more remote areas of Ontario, will be dependent on resource taxation, labour costs, world demand for minerals and conservation policies.

Iron and Steel

Ontario's expanding iron and steel industry is creating substantial development opportunities for the province's iron ore and metal fabricating industries. Installed steel furnace capacity in Ontario is expected to double between 1975 and 1980 to 24 million tons. This expectation is based on plans announced by Stelco and Dofasco to proceed with new plant facilities at Nanticoke and Hamilton respectively. Due to present market conditions, Stelco has now slowed down its expansion program; Dofasco, however, is proceeding on schedule. With federal support, a sizable expansion of Algoma's steel and rolling mill capacity is now well under way at Sault Ste. Marie. Once the present recession has terminated, the demand for steel abroad will probably exceed available supplies until 1980. While Ontario mills generally benefit from easy access to raw material sources, their successful operation depends even

more on proximity to markets. Such heavy consumers of rolled and semi-finished products as the transportation industries, the structural steel fabricators, steel service centres and building contractors are located largely in Ontario. Furthermore, important shipments are made to users in the north-central United States.

Planned increases in Ontario steel output will contribute to the expansion of the province's iron ore industry. In 1974, iron ore production in Ontario exceeded 12 million tons, of which more than 60 per cent was destined for local consumption. At present, production is concentrated in the Ear Falls-Red Lake, Atikokan, Wawa, Temagami and Kirkland Lake and Capreol areas of northern Ontario. Sizable iron ore bodies have been identified near Lake St. Joseph, Nakina, Geraldton, and North Spirit Lake. The offer, in January 1976, by Canadian Pacific Investments to buy Steep Rock Iron Mines Limited, the owner of the Lake St. Joseph ore body, and the takeover, in 1975, of the Anaconda property near Nakina by Dofasco indicate that these ore bodies may be developed within the next five to ten years. In view of the increasing economies involved in at least preliminary processing near the point of origin, the ore from these new mines may be reduced to oxide pellets or sponge iron at some convenient northern Ontario location.

Petrochemicals

The \$570 million capital investment decision by Petrosar to build a world-scale ethylene plant in Sarnia (utilizing Alberta crude) has significantly improved the development opportunities for Ontario's plastics industry. Derivatives of the expected one billion pound annual ethylene output of the complex, a figure equal to the 1974 total Canadian output, will enable the production of a wide range of synthetic resins including polyethylene, polypropylene, polyvinyl and polystyrene. Construction of world-scale ethylene plants is also presently underway in both Alberta and Quebec. Canadian ethylene output currently originates in five plants in the Montreal and Sarnia areas.

Over 50,000 workers in Canada are currently employed in producing industrial chemicals, synthetic resins, and fabricated plastic products. On the basis of the projected ethylene output of the Petrosar development, four major firms have announced plans to construct intermediate petrochemical plants at Sarnia.

Given this improved intermediate material supply position, the enlarged domestic market that accompanies population growth and the rising popularity of plastic materials, Ontario plastic processors should enjoy an improved competitive position. At present, however, 60 per cent of the Canadian processors are not apparently tied to a location and could establish some plants in the more northern areas of Ontario.

Forestry

Forest-based industries should provide some limited development opportunities over the next few years. Current indicators suggest that the maximum allowable cut on a sustained yield basis may soon be reached. Consequently, only modest expansion in employment in the province's wood-using industries can be anticipated. In general, any new plants will locate in northern Ontario where the large stands of timber make harvesting economical and some excess supply capacity still remains.

In such areas as the Upper Ottawa Valley, improved forest management might result in substantial productivity increases. Some new plants could be built to process species hitherto unused. Also, major pulp and paper plant modernizations will likely be undertaken as operators seek to improve productivity, meet stricter environmental standards, and take advantage of improved long-run wood supply.

In the long term, significant new expansions by the forestry industry will not be likely unless increased efforts in silviculture and forest management are undertaken. To this end, a Timber Revenue Task Force was recently commissioned by the province to design a new fee schedule to ensure that receipts from industry reflect the benefits received from increased provincial management activity.

At the same time, Ontario's forest production policy options are being reviewed. If increased investment in wood supply is approved, future industry expansion will be assured in the years ahead.

Northern Community Development

The improvement and rationalization of the existing settlement pattern in the northern resources areas may provide the basis for new urban development and servicing opportunities at strategic centres. The improved urban living conditions resulting from such a program could increase the northern labour supply and provide substantial production opportunities for the area's mining industry. Manpower shortages, attributable in part to poor living conditions, are said to have cost the Canadian mining industry up to \$320 million in lost production during 1974. Northern Ontario accounted for a considerable portion of this loss.

In attempting to ameliorate local living conditions, town and regional planners may discover that promoting strategic centres in well-endowed resource areas provides development opportunities. The larger cities of Thunder Bay, Sault Ste. Marie, Sudbury, North Bay and Timmins have the potential to attract appropriate secondary manufacturing and servicing industries. The result could be a set of complementary cities, each with specialized industries catering to a regional market and to customers outside northern Ontario.

The growth of the tertiary sectors of the Ontario economy is opening up significant new areas for decentralized economic activity. Many of the servicing, research, and public administration activities currently concentrated in Toronto and Ottawa might effectively be pursued in smaller centres such as Sudbury, Timmins or Thunder Bay. Urban congestion, particularly in Toronto, can be expected to help encourage the realization of these opportunities in northern Ontario. Other expanding parts of the economy are compatible with non-metropolitan locations as evidenced by the steady growth of cultural amenities and tourist facilities throughout Ontario.

Development Constraints

High energy costs and the uncertainty of new supplies are matters of concern for the province as a whole. Indeed, this uncertainty of energy supplies is not limited to petroleum and natural gas. Thermal and metallurgical coal are also costly commodities and future supplies have yet to be assured. Under these circumstances, a realistic industrial growth strategy for Ontario might well aim at the establishment of low energy-consuming industries.

Southern Ontario is experiencing some difficulties due to growing population imbalance. Metropolitan Toronto and other large cities in the south are beginning to suffer from rising land prices, urban congestion and transportation problems. Yet, this population concentration can also be considered an asset, for it makes southern Ontario an attractive location for the manufacturing of consumer goods and the provision of services. Where long production runs and heavy investments in machinery and equipment are needed, the tendency to transport goods from southern Ontario locations to warehouses across Canada will continue, at least until sizable regional markets for specific products have been identified in other parts of the country.

Remoteness of the area and population sparseness are two key obstacles to the rapid growth of northern Ontario. In addition, many northern cities and towns lack essential infrastructure and services. In the more remote areas of the north, the lack of modern transportation and communication facilities inhibits development. While such imbalances are not easily corrected, an important objective of regional development policy may require more adequate land use and resource conservation measures to allow all regions to benefit more fully from their development potential.

