Recovery Tracker Overview

In partnership with its data providers, the Board's Economic Blueprint Institute (EBI) developed the Recovery Tracker as a tool for measuring and tracking the economic impact of the pandemic across the Innovation Corridor. Between October 2021 and May 2022, the Tracker featured monthly insights that provided businesses and decision-makers with timely information to advance a safe reopening and to support the recovery of our economy and businesses.

What We've Learned

The Recovery Tracker used a suite of indicators across key economic themes (labour market, movement of people, consumer spending, and business financial health) to measure the progress of recovery across and within business districts in our region.

While the Innovation Corridor's economy has seen remarkable recovery since the start of the pandemic, businesses across the region were impacted in different ways. Those that were able to pivot their business activities and/or quickly transition their workforce to working from home thrived – these included professional and financial services firms. Businesses that experienced more economic hardship were those that relied heavily on worker and visitor foot traffic – both of which have not reached pre-pandemic levels. The impacts on businesses reliant on in-person consumer spending also varied based on where they were located. The downtown core and suburban or regional centres saw the greatest decline in economic activities compared to other Business Districts.

The pandemic demonstrated the need for higher-quality, more-timely, and geographically granular data to understand its economic impact across the region. Better data allows businesses and policy makers to make informed decisions quicker and overcome continued challenges, including those that presented themselves during the pandemic. A higher calibre of data will also be required to help the region get back to economic growth. Our analysis of the latest data shows that the regional economy is at a turning point; the economy is well positioned to transition from recovery to getting back to growth. Still, we must continue to track indicators for and act on key economic issues that will help define our growth trajectory.

Looking Ahead

While the Recovery Tracker's collection of indicators demonstrates that regional economy is on track, regional stakeholders must continue to assess and add to these indicators so that decision-makers and businesses can anticipate and act on key trends that will ultimately impact the trajectory of growth in the region.

Below are four key areas to watch as focus shifts away from recovery to getting back to growth:

- Return-to-office trends

A sustained shift to remote or hybrid work arrangements may be a legacy of the pandemic that shapes our new normal moving forward. While providing flexibility as well as time and cost savings for workers, this trend has substantial implications for transit and our employment areas – particularly the downtown core. Policymakers must consider this in their planning priorities, especially with an upcoming municipal election. This increasingly points to the need for place-based planning that the Board has been advocating for.

- Debt overhang and rising business costs

Elevated business debt could act as a drag on economic growth due to underinvestment from businesses focused on staying afloat, the misallocation of resources as businesses that would not be competitive prior to the pandemic continue to be supported by broad-based government support programs, and the loss of entrepreneurial capacity and spirit. Additionally, the rising cost of inputs, insurance, and transportation have been identified as impediments to growth by businesses in the region.

- Supply chain challenges and labour shortages

Supply chain challenges are expected to remain a medium-to-long-term obstacle as businesses continue to struggle to source inputs, products, and supplies for their operations. Businesses also anticipate facing workforce challenges going forward with many indicating they have a plan in place to address recruitment, retention, and training needs.

- Fostering a productive and growth-oriented economy

Even prior to the pandemic the region was facing declining income growth. Going forward, policymakers and businesses must shift their attention to enhancing the productive capacity of the regional economy to enable growth and shared prosperity.

Highlights as of April 2022

Labour Market:

- More than 2 years since the start of the pandemic, employment in the Innovation Corridor[1] is well above levels seen in February 2020 but still remains 2.4% (or approximately 114,000 jobs) below the pre-pandemic growth trajectory. This employment gap is comparable to that seen after the Great Recession in 2008/2009.
- After reaching a peak of 14.0%, the unemployment rate across the region has declined to 6.1% - 0.6 percentage points higher than the rate in February 2020. The employment rate[2] – an alternative indicator of the health of the labour market – now exceeds the pre-pandemic rate, signaling a healthy recovery in the region.
- The unemployment rate remains high due to a significant rise in the number of people looking for work in the Toronto CMA, where there were close to 168,000 more people in the labour force in April 2022 relative to February 2020. Across the Innovation Corridor, the participation rate[3] is 0.6 percentage points higher than prior to the pandemic.
- A handful of sectors continue to feel the pressures of the pandemic, including accommodation and food services; business, building and other support services (primarily firms that manage other companies and/or hold their assets); other services; and transportation and warehousing. Together they account for 94 thousand fewer jobs relative to February 2020.
- Conversely, the financial services; information, culture and recreation; professional services; and wholesale and retail trade sectors have driven recovery – with more than 160 thousand net new jobs in these sectors as of April 2022 compared to pre-pandemic times.

Movement of People:

- The pandemic has had a lasting impact on the movement of workers and visitors across the Innovation Corridor, particularly in employment areas or Business Districts.
- Each of the COVID-19 waves coincided with sharp drops in the volume of trips to Business Districts. The impacts were least pronounced in the Goods Production and Distribution District (GPDD), where many individuals continued to travel to work as they did not have the ability to work from home.
- The Metropolitan Centre (MC) and Financial District experienced the most dramatic drops in worker and visitor volumes at the onset of the pandemic. Since then, however, they have both seen a rising number of workers returning to their place of work. In the MC, worker levels were 70% below 2019 levels in June 2020 but as of April 2022 the difference has been reduced to 20%. Similarly, the Financial District had 90% fewer workers in April 2020 relative to 2019 but as of April 2022 that gap is at 66%. Trips to these areas continue to trend upwards.

---

[1] The Innovation Corridor comprises the five Census Metropolitan Areas (CMAs) of Oshawa, Toronto, Hamilton, Guelph and Kitchener-Cambridge-Waterloo.

[2] The employment rate is defined as the percentage of the population 15 years of age or older that are employed.

[3] The participation rate is defined as the percentage of the population 15 years of age or older that are in the labour force (either employed or actively looking for work).

- Worker and visitor levels across all Business Districts remain below pre-pandemic levels. This reflects changing behaviours and preferences, particularly for individuals that can continue to work remotely.
- Data from [Avison Young] demonstrates that recovery in weekday foot traffic in office buildings has been much slower in Toronto than other North American cities, including Chicago and New York.
- Still, the long-run changes to mobility patterns across the region remain unknown. As we enter the summer months and COVID-19 moves towards an endemic phase, individual behaviours will likely continue to evolve but trends in return-to-office patterns and the return of domestic and international visitors should be monitored closely.

Consumer Spending:

- The spread of COVID-19 and the associated public health restrictions led to noticeable changes in consumer spending as a result of changing mobility patterns.
- In-person spending declined by at least 50% in all employment areas or Business Districts across the Innovation Corridor during the initial lockdown. Each consequent wave of the pandemic led to periods of declines and recovery in in-person spending. As of April 2022, in-person spending is at or near its highest level since the start of the pandemic across all Business Districts and above 2019 levels for all Business Districts except the Metropolitan Centre (MC).
- Businesses in the MC saw the most severe reduction in in-person sales, falling close to 90% below 2019 levels during the start of the pandemic. Since then, however, in-person sales have rebounded; as of April 2022, spending remains 20% below 2019 levels and continues to trend upwards.
- E-commerce sales boomed during the pandemic, growing more than 50% relative to 2019 levels throughout periods in 2021 for businesses set up in the Goods Production and Distribution District (GPDD) and the Services and Mixed-Use District (SMUD). Growth in e-commerce sales has since slowed. Retail e-commerce sales in Canada reached as high as 11% of total retail sales in April 2020, but has averaged 6.4% between September 2021 and February 2022.[4] While notably larger than the pre-pandemic trend (average of 3.3% between January 2018 and January 2020), it is lower than the peaks seen through the pandemic.
- In most Business Districts, except the SMUD, transportation and entertainment (T&E) was by far the worst performing in-person spending category through most of the pandemic. Since the start of 2022, the gap between T&E and services related spending has been reduced significantly.
- With the exception of the MC, retail has been the best performing in-person spending category and has exceeded 2019 levels through much of the pandemic.

Business Financial Health:

- Data from Equifax demonstrates that as of the end of 2021, businesses had largely avoided extreme financial distress thanks to government support programs. Since the start of the

[4] Statistics Canada.

pandemic, firms across the Innovation Corridor have seen declining instances of negative occurrences such as returned cheques, legal suits, collections, judgements, or deferred trades.

- However, while insolvency numbers for businesses in the Innovation Corridor were declining all the way up to Q4 2021, they have since spiked in Q1 of 2022. Bankruptcies and proposals have risen by 14% in the region, mostly driven by increasing bankruptcies in the Toronto CMA.[5]
- The growing debt burden on struggling businesses could lead to further bankruptcies and other challenges to the regional economy. Equifax data also shows that the average balance of outstanding loans 90+ days past due continues to rise across the region, particularly in the Toronto CMA where the average balance has grown 60% between February 2020 and April 2022.
- The rise of corporate debt, particularly for small and medium-sized businesses, and its implications for the broader economy continues to be an area of concern. The Financial Stability Board (an international body that monitors the global financial system and promotes financial stability) has identified debt overhang of non-financial companies as a potential drag on recovery as businesses under invest due to excessive indebtedness, resources are misallocated to unviable companies, and loss of entrepreneurial capacity leads to lower productivity. The design and implementation of business supports and/or debt relief will be critical to helping productive firms survive and thrive at the other end of the pandemic.

[5] Office of the Superintendent of Bankruptcy Canada.