

Driving Away: The Impact of a 50 percent Drop in the Demand for Ontario's Automotive Output

An issue that has been simmering in Ontario for decades, if not a century, relates to the prospects for the province's manufacturing sector. Ontario is the manufacturing heart of Canada, and given this specialization, the province is susceptible to periods of declining demand for manufactured products, most often triggered by periods of economic recession in the U.S.

We are now into such a phase. The U.S., our principal market for manufactured goods, is going through a period of unprecedented economic turmoil and, as a result, global demand for Ontario's principal products, durable and semi-durable manufactured goods, is declining. An ominously poignant question on the minds of politicians, bureaucrats and ordinary Ontarians currently pertains to the magnitude and nature of the economic loss that would stem from the loss (or significant contraction) of the province's automotive manufacturing industry.

Ontario's Greater Golden Horseshoe (GGH), while highly diversified, is strongly oriented around (directly and indirectly) the manufacture of automobiles. If access to credit for the purchase of automobiles is to be forever changed and consumer preferences continue to shift away from North American automobiles, then one has to wonder how this could impact the GGH and ultimately the Province.

To implement this scenario, the total of projected future intermediate and final demand for motor vehicles produced in Ontario was arbitrarily cut by 50 percent to examine how the provincial economy (defined in this case as 105 interacting industries) would react to a significant reduction in the demand for (and hence output of) a massive single industry, i.e. Motor Vehicle Manufacturing. The economy-wide impact of this scenario can be seen in the first row in the following table.

Different Impacts on Ontario's Economy out to 2020

	Output Impact (\$CAD)	Impact on Per Capita GDP (\$CAD)	Total Employment Impact (jobs)
Ontario loses ½ Auto Demand	-\$55 B	-\$1,048	-200,000
Baseline Growth Projections	+\$853 B	+\$19,187	+3,700,000
Combination (by 2020)	+\$798 B	+\$18,139	+3,500,000

Projecting out to 2020, a 50 percent reduction in the demand for the output of the provincial Motor Vehicle Manufacturing industry could cause a drastic reduction in the level of economic activity in the province relative to a conservative baseline projection generated by the Ontario Ministry of Finance. Indeed, this reduction of more than \$23 billion in manufacturing activity results in a cumulative economic decrement of \$55 billion in the gross output of all provincial industries (relative to the baseline) over the period. The bulk of the impact, not surprisingly, would be felt in the Motor Vehicle

Manufacturing industry itself, accounting for nearly 50 percent of the total effect. Other industries which are likely to show significant effects include: Motor Vehicle Parts Manufacturing; Wholesale Trade; Retail Trade; and, Legal, Accounting and Architectural, Engineering and Related Services.

The employment repercussions associated with the automotive downturn would likely be concentrated in the skilled trades – “Processing and Manufacturing Machine Operators and Assemblers” and “Trades and Skilled Transport and Equipment Operators”. Also hit hard in this scenario would be “Middle and Other Management Occupations” and “Clerical Occupations”. Indeed, few occupations would be spared if automotive manufacturing activity were to be significantly reduced in Ontario**.

This review of the automotive contraction scenario serves to illustrate the extent to which the automotive industry is a central pillar of Ontario’s economic past, present and likely-future. Our analysis of several scenarios suggests that while a significant decrease in the demand for the output of the Ontario automotive manufacturing industry would certainly have drastic effects on all sectors (and occupations) of the economy, it also shows that other long-term forces are also at work. Only when we can fully articulate the nature of these simultaneous processes and forces will we be able to develop a clear picture of high-probability states for Ontario’s economy in 2020 and beyond.

One thing remains clear. The stimulatory effect of long-trusted pillars like the automotive industry in Ontario will not easily be supplanted by other forms of economic activity – especially in light of the broad occupational distribution of employment in the manufacturing industry. Our results underscore the need to better understand the dynamics of the demand and supply sides of the labour equation in Ontario.

Important pending questions raised by this analysis: How many workers will be required in Ontario in 2020? How many with a degree of skill/education? How many workers are likely to be present in the regional labour market in 2020? How will this supply be equipped (i.e. highly skilled/educated)? By thinking about these questions and taking action, the province can steer towards creating a prosperous future.

***Note: While significant, this scenario only considers the impact of one view of a possible auto contraction in isolation from other on-going trends in the Ontario economy. It is important to realize however that such changes – if they were ever to materialize – would take place contemporaneously with many others, all stemming from myriad processes operating on a variety of temporal and spatial scales. Typically, economic impact analyses produce estimates of the total impacts (including direct, indirect and induced effects) on gross industry output, GDP, and employment. While the model employed in this analysis computed total effects follows this, it also allowed for the calculation of total employment impacts in industry- and occupation-specific terms. Each scenario therefore was evaluated not only in terms of the industrial response to the prescribed changes, but also in terms of the occupational distribution of likely employment impacts associated with each scenario. This allows each scenario to be interpreted not only terms of which industries are likely to be growing or declining in these alternate pictures of the future Ontario, but also which types of labour (e.g., highly skilled, lower skilled, unskilled) are likely to become more or less in demand as a result.*

The Martin Prosperity Institute (martinprosperity.org) at the [University of Toronto’s Rotman School of Management](#) is the world’s leading think-tank on the role of sub-national factors – location, place and city-regions – in global economic prosperity. Led by Director [Richard Florida](#), we take an integrated view of prosperity, looking beyond economic measures to include the importance of quality of place and the development of people’s creative potential.

This Martin Prosperity Insight is part of the “Ontario in the Creative Age” series, a project we are conducting for the Ontario Government and is supported by Rick DiFrancesco’s working paper “[Specification and Evaluation of Alternate Projections of the Magnitude and Structure of the Ontario Economy to 2020](#)”. The project was first announced in the 2008 Ontario Budget Speech, and its purpose is to understand the changing composition of Ontario’s economy and workforce, examine historical changes and projected future trends affecting Ontario, and provide recommendations to the Province for ensuring that Ontario’s economy and people remain globally competitive and prosperous. The series will involve a number of Insight releases over the course of the coming months.