



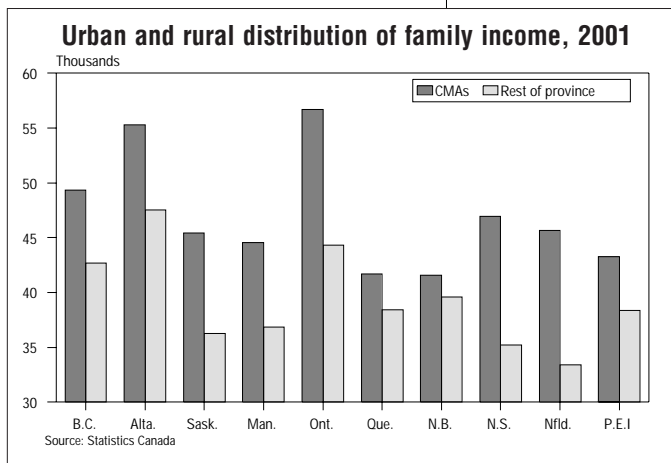
Current Analysis

Current Analysis reports address current economic issues of importance to RBC Financial Group and its clients.

Measuring the urban-rural income gap in Canada

One way of looking at the role cities play in regional economic activity is to compare the distribution of income between urban and rural areas. Cities tend to be magnets for jobs, both high-paying and lower-paying ones, but they also attract unemployed people looking for work. It is often argued that cities bear a greater burden of providing social services for the unemployed, homeless and working poor than outlying regions and rural areas. However, people living in cities also have a clear income advantage over people living in rural areas.

The chart below compiles family income data from the 2001 Census and splits each province's median level out by census metropolitan area (CMA) compared to the rest of the province using population weights. The city income advantage varies by province but is present across the country.



In 2001, Ontario had the highest median family income and also the highest CMA median income. The presence of high-income Toronto and Ottawa certainly helps to pull Ontario's average up. Hamilton and Kitchener were also high-income cities, but none beat out Oshawa with Canada's highest median family income among CMAs at nearly \$63,000. Also, as the most populous province, many of Ontario's smaller centres have now become large enough to be considered CMAs in their own right and are, therefore, removed from the 'rest of province' total, dragging the rural median down. Hence, Ontario had the largest gap between CMA and rural median family income of \$12,345. Ontario is Canada's most urbanized province with 75% of families living in a city.

The size of Ontario's rural-urban income gap was closely followed by Newfoundland at \$12,268 in 2001. Median family income in St. John's

was \$45,675 and in the rest of Newfoundland and Labrador was a much lower \$33,407. The urban-rural gap in Nova Scotia, at \$11,745, was not far behind. In fact, in percentage terms both Nova Scotia and Newfoundland showed larger urban-rural income gaps than Ontario. These provinces exemplify the notion that the bulk of economic value is created in the big population centres, particularly now that the fisheries have faced so many years of challenging times.

Curiously, the gap was much smaller in Prince Edward Island and New Brunswick. Prince Edward Island's activity related to tourism and agriculture spreads well beyond Charlottetown. In New Brunswick, many smaller centres like Moncton and Fredericton are classified as 'census agglomerations', not CMAs and, therefore, help bring rural median income up. As a result, New Brunswick is Canada's least urbanized province with only 17% living in a CMA.

Although Ontario had the highest urban income, Alberta had the highest rural median family income in Canada at \$47,500. Only Calgary and Edmonton are CMAs, but other cities such as Fort McMurray have many very high income earners due to the tremendous volume of work

Allan Seychuk
Economist
(416) 974-0579
allan.seychuk@rbc.com

Available on the Internet at:
www.rbc.com/economics

taking place in the oil sands. The 2001 median income of a two-earner family in the Fort McMurray region was \$96,310, 148% of the Alberta average even though at that point crude oil prices were trending down from \$US30 to US\$20 per barrel.

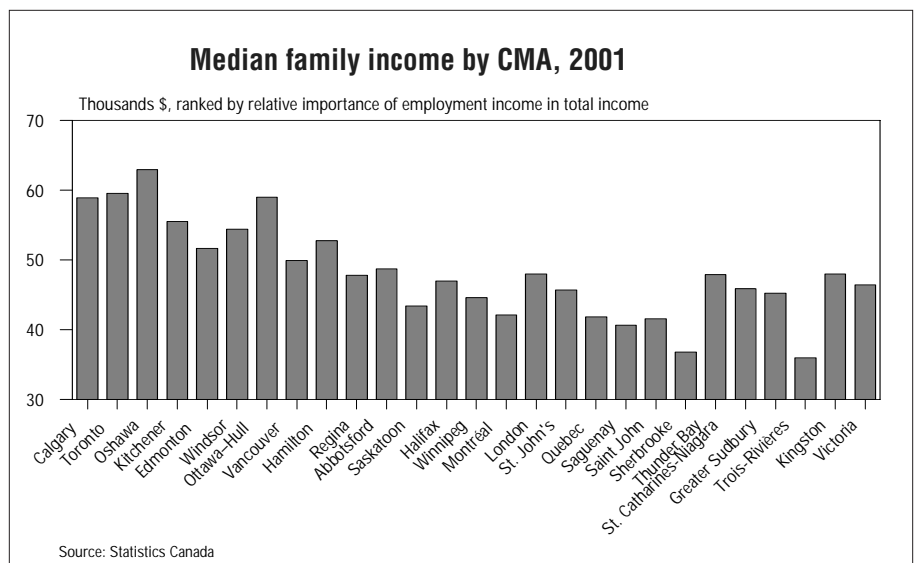
Both Alberta and British Columbia showed nearly identical rates of urbanization, with 65% living in cities. In both provinces, urban dwellers' incomes were 116% higher than rural dwellers. Median family income was \$3,000 higher in Vancouver than in Victoria, but Vancouver's income was only about 85% of incomes in Calgary and Toronto. Saskatchewan's urban-rural split was 40%-60%, while Manitoba's was exactly reversed with 60% living in cities. In both provinces, the median income of city families was about 125% those of rural families. In Manitoba, rural incomes were higher and urban incomes were lower, so the absolute gap was a bit smaller than Saskatchewan's \$9,154.

Why the source of income matters

City dwellers have a clear income advantage over rural families but the advantage varies widely across the country. However, total family income alone says nothing about the source of that income; that is, whether that income was derived from wages and salaries, investment income or government transfers. By extension, the presence of a high median income level does not necessarily imply that a given city is a hotbed of wealth creation or the creator of dynamic high-level jobs.

That being said, it would not be a mistake to assume that high-income cities are also places where the jobs are. The chart below ranks CMAs by income according to the percentage of income derived from employment. Fully nine of the 10 highest-income cities were also those with the highest proportion of income derived from employment.

Calgary leads the pack with about 83% of income derived from working. Calgary is a city with high income earners and very often those who come to Calgary do so to work. Calgary is also less of a gateway city for new immigrants compared to other cities and therefore does not receive a high share of new Canadians still finding their footing in a new land. Next on the list are three Ontario cities—Oshawa, Toronto and Kitchener—that have either been leaders in job creation or are over-represented in high-paying jobs.



The latest data to 2003 show Oshawa not only has Canada's highest median family income but also its highest median employment income as well. General Motors' Beacon Project is expected to pour \$2.5 billion in investment into Oshawa, likely creating still more auto sector jobs. Kitchener's strength is its broad economic base with a mix of dynamic high-paying high-tech jobs, universities and a strong link to the auto industry. Of the top ten cities where jobs deliver the greatest share of family income, six are from Ontario, two are from Alberta and two are from British Columbia.

At the other end of the median income scale are three Quebec CMAs—Trois-Rivières, Sherbrooke and Saguenay—that lead the ranking in income sourced from government transfers. These are cities with above-average unemployment rates and, hence, the flow of employment insurance is high. Saint John, St. John's, St. Catharines and Thunder Bay also rank highly on this list. Saint John's unemployment rate has fallen by over two percentage points in the past year to just over 7% so its share of transfers in total income should decline as this data is updated. Of the top ten, six are from Quebec and Eastern Canada and two are from Northern Ontario. Calgary, with a country-leading 3.7% unemployment rate, is last with transfers making up just 7% of income.

The final source of family income is 'other money'. While Victoria is last on the list for employment income, it leads the pack in the importance of 'other money'. Victoria's citizens derived 17.4% of median income from 'other money' in 2001. Dominating the 'other money' category is investment, pension and other retirement income. Kingston, also a retirement destination for Eastern Ontario, ranks second at 16.2% while sitting second-last in employment income. Oshawa, not typically a retirement destination, rounds out the bottom of the list at 9.1%. Curiously, Nova Scotia leads among the provinces with a other money making up 12.5% of income, just ahead of British Columbia at 12.4%. Victoria and Kingston were counterbalanced by Vancouver and Toronto and other cities in their respective provinces, but Halifax had no such offset in Nova Scotia and hence carried the provincial average to the top of the pack.

Implications of the different income sources

There are some important implications to be derived from the relative importance of different income sources. A city at the top of the pack in employment income will have greater leverage to regional and national economic growth, though of course the degree of leverage will depend on the mix of jobs in that city. Conversely, cities in regions where growth has been weak will be somewhat insulated if pension and investment income is more important as this reduces the leverage to the local economy.

Perhaps more importantly is what a high employment share in income could mean for a city down the road. The current debate led by Toronto is about how to provide a city with the means to fund long-term growth without depending exclusively on transfers from other levels of government. In a nutshell this means the transfer of revenue-generating power, or 'tax points', from provinces to cities so that city revenues benefit directly from the increasing prosperity of its residents. There is still a long way to go before this idea sees the light of day. However, those cities that will benefit most will be those where employment income is relatively more important.