Sectoral Profile

Transportation and Warehousing

Ontario

2017-2019

Sectoral Profiles provide an overview of recent labour market developments and outlooks for some for the key industries in various regions of the country.

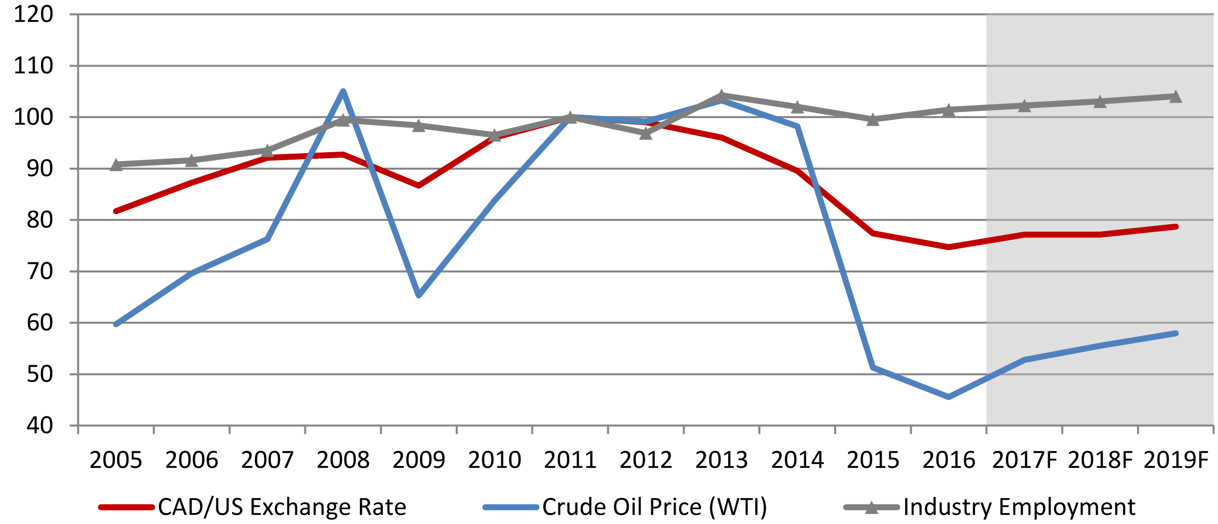
GROWTH EXPECTED ACROSS MOST SEGMENTS OF TRANSPORTATION AND WAREHOUSING

- Lower energy costs, a weaker loonie, and investments in regional transit will support employment in the transportation and warehousing industry throughout the forecast period
- Certain structural changes in the industry and uncertainty at the national mail provider may dampen growth
- These factors, combined with increased industrial output are expected to lead to an average annual employment growth rate of 0.9% over 2017–2019

Transportation of goods and people are essential services that support all other industries, rising and falling with the pace of economic activity both within the province and abroad. Within the transportation and warehousing industry, employment is highest in truck transportation, and transit and ground passenger transportation (which includes subways, light rail, taxi and limousine services, and buses). The combination of trucking and transit make up roughly half of employment in Ontario's overall transportation and warehousing sector, and they also generate a large portion of industry output. Trucking's contribution to industry GDP was 26.7% in 2016, while transit and ground transport generated over 11.5%.[1] The remaining sub-industries include: i) air, rail and water transportation and related support activities, ii) pipeline transportation of oil, gas and refined petroleum products, iii) scenic and sightseeing transportation, iv) postal services, v) courier and messenger delivery services and vi) warehousing and storage.

Employment in the industry is affected not only by economic cycles but also by policy and planning. According to Statistics Canada's Labour Force Survey, transportation and warehousing employment levels rose by 1.8% to 327,200 in 2016, after declining in 2014 and 2015 (Figure 1). Employer payroll data suggest gains were concentrated in warehousing and storage, support activities for transportation, air transportation, and truck transportation as the industry benefitted from higher wholesale and retail figures, robust exports, and elevated airline profits. Declines in employment were driven by structural changes in several transportation subindustries, including postal services, courier and messenger delivery, and some segments of transit and ground transport.[2]

Figure 1: Exchange rates, crude oil prices, Ontario real GDP, and transportation and warehousing employment



Source: Employment – Statistics Canada Labour Force Survey, Service Canada forecasts; Crude Price (WTI) – U.S. Energy Information Administration, Consensus Economics forecasts

Higher trade volumes, a weaker loonie, and depressed fuel prices will support air and ground transport

Ontario's merchandise trade continued to expand in 2016, bumping the province's share to over half of the Canadian total. The province registered growth in both its total exports and total imports, primarily with the US, who is by far Ontario's largest trading partner. In 2016, provincial international trade was $583 billion, $396 billion of which was with the US.[34] Driven by geography, the majority of Ontario–US trade value arrives by road; 73% of imports and 58% of exports.[5] Other international trade is split between marine shipping and air-cargo, the latter largely reserved for higher-value and/or lower-weight shipping.

Trade volumes are affected by the strength of the Canadian dollar which has shed over 20% of its value against the US dollar since 2013.[6] A lower exchange rate and stronger US economy typically bode well for Ontario manufacturing. Recent signs of strength in the US economy, likely bolstered demand for cargo carriers' services.[7] While lower CAD/USD exchange rates may negatively affect shipments to Canada, as imports priced in foreign currency become more expensive, overall trade volumes are expected to improve. This should have a positive impact on Ontario trucking activity and employment for the period of 2017 to 2019.

The cheaper Canadian dollar is tied to the sustained weakness in global demand for oil and commodities, as well as persistence of supply, which led to a dramatic drop in global crude and metal prices over 2014–2015.[8] The corresponding fall in jet and diesel fuel costs[9] will benefit air and truck transport, and is expected to support employment in both subindustries going forward. For rail transport, there have been signs of recovery following a slow 2016 during which rail freight volumes were down,[10] cost pressures were up, and significant job cuts were implemented.[11] In the first half of 2017, both measures for the number of rail cars and the total weight carried have generally surpassed levels previously seen in prior to 2016. As a result of the increase in volume, a major Canadian railway carrier has begun a major hiring spree numbering thousands of workers across the country, and hiring back some of those who have previously been laid off.[12] This trend is expected to continue into 2018 and should shape the rail transportation subindustry in the forecast period.

A weaker exchange rate also encourages international visits to Ontario at the cost of 'outbound' travel. In 2016, annual visits by both US and non-US international residents grew. An increasing share of U.S. resident visits is via commercial means instead of private vehicles, benefitting the transport industry. While the weaker

CAD/US exchange rate has reduced travel by Ontarians to south of the border, the number of trips from Ontario to non-US destinations has increased in recent years.[13] Moving forward, tourism-related transportation subsectors including air, transit, and scenic and sightseeing transport are expected to continue to trend upwards.

Airline employment continuing its climb

The air transportation subindustry includes establishments mainly engaged in the transportation of people and goods using aircraft, such as airplanes and helicopters. Pursers and flight attendants (NOC 6432), air pilots, flight engineers and flying instructors (NOC 2271), and airlines sales and service agents (NOC 6433) make up close to 60% of the workforce.

Air transportation employment continued to benefit from airline profitability in 2016[14][15] as depressed oil prices helped lower aviation fuel costs.[16] Airline fuel prices accounted for approximately 30% of airlines' operating expenses in 2011.[17] Jet fuel prices in the province have fallen by over a third since then, shoring up industry margins. A provincial aviation fuel tax increase from 3.7c/L to 6.7c/L which has been fully implemented in 2017 may temper the fuel cost drop, but airlines are still expected to gain sizable profits.[18] A risk to industry bottom lines may come from new discount entrants, but these have a mixed history of success and are more likely to compress profit margins at larger incumbents than to threaten their market share.

In addition to being affected by lower fuel prices, air transport will benefit from currency effects on international demand. Travel volume to Ontario rose sharply in 2016, with a 19% increase in the number of air-travellers from the US and a 15% increase in air-travellers from elsewhere.[19] Both Air Canada and WestJet increased their number of international flights in recent years. Ontario is also responsible for almost half of Canadian international cargo.[20] Volumes in both passenger and cargo are set to increase as Air Canada and the Greater Toronto Airport Authority (GTAA) signed an agreement in 2014 to develop Pearson International Airport into a global transit hub.[21] The GTAA has similar agreements with several other airlines. Over the next few decades, demand for air travel is expected to persist as airline passenger traffic is expected to double in southern Ontario, supporting employment growth in the near-term.

Truck transportation supported by strong US economy

The truck transportation subindustry includes establishments mainly engaged in the truck transportation of goods. Truck drivers (NOC 7411) make up 65% of employment in this subsector. Material handlers (NOC 7452), dispatchers and radio operators (NOC 1475) and transportation managers (NOC 0713) are also significant occupations.

Trucking is the main method of transportation for cargo transport in Ontario, and provides both the most nimble mode of moving goods and the first- and last-mile delivery on which all other modes depend. A decrease in fuel costs is welcome news to carriers. In addition, the potential elimination of internal trade barriers between provinces would also be a boon to provincial trade and, by extension, transport trucking employment.[22] As the US economy heats up, potential spillovers into Ontario's trade volumes over the forecast period are expected to support trucking employment in the province. Rising e-commerce sales may also stimulate some growth in international cargo volume as small businesses expand their international reach through the world-wide web.[23] Notable recruiting challenges for truck drivers, particularly long-haul drivers, have plagued the subindustry and may constrain demand effects on employment growth.

Employment growth in urban transit overtaking other segments of ground passenger transportation

The transit and ground passenger transportation subindustry mainly encompasses employment in urban transit systems, interurban and rural bus transportation, taxi and limousine services, school and employee bus transportation, and charter buses. Bus driver and subway and other transit operators (NOC 7412) make up close to half of the workforce and taxi and limousine drivers and chauffeurs (NOC 7413) account for another quarter.

Employment in transit and ground passenger transportation has increased in recent years. Government investment in public transit and transportation is a key influencer of transit use.[24] Combined with growing urban density, large-scale transit projects in several urban centers in southern Ontario will likely support employment in this segment in the near-term.

School and employee bus transportation companies are also a significant employer in this subsector. Employment has declined in 2015 and 2016, partly due to hiring challenges noted by school bus operators in the Greater Toronto Area, Peel Region, and Halton Region.[25] This trend will likely continue into the forecast period bearing any changes to the government funding model, which currently has resulted in depressed wages for drivers.[26]

New technology is affecting the taxi and limousine segment where employment declined in 2016, in contrast to the rest of the transit and ground transportation sub-industry.[27] Taxi and limousine services are facing strong competition from the sharing economy as emerging technologies to connect vehicles-for-hire with passengers eat into incumbents' fares and profits. While government policy towards new ridesharing companies is still taking shape, their lower costs and lower prices could increase small-vehicle transportation use in Ontario while mitigating demand for taxi and limousine services. Uncertainty about the final impacts of these technological disruptions still prevails as local government policies race to adjust.

Continuing uncertainty at Canada Post unlikely to deliver increased employment

In the mail and courier segments, ongoing technological shifts from physical letter and business mail to digital modes have been squeezing employment for several years. A large number of workers in the postal service and couriers and messengers subindustries are employed by the Canada Post Group of Companies.[28] As letter mail volumes have declined with the rise of electronic communication and e-billing, the industry's national workforce fell by more than 8% between 2009 and 2016.[29] In 2014 Canada Post announced a plan to adjust operations and reduce its workforce. The expected labour reduction from restructuring was over 10% in 10 years, largely through attrition.[30] To that end, it began increasing the automation of mail sorting and sequencing in several of its 21 mail processing plants, many of which are in Ontario, and consolidating letter processing into larger plants within major urban centres.[31] This reduces the need for manual labour and affects occupations such as mail, postal and related clerks (NOC 1461).[32] Further changes include phasing out urban home delivery in favour of community mailboxes, reducing the need for letter carriers (NOC 1462). However, community mailbox roll-outs were put on hold in late 2015. A further saving grace may be increased parcel volume as e-commerce shipping increases due to growing online orders. While private sector growth may generate some jobs, particularly in parcel delivery, employment in the subsector is expected to remain relatively flat, or even see a slight decline, over 2017-2019.

Employment in warehousing and storage propelled stronger sales and rise in e-commerce

The warehousing and storage subindustry is a small component of the overall transportation and warehousing sector, employing less than 10% of the workforce. Material handlers (NOC 7452) and shippers and receivers (NOC 1471) make up 49% of employment in warehousing and storage. Warehousing and storage generally saw steady growth in employment from 2010 to 2016.[33] Strong retail[34] and wholesale[35] sales growth in Ontario over the last three years and higher resulting inventory turnover supported both the warehousing and storage and the ground cargo industry segments. The sector may see significant change in the near-term, as companies consolidate warehouses into centralized locations to reduce costs and work to improve inventory management through technological innovation. Helped along by the rise of e-commerce, the increased use of technology is likely to require more workers, especially those with skills in computers and safety. The warehousing segment of the industry is expected to register moderate employment growth over 2017–2019.

Sector Outlook, 2017-2019

Favourable exchange rates, higher trade volumes and increased travel should support demand and employment in the transportation and warehousing industry. Overall, employment contractions in postal services will be more than offset by gains in air transport, transit, and trucking. During 2017–2019, industrial employment is expected to grow by an annual average of 0.9% in Ontario. Despite differences in regional subindustry concentrations, growth in employment is expected in all economic regions of Ontario.

Sub-provincial trends

The **Ottawa** economic region employs about 8% of Ontario's transportation and warehousing workers and is expected to see modest growth in 2017–2019. Air transportation is centred in and around Ottawa's Mcdonald-Cartier International Airport. Flight traffic creates jobs in transportation support, in airport operations, and transportation safety. National carriers Westjet and Air Canada both maintain a sizeable presence in the region, as do smaller regional carriers such as First Air. In ground transportation, the city's light rapid transit operator, OC Transpo, is set to open its new east-west rail in 2018. However, the transit operator is also looking to shave operating costs by shedding close to 500 positions once the train service is online.[36] Moreover, growing passenger demand has resulted in an increase in Via Rail service between Ottawa and Toronto.[37] Due to its proximity to the Trans-Canada Highway, Cornwall has emerged as a distribution hub, housing large warehouse and storage facilities for retail giants such as Walmart Canada and Shoppers Drug Mart.[38] Walmart recently increased its capacity there by taking over the former Target Canada distribution centre.

At over 50%, the **Toronto** economic region has the highest share of transportation and warehousing employment in the province. The region is expected to register average industrial employment growth over the three-year forecast period. The Toronto region boasts significant transport activity, and also benefits from a number of inter-modal transport hubs including Toronto Pearson International Airport - the largest airport in Canada, and several marine and rail interchange terminals with supporting linkages to trucking routes. Large national retailers, consumers, and industrial technology companies maintain warehouses in the region to leverage this logistics network. The region's population and density has warranted several transit projects by sub-regional transit operators, such as VIA Rail, Go Transit and the Toronto Transit Commission (TTC), some in partnership with Metrolinx. Major projects include the TTC subway line extension north to Vaughan which is set to open in late 2017 and the Eglinton light rail transit line currently under construction. These activities and investments should have a positive impact on employment.

Close to 10% of the transportation and warehousing industry's workforce is located in the **Kitchener–Waterloo–Barrie** economic region. With its proximity to producers in different manufacturing segments and access to multiple 400-series highways, the region is home to several large long-distance trucking companies such as Gibson Transport and Challenger Motor Freight. Population growth in the region's urban centres is also supporting public transit. For example, the municipality of the Region of Waterloo has invested in bus rapid transit service along a 17km stretch of a future light rail transit corridor from Cambridge to Kitchener. In addition, construction on a 19km light rail transit line connecting Waterloo to Kitchener is nearing completion and service is expected to commence in 2018. In the north of the region, GO Transit's rail service has also been performing upgrades to the Barrie Line to increase train service along the Barrie–Toronto corridor.

Transportation and warehousing employment in the **Hamilton–Niagara Peninsula** economic region accounts for about 10% of the provincial total. The region is a logistics hub due to its geographic location and manufacturing history. Several water transport and towing companies are based in its coastal centres, connecting with the Great Lakes–St. Lawrence Seaway transport artery. The region also plays a key role in air freight as the John C. Munro Hamilton International Airport loads and unloads more cargo flights than its larger counterpart in Toronto and sees over 40% of Ontario's domestic cargo. Cargo volumes at Hamilton Airport jumped by 25% after the new 77,000 square foot Air Cargo Centre opened in 2015.[39]

The **Northwest** economic region has the smallest share of this industry's workforce, but the highest concentration of workers compared to other economic regions. Due to its large area and challenging geography, the Northwest has quite a few medium and small, scheduled and non-scheduled air transportation providers. The mineral and forest product harvesting history of the region has also led to a sizeable rail network and a high concentration of rail occupations. Lower global commodity prices have negatively impacted rail employment both locally and across the province but a recovery in rail volumes in the first half of 2017 may bode well for regional employment going forward.

Note: *In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.*

Prepared by*: Labour Market and Socio-economic Information Directorate (LMSID), Service Canada, Ontario*
For further information*, please contact the LMI team at: NC-LMI-IMT-GD@hrsdc-rhdcc.gc.ca*

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