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MONEY MANAGEMENT MATTERS

# Assessing the Economic Footprint of Ontario's Funds Industry.



## **Money Management Matters: Assessing the Economic Footprint of Ontario's Funds Industry**

Pedro Antunes and Alicia Macdonald

### **Preface**

The research for this report was conducted to estimate the economic footprint of Ontario's funds industry, defined as mutual funds and exchange-traded funds. The funds industry in Ontario has grown significantly over the past decade, and the research provides estimates of its direct economic impact, as well as the supply chain and induced impacts tied to the industry. The research pulled together data from Statistics Canada and Investor Economics. It also utilized The Conference Board of Canada's proprietary model of the Ontario economy to estimate the funds industry's total economic footprint in Ontario, including its impacts on key economic indicators such as income, profits, and taxes.

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In keeping with Conference Board guidelines for financed research, the design and method of research, as well as the content of this report, were determined solely by the Conference Board.



# CONTENTS

i	<b>EXECUTIVE SUMMARY</b>
	<b>Chapter 1</b>
1	Assessing the Economic Footprint of Ontario's Funds Industry
2	Section 1: Introduction
3	Section 2: Ontario's Funds Industry
8	Section 3: Methodology
11	Section 4: Results
15	Section 5: Summary
	<b>Appendix A</b>
17	The Conference Board's Provincial Forecasting Model
18	The PMTFM Database
	<b>Appendix B</b>
19	Detailed Economic Footprint Results
	<b>Appendix C</b>
22	Bibliography



## EXECUTIVE SUMMARY

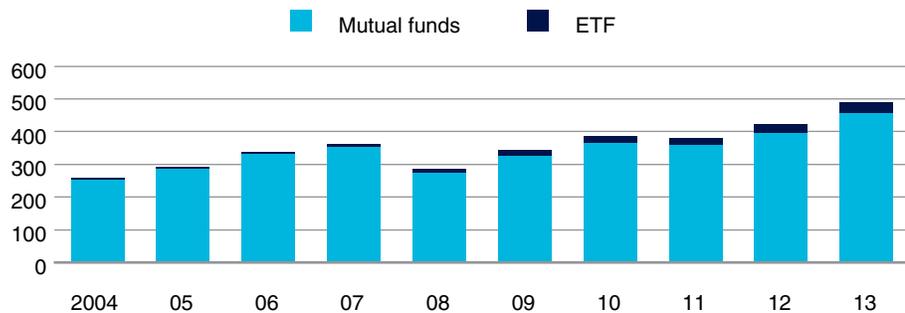
# Money Management Matters: Assessing the Economic Footprint of Ontario's Funds Industry

### At a Glance

- Assets under management in Ontario's funds industry have grown substantially over the last decade.
- Direct real GDP in Ontario's mutual funds and exchange-traded funds (ETF) industry was \$4.1 billion in 2013.
- Ontario's funds industry directly employed 44,413 people in 2013.
- The total economic footprint (including direct, indirect, and induced impacts) of Ontario's funds industry in 2013 was \$11.4 billion in real GDP.

Ontario's funds industry<sup>1</sup> plays a valuable role in the province's economy—one that continues to grow in importance. Data from Investor Economics show that during the last decade, the value of mutual funds and exchange-traded funds (ETF) assets held in Ontario has grown by 90 per cent. In 2004, assets under management were valued at an estimated \$257 billion, and by 2013 that had increased to \$489 billion. (See Chart 1.)

**Chart 1**  
**Mutual Funds and ETF Assets Held in Ontario**  
(\$ billions)



Sources: Investor Economics; The Conference Board of Canada.

The \$489 billion in funds assets held by Ontario residents represents 49 per cent of the \$999.2 billion in assets held nationally. Across the country, the funds industry directly employed an estimated 67,941 people in 2013. One of the reasons that funds assets have increased so significantly is the changing landscape of retirement planning. Declining pension coverage and a move away from defined benefit pensions have resulted in a situation where Ontarians are increasingly responsible for their own retirement savings and funds have become a popular vehicle

1 For this report, the funds industry includes mutual funds and exchange-traded funds.

for these retirement savings. Mutual funds and ETF pool investors' capital, thus facilitating access to capital markets and allowing individual investors to diversify their portfolio.

Facilitating savings and investments is certainly an important role for the sector, but the industry also makes a direct, measurable contribution to Ontario's economy. The objective of this report is to quantify the economic value-added from Ontario's funds industry—including its direct, supply chain, and induced impacts—to estimate the industry's economic footprint in Ontario.<sup>2</sup>

To estimate the industry's total economic footprint, this research involved first estimating the direct impact of the funds industry in Ontario. The direct impact was then used to estimate the resulting supply chain (indirect) and induced economic activity supported by the industry. Key takeaways from this research are listed below.

- Direct real GDP in Ontario's mutual funds and ETF industry was \$4.1 billion in 2013.<sup>3</sup>
- Ontario's funds industry directly employed 44,413 people in 2013.<sup>4</sup>
- The total economic footprint (including direct, indirect, and induced impacts) of Ontario's funds industry has a notable impact on a variety of economic indicators in the province. In 2013:
  - Ontario's funds industry supported \$11.4 billion in real GDP;
  - total jobs in the economy sustained by the funds industry numbered 119,100;

- 2 A direct economic impact measures the value-added from mutual funds and ETF firms. Indirect impacts measure the supply chain impacts and capture the value-added in the firms that are direct suppliers of products or services to the funds industry. Induced impacts measure the economic gain resulting when wages and profits of the indirect and direct impact firms are spent throughout the economy.
- 3 Gross domestic product (GDP) is an accounting measure designed to assess the value of economic activity in a region during a specific time frame. While there are different ways to calculate GDP, perhaps the most intuitive method is the concept of value-added. Value-added in each industry is calculated as the difference between total revenue and the sum of expenses on parts, materials, and services used in the production process. Summing the value-added across all industries in a region will yield the GDP in that region.
- 4 Direct employment is defined as those who work for a firm whose *primary* business is managing and/or distributing funds.

- the total lift in economic activity resulted in \$7.9 billion in personal income and \$1.6 billion in corporate profits;
- the total tax revenues collected from this economic activity were \$2.8 billion, including indirect taxes and corporate and personal income taxes.

The results of this research show that Ontario's funds industry has a notable impact on the province's economy. In 2013, the total economic footprint of the industry accounted for 1.8 per cent of total real GDP in the province. The industry has also grown in importance as the 21st century has ushered in a period of economic change in Ontario. Real manufacturing output has been in a near-steady state of decline since 2000, while sectors such as finance, insurance, and real estate have become increasingly important to Ontario's economic performance.

## CHAPTER 1

# Assessing the Economic Footprint of Ontario's Funds Industry

### Chapter Summary

- Assets under management in Ontario's funds industry have grown substantially over the last decade.
- Direct real GDP in Ontario's mutual funds and exchange-traded funds (ETF) industry was \$4.1 billion in 2013.
- Ontario's funds industry directly employed 44,413 people in 2013.
- The total economic footprint (including direct, indirect, and induced impacts) of Ontario's funds industry in 2013 was \$11.4 billion in real GDP.
- In 2013, the Ontario funds industry and the jobs it supports helped boost personal income by \$7.9 billion.

## Section 1: Introduction

This is the second research report produced by the Conference Board that studies the impact of the funds industry. The first report, *Making Dollars and Sense of Canada's Mutual Fund Industry: An Economic Impact Analysis*, studied the mutual funds industry from a national perspective. The scope of this second report has been expanded from the first report. It also includes ETFs in order to estimate the economic impact of Ontario's funds industry, which is defined as the mutual funds and ETF industry for the purposes of this report.

The value of investments managed by funds across the country grew at a phenomenal pace over the past two decades, a trend that was mirrored in Ontario. Funds play an important role in Ontario's economy by facilitating household investment. Capital placed in Ontario funds also has a wider benefit as the lion's share of investments made by the funds are domestic and thus provide capital for business investment across the country.

In addition to helping Ontarians save and stimulating capital investment in Canada, the funds industry generates its own economic activity. The goal of our research was to quantify the impact of this activity, providing an estimate of the mutual funds and ETF industry's contribution to Ontario's economy. As a result, the scope of this report is defined as estimating the direct value-added from the funds industry and its supply chain (indirect) and induced impacts. The sum of these impacts provides the total economic footprint of Ontario's funds industry. This report does not attempt to quantify the benefits accruing to the economy through the industry's role in facilitating household savings and business investment.

Section 2 of this report provides a general discussion of Ontario's funds industry and our estimates of its direct impact on the economy. In Section 3, the methodology used to quantify the economic footprint of the industry is discussed. Section 4 contains the results of our footprint analysis. Section 5 summarizes the findings.

## Section 2: Ontario's Funds Industry

Over the last few decades, retirement planning has changed in Ontario. In 1990, Ontario had 2 million members in registered retirement plans,<sup>1</sup> representing 30 per cent of the population aged 25 and above. Of those 2 million members, 91 per cent were registered in a defined benefits pension plan. In 2012, the number of Ontarians who were members of registered pension plans numbered 2.2 million (24 per cent of the population 25 and above) with 73 per cent of those members having defined benefit pensions. These data highlight two important trends: the proportion of Ontarians who are members of registered pension plans is falling, and the share of pension plans that are defined benefit plans is decreasing. Declining pension coverage and a move away from defined benefit pensions means that people in Ontario are increasingly responsible for their own retirement savings.

As Ontarians become more responsible for their retirement planning, there has been a surge in the popularity of ETFs and mutual funds. A mutual fund is a collection of investments purchased with a pool of money from different investors; an ETF is a collection of stocks constructed to track a particular index or commodity. By pooling investors' capital, funds facilitate access to capital markets and allow individual investors to diversify their portfolios.

Data from Investor Economics indicate that during the last decade, the value of assets under management in Ontario's funds industry has grown by 90 per cent. In 2004, assets under management were valued at \$257 billion, and by 2013 that had increased to \$489 billion. This represents 49 per cent of the \$999.2 billion in funds assets held nationally.<sup>2</sup> Assets under management provide the size of the capital

1 Statistics Canada, CANSIM Table 280-0008.

2 As of September 2014, assets under management in the mutual funds industry had increased to \$1.12 trillion.

pool invested in funds in Ontario. But they cannot be used by themselves to measure their contribution to economic activity—they need to be measured using value-added.<sup>3</sup>

Value-added from the funds industry occurs through three main components: the management of the fund; the distribution of the fund; and the fund itself. Most of the value-added in the funds industry is derived from the management and distribution of the funds, although the funds themselves create some supply chain impacts for legal and accounting services. Fund management creates value in the economy through portfolio management activities, while the distribution channel creates value through the advice a dealer provides when selling a fund to an investor.

The objective of this report is to quantify the value-added from the funds industry including its direct, supply chain, and induced impacts. This means that the report will focus only on the directly estimated value-added and the resulting economic activity it generates. It does not attempt to quantify any additional benefits that the industry creates from, for example, its role in facilitating savings and investment.<sup>4</sup>

The first part of this analysis was to calculate the funds industry's direct contribution to Ontario's economy. Disaggregated data on the real (inflation-adjusted) value-added of the funds industry is unavailable and has to be estimated using various data sources.<sup>5</sup> The Conference

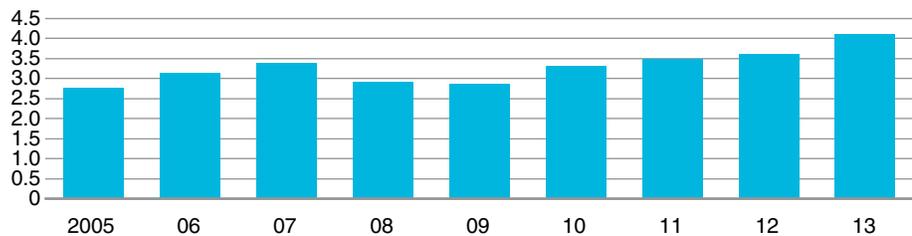
- 3 The funds industry's contribution to economic activity is measured by calculating its value-added. Statistics Canada groups firms by industry, based on the primary activity of each business. The value-added in each industry is then roughly equal to the wages and profits earned by the industry. The goods and services used as an input into business operations are then captured as value-added in the supplier industries.
- 4 As an example, recent research from Centre interuniversitaire de recherche en analyse des organisations (CIRANO) shows that people who retain a financial advisor have higher assets than their non-advised counterparts. See Montmarquette and Viennot-Briot, *Econometric Models on the Value of Advice of a Financial Advisor*, 9. Any additional savings directed to funds, as a result of an investor's receiving financial advice, would be captured in the fund assets under management, which are used in the calculation of the industry's value-added. But the benefit of having more savings relative to a counterfactual scenario, where savings are lower, would not be captured in this analysis.
- 5 For a detailed technical explanation of how GDP in Ontario's funds industry was estimated, refer to the methodology contained in Section 3 of this report.

Board estimates that the funds industry directly contributed \$4.1 billion to Ontario's economy in 2013—that's up from an estimated \$2.8 billion in 2005. (See Chart 2.) Based on the employment multipliers for this industry, it is estimated that Ontario's funds industry directly employed 44,413 full-time workers in 2013, out of the 67,941 workers employed nationally in the industry. Ontario's share of industry employment (and GDP) is larger than its share of assets under management due to the large proportion of headquarters—where portfolio management occurs—located in the province.

Chart 2

**Ontario's Funds Industry: Real GDP**

(2007 \$ billions)

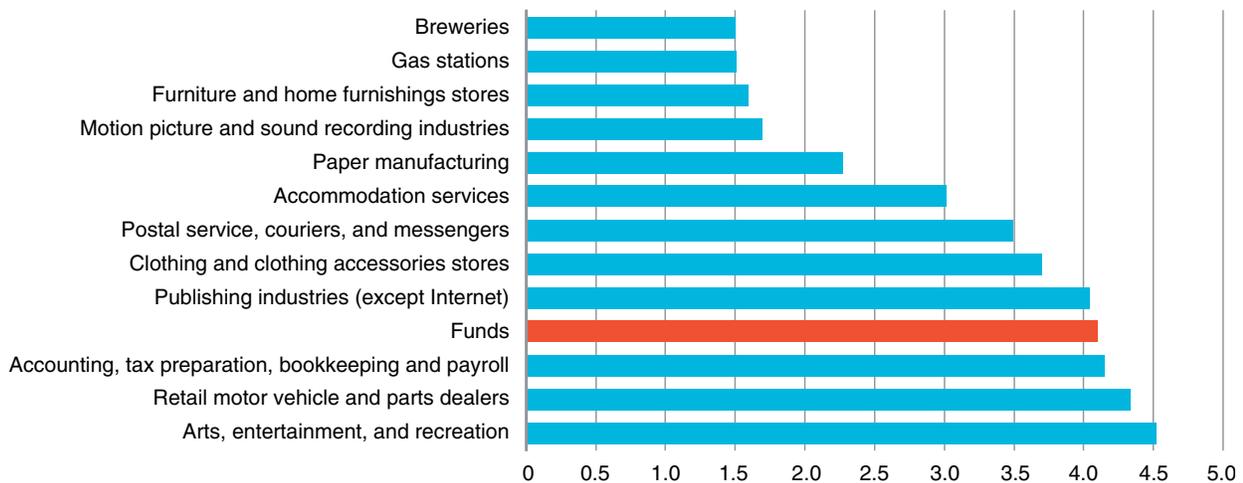


Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

Ontario's funds industry posted annual average compound growth of 5 per cent from 2006 to 2013, a substantially better performance than the average annual economy-wide growth of 1 per cent in the province during the same period. Indeed, the 21st century has brought notable change to Ontario's economy as the manufacturing base has dwindled and the finance, insurance, and real estate sector (which includes funds) has become increasingly important. In 2000, the manufacturing industry and the finance, insurance, and real estate sector both accounted for 20 per cent of Ontario's real GDP. By 2013, manufacturing's share had fallen to 13 per cent, while the share of the finance, insurance, and real estate sector had increased to 23 per cent.

At an estimated \$4.1 billion in 2013, Ontario's funds industry makes an important contribution to the provincial economy. But it can be difficult to discern the relative size of an industry based exclusively on its GDP value. As a point of comparison, in 2013, the value of GDP directly attributable to Ontario's funds industry was roughly on par with those of the province's publishing industries (excluding Internet), and accounting, tax preparation, bookkeeping, and payroll services industry. As Chart 3 shows, the direct contribution from the funds industry is far greater than, for example, the direct impact of the motion picture and sound recording industry or the breweries industry.

**Chart 3**  
**Real GDP in 2013 for Selected Ontario Industries (NAICS\*)**  
 (2007 \$ billions)



\*North American Industry Classification System  
 Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

The impact of the funds industry on Ontario's economy extends beyond its direct influence. In fact, the funds industry also has a notable supply chain impact on Ontario's economy compared with other service sector industries in the province. Based on Statistics Canada's industrial classification system, funds are a subsector of the "financial investment

services, funds, and other financial vehicles” industry aggregation. As shown in Table 1, this industry has one of the largest indirect (supply chain) multipliers in Ontario’s service sector.<sup>6</sup> An industry with a higher economic multiplier creates more spin-off impacts relative to increases in its own GDP. Based on the multipliers in Table 1, a \$1-million increase in the financial investment services, funds, and other financial vehicles industry creates an additional \$1.27 million in indirect benefits—resulting in a total increase of \$2.27 million.

**Table 1**

**Ten Largest Type 1 Service Sector Multipliers in Ontario**

(total indirect and direct GDP impact within the province relative to direct GDP)

<b>Service sector</b>	<b>Multiplier</b>
Water transportation	2.63
Other provincial and territorial government services	2.62
Financial investment services, funds and other financial vehicles	2.27
Other information services	2.24
Motion picture and video exhibition	1.99
Non-depository credit intermediation	1.96
Motion picture and video industries (except exhibition)	1.88
Gambling industries	1.87
Sound recording industries	1.86
Non-store retailers	1.81

Source: Provincial Input-Output Multipliers, 2010 Ontario Worksheet Level.

In addition to having a large indirect impact, the funds industry further impacts Ontario’s economy through induced impacts. For this study, The Conference Board of Canada utilized its proprietary model of Ontario’s economy to calculate the full economic footprint—including direct, indirect, and induced impacts—of Ontario’s funds industry on the

6 Indirect (or Type 1) multipliers show an industry’s total direct (plus indirect GDP) impact as a multiple of its direct GDP.

province. The results of this analysis are discussed in Section 4. Section 3 provides a detailed description of the methodology used to conduct this analysis.

## Section 3: Methodology

The goal of this report is to quantify the total economic footprint of Ontario's funds industry. The impact of an industry on the economy can be estimated by using economic models that help us understand how changes in the activity of one industry can have wider repercussions on the economy. The most apparent impact is the economic activity directly attributed to an industry (direct impact), largely associated with wages of those directly employed in the industry and profits generated by the industry. In addition, an industry's normal operations will generate demand for inputs from other industries (indirect or supply chain impact), while the income generated by this activity will lead to additional spending in the economy (induced impacts). Each of these impacts is described in this section.

Since data for the funds industry were not directly available from Statistics Canada, Investor Economics was contracted to provide data on mutual funds and ETF assets in Ontario; the management expense ratio (MER); and assets managed by firms headquartered in Ontario. The data from Investor Economics were compiled to focus exclusively on the mutual funds and ETF industry, and exclude labour-sponsored venture capital corporations and institutional series funds.

The first step in the footprint analysis was to determine the direct impact of the funds industry in Ontario. To calculate the direct GDP impact, industry revenues and the ratio of value-added to gross output were required. Revenue data are not available by province and therefore need to be approximated with two estimates: the first covers the distribution and advice channel (the dealer firm), and the second measures the head office/portfolio management function. The MER revenue thus needs to be split into the proportions accruing to each of these functions. The shares were determined by previous research by Investor Economics.

It found that the mutual funds MER split (excluding taxes and operating expenses) was approximately 55 per cent to the head office and 45 per cent to the dealer firm.<sup>7, 8</sup> Revenue from the dealer firms is calculated by multiplying the assets under management in Ontario by the share of the MER accruing to dealer firms. The portfolio management function revenue is derived by multiplying total national assets by the share of head office activity in Ontario then multiplying the result by the proportion of the MER accruing to the head office firms.<sup>9</sup> The sum of these two components provides an estimate of the revenue in Ontario's funds industry.

This estimate of revenue represents an approximation of the industry's gross output as gross output is roughly the total value of sales during a particular period. Statistics Canada produces provincial input-output multiplier tables that show the relationships by industry between gross output and gross domestic product and employment. The Ontario multiplier tables were used in conjunction with the gross output data to derive estimates for direct GDP and employment in Ontario's funds industry.<sup>10</sup> Our estimate indicates that in 2013, Ontario's funds industry accounted for 44 per cent of total GDP in the provincial NAICS 52A industry.

With an estimate of direct GDP for Ontario's funds industry it is possible to use that data to estimate the industry's total economic footprint. Conducting a footprint analysis involves identifying the key supply chain linkages in Ontario's funds industry. As well, it entails quantifying the

- 7 Investor Economics, *Mutual Fund MERs and Cost to Customer in Canada*, 5.
- 8 This research refers to the split for long-term funds, which in 2013 represented 97 per cent of fund assets under management. No separate research is available for the short-term funds, which are assumed to have the same split for the purpose of this analysis.
- 9 The proportion of head office activity occurring in Ontario was based on data provided by Investor Economics. They aggregated total assets under management by firms headquartered in Ontario, as well as total assets under management Canada-wide. Head office activity accruing to Ontario was then calculated as the assets under management by firms headquartered in Ontario as a share of total assets under management nationally.
- 10 Statistics Canada does not produce a multiplier estimate exclusively for the mutual funds industry. The multiplier relationships used for the industry throughout this report are those for financial investment services, funds, and other financial vehicles (NAICS 52A), as the mutual funds industry is a subset of this aggregation.

impact it has on key economic indicators, such as GDP, employment, income, and government revenues. The footprint analysis in this report evaluates the combined direct, indirect, and induced economic impacts, where:

- Direct impact measures the value-added<sup>11</sup> to the economy by the funds industry that is attributed directly to the sector's employees, the wages earned, and the firms' revenues generated.
- Indirect impact measures the value-added that the "direct impact firms" generate within the economy through their demand for intermediate inputs or other support services. For example, activity in Ontario's funds industry creates demand for legal services and other financial services.
- Induced impacts are derived when employees of the aforementioned industries spend their earnings and owners spend their profits. These purchases lead to more employment, higher wages, and increased income and tax revenues, and can be felt across a wide range of industries.

To derive the indirect impact (supply chain linkages) of the funds industry on Ontario's economy, the Conference Board relied on simulation results from Statistics Canada's interprovincial input-output (IO) model to guide simulations using the Board's proprietary models. The IO model represents the relationships in an economy and depicts the various supply chain linkages between industries and provinces. An IO simulation is performed by contracting Statistics Canada to increase or decrease output in a particular industry to get the total direct and supply chain linkages associated with that industry. For this report, Statistics Canada was contracted to increase output in Ontario's financial investment services, funds, and other financial vehicles industry. The results from this IO simulation were then used by the Conference Board to assess the funds industry's supply chain linkages.

11 Value-added or net output is the difference between total revenue and the sum of expenses on parts, materials, and services used in the production process. Summing the value-added across all industries in a region will yield the GDP in that region.

While the input-output estimates provide a very detailed account of the supply chain linkages, the Conference Board's provincial model has the benefit of assessing the impact of additional income (generated through changes in wages and profits) on the economy.<sup>12</sup> The Board's provincial forecasting model was used to obtain the additional induced impacts on the economy—to estimate the total economic footprint of the funds industry on Ontario's economy over the 2009 to 2013 time frame.<sup>13</sup>

## Section 4: Results

The funds industry directly contributed \$4.1 billion to Ontario's real GDP in 2013. This is the direct economic contribution in the province from the sales, jobs, and taxes generated by firms and sole proprietors operating in the industry. But the full economic benefit of the industry is much larger when accounting for the supply chain benefits (indirect impacts) and induced effects.

The indirect benefits measure the supply chain demand created by the funds industry for goods and services required as inputs. Induced impacts are created when employees of the funds industry—and those linked to it through its supply chain—spend the money that they earn on goods and services. This spending creates additional economic benefits in the form of new jobs and activity generated in other sectors of the economy. The sum of the direct, indirect, and induced effects represents the overall contribution, or the economic footprint, that the

12 A description of the Conference Board's provincial forecasting model and the Ontario sub-model used in this analysis is contained in Appendix A.

13 The real GDP data from Statistics Canada has a base year of 2007, but the agency was delayed in its production of an extended time series for the provincial accounts. Therefore, the Conference Board's provincial model still contains the older account system with a base year of 2002. Overall GDP estimates were converted to a base year of 2007 for comparability with the national study, but the detailed industry and expenditure results in the appendix have a base year of 2002. An attempt was made to convert these variables to a 2007 base year. However, re-basing the individual estimates, and summing those to derive total GDP, changed the multiplier relationships inherent in the IO model. This occurs because in this simulation, the finance, insurance, and real estate industry accounts for the majority of the impact. Therefore, the industry has a disproportionate weight in what would be the new implicit deflator, compared with the baseline GDP deflator that was used to re-base the total GDP results, without notable impact on the multiplier relationships.

sector has on Ontario's economy. Not all of the supply chain demand is met within the province and, as a result, additional impacts accrue to the other provinces.

The Conference Board estimates that the total economic footprint of the funds industry in Ontario was \$11.4 billion or 1.8 per cent of total GDP (measured at market prices) in 2013.<sup>14</sup> (See Table 2.<sup>15</sup>) Ontario's funds industry has an economic multiplier of 2.8, which means that every \$1-million increase in real GDP in the funds industry increases provincial real GDP by a total of \$2.8 million when accounting for the supply chain and induced impacts.

**Table 2**

**Ontario Funds Industry Economic Footprint: Key Indicators**

(total direct, indirect, and induced impacts in 2013)

Real GDP at market prices (2007 \$ millions)	11,450
Average weekly wages industrial composite (percentage difference)	0.29
Personal income (\$ millions)	7,940
Personal disposable income (\$ millions)	6,233
Employment jobs (\$ millions)	119,146
Total indirect taxes (\$ millions)	1,280
Estimated federal indirect taxes (\$ millions)	723
Estimated provincial indirect taxes (\$ millions)	558
Federal personal income tax collections (\$ millions)	754
Provincial personal income tax collections (millions)	453
Corporate profits (\$ millions)	1,566

(continued ...)

- 14 Statistics Canada uses two different types of prices to measure GDP: market prices and basic prices. Market prices are transaction prices and are used to measure income and expenditure-based GDP. The GDP industry accounts are measured in basic prices—the amount the producer receives, minus taxes, plus subsidies. Because the industry accounts use a different set of prices, the GDP estimates produced in those accounts differ from the GDP estimates measured with market prices.
- 15 Full economic footprint results from 2009 to 2013 for all variables are available in Appendix B, tables 1 to 3. Note the detailed tables that show GDP by expenditure (Table 2) and industry (Table 3) have a base year of 2002, while the real variables discussed in the main document have a 2007 base year.

Table 2 (cont'd)

**Ontario Funds Industry Economic Footprint: Key Indicators**

(total direct, indirect, and induced impacts in 2013)

Corporate taxes (\$ millions)	340
Federal corporate taxes (\$ millions)	233
Provincial corporate taxes (\$ millions)	107

Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

Measuring the direct employment impacts with the resulting jobs created through the indirect and induced impacts show Ontario's funds industry supported approximately 119,100 jobs in 2013. Of those 119,100, it is estimated that roughly 44,400 jobs are direct employment in the funds industry. The funds industry pays wages and salaries much higher than the province-wide wage. As a result, the existence of the funds industry lifts the average weekly wage in the province up by 0.3 per cent.

Income and profits generated by the industry accrue to individuals and businesses in the province, with the larger share going to household incomes. In 2013, the funds industry and the jobs it supports helped boost personal income by \$7.9 billion, which resulted in a \$6.2-billion increase in personal disposable income. The increase in economic activity also boosted corporate profits by \$1.6 billion.

This income and profit tied to the funds industry is also a notable source of tax generation for governments—generating \$2.8 billion in tax receipts in 2013. An estimated \$1.7 billion accrues to the federal government, with increases of \$754 million in personal income taxes, \$233 million in corporate income taxes, and \$723 million in indirect (mostly sales) taxes. Provincial government tax revenues are boosted by an estimated \$1.1 billion, thanks to increases of \$453 million in personal income taxes, \$107 million in corporate income taxes, and \$558 million in indirect taxes. Through its supply chain and induced impacts, Ontario's funds industry not only creates economic activity in a wide range of industries within the province, but also creates notable impacts in other provinces. Table 3 shows the impact of Ontario's funds industry on regions outside

the province, through supply chain and induced impacts. For each \$100 million increase in direct GDP in Ontario's funds industry, output is lifted by \$13.8 million in Quebec and \$18.6 million in the Prairies and B.C.

**Table 3**

**Ontario's Funds Industry: Impacts by Region**

(total indirect and induced impacts per \$100 million direct GDP in Ontario's funds industry, \$ millions)

Atlantic Canada	2.70
Quebec	13.82
Ontario	178.77
Prairies and British Columbia	18.57

Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

Looking at the results within Ontario, the largest spin-off impacts occur within the finance, insurance, and real estate industry. The large impacts within this industry occur because of strong demand for banking and other credit intermediation; additional demand for financial investment services, funds, and other financial vehicles; and insurance carriers.

Other notable increases in economic activity supported by the funds industry occurred in the commercial services and information and cultural industries. Commercial services benefited from strong demand for management, scientific, and consulting services as well as computer system design and related services. Information and cultural industries benefited from increased demand for telecommunications.

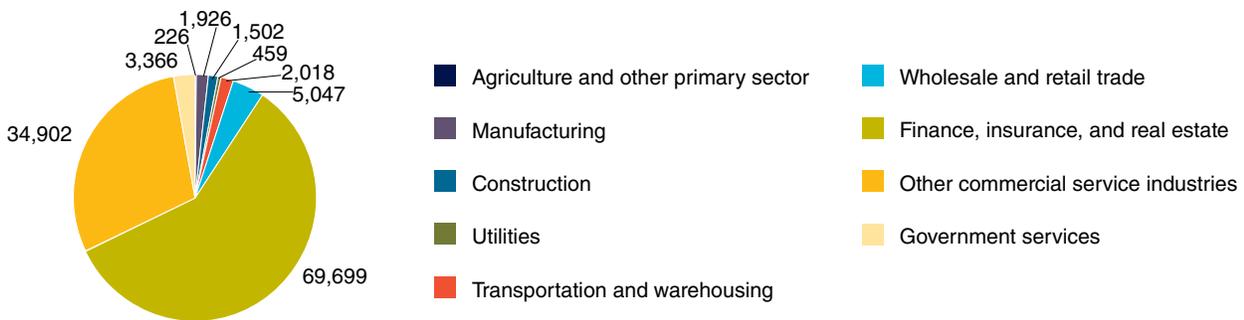
These benefits, by industry, are reflected in the sectoral breakdown of jobs supported by Ontario's funds industry. The Ontario funds industry was estimated to directly employ 44,413 people in 2013. When including the supply chain and induced impacts, total employment supported by the industry was 119,146 in 2013. The jobs supported by the funds industry's supply chain and induced impacts span a wide range of industries. As shown in Chart 4, the majority of the employment gains

are in the finance, insurance, and real estate industry, reflecting the direct employment in the funds industry as well as the jobs created through its spin-off effects. There were 34,902 jobs supported in the other commercial services sector (which includes commercial services and information and cultural industries) with smaller job gains in other industry segments.

Chart 4

**Ontario Employment Impacts, by Industry in 2013**

(total number of direct, indirect, and induced jobs)



Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

**Section 5: Summary**

Ontario’s funds industry has experienced significant growth over the last decade. The funds industry makes an important economic contribution through its role in facilitating savings and investment. But the focus of our research is to estimate the economic footprint of the funds industry in Ontario. The industry makes a direct contribution to the provincial economy through activities related to the management of the funds, the distribution of the funds, and the funds themselves. This direct value-added creates additional demand through what economists refer to as indirect (supply chain) and induced impacts.

The Conference Board estimates that the funds industry directly contributed \$4.1 billion to Ontario's economy in 2013. A large portion of the industry's national impact occurs directly in Ontario's economy because a large share of funds assets, held by residents across Canada, are managed by firms headquartered in Ontario.

With the addition of its supply chain and induced impacts, the total economic footprint of the funds industry was valued at \$11.4 billion in 2013. This total increase in economic activity supported 119,100 jobs while generating a \$7.9-billion increase in personal income and a \$1.6-billion increase in corporate profits. Tax revenues collected on this income and profits amounted to a total of \$1.5 billion, including personal and corporate income taxes. An additional \$1.3 billion was collected in indirect (mostly sales) taxes for a total boost of \$2.8 billion in tax collection.

Within the province, the largest supply chain and induced impacts occur in the finance, insurance, and real estate industry; commercial services industry; and information and cultural industries. But not all of the supply chain impacts are felt within Ontario as its funds industry creates demand that benefits industries in other provinces. Notable supply chain and induced impacts are felt in the Prairies/British Columbia region and in Quebec.

## APPENDIX A

# The Conference Board's Provincial Forecasting Model

The Conference Board of Canada's Provincial Medium-Term Forecasting Model (PMTFM) is a quarterly, bottom-up econometric model of the 10 provincial economies and three territories combined. The model defines real GDP at basic prices, and at market prices, by province.

PMTFM includes over 1,200 equations, of which roughly half are behavioural or stochastic, while the others are accounting or definitional equations. Most of the exogenous variables in the model are national indicators. For each province, there are a number of simultaneous blocks of equations. These blocks include final domestic demand (personal consumption, government spending, residential and non-residential business investment); and production by industry, income, prices, and labour market blocks. The provincial model also has an endogenous provincial population block in which net interprovincial migration plays a key role in determining overall population growth.

The Ontario sub-model is used in this analysis. In this model, provincial expenditures determine industrial output through the use of a full input-output framework. Provincial real GDP by industry establishes labour market conditions that, in turn, influence population (through interprovincial migration), prices, and income. The labour market block includes employment, labour force, unemployment, and the unemployment rate. Employment is divided into 11 sector categories and is determined by labour productivity and the current level of output.

The Ontario sub-model is based on the neoclassical Keynesian synthesis and possesses many of the properties associated with the national model. Prices respond to aggregate demand conditions as well as intermediate material costs, international and interprovincial import prices, and changes in the indirect tax structure. Potential output and the output gap are fully integrated in the models. Thus, the gap and speed of gap closure are explicitly introduced into most price equations to represent supply-side feedback. Potential output and total factor productivity are derived from a Cobb-Douglas production function modelled in terms of capital and labour.

## The PMTFM Database

The Conference Board of Canada has invested significantly in the construction and upkeep of the provincial database. The main data sources are the annual Provincial Economic Accounts (PEA) from Statistics Canada, the quarterly Quebec Economic Accounts from the Institut de la statistique du Québec (ISQ), and the Ontario Economic Accounts (OEA) from the Ontario Ministry of Finance. Statistics Canada provides full coverage of all components of real GDP at market prices and basic prices with approximately a 12-month lag. The Conference Board renders the data quarterly and projects it to the current quarter. Monthly or quarterly series, available from Statistics Canada or other government departments or agencies, are used as proxies to convert and extend the annual data. Provincial data are constrained to ensure that they are compatible with national data. The provincial database is updated each quarter following the release of the national income accounts, and it is used extensively by governments and industries.

## APPENDIX B

# Detailed Economic Footprint Results

The following tables show the full economic footprint results from 2009 to 2013 for all variables. Note that the detailed tables that show GDP by expenditure (Table 2) and industry (Table 3) have a base year of 2002, while the real variables discussed in the main document have a 2007 base year.

Table 1

## Ontario Funds Industry Economic Footprint: Key Economic Indicators

(total direct, indirect, and induced)

	2009	2010	2011	2012	2013
Total funds industry (2007 \$ millions)	2,882	3,334	3,489	3,620	4,114
Real GDP at market prices (2007 \$ millions)	8,112	9,492	9,692	9,982	11,450
GDP at market prices (\$ millions)	8,397	10,052	10,483	10,887	12,743
Average weekly wages industrial composite (percentage difference)	0.30	0.30	0.29	0.29	0.29
Personal income (\$ millions)	5,270	6,348	6,544	6,823	7,941
Personal disposable income (\$ millions)	4,140	5,037	5,154	5,345	6,233
Employment (jobs)	85,069	99,122	102,189	106,149	119,146
Total indirect taxes (\$ millions)	798	988	1,075	1,122	1,280
Estimated federal indirect taxes (\$ millions)	450	558	607	633	723
Estimated provincial indirect taxes (\$ millions)	347	430	468	489	558
Federal personal income tax collections (\$ millions)	490	572	606	648	754
Provincial personal income tax collections (\$ millions)	295	347	368	389	453
Corporate profits (\$ millions)	1,053	1,089	1,285	1,351	1,566

(continued ...)

Table 1 (cont'd)

**Ontario Funds Industry Economic Footprint: Key Economic Indicators**

(total direct, indirect, and induced)

	2009	2010	2011	2012	2013
Corporate taxes (\$ millions)	379	306	289	294	340
Federal corporate taxes (\$ millions)	219	183	185	199	2,323
Provincial corporate taxes (\$ millions)	160	122	104	95	107

Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

Table 2

**Ontario Funds Industry Economic Footprint: Real GDP, Expenditure-Based**

(total direct, indirect, and induced, 2002 \$ millions)

	2009	2010	2011	2012	2013
Consumer expenditures	16,416	19,882	21,101	21,555	23,160
Government spending on goods and services	232	268	290	309	355
Gross fixed capital formation	977	1,139	1,270	1,296	1,442
Government	0	0	0	0	0
Business	985	1,149	1,280	1,306	1,454
Residential construction	354	416	430	443	504
Non-residential construction	138	139	153	160	171
Machinery and equipment	525	639	778	779	860
Final domestic demand	17,363	20,936	22,279	22,768	24,520
Exports	0	0	0	0	0
Imports	11,373	14,329	15,219	15,541	16,068
Net exports	-11,373	-14,329	-15,219	-15,541	-16,069
Gross domestic product at market prices	7,312	8,376	8,956	9,166	10,449

Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

Table 3

**Ontario Funds Industry Economic Footprint: Real GDP and Employment, by Industry**

(total direct, indirect, and induced)

	2009	2010	2011	2012	2013
Real GDP at basic prices (2007 \$ millions)	7,117	8,231	8,615	8,938	10,159
Agriculture and other primary	10	12	12	12	14
Manufacturing	135	156	164	170	193
Construction	65	75	79	82	93
Utilities	60	70	73	76	86
Information and cultural industries	277	321	336	348	396
Transportation and warehousing	93	108	113	117	133
Wholesale and retail trade	227	262	275	285	324
Finance, insurance, and real estate	5,194	6,007	6,287	6,523	7,414
Community, business, and personal services	908	1,050	1,099	1,140	1,296
Government services	147	170	178	185	210
Total employment (jobs)	85,069	99,122	102,189	106,149	119,146
Agriculture and other primary	163	193	197	206	226
Manufacturing	1,526	1,631	1,698	1,724	1,926
Construction	1,134	1,265	1,352	1,331	1,502
Utilities	344	408	388	421	459
Transportation and warehousing	1,542	1,658	1,776	1,772	2,018
Wholesale and retail trade	4,081	4,490	4,532	4,557	5,047
Finance, insurance, and real estate	49,779	58,532	59,697	62,191	69,699
Other commercial service industries	24,210	28,270	29,682	30,988	34,902
Government services	2,288	2,675	2,867	2,960	3,366
Unemployment (jobs)	-30,999	-36,400	-37,972	-39,439	-44,324

Sources: The Conference Board of Canada; Statistics Canada; Investor Economics.

## APPENDIX C

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255 Smyth Road, Ottawa ON  
K1H 8M7 Canada  
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