

Clause embodied in Report No. 1 of the Economic Development and Parks Committee, as adopted by the Council of the City of Toronto at its meeting held on January 27, 28 and 29, 2004.

6**City of Toronto Economic Overview
(All Wards)**

(City Council on January 27, 28 and 29, 2004, adopted this Clause, without amendment.)

The Economic Development and Parks Committee reports having received the following report (December 11, 2003) from the Commissioner of Economic Development, Culture and Tourism, and directed that the report be forwarded to City Council for information:

Purpose:

To update City Council on trends in the Toronto economy.

Financial Implications and Impact Statement:

There are no financial implications resulting from the adoption of this report.

Recommendation:

It is recommended that this report be received for information.

Background:

At its meeting on February 13, 14 and 15, 2002, City Council adopted a recommendation that Economic Development prepare economic statements twice a year for Council's information.

Executive Summary:

In 2003, after expanding rapidly for eight years, economic growth in the Toronto region slowed significantly. In fact, the Toronto area briefly dipped into recession (defined as two consecutive quarters of negative growth) in the second and third quarter of 2003. One hundred and twenty-five thousand City of Toronto residents are now unemployed.

It seems that the City of Toronto has been lagging behind the rest of the region, particularly in the last three years when employment in the City appears to have declined. There are today approximately as many jobs in the City of Toronto as there were before the last recession and approximately the same number of City residents are employed today as were employed in 1989.

Toronto's Economy a Snapshot:

The Toronto region economy is one of the most diverse economies in North America and has successfully transitioned from a traditional manufacturing economy, to one characterized by highly specialized knowledge-based jobs. This transition was not without cost however, as Toronto suffered the worst economic downturn in recent history in the early 1990's, shedding a significant number of jobs as firms moved into higher order operations in the post NAFTA environment.

Table 1: City of Toronto and the Toronto Region

	City of Toronto	Toronto Region (CMA)	Notes
Gross Domestic Product (GDP)	\$100 Billion (estimated)	\$209.5 Billion (2002)	City of Toronto's GDP is 50 percent larger than all of the Maritime Provinces
Employed Residents	1,315,800	2,679,300	Seasonally adjusted 3mma Nov 2003
Average wage (2002)	\$35,800.00	\$37,200.00	Does not include self-employed residents
Unemployment Rate	8.6 percent	7.6 percent	Seasonally adjusted 3mma Nov 2003

The main drivers in Toronto's economy are financial/business services and manufacturing. Manufacturing represents 20 percent of regional output, and continues to be an important part of the regional economy. While manufacturing provides lower than average salaries, it does remunerate persons with low educational attainment relatively well compared to other jobs for which they would be qualified. Manufacturing also tends to be a traded sector, which is to say that a large share of the output of the manufacturing sector is exported.

Table 2: Toronto CMA Output and City Resident Employment Profile by Sector

Industry Sector	Regional GDP	Percent of Total GDP	City Residents' Jobs and Percent of total	Average Wage (1)
Manufacturing	\$41.4 B	19.9	246,930 jobs (18.8)	\$34,044
Financial Services	\$19.4 B	9.4	100,290 jobs (7.6)	\$47,389
Commercial Services	\$19.2 B	9.3	208,810 jobs (15.9)	\$42,304
Wholesale Trade	\$16.7 B	8.0	47,740 jobs (3.6)	\$36,326
IT & New Media	\$13.2 B	6.4	48,770 jobs (3.7)	\$44,669
Retail Trade	\$10.4 B	5.0	128,340 jobs (9.8)	\$22,538
Health Care	\$8.4 B	4.0	105,660 jobs (8.0)	\$35,314
Education	\$7.1 B	3.4	76,970 jobs (5.8)	\$42,216
Hotel & Food	\$3.5 B	1.7	84,860 jobs (6.4)	\$19,505

Sources: Conference Board of Canada and Statistics Canada
(1) City of Toronto residents (not including self-employed)

Tourism is another sector that has the potential to produce export earnings, and for some regions like Las Vegas it is the dominant industry, but relative to other sectors in Toronto it is small. Arts and Entertainment and Accommodation and Food Services represent approximately 3 percent of the economy of the Toronto region and about 5 percent of the total wages earned by City of Toronto residents. While tourists also contribute to the output of the retail and transportation sectors to name only two, most of food services and entertainment is a purely local service, like dry-cleaning or day-care.

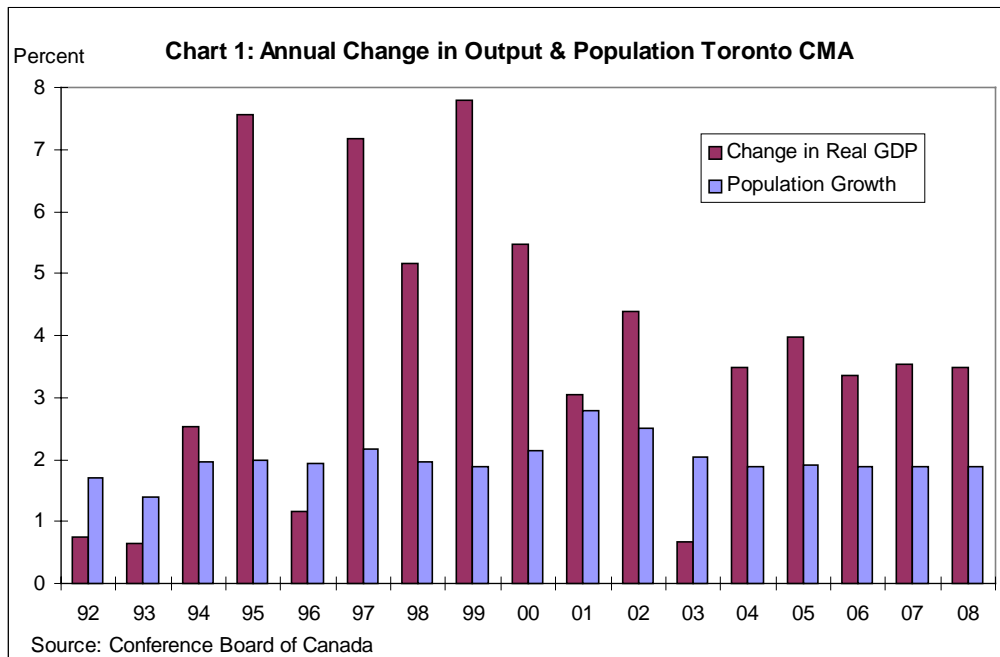
Business services are also largely a local service. While the Toronto region does export some legal/accounting/consulting/advertising services, mostly to the rest of Canada, Toronto is not New York or London. Michael Porter, in his analysis of regional economies, does not include the legal profession as a traded service, since his research shows that for most American cities, this is not an exported service.

Within the southern Ontario economic region, however, business services are a very important “export” from the Central Area to the rest of the region. Food Services as well as Arts and Entertainment are also important exports for the Central Area.

Toronto Region’s Economic Growth:

In 2003, Toronto’s economic growth slowed significantly. The economy of the Toronto Census Metropolitan area (CMA) had been growing at an average annual rate of 5.2 percent between 1994 to 2002, adding 50 percent to the total output of goods and services (GDP) produced in the Toronto CMA in just eight years.

However, according to the most recent Conference Board of Canada forecast (November 18, 2003), the Toronto CMA will post a growth rate (after inflation) of just under 0.7 percent for 2003. In fact, the Toronto area briefly dipped into recession (defined as two consecutive quarters of negative growth) in the second and third quarter of 2003.



The reasons for the slowdown in economic growth in 2003 include:

- SARS;
- the hydro blackout;
- a weaker than expected economic recovery in the United States;
- a build-up of inventories in early 2003, which had to be unwound; and
- the rapid appreciation of the Canadian dollar.

Since the Toronto CMA population is forecast to grow faster than output (2.0 percent versus 0.7 percent) in 003, output per person is likely to decline in 2003. Declines in output per person are of significant concern, since declining output leads to a less competitive economy, falling real wages, fewer jobs and ultimately a lower standard of living for City residents. The economy of the Toronto CMA must expand by at least 2 percent per year, just to keep up with population growth.

Looking forward, the Conference Board of Canada projects economic growth over the next five years at an average annual rate of 3.6 percent. That is lower than the growth rates experienced in the last few years, but it is much closer to the long-term sustainable growth rate for the Toronto economy.

The Toronto economy posted growth rates in excess of 5 percent in the late 1990's, because the Toronto region entered this expansionary phase after experiencing the deepest recession in Toronto since the 1930's. The chart above shows (similar to 2003) low growth rates in 1992 and 1993. However, unlike 2003, that slow growth period followed two years of negative growth in 1990 and 1991.

Toronto Region Compared to Other Major Canadian Centres

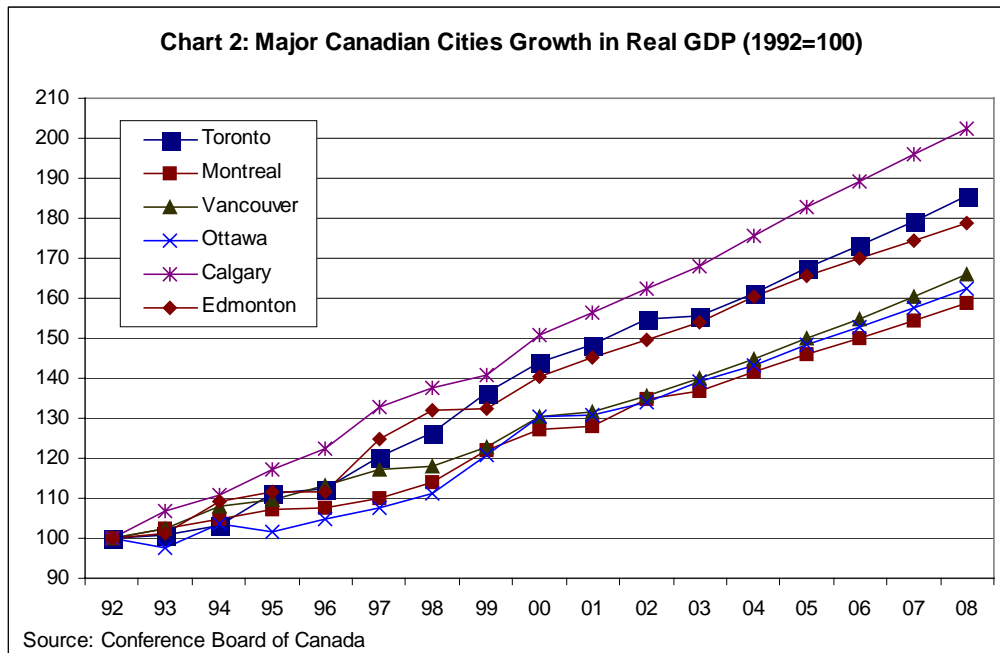


Chart 2 above compares the growth of the Toronto CMA with the other major urban areas in Canada. It is no surprise to most observers that Calgary has been and is forecast to be the only major CMA to outperform the Toronto CMA.

What may come as a surprise is that Edmonton is in third place and that Ottawa and Vancouver are barely out-performing Montreal.

Looking more closely at the chart shows that the exceptional performance of Calgary is largely accounted for by its rapid growth in the early 1990's, at a time when the Toronto CMA was going through its worst recession since World War II.

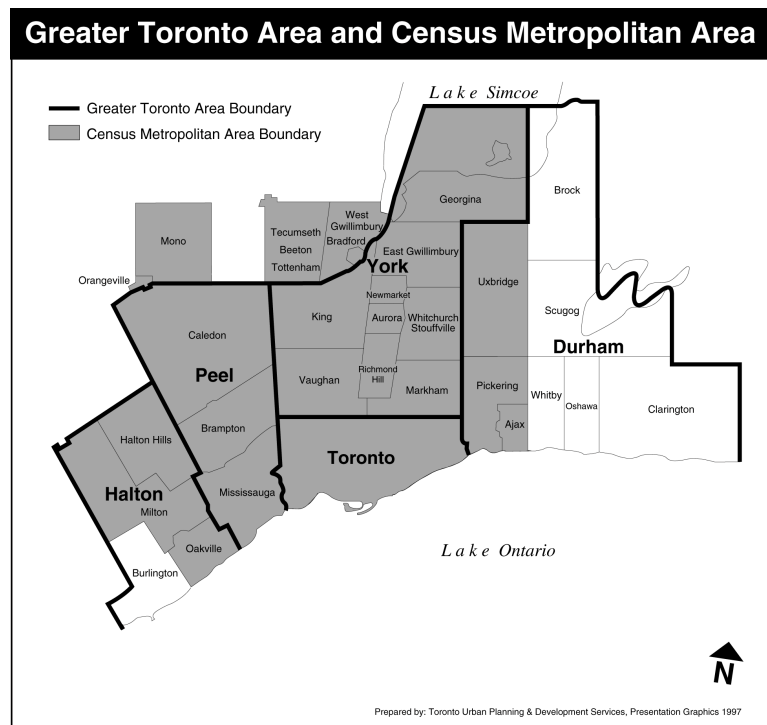
Table 3 below expands the analysis to the eleven largest Canadian CMA's and also shows the total GDP generated in each region in 2002. The economy of the Toronto CMA is larger than that of Montreal and Vancouver combined.

Table 3	2002 GDP	Average Annual Percent Change		
		1992-02	2002-03	2003-08
Halifax	11,336.0	2.5%	2.4%	2.2%
Montreal	116,903.1	3.0%	1.5%	3.0%
Quebec City	22,549.2	2.6%	2.2%	2.8%
Ottawa	40,845.6	3.0%	3.8%	3.1%
Toronto	209,543.5	4.5%	0.7%	3.6%
Winnipeg	22,591.1	2.4%	1.8%	2.6%
Regina	7,051.1	2.5%	-1.8%	3.0%
Calgary	49,576.9	5.0%	3.4%	3.8%
Edmonton	41,181.2	4.1%	3.0%	3.0%
Vancouver	69,164.8	3.1%	3.3%	3.5%
Victoria	9,000.2	2.4%	-1.3%	2.0%

Source: Conference Board of Canada, Metropolitan Outlook, Nov 19, 2003

City of Toronto in the Toronto Economic Region

The City of Toronto is at the heart of the Toronto region. Several definitions are used to describe the Toronto region. The two most commonly used definitions are the Toronto Census Metropolitan Area and the Greater Toronto Area. One could also draw a wider boundary than the GTA to include much of the Golden Horseshoe, which would be similar to the Consolidated Metropolitan Statistical Area (CMSA) definition used in the United States.



The economy of the Toronto-centred economic region has expanded very rapidly over the last decade. Much of this growth, however, has bypassed the City of Toronto.

Between the first quarter of 1994 and the first quarter of 2003, employment in the Toronto Census Metropolitan Area (CMA) increased by 36 percent. Employment trends mirrored population growth in this period, as City of Toronto residents experienced an increase in employment of 17 percent over this period.

Data on employment by place of work on a directly comparable basis are not available; however, based on the City’s employment survey, between 1994 and 2000 the number of jobs in the City of Toronto expanded by 10 percent. Since 2000, the number of jobs in the City of Toronto has declined by 3 percent.

City of Toronto Residents:

Most of the new employment generated in the Toronto region since 1994 as well as most of the population growth has gone to the rapidly expanding “905 regions” surrounding Toronto. Approximately one year ago (October 2002) the number of employed residents in the rest of the Toronto Census Metropolitan Area (outside the City) began to exceed the number of employed City residents.

There are now 1,315,800 City of Toronto residents that are employed as compared to 1,363,500 employed residents of the rest of the Toronto CMA (seasonally adjusted, three month moving averages for November 2003).

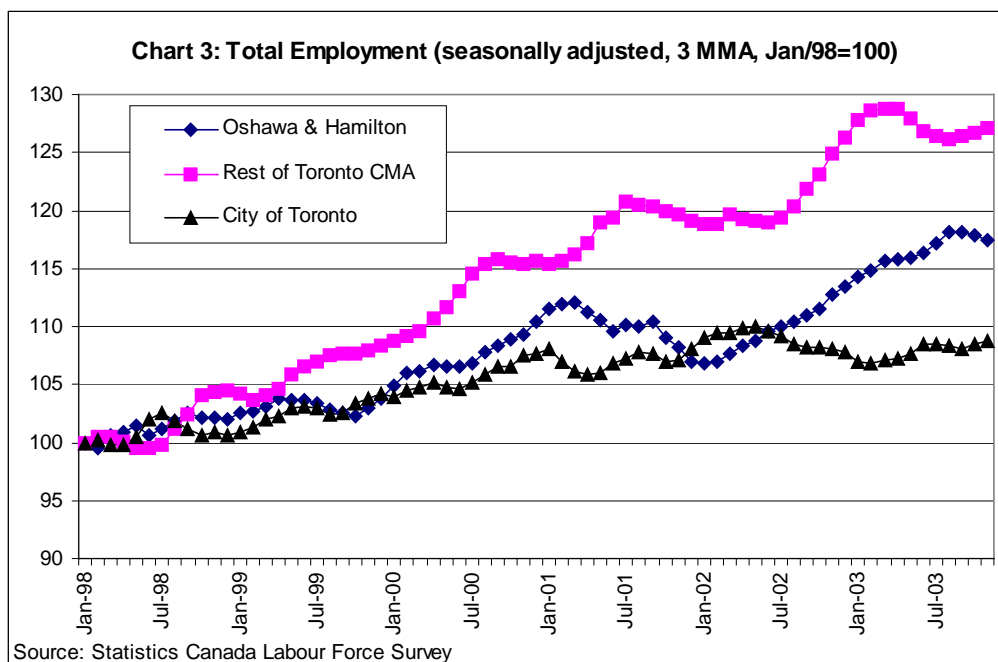


Chart 3 shows the total employed residents of the City of Toronto, the rest of the CMA and of the two adjacent CMA’s (Oshawa and Hamilton). These data are seasonally adjusted three month moving averages by place of residence and are indexed to January 1998.

The total number of employed City residents peaked in May 2002 (when 1,331,100 City residents were unemployed) and has declined slightly in the last 18 months. There are now approximately 9 percent more employed City residents than at the time of amalgamation (January 1998).

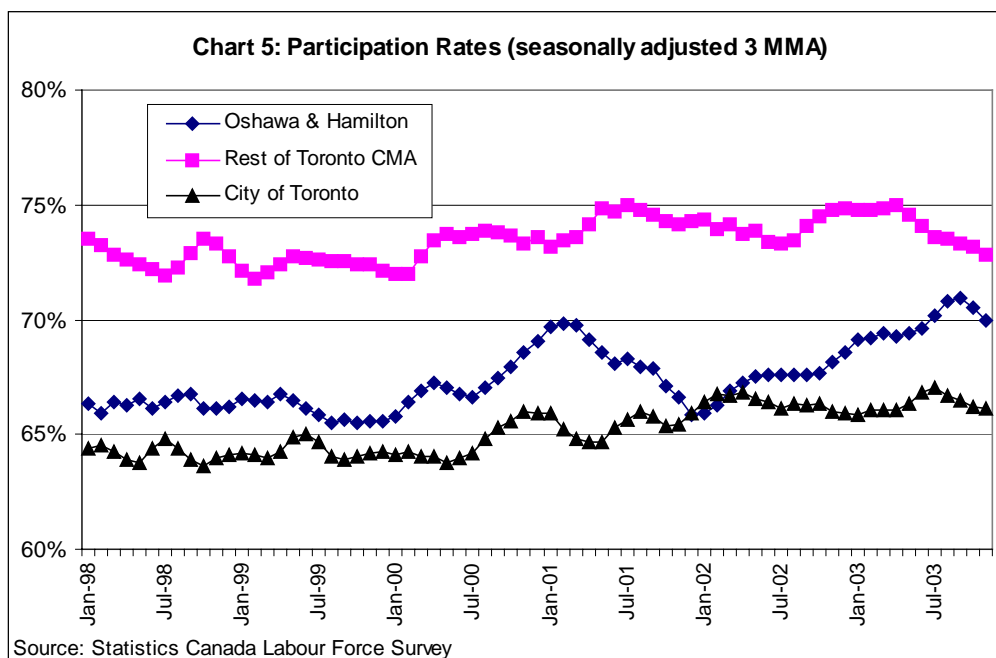
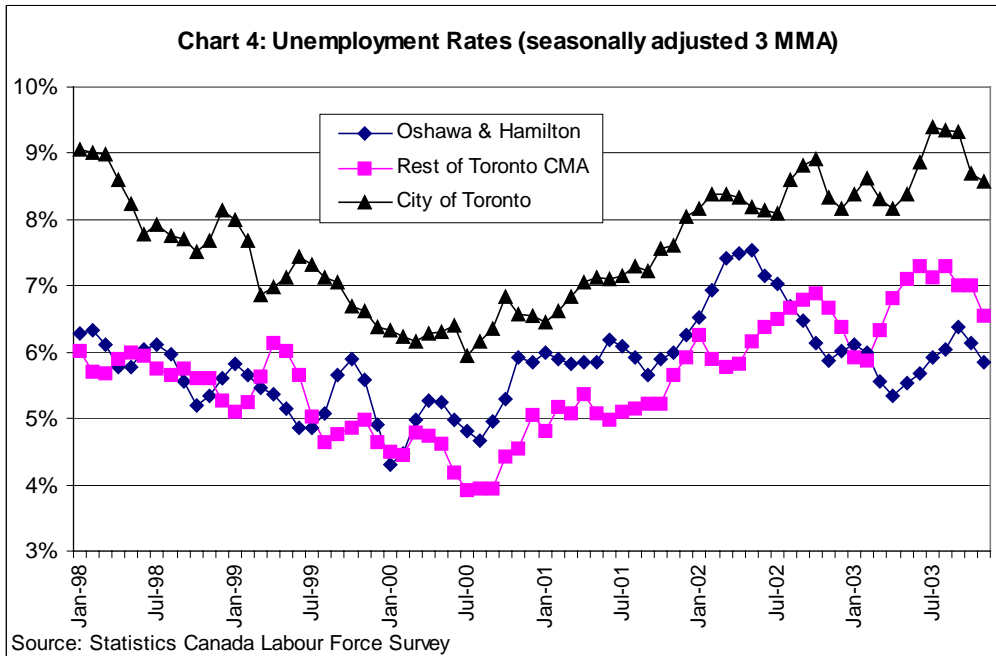


Chart 4 and Chart 5 compare unemployment rates and participation rates for City of Toronto residents and the residents of the surrounding areas. The unemployment rate for City residents has been very volatile in the last 18 months, and currently stands at 8.6 percent, seasonally adjusted three month moving average. This level is significantly higher than unemployment rates in the rest of the Toronto region.

Participation rates for City of Toronto residents have improved slightly over the last three to four years, which accounts for some of the increase in unemployment rates in the City. The most dramatic increase in participation rates over the last two years has been in the Oshawa and Hamilton CMA's, where it seems that people have been responding to strong job growth by entering the labour force.

There are now (November 2003) 125,000 City of Toronto residents who are unemployed. This is a significant increase since July 2000, when 80,000 City residents were unemployed, but it is considerably better than the situation in the summer of 1993 when 175,000 City residents were looking for work. All of these data are seasonally adjusted three month moving averages.

Table 4: Percent Part-time Employment

	City of Toronto	Rest of CMA	Oshawa & Hamilton CMA
1987	10.2%	13.6%	13.3%
1988	11.8%	13.2%	15.5%
1989	11.1%	13.9%	13.9%
1990	11.7%	13.6%	16.5%
1991	13.9%	14.2%	16.3%
1992	13.4%	15.3%	17.8%
1993	15.9%	16.5%	18.5%
1994	13.8%	15.5%	16.5%
1995	12.7%	15.4%	15.5%
1996	14.2%	15.4%	18.3%
1997	14.8%	15.2%	17.2%
1998	14.1%	14.8%	18.6%
1999	13.2%	14.7%	16.8%
2000	14.5%	14.1%	17.8%
2001	13.8%	14.1%	16.7%
2002	14.4%	13.7%	17.7%
2003	15.2%	14.3%	17.7%

Source: Statistics Canada Labour Force Survey

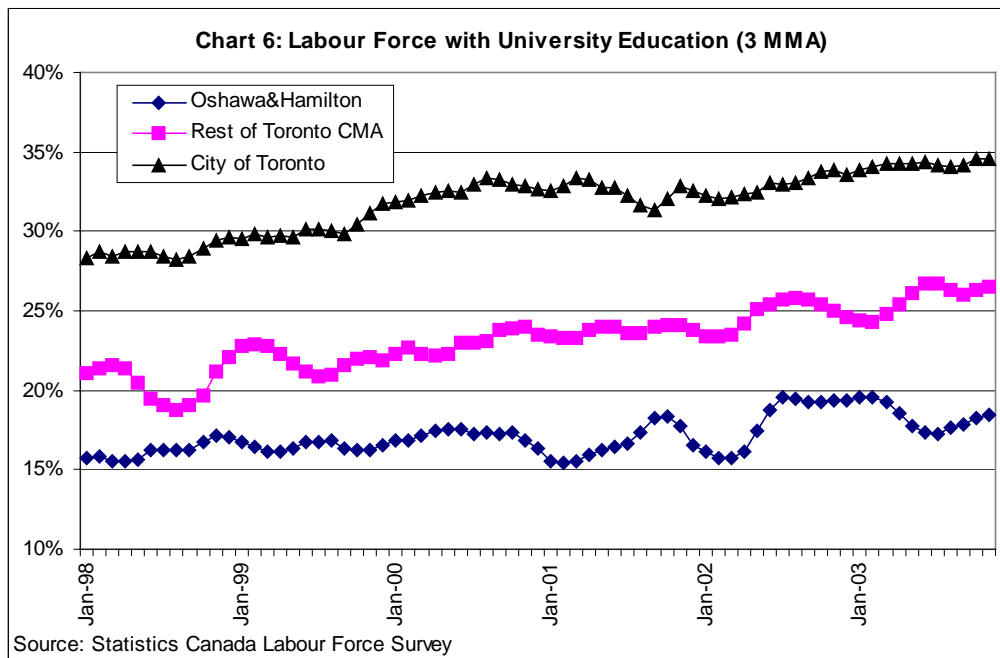
Table 4 shows full-time and part-time employment for City residents compared to residents in the surrounding regions. These data are for the third quarter and are not seasonally adjusted. Table 4 shows that the percentage of employed City residents working part-time has increased in the last two years, which mirrors the trend observed during the early 1990's recession. In absolute terms, more City residents are now working part-time than ever before; however, the share of part-time work is still a little bit lower than it was at its peak in 1993. The proportion of residents employed part-time in the surrounding areas has also increased, but not as quickly as for City residents.

Education Levels:

City of Toronto residents are better educated than residents of the rest of region and the rest of Canada. This is part of a trend that has been underway for at least a decade, and that represents a fundamental shift in the potential of City residents to produce the kinds of goods and services that are being demanded in the 21st century.

The age breakout of university graduates also tells a very interesting story. Unlike the rest of Canada, the City of Toronto's university graduates are much younger. A large part of this group is in the 25 to 34 age group. These people are establishing families and setting down roots. Increasingly, they are choosing to do so in the City of Toronto.

This group will be working for the next 30 to 40 years, which bodes very well for the future prospects of the City's economy in a world where increasingly the scarcest resource is knowledgeable and skilled workers.



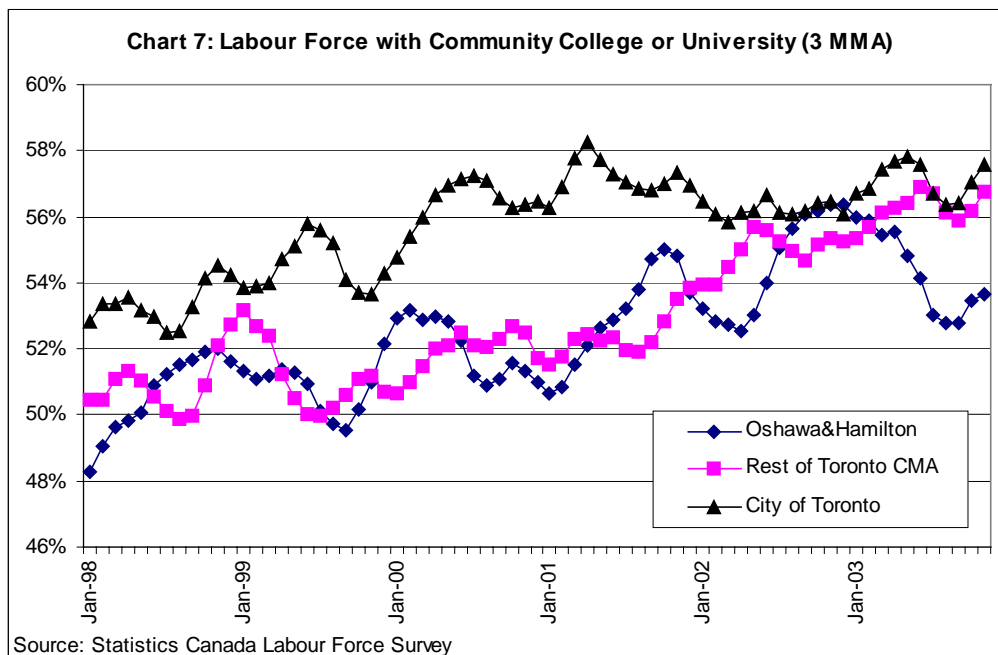


Chart 6 and Chart 7 compare the proportion of the labour force having attained college and university education in Toronto with the surrounding areas. A much higher share of the labour force in the City of Toronto has a university degree than elsewhere in the region and while education levels are rising throughout the region the gap shows no sign of closing.

The resident labour force in the rest of the Toronto CMA as well as the Oshawa and Hamilton CMA's (like the rest of the country for that matter) is, however, much more likely to have a community college diploma than the City's labour force. Chart 7 shows community college and university graduates combined as a share of the labour force. On this basis the rest of the CMA is catching up to City of Toronto education levels.

Oshawa and Hamilton residents were catching up until about a year ago, when their educational attainment levels started to fall dramatically, which is probably because the residents recently attracted to the labour force have lower educational qualifications than the existing labour force.

Employment in the City of Toronto:

The above comparison of the City of Toronto's economic performance with the surrounding region was based on Statistics Canada Labour Force Survey data, which is collected by place of residence. The other way of comparing the City with the rest of the region is by where people work.

The most comprehensive and timely data series that is available for the City of Toronto by place of work is the City's own employment survey. The Metro Toronto Planning Department and the City of Toronto's Urban Development Services Department have collected these data on a consistent basis since 1983.

According to the City’s employment survey, the number of jobs in the City expanded by almost 120,000 between 1994 and 2000. Since 2000, the number of jobs in the City has fallen each year for three years, and the total number of jobs has declined from 1,288,400 to 1,251,300, a decrease of 37,100 jobs in the last three years.

The 2003 employment survey results are the subject of a separate report from the Urban Development Services Department, which will be before the Planning and Transportation Committee early in 2004.

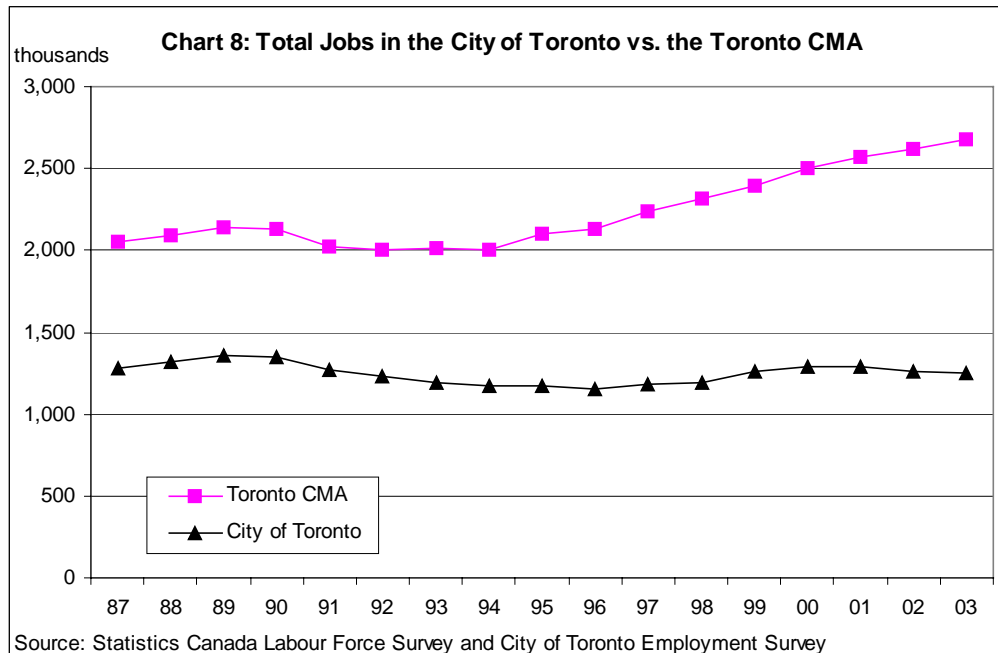


Chart 8 above compares the total number of jobs in the City of Toronto (from the employment survey) with the total number of employed residents of the Toronto CMA (annual averages from the Labour Force Survey). These data are not exactly comparable, but the difference in growth rates is so striking that the conclusion is impossible to ignore: the City’s employment growth rate is significantly lagging behind the rest of the region.

In fact, both the Labour Force survey and the City’s employment survey understate total employment by place of work. The Labour Force Survey data are collected by place of residence and there is a significant and growing number of people that commute into the Toronto CMA. According to the 2001 census, there were 163,000 more persons that commuted into the Toronto CMA to work than commuted out from the Toronto CMA each day in 2001.

Because the City’s employment survey is establishment based, it tends to understate the number of persons employed in two categories, both of which expanded very rapidly in the 1990’s: those who work at home and those that have no usual place of work. According to the 2001 census there were 74,750 persons who worked at home in the City of Toronto in 2001.

An even larger adjustment could be made for persons with no usual place of work. This group includes a diverse range of occupations including many people working in the construction trades, people who work in location filming, temporary help workers and many others. The number of City residents, who indicated no usual place of work increased by almost 93,000, between 1991 and 2001. According to the 1991 census, there were 13,700 City residents reporting no usual place of work; by 2001 this figure had grown to 106,345 persons.

Table 5: Occupied Office Space

	Central Area	Rest of Region	Regional Total
1997	69,475,965	61,406,578	130,882,543
1998	70,746,023	62,811,134	133,557,157
1999	70,905,646	64,998,945	135,904,591
2000	73,637,574	67,481,324	141,118,898
2001	72,552,337	70,216,783	142,769,120
2002	70,442,487	67,762,306	138,204,793
2003	70,259,815	68,107,912	138,367,727

Source: Royal LePage, 3rd quarter data

In order to corroborate the results of the City's employment survey, which indicate significant declines not only in manufacturing employment but also in office employment in the City of Toronto, Table 5 shows the total amount of occupied office space in the Central Area as well as the Toronto region.

According to Royal LePage, the total amount of occupied floor space in the Central Area (as defined by Royal LePage, this area includes the downtown and midtown office nodes) peaked in 2000, and has declined in each of the last three years. It is also notable that the amount of occupied office space started to decline sooner in the Central Area than the suburbs and unlike the suburbs has not yet started to recover.

Further Research:

Economic Development staff, in consultation with Planning staff, is proposing to report further to this committee early in 2004 on employment changes in the City of Toronto by industry. Staff will undertake an examination of the differences by detailed industry between the employment survey and the place of work tables from the census that we expect to receive from Statistics Canada in late January 2004. This analysis will attempt to reconcile the differences among the results from the City's employment survey, the Labour Force Survey and census data.

Economic Development staff also produce a monthly economic monitoring publication called Toronto Economic Indicators, which provides a quick overview of local economic indicators in a timely manner. The November 2004 edition is attached to this report for your information.

Conclusions:

The Toronto region has been out-performing the Canadian economy for the last eight years and, despite a small setback in 2003, the regional economy is forecast to continue to outperform the Canadian economy for some time to come.

It also appears that the City of Toronto has been lagging behind the rest of the region, particularly in the last three years when employment in the City seems to have declined. There are today approximately as many jobs in the City of Toronto as there were before the last recession and approximately the same number of City residents are employed today as were employed in 1989.

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(A copy of Attachment No. 1, entitled “Economic Indicators – November 2003”, referred to in the foregoing report was forwarded to all Members of Council with the January 14, 2004 agenda of the Economic Development and Parks Committee, and a copy thereof is also on file in the office of the City Clerk.)