STAFF REPORT
INFORMATION ONLY

Economic Dashboard

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To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
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SUMMARY

This report updates the Toronto Economic Dashboard. It provides a summary of the most recent data available at the time this report was prepared for key economic indicators benchmarking the City's economic performance.

Financial Impact

There are no financial implications resulting from this report.

DECISION HISTORY

At the January 28, 2011 meeting of the Economic Development Committee (EDC), staff made a presentation providing an overview of various trends and issues affecting Toronto's economy. After discussion among the committee members, the Committee Chair requested staff to submit a report updating the key indices that benchmark Toronto's economic health at each subsequent EDC committee meeting.

COMMENTS

The Canadian and the Toronto regional economy weathered the recession in 2000-2001 and the global credit crunch in 2008-2009 better than many other places. By 2010 the economy appeared to be back on track to a full recovery. Then several external shocks appeared in mid 2011, which caused consumer and business confidence to falter. The TSE fell by 13% in a period of two weeks and economic forecasters were forced to lower their growth forecasts.

The major external shock facing the Canadian economy today is the sovereign debt crisis in Europe, which started in Greece, but threatens to spread to several other European countries. The chart below shows yields for 10 year government bonds in several countries.

10 Year Government Bond Yields

	Jan 9, 2010	Jan 8, 2011	Jan 7, 2012
Canada	3.75	3.39	2.10
United States	3.80	3.48	1.99
Britain	4.14	3.66	2.04
Germany	3.38	2.94	1.92
Netherlands	3.56	3.14	2.29
France	3.61	3.33	3.33
Greece	5.65	12.59	36.62
Italy	4.05	4.64	6.90
Spain	4.00	5.31	5.66

Source: The Economist

Two years ago, the risk premium for Italian and Spanish bonds was less than one percent, compared to lower risk Euro sovereign bonds, such as Germany and the Netherlands. In fact, Italy and Spain paid less to borrow money than Britain did two years ago, because of their perceived advantage of being part of the Euro. Two years ago, the risk premium demanded by bond investors for Greek debt was just slightly higher than two percent.

By the beginning of 2011, one can see that Greece was already in big trouble, and the yields on some other Euro bonds were beginning to rise. The most recent data show that today the risk premium for Italian bonds is 4.98% compared to Germany and even France's risk premium has increased to 1.41%. These increases in borrowing costs could start a downward spiral, where increased debt charges cause the government to cut spending (or raise taxes), which in turn slows the economy and pushes the debt to GDP ratio even higher, which pushes up interest rates even higher.

On January 10, 2012, the Fitch bond rating agency said that Italy appears to be the greatest threat to the Euro zone and that it is likely that Italy's credit rating will be downgraded at the end of January. Italy has a very large debt burden, and its economy is growing very slowly. It is also facing very high borrowing costs, which puts further pressure on government budgets. The recent increases in borrowing costs apply not only to new funds raised in capital markets, but also to existing bond issues that are maturing and that need to be rolled over. Italy must roll over $400 billion of maturing bond issues in the next several months.

The economic outlook for the United States is more positive than for Europe, but the U.S. is also facing several fundamental issues of its own. In December, the U.S. economy created 200,000 jobs and the unemployment rate edged downwards to 8.5%, which is still high by historical standards, but a significant improvement nonetheless. Five months ago, the U.S. unemployment rate was 9.1%. It is, however, troubling that the Republicans and Democrats in the U.S. are still unable to agree on a plan to reduce the federal budget deficit. The U. S. 2012 budget estimated revenues of $2.6 trillion and expenditures of $3.7 trillion, for an annual deficit of $1.1 trillion. An estimated seven million residential foreclosures over the next few years will also continue to act as a fiscal drag on the U.S. economy.

As a major trading nation, these changes in global circumstances impact Toronto, Ontario and Canada. Ontario exports $168.4 billion annually and $134.6 billion of that goes to the United States. Despite some weakness in the Canadian dollar recently, it remains well above most estimates of purchasing power parity and above historical levels vis-à-vis the American dollar. While there is some evidence of growing '"buy American" sentiments south of the border, on December 7, 2012, Canada and the United States released the "Beyond the Border Action Plan", which should help ensure the free flow of goods and people across the border.

At the local level, the Ontario government is about to embark on a period of significant fiscal restraint, in an effort to balance the Provincial budget. This is a necessary measure, but it will also act as a drag on Ontario's economy. On the bright side, Toronto's housing market is still showing surprising strength. According to BILD, condominium pre-sales in November (2,456 high-rise units in the City of Toronto) set a new record.

The diversity of Toronto's economy is a key factor contributing to the city's continued relatively strong performance. The Financial Services, Food & Beverage, Information Communication &Technology, Renewable Energy, Professional & Business Services, Biotechnology, Education & Training, Design, Film & Digital Media, and Culture sectors, all make a strong positive contribution to Toronto's economy as individual industry sectors and create synergies that enable other industries to succeed as well.

The attachment to this report provides updated economic indices available at the date of this report. Highlights include:

Labour Force

The seasonally adjusted monthly unemployment rate for City of Toronto residents rose to 9.5% in December 2011. The City's unemployment rate has been creeping up for the last 6 months, reversing the strong downward trend seen from mid 2010 to mid 2011 and making the gap between the City of Toronto and three key comparators: 905, Ontario and Canada the widest it has been for some time.

A large part of the recent increase in the unemployment rate for City residents is because the labour force participation rate for City residents has also been rising. In July 2011the unemployment rate for City residents was 8.7%; by December 2011 the unemployment rate had risen to 9.5%; however, at the same the total number of employed City residents actually increased by 4,100.

The unemployment rate for the Toronto region remains higher than in many other urban regions in Canada. It is 2.0% points higher than in the "905" and the national average.

Building Activity

The City of Toronto continues to lead all North American municipalities in the number of high-rise buildings under construction (173). New York City (96) and Mexico City (88) are the closest municipalities to Toronto with the largest number of high-rise buildings currently under construction.

The total value of building permits issued by the City in the third quarter of 2011 was $1.2 billion and is down by $400 million from the same period last year. Industrial, commercial and institutional (ICI) permits are also down a little in Q3. Toronto's ICI permits have exceeded the value of all ICI permits issued in the rest of the region in each of the last eight quarters.

The first quarter of 2011 was particularly strong. Three institutional permits alone accounted for $1 billion in construction value in Q1 2011: Humber College – Lakeshore Campus, Mimico Detention Centre and Bridgepoint Hospital

Office Market

The overall office vacancy rate within the City of Toronto has been trending downward for the last one and a half years and is now a competitively low 5.4%, despite the recent completion of several large office buildings downtown. East Toronto has the highest office vacancy rates in the City, but they are down by 3.0% points from their peak in Q2 2010.

Housing

The Toronto Real Estate board reported 1,948 house sales in December 2011, at an average price of $474,270, down substantially from the previous month, but still almost $11,000 higher compared to a year earlier.

Retail Sales

The total value of retail sales in the third quarter of 2011 in the Toronto region was $16.7 billion, an increase of 6.8% over the same period last year. However, retail sales are not adjusted for changes in consumer prices, so part of that increase should be attributed to inflation.

CONCLUSION

Most of the key economic indicators for the Toronto area continue to show considerable strength, despite several troubling developments in Europe and mixed news at best from the United States. Economic forecasts for Ontario and Canada have been downgraded, but the consensus view, of the five largest Canadian banks, is that Ontario will continue to grow at about 2% per year in real terms over the next two years.

The most recent forecast (November 24, 2011) for the Toronto region by the Conference Board of Canada predicts that the Toronto region's economy will expand by 2.6% in 2012 and 4.0% in 2013. With population growing by about 1.8% per year, it is expected that GDP per capita will also continue to expand.

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ATTACHMENTS

Attachment: Economic Indices Presentation