TORONTO

STAFF REPORT INFORMATION ONLY

Economic Dashboard

Date:	April 10, 2012
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	

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

Just as the world was beginning to recover from what many U.S. economists called the "Great Recession" (2008-09), the European sovereign debt crisis began to threaten to engulf the world. Two years ago, Greece was already in trouble. The interest rate on Greek ten year government bonds had risen to 6.37%, which is a clear sign that investors had lost confidence in Greece's ability to pay its debts. The sovereign debt crisis also threatened to spread to several other European countries.

Fast forward two years from the beginning of 2010 and the European sovereign debt crisis has disappeared off the front pages on newspapers. In March 2012, Greece was finally forced to officially default, since all Greek bondholders could not be convinced to accept a "voluntary" restructuring of Greek debt. Nothing happened as a result of the Greek default. However, it would be premature to say that the European sovereign debt crisis has been resolved.

On Wednesday April 4, 2012, the Spanish bond auction failed to attract as many bids as expected, which caused yields on Spanish bonds to spike to 5.63%. That is substantially higher than a month ago (4.9%), although lower than in November 2011 (6.7%). Just as worrisome, the unemployment rate in Spain is currently at 23%. Even the most optimistic forecasts for Europe are now predicting several years of very slow growth.

In the United States, the federal government is also facing seemingly intractable fiscal imbalances; however, the US jobless rate has been falling in recent months and there are other signs that the U.S. economy is growing again. The latest US employment numbers (April 5) were reported as "disappointing", because payrolls rose by 120,000 instead of the anticipated 205,000.

One indication of the general improvement in economic conditions in the last six months is that both the federal and Ontario governments reported higher revenues in their recent budgets, than they had projected in their Fall economic statements. In late 2011, the downside risks to the economic outlook appeared very significant.

On March 26, the TD Bank observed that "while risks have subsided abroad, they persist and the domestic risks are intensifying." The principal domestic risks the TD indentified are the growing level of household debt and the overvaluation of home prices. The rise in household debt and house prices has been caused by historically low interest rates; however, the Bank of Canada is limited in what it can do. The US Federal Reserve has stated that it expects U.S. short-term rates to remain at close to zero until late 2014. Therefore, if the Bank of Canada raises interest rates, it risks making Canadian investments even more attractive to investors, which would cause the Canadian dollar to appreciate even further, and lead to lower exports and slower economic growth.

In this environment, the Ontario and Canadian governments both tabled modest austerity budgets at the end of March 2012. While both budgets promise expenditure restraint, neither one could be described as "slash and burn". The federal government felt that it had enough wiggle room to introduce several new initiatives: to reduce disincentives for workers, provide tax relief for hiring new workers, more funds for venture capital, changes to R&D incentives and more investment in First Nations communities. Similarly, the Ontario government felt that despite Don Drummond's advice to the contrary, we could proceed to implement full-day kindergarten and maintain the cap on class sizes in early grades.

While one could argue the merits of each of these initiatives, they all share one important characteristic: they are designed to improve future economic growth. Clearly, the payback for some of these initiatives (for example, improvements to early childhood education) are long-term, but there is solid evidence that these measures will encourage future economic growth.

The federal and provincial deficits are, unfortunately however, very real. The federal deficit is projected at 1.4% of Gross Domestic Product (GDP) in fiscal 2011/12 and the federal debt stands at 33.9% of GDP. Ontario has a deficit equal to 2.4% of GDP and the provincial debt stands at 37.2% of Ontario's GDP. In fiscal 2011/12, the combined deficit of the federal and provincial government in Ontario is projected at 3.8% of GDP, which is well in excess of expected GDP growth (about 2 percent). Running deficits in excess of GDP growth is a concern, since GDP is a good proxy for a country's ability to pay its debts. It is not sustainable over the long-term to run combined government deficits larger than the GDP growth rate.

As a major trading nation, changes in global circumstances impact Toronto, Ontario and Canada. Ontario exports $181.5 billion annually and $142.5 billion of that goes to the United States. The Canadian dollar remains well above most estimates of purchasing power parity and above historical levels vis-à-vis the American dollar. Notwithstanding the challenge posed by the high Canadian dollar, it will be necessary to expand exports over the next several years. Governments at all levels are retrenching, the high level of consumer indebtedness in Canada and the potentially overheated housing market, all leave us with few other options.

The Bank of Canada, Business Outlook Survey (April 9, 2012) shows that the investment intentions of firms remain "firmly positive". 46% of firms surveyed expect to increase (vs 22% decrease) their investment on machinery and equipment and 55% expect to increase (vs 12% decrease) their employment over the next 12 months.

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:

Gross Domestic Product

Two firms (Moody's and the Conference Board of Canada) produce quarterly economic forecasts for the Toronto CMA. Since Christmas, both forecasts have been downgraded for the Toronto CMA's real growth rate in 2012 and 2013, which seems counter-intuitive when we consider that the news from Europe has improved significantly.

The reason that the forecasts have been downgraded, while the economic outlook seems to be improving, is that large downside risks are described as "risks" to the base case forecast and are not factored into the forecast. The default of several European countries followed by the collapse of most of the European banks is a large downside risk to any current forecast, and most observers think the risk is lower today than it was six months ago; however, that risk was not factored into the forecasts in the first place.

Moody's is projecting real GDP growth of 2.1% in 2012 for the Toronto CMA and the Conference Board of Canada is forecasting 2.3%. Population is projected to increase by 1.6% in 2012; therefore, real GDP per capita is likely to increase modestly as well. Increasing output per capita supports rising incomes; however, these projected increases are rather modest.

Employment in Establishments

The City of Toronto Planning Division has been collecting data about businesses establishments in the City of Toronto (formerly Metro Toronto) since 1983. Detailed results from the 2011 survey are now available. As previously reported, total employment increased by 19,000 from 2010 to 2011. Half of this increase was in full-time employment and half was part-time.

The biggest increases were in institutional employment. Hospitals and other health services increased employment by 2,700 full-time positions and 800 part-time jobs. Community colleges increased their employment by 2,500 positions; however, nearly all of them were part-time positions.

Service employment increased by 4,700 in 2011. The largest increases were in: restaurants and bars (+1,500 full-time, 700 part-time) and hotels (+900 full-time, 300 part-time).

Office employment increased by 4,600. The largest increases were in business services, retail trade administration, provincial and municipal government and mining company head office employment. Total financial services employment was little changed from 2010 to 2011. Office employment would have increased even more, but for the reclassification of 1,200 jobs from transportation head office to transportation operations.

Other employment showed strong increases in on-site construction (+1,300 full-time jobs) and in part because 1,200 jobs were reclassified from transportation head office to transportation operations employment.

Manufacturing employment contracted in 2011. The largest declines were full-time jobs at food processing companies and the largest increases were full-time jobs in pharmaceuticals and other chemicals.

Retail employment increased by 1,000; however, all of the increase was in part-time positions.

Labour Force

The seasonally adjusted monthly unemployment rate for City of Toronto residents fell from 9.4% in February to 8.8% in March 2012, bringing this important indicator back to where it was in September, 2011.

It now appears that the brief spike in the seasonally adjusted unemployment rate for City residents was just a statistical anomaly. Normally, when one sees a spike that lasts more than one month, one thinks that there may be a trend; however, the labour force survey follows each household surveyed for six months; therefore, each month's sample is not independent from the preceding month, which is why these random spikes in LFS data last more than one month.

Even at 8.8%, however, the unemployment rate for City residents remains more than one percent above the levels currently faced by 905, Ontario and all Canadian residents.

Since last summer the City's labour force participation has been trending upwards, and the March numbers reinforce this trend. Today, 27,000 more City of Toronto residents are employed than were employed a year ago.

Building Activity

The City of Toronto continues to lead all North American municipalities in the number of high-rise buildings under construction (185). Mexico City (88) and New York City (80) 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 of Toronto in February 2012 was $720 million, which is well ahead of a year ago. It is also higher than the combined total value of permits issued by all the municipalities in the rest of the region

The value of Industrial, Commercial and Institutional (ICI) permits issued in the City of Toronto in February 2012 ($185.4 million) is below the level issued in February 2011, but it is more than in all the "905" municipalities combined.

Office Market

The overall office vacancy rate within the City of Toronto has been trending downward for the last two years and is now stands at 5.5% (2012q1), despite the recent completion of several large office buildings downtown. Vacancy rates downtown and along the Yonge St Core are below five percent.

Housing

The Toronto Real Estate board reported 2,686 house sales in February 2012, at an average price of $553,519 – up by $55,000 compared to a year earlier.

Total housing starts in the City of Toronto in 2011q4 was 4,519 units, which is roughly 45% of all housing starts in the Toronto region. Housing starts in the first two months of 2012 are 26% ahead of 2011.

Retail Sales

Total retail sales in 2011q4 in the Toronto region was $17.9 billion, which is a small increase from the same period the previous year.

CONCLUSION

Most of the key economic indicators for the Toronto area continue to show considerable strength. In addition, as Mark Carney, Governor of the Bank of Canada, said recently "While the European situation is far from resolved, the challenges have moved from the acute to the chronic." Economic forecasts for Toronto have been downgraded, but the consensus view is that Toronto will continue to grow at over 2% per year in real terms.

Just as external risks seem to be moderating, some observers are now suggesting that domestic risks are now increasing. We will explore the domestic risks (the growing level of public debt and the potential overvaluation of house prices) in a forthcoming edition of the Economic Dashboard.

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ATTACHMENTS

Attachment: Economic Indices Presentation