TORONTO

# 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

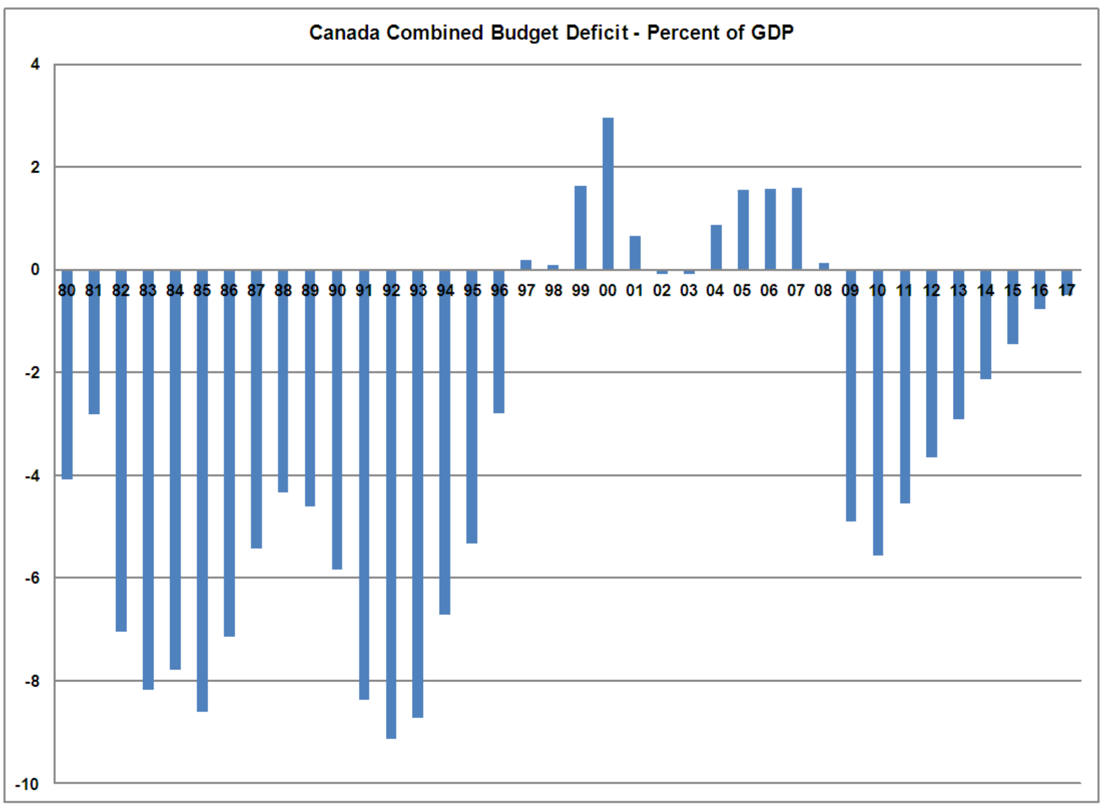
Despite the ever-present economic storm clouds on the horizon, Toronto's economy continues to muddle through and the principal risks to the forecast remain external.

Most observers identify three major external downside risks facing the Toronto regional economy. Two of these (the sovereign debt crisis in Europe and federal deficit in the United States) are related to government finances, so in the next section we compare Canada's fiscal position with that of several other OECD countries.

The third downside risk to the regional economy that has been identified is that growth in major developing countries is also starting to slow. Statistical data from China is notoriously unreliable; however, there is increasing evidence that inventory levels have risen rapidly and that manufacturing plants have already started laying off workers. This third risk could also be traced back, at least in part, to the need to reduce government deficits and the impact of fiscal retrenchment on the demand for Chinese goods.

## Government Budget Deficits

Chart 1 shows the combined budget deficits of all levels of government in Canada since 1980 with a forecast to 2017. The combined budget deficits, of all levels of government in Canada, were equal to 4.5 percent of total GDP in 2011. This is considerably worse than the ten years before 2008; however, it is not nearly as serious as Canada's fiscal position was in the late 1990's.



If the economy is growing by 2.0 percent per year in real terms and inflation is at 2.5 percent, a combined budget deficit of 4.5 percent is adding to government debt at a rate that is about the same as the annual increase in Canadians' ability to service that debt, since GDP is the total value of all goods and services produced in Canada. However, there is little room for error in that calculation.

If growth were to slow down, at current government spending levels, Canadian government debt would start to grow again, potentially re-creating the vicious cycle of ballooning government debt we experienced in Canada in the early 1990s. In 1995-1996, Canada's gross debt had risen to over 100% of GDP and our net debt peaked at 71% of GDP. Net debt is equal to gross debt minus government owned financial assets.

The size of government deficits in Canada in 2011 is a real issue; however, it is being addressed and markets are reasonably confident that even if all provinces do not meet their published targets, a plan is in place to significantly reduce budget deficits over the next few years.

Table 1 compares Canada's government finances in 2011 with that of other major OECD countries. All of these figures are expressed as a percentage of national GDP.

**Table 1: Government Revenues, Expenditures and Debt as Percent of GDP**

| Year=2011 | Expenses | Revenues | (Deficit) | Gross Debt | Net Debt |
|---|---|---|---|---|---|
| Canada | 42.7 | 38.1 | -4.5 | 85.0 | 33.3 |
| USA | 41.4 | 31.8 | -9.6 | 102.9 | 80.3 |
| Japan | 40.7 | 30.6 | -10.1 | 229.8 | 126.6 |
| UK | 45.7 | 37.1 | -8.7 | 82.5 | 78.3 |
| Australia | 36.6 | 32.3 | -4.3 | 22.9 | 7.8 |
| Germany | 45.6 | 44.6 | -1.0 | 81.5 | 56.1 |
| Denmark | 56.0 | 52.1 | -3.9 | 46.4 | 2.6 |
| Belgium | 53.5 | 49.3 | -4.2 | 98.5 | 83.2 |
| Netherlands | 50.0 | 45.0 | -5.0 | 66.2 | 31.8 |
| France | 56.3 | 51.0 | -5.3 | 86.3 | 80.4 |
| Italy | 50.0 | 46.0 | -3.9 | 120.1 | 99.6 |
| Portugal | 48.7 | 44.7 | -4.0 | 106.8 | 100.4 |
| Spain | 43.6 | 35.1 | -8.5 | 68.5 | 56.9 |
| Ireland | 44.1 | 34.3 | -9.9 | 105.0 | 95.9 |
| Greece | 49.7 | 40.5 | -9.2 | 163.3 | 163.3 |
| India | 27.1 | 18.5 | -8.7 | 68.1 | |
| Brazil | 38.8 | 36.2 | -2.6 | 66.2 | 36.4 |
| China | 23.6 | 22.3 | -1.2 | 25.8 | |

Source: International Monetary Fund, World Economic Outlook Database, April 2012

Table 1 shows that government budget deficits are a big problem in a large part of the world. Greece's fiscal position is well documented and has received a lot of media attention. Similar concerns have been raised about the fiscal position of Ireland, Spain, Italy and Portugal.

However, from the above table, it looks like the situation in Japan is worse than in Greece, and that the USA and the U.K. are not far behind. The US deficit is particularly troubling, because there does not seem to be any consensus on what to do.

## Canadian Banks in a Global Context

Recent newspaper reports about the record profits at Canadian banks in 2012q3 highlight an important strength in the Toronto economy. Financial services represented an estimated 14% of Toronto's regional economy in 2011 and the five major Canadian banks make up the lion's share of this output.

In 1998 the Bank of Montreal proposed a merger with Royal Bank and around the same time CIBC proposed to combine with the Toronto-Dominion Bank. The justification for the proposed bank mergers at that time was so that Canadian banks would be large enough to compete in global markets.

Table 2 shows the market capitalization of the fifty largest global banks by country, in 2003 and in 2012. Market capitalization (also known as market cap) is a company's share price times the total number of outstanding shares of the company. It represents the market's view of the net worth of the company.

Since January 2012, Canadian banks have continued to expand, both through indigenous growth and by purchasing assets from other troubled banks:

- In July, the Royal Bank of Canada completed its acquisition of the 50 percent stake ($1.1 billion) that RBC did not already own in the joint venture RBC Dexia from a Belgian bank.

- In August, Scotiabank announced that it is buying the Canadian operations of ING Direct Canada for $3.1 billion.

**Table 2: Fifty Largest Banks in the World by Country - 2003 & 2012**

| Country | Mkt Cap $b Dec 31, 2003 | | % of Mkt Cap in 2003 | Mkt Cap $b Jan 20, 2012 | | % of Mkt Cap in 2012 |
|---|---|---|---|---|---|---|
| Australia | 105.5 | 4 | 4.6% | 262.9 | 4 | 8.1% |
| Belgium | 45.0 | 2 | 1.9% | | | |
| Brazil | | | | 229.2 | 4 | 7.1% |
| Canada | 116.0 | 5 | 5.0% | 273.9 | 5 | 8.5% |
| China | | | | 859.8 | 8 | 26.6% |
| France | 128.0 | 3 | 5.5% | 54.2 | 1 | 1.7% |
| Germany | 47.0 | 1 | 2.0% | 39.2 | 1 | 1.2% |
| Hong Kong | 44.5 | 2 | 1.9% | 52.6 | 2 | 1.6% |
| India | | | | 24.5 | 1 | 0.8% |
| Italy | 75.5 | 3 | 3.3% | 29.0 | 1 | 0.9% |
| Japan | 136.5 | 4 | 5.9% | 143.7 | 3 | 4.5% |
| Netherlands | 37.1 | 1 | 1.6% | | | |
| Russia | | | | 59.4 | 1 | 1.8% |
| Spain | 99.0 | 2 | 4.3% | 110.3 | 2 | 3.4% |
| Sweden | 21.5 | 1 | 0.9% | 33.6 | 1 | 1.0% |
| Switzerland | 122.6 | 2 | 5.3% | 83.3 | 2 | 2.6% |
| UK | 426.3 | 6 | 18.4% | 310.6 | 5 | 9.6% |
| US | 913.4 | 14 | 39.4% | 661.2 | 9 | 20.5% |
| Top 50 Banks | 2,317.8 | 50 | | 3,227.3 | 50 | |

http://www.relbanks.com/worlds-top-banks/market-capitalization-2003

In 2003, the five largest Canadian banks represented 5.0% of the total market cap of the fifty largest banks in the world, by Jan 2012, that figure had risen to 8.5%. This seems like a relatively modest increase, until one notes that China and Brazil increased their combined share of the market cap of global banks from 0.0% to 33.7%.

American and British banks have seen their shares of the global market fall by close to half of what it was eight years ago. In fact, most of these changes took place in the last five years. We used 2003 as the starting point, because 2007 data were not readily available.

The five big Canadian banks had a combined market value that was less than the two largest Swiss banks in 2003. Eight years later, the five Canadian banks were valued at more than three times as much as the Swiss banks.

In 2003, no Canadian banks were among the 25 largest in the world; in 2012 three Canadian banks were in the top 25. Royal Bank is now in eleventh place globally and TD has moved from 39th place to 13th place globally. Please see Attachment 1 for the list of the top 50 global banks.

A note of caution has recently been sounded by the G20 about the size of the Canadian banking sector compared to our GDP. The total assets of the big five Canadian banks now makes up more than two times Canada's annual GDP, which is large by international standards. However, no comparison is possible with Iceland, where its three largest banks had assets of almost ten times Iceland's GDP in 2008, when Iceland had to ask the IMF for help bailing out its banks.

## Gross Domestic Product

Two firm's (the Conference Board of Canada and Moody's) produce quarterly economic forecasts for the Toronto CMA. According to the Conference Board of Canada's most recent estimate (August 22, 2012), the regional economy grew at 0.70% (after inflation), which is equal to an annualized rate of 2.8%, in the first quarter of 2012. This is slightly higher than the Toronto CMA's average quarterly growth rate (0.63% per quarter, or 2.6% at annual rates) over the last 25 years. Moody's estimates that the Toronto CMA economy expanded by 0.63% in 2012q1, which is equal 2.5% at annualized rates. Annualized rates are the rate at which a series would grow, if it were to grow for 4 quarters at the same rate as in the current quarter.

Looking forward, the Conference Board of Canada projects the Toronto CMA's growth rate falling below 0.50% in 2012q3 and then bouncing back to the 0.80-0.90% range. Moody's is more pessimistic, predicting three quarters of growth below 0.50% (2012q4-2013q2).

Even with continued positive economic growth, the Conference Board of Canada predicts that the unemployment rate for Toronto CMA residents will continue to rise until the third quarter of 2012, before starting to decline. Part of the projected increase in the unemployment rate is caused by rising labour force participation rates.

## Employment in Establishments

The City of Toronto Planning Division has been collecting data about business establishments in the City of Toronto (formerly Metro Toronto) since 1983. Detailed results from the 2011 survey were reported in the April 2012 Dashboard report. As previously reported, total jobs in the City of Toronto increased by 19,000 from 2010 to 2011. Half of this increase was in full-time employment and half was part-time.

## Labour Force

The unemployment rate of City of Toronto residents remains substantially higher than rates in the rest of the Toronto region and the rest of Canada. In August 2012, on a seasonally adjusted monthly basis, the unemployment rate of City residents was 2.6% higher than for all Canadian residents.

In August 2012, the seasonally adjusted monthly unemployment rate for City of Toronto residents increased slightly from 9.6% in July to 9.8% in August 2012. However, all of the increase in the unemployment rate in August was explained by an increase in the labour force participation rate of City residents.

The number of employed City residents increased slightly in August, and would have increased even more, if it were not for an inexplicable 10,100 person decline in the population aged 15+ in the City.

In the "905" region, the seasonally adjusted monthly unemployment rate increased substantially from 7.3% in July to 8.0% in August 2012. The 905 participation rate also increased, but not enough to account for all of the increase in the 905 unemployment rate in August 2012.

## Building Activity

The City of Toronto continues to lead the rest of North America by a considerable margin in the number of high-rise buildings under construction. In this issue of the Economic Dashboard, we have added another data source for tall buildings, which corroborates the Emporis data and also provides a breakout by building size.

The total value of building permits issued in the City of Toronto has declined over the last 3 months and now stands at half of the total value issued in the 905 municipalities.

## Office Market

The overall office vacancy rate within the City of Toronto has been trending downward for the last two years and it now stands at 5.4% (2012q2). Despite the recent completion of several large downtown office buildings, the downtown vacancy rate stands at 4.5%.

The vacancy rate in Toronto East (roughly the former municipality of Scarborough) has increased to 11.0%, which is even higher than the "905" average at 9.6% (2012q2).

## Housing

The Toronto Real Estate board reported 2,721 house sales in July 2012, at an average price of $500,934. Total sales are down from the same month last year, but are higher than they were in July 2010.

Housing starts in the City continued to increase in 2012q2. However, some slowdown is seen in the July 2012 figures and more a significant decline has been observed in 2012 in the pre-sales of high-rise condominiums as reported by Urbanation.

With 52,695 residential condominium units under construction in the Toronto CMA (Urbanation, 2012q2) and various press reports speculating about a housing bubble in Toronto, it is not unexpected and perhaps even a bit welcome that the frantic pace of condominium construction in Toronto is starting to slow down a bit.

### Retail Sales

Total retail sales in 2012q2 in the Toronto region was $17.5 billion, which is a small increase compared to the same period in the previous year.

## CONCLUSION

Most of the key economic indicators for the Toronto area continue to show considerable strength, despite mounting evidence that the global economy is slowing.

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## ATTACHMENTS

Attachment 1: Fifty Largest Global Banks
Attachment 2: Economic Dashboard Presentation