TORONTO

STAFF REPORT
ACTION REQUIRED

Economic Dashboard – Annual Summary, 2013

Date:	February 21, 2013
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	

SUMMARY

This report provides an annual summary of the data reported each month in the Toronto Economic Dashboard, which benchmarks the City's economic performance.

RECOMMENDATIONS

The General Manager, Economic Development & Culture recommends that:

1. The Economic Development Committee receive this report for information.

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. Staff was also requested to produce an annual summary of these indicators each year.

COMMENTS

The Toronto region's economy continued to expand in 2012, albeit rather slowly. It is estimated that total output (adjusted for inflation) produced in the Toronto region grew between 1.6% and 1.9% in 2012, which is roughly the same as annual regional population growth (1.7%). Therefore, output per capita (real GDP) remained essentially unchanged in 2012 in the Toronto region. In the long-run, personal incomes and government spending cannot increase more quickly than real GDP.

The unemployment rate for City residents remains higher than elsewhere in Canada, including the rest of the Toronto region. However, based on several other measures, it appears that the City (in particular the downtown) may have fared better than the rest of the region in 2012. For example, unlike most of North America, labour force participation rates for City residents are now higher than they were at the beginning of 2008, before what is now called the "Great Recession" in the United States.

TTC ridership continues to break records and there is more office space being constructed in Toronto (most of it downtown) than in any other North American city other than Mexico City. Housing price increases are moderating, but there does not appear to be any evidence for an impending housing market crash.

However, provincial and federal debt continues to grow at a rate that is substantially higher than nominal GDP growth, which is unsustainable in the long-run. The Ontario deficit for fiscal 2011/12 was $970 per capita, almost twice as high as the average for all Canadian provinces. There is also mounting evidence that the City needs to make major infrastructure investments.

On February 15, 2013, Statistics Canada reported that Canadian manufacturing sales dropped by 3.1% in December, which is the largest decline since May 2009. After adjusting for inflation, Canadian manufacturing shipments in 2012 were almost 15% lower than their level a decade ago.

The Canadian dollar remains close to parity with the U.S. dollar, which is well above most estimates of purchasing power parity and above historical levels. Most economic projections now assume that the Canadian dollar will remain at parity for the next 2-3 years.

The rest of the world continues to muddle its way through. Europe remains mired in recession; growth has slowed in developing countries; and, on January 30, 2013, the Bureau of Economic Analysis reported that the US economy contracted by 0.1% in the fourth quarter of 2012.

The attachment to this report provides an annual summary of the most important economic indices tracking the City's economy. Highlights include:

Gross Domestic Product (GDP)

The most comprehensive indicator of economic activity is real GDP. The term "real" means that the series has been adjusted for inflation. We have two forecasts for GDP for the Toronto CMA. Statistics Canada does not produce sub-provincial GDP estimates and the Conference Board of Canada and Moody's use different methodologies; therefore, not only do the two forecasts differ, but the historical series are also slightly different.

Using the average of the two GDP estimates, total output grew an estimated 1.8% in 2012, which is significantly lower than the 3.5% increase in 2010 and the 2.4% increase in 2011, but it is well above the growth rates achieved in 2008 and 2009. Looking forward, economic growth is expected to increase modestly over the medium term. Annual real GDP growth over the next four years in the Toronto CMA is expected to average about 2.5 percent.

Jobs in the City of Toronto

At the time of writing this report, 2012 City Employment Survey data were not yet available. If they are available before the meeting on March 5, 2013, staff will update the attached presentation. Detailed analysis of the 2012 Employment Survey data will be published in the next Economic Dashboard report.

Labour Force

Statistics Canada publishes monthly labour force statistics for all Canadian CMA's and provinces. In addition, the City of Toronto purchases a special run from Statistics Canada of labour force survey data for City of Toronto residents only, i.e. separate from the rest of the Toronto CMA. All Labour Force Survey data are collected by place of residence, and therefore represent "employed residents" and not "jobs".

After declining for two years, the annual unemployment rate for City of Toronto residents increased from 9.2% in 2011 to 9.6% in 2012. The 2012 unemployment rate for City of Toronto residents remains 1.2% higher than the average for the last 26 years for which we have consistent data. It is also significantly higher than in the rest of the Toronto CMA, the rest of Ontario and the rest of Canada.

The reason the unemployment rate for City residents rose in 2012 was that the labour force participation rate also rose. Participation rates in the rest of the Toronto CMA, the rest of Ontario and the rest of Canada all decreased in 2012.

The labour force participation rate for City residents now stands at almost exactly the same level as the average for the last 26 years (65.9% vs 66.0%). By comparison, in 2012 the labour force participation rate for "905" residents stood 4.3 percentage points lower than their 26 year average. In the United States, labour force participation rates have also declined sharply in recent years: the one year decline in the U.S. participation rate was 0.4%, the four year decline was 2.3% and the decline over the last 12 years in the U.S. was 3.4%.

The total number of employed City of Toronto residents rose by 19,200 in 2012, and today stands at 1,286,100, which is slightly lower than it was in 2008.

Building Activity

The City of Toronto continues to lead all North American municipalities in the number of high-rise buildings under construction (184). New York City (91) and Mexico City (88), which are in second and third place, combined have fewer cranes in the sky than the City of Toronto.

The total value of building permits issued by the City of Toronto in 2012 was $6.2 billion and is three times its level ten years ago; however, it is down slightly from 2010 and 2011. In the City of Toronto, industrial, commercial and institutional (ICI) permits are also down compared to the last two years, but are still at very high levels ($2.8 B). The 2011 total value of ICI permits for the City of Toronto was also pulled up by $1 billion, by three large institutional projects. The value of commercial permits issued in the City has remained in a fairly narrow range ($1.5-$1.8 B) for the last six years and was unchanged between 2011 and 2012.

Office Market

The office market in the Toronto Region seems to be moving in two opposite directions. Vacancy rates in the downtown continue to drop. Despite a small increase in the fourth quarter, the downtown office vacancy rate declined by 0.3% from 2011q4 to 2012q4. It now stands at 4.4%.

At the same time, vacancy rates in the suburbs and the rest of the City of Toronto (outside the downtown) are rising. Office vacancy rates in the "905" municipalities rose by 0.5% from 2011q4 to 2012q4 and are now over 10 percent. During 2012, office vacancy rates in the City of Toronto (outside the downtown) increased at a faster rate than outside the City, but they started at a lower level and remain lower than in the "905" suburbs.

Increases in vacancy rates in the City of Toronto outside the downtown, with 40% of the City's office stock also dragged up the City's average vacancy rate. After a significant decline in 2011 (-1.6%), the City of Toronto's average office vacancy rate increased by 0.2% in 2012 on a q4 to q4 basis.

In 2008q4, office vacancy rates in the "905" were 0.5% higher than in the City of Toronto. Four years later, the spread between suburban and City of Toronto office vacancy rates had increased to 4.6%.

Industrial

The City of Toronto has 281 million square feet of industrial space, which is more than any other GTA municipality and is 34% of the regional total. Industrial vacancy rates have declined in the City of Toronto over the last 3 years and now stand at 4.8%, which is 2.0% lower than in the suburbs (2012q3).

Housing

Housing starts in 2012 in the City of Toronto (25,416) are higher than they have been in over 20 years and now represent over 50% of all housing starts in the CMA. The resale housing market in the City also remains strong. Toronto Real Estate board reported 33,000 house sales in 2012 (down by 9% vs 2011), at an average price of $538,000 (up by 7% vs 2011).

The drop in housing resale activity can partly be attributed to the tightening of the federal government's mortgage insurance rules, introduced in July 2012, which reduced the maximum amortization period for government-backed insured mortgages from 30 years to 25 years, and reduced the maximum mortgage amount from 85% to 80%.

Looking into the future, housing starts are expected to moderate a bit. Data from Urbanation, which collects data on new condominium pre-sales in the Toronto region, shows that there were a total of 14,005 residential condominium units pre-sold in 2012 in the City of Toronto, which is much lower than 2011 when 20,886 units were pre-sold or 2010 when 16,668 units were pre-sold in the City of Toronto. However, it is not far off the average for the last five years (14,909).

Some concern has also been expressed that there will be a glut of small investor owned units in the next year or two as the units started in 2012 are completed. However, given the lack of purpose-built rental housing in the City and the very low vacancy rates in the Toronto region, there seems to be sufficient rental demand to absorb the increase in supply. According to CMHC, the rental apartment vacancy rate in the Toronto CMA in October 2012 was 1.7%, and the condo rental vacancy rate was even lower (1.2%).

Population Estimates

On February 6, 2013, Statistics Canada released July 1, 2012 population estimates for sub-provincial areas. The City of Toronto's total population is now estimated at 2,791,140. Statistics Canada also revised upwards (by 9,400 people), their 2011 estimate for the City's population. The City of Toronto is now the fourth largest municipality in North America, after Mexico City, New York and Los Angeles.

The City of Toronto's annual population growth rate has increased steadily for the last ten years. The City's population is now increasing at an annual rate of 38,000 people. The population chart in the attached presentation shows annual population change by component.

Over the last ten years, net international immigration to the City of Toronto has declined from 60,000 people per year to 46,000 people; however, that decrease has been more than offset by a very significant decrease in the rate of intra-provincial out-migration. Ten years ago, 75,000 more people moved from the City of Toronto to elsewhere in Ontario, than moved from the rest of Ontario to the City each year. By 2012, that figure had fallen to 23,000 people (on a net basis). The other two components of population change are: net inter-provincial migration which is negligible and natural increase (births minus deaths) which has been holding steady.

The change in net intra-provincial migration in Toronto has largely been at the expense of the rest of GTA, in particular Peel and York. The intra-provincial numbers are the same for 2011 and 2012, because there are no preliminary estimates for the current year and therefore Statistics Canada uses the previous year's figure.

Retail Sales

December 2013 retail sales data will not be available until February 22, 2013. Staff will update the attached presentation accordingly.

The total value of retail sales in the 11 months ending November 2012 in the Toronto region was $60.6 billion, which is an increase of 1.4% over last year. However, retail sales are not adjusted for changes in consumer prices, so most of that increase should be attributed to inflation.

CONCLUSION

The Toronto region's economy continued to expand in 2012, albeit rather slowly. It is estimated that total output (adjusted for inflation) produced in the Toronto region grew by approximately 1.8% in 2012, which is roughly the same as annual regional population growth (1.7%).

Based on several indicators, it seems that the City of Toronto, and in particular the downtown, may have fared better than the rest of the region in 2012.

The unemployment rate for City residents remains higher than elsewhere in Canada. However, unlike most of North America, labour force participation rates for City residents are now higher than they were at the beginning of 2008.

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ATTACHMENTS

Attachment: Economic Indices Presentation – Annual Summary, 2013