STAFF REPORT
ACTION REQUIRED

Economic Dashboard

Date:	November 12, 2013
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.

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.

COMMENTS

On November 8, 2013, Statistics Canada reported October 2013 Labour Force Survey (LFS) data that indicates that October is the second month of a very sharp change in many of the labour force indicators for city of Toronto residents, which is very different from recent results for the 905 area and that reverses a significant period of improvement.

The change is so sharp that it calls into question whether there is a real change in the local economy or whether there is a statistical aberration. City staff has contacted Statistics Canada to highlight these apparent data anomalies and to request that Statistics Canada review the September and October 2013 LFS results for city of Toronto residents.

Staff has also reviewed the other local economic indicators that are available and has found no evidence that would corroborate the results of the September and October 2013 labour force survey.

The two major global economic events, since the last Economic Dashboard report in September, were the announcement of a trade deal between Canada and the European Union and the events in the United States that involved shutting down all non-essential functions of the US federal government for 16 days and the political brinksmanship in the US congress regarding the "debt ceiling".

US Federal Debt Ceiling

On October 16, 2013 the US Congress agreed to a deal to reopen the federal government, raise the debt ceiling and avoid a sovereign default. However, this was a temporary solution. Unless the two parties can agree on a budget deal by January 15, 2014, the government will not have authority to spend, bringing another partial shutdown. If no action is taken by February 7, 2014, the US federal government will reach the new debt ceiling and risk defaulting on its debt again. http://www.economist.com/news/united-states/21588419-there-opening-deal-would-let-government-function-more-normally-where).

According to Standard & Poor's (S&P), the 16 day US federal shutdown reduced US GDP by $24 billion (equal to 0.14% of annual output). It also created additional economic uncertainty and may have been instrumental in dissuading the US Federal Reserve from slowing its bond purchasing program, known as quantitative easing. As a consequence, bond yields have declined in the last few weeks in the United States and Canada.

Comprehensive Economic and Trade Agreement (CETA)

On October 18, 2013, Prime Minister Stephen Harper announced that Canada and the European Union (EU) have reached an agreement in principle on a comprehensive economic and trade agreement (CETA). The agreement aims to eliminate approximately 98% of tariffs on both sides, as well as reducing non-tariff trade barriers. Before it comes into effect, numerous aspects of the agreement must still be negotiated and the final deal must be ratified by the Canadian and European parliaments, as well as the parliaments of all 28 member states in the EU.

In 2012, Canada imported $50.6 billion in goods from the EU and it exported $38.7 billion in goods to the EU. Ontario accounts for a large part of that total. In 2012, Ontario exported $21.0 billion in goods to the EU and imported $21.8 billion.
https://www.ic.gc.ca/app/scr/tdst/tdo/crtr.html?productType=NAICS&lang=eng

In addition to goods trade, it is estimated that Canada imported $21.6 billion in services from the EU and exported $17.9 billion in 2011. Over half of Canada's services exports to the EU consist of travel, transportation and tourism. The remainder is mostly business, commercial and financial services. The investment relationship is also highly important. In 2011, European investors held investments worth $305.1 billion in Canada, while Canadian direct investment in the EU amounted to $169.4 billion (Euros converted to Canadian dollars at historical average annual exchange rates).
http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/

An impact study, published in October 2008 and jointly funded by Canada and the EU, concluded that the CETA between Canada and the EU would increase EU's goods exports to Canada by $19.0 billion and Canadian goods exports to the EU by $9.8 billion. Services trade with the EU was also predicted to increase because of the CETA: Canadian imports from the EU by $7.5 billion and Canadian exports to the EU by $3.4 billion (Euros converted to Canadian dollars at the average annual exchange rate in 2008). http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141032.pdf

The October 2008 study also concluded that the CETA would increase Canadian GDP by $12 billion. The federal government's recent press releases regarding the CETA state that $12 billion in GDP "is the equivalent to adding almost 80,000 jobs in Canada". However, according to the same 2008 study, the direct impact of the CETA would be to increase Canadian imports by twice as much as exports. It is therefore possible that the increase in imports would eliminate more jobs in Canada than the increase in exports would create.

A further consideration, noted by Jim Stanford, economist for Unifor, Canadian imports from the EU are much more labour intensive than our exports to the EU.
http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/10/Out_of_Equilibrium.pdf

Table 1 shows Ontario's goods trade by industry with the EU. Overall goods trade between Ontario and the EU is roughly balanced. However, Ontario's major export to the EU in 2012 was raw materials from mining, which was offset by a very large trade deficit in manufactured goods.

Table 1: Ontario EU Trade by Industry, 2012				
	NAICS Code	Ontario Exports to EU ($m)	Ontario Imports from EU ($m)	Trade Balance ($m)
Agriculture, Forestry, Fishing and Hunting	**11**	**577.1**	**154.8**	**422.2**
Mining and Oil and Gas Extraction	**21**	**12,090.7**	**687.4**	**11,403.3**
Oil and Gas Extraction	211	n/a	107.4	-107.4
Mining (except Oil and Gas)	212	12,090.7	580.0	11,510.7
Support Activities for Mining and Oil and Gas	213	n/a	n/a	n/a
Utilities	**22**	n/a	**0.1**	**-0.1**
Manufacturing	**31-33**	**8,231.8**	**20,544.9**	**-12,313.2**
Food Manufacturing	311	147.9	805.2	-657.2
Beverage and Tobacco Product Manufacturing	312	16.5	682.9	-666.4
Textile Mills	313	8.6	71.8	-63.2
Textile Product Mills	314	5.2	51.2	-46.0
Clothing Manufacturing	315	41.3	233.5	-192.3
Leather and Allied Product Manufacturing	316	7.6	183.3	-175.7
Wood Product Manufacturing	321	13.8	95.9	-82.1
Paper Manufacturing	322	37.9	170.6	-132.7
Printing and Related Support Activities	323	32.6	47.8	-15.2
Petroleum and Coal Products Manufacturing	324	193.4	263.0	-69.6
Chemical Manufacturing	325	1,624.6	5,743.5	-4,118.9
Pharmaceuticals & Medicine	3254	394.8	4,143.7	-3,749.0
Plastics and Rubber Products Manufacturing	326	134.4	409.9	-275.5
Non-Metallic Mineral Product Manufacturing	327	31.8	304.9	-273.1
Primary Metal Manufacturing	331	1,559.5	740.2	819.3
Fabricated Metal Product Manufacturing	332	262.3	786.9	-524.6
Machinery Manufacturing	333	1,037.1	3,034.1	-1,997.1
Computer and Electronic Product Manufacturing	334	992.2	1,388.3	-396.1
Electrical Equip, Appliance and Component Mfg	335	325.6	882.6	-556.9
Transportation Equipment Manufacturing	336	1,264.9	3,526.4	-2,261.5
Motor Vehicle	3361	67.6	1,490.9	-1,423.3
Moto Vehicle Body & Trailer	3362	6.2	4.9	1.3
Motor Vehicle Parts	3363	110.6	897.5	1.3
Aerospace Products & Parts	3364	1,058.0	1,007.8	50.2
Railroad Rolling Stock	3365	0.5	26.7	-26.2
Ship & Boat	3366	1.7	11.4	-9.7
Other Transportation Equipment	3369	20.2	87.1	-67.0
Furniture and Related Product Manufacturing	337	32.3	146.1	-113.8
Miscellaneous Manufacturing	339	462.4	976.9	-514.5
Total All Goods Producing Industries (naics 11-31)		**21,018.34**	**21,753.40**	**-735.06**
https://www.ic.gc.ca/app/scr/tdst/tdo/crtr.html?productType=NAICS&lang=eng				

Even though we think of Ontario as the manufacturing heartland of Canada, Ontario's exports to Europe are dominated by raw materials and Ontario's manufactured goods imports from Europe are 2.5 times larger than Ontario's manufactured exports to the EU.

The major benefit of the CETA would likely be that European manufactured goods would become less expensive in Canada, which would benefit consumers and potentially Canadian manufacturers purchasing production machinery. Canadian GDP would expand because the reduction in the prices of imported goods in Canada would result in Canadians being able to spend more (creating economic activity) or save more.

The considerations outlined above also led the Royal Bank of Canada (RBC) to conclude that the CETA, "will likely provide a net benefit to Canada over the longer term."
http://www.rbc.com/economics/economic-reports/pdf/other-reports/CETA.pdf

Unfortunately, detailed services trade data by province are much less readily available than goods trade statistics. Examining Canadian services trade statistics shows that over half of services exports to the EU are a broad range of "commercial services", including management services; financial services; research and development; computer and information services; architectural, engineering and other technical services; and, charges for the use of intellectual property. Many of these services are concentrated in the city of Toronto; therefore, the CETA may represent an opportunity for firms supplying these services to expand output and employment in the city of Toronto.

Europe

It now seems that in 2013q2 Europe finally emerged from a recession that had lasted for six quarters; however, European growth rates are still very low and unemployment rates remain very high. Even with positive growth forecast in q3 and q4, the annual growth rate in 2013 for the 28 member EU is likely to be zero and -0.4% for the 17 member Eurozone. http://europa.eu/rapid/press-release_SPEECH-13-877_en.htm?locale=en

On November 7, the European Central Bank (ECB) reduced the main refinancing rate by a quarter of a point to 0.25 %, in response to lowered growth forecasts and a drop in the inflation rate in the 17 country Eurozone in October (0.7% at annual rates).

In addition, a recent ECB report on the Eurozone banking sector revealed that between 2008 and 2012 the size of the banking sector by assets fell 12%, and that while credit to households has begun to grow modestly, which should support domestic demand, the credit available to non-financial corporations and unincorporated businesses has continued to contract over the past few months.

One of the reasons the European Commission gave for downgrading their European growth forecast is that emerging countries are also facing slowing growth rates, albeit from a higher starting point than Europe. China, India and Brazil are all growing much more slowly today than they were growing three years ago.

Bank of Canada Monetary Policy Report

On October 23, 2013, the Bank of Canada cut their projected Canadian GDP growth rate to 1.6% this year, 2.3% in 2014 and 2.6% in 2015. Furthermore, the statement removed the Bank’s warning that a rate hike is inevitable. The Bank's rationale was that the composition of the global economic expansion has become slightly less favourable for Canada, and that "in Canada, uncertain global and domestic economic conditions are delaying the pick-up in exports and business investment". The Bank's decision has affected the value of the Canadian dollar, which is now entrenched below parity.
http://www.bankofcanada.ca/publications-research/periodicals/mpr/

Ontario Economic Statement

On November 7, 2013, the Ontario Ministry of Finance released the 2013 Economic Outlook and Fiscal Review, which lowered the economic growth forecasts for Ontario in 2013 (1.3%) and 2014 (2.1%) by 0.2%, compared to the forecasts in the May 2013 Ontario budget.

Ontario's budget deficit will increase next year, from $9.2 billion in 2012/13 to $11.7 billion in 2013/14. The net debt to GDP ratio is also forecast to increase from 37.4 percent in 2012/13 to 39.3 percent in 2013/14. The net debt to GDP ratio is projected to peak at 40.5 percent in fiscal 2015/16.

The Ontario Fall Economic Statement also promises that the Province will "review" the Commission on the Reform of Ontario’s Public Services recommendation to move towards a single uniform Business Education Tax (BET) rate, which would help equalize the level of commercial and industrial property taxes across the GTA, by increasing commercial and industrial education property taxes in areas, like the 905, that continue to benefit from historical BET rates that are well below the provincial BET target rate.

The attachment to this report provides a 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 two historical series are also slightly different.

Using the average of the two forecasts, the economy of the Toronto region is expected to grow by 2.3% in 2013, 2.9% in 2014 and 3.1% in 2015. In 2016 and 2017 growth rates are expected to decline slightly.

Since the regional population is growing by 1.7% to 1.8% per year, these growth rates imply that real GDP per capita will also continue to increase modestly.

The current Moody's forecast is more optimistic than the Conference Board of Canada forecast and the differences between the two forecasts cannot be attributed to a difference in timing. Both forecasts were prepared in late August or the beginning of September.

Labour Force

Statistics Canada produces labour force survey data each month with a three week lag from data collection to publication. These survey data are collected by place of residence and are available for sub-provincial areas, including the City of Toronto and the Toronto region (CMA), as well as the rest of Ontario and Canada.

Until two months ago, labour force indicators for city of Toronto residents had been very positive for the last two years. Two years ago (September 2011) the labour force participation rate for city of Toronto residents started to rise, then seven months later (April 2012) the city's unemployment rate also began to fall.

On a seasonally adjusted monthly basis, between April 2012 and August 2013, the unemployment rate for city of Toronto residents fell by 2.9 percentage points and the labour force participation rate increased by 2.6 percentage points.

In the last two months, the unemployment rate has increased by 2.7 percentage points, giving up 93% of its gains over the previous sixteen months. The city's labour force participation rate actually increased in September 2013, but then declined in October. The labour force participation rate in October still stands 1.6 percentage points above where it was in April 2012.

On a seasonally adjusted monthly basis, the unemployment rate for city of Toronto residents was 9.8% in October 2013, which is far higher than the 905 (7.2%) and the Canadian average (6.9%).

Of course, the key question is: How much of the deterioration in labour force statistics in the last two months is a result of sampling error and how much represents real trends? Looking at the labour force survey charts in the attached presentation, shows that the series for city of Toronto residents and 905 residents are much more volatile than the series for Ontario and Canada.

Between May 2010 and July 2010, the seasonally adjusted monthly unemployment rate for city of Toronto residents dropped from 11.1% to 8.7%, a decrease of 2.4 percentage points in two months. The following month the seasonally adjusted unemployment rate bounced back by 2.3 percentage points.

TTC Ridership

One of the best datasets to verify trends in total employment in the city of Toronto is TTC ridership. The TTC collects data on average weekday ridership on a monthly basis, which is a better indicator of transit demand than total monthly passengers, because the number of working days in each month varies from year to year.

Average weekday TTC ridership increased in September and again, based on preliminary data, in October 2013. The increase in the average weekday ridership (not seasonally adjusted) was 0.9% in September and 2.9% in October, compared to the same month a year ago, which supports the thesis that the last two months' of city LFS data may not reflect real economic trends.

A number of other local indicators are highlighted below.

New Jobs Advertised

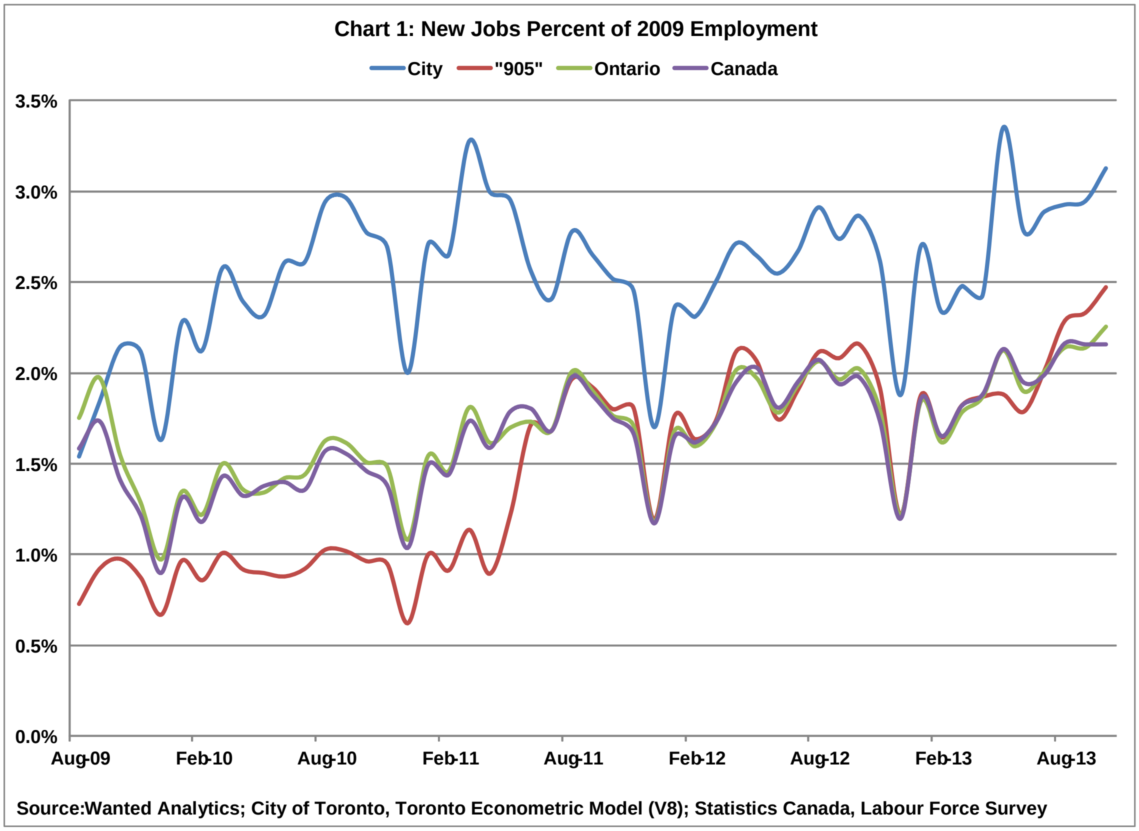
The Labour Force Survey gives analysts a profile of employment and the demand for jobs (ie unemployed persons); however, there is very little information from Statistics Canada about the supply of new jobs. Therefore, the Economic Development & Culture Division purchased access to Wanted Analytics database of electronic job advertisements.

Wanted Analytics collects data from electronic job boards like Workopolis and Monster.com. It then eliminates duplicates and classifies the jobs by location and occupation. Industry is also coded, but the industry field is not very complete, because many job ads do not specify industry sector with any degree of accuracy.

Chart 1 (below) shows the number of electronic job advertisements in each area normalized for total employment in that area at the beginning of the period. Chart 1 shows that the ratio of jobs ads to existing employment is substantially higher in the city of Toronto than in other jurisdictions in Canada.

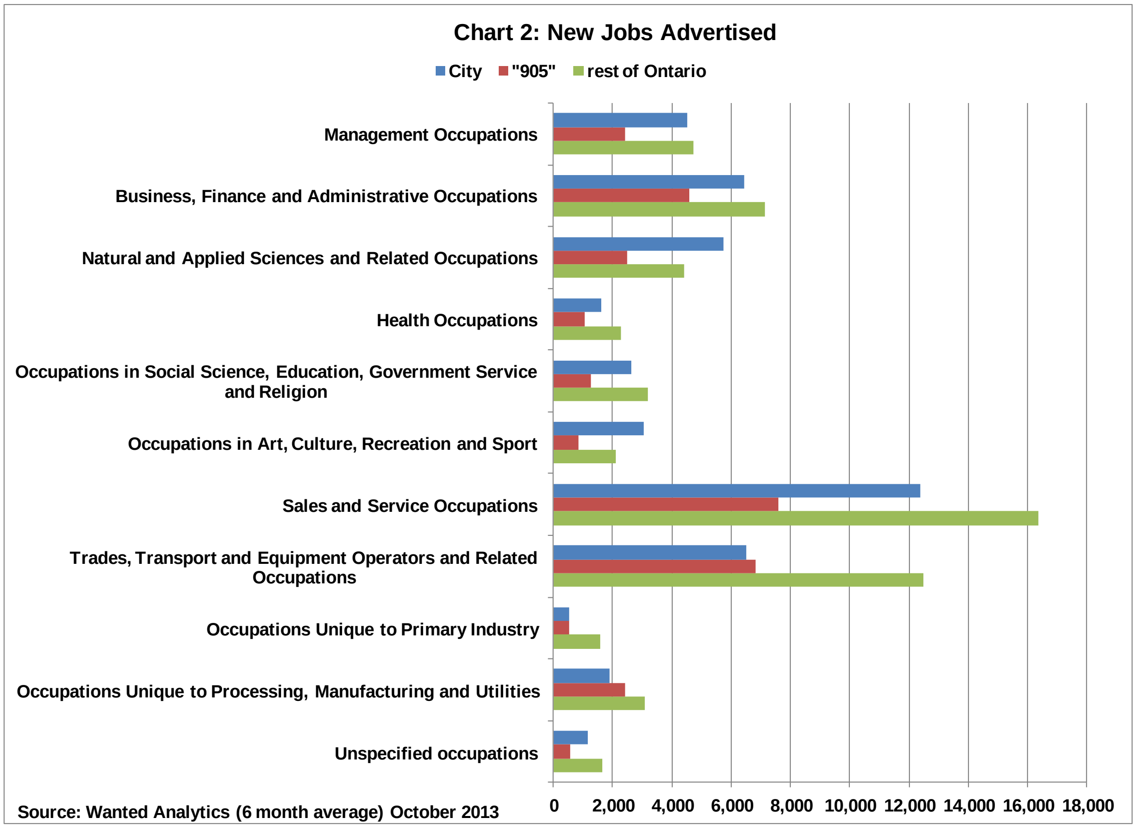
Over the last six months, there was an average of 46,500 new jobs advertised each month in the city of Toronto. Jobs in the city of Toronto accounted for 34.2 percent of all new jobs advertised in Ontario each month. This compares very favourably with the city of Toronto's share of existing jobs in Ontario (23%).

Part of the reason that there are a disproportionate number of new job advertisements in the city of Toronto may be that there are a number of jobs that are advertised as "Toronto and Area"; these jobs have been classified as city of Toronto jobs in the Wanted Analytics database. However, it appears that there are relatively few (467 per month on average) new job ads classified as "Toronto & Area" since 2005, which is only 1.0% of all city of Toronto job advertisements (48,427 in October 2013).



Another possible explanation for the disproportionate number of new job advertisements in the city of Toronto is that employers in small towns are less likely to use Internet job boards to fill vacancies, since in many cases they would already personally know everyone that works in the industry in the local area. However, that explanation does not help to explain the difference between the city and the 905, which leaves one with the possibility that the city of Toronto's labour market is currently going through a dynamic growth phase, which appears to be at odds with the last two months' LFS data.

Chart 2 shows the distribution of new jobs by occupation in the city, 905 and the rest of Ontario (ie Ontario outside the Toronto CMA). Several occupations are over-represented among new jobs in the city of Toronto. These include "management occupations", "business, finance and administrative occupations", "natural and applied sciences and related occupations, health occupations", "occupations in social science, education, government services and religion", "occupations in art, culture, recreation and sport", as well as jobs in "sales and services occupations". Many of these new jobs that are concentrated in the city of Toronto are higher status, pay more and require more education than the average across Canada.



Building Activity

According to Emporis.com, there were 164 high-rise and mid-rise buildings under construction in the City of Toronto on November 1, 2013, which is lower compared to a year ago[1] (183 buildings). However, Toronto remains far ahead of any other North American city.

Data from Skyscraper.com allow us to compare Toronto with other North American cities by the size of buildings under construction. Comparing Toronto with New York City, we see that in the case of the very largest buildings, New York City has slightly more 50+ storey buildings under construction than Toronto; however, Toronto has more buildings under 50 stories.

The city of Toronto has a total of 4,449 floors under construction, which more than the combined total for New York City, Mexico City and Vancouver, which are ranked second, third and fourth in terms of buildings under construction.

[1] Data were not available for November 2012. Comparisons were made with October 2012.

The total value of building permits issued in the city of Toronto in September 2013 increased by 72.6% over September 2012. In the first nine months of 2013, the city of Toronto issued $5.9 billion of building permits 20.6% higher compared to the first nine months of 2012. In contrast, 905 municipalities had a 27.8% decline in the total value of building permits for the first nine months of 2013 compared to last year.

Residential permits issued in the city of Toronto in the nine months of 2013 ($3.6 billion) exceeded the first nine months of 2012 ($2.9 billion) by more than a 25%. Year-to-date commercial permits also increased substantially over 2012, mainly due to a substantial jump of 149 % in the value of the permits issued in the third quarter of 2013 over same period in 2012. Only the value of institutional permits declined for the first nine months of the year in the city. The increase in value for industrial permits was broad based within the city (29.1%) and in 905 municipalities (54%).

In the 905 municipalities, residential permits issued in the first nine months of 2013 declined substantially from last year ($5.3 billion to $3.4 billion). 905 commercial permits also declined in the first nine months of 2013, from $1.1 billion in 2012 to $987 million in 2013.

The building permit data in the attached presentation are three month averages, in order to smooth the monthly fluctuations in these data.

Office Market

The office vacancy rate in the city of Toronto increased to 5.7% in 2013q3, from 5.3% in 2013q2, which was its lowest level in four years. At the same time, 905 office vacancy rates increased to 10.8%, their highest level since 2004q4.

Within the city of Toronto, vacancy rates remain much lower downtown than elsewhere; with Toronto East having more than twice as high vacancy rates (10.8 %) as the downtown (4.6%).

At the end of 2008, office vacancy rates in the 905 were 0.5% higher than in the city of Toronto. By 2013q3, the spread between suburban and City of Toronto office vacancy rates had increased to 5.1%.

Total occupied office space declined in the city of Toronto in 2013q3, by 788,000 square feet, which sounds like it would corroborate the LFS results; however, while 788,000 square feet is a lot of office space, at an average of 230 sq ft per worker, the change in occupied office space in the city in 2013q3 is consistent with a drop in employment of only 3,400 workers. By comparison, according to LFS, there were 57,000 fewer city of Toronto residents employed in October, compared to two months earlier.

Housing

After a record year in 2012, housing starts in the city of Toronto and in the rest of the Toronto region plunged in 2013. Total housing starts in the first nine months of 2013 in the Toronto CMA, as reported by CMHC (23,511 units) are down by 36% compared to the first nine months of 2012. The largest declines are in apartment starts in the city of Toronto. In the first nine months of 2013, there were 50% fewer apartment starts in the city of Toronto compared to a year ago.

A large part of the apparent decline in Toronto housing starts in 2013 is because 2012 was an exceptional year for housing starts in the city of Toronto and the Toronto CMA. Currently, housing starts roughly match household formation in Toronto, which implies a balanced market.

The city of Toronto's share of regional housing starts in the first nine months of 2013 was 45%, which is down from the city's 52% share in the first nine months of 2012, though it remains well above the city's share of regional starts ten years ago (25%).

Another reason for the slowdown in housing starts in 2013 is that there are more units under construction today in the Toronto CMA than ever before. While the number housing starts is down significantly in 2013, the number of residential units under construction continues to rise. In September 2013, there were 67,915 residential units under construction in the Toronto CMA, and two thirds of them (45,672 units) were in the city of Toronto.

While residential pre-sales in the GTA showed some signs of recovery in September 2013 when they were up by 4.4 % over September 2012, the year-to-date total sales remained the lowest for the past ten years. 1,204 new high-rise units were pre-sold in the GTA in September, and two-thirds of them were in the city of Toronto.

MLS residential re-sale data from TREB showed a strong improvement in October 2013 when sales jumped by 16.8% over the same month a year ago in the city of Toronto. MLS sales and average prices exhibit strong seasonality, so one cannot compare units sold and prices from month to month. The average house price in the city of Toronto in October 2013 was 10.1% ($54,619) higher than a year ago.

Retail Sales

Year-to-date total retail sales as of August 2013 are 1.3% higher compared to the same period of last year in the Toronto CMA. This increase is largely due to a substantial bounce in total sales for the months of July and August when sales surged by 5.7% and 6.1% respectively on a year-over-year basis. The largest percentage increases in retail sales in the last year are in specialty food stores (5.3%) and furniture stores (4.7%), while convenience store sales had the largest decline (-15.7%).

CONCLUSION

After two years of strong labour force survey results, the total number of employed city of Toronto residents appears to have decreased by 57,000 in the last two months, pushing the unemployment rate up to where it was over a year ago, on a seasonally adjusted monthly basis.

On the other hand, new jobs advertised, as tracked by Wanted Analytics, show strong demand for labour in the city of Toronto. In the last six months, the city of Toronto, with 23% of Ontario's jobs, accounted for 34% of net new job advertisements.

Other key local indicators also seem to contradict the LFS results. TTC ridership is up significantly in the last two months. According to Cushman and Wakefield, total occupied office space in the city of Toronto declined in 2013q3; however, the decline would have to be orders of magnitude larger to corroborate the LFS data. Pre-sales of new residential units are down significantly in 2013, but average MLS house prices continue to rise and retail sales show considerable improvement in the last two months.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation – November 12, 2013