

Economic Dashboard

Date:	January 10, 2014
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

For many people in southern Ontario, December 2013 will be remembered as the year that the power went out. Over 300,000 Toronto Hydro customers lost power during the ice storm shortly before Christmas, and some went without power for more than a week, as Hydro crews worked around the clock to restore power.

Many people were significantly inconvenienced and the city may have lost a significant portion of its tree canopy, which will have some longer-lasting effects on quality of life in the city. The economic impact of the ice storm was, however, relatively modest, and significantly less than the impact of the 1998 ice storm in Eastern Ontario and Quebec.

Retail sales in Toronto were likely lower in December than they would have been in the absence of the ice storm, because some Christmas presents did not get purchased. However, since most of the retail spending in the city is by city and regional residents, the loss of retail spending is likely to be offset by other spending, including cleanup costs, by local residents.

While the timing of the ice storm could not have been much worse for many retailers, for most other businesses, the week of Christmas is traditionally a very slow time of year. Therefore, the loss of output was much smaller, than it would have been if the ice storm had occurred a month later.

Some businesses (for example: hotels, winter weather supply stores and vehicle repair firms) saw an increase in revenues as a result of the storm. Late December is traditionally the slowest time of the year for hotels in Toronto; however, several downtown hotels were at capacity this year.

Global Growth

The global composite Purchasing Market Index (PMI) for December 2013 was released by Markit on Jan 6, 2014 and it shows little change from November, which implies the global economy continues to grow at a solid pace.

Growth is not, however, evenly spread around the world. The highest growth rates in the PMI were recorded in Ireland, the UK and the US, which matches several other indicators. Germany and Japan are also growing strongly and, according to the PMI, growth in Spain actually accelerated in December. China, Russia and Brazil are growing slowly, Italy stabilised, and France and India registered further contractions.

<http://www.markiteconomics.com/Survey/PressRelease.mvc/ebfdf95d51b2401aae0936330ea3bd7e>

The Canadian manufacturing PMI indicates that growth in Canada slowed in December. Though no sign of a contraction is evident in Canada, the United States is now growing faster than Canada.

United States

The US economy grew at a faster rate than expected in Q3 2013. GDP increased at a 4.1% annualized rate in Q3, significantly higher than the 2.5% expansion recorded in Q2 2013. The unemployment rate fell to 7.0% in November from 7.8% a year earlier; however, most of the decline was because the labour force participation rate continues to fall. Job growth in the US is still relatively soft, and the national office vacancy rate remains at 16.9%. On the other hand, US housing starts recorded a post-recessionary high in November 2013.

In Washington, both the House and the Senate passed a \$1.01 trillion budget deal, which should prevent another government shutdown for the next two years. While the US federal budget will remain a drag on the economy, the effect will be smaller, compared to a scenario with no deal. According to one estimate, the 2014 budget will be a drag of about 0.5% of GDP, compared to 1.5% in 2013. www.economist.com/news/united-states/21591602-new-budget-deal-makes-another-government-shutdown-unlikely-making-nice

On December 18, 2013, the Federal Reserve decided to scale back its monthly bond purchasing program from \$85 billion to \$75 billion, which is the first step towards normalizing the Central Bank's monetary policy. The decision by the US Federal Reserve to taper its monthly bond purchases will put upward pressure on US interest rates and downward pressure on Canada's currency, which is already down by 7% in 2013.

Europe

Economic growth in Europe remains slow and spotty. The Markit Eurozone PMI® Composite Output Index increased in December. However, private sector employment in the Eurozone fell for the twenty-fourth consecutive month in December, though the decline was marginal and the smallest seen over this period. www.markiteconomics.com/Survey/PressRelease.mvc/d92ab787877e4484849a94b75c6ebfff

Another major concern is that the Eurozone credit crunch, which remains a very serious matter. In November 2013, loans to non-financial companies in the Eurozone fell at an annual rate of 3.9%, its highest level in more than ten years. In Spain, commercial credit is contracting at an annual rate of almost 20%.

Gross Domestic Product (GDP)

Canada

The most comprehensive indicator of economic activity is real GDP. The term "real" means that the series has been adjusted for inflation. In Canada, real GDP increased 0.3% in October over September, up for a fourth consecutive month. Output of the goods producing sector rose by 0.4%, which was driven by a very healthy increase of 1.3% in manufacturing. Output of service producing industries grew by 0.3% mainly due to increases in wholesale trade and transportation and warehousing.

<http://www.statcan.gc.ca/daily-quotidien/131223/dq131223a-eng.pdf>

Toronto Region

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, 2.8% in 2014 and 3.0% 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 slightly 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 November or early December 2013.

Labour Force

Arguably, the most comprehensive and timely survey-based indicator that is available for the local economy in Toronto is the Labour Force Survey (LFS). This monthly survey is collected by place of residence and is available for the City of Toronto and the Toronto region (CMA), as well as Ontario and Canada.

After two years of very strong LFS results, four months ago these data for city of Toronto residents deteriorated dramatically. The seasonally adjusted unemployment rate for city residents appears to have jumped from 7.1% in August to 9.8% in October 2013. The November results showed a considerable improvement; the unemployment rate fell to 9.2%. Then the December LFS data pushed the seasonally adjusted monthly unemployment for city residents back up to 10.1%, wiping out all of the improvements made in the last two years.

The labour force participation rate for city of Toronto residents did not deteriorate as much as the unemployment rate, but it also dropped sharply in October 2013, though it has recovered a bit since then. It now stands at the same level it was a year ago and remains above the national average.

It will take a few more months to determine whether the observed deterioration in LFS results for city of Toronto residents truly represents economic conditions or whether it is the result of sampling variability. 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.

In September and October 2013, the jump in the unemployment rate for city of Toronto residents was not matched by increases in the rest of Canada. However, in December 2013, unemployment rates rose across the board. For example, in December 2013 the seasonally adjusted monthly unemployment rate for all Ontario residents rose from 7.2% to 7.9%, an increase that was almost as large as the increase for city of Toronto residents

Monthly LFS data are not readily available for all CMAs, but a comparison of the seasonally adjusted three month average unemployment rates for major Canadian CMAs reveals that the Toronto CMA has the highest unemployment rate at 8.4%. The urban regions with the lowest unemployment rates are not surprisingly located in western Canada – Calgary (4.7%) and Edmonton (5.5%).

Building Activity

According to Emporis.com, there were 111 high-rise and mid-rise buildings under construction in the City of Toronto on January 6, 2013, which is significantly lower compared to a year ago (184 buildings). However, Toronto still remains 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 total value of building permits issued in the city of Toronto in November 2013 increased by 120.7% over November 2012. In the first eleven months of 2013, the city of Toronto issued \$7.6 billion of building permits, which is 24.7% higher compared to the first eleven months of 2012. In contrast, 905 municipalities had a 22.2% decline in the total value of building permits for the first eleven months of 2013 compared to last year.

Residential permits issued in the city of Toronto in the first eleven months of 2013 (\$4.2 billion) exceeded the same period of 2012 (\$3.3 billion) by more than a quarter. Year-to-date commercial permits also increased substantially over 2012, mainly due to a

substantial jump of 244% in the value of commercial permits issued in the last five months of 2013 compared to the same period in 2012. The value of institutional and industrial permits declined for the first eleven months of the year in the city by 36.4% and 21% respectively.

In the 905 municipalities, residential permits issued in the first eleven months of 2013 declined substantially from last year (\$6.2 billion to \$4.5 billion). Non-residential permits also declined in the first eleven months of 2013, from \$2.6 billion in 2012 to \$2.3 billion 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 vacancy rates that are more than twice as high (10.8 %) as 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%.

Housing

After a record year in 2012, housing starts in the city of Toronto and in the rest of the Toronto region plunged in the first eleven months of 2013. Total year-to-date housing starts in 2013 in the Toronto CMA, as reported by CMHC (30,784 units) are down by 29.8% compared to the same period of 2012. However, this is still well above the long-run average for the Toronto region. Housing starts in October 2013 were 3.5% higher than a year ago, and November's housing starts were only marginally lower (-2.5%) compared to last year.

Year-to-date housing starts in the city of Toronto are also down substantially (-27.6%) compared to 2012, but are 62.7% higher than the average for the last 25 years. After posting a small increase year-over-year in October 2013, housing starts in the city of Toronto declined by 12.8% in November 2013 over November 2012.

The number of residential units under construction continues to rise. As of November 2013, there were 46,750 residential units under construction in the city of Toronto, an increase of 6.4% over November 2012.

Looking ahead to 2014, CMHC is forecasting that housing starts in the Toronto CMA will be marginally lower (-0.3%) compared to 2013. This decline will be the result of lower starts in the single-detached (-3.1%) and apartment (-2.8%) subsectors, whereas the semi-detached (10%) and row/townhouse (11.9%) submarkets are expected to record robust growth.

Pre-sales of new residential units are also showing signs of recovery. After several months of slow activity, residential pre-sales registered a modest increase of 4.3% in November 2013 over same period of last year in the city of Toronto. 1,566 new high-rise units were pre-sold in the GTA in November, and 1,291 of them were in the city of Toronto.

After three months with no new condo project openings, four new residential condo projects opened in the Toronto region in December 2013: two are downtown, one is near Bloor and Lansdowne and the fourth is in the 905.

Residential re-sale data for the city of Toronto continue to show strong growth in both units sold and prices. The average house price (\$541,771) in the city of Toronto in December 2013 was 9.6% percent higher than a year ago and total units sold increased by 7.1% over December 2012. The strong sales increase was mainly due to elevated demand for townhouses (13.2% increase in sales) and for condo apartments (20.7% increase in sales). In the meantime, the biggest price gains were in the detached (18.9%) and semi-detached (15.9%) submarkets.

Retail Sales

After considerable weakness in the beginning of 2013, retail sales in the Toronto CMA posted year-over-year increases averaging 5.0% from July 2013 to October 2013. Year-to-date total retail sales as of October 2013 are, however, only 1.9% higher compared to the same period last year in the Toronto CMA, which is barely ahead of inflation.

The largest increases in retail sales in the last 4 months of 2013 compared to the same period a year ago are in: motor vehicles and parts (12.7%), building materials and garden equipment and supplies (10.7%) and specialty food stores (10.8%).

CONCLUSION

It seems that the economic recovery is taking hold in the developed world, including in Canada. The Toronto region's economy continued to expand in 2013, albeit fairly slowly. The Toronto CMA economy is expected to grow by 2.3% in 2013.

Some local indicators that have been soft recently, such as retail sales, condominium pre-sales and the condominium resale market have started to show encouraging signs of improvement, which bodes well for Toronto's economic growth in the near future.

The number of high-rise and mid-rise buildings under construction in the city has fallen, but remains ahead of any other North American city.

After two years of strong Labour Force Survey results, the unemployment rate for city residents jumped from 7.1% in August to 9.8% in October 2013. The November numbers showed a considerable improvement, and then in December the unemployment rate for city residents jumped again to 10.1%. This may be a sampling variability issue, as other local economic indicators do not seem to corroborate this trend.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation – January 2014