STAFF REPORT
ACTION REQUIRED

Economic Dashboard

Date:	August 8, 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

The first section of this report presents an overview of recent global economic events, which is followed by an overview of the Toronto region's export industries and a review of major economic indicators for the Toronto economy.

Global economic growth experienced a significant decline in the first quarter of 2014. According to Bank of Canada's most recent Monetary Policy report, "many of the factors contributing to slower growth in the first quarter appear to be country-specific and their effects are likely to be transitory".

The Bank of Canada (BOC) expects global economic growth to increase over the next two years; however, the Bank's growth forecasts have been lowered since their last forecast (April 2014). The total output of goods and services produced globally is projected to increase by 2.9% in 2014, 3.6% in 2015 and 3.7% in 2016.
http://www.bankofcanada.ca/wp-content/uploads/2014/07/mpr-2014-07-16.pdf

United States

US economy growth shrank in 2014q1 by 2.1%, but this slowdown was largely weather-related, as severe snowstorms led to lower construction activity, consumer spending and temporary disruptions in supply chains. In 2014q2, the Bureau of Economic Analysis preliminary estimates show that economic growth rebounded to 4.0% (at annualized rates).

Largely because of the slowdown in 2014q1, the Bank of Canada is predicting that the US economy will grow by only 1.6% in 2014 instead of the 2.8% real growth rate projected in April. The BOC still expects that US GDP growth will increase to 3.7% in 2015 and 3.8% in 2016.

The US manufacturing PMI eased to 56.3 in July from 57.3 in June (a reading above 50.0 indicates an improvement in business conditions, whereas readings below 50.0 signal deterioration). Manufacturing output expanded at its slowest rate in three months. While payroll numbers rose for thirteenth successive month, the employment growth rate eased for the first time since April.
http://www.markiteconomics.com/Survey/PressRelease.mvc/3d6537dbfe864b79bd872077f8fed299

The services PMI was unchanged at 61.0 in July from the series record high in June. New business and employment growth rates both expanded at slower pace, and input price inflation eased in July.
http://www.markiteconomics.com/Survey/PressRelease.mvc/85edf9371b6f400186c65d9cfe3041ae

Europe

In its July 2014 Monetary Policy Report, the Bank of Canada downgraded its growth forecast for the Euro Area from 1.1% to 0.9% in 2014. BOC now expects somewhat stronger growth in 2015 (+1.4%) and 2016 (1.7%).

The most recent Flash Markit Eurozone PMI® Composite Output Index marginally increased from 52.8 in June to 54.0 in July, a three month high (a reading above 50 suggests that the economy is expanding). However, new order growth slowed slightly, particularly in manufacturing partially due to increased geopolitical tensions in Ukraine.

According to Markit chief economist, "business activity picked up again in July to suggest that the economy is growing at one of the strongest rates we have seen in the past three years. However, even with the resumption of stronger growth, the survey data suggest the region's GDP is expanding at a modest pace of approximately 0.4% per quarter. Importantly, this growth is not fast enough to encourage firms to take on staff in sufficiently large numbers to have a meaningful impact on unemployment. The July survey once again saw only very modest job creation."
http://www.markiteconomics.com/Survey/PressRelease.mvc/c2dc947fd9f74fa6a2de939f06d47a08

Rest of the World

Japan's real GDP growth rate increased in the first quarter of 2014 by 6.7% (at annualized rates); however this jump was mostly due to consumers pulling forward demand, before the April 2014 increase in the value-added tax from 5% to 8%. The BOC marginally upgraded its outlook for Japan's annual economic growth in 2014, from 1.2% to 1.3%.

China's growth rate has slowed to its weakest rate since 2009, and economic growth projections were slightly downgraded by the BOC to7.2% in 2014, 7.0% in 2015 and 7.1% in 2016.

Growth in the Rest of the World (outside the US, Europe, Japan and China), which accounts for 47% of global GDP, is also expected to be slower than previously anticipated. The BOC projects that Rest of the World economies will grow by 2.9% in 2014, instead of the 3.2% growth rate projected in April.

The BOC also slightly reduced its expected growth rate for the Rest of the World in 2015, from 3.8% to 3.7%. The BOC still expects that GDP growth for the Rest of the World will improve to 3.8% in 2016.

Canada

At annualized rates, real GDP increased by 1.2% in the first quarter of 2014. This was the slowest quarterly growth since 2012q4. Output of the goods producing sector rose by 0.6%, which was driven by a very healthy increase of 2.4% in mining, oil and gas extraction. Output of service producing industries grew by 0.3%, led by growth in finance and insurance sector and the public sector (education, health and public administration combined), while output in the arts and entertainment sector declined.

In its most recent Monetary Policy Report, the BOC has marginally downgraded their economic growth forecast for the Canadian economy for 2014 (2.2% vs. 2.3%) and 2015 (2.4% vs. 2.5%). The slower growth in 2014 will be due to lower than previously expected consumption, government spending, and business fixed investment. On the other hand, BOC expects exports to contribute more to GDP growth than previously projected.

The RBC Canadian Manufacturing PMI remained above the neutral mark of 50 in July (54.3), which was the highest level since November 2013. The survey revealed a solid increase in employment growth, which was at its highest level since September 2013. In addition, the report showed improvements in output and new order growth, supported by increased new export orders growth, which was the highest since March.
http://www.markiteconomics.com/Survey/PressRelease.mvc/b2b1f789d13b485c8562e2ccf5cbac74

Toronto Exports

In order to purchase goods and services not produced locally, an economy must export goods and services. In the case of a sub-national region, like Toronto, many of these "exports" are to the rest of the province or country. Largely because there is very little data on sub-national "exports" of goods and services, we have focussed on international exports originating in the Toronto region in this section.

Total exports consist of goods and service producing sectors. Currently, Industry Canada provides provincial data for goods producing sectors. The value of services exports, such as finance and insurance as well as information and cultural industries, are more difficult to quantify.

In 2013, Ontario's total goods exports were $175.7 billion, with the vast majority of exports (78.8%) going to the United States. (Appendix 1)

Over one third ($61.7 billion) of Ontario's total goods exports were transportation equipment manufacturing (NAICS 336), which includes motor vehicle manufacturing ($45.7 billion) and motor vehicle parts manufacturing ($11.8 billion). Most of those exports went to the United States (95.3%).

Statistics Canada does not produce sub-provincial estimates of exports; therefore we must consider other information. National Household Survey (NHS) data are available at:
http://www1.toronto.ca/City%20Of%20Toronto/Economic%20Development%20&%20Culture/Business%20Pages/News,%20Reports%20&%20Resources/Data%20Centre/2011_pow_data_naics.xlsx

The spreadsheet referenced above contains employment by place of work and location quotients[1] by detailed industry (4 digit NAICS codes) for the Toronto region in 2011. Please see page 3 of the spreadsheet (labelled "LQs").

Since manufactured goods are readily traded across borders, it is customary to assume that most of the output of these industries is exported. According to the NHS data referenced above, there were 45,145 people working in the transportation equipment manufacturing industry in Toronto CMA in 2011, which was 37.9% of total employment in Ontario in this sector. This suggests that the Toronto CMA exports approximately $23 billion of transportation equipment each year.

Several other goods producing industries, which include Primary Metals, Plastics and Rubber Products, and Fabricated Metal Products Manufacturing, are important inputs to the auto sector. These three industries have total Ontario exports of $24.4 billion, of which an estimated $9.9 billion are likely from the Toronto CMA

The second largest goods export sector in Ontario is mining ($16.7 billion); however, only 2,540 people were employed in this sector in Toronto CMA, with the majority of employment located in the rest of Ontario (14,905). Several major mining companies, including Barrick and Kinross, have head offices located in Toronto; however, it appears that most of Ontario's mining exports are likely from the rest of Ontario. Interestingly, the largest proportion of Ontario's mining exports goes to the United Kingdom (46.7%).

Another important Ontario export sector is chemical manufacturing ($16.6 billion). Since pharmaceutical manufacturing in Ontario is mostly located in the Toronto region, one might conclude that the Toronto region exports a lot of chemical products.

However, pharmaceuticals, which is Toronto's strength in chemicals, accounts for only $4.4 billion of Ontario's chemical exports. Basic chemicals and other chemical products account for most of Ontario's chemical exports, and these are more likely to be produced in Sarnia than in Toronto.

Machinery Manufacturing exports ($13.5 billion) and Computer and Electronic Products Manufacturing exports ($9.2 billion) are other important export sectors for Ontario and Toronto. With 41% of Ontario employment in these industries located in the Toronto region, these are also important export industries for the Toronto region.

Food manufacturing accounts for $7.3 billion of Ontario exports and more than half (37,930) of Ontario industry employment is located in the Toronto CMA. Office Furniture Manufacturing (Ontario's exports = $2.0 billion) is another significant export oriented sector for the Toronto CMA, since 79.6% of Ontario employment in this industry is located in the Toronto CMA.

[1] A location quotient is the relative concentration of an industry's employment in one geography, compared to that industry's share of employment nationally. A location quotient of 2.0 for an industry in Toronto means that this industry's share of local employment is twice as high as nationally, which implies that at least some of this industry's employment and output is in excess of local requirements and is likely exported from region.

In addition to goods exports, the Toronto CMA also exports services to the rest of Ontario, the rest of Canada, as well as the rest of the world (including the United States).

Since most services are consumed locally, we have used location quotients (see footnote 1 above) to determine which Toronto service industries are likely to be export-based. Please note that total trade may exceed what is implied by the location quotients, because the LQ shows the likely net trade position, not exports.

The LQs also do not by themselves show whether a region is an international exporter, as we could be selling to the rest of Canada or even the rest of Ontario. For example, the LQ for Toronto CMA, medical and diagnostic labs is 1.48; however, most of the diagnostics tests are likely to be for other Ontario residents.

Finance and Insurance has an LQ of 1.74 (Toronto CMA), which implies that we export these services. There is also ample data to indicate that our major banks and insurance companies do substantial business in the United States and around the world, which is likely to generate "exports" of head office and other services to these markets. For example, in fiscal 2013, the United States accounted for 26% of Toronto Dominion bank's total revenues.

Professional and Scientific Services is another industry that is relatively concentrated (LQ=1.41) in the Toronto region and anecdotally there are many examples of Canadian architects and other professionals bidding on projects around the world. However, the region's greatest concentrations are in advertising, specialized design and legal services. Legal services are jurisdiction dependent and are therefore unlikely to be exported from Canada. Similarly, advertising services are usually purchased from local suppliers with good local knowledge. For these reasons, it is likely that most of our professional and scientific services "exports" are to the rest of Ontario and the rest of Canada.

The Toronto region also has a strong employment concentration in information and cultural industries. Some of these services (telecommunications and broadcasting) are probably mostly "exported" to the rest of Canada; however, it is likely that a considerable share of the exports of the film and sound recording industries is exported to the United States. Certainly, Toronto is a major centre for location filming in North America. In 2013, direct spending in Toronto's screen-based industry (film, television, commercial production and interactive digital media) reached $1.19 billion.

Toronto tourism industry is another important export based sector. Annually, visitors spend $6.7 billion in Toronto region. More than half are those expenditures are attributed to Canadian tourists (53.5%); however a significant share of tourist spending comes from foreign visitors ($3.1 billion).

Toronto Region GDP

We have three annual forecasts for GDP for the Toronto CMA: Conference Board of Canada, Moody's and Oxford Economics. The chart in the attached presentation includes only two of these forecasts, because Oxford Economics does not provide quarterly forecasts for Toronto.

Statistics Canada does not produce sub-provincial GDP estimates and the Conference Board of Canada, Moody's and Oxford Economics use different methodologies; therefore, not only do the three forecasts differ, but the three historical series are also slightly different.

Using the average of the three forecasts, the Toronto region economy is estimated to have grown by 3.4% in 2013, and it is expected that the Toronto region will grow by 2.3% in 2014 and 2.8% in 2015.

The projected growth rates for the Toronto CMA are slightly (between 0.1% and 0.4%) higher than expected Canadian growth rates; however, the Toronto CMA's population is growing between 0.6% and 0.7% faster than the national average. Therefore, real GDP per capita is expected to grow slightly slower in the Toronto region than in the rest of Canada over the next two years.

Assuming population growth rates do not change, real GDP per capita produced in the Toronto CMA is predicted to grow at a very respectable 1.2%-1.7% per year.

For more information on Toronto region GDP please see the May 21, 2014, Economic Dashboard report at:
http://www.toronto.ca/legdocs/mmis/2014/ed/bgrd/backgroundfile-69083.pdf

Labour Force

The most comprehensive and timely indicator that is available for the local economy in Toronto is the Labour Force Survey. 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.

Over the past year, labour force indicators for city of Toronto residents, as reported by Statistics Canada, have exhibited a great deal of volatility. The seasonally adjusted monthly unemployment rate reached a five-year low in August 2013 of 7.1%. It then jumped to 10.0%, and has subsequently fluctuated in a range between 9.0% and 10.1%.

In July 2014, the seasonally adjusted monthly unemployment rate for city residents declined from 10.1% to 9.8%. However, the labour force participation rate also dropped significantly in July. The net result was that there were fewer city residents employed (on a seasonally adjusted monthly basis) in July as were in June 2014.

The seasonally adjusted monthly employment rate for city residents now stands 3.1 percentage points lower than it was in 2008. This is similar to the 905 municipalities, where the employment rate has fallen by 2.9 percentage points and slightly worse than Ontario (-2.5%) and Canada (-2.2%).

Building Activity

According to Skyscraperpage.com, there were 138 high-rise and mid-rise buildings under construction in the city of Toronto on July 14, 2014, lower than a year ago (151), but significantly higher than any other North American city. According to Emporis, there were 127 high-rise and mid-rise buildings under construction in the city of Toronto in July, which is less than New York City (143 buildings).

Data from Skyscraperpage.com also 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 significantly more buildings under 50 stories.

On a monthly basis, the total value of building permits issued in the city of Toronto in June 2014 declined by 41.2% compared to a year ago. Ninety percent of that change was accounted for a decrease in the value of residential permits issued in June, as residential permits dropped back to the level they were at in the previous three years. At the same time, the rest of Toronto CMA municipalities experienced a large increase in permits, as the value of residential permits more than doubled compared to the previous year.

On a year-to-date basis, the city of Toronto has issued $3.2 billion of building permits, which is a decline of 10.5% over the same period of 2013. The decrease in building permit activity in the city of Toronto in the first half of 2014 was led by a decline in residential permits issued ($2 billion) over the same period of 2013 ($2.2 billion).

The value of non residential building permits issued also declined in the first half of 2014, by 12.0% compared to last year. The decline was led by a drop in institutional (-55.4%) and industrial (-26.8%) building permits over the same period last year. The value of commercial building permits increased by 7.2 percent.

The total value of building permits issued in the 905 municipalities was $3.8 billion for the first six months of 2014, which was significantly higher than last year (+23.4%). Residential permits increased by 20.0%, while non-residential permits issued were higher by 31.2% over the same period of 2013. The year-to-date value of commercial permits issued in the 905 increased by 78.5% from $474 million to $846 million.

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

Office Market

Office vacancy rates in the city of Toronto and the 905 area decreased slightly in the second quarter, compared to the first quarter of the year; however, they remain significantly higher than a year ago. The data in the attached presentation are from Cushman & Wakefield; data from other real estate firms show similar increases in vacancy rates in the last year. Furthermore, Cushman & Wakefield, like most observers, is predicting that office vacancy rates will continue to increase across the GTA in 2014.

Downtown office vacancy rates remain much lower than elsewhere in the city and in the rest of the Toronto region. The downtown office vacancy rate declined from 5.8 % in 2014q1 to 5.5% in 2014q2. Increases in vacancy rates were experienced in Toronto East (from 10.5% to 11.0%) and Toronto West (from 6.0% to 6.1%). At the same time, the office vacancy rate in the Yonge Core declined from 6.7 % in 2014q1 to 6.6% in 2014q2.

There was a large increase (+2.2 million sq ft) in the downtown office inventory in 2013q4, when several new buildings were completed. Over the last year (2013q2-2014q2), total occupied office space downtown has increased by 886,000 sq ft. At the same time, it has decreased by 777,000 sq ft in the rest of the city and decreased by 63,000 sq ft in the 905 municipalities.

In addition to the substantial completions of downtown office space in late 2013, there is also 5.3million sq ft of class A space currently under construction in nine major new downtown office buildings in Toronto, which is more than any other North American city other than New York City.

Housing

Total June 2014 year-to-date housing starts in the Toronto CMA, as reported by CMHC (15,648 units), are up by 2.4% compared to the same period of 2013. Across the region, year-to-date housing starts increased in York (+27.8%) and Durham (+30.2%) regions, while they declined in Peel (-31.3%), Halton (-22.6%) and the remainder of the Toronto CMA.

Year-to-date housing starts in the city of Toronto increased by 5.2% compared to 2013. There were big variances among the different submarkets within the city. On the one hand, housing starts increased significantly in the first half of 2014 over same period of last year in North York (2,012 vs. 538 units) and Etobicoke (462 vs. 202 units); whereas starts declined in the former city of Toronto from 4,952 in the first half of 2013to 4,110 in 2014. The vast majority (91.1%) of housing starts in the city of Toronto was in the high-rise sector.

The number of residential units under construction also continues to rise. As of June 2014, there were 48,467 residential units under construction in the city of Toronto, an increase of 10.4% over June 2013. At the same time, number of completions is up by 35.9% in the city and by +97.5% in rest of Toronto CMA. Increased condominium project completions have added to the rental inventory across the region.

According to the CMHC Spring 2014 Rental Market Survey, the apartment vacancy rate in Toronto increased from 1.6% in April 2013 to 1.9% in April 2014, as "fewer international migrants and competition from the condominium market contributed to the increase in the average vacancy rate".

Pre-sales of new residential units are in healthy recovery mode in 2014. After a soft 2013, June year-to-date pre-sales in the GTA were 20,553 units, which is higher compared to 2013 (+51.2%) and 2012 (+3.5%). City of Toronto residential pre-sales in June were 122.6% higher than same period of 2013 and 31.9% higher than in June 2012. Pre-sales in the rest of the GTA also rose.

Average re-sale house prices in the city of Toronto have declined in recent months; however, the decline appears to be largely the result of significant seasonal effects. Residential re-sale data for the city of Toronto continue to show strong growth in prices and units sold compared to last year.

The average house price ($576,552) in the city of Toronto in July 2014 was 7.5% higher than a year ago and total units sold increased by 8.3% over July 2013. The increase in sales and prices was accompanied by a 0.7% decline in active listings, which has reduced supply and put upward pressure on prices, and was most pronounced in the detached sector (-7.9%). Active listings increased in the townhouse (+5.3%) and the condominium (+1.8%) sectors. The strongest price increases were for detached houses (+10.9%) and semi-detached (8.7%).

For more information on Housing please refer to June 24th Staff Report:
http://www.toronto.ca/legdocs/mmis/2014/ed/bgrd/backgroundfile-70331.pdf

Retail Sales

In May 2014, Toronto CMA seasonally adjusted retail sales increased by 0.7% over previous month. On a year-over-year basis, retail sales increased by 4.0%, which is well above the rate of inflation.

The largest increases in retail sales in May 2014, compared to the same period a year ago, were: used car dealers (+27.8%), automotive parts, shoe stores (+15.9%), and accessories and tire stores (+15.4%). The largest declines in retail sales in May 2014 compared to a year ago were in beer, wine and liquor stores (-7.9%) and supermarkets and other grocery (-3.2%).

CONCLUSION

The consensus forecast for economic growth for the Toronto region in 2014 and 2015 is fairly steady but modest growth at 2.3%-2.8% annually; however, there are both upside and downside risks to this forecast. For example, if there were a substantial correction in house prices in Canada, economic growth could be significantly lower than the forecast.

Labour force indicators for city of Toronto residents, as reported by Statistics Canada, have exhibited a great deal of volatility over the last year. After falling to a five-year low in August 2013 of 7.1%, the unemployment rate for city residents jumped to 10.0%. It currently stands at 9.8%. At the same time, the labour force participation rate for city residents has also fallen significantly.

Other economic indicators are mixed. Building permits are down; however, housing starts are up and, most importantly, new housing pre-sales are up. Retail sales are also up. The growth in occupied office space has been strong downtown in the last year; however, less so elsewhere in the city and in the 905 municipalities.

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APPENDIX 1

Table 1: Ontario's Exports in 2013 ($ millions)			
	Total Exports	**Exports to the United States**	**Exports to the Rest of the World**
NAICS 111 - Crop Production	2,920	1,786	1,133
NAICS 112 - Animal Production	1,055	355	700
NAICS 113 - Forestry and Logging	31	26	4
NAICS 211 - Oil and Gas Extraction	2	2	0
NAICS 212 - Mining (except Oil and Gas)	16,682	3,379	13,303
NAICS 221 - Utilities	586	586	
NAICS 311 - Food Manufacturing	7,302	6,335	967
NAICS 312 - Beverage and Tobacco Product Manufacturing	701	623	77
NAICS 313 - Textile Mills	540	510	30
NAICS 314 - Textile Product Mills	351	329	23
NAICS 315 - Clothing Manufacturing	690	592	97
NAICS 316 - Leather and Allied Product Manufacturing	417	364	54
NAICS 321 - Wood Product Manufacturing	1,166	1,103	62
NAICS 322 - Paper Manufacturing	2,851	2,715	136
NAICS 323 - Printing and Related Support Activities	518	445	73
NAICS 324 - Petroleum and Coal Products Manufacturing	2,467	2,199	268
NAICS 325 - Chemical Manufacturing	16,602	12,609	3,993
NAICS 326 - Plastics and Rubber Products Manufacturing	6,608	6,179	429
NAICS 327 - Non-Metallic Mineral Product Manufacturing	1,281	1,172	108
NAICS 331 - Primary Metal Manufacturing	12,990	9,044	3,946
NAICS 332 - Fabricated Metal Product Manufacturing	4,803	4,058	746
NAICS 333 - Machinery Manufacturing	13,473	10,476	2,997
NAICS 334 - Computer and Electronic Product Manufacturing	9,158	6,100	3,058
NAICS 335 - Electrical Equipment, Appliance and Component Manufacturing	3,693	2,939	753
NAICS 336 - Transportation Equipment Manufacturing	61,686	58,798	2,888
NAICS 337 - Furniture and Related Product Manufacturing	2,805	2,649	156
NAICS 339 - Miscellaneous Manufacturing	4,321	3,165	1,157
Total Exports	**175,697**	**138,537**	**37,160**
Source: Industry Canada			