STAFF REPORT
ACTION REQUIRED

Economic Dashboard

Date:	March 30, 2015
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 forward this report to City Council 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 provides a brief summary of recent economic events and their implications for the local economy.

The second section of the report provides more detail about: the recently released Toronto Employment Survey data, commuting patterns in and out of the city, the most recent population estimates and how many tall building are under construction in the city.

The final section of the report summarizes major local economic indicators, including labour force indicators, building activity, office vacancy rates and retail sales.

Global Growth Rates

Most economic observers continue to predict that global growth rates will improve modestly over the next few years. On March 18, OECD published its interim economic projections and it incrementally upgraded economic growth prospects compared to its November forecast. Lower oil prices and European Central Bank (ECB) new quantitative easing (QE) program are expected to provide a boost to global growth. However, these growth rates remain too low to bring most economies back to full employment and Canada's growth forecast has been downgraded.

Table 1: OECD Economic Projections

	2015		2016	
	March 2015 forecast	Change from November forecast	March 2015 forecast	Change from November forecast
Canada	2.2%	-0.4%	2.1%	-0.3%
United States	3.1%	0.0%	3.0%	0.0%
Euro area	1.4%	0.3%	2.0%	0.3%
Japan	1.0%	0.2%	1.4%	0.4%
China	7.0%	-0.1%	6.9%	0.0%
India	7.7%	1.3%	8.0%	1.4%
Brazil	-0.5%	-2.0%	1.2%	-0.8%
GDP Major Economies*	**4.0%**	**0.1%**	**4.3%**	**0.2%**
*Note: Economies representing over 70% of global GDP				

http://www.oecd.org/eco/outlook/Interim-Assessment-Handout-Mar-2015.pdf

The US is expected to grow by about 3% annually over the next two years. The labour market continues to recover, which has a positive impact on consumer spending. The rising US dollar will probably marginally hurt growth, but on the other hand lower oil prices will have a net positive effect on GDP.

The highly anticipated ECB QE announcement has removed some uncertainty about the Eurozone and has supported asset prices. It is expected that it will ease financial conditions, which combined with lower oil prices will have a positive impact on economic growth. The Ukraine conflict and the ongoing Greece saga are, however, two major downside risks in the Eurozone.

While the OECD did not provide a revised forecast for Russia, other forecasters are predicting that Russia's economy will contract by about 5% in 2015, which will also put downward pressure on European growth rates.

OECD expects India to be the fastest growing major economy over the next two years as it is projected to grow by about 8% annually.

In China, GDP growth has slowed from about 10% a few years ago to around 7%. OECD expects that China will grow by about 7% over the next two years. Chinese policy makers have been working towards rebalancing the economy from export-driven growth towards domestic consumption-driven growth.

The slowing Chinese economy has put a continued downward pressure on commodity prices and therefore on the Canadian dollar. However, since the Chinese Yuan is pegged to the US dollar, it means that Canadian products and services have become more competitive. This presents an opportunity for Canada to capitalize on an expanding Chinese middle class with growing purchasing power.

Oil

West Texas Intermediary (WTI) oil prices have been fluctuating in the US$42 to US$52 per barrel dollar range over the last few weeks. Currently, global supply exceeds demand and there is a growing concern that the US may run out of spare oil storage capacity, which could depress prices even further.

There are a number of factors that are supporting the current environment. While the number of US oil rigs has been declining over the past three months, oil production doesn't show signs of abating because of:

- Efficiency – companies have been able to cut costs such as labour and capital expenditures, hence the negative impact of lower oil are being alleviated in the short term
- Sunk costs – companies have already invested in oil production and it doesn't make financial sense to stop pumping
- At US$50 per barrel shale oil is still profitable for many of the major producers
- US oil inventory is at its highest level in at least 80 years
- Many oil producers have hedged their oil production, which is an insurance policy tool used to reduce exposure to big price swings.

In addition, the Globe and Mail reported that the International Energy Agency expects that the downward pressure on oil prices will last at least until the second half of this year, when increasing global demand and declining US output will provide some support to the market.

http://www.theglobeandmail.com/report-on-business/iea-sees-renewed-pressure-on-oil-prices-as-us-glut-worsens/article23443629/

Canada

The OECD has generally downgraded its outlook for commodity exporting economies, hence it is not a surprise that they lowered Canada's expected growth for 2015-2016. There is some evidence to support this view. In a recent interview with the Globe and Mail, Bank of Canada (BOC) Governor Stephen Poloz said that the impact from the lower oil prices looks more "front-loaded" than was originally thought in the Bank's January projections. Hence, growth in 2015 is expected to be lower than the January BOC projection of 1.5%.

http://www.theglobeandmail.com/report-on-business/economy/poloz-sees-evidence-of-front-loaded-oil-shock/article23347395/

RBC Manufacturing Purchasing Index (PMI) corroborates Mr. Poloz's stance, as the index fell from 51.0 in January to 48.7 in February to the lowest level since the survey began in October 2010. Other key findings from the survey showed that:

a) output, employment and new orders declined
b) a decline in the Canadian dollar led to higher input cost inflation.

http://www.markiteconomics.com/Survey/PressRelease.mvc/06d6cf3c200e4a5e8f65d5c96cfa81e0

Canada's trade deficit increased from $1.2 billion in December to $2.5 billion in January, which was the largest deficit since July 2012. The trade deficit widened mostly because both the prices and volume of energy exports declined.

On a positive note, motor vehicles and parts exports increased by 3.1% in January due to higher volumes (7.4%) and prices (1.8%)

http://www.statcan.gc.ca/daily-quotidien/150306/dq150306a-eng.htm

In January, Canada's manufacturing sales fell 1.7% to $51.4 billion because of declining prices for petroleum and coal products and lower sales of machinery, chemicals and primary metals. Inventories rose 2.2% in January and were the highest since July 2014. Ontario sales declined by 2.3% in January and this was the province's fourth decline in six months. The largest declines in January were in the machinery, transportation equipment and chemical industries.

http://www.statcan.gc.ca/daily-quotidien/150317/dq150317a-eng.htm

The decline in manufacturing sales may seem counter intuitive given the falling Canadian dollar and improving US economy. However, a turnaround in the manufacturing sector is expected to come slowly. So much industrial capacity has been closed in the past few years, that the remaining plants are operating at close to full capacity and therefore, there will be a substantial time lag between the moment when a company decides to expand production and when a new or expanded plant can be up and running, which involves building the plant, hiring and training new employees as well as arranging logistics, etc. Since new plants are a long-term investment, companies are also likely waiting to see if the current dollar depreciation is a temporary or a permanent phenomenon.

Toronto Region

The most comprehensive indicator of economic activity is real GDP. The term "real" means that the series has been adjusted for inflation. We have three forecasts for GDP for the Toronto CMA. Statistics Canada does not produce sub-provincial GDP estimates and the Conference Board of Canada, Oxford Economics and Moody's each 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 economy of the Toronto region is estimated to have grown by 2.4% in 2014. It is also expected that the Toronto region will grow by 2.9% in 2015 and 2.6% in 2016. These projected growth rates for the Toronto region are 0.1% higher in 2015 and 0.5% higher in 2016, than the BOC's national projections.

Since the Toronto CMA's population is growing between 0.6% and 0.7% faster than the national average, GDP per capita is expected to grow slightly slower in the Toronto CMA than in the rest of Canada, over the next two years.

Toronto Employment Survey

Each summer the City Planning Division undertakes a survey of all employment establishments in the city. Results from the 2014 survey were reported to the Planning and Growth Management Committee at its meeting on February 24, 2015.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.PG2.9

This year's Employment Survey indicates that there were 20,840 more jobs in the city in 2014 than there were in 2013. Overall, the survey counted 1,384,390 jobs, which is 1.5% higher than in 2013.

Full-time employment increased by 15,390 (1.5%) and part-time employment increased by 5,459 (1.7%) jobs in 2014 over the previous year. Part time employment has grown more than 2.5 times faster over the last decade compared to full time employment.

The Toronto Employment Survey (TES) is an establishment-based survey, so it typically does not include persons who work at home and most people with no usual place of work. As these are both rapidly growing groups, it is safe to assume that total job growth in the city was even higher than 20,840 in 2014.

In the last three years (2011-2014) establishments in the city of Toronto, have added 67,082 net new jobs (Please see Appendix A for details). The largest increases were in the Service (15,088 new jobs) and Finance, Insurance, and Real Estate (11,641 new jobs) sectors. The Service sector grew because of a significant jump in restaurant employment (16.5%). For the period of 2011-2014, 9,496 jobs were added in the banking subsector. Other highlights from TES over the past three years include the following:

- Employment in business services grew by 5,486 due to increases in employment among management consultants, advertising agencies, and law firms. On the other hand, employment in personnel services and accounting firms declined
- Employment in head offices declined by 4,107, due to declines in manufacturing and transportation head offices; while construction head office jobs increased
- Government employment declined marginally (-0.4%)
- Employment in technical services (architects, engineers, planners, etc.) jumped by 7, 278 or 31.4%. The increase was mainly due to substantial increase in jobs for engineering consultants (40.1%)
- Media jobs increased marginally from 31,119 to 31,822 mainly because of a large increase in film/video/audio jobs, while not surprisingly newspaper and other publishing jobs were on the decline
- There was a substantial increase in health related jobs (9,934 or 21.9%), because of significant increases in jobs in the offices of doctors and physicians (57.8%)
- Manufacturing & Warehousing employment declined from 128,572 to 124,609
- Institutional employment increased by 13,901 or 6.3%, due to significant increases in university, college, and day care employment.
- Retail employment increased slightly by 2,969 or 2.1%

City of Toronto - Jobs vs. Employed Residents

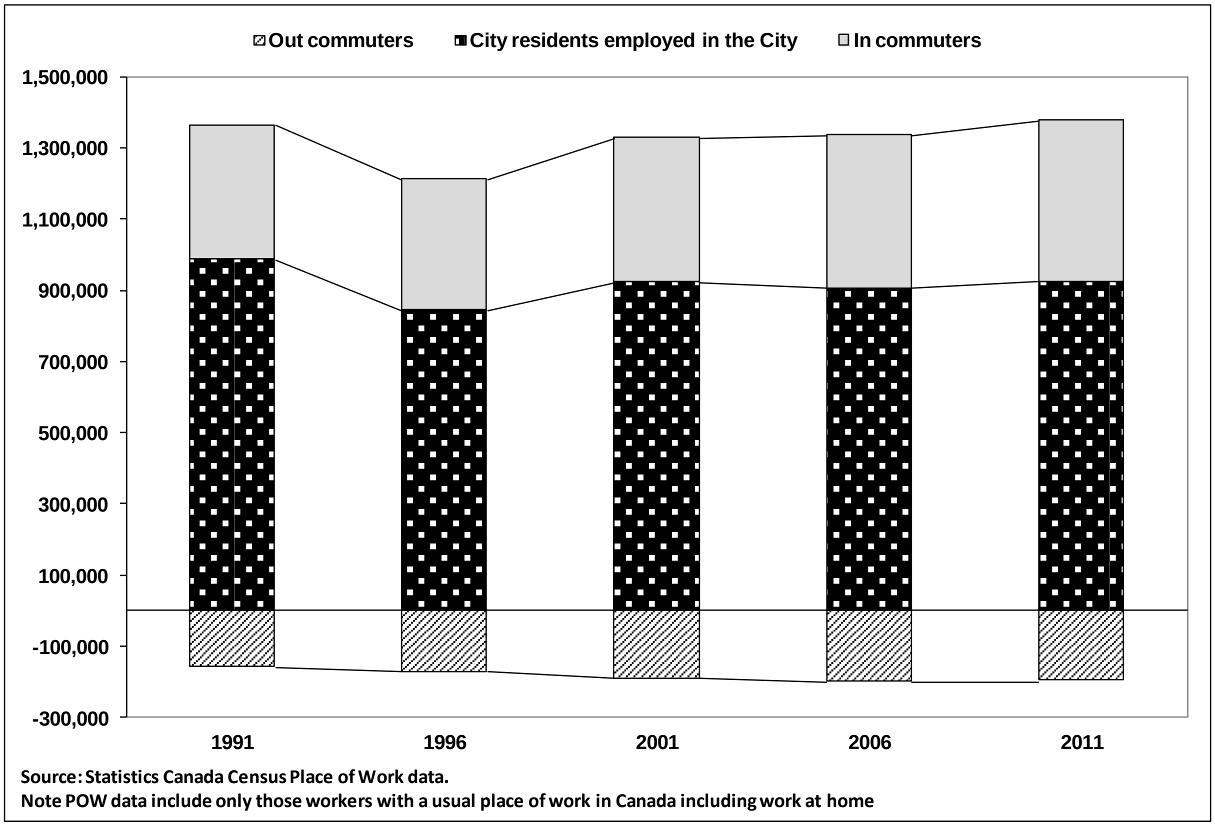
City staff was asked to elaborate on the difference between employed city of Toronto residents and total jobs in the city of Toronto. Statistics Canada's Census & National Household Survey (NHS) collect data according to where people live (i.e. Place of Residence) and where they work (i.e. Place of Work). Please note that these numbers are not adjusted for the Census undercount, which is around 5% and do not include persons with no fixed place of work. In 2011, according to NHS data, there were 1,269,000 employed city of Toronto residents. 1,122,000 of these employed city residents had a usual place of work in Canada or worked at home.

Out of the employed city residents (with a usual place of work or who worked at home), 82.5% worked in the city of Toronto, while the rest (197,000) commuted out of the city, mostly to "905" municipalities.

On the same basis, there were 1,379,000 "jobs" in the city of Toronto in 2011. Every day 454,000, largely 905 residents, commute to work in the city of Toronto, while 197,000 city residents commute out of the city.

The main reason for the difference between number of jobs and employed residents in the city is that more than twice as many people commute into the city of Toronto for work than out commute. (Chart 1)

Chart 1: City of Toronto - Jobs vs. Employed Residents



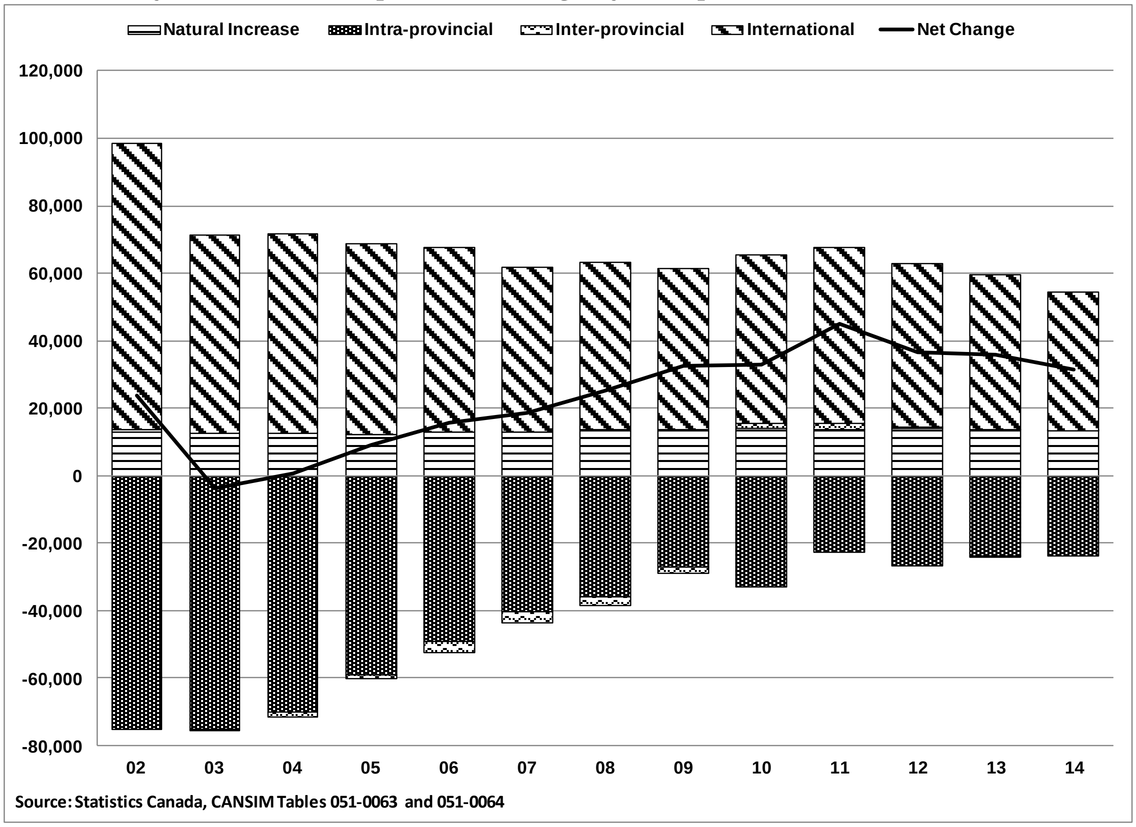
Population Estimates

On February 26, 2015, Statistics Canada released July 1, 2014 population estimates for sub-provincial areas. The city of Toronto's total population is now estimated at 2,808,503**,** which makes Toronto the fourth largest municipality in North America, after Mexico City, New York and Los Angeles.

Population growth in the Toronto CMA has remained fairly steady at around 100,000 people per year for the last decade. Annual population growth peaked at 114,560 in 2011, and has since fallen to 89,400 in 2014.

The city of Toronto's share of regional population growth has increased significantly during the last decade. The city of Toronto now accounts for 35% of regional population growth, down slightly from 37% in 2012, but up significantly from its negligible share ten years ago. Chart 2 shows annual population change by component for city of Toronto residents.

Chart 2: City of Toronto - Population Change by Component



In 2014, the city's population increased by 31,295, compared to the previous year, mostly due to international migration.

Average annual net international immigration to the city of Toronto for the period of 2001-2006 was 62,802 people. Since then net international immigration has decreased, and it was 41,116 people in 2014.

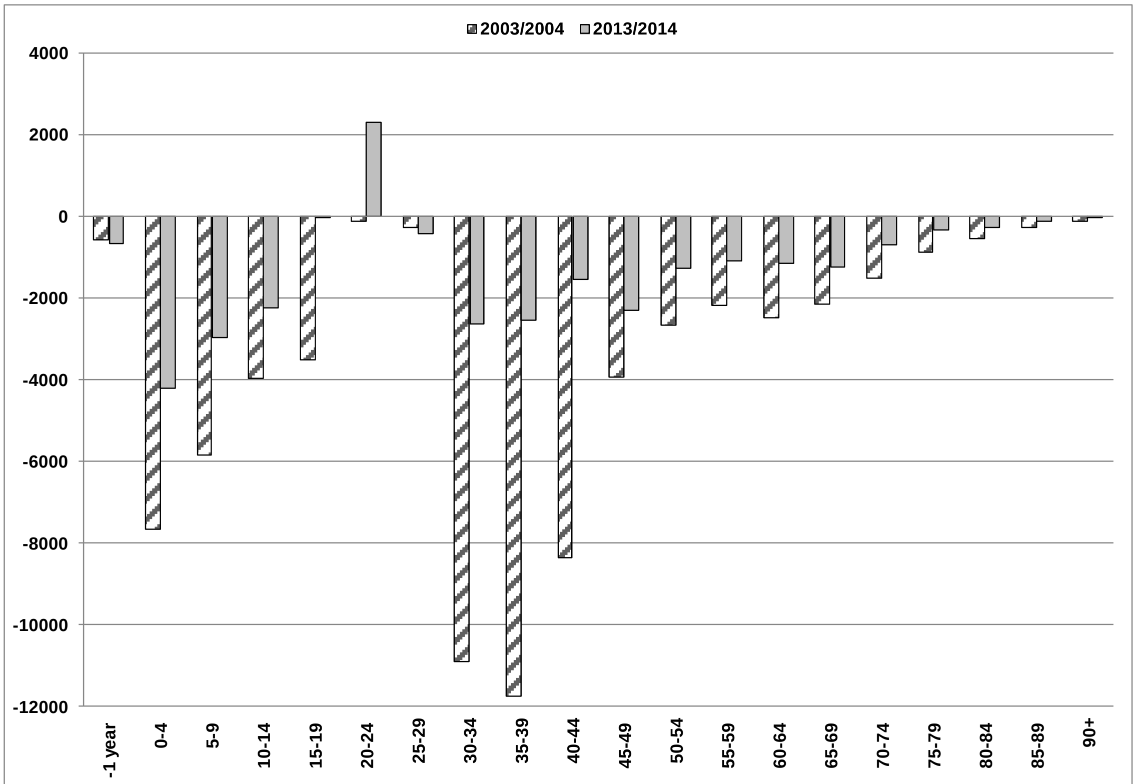
The decrease in net international migration to the city of Toronto in the last decade has been more than offset by a very significant decrease in the rate at which city of Toronto residents move to other parts of Ontario (net intra-provincial out-migration).

In the period 2001-2006, an average of 65,363 people left Toronto to move to the rest of Ontario (primarily the "905") each year. Since 2011/2012 annual intra-provincial out-migration has averaged only 24,344 people per year.

Since 2011/2012 the annual natural increase has averaged 13,855 people per year. The other component of population change is net inter-provincial migration and it is insignificant.

Chart 3 shows how city of Toronto intra-provincial migration has changed in the last ten years by age group. The rate of net intra-provincial out-migration from the city of Toronto has decreased for all age groups in the last decade.

Chart 3: City of Toronto – Intra-provincial Migration by Age



Source: Statistics Canada, CANSIM Table 051-0064 and 051-0057

Ten years ago, the largest group of city residents moving out of the city was the 30-44 age groups, with a further concentration in the age groups from 0-19 years. These categories also show the largest decreases in the rate of net out-migration from the city in the last ten years.

It seems that young families with children living in the city of Toronto are no longer moving to the "905" suburbs at nearly the rate they were ten years ago. In addition, there has been a spike of young people aged 20-24 from other parts of Ontario who are moving to the city.

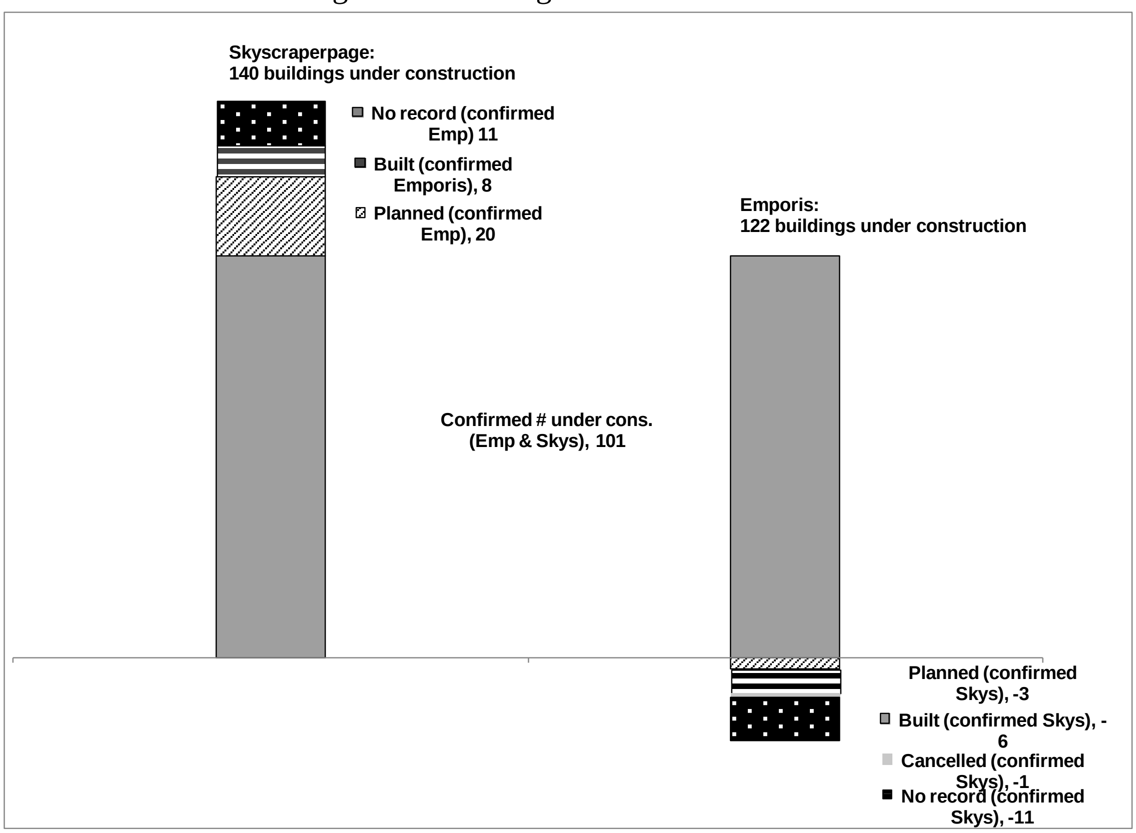
Tall Buildings

According to Skyscraperpage.com, there were 140 high-rise and mid-rise buildings under construction in the city of Toronto on February 12, 2015, which is slightly lower compared to a year ago (144 buildings), and is more than any other North American city. Emporis, which is another data source, indicates that Toronto, with 122 buildings under construction, is second to New York City in North America, by the number of major buildings under construction.

Data from Skyscraperpage.com also allow us to compare Toronto with other North American cities by the size of buildings under construction. Slide 23 in the attached presentation shows 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.

Chart 4 shows the number of building under construction from Skyscraperpage and Emporis.

Chart 4: Mid-Rise and High-Rise Buildings Under-Construction in Toronto



In February 2015, Skyscraperpage reported 140 buildings under construction. Of those 140 buildings, 101 buildings were also classified as under construction in the Emporis database.

The definition of mid-rise and high-rise buildings used by Emporis and Skyscraperpage is slightly different. Emporis defines mid and high-rise buildings as having six storeys or more; whereas Skyscraperpage defines mid and high-rise as buildings having 10 storeys or more. However, this difference in definitions does not explain the differences between Skyscraperpage and Emporis. There were only four buildings under construction in the Emporis database with a height of less than ten storeys in February in Toronto.

Most of the difference between the two sources seems to be timing. Skyscraperpage and Emporis use different definitions of projects under construction. One source lists an approved proposal as "under construction" whereas the other does so only when the actual construction commences.

The 39 Toronto buildings listed as under construction in Skyscraperpage, but not under construction in Emporis, are classified as follows in Emporis: 20 planned, 8 existing, and 11 with no record.

Twenty one buildings under construction in the Emporis database are categorized as follows in Skyscraperpage: 6 built, 3 proposed, 1 cancelled, and 11with no record.

Building Permits

The total value of building permits issued in the city of Toronto in January 2015 decreased by 35.6% over January 2014. However, there had been a substantial jump in building permits in January 2014 when they increased by 144.9% over January 2013. In the first month of 2015, the City of Toronto issued $443.2 million of building permits. In contrast, 905 municipalities had a 16.8% increase in the total value of building permits in January 2015 compared to same period of last year.

The decrease in building permit activity in the city of Toronto was led by a decline in commercial (-38.2%) and residential permits (-36.8%) issued in January 2015 over the same period of 2014. On the other hand, there was an increase in institutional permits in January of 55.7% over 2014.

The total value of building permits issued in the "905" municipalities was $657.3 million in January 2015. Residential permits issued were up by 21.3%, while non residential permits increased marginally (0.8%) due to increase in industrial permits (20.9%), while commercial (-0.2%) were flat and institutional (-19.6%) declined.

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

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. 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 declined from 10.0 % in February 2014 to 7.3% in January 2015. Subsequently, it increased in February 2015 to 8.3%.

The seasonally adjusted monthly labour force participation rate for city of Toronto residents peaked in April 2013 at 68.0% and since then has been trending down; it was 64.1% in February 2015.

In February 2015, the total number of employed city of Toronto residents was 1.46 million, which was the lowest since May 2012. The employment rate was slightly lower in February (58.8%) compared to January (59.0%).

Office Market

According to Cushman & Wakefield, the office market in the Toronto region softened a bit in 2014. While vacancy rates in the city of Toronto held steady at 6.1% in 2014, in "905" municipalities, vacancy rates increased from 10.6% to 11.2%, between 2013q4 and 2014q4.

Colliers International forecasts that vacancy rates will increase in 2015 because 1.6 million sq ft of office space was added to the inventory in the Downtown core in 2014q4, and another 3.5 million sq ft is under construction. On the plus side, the Downtown core is experiencing increased leasing activity from "international entrants and suburban occupiers".

According to Cushman & Wakefield, in 2008q4 office vacancy rates in the "905" were 0.6% higher than in the city of Toronto. Six years later, the spread between suburban and city of Toronto office vacancy rates has increased to 5.1%.

However, vacancy rates only tell part of the story. For the period between 2013q4 and 2014q4 office inventory increased by 1.3 million square feet in the city of Toronto while occupied space in the city increased by 1.2 million square feet .

The increase in inventory (2013q4-2014q4) in the city of Toronto was entirely due to the Downtown core, which witnessed 1.5 million sq ft of added space, while the other major office nodes in the city of Toronto either lost office inventory or were unchanged. The "905" added 867,000 sq ft of new office inventory between 2013q4 and 2014q4.

Housing

Total January housing starts in 2015 in the Toronto CMA, as reported by Canada Mortgage &Housing Corporation (2,974 units) are up by 3.2% compared to the same period of 2014. Housing starts in the city of Toronto increased even faster in January (19.7%) compared to 2014. In January, housing starts in the city of Toronto represented 61.4% of total starts in Toronto region. Starts in the "905" area actually declined by 15.4% in January.

The number of residential units under construction declined from 48,061 in January 2014 to 42,011 in January 2015 in the city of Toronto. One of the reasons for that is the substantial jump in completions (from 582 to 9,472). Most of these completed units have been absorbed (8,495).

Pre-sales of new residential units were lower in February 2015 compared to same period of 2014. After a strong 2014, city of Toronto residential pre-sales registered a modest decrease of 5.9% in February of 2014 compared to the same period last year. The vast majority of these pre-sales are in the high-rise segment. In February, pre-sales in the rest of the GTA jumped by 26.9% over last year.

Residential re-sale data for the city of Toronto continue to show strong growth in prices and units sold despite a record cold February. The average house price ($630,585) in the city of Toronto in February 2015 was 5.2% higher than a year ago and total units sold increased by 10.9% over February 2014. The increase in sales was accompanied by a 5.0% decline in active listings, which has reduced supply and put an upward pressure on prices. The strongest price increases were for detached houses (8.9%), which breached the $ million dollar mark, while semi-detached houses increased by (5.0%). On the other hand, prices declined for townhouses (-7.6%) and condo apartments (-0.8%).

Retail Sales

Seasonally adjusted retail sales declined in January 2015 in the Toronto CMA, on a month-over-month, but increased on a year-over-year basis. Seasonally adjusted retail sales in January were 2.1 % lower than in December, but 3.1% higher than in January 2014.

The largest increases in retail sales in January 2015 compared to the same period a year ago were: convenience stores (21.1%), clothing stores (19.2%) and clothing and clothing accessories stores (13.8%). The largest declines in retail sales in January 2015 compared to a year ago were in gasoline stations (-24.8%) and jewellery, luggage and leather goods stores (-9.3%).

CONCLUSION

Canadian economic forecasts have been scaled back in the last few months, as it now appears that oil prices may remain below US$50 per barrel for longer than most observers initially predicted and that the negative impacts of lower oil prices on the Canadian economy may have initially been under-stated.

Most of the fallout from lower oil prices is, however, being felt in other parts of the country, and Ontario is expected to lead Canadian growth rates in 2015. The Toronto regional economy is projected to expand at annual rates between 2.5% and 3.0%.

Since regional forecasts tend to lag national and provincial forecasts, staff expect that the current forecasts for regional growth may also be downgraded slightly in the next few months.

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ATTACHMENTS

Attachment 1: Appendix A - Toronto Employment Survey
Attachment 2: Economic Dashboard Presentation