



STAFF REPORT ACTION REQUIRED

Economic Dashboard

Date:	May 11, 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.

Economic Dashboard – May 2015

COMMENTS

The first section of this report provides an overview of recent developments in the global economy, with a focus on Canada and Toronto.

The following section of the report compares the city of Toronto population estimates embedded in the recently revised Labour Force Survey (LFS) data with Statistics Canada demographic estimates and recommends adjustments to city of Toronto LFS data.

The final section of the report summarizes major local economic indicators, including building activity, office and housing market updates, and retail sales.

Global Economy

Most economic observers continue to predict that global growth rates will improve modestly over the next few years. However, global growth rates have consistently underperformed forecasts for several years now, partly because economic forecasts cannot anticipate unexpected events, most of which tend to reduce economic growth rates.

Economic growth rates are typically expressed as the change in Gross Domestic Product (GDP). In this report we express GDP growth rates in "real" terms, which mean that the growth rates have been adjusted for inflation. Quarterly growth rates are expressed at annual rates, i.e. the annual rate that would be achieved if the quarterly growth rate was maintained for four quarters.

The Bank of Canada's (BOC) April 2015 Monetary Policy Report, held steady its global growth forecasts, predicting that global growth rates will continue to increase from an estimated 3.3% in 2014 and 2015 to 3.6% in 2016 and 2017.

<http://www.bankofcanada.ca/wp-content/uploads/2015/04/mpr-2015-04-15.pdf>

Table 1: Global Economic Growth

	Annual Real GDP Growth Rate			
	2014	2015	2016	2017
Canada	2.5%	1.9%	2.5%	2.0%
United States	2.4%	2.7%	3.0%	2.6%
Euro Area	0.9%	1.2%	1.3%	1.3%
China	7.4%	6.9%	6.8%	6.5%
Japan	-0.1%	0.4%	1.5%	1.3%
World	3.3%	3.3%	3.6%	3.6%
Source: Bank of Canada				

IMF is a bit more optimistic about expected economic growth over the next couple of years. It forecasts global growth to be 3.5% in 2015 and 3.8% in 2016. The recovery is

uneven as the outlook for developed economies has improved, whereas projected growth in emerging economies is expected to be lower.

US economy grew by 2.4% in 2014. Consumption, which has been the main driver of growth in the US, has been supported by employment and income gains, lower oil prices, and higher consumer confidence.

Preliminary estimates for US growth in 2015q1 show that economic activity slowed down to 0.2% (at annual rates) in the first quarter; however, this can be explained, at least in part, due to factors such as severe weather and the West coast port strike.

The IMF expects that the US economy will grow by 3.1% in 2015 and 2016. "Markedly lower energy prices; tame inflation; an accommodative monetary policy stance; favourable financial conditions; reduced fiscal drag; strengthened household, corporate, and bank balance sheets; and an improving housing market will combine to maintain solid momentum." <http://www.imf.org/external/pubs/ft/weo/2015/01/pdf/text.pdf>

There are also some positive economic signs coming from the Euro area. Growth was stronger than expected in 2014q4 and the momentum seems to have continued into 2015. The recently announced quantitative easing program by the European Central Bank has contributed to easing in financial conditions, while the depreciating Euro will help boost exports. The BOC upgraded its Euro area growth forecast for 2015 from 0.9% in its January 2015 Monetary Policy Report to 1.2% in April 2015. The IMF projects that the Euro area will grow by 1.5% in 2015 and 1.6% in 2016.

The Markit Eurozone Composite Purchasing Managers' Index (PMI), which rose to an 11 month high in March 2015, also indicates increasing economic growth in the Eurozone. Manufacturing output increased at the fastest pace since May 2014, while services sector output also increased at the highest rate for eight months. According to Chris Williamson, chief economist at Markit, "inflows of new business are rising at the strongest rate since the spring of 2011, and companies are responding to the upturn in demand by taking on staff to an extent not seen for three-and-a-half years." <http://www.markiteconomics.com/Survey/PressRelease.mvc/3de234401ab34b9fa89ccae8af205624>

Europe is, however, facing several challenges. The most obvious down-side risk is the potential for Greece to leave the European Union (Grexit). Even more important, potential growth rates in most of Europe are very low because the working age population is shrinking and labour market structural reforms are yet to be implemented.

Spain implemented significant labour market reforms in 2012; however, most European countries have made less progress. According to the OECD, all ten of the countries with the highest marginal taxes on labour are in Europe as are many of those with the least flexible labour markets. Labour market regulations that make it very expensive to dismiss workers also tend to reduce job growth.

Elsewhere, China's economy grew at an average annual rate of 9.2% from 2008 to 2012, but since then growth has decelerated. The BOC expects China's growth rate to decline to 6.9% in 2015, 6.8% in 2016, and 6.5% in 2017. China now comprises 16% of global GDP.

Canada

The Bank of Canada's (BOC) April 2015 Monetary Policy Report downgraded the expected Canadian growth rate for 2015. On one hand, lower oil prices will negatively impact Canada's trade balance, government tax revenues and business capital spending. On the other hand, stronger US economic growth combined with a depreciating Canadian dollar are supporting non-energy exports.

The decline in oil prices will, of course, affect oil producing regions far more than other regions. In a scenario where Brent crude oil remains at US\$60 per barrel, the BOC projects that Canadian GDP would be 1% lower than if oil prices had not fallen. An oil price drop for this magnitude is expected to lead to a 9% decline in Canada's terms of trade by the end of 2015. While Ontario and Quebec are less impacted from the drop in oil prices, they too suffer some losses in interprovincial exports. On the other hand, Ontario and Quebec would gain from improved international exports due to weaker Canadian dollar, and the related investment increases. On the balance, BOC expects that the effect on Ontario GDP from lower oil prices will be neutral.

The BOC estimates that Canadian real GDP grew by 2.5% in the fourth quarter of 2014, but that growth stalled in 2015q1. Growth rates are expected to gradually increase to 2.5% by the end of the year. Growth in 2015 will be negatively impacted by a substantial decline in business fixed investment (Table 2), which is associated with the anticipated lower investment spending in the oil and gas sector.

Table 2: Components of Canadian GDP Growth

	2014	2015	2016	2017
GDP	2.5%	1.9%	2.5%	2.0%
Consumption	1.5%	1.1%	1.2%	1.0%
Housing	0.2%	0.0%	0.0%	0.0%
Government	0.0%	0.2%	0.2%	0.2%
Business fixed investment	0.0%	-0.7%	0.7%	0.7%
Net exports	1.2%	1.1%	0.7%	0.1%
Inventories	-0.3%	0.2%	-0.3%	0.0%
Source: Bank of Canada				

In 2014, the Canadian dollar depreciated by 8% compared to the US dollar, following annual depreciation of 7.4% in 2013. This trend continued in 2015q1, especially after the BOC lowered the interest rate from 1% to 0.75%. Over the past few weeks the Canadian dollar has marginally appreciated vis-à-vis the US dollar reflecting firmer oil prices.

Total Canadian real GDP remained unchanged in February after contracting in January 2015. However, Canadian manufacturing output declined by 0.8% in February after decreasing 0.7% in January and this trend appears to be continuing. The RBC Canadian Manufacturing Purchasing Managers' Index, which was below the neutral value of 50 for third month in a row in April 2015, indicates that this trend is continuing. The PMI survey indicates that capital spending is falling in the energy sector, which remained the key factor weighing on new business orders.

Ontario's manufacturing sector seems to be bucking the national trend. Ontario's manufacturing PMI remains above fifty, indicating an expansion in economic activity. It has also inched up in recent months and it now stands at 54.0 in April 2015. The corresponding figure for Alberta and British Columbia was 42.0 in April 2015.
<http://www.rbc.com/newsroom/reports/rbc-purchasing-managers-index.html>

The continuing decline in bond yields, which affect borrowing costs, has led to historically low mortgage rates and as a consequence higher asset prices, including house prices. In a recent article The Economist evaluated the state of housing in 26 markets covering over 3 billion people. Prices were rising in 19 of 26 major markets by an average of 5.2% per year.

House price levels were compared to rents and disposable income per capita and the findings showed that Canada has one of the most overvalued housing markets. Canada has the most overvalued housing market when measured against rents, which reveals that prices are overvalued by 89%; while the other measure of house prices versus income showed only 35% overvaluation. According to the latter measure only Belgium (50%) and Australia (39%) have more overvalued housing markets.
<http://www.economist.com/news/finance-and-economics/21648624-housing-markets-across-globe-both-underperform-and-overwhelm-property-puzzles>

Ontario GDP

Ontario GDP increased by 2.3%¹ in 2014, which was almost double the growth rate in 2013 (1.2%). Manufacturing grew by a respectable 3.8% after a weak 2013 when manufacturing GDP shrank (-1.6%). Motor vehicle parts manufacturing (16.7%) led manufacturing growth in 2014. Finance and insurance, which is highly concentrated in Toronto, also grew at a rate higher than the provincial average (3.9%).
<http://www.statcan.gc.ca/daily-quotidien/150428/dq150428a-eng.pdf>

Toronto Region

Statistics Canada does not produce sub-provincial GDP estimates, but we have three private-sector forecasts for GDP for the Toronto CMA: Conference Board of Canada, Oxford Economics and Moody's. They each use different methodologies; therefore, not only do the three forecasts differ, but the three historical series are also slightly different.

¹ GDP is reported at basic prices that are chained volume estimates with 2007 as their reference year.

Using the average of the three forecasts, the economy of the Toronto region is estimated to have grown by 3% in 2014. It is also expected that the Toronto region will grow by 3.1% in 2015 and 3.2% in 2016. These projected growth rates for the Toronto region are 1.2% higher in 2015 and 0.7% higher in 2016, than the BOC's national projections.

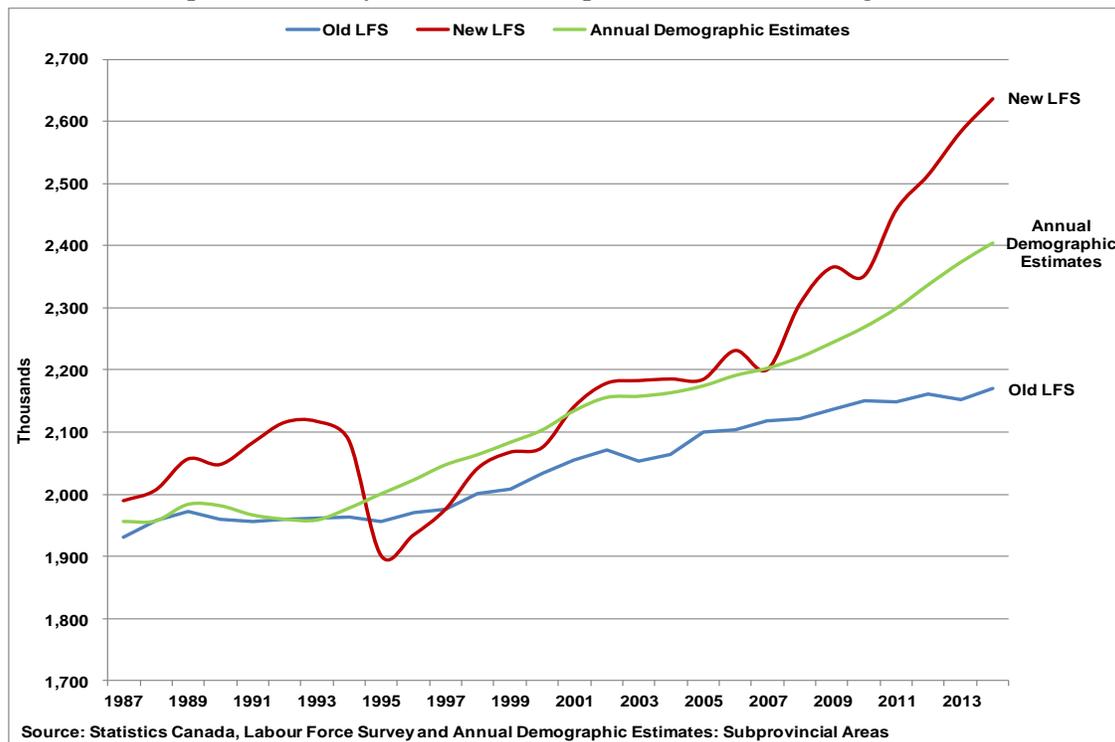
Since the Toronto CMA's population is growing between 0.6% and 0.7% faster than the national average, Toronto CMA GDP per capita is expected to also grow faster than the national average in 2015.

Historical Labour Force Survey Data

Statistics Canada revised its Labour Force Survey estimates in January 2015. At the same time, they also revised the methodology used to estimate the city of Toronto's population. While the impact of the LFS changes was relatively minor for most geographies, the city of Toronto's population 15+ (and therefore all of the absolute measures, including persons employed, unemployed and not in the labour force) were substantially changed.

Chart 1 shows the city's estimated population 15+ from three sources: old LFS data, new LFS data and Statistics Canada's [Annual Demographic Estimates: Subprovincial Areas](#). Upon reviewing the three population estimates, City staff is of the opinion that the annual demographic estimates are the most accurate of the three estimates and do not recommend using LFS as an estimate of population.

Chart 1: Comparison of City of Toronto's Population Estimates (Age 15+)



The new LFS population estimates are very volatile. For example, they show a drop of about 216,000 city of Toronto residents aged 15+ between 1993 and 1995, which did not occur. The city of Toronto population estimates embedded in the new LFS data also show much faster population growth from 2007-2014, than is reasonable.

According to the new LFS data, between 2007 and 2014, the city's population 15+ grew by 435,900, while the rest of the Toronto CMA ("905") grew by only 186,900. However, the city of Toronto represented only 45% of total CMA housing starts in this period and the average unit size in the city is substantially smaller than the average in the suburbs. 88% of housing starts in the city are apartments, while only 52% of "905" housing starts are apartment units. Source: CMHC, Housing Starts, 2007-2014.

In order to make use of the labour force statistics, the LFS results must be adjusted or calibrated to a more reliable and less volatile population source; the Annual Demographic Estimate is the appropriate source from Statistics Canada to use as a reference. City staff examined several adjustment methods. The simplest method is to make one adjustment per year, which is called the top-level adjustment in this report. Since annual demographic adjustments are available by gender and by age groups, we also examined the impact of adjusting annual LFS data by gender and by 10 year age cohorts.

Statistics Canada demographic estimates are not available monthly, so we have not adjusted the monthly series. We also looked at using moving averages of various durations; however, this method was discarded as it did not achieve the desired results.

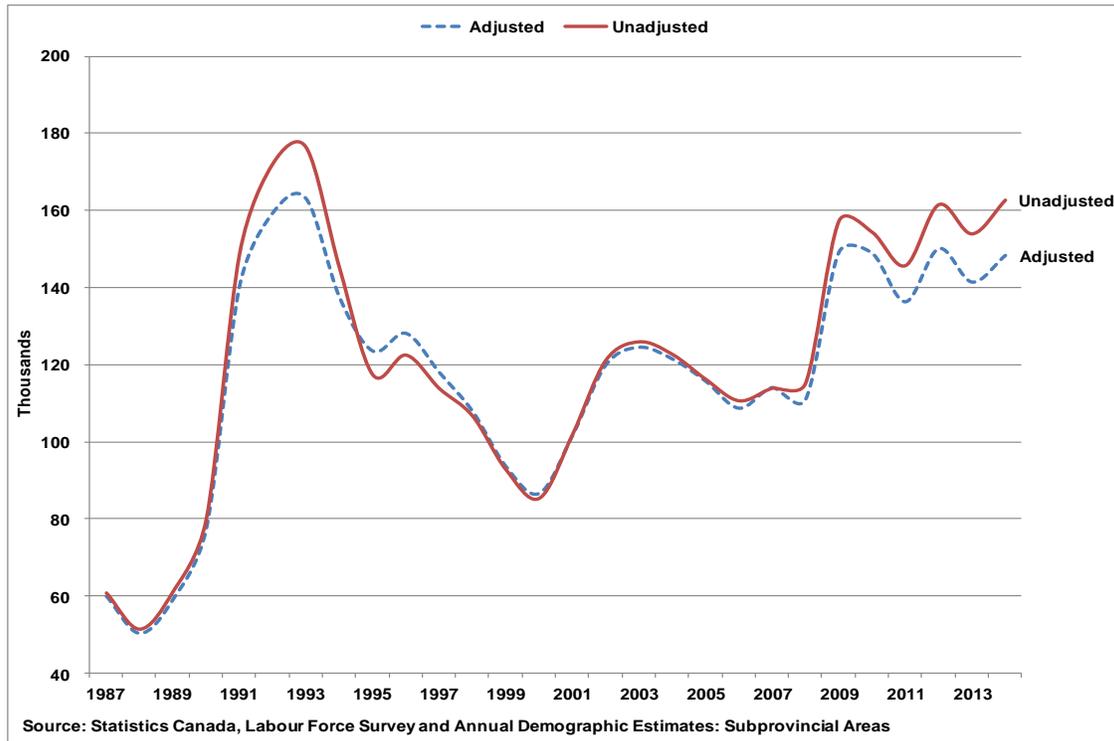
The two adjustment methods (top level vs. age and gender) use adjustment factors, which are the annual percentage difference in the population estimates between the LFS population estimates and the annual demographic estimates. For example, the LFS population aged 15+ estimate for 2014 was 8.8% higher than the annual demographic estimates. Therefore, the absolute values of all population, employment and unemployment estimates for city of Toronto residents in 2014 were revised downward by an adjustment factor of -8.8%.

The second method follows this same procedure, but it is done separately for each age and gender group. Conceptually, this method should yield more accurate results; however, we only have demographic estimates by age and gender; therefore this approach does not provide greater accuracy for adjustment to other absolute variables such as employment by industry, occupation and education to name only a few.

Population consists of three components: employment, unemployment and persons not in the labour force. Adjusted absolute values of these components show different patterns than the adjusted population because employment and unemployment are greatly influenced by age and gender composition (see charts 2, 3 and 4). The adjusted absolute values, based on the LFS adjusted using the top level adjustment method, appear to smooth out the volatility in the series, when compared to the unadjusted absolute values.

As shown in chart 2, there is little difference between the adjusted and unadjusted unemployment over the period of 1987-2014, except for the early 1990s and the last couple years.

Chart 2: Comparison of Top Level Adjusted Unemployment and Unadjusted Unemployment for the City of Toronto



The top level adjustment of employment and not in the labour force appears to smooth out the volatility in these series more for unemployed residents (see charts 3 and 4). Over the period of 2007-2014, the average difference between adjusted and unadjusted employment was about 78,800 employed city residents as shown in chart 3. The average difference between adjusted and unadjusted not in the labour force also showed a significant difference of 45,700 city residents over the same period (see chart 4).

Statistics Canada uses LFS survey sample data to determine the age and gender structure of the population aged 15+ as well as the share of the Toronto CMAs population that is in the city of Toronto; therefore, sampling variances in these variables cause these values to fluctuate. Since labour force participation rates are highly correlated with age and gender, the values for employment and not in the labour force appear to fluctuate more than the values for unemployment.

Chart 3: Comparison of Top Level Adjusted Employment and Unadjusted Employment for the City of Toronto

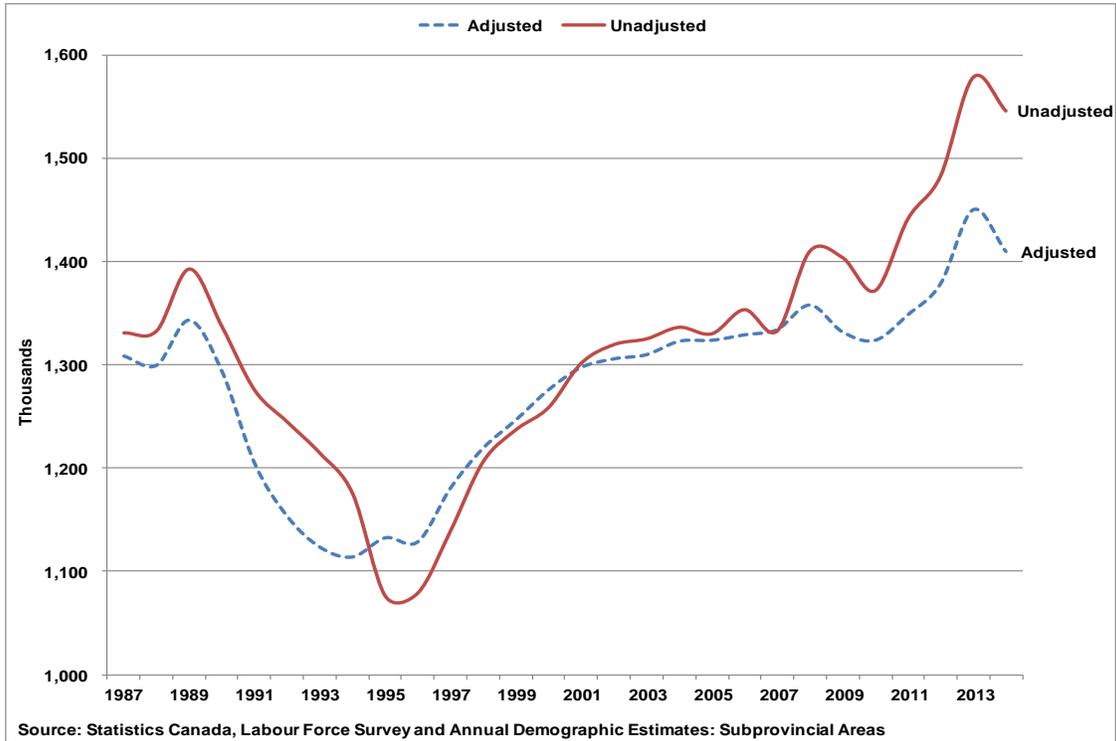
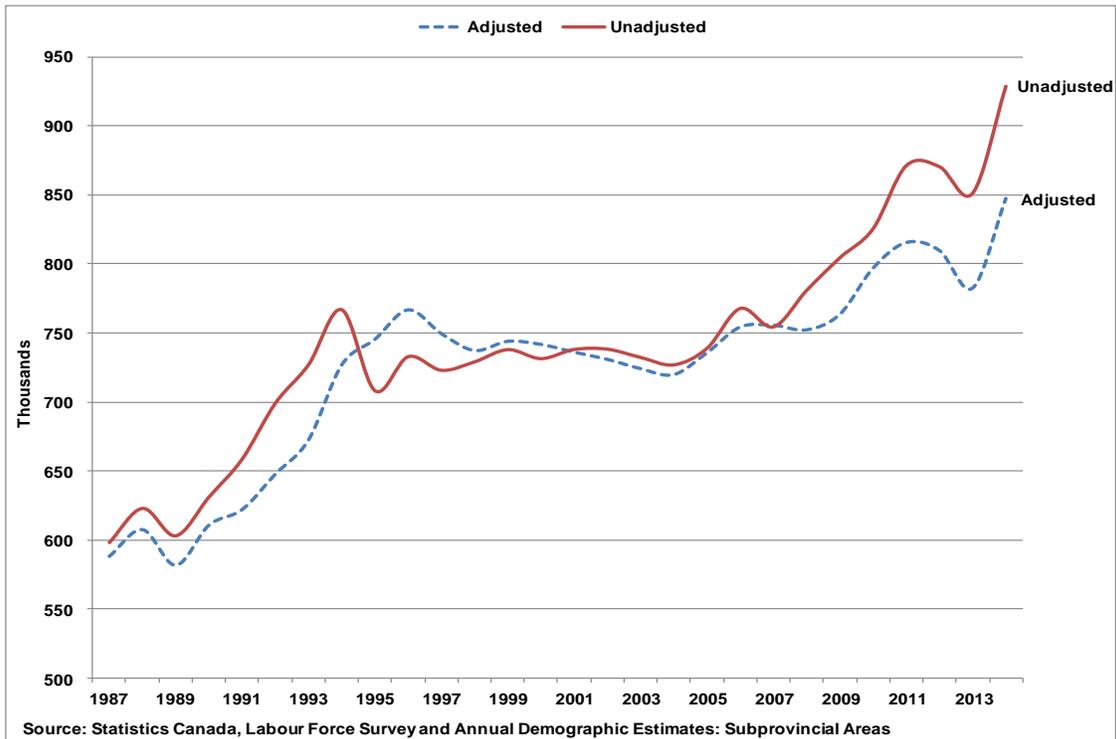


Chart 4: Comparison of Top Level Adjusted Not in the Labour Force and Unadjusted Not in the Labour Force for the City of Toronto



Trends in Key Indicators for Toronto (please see attached data presentation)

Labour Force

Traditionally, the most comprehensive and timely survey-based indicator that is available for the local economy in Toronto has been 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.

The absolute values of the revised LFS data for city of Toronto residents have recently, however, become more extremely volatile and therefore are not reliable. In the first three months of 2015, the population projections embedded in LFS show a decrease of over 200,000 city of Toronto residents. Percentage-based data from LFS for city residents is regarded as more accurate, although it also exhibits random fluctuations likely due to sampling procedures.

The seasonally adjusted monthly unemployment rate decreased from 10.6 % in July 2014 to 7.4% in January 2015. In April 2015, the seasonally adjusted monthly unemployment rate for city of Toronto residents was 7.6%, which is still higher than for "905" residents (6.8%); however, the difference in these rates has been shrinking.

The seasonally adjusted monthly labour force participation rate for city of Toronto residents bottomed out in November 2014 at 63.5% and since then it has been trending up. In April 2015, the participation rate for city residents was 65.5%, which was slightly above the provincial average.

The seasonally adjusted monthly labour force employment rate for city of Toronto residents has been consistently improving since November 2014 (57.9%), and now stands at 60.5% in April 2015.

As highlighted in the previous section of this report, because of the inaccuracies in the city of Toronto population forecast in LFS, city staff recommends using extreme caution in interpreting absolute values from LFS, such as the total number of employed or unemployed persons, for city of Toronto and "905" residents. Rates for city and "905" residents do not seem to be adversely affected.

Building Activity

According to Skyscraperpage.com, there were 133 high-rise and mid-rise buildings under construction in the city of Toronto on April 15, 2015, which is slightly lower compared to a year ago (147 buildings). However, Toronto still remains ahead of any other North American city. Emporis, which is another data source, indicates that Toronto is second

only to New York City in North America, by 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. 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.

The total value of building permits issued in the city of Toronto in the first three months of 2015 decreased by 23.7% over same period in 2014. However, this decline was entirely accounted for by slower building permit activity in January and February; in March 2015 building permit activity in the city of Toronto was marginally (0.4%) higher than last year.

The decrease in building permits issued in 2015q1 in the city of Toronto was led by a decline in residential (-33.9%) and commercial permits (-20.7%). On the other hand, there was a substantial increase in industrial permits (350.9%), while institutional permits also rose by 3.6% over 2014q1.

The increase in building permit activity in 2015q1 in the "905" municipalities was led by a surge in residential (50%) and commercial (23.1%) building permit issuance. In "905" municipalities, industrial and institutional building permits declined by 10.5% and 7.2% respectively in 2015q1 compared to the same period of last year.

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

Office Market

After several years of strong positive office absorption, particularly downtown, the Toronto office market is beginning to show some signs of softening in 2015q1.

According to Cushman & Wakefield, occupied office space downtown decreased by 433,680 sq ft, in 2015q1 compared to 2014q4. This pushed the downtown vacancy rate up from 4.8% to 4.9% and the total office vacancy rate for the city of Toronto up from 6.1% to 6.2%. The "905" office vacancy rate remained at 11.2% in 2015q1.

In 2008q4, the average office vacancy rate in "905" municipalities was only 0.6% higher than in the city of Toronto. Since then, the spread between suburban and city of Toronto office vacancy rates has increased to 5.0%.

Housing

In the first three months of 2015, housing starts (8,236 units) in the Toronto CMA, as reported by CMHC, are up by 16.2% compared to the same period in 2014. Housing starts in the city of Toronto increased even faster than the CMA average (22.1%). In 2015q1, housing starts in the city of Toronto represented two-thirds of total starts in Toronto region. Housing starts in the "905" area increased by 5.9% in 2015q1 compared to 2014q1.

This is not the first time that housing start data have diverged significantly from residential building permit data. Most of the difference is timing; however, falling unit sizes may also explain some of the difference.

The vast majority (95.7%) of housing starts in the city of Toronto are in the high-rise sector. According to CMHC, more than 80% of Toronto region "high rise starts were concentrated within the city of Toronto, particularly within the downtown core, where large condominium projects broke ground".

Total housing completions in the city of Toronto in the first quarter of 2015 jumped to 16,082 from 2,649 in 2014q1, which reduced the number of residential units under construction in the city of Toronto from 48,967 in March 2014 to 39,063 in March 2015.

The strong increase in completions has also led to a modest uptick in the number of dwelling units in the city of Toronto that have been completed but not absorbed, from 924 units in March 2014 to 1,888 in March 2015.

RealNet data show that the pre-sales of new residential high-rise units in the GTA have slowed in 2015, while the pre-sales of new low-rise units have increased. Total pre-sales of new residential units in the GTA are down by 7%, from 2014q1 to 2015q1; however, 2015q1 pre-sales remain above the ten year average for year-to-date pre-sales.

Total high-rise units pre-sold in the first three months of 2015 in the city of Toronto are down by 31% compared to the same period last year. High-rise presales are up a bit in the "905", so the GTA high-rise year-to-date totals are down by 19%. At the same time low-rise pre-sales (almost all of them in the "905") are up by 9%.

http://www.bildgta.ca/media_releases_2015_detail.asp?id=972

The gap between the average prices of low rise new homes (\$738,731) versus high-rise condominiums (\$450,133) continues to increase. One of the contributing factors to this growing gap is the record low remaining low-rise inventory.

Residential re-sale data for the city of Toronto continue to show strong growth in prices and units sold. The average house price (\$690,261) in the city of Toronto in April 2015 was 7.6% higher than a year ago and total units sold increased by 14.9% over April 2014.

The increase in sales was accompanied by a 2.7 % decline in active listings, which has reduced supply and put upward pressure on prices.

The strongest price increases were for townhouses (10.7%), which is a segment with relatively affordable price levels (\$551,231) compared to the detached segment, which breached the \$1 million dollar mark (\$1,056,114). The slowest price growth was recorded in the semi-detached and condo segments where prices grew by 3.6% and 5.9% respectively.

Retail Sales

Seasonally adjusted retail sales increased in February 2015 in the Toronto CMA, on a month-over-month and on a year-over-year basis. Seasonally adjusted retail sales in February were 1.4 % higher than in January and 5.2% higher than in February 2014.

The largest increases in retail sales in February 2015 compared to the same period a year ago were: convenience stores (28.9%), electronics and appliance stores (19.1%) and sporting goods, hobby, book and music stores (10.9%). The largest declines in retail sales in February 2015 compared to a year ago were in gasoline stations (-14.0%) and specialty food stores (-2.0%).

CONCLUSION

Global growth in 2015 is projected to be in the 3.3% to 3.5% range. The recovery is uneven, as the outlook for most developed economies has improved, whereas projected growth in emerging economies is expected to be lower.

Canada's economy continues to absorb the shock associated with lower oil prices, which caused GDP growth to stall in 2015q1. While manufacturing output is down significantly in 2015q1 nationally, Ontario's manufacturing sector seems to be bucking the national trend.

Construction continues to boom in Toronto supported by strong demand and cheap financing. Despite negative office absorption in 2015q1, the downtown office market continues to show considerable strength compared to the suburbs. The residential re-sale market in the city of Toronto also continues to show strong growth in prices and units sold.

The Toronto region is expected to grow by 3.1% in 2015 and 3.2% in 2016. These projected growth rates for the Toronto region are higher than the BOC's national projections.

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ATTACHMENTS

Attachment A: Adjusted Labour Force Survey Data
Attachment B: Economic Dashboard Presentation – May 2015