STAFF REPORT
ACTION REQUIRED

Economic Dashboard

Date:	June 9, 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 an overview of recent developments in the global economy, with a focus on Canada and Toronto.

The following section of the report summarizes major local economic indicators, including labour market updates, 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.

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 lower oil prices. Recent data, however, suggests that the pace of improvement in the US economy may have slowed. After a soft first quarter when US GDP shrank (-0.7% at annualized rates), partially explained by increased trade deficit, severe weather and the West coast port strike, it seems that economic growth has not accelerated substantially.

The Markit US Manufacturing Purchasing Managers' Index (PMI) declined from 54.1 to 53.8 in May – a 16 month low. On a more positive note, the robust pace of job creation was maintained; however, slower new order growth may indicate further softness in economic activity in the coming months.
http://www.markiteconomics.com/Survey/PressRelease.mvc/a1972463970c4c208c7b400689223bf5

The University of Michigan, U.S. consumer confidence index dropped to 88.6 in May from 95.9 in April, the lowest since October. Such a significant decline in consumer confidence may negatively impact personal consumption, which has been a key driver of recent economic growth.
http://www.bloomberg.com/news/articles/2015-05-15/consumer-sentiment-in-u-s-plunged-in-may-by-most-in-two-years

The IMF projects that the Euro area will grow by 1.5% in 2015 and 1.6% in 2016. Growth was stronger than expected in 2014q4 and the momentum seems to have continued into 2015. The Markit Eurozone Composite PMI eased in May to 53.4 from a recent peak of 54.0 in March. The slowdown in growth in the composite index was driven by a slowdown in the services sector; whereas Eurozone Manufacturing PMI hit a 13-month high in May.

The survey also alleviated deflation concerns as average input prices increased at the highest rate since April 2012, due to higher oil prices, wages and import costs. While the rate of economic expansion softened in May, "the region excluding France and Germany is on course for its best quarter of growth and job creation since the second and third quarter of 2007".

According to Chris Williamson, chief economist at Markit, "the average PMI reading for the second quarter so far points to GDP growth similar to the 0.4% expansion seen in the first three months of the year. This suggests the Eurozone is on course to expand by around 2.0% this year, which would be its best performance since 2010.
http://www.markiteconomics.com/Survey/PressRelease.mvc/05f244462a684f919365061ec0875dcc

Elsewhere, China Manufacturing PMI was below the neutral mark of 50.0 in May (49.1), which suggest that production is declining. The deterioration has been attributed to softer domestic and international consumer demand conditions.
http://www.markiteconomics.com/Survey/PressRelease.mvc/e01f1a716c744d1786b87e2b721c6451

Weaker Chinese economic growth implies that commodities prices will remain weak in the near term, which may keep the loonie depressed and hence provide a boost to Canada's manufacturing sector.

While oil prices have recently climbed by 40% from their six year low, many experts believe that the rally is unsustainable because on the demand side oil consumption in China is growing at half the rate it did over the past decade and on the supply side, according to the US Energy Information Administration (EIA) global production will exceed consumption in 2015 and 2016. EIA is forecasting that US oil production will continue to increase through 2020 when it will be 14% higher than this year.
http://www.bloomberg.com/news/articles/2015-05-12/china-is-missing-ingredient-in-oil-s-recovery-from-six-year-low

Over the last couple of months there has also been a spike in the global bond yields. Bond yields bottomed on February 2, 2015 and since then rates have increased both across major bond markets and the entire yield curve. For example, the 30 year US treasury increased from 2.25% on February 2 to 3.11% on June 5.

Canadian bond yields have followed a similar pattern. The 5-year bond yield increased from 0.59% on February 2 to 1.04% on June 5. The 5-year bond yield is a major determinant of the five year fixed rate mortgage loans, hence it is reasonable to expect a small increase in mortgage rates.

There are a few reasons outlined by observers for the bond yield spike. It seems that the market believes that a) the threat of deflation has dissipated; b) the economy will grow stronger than previously anticipated; and c) the Federal Reserve will start lifting rates later this year.

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, a depreciating Canadian dollar is supporting non-energy exports.

Canada real GDP declined (-0.6% annualized rates) in 2015q1, which was mostly attributed to substantially lower business capital formation (-9.7% annualized rates).
http://www.statcan.gc.ca/daily-quotidien/150529/dq150529a-eng.pdf

On May 27, the BOC reported that the outlook for the Canadian economy has remained in line with its April 2015 Monetary Policy Report and kept its target overnight rate at 0.75%.
http://www.bankofcanada.ca/wp-content/uploads/2015/05/fad-press-release-2015-05-27.pdf

On May 11, the University of Toronto Policy and Economic Analysis Program (PEAP) released its new economic outlook for Canada and Ontario. PEAP downgraded Canada's annual GDP growth for 2015 to 1.9% compared to 2.2% in March, due to weak growth in the beginning of 2015.

The OECD lowered its economic growth forecast for Canada for 2015 to 1.5%, in June 2015, from 2.2% in March 2015 and 2.5% in November 2015.

Ontario

PEAP also recently downgraded Ontario's annual GDP growth rate forecast for 2015 to 2.3% compared to 2.8% in the February outlook. PEAP expects that Ontario's growth rate will pick up in 2016 and will be 2.8%, higher than the national rate of 2.6%.
After a dismal start to the year, exports rebounded strongly in March 2015. Ontario exports increased by 22.1% in March compared to February. In fact, Ontario exports growth accounted for two thirds of Canada's export increase. This may represent some early signs that the province is beginning to benefit from the lower Canadian dollar.

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.

On May 9, Moody's lowered its 2015 and 2016 outlook for the Toronto CMA from 3.3% and 3.8% to 1.4% and 1.3% respectively. Moody's expects a significant slowdown in the FIRE sector, as the housing sector cools down and the banking sector is negatively affected by lower capital expenditures in the energy sector.

On the other hand, both the Conference Board of Canada and Oxford Economics predict that Toronto's economy will grow healthily in 2015 and 2016, by about 3% annually.

Using the average of the three forecasts, the economy of the Toronto region is estimated to have grown by 2.2% in 2014. It is also expected that the Toronto region will grow by 2.4% in 2015 and 2.4% in 2016.

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.

Unfortunately, Statistics Canada substantially changed the methodology used to produce LFS population estimates for the city of Toronto at the beginning of 2015. These changes have resulted in large inexplicable population changes. Between Dec 2014 and March 2015, the city of Toronto's estimated population aged 15+ fell by over 200,000 people. In May it fell by more than 30,000 people. These population changes are not real, and they have pulled down all of the absolute numbers (including total persons employed and unemployed).

The unemployment rate, the participation rate and the employment/population ratios should be unaffected, as are the absolute numbers for the CMA, Ontario and Canada. However, the monthly change in the number of employed (or unemployed) city of Toronto residents is very misleading.

The seasonally adjusted monthly unemployment rate for city residents has fluctuated from 10.6 % in July 2014 to 7.4% in January 2015. As of May 2015, the seasonally adjusted monthly unemployment rate was 7.7% in the city of Toronto and it was 6.3% in the surrounding "905".

While the May 2015 unemployment rate in the city of Toronto is slightly higher compared to April (7.6%), the increase in the unemployment rate in May is entirely explained by a significant increase in the seasonally adjusted labour force participation rate. The participation rate for city residents was 66.7% in May 2015, its highest level since December 2013.

The seasonally adjusted monthly labour force employment rate, which combines the participation rate and the unemployment rate, for city of Toronto residents has been consistently improving since November 2014 (57.9%), and was 61.5% in May 2015.

Building Activity

According to Skyscraperpage.com, there were 132 high-rise and mid-rise buildings under construction in the city of Toronto on May 27, 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 four months of 2015 increased by 40.1% over same period in 2014. This increase was entirely accounted by a substantial jump in building permit activity in April, when building permit activity in the city of Toronto was four times higher than last year.

The April year-to-date increase in building permits issued in the city of Toronto was led by a jump in non-residential (123%) permits, whereas residential permits declined (-6.6%). The increase in non-residential permits was due to almost tenfold spike in institutional permits, while industrial permits also rose by 336.9% compared to the same period in 2014.

The April year-to-date increase in building permits issuance in the "905" municipalities was led by a surge in residential permits (50.4%), while non-residential increased marginally (3.9%) over same period of last year. In "905" municipalities, institutional and industrial building permits declined by 18.3% and 7.7% respectively; whereas commercial permits increased by 13.2% 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 began 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 office vacancy rates in the "905" were 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 four months of 2015, housing starts (11,516 units) in the Toronto CMA, as reported by CMHC, are up by 13.7% compared to the same period in 2014. According to CMHC, "strong high rise completions so far this year have enabled builders to channel more resources towards breaking ground on new projects".

In April 2015 total housing starts increased by 8.1% over April 2014. This increase was driven by significantly higher housing starts in York (201.5%), Peel (60.4%) and Durham (15.6%) regions. On the other hand housing starts declined in city of Toronto (-32.4%) and Halton (-13.6%) in April 2015 over the same period of last year.

The vast majority (86.2%) of housing starts in the city of Toronto are in the high-rise sector. The April housing start decline was attributed to the high rise sector, whereas the low-rise housing starts increased by 39% over last year. April year-to-date housing starts are 6.3% higher compared to the first four months of 2014.

Total housing completions in the city of Toronto in the first four months of 2015 jumped to 17,996 from 3,889 in same period of 2014, which reduced the number of residential units under construction in the city of Toronto from 49,554 in April 2014 to 38,244 in April 2015.

The strong increase in completions has also led to a doubling in the number of dwelling units in the city of Toronto that have been completed but not absorbed, from 1,007 units in April 2014 to 1,995 in April 2015.

For the period of January to April 2015, total pre-sales of new residential units in the GTA are up by 2.8% compared to same period in 2014. RealNet data show that the slowdown in high-rise pre-sales (-11.7%), was offset by an increase in new low-rise units (18.5%). Total pre-sales of new residential units in April 2015 in the city of Toronto were down by 19.9% compared to the same period last year.

The gap between the average prices of low rise new homes ($775,419) versus high-rise condominiums ($448,760) continues to grow. One of the contributing factors to this growing gap is the record low remaining low-rise inventory.
http://www.bildgta.ca/media_releases_2015_detail.asp?id=978

Residential re-sale data for the city of Toronto continue to show strong growth in prices and units sold. The average house price ($718,350) in the city of Toronto in May 2015 was 10.1% higher than a year ago and total units sold increased by 2.9% over May 2014. The gap between mean and median house price continues to grow and as of May 2015 stands at 30.1%, up from 25% in May 2014. This suggests that price appreciation is being driven by the high end of the housing market.

The increase in sales was accompanied by a 3.2% decline in active listings, which has reduced supply and put upward pressure on prices. The decline in active listings is attributed to the townhouse (-9.4%) and detached (-8.9%) housing segments. Active listings in the condominium and semi-detached segments were flat compared to a year ago.

Retail Sales

Seasonally adjusted retail sales increased in March 2015 in the Toronto CMA, on a month-over-month and on a year-over-year basis. Seasonally adjusted retail sales in March were 2.5 % higher than in February and 7.0% higher than in March 2014.

The largest increases in retail sales in March 2015 compared to the same period a year ago were: other motor vehicle dealers (33.7%), used car dealers (28.8%) and convenience stores (26.2%). The only decline in retail sales in March 2015 compared to a year ago were in gasoline stations (-10.5%), which was due to lower oil prices.

April 2015 retail sales data will be released on June 18, 2015.

CONCLUSION

Canada real GDP declined in 2015q1, which was mostly attributed to substantially lower business capital formation. The BOC reported that the outlook for the Canadian economy has remained in line with its April 2015 Monetary Policy Report and kept its target overnight interest rate at 0.75%.

The Toronto region is expected to grow modestly by 2.4% in 2015 and 2.4% in 2016. The 2015 projected growth rates for the Toronto region are higher than the BOC's national projection.

Various local economic indicators, such as strong high rise construction, year-to-date housing starts, existing market housing sales and prices, and retail sales suggest that Toronto's economy is on a strong footing despite slower growth in the national economy.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation – June 2015