TORONTO

STAFF REPORT ACTION REQUIRED

Economic Dashboard

Date:	January 17, 2013
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	P:/2013/Cluster A/EDC/ECON DEV/January/ed1301-009

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.

RECOMMENDATION

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

Summary of Recent Economic Events

Europe continues to muddle its way through. It is now clear that Europe is in a recession and will not return to positive growth until at least Q2 2013 and European unemployment rates are not expected to start coming down until 2014. The next challenge will be how to re-capitalize European banks, without adding to dangerously high sovereign debt burdens.

The United States did not go over a fiscal cliff on January 1, 2013; a last minute bi-partisan bill was passed that increased taxes on high income taxpayers and extended unemployment benefits; however, no agreement has been reached on spending cuts and the debt ceiling. The United States federal debt continues to increase and the Republicans and Democrats have to reach an agreement on increasing the federal debt ceiling in the next two months.

The private sector in the United States continues to add jobs; however, not as rapidly as in previous recoveries. In addition, public sector employment in the US continues to contract. For both of these reasons, the U.S. unemployment rate is not declining as quickly as in previous recoveries. The seasonally adjusted unemployment rate in the United States was 7.8% in December 2012, which is lower than a year ago, but it remains considerably higher than the 4.5% average before the 2008/2009 recession.

All of the major international economic institutions have recently downgraded their short and medium term outlooks for global growth.

On October 9, 2012, the International Monetary Fund (IMF) published its semi-annual World Economic Outlook, sub-titled "Coping with High Debt and Sluggish Growth": "The recovery continues, but it has weakened. In advanced economies, growth is now too low to make a substantial dent in unemployment" and "Low growth and uncertainty in advanced economies are affecting emerging market and developing economies"
http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf

OECD on November 27, 2012 stated that:
"A hesitant and uneven recovery is projected over the next two years" and "Outcomes could be considerably weaker, given high downside risks."
http://www.oecd.org/eco/economicoutlook.htm

The World Bank released its global forecast on January 15, 2013. "Four years after the onset of the global financial crisis, the world economy continues to struggle. Developing economies are still the main driver of global growth, but their output has slowed compared with the pre-crisis period." And "Growth in high-income countries remains weak, with their GDP expanding only 1.3 percent in 2012 and expected to remain slow at an identical 1.3 percent in 2013. Growth should gradually firm to 2 percent in 2014 and 2.3 percent by 2015. In the Euro Area, growth is now projected to only return to positive territory in 2014, with GDP expected to contract by 0.1 percent in 2013, before edging up

to 0.9 percent in 2014 and 1.4 percent in 2015."
http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1358278153255/GEP13AFinalFullReport_.pdf

The Canadian and Ontario governments are still struggling with their own deficit issues. The Ontario deficit is currently estimated at $14.4 billion and the federal deficit at $26.0 billion. As a percentage of GDP, the Ontario deficit is 2.2% and the federal deficit is 1.4%. Therefore, the federal and provincial public debt is increasing at a rate of 3.6% of GDP in Ontario each year, which is higher than nominal GDP growth. In real terms (after inflation) the public debt is still rising in Ontario, which is unsustainable in the long-run.

One outcome of continuing global economic weakness is that interest rates are likely to remain low, which poses a challenge for persons on fixed incomes and aging baby-boomers that are starting to think (perhaps too late) about saving for retirement; however, it is an opportunity for firms and individuals interested in making long-term investments.

Gross Domestic Product

Two economic forecasting agencies (the Conference Board of Canada and Moody's) produce quarterly economic forecasts for the Toronto CMA. Please see Attachment 1, slides 3 & 4.

According to the Conference Board of Canada's most recent estimate (December 3, 2012), the regional economy grew at 0.60% (after inflation), which is equal to an annualized rate of 2.4%, in the last quarter of 2012. This is just slightly lower than the Toronto CMA's average quarterly growth rate (0.63% per quarter, or 2.5% at annual rates) over the last 25 years. On January 7, 2013, Moody's released its most recent forecast, showing that the Toronto CMA economy expanded by 0.50% in 2012q4.

The two agency's projections diverge sharply in 2013q1. Moody's is projecting that the Toronto economy will only grow by 0.22% (from 2012q4 to 2013q1 (less than 1% on an annualized basis). This compares to the Conference Board's 2013q1 quarterly growth projection of 0.95% (3.9% at annual rates).

Towards the end of 2013, both the Conference Board and Moody's expect Toronto CMA real growth to return to quarterly rates between 0.75% and 0.80%, which are equal to annual growth rates in the 3.0% – 3.2% range.

Even with continued positive economic growth, the Conference Board of Canada anticipates that the unemployment rate for Toronto CMA residents will not show substantial improvement until the latter half of 2013 or even 2014.

Labour Force Survey

Statistics Canada released December 2012 labour force survey (LFS) results on January 4, 2013. Overall, the unemployment rate for City of Toronto residents remains substantially higher than the rest of the Toronto region and the rest of Canada. In

December 2012, on a seasonally adjusted monthly basis, the unemployment rate for City of Toronto residents was 2.6% higher than for all Canadian residents.

In December 2012, the seasonally adjusted monthly unemployment rate for City of Toronto residents jumped from 9.2% back to 9.7% (where it was in October 2012). It now stands marginally higher than a year ago. The seasonally adjusted labour force participation rate slipped slightly from 67.0% to 66.9% in December 2012 and the total number of employed residents also declined slightly from 1,307,800 in November to 1,300,200 in December 2012.

Taking a longer term perspective, a fundamental change that seems to have occurred in the last 12-18 months is the remarkable increase in the participation rate for City residents, and to a lesser extent 905 residents. The seasonally adjusted labour force participation rate for City of Toronto residents has exceeded the national participation rate for each of the last 3 months. This is remarkable since the last time the monthly labour force participation rate of City residents exceeded the national rate was eleven years ago.

The increase in the participation rate is also one of the reasons the unemployment rate for City of Toronto residents has remained higher than elsewhere in Canada.

City Residents (Thousands)	Pop'n age 15+	Labour Force	Employed	Unempl	Not in Lab Force	Particip Rate	Unemploy Rate
Last 4 mos 2011	2,159.0	1,390.4	1,262.3	128.0	768.7	64.4%	9.2%
Last 4 mos 2012	2,154.1	1,441.6	1,303.5	138.2	712.4	66.9%	9.6%
What if (2012)?	2,154.1	1,387.2	1,303.5	83.7	712.4	64.4%	6.0%

The first two lines in the above table show how unemployment rates and participation rates for City of Toronto residents have changed between the last four months of 2011 and the last four months of 2012. Over the last year, the seasonally adjusted unemployment rate for City residents increased by 0.4%. At the same time, more City residents joined the labour force, pushing participation rates up by 2.5% in the last year.

The third line in the table above shows what the unemployment rate would be today, if participation rates had not changed during 2012, while the total number of employed residents increased as observed: the unemployment rate for City of Toronto residents would currently stand well below the national level and more than three percent lower than it is today.

Employment in Establishments

The City of Toronto Planning Division has been collecting data about business establishments in the City of Toronto (formerly Metro Toronto) since 1983. Detailed results from the 2011 survey were reported in the April 2012 Dashboard report. As previously reported, total jobs in the City of Toronto increased by 19,000 from 2010 to 2011. Half of the increase was in full-time employment and half was part-time.

Building Activity

The City of Toronto continues to lead the rest of North America by a considerable margin in the number of high-rise buildings under construction. With 184 buildings under construction, there are more than twice as many in the City of Toronto as in our nearest rivals in North America.

The total value of building permits issued in the City of Toronto has fallen behind 905 permit levels for the past six months; however, the total value of permits issued in the last six months of this year in the City of Toronto is almost exactly the same as the same six months last year. What we are observing is not a decrease in the City but rather a significant increase in building permits issued in the 905 regions.

Comparing the last six months of this year with the same period a year ago, residential permits are up in the City and institutional permits are down.

Office Market

The overall office vacancy rate within the City of Toronto has been trending downward for the last two years and it now stands at 5.4% (2012q3). Despite the recent completion of several large downtown office buildings, the third quarter downtown vacancy rate stands at 4.3%, according to Cushman & Wakefield, which is well below its level a year ago (5.0%).

The vacancy rates for the suburban office nodes in the City of Toronto are similar to the 905 vacancy rate (10.0%), except for the North York City Centre, which has a vacancy rate of 4.4%.

Housing

Housing starts in the City continue to show considerable strength. After a tremendous 2012q3, housing starts in the City in October and November 2012 continued to exceed the same month last year.

Future starts are expected to moderate in the City, since fewer units are being pre-sold. Data from the Building Industry and Land Development Association show that high-rise condo presales in the City of Toronto are down in each of the last 12 months (to November 2012) compared with a year ago.

The Toronto Real Estate board reported 1,470 house sales in December 2012, at an average price of $494,127. Comparing December 2012 and December 2011: total house sales are down by 25%; however, the average sale price is up by $20,000 in the past year.

Retail Sales

Total retail sales in 2012q3 in the Toronto region was $16.6 billion, which is a small decrease compared to 2011q3. Note that retail sales data, unlike GDP data, are not adjusted for inflation.

CONCLUSION

Despite some indications that the Toronto area economy is starting to slow down, most of the key economic indicators for the Toronto area continue to show considerable strength.

CONTACT

Peter Viducis, Manager, Research
Strategic Growth & Sector Development
Tel: 416 392-3396
Fax: 416 397-5332
pviducis@toronto.ca

SIGNATURE

Michael H. Williams, General Manager
Economic Development and Culture

ATTACHMENTS

Attachment No. 1: Economic Dashboard Presentation