STAFF REPORT
ACTION REQUIRED

Economic Dashboard – Annual Summary, 2014

Date:	February 11, 2014
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	

SUMMARY

This report provides an annual summary of the data reported each month in the Toronto Economic Dashboard, which benchmarks 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. Staff was also requested to produce an annual summary of these indicators each year.

COMMENTS

Gross Domestic Product (GDP)

The most comprehensive indicator of economic activity is the total output of goods and services produced in the economy, mostly commonly expressed as "real GDP". The term "real" means that the series has been adjusted for inflation

Global Economy

Over the last five years, the Canadian economy has out-performed most developed countries in the world. Total output produced in Canada increased at an annual average rate of 1.2% in real terms from 2008 to 2012.

Most economic observers predict that global growth rates will increase over the next few years. For example, the Bank of Canada expects that global growth rates will increase from an estimated 2.9% in 2013 to 3.4% in 2014 and 3.7% in 2015.

Table 1: Global Economic Growth

	2008-2012 annual real GDP growth	Projected GDP growth		
		2013	2014	2015
Canada	1.2%	1.8%	2.5%	2.5%
United States	1.1%	1.9%	3.0%	3.2%
Euro Area	0.0%	-0.4%	0.9%	1.4%
China	9.2%	7.7%	7.2%	7.1%
World	3.0%	2.9%	3.4%	3.7%
Source: IMF World Economic Outlook, October 2013, and Bank of Canada, Monetary Policy Report, January, 2014				

The expected increase in global growth rates has been led by a rebound in U.S. economic growth, which appears to have exceeded 3.5% in the second half of 2013. If these preliminary estimates are confirmed, real US GDP growth for 2013 will be revised upwards. Real US GDP annual growth rates are expected to rise from 1.9% (before the expected adjustments) in 2013, to 3% in 2014 and 3.2% in 2015.

The Euro area is expected to finally emerge from its prolonged recession and is expected to see slow growth of 0.9% in 2014 and 1.4% in 2015.

China's economy, which grew at an annual rate of 9.2% from 2008 to 2012 and which now comprises 15% of global GDP, is expected to grow at a more moderate rate of 7.2% in 2014, and 7.1% in 2015.

Canada

In the second half of 2013, the Bank of Canada estimates that real GDP growth in Canada has risen somewhat above the potential growth rate of the economy. Potential output growth is the rate of growth in the economy that is sustainable in the long-term.

Currently, there are underutilized resources (including unemployed residents) in the Canadian economy that could be put back to work without creating inflationary pressures. An economy that is growing above its potential growth rate is typically consistent with an economy that is experiencing a decrease in unemployment rates.

Real annual GDP growth rates in Canada are expected to rise from 1.8% in 2013 to 2.5% in 2014 and 2015, supported by improvements in the US economy and higher global demand. http://www.bankofcanada.ca/wp-content/uploads/2013/11/mpr-2014-01-22.pdf

In 2013, the Canadian dollar depreciated by 7.4% compared to the US dollar, and that trend has continued into 2014. The depreciation of the Canadian dollar makes imports more expensive, which reduces Canadian's standard of living, but it also makes Canadian goods and services more competitive, which should increase GDP (ie output) and jobs in Canada.

The falling Canadian dollar is also inflationary in Canada, which is actually a positive development. Inflation is so low in Canada (less than one percent by some measures), that there is a risk of Canada falling into a deflationary trap, where people hold off on buying things, reasoning that they will be cheaper in the future. When prices are falling, it is also much more difficult for prices, particularly the price of labour, to adjust to changing economic circumstances.

Toronto Region

We have two forecasts for GDP for the Toronto CMA. Statistics Canada does not produce sub-provincial GDP estimates and the Conference Board of Canada and Moody's use different methodologies; therefore, not only do the two forecasts differ, but the two historical series are also slightly different.

Using the average of the two forecasts, the economy of the Toronto region is estimated to have grown by 2.4% in 2013. It is expected that the Toronto region will grow by 2.9% in 2014 and 3.0% in 2015. In 2016 and 2017 growth rates are expected to decline slightly.

The projected growth rates for the Toronto CMA are roughly 0.5% higher than the expected Canadian growth rates; however, the Toronto CMA's population is growing between 0.6% and 0.7% faster than the national average. Therefore, GDP per capita is expected to grow slightly slower in the Toronto CMA 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%-1.3% per year.

Labour Force

Statistics Canada publishes monthly labour force statistics for all Canadian CMA's and provinces. In addition, the City of Toronto purchases a special run from Statistics Canada of labour force survey data for City of Toronto residents only, i.e. separate from the rest of the Toronto CMA. All Labour Force Survey data are collected by place of residence, and therefore represent "employed residents" and not "jobs".

After experiencing three years (2006-2008) of unemployment rates below 8%, city of Toronto residents (like people across the world) saw unemployment rates jump up sharply. On an annual average basis, the unemployment rate for city residents rose to almost 10% in 2009. On a seasonally adjusted monthly basis, the unemployment rate for city residents peaked at 11% in July 2009.

Annual average unemployment rates for city residents remained above 9% until 2013, seasonally adjusted monthly unemployment rates fell to 7.1%, before rising again towards the end of year. On an annual average basis, the unemployment rate for city residents was 8.8% in 2013.

Participation rates for city of Toronto residents did not respond as quickly to economic events as did unemployment rates in 2008. On an annual average basis, there was no change in the participation rate from 2008 to 2009. After a modest decline in 2010 and 2011, labour force participation rates for city residents started to rise dramatically in 2012. On an annual average basis, the labour force participation rate for city of Toronto residents was 67.3% in 2013. This is higher than the Canadian average and it is higher than it has been in over 20 years.

A lot of the increase in participation rates for city residents can be explained by a substantial increase in female participation rates. In 2013, male participation rates (72.4%) finally recovered to their 2008 pre-recession levels (72.2%) in the city; however, at the same time female participation rates rose from 60.6% in 2008 to 62.6% in 2013.

The trend in city of Toronto female participation rates has not been matched at other levels of geography. Females in the rest of the Toronto CMA, as well as Ontario and Canada all had lower participation rates in 2013 than in 2008. In contrast, both males and females, at all levels of geography, had higher unemployment rates in 2013 than in 2008.

One of the reasons labour force participation rates are increasing in the city of Toronto is that the city's population is not aging as quickly as elsewhere. In Ontario and Canada, the share of the labour force reference population (persons aged 15+) that is aged 65+ grew by almost 2% between 2008 and 2012. In contrast, in the city of Toronto, the share of men aged 65+ increased only 0.1% between 2008 and 2013, while the share of women over 65% actually declined by 0.4% in this period.

At the same time as the share of women in their core working years is increasing in the city of Toronto, the number of women is also growing much faster than the number of men. Five years ago, 51.4% of city residents aged 15+ were female, by 2013 that figure had risen to 52.2%. At other levels of geography, the gender balance shows little change in this period.

Labour force participation rates also vary by education; however, there does not appear to be a pattern to these changes that would help to explain the increase in participation rates in the city. The percentage of residents with a university education is rising everywhere, and even more so for females than for males.

Comparing the labour market experiences of immigrants living in the city of Toronto and those born in Canada, shows that immigrants have had more success in the labour market than Canadian born city residents from 2008 to 2013.

Between 2008 and 2013 labour force participation rates declined for city residents born in Canada aged 25-64, and particularly so for the 45-64 age group, whose participation rate decreased by 2.4%. On the other hand, participation rates increased for immigrants aged 25-64. The increase was more pronounced for the 45-64 age group, where rates jumped from 74.6% in 2008 to 78.2% in 2013.

Between 2008 and 2013 unemployment rates increased for both immigrants and non-immigrants. The largest increase was for immigrants aged 25-44 (8.7% to 10.9%), and the lowest increase was for immigrants aged 45-64 (7.3% to 7.4%).

Employment rates, which combine the participation rate and the unemployment rate, declined significantly for residents born in Canada aged 25-64, between 2008 and 2013, and decreased marginally for immigrants aged 25-44. However, the employment rate for immigrants aged 45-64 increased substantially (69.2% to 72.4%).

Building Activity

According to Emporis.com, there were 136 high-rise and mid-rise buildings under construction in the City of Toronto on January 22, 2014, which is lower compared to a year ago (175 buildings). However, Toronto still remains ahead of any other North American city.

Data from Skyscraper.com 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 substantially more buildings under 50 stories.

The total value of building permits issued by the City of Toronto in 2013 was $7.9 billion, which is 27.4% higher than in 2012. By comparison, the total value of building permits in Canada was marginally lower in 2013 than in 2012 and the total value of building permits issued by "905" municipalities declined by 19.1% in 2013.

The largest increase in the total value of building permits issued in the city in 2013 was residential building permits, whose value rose by $1.1 billion. Industrial, commercial and institutional (ICI) permits issued in the city increased by 21.3% in 2013. The value of commercial permits increased substantially (+$1.0 billion) in 2013, while the value of industrial and institutional permits declined by much smaller amounts.

Office Market

The office market in the Toronto Region softened marginally in 2013. Vacancy rates in the city of Toronto increased from 5.6% at the end of 2012 to 6.1% in 2013Q4. In 905 municipalities, vacancy rates increased from 10.2% to 10.6%.

In 2008Q4, office vacancy rates in the "905" were 0.6% higher than in the City of Toronto. Five years later, the spread between suburban and city of Toronto office vacancy rates had increased to 4.5%.

However, vacancy rates only tell part of the story. The office inventory increased by 1.7 million square feet in the city of Toronto over last year and occupied space in the city increased by 1 million square feet in 2013.

We have added two slides to the attached presentation (slides 31 & 32), which show the change in occupied space in the downtown, the rest of the city of Toronto and the "905" over the last 13 years. The chart shows that total occupied office space downtown increased in each of the last 11 years, and there seems to have been no noticeable impact on occupied office space downtown from the economic slowdown at the end of 2008.

There is another natural break in the occupied office space data. In the six years from 2003-2008, the "905" experienced considerably more office absorption than the downtown, and the rest of the city experienced a modest increase in occupied space.

The five years from 2009 to 2013 show a different pattern from the preceding six years. Downtown growth continued at a steady pace (approximately 1.1 million square feet per year). The growth of occupied office space in the "905" slipped to approximately one tenth of its level in the previous period, and the rest of the city (outside the downtown) saw a contraction of about 200,000 square feet per year.

Industrial

The City of Toronto has 264 million square feet of industrial space, which is more than any other GTA municipality and is a third of the regional total. Industrial vacancy rates have declined in the City of Toronto over the last 4 years and now stand at 4.9%, which is lower than in the 905 area (6.1%).

Housing

After a record year in 2012, housing starts in the city of Toronto and in the rest of the Toronto region declined in 2013. Total housing starts in 2013 in the Toronto CMA, as reported by CMHC (33,547 units) are down by 30.3% compared to 2012. Housing starts for the city of Toronto in 2013 were 38.6% lower than in 2012, but are still 32.2% higher than the average for the last 25 years.

The number of residential units under construction continues to rise. As of December 2013, there were 47,133 residential units under construction in the city of Toronto, an increase of 3.4% over December 2012.

In 2013, pre-sales of new residential units in the GTA were 23% below the 10-year average. When compared to 2012, pre-sales were down by 12.6% in the GTA, and by 18.4% in the city of Toronto. More recently, residential pre-sales in the city of Toronto increased by 29.7% in the last two months of 2013 over same period of last year. 1,069 new high-rise units were pre-sold in the GTA in December 2013, and 807 of them were in the city of Toronto.

Residential re-sale data for the city of Toronto continue to show healthy growth in both units sold and prices. The average house price ($565,860) in the city of Toronto in 2013 was 5.2% percent higher than a year ago. In 2013, there were 33,143 total units sold, which was 2.5% higher than in 2012.

Retail Sales

December 2013 retail sales data will not be available until February 21, 2014. Staff will update the attached presentation accordingly.

The total value of retail sales in the 11 months ending November 2013 in the Toronto region was $62.3 billion, which is an increase of 2.1% over the same eleven months last year and a bit higher than the rate of inflation. Retail sales started to improve in the second half of the year.

Specialty food stores (7.7%), automotive parts, accessories and tire stores (7.5%), and building material and garden equipment and supplies dealers (5.5%) experienced the highest growth in sales; whereas, electronics and appliance stores (-3.2%) and convenience stores (-3%) had the largest declines in sales in 2013.

CONCLUSION

The Toronto region's economy continued to expand modestly in 2013. It is estimated that total output (adjusted for inflation) produced in the Toronto region grew by about 2.4% in 2013, and the growth rate is expected to increase to approximately 3.0% in 2014 and 2015.

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ATTACHMENTS

Attachment: Economic Indices Presentation – Annual Summary, 2014