

Economic Dashboard

Date:	April 7, 2014
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 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

Most recent economic indicators reveal that global economic activity improved during the second half of 2013. The IMF is projecting that global growth will increase from 3% in 2013, to 3.7% in 2014 and 3.9% for 2015. While this improvement is very welcome, growth rates remain well below their historic levels. For example, the average annual global growth rate from 2002 to 2007 was 4.8% per year.

<http://www.imf.org/external/pubs/ft/weo/2014/update/01/pdf/0114.pdf>

The Global Business Outlook Survey, published by Markit on March 10, 2014 indicated the highest level of business optimism in two years. Expectations about business growth, capital spending and hiring intentions rose significantly in the US, Eurozone and the UK in February.

While economic growth rates seem to be improving in most developed economies, growth appears to be stalling in several emerging market countries. Growth forecasts have been downgraded for several countries, and firms in emerging markets are significantly less positive about future business growth, capital spending and hiring than they have been in the last five years.

<http://www.markiteconomics.com/Survey/PressRelease.mvc/2ec859297f7b4cb9ad2262097ba03927>

United States

On March 19, 2014, the Federal Reserve announced that it is scaling back its monthly bond purchasing program further, from \$75 billion to \$65 billion, which is another step towards normalizing the Central Bank's monetary policy.

Economic activity slowed in the winter months; however, this now appears to have been largely due to adverse weather conditions. Total employment continues to grow, though it remains well below pre-recession levels. Household spending and fixed investment also continue to increase.

<http://www.federalreserve.gov/newsevents/press/monetary/20140319a.htm>

Europe

The Eurozone economy is enjoying its strongest growth since the first half of 2011. In March, the Markit Eurozone PMI® Composite Output Index was 53.2, marginally lower than February's 32-month high (a reading above 50 suggests that the economy is expanding). Service activity has risen for eighth consecutive month, while manufacturing output and new orders have increased for nine consecutive months. “The ongoing upturn in business activity in March rounds out the Eurozone's best quarter since

the second quarter of 2011. The survey is signalling a 0.5% increase in GDP in the first quarter, building on the 0.3% increase seen in the final quarter of last year."

<http://www.markiteconomics.com/Survey/PressRelease.mvc/32ff643865a64f0d8b398fa42e9a575d>

At the same time as economic conditions are improving in Italy and Spain, growth seems to be slowing in France, which now appears to have slipped back into a recession in the second half of 2013. The definition of a recession is two consecutive quarters of negative growth.

China

While economic growth improved in the second half of last year, due to an increase in investment, the IMF expects that growth will slow down to 7.5% in 2014. The recently released HSBC China Manufacturing PMI shows that manufacturing output contracted at its fastest pace in 18 months during the month of March. Worryingly, this weakness was broad-based with further softening in domestic demand.

<http://www.markiteconomics.com/Survey/PressRelease.mvc/b6e487b86c1a4ec48044fb9e79b0e282>

A slowing Chinese economy will put a downward pressure on commodity prices and therefore on the Canadian dollar. The Globe and Mail recently reported that bets against the Canadian dollar are increasing. According to the U.S. Commodities Futures Trading Commission, as of March 24, the net short position for the Canadian dollar was \$6.3 billion – 34% higher than a week earlier.

<http://www.theglobeandmail.com/report-on-business/top-business-stories/bets-against-the-canadian-dollar-surge-again/article17634141/#dashboard/follows/>

Canada and South Korea Free Trade Agreement

On March 11, 2014, Canada and South Korea signed a new free trade agreement. Once the Canada-Korea Free Trade Agreement (CKFTA) is fully implemented, South Korea will remove 98.2% of its tariffs on all Canadian imports.

The CKFTA is projected to increase Canadian exports by 32% and boost the Canadian economy by \$1.7 billion annually. Increased market access to South Korea is expected to benefit a wide range of manufacturing sectors, including: aerospace, auto parts, agricultural equipment and extractive machinery, as well as commercial services.

<http://international.gc.ca/trade-agreements-accords-commerciaux/assets/pdfs/ckfta-fas-saf-eng.pdf>

South Korea was Ontario's 15th largest export destination in 2013 as well as the 6th largest source of imports. Recent trade data indicate that both Ontario and Canada as a whole have large goods trade deficits with South Korea (see Table 1).

On the other hand, Canada is a net exporter of services to South Korea with a positive services trade balance of \$406 million. Transportation and government services accounted for 41.6% (\$318 million) of total exports of services, followed by travel services (35.9%) and commercial services (22.4%) (see Table 1).

Table 1. Goods and Services Trade Between Canada, Ontario and South Korea			
	Exports (\$Millions)	Imports (\$ Millions)	Trade Balance (\$Millions)
Goods Trade (Year=2013)			
Canada	3,358	7,329	-3,971
Ontario	504	5,267	-4,753
Services Trade (Year=2011) - Canada & Korea			
Travel	274	80	194
Commercial services	171	34	137
Transportation and government services	318	243	75
Total	764	358	406
Source: Industry Canada and Statistics Canada CANSIM Table 376-0036			

There are mixed views on the new trade agreement between Canada and South Korea. From the small and medium-sized business (SME) perspective, Dan Kelly, President and CEO of CFIB supports the CKFTA, because the removal of high tariffs could provide SMEs with better access to the South Korea market.

<http://international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/overview-apercu.aspx>

Jayson Myers, President and CEO of Canadian Manufacturing and Exporters, comments that "Canada's free trade agreement with South Korea will be the first step in gaining much more open access for Canadian exports."

<http://international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/overview-apercu.aspx>

A March 2008 study, funded by the House of Commons Standing Committee on International Trade, analyzed the Canada's free trade negotiations with South Korea. The main findings of this study concluded that "a free trade agreement would result in Canada having a trade deficit of \$10.9 billion, higher than it was in 2005 (\$2.8 billion)."

http://publications.gc.ca/collections/collection_2008/parl/XC75-392-1-1-02E.pdf

Table 2 shows Ontario's goods trade by industry with South Korea. Ontario's exports to South Korea are mostly comprised of manufacturing-based goods, which make up about 91% of total exports. Chemical manufacturing (22.9%) and computer & electronic product manufacturing (22.8%) accounted for most of the manufacturing exports to South Korea, followed by machinery manufacturing (15.3%).

Overall goods trade between Ontario and South Korea results in a goods trade deficit of \$4.75 billion, with automobile manufacturing accounting for almost half of the deficit.

Table 2: Ontario-South Korea Trade by Industry, 2013

Industries	NAICS Codes	Total Exports (CAD \$M)	Total Imports (CAD \$M)	Trade Balance (CAD \$M)
Agriculture, Forestry and Hunting	11	16.56	7.53	9.03
Mining, Oil and Gas Extracting	22	27.42	1.68	25.74
Utilities	22	n/a	n/a	n/a
Manufacturing	31-33	460.16	5,247.69	-4,787.53
Food Manufacturing	311	24.17	29.39	-5.22
Beverage and Tobacco Product Manufacturing	312	2.14	3.37	-1.23
Textile Mills	313	0.47	30.31	-29.84
Textile Product Mills	314	0.24	3.49	-3.25
Clothing Manufacturing	315	4.04	14.24	-10.20
Leather and Allied Product Manufacturing	316	0.07	8.32	-8.25
Wood Product Manufacturing	321	0.49	0.10	0.39
Paper Manufacturing	322	2.67	7.04	-4.37
Printing and Related Support Activities	323	0.30	7.78	-7.48
Petroleum and Coal Products Manufacturing	324	0.54	10.16	-9.62
Chemical Manufacturing	325	115.24	115.42	-0.18
Basic Chemical Manufacturing	3251	45.14	27.63	17.52
Resin, Synthetic Rubber, Artificial & Synthetic Fibres Mfg	3252	43.28	52.20	-8.92
Pesticide, Fertilizer & Other Agricultural Chemical Mfg	3253	0.16	0.16	0.00
Pharmaceutical and Medicine Manufacturing	3254	9.54	9.92	-0.38
Paint, Coating and Adhesive Manufacturing	3255	1.33	1.22	0.11
Soap, Cleaning Compound and Toilet Preparation Mfg	3256	8.99	8.06	0.93
Other Chemical Product Manufacturing	3259	6.80	16.23	-9.43
Plastics and Rubber Products Manufacturing	326	7.58	111.66	-104.08
Non-Metallic Mineral Product Manufacturing	327	1.39	14.14	-12.75
Primary Metal Manufacturing	331	28.49	103.90	-75.41
Fabricated Metal Product Manufacturing	332	36.21	104.09	-67.88
Machinery Manufacturing	333	77.01	365.78	-288.77
Computer and Electronic Product Manufacturing	334	114.90	1,487.23	-1,372.33
Computer and Peripheral Equipment Manufacturing	3341	23.89	93.27	-69.38
Communications Equipment Manufacturing	3342	32.41	658.22	-625.81
Audio and Video Equipment Manufacturing	3343	8.68	20.54	-11.86
Semiconductor & Other Electronic Component Mfg	3344	23.19	682.03	-658.85
Navigational, Measuring, Medical & Control Instruments Mfg	3345	25.90	32.45	-6.55
Manufacturing and Reproducing Magnetic & Optical Media	3346	0.84	0.72	0.12
Electrical Equipment, Appliance & Component Mfg	335	16.14	133.20	-117.05
Transportation Equipment Manufacturing	336	20.65	2,639.15	-2,618.50
Motor Vehicle Manufacturing	3361	0.80	2,148.35	-2,147.55
Motor Vehicle Body and Trailer Manufacturing	3362	0.00	0.44	-0.44
Motor Vehicle Parts Manufacturing	3363	13.21	488.78	-475.58
Aerospace Product and Parts Manufacturing	3364	6.18	0.14	6.04
Railroad Rolling Stock Manufacturing	3365	0.03	0.17	-0.14
Ship and Boat Building	3366	0.34	n/a	0.34
Other Transportation Equipment Manufacturing	3369	0.10	1.26	-1.17
Furniture and Related Product Manufacturing	337	0.89	19.14	-18.25
Miscellaneous Manufacturing	339	6.54	39.79	-33.25
Total All Goods Producing Industries (NAICS 11-33)		504.14	5,256.90	-4,752.77

Source: Industry Canada <https://www.ic.gc.ca/app/scr/tdst/tdo/crtr.html?productType=NAICS&lang=eng>

The Ontario government has stated concerns about the potential impact of the free trade agreement on Ontario's auto sector. The Minister of Economic Development, Trade and Employment "warned that Ottawa [federal government] must ensure any accord has the same provisions to protect the domestic motor industry that the U.S. enshrined in its deal with Seoul, which took effect in 2012"

http://www.thestar.com/news/queenspark/2014/01/31/ontario_worried_about_south_kore_an_trade_deals_impact_on_autos.html#

A 2012 study conducted for the Department of Foreign Affairs concluded that the elimination of the 6.1% import tariff on vehicles imported from Korea would decrease annual production by 4,482 vehicles in Canada and the automotive workforce by 660 jobs across Canada.

http://www.international.gc.ca/economist-economiste/assets/pdfs/research/Impact_of_FTAs_on_Canadian_Auto_Industry.pdf

Services trade data by component are not available at the provincial level; however, Canadian services trade statistics show that over one-fifth of Canadian services exports to South Korea are commercial services. Many of these commercial services are concentrated in the city of Toronto, including: management services, financial services, research and development, computer and information services, as well as architectural, engineering and other technical services. The CKFTA may represent opportunities for firms in these sectors in the city of Toronto.

Toronto Employment Survey

Each summer the City Planning Division undertakes a survey of all employment establishments in the city. Detailed results from the 2013 survey are in a report to the Planning and Growth Management Committee at its meeting on April 10, 2014.

This year's Employment Survey indicates that there were 32,100 more jobs in the city in 2013 than there were in 2012. This is the largest annual increase in fourteen years.

Downtown accounted for 21,000 (two thirds) of all net new jobs in the city in 2013. Total employment in the other major mixed use centres (North York Centre, Yonge-Eglinton, Scarborough Centre and Etobicoke Centre) increased by 2,800. Employment districts added 4,700 jobs in 2013 and the rest of the city added 3,600 jobs.

Full-time employment increased by 19,400 and part-time employment increased by 12,700 jobs in 2013.

The Toronto Employment Survey 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 32,100 in 2013.

Population Estimates

On February 26, 2014, Statistics Canada released July 1, 2013 population estimates for sub-provincial areas. The City of Toronto's total population is now estimated at **2,771,770**, which makes Toronto the fourth largest municipality in North America, after Mexico City, New York and Los Angeles.

Chart 1 shows that population growth for the Toronto CMA has remained fairly steady at around 100,000 people per year for the last decade. Regional population growth peaked at 115,000 in 2011, and has since fallen back to 90,000 in 2013.

The City of Toronto's share of regional population growth has increased significantly during the last decade. City of Toronto now accounts for one-third of regional population growth, down slightly from 39% in 2011, but up significantly from its negligible share ten years ago.

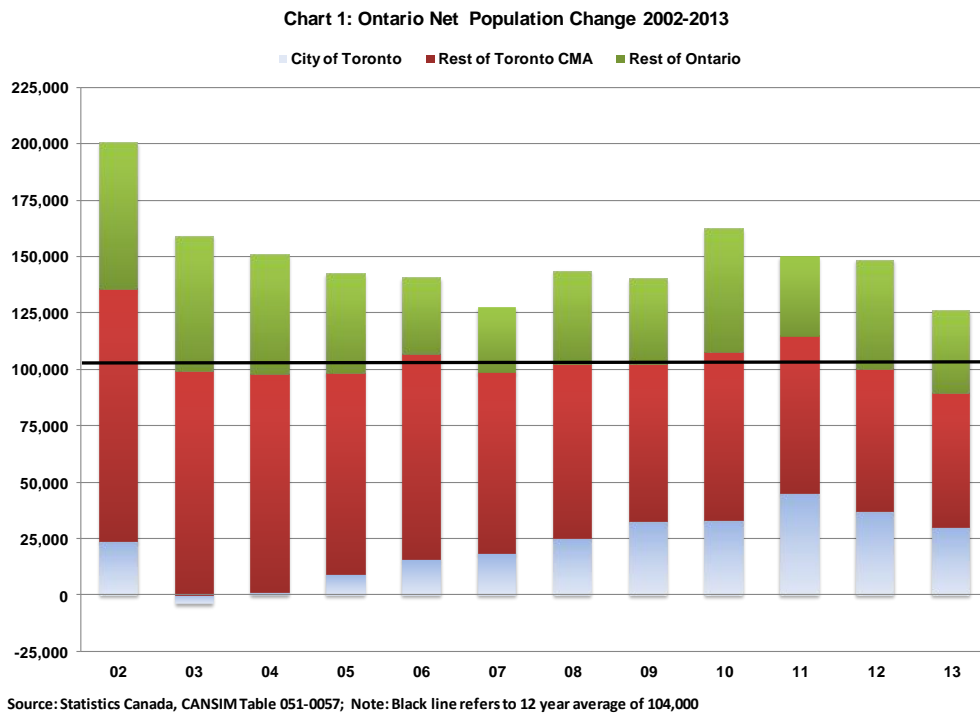


Chart 2 shows annual population change by component for the City of Toronto.

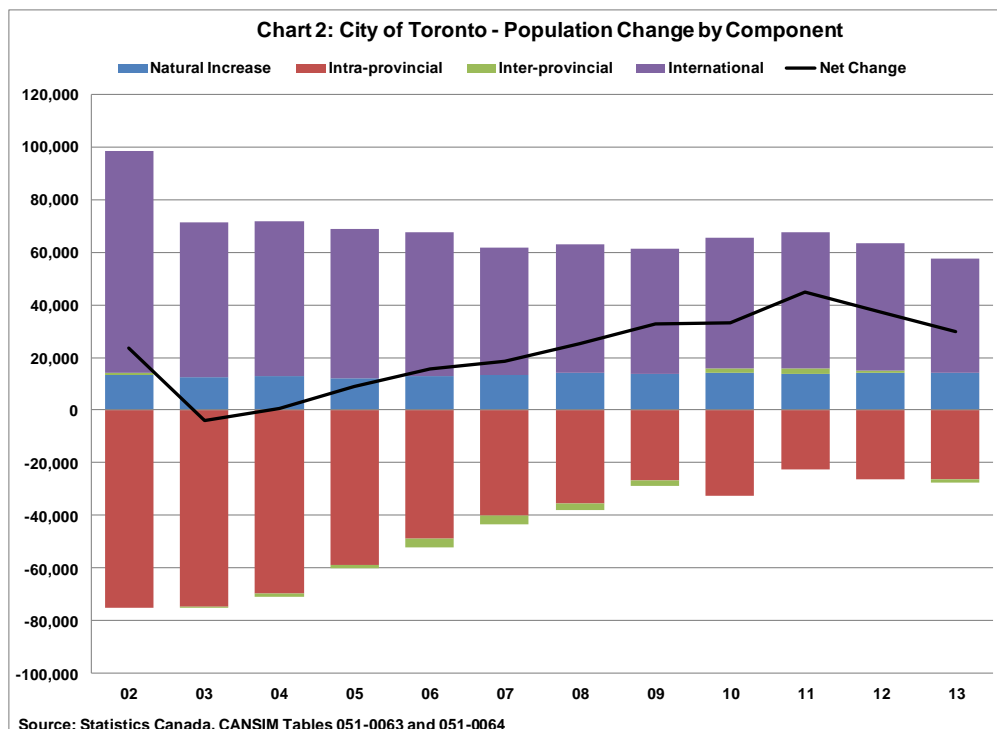
In 2013, the city's population increased by 29,995, compared to the previous year, mostly due to international migration.

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 43,320 people in 2013.

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 2010/2011 annual intra-provincial out-migration has averaged 25,062 people per year.

The other two components of population change are: net inter-provincial migration which is insignificant and natural increase (births minus deaths) which is very stable.

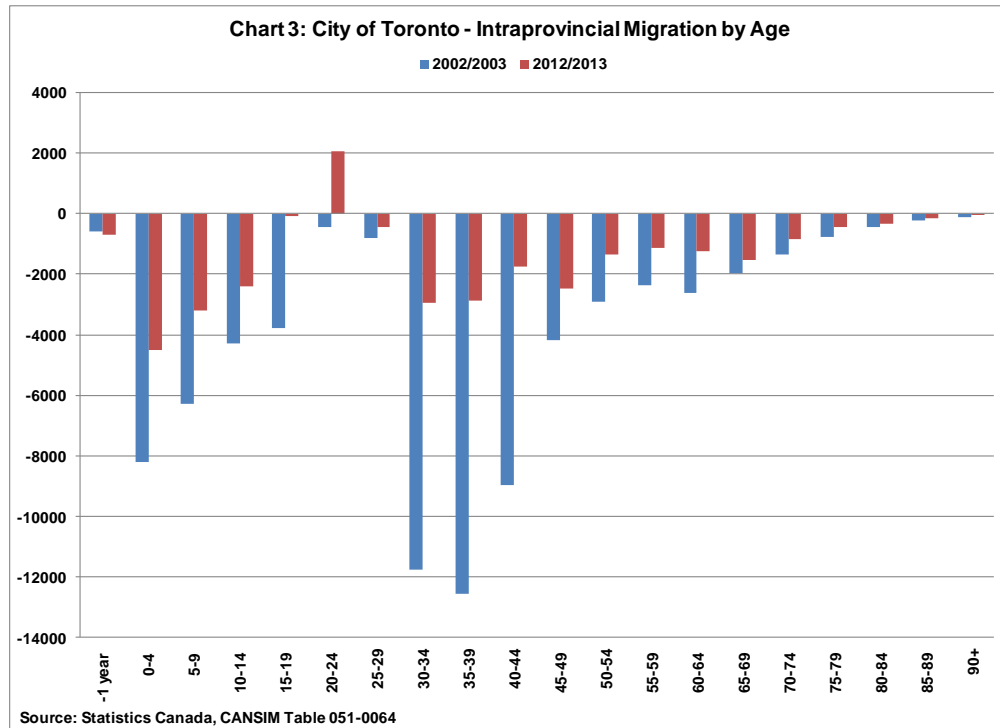


The presentation accompanying this report contains charts similar to Chart 2 and Chart 3, for the rest of Toronto CMA and rest of Ontario.

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.

Ten years ago, the largest group of city residents moving out of the city was from 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.



Gross Domestic Product (GDP)

Canada

The most comprehensive indicator of economic activity is real GDP. The term "real" means that the series has been adjusted for inflation. In Canada, real GDP increased 0.5% in January over December. Output of the goods producing sector rose by 1%, which was driven by a very healthy increase of 2% in manufacturing. Output of service producing industries grew by 0.3%, led by growth in retail trade and wholesale trade. Year over year real GDP grew by 2.5% in January.

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 2.8% in 2014 and 2.9% in 2015.

The projected growth rates for the Toronto CMA are roughly 0.4% 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

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 the 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 reached a five-year low in August 2013 of 7.1%. It then jumped to 10.0%, and it has subsequently fallen back to 9.0% in March 2014.

The seasonally adjusted monthly labour force participation rate for city of Toronto residents peaked in June 2013 at 68.1% and has subsequently declined to 65.6% in March 2014.

In March 2014, the total number of employed city of Toronto residents rose by 5,100 and the employment rate also increased, compared to the previous month, because the drop in the unemployment rate in March was greater than the decrease in the labour force participation rate.

Building Activity

According to Skyscraperpage.com, there were 148 high-rise and mid-rise buildings under construction in the city of Toronto on March 19, 2014, almost equal to a year ago (145 buildings) and significantly higher than any other North American city.

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 January 2014 increased by 155.3% over January 2013. In the first month of 2014, the City of Toronto issued \$717.4 million of building permits. In contrast, 905 municipalities had a 9.1% decline in the total value of building permits in January 2014 compared to same period of last year.

The increase in building permit activity in the city of Toronto was led by a substantial jump of 346.9% in residential permits issued in January 2014 (\$627.96 million) over the same period of 2013 (\$281 million). On the other hand, there was a decrease in non residential permits in January of 36.4% over 2013 and institutional permits declined substantially (-82.4%) compared to January 2013 (\$18.14 million).

The total value of building permits issued in the 905 municipalities was \$562.5 million in January 2014. Both residential and non-residential permits issued were lower by 9.2% and 8.9% respectively. Only institutional permits recorded an increase (251.9%, from \$6.0 million in January 2013 to \$21.1 million in January 2014).

Based on preliminary figures, the total value (\$2.29 billion) of building permits issued by the City of Toronto in the first quarter of 2014 increased by 129% over the first quarter of 2013. This increase in building permits was led by a substantial jump of 233.9% in residential permits (\$1.73 billion) over the same period of 2013 (\$518 million).

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

Office Market

The office vacancy rate in the city of Toronto increased to 6.1% in 2013q4, from 5.7% in 2013q3. Within the city of Toronto, vacancy rates remain much lower downtown than elsewhere. Toronto East has a vacancy rate that is twice as high (10.3%) as downtown (5%). Compared to the previous quarter, vacancy rates declined in Toronto East and Toronto West, while they increased in the Downtown and Yonge Core areas. It must be noted, however, that the downtown office inventory increased significantly (2.2 million sq ft) in 2013q4 compared to previous quarter.

At the same time, 905 office vacancy rates decreased marginally to 10.6% in 2013q4, from 10.8% in 2013q3, which was their highest level since 2004q4.

At the end of 2008, office vacancy rates in the 905 were 0.5% higher than in the city of Toronto. The spread between suburban and city of Toronto office vacancy rates now stands at 4.5%.

Housing

Total February year-to-date housing starts in 2014 in the Toronto CMA, as reported by CMHC (5,883 units) are up by 28.1% compared to the same period of 2013. Year-to-

date housing starts in the city of Toronto also increased substantially (76.5%) compared to 2013. In fact, housing starts in the city of Toronto represented two-thirds of total starts in Toronto region. Starts in the 905 area actually declined by 17.6%.

The vast majority (91.8%) of housing starts in the city of Toronto was in the high-rise sector. According to CMHC, "some of the record number of condominium apartment projects which began sales in 2011 are now reaching the sales targets which allow construction to begin, which is keeping apartment starts relatively strong."

The number of residential units under construction continues to rise. As of February 2014, there were 49,464 residential units under construction in the city of Toronto, an increase of 8.9% over February 2013.

Pre-sales of new residential units are exhibiting signs of recovery in 2014. After a soft 2013, city of Toronto residential pre-sales registered a modest increase of 7.1% in the first two months of 2014 compared to the same period last year. The vast majority of these pre-sales are in the high-rise segment. Pre-sales in the rest of the GTA have been flat.

Residential re-sale data for the city of Toronto continue to show strong growth in prices, while units sold are marginally lower. The average house price (\$599,414) in the city of Toronto in February 2014 was 8.6% higher than a year ago and total units sold decreased by 2.4% over February 2013. The decline in sales was accompanied by an 8.5% decline in active listings, which has reduced supply and put an upward pressure on prices. The strongest price increases were for townhouses (20.7%) and for detached houses (15.7%). It is also worth noting that the re-sale condo market sales jumped by 9.6% over last year, alleviating fears of an impending crash.

Retail Sales

After soft retail sales in December 2014 (partially due to the adverse weather conditions which affected the holiday season) seasonally adjusted retail sales rebounded in January 2014 in the Toronto CMA, both on a month-over-month and a year-over-year basis. Seasonally adjusted retail sales in January were 1.7 % higher than in December and 3.7% higher than in January 2013.

The largest increases in retail sales in January 2014 compared to the same period a year ago were: other general merchandise stores (13.1%), building materials and garden equipment and supplies (10.4%) and new car dealers (10.2%). The largest declines in retail sales in January 2014 compared to a year ago were in home furnishings stores (-9.8%) and convenience stores (-5.4%).

CONCLUSION

It seems that the economic recovery is taking hold in the developed world, including in Canada. The Toronto region's economy continues to expand in 2014, albeit fairly slowly. The Toronto CMA economy is expected to grow by 2.8% in 2014 and 2.9% in 2015.

The Toronto region's population continues to grow at about 100,000 persons per year. The city of Toronto's share of regional population growth has increased over the last decade, and is now approximately one-third of regional growth, largely because fewer young families are leaving the city for the rest of Ontario than ten years ago.

The City of Toronto issued \$2.29 billion of building permits in the first quarter of 2014, which is an increase of 129% over the first quarter of 2013. Regional retail sales also increased in January 2014, after December's soft retail sales, which were at least partially due to adverse weather conditions.

Labour force indicators for city of Toronto residents, as reported by Statistics Canada, have exhibited a great deal of volatility over the last year. In March 2014, the total number of employed city of Toronto residents rose by 5,100 and the employment rate increased compared to the previous month, because the drop in the unemployment rate in March (from 10.0% to 9.0%) was greater than the slight decrease in the labour force participation rate.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation – April 2014