TORONTO

**STAFF REPORT**
**ACTION REQUIRED**

# Economic Dashboard – Annual Summary, 2015

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| **Date:** | February 11, 2015 |
| **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 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. Staff was also requested to produce an annual summary of these indicators each year.

## COMMENTS

The first section of this report provides an overview of the global economy and the potential impact of the recent drop in oil prices on the city's economy.

The following section summarizes the findings of the second annual report on the State of Manufacturing in the city of Toronto. It investigates Toronto's competitiveness within North America and provides a comprehensive labour force profile. (Appendix C)

The final section of the report presents the annual overview of major local economic indicators, including employment, building activity, office and industrial vacancy rates.

## 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.

The Bank of Canada's (BOC) January 2015 Monetary Policy Report, held steady its global growth forecasts, predicting that global growth rates will continue to increase from an estimated 3.1% in 2014 to 3.4% in 2015 and 3.5% in 2016.

**Table 1:** Global Economic Growth

| | Annual Real GDP Growth Rate | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| United States | 2.2% | 2.4% | 3.2% | 2.8% |
| Euro Area | -0.4% | 0.8% | 0.9% | 1.2% |
| China | 7.7% | 7.4% | 7.2% | 7.0% |
| Japan | 1.5% | 0.1% | 0.6% | 1.6% |
| Rest of the World | 3.0% | 2.9% | 3.1% | 3.4% |
| World | 3.0% | 3.1% | 3.4% | 3.5% |
| Source: Bank of Canada | | | | |

The forecasted increase in global growth is expected to be led by a rebound in US economic growth, which has already started. Consumer spending in the US has been very strong throughout 2014. The US job market has been improving steadily throughout 2014, with non-farm employment registering its fastest growth since the 1990s, while the unemployment rate has declined, from 6.6% in January 2014 to 5.7% in January 2015.

In the three months to January 2015, the US economy created more than 1,000,000 new jobs. Wages are starting to increase and consumer confidence has increased. Household spending in the US grew by 3.2% at annualized rates in the third quarter and 4.3% in the fourth quarter.

There is still considerable weakness, in the US as in Canada, in business investment and exports, which dragged the preliminary estimates of the US fourth quarter GDP growth rate down to 2.6%, from an unsustainable 5.0% annualized growth rate in 2014q3.

Growth in the Euro area, in contrast, is expected to be weak over the next two years. On January 22, the European Central Bank announced its own Quantitative Easing program in the magnitude of 60 billion Euros per month, in order to spur economic growth and combat deflationary forces.

Other European central banks have also loosened monetary policy recently. The Swiss National Bank discontinued the minimum exchange rate of 1.20 Swiss francs per euro and lowered the short-term interest rate to minus 0.75%. Effective January 23rd, the Bank of Denmark reduced its rates for a second time in a week by cutting its deposit rate to minus 0.35% and its lending rate to 0.05% from 0.2%. In December, Norway’s central bank also reduced its rates by 25 basis points to 1.25% in response to lower oil prices.

Elsewhere, on January 15th the Bank of India also surprised the markets by reducing its benchmark interest rate by 0.25% points, to 7.75% in response to lower inflation.

China's economy grew at an average annual rate of 9.2% from 2008 to 2012, but since then growth has decelerated and the BOC expects China's growth rate to moderate to 7.2% in 2015 and 7.0% in 2016.  China now comprises 16% of global GDP.

## Canada

The Bank of Canada's (BOC) January 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. BOC expects that the unemployment rate will increase in response to lower investments in the energy sector.

The BOC's comprehensive labour market indicator (LMI) indicates that there may be both more labour market slack and less recent improvement in labour market conditions than is indicated by the unemployment rate alone. The lack of significant improvement in the LMI is due to the following factors:

- Long-term unemployment is still close to its post-crisis peak
- Average hours worked remain low, and the proportion of involuntary part-time workers is still high
- The participation rate is lower relative to what demographic factors would suggest it should be.

The BOC estimates that Canadian real GDP grew by 2.5% in the fourth quarter of 2014. Growth rates are expected to slow in the first half of 2015 to 1.5%, and then to gradually increase to 2.5% by the end of the year.

**Table 2:** Components of Canadian GDP Growth

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **GDP** | **2.0%** | **2.4%** | **2.1%** | **2.4%** |
| Consumption | 1.4% | 1.5% | 1.3% | 1.0% |
| Housing | 0.0% | 0.2% | 0.0% | 0.0% |
| Government | 0.0% | 0.0% | 0.2% | 0.3% |
| Business fixed investment | 0.2% | -0.1% | -0.1% | 0.7% |
| Net exports | 0.2% | 1.1% | 0.7% | 0.4% |
| Inventories | 0.2% | -0.3% | 0.0% | 0.0% |
| Source: Bank of Canada | | | | |

On January 21, 2015, the BOC announced that it is lowering its overnight rate by 0.25 percentage points to 0.75%, which was done in response to the significant decline in oil prices that is expected to lower inflation and economic growth. The Bank expects that these negative impacts "will gradually be mitigated by a stronger US economy, a weaker Canadian dollar and the Bank's monetary policy response." http://www.bankofcanada.ca/wp-content/uploads/2014/10/fad-press-release-2015-01-21.pdf

In 2014, the Canadian dollar depreciated by 8% compared to the US dollar, following annual depreciation of 7.4% in 2013. This trend has continued in 2015 especially after the lower interest rate announcement. The depreciation of the Canadian dollar makes imports more expensive, which reduces Canadians' 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 a positive development in these unusual times. Inflation is so low in Canada, that there is a risk that Canada could fall 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 relative prices, particularly wages, to adjust to changing economic circumstances. This risk is, however, much larger in Europe and Japan than in Canada.

## Oil Prices

Since June 2014, the price of oil has declined by about 50%, which most experts agree will have a positive impact on global growth. Initially the expected impact of lower oil prices on the output of goods and services produced in Canada was unclear. There were several reports suggesting that the impact of lower oil prices would be negative, positive or no impact at all on the Canadian economy.

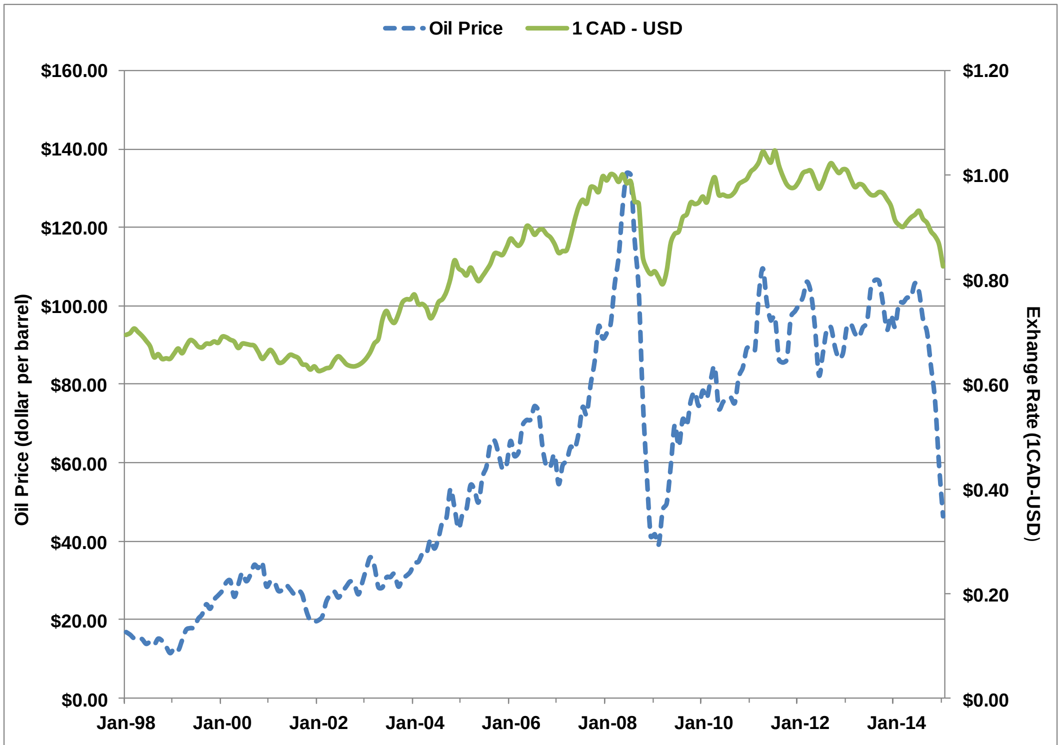
On the one hand, lower oil prices would disproportionately hurt Western provinces and negatively affect our trade balance (as evidenced in the November export report), which would weigh on business investment spending. In fact energy companies, such as Suncor, have already started to slash their 2015 capital spending plans as well as employment.

On the other hand, lower oil prices are depressing the value of Canadian dollar and hence making Canadian and Ontario products more competitive. It is also decreasing energy costs for businesses and consumers, which has a similar effect to a tax cut and is expected to stimulate consumer spending.

Over the past few weeks, there seems to be an emerging consensus that lower oil prices will have a negative impact on the Canadian economy. Both BMO Nesbitt Burns and Bank of America Merrill Lynch recently cut their forecasts for Canadian economic growth to 2.1% from 2.4%.

In its recent Monetary Policy Report, the BOC states that "the considerably lower profile of oil prices will be unambiguously negative for the Canadian economy in 2015 and subsequent years". The BOC base case projection assumes that oil prices will be around $60 USD per barrel. Analysts also agree that the impact of lower oil prices will vary across industries and regions. According to the BOC, "the shift in oil prices will tend to draw people and capital away from oil sector and towards regions that benefit from weaker dollar, such as the manufacturing sector in Central Canada".
http://www.bankofcanada.ca/wp-content/uploads/2014/07/mpr-2015-01-21.pdf

**Graph 1:** Oil Price (WTI) and Canada –US Exchange Rate




Source: Bank of Canada and U.S. Energy Information Administration - (January/15)

## Ontario

Looking at Ontario's economic performance since the 2008 recession shows that after the initial rebound in 2010 (3.4%) the real GDP growth rate declined consistently in 2011 (2.6%), in 2012 (1.7%) and in 2013 (1.3%).

The Policy and Economic Analysis Program (PEAP) at University of Toronto, in their quarterly projections for the Ontario economy, stated that they believe that lower oil prices and the lower Canadian dollar "are undoubtedly positive news, with higher household spending power and exports to the US, only partially offset by lower exports to western Canada".

PEAP estimates that in 2014 the Ontario economy grew by 2.1%, and it is forecasting that beginning in 2015 the province will outperform Canada's growth rate due to strong growth in the US, the lower Canadian dollar and lower oil prices. PEAP expects Ontario's economy to grow by 2.9% in 2015 and 2.6% in 2016.

The 2014 Ontario Budget projected that a $10 per barrel decrease in the price of crude oil would increase provincial GDP between 0.1% and 0.3 percent.
http://www.fin.gov.on.ca/en/budget/ontariobudgets/2014/papers_all.pdf

## Export Industries and Exchange Rate Sensitivity

Export-oriented sectors are the drivers of wealth creation in an economy. This is especially true in a relatively small economy like Canada, where they account for about one-third of national income. The total value of Canadian exports is estimated at $530 billion in 2013, with the goods producing sector accounting for 83.7% of the total.

A discussion paper by the BOC examined Canadian non-energy exports. Its findings reveal that Canada has continued to lose market share in the US since the Great Recession, beyond what competitiveness measures, such as relative unit labour costs, would suggest.

The BOC report studied 31 non-energy export categories to evaluate their individual performance and to identify which export subsectors will likely benefit from the depreciation of the Canadian dollar. There were four main findings:

1. About 55% (in value terms) of the 31 subsectors of non-energy exports have been performing as expected or outperforming their benchmarks. These include motor vehicle assembly (passenger cars and light trucks), commercial services, intermediate metal products, as well as food and beverage products.

2. The remaining subsectors have trailed their benchmarks, mostly due to longer-term structural declines. Sectors, such as furniture and fixtures, as well as clothing and textiles, have been falling steadily since the early 2000s. About three-quarters of the 21 export

subcategories have been significantly below their respective benchmarks over the past decade.

3. Around half of the subsectors appear to be quite sensitive to fluctuations in the Canada/US exchange rate, most of which are consumer products and investment goods. The study showed that the transportation sector is also very sensitive to exchange rate movements, with four of its main subsectors making the list (other transportation equipment and parts, medium and heavy trucks, motor vehicle parts, and aircraft).

About three quarters of the exchange rate sensitive sectors have been underperforming over the past decade. The majority of the export subsectors that have performed in line with or above their benchmarks tend to be less sensitive to movements in the Canadian dollar and are less likely to be affected from the recent currency depreciation. (See Appendix B)

4. Overall, the authors expect that about half of the non-energy export subsectors will have above average growth and will lead economic growth. These sectors include those linked to US construction activity, such as logging and building materials, as well as US investment in machinery and equipment (industrial, electronic and electrical machinery and equipment, computers, and aircraft). The contribution of other sectors that have performed well over the past decade relative to foreign activity, such as commercial services and pharmaceutical products, is expected to continue.
http://www.bankofcanada.ca/wp-content/uploads/2014/04/dp2014-1.pdf

A potential hurdle to the revival of the manufacturing sector lies in the fact that a lot of industrial capacity disappeared in the 2005-2013 period as stronger dollar and deep recession curbed demand for Canadian manufacturing products. A recent CIBC report argues that while real manufacturing output is yet to recover to pre-recession levels, "many manufacturers will be bumping up against capacity constraints, as capacity use is already at typical pre-recession levels".
http://research.cibcwm.com/economic_public/download/if_hurdle_for_cdn_mfg_growth.pdf

Recent remarks by Stephen Poloz, the Governor of the Bank of Canada, acknowledged that the export sector has been less robust than in previous economic cycles. The BOC investigated over 2000 product categories within the underperforming sectors and determined that for about a quarter of these products the value of exports fell by more than 75% since 2000. This decline in exports was correlated to the ongoing factory closures and company restructurings.

The good news is that the sectors that are expected to lead export growth in the future still have excess capacity. Stephen Poloz concludes that if increased demand for Canadian exports is met by utilizing existing capacity, then the employment improvements will be modest, and "the bigger employment gains will come when we enter the rebuilding phase of the cycle – when companies are sufficiently confident about future export demand that they begin to invest in new capacity and create new jobs."

http://www.bankofcanada.ca/wp-content/uploads/2014/10/opening-statement-221014.pdf

## Toronto Region

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

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 2.2% in 2015 and 2.9% in 2016. These projected growth rates for the Toronto region are 0.1% higher in 2015 and 0.5% 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, GDP per capita is expected to grow slightly slower in the Toronto CMA than in the rest of Canada, over the next two years.

The steep decline of the price of oil combined with the lower Canadian dollar will have important ramifications for the Toronto economy. The Ontario export-oriented manufacturing sector is expected to be a major beneficiary of the recent exchange rate movements and increased demand in the US for Ontario products. Other sectors that are expected to benefit include business services, tourism and the film sector.

Local business services firms competing for contracts with firms south of the border have become significantly more price competitive in the last few months, since most of their operating costs are in local currency. Similarly, lower gas prices and attractive exchange rates may induce more US travellers to come to Toronto this year. Toronto, with its' state of the art movie infrastructure and skilled labour force, will also become more attractive to film producers.

## The State of Manufacturing

This section summarizes the major findings of the second annual State of Manufacturing report as requested by City Council in February 2013.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED19.4

The full report can be found attached as Appendix C.

- The Toronto region's industrial land inventory is the third largest in North America. The region offers a number of competitive advantages to manufacturers, such as relative cost competitiveness, a large highly skilled labour force, proximity and access to major North American markets and supply chains, as well as good transportation networks and a high quality of life.
- The KPMG Competitive Alternatives – 2014 report, analyzed the relative costs for manufacturers doing business in 91 cities in Canada, United States and

Mexico. The Toronto region fared well relative to the 91 North American cities reviewed, ranking 13th place in cost competitiveness overall.

- City of Toronto's manufacturing sector is an important contributor to the regional manufacturing complex, since about one third of regional industrial space is located here. In the city of Toronto, industrial property taxes per square foot decreased from 1998 to 2014: from an average of $3.78/sq.ft. in 1998 to $2.93/sq.ft. in 2014. Industrial property taxes/sq.ft. in Vaughan, Mississauga and Brampton, are trending upward and may surpass Toronto, as Pickering did in 2013.
- Manufacturing industries produced an estimated $13.9 billion (2013) of output (in constant 2002 dollars), which accounted for 11% of the total output of goods and services produced in the city of Toronto. In terms of GDP per job, manufacturing increased from $78,400 to $97,000 or 23.7% over the period of 1998-2013. During the same time period, the GDP per job for all industries increased from $69,300 to $79,000 or 14%.
- There were 126,136 manufacturing and warehousing jobs in the city of Toronto in 2013. Between 1998 and 2013, total manufacturing employment in Toronto declined by 29.1%, whereas overall employment in the city increased by 13.9%.
- The manufacturing and warehousing sector in the city is dominated by the food processing, warehousing and pharmaceuticals & chemicals sub-sectors. The manufacturing and warehousing sub-sectors experiencing employment growth from 1998 to 2013 were food processing, waste treatment, postal sorting station and storage. On the other hand, clothing manufacturing witnessed a two thirds decline in employment, which is mostly explained by the lower wages in developing countries and the appreciating Canadian dollar.
- There were 5,018 manufacturing and warehousing establishments in the city of Toronto in 2013 representing 6.7% of the total. Manufacturing and warehousing establishments have decreased by 17.9% since 1998, whereas the total number of establishments in the city increased by 1.5% between 1998 and 2013.
- The number of manufacturing and warehousing establishments by the number of employees is dominated by the 1 to 4 employee category (44.8%). The average number of employees per establishment has been declining since 1998. This trend is not unique to Toronto, but is a global phenomenon. Mike Moffatt contends that "the economics of large, labour-intensive plants no longer work in the United States or Canada in an era of robots and inexpensive shipping from Asian countries, most of which have no free trade agreement with either the U.S. or Canada." http://reviewcanada.ca/magazine/2014/12/reforging-ontario/
- Longevity of establishments in the manufacturing and warehousing sector is one of the highest of the six major types of employment in the city of Toronto. Manufacturing and warehousing establishments 21 years and older accounted for

23.7% of the total in 2013. In comparison, office, retail and service sector establishments 21 years and older accounted for 16.9%, 22.4% and 19.9% respectively.

- Manufacturing offers better compensation for people with lower levels of education. Manufacturing employees with some post-secondary education or less have higher wages compared to their counterparts working in other sectors of the economy.
- The proportion of city of Toronto residents working in the manufacturing sector that possess a post secondary diploma/certificate or a university degree almost doubled from 1998 to 2013. A well educated labour force provides an opportunity to capitalize on the increased importance of advanced manufacturing.
- The manufacturing and warehousing sector remains the sector with the highest percentage of full time workers with 92.7% in 2013. In comparison, the percentage of full time workers for all sectors was 76.9% in 2013.

In conclusion, manufacturing is an important sector of the city's economy. Manufacturers wishing to locate or expand in the city of Toronto benefit from a supportive business environment, increasingly competitive property tax rates for business, high-skilled labour force, and a variety of business development and assistance programs offered by the City of Toronto and other agencies and orders of government, including support for key industry sectors. The lower Canadian dollar will also provide a timely boost to the sector.

## 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 (LFS) data for city of Toronto residents (i.e. separate from the rest of the Toronto CMA). LFS data are collected by place of residence, and therefore represent "employed residents" and not "jobs".

On February 6, 2015, Statistics Canada revised LFS data, based on 2011 Census population estimates. In addition, substantial changes were made to how Statistics Canada estimates the population of the city of Toronto. As a result of these methodological changes, the estimated population aged 15+ in the city of Toronto is now increasing faster in the LFS estimates, than in other Statistics Canada published data and faster than is supported by other corroborating evidence. City staff has asked Statistics Canada to review and explain the LFS population estimates.

While the absolute levels of employment and unemployment in the city of Toronto may be somewhat overstated, if the population LFS estimates were determined to be too high, the rates (of unemployment, participation and the employment to population ratio) should not be affected, and, in fact, these rates for city residents showed relatively little change in this revision.

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 10.1% in 2009. On a seasonally adjusted monthly basis, the unemployment rate for city residents peaked at 11% in July 2009.

The annual average unemployment rate for city of Toronto residents remained above 9.0% until 2013, when it fell to a five year low of 8.9%, before increasing again to 9.5% in 2014. Seasonally adjusted monthly unemployment rates remained above 10% for three consecutive months during 2014, but then started to fall in September 2014. In January 2015, the revised, seasonally adjusted, monthly unemployment rate for city residents stood at 7.3%, its lowest level since May 2008.

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, the participation rate for city residents fell by only 0.1% in 2009. After declining 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 peaked at 67.1% in 2013. Participation rates fell sharply in 2014 returning to 2010 and 2011 levels at 64.8%, which is lower than the Canadian average (66.0%).

Comparing annual labour force participation and unemployment rates for city residents by age and sex between 2008 and 2014, shows that all age groups and both sexes experienced increases in unemployment rates. Participation rates fell for both sexes and all age groups, except for those residents aged 55-64 and those aged 65+. The two oldest age groups showed increases in both male and female participation rates (2008-2014).

In the last six years (2008-2014) the number of employed city of Toronto residents has increased by 9.6%. Temporary and non-unionized jobs have increased faster than all jobs, but both unionized and permanent employed residents increased by very respectable 6.5% during 2008-2014. The rate of self-employment actually declined a little bit in this period.

The average hourly wage for city of Toronto residents rose by 10.8% from 2008-2014, while the median hourly wage rose only 9.7%. By comparison, the Consumer Price Index increased by 11.8% in the Toronto CMA in this period, therefore "real" wages (ie adjusted for inflation) actually declined a little bit. Since the average wage rose faster than the median wage, we can also conclude that the income distribution for city residents became a little bit less equal between 2008 and 2014.

The number of city residents with part-time jobs increased at almost double the pace of all jobs created and the number of city residents working part-time involuntarily increased by a staggering 67% in the last six years.

## Building Activity

According to Skyscraperpage.com, there were 139 high-rise and mid-rise buildings under construction in the city of Toronto on January 12, 2015, which is slightly higher compared to a year ago (138 buildings). 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 by the city of Toronto in 2014 was $7.07 billion, which is 10.5% lower than in 2013. By comparison, the total value of building permits in Canada was higher in 2014 than in 2013 and the total value of building permits issued by "905" municipalities increased by 13.3% in 2014.

The largest decrease in the total value of building permits issued in the city in 2014 was non-residential (industrial, commercial and institutional) building permits, whose value declined by $720 million. The value of commercial permits declined substantially by 24.5% (-$638 million) in 2014, while the value of industrial permits increased by 1.4% and institutional permits declined by 17.9%. The total value of residential building permits dropped by 2.4% (-$107 million) in 2014 compared to 2013.

## Office Market

The office market in the Toronto Region softened a bit in 2014. While vacancy rates in the city of Toronto held steady at 6.1% in 2014, in "905" municipalities, vacancy rates increased from 10.6% to 11.2%, from 2013q4 to 2014q4..

Colliers International forecasts that vacancy rates will increase in 2015 because 1.6 million sq ft of office space were added to the inventory in the Downtown core in 2014q4, and another 3.5 million sq ft are under construction. On the plus side, the Downtown core is experiencing increased leasing activity from "international entrants and suburban occupiers".

According to Cushman & Wakefield, in 2008q4 office vacancy rates in the "905" were 0.6% higher than in the city of Toronto. Six years later, the spread between suburban and city of Toronto office vacancy rates has increased to 5.1%.

However, vacancy rates only tell part of the story. For the period between 2013q4 and 2014q4 office inventory increased by 1.3 million square feet in the city of Toronto while occupied space in the city increased by 1.2 million square feet .

The increase in inventory (2013q4-2014q4) in the city of Toronto was entirely due to the Downtown core, which witnessed 1.5 million sq ft of added space, while the other major office nodes in the city of Toronto either lost office inventory or were unchanged. The "905" added 867,000 sq ft of new office inventory between 2013q4 and 2014q4.

## Industrial

The city of Toronto has 252 million square feet of industrial space, which is more than any other GTA municipality and is a third of the regional total. Between 2013q4 and 2014q4 industrial inventory decreased by 12.1 million sq ft in the city of Toronto according to Cushman & Wakefield. On the other hand, the industrial vacancy rate has declined in the city of Toronto over the last 6 years and now stands at 4.4%, which is lower than in the"905" area (5.9%).

Colliers International forecasts that 5 million of sq ft of new inventory will be added to the regional industrial market in 2015.

## Housing

In 2014, housing starts in the Toronto CMA were 28,929, which is lower than last year (33,547 units), and is significantly lower (39.9%) compared to the record set in 2012. CHMC forecasts that housing starts will increase by 24.4% in 2015 to 36,000 before moderating to 34,750 in 2016.

Housing starts for the city of Toronto in 2014 were 25.3% lower than in 2013 with the largest declines in row houses (-48%) and apartments (-26.1%).

The number of residential units under construction continues to rise. As of December 2014, there were 49,444 residential units under construction in the city of Toronto, an increase of 3.4% over a year earlier. More than 95% (47,177) of units under construction were apartments.

In 2014, there were 17,319 residential pre-sales in the city of Toronto, an increase of 41.4% over 2013. The vast majority of the pre-sales in the city were in the high rise market (95.4%). Overall GTA pre-sales reached almost 40,000 units in 2014. In comparison, in 2013 pre-sales of new residential units in the GTA were 23% below the 10-year average.

Residential re-sale data for the city of Toronto continue to show healthy growth in both units sold and prices. The average house price ($604,243) in the city of Toronto in 2014 was 7.7% higher than a year ago. In 2014, there were 35,054 total units sold, which was 5.8% higher than in 2013.

## Retail Sales

December 2014 retail sales data will not be available until February 20, 2015. Staff will update the attached presentation accordingly.

The total value of retail sales in the 11 months ending November 2014 in the Toronto region was $65.7 billion, which is an increase of 5.6% over the same eleven months last year and is significantly higher than the rate of inflation.

Specialty food stores (12.8%), electronics and appliance stores (12.3%), and used car dealers (11.6%) experienced the highest growth in sales; whereas, supermarkets and other grocery (except convenience) stores (-2.6%) and jewellery, luggage and leather goods stores (-2.6%) had the largest declines in sales compared to the previous year.

## CONCLUSION

Total output produced in the Toronto region adjusted for inflation (real GDP) expanded by an estimated 2.2% in 2014 and is forecasted to grow at a similar pace in 2015, even though the Canadian growth rate is expected to decline a bit in 2015. Growth rates in the Toronto region are expected to increase after 2015 and remain in a range of 2.6-2.9% over the forecast period.

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## APPENDICES

Appendix A: Economic Indices Presentation - Annual Summary
Appendix B: Exchange Rate Sensitive Industries Table
Appendix C: State of Manufacturing in Toronto - 2014