STAFF REPORT
ACTION REQUIRED

Economic Dashboard

Date:	September 8, 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, Ontario and Toronto. The report examines the impact of the recent commodities prices decline on the national, provincial and local economy.

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

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 were maintained for four quarters.

The Bank of Canada's (BOC) July 2015 Monetary Policy Report (MPR) downgraded its global growth forecast, and predicted that global growth rates will slow from an estimated 3.4% in 2014 to 3.1% in 2015 compared to previous forecasts.

According to BOC, "while low oil prices will, over time, be a net benefit for global economic activity, the negative effects on oil producers are materializing more quickly than the positive effects on expenditures by oil consumers". The BOC projects that global growth will accelerate to 3.6% in 2016 and 3.7% in 2017.
http://www.bankofcanada.ca/wp-content/uploads/2015/07/mpr-2015-07-15.pdf

Table 1: Global Economic Growth

	Annual Real GDP Growth Rate			
	2014	**2015**	**2016**	**2017**
Canada	2.4%	1.1%	2.3%	2.6%
United States	2.4%	2.3%	2.8%	2.6%
Euro Area	0.9%	1.2%	1.3%	1.4%
China	7.4%	6.8%	6.6%	6.4%
Japan	-0.1%	0.8%	1.2%	1.2%
World	3.4%	3.1%	3.6%	3.7%
Source: Bank of Canada				

The 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. The pace of improvement in the US economy slowed in 2015q1 when US GDP increased only marginally (0.6% at annualized rates), which is partially explained by an increased trade

deficit, severe weather and the West coast port strike. After a soft first quarter, according to advance estimates, real GDP increased by 2.3% in 2015q2.
http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

The second quarter improvement in US growth rates was largely the result of a significant increase in consumer spending, where both durable (7.3%) and non-durable goods (3.6%) increased. Most notably, spending on motor vehicles and parts accounted for more than half of the increase in durable goods, which may have positive spin-offs for Ontario's auto industry. The rebound in exports in 2015q2 was especially remarkable after a soft first quarter and the strengthening US dollar. State and local government spending and residential fixed investment also contributed to higher real GDP.

On the other hand, there were negative contributions to growth from "federal government spending, private inventory investment, and non-residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased."

The rebound in US economic growth in 2015q2 combined with improving labour market conditions, suggest that the Federal Reserve may start to raise interest rates later this year, slowing US dollar liquidity growth, which some experts believe is one of the reasons for the substantial recent decline in commodities prices.

The BOC has further downgraded its projected growth rates for the Chinese economy to 6.8% in 2015 and 6.6% in 2016. However, many observers believe that the Chinese economy is much weaker than the official estimates suggest and that it is actually growing by about 5% annually. The recent collapse in the Chinese stock market has highlighted the vulnerabilities of the local economy. Slower Chinese economic growth implies that commodities prices will remain weak in the near to medium term, which is expected to keep the loonie depressed and hence provide a boost to Canada's export-oriented sectors.

The price of oil (West Texas Intermediary) has been relatively steady for the past five years, ranging between $ US 82 and $ US 110. However, since July 2014 oil prices have been trending consistently downward, because on the demand side oil consumption in China is growing at half the rate it did over the past decade. In addition, on the supply side, global production will exceed consumption in 2015 and 2016 according to the US Energy Information Administration (EIA). EIA is forecasting that US oil production will continue to increase through 2020, when it will be 14% higher than in 2015. The July 14, 2015 Joint Comprehensive Plan of Action agreement on the nuclear program of Iran has also contributed to depressed oil prices, as economic sanctions might be lifted as early as December and Iran is a major oil producer.

It is not only the price of oil that has declined significantly over the past few months. The S&P GSCI Commodities Index (which comprises 24 commodities from all commodity sub-sectors, such as energy products, industrial metals, agricultural and livestock products as well as precious metals) has been consistently underperforming over the past few months. As of August 4, 2015 the index was down by 15.9% year-to-date. The Bloomberg commodity index has also declined by more than 40% since September 2011.

Demand for copper, which is the most widely-used industrial metal (often referred to as Dr. Copper), is at the weakest point in two years. This implies that the global expansion is slowing.
http://www.bloomberg.com/news/articles/2015-07-22/this-measure-of-copper-is-another-bad-omen-for-the-commodities-meltdown

As a consequence, commodities producing countries such as Canada have experienced a substantial slowdown in their economic fortunes.

Canada

The BOC's July 2015 MPR downgraded the expected Canadian growth rate for 2015, which is now projected to be 1.1% (Table 2) for the year, significantly lower than the April 2015 MPR estimates. Reasons for the downgrade are related to the substantial deterioration of net exports in the first half of the year (even though exports rebounded strongly in June due to a 7.1% increase of sales to the United States), and a decline in business capital investment, which is related to the massive reduction in capital expenditures in the oil and gas development sector.

Table 2: Components of Canadian GDP Growth

	2014	2015	2016	2017
GDP	**2.4%**	**1.1%**	**2.3%**	**2.6%**
Consumption	1.5%	1.2%	1.2%	1.1%
Housing	0.2%	0.2%	0.1%	0.0%
Government	-0.1%	0.1%	0.2%	0.2%
Business fixed investment	0.0%	-0.9%	0.4%	0.8%
Net exports	1.1%	0.3%	0.8%	0.5%
Inventories	-0.3%	0.2%	-0.4%	0.0%
Source: Bank of Canada				

Canada real GDP declined (-0.6% at annualized rates) in 2015q1 and is projected to decline further in 2015q2 (-0.5%), which would meet the technical definition of a recession, albeit a mild one. On September 1, Statistics Canada confirmed that the national economy shrank by 0.5% (annualized rates) in 2015q2. It also revised the first quarter GDP, which declined a bit more than previously estimated (-0.8% at annualized rates).

Given that the BOC estimated growth for 2015 has been downgraded considerably compared to the April estimates, on July 15, the BOC announced that it is lowering its target overnight interest rate from 0.75% to 0.5%.

On July 27, the University of Toronto Policy and Economic Analysis Program (PEAP) released its latest economic outlook for Canada and Ontario. PEAP downgraded Canada's annual GDP growth for 2015 to 1.2% compared to 1.9% in May and 2.2% in March, due to weak growth in the beginning of 2015.

In 2014, the Canadian dollar depreciated by 8% compared to the US dollar, following annual depreciation of 7.4% in 2013. This trend continued throughout 2015, especially after the BOC lowered the overnight interest rate target twice, from 1% to 0.5%. The continued decline in commodities prices has also contributed to the lower Canadian dollar. Other commodities sensitive currencies, such as the Australian and New Zealand dollars, have also depreciated recently.

Over the past fifteen years, Canada has benefited significantly from increases in commodities prices, which were linked to growing demand from emerging economies. For example, the total value of Canadian annual exports of energy, minerals and metals products almost doubled to $207 billion from 2000 to 2013, when it represented 47% of total exports.

The resource-based industrial complex is fundamental to the Canadian economy, and its value chain extends into other parts of the economy including extraction, processing, manufacturing, as well as financial, legal and engineering services. According to Natural Resources Canada, the energy, mining, and forestry sectors support 1.8 million jobs in Canada (875,000 direct and 920,000 indirect) and account for 19% of Canada's nominal GDP.
http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/www/pdf/publications/emmc/14-0179_Our%20Resources%20New%20Frontiers_e.pdf

The recent decline in commodities demand has had a negative impact on the economy which is trickling down across sectors and provinces.

Ontario

The Ontario economy is also sensitive to global commodities demand. According to Natural Resources Canada, the energy, mining, and forestry sectors directly employ 256,000 people in Ontario, account for 6% of Ontario's GDP, and contribute $47.8 billion (2013) to Ontario exports.
http://www.oma.on.ca/en/ontariomining/EconomicContribution.asp

Economic growth rates are also slowing in Ontario, though not as sharply as elsewhere in Canada. PEAP recently downgraded Ontario's annual GDP growth rate forecast for 2015 to 1.6% compared to 2.3% in the May outlook and 2.8% in the February outlook. PEAP expects that Ontario's growth rate will pick up in 2016 to 2.6%, which is higher than the projected national rate of 2.4%.

Toronto Region

The steep decline of the price of oil combined with the lower Canadian dollar has important ramifications for the Toronto economy. The 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 are expected to induce more US travellers to come to Toronto this year. Toronto, with its state of the art movie infrastructure and skilled labour force, is also becoming more attractive to film producers.

However, the recent broad-based decline in the commodities complex has also increased the downside risks to the local economy.

Toronto is the global capital of mining finance, and the mining industry has a considerable impact on the economy of the city. According to the Canadian Chamber of Commerce, Toronto has a significant competitive advantage in mining finance, because of its unique pool of expertise on the exploration and early-stage development of mineral resources. The Mining Association of Canada has recognized Toronto as one of 36 geographic clusters in the minerals and mining sector in Canada, due to "a unique collection of experts and institutions that attract exploration and mining companies seeking capital from around the world. The TSX and TSX Venture are global leaders in both the number of mining companies listed and equity raised".
http://www.chamber.ca/download.aspx?t=0&pid=e9c0b24c-9bae-e211-8bd8-000c291b8abf

The Toronto mining cluster consists of financial institutions such as Toronto Stock Exchange (TSX) and TSX Venture, analysts, consultants, law firms, as well as other supporting institutions like the University of Toronto's Innovation Centre for the Canadian Mining Industry, York University's mining-focused MBA, and the Prospectors and Developers Association of Canada.

According to Natural Resources Canada, almost "60% (nearly 1,500 companies) of the world's publicly listed mining and exploration companies are listed on the TSX or TSX-V, including a number of global mining leaders."

For the period of 2009 to 2013, 44% ($157 billion) of global mining equity was raised by the TSX and TSX Venture Exchange, which was more than any other stock exchange in the world. Thousands of brokers, analysts, exchange workers, consultants, trade finance

experts and securities lawyers both support and benefit from the mining industry in Toronto.
http://mining.ca/sites/default/files/documents/Facts_and_Figures_2014.pdf

According to the Chamber of Commerce, "Toronto is home to over 400 mining and exploration company offices, 30 mining head offices and several hundred mining suppliers that provide jobs and tax revenue for the city. Most of the city’s largest law firms have an established mining practice focused on helping mining firms secure financing, navigate regulations or conduct mergers and acquisitions".
http://www.chamber.ca/download.aspx?t=0&pid=e9c0b24c-9bae-e211-8bd8-000c291b8abf

The activities of the mining sector in Toronto also have major spillover benefits for other sectors of the economy, such as the business travel market. For example, the Prospectors and Developers Association of Canada (PDAC)’s 2015 annual conference attracted "over 23,500 investors, analysts, mining executives, geologists, prospectors and government officials from 116 countries".
http://www.pdac.ca/convention/attendee-info/past-conventions/2015-statistics/2015-wrap

In addition, an examination of the number of firms in the Canadian Association of Mining Equipment and Services for Export (CAMESE) shows mining supply and service entities have particularly high concentrations in the Toronto-Mississauga and Sudbury-North Bay areas.
http://www.oma.on.ca/en/ontariomining/resources/UofTMiningReport2012Final.pdf

The substantial commodities rout is affecting mining and mineral companies' bottom lines and many are looking for ways to cut costs. For example, Barrick Gold Corporation, the largest gold mining company in the world, which is headquartered in Toronto, recently cut its dividend by 60% and is targeting $2 billion of spending cuts across its operations before the end of 2016.
http://app.tmxmoney.com/news/cpnews/article?locale=EN&newsid=TB1844&mobile=false\

Should the softness in commodities prices continue, it will undoubtedly have negative consequences for employment and economic growth across the mining cluster as well as reverberate in the rest of the economy.

Toronto Region GDP

Statistics Canada does not produce sub-provincial GDP estimates, but the City has three private-sector forecasts for GDP for the Toronto Census Metropolitan Area (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 August 5, Moody's released its most recent outlook for the Toronto CMA, which projects that the local economy will grow by 2.6% in 2015 and 3.3% in 2016.

Oxford Economics downgraded its economic growth forecast for 2015 from 2.8% to 2.3% in their June 30, 2015 data release; however they also upgraded the anticipated economic growth forecast for 2016 to 3.1% from 2.6%.

The Conference Board of Canada also downgraded its economic growth estimates for 2015 from 3.1% to 2.6% in their August 8 forecast. It also forecasts that the economy will grow by 2.8% in 2016.

Using the average of the three forecasts, the economy of the Toronto region is estimated to have grown by 2.8% in 2014, and it is expected that the Toronto region will grow by 2.5% in 2015 and 3.0% in 2016.

While the Toronto economy may have slowed, it is still expected to grow more strongly than the national economy, as Toronto is less exposed to the natural resource sector than the rest of Canada. The Pan Am and Parapan Am Games that Toronto hosted over the summer months also provided a timely boost to economic growth with the associated increases in economic activity due to higher construction, visitor and operational spending, all of which have a positive impact on GDP.

Labour Force

The most comprehensive and timely survey-based indicator that is available for the local economy in Toronto is arguably 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 and inexplicable population changes. Between Dec 2014 and August 2015, the city of Toronto's estimated population aged 15+ fell by 314,000 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 should 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 declined from 10.8% in July 2014 to 6.7% in July 2015. As of August 2015, the seasonally adjusted monthly unemployment rate was 7.1% in the city of Toronto, lower than the "905" where it jumped to 7.4% in August from 6.0% in the previous month.

The seasonally adjusted monthly participation rate for city residents was 64.9% in August 2015, slightly lower than in July (65.1%), but higher than the lows recorded in November 2014 (63.5%).

The seasonally adjusted monthly labour force employment rate, which combines the participation rate and the unemployment rate for city of Toronto residents, has been declining since May 2015 (61.4%) and was 60.3% in August 2015.

Building Activity

According to Skyscraperpage.com, there were 133 high-rise and mid-rise buildings under construction in the city of Toronto on July 31, 2015, which is slightly lower compared to the same period in 2014 (138 buildings). However, Toronto still remains ahead of all other North American cities. 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 allows a comparison of Toronto with other North American cities by the size of buildings under construction. For example, New York City has slightly more 50+ storey buildings under construction than Toronto; however, Toronto has more buildings under 50 stories.

The total value of building permits issued in the city of Toronto in the first half of 2015 increased by 22.5% over same period in 2014. The June year-to-date increase in building permits issued in the city of Toronto was led by a jump in non-residential (83.8%) permits, whereas residential permits declined (-14.2%). The increase in non-residential permits was due to a more than fivefold spike in institutional permits, which includes the $765 million building permit issued for the new state-of-the-art Humber River Regional Hospital located at Keele Street and Highway 401. Industrial (62.8%) and commercial (11.9%) permits also rose compared to the same period in 2014.

In the first half of the year the value of building permits issued in "905" municipalities was 28.6% higher compared to same period of last year. The increase in the value of building permits was led by a surge in residential permits (35.6%), while non-residential increased by 14% over same period of last year. In "905" municipalities, industrial and institutional building permits increased by 52.8% and 32.8% respectively; whereas "905"commercial permits decreased marginally (-0.2%) compared to the same period of last year.

The decline in residential building permits in the city of Toronto might alleviate some of the overbuilding concerns that continue to be raised by many industry experts. For example, according to the Royal Institution of Chartered Surveyors survey there was

"some concern among respondents about potential overbuilding and overvaluation, especially in Toronto and Calgary".
http://www.rics.org/ca/news/news-insight/comment/neil-shah-comments-on-the-latest-rics-canada-construction-survey-for-q2-2015-

A recent report by Fitch Rating agency also raised red flags about the over 80,000 new multifamily units currently under construction in Ontario, "with the vast majority of this concentrated in Toronto. This is a record high and nearly 50% more than four years ago when the condominium construction boom began. Amid this unprecedented increase in large developments, construction timelines are being extended, with completions lagging behind housing starts. With price levels relatively flat over the last six months, the significant boost to supply implied by this construction overhang could present a problem for continued price growth, with the market potentially becoming oversaturated."
http://www.businesswire.com/news/home/20150506005811/en/Fitch-Record-Construction-Rate-Hangs-Ontario-Housing#.VbDp5qRVikp

On the other hand, a recent BMO report suggests that the ongoing construction boom in Canada is a response to a pent up demand, since residential construction during the 1990s was significantly lower than the long-term average.
http://www.bmonesbittburns.com/economics/current/focus.pdf

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

Office Market

According to Cushman & Wakefield, the office vacancy rate in the city of Toronto has declined from 6.5% in 2014q2 to 6.2% in 2015q2. At the same time period, the vacancy rate in "905" municipalities increased from 11.0% to 12.1%. Overall, the Toronto region's vacancy rate increased slightly from 7.9% in 2014q2 to 8.0% in 2015q2.

Downtown office vacancy rates remain much lower than elsewhere in the city and the rest of the Toronto region. The Yonge Core and Toronto East office nodes within the city of Toronto also registered declines in vacancy rates over the last year, while the Toronto West vacancy rate increased from 6.1% to 7.4%.

Perhaps more important than the vacancy rate is the change in occupied office space, also known as "office absorption", as this indicator more directly measures the demand for office space.

In 2015q2, occupied space increased by 1,354,806 sq ft over the same period of last year in the city of Toronto, while inventory grew at a slower pace (999,357 sq ft), which explains the decline in the vacancy rate.

In their Canadian Office Market Outlook June 2015, Cushman & Wakefield is predicting that downtown office vacancy rates will increase "driven by new supply, but solid fundamentals and expansionary momentum are expected to sustain this market’s success story into 2017." The report also suggests that at least two more new developments are in the cards for Toronto's downtown office market.

Housing

In the first half of 2015, housing starts in the Toronto CMA are up by 22.8% (19,223 units) compared to the same period in 2014. While there has been a rebound in low rise starts recently, due to higher demand, the high rise market still dominates actual starts. According to the Canadian Mortgage and Housing Corporation, "a surge in high rise completions so far this year has freed up resources to break ground on new apartment projects".

The increase in regional housing starts was driven by higher housing starts in Peel region (82%), city of Toronto (20.6%) and York region (10.6%). In the city of Toronto, the increase in starts was largely due to a jump in starts in the former city of Toronto (35.5%), whereas North York registered a steep decline (-64.5%) over the same period in 2014. The vast majority (92.6%) of housing starts in the city of Toronto are in the high-rise sector.

Total housing completions in the city of Toronto in the first half of 2015 jumped to 23,637 from 5,903 in same period of 2014, which reduced the number of residential units under construction in the city of Toronto from 48,467 in June 2014 to 34,630 in June 2015.

The strong increase in completions has also led to almost a doubling in the number of dwelling units in the city of Toronto that have been completed but not absorbed, from 1,088 units in June 2014 to 1,937 in June 2015.

For the period of January to July 2015, total pre-sales of new residential units in the GTA are up by 6.7% compared to same period in 2014. RealNet data show that the slowdown in high-rise pre-sales (-3.5%) was offset by an increase in new low-rise units (18.4%). Total pre-sales of new residential units in July 2015 in the city of Toronto were down by 11.1% compared to the same period in 2014. The gap between the average prices of low rise new homes ($806,395) versus high-rise condominiums ($446,398) continues to grow.

Residential re-sale data for the city of Toronto continue to show strong growth in prices and units sold. The average house price ($618,202) in the city of Toronto in July 2015 was 7.2% higher than a year ago and total units sold increased by 5.0% over July 2014. The increase in total sales over last year was driven by the condominium market (13.3%), whereas sales in the detached, semi-detached and townhouse segments were marginally lower.

The decline in sales in the detached, semi-detached and townhouse segments can be partially explained by a 14.7% decline in active listings, which has reduced supply and put upward pressure on prices.

Retail Sales

Seasonally adjusted retail sales were flat in June 2015 in the Toronto CMA compared to May 2015, while sales were up on a year-over-year basis. Seasonally adjusted retail sales in June were 5.5% higher than in June 2014.

The largest increases in retail sales in June 2015 compared to the same period a year ago were: new car dealers (23.5%), used car dealers (23.3%) and shoe stores (9.2%). On the other hand, there were declines in retail sales in June 2015 compared to June 2014 in gasoline stations (-6.4%, which was due to lower oil prices), general merchandise stores (-1.0%), and furniture stores (-0.5%).

CONCLUSION

The total output of goods and services produced in Canada declined in the first two quarters of 2015, which meets the technical definition of a recession, albeit a mild one. Slower global economic growth implies that commodities demand will remain weak in the near to medium term.

The recent decline in commodities prices has had a negative impact on the Canadian economy, which is trickling down across sectors, provinces and regions. Lower oil prices are also expected to improve the competitiveness of non-resource export clusters; however, these positive impacts have not fully materialized yet.

While the Toronto economy may have slowed, it is still expected to grow more strongly than the national economy as Toronto is less exposed to the natural resource sector than the rest of Canada. The Pan Am and Parapan Am Games that Toronto hosted over the summer months also provided a timely boost to economic growth with the associated increases in economic activity due to higher construction, visitor and operational spending, all of which have a positive impact on GDP.

Various local economic indicators, such as strong high rise construction, year-to-date housing starts, existing housing market sales and prices, and year-over-year retail sales suggest that Toronto's economy is holding out well despite the headwinds faced by the national economy.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation – September 2015