STAFF REPORT
ACTION REQUIRED

Economic Dashboard – Annual Summary, 2015

Date:	February 17, 2016
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 monthly in the Toronto Economic Dashboard, benchmarking the city's economic performance, with special highlights on the State of Manufacturing and the Toronto Employment Survey.

RECOMMENDATIONS

The General Manager, Economic Development & Culture recommends that:

1. City Council 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

The first section of this report provides an overview of recent developments in the global economy, with a focus on Canada, Ontario and Toronto. This section also includes a discussion of exports and commodity prices.

The following section summarizes the findings of the third annual report on the State of Manufacturing in the city of Toronto.

The final section of the report presents the annual overview of major local economic indicators, including employment, real estate trends, 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 2016 Monetary Policy Report (MPR), forecasts that global growth rates will increase from an estimated 3.1% in 2015 to 3.3% in 2016 and 3.6% in 2017. (Table 1)
http://www.bankofcanada.ca/wp-content/uploads/2016/01/mpr-2016-01-20.pdf

Table 1: Global Economic Growth

	Annual Real GDP Growth Rate			
	2014	**2015**	**2016**	**2017**
Canada	2.5%	1.2%	1.4%	2.4%
United States	2.4%	2.4%	2.4%	2.4%
Euro Area	0.9%	1.5%	1.6%	1.6%
China	7.3%	6.9%	6.4%	6.2%
Japan	-0.1%	0.7%	0.9%	0.8%
Oil importing emerging economies*	3.7%	3.3%	3.8%	4.4%
World	3.4%	3.1%	3.3%	3.6%
*Note: Includes large markets in Asia, Latin America, the Middle East and Africa (e.g. India, Brazil, South Africa)				
Source: Bank of Canada				

United States

The BOC expects the US economy to grow at a healthy rate of 2.4% annually in 2016 and 2017. US growth is expected to be higher compared to most other developed countries over the next couple of years. Strong employment gains, high consumer confidence and lower oil prices are expected to support consumption, which has been the main driver of growth in the US.

Another indication that the US economy is in good shape came from the US Federal Reserve. On December 16, 2015 the Federal Open Market Committee (FOMC) decided to increase the target range for the federal funds rate by 0.25%. However, future interest rate increases are expected to be very gradual and will depend on the economic outlook.
http://www.federalreserve.gov/newsevents/press/monetary/20151216a.htm

A potential risk to economic growth is the continued strength of the US dollar, which may be starting to hurt exports and manufacturing. In December, 2015, the Manufacturing Purchasing Managers' Index (PMI) fell to 51.2, its lowest level in more than three years.
https://www.markiteconomics.com/Survey//PressRelease.mvc/605428421d254da0b671f129d96276d3

According to BOC "the composition of US GDP growth is expected to be somewhat less favourable to Canadian exports in 2016". This prediction seems to be related to the decline in oil and mining sector investment, "a factor that is significant for Canadian exports".

Europe

The Eurozone economy grew by 1.5% in 2015 and the BOC forecasts that economic growth rates will increase slightly, reaching 1.6% in 2016 and 2017, which is almost double the actual growth rate of 2014. This modest growth will be supported by loose monetary policy and lower oil prices. The low Euro is also expected to help the export sector.

The December 3, 2015 European Central Bank (ECB) announcement of additional measures to combat low growth and low inflation highlights the diverging cycles that the Eurozone and US economy are currently experiencing. While the US economy is close to full employment, many Eurozone countries still have substantial underemployment.

China

Chinese growth rates have been substantially downgraded over the past few months, as the Chinese economy undergoes a structural shift, from investment and export-based growth, towards greater reliance on domestic demand. The BOC expects Chinese economic growth to continue to slowdown from 6.9% in 2015 to 6.4% in 2016 and 6.2% in 2017.

In the absence of new economic stimulus measures by the Chinese government, it is expected that demand for commodities will remain subdued in the near term.

Oil Importing Emerging Economies

The BOC projects that oil importing emerging market economies will see a significant improvement in their economic fortunes over the next couple of years. GDP growth is expected to increase from 3.3% in 2015 to 3.8% in 2016 and 4.4% in 2017. This increase in growth rates is a result of the benefits from lower oil prices that start to trickle down to consumers and stimulate demand. India in particular is expected to grow by 7.0% to 8.0% annually in 2016 and 2017.

Canada

The BOC's January 2016 MPR estimated that the Canadian economy grew by 1.2% in 2015, and downgraded the bank's projected growth rates for 2016 and 2017 to 1.4% and 2.4% respectively.

On one hand, lower oil prices are negatively impacting 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.

The BOC estimates that Canadian real GDP was flat in the fourth quarter of 2015. Growth rates are expected to improve in 2016q1 (1.0%, at annualized rates) and 2016q2 (2.2%). In 2016, growth will be supported by net exports and consumption, whereas business investment and inventories will weigh on growth. In 2017, growth is expected to be buoyed by consumption and a recovery in business investment (Table 2). One must note that the MPR projections did not account for the anticipated surge in infrastructure investment, expected in the next federal budget.

Table 2: Components of Canadian GDP Growth

	2014	2015	2016	2017
GDP	**2.5%**	**1.2%**	**1.4%**	**2.4%**
Consumption	1.4%	1.1%	1.0%	1.1%
Housing	0.2%	0.3%	0.1%	0.0%
Government	0.1%	0.3%	0.2%	0.3%
Business fixed investment	-0.1%	-1.0%	-0.5%	0.5%
Net exports	1.1%	0.9%	1.4%	0.4%
Inventories	-0.3%	-0.4%	-0.8%	0.1%
Source: Bank of Canada				

According to the MPR, the decline in commodity prices has triggered a "complex and lengthy adjustment process" leading to a decline of the resource sector's share of the economy, which is expected to be offset by an increase in the non-resource sector. This adjustment has affected the economy in two main ways:

- "The restructuring of the resource sector was front-loaded relative to other adjustments and immediately began to reduce potential output in that sector".
- The effects of the decline in the terms of trade, such as lower wealth and real domestic income, have negatively impacted household spending and investment in non-resource industries. "The effect from this channel has been slower to materialize and is expected to peak much later, toward the end of 2017."

There are some preliminary signs that the adjustment process in the labour market is under way. According to the BOC, while net interprovincial migration to Alberta in 2015q3 was at its lowest since 2010, "Ontario registered the largest inflow of interprovincial migrants since 2002". Exports have also started to rebound.

Commodity Prices

Over the past fifteen years, Canada has benefited significantly from increases in commodity prices, which were linked to growing demand from emerging economies. For example, the total value of Canada's annual exports of energy, minerals and metal products almost doubled (to $207 billion) between 2000 and 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 decline in commodities demand has had a negative impact on the economy, which is trickling down across sectors and provinces. Since its post-recessionary peak in 2011, the Bloomberg commodity index has declined by more than a half, and in 2015 it declined by 24.4%. http://markets.ft.com/research/Markets/Tearsheets/Summary?s=570179

The price of oil (West Texas Intermediary) had been fluctuating within a relatively narrow band between 2009 and 2014, ranging from $ US 82 to $ US 110. Since July 2014, oil prices have been trending consistently downward, in part because oil consumption in China is growing at half the rate it did over the past decade.

In December 2015, the Organization of the Petroleum Exporting Countries (OPEC) increased its oil output ceiling from 30 million barrels per day (b/d) to 31.5 million b/d. This decision, while surprising, can be explained by the fact that lower oil prices have induced major oil producers to pump up more oil in order to maintain cash flow. Furthermore, on January 16, 2016 economic sanctions on Iran were lifted following an International Atomic Energy Agency (IAEA) report that certified that Iran has restricted its nuclear enrichment program. It is expected that Iran will immediately increase production by 500,000 b/d, which will further contribute to lower oil prices for the foreseeable future. As of mid February, the price of oil was hovering around $ US 30.

There is a consensus among analysts that global oil production will exceed consumption throughout 2016. The Energy Information Administration (EIA) estimated that the global market was oversupplied by 1.9 million b/d in 2015. It forecasts that inventories will climb by another 0.7 million b/d in 2016, "before the global oil market becomes relatively balanced in 2017". https://www.eia.gov/forecasts/steo/report/global_oil.cfm

Most of the negative impacts of lower oil prices are being experienced in energy producing regions. Most observers expect lower oil prices will have a small but positive impact on Ontario's economy, particularly for export-oriented sectors.

Exchange and Interest Rates

In 2014, the Canadian dollar depreciated by 8% compared to the US dollar, following annual depreciation of 7.4% in 2013. This trend continued in 2015 when the loonie lost another 15.3% of its value vis-à-vis the US currency.

The continued decline in commodity prices has contributed to the lower Canadian dollar, and to the BOC's decision to lower the overnight interest rate target twice in 2015, from 1% to 0.5%. The depreciation of the Canadian dollar against the US currency has continued in 2016. Other commodity sensitive currencies, such as the Australian and New Zealand dollar have also depreciated in value.

On January 20, 2016, the BOC announced that it is keeping its overnight rate at 0.5% as BOC considered that "the risks to the profile of inflation are roughly balanced", because on the one hand economic slack increases disinflationary pressures, while on the other hand the lower dollar increases the prices of imports.
http://www.bankofcanada.ca/wp-content/uploads/2016/01/fad-press-release-2016-01-20.pdf

Exports

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.

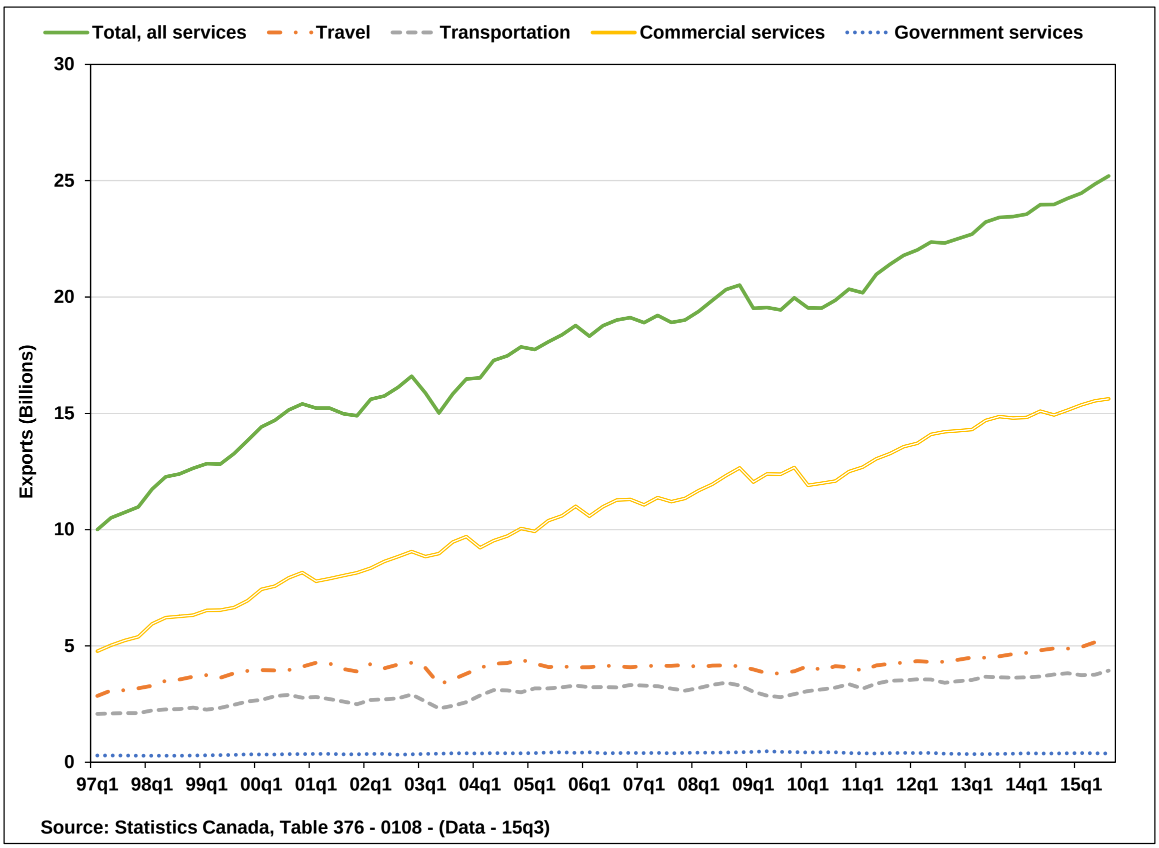
As of 2015q3, goods producing exports represent 84.2% of total exports. The share of service exports has grown from 11.9% in 1997q1 to 15.8% in 2015q3. Since 1997, service exports have increased by 151.9% (Chart 1) compared to goods producing exports, which increased by 81.0%. One can anticipate that with the ongoing decline in commodities demand, the share of goods exports will continue to decrease, which will be partially offset by an increase in service exports.

This long term growth of the service related industries' share reflects an evolution in the structure of the global and national economies. Since 1997, commercial services have exhibited the highest growth (226.8%), with the following subsectors being the most successful:

- Professional and management consulting services, which include management services and advertising and related services (521.1%)
- Financial services (302.2%)
- Insurance services (276.4%)

In addition, transportation (89.6%) and travel (84.3%) exports have also had relatively robust growth (Chart 1). Toronto, with its diversified, service oriented economy and highly qualified labour pool, has been well positioned to reap the benefits of the growth of service sector exports.

Chart 1: Total Canadian Services Exports



The full adjustment to lower commodity prices is expected to take several years, "since investment, including through the creation of new firms, is needed to build the capacity to absorb the reallocated labour into the non-resource sector". The good news is that there are some preliminary signs that these adjustments have commenced, as non-commodity exports have rebounded in recent months. According to BOC analysis, about two thirds of exchange rate sensitive sectors are outperforming less exchange rate sensitive sectors. http://www.bankofcanada.ca/wp-content/uploads/2015/10/mpr-2015-10-21.pdf

One service sector "export" that is traditionally exchange rate sensitive and has grown particularly strongly recently is the travel and tourism sector. In the first eleven months of 2015, international arrivals to Canada increased by 7.4% compared to the same period in 2014.

Arrivals from the US to Canada increased by 8.0%, while visitors from key Latin American markets such as Brazil and Mexico also increased robustly (14.3% and 12.5% respectively), partially because of strong gains in July, which were likely related to Toronto hosting the Pan Am and Parapan Am Games.

At the same time, the number of overnight outbound trips by Canadians declined (November YTD) by 3.5% over the same period in 2014, largely due to a 9.7% decline of travel to the US, which is not surprising given the continued depreciation of the Canadian dollar vis-à-vis the U.S. currency. This suggests that Canadians are substituting local consumption for a trip abroad, which has positive economic benefits for Canada. http://en.destinationcanada.com/research/statistics-figures/international-visitor-arrivals

A study by Deloitte found that increasing international visits to Canada may have positive economic spin offs beyond the economic impacts associated with tourism spending. Regression analysis of Canadian data reveals that "a rise in business or leisure travel between countries can be linked to subsequent increases in export volumes to the visitors' countries – as well as an increase in the variety of goods exported". http://www2.deloitte.com/content/dam/Deloitte/ca/Documents/international-business/ca-en-ib-tourism-and-trade.pdf

Ontario

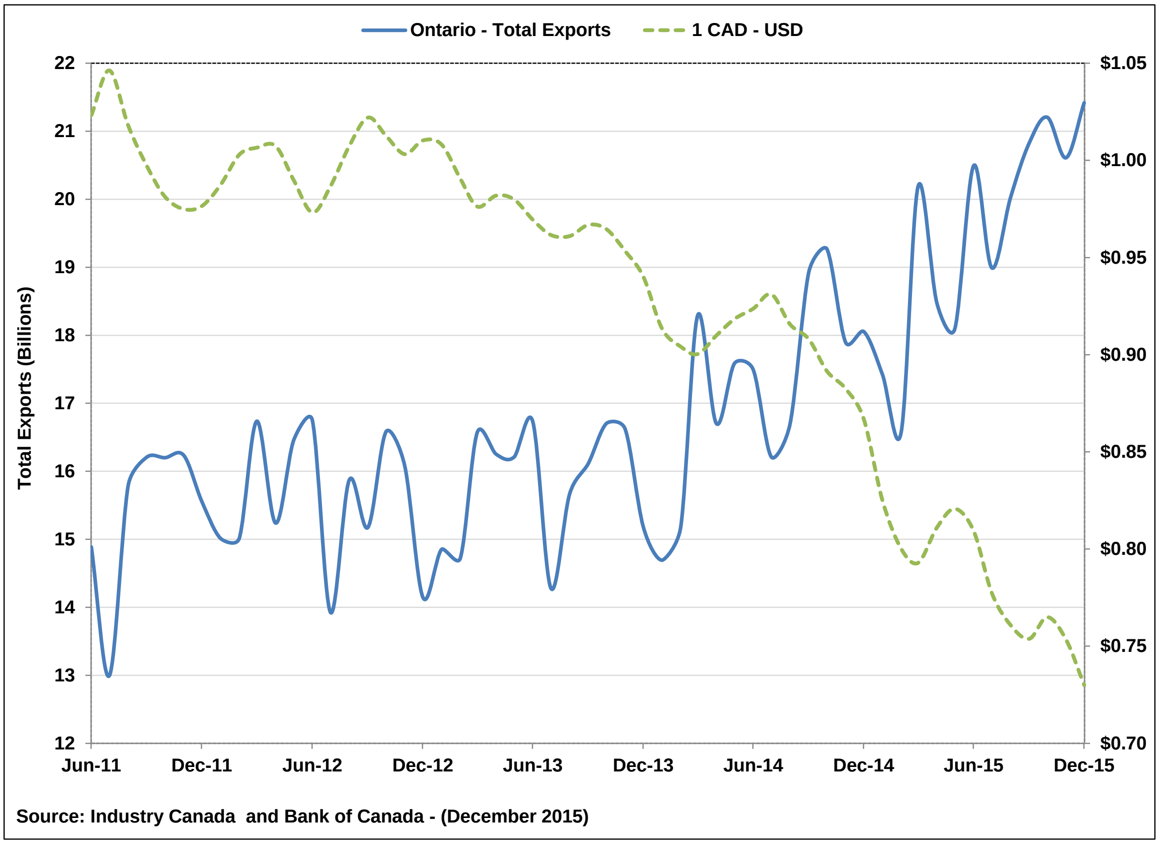
Looking at Ontario's economic performance since the 2008/2009 recession shows that after the initial rebound in 2010 (3.0%) real GDP growth rates declined in 2011 (2.4%), 2012 (1.3%) and 2013 (1.3%) and then rebounded in 2014 (2.7%). http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ50-eng.htm

According to RBC, Ontario's economy grew by 2.1% in 2015, almost double the national average. RBC also forecasts that Ontario's real GDP will grow by 2.5% in 2016 and 2.7% in 2017. This relatively bright provincial forecast is related to the ongoing export rebound and an anticipated increase in capital spending. http://www.rbc.com/newsroom/_assets-custom/pdf/20151208-on.pdf

International overnight visits to Ontario have also recorded marked increases. As of November YTD, total overnight travel increased by 9.2% over the same period in 2014. This increase was the highest in Canada and is mostly explained by higher US overnight arrivals. The Pan Am and Parapan Am Games that took place in the Toronto region over the summer also contributed to utilizing the recently added air capacity between Mexico City and Toronto as well as between Rio de Janeiro and Toronto.

Ontario goods producing, export industries have responded positively to the depreciating Canadian dollar, as Ontario exports increased to $21.4 billion in December 2015 from $13 billion in July 2011, when the Canadian dollar peaked against the US currency.

Chart 2: Ontario Exports and Canada/US Exchange Rate



The increase in Ontario goods exports was driven by the manufacturing and agricultural sectors, while mining, oil and gas extraction and utilities exports declined. The Ontario export-oriented manufacturing sector is becoming a major beneficiary of the recent exchange rate movements and higher demand in the US for Ontario products (Table 3).

Table 3: Ontario Manufacturing Exports ($ Billions)

Industries	2014	2015	% change
NAICS 311 - Food Manufacturing	7.92	8.92	12.63%
NAICS 312 - Beverage and Tobacco Product Manufacturing	0.60	0.75	24.27%
NAICS 313 - Textile Mills	0.56	0.66	17.48%
NAICS 314 - Textile Product Mills	0.36	0.42	15.47%
NAICS 315 - Clothing Manufacturing	0.81	1.00	23.27%
NAICS 316 - Leather and Allied Product Manufacturing	0.50	0.63	27.95%
NAICS 321 - Wood Product Manufacturing	1.30	1.56	19.78%
NAICS 322 - Paper Manufacturing	3.18	3.42	7.48%
NAICS 323 - Printing and Related Support Activities	0.65	0.78	20.73%
NAICS 324 - Petroleum and Coal Products Manufacturing	2.81	2.53	-10.25%
NAICS 325 - Chemical Manufacturing	18.84	20.07	6.55%
NAICS 326 - Plastics and Rubber Products Manufacturing	7.13	8.21	15.17%
NAICS 327 - Non-Metallic Mineral Product Manufacturing	1.45	1.70	17.32%
NAICS 331 - Primary Metal Manufacturing	14.46	14.27	-1.32%
NAICS 332 - Fabricated Metal Product Manufacturing	5.19	6.07	16.90%
NAICS 333 - Machinery Manufacturing	14.67	17.64	20.25%
NAICS 334 - Computer and Electronic Product Manufacturing	9.31	11.10	19.15%
NAICS 335 - Electrical Equipment, Appliance and Component Manufact	3.94	4.52	14.87%
NAICS 336 - Transportation Equipment Manufacturing	66.91	76.82	14.80%
NAICS 337 - Furniture and Related Product Manufacturing	3.22	3.87	20.51%
NAICS 339 - Miscellaneous Manufacturing	3.95	5.62	42.35%
Sub-Total	**167.75**	**190.55**	**13.59%**
Total (exports for all industries)	**207.00**	**234.33**	**13.20%**
Source: Industry Canada			

Toronto Region Economy

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.

Using the average of the three forecasts, the economy of the Toronto region is estimated to have grown by 2.6% in 2015. It is also expected that the Toronto region will grow by 3.2% in 2016 and 2.9% in 2017. These projected growth rates for the Toronto region are higher than the BOC's national projections.

The steep decline of the price of commodities combined with the lower Canadian dollar is having important ramifications for the Toronto economy. Local business services firms competing for contracts with firms south of the border have become significantly more price competitive over the last year, since most of their operating costs are in local currency. Similarly, lower gas prices and attractive exchange rates are inducing more US travellers to come to Toronto. Toronto, with its state of the art movie infrastructure and skilled labour force, is also becoming more attractive to film producers.

On the other hand, even in Toronto, the reduction in commodity prices has also had a dampening impact on economic activity, particularly for large corporations like the big five banks with operations across the country.

Toronto Employment Survey

The Toronto Employment Survey (TES) is an establishment-based survey undertaken each summer by the City Planning Division. 2015 survey results were reported to the Planning and Growth Management Committee at its meeting on February 24, 2016. http://app.toronto.ca/tmmis/decisionBodyProfile.do?function=doPrepare&decisionBodyId=1039#Meeting-2016.PG10

This year's Employment Survey indicates that there were 37,850 more jobs in the city in 2015 than there were in 2014. Overall, the survey counted 1,422,260 jobs, 2.7% higher than in 2014.

TES 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 37,850 in 2015.

Full-time employment increased by 14,365 (1.35%) and part-time employment increased by 23,486 (7.32%) jobs in 2015 over the previous year. This surge in part-time employment was largely due to the hiring of support staff for the Pan Am and Parapan Am Games that took place in the summer of 2015.

After a modest decline in 2008-2009, TES data show steady increases each year for the last six years. Since 2008, establishments in the city of Toronto, have added over 110,000 net new jobs (Please see Appendix C for details).

The largest increases since 2008 were in the Finance, Insurance, and Real Estate (FIRE) (31,000 new jobs) and Service (27,000 new jobs) sectors. The Service sector grew mostly because of a significant jump in restaurant employment (27.1%). Interestingly over the past seven years, employment in Hospitals has decreased by 7,800 jobs, while Doctors/Dentists/Opticians offices showed an increase of 18,200 jobs.

Other highlights from TES over the past seven years include:

- Over 70% of all new jobs (79,200) are in the Office sector.
- Manufacturing employment continues to decrease (-2.1%), with Paper and Wood Products and R&D Labs accounting for the bulk of the decline. On a more

positive note, the Vehicles & Parts (15.0%) and Building Components (13.9%) posted significant increases.

- Employment in Head Offices continues to decline by about 1% each year, mainly due to employment decreases in Manufacturing and Oil Company head offices; while Construction head office jobs have been increasing.
- Government employment increased marginally from 2014 to 2015, but has seen steady annual growth rate (3.1%) over the last seven years.
- Daycare employment shows strong increases, with an annual growth rate of 6.3% over the past seven years.
- Retail employment has declined slightly over the last seven years (-0.2% annually) due to large losses in the Department Store sub-sector.
- Over half of the net new jobs created in the last seven years in the city are part-time (58,000) instead of full-time (53,000 net new jobs)

The State of Manufacturing in Toronto

This section summarizes the major findings of the third 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 is attached as Appendix B.

- The Toronto region's industrial land inventory is the third largest in North America. The region offers a number of competitive advantages for manufacturers, including 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.
- 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 in the city.
- In the city of Toronto, property taxes per square foot for a typical new industrial building decreased from $2.98/sq. ft. in 2005 to $2.86/sq. ft. in 2015. 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 $12.6 billion (2014) of output (in constant 2007 dollars), which accounted for 8.1% of the total output of goods and services produced in the city of Toronto. In terms of GDP per job, manufacturing increased from $89,290 to $97,792 or 9.5% over the period of 2011-2014. During the same time period, the GDP per job for all industries increased from $89,669 to $91,010 or 1.5%.
- There were 124,609 manufacturing and warehousing jobs in the city of Toronto in 2014. Between 2004 and 2014, total manufacturing employment in Toronto declined by 26.4%, whereas overall employment in the city increased by 10.1%.

- The manufacturing and warehousing sector in the city is dominated by the food processing, pharmaceuticals & chemicals and warehousing sub-sectors. The manufacturing and warehousing sub-sectors experiencing employment growth from 2004 to 2014 were building components, postal sorting station, warehousing and storage. On the other hand, clothing manufacturing witnessed a 60.8% decline in employment.
- There were 5,006 manufacturing and warehousing establishments in the city of Toronto in 2014 representing 6.7% of all establishments. There were 230 new manufacturing and warehousing establishments in the City of Toronto in 2014. This represented 4.6% of new establishments in all sectors. The number of manufacturing and warehousing establishments in et city has decreased by 4.8% since 2004, whereas the total number of establishments in the city increased by 5.0% between 2004 and 2014.
- The number of manufacturing and warehousing establishments by number of employees is dominated by the 1 to 4 employee category (43.5%). 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". http://reviewcanada.ca/magazine/2014/12/reforging-ontario/
- Longevity of establishments in the manufacturing and warehousing sector is one of the longest of the six major types of employment in the city of Toronto. Manufacturing and warehousing establishments 21 years and older accounted for 24.5% of the total in 2014. In comparison, office, retail and service sector establishments 21 years and older accounted for 17.6%, 23.2% and 20.6% respectively.
- In 2015, the average annual wage for manufacturing was $47,943 and for all industries was a bit higher ($49,542). However, 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 with the same level of education in other industries.
- An increasing proportion of city of Toronto residents working in the manufacturing sector possess a post-secondary diploma/certificate or a university degree. The city's well-educated labour force provides an opportunity to capitalize on the increased importance of advanced manufacturing.
- City of Toronto residents working in the manufacturing sector are older compared to all industries. In 2015, more than half of city of Toronto residents working in the manufacturing sector where between the ages of 45 and 64, compared to less than four in ten for all industries.

- The manufacturing and warehousing sector remains the sector with the highest percentage of full time workers with 93.1% in 2014. In comparison, the percentage of full time workers for all sectors was 76.8% in 2014.

In conclusion, manufacturing is an important part 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, other agencies and orders of government, including support for key industry sectors. The lower Canadian dollar is also providing a timely boost to the sector.

Labour Force

The Labour Force Survey (LFS) is a monthly survey, based on a sample of 54,000 Canadian households. It provides estimates for various labour related indicators, including the number of employed and unemployed residents, as well as their characteristics.

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 swings in population and related counts, which are not real.

EDC staff are working on a methodology to re-base the LFS population estimates for the city of Toronto and will be reporting to the next EDC meeting regarding labour market trends in greater detail than herein.

The unemployment rate for city of Toronto residents, like unemployment rates across North America and elsewhere, jumped dramatically from 7.6% in 2008 to 10.1% 2009. In 2015, the unemployment rate for city residents finally declined to its pre-recessionary level (7.7%). The participation rate for city of Toronto residents, however, remains 1.5% lower than it was in 2008.

The substantial drop in the unemployment rate for city residents in 2015 also increased the employment rate, which combines the participation rate and the unemployment rate for city of Toronto residents, from 58.6% in 2014 to 59.7% in 2015.

Real Estate Trends

The Urban Land Institute and PwC recently published the "Emerging Trends in Real Estate 2016" report after interviewing over 400 real estate professionals. Some of the trends for Canada in 2016 identified in the study include the following:

- Lower energy prices and the lower Canadian dollar will prove especially beneficial for the manufacturing, transportation, and warehousing sectors.

- Warehouses, fulfillment centres and neighbourhood shopping centres were the top ranked property subsectors, each of which is "a classic defensive play in times of slower economic growth". Investors' interest in health care related properties is increasing due to the aging of the population.
- Since house price gains in Toronto and Vancouver have been outpacing income gains, more people are choosing to rent instead of buy residential real estate. Developers are responding by increasing new purpose-built rentals.
- Many survey respondents suspect that after such a long bull market, "Canada's real estate markets are due for a breather." In response, "some are slowing their acquisition efforts in Canada, and focusing their attention on existing holdings and opportunities" in international markets.
- Respondents expressed oversupply concerns in the office market segment, because of the boom in construction over the past few years. On the other hand, "industrial property across much of the country is poised for growth in the current export-friendly environment".

Another report by CBRE, "Canada Commercial Real Estate Market Outlook" discusses some of the anticipated trends for Toronto region in 2016:

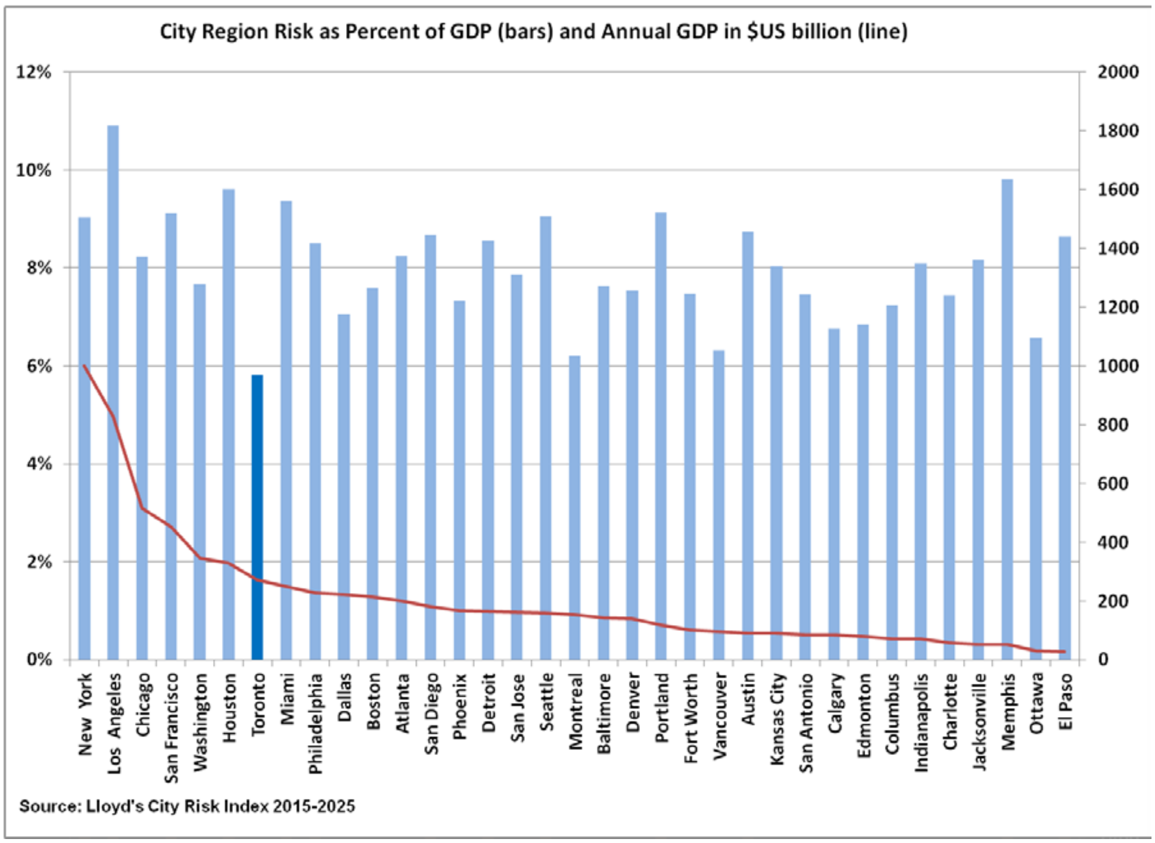
- In the office market, new supply will put upward pressure on vacancy rates; however, existing buildings will experience most of the upward pressure on vacancy rates, as new office buildings are at least 80% leased on completion.
- In 2016 the gap between downtown and suburban vacancy rates is expected to continue increasing, reaching a 20 year high. However, increasing downtown costs, improved regional transit, and higher household formation among Millennials could boost demand for office space "in densifying areas of the suburbs".
- Office Class "A" cap rates[1] are projected to decline even further in 2016. The cap rate compression trend has also been noted by Colliers International.
- Residential apartment cap rates are also projected to continue to fall in 2016.
- The fact that the GTA has one of the lowest industrial availability rates is likely to lead to an increase in speculative construction. High demand for industrial property among investors is expected to push cap rates to new lows.
- Changing consumer shopping patterns and in particular the growing e-commerce sector will boost demand for smaller industrial properties (less than 50,000 sq. ft.) within 20 minutes' drive from the downtown core. However, "limited functional offerings in South Scarborough, South Etobicoke and North York will force users to be creative with their site selection criteria".

[1] Cap Rate (capitalization rate) is the rate of return on a real estate investment property based on the income that the property is expected to generate. The cap rate is used to estimate the investor's potential return on investment.

- CBRE expects that investment, leasing and construction within the west end of the GTA will outperform the rest of the region because of its "superior transportation infrastructure and intermodal facilities".

While cap rates are coming down in Toronto, there still are opportunities and interest to invest in the various real estate subsectors. One of the reasons for that is that Toronto is the least risk-exposed major city region in the world, according to a recent comprehensive study sponsored by Lloyd's of London, based on research by the Centre for Risk Studies at the University of Cambridge (Chart 3). And less risk means that potential investors are willing to accept lower returns, especially now given the current turbulence in the global equity markets. Toronto's limited risk exposure is an important advantage over economic competitors across the world. Furthermore, the depressed level of the Canadian dollar could make real estate investments even more attractive to potential foreign investors.

Chart 4: City Region Risk in North American Cities



Building Activity

According to Skyscraperpage.com, there were 132 high-rise and mid-rise buildings under construction in the city of Toronto in December, 2015, which is lower than a year ago

(138 buildings), though Toronto remains ahead of all other North American cities for high and mid-rise building construction. Emporis, another data source, indicates that Toronto has slipped to second place in North America, after New York City, by the 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. Toronto has 3,945 floors under construction, second only to New York (4,360). 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 more buildings under 50 stories.

The total value of building permits issued by the city of Toronto in 2015 was $7.81 billion, which was 11.8% higher than in 2014. By comparison, the total value of building permits in the "905"increased by 23.8% in 2015 over 2014. In Toronto the increase was explained by a jump in non-residential permits (44.3%), while residential permits declined (-7.5%); in "905" municipalities it was residential permits that were up significantly (41.9%), whereas non-residential permits were down (-8.1%).

The decrease in residential building permits in the city of Toronto may be linked to the decline in housing presales. The increase in non-residential permits can be mostly explained by a 217.7% jump in institutional permits, including the $765 million building permit issued for the new Humber River Regional Hospital located at Keele Street and Highway 401. Commercial (13.9%) and industrial (4.1%) permits also rose in 2015 compared to 2014.

Office Market

The office market in the Toronto region was steady in 2015 compared to 2014. Vacancy rates in the city of Toronto declined marginally from 6.1% in 2014q4 to 6.0% in 2015q4. In "905" municipalities, vacancy rates increased slightly from 11.2% to 11.3%, between 2014q4 and 2015q4.

According to Cushman & Wakefield, in 2008q4 office vacancy rates in the "905" were 0.6% higher than in the city of Toronto. Seven years later, the spread between suburban and city of Toronto office vacancy rates had increased to 5.4%.

In the last year (2014q4 and 2015q4) office inventory in the Toronto region increased by 728,000 sq. ft., which was attributed to a more than 1 million sq. ft. increase in the "905". In the city of Toronto inventory declined by 295,000 sq. ft.

Occupied space in the city was slightly lower in 2015q4 compared to same period of 2014, which was largely attributed to declines in the Yonge Core and Toronto West office nodes. Occupied space increased in the Downtown and Toronto East office nodes. The "905" added 825,000 sq. ft. of occupied space between 2014q4 and 2015q4.

Industrial

The city of Toronto has almost 253 million square feet of industrial space, which is more than any other GTA municipality and is a third of the regional total. Between 2014q4 and 2015q4 industrial inventory increased by 808,209 sq. ft. in the city of Toronto according to Cushman & Wakefield. Despite the increase in inventory, the industrial vacancy rate has declined in the city of Toronto from 4.4% in 2014q4 to 2.9% in 2015q4, which is lower than in the"905" area (4.5%).

Housing

In 2015, housing starts in the Toronto CMA were 42,287, substantially higher than in 2014 (46.2%). The City's 2015 housing starts were 18,913 and the growth rate was even stronger (62.1%) than the regional average. This increase was explained by higher starts in the former city of Toronto (where starts increased from 6,945 units in 2014 to 12,163 units in 2015), Etobicoke and York; whereas starts declined in East York and North York.

In 2015, completions reached a remarkable 30,749 units, more than triple the average of the past 34 years, and more than double the average of the previous five years. The pattern of starts since the boom of 2012 suggests a high level of completions will continue for the next few years, if present market conditions persist.

The number of residential units under construction has declined from its peak of last year. As of December 2015, there were 37,590 residential units under construction in the city of Toronto, a decrease of 23.9% over a year earlier. While the share of apartments under construction continue to dominate overall construction, there was a noticeable increase of low-rise units under construction (17.6%).

In 2015, there were 14,457 residential pre-sales in the city of Toronto, a decline of 22.1% over 2014, which suggests that building permits and housing starts may slowdown. The vast majority of the pre-sales in the city were in the high rise market (95.7%). In contrast, "905" pre-sales increased by 11.8% in 2015 over 2014. Overall, GTA pre-sales reached almost 39,040 units in 2015, 2.5% lower than in 2014.

Residential re-sale data for the city of Toronto continue to show healthy growth in both units sold and prices. The average house price ($659,270) in the city of Toronto in 2015 was 8.0% higher than a year ago. In 2015, there were 37,326 total units sold, which was 6.9% higher than in 2014.

The CHMC "Housing Market Outlook" analyzes Toronto region residential market trends for 2016 and 2017. CHMC forecasts that:

- Housing starts in the Toronto CMA are expected to decline by 4.8% in 2016 and another 9.6% in 2017.

- High rise starts will continue to dominate housing construction over the next couple of years, as demand will be supported by deteriorating affordability in the low-rise sector.
- Low rental vacancy rates will encourage the development of more purpose built rental projects.
- Resale market sales volumes in Toronto CMA are expected to decline by 7.6% in 2016 and another 3.8% in 2017.
- As Millennials enter their child rearing and peak earning years, it is expected that demand for low rise housing and bigger high rise units will increase. On the other hand, supply of low rise housing may remain constrained as existing homeowners live and stay healthy longer and are not ready to downsize yet.

Retail Sales

December 2015 retail sales data will be released on February 18, 2016, which is after the Economic Development Committee's agenda closing; therefore, staff will distribute an updated version of the attached presentation at the committee meeting on February 26, 2016.

The total value of retail sales in the 11 months ending November 2015 in the Toronto region was $69.4 billion, which was an increase of 5.1% over the same eleven months last year and is significantly higher than the rate of inflation.

Convenience stores (18.4%), used car dealers (17.8%), and new car dealers (12.0%) registered the highest growth in sales; whereas, other motor vehicle dealers (-11.5%) and gasoline stations (-7.4%) registered declines in sales compared to the previous year. The lower retail sales in the gasoline station category is explained by declining oil prices.

CONCLUSION

The decline in the price of oil as well as many other commodities has put downward pressure on economic growth in Canada. However, energy-producing regions are significantly more impacted from lower oil prices than Ontario. In fact, lower energy costs and an attractive exchange rate are providing a boost to the wealth creating exports sectors, such as manufacturing, commercial services, transportation and tourism.

Toronto Region GDP grew by 2.6% in 2015, supported by a robust real estate sector, the Pan Am and Parapan Am Games and low oil prices, all of which provided a timely boost to economic growth. In 2016 the Toronto economy is expected to grow by 3.2%, which is substantially higher than the national average.

Higher migration to Ontario, and Toronto in particular, will continue to support the real estate sector, which will also benefit from the fact that Toronto is perceived as one of the safest large urban regions in the world. Toronto is expected to outperform the national economy largely because of its diversified economy and lower exposure to the natural resource sector.

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. Manufacturers in the city of Toronto are benefitting from a supportive business environment, increasingly competitive business property tax rates, high-skilled labour force, lower Canadian dollar and a variety of business development and assistance programs.

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ATTACHMENTS

Attachment A: Economic Indices Presentation - Annual Summary
Attachment B: State of Manufacturing in Toronto - 2015
Attachment C: Toronto Employment Survey - 2015