TORONTO

STAFF REPORT ACTION REQUIRED

Economic Dashboard

Date:	March 31, 2016
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	AFS: 22272

SUMMARY

This report updates the Toronto Economic Dashboard. It summarizes 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 and 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 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 following section provides some additional information about business bankruptcies, as requested by the Economic Development Committee on February 26, 2016, and a brief analysis of annual Labour Force Survey data since 2008 using rebased population estimates for city of Toronto residents.

The final section of the report summarizes major local economic indicators, including labour market metrics, 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, GDP growth rates are expressed 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 Organisation for Economic Co-operation and Development's (OECD) Interim Economic Outlook was released on February 18, 2016, downgrading their global growth forecast for 2016 and 2017 compared to their last forecast in November 2015. The global economy is now expected to grow by 3% in 2016 and by 3.3% in 2017.

Table 1: Global Economic Growth

	Annual Real GDP Growth Rate				
	2015	2016		2017	
		February 2016 Projections	Difference from November Projections	February 2016 Projections	Difference from November Projections
Canada	1.2%	1.4%	-0.6%	2.2%	-0.1%
United States	2.4%	2.0%	-0.5%	2.2%	-0.2%
Euro Area	1.5%	1.4%	-0.4%	1.7%	-0.2%
China	6.9%	6.5%	0.0%	6.2%	0.0%
India	7.4%	7.4%	0.1%	7.3%	-0.1%
Japan	0.4%	0.8%	-0.2%	0.6%	0.1%
World	3.0%	3.0%	-0.3%	3.3%	-0.3%
Source: OECD, February Interim Economic Outlook					

In its assessment of the global economy, the OECD paints a cautionary picture and notes that:

> "Growth is slowing in many emerging economies with a very modest recovery in advanced economies and low prices depressing commodity exporters. Trade and investment remain weak. Sluggish demand is leading to low inflation and inadequate wage and employment growth.
>
> Financial instability risks are substantial. Financial markets globally have been reassessing growth prospects, leading to falls in equity prices and higher market volatility. Some emerging markets are particularly vulnerable to sharp exchange rate movements and the effects of high domestic debt."

The OECD continues to advocate for a three pronged monetary, fiscal and structural policy response, in order to spur sustained global economic growth.
http://www.oecd.org/eco/outlook/OECD-Interim-Economic-Outlook-February-2016.pdf

The February 2016, J.P.Morgan Global Manufacturing PMI fell to its lowest level (50.0) in thirty nine months, indicating that manufacturing output has stopped growing. Manufacturing growth slowed in the U.S., Euro area, Japan, UK and India, and output "contracted in China, Taiwan, Indonesia, Malaysia, Brazil and Canada". The report also shows that deflationary forces are at play again, since manufacturing prices contracted for eighth month in a row.

According to David Hensley, Director of Global Economic Coordination at J.P.Morgan, the February Global Manufacturing PMI is "further highlighting the fragility of global industry at the start of the year. Inflows of new business and production volumes barely rose, while the trend in international trade deteriorated. Market conditions will need to improve in the short run if global manufacturing is to avoid falling back into contraction."
https://www.markiteconomics.com/Survey/PressRelease.mvc/f62b918e6ab74a9c82b365c22d7a0238

United States

In February 2016, the OECD lowered its growth forecast for the U.S. to 2.0% in 2016 and 2.2% in 2017, which is lower than the previous OECD forecast in November.

In 2015, U.S. output grew by 2.4%, mainly due to healthy increases in consumption (supported by solid employment growth and lower oil prices) and fixed investment; however, the GDP growth rate has tapered off recently. After a modest third quarter (2.0% at annualized rates), real GDP growth slowed to an annual rate of 1.0% in 2015q4. The slowdown in growth in 2015q4 was mostly explained by a decline in exports. Interestingly, despite the strong U.S. dollar, imports declined as well.

http://www.bea.gov/newsreleases/national/gdp/2016/pdf/gdp4q15_2nd.pdf

A potential risk to economic growth is the continued strength of the U.S. dollar, which may be starting to hurt exports and manufacturing. In February 2016, the Manufacturing Purchasing Managers' Index (PMI) fell to 51.3, its lowest level in twenty eight months.
https://www.markiteconomics.com/Survey/PressRelease.mvc/b87d7d143c9a44b8b1076273b5efaf6f

The University of Michigan's U.S. consumer confidence index decelerated to 91.7 in February, both on a month over month and year over year basis. This decline does not bode well for consumption, which has been the main driver of recent economic growth.
http://www.sca.isr.umich.edu/

Europe

The OECD also downgraded its short-term growth forecasts for the Euro area. GDP is now expected to grow by 1.4% in 2016 and 1.7% in 2017.

According to the OECD, Euro area growth prospects will be affected by weak investment and stubbornly high unemployment. GDP "has only just returned to its pre-crisis peak of early 2008. The positive effect of lower oil prices on activity has been less than expected, while very low interest rates and a weaker euro have yet to lead to sustained stronger investment. In several euro area countries, high private sector leverage and high levels of non-performing loans hamper the credit channel of monetary policy transmission."

China

Chinese growth rates have been decelerating over the past few years, as the Chinese economy undergoes a structural shift, from investment and export-based growth, towards greater reliance on domestic demand. The OECD expects Chinese economic growth to continue to slow, from 6.9% in 2015 to 6.5% 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.

Commodity Prices

The decline in commodities demand has had a negative impact on the commodities exporting countries, like Canada, which is trickling down across sectors and provinces. Since its post-recessionary peak in 2011, the Bloomberg commodity index has declined by more than half.
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 ($US 82 to $US 110) for several years, until July 2014, when oil prices began trending consistently downward. About a month ago, oil prices seem to have bottomed out and started to recover a bit, from less than $US 31 in mid-February to approximately $40 in the second half of March 2016. Not surprisingly, the Canadian dollar has also gained some ground versus other major currencies.

Canada

In February 2016, the OECD downgraded its growth forecast for Canada. GDP is expected to grow by 1.4% in 2016 and 2.2% in 2017, which is lower than the previous OECD forecast in November. Coincidentally, the revised OECD growth rates for Canada are exactly the same as the average growth rates of fifteen private sector forecasters that appear in the March 22, 2016 federal budget.

The mild recession in the first half of 2015 was largely attributed to the oil price decline that is estimated to have subtracted about 1.25 percentage points from GDP growth. In the second half of 2015, the economy rebounded and grew by 2.4% and 0.8% in 2015q3 and 2015q4 respectively. Economic growth in 2015q4 was supported by consumption, government spending and lower imports. On the other hand, fixed capital formation, inventories and lower exports were a drag on growth.
http://www.statcan.gc.ca/daily-quotidien/160301/dq160301a-eng.pdf

The incoming federal Liberal government has lowered middle income tax rates and announced a significant increase in government spending. These actions are expected to provide a short-term stimulus for the private consumption and government components of Canadian GDP.

On a more optimistic note, the most recent (February 19, 2016) Canadian forecast by the Policy and Economic Analysis Program (PEAP) at the University of Toronto projects that the Canadian economy will grow by 2.4% in 2016 and will accelerate to 2.7% in 2017.

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

The Ontario Ministry of Finance (MOF) estimates that real GDP in Ontario grew by 2.5% in 2015, and that it will grow by an average of 2.2% for the period of 2016–2019. These growth projections are slightly lower compared to private-sector forecasts.
http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/papers_all.pdf

PEAP expects that the Ontario economy will grow a bit faster than the MOF's projection. Ontario's GDP growth rate is estimated to be 2.4% in 2016 and 2.7% in 2017. PEAP notes that "while lower oil and gas prices are clearly bad for a number of provinces, they are, on the whole, quite positive for Ontario. Interprovincial exports have, and are expected to continue to suffer in the near term, but international exports are expected to more than pick up the slack. Government infrastructure spending, together with important contributions from business investment also support growth going forward."

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.

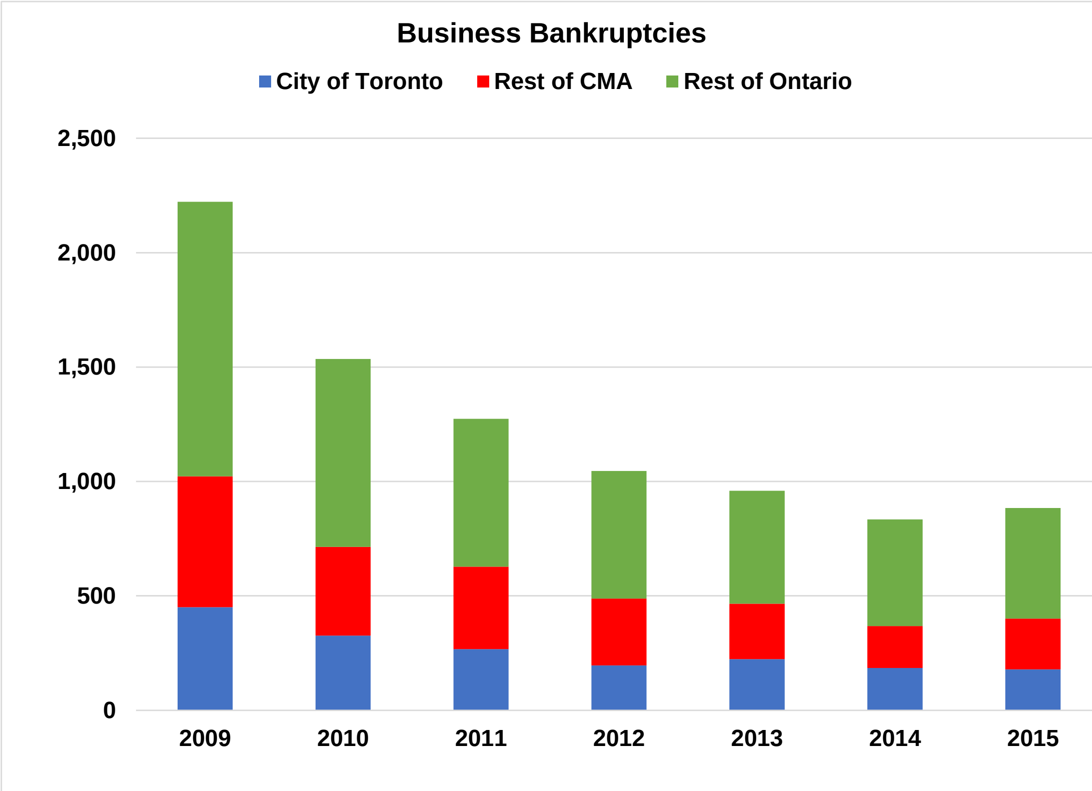
Using the average of the three forecasts, the economy of the Toronto region is estimated to have grown by 2.7% in 2015. It is expected that the Toronto region will grow by 3.2% in 2016 and 2.9% in 2017. These projected growth rates for the Toronto region are higher than the BOC's national projections, because of Toronto's diverse economic base and lower exposure to the natural resource sector.

Business Bankruptcies

At its meeting on February 26, 2016, the Economic Development Committee asked staff to report back with additional information about business bankruptcies.

The chart 1, below, shows annual business bankruptcies for the last seven years in the City of Toronto, the rest of the Toronto CMA and the rest of Ontario. We do not have this level of detail before 2009, but it seems that business bankruptcies increased significantly in 2009 and have been coming down since then; until 2015, when business bankruptcies rose in the "905" and in the rest of the Toronto CMA. On an annual basis, business bankruptcies are down by 3.2% in the city of Toronto in 2015, unlike the rest of the Toronto CMA (+21.3%) and the rest of Ontario (+3.6%).

Chart 1:



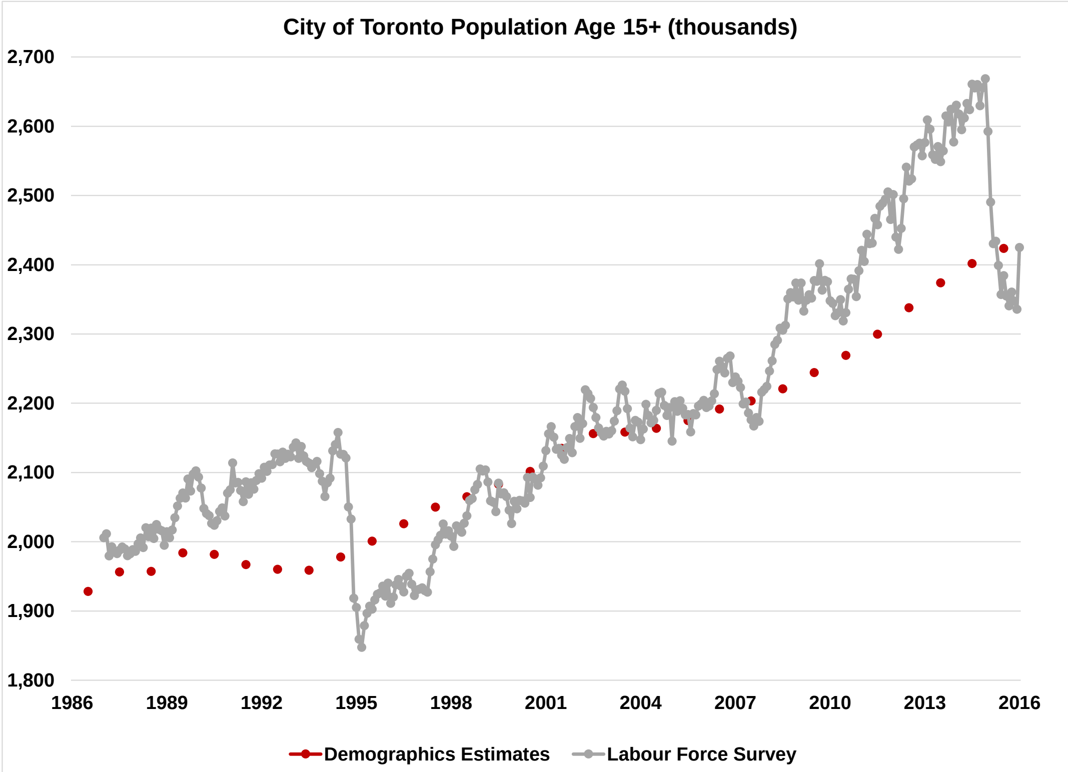
Business bankruptcies are very volatile on a monthly, and even quarterly, basis and the data before the committee in February 2016 was Q3 data for the CMA, which is why these results tell a different story from the bankruptcy data before the committee in February.

Rebased Labour Force Data

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. Chart 2 below illustrates the magnitude of this problem.

Chart 2:



The red dots in Chart 2 above represent Statistics Canada's Annual Demographics estimates for the population of the city of Toronto, age 15 and over. These are only estimates, but they are generally accepted as the most accurate estimates for the city's population. (Statistics Canada, Cansim tables 51-0036 and 51-0062)

The most recent Statistics Canada population estimate is for July 1, 2015; therefore, we have to use projections for 2016 and beyond. There are several population projections for the city. The projection that EDC staff has chosen to use for rebasing LFS data is based on Statistics Canada's 2013 demographics estimates (based on the 2011 census) that were produced by the Ontario Ministry of Finance in late 2014.
http://www.fin.gov.on.ca/en/economy/demographics/projections/

To handle the transition from the Statistics Canada data ending in 2015, to the Ministry of Finance's projections (2016 onwards), staff have used the annual change in the Finance projections to add to the demographics estimates for 2015.

The Labour Force Survey sampling frame does not include military personnel and institutional inmates. The difference is approximately 1% at the Toronto CMA level; therefore, staff have reduced the city of Toronto population estimates by one percent to account for the non-civilian and institutional population. Monthly population estimates were developed by interpolating the July 1st estimates.

All of the LFS counts for city of Toronto residents have been adjusted to make the population estimates embedded in the LFS data conform to the benchmark population totals. This does not affect rates (including, for example, the unemployment rate and the percentage of workers that are self-employed). It also does not affect other levels of geography, except the "905", which is calculated as a residual (Toronto CMA minus city of Toronto).

Annual Labour Force Data

For sixteen consecutive years (from 1993 to 2008) the number of employed Canadians steadily increased each year, by an average of 267,000 annually. Then in 2009, the total number of employed Canadians declined by 283,000. The 2009 decline was linked to the 2008/2009 global financial crisis, which was the worst since the 1930's. The economic recovery since then has been uneven.

From 2010-2013, Canada experienced four years of solid growth (annual average job growth = 241,000), and more recently, two years of tepid growth (2014 = 111,000 and 2015 = 144,000).

Chart 3:

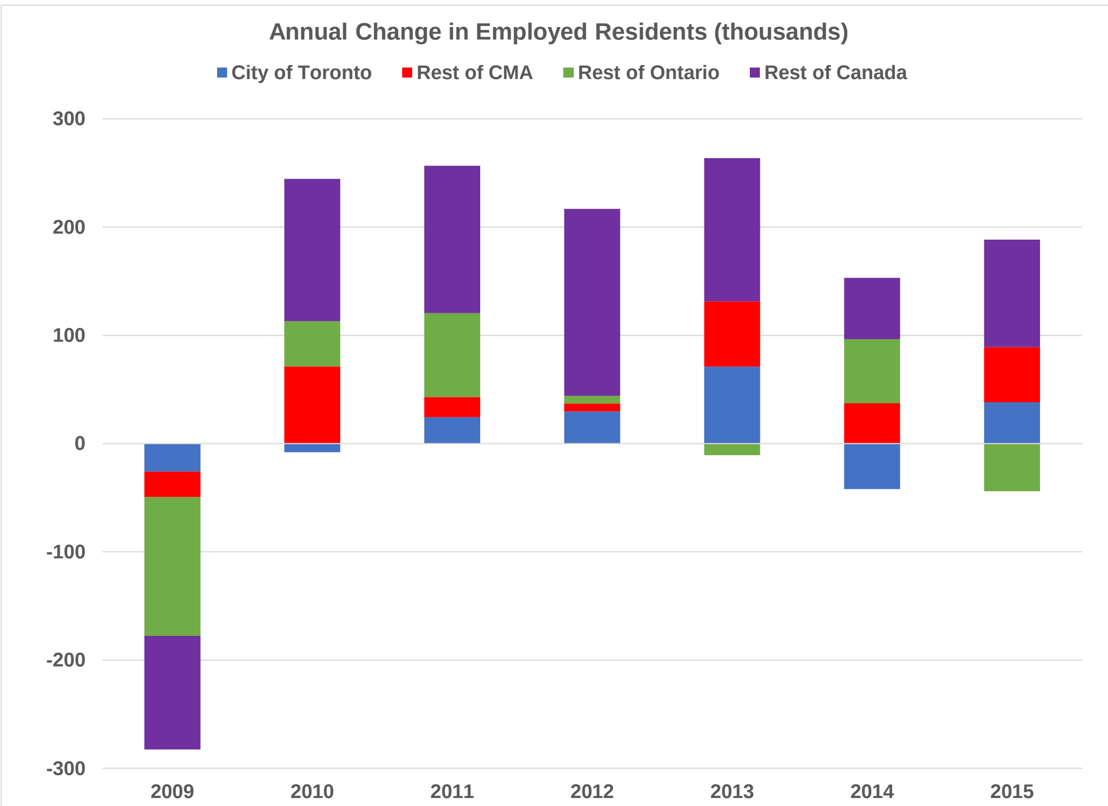


Chart 3 above shows the annual change in the number of employed residents from 2008 to 2015. Since 2008, the number of employed Canadians has increased by 936,000 (5.5%). Ontario's growth rate (4.7%) over this seven year period was not far behind the rest of Canada. However, growth in Ontario has not been evenly distributed across the province. Between 2008 and 2015, the number of city of Toronto residents that are employed increased by 6.5%, the rest of the Toronto CMA by 14.6% and the rest of Ontario by only 0.1%.

There are 87,500 more city of Toronto residents employed today than were employed in 2008. The number that are self-employed has risen by 18,800 while the number of employees rose by 68,700. The proportion of city residents that are currently self-employed is 16.4%, which is slightly higher than it was in 2008, but it is lower than it was in 2009.

Almost all of the net new employees are not unionized (64,100), more than half of the new jobs are temporary and almost half of the new jobs are part-time, many of which are involuntary part-time. 28,100 of the 87,500 net new positions filled by city residents since 2008 are involuntary part-time jobs.

By size of establishment, almost all of the net new city employees work in establishments with less than 20 employees (+29,400) or establishments with 20-99 employees (+43,500). The number of city residents that are employed in establishments with 500 or more employees has declined slightly since 2008.

The average wage for city of Toronto residents that are employees has increased by more than inflation since 2008. The mean hourly wage is up by 15.4% and the median hourly wage has increased by 15.7%; at the same time, the Consumer Price Index has increased by 13.4%.

By 2015, unemployment rates in Toronto and across Canada had largely recovered from the 2008/2009 recession; however, labour force participation rates have continued to decline, which is part of a longer term trend. Participation rates have been falling since 2004 in the city of Toronto, and since 2003 in the Toronto CMA, Ontario and Canada.

Participation rates for workers age 55-64 and age 65+ have increased since 2008; however, participation rates (locally, provincially and nationally) in almost all other age groups, for both men and women, have declined.

The largest declines in employment have been experienced by persons with relatively lower educational attainment. City of Toronto residents with some high school (-7.8 % points), high school grads (-7.9% points) and some secondary education (-6.7% points) have all seen large declines in their employment rates. Similar patterns are observed across Ontario and Canada.

These labour force changes do not seem to be merely the result of an aging population. One would expect falling participation rates as a population ages; however, the pattern of weak labour market outcomes at lower levels of educational attainment is also true for workers age 25-44 and 45-64, in Toronto as well as across Canada.

Comparing changes in employment rates by period of immigration is also revealing. New immigrants typically have lower employment rates than Canadian born residents and well-established immigrants. However, the decline in employment rates since 2008 has fallen almost entirely on the Canadian born (-3.6 % points) and immigrants that have arrived in the last five years (-3.4% points). Better established immigrants have either experienced no change or small increases/decreases in their employment rates since 2008.

Monthly Labour Force Data

Between July 2014 and July 2015, the seasonally adjusted unemployment rate for city residents fell from 10.7% to 6.7%. It then rose back up to 8.7% (Dec 2015), and in the last two months it has fallen back to 8.3% (Feb 2016).

Unemployment rates in the rest of the Toronto CMA ("905") have also declined over the last few years, and are now once again comfortably lower than the Canadian average. 905 unemployment rates reached a low of 6.0% in November 2015, and have crept back up to 6.6% in the last three months.

The seasonally adjusted monthly participation rate for city of Toronto residents was 64.6% in February 2016, slightly higher than a year ago (64.2%).

The seasonally adjusted monthly employment rate, which combines the participation rate and the unemployment rate for city of Toronto residents, now stands at 59.2% in February 2016, which is also slightly higher than it was a year ago (59.0%).

The seasonally adjusted number of employed city of Toronto residents reached an all-time high of 1,460,000 persons in May 2015. It then fell back to 1,422,000 (Sept 2015) and has fluctuated in a narrow band since then. 1,431,000 city of Toronto residents were employed in February 2016, on a seasonally adjusted monthly basis.

Building Activity

According to Skyscraperpage.com, there were 137 high-rise and mid-rise buildings under construction in the city of Toronto on March 14, 2016, which is the same as a year ago. 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 4,053 floors 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 more buildings under 50 stories.

The total value of building permits issued in the city of Toronto in January 2016 decreased by 6.6% over same period in 2015. The decline in building permits issued in the city of Toronto was explained by lower non-residential building permits (-15.1%), while residential permits were flat (-0.6%). The decrease in non-residential permits was due to lower commercial permits (-27.6%). On the other hand, industrial (144.5%) and institutional (48.0%) permits rose substantially compared to the same period in 2015.

In the first month of the year, the value of building permits issued in "905" municipalities was lower (-13.3%) compared to same period of last year. The decrease in the value of “905” building permits was caused by falling residential permits (-30.3%), while non-residential increased (54.7%) over same period of last year. In "905" municipalities, commercial and industrial building permits increased by 60.9% and 103.8% respectively; whereas "905" institutional permits decreased by 21.0%, compared to the same period last year.

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

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% from 2014q4 to 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 (from 2014q4 to 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.

Housing

In January 2016, housing starts in the Toronto CMA (1,843 units) were down by 38.0% compared to the same period in 2015. The decline was due to lower housing starts in the high rise sector (-52.6%), while the detached housing market starts rebounded (46.1%). However, the high rise market still dominates regional housing starts, as it represents almost two thirds of total starts.

The decrease in housing starts in the city of Toronto was more pronounced (-55.9%). This contributed to a reduction in the number of residential units under construction, from 42,011 in January 2015 to 36,831 in January 2016.

Total housing completions in the city of Toronto in January 2016 decreased substantially to 1,592 units from 9,472 units in January 2015. The number of units that have been completed but not absorbed increased slightly from 1,695 units in January 2015 to 1,789 units in January 2016.

According to RealNet, pre-sales of new residential units in January in the GTA is down (-22.1%) in 2016, compared to 2015. GTA high-rise presales are down by almost a third (-32.1%) in January 2016, and low-rise presales are down by 13.9% compared to the same period last year.

Residential re-sale data for the city of Toronto continue to show strong growth in prices and the number of units sold. The average house price ($719,843) in the city of Toronto in February 2016 was 14.1% higher than a year ago, while sales were up by 18.5% over the same period of 2015. These significant increases may be partially explained by warmer weather this winter and increased down payments required for federal mortgage insurance that took effect in mid-February, which might have temporarily bumped up housing demand.

Retail Sales

The total value of retail sales in January 2016 in the Toronto region was $5.69 billion, which was an increase of 6.8% over the same period of last year and is significantly higher than the rate of inflation (2.1%).

Used car dealers (30.6%), shoe stores (20.9%) and new car dealers (17.3%) registered the highest growth in sales; whereas, electronics and appliance stores (-11.5%) and home furnishings stores (-3.6%) registered declines in sales compared to the previous year.

CONCLUSION

Large declines in the price of oil as well as many other commodities has put downward pressure on economic growth in Canada. However, energy-producing regions have been significantly more impacted by lower oil prices than Ontario.

Total output produced in the Toronto Region grew by 2.6% in 2015, and is expected to grow by 3.2% in 2016, which is higher than the national average.

There has been some softening recently in a number of real estate indicators, such as building permits, housing starts and presales across the Toronto region. To put these declines in context; however, one must remember that 2015 was a very strong year for housing market indicators.

Between 2008 and 2015, the number of city of Toronto residents that were employed increased by 6.5%, the rest of the Toronto CMA by 14.6% and the rest of Ontario by only 0.1%. While unemployment rates in Toronto and across Canada have largely recovered from the 2008/2009 recession, labour force participation rates have not fully recovered.

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ATTACHMENTS

Attachment: Economic Dashboard Presentation