

The past week featured a busier-than-usual release schedule, with the third quarter provincial economic accounts leading the list. Ontario's recession is at an end and the recovery began in the third quarter of 2009, according to this most comprehensive measure of the economy. More recent economic indicators suggest further growth in the fourth quarter, led by consumer and residential spending and an upturn in auto manufacturing.

**Real GDP expenditures** increased at a 1.8% annual rate in the third quarter. This was the first gain since the second quarter of 2008, marking the end of the recession. This end of recession call presumes no fallback within the next year or so and not to a lower level than in the second quarter of 2009. Based on various data released to date covering fourth quarter activity, the economy almost certainly grew in that quarter.

The sources of spending growth during the third quarter were fairly widespread, with boosts from consumers, business investment in machinery and equipment, government capital spending, and exports. While domestic sectors in total grew at a robust 5.7% annual rate, the trade sector deteriorated on a shrinking trade balance. Exports grew in the third quarter, but imports grew faster with the pick-up in machinery and equipment investment, auto production, and consumer spending.

Output-based GDP expanded at a 2.5% annual rate, up from -3.4% in the second quarter and -9.6% in the first quarter of 2009. Value-added production grew fastest in manufacturing, led by the **auto industry**, which reflected the turnaround in new vehicle sales and the re-opening of some plants shut down by the General Motors and Chrysler bankruptcies. Other industries leading growth in the quarter were wholesale and retail trade, transportation, and public sector segments such as government and health services. Industries seeing shrinkage included mining, utilities, construction, arts/entertainment/recreation, and professional/administrative services.

Income-based GDP captured a meaningful turnaround in corporate profits, which grew at a 32% annual rate in the third quarter. Nonetheless, profit levels remain low and are about one-half of levels seen in 2007 and 2008. Labour income shrank for the third straight quarter but at a slight pace, and is poised to increase in the fourth quarter since employment and hours worked are rising.

Tuning to more recent indicators, **merchandise exports** held up fairly well in November and were at one of their highest levels for the year, though down from October. Automotive product exports dropped 6% in November and accounted for most of the month's total decline. The turnaround in the auto sector has been aided by the cash-for-clunkers program in the U.S., but monthly sales had dropped with that program ending. However, in the latest two months, U.S. new vehicle sales are rising and hit 11.2 million units in December, which is well below normal but a positive development.

**New vehicle sales** declined during November in Canada and all provinces. In Ontario, new vehicle sales were down 6% from October and 10% on a year-to-date basis from 2008. Sales of North American made passenger cars are down 25% so far in 2009 in Canada, though truck sales are down by a lesser 6%. Sales of passenger cars from overseas countries other than Japan are up 8%.

Spending on **non-residential building construction** contracted in the fourth quarter on weakness in the private sector, while the public sector increased its spending. Commercial building investment after inflation is at its lowest level since late 2003, with weak market conditions in the office and retail markets in many regions of the province. Building permits issued in November were below the monthly average for 2009, which pointed to further slippage in spending during the first quarter of 2010.

The only source of strength in non-residential building construction is the public sector. After inflation, spending



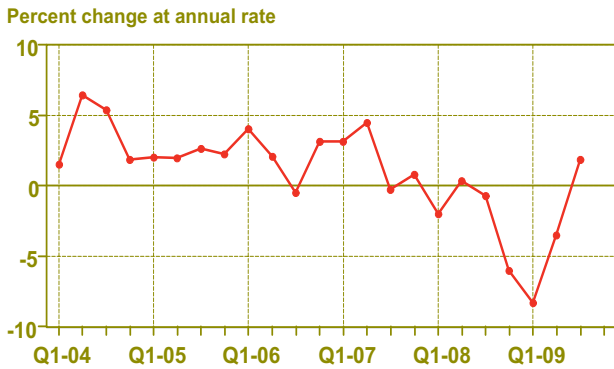
reached \$966 million in 2002 dollars during the fourth quarter, the highest level since mid-2004. Further gains should be expected since November permits were up 32% over October, marking the third highest level this year. Building permit values are not adjusted for construction cost inflation, and since construction costs are declining, November's increase is larger than the change in current dollars.

Another area of increasing economic activity is residential construction. In Ontario's urban centres, **housing starts** came in at a seasonally adjusted annual rate of 54,000 units in December. Toronto CMA starts fell back in December, but starts in the other urban centres hit their highest rate this year. The upturn in housing starts will continue well into 2010 since the housing market is generating more sales and higher prices. While the trend improved during 2009, it was a poor year as a whole for housing starts, with a 33% drop from 2008. Toronto CMA starts fell 39%, while Ottawa, London, and Kitchener saw declines of less than 15%.

(Graphs on page 3)

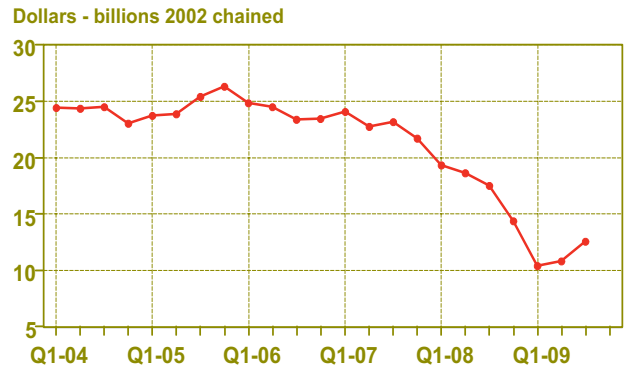
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### Real GDP Expenditures, Quarterly, Ontario



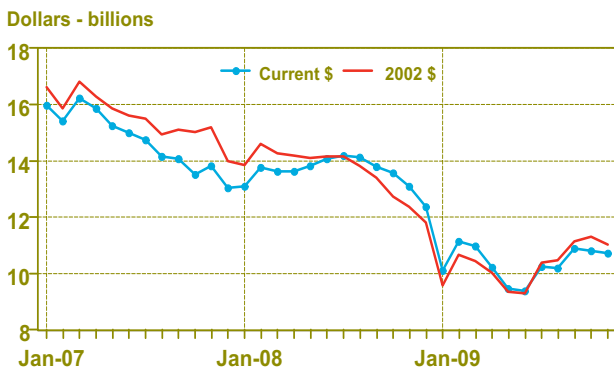
Source: Ontario Ministry of Finance. Latest: Q3-09

### Auto Industry Manufacturing GDP, Quarterly, Ontario



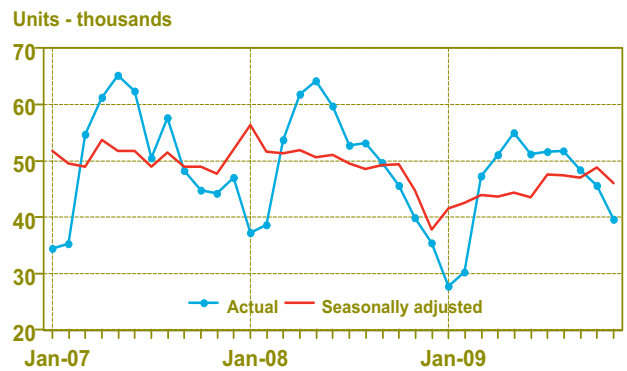
Source: Ontario Ministry of Finance. Latest: Q3-09

### International Merchandise Exports, Ontario



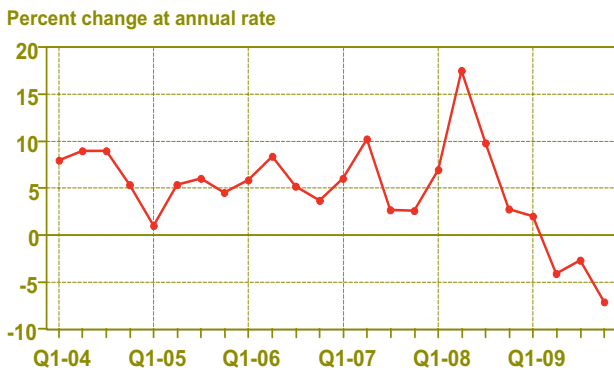
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Nov-09

### New Motor Vehicle Sales, Ontario



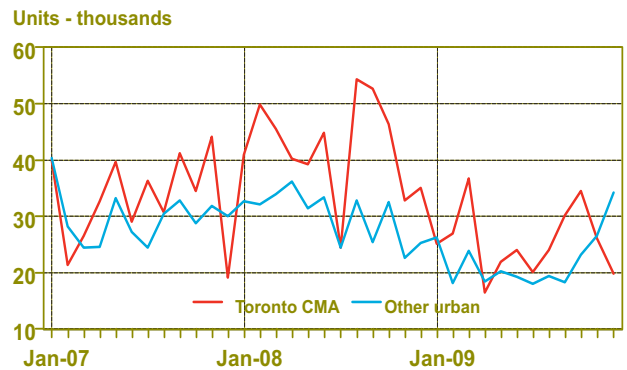
Source: Statistics Canada. Latest: Nov-09

### Non-residential Building Construction Price Index, Quarterly, Ontario



Source: Statistics Canada, C1CU. Latest: Q4-09

### Housing Starts, Ontario Urban Centres



Source: CMHC, C1CU. Note: Seasonally adjusted at annual rate. Latest: Dec-09