

This week's data releases generally reflected an economy in the early stages of transition from recession to recovery. They reveal some weakness in monthly consumer and manufacturing activity and a slight setback in the labour market. Low consumer price inflation played out in 2009, thanks to a drop in energy prices.

Ontario's **Consumer Price Index (CPI)** during 2009 was one of the lowest annual performances on record, with a yearly increase of 0.4% versus 2.3% in 2008. The lowest point in the modern record was 0.0% in 1994, which followed a severe recession and a weak recovery. The large drop in energy prices was the main story for consumer prices last year -- excluding energy, the CPI increased 1.8% compared to 1.7% in 2008. The energy component of the CPI fell 13.4% in 2009. The CPI in 2010 will jump about 1.5% from the energy-induced low of last year.

The monthly CPI dropped 0.4% in December from November and the declines were fairly widespread and not only in energy, which fell 1.6%. Other notable declines occurred in clothing and footwear, down 5.4% drop, with household furnishings and equipment off 2.7%, recreation down 1.8%, and health and personal care 0.9% lower. On the flip side, fresh vegetable prices jumped 8.3% in the month.

Consumer spending weakened during November, likely due to fewer new vehicle sales. Total **retail sales** were off 0.4% and in real or inflation-adjusted terms 1.3% from October. For the year thus far, current dollar sales are down 3.5% in the province. Sales are down 4.8% for the year in the Toronto CMA and 2.6% in the rest of Ontario. This outcome is somewhat at odds with the performance in their respective labour and housing markets, where Toronto's performance is better.

Manufacturing sales for November were slightly below October in current dollars. The overall 0.8% decline was largely in transportation equipment sales, which

declined 3.4% and accounted for most of the overall drop. Chemicals saw a large gain. Manufacturing has rebounded from early lows this year and is on a weak growth trend heading into 2010. Next year, manufacturing sales are projected to increase around 2% to 4%, following a 19% drop in 2009.

International tourist visits held steady in November from October, but the downward trend since 2000 is strong. While U.S. tourist traffic edged up in November, the diminishing numbers of American visitors is the main reason for the longer-term drop in tourism. The global recession also cut into tourist visits from other countries, but the longer-term trend there is much more positive. China's recent granting of approved destination status to Canada can only help.

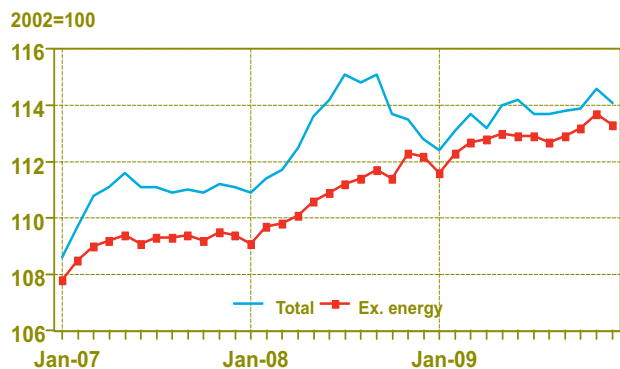
The labour market is showing signs of modest improvement since mid-2009 and the flow of **Employment Insurance claims** received mirrors this change. Since the May 2009 high, initial and renewal claims received are down about 20%. November saw a sizeable 8% jump over October, but that is probably not the beginning of further increases. Even moderate economic growth in 2010 will generate some employment gains, but likely not matching economic growth, which will initially leave unemployment at high levels.

(Graphs on page 2)

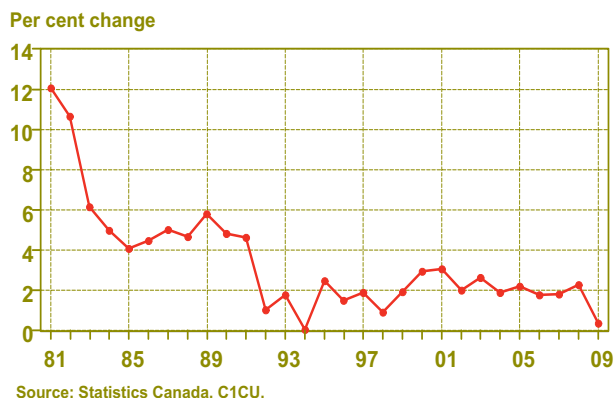
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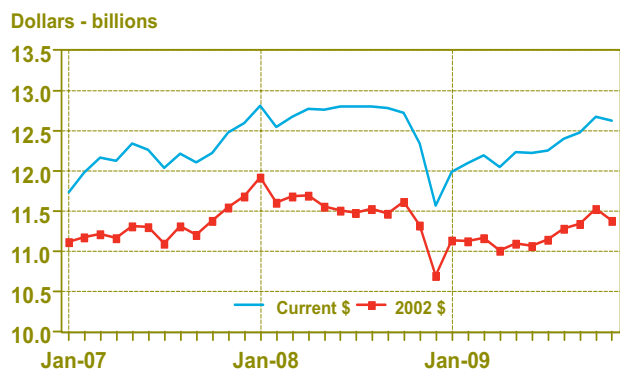
Consumer Price Index, Ontario



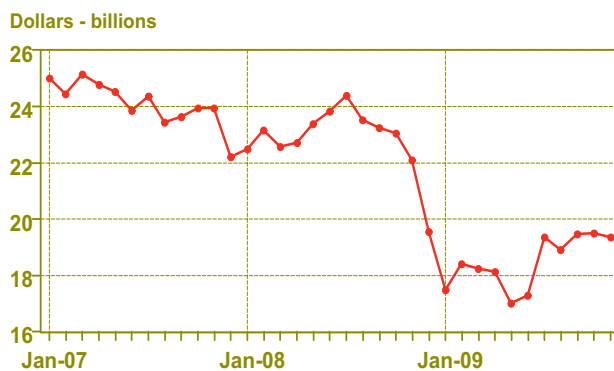
Consumer Price Index, Annually, Ontario



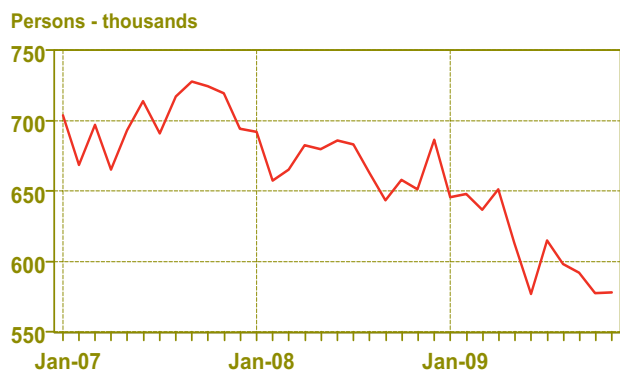
Retail Sales, Ontario



Manufacturing Sales, Ontario



International Tourist Entries, Ontario



Employment Insurance Initial and Renewal Claims Received, Ontario

