

The latest data on the key auto industry is unimpressive and the same could be said for Ontario's lumber sector, though holding onto prior gains is still a positive outcome. A surprising result showed up in consumer bankruptcies, while household debt service looked to be in reasonable shape going into the recession.

Total auto industry production slipped during November, largely owing to fewer motor vehicle assemblies. Overall, output has flat-lined since July and prospects for December are only slightly better. U.S. new vehicle sales in December exceeded 11 million units annualized, the highest monthly level since the cash-for-clunkers program ended, and manufacturers have begun re-stocking inventories. In the near-term, production looks to increase somewhat to satisfy higher demand, though not necessarily in response to higher prices.

Based on the prices auto producers receive, profitability will come more from cost savings and higher volumes than from higher prices. December saw the **Industry Product Price Index (IPPI)** for motor vehicles hovering at a yearly low. Since most vehicles produced in Canada are exported to the U.S., they are priced in U.S. dollars when they leave the plant and then converted back into the domestic currency, which means exchange rate movements affect the bottom line of Canadian producers. The run-up in the IPPI in late 2008 and early 2009 reflected the sharp drop in the loonie.

The situation is similar for Ontario's lumber producers. **Lumber production** is holding at a low level, though up from April's bottom, while prices for product leaving sawmills are also depressed. The best one can observe is a slightly higher price trend in the second half of 2009. U.S. housing starts are low, but expected to increase this year to about 0.75 million units from 0.55 million units in 2009. Lumber prices should continue rising off their cycle lows, though Canadian producers will not fully capture the increase should the loonie appreciate -- a probable scenario.

Consumer bankruptcies took a sharp and surprising fall in October, which held in November, after a steady rise since mid-2008. In a weak economy, the ability of households to service their debt is compromised by job and income losses resulting in higher bankruptcies. October's sharp drop is completely out of character with the normal pattern observed during a recession and in the early phase of a recovery. This is not to imply that such a development is unwelcome, but rather it is viewed with some skepticism and needs to be verified by subsequent data.

The debt-service ratio is the ratio of the total of mortgage and non-mortgage interest paid by persons and unincorporated businesses over personal disposable income. The latest data is for 2008 and Ontario's personal debt-service ratio is 8.3%. While up from 7.1% in 2004, it is not excessive heading into 2009. During the 1990-92 recession, this ratio was in double-digits. Obviously, interest rates are much lower now than in the early 1990s, but debt levels are higher and savings rates are lower, making 2008's personal debt burden worse than it appears in the historical context.

When interest rates move higher as Canada's economic recovery becomes more secure, the debt-service ratio is bound to rise since the increase in rates will be relatively greater than income gains. In addition, mortgage debt increases with housing prices. To some extent, rising debt comes with improving consumer spending activity and the ability to service debt improves as the economy grows. However, some consumers overextend themselves into debt, and when there is a major disruption to their income flow, debt-servicing problems emerge and bankruptcy may follow.

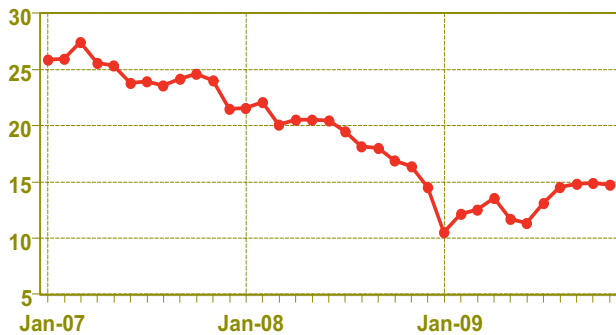
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Graphs on page 2



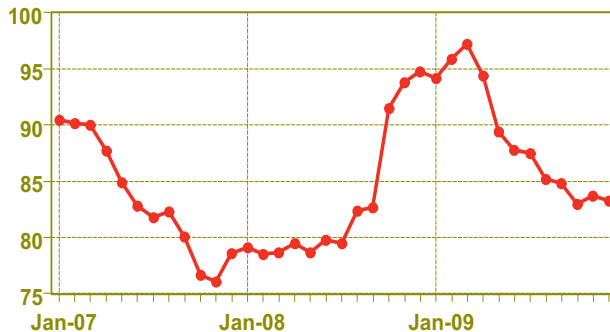
Auto Industry Manufacturing GDP, Canada

Dollars - billions 2002 chained



Motor Vehicle Industrial Product Price Index, Canada

1997=100

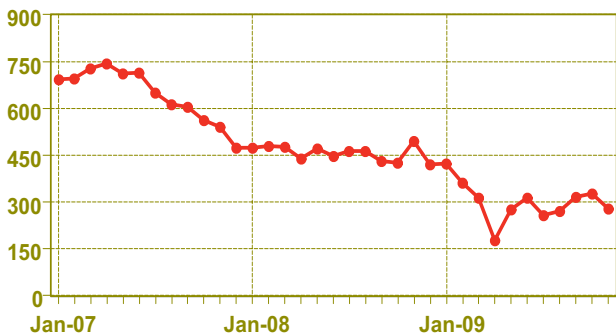


Source: Statistics Canada.

Latest: Dec-09

Sawn Lumber Production, Ontario

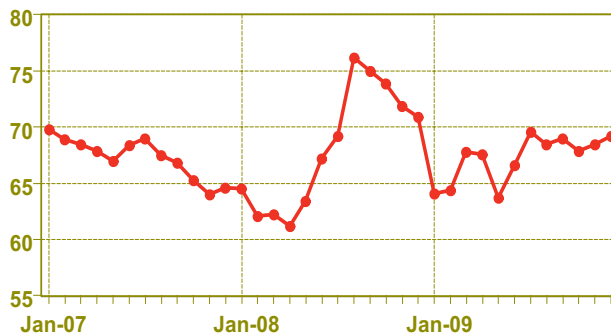
Cubic metres dry - thousands



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

Softwood Lumber Industrial Product Price Index, Ontario

1997=100

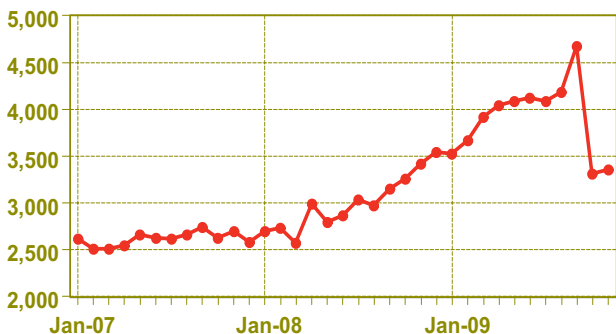


Source: Statistics Canada.

Latest: Dec-09

Consumer Bankruptcies, Ontario

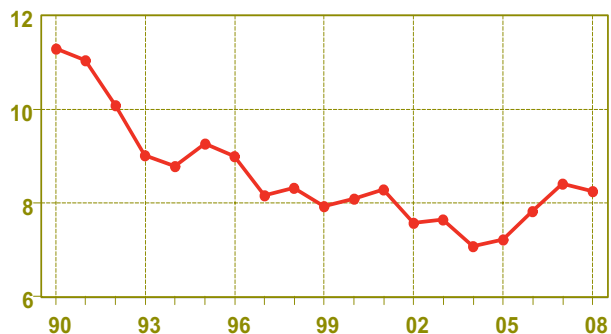
Persons



Source: OSB Canada, C1CU. Note: seasonally adjusted Latest: Nov-09

Debt Service Ratio, Ontario

Per cent of personal disposable income



Source: Statistics Canada. Note: For persons and unincorporated businesses.