

The transition from recession to recovery is usually uneven with ups and downs along a rising trend. This week's releases revealed improvements in exports, consumer spending, and residential investment providing more support to the recovery trend. The main concern is the durability of initial growth phase following a recession and to what extent it fades, or worse, the economy falls back into recession in the second half of the year.

International merchandise exports from Ontario rose 4.1% during December and 6.1% after adjustments for price changes or in volume terms. Exports are at the highest seasonally adjusted levels since December 2008. The bulk of the change and increase in total exports emanates not surprisingly from the auto sector. Auto exports sank to very low levels in early 2009 and are up about 50% since then thanks to the CARS program in the U.S. and to the general economic recovery in North America.

Exports to other countries during 2009 were at their lowest annual total since the mid-1990s in current dollars and likely a similar result would prevail for the volume measure if it were available prior to 2002. Auto exports in current dollars were the lowest since 1992. Machinery and equipment exports, while also at the lowest level since the mid-1990s, held up fairly well in 2009 – down only 14% from 2008 – but it was on a declining trend. The 2010 outlook for Ontario exports is largely dependent on the performance of the U.S. economy and consumer which remains in tentative position.

After a substantial decline in November, consumers and businesses purchased slightly more new vehicles in December. Seasonally adjusted **new motor vehicle sales** rose 1.2% to almost 47,000 units. For the year, new vehicle sales at 534,353 units were the lowest annual figure since 1997. That the year closed on a rising trend is a positive sign heading into 2010 and as long as the labour market improves, Ontarians will purchase more new vehicles in 2010 – perhaps about 5 to 10% more than in 2009.

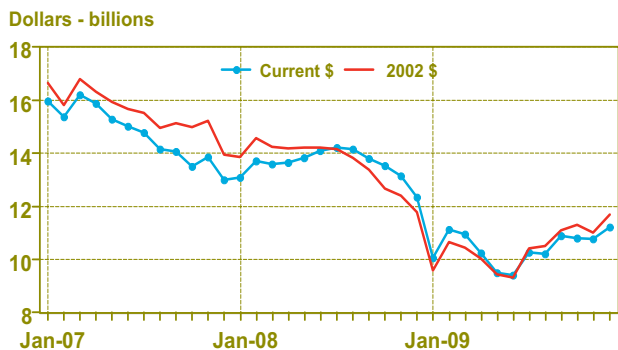
Another sign of a stronger domestic economy came from the residential sector. **Housing starts** edged higher to 53,300 units seasonally adjusted annualized in January with all of the month's gain occurring in urban centres outside of the Toronto CMA. The year is beginning on a positive trend and with the recovery in housing sales and prices higher new construction levels are expected. The HST on July 1 likely provides an incentive for builders to bring forward investments to avoid the additional cost their purchasers will pay with the HST. The rebate scheme mitigates offsets the higher cost for some purchasers, but not all.

Housing starts during 2009 were down by one-third from 2008 in the province and by almost 40% in the Toronto CMA. This year is shaping up to see increases of more than 30%, which while appearing impressive is coming off the lowest level in more than a decade. This housing starts recovery plays a significant role in the province's overall growth performance in 2010. Talk of a housing bubble and moves to suppress demand at this time are premature and unnecessary, though it is understandable that policymakers and market observers are on a heightened state of alert following the recent U.S. housing experience.

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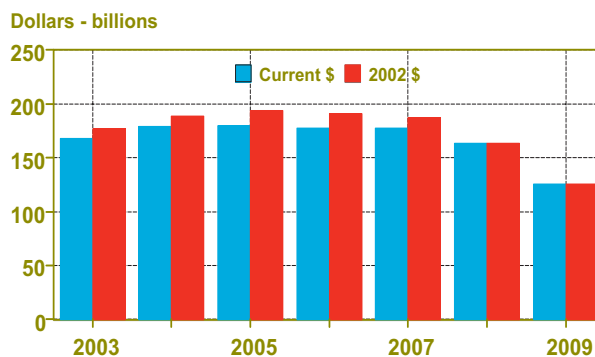


International Merchandise Exports, Ontario



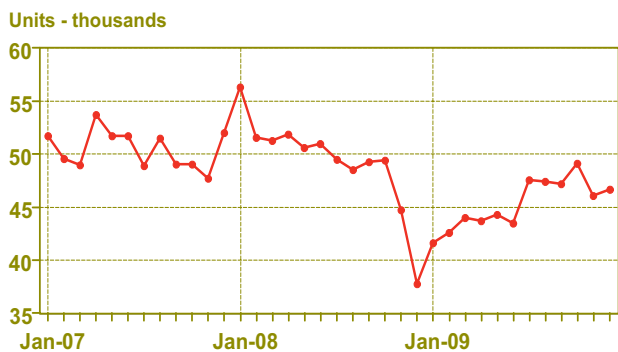
Source: Statistics Canada, C1CU. Note: Seasonally adjusted. Latest: Dec-09

International Merchandise Exports, Annually, Ontario



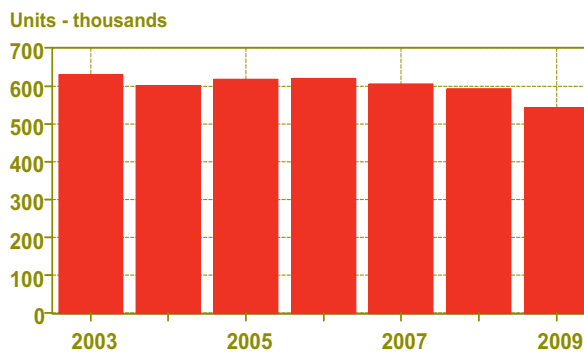
Source: Statistics Canada, C1CU.

New Motor Vehicle Sales, Ontario



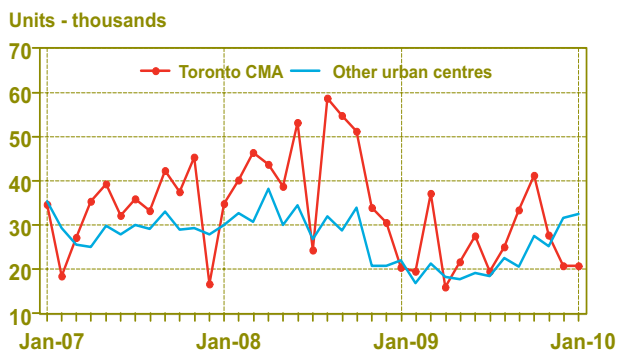
Source: Statistics Canada. Note: Seasonally adjusted. Latest: Dec-09

New Motor Vehicle Sales, Annually, Ontario



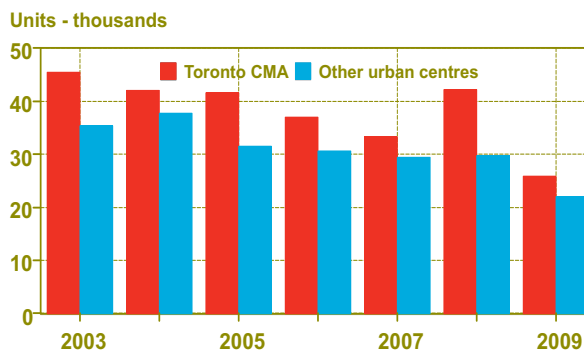
Source: Statistics Canada.

Housing Starts, Ontario Urban Centres



Source: CMHC, C1CU. Note: Seasonally adjusted at annual rate.

Housing Starts, Annually, Ontario Urban Centres



Source: CMHC.