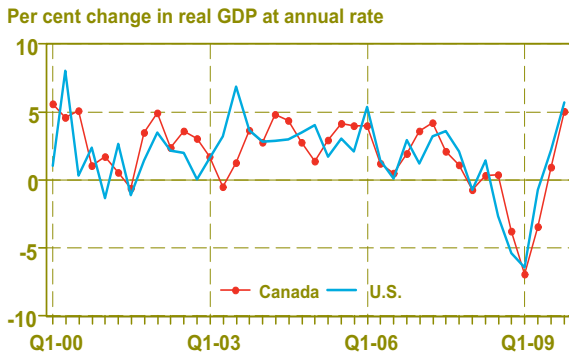


Economic Growth, U.S. and Canada

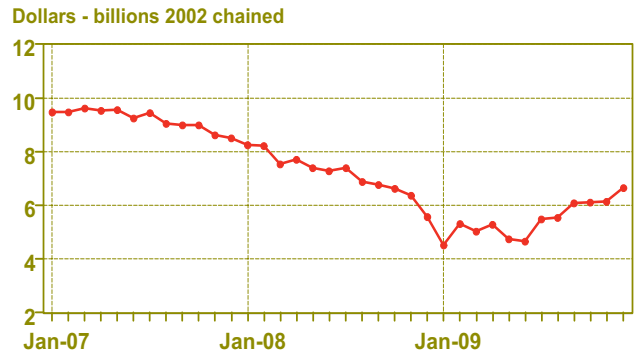


Economic statistics inherently report on activity with a time lag and the latest news is typically one or two months behind actual conditions. This week's key releases report on December's auto production and January's non-residential building construction activities, which turned in positive performances.

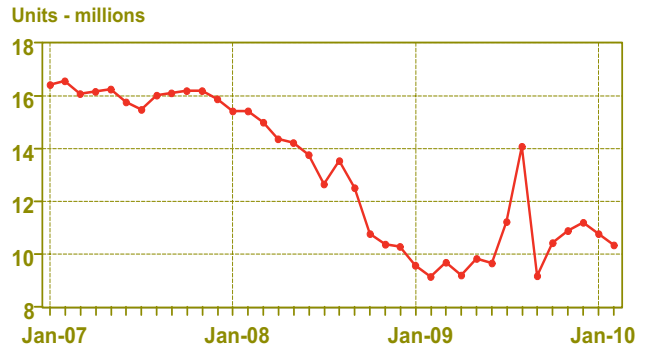
Motor vehicle production enjoyed an outsized gain in December, with its GDP jumping to the highest level since August 2008 and more than double the January 2009 low. Motor vehicle parts manufacturing climbed 8% in December to its highest level in more than a year. These gains are attributable to more new vehicle sales in the U.S. and the resulting increase in auto product exports.

For 2009 as a whole, motor vehicle manufacturing GDP declined 30%, following a 23% drop in 2008. Motor vehicle parts manufacturing fell 24% in 2009 and 22% in 2008. The past year's output was the lowest in more than a decade. The positive news is the rising trend during the second half of the year, which may extend into 2010.

Motor Vehicle Parts Manufacturing GDP, Canada



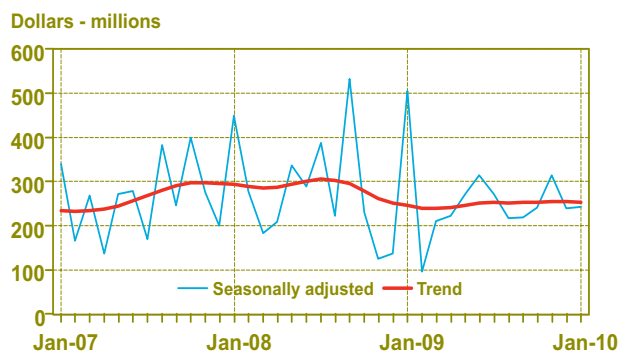
Autos and Light Truck Sales, U.S.



U.S. new vehicle sales in 2009 fell to lows not seen since the early 1980s, and if not for the CARS program to stimulate sales, the year would have been the worst on record. The July-August sales spike reduced unsold inventories and helped set the stage for manufacturers to step up production. Since then, U.S. sales have

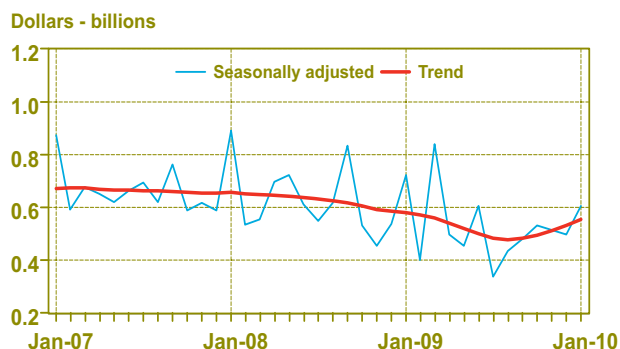


Public Non-residential Building Permits Issued, Ontario



Source: Statistics Canada, C1CU. Includes institutional and government.

Private Non-residential Building Permits Issued, Ontario



Source: Statistics Canada, C1CU. Note: Commercial and industrial.

posted some modest gains but fell back in January and February. The severe snowstorms in the U.S. east coast no doubt held down sales in February, which masks the underlying trend and makes analysis more uncertain. It is not clear whether Ontario's auto production held on to December's gain through to February.

The general view is that U.S. new **auto and light truck sales** this year will increase to between 11.5 and 12.0 million units, up from 10.3 million in 2009. Presuming a continuation of the U.S. economic recovery, sales in 2011 will rise another 10% or more. This translates into comparably higher production levels in Ontario's auto industry. Other factors come into play in determining output levels, but U.S. demand is the main one.

Turning to **non-residential** building construction, January's **building permits** posted a 15% jump from December. The month's gains were led by a 62% surge in industrial permits and a 13% increase in commercial permits. Overall, **private sector permits** increased 22%. It is likely these gains will be reversed in February since monthly volatility in permits is high and, more important, conditions in Ontario's office and industrial markets are weak and expected to remain so into 2011. Some improvements in space absorption and leasing rates need to appear before significant new investment spending occurs.

In the **public sector, permits** issued in January were slightly below trend but, with more fiscal stimulus money to come and even more to hit the ground, this component will be growing in 2010. However, since it comprises only about one-third of total non-residential activity, it would need to climb 30% to offset private sector declines this year. The main source of growth in building construction this year will come from the residential sector.

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