

Ontario's consumers generated some positive results in housing and retail spending in the latest months and manufacturing posted another gain. Consumer price inflation received a boost from some uncommon sources, but the overall rate stayed below 2% with a drop in energy prices. The economy remains in recovery mode.

Housing sales via the MLS® rose by a larger amount than the usual seasonal pick-up between January and February. Seasonally adjusted sales were about 5% higher in February and hit a record high. The **average sales price** set another record high at \$350,300 seasonally adjusted in February. In inflation-adjusted terms, the average sales price is also up to a record level, estimated at \$301,200 in 2002 dollars.

The housing market is one of the leading sectors in the recovery, thanks to record low mortgage rates and the improving economic recovery, which lifted consumer confidence. The drop in housing prices during the recession likely induced many buyers into the market to take advantage of bargains. With the higher housing prices seen now, those bargains are disappearing, as is affordability for low-equity buyers, resulting in diminished demand from that segment.

A couple of policy changes occurring in the next few months will impact the market. On April 19, the federal government's regulatory changes to mortgage insurance will kick-in, tightening the underwriting criteria and reducing credit to some homebuyers. As of July 1, the Harmonized Sales Tax will raise the cost of a housing transaction by applying the Retail Sales Tax to real estate commissions, appraisal fees, and other related services. Some potential homebuyers will advance their purchase to avoid paying these higher taxes. These changes point to a weaker sales environment in the second half of the year.

Retail sales during January picked up 1.4% to reach the highest level since the recession began in fall 2008. After adjusting for inflation, retail sales rose 1.0% in the month. A breakdown in monthly retail sales by type is not available provincially, but the national numbers reveal a 7.4% surge in building and outdoor home supplies store sales, suggesting that the end of the Federal Home Renovation Tax Credit on February 1 advanced these purchases. As a result, this category should see lower sales in February. A related category, home furnishings store sales, shot up 15.1% nationally.

Ontario retail sales are off to a good start in 2010, but some of this momentum fades in February, and should the housing market slow in the second half, some additional momentum will disappear. The HST impact outside of housing will probably

slow sales growth in the second half. Offsetting forces are the income gains generated by the improving economy and labour market, but looming interest rate increases are another potential depressant.

Consumer price inflation came in at 1.8% in February, based on the conventional year-over-year change in the **Consumer Price Index (CPI)**. It was 1.9% in January. The main sources of year-ago inflation remained gasoline and other private transportation costs such as insurance premiums. On the month, though, the CPI increased was 0.5%, lifted by a 2.0% increase in clothing prices and a 2.1% rise in home furnishings and equipment prices. Perhaps the rush to complete home renovations increased demand and prices?

Most of the focus on CPI is at the national level and how it might influence the Bank of Canada's monetary policy actions. The latest numbers will not prompt the Bank to change rates before mid-year. Core CPI was higher at 2.1%, but about 0.1% of this was due to the one-time effect of a 64% jump in traveller accommodation costs in B.C. due to the Winter Olympics. Higher new passenger vehicle prices also contributed to February's change in the core rate. In January, core CPI was 2.0%. It will take much more than this to make the Bank move before mid-year.

Higher prices for new **passenger vehicles** are positive for Ontario's manufacturing sector. **Manufacturing sales** rose 2.1% in January to their highest level in more than a year, though the strength was not in transportation equipment sales. Rather, the gains showed up in primary metals, non-metallic minerals, textiles, petroleum and coal products, and electrical equipment. The economic recovery is broadening out beyond auto manufacturing.

The higher Canadian dollar is top of mind for many and while the USD-CAD exchange rate initially surged to above 0.99 USD on the release of the CPI numbers, it fell back to below 0.985 USD upon further reflection. Further upside pressure is coming and a break through parity is just a matter of time, likely coming when the Bank's first rate move is telegraphed or a near-certainty.

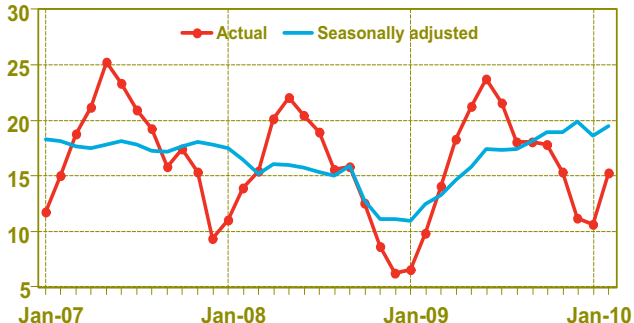
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MLS Residential Sales, Ontario

Units - thousands

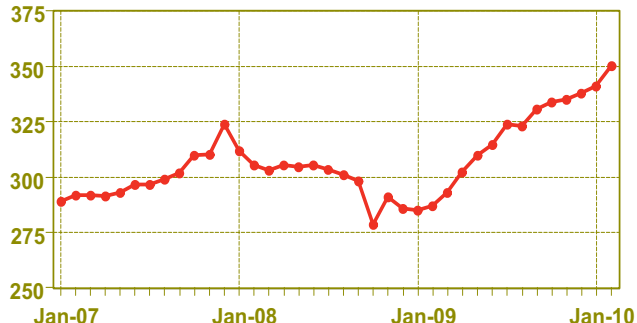


Source: CREA, C1CU.

Latest: Feb-10

MLS Residential Average Sales Price, Ontario

Dollars - thousands



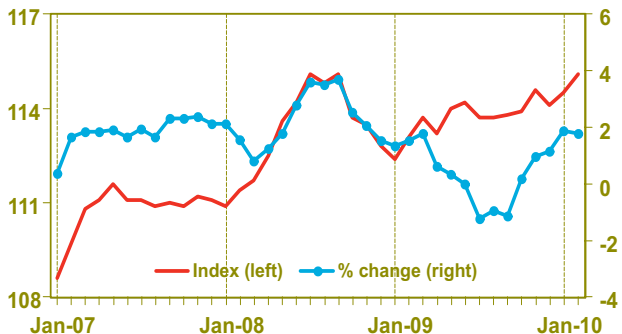
Source: CREA, C1CU. Note: Seasonally adjusted

Latest: Feb-10

Consumer Price Index, Ontario

2002=100

Per cent change year-over-year

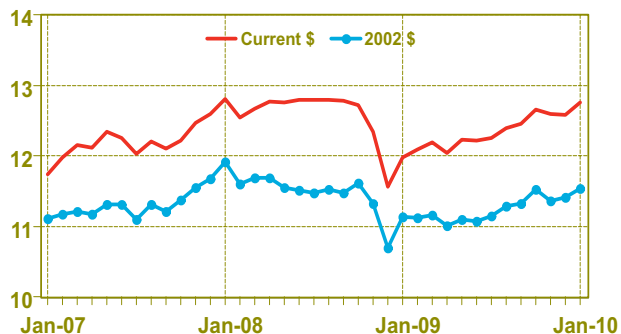


Source: Statistics Canada.

Latest: Feb-10

Retail Sales, Ontario

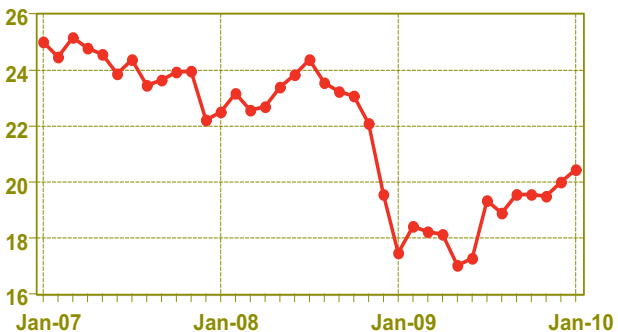
Dollars - billions



Source: Statistics Canada, C1CU. Note: Seasonally adjusted.

Manufacturing Sales, Ontario

Dollars - billions



Source: Statistics Canada. Note: Seasonally adjusted.

New Motor Vehicle Sales, Canada

Units - thousands



Source: Statistics Canada. Note: Seasonally adjusted