

The strong January GDP report for Canada did not transfer over to Ontario's main manufacturing industry. The province's export sector is still facing weak markets for auto and forestry exports, though pulp prices surged recently on supply issues. The rising Canadian dollar poses a risk to the economic recovery by constraining exports and encouraging imports. Strong export markets with high or rising prices can offset the negative impact of an appreciating currency; in the case of lumber, prices are up from deep recession lows.

Motor vehicle manufacturing GDP in January dropped by 2.4%, giving up some of December's large gain. Chrysler's shutdown of its two assembly plants due to poor sales affected January's performance. Also, Honda scaled back some of its production. Nonetheless, January's output was about twice as high as at the depth of the financial crisis one year earlier. Partly offsetting the decline in assemblies was an increase in **motor vehicle parts manufacturing GDP** during January.

The outlook for February auto manufacturing GDP is not positive since it will encompass Toyota's shutdown of its two assembly plants because of accelerator pedal problems. Ford also stopped production of some vehicles for the same reason. These are temporary issues that will be rectified and production will resume in accordance with sales demand.

Looking beyond February, the U.S. market for **new vehicle sales** is at a low level but expected to grow this year. Forecasts have sales rising to about 11.5 million units in 2010 within a range from 10.7 million to 12.3 million. So far this year, sales are tracking below 11 million units and the consumer spending outlook is rather shaky, owing to high unemployment and debt levels.

Lumber manufacturing is another export market that went through tough times and is looking to a better future. **Sawn lumber production** in Ontario is at a very low level and has plummeted by two-thirds from pre-recession 2006 levels, coinciding with a similar drop in U.S. housing

starts. Recent activity in U.S. housing starts is encouraging only in that the decline is over, but a prolonged bottom has developed.

Normally, **U.S. housing starts** rebound sharply coming out of an economic recession and lead the overall recovery, but not this time. The U.S. economic recovery has been underway since mid-2009 and the new housing construction sector has barely participated. Forecasts put housing starts up to about 0.7 million units this year compared to 0.55 million in 2009. The forecast range is 0.56 to 0.86 million units. Lumber prices are beginning to move higher and inventories are not excessive, so a pickup in demand should translate fairly quickly into higher prices - at least in U.S. dollars.

The rising **Canadian dollar** is cutting into those higher U.S. prices and the revenue Canadian producers receive. This is one of the main risks to the economic outlook and a concern for the Bank of Canada. With some upward pressure on commodity prices still ahead and the strong likelihood of the Bank raising rates before the U.S. Federal Reserve does, the Canadian dollar easily breaks through parity.

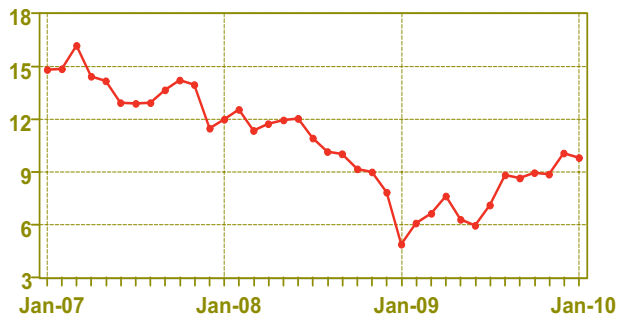
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Motor Vehicle Manufacturing GDP, Canada

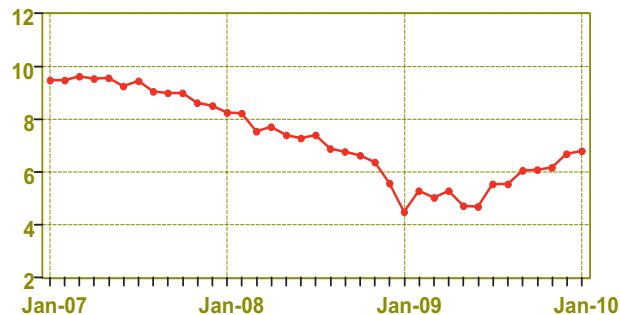
Dollars - billions 2002 chained



Source: Statistics Canada. Note: Seasonally adjusted at annual rate

Motor Vehicle Parts Manufacturing GDP, Canada

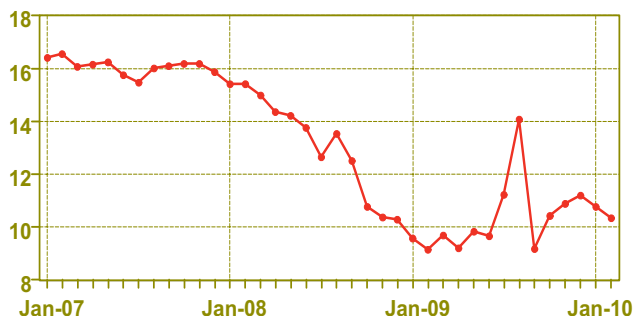
Dollars - billions 2002 chained



Source: Statistics Canada. Note: Seasonally adjusted at annual rate

Autos and Light Truck Sales, U.S.

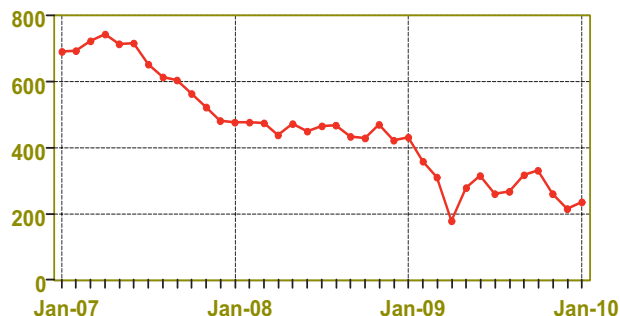
Units - millions



Source: U.S. BEA. Note: Seasonally adjusted at annual rate. Latest: Feb-10

Sawn Lumber Production, Ontario

Cubic metres dry - thousands



Source: Statistics Canada, C1CU. Note: Seasonally adjusted

Housing Starts, U.S.

Units - millions



Source: U.S. BEA. Note: Seasonally adjusted at annual rate. Latest: Feb-10

Canadian Dollar, Weekly

U.S.-Canada exchange rate



Source: Bank of Canada.

Latest: 3/31/10