

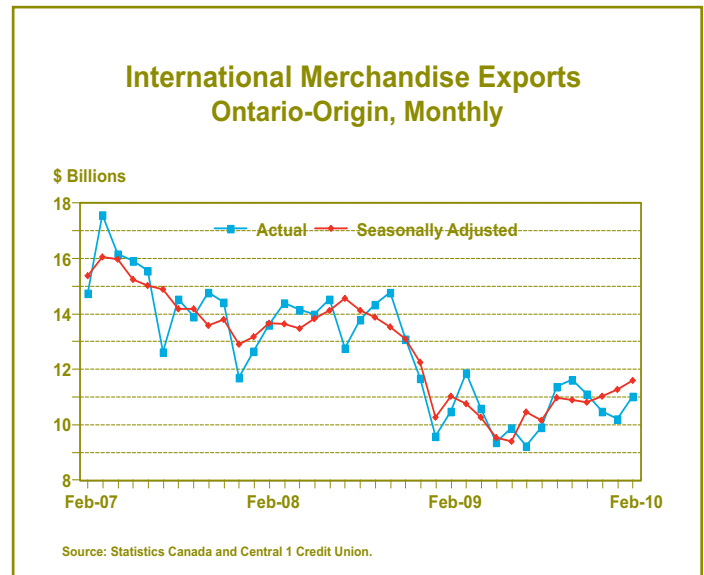
This week’s economic indicators are mixed. International exports increased in February, while housing starts fell back. Investment in non-residential building construction was steady in the first quarter.

International exports of Ontario-origin goods increased in February, according to the latest estimates from Statistics Canada. Ontario’s exports have been trending upward since the cyclical trough in mid-2009, as the world’s economy continues to recover slowly from the recession sparked by the financial crisis.

Ontario-origin goods exported internationally totalled \$11.6 billion in February, seasonally adjusted, up \$331 million (2.9%) from January. The gain was largely due to higher shipments of industrial goods/materials and automobiles/parts, although energy and forest product exports also increased relatively robustly. There was little change in agricultural/food product exports month-over-month, while exports of machinery/equipment edged down.

The trade sector remains a weak growth source in Ontario’s economy on account of the high Canadian dollar and the province’s great dependence on U.S. markets for its exports. Related to the latter is the important role autos play in the trade flows between Ontario and the U.S., and the health of this export industry largely determines the province’s export performance. Ontario’s interprovincial trade generates considerable surpluses and recently has more than offset large international trade deficits.

The past recession was largely due to negative external influences hitting the province’s economy, mainly through the trade channel, though the finance channel also played a role in transmitting the financial crisis. Ontario’s real exports (inflation-adjusted) fell 6.3% in 2008, according to Statistics Canada, and fell by 13.9% in 2009 in Central 1 Credit Union’s estimation. International goods exports dropped 23%, led by a 34% plunge in real auto exports.



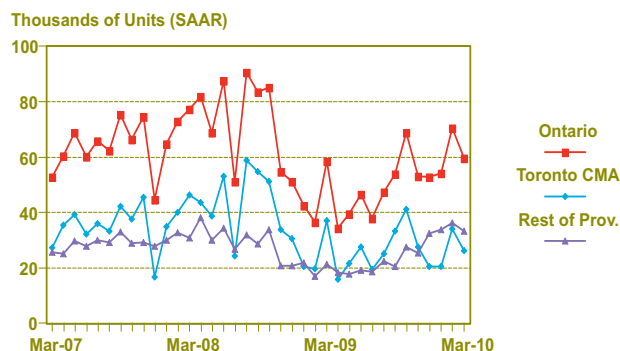
Central 1 forecasts Ontario’s exports are forecast to grow at an anemic pace, averaging about 5% annually in current dollars and 4% in 2002 dollars. The U.S. economic recovery and higher export prices are positive developments, but the high Canadian dollar and only a moderate upturn in U.S. new vehicle sales will restrain export growth. The dollar’s appreciation in 2010 relative to 2009 will more than offset the predicted increase in U.S. denominated export prices, resulting in another overall price decline after conversion into Canadian dollars. In 2009, lower export prices were due to a drop in demand while in 2010 the cause will be the higher Canadian dollar.

While international exports will struggle under the high currency, interprovincial exports will grow at a robust pace, comparatively, as the rest of Canada recovers from the recession. Financial, trade, and business and computer services, along with manufactured products, are the primary provincial exports, without which Ontario’s economy would incur an overall trade deficit.

Housing starts in Ontario in March declined following an upward surge in February, according to the latest estimates from Canada Mortgage and Housing Corporation. Despite



Housing Starts, Monthly Seasonally Adjusted Annual Rate (SAAR)



Source: Statistics Canada.

March's decline, housing starts have been trending up in Ontario since the cyclical trough in April 2009. At first, the rebound was concentrated in the Toronto CMA but lately it has been concentrated elsewhere in the province.

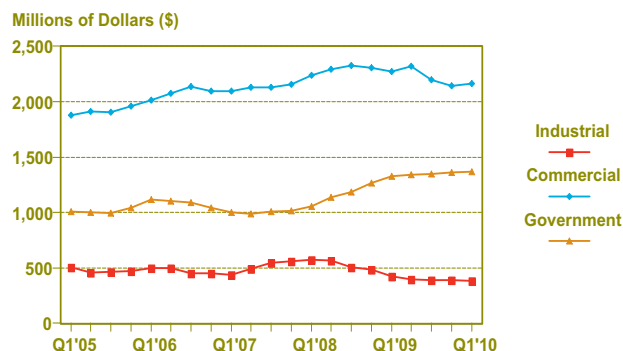
Construction began on 59,600 housing units at a seasonally adjusted annualized rate (SAAR) in March, down 10.9% from February. Starts totalled 29,300 units SAAR in the Toronto CMA, down 7.8% from February. Elsewhere in Ontario, starts totalled 33,300 units SAAR, down 3.1% month-over-month.

A strong rebound in pre-owned and new housing sales has driven housing prices higher and generated more investment in new construction. Near-record-low mortgage rates and the appeal of home-ownership has brought more first-time buyers into the market. This more active market has in turn brought more existing homeowners into the resale market. Investors are also more active in rising markets.

Housing is one of the first sectors to turn up coming out of an economic recession and this time has been no different. Recession-battered asset prices and mortgage rates, pent-up supply and demand, and an improving economy recently provided extraordinary stimulus to housing sales. That is now changing.

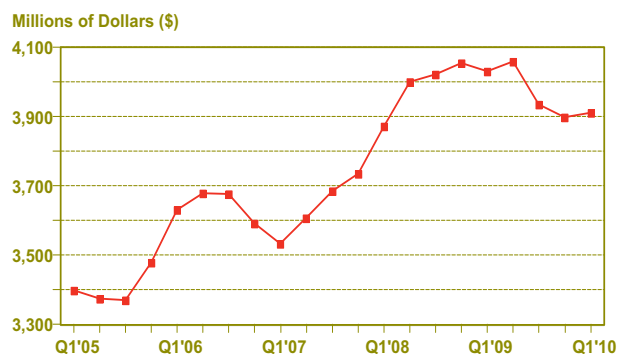
Housing prices have more than regained their pre-recession highs, government policies are set to reduce demand from low-equity buyers, and mortgage rates are rising. The economy is still improving, but the recovery

Investment in Non-Residential Building Construction By Structure Type, Ontario Quarterly, Seasonally Adjusted



Source: Statistics Canada.

Investment in Non-Residential Building Construction Ontario, Quarterly, Seasonally Adjusted



Source: Statistics Canada.

from recession will be dampened by rising government debt and taxes, the end of counter-cyclical government stimulus measures, and the slow recovery of household balance sheets.

Central 1 Credit Union forecasts housing starts in Ontario will jump more than 20% in 2010 from last year's low and climb to about 77,000 units in 2011. The path to 2014 is not a straight upward line, but housing starts will approach 87,000 units by then.

Investment in **non-residential building construction** in Ontario totalled \$3.9 billion in the first quarter of 2010, seasonally adjusted, according to the latest estimate from Statistics Canada. That is little changed from the fourth quarter of 2009 but marks a cessation of fairly sharp declines

in commercial and industrial building construction seen in the second half of last year. Commercial and government/institutional building construction increased in the first quarter, while industrial building construction declined.

Business investment in building construction was hard hit by the recession and financial crisis last year, with an estimated 17% decline in spending. It will begin to turn the corner this year, with a forecast dip of 12%. Business investment spending is usually the last sector to recover after a recession and the forecast sees the first annual gain in private-sector non-residential building construction in 2011.

A primary benefit of the Harmonized Sales Tax is more investment spending, which leads to enhanced economic and productivity growth, since businesses are able to deduct the RST portion of the HST. Central 1 Credit Union's forecast model sees spending on non-residential building investment in Ontario about 5% higher with HST than without HST.

Government spending on fixed capital or public infrastructure will surge ahead this year, but fall off in 2011 and 2012 as fiscal stimulus projects wind down. Rising government deficits and debt will prompt expenditure control measures to be implemented, particularly at the federal and provincial levels.

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