

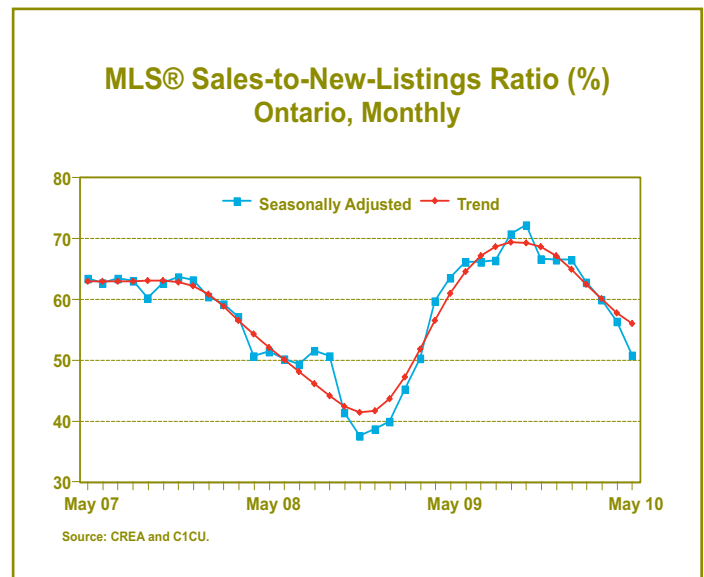
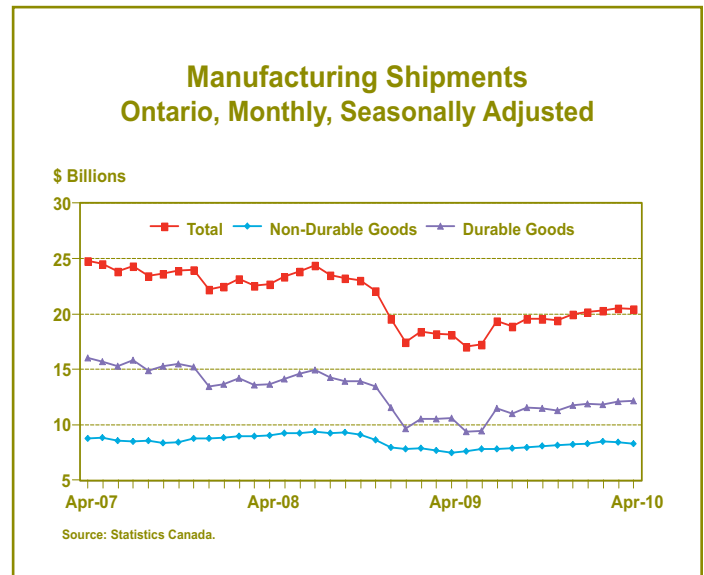
This week's indicators of economic activity in Ontario reveal a small step backward from the slow recovery over the past year. Manufacturing sales inched down in April, while the housing market continued to correct in May from a surge in the first quarter.

Manufacturing sales in Ontario held more or less steady in April, preserving the slow upward trend that began in June last year. Even so, sales remain far below pre-recession levels and even further below the all time record high set in early 2005. According to the latest estimates from Statistics Canada, sales totalled \$20.5 billion in April, down a slight \$57 million (0.3%) from March, seasonally adjusted. The decline was driven by non-durable goods sales, which fell 1.5%, while durable goods sales increased 0.6% from March.

In the first four months of 2010, manufacturing sales in Ontario totalled \$80.2 billion, up \$9.2 billion (12.9%) from the same period a year earlier. Growth was largely due to a rebound in manufacturers' sales of transportation equipment, almost entirely motor vehicles and parts. Sales of petroleum, coal and chemical products are also up materially so far this year.

Ontario's manufacturing industries are weighed down by the high dollar and slow recovery of automobile and housing markets in the United States. Nonetheless, a cyclical upturn linked to the U.S. and global economic recovery will play out and lift their exports. Central 1 Credit Union forecasts this sector's gross domestic product (GDP) will edge up 1.3% this year, not including price changes, following an estimated 15.9% contraction in 2009. Growth is forecast at 4.5% in 2011 and 4% in 2012.

Ontario's **housing market** slowed sharply in May but remained at a high level of activity by longer-term historical standards. The dollar volume of housing sales via the Multiple Listing Service (MLS) decreased for the second



straight month to a level not seen since May 2009. Volume declined largely because of lower unit sales, although the average sale price also inched lower. The drop-off in housing market activity over the past two months represents a return to normal market conditions following torrid and unsustainable activity levels in the first quarter.

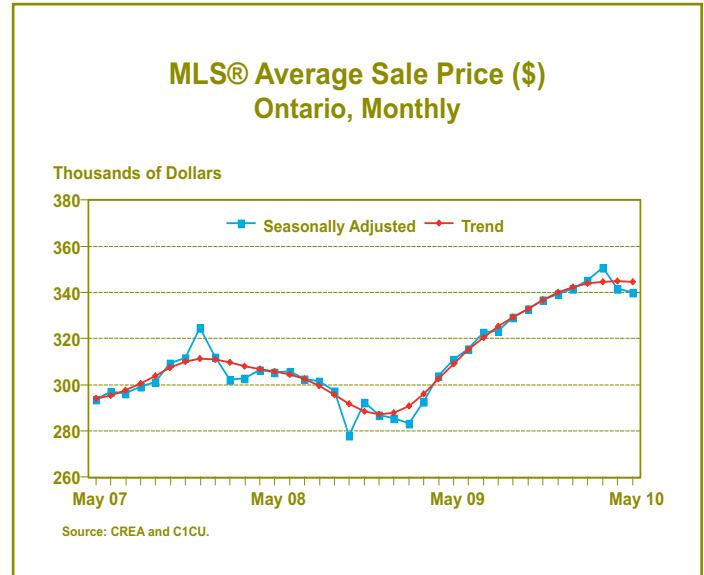


New listings dropped in May following three straight monthly gains, but unit sales declined by even more. The sales-to-new-listings ratio thus continued to fall. Sales-to-listings ratios are a positively correlated, significant leading indicator of near-term house price inflation. Thus, housing asset price inflation is likely to be slightly negative over the next few months.

None of Ontario's 43 real estate board areas experienced strong growth in May, indicating there are no under-supplied markets. Sales volumes and sales-to-new listings ratios were more or less normal in 23 board areas, suggesting "balanced" supply and demand. In the remaining 20 board areas, sales-to-new listings ratios were unusually low or dollar sales volume declined unusually sharply. These over-supplied markets included most of metropolitan Toronto.

For 2010 as a whole, Ontario's housing market activity remains at a high level by historical standards. Unit sales, average prices and dollar volume will be above last year's levels. The economy will generate job and income growth and net population will continue to grow. The main negative factors for sales are higher mortgage rates and other less stimulative financing terms, which will squeeze out the lowest-equity buyers.

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Resale Housing Market Conditions in May 2010

Strong (Under Supplied)	Normal (Balanced)	Weak (Over Supplied)
	Chatham-Kent	Bancroft District
	Guelph & District	Barrie & District
	Hamilton-Burlington	Brantford Region
	Huron Perth	Cambridge
	Kitchener-Waterloo	Cobourg-Port Hope
	Midland-Penetang	Cornwall & District
	Muskoka & Haliburton	Durham Region
	Niagara	Georgian Triangle
	North Bay	Grey Bruce Owen Sound
	Oakville-Milton	Kawartha Lakes (Lindsay)
	Orangeville & District	Kingston & Area
	Ottawa-Carleton	London & St. Thomas
	Parry Sound	Mississauga
	Renfrew County	Ontario
	Sarnia-Lambton	Orillia & District
	Sault Ste. Marie	Peterborough
	Simcoe & District	Quinte & District
	St. Catherines & District	Tillsonburg District
	Sudbury	Toronto
	Thunder Bay	Welland District
	Timmins	York Region
	Windsor-Essex	
	Woodstock-Ingersoll	

Source: CREA MLS data and C1CU Economics.

