

For the second straight week, newly released indicators of economic activity in Ontario reveal a small step backward from the slow recovery over the past year. Foreign visitors declined in April, as did retail sales, while typical consumer prices continued to flat-line in May.

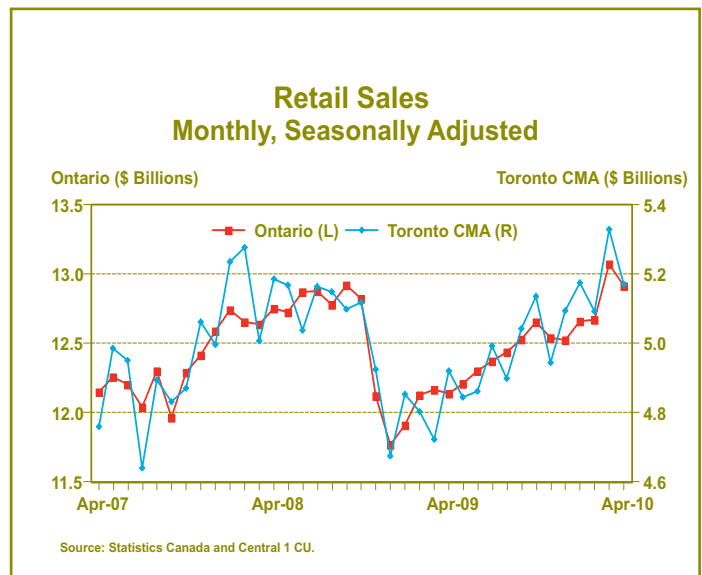
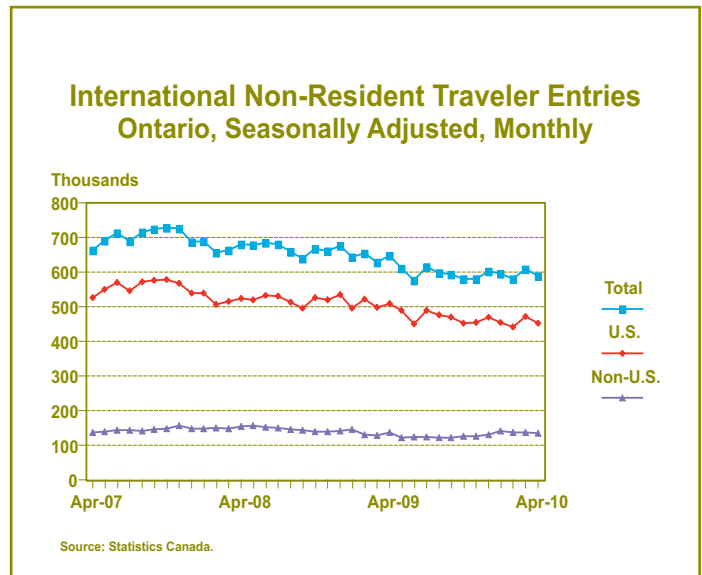
**International non-resident traveller entries** to Ontario declined in April, continuing the downward trend that began in early 2001. April's drop was almost entirely due to fewer visitors from the United States, who typically account for over three-quarters of the total flow of foreign travellers to Ontario.

Entries totalled 590,296 persons in April, seasonally adjusted, down 19,891 persons (3.3%) from March, according to the latest estimates from Statistics Canada. Visits from the U.S. dropped by 18,362 persons (3.9%) month-over-month, while visits from other countries declined by 1,529 persons (1.1%). So far this year, total entries are down 97,335 persons (6.4%) from the same period last year.

International tourism will likely continue to struggle for some time yet. The global economic recovery will slowly lift business travel in the coming years, but discretionary travel spending is likely to remain weak due to high household and government debt. The low \$CA/\$US exchange rate also dampens the flow of visitors from the U.S.

**Retail sales** in Ontario dipped in April following three straight monthly gains, according to the latest seasonally adjusted estimates from Statistics Canada. Sales continue to rebound from the sharp recessionary declines at the end of 2008 and now exceed the pre-recession high.

Retail sales totalled \$12.9 billion in Ontario in April, down 1.2% from March, seasonally adjusted. So far this year, sales have totalled \$46.0 billion, up 6.4% from the same period last year. Year-to-April sales of motor vehicles are up 9% year-over-year, while sales of building materials



have increased 24%. Meanwhile, furniture sales have grown 8%, appliances are up 4%, and all semi- and non-durable goods together have increased by 4%.

Central 1 Credit Union forecasts overall consumer spending in Ontario will rise 4% per year through 2011, following a meager 0.6% increase in 2009. Retail sales



are forecast to rise almost 4% in 2010 and 7% in 2011, following a 3% drop last year. These 2010 forecasts are below average historical growth rates, reflecting a muted and unfinished recovery in employment and relatively high average household debt.

Overall **consumer prices** in Ontario were unchanged in May compared to April, after adjusting for seasonality. This was the fourth straight month when the all-items Consumer Price Index (CPI) has more or less flat-lined. May's unadjusted CPI reading was up 1.9% from 12 months earlier, which is the so-called "headline" inflation rate.

The price level of retail services and semi-durable goods were virtually flat in May, seasonally adjusted. Meanwhile, prices for durable goods (e.g., cars, appliances) edged up and prices for non-durable goods (e.g., petroleum and food products) dropped.

Neither inflation nor deflation is of particular concern for the near-term. The latest recession has left considerable unused production capacity to be tapped, while monetary policy can readily become less expansive if expected consumer price inflation accelerates. Central 1 forecasts that Ontario's CPI inflation rate will average 2.2% this year, up from a mere 0.3% rise in 2009.

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