

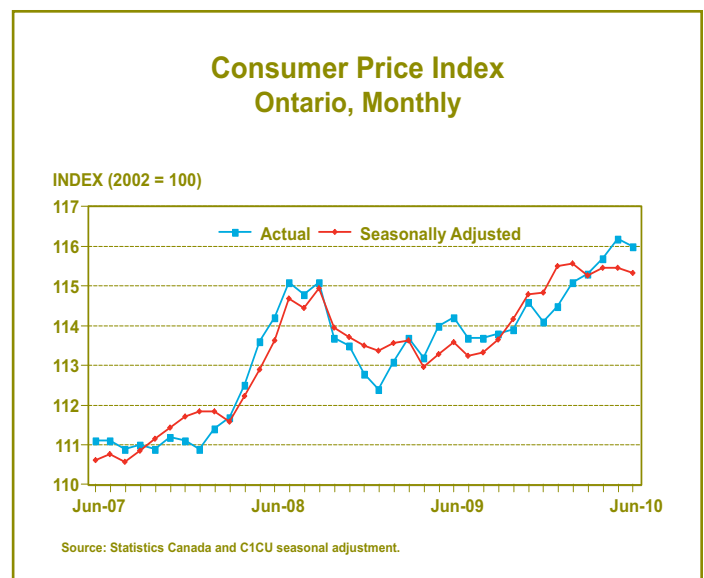
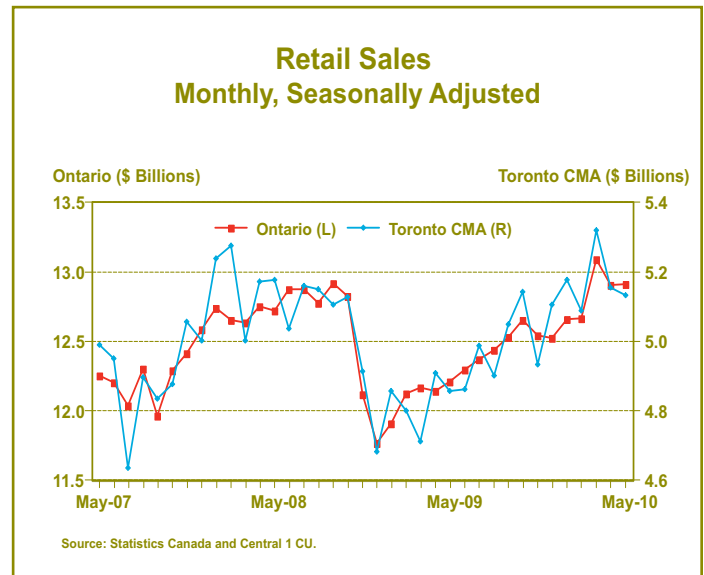
Newly released indicators of economic activity in Ontario are consistent with a slowdown in the rate of growth. Retail sales were little changed in May and consumer price inflation inched down in June. The housing market continued to slow in June, while business investment in non-residential building construction continued to rebound in the second quarter.

Retail sales in Ontario showed slight change in May compared with April, according to the latest seasonally adjusted estimates from Statistics Canada. Sales declined in metropolitan Toronto but increased in the rest of the province. Retail sales continue to rebound from the sharp recessionary declines at the end of 2008 and are now on par with the pre-recession high.

Sales totalled \$12.9 billion in Ontario in May, up a mere 0.1% from April, seasonally adjusted (SA). In metro Toronto, sales totalled \$5.1 billion SA, down 0.4%. In the first five months of this year, sales in Ontario have totalled \$59.7 billion, up 5.7% from the same period last year. In metro Toronto, year-to-May sales were totalled \$24.3 billion SA, up 7.2% year-over-year.

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

Overall **consumer prices** in Ontario declined by a slight 0.1% in June compared with May, after adjusting for seasonality. Despite the month-over-month dip, inflation remains on a moderate upward trend. Compared to June last year, the Consumer Price

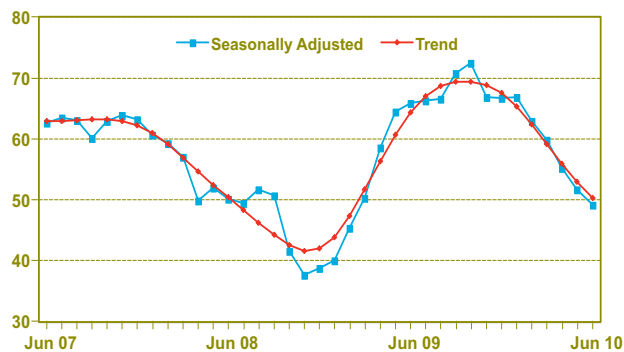


Index (CPI) -- the so-called “headline” inflation rate -- has risen by 1.6% in Ontario.

Neither inflation nor deflation is of particular concern for the next few years. The latest recession has left considerable unused production capacity to be tapped, while monetary policy will readily become less expansive if expected consumer price inflation



MLS® Sales-to-New-Listings Ratio (%) Ontario, Monthly



Source: CREA and C1CU.

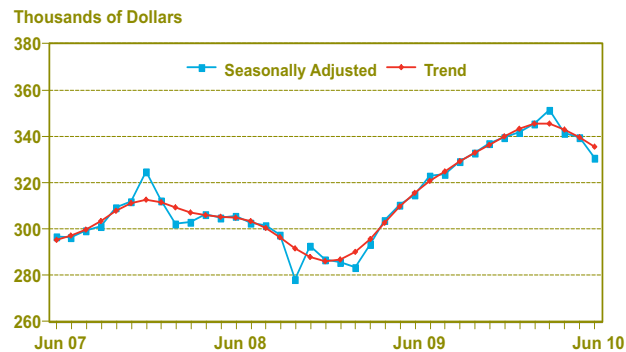
accelerates. Central 1 forecasts that Ontario's CPI inflation rate will average 2.2% this year, up from a mere 0.3% rise in 2009.

Ontario's **housing market** continued to slow in June and activity is now at a level consistent with the longer-term historical trend. The dollar volume of housing sales via the Multiple Listing Service (MLS) dropped for the third straight month to a level not seen since May 2009. Volume declined due to lower average sale prices and lower unit sales. The drop-off in housing market activity over the past three months represents both a correction from unsustainably high activity in the first quarter and a less stimulative financing environment.

New listings dropped sharply in May for the second straight month, while unit sales inched down after a sharp plunge in March and April. The sales-to-new-listings ratio, which is a positively correlated, significant leading indicator of near-term house price inflation -- fell in May for the fifth straight month. Thus, housing asset price inflation appears to have been negative for the latest three months and is likely to remain negative for at least the next few months.

None of Ontario's 43 real estate board areas experienced strong growth in May, indicating no under-supplied markets. Sales volumes and sales-to-new listings ratios were more or less normal in only seven board areas, suggesting "balanced" supply and demand. In the remaining 36 board areas, sales-

MLS® Average Sale Price (\$) Ontario, Monthly



Source: CREA and C1CU.

to-new listings ratios were unusually low or dollar sales volume declined unusually sharply. These over-supplied markets included almost all of metropolitan Toronto.

For 2010 overall, Ontario's housing market activity remains at a high level by historical standards. Unit sales and average sale price will be about 5% 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 buyers with the lowest equity.

Resale Housing Market Conditions in June 2010

Strong (Under Supplied)	Normal (Balanced)	Weak (Over Supplied)
	Bancroft District	Barrie & District
	Hamilton-Burlington	Brantford Region
	Midland-Penetang	Cambridge
	Oakville-Milton	Chatham-Kent
	Parry Sound	Cobourg-Port Hope
	Thunder Bay	Cornwall & District
	Timmins	Durham Region
		Georgian Triangle
		Grey Bruce Owen Sound
		Guelph & District
		Huron Perth
		Kawartha Lakes (Lindsay)
		Kingston & Area
		Kitchener-Waterloo

Resale Housing Market Conditions in June 2010		
Strong (Under Supplied)	Normal (Balanced)	Weak (Over Supplied)
		London & St. Thomas
		Mississauga
		Muskoka & Haliburton
		Niagara
		North Bay
		Ontario
		Orangeville & District
		Orillia & District
		Ottawa-Carleton
		Peterborough
		Quinte & District
		Renfrew County
		Sarnia-Lambton
		Sault Ste. Marie
		Simcoe & District
		St. Catharines & District
		Sudbury
		Tillsonburg District
		Toronto
		Welland District
		Windsor-Essex
		Woodstock-Ingersoll
		York Region

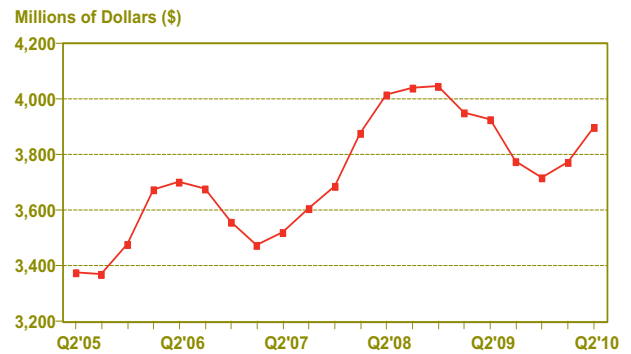
Source: CREA MLS data and C1CU Economics.

Investment in **non-residential building construction** in Ontario increased in the second quarter of 2010, seasonally adjusted, according to the latest estimate from Statistics Canada. That is the second straight quarter of rising investment following fairly sharp declines throughout 2009. Commercial and industrial building construction increased in the second quarter, while government/institutional building construction was little changed from the first quarter.

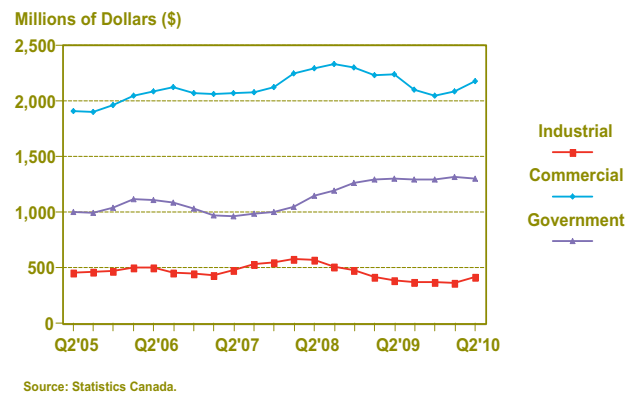
Business investment in building construction was hard hit by the recession and financial crisis last year, with an estimated 17% decline in spending. It will begin to turn the corner this year, with a forecast dip of 10% or less. Business investment spending is usually the last sector to recover after a recession and the forecast sees the first annual gain in private-sector non-residential building construction coming 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

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



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



able to deduct the RST portion of the HST. Central 1 Credit Union's forecast model puts 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 remain elevated 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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