

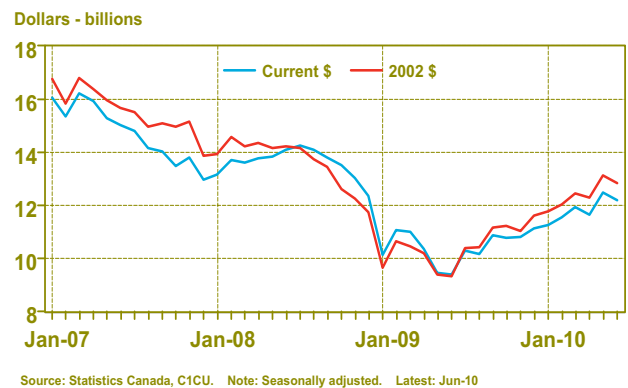
Ontario's strong rebound in goods exports paused in June, while measures of domestic activity were mixed, with lower housing construction but higher new vehicle sales. This week's data point to slower economic growth heading into the third quarter, which is substantiated by other recent economic data. The deterioration in the U.S. economic outlook does not bode well for the province's exports, and with the domestic economy cooling, weaker economic growth in Ontario is expected for the rest of this year.

International merchandise exports slipped 2.2% lower in June from May, the second monthly decline in the past three months. Nonetheless, exports are up nearly 5% in the second quarter from the first quarter, which was up about 7% from the last quarter of 2009. June's decline was mainly in the industrial goods and metals category, with the small consumer goods category posting its best gain in several months and the remaining goods groups putting in mixed performances.

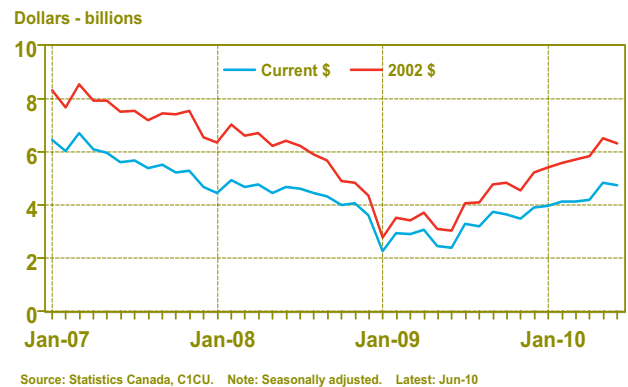
Automotive exports -- which powered the rebound in total exports out of the recession -- recorded their first monthly decline in June since November 2009. For the second quarter, automotive product exports expanded 12%, down slightly from 14% in the first quarter. With manufacturer production and dealer inventories becoming more closely aligned with sales, the initial rebound will continue to ease. U.S. new vehicle sales have been range-bound and aided by incentives in recent months. The 2011 sales outlook is somewhat higher than this year's, assuming no double-dip recession.

Domestic activity, such as residential construction, is still expanding, though at a slower pace in the coming months. One sign of this is the recent drop-off in housing starts, which fell to their lowest monthly level in ten months during July. **Housing starts** were estimated at a 51,100-unit seasonally adjusted annual

International Merchandise Exports, Ontario



Automotive International Merchandise Exports, Ontario



rate in July. A softening in housing has been evident in the resale market for a number of months and new construction dutifully follows, with a time lag. Fewer housing starts today translate into fewer construction jobs when those projects are completed. A decline in residential investment spending looks set for the first half of next year.



While housing is declining, one positive consumer spending indicator is **new motor vehicle sales**, which rose by a modest 1.4% in June from May. This will lift the retail sales figure for June to be released in two weeks. Consumer spending growth will remain tentative for a few more months but, with lower fixed-term mortgage rates, lower housing prices and low energy prices, conditions are developing for a pick-up in housing and overall consumer spending in the not-too-distant future.

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