

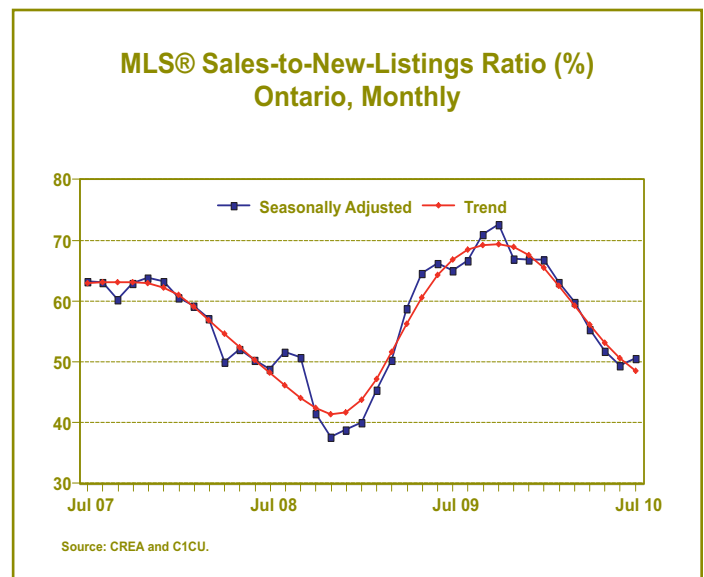
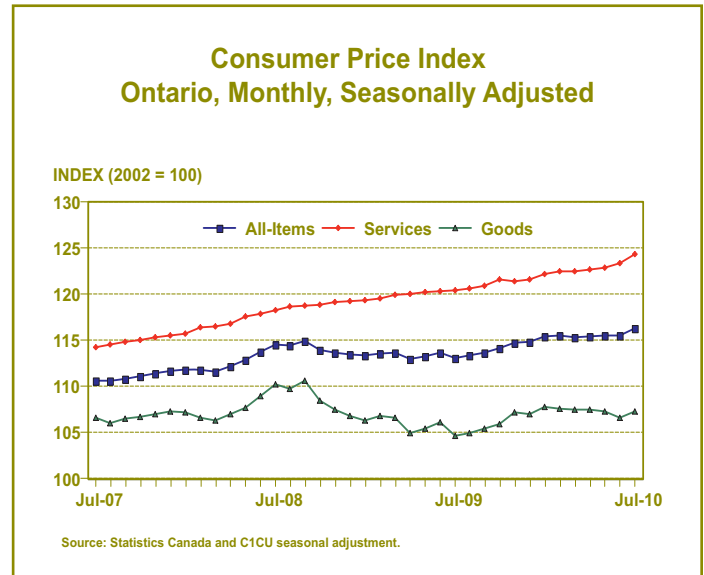
Newly released indicators of economic activity in Ontario are consistent with an economy lurching toward, yet still short of, recovering recession losses. The resale housing market continued to slow in July, manufacturing sales were little changed in June and new car/truck sales increased in June. Consumer prices jumped up in July due mostly to the introduction of the HST.

Overall **consumer prices** in Ontario jumped up 0.7% in July compared with June, after adjusting for seasonality. An increase that large occurs about every two years. Consumer Price Index (CPI) inflation has been essentially zero in Ontario since February, and July's large increase is most likely due to the introduction of the Harmonized Sales Tax (HST). Compared to July last year, the CPI has risen by 2.9% -- the so-called "headline" inflation rate.

The HST replaced the GST/PST regime and effectively extended the scope of the PST to most services. This increased aggregate consumer price levels via higher sales tax on items such as fuel, telecommunications, accommodations, private transportation, magazines, renovations, used automobiles, real estate transactions, personal and professional services, entertainment and recreation services, tobacco products, etc.

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 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 July with activity now well below the long term



historical trend. The dollar volume of housing sales via the Multiple Listing Service (MLS) decreased for the fourth straight month to a level not seen since early-2009 at the worst of the recession. Volume declined due to lower average sale price and lower unit sales. The drop off in housing market activity over the last four months represents both a correction from



unsustainably high activity earlier this year and a less stimulative financing environment.

New listings and unit sales both dropped sharply in July. The sales-to-new-listings ratio, a positively correlated, significant leading indicator of near term house price inflation, fell in July for the eighth straight month. Housing asset price inflation appears to have been negative for the last four months and is likely to remain negative for the next few months.

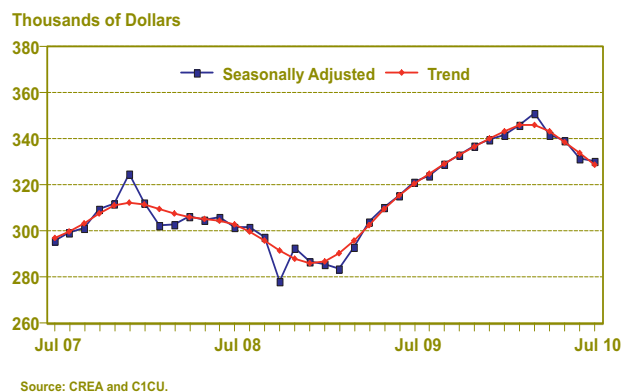
None of Ontario's 43 real estate board areas experienced strong growth in July, indicating no under-supplied markets. Sales volumes and sales-to-new listings ratios were more or less normal in only four board areas, suggesting "balanced" supply and demand – Oakville-Milton, Orangeville District, Parry Sound and Thunder Bay. In the remaining 39 board areas, sales-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 five per cent above last year's levels. The economy will generate job and income growth and net population will continue to grow. The main sales negative is higher mortgage rates and other less stimulative financing terms which will squeeze out the lowest equity buyers.

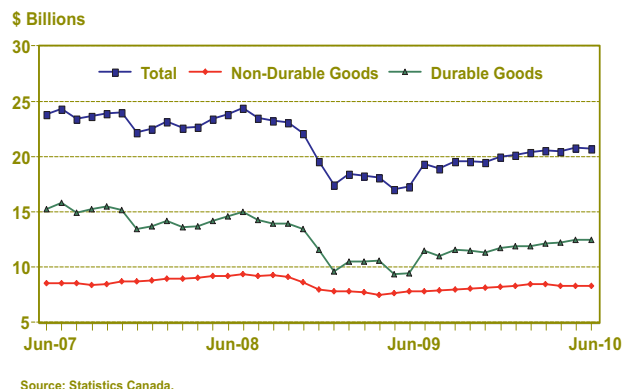
**Manufacturing sales** in Ontario inched down in June, though not by enough to change the slowly rising trend that began in early 2009. Sales still remain far below pre-recession levels and even further below the all time record high set in early 2005. According to the latest estimates from Statistics Canada, manufacturing sales totalled \$20.8 billion in June, down \$21 million (0.2%) from May, seasonally adjusted. The decline was driven by non-durable goods sales, which fell 0.6%, while durable goods sales were up a slight 0.1% from May.

In the first half of 2010, manufacturing sales in Ontario totalled \$124 billion, up \$17 billion (16%) 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.

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



### Manufacturing Shipments Ontario, Monthly, Seasonally Adjusted



Sales of petroleum, coal and chemical products are also up materially so far this year. Year-to-June manufacturing sales of durable goods are up 21% year-over-year, while sales of non-durable goods are up 8%.

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 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.

New motor vehicle sales in Ontario totaled 48,783 units in June, seasonally adjusted (SA), up 658 units (1.4%) from May. Dollar volume totaled \$1.67 billion SA, up \$61 million (3.8%). Year-to-June unit sales this year are up 12% year-over-year, while dollar volume is up 19% compared to last year.

Auto sales have been trending upward in Ontario since the recession low in December 2008 and are now at pre-recession levels. Even so, current sales levels remain approximately 20% below the all time highs set in 2002 and 2005.

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