

Consumer Price Inflation Steady at 2.9%

According to the latest estimates from Statistics Canada, consumer price levels in Ontario measured by the Consumer Price Index (CPI) rose 2.9% in August, as compared to same month in 2009. Year-over-year inflation was unchanged from July.

The primary factor driving headline inflation in Ontario was July’s harmonization of the PST and GST. While the after-tax price of most goods remained unchanged, harmonization effectively increased the tax rate and hence consumer prices on a number of goods and services. These include but were not limited to electricity and heating, internet access, gasoline/diesel, some professional and personal services. As this was a permanent shift in the tax regime, year-over-year inflation rates will continue to reflect the impact of the HST until July 2011.

On a year-over-year basis, the largest increases to CPI levels were observed in the water/fuel/electricity (+14.6%) and household operation (+5.4%) sub-aggregates. A significant portion of these increases

were HST related. Strong increases were also observed in the health and personal care aggregate. Price levels for these goods/services rose 4.6% from the previous year, and were up 1.3% on a monthly basis. Clothing and footwear (-1%) and food (+1.9%) were moderating influences on inflation in August.

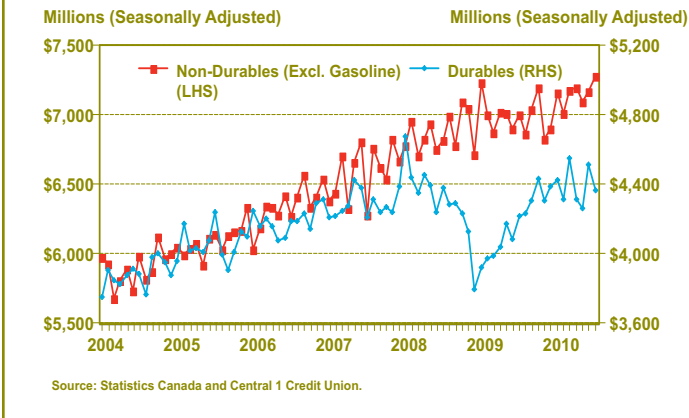
Retail Sales Dip in July on Durable Goods Sales

Seasonally adjusted retail sales in Ontario edged down by 0.3% in July to fall slightly below \$12.8 billion following a month of flat gains in June. While sales have rebounded to pre-recession levels and hover at levels just shy of 2008 peaks, recent trends suggest that consumer spending is slowing.

Based on data adapted from Statistics Canada, the durable goods sector was the principle contributor to July’s sales decline. While sales at motor vehicle and parts dealers were relatively stable during the month, furniture and furnishing store sales fell 14% on a seasonally adjusted basis from June, more than offsetting a 9% increase the previous month. Meanwhile, sales at electronic and appliances stores



Retail Trade By Sector Ontario, Monthly



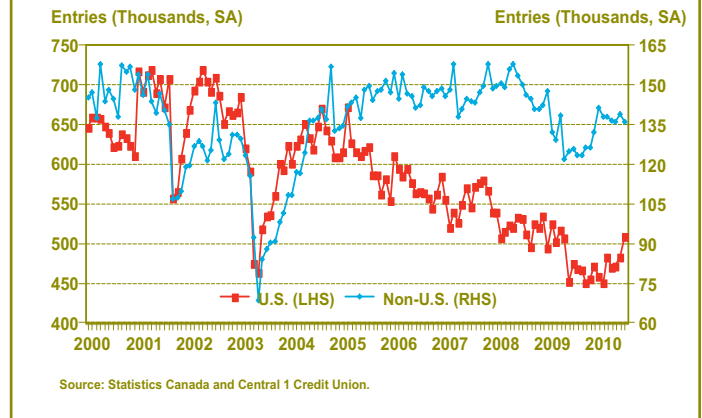
fell 7%. Building material and gardening equipment retailers also recorded significant declines. Growth in these retail sectors have slowed in recent months, and may be taking their cue from the downtrend in housing markets. In contrast, the uptrend in non-durable goods, excluding gasoline, persisted in July, but is also showing signs of slowing.

While consumers continue to spend, recent trends suggest that consumers are reluctant to make large-scale leveraged purchases. While this is partly related to lower housing activity and hence fewer related purchases, it also reflects an underlying uncertainty in labour markets and impacts of the recession on household net worth. Stronger retail growth is expected in 2011, but gains will be flat over the short term.

Tourist Visits Up in July on US Visits

International tourist visits to Ontario rose by 3.7% in July to reach 645,263 entries on a seasonally adjusted basis as an increase in American visitors offset a drop in the number of non-US international tourists during the month. Tourist entries by American rose 5.4% from June, while non-US internationalist tourist entries fell 2%. July marked the second consecutive monthly increase in tourist entries and extended the general uptrend that commenced during the fourth quarter of 2009.

International Tourist Entries Ontario, Monthly



While tourist visits have rebounded to the highest level since April 2009, and are essentially at pre-recession levels, overall visits remain weak in relation to the past decade reflecting an underlying downtrend in the number of American visitors since 2001. In contrast, non-US international tourism levels have returned to relatively healthy levels. Moving forward, a rebound in US tourism levels top Canada will remain constrained by the higher Canadian exchange rate, a weak US labour market and stagnant consumer and business spending. In addition, stricter passport requirements enacted in 2009 for Americans travelling to Canada by air will continue to be detrimental for tourist activity.

*Bryan Yu, Economist
byu@central1.com*