

Retail Sales Growth Slows

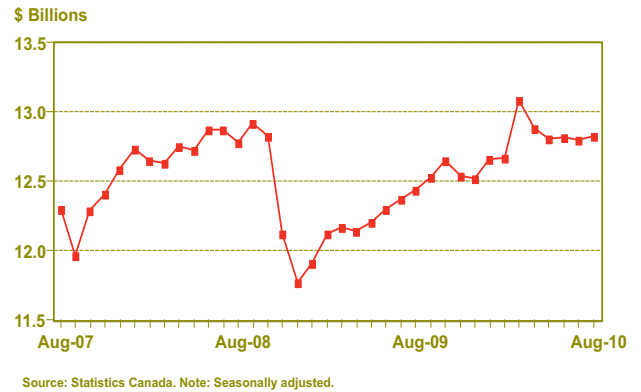
Retail sales in Ontario inched up in August, the fourth straight month of little change, according to the latest estimates from Statistics Canada. Sales totalled \$12.8 billion, seasonally adjusted (SA), up 0.3% from July. In the first eight months of this year, sales amounted to \$99.9 billion, up \$4.8 billion (5.0%) from the same period last year. Central 1 Credit Union forecasts retail sales in Ontario will total \$154.3 billion this year, up 4.3% from 2009. Stronger growth is anticipated for 2011.

Retail sales of durable goods are a near-term leading indicator of consumer spending. Recent declines in such sales suggest sluggish growth in the broader economy over the next several months. The largest single component of durable goods spending is on motor vehicles and parts, totaling \$2.6 billion SA in August, down \$58 million (2.2%) from July. Sales of motor vehicles and parts have been on a flat trend for the past 13 months.

Sales of building materials boomed in the first quarter of 2010 but have dropped sharply since then, along with the housing market. Sales totalled \$787 million SA in August, down \$18.6 million (2.3%) from July. Sales of furniture and appliances totalled \$882 million SA in August, little changed from July but down \$117 million (11.7%) from a post-recession peak in June.

The recent stall in retail sales growth reflects subdued household spending. Housing market activity has declined markedly and household debt considerations have become increasingly important. Household spending has grown faster than income for many years, but this is expected to re-balance over the next 18 months as the trend rate of growth in consumer spending slows.

Retail Sales, Ontario, Monthly

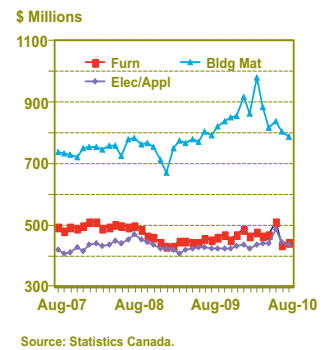


Retail Sales of Durable Goods Ontario, Monthly, Seasonally Adjusted

Autos and Parts Dealers



Other Durable Goods Stores

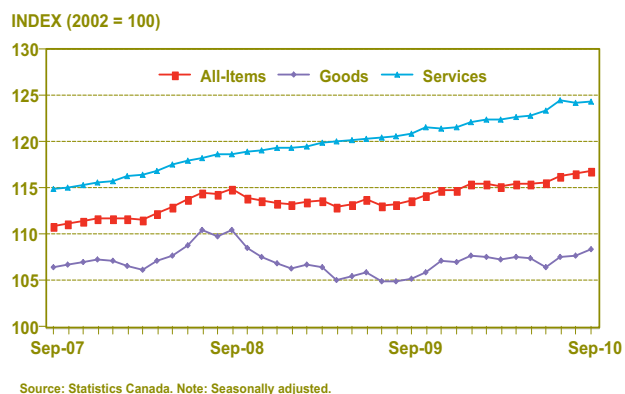


Consumer Price Inflation Up

Consumer prices in Ontario in September were 2.9% higher than the same month a year ago, according to the latest Consumer Price Index (CPI) estimates from Statistics Canada. Prices of electricity, passenger vehicles, homeowners' replacement



Consumer Price Index Ontario, Monthly



costs and gasoline led the increase. Ontario had the highest year-over-year consumer price inflation rate among Canadian provinces.

Ontario's CPI inflation rate has accelerated sharply over the past three months. The year-over-year rate has been 2.9% in each of July, August and September. Meanwhile, the seasonally adjusted annualized rate of month-over-month CPI inflation has averaged 4.7%. Adding HST to previously GST-exempt services has accelerated consumer price inflation. This compounds the typical supplier's response of raising prices in an effort to maintain or raise nominal sales revenue when real demand is decelerating or declining.

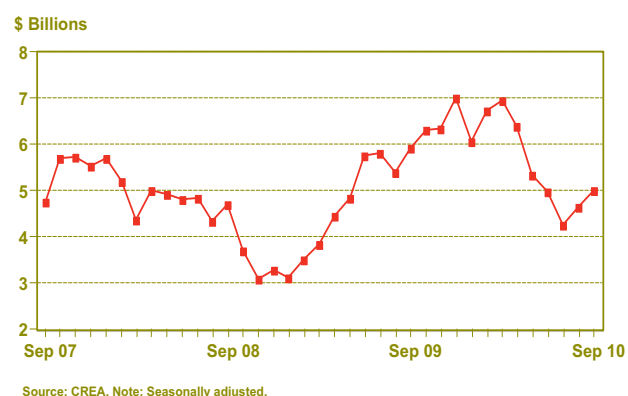
Housing Market Improves

Ontario's housing market is improving and yet remains at a level of activity well below long-term historical trends. Housing sales via the Multiple Listing Service (MLS) totalled just over \$5 billion in September, seasonally adjusted (SA), up 8.3% from August. That is the highest level since May, but well below the all-time record high of \$7 billion SA in December 2009.

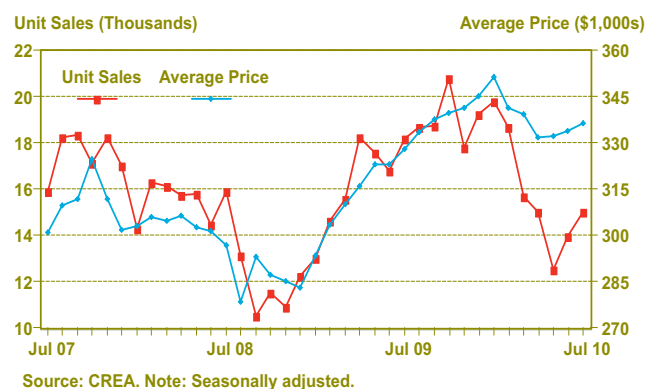
Dollar sales volume increased in September as unit sales jumped 7.6% to 15,051 SA while the average sale price increased 0.7% to \$336,342.

Housing sales and prices are likely to continue to rise while fixed mortgage rates remain near all-time record lows and gross domestic product (GDP)

MLS® Residential Sales Volume Ontario, Monthly



MLS® Residential Unit Sales and Average Price Ontario, Monthly



continues to recover from the 2008-09 recession, albeit slowly. New listings held steady in September while unit sales increased, lifting the sales-to-new-listings ratio for the third straight month. That ratio is a positively correlated, significant leading indicator of near-term house price inflation. Housing prices appear to have stopped declining in July and increased in August and September.

Sales volumes and sales-to-new listings ratios were more or less normal in 25 of Ontario's 43 real estate board areas in September, up from 14 in August (see table). In the remaining 18 board areas, sales-to-new listings ratios were unusually low or dollar sales volume declined unusually sharply in September.

Ontario's housing market activity is forecast to expand through 2011. Mortgage rates are expected to remain near record lows, while moderate rates of job, income and population growth continue.

Resale Housing Market Conditions in September 2010		
Strong (Under supplied)	Normal (Balanced)	Weak (Over Supplied)
	Barrie & District	Bancroft District
	Chatham-Kent	Brantford Region
	Durham Region	Cambridge
	Guelph & District	Cobourg-Port Hope
	Kawartha Lakes (Lindsay)	Cornwall & District
	Kitchener-Waterloo	Georgian Triangle
	Midland-Penatang	Grey Bruce Owen Sound
	Niagara	Hamilton-Burlington
	Oakville-Milton	Huron Perth
	Ontario	Kingston & Area
	Orangeville & District	London & St. Thomas
	Orillia & District	Mississauga
	Ottawa-Carleton	Muskoka & Haliburton
	Parry Sound	North Bay
	Peterborough	Sarnia-Lambton
	Quinte & District	St. Catharines & District
	Renfrew County	Timmins
	Sault Ste. Marie	York Region
	Simcoe & District	
	Sudbury	
	Thunder Bay	
	Tillsonburg District	
	Toronto	
	Welland District	
	Windsor-Essex	
	Woodstock-Ingersoll	

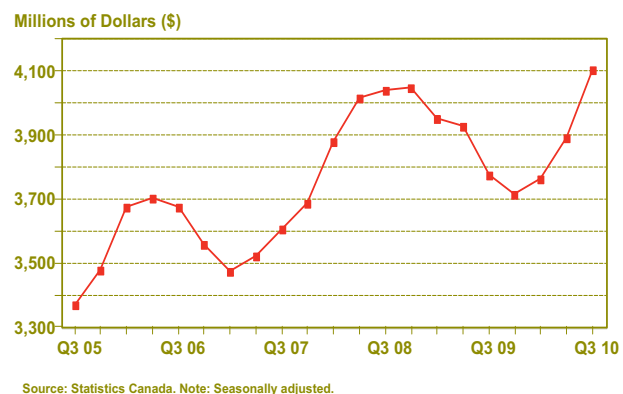
Source: CREA MLS data and C1CU Economics.

Non-Residential Building Construction Sets New High

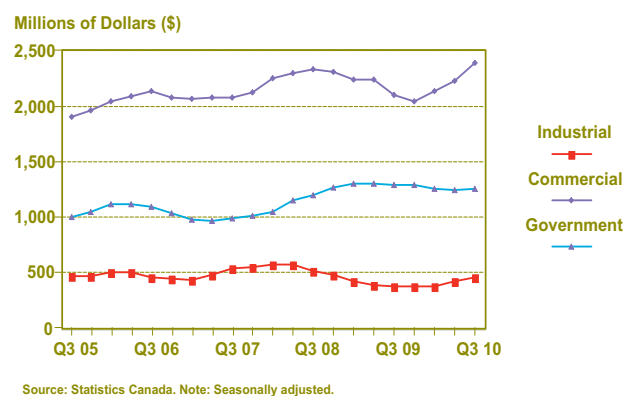
Investment in non-residential building construction in Ontario totalled \$4.1 billion in the third quarter of 2010, seasonally adjusted (SA), the highest level since current records began in 1997. That is up \$210 million (4.5%) from the second quarter and marks the third straight quarterly increase.

Third-quarter growth was led by commercial building construction, which totalled \$2.4 billion SA, up \$161 million (7.2%) from the second quarter. Institu-

Investment in Non-Residential Building Construction Ontario, Quarterly



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



tional/government building construction amounted to \$1.3 billion SA, up \$18 million (1.5%), while industrial building construction reached \$453 million SA, up \$31 million (7.3%).

In the first three quarters of 2010, investment in non-residential building construction in Ontario totalled \$11.8 billion, up a slight \$106 million (0.9%) from the same period of 2009. Year-to-date growth was led by commercial building construction at \$6.8 billion SA, up \$175 million (2.7%) year-over-year. Institutional/government building construction totalled \$3.8 billion year-to-date, down \$140 million (3.6%) year-over-year, while industrial building construction amounted to \$1.3 billion, up \$71 million (6.0%).

Business investment in commercial and industrial building construction usually lags the broad economy following a recession and is forecast to rise through 2011. Government investment in building construction is expected to decrease in 2011 as fiscal stimulus projects wind down.

Fewer International Tourists

International non-resident traveller entries to Ontario totalled 627,380 persons in August, seasonally adjusted (SA), down 17,948 persons (2.8%) from July. Entries from the United States fell by 20,778 persons SA (4.1%) while entries from all other countries combined rose by 2,830 persons SA (2.1%).

For the first eight months of this year, international visitors to Ontario totalled 5.24 million persons, down by a slight 23,456 (0.4%) from the same period last year. Some 4.10 million visitors came from the U.S., down by 94,451 (2.3%) year-over-year. Meanwhile, visitors from all other countries totalled 1.15 million persons, up by 70,995 (6.6%).

International tourism will likely continue to struggle for some time yet. The economic recovery is weak and drawn out in most rich countries, limiting growth in business travel. Household and government debt levels are high, limiting discretionary travel. The relatively low U.S./Canadian dollar exchange rate also dampens the flow of U.S. visitors.

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