

## Highlights:

- *Economy rebounds in 2010 with 3.0% growth, following the worst recession since the early 1990s*
- *Highly stimulative policies boost interest-rate-sensitive sectors and public capital spending in 2010*
- *The unemployment rate remains high in 2010 at 8.7%, declining to 5.9% in 2014*
- *Exports turn upward, led by auto-related manufacturing and an improved U.S. market in the next five years*
- *The high Canadian dollar restrains exports and limits their contribution to provincial growth, but aids machinery and equipment investment spending*
- *Job growth is highest in the construction industry in the next five years, helped by resurgence in residential construction*
- *After serving its purpose, policy stimulus is removed later in 2010 and in 2011, leaving the private sector to generate growth*
- *The moderate five-year growth forecast presumes no double-dip recession in the U.S. nor a sharp appreciation or depreciation in the Canadian dollar*

## Forecast overview

Emerging from its worst recession since the early 1990s, Ontario's economy rebounds in 2010 before settling into a moderate growth path through to 2014. The sharp contraction in exports and the unsettling impact of the financial crisis on consumers and investors is reversed in a highly stimulative policy environment. The sharp drop in economic activity in 2009 is almost completely regained in 2010, led by a rebound in exports and the interest-rate-sensitive consumer and housing sectors. Auto manufacturing output springs back from the steep plunge it took in the first half of 2009.

In 2011, economic growth is forecast to slow to 2.3% in 2002 dollars, due to a larger trade deficit in response to the higher Canadian dollar. The domestic economy will grow at a faster pace than in 2010 -- 2.9% versus 2.4% -- on the strength of more residential investment, a turnaround in machinery and equipment spending, and firming consumer spending. Employment increases at a slightly faster pace and the unemployment rate slides to 8.5%.

Beyond 2011, monetary and fiscal policy settings become much less stimulative and economic growth hinges the

### Forecast Summary: Ontario

	2008	2009	2010	2011	2012	2013	2014
Real GDP, % chg.	-0.5	-3.3	3.0	2.3	2.8	3.0	2.7
Nominal GDP, % chg.	0.4	-3.9	3.6	4.3	6.0	5.0	4.6
Employment, % chg.	1.4	-2.4	1.5	1.7	2.5	2.7	2.1
Unemployment Rate, %	6.5	9.0	8.7	8.5	7.6	6.5	5.9
Population, % chg.	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Housing Starts, units, 000s	75.1	50.4	61.2	77.4	79.9	81.8	87.2
Retail Sales, % chg.	3.5	-2.8	3.6	6.5	6.3	5.5	4.6
Personal Income, % chg.	3.8	-0.4	2.2	2.2	3.5	3.8	4.4
Corporate Pre-tax profits, % chg.	-14.5	-40.5	21.5	22.2	28.1	7.9	2.6
Consumer Price Index, % chg.	2.3	0.3	2.2	1.7	1.8	2.2	2.3

Forecast commences 2010. Source: Statistics Canada, Central 1 CU



performance of exports, the U.S. economy, technology investments, innovation, productivity improvements, and an improved consumer sector. A high Canadian dollar and the economy's export reliance on the U.S. results in a weak growth contribution from international trade, leaving domestic sectors and interprovincial trade to generate the moderate growth profile foreseen to 2014.

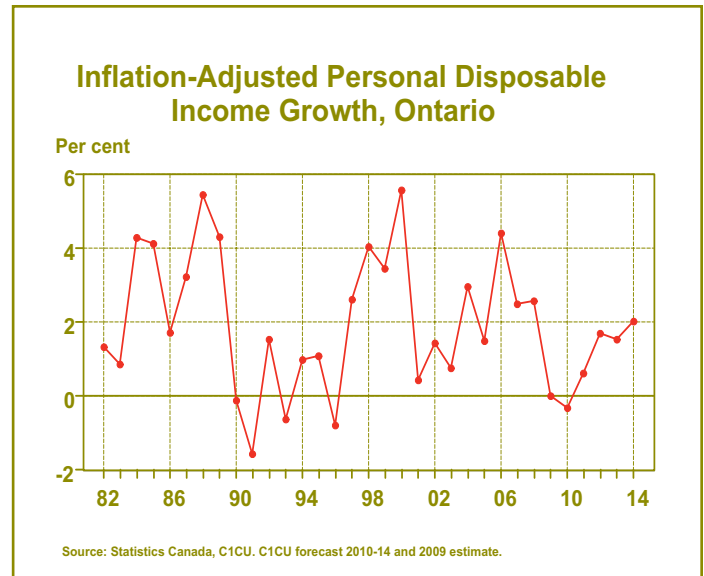
## Incomes

Total income generated in Ontario's economy will rise 3.6% in 2010, following an estimated 3.9% drop during 2009, which marks the first decline on record. In the more severe 1991 recession, income-based GDP eked out a 0.1% gain, although after accounting for inflation that decline was larger than last year's. Income growth picks up during the forecast to 6.0% in 2012 and then settles in around 5% in the following two years.

Labour income is the largest income component in the economy. Following a 1.1% decline in 2009, it will rise by a modest 1.5% this year followed by larger gains in each subsequent forecast year, reaching 4.9% in 2013. A higher demand for labour raises employment levels, increases hours worked per week, and average remuneration levels. These aggregate income gains are not necessarily representative for each worker or household.

Personal income (which includes labour income, net earnings of business proprietors, interest, dividends and investment income, and income transfers) resumes growth in 2010 through 2014. Last year's estimated 0.4% decline in personal income was a rare occurrence, although after inflation it was the third since 1981, with the others occurring in the early 1990s. The modest growth profile to 2014 is slightly lower than in the five years preceding the 2008-09 recession, since relatively weaker labour market conditions generating smaller wage gains are expected.

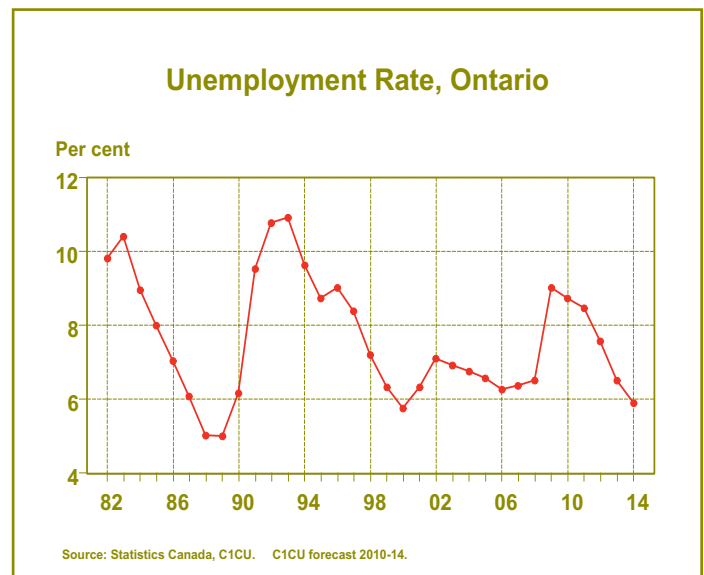
Personal disposable income (personal income after taxes and other government charges) held up better in 2009 than personal income posting a small 0.4% gain, aided by some federal tax reductions. Aggregate personal disposable income grows steadily to 4.4% in 2014 from 1.9% this year. Inflation-adjusted growth comes in slightly negative this year owing to an inflation bounce-back, but increases thereafter to above 2% in 2014.



Corporate profits before taxes took a large hit during the recession, falling an estimated 40% in 2009. Profitability rebounds sharply this year with the economic recovery and productivity gains made during the recession. Profits are a necessary foundation for more business investment spending.

## Labour market

An economic recovery needs job growth to sustain itself and not be too dependent on policy support or transitory growth drivers such as the inventory cycle. This year, employment is forecast to grow by 1.5%, or 96,000 persons higher than in 2009, which saw a 2.4% drop. Job growth shifts towards full-time work and away from part-time



employment, pulling up the average weekly hours worked during the recovery. The unemployment rate remains high this year, averaging 8.7% compared to 9.0% in 2009.

The unemployment rate declines in the remaining forecast period, with net job creation at between 1.7% to 2.7% annually and labour force growth around 1.5%. A muted labour supply response is presumed – at least compared to prior recoveries – partly because of slightly slower job growth ahead and also to the aging of the labour force. In this scenario, it takes until 2013 for the unemployment rate to match pre-recession levels. Labour’s response to improved job opportunities could be stronger than assumed, which would keep the unemployment rate higher than forecast unless job growth is also faster.

### Population growth

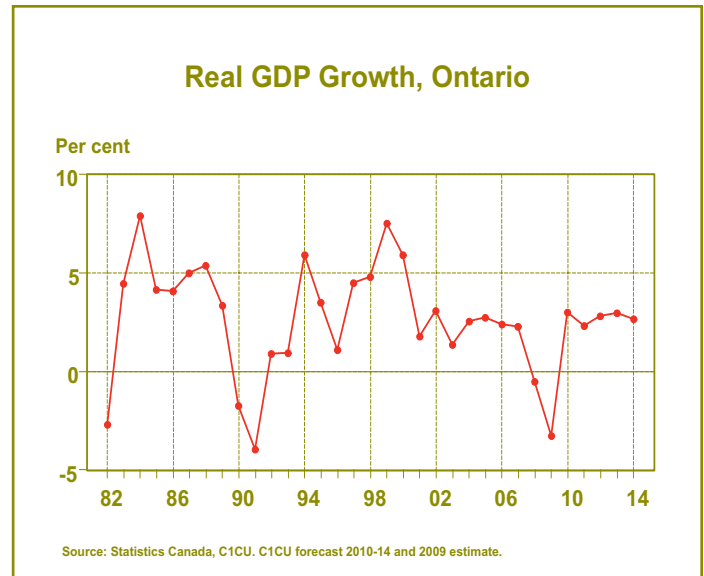
No material change in the province’s population growth and composition is foreseen in the next five years. Overall population growth hovers around 1% annually, with net natural increase sliding lower and net interprovincial migration remaining negative, though the outflow diminishes with improving economic performance. The main source of growth remains international immigration, which is seen at above net 100,000 persons per year.

Population growth is a driver of economic growth. Its sharp downshift during and following the early 1990s recession contributed to a substantial contraction in the domestic economy and its subsequent moderate growth period. In the current recession/recovery phase, population growth was not robust prior to the recession, and thus the drop in domestic demand has not been as severe or protracted as in the early 1990s.

The regional distribution of Ontario’s population growth remains uneven. Since most of the growth is from immigration, the largest metropolitan centres are the main recipients and benefactors of this flow. Population growth in the northern regions and in some southwest regions is well below 1% or negative.

### Expenditures

This year, total spending in the economy is seen rising by 3.6% in current dollars and 3.0% in 2002 dollars. Real GDP expenditures contracted by an estimated 3.3% in



2009, marking the largest decline since 1991. Following the initial recovery rebound, spending growth in 2011-14 averages around 5% per year in current dollars and 2.7% in 2002 dollars. Domestic spending is the main growth driver in the forecast, led by a stronger consumer sector and later on by the resurgence in business investment spending. The government’s fiscal growth catalyst fades after 2011, while the trade sector struggles throughout the forecast period.

Consumer spending rebounds this year with a 4.1% gain in current dollar spending or 2.8% after inflation. Total consumer spending barely rose in 2009, which saw a drop in consumer durable and semi-durable goods spending. In a sense, 2010 is the mirror image of 2009 in that spending on durables and semi-durables rebounds strongly while spending on non-durables and services grows moderately. This is typical during recession/recovery, when purchases of bigger ticket items are sharply reduced and then boosted when interest rates are low and pent-up demand is high.

A significant event for consumers in 2010 will be the implementation of the Harmonized Sales Tax (HST) effective July 1. This will increase the sales taxes paid by consumers and potentially reduce demand due to higher final prices and lower disposable income. Since businesses are able to write-off their HST costs, with minor exceptions, lower prices for some goods and services are possible, but this depends on each firm’s financial situation, industry market conditions, and competition.

The impact of the HST on consumer spending is subject to many estimation errors and it is difficult to separate its

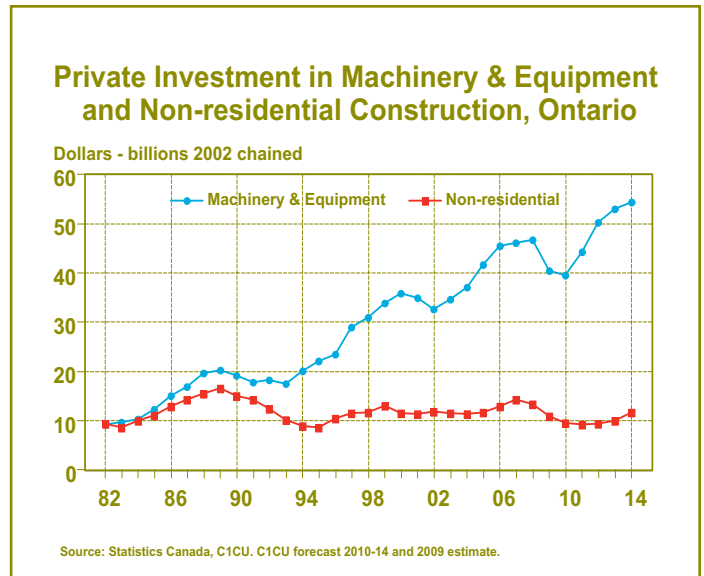
impact from the influence of other factors with precision. Our forecast model, which attempts to control for other factors, projects real consumer spending to be 0.1% higher by 2014 under the no-HST scenario, with semi-durable goods spending higher by 0.7%. No doubt, other models would yield different results but these estimates are in the correct direction.

Residential investment is a sector particularly hit by the HST and the provincial government has introduced measures to mitigate the negative impact on new housing construction. Ontario's new housing rebate is structured so that new homes priced up to \$400,000 would, on average, not be subject to an additional tax amount compared to the Retail Sales Tax (RST) currently embedded in the prices of new homes. The new housing rebate would be 75% of the provincial component of the HST paid for new housing purchased as primary residences, up to a maximum rebate of \$24,000. Some housing starts will likely be brought forward to avoid the HST.

HST aside, residential investment received support in 2009 from the federal home renovation tax credit, which expired Feb. 1, 2010. This is an example of a policy change altering the time profile of spending, in this case lifting 2009 at the expense of 2010. Inflation-adjusted renovation spending will fall about 3% this year, following an estimated 9% surge in 2009. New housing construction, the largest component of residential investment, rebounds 20% in 2010 after an estimated 30% plunge last year.

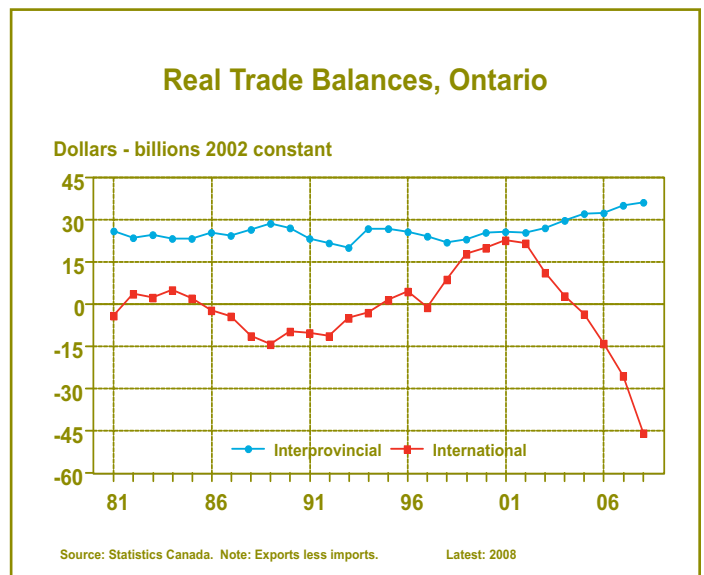
Business investment was hard hit by the recession and financial crisis, with an estimated 14% decline in real plant and equipment spending. It will begin to turn the corner this year, with a forecast dip of 4%. Business investment spending is usually the last sector to recover after a recession and the forecast sees the first annual gain occurring next year. Machinery and equipment investment leads this sector with double-digit increases in 2011 and 2012, while non-residential construction lags until 2012.

A primary benefit of the HST is more investment spending, which leads to enhanced economic and productivity growth, since businesses are able to deduct the RST portion of the HST. The forecast model sees real spending on machinery and equipment in 2014 at about 2.3% higher with HST than without HST. Non-residential building investment is about 3.4% higher after inflation.



Government spending on fixed capital or public infrastructure will surge ahead this year, but fall off in 2011 and 2012 as fiscal stimulus projects wind down. Spending on current goods and services slows to about 4% annually in current dollars during 2010-14, down from 6% to 7% in the previous five years. Rising government deficits and debt prompt expenditure control measures to be implemented, particularly at the federal and provincial levels.

The trade sector remains the weak growth source in the economy on account of the high Canadian dollar and the province's great dependence on U.S. markets for its exports. Related to the latter is the important role autos play in the trade flows between Ontario and the U.S., and the health of this export industry largely determines the province's



export performance. Interprovincial trade generates considerable surpluses and recently has more than offset large international trade deficits.

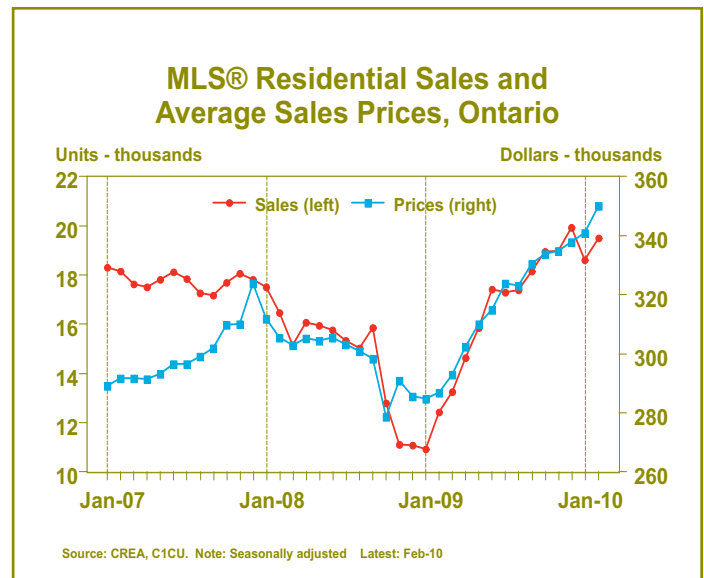
The past recession was largely due to negative external influences hitting the province's economy, mainly through the trade channel, though the finance channel also played a role in transmitting the financial crisis. Real exports (inflation-adjusted) fell 6.3% in 2008, according to Statistics Canada, and fell by 13.9% in 2009 in our estimation and with international goods exports dropping 23%, led by a 34% plunge in real auto exports.

Exports are forecast to grow at an anemic pace, averaging about 5% annually in current dollars and 4% in 2002 dollars. The U.S. economic recovery and higher export prices are positive developments, but the high Canadian dollar and only a moderate upturn in U.S. new vehicle sales will restrain export growth. The dollar's forecast appreciation in 2010 relative to 2009 will more than offset the predicted increase in U.S. denominated export prices, resulting in another overall price decline after conversion into Canadian dollars. In 2009, lower export prices were due to a drop in demand while in 2010 the cause will be the higher Canadian dollar.

While international exports will struggle under the high currency, interprovincial exports will grow at a robust pace, comparatively, as the rest of Canada recovers from the recession. Financial, trade, and business and computer services, along with manufactured products, are the primary provincial exports, without which Ontario's economy would incur an overall trade deficit.

Imports are the other important side to the trade sector. There is a close relationship between Ontario auto exports and U.S. imports due to the structure of the auto industry and the North American Free Trade Agreement (NAFTA). The largest international import segment is auto-related, with machinery and equipment imports the second largest. Imports plunged last year with the drop in demand for auto and machinery/equipment exports and a rebound will occur in 2010. Imports will grow at a faster pace in 2011 when the Canadian dollar rises to parity with the U.S. dollar.

Import growth will generally exceed growth in exports, leaving the net trade balance lower in 2014 than in 2010.



Somewhat counter-intuitively, the recession improved the trade balance in 2009 since imports dropped more than exports. The trade balance in the next five years is forecast to be the lowest on record as a whole and in any single year. In the last three and a half decades, the climate for Ontario's exports has usually involved a Canadian dollar well below par with the U.S. and a fairly robust U.S. new vehicle market, but the next five years will see conditions much less conducive for exports to the U.S.

## Housing market

A strong rebound in housing sales is driving housing prices higher and generating more investment in new construction. Record low mortgage rates and the appeal of home-ownership is bringing more first-time buyers into the market. A more active market in turn brings out more existing homeowners wanting to make a change. Investors are also more active in rising markets.

Housing is one of the first sectors to turn up coming out of an economic recession and this time is no different. Following a strong rebound from the lows of early 2009 induced by the financial crisis, MLS® sales have declined in the most recent two months. Housing prices are well up from their lows and exceed pre-recession levels by about 10%.

A couple of policy events will influence sales this year, starting with the federal government's changes to mortgage insurance regulations effective April 19, which tighten

lending criteria for qualifying borrowers. Another change is the HST coming on July 1, adding new costs onto a housing transaction by taxing real estate commissions, appraisal fees, and other services connected to the transfer of ownership. In addition, new housing faces higher taxes, though the rebate will mitigate some of the additional cost. These measures will bring forward some activity that would have occurred in the second half.

Housing sales set the stage for housing prices and investment. Annual housing sales in 2010 will top last year's total and set a new record high under the MLS®. However, there are counter-forces affecting future sales, which involve higher mortgage rates and higher prices depressing demand versus an improving labour market and higher incomes lifting sales. Under these conditions, low-equity buyers diminish in numbers while investor activity increases but, overall, annual housing sales are likely to stay range-bound, plus or minus 10%, on a modest uptrend.

Housing starts are forecast to jump more than 20% in 2010 from last year's low and climb to about 77,000 units in 2011. The path to 2014 is not a straight upward line, but housing starts will approach 87,000 units by then.

## Inflation

The recession caused a large decline in energy prices, which pulled down the overall consumer price inflation rate close to zero in 2009. Since crude oil prices are higher now, the Consumer Price Index (CPI) inflation rate will increase 2.2% this year and 1.7% in 2011. Somewhat higher inflation is expected toward the end of the forecast period, when the economy is operating at a higher utilization rate.

The HST's impact on the CPI adds about 0.2 percentage points this year and next. There is no impact on the inflation rate or percentage change in the CPI after 2011, since the HST will be fully embedded by then. The larger forces affecting inflation will be commodity prices and resource utilization in the labour and product markets.

Economy-wide inflation as measured by the GDP price index contracted by an estimated 0.6% in 2009 and is seen rising 0.6% this year and 2.2% on average in subsequent years. Upward price pressure materializes in residential construction during the next five years, rising to about 5% in 2010, while non-residential construction price increases

are minimal but quicken later in the forecast. Prices for new machinery and equipment edge lower through to 2012, thanks to an elevated currency and advances in technology.

## Industries

A major recession can induce substantial changes in some industries, and since this recession mostly affected export industries, those will be seeing the most change. Productivity improvements in the form of more capital investment, re-organization of companies and work processes, or outright capacity reductions will play out in the forecast period and beyond. Technological change and innovation will spur growth in some existing industries and spawn new ones, such as in the emerging green technologies sector. The policy backdrop is always a key growth determinant and the shift to more trade openness is likely to continue.

Growth will occur across all main industry groupings during 2010-14 and will amount to just under 15% in aggregate or about 3% per year (Industry GDP is measured on a value-added basis and differs from gross output). Export-oriented industries will experience a cyclical upturn in 2010, but thereafter growth depends more on productivity improvements and capital investment than on external markets, as the elevated currency cuts into revenue and competitiveness. Domestic-oriented industries are a stabilizing force in the economy, although they will grow unimpressively as a whole.

The fastest-growing industry in the next five years is manufacturing, which is almost entirely export-oriented. Forecasted manufacturing GDP increases about 20% between 2009 and 2014, but employment rises only 8%, reflecting considerable industry restructuring and productivity improvements. Manufacturing underwent the deepest contraction of any industry during 2009, setting the stage for a notable rebound. A large drop in market or economic activity is often matched by a strong rebound and this plays out to some extent in this year's manufacturing output.

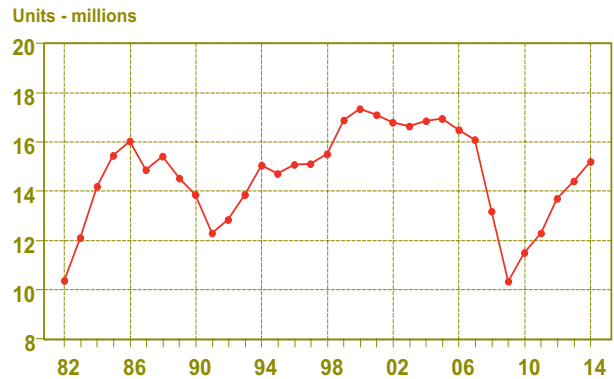
Within manufacturing, the auto sector best embodies this dynamic and the restructuring underway. Last year, motor vehicle assembly and parts GDP fell to the lowest level since the early 1990s and took the sharpest single-year decline on record. Vehicle assembly and parts GDP plunged about 30% in 2009, not only due to plummeting new vehicle sales

### Auto Industry GDP, Ontario



Source: Statistics Canada, C1CU. C1CU forecast 2010-14 and 2009 estimate.

### Auto and Light Truck Vehicle Sales, U.S.



Source: U.S. BEA. C1CU forecast 2010-14.

but also to plant closings during the General Motors and Chrysler bankruptcies. These factors have since reversed and some catch-up to restock the pipeline is underway, but once that is completed output will be driven by final sales. New vehicle sales in the U.S. are forecast to increase to 11.5 million units this year, rising to about 15 million units in 2014.

Most other manufacturing sectors will not grow as rapidly as the auto sector since their contraction during the recession was not as severe. Neither will their export markets grow from the low base of U.S. vehicle sales. To some extent, the 40%-plus growth in auto-related manufacturing GDP between 2009 and 2014 is misleading since it is off a very low base. Forecast auto manufacturing GDP in 2014 is only about equal to 2008 and well below pre-recession levels. Those manufacturing sectors less exposed to the U.S. market or in an emerging industry will fare better.

Forestry and related manufacturing also turns up rather dramatically in the forecast period from its low 2009 base though higher exports to the U.S. and elsewhere will be the driving force. After falling to a record low in 2009, U.S. housing starts begin rising in 2010 and climb to about 1.5 million units in 2014. The demand for pulp and paper products also increases with the U.S. economic recovery however the market for newsprint in the U.S. is not growing due to technological changes but it is growing outside of North America. Abitibi-Bowater, a major producer of pulp and paper products in the province, filed for CCA protection in 2009 due to market conditions and problems in raising capital during the financial crisis.

### Forestry and Related Manufacturing Industry GDP, Ontario



Source: Statistics Canada, C1CU. C1CU forecast 2010-14 and 2009 estimate.

Finance, insurance, and real estate activity is growing at a faster pace, following the near-zero performance in 2008 and the estimated 1.1% growth in 2009. GDP output will rise 2.8% in 2010 on the strength of more domestic activity in real estate, lending, securities, and financial investment activities, in tandem with the housing and equity markets recovery. Growth in this sector will hold near 3% annually in the rest of the forecast period and will help generate interprovincial exports and the associated trade surplus.

The transportation and warehousing industry will outperform the economy in both GDP and job growth in the next five years. The low base in 2009 contributes to these higher growth rates, since output and employment fell by more than the overall economy. Nonetheless, growth in

this sector reflects the turnaround in the domestic economy and higher trade flows with the U.S. This sector's GDP growth is forecast at 4.2% this year, easing to about 3% annually thereafter.

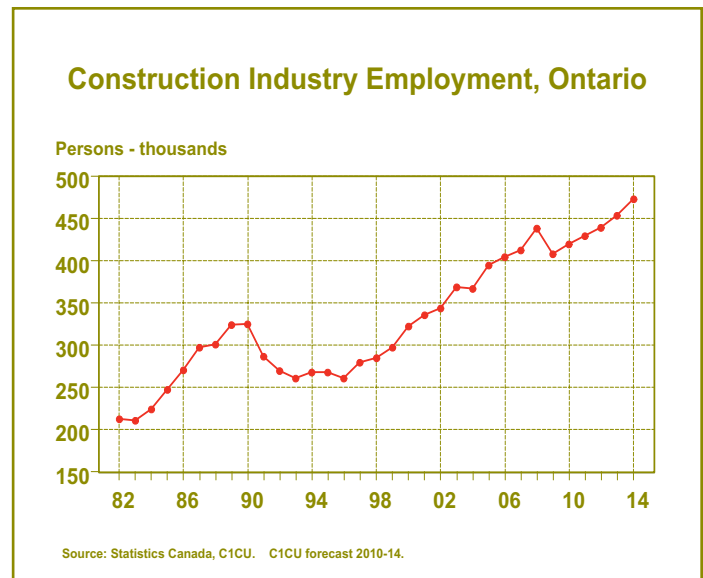
The retail and wholesale trade sector also outperforms the overall economy, rebounding with 3.9% growth in 2010 after a 2.8% contraction last year. Wholesale trade activities are related not only to the domestic revival but also to higher trade flows with the U.S. and other provinces. Retail trade advances on the heels of higher consumer spending. GDP growth for the trade sector as a whole is 16% over the next five years, with job growth above 14%.

At 16%, construction generates the highest industry job growth rate in the forecast period, compared with an economy-wide increase of 11%. Construction GDP increases 19% in this time and will equal the pre-recession level in 2013. Residential and government funded construction are the main sources of growth in 2010-11, largely supplanted by rising private non-residential construction in 2012-14.

Mining and related manufacturing will rebound from last year's poor demand environment and from labour-management disputes affecting supply. Metals prices are well up from their recession lows and consumption demand is firming and increasing in some cases. Inventories remain high for most metals but are turning down, with the exception of zinc. Their demand outlook is generally favourable and hinges on the pace of the global economic recovery and largely on Asian consumption.

The outlook for precious metals is always difficult to accurately pin down. Gold and silver price forecasts are literally all over the chart. Forces boosting precious metals prices probably outweigh those depressing prices during the next five years. This is a necessary but not sufficient condition for more production and investment in the province's gold and silver mining sectors. Factors affecting the cost of mine development and production come into play.

The Federal government in Budget 2010 proposed to extend the temporary 15% Mineral Exploration Tax Credit to March 31, 2011 which will assist junior mining companies to raise new equity via flow-through tax shares. Initiatives to improve the federal regulatory system are also planned and should reduce development costs.



Several events affect production in the near term. In one of the province's largest mining operations, Vale Inco's nickel mine in Sudbury is partially operating with its non-union staff following a shutdown and plans to ramp up production. Another lift to nickel production will come from Xstrata's transitioning of Nickel Rim South to full operation. Liberty Mines expects to see a sharp increase in output at its McWatters nickel mine and plans to start construction on another project in 2010. In December 2009, De Beers re-opened its two mines in Northern Ontario. US Steel announced the re-opening of its Hamilton blast furnace late in August 2009 after a nine-month shutdown. On the downside, Xstrata will permanently close its Kidd metallurgical copper and zinc plants in Timmins by May 2010, cutting 670 jobs.

Several new mine developments are on the horizon in the next five years. In the Ring of Fire, one of the largest chromite deposits in the world exists and offers considerable potential for the mining industry. Chromite is used in stainless steel and some other alloys. Northgate Minerals Corporation will develop the Young-Davidson gold mine near Matachewan with construction slated to begin later this year and production in 2012. The development will employ 600 people during the two year construction phase and 275 people during the operating life of the mine. Other gold mine prospects hold considerable potential and one or more could start production in the next five years.

The outlook for agriculture and related manufacturing is generally positive and grows on a trend basis 2 to 2.5% per year in the next five years. The vagaries of weather

are a wild card in the outlook causing crop and animal production to fluctuate from year-to-year though food manufacturing output is more stable. In 2009, crop and animal production is estimated to have declined about 1% while food manufacturing increased about 3%. Ontario's growing population base underpins this sector's overall expansion.

The health sector is expected to grow at a 3% annual pace in GDP output and just under 3% in employment during the forecast period. An aging and growing population along with new treatments and procedures keeps this industry operating at capacity and growing to the extent capacity that grows. The other largely publicly funded sector, education, faces a much weaker demand growth profile and its 4% and 7% total five-year growth in jobs and GDP, respectively, are among the lowest of any industry.

Employment in government services faces poor prospects under the spending restraints adopted by the federal and provincial governments to deal with the deficits and debts incurred during the recession and from recovery stimulus measures. Total employment shrinks in almost each year of the forecast, while government services GDP increases by about 1% annually, and there is a possible GDP contraction in this sector in one or more of the next five years.

## External economic forecast

The worst global and U.S. recession in decades is largely over, but its impact extends into 2010 and beyond. The economic recovery in the U.S. began last summer and is shaping up to be of moderate proportions, since the flow of business credit remains constrained and consumer spending is hindered by high unemployment, low income growth, and a weakened balance sheet. Various government measures are assisting the U.S. economic recovery, but their temporary nature raises concerns about the economy's ability to survive without fiscal assistance.

The financial crisis constituted a major shock to the global economy and to asset markets, causing activity to 'fall off a cliff'. When markets are hit with such a sudden blow, an over-reaction occurs, followed by a sharp rebound. Asset markets have regained 50% to 60% of their value from the shock-induced lows, but remain 20% to 40% below pre-crisis highs. Economic activity follows the same pattern, but with less variability, and the recovery is to some

extent a result of this rebound, which is a temporary source of growth.

The consensus view has U.S. growth at 3.1% in 2010, with some forecasters as high as 4.0% and others as low as 2.5%. Clearly considerable uncertainty still exists about the strength of the recovery, and only the most pessimistic forecaster is predicting a fallback into recession this year or next. Of course, this does not mean a recession could not occur, but rather that the odds of a double-dip recession are low.

Beyond 2010, the recovery should gain some momentum, especially in 2012-14 when credit conditions will likely be improved, as will household balance sheets. Pent-up demand for business capital expenditures is another source of growth later in the forecast period. The winding down of fiscal stimulus presents a drag to growth but this is necessary to stem the large increase in government debt. Five-year forecasts typically assign 3% annual growth rates for the U.S. economy, but in this report somewhat higher figures are used for the 2012-14 period.

U.S. interest rates will begin climbing in earnest during 2011 and approach normal levels in 2014. It will take that long to reach normal since the recession left a large hole in the U.S. economy, with a huge amount of excess capacity and little inflation pressure until 2013-14. There is a fair chance that the expected above-average growth period might not occur until 2013-15 or 2014-16. In that case, interest rates would be held lower for longer.

Canadian interest rates generally follow the U.S., though the Bank of Canada will raise its policy rate before the U.S. Federal Reserve does. The amount of slack in Canada's economy is far less than in the U.S. and even moderate growth will close its output gap before the U.S. Central bankers are anxious to raise policy rates from their abnormally low levels and, when that time arrives, initial rate increases are likely to be by one-half percentage point at a time, before settling down to a more gradual tightening process.

A higher interest rate differential with the U.S. usually boosts the Canadian dollar (CAD). This year, along with higher commodity prices, particularly oil, the CAD will probably break through parity with the U.S. dollar (USD). When the U.S. economy is on a stronger growth footing

### Key External Economic Forecasts

	2008	2009	2010	2011	2012	2013	2014
U.S. Real GDP, % chg.	0.4	-2.4	3.1	3.2	3.7	3.2	3.4
Japan Real GDP, % chg.	-1.5	-5.4	1.3	1.5	2.0	1.7	1.5
European Union Real GDP, % chg.	0.6	-4.0	1.3	1.6	2.5	2.3	2.0
Canada Real GDP, % chg.	0.7	-1.8	2.9	2.6	3.1	2.8	2.5
Canada 3-month T-Bill, %	2.4	0.3	0.5	1.8	2.7	3.0	3.5
Canada 10-year GoC Bond, %	4.0	3.9	4.3	5.0	5.3	5.5	6.0
U.S.-Canada Exchange Rate	93.8	88.5	97.9	99.0	97.1	98.0	100.0
Crude Oil, US\$ per barrel	100.0	62.0	80.0	85.0	90.0	95.0	105.0
U.S. new vehicle sales, units, m	13.2	10.3	11.5	12.3	13.7	14.4	15.2

and the Fed is raising rates, the USD will rise and the CAD will give up some of its prior gains. But, in general, the CAD will be higher in 2010-14 than in 2005-09.

Higher commodity prices are likely during the forecast period, with the global economy seen growing at 4% after 2011, led by a recovery in the advanced economies and underpinned by high growth rates in the developing countries. The latter's economic development growth goals require an increasing consumption of commodities, which puts upward pressure on prices. Price cycles in commodities are common and will emerge during the next five years but, barring a recession, these cycles are likely to be sectoral rather than broadly based.

Canada's growth is forecast at around 2.7% this year, rising to 3.2% in 2011 based on the average of forecasts. The Bank of Canada puts growth at 3% this year and 3.3% in 2011. The main challenge to Canada's growth performance in the shorter term is the high CAD and its restraining effect on the trade balance. The domestic economy provides most of the growth impetus in 2010-14.

### Forecast Risks

Recovering from an once-in-a-lifetime financial crisis is fraught with more uncertainties than usual. Any major problem in the financial world, be it a sovereign debt default, excessive government debt, or failing banks, would be a setback and send shock waves through markets and the economy. In the real economy, macro risks range from inflation or deflation to double-dip recession to a lost decade. A botched exit strategy by the central bank, the untimely removal of fiscal stimulus, excessive household debt, and the ever-present danger of a geo-political event

are other reasons for concern.

No doubt, any one of those events could materialize and some could not be prevented. However, policymakers in most countries have displayed the will to enact measures to stimulate growth and rectify market problems. This is a considerable force that should not be underestimated, especially when it is co-ordinated across countries.

The main risk to the base-case scenario of a moderate economic recovery in North America, Europe, and Japan is the double-dip recession or, more plausibly, a growth slowdown later in 2010 and into next year. Beyond 2011, the risks increase and become more diverse, causing the point forecasts in this report to be centred in a wider error band.

*The data used in these tables are drawn from a number of sources: Statistics Canada, U.S. Bureau of Economic Analysis, International Monetary Fund, various Provincial sources, Consensus Forecasts: Central 1 Credit Unions for all Ontario Forecasts*

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### Income Components (\$ Millions): Ontario

	2008	2009	2010	2011	2012	2013	2014
Gross Domestic Product at market prices	587,832	565,066	585,619	610,709	647,084	679,581	710,641
% change	0.4	-3.9	3.6	4.3	6.0	5.0	4.6
Personal Income	482,086	480,244	490,790	501,815	519,483	539,422	563,304
% change	3.8	-0.4	2.2	2.2	3.5	3.8	4.4
Labour Income	331,650	327,858	332,840	338,468	351,155	368,221	385,118
% change	4.2	-1.1	1.5	1.7	3.7	4.9	4.6
Interest, Dividends, & Investment	58,503	54,582	58,168	60,597	62,123	61,147	63,717
% change	1.6	-6.7	6.6	4.2	2.5	-1.6	4.2
Government Transfers	58,185	62,356	63,685	64,917	66,753	68,621	70,962
% change	4.8	7.2	2.1	1.9	2.8	2.8	3.4
Unincorporated Business	36,317	37,167	38,719	40,528	42,265	44,368	46,495
% change	2.1	2.3	4.2	4.7	4.3	5.0	4.8
Other Transfers	1,782	2,582	1,745	1,746	1,795	1,896	2,063
% change	-5.6	44.9	-32.4	0.1	2.8	5.6	8.8
Disposable Income	372,228	373,562	380,674	389,369	403,013	418,204	436,630
% change	4.9	0.4	1.9	2.3	3.5	3.8	4.4
Taxes & Contributions	109,858	106,682	110,116	112,445	116,470	121,218	126,674
% change	0.1	-2.9	3.2	2.1	3.6	4.1	4.5
Corporate Profits Before Tax	57,645	34,327	41,696	50,964	65,306	70,474	72,272
% change	-14.5	-40.5	21.5	22.2	28.1	7.9	2.6

### Labour Market Indicators: Ontario

	2008	2009	2010	2011	2012	2013	2014
Source Population, 000s	10,509.8	10,659.5	10,801.4	10,942.8	11,080.2	11,215.9	11,344.7
% change	1.4	1.4	1.3	1.3	1.3	1.2	1.1
Participation Rate %	68.1	67.3	67.2	67.3	67.5	67.6	67.8
Labour Force, 000s	7,154.5	7,175.2	7,257.4	7,362.1	7,474.6	7,587.0	7,694.8
% change	1.6	0.3	1.1	1.4	1.5	1.5	1.4
Employment, 000s	6,687.3	6,526.8	6,622.9	6,737.9	6,907.5	7,091.9	7,239.5
% change	1.4	-2.4	1.5	1.7	2.5	2.7	2.1
Unemployment, 000s	467.2	648.5	634.5	624.2	567.1	495.1	455.3
Unemployment Rate %	6.5	9.0	8.7	8.5	7.6	6.5	5.9
Average Weekly Hours	33.8	33.1	33.3	33.4	33.5	33.6	33.6
% change	-1.2	-2.1	0.5	0.4	0.5	0.3	0.0
Avg. Hr. Wage Rate % chg.	4.2	0.9	0.5	1.2	0.7	1.8	2.5
Unit Labour Costs % change	-0.9	-2.6	2.0	1.9	1.2	0.4	0.6

### Population Components: Ontario

	2008	2009	2010	2011	2012	2013	2014
Population, 000s	12,936.3	13,069.2	13,204.0	13,344.7	13,489.4	13,638.3	13,783.8
% change	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Births, 000s	139.0	140.3	141.8	143.2	144.7	146.5	148.3
Deaths, 000s	89.1	92.2	94.4	97.3	100.1	102.8	105.5
Natural Increase, 000s	49.8	48.1	47.5	45.9	44.6	43.6	42.8
Net Migration, 000s	91.8	84.8	87.3	94.8	100.1	105.3	102.7
Net International, 000s	106.5	103.5	103.9	110.5	113.9	115.6	113.5
Net Interprovincial, 000s	-14.8	-18.7	-16.6	-15.7	-13.8	-10.2	-10.8

### Gross Domestic Expenditures (\$ Millions): Ontario

	2008	2009	2010	2011	2012	2013	2014
Consumer	347,779	349,856	364,154	378,504	394,264	414,413	432,878
% change	4.1	0.6	4.1	3.9	4.2	5.1	4.5
Government Current	118,668	123,659	130,097	135,254	140,090	145,700	151,918
% change	7.2	4.2	5.2	4.0	3.6	4.0	4.3
Government Investment	16,832	18,562	20,991	19,234	18,047	18,904	19,591
% change	1.5	10.3	13.1	-8.4	-6.2	4.8	3.6
Residential Construction	39,850	36,983	41,458	48,072	50,676	53,727	58,263
% change	0.5	-7.2	12.1	16.0	5.4	6.0	8.4
Plant and Equipment	55,608	49,291	46,011	49,135	54,220	58,218	62,800
% change	0.9	-11.4	-6.7	6.8	10.3	7.4	7.9
Machinery & Equipment	38,437	35,075	33,439	36,889	41,605	44,232	45,764
% change	2.2	-8.7	-4.7	10.3	12.8	6.3	3.5
Non-Residential Construction	17,171	14,216	12,573	12,246	12,615	13,986	17,036
% change	-1.9	-17.2	-11.6	-2.6	3.0	10.9	21.8
Domestic Demand	578,737	578,351	602,710	630,198	657,296	690,961	725,447
% change	4.1	-0.1	4.2	4.6	4.3	5.1	5.0
Exports	328,849	275,747	279,964	293,791	315,306	334,184	350,533
% change	-2.8	-16.1	1.5	4.9	7.3	6.0	4.9
Imports	324,085	283,044	295,755	313,313	325,992	346,610	367,028
% change	3.1	-12.7	4.5	5.9	4.0	6.3	5.9
Net Exports	4,764	-7,297	-15,791	-19,521	-10,686	-12,427	-16,495
Inventory change	5,231	-5,487	-801	532	973	1,546	2,188
Statistical Discrepancy	900	500	500	500	500	500	500
GDE	587,832	565,066	585,619	610,709	647,084	679,581	710,641
% change	0.4	-3.9	3.6	4.3	6.0	5.0	4.6

### Gross Domestic Expenditures (\$2002 Millions): Ontario

	2008	2009	2010	2011	2012	2013	2014
Consumer	319,637	320,685	329,675	338,287	346,541	357,256	365,959
% change	2.6	0.3	2.8	2.6	2.4	3.1	2.4
Government Current	99,094	97,861	99,261	100,733	101,729	102,495	103,646
% change	3.5	-1.2	1.4	1.5	1.0	0.8	1.1
Government Investment	14,514	15,970	17,808	15,877	14,598	14,908	15,071
% change	-4.0	10	11.5	-10.8	-8.1	2.1	1.1
Residential Construction	30,665	28,035	29,964	33,240	34,005	34,812	36,271
% change	-2.3	-8.6	6.9	10.9	2.3	2.4	4.2
Plant and Equipment	60,148	51,443	49,108	53,678	59,630	63,084	66,090
% change	-0.5	-14.5	-4.5	9.3	11.1	5.8	4.8
Machinery & Equipment	46,746	40,532	39,497	44,385	50,260	53,042	54,392
% change	1.3	-13.3	-2.6	12.4	13.2	5.5	2.5
Non-Residential Construction	13,402	10,910	9,611	9,293	9,370	10,041	11,698
% change	-6.3	-18.6	-11.9	-3.3	0.8	7.2	16.5
Domestic Demand	522,665	513,190	525,380	540,527	553,444	568,614	583,132
% change	1.9	-1.8	2.4	2.9	2.4	2.7	2.6
Exports	329,454	283,658	294,904	305,886	319,813	333,316	345,102
% change	-6.3	-13.9	4	3.7	4.6	4.2	3.5
Imports	327,616	275,571	286,012	300,927	312,838	325,104	336,208
% change	-2.8	-15.9	3.8	5.2	4.0	3.9	3.4
Net Exports	1,838	8,086	8,891	4,959	6,975	8,211	8,894
Inventory change	4,422	-4,408	-1,686	-491	-26	319	579
Statistical Discrepancy	-819	500	500	500	500	500	500
GDE	532,209	514,895	530,518	542,795	558,084	574,725	590,085
% change	-0.5	-3.3	3.0	2.3	2.8	3.0	2.7

### Ontario GDP Price Indexes By Component

	2008	2009	2010	2011	2012	2013	2014
GDP % chg.	0.9	-0.6	0.6	1.9	3.1	2.0	1.8
Consumer % chg.	1.4	0.3	1.2	1.3	1.7	2.0	2.0
Durable Goods, % chg.	-4.9	-3.9	-1.9	-1.4	-1.0	-0.6	-0.4
Semi-Durable Goods, % chg.	-2.0	0.3	0.4	0.4	0.3	0.9	1.0
Non-Durable Goods % chg.	4.3	-1.3	1.8	1.5	2.4	3.0	2.6
Services % chg.	2.1	1.8	2.3	2.4	2.1	2.4	2.8
Government Current % chg.	3.6	5.2	4.0	2.4	2.6	3.3	3.3
Government Investment % chg.	5.8	0.7	2.2	1.8	1.7	2.6	2.5
Residential Construction % chg.	2.9	1.5	4.9	4.5	3.0	3.6	4.1
Machinery & Equipment % chg.	0.9	5.2	-2.2	-1.8	-0.4	0.7	0.9
Non-Residential Construction % chg.	4.7	1.7	0.4	0.7	2.2	3.5	4.6
Domestic Demand % chg.	2.1	1.8	1.8	1.6	1.9	2.3	2.4
Exports % chg.	3.6	-2.6	-2.3	1.2	2.6	1.7	1.3
Imports % chg.	6.1	3.8	0.7	0.7	0.1	2.3	2.4

**Consumer Expenditures: Ontario**

	2008	2009	2010	2011	2012	2013	2014
<b>\$ Millions</b>							
Consumer Expenditures	347,779	349,856	364,154	378,504	394,264	414,413	432,878
% change	4.1	0.6	4.1	3.9	4.2	5.1	4.5
Durable Goods	40,861	38,293	41,385	43,037	43,637	46,031	47,286
% change	0.9	-6.3	8.1	4.0	1.4	5.5	2.7
Semi-Durable Goods	26,790	26,076	26,917	27,862	28,850	29,884	31,081
% change	0.8	-2.7	3.2	3.5	3.5	3.6	4
Non-Durable Goods	81,387	81,711	84,093	87,030	90,747	95,001	98,881
% change	5.3	0.4	2.9	3.5	4.3	4.7	4.1
Services	198,741	203,776	211,758	220,574	231,030	243,498	255,630
% change	4.8	2.5	3.9	4.2	4.7	5.4	5.0
Retail Sales	151,375	147,161	152,515	162,355	172,516	181,962	190,275
% change	3.5	-2.8	3.6	6.5	6.3	5.5	4.6
<b>\$ 2002 Millions</b>							
Consumer Expenditures	319,637	320,685	329,675	338,287	346,541	357,256	365,959
% change	2.6	0.3	2.8	2.6	2.4	3.1	2.4
Durable Goods	45,373	44,268	48,754	51,414	52,641	55,878	57,643
% change	6.1	-2.4	10.1	5.5	2.4	6.1	3.2
Semi-Durable Goods	28,832	27,967	28,759	29,656	30,601	31,402	32,330
% change	2.8	-3.0	2.8	3.1	3.2	2.6	3.0
Non-Durable Goods	66,201	67,349	68,112	69,426	70,699	71,886	72,908
% change	0.9	1.7	1.1	1.9	1.8	1.7	1.4
Services	180,154	181,521	184,398	187,631	192,503	198,071	202,346
% change	2.6	0.8	1.6	1.8	2.6	2.9	2.2

### Residential Investment: Ontario

	2008	2009	2010	2011	2012	2013	2014
<b>\$ Millions</b>							
Total Residential Investment	39,850	36,983	41,458	48,072	50,676	53,727	58,263
% change	0.5	-7.2	12.1	16	5.4	6.0	8.4
New Dwellings	17,690	12,706	16,201	21,411	22,785	24,137	26,800
% change	-4.3	-38.6	29.8	38.2	4.9	3.5	10.7
Renovations	18,359	20,266	20,601	21,397	22,392	23,742	25,238
% change	0.7	10.4	1.7	3.9	4.7	6.0	6.3
Total Acquisition Costs	3,536	3,737	4,366	4,960	5,180	5,511	5,868
% change	3.2	5.7	16.8	13.6	4.5	6.4	6.5
Other Residential Construction	265	274	290	305	319	337	357
% change	27.2	3.8	5.7	5.0	4.7	5.6	6.0
<b>\$ 2002 Millions</b>							
Total Residential Investment	30,665	28,035	29,964	33,240	34,005	34,812	36,271
% change	-2.3	-8.6	6.9	10.9	2.3	2.4	4.2
New Dwellings	13,613	9,632	11,710	14,805	15,289	15,639	16,684
% change	-3.3	-29.2	21.6	26.4	3.3	2.3	6.7
Renovations	14,127	15,362	14,890	14,795	15,026	15,383	15,712
% change	-2.2	8.7	-3.1	-0.6	1.6	2.4	2.1
Total Acquisition Costs	2,721	2,833	3,155	3,429	3,476	3,571	3,653
% change	0.3	4.1	11.4	8.7	1.4	2.7	2.3
Other Residential Construction	204	208	210	211	214	218	222
% change	23.6	2.2	0.8	0.5	1.6	2.0	1.8
Housing Starts, Units	75,076	50,351	61,211	77,388	79,917	81,753	87,215
% change	10.2	-32.9	21.6	26.4	3.3	2.3	6.7

GDP by Industry (\$2002 Millions): Ontario							
	2008	2009	2010	2011	2012	2013	2014
Total	491,114	475,136	489,553	500,882	514,990	530,347	544,520
% change	-0.3	-3.3	3.0	2.3	2.8	3.0	2.7
Agriculture	4,819	4,654	4,748	4,917	5,066	5,212	5,300
% change	7.4	-3.4	2.0	3.6	3.0	2.9	1.7
Forestry & Logging	530	733	766	778	798	817	828
% change	-12.4	38.2	4.5	1.6	2.6	2.4	1.4
Oil & Gas Mining	33	29	30	30	30	30	31
% change	-1.5	-10.7	0.4	0.3	1.1	1.2	0.9
Other Mining	2,656	2,409	2,676	2,725	2,777	2,833	2,843
% change	3.1	-9.3	11.1	1.8	1.9	2.0	0.3
Fish, Hunting & Trapping	28	37	38	38	38	38	37
% change	1.8	32.2	2.2	-1.4	0.6	0.4	-1.6
Manufacturing	83,568	71,684	75,083	76,647	79,973	83,224	86,029
% change	-8.0	-14.2	4.7	2.1	4.3	4.1	3.4
Petroleum & Chemical	1,282	1,195	1,204	1,196	1,208	1,210	1,212
% change	-2.0	-6.8	0.8	-0.7	1.1	0.1	0.2
Plastics	3,528	3,583	3,730	3,777	3,899	4,024	4,136
% change	-17.4	1.6	4.1	1.3	3.2	3.2	2.8
Primary Metals	5,193	4,425	4,648	4,705	4,879	5,035	5,160
% change	0.9	-14.8	5.0	1.2	3.7	3.2	2.5
Fabricated Metals	6,345	4,484	4,748	4,973	5,318	5,621	5,905
% change	-13.7	-29.3	5.9	4.7	6.9	5.7	5.0
Machinery & Computer	6,121	4,849	4,891	4,992	5,338	5,670	5,865
% change	-5.7	-20.8	0.9	2.1	6.9	6.2	3.4
Motor Vehicles	10,469	7,311	7,977	8,375	8,994	9,679	10,471
% change	-23.3	-30.2	9.1	5.0	7.4	7.6	8.2
Motor vehicle Parts	6,524	4,408	4,858	5,034	5,395	5,800	6,282
% change	-23.4	-32.4	10.2	3.6	7.2	7.5	8.3
Other Manufacturing	48,051	44,332	46,147	46,936	48,540	50,064	51,187
% change	-2.5	-7.7	4.1	1.7	3.4	3.1	2.2
Utilities	10,291	9,578	9,887	10,084	10,310	10,618	10,922
% change	0.4	-6.9	3.2	2.0	2.2	3.0	2.9
Construction	25,094	22,100	22,787	23,738	23,924	24,766	26,225
% change	-2.5	-11.9	3.1	4.2	0.8	3.5	5.9
Transportation & Warehousing	19,164	18,484	19,267	19,798	20,431	21,096	21,627
% change	0.3	-3.6	4.2	2.8	3.2	3.3	2.5
Retail & Wholesale Trade	59,778	58,104	60,398	62,103	63,964	65,990	67,413
% change	0.8	-2.8	3.9	2.8	3.0	3.2	2.2
FIREL	111,753	113,262	115,929	118,410	121,642	125,015	128,822
% change	1.4	1.4	2.4	2.1	2.7	2.8	3.0
Owner-Occupied Housing	40,305	41,040	41,720	42,556	43,623	44,727	45,862
% change	3.1	1.8	1.7	2.0	2.5	2.5	2.5
Other FIREL	71,448	72,223	74,209	75,855	78,019	80,287	82,960
% change	0.4	1.1	2.8	2.2	2.9	2.9	3.3
Information, Professional, Scientific, Managerial	63,404	62,794	64,513	66,094	68,163	70,262	71,933
% change	1.5	-1.0	2.7	2.5	3.1	3.1	2.4
Other Services	16,939	17,204	17,789	18,147	18,641	19,193	19,574
% change	1.8	1.6	3.4	2.0	2.7	3.0	2.0
Accommodation & Food Services	9,676	9,314	9,515	9,655	9,928	10,233	10,377
% change	2.2	-3.7	2.2	1.5	2.8	3.1	1.4
Education Services	23,861	23,800	24,109	24,438	24,729	25,075	25,370
% change	2.4	-0.3	1.3	1.4	1.2	1.4	1.2
Health & Social Services	30,586	31,097	31,923	32,769	33,802	34,888	35,866
% change	2.1	1.7	2.7	2.7	3.2	3.2	2.8
Government Services	26,514	27,311	27,682	28,042	28,236	28,444	28,639
% change	3.0	3.0	1.4	1.3	0.7	0.7	0.7

### Employment by Industry (000s): Ontario

	2008	2009	2010	2011	2012	2013	2014
Total	6,687.3	6,526.8	6,622.9	6,737.9	6,907.5	7,091.9	7,239.5
% change	1.4	-2.4	1.5	1.7	2.5	2.7	2.1
Agriculture	84.5	84.4	85.4	87.3	89.3	91.3	92.1
% change	-12.1	-0.1	1.2	2.2	2.3	2.3	0.8
Other Primary	38.1	35.7	37.6	39	39.4	39.7	40.4
% change	9.5	-6.2	5.1	3.8	1.0	0.8	1.8
Manufacturing	901.2	797.2	802.9	804.5	822.9	844.7	860.5
% change	-5.2	-11.5	0.7	0.2	2.3	2.6	1.9
Utilities	65.1	57.8	58	58.5	59.5	60.9	62
% change	11.7	-11.1	0.3	0.8	1.8	2.3	1.8
Construction	439	408.9	419.9	429.7	439.5	453.8	473.8
% change	6.4	-6.9	2.7	2.3	2.3	3.2	4.4
Transportation & Warehousing	329.7	314.8	321.3	329.1	339.7	350.3	357.6
% change	8.4	-4.5	2.1	2.4	3.2	3.1	2.1
Trade	1,025.5	997.0	1,018.4	1,047.0	1,082.0	1,118.2	1,141.6
% change	-0.2	-2.8	2.1	2.8	3.3	3.3	2.1
FIREL	472.4	506.5	519.5	531.6	546	561	576.1
%change	-0.4	7.2	2.6	2.3	2.7	2.7	2.7
Professional, Scientific, Managerial	969.8	974.0	986.2	1,011.3	1,044.0	1,077.4	1,101.6
% change	2.9	0.4	1.3	2.5	3.2	3.2	2.2
Accomodation & Food Services	396.2	388.5	392.5	398.9	411	424.4	431.3
% change	-0.9	-1.9	1.0	1.6	3	3.3	1.6
Education Services	482.2	462.6	467.4	471.5	474.8	479.2	482.6
% change	3.5	-4.1	1.0	0.9	0.7	0.9	0.7
Health & Welfare Services	698.4	708.5	721.7	737.1	756.5	777	794.8
% change	4.1	1.4	1.9	2.1	2.6	2.7	2.3
Other Services	421.8	435.3	443.9	455.1	468.3	482.4	491.4
% change	-1.0	3.2	2.0	2.5	2.9	3.0	1.9
Government Services	363.5	355.7	348.3	337.5	334.6	331.8	333.8
% change	9.8	-2.2	-2.1	-3.1	-0.9	-0.8	0.6

## Economic Analysis of Ontario

Issue 1 . Volume 01

Published by the Economics Department, Central 1 Credit Union, 1441 Creekside Drive, Vancouver, B.C. V6J 4S7

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