Industry Canada Industrie Canada

Canada

Ontario Economic Overview

February 2009 Update

HIGHLIGHTS

- The recession in the United States, global financial turmoil and the resulting tightening of credit conditions are taking a toll on nearly all of Ontario's industries.
- Ontario's manufacturing sector suffered from its sixth consecutive GDP decline in Q3 and lost an additional 57,600 jobs compared to the same period last year.
- Canadian light vehicle production plummeted 20% in 2008. Canada's North American market share now sits at below 16%.
- Demand for Ontario's highly export oriented ICT manufacturing products are softening and Nortel, Ontario's largest ICT equipment manufacturing firm, was forced to file for creditor protection.
- The finance and insurance sector made strong employment gains in Q3. While Canadian banks were recognized as the most financially sound in the world, most reported lower net income compared to last year.
- Indicators are pointing to a slowdown in the construction sector and analysts are calling for a steep correction rather than a soft landing.
- The number of American travellers to the province fell to an all time low in Q3.
- Overall, Ontario made moderate employment and GDP gains in Q3, but early indicators point to a rough Q4.

In This Report

KEY ECONOMIC INDICATORS

(% change unless otherwise indicated)	Real GDP			Employment			Unemployment Rate		
	2008	2009f	2010f	2008	2009f	2010f	2008	2009f	2010f
Ontario	-0.2	-1.8	2.3	1.5	-1.7	0.6	6.5	8.8	9.1
Canada	0.5	-1.4	2.3	1.6	-1.3	0.6	6.1	8.1	8.3
United States	1.1	-1.9	2.2	-0.3	-2.5	0.5	5.8	8.6	8.7

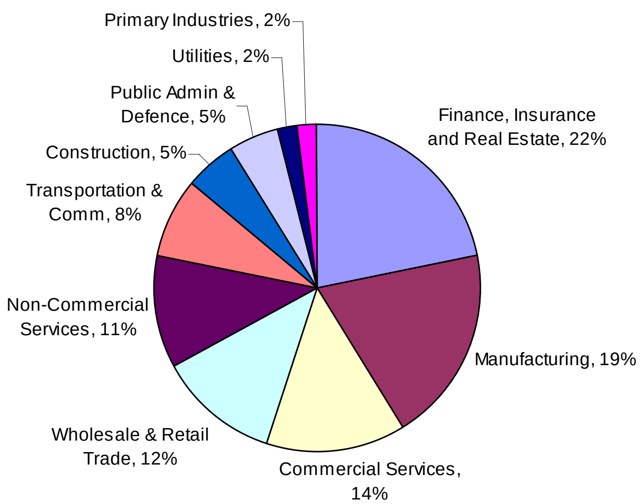
Source: Statistics Canada, Bureau of Economic Analysis; f indicates forecasted data, using median forecasts, where available, from Conference Board of Canada, Scotiabank, RBC Financial, TD Economics, BMO Financial and CIBC World Markets

The Ontario Economic Overview is a quarterly report prepared by the Policy, Analysis & Intelligence Directorate of the Ontario Region of Industry Canada that contains analysis of the current economic and financial performance of industries in Ontario. The analysis is of select economic/industrial issues, and does not contain internal forecasts or policy analysis, assessments, and conclusions. If you have any comments, please email Steve Grunau, Senior Economist, Industry Canada, Ontario Region, at steve.grunau@ic.gc.ca.

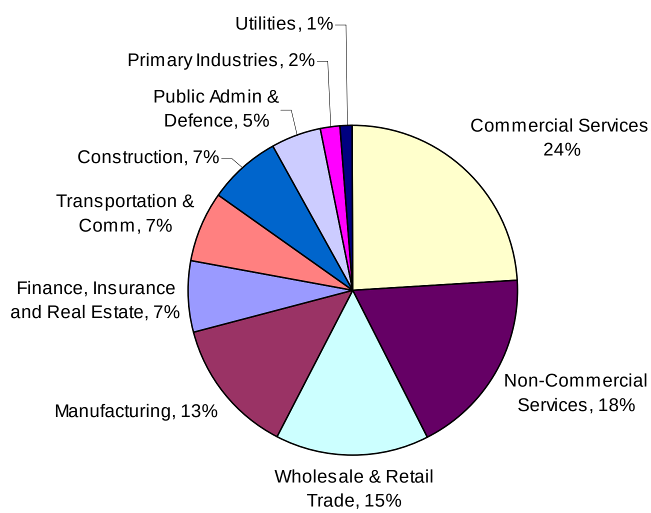
GDP and Employment Growth of Selected Ontario Industries									
	GDP Growth (%)				Employment Growth (%)				
	2004	2005	2006	2007	2004	2005	2006	2007	2008
Manufacturing	-0.3	0.9	-2.1	-2.1	0.6	-3.3	-5.3	-5.6	-5.2
Automotive	2.2	4.8	-2.8	-4.7	-0.4	-1.4	-6.8	-10.7	-9.8
Pharmaceutical and Medicine*	-2.8	-5.2	13.1	12.8	7.9	-2.0	0.7	-0.3	x
Electronic Product Manufacturing	5.7	7.1	6.6	14.3	-13.0	3.9	3.0	6.1	2.0
Aerospace	15.5	16.0	19.7	-11.5	x	x	x	x	26.7
Banks and Insurance	3.0	2.8	4.0	4.3	5.7	4.6	4.1	-2.2	3.0
Construction	1.5	2.9	4.3	4.0	-0.4	7.4	2.6	1.8	6.4
Accommodation and Food Services	2.1	0.0	3.0	1.1	-1.1	-0.4	2.4	7.1	-0.9
Wholesale Trade	2.5	6.2	5.1	4.3	6.6	3.1	-1.6	-5.2	1.1
Retail Trade	3.6	1.4	4.1	3.8	1.4	2.5	3.3	3.1	-0.5
Primary Industries	3.5	3.8	-1.7	-5.5	0.2	13.2	8.9	-5.9	-6.4

* Employment data from SEPH and is not strictly comparable to LFS data used elsewhere

Ontario GDP by Sector, 2007



Ontario Employment by Sector, 2007

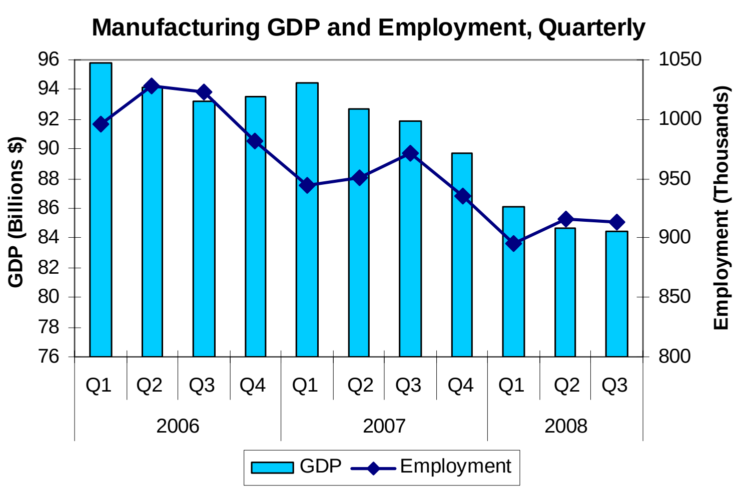


ECONOMIC FUNDAMENTALS

- Ontario's nominal GDP totalled $603.6B in Q3 2008, accounting for 37% of the national total.
- Provincial real GDP increased by 0.1% in Q3 from Q2, but fell by 0.2% compared with the same period a year earlier. Ontario's growth was below national GDP quarterly growth of 0.3% and 0.5% growth over the past year.
- Increased government spending (0.7%), machinery and equipment investment (0.9%) and inventory accumulation (5.9%) helped spur Q3 growth.
- Real output growth in Q3 by the financial (0.3%), transportation and warehousing (1.5%) and information & culture (1.4%) sectors compensated for declines in the wholesale trade (-0.9%), manufacturing (-0.3%) and construction (-0.7%) sectors.
- The unemployment rate jumped by 0.8% in January to 8.0%, remaining above the national average.
- Ontario incurred a net trade deficit of $5.4B in Q3, a $1.0B improvement over Q2. Growth in real exports, especially in machinery and equipment and industrial goods, surpassed modest gains in real imports, which were softened by weaker service imports, particularly of financial services and services related to travel abroad.
- Ontario consumer bankruptcies were up 17.3% in Q3 2008 over Q3 2007, surpassing a national increase of 16.8% for the period. All of Ontario's Census Metropolitan Areas (CMAs) experienced increases, with significant jumps in Oshawa (26.8%); London (24.9%) and Windsor (20.9%).[1]
- Business bankruptcies declined 14.9% in Ontario in Q3 2008 over the same period a year earlier outpacing national declines of 1.6%. Kingston, Kitchener and Greater Sudbury were the only CMAs to suffer year over year business bankruptcy increases.

SECTORAL ANALYSIS AND OUTLOOK

MANUFACTURING



Note: GDP is adjusted at annual rates. Employment is unadjusted.

Despite being in the midst of a recession, manufacturing remains a key sector in Ontario's economy, accounting for 17.1% of GDP in Q3.[2] Ontario has the third largest manufacturing sector in North America after California and Texas[3], and the province accounts for nearly half of Canada's manufacturing output.[4] The relatively high Canadian dollar, weak U.S. demand, comparatively high energy prices and competition from low-cost producers have created a very difficult environment for the sector.

Ontario suffered from its sixth consecutive decline in manufacturing GDP in Q3 2008. Output fell by $254M (0.3%), with the vast majority of losses concentrated in auto manufacturing (-$651M).[5] Losses were partially offset by gains in chemical and petroleum products (+$289M) and primary metal & fabricated metal products (+$165M).

The province's manufacturing sector continued a trend of falling employment in Q3 2008, with an additional 57,600 (5.9%) jobs lost compared to the same period in 2007.[6] Declines were observed in 14 of the 19 manufacturing subsectors with the most significant losses coming from machinery manufacturing (-15,700). Plastics and rubber products and transportation equipment also fell sharply. Employment in Q4 was 6.0% lower than the same time last year, with the biggest losses in plastic and rubber products, machinery, and chemical products. Contrary to much of the rest of the industry, printing and related support activities made significant gains in both Q3 and Q4 (21,200 and 12,900 respectively).

Annual manufacturing job losses across the province totalled 49,400 in 2008. Toronto CMA, where 43.3% of the province's manufacturing jobs are located, suffered the steepest losses, dropping 14,100.[7] The CMAs of Hamilton, Kitchener and Ottawa-Gatineau all suffered losses of over 5,000. The Conference Board of Canada forecasts that all of Ontario's major manufacturing centres, except for Ottawa-Gatineau, will face further job losses in 2009. Losses of 101,000 Canadian manufacturing jobs in January do not bode well for sectoral employment in 2009.

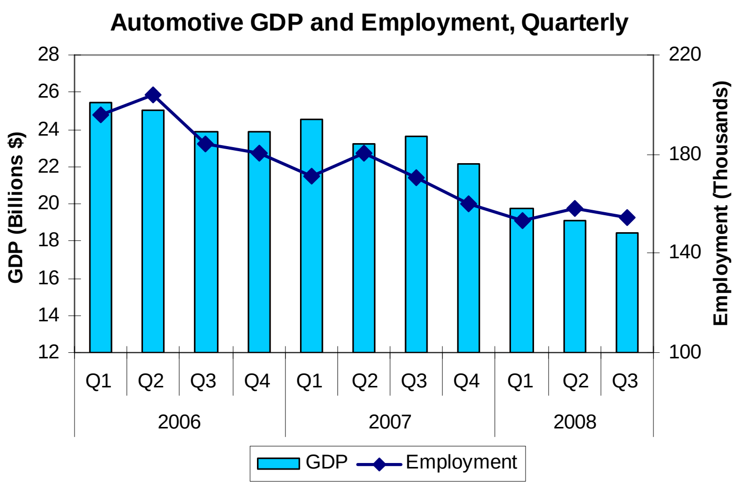
Ontario's steel industry is going through a difficult period. U.S. Steel Canada (formerly Stelco) shut down more than half of its Hamilton plant, laying off an additional 110 workers at the end of January, bringing total layoffs to over 600.[8] Lakeside Steel Inc. in Welland temporarily laid off 84 employees and shut its facility in early February, after laying off 40 employees in December and up to 61 employees in January.[9] ArcelorMittal Dofasco has cut 500 workers since July and moved the remaining 1,900 employees to a four-day workweek.[10] Dofasco and Sithe Global Power announced in early February that they are scrapping plans to construct a clean power plant fuelled partly by captured waste gases. The cancellation is being blamed on the "economic times".[11]

Members of Canada's steel industry fear pending environmental regulations cannot be met with the technology that exists today.[12] The industry is charged with cutting greenhouse gas emissions by 18% compared to 2006 levels by next year, and 2% per year thereafter. Firms believe differences in environmental regulations will leave them at a competitive disadvantage compared to low-cost producers, particularly China. More recently, the "Buy American" clause proposed in the U.S. stimulus bill raised concerns that Canadian steel would be barred from use in American infrastructure projects. The U.S. Senate has moved to soften the provision, agreeing to add the clause that the bill be "applied in a manner consistent with U.S. obligations under international agreements."[13]

AUTOMOTIVE

The economic downturn continued to take its toll on the Canadian automotive industry, as vehicle manufacturers around the globe experience one of the worst periods in the history of the industry. Ontario Q3 2008 automotive GDP was $18.4B, a decline of 3.4% over the previous quarter, and the fourth quarterly loss in a row.[14] Third quarter GDP accounted for 3.7% of total Ontario GDP and for 21.8% of Ontario's manufacturing GDP.[15]

Automotive employment fell 9.2% in Q3 2008 over Q3 2007 to 154,700, with losses concentrated in vehicle manufacturing.[16] Employment fell further to 149,300 during Q4, a 6.7% decline compared to the same period last year, with all losses coming from the parts manufacturing sector.[17]



Note: GDP is adjusted at annual rates. Employment is unadjusted.

Total automotive exports in Q3 were $11.9B, down 18.0% compared to the same quarter in 2007, reflecting the worsening economic recession and weak consumer spending in the U.S. market.[18] Exports to the U.S. are vital to Ontario's automotive sector as 97% of Ontario's output is exported there.

U.S. light vehicle sales for 2008 ended down 18.0% from 2007, with passenger car sales down 10.7% and light trucks down 25.0%.[19] In December, sales declines accelerated to 35.6% over the same time last year.[20] The large decline in the truck market reflects higher fuel prices earlier in the year and the collapse in the U.S. housing market.[21] All the major car makers experienced significant sales declines in 2008, but GM, Ford and Chrysler suffered the most severe losses and continue to lose market share, together accounting for less than half of the U.S. market.[22] While Canadian automotive sales were relatively solid in 2008, down only 1.1%, the impact of the economic downturn resulted in significant declines at the tail end of the year. November sales declined 10.3%, the lowest November sales in Canada since 1998 and December sales deteriorated 21.2% from the same time last year.[23] North American light vehicle sales are expected to remain weak in 2009, especially in the U.S. market. Analysts have adjusted down their U.S. sales forecasts to between 10 and 11M units.[24] Canadian sales projections for 2009 have been lowered to 1.5M units, the lowest annual total since 1998.[25]

In response to collapsing North American vehicle sales and high inventories, all major auto manufacturers have been scaling back production and extending plant shutdowns. Total production in North America for 2008 was 13.0M units, down 16.2% from 2007.[26] Canadian light vehicle production for the year was down 19.5% to 2.1M units, and Canada's market share of North American production fell to 15.9% from 16.6%.[27] By comparison, U.S. vehicle production declined 19.2%, while Mexico increased output by 3.3%.[28]

GM's U.S. light vehicle sales fell 22.7% in 2008,[29] the company's lowest sales since 1959.[30] GM's Canadian production at its Oshawa truck assembly plant was down 67.0% in 2008, largely due to the phasing out of the Silverado and Sierra pick-up trucks.[31] Canadian output will fall further as GM permanently closes its truck plant in May of 2009, six weeks earlier than originally scheduled, and continues to reduce output at Oshawa car assembly.[32] In November, GM announced that it would temporarily layoff 500 workers at the car plant as part of broader North American reductions, and CAMI's 1,700 workers began rotating layoffs in order to avoid permanent job cuts.[33] Production at the CAMI plant was down 29.7% 2008.[34]

Chrysler's U.S. December sales plummeted 53.1%, and its total 2008 U.S. sales were down 30.0%.[35] Chrysler minivan production at its Windsor facility rose in 2008, up 2.6%, due in part to the new VW Routan and the consolidation of minivan production from Chrysler's St. Louis plant.[36] Although the Brampton plant has started building the Challenger sports car, Chrysler's 2008 car production in Canada was down 22.9% compared to last year, with output of the 300 in Brampton down significantly by 49.4%.[37] In November, Chrysler Financial Canada announced it will close offices in Calgary, Montreal and Windsor in April 2009, eliminating 145 workers.[38]

Ford's U.S. sales declined 19.8% in 2008, a 47 year low.[39] Ford's total Canadian output at Oakville and St. Thomas operations fell 12% in 2008.[40] Although crossover vehicles have been one of the fastest growing segments, Ford's production of the Edge and MKX in Oakville was down 26.6% and 35.9%, compared to last year.[41] Ford recently announced that the new luxury crossover, the MKT, will be built in Oakville.[42] Ford's St. Thomas plant built more than 109,000 Crown Victorias, Grand Marquis and Lincoln Town cars in 2008[43], but the plant remains vulnerable with no new products scheduled to be built past 2011.[44] In November, the Windsor Nemak Essex Aluminum Plant, a joint venture between Ford Canada and Nemak of Mexico, announced 550 layoffs which took effect February 9, 2009.[45]

Honda's U.S. December sales were down sharply by 34.7%, while annual sales declined 7.9%.[46] Canadian output of the Civic was up 20.8% in 2008, but production slowed towards the end of the year and Honda plans to continue reductions. Overall, output declined by 2.5% for the year. Like other OEMs, Honda has been reducing output in North America and Japan to adjust to weaker global demand for its cars and trucks.[47]

Toyota U.S. December sales dropped dramatically, down 36.7%, and 2008 sales were down 15.4%.[48] In response, Toyota has been cutting back its North American production, particularly for trucks and SUVs. Total Canadian production was down 5.1% in 2008. In Canada, Toyota announced it would delay plans to add a second shift at its new assembly plant in Woodstock because of the slowdown in U.S. sales. The factory, which created 1,200 new jobs, opened in December with one shift capable of building 75,000 RAV4 sport-utility vehicles annually.[49]

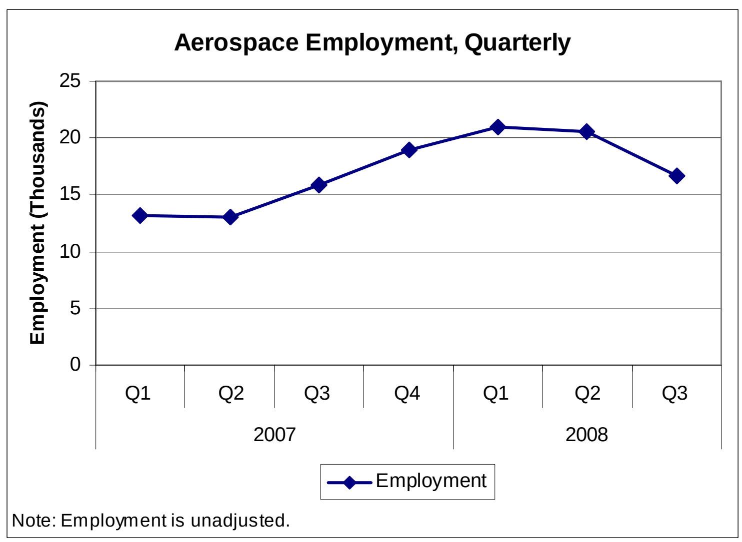
In November, GM, Ford and Chrysler, already financially weakened from ongoing restructuring efforts and rapidly burning through cash reserves, were forced to request immediate financial assistance from both the U.S. and Canadian governments in order to avoid bankruptcy by year end. On December 19, Washington approved emergency loans totalling US$17.4B for GM and Chrysler. The loans included numerous conditions, including major restructuring of business operations, additional concessions from the UAW, and cost parity with the Japanese OEMs. Ford has requested access to line of credit in case of worsening conditions, but is also continuing with its restructuring efforts.

In Canada, the federal and Ontario governments offered $4B in repayable loans for GM Canada and Chrysler Canada. Negotiations on the loans and the conditions continue; these would include submission of restructuring plans to demonstrate long-term viability for Canadian operations and payment of outstanding receivables to parts suppliers.[50] The CAW is under pressure to reduce wages and benefits, but no specific concessions have yet been identified.[51]

As part of ongoing efforts to restructure and reduce assembly capacity, the Detroit Three cut 54,000 jobs in North America in 2008. Chrysler made the biggest North American cuts, eliminating 31% of its total workforce, to 53,000 employees.[52] Ford cut 15.5% of its workforce to 75,200 employees, and GM reduced its personnel by 11.5% to 73,000.[53] As part of its restructuring plan presented to the U.S. government on February 17, GM said it would make further workforce reductions of 47,000 employees. In Canada, GM's plan does not call for more plant closures, beyond what has already been announced, but it will reduce its workforce to 7,000 employees by 2010. Chrysler's plan calls for a further workforce reduction of 3,000 employees. In Canada, Chrysler has not specified commitments, but has requested government aid and CAW concessions proportional to those offered in the United States. Industry analysts estimate that in 2009, the Canadian auto industry will lose 15,000 to 20,000 jobs in assembly and parts plants, as the Detroit Three streamline their operations.[54]

With North American production down, demand for parts has also fallen sharply, and the situation facing the auto-parts industry has significantly worsened.[55] A number of suppliers have already been forced into bankruptcy, and the industry has warned that numerous suppliers are in danger of collapsing in the next year due to the loss of business and lack of access to credit.[56] The Conference Board of Canada predicts auto suppliers in Canada will cut a combined 10,800 jobs this year and next.[57] Parts associations in both countries have asked governments for financial assistance.

AEROSPACE



Ontario's aerospace industry, which provides aircraft parts and systems such as landing gear, accounts for 20.8% of Canadian aerospace GDP, behind only Quebec at 64.6%.[58]

Ontario's aerospace product and parts industry generated $1.4B in GDP in 2007, down 11.5% from 2006. However, this follows three years of annual gains of over 15%. While 2007 saw aerospace shipments decline 14.5%, shipments in the first three quarters of 2008 have been strong. Shipments have increased in each of the first three quarters of 2008 compared to the same periods in 2007, including a 5.1% increase in Q3.[59]

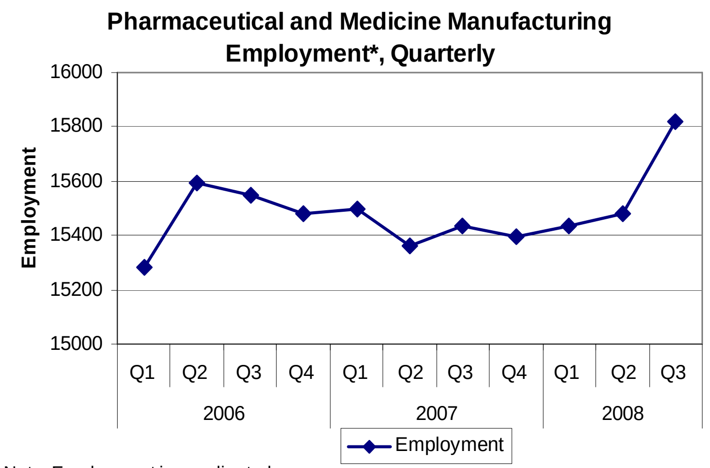
Employment in Ontario's aerospace industry hit 16,700 in Q3 2008, 5.5% higher than Q3 2007. Q3 employment fell 18.8% compared to the previous quarter, but jumped back up 14.4% in Q4. Average annual employment increased 26.7% in 2008 to 19,300 employees.[60]

The global aerospace industry is currently in a position of financial strength that should carry it well into mid 2009. How long this lasts will depend on how quickly the economy recovers. Impact on the industry from the private sector buyers will be determined by the length and depth of the recession and how soon the credit markets stabilize and financing for aircraft begins to flow again. Manufacturers are bracing for delivery deferrals while working with customers to minimize order cancellations. Bombardier's CSeries is scheduled to enter service in 2013 when hopefully recovery should be in full swing.[61] The industry may be affected by public stimulus spending which could divert from investment in defence modernization, aviation infrastructure and space exploration.

Aircraft manufacturers and their global suppliers are laying off workers in order to reduce overhead to better position themselves should they be hit by a major industrial downturn in 2009, despite record order backlogs. Manufacturers who have military contracts are expected to better handle the current economic situation, although analysts expect this to change as governments scramble for funds. So far, layoffs in this industry have been mainly administrative and contract workers, with the largest at Boeing Commercial Airplanes (4,500 jobs). This trend also extends to all three principal engine makers (Pratt & Whitney, Rolls-Royce and GE Aviation) and a number of major equipment suppliers (Rockwell Collins). Proportionately however, these losses are relatively small.[62]

The industry's biggest losses may turn out to be in both the general and business aviation sectors, particularly the emerging light jet market. Civil aviation manufacturers in North America are the most vulnerable, reducing staff by almost 5,000. Diamond Aircraft let go of 180 of its 684 workers although sales of Diamond planes to flight schools has helped to minimize the impact of the downturn.[63] Bombardier laid off 1,360 at its business aircraft division (ending two years of fast growth for its Lear and Challenger jets) but is offsetting the cuts with about 830 positions it has yet to fill on new aircraft programs (Learjet 85, CRJ1000 NextGen and CSeries).[64] Demand for expensive business jets has fallen as global business activity drops off and companies cut back on private jet travel. Orders have slowed sharply and cancellations are increasing with the biggest hits coming from fleet buyers, charter operators, air-taxi services and fractional-ownership providers. A drop in orders or rise in cancellations of larger size planes could further hurt manufacturers like Bombardier.[65] The world's third-largest civil plane-maker has yet to receive any firm purchase agreements for its CSeries program, and Bombardier executives have acknowledged that the current economic climate has made it more challenging to obtain orders.[66]

BIOTECHNOLOGY AND PHARMACEUTICAL



Note: Employment is unadjusted.
*Source: Statistics Canada Survey of Employment, Payrolls and Hours (SEPH)

The biotechnology sector in Ontario ranks sixth in North America in revenue and is the third largest in R&D expenditures and jobs. Ontario accounts for roughly 40% of total biotechnology revenue in Canada, leading all provinces.[67] Ontario biotechnology firms were identified as top investment prospects by international venture capitalists, with nine of the top ten Canadian firms located in the province.[68] In June 2008, Genome Technology named Ontario as one of the world's top 20 biotech regions.[69]

Ontario accounted for 53.3% of national employment in pharmaceutical and medicine manufacturing in 2007. Quarterly employment[1] has remained stable,

[1] Employment data for this section is from Statistics Canada Survey of Employment, Payrolls and Hours (SEPH) and is not strictly comparable to Labour Force Survey data used elsewhere.

averaging 15,819 workers in Q3 of 2008, an increase of 2.5% over Q3 2007.

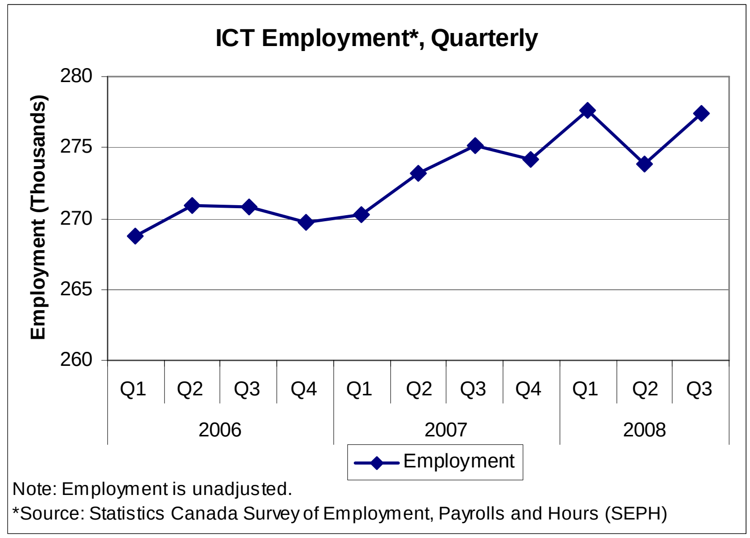
Ontario accounts for 58.7% of Canada's pharmaceutical and medicine manufacturing GDP. GDP rose 12.8% in 2007, following growth of 13.1% in 2006.[70] Ontario pharmaceutical and medicine manufacturing shipments were also up in the first 11 months of 2008, rising by 23.6% compared to the same period in 2007. Canadian shipments for the equivalent period were up 16.8%.[71] While the TSX Composite Index was down by 32.4% between September 2008 and January 2009, Canadian biotech stocks declined an average of 44.7% in that time.[72]

Given the long-term and high-risk nature of biotech research, financing is critical to success, particularly for smaller firms. Such firms often fund R&D for ten years or more before seeing any revenue. The current credit crisis has meant that funding has now become an even greater challenge for biotech firms. In 2008, new capital raised by Canadian biotech companies fell 41% compared to 2007. Initial Public Offerings by biotech companies in Canada were down drastically in 2008, with only one company going public for $5.8M, compared to 28 IPOs raising $1.7B in 2007.[73] Total venture capital (VC) deals were down in Canada by 36% to $1.3B, their lowest level since 1996. In Ontario, VC dropped by 40% from $950M in 2007 to $570M in 2008. The life sciences sector in Canada was hit particularly hard, with deals declining by 43% to $359M.[74] Private Equity (PE) deals also appeared to be declining in Canada in 2008. As of the end of Q3 2008, Canadian PE funds had raised $894M compared to a total for 2007 of over $1.7B.[75]

Despite the low tolerance for risk due to poor economic conditions and the ongoing financial crisis, there have been some recent examples of companies raising capital. Ondine Biopharma, a Vancouver-based company listed on the TSX, announced a private placement offering worth just over $1M in late January. And in December 2008, GeneNews, a Toronto-based company, announced the issuance of debentures to raise a total of $3.45M. Globally, Pfizer agreed to buy Wyeth in a deal worth US$68B; both companies have significant Canadian operations. Roche, another large multinational with Canadian operations, has offered US$42B for the 44% of Genentech shares that it does not already own.

In November 2008, the Supreme Court upheld lower court decisions in favour of Sanofi-Synthelabo Canada in a case launched by Apotex, a Toronto-based firm. Apotex had applied to sell a generic version of the Sanofi product Plavix, but the Court unanimously found that Plavix was eligible for new patent protection. This decision has significant implications for research in Canada as it means that selection patents—second generation refinements of existing compounds—are valid. This protection is important as data presented in the court case indicated that seven to eight out of ten pharmaceuticals on the market involve selection patents.[76]

INFORMATION AND COMMUNICATIONS TECHNOLOGY



Ontario's ICT sector is innovative, undertaking significant R&D spending in the province. The manufacturing sub-sector is highly export oriented, exporting more than 90% of its production. Thus, its performance is closely linked to events that impact trade. Ontario ICT services industries' performance is more closely linked to domestic business spending on technology. In the medium- to long-term, access to human capital and levels of R&D spending will affect the sector's performance and outlook.

Spending on information technology equipment and services is expected to slow over the next year.[77] Major markets for Ontario technology (U.S., Europe) are in recession, and most of the rest of the world is experiencing weaker economic growth. This will mean softer demand for technology, and a slowing of export growth. Profits are also expected to be weak in 2009.[78] On the plus side, the recent weakening of the Canadian dollar will provide some relief to exporters. As a result, industry output is expected to be essentially flat next year.[79]

Ontario dominates Canada's ICT sector, with about half of all Canada's ICT companies based in the province, primarily in urban centres.[80] Ontario generates about half of the country's ICT employment and revenues, 65% of ICT exports and 64% of private sector spending on ICT R&D.[81]

ICT employment[2] averaged about 277,000 in Q3 2008, up 0.8% over the same time last year. Jobs were concentrated in services (54.2%) followed by wholesale, rental and leasing (24.1%) and manufacturing (21.6%). Half of Q3 employment gains came from the ICT service sector.

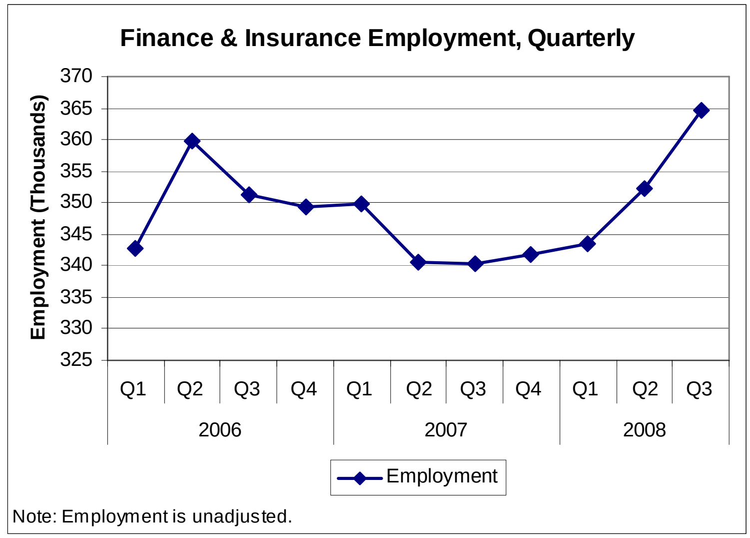
Ontario firms are responsible for 48.3% of Canadian ICT GDP.[82] Ontario ICT GDP grew by 4.6% in 2007 to reach $27.6B, with strong gains in both services and manufacturing. While ICT sector GDP is heavily concentrated in the services sub-sector, in Ontario ICT manufacturing plays a more important role than it does nationally, accounting for nearly 20% of GDP. If Ontario tracks national trends, GDP growth for 2008 should be around 2.6%.[83]

Ontario ICT goods exports grew 2.3% to reach $16.7B in 2007, slowing from 6.7% growth in 2006.[84] The industry's main market is the United States (68.8% share of Ontario ICT exports) followed by the European Union (13.2%).[85] ICT exports in Q3 2008 were down 4.9% from Q3 2007 following declines of 14.6% and 9.5% in the first two quarter of 2008.

Ontario's largest ICT equipment manufacturing firm, Nortel, recently filed for creditor protection under the Companies' Creditors Arrangement Act in Canada and under Chapter 11 in the United States. Analysts expect that Nortel will emerge from such protection a much smaller entity with some of its units sold off to foreign competitors.[86] Nortel announced its first sale in February, selling an Alteon switching line to Radware, an Israeli company. However, plans to sell Metro Ethernet, which accounts for about 14% of Nortel's overall revenue, were put on hold while the company restructures.[87] Regardless of who purchases Nortel's assets, there are concerns over the company's substantial R&D remaining in Ontario. Nortel's activities in the province are primarily research related and much of the value here is in its skilled workers, so it seems unlikely that buyers would not retain those assets.

[2] Employment data for this section is from Statistics Canada Survey of Employment, Payrolls and Hours (SEPH) and is not strictly comparable to Labour Force Survey data used elsewhere.

FINANCE AND INSURANCE



Financial services, along with business services, is one of Ontario's two largest internationally-competitive sectors when measured by employment.[88] Workers earn 26% more than the all-industry Ontario average.[89] Toronto is the third-largest financial services sector in North America after New York City and Chicago, based on employment. Ontario accounts for 37.8% of Canada's finance and insurance industry based on GDP. The finance and insurance sector accounts for 17% of Toronto's GDP, making it the largest contributor to the regional economy.[90]

Toronto is home to all but one of Canada's national banks, 50 foreign banks subsidiaries and branches, over 200 credit unions, 115 securities firms and Canada's senior equities market. The headquarters of Canada's top six insurance companies, managing 90% of the industry's assets, and two of Canada's three largest insurance companies are also located in Toronto.[91] Finance and insurance accounts for 6.0% of Ontario's GDP.

Ontario's finance and insurance GDP was $29.4B in 2007, up 16.8% since 2000 and 4.3% higher than 2006. Banks accounted for all of the growth over both periods, increasing 26.2% since 2000 and 6.4% since 2006, while insurance companies contracted 2.7% and 0.9% over the same periods. Record lows in unemployment, a strong Canadian dollar, and low levels of corporate defaults helped big banks post record profits[92] until the current financial difficulties necessitated asset write-downs. The insurance industry, on the other hand, has faced an environment of increasing global competition and rising frequency and size of claims in recent years.[93] Canadian insurers depend heavily on foreign business, and foreign income accounts for up to 60% of health and life insurance revenue.[94]

Ontario gained 24,400 finance and insurance jobs in Q3 2008 over Q3 2007, a 7.2% increase. Banks accounted for most of the gains (+23,400) but insurance companies also added 3,800 jobs. Securities firms lost 2,800 jobs over the same period. Employment declined 3.0% in Q4 from the record high 364,800 in Q3 due to a loss of 10,600 banking jobs, a 5.3% decline in one quarter. However, Q4 employment was still 3.5% higher than the same period last year.

Banks around the world are feeling the global credit crunch created by the subprime mortgage default crisis in the United States. Some of the largest American financial services firms have failed by relying on high levels of leverage and investing in asset backed commercial paper (ABCP) linked to high risk mortgages. Canadian banks are the most financially sound in the world according to the World Economic Forum and have escaped relatively unscathed. Even so, lending has been seriously constrained, requiring Bank of Canada and broader government intervention to improve liquidity. The federal government's $1.3B commitment, when combined with Ontario, Quebec and Alberta's contributions, resulted in a $4.45B fund to restructure the estimated $32B of insolvent commercial paper. Quebec's Caisse de Dépôt et placement is the leading holder of ABCP in Canada.[95]

While escaping failure or government take-overs that have occurred elsewhere in the world, some Canadian banks and insurance companies have incurred significant write-downs. The six largest Canadian banks reported a pre-tax total of $12.8B in write-downs in fiscal 2008, with CIBC incurring the highest per share write-down:[96]

- Bank of Montreal: $625M ($0.84 per share)
- Bank of Nova Scotia: $1,196M ($0.82 per share)
- Canadian Imperial Bank of Commerce: $7,938M ($14.19 per share)
- National Bank of Canada: $390M ($1.64 per share)
- Royal Bank of Canada: $2,038M ($0.83 per share)
- Toronto-Dominion Bank: $621M ($0.51 per share)

In order to improve capital ratios, banks have recently made several share offerings. Three of the big banks sold common shares for a total of $4.4B in December 2008, followed by four announcements of preferred share offerings totalling $700M in January 2009.[97] This enabled the Bank of Montreal to purchase AIG's Canadian Insurance Business for $375M[98] - considered a bargain by some analysts.

Canadian bank results have been mixed, with most reporting lower net income for Q4 YTD versus last year. Even with ABCP write-offs, only CIBC is showing a Q4 YTD loss and all of the banks reported a solid Q4. Falling profits for Canadian banks pale in comparison to the situation facing major U.S. and European banks.

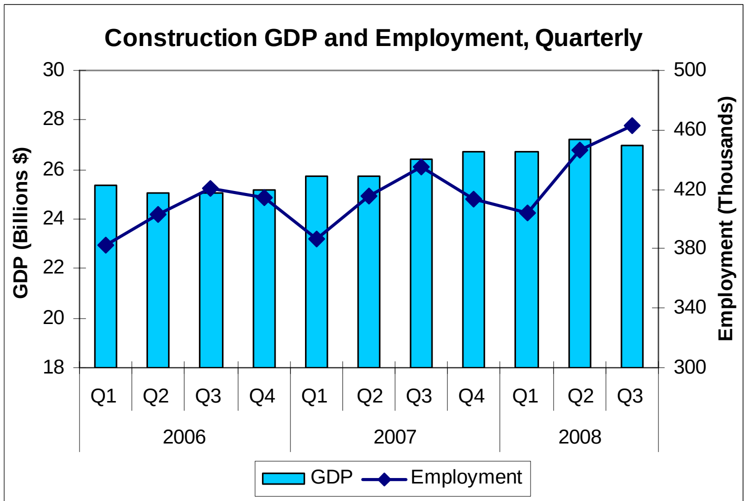
Bank Name	**Net Income Q4**	**Change vs. Q4 2007**	**Net Income Q4 YTD***	**Change vs. Q4 YTD 2007**
CIBC	$436M	-51%	-$2.1B	NA
RBC	$1.1B	-15%	$4.5B	-17%
National Bank	$70M	NA	$776M	43%
Bank of Montreal	$560M	24%	$2.0B	-7.2%
Scotiabank	$315B	-67%	$3.1B	-22%
TD Bank	$1.0B	-7%	$3.8B	-4%

*Q4 for banks ends Oct 31

Insurance companies have also been affected by the credit crisis. Manulife indicated its capital base will be weakened unless markets recover, and announced a $1.4B exposure to troubled U.S. companies.[99] Sun Life Financial reported its first loss since it became a public company in 2000, resulting from $636M in charges based on the company's holdings in Lehman Brothers, Washington Mutual and American International Group, and $326M in charges related to falling stock markets.[100] Nevertheless, measures aimed at reducing the pressure on capital reserves have given these two large firms flexibility to bid on lucrative AIG insurance assets. Manulife is currently in the process of bidding for AIG's Asian Unit.

CONSTRUCTION

Construction GDP contributed $26.1B, or 5.3% of Ontario's GDP in 2007 and generated 35.9% of the national total. GDP grew by 4.0% in 2007. Construction GDP fell a marginal 0.7% in Q3 but remained above levels reached prior to Q2. Strong residential building growth is responsible for buoying the sector in the face of marginal declines in nonresidential building. Though slowing, the market remained stable in Q3 2008 at a seasonally adjusted $27.0B. This apparent softness in residential sales points to future declines in construction GDP.



Note: GDP is adjusted at annual rates. Employment is unadjusted.

Building permits fell in seven provinces in November with increases being experienced only in Alberta, Saskatchewan and Nova Scotia. The most significant decreases occurred in Ontario, where the value of permits fell to $1.5B, a 16.6% drop from October.[101] Declines were significant in residential and nonresidential sectors at 13.2% and 21.3% respectively. The value of permits fell in two thirds of the country's 34 CMAs in November with the largest declines in Toronto, Vancouver and Ottawa.[102] November 2008 year to date, the value of Ontario's building permits fell 2.8% while Canada suffered a 3.9% decline. Residential permits in both Ontario and Canada have also been weak, with the exception of Ontario multi unit dwellings, which rose 17.1%.[103]

Ontario preliminary data for urban starts improved to 60,300 units in December from 55,500 in November. Preliminary housing starts in Ontario for 2008 in centres over 10,000 showed a 14.6% increase, with a 48.1% increase in multi unit dwellings overwhelming a 15.1% decline in single detached units.[104] Quarterly data confirm these trends, with Ontario Q3 2008 housing starts up 3.4% versus Q3 2007, while Toronto starts were up 20.7%. Multiples starts in Toronto were up 61.0% in Q3 while single detached starts declined 31.8%.[105] The Toronto condo market has continued to drive construction growth, compensating for softness elsewhere.

Early sales reports indicate new home sales plummeted 77% in Toronto during December 2008 compared with December 2007, while condominium sales plunged 81% during the same period.[106] Due to lengthy start to completion lead times, the condo market has difficulty adjusting to slowing demand. Long lead times combined with a declining economy, will likely result in over-supply and strong price competition.

Renovation spending grew 8.9% in Ontario in 2007 but is expected to slow to 3.5% in 2008 and 2.0% in 2009.[107] Though being dampened by a slowing provincial economy and declining existing home sales, the January 27, 2009 federal budget tax credit, a move towards higher energy efficiency and pre-sale improvements in a competitive selling market may support some spending growth.

Consistent with a softening market, prices declined across Canada by 11.0% in December 2008 year-over-year. Ontario declines were marginally greater at 11.8% while Toronto fell 8.5%.[108] This is comparable to U.S. year-over-year declines of 8.7%[109] yet it pales in comparison with 32.9% declines in Phoenix, 31.7% in Las Vegas, 30.8% in San Francisco and 28.7% in Miami.[110]

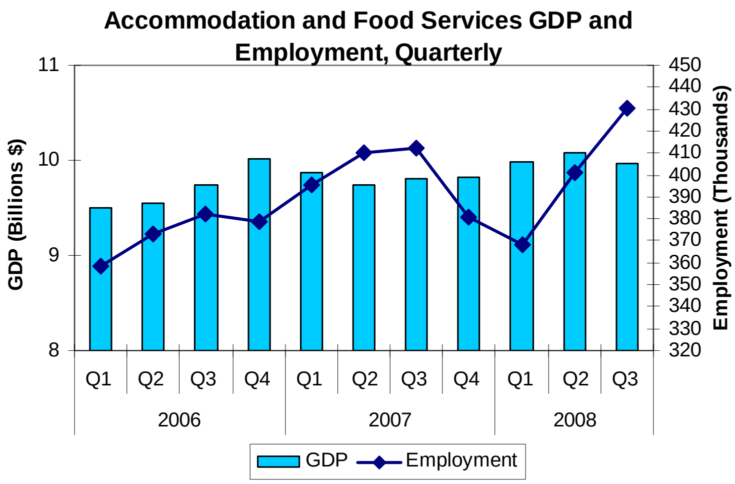
Employment declined to 442,500 in Q4 after reaching an all time high of 462,400 in Q3 2008. This still represents a 7.1% increase over the same period last year and follows year over year gains of 6.2% in Q3. Average employment of 438,900 in 2008 was up 6.4% over 2007. However, recent job losses after healthy annual gains point to significant softening ahead.

Expectations of a market slowdown are reinforced by declining building permit applications, building starts, sales and prices. Many analysts are calling for a steep correction rather than a soft landing.[111] The federal Finance Department looks favourably on stimulus spending that helps builders, in part because so many of their materials are made in Canada. In the January 27, 2009 Budget, the Minister of Finance announced a maximum $1,350 tax credit to Canadians who undertake renovations in the next year.

TOURISM

The tourism industry has had to grapple with the fallout of the terrorism attacks in 2001, the Toronto SARS crisis in 2003, fluctuations in the Canadian dollar and gas prices, concerns over border delays and security, and confusion over passport requirements. The combination of factors, in addition to the U.S. recession, has had a devastating impact on the number of American tourists visiting Ontario. U.S. travellers to Ontario, which account for nearly 90% of international visits to the province, fell 1.5% in Q3, leading to the lowest results on record (data available from 1972).[112] Visits from American travellers, and total international travellers, have decline in 8 of the last 10 quarters. Border crossings by automobile from the U.S. to Ontario were down 15.0% in Q4 2008 over

Q4 2007, with declines recorded at all 11 crossing points.[113] Annual losses totalled 2.8M (-6.9%), with well over half of the losses at the Ambassador Bridge in Windsor.



Note: GDP is adjusted at annual rates. Employment is unadjusted.

Total visits to Ontario (domestic and international) were estimated at 111.3M in 2007, up 1.1% from 2006.[114] Visitors from within Ontario accounted for almost 80% of visits, followed by Americans (14%), visitors from other provinces (5%) and overseas visitors (2%). Outbound travel is an important trend to watch since visits by Ontario tourists to other parts of the province are the only projected source of growth for Ontario's tourism industry.[115] In the first seven months of 2008 trips by Ontarians to the U.S. increased 7.9% and overseas trips were up 9.4%.[116] If Ontarians replace travel within Ontario with U.S. or international trips it could spell trouble for Ontario's tourism sector.

As trips by American travellers continue to fall, travellers from other countries are becoming increasingly important to Ontario's tourism industry. Visits from overseas travellers have remained relatively steady since the 1990s apart from some temporary declines surrounding 9/11 and SARS and a surge in the mid 90's. Third quarter results show declines in travellers from all continents, combining for a 6.1% fall. Travellers from Europe accounted for 19% of total Q3 losses while the U.S. accounted for 62%. Travel from the European Union may get a boost from a comprehensive air travel agreement with Canada announced in December.[117] The deal will eliminate regulatory restrictions on European carriers and allow for unrestricted air travel between Canada and 27 nations. Another issue facing the overseas market is Canada's lack of Approved Destination Status from China, making it very difficult for Chinese leisure tourists to come to Canada. This is increasingly important, as China is forecast to be one of the top three outbound tourism markets in the world by 2020.[118]

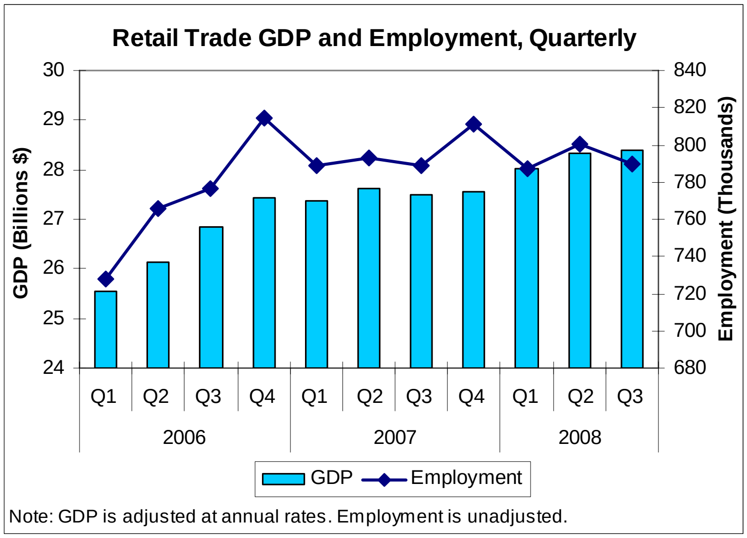
Employment in tourism related industries averaged 362,700 in the first seven months of 2008, a 12.4% decrease over the same period in 2007.[119] Tourism jobs are mainly concentrated in food & beverage services (25%) and accommodations (23%).[120] Employment in accommodation and food services fell in the first half of 2008 but Q3 employment jumped 4.3% over the same period last year followed by a 1.0% gain in Q4.[121] GDP for the sector fell 1.1% in Q3, but it appears as though 2008 results will finally reach levels not seen since before the SARS crisis. In the first seven months of 2008, Ontario's hoteliers reported occupancy rates were virtually the same as last year (-0.6%). Downtown Toronto was one of the few areas reporting improvement (+1.7%) while Windsor, London and Cambridge/Guelph were the hardest hit areas.[122]

In the longer term, Ontario's tourism sector could face labour shortages of 40,000 jobs by 2015, the largest shortage of all provinces, resulting from healthy growth in tourism demand outpacing labour supply growth.[123] The sector will also be impacted by a 75¢ increase in minimum wage to be implemented on March 31, 2009, as many tourism related jobs pay minimum wage.

Despite tough times, the industry will benefit from several investments. Construction on the new Niagara Convention and Civic Centre will begin in May 2009 and open in spring 2011.[124] The Ottawa Congress Centre is undergoing a $159M complete redevelopment and is set to open in April 2011.[125] The federal and provincial governments have partnered to bid on the 2015 Pan American games and project potential for close to $2B in economic activity, 17,000 new jobs and 250,000 tourists to the Greater Golden Horseshoe.[126] Also, Toronto recently placed 4th in Foreign Policy magazine's 2008 Global Cities Index in the category of cultural experience, only behind London, Paris and New York.[127]

WHOLESALE AND RETAIL TRADE

Wholesale and retail trade play an important role in Ontario's economy, providing 15.6% of jobs and accounting for 11.9% of GDP. In 2007, the sector's GDP totalled $58.8B, 41.2% of the national total. GDP has grown consistently since 2000, and in Q3 2008 grew 1.4%.[128]

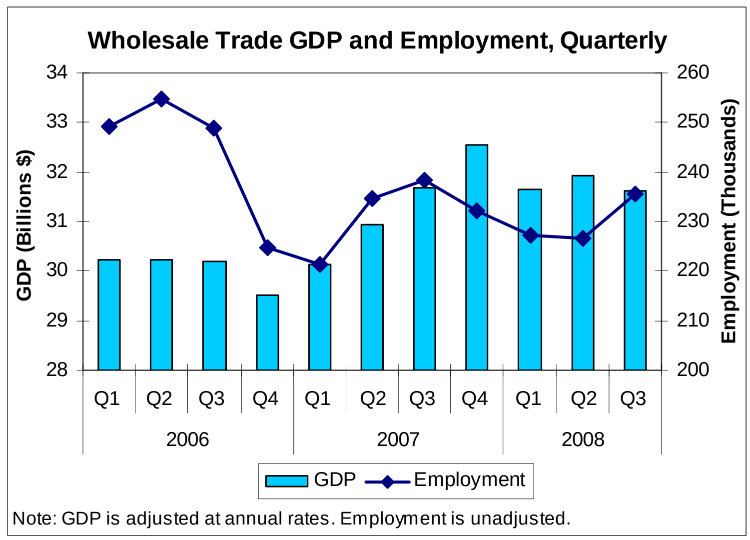


In recent years retail trade continuously increased output and added jobs, but the sector is beginning to show the effects of the economic downturn. After growing 1.1% and 1.7% in the first two quarters of 2008, GDP growth slowed to 0.2% in Q3.[129] Output growth was led by home electronics and appliance stores.[130] Employment was virtually unchanged in Q3 compared to the same period last year as steep job losses in food and beverage stores (-13,700) were balanced by gains spread out between other sub-sectors. Fourth quarter employment, typically the high point for the year, fell 2.9% over Q4 2007. Again, food and beverage stores took the brunt of job losses (-26,200) but were partially offset by gains in furniture and home furnishings stores (+10,500) and electronics and appliance stores (+10,100).

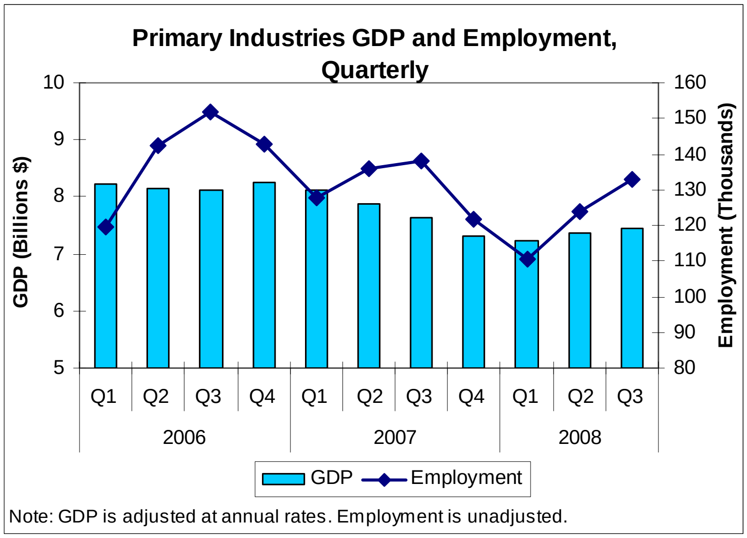
Ontario retail sales have been trending upwards for well over a decade and in Q3 increased 5.8% over last year.[131] Mirroring annual trends, new car dealers were the only substantial retailer to face sales declines in Q3, but exceptional growth in gas station sales (due to price hikes) more than offset losses. Retail sales growth in Q3 excluding gas stations was 3.0%. However, gas prices began falling in the final months of 2008 and in combination with continued declines in new car sales led to November being the third consecutive month of retail sales declines.[132] In light of record low consumer confidence, the Conference Board of Canada cut its retail sales forecast twice over the last 6 months from 5.4% to 0.8%.

Most recent indicators suggest slow retail sales in Ontario over the holiday season, but likely still faring better than U.S. retailers, which saw December sales actually drop by 2.7% from November. Many retailers have been providing deep discounts, putting pressure on margins, and the volatile loonie has created even more troubles for retailers importing product. The slumping loonie could increase retailers' costs by 10 to 25%, forcing them to increase prices or cut costs, according to a Director at McKinsey & Company Canada.[133]

Reports of store closings, layoffs and cancelled expansion plans linked to the economic downturn are becoming more common. Fairweather clothing store announced the closing of its flagship store in Toronto at the end of February[134], Home Depot cancelled plans for a new store in downtown Toronto and Giant Carpet and Flooring Ltd. declared bankruptcy in late January, leaving about 100 people out of work across southern Ontario.[135] On February 4, Hudson's Bay Co., Canada's oldest company, announced it was cutting 1,000 jobs across the country, mainly at its head office in Toronto.[136]



Wholesale trade output fell 0.9% to $31.6B in Q3, reversing growth of 0.9% in Q2. Declines in motor vehicle parts and accessories contributed to the decline.[137] Third quarter employment also faced declines, dropping 1.1% over the same time last year. Job losses were concentrated in machinery, equipment and supplies wholesaler-distributors (-8,100). In contrast, Q4 employment reached its highest point in two years, posting an increase of 6.6% compared to Q4 2007. Strong gains in personal and household goods wholesaler-distributors (+7,600) and building material and supplies wholesaler-distributors (+6,700) were responsible for the increase. Wholesale sales improved 1.3% in Q3 over the same period last year after suffering a 4.2% decline in Q1 and zero growth in Q2.[138]



AGRICULTURE

Ontario continues to be an important contributor to the nation's agriculture industry, contributing 21.2% to Canada's total farm cash receipts in the first three quarters of 2008. With a total of $7.1B in receipts, Ontario trailed only Alberta at $7.8B.[139] Farm cash receipts grew by 4.6%, led by cattle (+6%), hogs (+4.9%) and crops (+4%), despite the challenges of a relatively strong Canadian dollar.

Ontario averaged 90,400 agricultural workers in Q3 2008. The sector lost 13,000 workers (-12.6%) compared to Q3 2007, led by declines in animal production (-9,900). Declines continued in Q4, falling 2.2% compared to the same period a year ago, with losses concentrated in mixed farming. On an annual basis, the sector lost 11,600 workers in 2008 with declines in crop production (-5,800 workers), animal production (-4,000 workers) and mixed farming (-2,100 workers).

A large world crop, market uncertainty, tight credit and currency fluctuations are putting downward pressure on grain prices. The provincial livestock sector will, however, benefit from recent revisions to the U.S. Country of Origin Labelling legislation (COOL) that allows for greater labelling flexibility. Under COOL, beef producers were required to differentiate between cattle fed in the U.S. and cattle entering the U.S. for slaughter, increasing costs significantly.

MINING

Ontario's mining sector is responsible for a significant proportion of Canada's platinum, gold, nickel, copper and diamond production. Despite the many challenges facing the mining sector, it managed GDP gains in Q3, growing by 4.5%, adding to Q2 gains of 2.1%.[140] Metal production in Q3 2008 was valued at $2.7B, up from $2.6B in Q3 of 2007, spurred by increases in copper, nickel, lead and zinc ore mining. Primary metal manufacturing shipments increased by 31% in Q3 2008 over the same period a year earlier to total $1.6B.[141]

Employment in Ontario's mining industry (not including support activities) was up 22.6% in Q4 from the same quarter a year prior. This follows gains of 12.8% and 38.9% in Q2 and Q3 respectively. On an annual basis, the province averaged 21,000 workers in the mining sector, accounting for 27.5% of the national total. The province added 3,100 (17.2%) workers during the year, reversing a decline in 2007.

Mining companies are beginning to feel the brunt of the global financial crisis, with tightened credit markets, slumping global demand and plummeting prices for everything from zinc and copper to iron ore and aluminum. Producers of autos, electronics and appliances dropped orders for nickel, copper, aluminum and steel, opting instead to draw down inventories. On February 9, Xstrata announced it would close three mines in Sudbury, defer a development project and lay off 686 workers.[142] Vale Inco is also stopping production at one mine and mothballing a development project. The diamond mines are not faring much better, with falling gem prices prompting a shut down at the Victor Mine in Attawapiskat for a week at Christmas. A six-week production shutdown is also scheduled for the Victor Mine from the latter half of July through August 2009.

FORESTRY

Forestry and logging employment, which includes timber track operations, forest nurseries and gathering of forest products, was up 9.3% in Q3 2008 over the same period in 2007, followed by a jump of 31.0% in Q4. The manufacturing sectors of wood and paper products are highly integrated with the forestry sector. Wood product manufacturing has not been fairing well, declining on an annual basis in every quarter of 2007 and 2008. Paper manufacturing, on the other hand, rebounded in 2008 after facing annual declines for four consecutive years, but employment in the sector is still well below levels seen in the early 2000s.

Shipments of Ontario's paper and wood products both declined in Q3 2008 over the same period in 2007. Paper product shipments totalled $2.1B, down 3% from Q3 2007, while wood product shipments totalling $1B declined by 10%.[143]

Ontario's mills are under pressure from the numerous challenges facing the forestry sector such as the U.S.

housing crisis, falling pulp prices, and relatively high energy costs. Buchanan Forest Products Terrace Bay pulp mill resumed production in December after a month-long shutdown; Weyerhaeuser's iLevel Timberstrand mill in Kenora, running at about one third of its production capacity since mid-November, shut down its operations for two weeks; Thunder Bay's AbitibiBowater mill announced 1,100 temporary layoffs in February 2009, after closing for four weeks in December to slash inventory; Domtar indefinitely cut production from two shifts to one, affecting around 113 employees at the Ear Falls facility and related harvesting operations[144]; and Tembec announced the permanent closing of its Mattawa hardwood sawmill which has been idled since July 2008[145] and extended a six week shutdown of its Hearst sawmill for another six weeks, meaning the mill will not be running again until at least early May.[146]

ISSUES FACING PROVINCIAL ECONOMY

CREDIT CRISIS

Canada has so far weathered the economic crisis better than most countries, but in the past few months the economic outlook has deteriorated rapidly. As recently as October 2008, the consensus was that Canada would avoid entering recession.[147] In late November, however, Minister of Finance Jim Flaherty suggested for the first time that Canada may have already entered recession. In December, the Bank of Canada announced that the country was entering recession, and made a 0.75% cut to its key interest rate as part of a monetary stimulus strategy.[148]

During his travels consulting Canadians on their priorities for the budget, Minister Flaherty stated that the most important issue raised was access to credit.[149] Although the Bank has continued to lower rates, consumers and small businesses have indicated that they are still struggling to access credit.

This perception of tightening credit is confirmed by loan officers. According to the Bank of Canada's Senior Loan Officer Survey of January 12, 2009, over 70% of respondents said that credit conditions were tightening—a record high since the survey began in 1999.[150]

Potential borrowers have expressed concern that cuts to the Bank of Canada's overnight rate have not been reflected in access to credit from banks.[151] In response, the banks pointed out that credit to businesses had actually increased by 13.4% between November 2007 and November 2008.[152] They suggested—and Minister Flaherty agreed[153]—that non-bank sources, such as leasing companies and commercial paper, were responsible for tightening credit conditions. The interbank lending market, in which banks make short-term loans to each other to support many other lending activities, has suffered as banks have preferred to borrow government paper rather than lend to each other. As a result, the banks are paying more to raise money.[154]

In the current economic climate, both financial services firms and their clients are seeking to minimize risk. Firms in the sector raised $17.5B on Canadian markets in 2008 to recapitalize losses and bolster capital ratios, up from less than $5B in 2007. Notably, $8.8B of the total was raised in December 2008.[155] At the same time, banks have been limiting exposure to high risk loans. Clients have also been looking to secure access to cash, notably by drawing down lines of credit before they are needed, thus reducing the supply of credit available to companies at a time when demand for loans is growing.

The government has taken steps to improve access to credit. It has purchased insured mortgage pools to free up space on bank balance sheets. Up to $75B in securities were purchased from the Canada Mortgage and Housing Corporation (CMHC). And a variety of measures to improve access to credit also appeared in the latest budget, including[156]:

- Adding $50M to the Insured Mortgage Purchase Program, increasing financing for lenders so that they can increase lending;
- Increasing capitalization and flexibility at Export Development Canada and the Business Development Bank of Canada;
- Supporting financing of vehicles and equipment through the creation of the Canadian Secured Credit Facility; and
- Facilitating global access to credit in the life insurance industry through the Canadian Lenders Assurance Facility.

It is still to be seen what effect these and other measures will have on access to credit and the Canadian economy. Groups such as the Canadian Vehicle Manufacturers Association, however, have welcomed the moves, suggesting that the support for auto financing companies will allow consumers access to credit they need to purchase vehicles.[157]

One relative bright spot in Canada so far has been mortgages. Mortgage defaults and foreclosures have not been as common here as in the U.S. due to tighter loan qualification criteria, relative stability in house prices, and the non-deductibility of mortgages for tax purposes. There is some concern, though, that a number of factors are pointing toward increased mortgage defaults. Credit card companies have reported higher delinquency rates in Canada recently, and this trend could be a precursor to other types of default.[158] The unemployment rate increased by 0.6 percentage points to 7.2% as 129,000 jobs were lost in Canada in January.[159] And consumer bankruptcies in Ontario rose by 51.5% in December 2008 compared to December 2007.[160]

Canada's private pension system is also under pressure. Pension plan valuations are expected to reveal significant increases in unfunded pension liability, mainly due to large drops in stock prices. The ratio of a pension fund's market value assets compared to its liabilities (the solvency funded ratio) was 96% at the beginning of 2008 but had fallen to 69% by the end of the year. Corporate plans for capital investment may have to be tempered as a result since higher pension contributions will be required to offset investment losses. Such reductions in capital spending would run counter to the economic stimulus that governments are employing. To mitigate this problem, federally-sponsored plans are being given more time to correct their funding shortfalls, and the provinces are moving in the same direction.[161]

U.S. ECONOMY

Ontario's economic health is inextricably linked to that of the United States. Over 80% of Ontario's exports are destined for the U.S., leaving the province exposed to economic conditions south of the border.[162] After recovering from a mild recession in 2001, U.S. economic growth has been slowing in recent years, dropping from 2.8% in 2006 to 2.0% in 2007 and 1.1% in 2008. The slowdown was exacerbated in the second half of 2008, declining by 0.5% in Q3 followed by a staggering 6.2% drop in Q4 (preliminary data).[163]

The slowdown has been primarily driven by a sharp deceleration in personal consumption and falling exports. Consumer spending may fall further as continued layoffs take place. Almost 600,000 workers lost their jobs in January, bringing total job cuts to almost 3.6M since the recession started in December 2007.[164] Continued declines in U.S. consumption would undoubtedly put even more downward pressure on Ontario's manufacturing sector.

There has not been any indication that the pace of the decline is slowing. It appears that the housing market, which could provide an early indication of an economic turnaround, has yet to bottom out. In January, sales fell to the lowest level on record, despite low mortgage rates and slashed prices. More restrictive lending practices by financial institutions and uncertainty about the future are offsetting increased affordability. New home sales remain well below housing starts, indicating starts will continue to fall and negatively impact GDP.[165] Ontario's forestry industry will continue to grapple with this issue, as a large portion of its demand comes from the U.S. housing market.

On February 17, President Barack Obama signed a $789B stimulus plan into law, aimed at saving 3.5M jobs. As part of the wider plan, the Homeowner Affordability and Stability Plan was introduced in an effort to stabilize the housing market. Also included in the plan is a "Buy America" provision which requires that money spent on infrastructure under the stimulus plan be spent on American-made steel and iron. While the language around the clause has been softened, requiring the bill to be applied in line with international agreements, there is uncertainty on how the package will ultimately be implemented. External stimulus and the potential for increased protectionism have created unusually high level of uncertainty for Canada and Ontario. However, some analysts project the U.S. stimulus will push U.S. GDP up 1%, thereby increasing Canadian exports by more than $3B. Overall, the positive effects on Canadian GDP from foreign stimulus are projected to be between 0.3 and 0.4%.[166]

The U.S. financial sector was initially impacted by the bursting of the housing bubble, as the sector held investments linked to mortgage risk. Uncertainty connected with the unwinding of these losses has helped trigger volatile swings in global stock markets, making it difficult for financial services firms, then others, to raise capital or in some cases finance operations. In the fall of 2008 the U.S. government enacted the Troubled Asset Relief Program (TARP) to purchase assets and equity from financial institutions in order to strengthen its financial sector. Recent reviews of the TARP have been harsh, saying that the plan lacks a long term vision for stability; disregards objectives such as stabilizing the housing markets and providing relief for student loans and municipal bonds; lacks accountability once funds have been injected into financial institutions; and that the Treasury significantly overpaid for assets purchased so far under TARP. In a further effort to help the financial sector, the Capital Assistance Program (CAP) was introduced as part of the Obama stimulus package. CAP aims to ensure that the 19 largest banks have sufficient capital to continue lending. The hope is that once the financial sector is stabilized, the wider economy will begin recovering.

ONTARIO-U.S. BORDER

Truck traffic at major crossings along the Canada-U.S. border has fallen significantly, reflecting the economic downturn and reduced output in automotive assembly and parts sectors. The Ambassador Bridge, North America's busiest border crossing, had the largest decline in truck volumes, down 15.1% over 2007.[167] Commercial volumes at Blue Water Bridge in Sarnia, the second busiest truck crossing in Ontario, were also down, falling 2.5% compared to last year.[168] According to the Public Border Operators Association, about 50% of commercial traffic on the Ambassador Bridge and 25% of commercial traffic on the Blue Water Bridge is linked to the automotive sector.[169] Total traffic at the Ambassador Bridge declined 19.1% from year to year, with car traffic declining 21.3% in 2008.[170] Some of the decline is due to construction of the bridge plaza and highway connections in the United States. Total traffic at the Windsor-Detroit Tunnel for 2008 was down by 2.9%.[171]

Infrastructure improvements continue at major border crossings. The Canada-U.S. Detroit River International Crossing (DRIC) project recently cleared a major milestone in their proposal to build a new public crossing at the Windsor-Detroit border, with the U.S. government giving final environmental approval for the new span.[172] The project still requires approvals from Michigan, Ontario and the Canadian federal government before construction can begin. DRIC has submitted its final environmental assessment to the Ontario Ministry of Environment for approval, and the federal review is underway. Both governments are expected to issue approvals by mid-2009.[173] Construction is expected to begin in 2010 and be completed by 2013.

With traffic volumes falling, the president of the Ambassador Bridge has been questioning DRIC's estimates that border traffic will increase, necessitating the need for another bridge.[174] The Ambassador Bridge company, which is planning to build a twin span, is considering legal action against DRIC which would potentially delay construction of a new bridge.[175]

Infrastructure Ontario has confirmed that construction of the route connecting Hwy 401 to a new bridge at Windsor-Detroit will be undertaken as an alternative financing and procurement project, opening up the possibility for private sector to finance, construct and maintain the road.[176] Construction of the Windsor-Essex Parkway, estimated at $1.6B, could start by the end of 2009. Local construction groups in Windsor are pressing the Ontario government to ensure that the project maximizes local content.[177] The City of Windsor continues to raise objections to the Windsor-Essex Parkway, and wants the Ontario government to adopt its more costly Greenlink proposal, which includes more tunnelled sections for the route.[178] DRIC expects the full construction of the bridge, plazas and roads to create 12,000 jobs in Canada.

The Lewiston-Queenston Bridge recently opened a new $40M commercial processing plaza. Bridge officials estimate that truck traffic will move 65% faster due to additional clearance booths. A second phase of bridge and plaza improvements will begin in April 2009 and will include increased passenger vehicles lanes and an expanded passenger processing area.[179] The Blue Water Bridge recently announced that it will begin construction of a new plaza.

Rising global competition, the economic recession and fears of U.S. protectionism, has led to renewed calls for a more coordinated and integrated transportation, trade and border system between Canada and the United States. The Canadian International Council Border Issues Working Group report entitled, "A New Bridge for Old Allies" outlines how various regulatory initiatives since 9/11 have led to a border "thickening" and calls for the creation of new institutions to manage the Canada-U.S. border more intelligently.[180] The Canadian Chamber of Commerce echoes the same concerns and indicates that Canadian and U.S. businesses are dealing with greater border costs because of increased wait times; direct fees for crossing the border; additional and duplicative border programs; additional costs for participating in trusted shipper and traveler programs; and increased inspection times. The extensive layering of border programs has become increasingly expensive and wait times even more unpredictable.[181]

The U.S. government, however, continues to focus on strengthening border security measures. Recently appointed Department of Homeland Security Secretary Janet Napolitano issued action directives on the northern border strategy, instructing specific government offices to gather information, review existing strategies and programs, and report back by mid-February. Since 9/11, the northern border has become more important in terms of national security and members of Congress have called for improved security measures.[182]

Beginning in June 2009 documentation requirements under the Western Hemisphere Travel Initiative (WHTI) will be extended to land and water travel. All travellers entering the U.S. will be required to present a passport or acceptable alternative. The U.S. has started offering passport cards, which are smaller and cheaper, as an alternative document to conventional passports for Americans entering the U.S. through a land or sea border.[183] New York State has begun issuing enhanced drivers licenses, which are WHTI compliant, and Michigan and Ontario will start issuing them in the coming months.[184] The availability of passport alternatives is especially crucial for Ontario since over 80% of all U.S. visits to the province originate from the border states.[185] The Ontario Ministry of Tourism forecasts that the implementation of WHTI could negatively impact visits by Americans to the province by nearly 1.5M each year through 2012.[186]

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