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Ontario Economic Overview

February 2011 Update

HIGHLIGHTS

- Ontario's real GDP growth lost some momentum in Q3 2010, growing only 0.3% compared to the previous quarter.
- In Q3, manufacturing employment experienced the first year-over-year quarterly gain since 2003. Future growth is expected to be limited by ongoing restructuring in the sector.
- Canadian banks continued to capitalize on their strong global position and made a number of recent acquisitions in the U.S., Asia and South America.
- Bright spots are emerging in the tourism sector, including recent growth in the number of international travellers to Ontario and rebounding hotel occupancy rates. International events taking place in coming years promise to draw both domestic and international tourists to the province.
- The Feed-In Tariff program continues to draw clean energy companies to the province. However, delayed grid connections and a slow permit process could bring uncertainty and delays to future projects.
- For the first 11 months of 2010, Ontario's exports grew 13.1% compared to the same period in 2009, surpassing the 10.1% growth in Canada as a whole.
- Both consumer and business insolvencies dropped considerably in Q3 2010 compared to the same period last year.
- Ontario's economy is forecast to grow by 2.5% in 2011, slightly below national growth of 2.7%. Employment is expected to advance by 1.5% while the unemployment rate recedes to 8.1%.

IN THIS REPORT

KEY ECONOMIC INDICATORS

(% change unless otherwise indicated)	Real GDP			Employment			Unemployment Rate		
	2009	2010f	2011f	2009	2010	2011f	2009	2010	2011f
Ontario	-3.6	2.9	2.5	-2.5	1.7	1.5	9.0	8.7	8.1
Canada	-2.5	2.9	2.7	-1.6	1.4	1.7	8.3	8.0	7.5
United States	-2.6	2.9	3.2	-4.3	-0.5	1.2	9.3	9.6	9.3

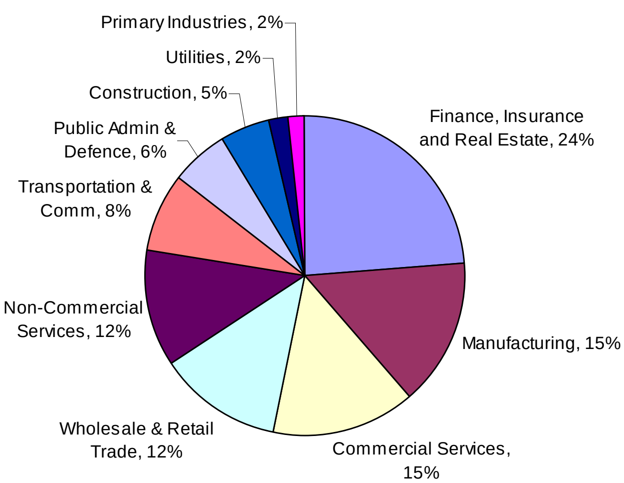
Source: Statistics Canada, U.S. Bureau of Economic Analysis; f indicates forecasted data, using median forecasts released in December 2010 or later, where available, from Conference Board of Canada, Scotiabank, RBC Financial, TD Economics, BMO Financial, CIBC World Markets, IHS Global Insight and Desjardins. Forecasts collected on February 18, 2011.

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, or conclusions. If you have any comments, please email Emily Powadiuk, Policy Analyst, Industry Canada, Ontario Region, at Emily.Powadiuk@ic.gc.ca.

GDP and Employment Growth of Selected Ontario Industries	GDP Growth (%)				Employment Growth (%)			
	2006	2007	2008	2009	2006	2007	2008	2009
Manufacturing	-2.1	-4.2	-10.3	-15.0	-2.1	-4.5	-5.7	-13.2
Automotive	-4.2	-4.0	-24.5	-28.3	x	x	x	-21.2
Pharmaceutical and Medicine	28.5	-11.4	0.4	7.8	0.7	-0.3	0.9	-1.5
Information and Communication Technology	5.5	3.0	-0.2	-1.2	2.3	1.1	2.5	-1.9
Aerospace	25.7	3.7	8.6	-1.9	-0.7	-9.0	-0.4	-11.9
Finance and Insurance	5.7	4.3	1.2	3.3	3.5	5.0	4.3	3.3
Construction	2.6	3.2	-0.6	-6.7	4.9	5.4	5.0	-5.2
Accommodation and Food Services	0.4	0.6	2.0	-3.8	3.0	4.6	4.4	-2.0
Wholesale Trade	4.4	4.5	-1.0	-5.5	1.2	3.0	0.6	-4.4
Retail Trade	4.1	2.0	3.2	0.1	0.8	2.7	3.9	-1.1
Primary Industries*	-4.5	-3.4	4.5	-10.5	8.8	-5.9	-6.3	-2.3

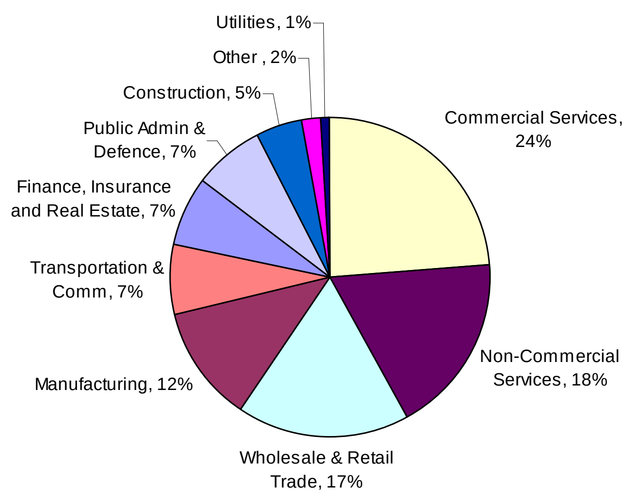
* Employment data from LFS and is not strictly comparable to SEPH data used elsewhere

Ontario GDP by Sector, 2009



Source: Statistics Canada

Ontario Employment by Sector, 2009



Source: Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH)

ECONOMIC OUTLOOK

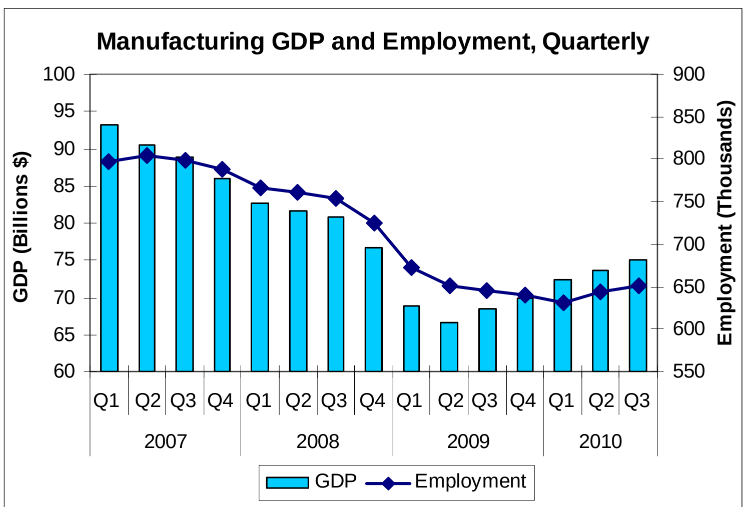
- The median real GDP growth forecast for Ontario in 2011 is 2.5% based on eight recent private sector forecasts. This is below Canada's median growth forecast of 2.7%. Forecasts for Ontario ranged from a low of 2.2% (Desjardins) to a high of 3.1% (RBC).[1]
- Compared to the forecasts collected for the November 2010 issue of this report, five forecasters upgraded their 2011 forecasts for Ontario's GDP growth, two downgraded and one was unchanged.
- Upgraded Ontario forecasts were at least partly based on improved expectations for the U.S. economy.[2] Additional monetary and fiscal stimulus is expected to boost 2011 growth south of the border. Rising U.S. vehicle sales will be particularly advantageous for Ontario.[3]
- Ontario's growth should also be supported by relatively low interest rates, which should boost business and consumer spending.[4] In addition, the HST is expected to encourage investment[5] while improvements in the labour market will support consumer spending.[6]
- Ontario's unemployment rate is anticipated to decline to 8.1% in 2011, although it will remain higher than the forecasted national average of 7.5%.[7]
- After a moderate rise in the U.S. unemployment rate in 2010, the rate is predicted to return to 2009 levels in 2011.[8] However, the unemployment rate will still be very high compared to rates historically seen in the U.S.
- The winding down of public sector spending will put downward pressure on provincial expansion. In recent years, government spending and investment has been a key driver behind Ontario's output growth. Ontario has the highest budget deficit as a share of GDP of all the provinces, however, and future government spending may thus be constrained.[9]

Economic Fundamentals

- Ontario's nominal GDP reached $614.4B in Q3 2010,[10] accounting for 37.9%[11] of the national total.
- Provincial real GDP growth slowed to 0.3% in Q3 2010 from the 0.6% in the previous quarter, the fifth consecutive quarterly gain. This matched national performance[12] and was slightly lower than U.S. growth of 0.6% for the same period.[13]
- Driving factors behind continued growth in Q3 included gains in machinery and equipment investment (+10.1%) and consumer spending (+0.6%). The only major expenditure category to decline in Q3 was investment in residential construction (-2.4%).[14]
- Real industrial output increased by 0.3% in Q3. Overall growth was driven by the manufacturing sector (+2.0), which counterbalanced losses in a number of service industries.[15]
- The province gained 15,200[i] jobs in Q3 compared to the previous quarter. Job growth continued in Q4, with 4,000 more jobs added.[16]
- Ontario's unemployment rate was 8.1% in January 2011, one full percentage point lower than a year earlier. The provincial unemployment rate remained above the national average of 7.8%.[17] Ontario's Census Metropolitan Areas (CMAs) had some of the highest unemployment rates in the country for the period, including Windsor (9.7%), St. Catharines-Niagara (9.7%) and Brantford (9.2%).[18]
- Credit conditions, in both price and non-price terms, continued to ease in Q4 2010 according to the Bank of Canada's Senior Loan Officer Survey. Lending conditions eased for the sixth consecutive quarter for corporate borrowers and for the second consecutive quarter for commercial borrowers. Small businesses also reported easing for the period. Overall easing was credited to increased competition among lenders, better industry conditions and an improved economic outlook.[19]
- Consumer insolvencies were down by 24.2% in Q3 2010 over the same period last year.[20] All Ontario CMAs, except Peterborough, had fewer consumer insolvencies in Q3.[21]
- Business insolvencies in the province decreased by 35.1% in Q3 year-over-year, compared to national declines of 26.8%. There were 417 business insolvencies in Ontario during the period.[22]
- Ontario's index of consumer confidence improved by 13.1 points in January to reach 83.4, making it the main driver behind improvements in national consumer confidence.[23]
- Total venture capital (VC) financing deals in Ontario in Q3 2010 more than tripled compared to Q3 2009. The value of deals reached $112.8M for the period.[24]

Sectoral Analysis and Outlook

Manufacturing



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

Ontario's manufacturing output continued to increase in Q3 2010. The sector reported 2.0% growth for the period, marking the fifth consecutive quarter of growth.[25] Compared to Q3 2009, output was up 9.9% but remained nearly 20% below Q1 2007 levels.[26] The Conference Board of Canada forecasts Ontario's manufacturing GDP will increase by 3.8% in 2011.[27]

There was significant output growth in the Other Transportation Equipment sub-sector (17.5%) in Q3, which includes the aerospace industry.[28] The primary metal and fabricated metal products sub-sector also made a significant contribution to Q3 growth as the sub-sector recovered from depressed demand, lower prices and plant closures in 2009.[29] Output declines across six of eleven sub-sectors in Q3 offset some of the growth in the sector. The largest losses were in wood products and furniture, and in chemical and petroleum products.[30]

Employment in the manufacturing sector in Q3 2010 was up on a year-over-year basis for the first time since 2003. There were an additional 5,500 jobs during Q3 compared to the same period in 2009 as the sector bounced back from recessionary lows.[31] Manufacturing sub-sectors with the largest job gains in Q3 included transportation equipment, fabricated metal products, primary metals, and food manufacturing.[32] However, half of sub-sectors reported job losses from Q3 2009 to Q3 2010, including chemical manufacturing, which lost 1,300

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[i] Employment data from LFS and is not strictly comparable to employment data used elsewhere.

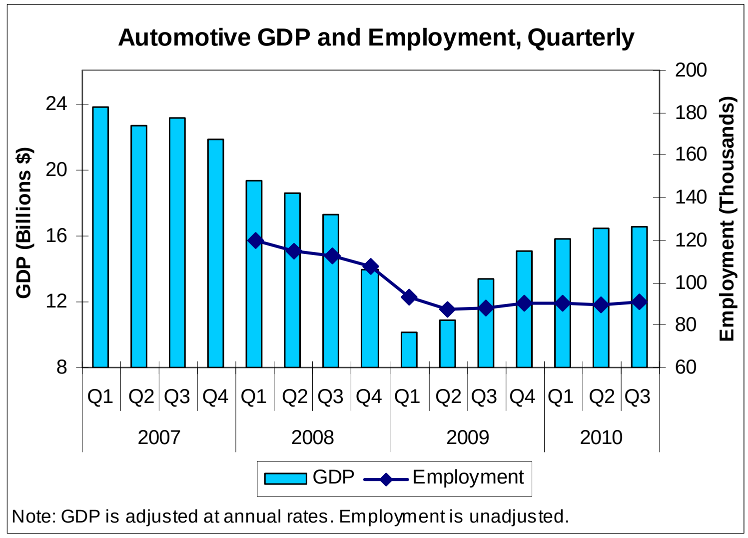
jobs.[33] Manufacturing employment has gradually declined since 2003 and over 300,000 manufacturing jobs were lost between Q3 2000 and Q3 2010.[34] Between Q3 2008 and Q3 2010 alone, over 100,000 jobs were lost. The Conference Board of Canada predicts that the restructuring of the sector will limit job growth in 2011.[35]

Recent news for Ontario's steel companies has been mixed. Thousands of people have been rallying against U.S. Steel in Hamilton following a lockout of 900 employees beginning in November 2010.[36] Former employees continue to dispute with U.S. Steel over cutbacks to their pension plans. Essar Steel Algoma in Sault Ste. Marie announced layoffs of approximately 90 employees in January as part of a total of up to 400 workers in early 2011.[37] On a positive note, Hamilton-based ArcelorMittal Dofasco announced in January that it would make a $153M investment to replace its finishing lines. This follows a $100M upgrade of the company's blast furnace operations that was completed last year. Also in January, the Province announced a contribution of up to $43.6M towards both projects. The investment is intended to reduce energy and emissions, and support current jobs in the company.[38]

Ontario's manufacturing sector will continue to face a number of risks in 2011, though they will likely be more muted than last year. A near-parity Canadian dollar will put pressure on the highly export-oriented industry. Demand from the U.S. market, which accounts for roughly 80% of Ontario's manufacturing exports[39], will be sluggish, but should get some support from additional U.S. federal stimulus.[40] Ontario's manufacturing sector is also highly integrated with the manufacturing sector south of the border. The January ISM manufacturing index indicated that the U.S. industry has expanded for the 18th consecutive month.[41] This is a positive sign as continued recovery in the province will be contingent upon growth in the U.S.

AUTOMOTIVE

The automotive industry continued to rebound as retail vehicle purchases improved. During Q3 2010, Ontario's automotive output posted a modest increase but the pace of quarter-over-quarter GDP growth slowed to 0.3%, well below the double digit growth seen in the last two quarters of 2009 and over 4% growth in the first two quarters of 2010. However, compared to a year ago, output was up by almost a quarter.[42] Ontario's automotive employment grew for the second straight quarter in Q3, up 2.7% compared to a year ago.[43] Employment in the parts sub-sector grew for the first time since 2005, adding to the job



growth in the vehicle manufacturing sub-sector which began to rebound in Q2 2010. In Q3, there were 90,800 people employed in Ontario's auto industry.[44]

Following a surge in Q4 vehicle demand, 2010 light vehicle sales in the U.S. finished at 11.6M units, up 11.1% compared to 2009.[45] While much of the growth was driven by fleet sales, retail purchases posted four straight months of year-over-year gains starting in September.[46] For 2011, light vehicle sales are forecast in the range of 13M units, largely due to pent up demand from deferred purchases and growing consumer confidence.[47] In Canada, 2010 light vehicle sales rose to 1.56M units,[48] and are expected to reach 1.59M units in 2011.[49] Total North American light vehicle production reached approximately 12.2M units in 2010, up 38.4% over 2009,[50] and current estimates for 2011 output are in the range of 13M units.[51] However, the pace of growth is expected to moderate as car makers continue to maintain inventories in line with demand.[52] Canada's light vehicle production reached nearly 2.1M units,[53]and is projected to grow to 2.4M units in 2011.[54] Canada's share of North American production rose slightly in 2010 to 17.2%. However, Mexico has produced more cars than Canada for three consecutive years. [55]

General Motors U.S. light vehicle sales were solid in 2010, in large part due to strong demand for crossovers and pick-up trucks.[56] Sales for its four core brands were up by a combined 22% compared to last year.[57] Canadian-built models performed well, with sales of the Chevrolet Equinox up by 74.1%,[58] while the Chevy Camaro outsold the Ford Mustang for the first time since 1985.[59] GM Canada recently announced the recall of 700 workers at its Oshawa plant to build the new convertible Camaro and Buick Regal. The company has launched several new vehicle

Change in Vehicle Production and Sales 2010 vs. 2009 (% Change)			
	Canadian Production	North American Production	U.S. Light Vehicle Sales
General Motors	17.7%	44.2%	6.8%
Ford	34.7%	29.8%	17.1%
Chrysler	54.2%	65.1%	16.5%
Honda	7.8%	25.4%	6.9%
Toyota	43.6%	41.3%	-0.4%
Canada		40.4%	
United States		35.4%	11.1%

Source: Automotive News Data Center

models, including the 2011 Chevrolet Volt, which will see production doubled due to strong initial consumer demand for the vehicle.[60] GM's outlook for recovery is positive and the company expects to post a full-year profit in 2010 for the first time since 2004.[61]

Ford Motor Company reported significant gains in U.S. car and truck sales, largely driven by a strong product line-up and the growing popularity of the Ford brand.[62] In 2010, Ford increased its U.S. market share to 16.7% from 15.3% a year ago--its first consecutive market share increase since 1993[63]--and posted the largest sales percentage increase of the major automakers.[64] In Canada, Ford was the top-selling automaker for the first time in over 50 years.[65] The company reported net income of $6.6B for 2010, the second straight annual profit and the its highest net income in more than 10 years.[66] Despite a successful turnaround, Ford still faces the challenge of rebuilding its Lincoln brand (which includes the Canadian-built Town Car, MKT and MKX models) which had lacklustre sales last year compared other luxury brands.[67]

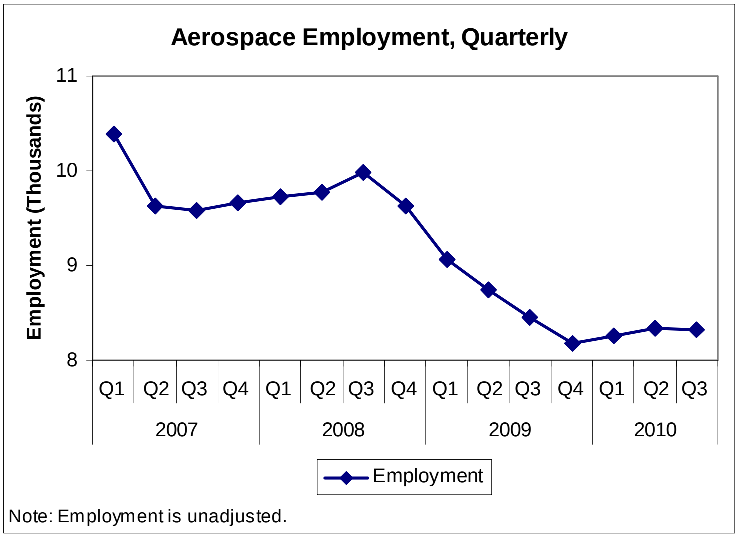
Chrysler Group's U.S. light vehicle sales were up in 2010, and the automaker increased its U.S. market share to 9.4% from 8.9% in 2009.[68] Canadian light vehicle sales increased by 26% compared to 2009, a record for Chrysler Canada.[69] Minivan sales were strong, as the Windsor-built Chrysler Town and Country topped the U.S. minivan market for the first time in two years,[70] and Chrysler claimed 74% of Canadian minivan purchases.[71] The company continued to make significant progress in its restructuring, and launched 16 new or revamped vehicles in 2010.[72] Fiat increased its ownership in Chrysler from 20% to 25% and may boost its stake to over 50% this year.[73] Recently, production of the 2011 Dodge Grand Caravan and Chrysler Town & Country was launched at the Windsor plant, and the company reported plans to introduce a new platform for a variety of vehicle models, including a hybrid minivan.[74] The automaker also started production of the new 2011 Chrysler 300 at the Brampton facility, with plans to build a new paint shop sometime in 2012.[75] Chrysler Group reported a net loss of $652M for 2010, but expects to be profitable in 2011.[76]

Toyota Motor Corp. faced a challenging year in 2010, as a series of massive global recalls contributed to a decline in sales volumes and a blow to its quality reputation. This situation deteriorated further as the automaker recently had to recall another 1.7M vehicles worldwide for defects related to fuel systems.[77] A total of about 16M vehicles have been recalled since late 2009.[78] Lower sales led to a decline in U.S. market share from 17.0% in 2009 to 15.2% in 2010.[79] Nonetheless, Toyota remained the top retail brand in the U.S. market for the third straight year.[80] The automaker also held its rank as the world's biggest auto maker, selling over 8.4M vehicles globally.[81] In addition, Toyota's output at its Canadian factories increased 43.6% compared to last year,[82] with production of the Woodstock-built RAV4 nearly doubling.[83] Toyota is revamping its product portfolio with 12 new or refreshed models in 2011, including the Prius V small minivan.[84]

Honda Motor Co. posted slightly improved light vehicle sales in the U.S. market for 2010, with the Civic model, which is assembled in Alliston, included in the top-10 selling vehicles.[85] In Canada, the Civic remained the number one selling passenger car for the 13th consecutive year.[86] Honda recently debuted the full line of its ninth generation Civic vehicles which will go on sale this spring.[87] Honda Motor reported a drop in its Q3 profit for fiscal year 2010/11, but has raised its full-year profit forecast based on an improved global sales outlook and measures taken to reduce operating costs.[88]

With the rebound of the North American auto industry, automotive suppliers have been steadily increasing production to meet growing customer demand, and profit margins have improved significantly.[89] As sales and production volumes are expected to accelerate in 2011, the outlook for automotive suppliers remains positive. However, some challenges have emerged. Suppliers are under increasing strain to find the financing needed to ramp up production, and to fund the R&D investments required to remain ahead of their competitors.[90] The tightening supply and rising cost of raw materials is also becoming a major concern for the industry.[91] While the largest suppliers have been able to transition to higher growth levels, smaller companies may have trouble keeping up with the cost and the pace of demand.[92] This has been a contributing factor behind a number of automakers in North America and Europe suspending vehicle assembly due to parts shortages.[93] In addition, Canadian auto suppliers face competitive pressure caused by a stronger Canadian dollar.[94]

AEROSPACE



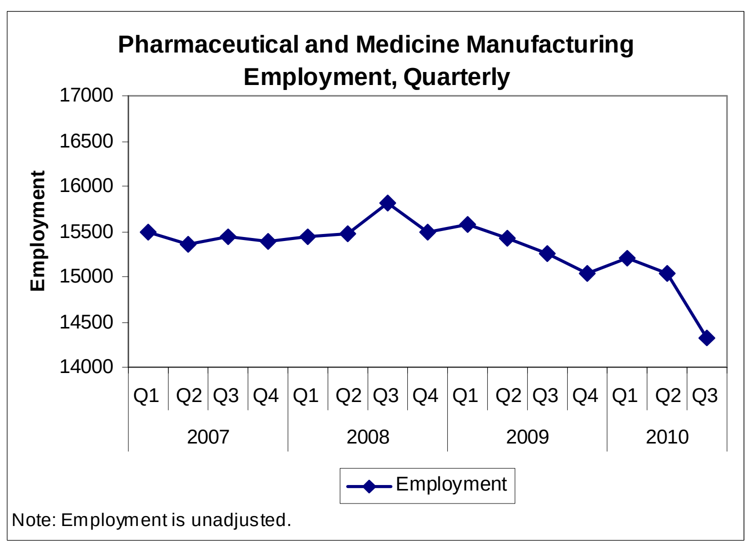
Ontario's aerospace industry, which produces aircraft parts and systems, accounted for 27.7% of Canadian aerospace GDP in 2009, second in Canada behind Quebec (61.6%).[95] Approximately 200 aerospace companies are located in Ontario with annual sales of over $4B. Ontario companies produce about 60% of landing gear for new large aircraft globally.[96] Notable firms with a presence in Ontario include Bombardier Aerospace, Pratt & Whitney Canada, Honeywell Canada, L-3 Electronic Systems, Magellan, and Northstar Aerospace.[97]

Indicators largely pointed to continued struggles in Ontario's aerospace sector in Q3 2010. Employment in the sector fell for the eighth consecutive quarter in Q3, down 1.6% from the same quarter in 2009, although the drop was not as severe as in previous quarters.[98] National GDP continued to falter in each of the first three quarters of 2010, including an 8.1% decline in Q3.[99] Conversely, Ontario's aerospace shipments made moderate quarter-over-quarter increases in the first two quarters of 2010 and then jumped by one half in Q3.[100] This compared to a national shipment decline of 3.3% in Q3[101]. Informetrica expects Ontario's aerospace output will turn the corner in 2011 and grow by 2.3%, following a 7.6% decline in 2010.[102]

Ontario's aerospace sector is highly export dependent, with roughly 70% of sales coming from exports.[103] Ontario aerospace manufacturing exports slid by 2.8% for November 2010 YTD compared to the previous year.[104] The U.S. market, which accounts for about half of Ontario's aerospace exports, contributed significantly to the loss, but the value of exports to Germany fell by about three-quarters, making it the largest contributor to overall losses. Some new players emerged, including Ethiopia and Angola, helping to offset some of the declines.[105] The emergence of these countries may be partly explained by the drive to increase regional air services. For example, Ethiopian Airlines announced the purchase of eight of Bombardier's Toronto-built Q400s in 2008 to support domestic demand and a growing tourism market. The planes were delivered in 2010.[106]

A few recent announcements will affect the Ontario aerospace sector. In late November, the Canadian Space Agency awarded an $11.5M contract to Kanata-based Neptec Design Group to develop the new Lunar Exploration Light Rover.[107] COM DEV announced a number of new contracts to provide equipment for military and commercial communications satellites, work which will be done out of Cambridge, Ontario.[108] In January it was confirmed that a maintenance, repair and overhaul (MRO) hanger will be built at the Windsor Airport with support from the city and federal government. Quebec-based Premier Aviation will provide the MRO services and expects to create 300 skilled jobs over the next seven years.[109] Windsor's St. Clair College plans to work with Premier Aviation to develop programs to train technicians, including an MRO program starting in the 2012 school year.[110] The University of Windsor also has plans for a new aerospace engineering program.[111]

BIOTECHNOLOGY AND PHARMACEUTICAL



As of April 2010, Ontario's life sciences industries generated over $15B in annual revenue while employing 43,000 individuals in 850 companies.[112] Canada's pharmaceutical industry is the 9th largest globally[113] with revenues of over $8B from more than 25 Ontario companies.[114] Ontario also has the 3rd largest biotech industry in North America with revenues between $2B and $3B.[115] These industries continue to adapt to a changing environment, including healthcare reform, technological advances and patent reform.[116]

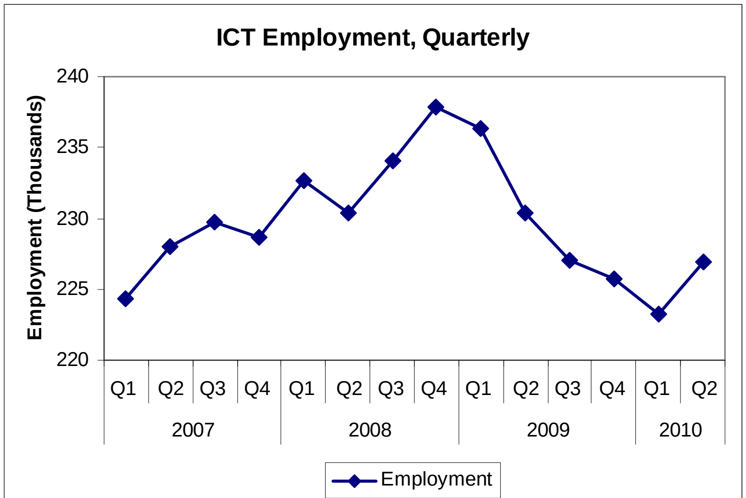
The output for Canada's pharmaceutical and medicine manufacturing sector, of which Ontario accounts for over 60%, dropped by 4.5% in Q3 2010. While Q3 saw the second consecutive quarterly drop for the sector, output was still up 4.3% from the same quarter in 2009.[117] The Conference Board of Canada's Leading Indicator of Industry Profitability, which predicts short-term movements in corporate profitability, dropped for the fifth straight month in December for the national pharmaceutical sector.[118] Employment in the sector also took another hit, dropping 6.1% (900 jobs) in Ontario; this was the sixth straight year-over-year quarterly decline.[119]

The pharmaceutical industry is currently facing the issue of intellectual property and patent reform. The Canadian Intellectual Property Council and the Canadian Chamber of Commerce recently released a report arguing that more protection was needed for the intellectual property in the pharmaceutical sector to increase the sector's competitiveness globally.[120] Canada's pharmaceutical industry is lobbying, along with the EU, for changes that would increase patent protection for brand name drugs by a number of years. The EU is reportedly pressing to have the changes included in the free-trade agreement it is currently negotiating with Canada. Such a change would delay the introduction of generic drugs to market and could potentially increase Canada's annual medication costs.[121] There is a large concentration of generic drug companies in the GTA which could be negatively affected by this change.

Venture capital (VC) funding for Ontario's life sciences sector continues to rebound from the lows of 2009 when investment dropped by 63.3% from 2008 levels. The value of life sciences deals reached $71.1M for September 2010 YTD, a $46.8M increase compared to the same period in 2009, but a $46.8M decline compared to the same period in 2008. Activity in the medical devices and equipment sub-sector increased by $13.6M YTD from the same period in 2009. Funding in the biopharmaceuticals sub-sector was up $30.9M for the period. Among the biopharmaceutical deals in Q3 2010 was a $14M investment in Mississauga-based NeurAxon, Inc. that included contributions from the BDC Venture Capital Group and the Ontario Emerging Technologies Fund.[122]

A recent PriceWaterhouseCoopers survey of life sciences industry stakeholders revealed that 84% of respondents felt access to capital was the biggest challenge to becoming globally competitive. Respondents expected to seek upwards of $1B in funding with 42% planning to access VC in their next round of funding.[123] BIOTECanada also released a white paper recently highlighting increased concern within the biotech industry that the lack of long-term risk capital would lead to an exodus of companies and jobs to the U.S. The paper recommends that a flow-through shares program be extended to the industry to help new companies and projects access early-stage capital. The existing program for the resource and energy sectors allows investors to reduce their taxable income and receive tax credits that would normally go to the company. Extending such a program to biotech is expected to support $558M in incremental GDP and 8,000 Canadian jobs.[124]

INFORMATION AND COMMUNICATIONS TECHNOLOGY



Note: Employment is unadjusted.

The ICT sector is a significant component of Ontario's economy. In 2009, the ICT sector contributed $26.7B, or 5.7%, to Ontario's GDP.[125] ICT is also an enabling sector, supporting further technology developments and increasing productivity in other industries. Ontario represents roughly 50% of Canada's total ICT industry, with more than 16,000 ICT firms concentrated mainly in three technology clusters in Toronto, Ottawa and Kitchener/Waterloo. Ontario has the highest concentration of ICT industry leaders in Canada, including IBM Canada, RIM, Rogers, Celestica, OpenText and Aastra. In 2009, 142 of the top 250 Canadian ICT firms based on gross revenue were headquartered in the province.[126]

Top 10 Ontario ICT Companies by Gross Revenue, 2009		
Company	2009 Revenues millions (% change from 2008)	National Rank
Research In Motion	$11580 (+285%)	1
Rogers Communications (wireless and internet)	$7420 (+29%)	3
Celestica	$6275 (-21%)	5
Nortel Networks	$4500 (-58%)	6
Softchoice	$1005 (+31%)	11
Aastra Technologies	$835 (+36 %)	13
Open Text	$822 (+40%)	14
Mitel Networks	$769 (-8%)	15
Constellation Software	$450 (+91%)	19
Compugen	$350 (+21%)	21

Source: Branham300, Canada's ICT Industry: A National Perspective, June 2010

Ontario accounts for about half of national ICT revenues, employment and GDP. Ontario's ICT output fell by 1.2% in 2009. National ICT output, of which Ontario accounts for about half, grew by 1.0% in Q3 2010 compared to the previous quarter.[127] Both ICT manufacturing and services contributed to the increase. Q3 was the fourth consecutive quarter of GDP growth following three quarters of modest decline in 2009. Ontario's ICT manufacturing shipments also improved in Q3, up by 11.6% over 2009, for the third consecutive year-over-year quarterly increase.[128] Most sub-sectors showed improvement for the period.

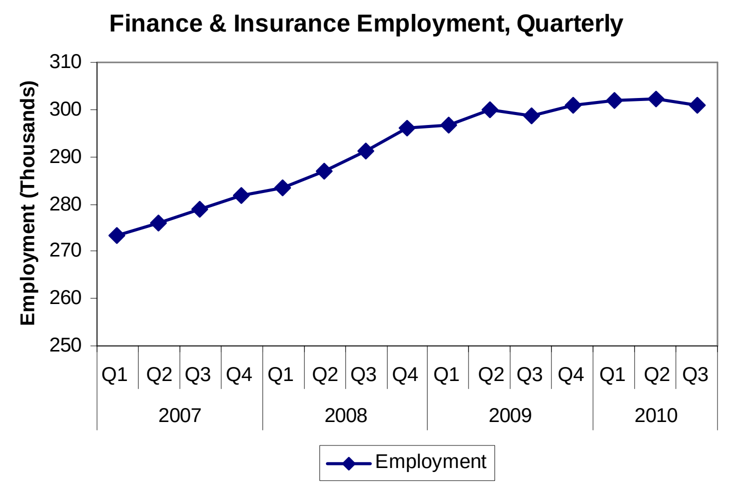
Approximately 226,800 people worked in Ontario's ICT sector in Q3 2010. Compared to the same time last year, employment levels in Q3 dropped by 0.1%. This was the fifth consecutive year-over-year quarterly decline; however the rate of decline was not as severe as in previous quarters. Growth in computer systems design (+3,100) and commercial and service industry machinery manufacturing (+1,100) helped to offset losses in telecommunications (-2,900) and data processing and hosting services (-1,100).[129]

Ontario's ICT goods exports fell by 9.8% for November 2010 YTD compared to 2009. On average, exports declined nearly 20% per month between January and July, before four consecutive months of improvement beginning in August. Losses were largely driven by falling exports to the U.S., which accounted for nearly 70% of Ontario ICT exports for the period.[130]

FINANCE AND INSURANCE

Ontario's finance and insurance sector had output of $31.1B in 2009, a 3.3% increase over 2008.[131] The sector employed over 300,000 people in the province in Q3 2010 with about 230,000 working in Toronto, making the city the third largest financial centre in North America after New York and Chicago.[132] A further 290,000 jobs in the Greater Toronto Area are supported by financial services.[133] In the most recent Global Financial Centres Index, Toronto held its #12 ranking in the world and was considered one of only eight "Global Leaders" that combined depth and breadth in financial services with strong connections to other financial centres.[134]

Employment was up 0.8% in Q3 2010 over the same quarter in 2009, adding to consecutive gains dating back to Q1 2004.[135] Jobs were up in the credit intermediation sub-sector—which includes banks—and the securities sub-sector. The insurance sub-sector lost about 2,100 jobs over the period.[136] The sector's Canadian GDP was up 2.1% in Q3 2010 compared to a year ago to an annualized average of over $83.3B.[137]



Note: Employment is unadjusted.

As a group, Canada's five largest banks had relatively flat earnings between Q4 2009 and Q4 2010. Lower earnings at CIBC and RBC were mainly responsible for the lack of growth, while performance at BMO and TD improved substantially. Earnings at Scotiabank,[138] BMO, [139] and CIBC[140] exceeded analyst expectations while RBC[141] and TD[142] failed to meet expectations for the quarter that ended October 31, 2010.

Canadian banks continued to capitalize on their strong global position by acquiring assets, resulting in a very busy quarter for bank deals.[143] After incorporating a subsidiary bank in China in October 2010, BMO further expanded its presence in Asia with the acquisition of Lloyd George Management, a portfolio management company with strength in China and India.[144] BMO then acquired Wisconsin's largest bank, Marshall & Ilsley, for US$4.1B in December.[145] The following week, TD bought Chrysler Financial Group for US$6.3B.[146] Scotiabank expanded its presence in South America by acquiring a wholesale bank in Brazil, a commercial bank in Chile,[147] and both a bank and a consumer finance company in Uruguay.[148] In November, Scotia moved further into wealth management by agreeing to acquire the remaining amount (82%) of Toronto-based DundeeWealth that it did not already own.[149]

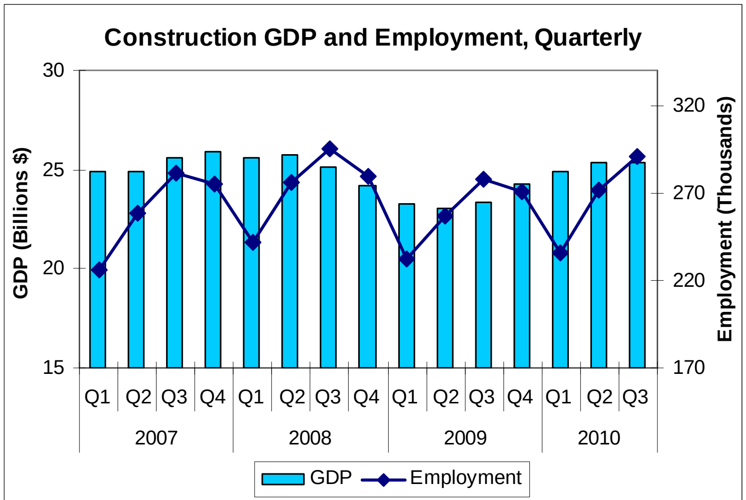
Canada's Top Five Banks: Q4 2010 Earnings				
	2010 Q4 earnings (millions)	Change in Earnings from Q4 2009 (%)	2010 Q4 ROE (%)	Tier 1 capital ratio (%)
BMO	$739	14%	15.1%	13.5%
CIBC	$500	-22%	14.6%	13.9%
RBC	$1,121	-9%	12.3%	13.0%
TD	$994	-2%	9.7%	12.2%
Scotia	$1,092	21%	17.9%	11.8%

Toronto also welcomed investment from several foreign financial companies recently. Insurance giant Lloyd's of London opened a Toronto office in December,[150] while Barclays Capital expanded its Canadian presence by opening a new Toronto office a day later.[151] China Investment Corp., a sovereign wealth fund with over $300B in assets under management, opened a Toronto office in January as its first location outside of mainland China.[152]

Despite losing $947M in Q3 2010, Manulife Financial actually exceeded analyst expectations. While performance was down compared to the loss of $140M in Q3 2009, Manulife increased hedging and reinsurance to reduce risk following the company's loss of $2.4B in Q2 2010.[153] Rating agency Moody's responded to developments at Manulife by downgrading the company's credit rating.[154] Sun Life Financial exceeded analyst expectations with net income for Q3 2010 of $453M, improving on a loss of $140M in Q3 2009. Although revenue actually dropped in the quarter, the company benefited from equity market exposure.[155]

CONSTRUCTION

Construction sector GDP was virtually unchanged in Q3 compared to Q2, following four consecutive quarters of advancement. Compared to a year earlier, however, overall construction output climbed 8.7% and reached its highest level in more than two years.[156] This positive trend was mirrored on the labour side, with employment up considerably from last year in all sub-sectors, most notably specialty trade contractors.[157]



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

In the residential construction sub-sector, housing starts grew steadily in the first half of 2010. Starts, however, fell in Q3 and continued to decline in Q4, dropping to 58,300 (SAAR).[158] The total value of residential building permits, an indicator of future construction and housing supply, inched upwards by 0.2% in Q3 and by 2.6% in Q4 compared to previous quarters. The value of housing permits issued in December, for example, rose to $1.7B, the highest value of any month since December 2005.[159] Demand in the housing market has started to balance with supply in most areas of the province after experiencing a volatile first three quarters of 2010 that included

Summary of Construction Sector Economic Indicators (Q3 2010)		
	Q3 2010 Value	Change from Q3 2009
GDP	**$25.4B**	**8.7%**
Residential	$10.5B	19.0%
Non-residential	$14.9B	2.4%
Employment	**291,101**	**4.9%**
Residential Building	41,886	4.1%
Non-residential Building	24,110	0.6%
Heavy and Civil Engineering	40,688	2.8%
Specialty Trade/Contractor	184,415	6.1%
Building Permits	**$7.3B**	**46.9%**
Residential	$3.8B	26.0%
Non-residential	$3.5B	79.0%
Housing Starts (SAAR)	**60,700 (units)**	**-2.0%**

record low interest rates and policy adjustments. While the Canadian Real Estate Association predicts a slight decline in sales activity for 2011, the agency has revised its sale forecast upwards[160] in light of stronger second half resale activity, sustained price increases and high demand for multi-unit residential dwellings in urban areas.[161]

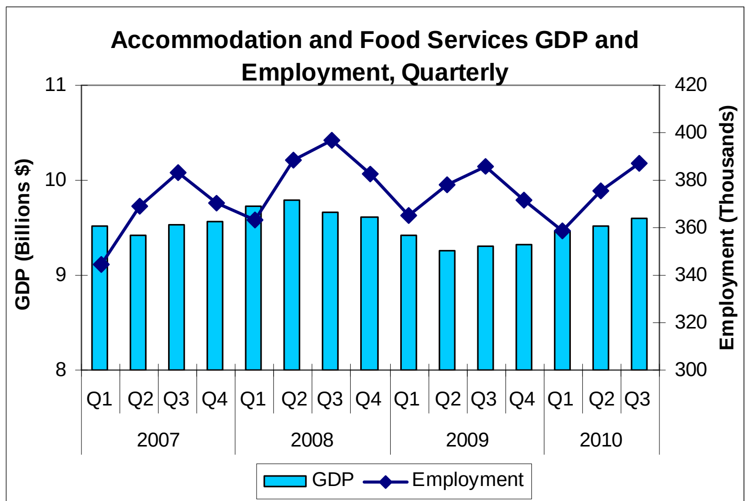
Output in the non-residential construction sub-sector increased for the sixth straight quarter in Q3. Although quarter-over-quarter comparisons of the value of non-residential permits in Q3 and Q4 show declines, solid growth in the beginning of the year pushed the 2010 total up by 34.1% over 2009 and to the highest level on record. Forecasts for the medium term predict steady growth in the non-residential construction sector due to an increase in major construction projects between 2013 and 2018, including: building new electricity generation sites; investing in large public infrastructure projects; and completing work on facilities for the 2015 Pan Am Games.[162] In light of these plans, it should be noted that the Construction Sector Council (CSC) has warned that there will be a significant shortfall in the number of local construction workers available to meet demand. The CSC suggested that college and union-supported training opportunities, cross-country labour mobility and more foreign-trained workers would all be required to overcome expected labour shortages.[163]

TOURISM

The recession affected the tourism industry on a global scale. Global international tourist arrivals fell by 4% in 2009 before rebounding by an estimated 7% in 2010.[164] Ontario continues to face challenges, but bright spots are emerging. Q3 2010 marked the first significant year-over-year quarterly increase in international travellers to Ontario since 2004, up 5.9%. Growth in visits by both American and overseas travellers supported the increase.[165] In addition, some key tourism sectors have seen recent improvements in GDP and employment.

While intra-provincial visits drive Ontario's tourism sector, the U.S. accounts for nearly 90% of Ontario's international visitors. While there has been growth in recent months, declines earlier in the year resulted in a 4.7% decrease in the number of American travellers to Ontario for September YTD compared to last year.[166] At the same time, the number of overseas entries grew by 5.7%. Entries from the UK, the largest overseas market, fell by 1.4%, but were offset by growth in other traditional markets such as Germany, France and Japan. In addition, emerging markets including India, China and Brazil all advanced by more than 20% for the period.[167] Going forward, Canada and Ontario will continue to face increased competition for international travellers as emerging nations take over a larger share of the global market. Indeed, Canada's ranking for international tourist arrivals fell from 9th in 2000 to 15th in 2009.[168] Canada's price competitiveness is also expected to take a blow in Q1 2011, largely based on the strength of the Canadian dollar and lower prices in competing markets.[169]

Ontarians made 11.1% more international border crossings for September 2010 YTD compared to the previous year, with the number of Ontarians visiting international destinations nearly double the number of foreign tourists visiting the province.[170] Ontario will host a number of major events in the coming years which promise to draw both domestic and international tourists to the region, including: the Indian International Film Festival (Toronto, 2011); NHL All-Star game (Ottawa, 2012); World Figure Skating Championships (London, 2013); World Pride Parade (Toronto, 2014); and Pan/Parapan American Games (across the Greater Golden Horseshoe, 2015).[171]



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

Accommodation and food services account for a large share of tourism output and employment in Ontario. Output for the sector grew for the fifth consecutive quarter in Q3 2010, up by 0.7%, but still hovered slightly below pre-recession levels.[172] Year-over-year quarterly employment in the sector grew for the first time since the beginning of 2009 in Q3 2010, up by 0.4%. All job growth was concentrated in accommodation services while food services continued to lose jobs.[173] Hotel occupancy rates have continued to rebound and reached 61.6% for September YTD, a 3.2 percentage point improvement over the previous year. Particular strength was observed in the Greater Toronto Area.[174]

Activity in the hotel real estate market has picked up partly due to corporate buyers enjoying easier access to credit and the availability of pent-up resources held back during the recession.[175] The value of hotel acquisitions rose by an estimated 70% in 2010 to $700M[176] and CB Richard Ellis expects 2011 levels to be comparable.[177] A recent survey of active hotel investors conducted by Colliers International found that 40% plan to hold, renovate or expand current properties as their primary investment strategy, 37% plan to buy existing hotels and 19% plan to build. Investors expressed the most interest in Central Canada (Ontario and Quebec) and top markets include Toronto and Ottawa.[178]

RETAIL AND WHOLESALE TRADE

Combined, retail and wholesale trade accounted for 12.2% of Ontario's GDP and employed 973,700 people in 2009.[179]

Retail Trade Employment and Sales by Subsector

	Employment		Sales
	Share of Total (2009)	% change (Q3 Y/Y) 2010	% change (November YTD Y/Y)
Retail trade	**100%**	**-0.3%**	**4.9%**
Food and beverage stores	25.7%	-4.1%	0.7%
General merchandise stores	15.7%	-0.3%	6.4%
Clothing and clothing accessories stores	12.0%	4.2%	6.0%
Motor vehicle and parts dealers	8.9%	0.1%	6.7%
Health and personal care stores	8.7%	2.4%	2.7%
Building material and garden equipment and supplies dealers	6.8%	3.2%	6.3%
Miscellaneous store retailers	5.4%	-1.4%	-2.7%
Sporting goods, hobby, book and music stores	4.7%	-2.2%	3.6%
Furniture and home furnishings stores	3.9%	0.0%	4.5%
Electronics and appliance stores	3.6%	5.9%	4.5%
Gasoline stations	3.1%	-3.7%	13.5%

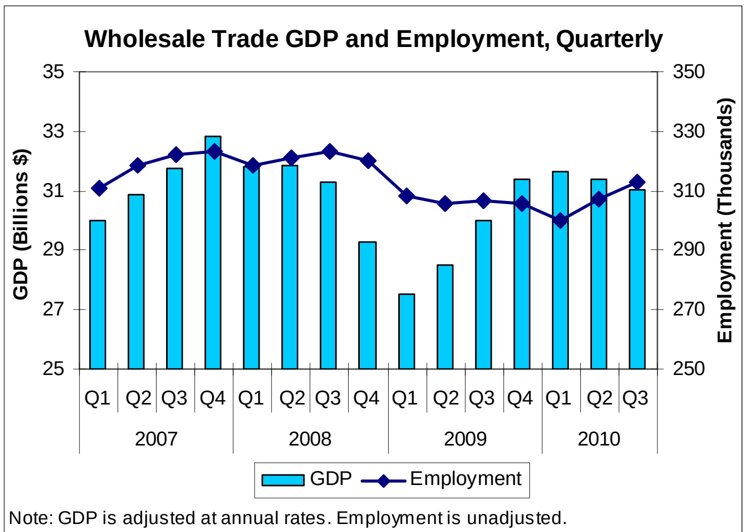
Source: Statistics Canada. Data is not seasonally adjusted.

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

Ontario's retail trade output retreated by 0.3% in Q3 2010 following four consecutive quarters of growth.[180] Retail sales on the other hand continued to climb, advancing by 0.5% compared to the previous quarter.[181] Sales for November YTD improved by 4.9% over the previous year, based on gains across most sub-sectors.[182] Gasoline station sales were behind just over one quarter of overall gains, mainly related to higher prices. Motor vehicle sales accounted for an additional one quarter of gains, for which new car dealers were almost fully responsible. Rising input costs in sub-sectors such as gasoline stations result in higher prices, which are reflected in higher retail sales, but do not necessarily show up in the value-added measure of GDP, partly explaining the discrepancy between retail sales and GDP. Looking forward, Ontario's retail sales are expected to grow by about 4% in 2011.[183] In terms of employment, the retail trade sector has yet to rebound. Employment fell by 0.3% in Q3 over the previous year. This followed small gains in Q2 and four consecutive quarters of decline that ended in Q1. About half of sub-sectors experienced job losses in Q3, with the majority of losses concentrated in grocery stores. Other sectors, such as clothing retailers, posted solid gains.[184]

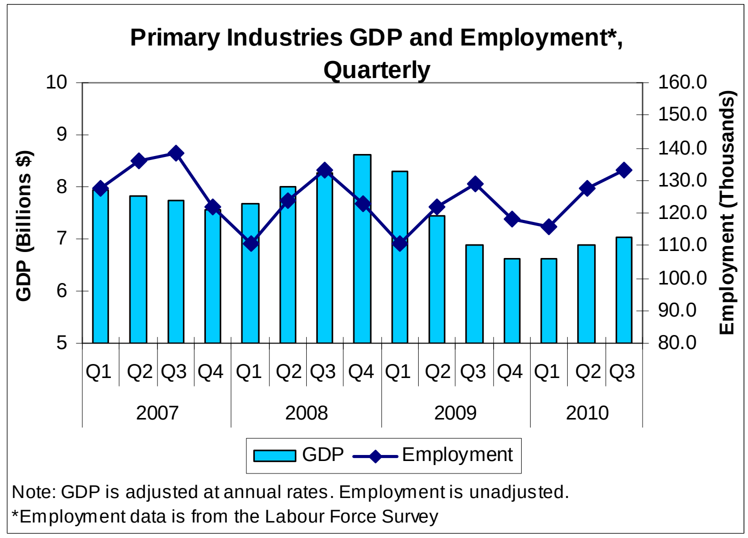
The retail trade sector will confront many challenges in coming years, including moderated economic growth; a strong Canadian dollar which tends to encourage cross-border shopping; and increasingly value-conscious consumers. Many retailers offered discounts during the recession to draw in customers, but even as the economy recovers, consumers continue to hunt for deals.[185] The Nielsen Company reports that discounts are being applied to 30% of current national retail sales.[186] In addition, price disparities between comparable goods sold in Canada and the U.S. persist, despite the dollar being near parity. It is estimated that retail prices are 12 to 15% higher in Canada; however this is an improvement from the 24% gap in late 2007. At least part of the gap can be explained by higher labour costs, taxes and import duties in Canada.[187]

Increased competition from foreign companies will also place pressure on existing Canadian retailers. Early in the new year, Target confirmed plans to enter Canada with 150 stores in 2013, eventually expanding to 250 outlets. The $1.8B deal will see the discount retailer acquire most of the Hudson's Bay Company's Zellers chain.[188] Target's close competitor, Wal-Mart, plans to invest over $500M to expand operations across the country in 2011, creating 9,200 jobs.[189] Other U.S. retailers that have recently confirmed plans to enter the Canadian market include clothing retailers J. Crew, Express Inc. and Zumiez Inc.[190] Yorkdale Shopping Centre in Toronto is undertaking a $220M expansion, in part to attract international retailers.[191] Another 10 to 15 factory outlet malls are planned across Canada as a result of a $1B deal between Toronto's RioCan Real Estate Investment Trust and North Carolina's Tanger Outlet Centers Inc. The deal may result in more U.S. retailers being enticed to move north.[192] Canadian companies have also made some moves in the retail industry. Clothier Joe Fresh, which is currently sold in Loblaw Superstores, has plans to open four stand-alone stores this year (three in the GTA) with longer term plans to expand to twenty.[193] Toronto-based Brookfield Asset Management increased its presence in the U.S. retail market by signing a $1.7B (in shares and cash) deal to boost its share in General Growth Properties, a major mall owner in the U.S., to 38%.



Ontario's wholesale trade GDP fell for a second consecutive quarter in Q3 2010, down 1.1%, partly due to declines in building material and supplies wholesalers.[194] Conversely, sales for November YTD were up by 10.6% over the previous year.[195] Employment in the sector also improved, up by 2.1% in Q3. Most sub-sectors posted jobs gains, with particularly strong growth in wholesalers of food, beverage and tobacco (+2,400) and building material and supplies (+1,700).[196]

PRIMARY INDUSTRIES



Ontario's primary sector, which includes agriculture, forestry and mining, directly employed 125,800[ii] people and contributed $7.3B to provincial GDP in 2009.[197] Sector GDP grew by 2.1% in Q3 2010 following 4.0% growth in Q2.[198]

Ontario's agricultural sector averaged 90,400[ii] workers in Q3 2010, accounting for 27.5% of the Canadian total. Agricultural employment fell by 0.6% from Q3 2009 as losses in crop production and mix farming offset gains in animal production.[199] Farm cash receipts for the province were up by 6.7% in Q3 compared to the previous year.[200] The crop sub-sector, which benefited from favourable weather in 2010 for crops such as soybeans,[201] accounted for most of the farm cash receipt gains. Livestock receipts also advanced while program payments were down by nearly 17% for the period.[202] Despite being challenged by climbing costs for energy, fertilizer, feed, wages and transportation in addition to continued uncertainty associated with U.S. country-of-origin labelling (COOL) regulations, Ontario's agriculture industry is expected to grow in 2011.[203]

Employment in Ontario's forestry and logging industry rose for the second consecutive quarter in Q3 2010, up 4.2% compared to the same quarter a year earlier. Prior to Q2, quarterly employment in the sector had not grown on a year-over-year basis since 2005. Employment in the sector is still well below half of the levels seen earlier in the decade.[204] The highly integrated wood product manufacturing sector also

[ii] Employment data is from Statistics Canada's Labour Force Survey and is not strictly comparable to SEPH data used elsewhere.

posted gains in Q3, while employment in paper manufacturing fell for the 26th consecutive quarter.[205] Shipments for both paper and wood product manufacturing retreated in Q3 compared to the previous quarter after posting consecutive quarterly gains beginning in late 2009.[206] Recent forestry-related developments may point to higher production in Q4. St. Marys Paper restarting production at one of its three paper machines in December 2010 after being closed since March. As a result, employment at the company is up to approximately 200.[207] This followed the reopening of Terrace Bay Pulp's kraft mill in October after a 19-month closure. The re-opening was supported by a $25M loan guarantee from the provincial government.[208]

Ontario's mining GDP grew by 7.5% in Q3, adding to 2.2% growth in Q2. Prior to Q2, output had fallen in each quarter dating back to Q4 2008. Output in Q3 greatly benefitted from the resolution of labour disputes that had negatively affected production levels.[209] Mining exports rose by 27.4% in Q3 compared to a year earlier. Growth was almost completely driven by increased gold and silver ore exports to the UK,[210] which in turn were largely related to higher gold prices.[211] Sector employment also advanced in Q3, up 6.3% from a year ago and breaking a string of six consecutive declines.[212] Increased demand for gold has led a number of Ontario mining companies to announce plans to boost investments and future production.[213] In January, Detour Gold Corporation announced that a successful exploration at its Detour Lake project boosted its gold reserves to 14.9M ounces, which would make Detour Lake the second largest gold mine in Canada, based on production. The number of jobs at the site is expected to double to 1,000 by the summer.[214] Construction is also underway at Northgate Mineral Corporation's Young-Davidson mine near Kirkland Lake. Production is expected to start in March 2012 and employ up to 600 people during construction and 275 longer term.[215]

CLEAN ENERGY

Ontario's Feed-in Tariff program (FIT) continues to see an influx of applications as clean energy companies are attracted by the rate premiums. As of mid-January over 29,000 FIT and microFIT (projects 10 KW and less) applications had been received by the Ontario Power Authority, up from just over 24,000 in mid-October.[216] FIT's domestic content requirements have also led to a number of parts manufacturers locating in the province. According to a recent survey of industry stakeholders, delayed grid connections and a slow permit process could bring uncertainty and delays to future projects.[217]

Solar energy investment in Ontario has benefitted from decreased production costs for solar panels as prices have dropped by 40% in the last two years and are expected to drop by up to 60% by 2020.[218] Eclipsall Energy announced in December that it would invest $10M for a solar panel manufacturing facility in the Greater Toronto Area, creating an estimated 90 jobs.[219] JNE Consulting recently announced a $5M partnership with China-based Daqo group for a solar panel plant that will create 300 jobs in Hamilton.[220] A number of foreign clean energy companies also plan to set up office in Ontario. German solar company CENTROSOLAR recently opened its Canadian corporate offices in Markham.[221] San Francisco-based Recurrent Energy also plans to open its first international office in Toronto to support its $650M investment under the FIT program.[222] In addition, Montreal-based solar panel manufacturer Centennial Global Technology announced in December that it would be relocating its headquarters and expanding its solar panel manufacturing operations to Kingston.[223]

The wind energy sector continues to expand in Ontario as companies such as Siemens and Samsung invest in the province. Wind is considered the most mature and cost-competitive of the clean energy sources. Siemens announced in December that Tillsonburg would be the location for its wind turbine blade manufacturing plant. The plant is expected to create 900 direct and indirect jobs as it supplies turbine blades to Samsung's wind projects.[224] South Korean-based CS Wind, a partner company of Samsung, will bring a wind tower plant to Windsor that will create 300 permanent jobs.[225] Recently, the Ontario government announced that the FIT program would no longer accept offshore applications and all offshore projects would be suspended until further scientific research on their environmental impact was completed.[226] The first offshore site in Ontario, Windstream Energy's $1B Island Shoals project near Kingston, was to begin construction in 2013 and was expected to create 1,900 short-term and 175 long-term jobs for the area.[227] According to a Conference Board of Canada report, the offshore wind industry could boost Ontario's GDP by $5.6B by 2026.[228]

Financing for clean energy projects remains an issue, in particular for small-scale projects that depend on alternative sources of funding.[229] Future financing could also be hindered by the provincial opposition party's pledge to reduce the FIT rates if elected in October, and Japan's WTO challenge to FIT's domestic content requirements.[230] Celestica recently signed an agreement to provide solar modules to Recurrent Energy's 19 Ontario solar projects.[231] Contract manufacturers, such as Celestica, are able to generate new business as they are better able to take on the risk of a potential rollback of the domestic content requirements, which may scare away smaller, specialized companies. Eastern-Ontario based wind turbine manufacturer Redriven announced in December a $5M investment deal with a private equity fund based in the U.S. Virgin Islands.[232] As well, Toronto-based Skypower Ltd. recently obtained $70M from Deutsche Bank for two solar projects in the province.[233]

Limited access to financing for small-scale companies is also expected to lead to increased merger and acquisition activity in Canada and Ontario.[234] GE Energy Financial Services recently partnered with BC-based Plutonic Power to acquire three solar farm projects in Ontario for just over $60M.[235] NextEra Energy Canada also announced in December its acquisition of four solar projects from First Solar Inc.[236]

ISSUES FACING THE PROVINCIAL ECONOMY

U.S. ECONOMY

The U.S. remains an important trading partner for Ontario with 80% of the province's exports heading south of the border. Exports to the U.S. have rebounded from the extreme lows of 2009 with Q3 2010 exports up 13.3% from Q3 2009, and November YTD exports up 12.5% from the same period the year previous.[237] However, there is concern that the continued strong performance of the Canadian dollar, combined with weak Canadian productivity, could hinder further export recovery.[238]

The U.S. economy continued its recovery with a sixth straight quarter of positive growth in Q4, although the unemployment rate has still not dropped significantly.[239] Advance estimates for Q4 growth show an annualized increase of 3.2%, up from a revised 2.6% increase for Q3. The increased growth was aided by a 4.4% jump in real personal consumption expenditures, up from 2.4% in Q3. Export growth was also strong, with an 8.5% increase compared to 6.8% in Q3. The advance estimate of real GDP growth for 2010 is 2.9% compared to the decrease of 2.6% in 2009.[240] In December, the Conference Board's Leading Economic Index, a key indicator of future growth, rose 1.0%, the fourth straight monthly increase.[241]

The improvement in GDP growth may be sustained by further consumption growth in 2011. A recent RBC survey concluded that 74% of Americans plan to spend a portion of the extra income gained from the Social Security payroll-tax reduction that was implemented at the start of 2011. This willingness to spend was reflected in RBC's consumer confidence outlook, which hit a post-recession high in December before dropping slightly in January. As well, employment confidence increased again in January, up 24% from last year.[242] The job numbers for January, however, did not reflect this confidence, with only a marginal 0.4% drop in the unemployment rate.[243] There is concern that the high unemployment rate may now be structural, brought on by labour immobility from the depressed housing market and "a skills mismatch between employees and employers".[244] This mismatch may partly be reflected in the 2.8M individuals who abandoned their job searches in January.[245]

U.S. economic growth could be hampered by a pending surge in home foreclosures. RealtyTrac, an online foreclosure tracker, predicts 1.2M homes will be repossessed in 2011, up from 1M in 2010, a record high dating back to 2005. Approximately 5M homeowners are currently behind by two months or more on their mortgages. New home sales dropped 14% to 321,000 units for 2010—the lowest level since 1947.[246] Before stabilizing, home values are expected to drop another 5% nationally.[247]

While the U.S. economy's recovery, outside of the housing sector, seems to be gaining steam, the Federal Reserve has still not judged it sufficient to raise interest rates. The Federal Open Market Committee announced at the end of January that the target rate would remain at 0-0.25% for an "extended period". The Fed acknowledged the continuing recovery but stated that it had not led to a subsequent improvement in the labour market. The committee also noted that it still intended to purchase US$600B in longer-term Treasury securities by the end of Q2 2011.[248]

The large U.S. debt continues to weigh on both the economy and congress. The debt is quickly approaching the US$14.29T limit introduced by the Obama administration in February 2010. There is still some uncertainty over when the debt limit will be raised as some Republicans are pushing for significant spending cuts in exchange for their backing.[249]

INTERNATIONAL TRADE

While the economic downturn meant that trade declined in 2009, Ontario still exported $147.7B in goods that year. This represented a 21.8% drop from 2008, compared to a 25.5% drop in total Canadian exports.[250] In the first eleven months of 2010 Ontario's exports bounced back. By the end of November, Ontario had already exported $153.5B in goods, an increase of 13.1% from same period in 2009, surpassing Canada's export growth of 10.1% over the period.

The recession also led to declining imports. Total imports were down in every province in 2009, with Ontario's 14.1% drop only slightly less precipitous than the Canadian decline of 15.9%. Like exports, imports began to climb again in 2010, increasing 13.7% in Ontario over the first eleven months compared to the same period in 2009, while Canadian imports rose 10.7%. Along with increasing trade, trade deficits for both Ontario and Canada widened; Ontario's was up 15.4% for the first eleven months of 2010, with exports exceeding imports by over $62B. Canada's trade deficit grew 43.7% to $7.7B. Recently, though, Canada's trade deficit has narrowed. In November 2010 it fell to $373.2M from almost $2B in October. The decline, however, was based almost entirely on a drop in imports, suggesting weakening demand.[251] Ontario's trade deficit dropped about 8% from October to November, with exports up slightly and imports down marginally.

Ontario's Top Five Export Markets (January - November 2010)

	Proportion of Total Ontario Exports	Exports ($M)	Year-over-Year Change	Trade Balance ($M)
U.S.	80,2%	123 070	12,5%	-1613
UK	6,8%	10 393	44,4%	7129
Mexico	1,4%	2200	5,7%	-13 930
Norway	1,3%	1967	36,5%	1820
China	0,9%	1448	-12,0%	-21 496

Source: Industry Canada, Trade Data Online

Although Ontario's reliance on the U.S. as an export destination has declined since the early 1990s, 80.2% of the province's goods exports still went to the U.S. in the first eleven months of 2010. Exports to four of Ontario's top five trade partners grew, with only China seeing a reduction in Ontario goods. Growth was particularly strong in exports to the UK and Norway. Increased exports of gold (+55.3%) were responsible for the vast majority of export growth to the UK. Growth in exports to Norway was based almost entirely on a 43.8% increase in nickel matte exports. While exports to the U.S. were up a more modest 12.5%, this corresponds to an increase of $13.7B for the period. Growth was mainly due to higher exports of passenger vehicles (+46.7%) and vehicle parts (+34.7%).

Fears that the proposed U.S. Foreign Manufacturers Legal Accountability Act would damage Canada-U.S. trade were assuaged when the 111th U.S. Congress adjourned in January 2011 without having passed the bill. The Act was intended to hold foreign manufacturers legally responsible for harmful products exported to the U.S., but some had suggested the administrative burden imposed by the legislation would hinder trade.[252]

Following the signing of the Canada-Panama Free Trade Agreement (FTA) in May 2010, Canada continues to pursue FTAs with partners including the European Union, India, and South Korea. In 2009 the 27 EU nations as a group accounted for 8.9% ($13.1B) of Ontario's exports, while 8.9% of Ontario's imported goods ($18.3B) came from the EU. South Korea is Ontario's 12th largest export market, receiving 0.38% of Ontario exports worth $578M in the first eleven months of 2010, down 18.5% from the same period in 2009. Imports from South Korea, however, were up 21.2% for the period to $3.96B. These imports were composed mainly of motor vehicles and parts, electronic circuits, and telephones and other wireless communications devices.

Ontario exported about $385M in goods to India in the first eleven months of 2010, accounting for roughly 20% of Canada's exports to India. It should be noted, however, that the exclusion[iii] of trade-in-services from official trade data with India has a large impact on measures of Canada-India trade.[253] When trade-in-services and other missing trade are included, Canada likely exported at least $12B to India in 2009, compared to the official goods exports data showing $2.1B. Based on the revised figures that include contributions from ICT and financial services, Ontario

[iii] Analysis by the Conference Board of Canada (Danielle Goldfarb and Louis Thériault, Canada's "Missing" Trade With Asia) and the Canada-India Business Council has demonstrated that official trade figures fail to account for digital trade, many shipments through third country ports and airports, the full value of goods transferred to foreign affiliates, and sales by foreign affiliates. Many Canadian banks and insurance companies have significant overseas operations, for example, that are not captured by traditional trade measures. As supply chains are often global, Canadian companies may sell components to one trading partner that are integrated and sold on to a final market in a developing country. This practice results in an overestimation of trade with the U.S. and an undercount of Canada's trade with other markets, including emerging markets and the EU.

accounts for about 35% of Canada's trade with India.[254]

Annex: Selected Indicators for Ontario Census Metropolitan Areas (CMAs): Q3 2010

		Population[1]		Employment[2]			Housing Starts (units)[3]		GDP[4+]		Consumer Insolvencies[5]	
		Population 2010 (000s)	Percentage of Ontario	Job growth per 1,000 people^ (Q3 y/y)	Unemployment Rate		Percentage of Ontario	Housing Starts per 10,000 people	Percentage of Ontario	% Change (Q3 y/y)	Insolvencies per 1,000 people^	% Change (Q3 y/y)
					%	Change (Q3 y/y)						
EASTERN	Ottawa♦	933.0	7.1%	10.9	7.2	2.1	11.6%	20.6	9.5%	2.6%	1.1	-26.9%
	Kingston	162.5	1.2%	-16.8	5.5	-1.1	1.3%	13.0	1.0%	2.0%	1.1	-30.0%
	Peterborough	121.1	0.9%	-12.7	8.9	1.2	0.7%	9.1	X	X	1.4	22.4%
CENTRAL	Oshawa	364.2	2.8%	37.4	10.3	1.1	3.1%	14.0	2.8%	3.1%	1.5	-26.8%
	Barrie	190.9	1.4%	64.7	10.1	1.3	0.9%	7.7	X	X	1.9	-13.2%
	Toronto	5,741.4	43.5%	22.3	9.1	-0.5	47.3%	13.7	46.0%	4.0%	1.1	-22.6%
	Guelph	138.2	1.0%	6.2	7.5	-1.0	1.4%	16.6	X	X	1.2	-39.1%
	Hamilton	740.2	5.6%	11.1	7.6	-1.5	6.5%	14.6	5.5%	3.8%	1.3	-18.0%
	Kitchener	492.4	3.7%	31.2	7.0	-2.5	3.8%	12.7	4.0%	5.6%	1.2	-32.1%
	Brantford	139.1	1.1%	-15.9	7.6	-3.8	0.7%	8.8	X	X	1.5	-30.3%
	St. Catharines - Niagara	404.4	3.1%	3.8	9.7	-0.3	1.9%	7.8	2.6%	2.5%	1.6	-9.2%
WESTERN	London	492.2	3.7%	13.0	8.3	-2.7	2.8%	9.4	3.4%	1.8%	1.9	-10.8%
	Windsor	330.9	2.5%	4.1	10.9	-3.1	1.0%	5.0	2.2%	3.3%	1.8	-33.9%
NORTHERN	Greater Sudbury	164.7	1.2%	37.5	9.8	-0.3	1.4%	14.0	1.1%	3.3%	1.5	-35.3%
	Thunder Bay	126.7	1.0%	-3.9	6.9	-1.7	0.6%	7.3	0.8%	0.4%	1.0	-32.5%
	ONTARIO (total)	**13,210.7**	**100.0%**	12.8	**8.7**	-0.5	**100.0%**	**12.6**	**100.0%**	**3.5%**	**1.3**	**-24.2%**
	Canada (total)	**34,108.8**	**X**	11.7	**8.0**	-0.5	**X**	**15.4**	**X**	**3.4%**	**1.2**	**-20.3%**

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Notes

Red box denotes CMA is performing below the provincial average
^ Calculated by using the working age population
+ GDP at Basic Prices ($2002)
♦ Ottawa-Gatineau CMA used in GDP and Insolvencies calculations; Ottawa only for rest

ENDNOTES

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