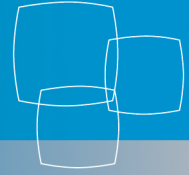




Ontario Economic Overview

May 2010 Update



HIGHLIGHTS

- Ontario's real GDP advanced 1.6% in Q4 2009 compared to the previous quarter, faster than Canada as a whole and the U.S.
- Employment in Q4 was 2.0% lower than a year earlier.
- Financial services was the only business sector to significantly increase employment in Q4 2009 compared to a year ago.
- While conditions in the auto sector have improved substantially, it is expected that the recovery this year will be gradual and the market will regain only a fraction of the losses experienced during the recession.
- There is some indication that the construction industry is on the mend with improvements in GDP, housing starts and building permits. However, employment levels have continued to falter.
- Visits to Ontario from international travellers hit another record low in Q4 2009. Recovery in international travel is expected to be slow.
- The Ontario government's Feed-in Tariff program has spurred foreign direct investment in clean energy projects. It has also led a number of domestic manufacturers traditionally involved in sectors such as automotive into the clean energy sector.
- Ontario's economy is forecast to grow by 3.6% in 2010, outpacing Canada's growth of 3.4%. The province is also expected to add jobs and experience a slight decline in the unemployment rate to 8.9%. Ontario's unemployment rate will likely remain well above the national rate, which is forecast to be 8.1% in 2010.



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KEY ECONOMIC INDICATORS

(% change unless otherwise indicated)	Real GDP			Employment			Unemployment Rate		
	2009	2010f	2011f	2009	2010f	2011f	2009	2010f	2011f
Ontario	-3.4	3.6	2.7	-2.4	1.4	2.2	9.0	8.9	8.2
Canada	-2.6	3.4	3.0	-1.6	1.3	1.8	8.3	8.1	7.6
United States	-2.4	3.1	3.2	-4.3	-0.3	2.2	9.3	9.7	9.0

Source: Statistics Canada, U.S. Bureau of Economic Analysis; f indicates forecasted data, using median forecasts released March 15 or later, where available, from Conference Board of Canada, Scotiabank, RBC Financial, TD Economics, BMO Financial and CIBC World Markets, the University of Toronto's Policy and Economic Analysis Program (PEAP) and Desjardins. Forecasts collected on May 18, 2010.

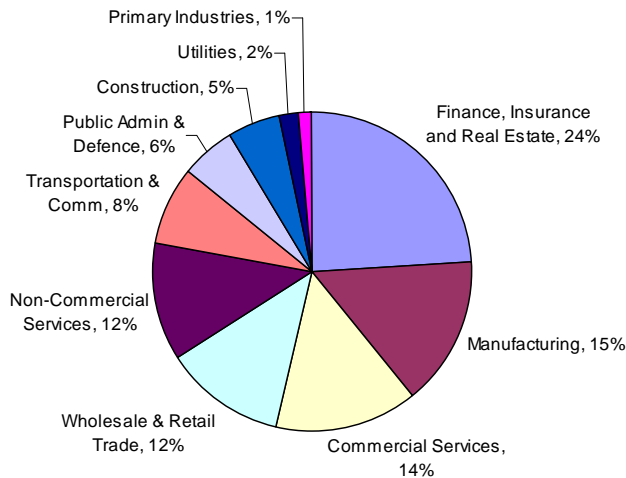
The Ontario Economic Overview is a quarterly report prepared by the Policy, Analysis & Intelligence Directorate of the Ontario Region of Industry Canada that contains analysis of the current economic and financial performance of industries in Ontario. The analysis is of select economic/industrial issues, 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	-2.4	-2.7	-8.0	-14.6	-2.1	-4.5	-5.7	-13.2
Automotive	-3.1	-4.6	-23.9	-29.0	x	x	x	-21.2
Pharmaceutical and Medicine	27.9	8.9	4.3	11.4	0.7	-0.3	0.9	-1.5
Information and Communication Technology	5.4	3.8	2.2	-1.1	2.3	1.1	2.5	-1.9
Aerospace	28.1	-2.2	7.0	-0.4	-0.7	-9.0	-0.4	-11.9
Finance and Insurance	5.6	4.4	3.6	3.4	3.5	5.0	4.3	3.3
Construction	1.8	5.8	-2.5	-5.2	4.9	5.4	5.0	-5.2
Accommodation and Food Services	0.0	0.5	2.2	-2.3	3.0	4.6	4.4	-2.0
Wholesale Trade	4.7	4.6	-0.9	-6.1	1.2	3.0	0.6	-4.4
Retail Trade	4.8	3.6	2.8	-1.0	0.8	2.7	3.9	-1.1
Primary Industries*	-3.6	-4.9	3.8	-12.6	8.8	-5.9	-6.3	-2.3

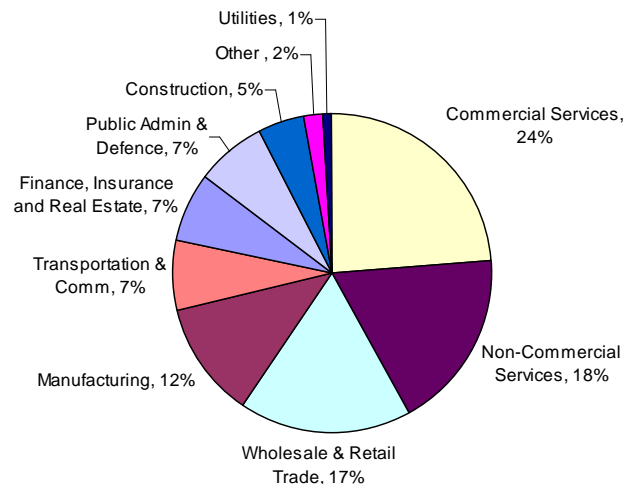
* Employment data from LFS and is not strictly comparable to SEPH data used elsewhere

Ontario GDP by Sector, 2009



Source: Statistics Canada

Ontario Employment by Sector, 2009



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

ECONOMIC FUNDAMENTALS

- Ontario's nominal GDP reached \$578B in Q4 2009¹, accounting for 37.1%² of the national total.
- Provincial real GDP grew by 1.6% in Q4 2009 from the previous quarter, the second consecutive quarterly gain. This compares to a 1.2% increase in Canada and growth of 1.4% in the U.S. for the same period.³
- Contributing factors to continued growth in Q4 included gains in major expenditure categories including consumer spending (+0.8%), investment in residential construction (+9.1%), and government spending (+2.2%). Business investment in machinery and equipment fell by 10.3% for the period.⁴
- Exports grew faster than imports in Q4, narrowing the real trade deficit to \$2.0B.⁵
- Real industrial output increased by 1.7% in Q4. Prominent gains were made in finance, insurance and real estate and leasing (+2.4%), manufacturing (+2.3%) and wholesale trade (+4.2%).⁶
- Ontario's unemployment rate was 8.7% in April 2010 compared to the national average of 8.4%.⁷
- The Census Metropolitan Area (CMA) of Windsor continued to experience the highest unemployment rate in the country. The average unemployment rate was 12.6% for the three month period ending in April 2010.⁸
- Consumer insolvencies were up by 10.6% in Q4 2009 over the same period last year, about the same as the national average of 10.4%.⁹ Ontario accounted for 44.9% of Canada's consumer insolvencies. Most Ontario CMAs experienced increases in consumer insolvencies, with Brantford and Greater Sudbury facing increases of over 30%. Ottawa-Gatineau, Kingston, Peterborough, and Windsor all had decreases in their consumer insolvencies from Q4 2008 to Q4 2009.¹⁰
- Business insolvencies in the province decreased by 17.4% in Q4 year-over-year, a slightly greater decrease than the national average of 14.7%. A total of 585 business insolvencies during the period accounted for 37.0% of the Canadian total.¹¹



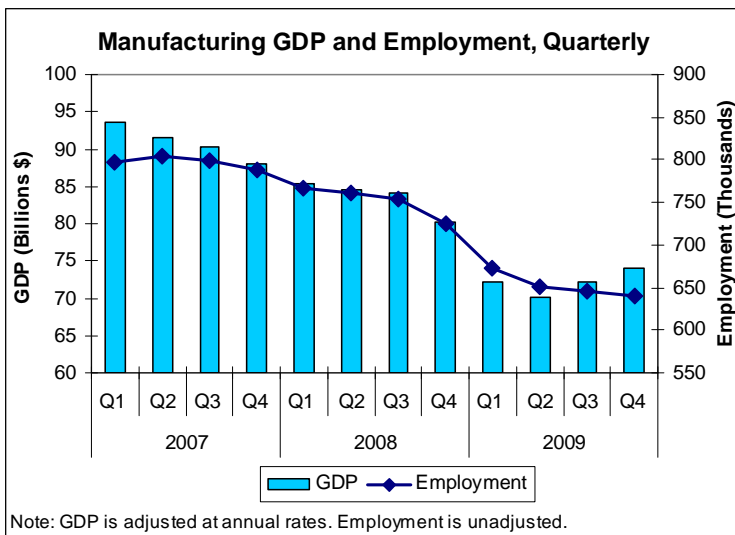
ECONOMIC OUTLOOK

- The median GDP growth forecast for 2010 collected from eight recent private forecasts is 3.6%, with estimates ranging from 2.8% (CIBC) to 4.1% (PEAP).¹²
- Ontario's GDP is expected to grow at a slightly faster rate than Canada's, which has a forecast growth rate of 3.4% in 2010.
- The Conference Board predicts that BC and Ontario will together lead economic recovery in Canada in 2010, due to improved domestic economies in both provinces as well as increased demand from the United States.¹³
- Growth in Ontario has been fuelled mainly by a rebound in the auto sector and the strongest housing market in the country. These sectors are not, however, expected to sustain growth in Ontario in the long run.¹⁴

- The implementation of the HST may have short-term consequences such as slowing growth in the housing market and consumption, although over the medium to long term it is expected to strengthen the Ontario economy and make it more competitive.¹⁵
- In the U.S., GDP growth is expected to increase by 3.1% in 2010, after a contraction of 2.4% in 2009.¹⁶
- The Canadian dollar continues to hold strong relative to the U.S. dollar, which will impact the economic recovery in Ontario.
- Employment levels in Ontario have slowly improved, but most private sector forecasters expect the unemployment rate to be 8.9% in 2010, about the same as last year. Significant reductions in the unemployment rate are not expected to occur until 2011, with a median forecast of 8.3%.

SECTORAL ANALYSIS AND OUTLOOK

MANUFACTURING



Despite suffering the brunt of the recession, manufacturing remains a key sector in Ontario's economy, accounting for 15.3% of GDP in Q4 2009.¹⁷ The sector will benefit from the recent exemption from the Buy America legislation¹⁸, and the elimination of many tariffs on manufacturing inputs, machinery and equipment.¹⁹ However, the combination of a strong Canadian dollar, weak U.S. demand, and competition from low-cost producers is creating a somewhat challenging environment for the sector.

The health of Ontario's manufacturing sector continues to be closely linked to the performance of the U.S. economy. As a result, it will likely benefit from the expected recovery south of the border.

March's ISM index indicated expansion for both the U.S.'s manufacturing sector and its overall economy for the eighth and eleventh consecutive months, respectively.²⁰ However, with the Canadian dollar hovering near parity with its U.S. counterpart, Ontario's manufacturing sector remains cautiously optimistic. Diversification across export markets has helped the sector cope with the strong dollar.²¹

Ontario's manufacturing GDP maintained its upward trend in Q4, rising 2.3% from the previous quarter though still remaining well below pre-recession levels. The vast majority of sub-sectors reported increases in output including transportation equipment (+7.7%) and paper products and printing (+4.0%).²² Excluding the automotive sector, manufacturing output only grew by 0.1%. In Q4, Ontario's manufacturing employment fell 11.8% year-over-year, the 27th consecutive quarterly decline. The manufacturing sector saw more than 85,600 job losses, as employment in the non-durable and durable goods sub-sectors decreased by 21,100 and 64,500 workers, respectively.²³ With the exception of food and beverage and tobacco products, all sub-sectors reported declines.

Hamilton's manufacturing sector took a hit in mid-March when Siemens AG announced the closure of its gas turbine manufacturing plant. Consequently, 550 workers are expected to be laid off by fall 2011.²⁴ Current production will be moved to Charlotte, North Carolina, where the company will invest in a \$130M expansion.²⁵ Ontario's declining gas turbine industry, as well as the U.S.'s lucrative incentives package, contributed to the relocation decision.

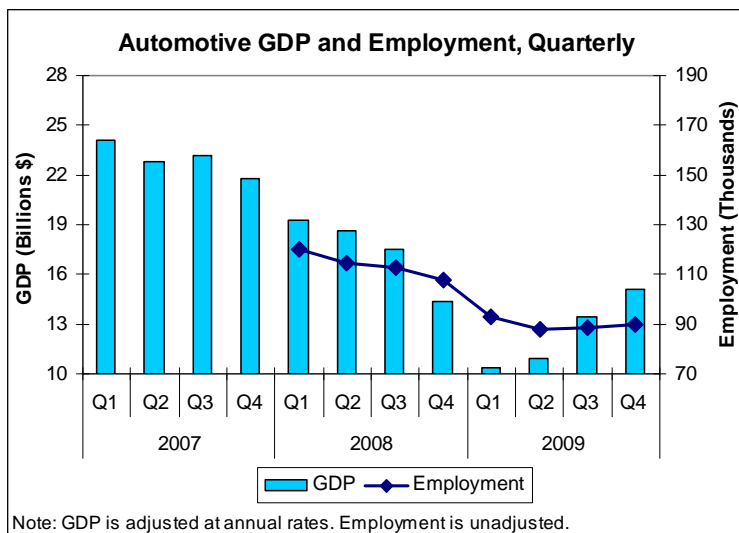
News from Ontario's steel industry has been relatively positive in recent months. Lakeside Steel reported a



70% increase in shipments and 60% increase in revenues during the first three months of 2010 compared to Q4 2009.²⁶ In April, the company announced an additional production shift at its Welland plant to satisfy significantly stronger demand for its oil drilling related products.²⁷ This increased production, which will see the plant operating at full capacity from April to June, is due to increases in oil and natural gas prices, as well as recent international trade rulings against pipe products manufactured in China. While encouraging, increased production is not anticipated to result in the creation of new jobs; additional labour requirements are expected to be fulfilled internally.²⁸

U.S. Steel's 1,000 unionized workers ratified a new three-year labour deal in April, effectively ending an eight month lockout at the steelmaker's Nanticoke plant.²⁹ Approximately 800 workers were laid off at the plant in March 2009 when the company began scaling back production due to declining steel orders; the remaining 200 workers were locked out in August. Production is expected to gradually increase at the facility.

AUTOMOTIVE



The automotive industry recovery that began in the final months of last year continues to gain momentum with vehicle sales and production increasing through the first three months of 2010. While conditions in the auto sector have improved substantially, it is expected that the recovery this year will be gradual and the market will regain only a fraction of the losses experienced during the recession.³⁰

Ontario's automotive GDP continued to rebound in Q4 2009, gaining 12.2% over the previous quarter, but

remained well below levels seen earlier in the decade.³¹ In 2009, Ontario's auto sector lost over 24,000 jobs, a decline of 21.2%.³² Employment was down 16.4% in Q4 compared to the same time a year earlier, bringing the number of jobs in Ontario's auto sector to 90,000.³³ The majority of losses came from the parts sector, but vehicle manufacturing employment also fell.³⁴

The key U.S. auto market continued to improve. Light vehicle sales were up 15.5% for Q1 2010 compared to the same period a year ago.³⁵ Bolstered by aggressive incentive spending, March volumes in particular were up sharply. Fleet sales have also continued to increase from historic lows in 2009.³⁶ In Canada, Q1 light vehicle sales were up 15.0% compared to the previous year, and light truck sales were notably strong³⁷. Total light vehicle sales for 2010 are forecast to reach approximately 11.5M units for the U.S. and 1.5M in Canada.³⁸

With light vehicle inventories still at relatively low levels, manufacturers have been steadily increasing plant output in North America in response to rising demand for vehicles. North American output was up by 66.1% for Q1 2010 compared with the same period a year ago, with U.S. production up 60.2% and Canadian production up 78.6%.³⁹ It should be noted that these percentage increases are large due to the extremely low levels of production in early 2009. Light vehicle production in the North America is forecast to be about 10.9M units for 2010, up from 8.5M units in 2009, but still well below the 12.6M units in 2008.⁴⁰ Canada's production share is expected to remain stable at approximately 17%.⁴¹ Automakers are expected to keep production closely aligned with sales.⁴²

Change in Vehicle Production and Sales March 2010 YTD vs. March 2009 YTD* (% Change)			
	Canadian Production	North American Production	U.S. Light Vehicle Sales
General Motors	69.1%	65.2%	16.1%
Ford	129.1%	55.6%	36.7%
Chrysler	53.1%	53.5%	-5.3%
Honda	20.5%	51.7%	11.0%
Toyota	67.1%	87.7%	7.2%
Canada		78.6%	
United States		60.2%	15.5%

*includes production up to March 27, 2010 and March 28, 2009
Source: Automotive News Data Center

General Motors has recovered significantly from a year ago when the automaker was on the brink of a financial collapse and ultimately ended up filing for



bankruptcy. Sales for GM's four remaining brands were up considerably through March compared to the same time in 2009, and many newly introduced vehicles—including the Canadian-built Equinox, Camaro and Terrain—remain in short supply.⁴³ In response, GM has steadily increased its North American production.⁴⁴ Since July 2009, GM has invested US\$1.5B at 20 U.S. and Canadian facilities and restored or created 7,500 jobs.⁴⁵ GM will add a second shift and recall 700 laid-off workers at its Oshawa plant for the production of its Buick Regal beginning in Q1 2011. The company also recently announced that it would expand the CAMI plant in Ingersoll to produce more Terrains and Equinox crossovers. To carry out assembly and painting of the crossovers, a third shift will be added to the Oshawa plant in October 2010, resulting in the recall of 600 laid-off workers.⁴⁶ GM also announced a \$235M investment in its powertrain plant in St. Catharines, securing up to 400 jobs.⁴⁷ In April, GM announced that it had repaid \$8.4B in government loans, including interest, to the U.S. and Canadian governments. The U.S. government still owns 61% of the company and Canada owns roughly 12%. GM officials say a public stock offering could come in early 2011.⁴⁸

Almost a year after emerging from bankruptcy, Chrysler Group LLC issued its first financial results since 2007. Chrysler posted a Q1 operating profit of US\$143M, and reported that it was generating cash, thus reducing the likelihood that it would need more government aid.⁴⁹ The automaker, which is now 20% owned by Fiat SpA, is attempting to improve manufacturing efficiency and reduce high incentive spending, but still faces the challenge of stabilizing its market share with a lack of redesigned products and in a brutally competitive environment.⁵⁰ Chrysler's production was up in Q1, but U.S. sales remained weak, and it was the only major automaker to post a decrease for Q1 2010 compared to Q1 2009.⁵¹ However, sales were driven by more profitable retail customers, as the proportion of sales to fleet buyers remained relatively high.⁵² The Windsor Assembly plant, which assembles minivans, continued to operate three shifts, but the CAW recently voiced concerns about the company's falling U.S. market share.⁵³ The redesigned Grand Cherokee will be available in dealerships by early summer and will feature Chrysler's new Pentastar V-6 engine.⁵⁴ The Fiat 500 subcompact and new versions of the Chrysler 300 and Dodge Charger full-sized cars are also expected later this year.

Ford Motor Company posted a US\$2.1B profit in Q1, its fourth consecutive quarterly profit, and its highest

quarterly pretax profit in six years.⁵⁵ Ford continued to gain U.S. market share based on a strong product lineup and incentive offerings that were increased to compete with Toyota's aggressive campaign.⁵⁶ The company has invested \$1.8B in powertrain engineering and facility upgrades in North America to support its 2011 vehicle launches.⁵⁷ In February, the Ontario government announced additional funding for the advanced powertrain research centre at the Ford Essex Engine Plant in Windsor, building on earlier provincial and federal government investments for the project. In turn, Ford plans to increase its investment in the plant, bringing the total to \$736M.⁵⁸ The plant will produce a more fuel-efficient 5.0-litre V8 engine for the Mustang sports car.

Toyota Motor Corp. continued to deal with the fallout and mounting costs of a series of global recalls. The company recently reported implementation of approximately three million remedies on more than eight million recalled vehicles.⁵⁹ In its latest setback, Toyota temporarily suspended the sales and production of its Japanese-built 2010 Lexus GX 460 following a Consumer Reports warning regarding the vehicle's stability control.⁶⁰ Top Toyota officials have been called before U.S. and Canadian government committees, and the U.S. National Highway Traffic Safety Administration imposed a record US\$16.4M penalty on the company.⁶¹ In March, Toyota launched an aggressive marketing and incentive campaign to retain customers. There was a strong surge in car and truck sales for the month,⁶² but there are concerns about the incentives eroding prices of Toyota's used vehicles.⁶³ As a result of the pedal recall in January, production of the eight affected models at Toyota's North American facilities, including its Canadian operations, was halted for the first week of February.⁶⁴ However, production was still up in Q1.⁶⁵ The Woodstock plant recently added a second shift, creating jobs for about 800 new workers.⁶⁶

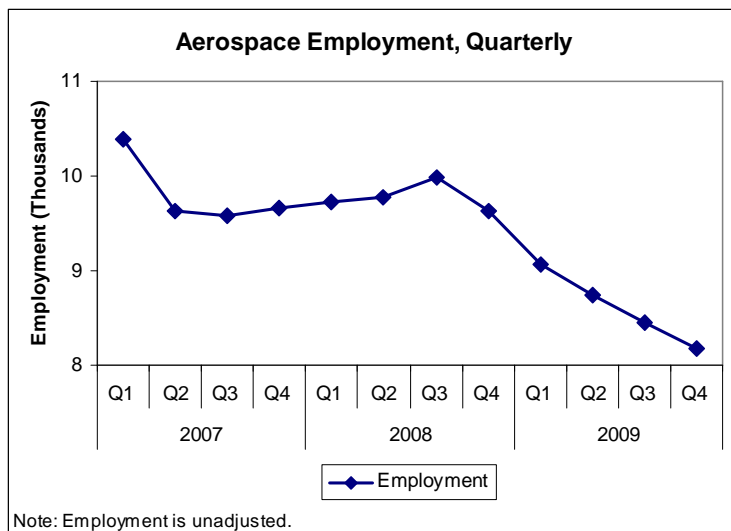
Honda also announced plans to restart a shift and add 400 jobs in early 2011 at its assembly plant in Alliston due to stronger demand for its Civic and Acura MDX. The company had cut the plant's second shift in February 2009 as auto demand plunged. With a market recovery underway, Honda has steadily increased North American production.⁶⁷

Manufacturing activity in the auto parts sector has also risen. In Canada, auto parts shipments are forecast to grow by more than 20% in 2010.⁶⁸ However, competitive pressures, including the relatively strong Canadian dollar and rising commodity prices, are being felt by Canadian suppliers. Canada's share of overall Canada/U.S. auto parts shipments has fallen to



less than 8%, down from a peak of 10% in 2005.⁶⁹ Furthermore, with current excess capacity in the global auto sector, vehicle manufacturers are expected to continue reducing the number of parts companies in their supply base.⁷⁰ At the same time, some suppliers who are increasing production have reported difficulties finding qualified workers.⁷¹ Many skilled workers, particularly in the tool and mould industry, may have left the sector in search of other employment during the recession.⁷²

AEROSPACE



Ontario's aerospace industry, which produces aircraft parts and systems, accounted for 27.1% of Canadian aerospace GDP in 2009, second in Canada behind Quebec at 62.8%.⁷³ Approximately 350 aerospace companies are located in Ontario and over 70% of their products are designated for export.⁷⁴ Notable firms with a presence in Ontario include Bombardier Aerospace, Pratt & Whitney Canada, Honeywell Canada, L-3 Electronic Systems, Magellan, and Northstar Aerospace.⁷⁵

Ontario's aerospace GDP was relatively stable in 2009, falling only 0.4%, compared to a national decline of 4.7%.⁷⁶ However, in the first two months of 2010 Ontario's shipments were one-quarter lower than the same period a year ago.⁷⁷ With the exception of a small increase in 2005, aerospace employment in Ontario has fallen every year since 2002.⁷⁸ In 2009, employment was down by 11.9%, a loss of over 1,100 jobs. Losses were steeper in the second half of 2009, registering declines of over 15% in both Q3 and Q4 when compared to the same period a year earlier.⁷⁹

According to the Ontario Aerospace Council, the outlook for the industry in the province is positive; firms are increasingly confident about 2010 and are

planning for growth in 2011 and beyond.⁸⁰ A number of new aircraft programs are entering the production stage, which will lead to increased business activity. One example, the Boeing 787 Dreamliner program, involves some 30 Ontario companies. Ontario companies also have significant roles in other key programs, such as the Lockheed Martin F35 Lightning II joint strike fighter and the Airbus A350.⁸¹ In the regional aircraft market, deliveries of turboprops have shown strong growth and are expected to remain steady or grow slightly over the next several years. This trend would benefit Bombardier Aerospace Toronto, which builds the Q400 turboprop airliner.⁸²

There have been a number of recent aerospace investment announcements in the province. In May, Quebec-based Héroux-Devtek announced it would invest \$26.5M in its Kitchener landing gear facility. The province is supporting the project by making a contribution of nearly \$4M to help foster innovation and enhance the facility's global competitiveness.⁸³ The federal government also announced a \$2.3M investment in Centra Industries Inc., based in Cambridge, Ontario, which manufactures aerospace parts for commercial and military aircraft. The investment is expected to create 41 jobs and help the company meet existing and future contract demands from Boeing and other prospective clients.⁸⁴

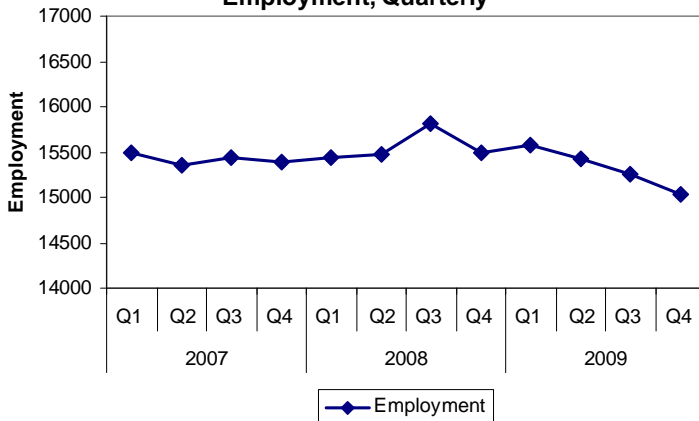
Despite these good news stories, Claude Lajeunesse, President and Chief Executive of the Aerospace Industry Association of Canada (AIAC), has stated that Canada's aerospace SMEs are struggling despite the success of stronger prime contractors such as Bombardier, CAE and Pratt & Whitney Canada.⁸⁵ "Many of Canada's aerospace firms lack the technology and the financial resources to compete on global projects, where original equipment manufacturers want suppliers to integrate advanced systems and share the risk of expensive development programmes."⁸⁶ The AIAC has suggested that to be competitive at the Tier 1 level, smaller Canadian firms need to start partnering on major projects, rather than seeing each other as competitors. Such partnerships would allow for increased financial leverage in order to make investments in new technology ahead of European and American counterparts.⁸⁷

BIOTECHNOLOGY AND PHARMACEUTICAL

Ontario, a leading region in the pharmaceutical and biotechnology industries, is home to more than half of the brand-name pharmaceutical companies in Canada and has recently overtaken Quebec as the number one biotech spot in Canada.⁸⁸ Ontario is the largest hub of biomedical activity in the country and fourth largest biomedical research centre in North America.⁸⁹



**Pharmaceutical and Medicine Manufacturing
Employment, Quarterly**



Note: Employment is unadjusted.

Ontario has 33% of Canadian biotechnology companies⁹⁰ and ranks 6th in North America in terms of revenue earned.⁹¹ FierceBiotech named Ontario one of the top five places in North America for biotech in 2009.⁹² The economic downturn hurt the Canadian biotech sector but the recovery seems to be taking hold, as the S&P/TSX Health-care index gained 18% in the second half of 2009.⁹³

Ontario's pharmaceutical and medicine manufacturing GDP rose 11.4% in 2009 adding to three years of strong growth.⁹⁴ Nationally, GDP for the pharmaceutical and medicine manufacturing industry, of which Ontario accounts for 61%, climbed 9.0% in 2009; Q4 GDP was up 7.5% over the same period last year.⁹⁵ Demand for pharmaceutical products continued to rise as total spending on pharmaceutical drugs in Canada was estimated to increase 5.1% to \$30B for 2009.⁹⁶ Ontario shipments grew nearly 11% in 2009 over the previous year, and continued growing at approximately the same pace in the first two months of 2010.⁹⁷ While exports also grew in 2009, the first two months of the year saw a decline of 27.8% over last year.⁹⁸ Losses were mainly driven by Ontario's biggest export market, the U.S., but large declines also came from Switzerland, Ireland and France.⁹⁹

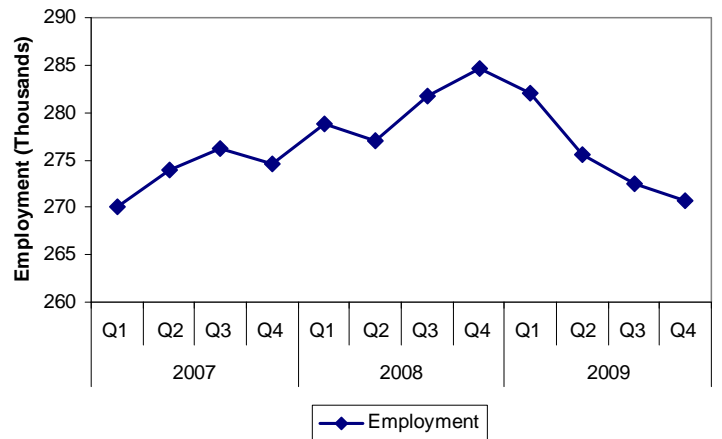
Despite improvements in shipments and annual GDP, employment in the pharmaceutical and medicine manufacturing sector dropped 2.9%, or about 450 jobs, in Q4 2009 compared to same period in 2008. This followed a 3.6% reduction in Q3.¹⁰⁰ A 2009 BIOTECanada study indicated that biotechnology employment was also declining. The study found that 2,500 scientists lost their jobs in Canada during the first six months of 2009 and another 7,000 jobs were in jeopardy.¹⁰¹

Total venture capital (VC) activity in the life sciences, both nationally and provincially, plummeted in 2009. Sector VC activity decreased 41% in Canada, down to \$215M in 2009 compared to \$365M in 2008. Life sciences accounted for 20% of total VC investment in 2009 and in Q4 the total dollar amount invested in the sector was \$44.2M. In Ontario, total annual VC activity in the sector decreased by 64% from 2008. Investment rebounded in Q4, with provincial life science sector investment reaching \$22.65M, or 48% of the 2009 total. In Q4, \$15.5M, or 68% of investment, went to seven companies in the pharmaceutical industry, the majority of which are located in the Greater Toronto Area.¹⁰²

On April 30, Ontario announced its \$161M life sciences commercialization strategy. Announcements have included a \$21.4M investment in the Health Technologies Exchange which helps firms commercialize medical technologies and a \$7M financing round for biotech firms.¹⁰³

INFORMATION AND COMMUNICATIONS TECHNOLOGY

ICT Employment, Quarterly



Note: Employment is unadjusted.

Canada's ICT industry is largely concentrated in Ontario, with the province accounting for about half of the national ICT sector's GDP, revenues and employment. Ontario is also home to more than 16,000 ICT firms including some of the country's largest industry leaders, such as IBM, Alcatel-Lucent, AMD, Cognos, Rogers, OpenText, RIM, Celestica and Aastra.

Almost 5% of Ontario's total 2009 employment was concentrated in the ICT sector, making ICT a more important source of employment for Ontario than any other region of Canada.¹⁰⁴ Ontario averaged 270,700 ICT employees in Q4 2009. Employment fell for the



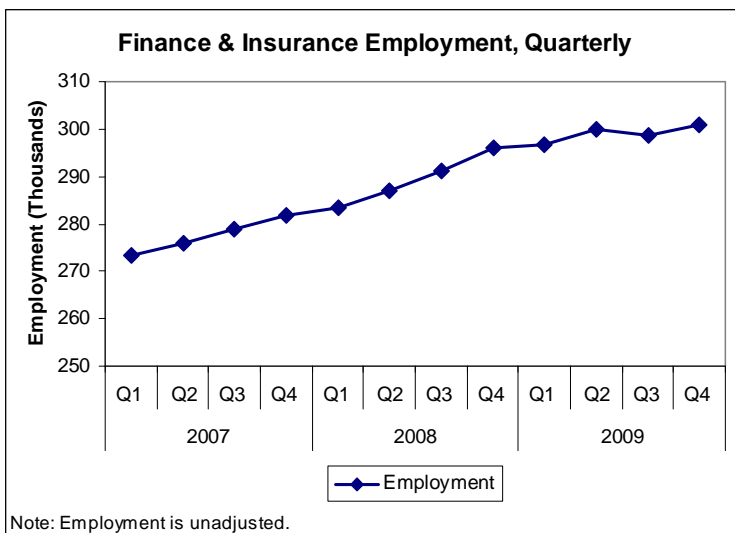
third consecutive quarter in Q4 2009, down by approximately 5% from a year ago.¹⁰⁵ These losses were spread across both the manufacturing and services sub-sectors.

The ICT sector contributed \$27.6B, or 5.8%, to Ontario's GDP in 2009, with about 80% of output generated by ICT services and 20% from manufacturing.¹⁰⁶ GDP for 2009 fell by 1.1%, the first annual decline since records began in 1997.¹⁰⁷ ICT manufacturing output fell 3.2% while services output was down by 0.7%. ICT manufacturing shipments began declining in 2009 and have continued trending downward in the first two months of 2010.¹⁰⁸

Ontario's ICT sector, which accounted for nearly 70% of Canada's ICT manufacturing exports, saw exports fall for the second consecutive year in 2009, down 9.1%.¹⁰⁹ Losses were largely driven by declines in exports to the U.S., which made up about 70% of Ontario's ICT exports. However, Mexico is becoming a bigger player, accounting for 7% of exports in 2009 and posting impressive growth of 57.3% for the year. Unfortunately total exports continued trending downward during the first two months of 2010, declining by over one-quarter compared to the previous year.¹¹⁰

Given the current global emphasis on climate change, environmental awareness, and carbon trading, there are significant opportunities for Ontario firms to capture the Green IT market.¹¹¹ Many Ontario firms are already showing significant strengths in Green solutions with a number of companies, including Eco Waste Solutions, ecobee, Energate, and Enviro Tower Inc., being awarded the Deloitte 2009 Technology Green 15 Award, which recognizes Canada's leading Green Tech companies.¹¹²

FINANCE AND INSURANCE



The financial services sector employs roughly 285,000 people in Ontario and accounts for 7.7% of Ontario's total GDP.¹¹³ About 230,000 in the sector are employed in Toronto, making the city the third largest financial centre in North America after New York and Chicago. Another 290,000 jobs are indirectly supported by the sector.¹¹⁴ Toronto is home to the headquarters of Canada's five largest banks, six of the country's top insurance companies, over 100 securities firms, and the Toronto Stock Exchange—Canada's senior equities market and the third largest equity exchange group in North America.¹¹⁵ Although Toronto dropped from 11th to 13th in the most recent Global Financial Centres Index, its absolute score improved and the city remained third in North America behind New York and Chicago.¹¹⁶

Output for Ontario's banks and insurance firms was \$31.9B in 2009, an increase of 26.7% since 2000, compared to the 12.5% growth seen for Ontario's economy overall. The sector continued to grow in 2009, increasing by 3.4% while the Ontario economy succumbed to recession and shrank by 3.1%. Banks have accounted for a significant portion of the growth, increasing 37.6% since 2000 and 4.0% since 2008, while insurance companies showed modest growth of 1.9% over the previous year, and have only added 3.6% to output since 2000.¹¹⁷

With a 0.5% drop between Q2 and Q3 2009, employment in the financial services sector ended an unbroken string of job gains dating back to late 2003. However, the sector resumed hiring in Q4, with employment growing by 5,000 over levels seen a year ago. This made financial services the only significant private sector employer to add jobs over the last year. The insurance industry added the bulk of the new jobs; while employment has dropped slightly over the last six months, it is still up 4.9% (3,700 jobs) over levels seen a year ago. Banks have increased hiring slightly, while securities and investment firms have shed 1,100 jobs over the last four quarters.¹¹⁸

Building on a strong performance in Q4, Canada's five largest banks boosted earnings further to reach \$5.1B in Q1 2010 (ending January 31). Net profits were up 71% over Q1 2009, when many banks were still recovering from the impact of the global credit crisis. All five banks increased their return on equity compared with the previous quarter, with the exception of CIBC which posted ROE of above 20% for each of the last two quarters. Four of the five banks also raised their Tier I capital ratios, with levels remaining above 11% across the board.¹¹⁹ Canadian regulators have asked the banks to maintain elevated capital ratios in anticipation of higher capital standards



likely to come out of international negotiations on regulations for the financial sector.¹²⁰

Canada's Top Five Banks: Q1 2010 Earnings				
	2010 Q1 earnings (millions)	Change in Earnings from Q1 2009 (%)	2010 Q1 ROE (%)	Tier 1 capital ratio (%)
BMO	\$657	192%	14.30%	12.50%
CIBC	\$652	344%	21.50%	13.00%
RBC	\$1,497	35%	17.50%	12.70%
TD	\$1,297	99%	14.00%	11.50%
Scotia	\$988	17%	17.40%	11.20%

New international financial regulations could have a significant impact on the sector's competitiveness. Bank CEOs have expressed their concerns about several proposals currently being considered, including a tax on banks and higher requirements for capital against outstanding mortgages, which are designed to address problems that surfaced in other countries and could undercut the strengths of the Canadian model.¹²¹

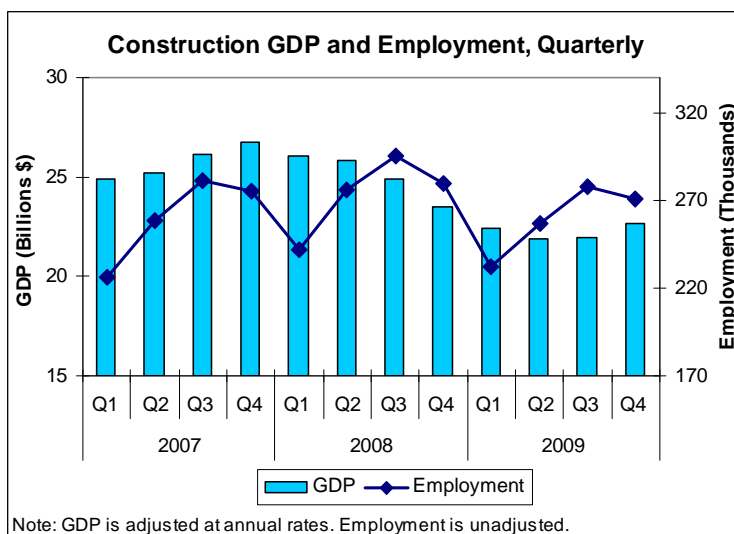
While remaining cautious as they await the outcome of regulatory negotiations, some Canadian banks are taking advantage of their relative strength to expand their operations outside Canada. Acquiring failed U.S. banks from the Federal Deposit Insurance Corporation (FDIC) is allowing Canadian banks to build their U.S. presence while risk-sharing loan losses with FDIC. FDIC closed 63 U.S. banks in the first four months of 2010¹²² after shutting down 140 in 2009.¹²³

BMO was successful in expanding in the U.S. mid-west by purchasing Amcore, with 52 branches and \$2.5B in assets,¹²⁴ while TD more than doubled its presence in Florida by acquiring three failed banks¹²⁵ and Scotiabank bought one of six failed banks, along with \$5.6B in assets, in Puerto Rico. RBC is focused on expanding its investment banking arm in the U.S. by taking market share from industry leaders like Goldman Sachs.¹²⁶ CIBC, which was hit hardest by write-downs from the credit crisis, is adopting a more conservative approach and focusing its expansion efforts within Canada.¹²⁷

Improved economic conditions boosted earnings at Ontario's two major insurance firms in Q1, both of which exceeded market expectations. Thanks in large part to gains in equity markets, Manulife reported profits of \$1.15B for the quarter (ending March 31), compared with losses of over \$1B one year ago, and improved its capital levels.¹²⁸ Sun Life earned \$409M,

compared with losses of \$213M one year ago, with higher equity markets and improved credit conditions figuring prominently in the turnaround.¹²⁹

CONSTRUCTION



Ontario's construction sector GDP climbed 3.1% in Q4 2009, following a 0.2% increase in Q3, illustrating that the sector, along with the economy as a whole, was on the mend. Although growth in output is a sign that the sector is recovering, output had fallen in each of the previous six quarters and it will take some time for the sector to return to pre-recession levels. Q4 gains were led by the resurgent residential buildings sub-sector, which advanced 9.3% following five straight quarters of decline. The non-residential and engineering construction sub-sector, however, was down 0.8% after positive Q3 growth.¹³⁰ In 2009, overall construction sector output sank 5.2%.¹³¹

Quarterly trends in sector GDP were mirrored by provincial housing starts, which climbed in Q4 by 23.6% compared to Q3, the strongest single quarterly growth since Q3 1991. Housing starts had weakened in every quarter dating back to Q2 2008 until the trend stopped in Q3 2009. The strong second-half growth, however, was not enough to compensate for the massive losses earlier in 2009. Starts fell by 33.7% in 2009.¹³² The Conference Board of Canada forecast growth in Ontario housing starts of over 20% in both 2010 and 2011.¹³³

Employment in the construction industry dropped for the fourth consecutive quarter in Q4 2009, down by 3.2% compared to the same quarter the prior year. Employment losses were particularly severe in the heavy and civil engineer construction sub-sector, down 6.3%, or more than 2,400 jobs. Although all sub-sectors were below 2008 levels, employment



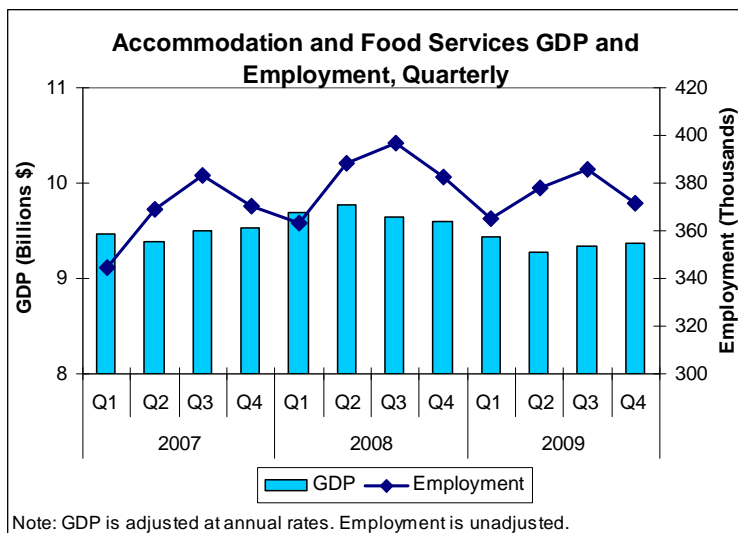
declined the least in the non-residential building sub-sector. Overall, annual employment in 2009 fell 5.2% for a net loss of approximately 14,100 jobs. This was the first annual job loss since 1993.¹³⁴ These findings are consistent with an industry survey that found that most contractor firms employed fewer workers in 2009 and that the number of firms with less than ten employees increased by 26%.¹³⁵

The total value of building permits was up 30.8% in Q4 compared to the same period in 2008. This increase was the result of a 42.2% surge in the value of residential permits and a lesser, but still substantial, 13.9% rise in the value of non-residential permits. Compared to Q3 2009, the value of permits was up 34.3% following a decline in value in the previous quarter. Comparatively, Canada's overall value of total permits rose by 19.8%. Although not all census metropolitan areas (CMAs) in the province experienced growth, Toronto, which accounts for slightly more than 44% of all permits in the province, saw the value of its permits increase by 54.6% from Q3.¹³⁶

Looking ahead, the resurgent housing market may slow once interest rates rise and the harmonized sales tax (HST) is introduced. Similarly, the non-residential construction sector may cool as temporary infrastructure stimulus funding expires after March 31, 2011 and some future long-term capital and infrastructure projects are delayed, as outlined in the provincial budget. Only one-quarter of the firms surveyed in the annual Ontario Construction Secretariat survey of industrial, commercial and institutional construction contractors felt that stimulus funds had had a significant impact on their business activities in 2009. More firms felt that they would benefit from the infrastructure stimulus program in 2010 and two-thirds believed that federal infrastructure stimulus should be extended beyond March 2011. Members of the sector believed 2010 would be a strong year and most firms were entering the recovery period in a state of strong financial health.¹³⁷

TOURISM

The recession put constraints on consumers' discretionary spending, directly affecting the tourism industry. The number of international travellers entering Ontario hit yet another record low in Q4 2009. While there was a sharp 16.5% drop in international travellers compared to the same time a year earlier, there was only a slight drop from Q3.¹³⁸ Recovery of international travel is expected to be slow since improvement in employment will lag economic recovery.¹³⁹



The downward trend in international travellers began long before the most recent recession hit, with the first major drops observed following September 11, 2001. The decline continues to be driven by the U.S. market, which has fallen by more than 60% since Q4 2000.¹⁴⁰ Trips by automobile account for the majority of American trips to Ontario, and in 2009 passenger car border crossings fell by 10.9%. The crossings which faced the largest declines include the Detroit-Windsor Tunnel (-725,000) and the Peace Bridge in Fort Erie (-273,000).¹⁴¹ The Seaway International Bridge had over one million fewer crossings, largely related to protests which closed the crossing for a number of months. In Q1 2010, border crossing turned the corner and grew by 1.4% over the same time a year earlier.¹⁴²

The domestic market plays an important part in Ontario's tourism industry, accounting for the majority of travel in the province. During the recession the "staycation" trend emerged, and in 2009, outbound travel by Ontarians fell by 9.7%. However, economic conditions are improving and the Canadian dollar has risen against the American dollar and other currencies,¹⁴³ leading to possible growth in outbound travel. In January 2010 outbound travel grew by 8.5% compared to January 2009.¹⁴⁴

There were an estimated 712,000 people employed in Ontario's tourism-related industries in 2009.¹⁴⁵ The largest concentration of these workers was in accommodation and food services, which experienced a 2.9% decline in Q4 2009 compared to Q4 2008, bringing annual losses to 2.0%.¹⁴⁶ Compared to earlier in the year, where losses were more acute in accommodations, the majority of losses in Q4 were in food services. On a positive note, in January 2010, employment in accommodations improved slightly



compared to a year earlier, the first year-over-year monthly increase since late 2008.¹⁴⁷

There is concern that in coming years Ontario's supply of labour in the tourism industry will not keep up with demand. The Canadian Tourism Human Resource Council projects that labour shortages could reach 98,000 full-year jobs by 2025.¹⁴⁸ Food and beverage services are expected to experience the largest shortages. Many tourism operators will also be affected by the Ontario minimum wage increase that was implemented on March 31, 2010, pushing rates up 75 cents to \$10.25 per hour.

Accommodation and food services output made a small gain for the second consecutive quarter in Q4 2009. GDP in Q4 was about 4% below the peak reached in Q2 2008.¹⁴⁹ Ontario hotel occupancy rates fell by 4.4 percentage points in 2009 to 57.1%.¹⁵⁰ Average daily room rates were down 5.9% for the period and revenue per available room declined by 12.6%.¹⁵¹

While the eruption of Iceland's Eyjafjallajökull volcano undoubtedly harmed the airline industry, the impact on the tourism industry is unclear, but likely negligible, at least in the short term. Stranded travellers filled hotel rooms and increased demand for other tourism-related expenditures.¹⁵² There is the possibility that plans to fly to or from Europe will be deferred or altered because of uncertainty related to future disruptions caused by the volcano.¹⁵³

RETAIL AND WHOLESALE TRADE

Combined retail and wholesale trade accounted for 12.2% of Ontario's GDP and employed 974,000 people in 2009.¹⁵⁴



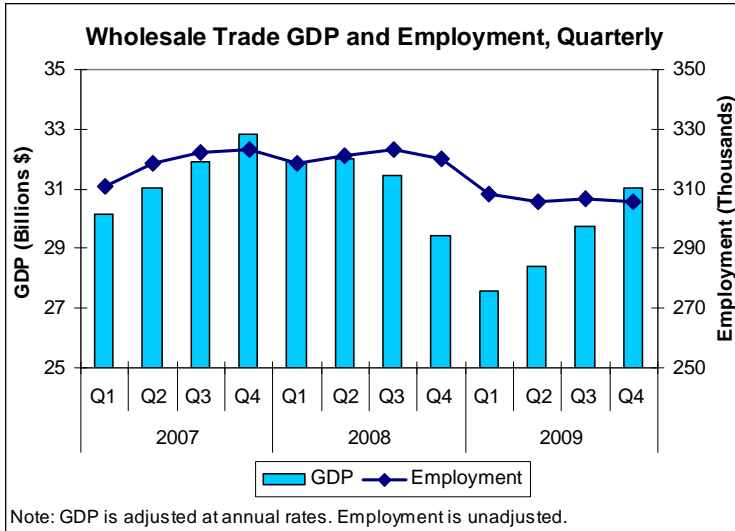
Continued improvement in retail sales has provided further evidence of economic recovery. In Q4 2009, retail sales improved by 1.0% over the previous quarter and by 2.7% compared to a year earlier.¹⁵⁵ Sales continued growing in the first two months of 2010, and as of February, sales were only 2.0% below the peak reached in September 2008.¹⁵⁶ Compared to other provinces, however, Ontario underperformed for February 2010, growing just 0.1%. Weak February performance may be linked to the fact that Ontario had one of the hottest housing markets in the country, so when the home renovation tax credit ended on January 31, the province may have been disproportionately affected.¹⁵⁷ The outlook for 2010 is positive. RBC forecasts that Ontario retail sales will grow by 4.2% in 2010, slightly below the national average of 4.8%.¹⁵⁸ Growth in 2011 is expected to be even stronger.

Retail trade GDP experienced moderate or no growth in each quarter of 2009.¹⁵⁹ In Q4, home centres and hardware stores contributed to the 0.4% increase, along with new and used car dealers.¹⁶⁰ Employment, however, is lagging other retail indicators. Although employment fell by 0.6% in Q4 over the previous year, this drop was not as severe as declines in the previous two quarters.¹⁶¹ In fact, over half of retail sub sectors experienced employment gains, but losses in general merchandise stores and motor vehicle and parts dealers outweighed gains.

A number of large U.S.-based retailers have plans to tap into the Canadian market. Wal-Mart currently operates over 300 stores in Canada and plans to open 35 to 40 supercentres in 2010.¹⁶² These will include new stores, store relocations, expansions and remodels. The investment of almost half a billion dollars is expected to result in 6,500 store and construction jobs across the country. Amazon, an online book centre, has received approval from the federal government to open a "fulfillment centre" warehouse in Canada. Amazon will invest more than \$20M and is committed to creating Canadian jobs.¹⁶³ In addition, Target, a popular discount chain, has expressed some interest in expanding to Canada.¹⁶⁴ However, this move would not take place for at least three years.

Wholesale trade significantly contributed to Ontario's overall GDP growth in the second half of 2009. In Q4, wholesale trade output was up by 4.2%.¹⁶⁵ Wholesale sales grew by 4.3% in Q4 over the previous quarter and 3.4% compared to Q4 2008.¹⁶⁶ Somewhat unexpectedly, sales fell in February 2010, down 1.7% over January.¹⁶⁷ The decline is partly attributed to falling sales in motor vehicles and parts. In terms of employment, the wholesale sector continues to face





challenges as job losses have occurred for five quarters in a row as of Q4 2009.¹⁶⁸ All but one sub-sector (wholesale electronic markets and agents and brokers) lost jobs in Q4 2009. Losses were particularly concentrated in building material and supplies; machinery, equipment and supplies; and miscellaneous wholesaler-distributors.¹⁶⁹

(-7.9%), mix farming (-23.5%) and support activities (-40.6%). Crop production recorded employment gains (+1.9%) during the period. Annually, agriculture employment was relatively stable (-0.4%), as gains in crop and animal production were offset by losses in the mix farming sub-sector.¹⁷¹

Ontario's crop and animal production GDP totalled \$4.4B in 2009, a decline of 4.7% over 2008.¹⁷² Agricultural exports were down 8.4% for the year.¹⁷³ Exports of crops, which made up the majority of Ontario's agricultural exports, held relatively steady in 2009, and overall export declines were driven by a 26.0% fall in animal exports. Declines were particularly sharp in cattle, hog and pig exports.¹⁷⁴ Agriculture exports continued to fall in Q1 2009, down 15.4% over Q1 2008.

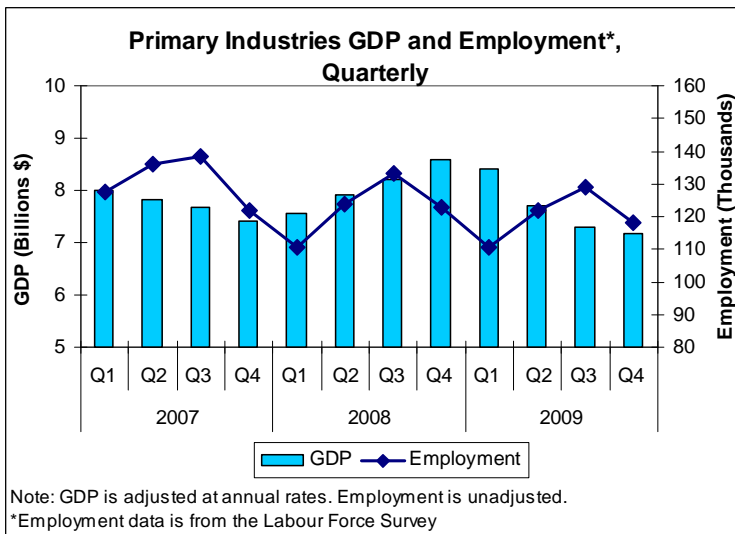
Towards the end of 2009, a number of international restrictions on Canadian agricultural products were lifted, benefiting Ontario farmers. China lifted bans on Canadian beef and pork and Russia opened its border to more Canadian beef and sheep breeding stock.¹⁷⁵ China's restrictions on Canadian canola remain in place, but there is hope that growing demand in China for canola products will result in easing restrictions.¹⁷⁶

In September 2008, the U.S. country-of-origin labelling (COOL) rule was imposed which requires meat and other foods sold at U.S. markets to indicate the country from which the food originates. In turn, this has dampened demand for Ontario exports, placing downward pressure on prices. Upon request from Canada and Mexico, the WTO appointed a three-member panel in May 2010 to look into whether the requirements are a violation of international trade laws.¹⁷⁷

MINING

Canada's mining sector experienced reduced production volumes and lower product prices in 2009, leading to a sharp drop in the value of minerals produced.¹⁷⁸ Ontario mining GDP hit a record low after dropping 20.2% in 2009.¹⁷⁹ Output fell for the fifth consecutive quarter in Q4 as labour disputes in the nickel mining industry continued to push production levels downward.¹⁸⁰

In Q4 2009, the province's mining sector directly employed about 14,500 workers with another 5,500 working in support activities.¹⁸¹ Sector employment fell more sharply towards the end of the year, with Q4 levels down by 27.8% over last year. Annually, employment was down by about 14.8%.



AGRICULTURE

With 81,400 workers, Ontario's agriculture sector accounted for 1.2% of provincial employmentⁱ, and just over a quarter of the nation's agricultural workers in Q4 2009.¹⁷⁰ Sector employment was down 6.4% from Q4 2008, led by job losses in animal production

ⁱ Employment data for this section is from Statistics Canada Labour Force Survey and is not strictly comparable to SEPH data used elsewhere.



Over 3,000 workers have been on strike at Vale Inco's Sudbury and Port Colborne operations since July 13, 2009. The company has begun to use replacement workers to restart some of its Sudbury operations. Also, Xstrata Copper began phasing out over 600 jobs in May as it shuts down its Kidd Creek Metallurgical Site in the Timmins area.¹⁸²

Nationally, spending on exploration and deposit appraisals fell by 46.7% in 2009, in part due to the global financial crisis and falling mineral and metal markets.¹⁸³ Ontario, which was the largest provincial contributor to spending, fared slightly better and was down 41.3% to \$469.4M.¹⁸⁴ However, Ontario's spending is expected to increase by 29.5% in 2010.¹⁸⁵

A rebound in commodity prices and a growing scarcity of resources is behind growth in mergers and acquisitions (M&A) in the mining industry.¹⁸⁶ In March, Toronto-based FNX Mining and Vancouver's Quadra Mining announced their merger.¹⁸⁷ The merger may help suppliers in Northern Ontario tap into global mining projects, including a \$2B mine construction project in Chile.¹⁸⁸ Ontario-based companies Queenston Mining and Vault Minerals will also merge, further consolidating property holdings in the Kirkland Lake Gold Camp.¹⁸⁹ Additional M&A activity may come from state-owned firms in countries such as China and India as they look to meet growing demand for commodities.¹⁹⁰

Looking ahead, the significant chromite (used to make stainless steel) discovery in northern Ontario, dubbed the "Ring of Fire", could support 100 years of steady mining according to some speculators.¹⁹¹ However, concern about development of the find has been expressed by both native and environmental groups.¹⁹² This summer, Northgate Minerals will begin construction of its Young Davidson gold mine located near Kirkland Lake with plans for full production in 2012. The project is expected to create 600 jobs during the construction phase and have between 275 and 300 employees working in the mine once it is complete.¹⁹³ In addition, a number of expansions and upgrades have been taking place in other Ontario mines.¹⁹⁴

FORESTRY

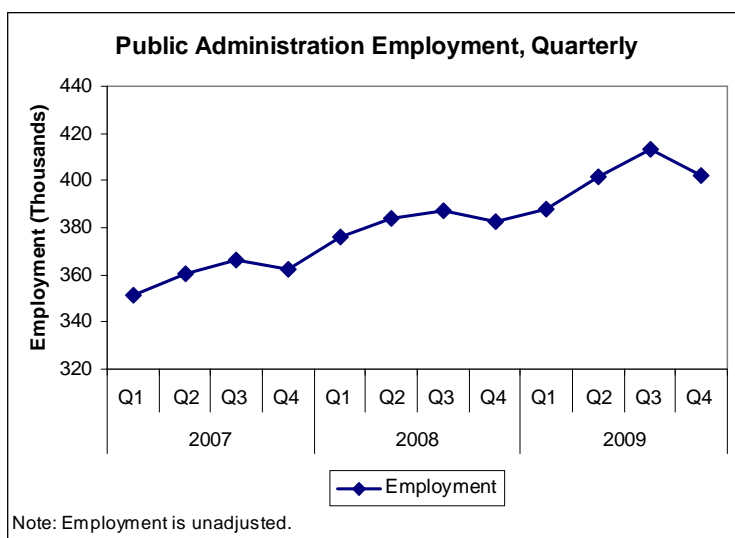
Forestry and logging contributed \$342.0M to Ontario's GDP in 2009. Sector output fell by 31.9% in 2009, largely related to the recession and a weak U.S. housing market. Forestry GDP has fallen in seven of the past ten years.¹⁹⁵ Paper and wood product manufacturing are highly integrated with the forestry industry and faced similar annual declines of 17.2% and 14.2% respectively.¹⁹⁶ Ontario's paper and wood product manufacturing shipments also fell sharply in

2009, but in the first two months of 2010, wood product shipments improved by 5.2% and declines in paper shipments slowed to just 2.8% over the same period last year.¹⁹⁷

The province's beleaguered forestry industry, which has suffered continuous year-over-year quarterly losses averaging 15% since Q2 2005, shed more jobs in Q4. Employment in forestry and logging was down 22.2% in Q4 compared to the same period last year while forestry support jobs fell by over 60%.¹⁹⁸

The paper sector continued to struggle into Q1 2010 with the suspension of production at St. Mary's Paper plant in Sault Ste. Marie on March 12¹⁹⁹ and the idling of one of Tembec's three newsprint machines in Kapuskasing.²⁰⁰ Canadian lumber, on the other hand, is forecast to begin a revival. China is becoming a factor in driving-up demand for lumber;²⁰¹ across Canada sawmill workers are being recalled with added shifts and new investment is coming into the industry.²⁰² Lumber producers in Canada also stand to gain from the elimination of export taxes on wood sent to the U.S. starting June 1,²⁰³ the first tax reductions to be implemented under the 2006 Canada-U.S. Softwood Lumber Agreement.²⁰⁴ The forestry sector will also see potential changes as a result of Domtar Corporation's sale of seven sawmills in Ontario and Quebec to B.C.-based EACOM Timber Corporation; the sale is expected to be finalized at the end of June 2010.²⁰⁵

PUBLIC ADMINISTRATION



The public administration sector, both in Ontario and nationally, is undergoing a transition as the economy recovers and stimulus funding is slowly withdrawn. The sector, which includes federal, provincial,



municipal, and aboriginal sub-sectors, faces the prospect of operational budget cuts and wage freezes as governments look to address deficits. The federal budget forecasts a \$53.8B deficit for 2009-2010 and has laid out a plan to eliminate the deficit by 2014-2015.²⁰⁶ Similarly, Ontario forecasts a deficit of \$21.3B with a plan to balance the books by 2017-2018.²⁰⁷

Ontario's public administration sector averaged 401,100 employees in 2009, an increase of 18,600 from 2008. Growth in Q4 reached 5.1%. The federal sub-sector accounted for 32.8% of Ontario's public service employees in 2009. Growth was relatively flat in 2009²⁰⁸ and this trend may continue as federal departments respond to Budget 2010's cost restraint initiatives.²⁰⁹ Municipal government is the largest segment of the public sector, accounting for 44.4% of employees in 2009. Growth of 1.3% in Q4 brought annual gains to 1.7% for this sub-sector.

The provincial sub-sector, which accounts for 20.6% of the overall sector, saw the largest employment growth in 2009, up 22.4%. Employment grew by 24.0% in Q4 2009 in comparison to the same period in 2008, the fourth consecutive quarter where growth exceeded 20%.²¹⁰ These growth rates could be affected by Ontario's recent budget, which aims to restrain program spending growth over the medium-term, in part by launching a comprehensive review of all government programs and services and imposing a cap on current employment levels. Approximately 350,000 non-bargaining public-sector workers had their compensation structures immediately frozen for two years while 710,000 unionized workers will have salaries frozen as collective agreements are renegotiated. Municipalities have been asked to take similar steps to manage spending.²¹¹

CLEAN ENERGY

Globally, the clean energy sector has been expanding rapidly in recent years. The wind and solar industries grew by 24% and 53% respectively from 2000 to 2008, and as of 2007, the sector was larger than the global pharmaceutical industry.²¹²

Ontario's Green Energy and Green Economy Act (GEA) taps into this expanding sector through its Feed-in Tariff program (FIT), which uses 20 and 40 year contracts to pay a fixed price for electricity generated with clean energy.²¹³ So far, over 1,300 contracts have been granted, including a contract for Loblaw's to install rooftop solar installations on 136 of its Ontario stores.²¹⁴ Of the 184 large-scale contracts awarded, 76 are solar photovoltaic, 47 are on-shore wind and 46 are waterpower projects.²¹⁵

The FIT program's domestic content requirements are expected to help create 50,000 new jobs in the province as the GEA will require certain projects to have 60% local content as of 2012.²¹⁶ These requirements have led to opposition from the EU, which is currently involved in free-trade talks with Canada.²¹⁷ Japanese officials also recently stated their concern with the requirements and would not rule out the possibility of a legal challenge through the WTO.²¹⁸

The FIT program has opened the door for foreign direct investment. Korea's Samsung Group will invest \$7B in wind and solar energy production and in turn the company will receive \$437M from the province to build four factories in the high unemployment areas of Windsor, Chatham and Haldimand County.²¹⁹ The deal is expected to create 16,000 jobs, including 1,440 jobs in the four new factories.²²⁰ The Danish manufacturer Vesta is expected to enter the market by becoming the exclusive supplier of wind turbines to Toronto-based Trillium Power.²²¹ Hind High Vacuum Company (HHV), an Indian solar panel manufacturer, and Canadian company Solar Source Corporation announced in May that they are forming a partnership and plan to build a solar panel manufacturing facility at the Windsor International airport. The plant is expected to create 200 jobs.²²² Also, German solar-panel mounting systems manufacturer Schletter Inc. recently opened a Windsor office.²²³

There are a number of local manufacturers that have taken advantage of FIT and moved into the clean energy sector. Linamar Corporation, better known for manufacturing automotive parts, recently signed a contract to develop and produce parts used in solar energy production.²²⁴ The company also signed a 10-year supply agreement to manufacture the first made-in-Ontario wind turbine at its headquarters in Guelph. The company expects its energy-related business to grow to \$1B annually within the next 10 years, up from \$50M in 2008.²²⁵ Another auto parts manufacturer, Markham based Woodbine Tool and Die, has entered a solar panel manufacturing partnership with Ottawa-based Menova Energy.²²⁶

The GEA has sparked interest from the financial sector. CIBC recently announced the formation of a 10-person green energy team²²⁷ and a recent Deloitte survey has shown that venture capitalists are starting to take note, though Canadian companies only raised \$35M of venture capital in Q1 2010.²²⁸ Canada's debt capital market for clean energy projects also remains tight with only half of the \$10B in investment needed over the next four years currently available.²²⁹



The province is facing some municipal opposition to wind energy development over fears of potential health issues and the lowering of property values.²³⁰

The potential for wind farms to have a negative affect on tourism was also recently raised by the president of the Tourism Industry Association of Ontario.²³¹

ISSUES FACING THE PROVINCIAL ECONOMY

BUSINESS CONDITIONS

The pace of economic recovery in Canada has continued to exceed expectations, with real GDP growth of 1.2% in Q4 2009²³² and an increase of 0.6% in January.²³³ According to the Bank of Canada, the recovery is now expected to be somewhat more “front-loaded” than anticipated, resulting in revised GDP growth projections of 3.7% in 2010, 3.1% in 2011, and 1.9% in 2012. This forecast was based on the expectation of stronger global growth in the near term, a robust housing market in Canada, and government stimulus that brought expenditures forward.²³⁴

Along with improving economic indicators, inflation has also been higher than expected. The Bank responded by removing its conditional promise to keep the overnight interest rate at 0.25% until the July announcement contingent on the inflation outlook.²³⁵

However, lower-than-expected retail sales data for February, combined with March Consumer Price Index (CPI) figures coming in below expectations, could justify maintaining low rates a little longer.²³⁶

A strong Canadian dollar continues to act as a drag on economic recovery, with the loonie reaching parity with the U.S. dollar several times in April. The dollar’s value is particularly challenging to Ontario’s manufacturing sector.²³⁷ Although the Bank of Canada does not forecast the value of the dollar, it assumed an exchange rate of US\$0.99 per Canadian dollar in its April Monetary Policy Report, up from US\$0.96 in its previous report.²³⁸

Consumer demand and retail sales have been supported by increasing employment in Ontario. The province gained over 10,000 new jobs in March, leading the unemployment rate to drop from 9.1% in February to 8.8% in March.²³⁹ Since sustainable economic recovery depends on private sector growth, it is notable that employment growth has been stronger in the public sector (2.0%) than the private sector (1.4%) in Canada since July 2009.²⁴⁰ Public sector employment growth would not be expected to be a strong contributor to overall employment growth in 2010 based on both Ontario’s freeze in the size of the public sector²⁴¹ and on moves by the federal

government to eliminate growth in public service spending.²⁴²

After stabilizing in late 2009, credit conditions in Canada began easing in early 2010, according to the Bank of Canada’s Senior Loan Officer Survey. Both the price of credit and non-price terms eased during Q1 2010. There was divergence, however, between types of borrowers. Lending conditions eased for the third consecutive quarter for corporate borrowers as access to capital markets improved. Conditions for small businesses and commercial borrowers, however, stabilized in Q1 after tightening over a number of quarters.²⁴³

The Bank’s Business Outlook Survey for Q1 2010 also reflected improving conditions. While firms responded that sales growth had slowed over the previous twelve months, they expected sales growth to increase over the following year. Firms also expected to increase investment in machinery and equipment, increase employment, and maintain or increase prices. Larger firms continued to report broadly easing credit conditions, while small and medium firms tended to report stable or tightening credit.²⁴⁴

Business insolvencies in Canada were down by 18.5% in January 2010 compared to January 2009. In Ontario, there were 14.9% fewer business insolvencies for the same period. Ontario’s consumer insolvencies declined by 4.8% from January 2009 to January 2010, compared to the drop of 1.9% across Canada.²⁴⁵

Consumer confidence has been mixed over the past few months. While employment expectations improved across Canada, Canadians did express concerns about their financial situations. Ontario’s index actually fell 2.7 points in March to 81.3, leaving the province in last place.²⁴⁶

U.S. ECONOMY

With nearly 80% of Ontario’s exports destined for the U.S., economic conditions there continue to play a key role in Ontario’s recovery. Despite a sharp drop in exports to the U.S. in 2009, Ontario still sent over \$100B in goods to the U.S. last year.²⁴⁷

Following an annualized 5.6% increase in Q4 2009, U.S. GDP grew at an annual rate of 3.2% in Q1 2010 according to the advance estimate.²⁴⁸ This rate was slightly below the consensus expectations of 3.4%.²⁴⁹ Growth was supported mainly by higher personal consumption expenditures (+3.6%) and investment in private inventory, while spending by state and local governments was lower (-3.8%). Consumption was also shored up by a decrease in the personal saving



rate from 3.9% in Q4 2009 to 3.1% in Q1 2010,²⁵⁰ leading to questions about the fundamental strength of the recovery.²⁵¹ In general, expectations are for continued moderate growth in U.S. GDP.²⁵²

U.S. unemployment remained at 9.7% for the third consecutive month in March 2010 as nonfarm payroll employment grew by 162,000 jobs. More new jobs had been expected, but hiring for the 2010 census was slower than anticipated.²⁵³ The labour force participation rate continued to grow, as did the number of involuntary part-time workers—those who would prefer full-time employment but were unable to find it. Job growth came mainly from temporary help services and healthcare, in addition to hiring for Census 2010. Employment declined in financial activities and the information industry.²⁵⁴

The fiscal situation in the U.S. remains a large challenge with the Congressional Budget Office projecting a total deficit of \$1.7 trillion from 2010 to 2019. Analysis of tax revenues has shown that tax increases alone would be a politically unfeasible strategy for reducing deficits to more modest levels, and that significant spending cuts will also be necessary.²⁵⁵

Financial sector reform continues to be a priority for the Obama government. Establishment of a consumer regulator, improved regulation of derivatives, and limits on the size of financial institutions are under discussion.²⁵⁶ Reform proposals by the U.S. administration and by the International Monetary Fund have also included a tax on banking activities intended to provide capital to support the industry in case of future difficulties.²⁵⁷

Commercial and industrial (C&I) lending standards to medium and large firms in the U.S. eased slightly in Q1, but credit conditions remain relatively tight. There was little change in lending standards to small firms. On the consumer lending side, conditions generally tightened for credit cards, but eased for other consumer loans.²⁵⁸

There have been signs of improvement in the U.S. housing sector. After four months of declines, new home sales rose in March by 26.9% from February's record low to 411,000 units (annualized).²⁵⁹ Although existing home sales also increased in March (+6.8%),²⁶⁰ housing activity remains relatively low.²⁶¹ Some analysts warn that near term increases in new home sales could quickly turn negative later this year if tax credits for new home purchases are allowed to expire.²⁶²



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