Ontario Economic Overview

November 2009 Update

HIGHLIGHTS

- Most of Ontario's economy continued to suffer from the impacts of the global recession; however, there have been some emerging signals of recovery.
- Year-over-year employment fell in many sectors, including: automotive, construction, finance, retail and primary industries.
- The manufacturing sector saw a decline in both GDP (-4.0%) and in employment (-14.1%) in Q2.
- Automotive output improved for the first time in six quarters in Q2, up 0.7% following a 40% drop over the previous two quarters.
- Despite a 2% increase in non-residential activity, overall construction activity fell 3.7%.
- The high dollar, poor weather and added requirements for cross-border travel all negatively impacted the tourism industry, which hit a new low of 3.3M international travellers in Q2.
- Ontario's economy is expected to contract 3.4% in 2009 but 2010 forecasts show a positive outlook due to government spending and a rise in consumer confidence.

In This Report

Sector overviews:
- Manufacturing (pg. 3)
- Automotive (pg. 4)
- Aerospace (pg. 6)
- Biotechnology and Pharmaceutical (pg. 6)
- Information and Communications Technology (pg. 7)
- Finance and Insurance (pg. 8)
- Construction (pg. 9)
- Tourism (pg. 10)
- Retail and Wholesale Trade (pg. 11)
- Agriculture (pg. 12)
- Mining (pg. 12)
- Forestry (pg. 12)

Issues facing the economy:
- Business Conditions (pg. 13)
- U.S. Economy (pg. 14)
- Ontario-U.S. Border (pg. 14)

KEY ECONOMIC INDICATORS

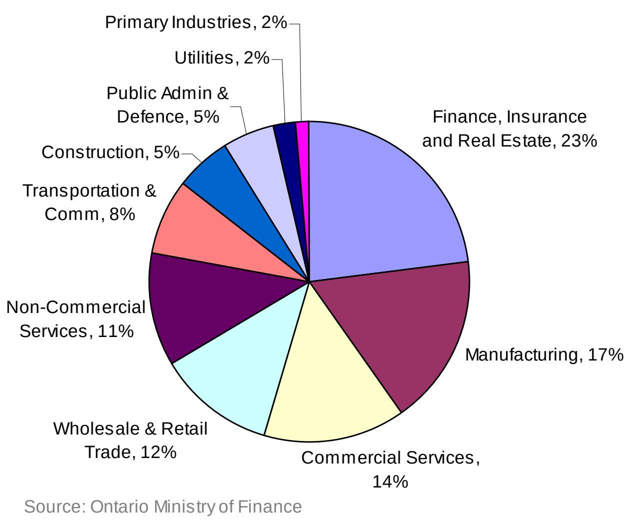
(% change unless otherwise indicated)	Real GDP			Employment			Unemployment Rate		
	2008	2009f	2010f	2008	2009f	2010f	2008	2009f	2010f
Ontario	-0.5	-3.4	2.5	1.4	-2.4	0.8	6.5	9.1	9.8
Canada	0.4	-2.4	2.6	1.5	-1.6	0.7	6.1	8.4	8.7
United States	0.4	-2.5	2.3	-0.5	-3.7	-0.2	5.8	9.3	9.9

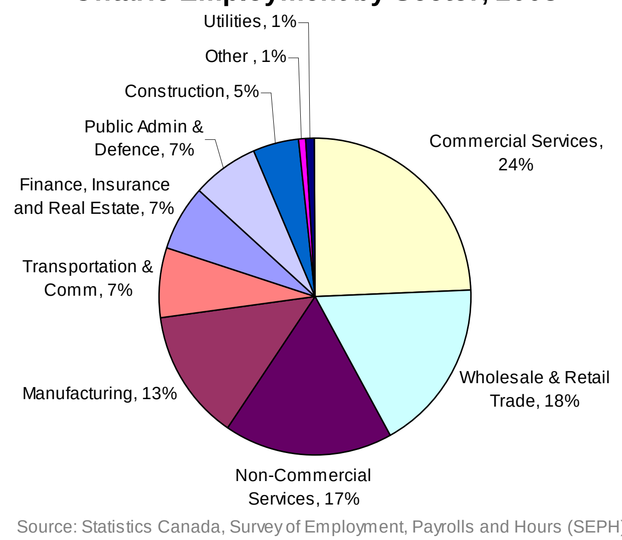
Source: Statistics Canada, U.S. Bureau of Economic Analysis; f indicates forecasted data, using median forecasts, where available, from Conference Board of Canada, Scotiabank, RBC Financial, TD Economics, BMO Financial, CIBC World Markets and the University of Toronto's Policy and Economic Analysis Program (PEAP). Forecasts collected on November 18, 2009.

The Ontario Economic Overview is a quarterly report prepared by the Policy, Analysis & Intelligence Directorate of the Ontario Region of Industry Canada that contains analysis of the current economic and financial performance of industries in Ontario. The analysis is of select economic/industrial issues, and does not contain internal forecasts or policy analysis, assessments, and conclusions. If you have any comments, please email 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 (%)			
	2005	2006	2007	2008	2005	2006	2007	2008
Manufacturing	0.9	-2.1	-2.1	-7.4	-2.4	-2.1	-4.5	-5.7
Automotive	4.8	-2.8	-4.7	-22.9	x	x	x	-9.1
Pharmaceutical and Medicine	-5.2	13.1	12.8	13.0	-2.0	0.7	-0.3	0.9
Information and Communication Technology	3.6	5.2	4.6	2.6	0.4	2.3	1.1	2.5
Aerospace	16.0	19.7	-11.5	9.0	2.2	-0.7	-9.0	-0.4
Finance and Insurance	2.8	4.0	4.3	3.3	3.4	3.5	5.0	2.9
Construction	2.9	4.3	4.0	-2.0	2.5	4.9	5.4	5.0
Accommodation and Food Services	0.0	3.0	1.1	2.0	-0.7	3.0	4.6	4.4
Wholesale Trade	6.2	5.1	4.3	-1.2	-0.7	1.2	3.0	0.6
Retail Trade	1.4	4.1	3.8	2.5	1.6	0.8	2.7	3.9
Primary Industries*	3.8	-1.7	-5.5	-3.7	13.2	8.9	-5.9	-6.4

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





ECONOMIC FUNDAMENTALS

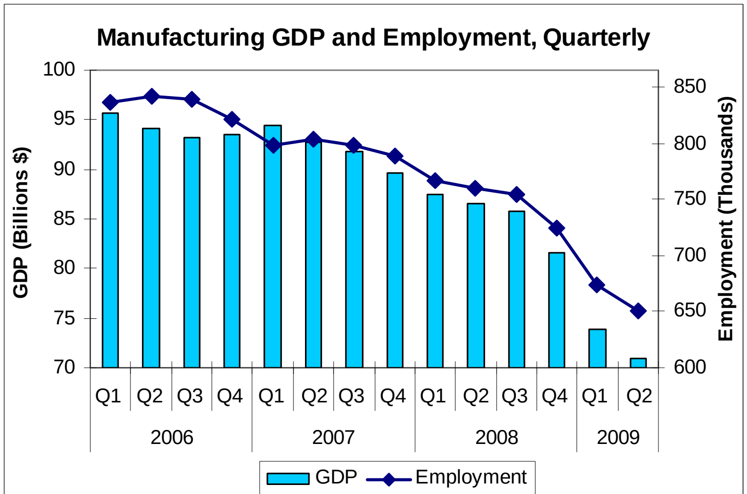
- Ontario's nominal GDP reached $560B in Q2 2009[1], accounting for 37%[2] of the national total.
- Provincial real GDP fell by 1.0% in Q2 2009 from the previous quarter following a revised Q1 decline of 2.1%. Ontario faced slightly steeper Q2 declines than Canada (-0.9%) and the U.S. (-0.7%).[3]
- Contributing factors to the weak Q2 performance include drops in new housing construction (-8.4%), non-residential construction (-5.1%) and machinery and equipment investment (-3.2%).[4]
- Exports fell by 3.1% in Q2, after a record Q1 decline of 10.9%. Imports remain unchanged, after declining 12% in the previous quarter. [5]
- There was a modest increase in consumer spending, which was up by 0.5%, after a flat first quarter.[6]
- Real industrial output fell by 0.9% in Q2 led by declines in manufacturing (-4.0%), construction (-3.7%) and professional and administrative services (-1.7%).[7]
- Ontario's unemployment rate averaged 9.2% in Q2 2009, above the national average of 8.3%. The provincial unemployment rate climbed to 9.3% in October 2009, remaining above the national rate of 8.6% for the period.[8]
- The Census Metropolitan Area (CMA) of Windsor experienced an average unemployment rate of 13.7% for the three months ending in September. The CMAs of London, St. Catharines-Niagara and Greater Sudbury had unemployment rates above 10% for the same period.[9]
- Consumer insolvencies were up by 42% in Q2 over the same period last year, above the national average of 40.3%.[10] All Ontario CMAs experienced increases in consumer insolvencies, with Peterborough and St. Catharines-Niagara facing rises of over 70%.[11]
- Business insolvencies in the province declined by 4.5% during Q2 year-over-year, similar to the national decline of 4.4%. A total of 705 business bankruptcies during the period accounted for 38.4% of the Canadian total.[12]

Economic Outlook

- Ontario's GDP growth will remain in negative territory during 2009, largely due to weak consumer spending and a struggling manufacturing sector.
- 2009 Ontario GDP growth forecasts from major Canadian banks range from a low of -3.5% (CIBC and BMO) to a high of -3.1% (RBC).[13]
- The Conference Board of Canada estimates that Ontario's GDP will decline by 2.9% in 2009[14] while the Ontario Ministry of Finance forecasts a 3.5% contraction.[15]
- Ontario is expected to suffer a deeper contraction in 2009 than Canada as a whole. However, most forecasts point towards a stronger rebound for Ontario in 2010 relative to the national economy.
- The upper estimate of 2010 Ontario GDP growth projections, according to the major banks, is 2.7% (TD),[16] while the lowest estimate is 2.1% (CIBC).[17]
- The Conference Board maintains its optimistic outlook for the province, projecting 3.2% growth in 2010, outpacing the national average of 2.9% and ranking Ontario third behind BC and Saskatchewan.[18]
- Government spending, especially infrastructure stimulus, as well as a rise in consumer confidence on both sides of the border will spur Ontario's recovery in 2010.[19]
- The Canadian dollar, which is projected to remain close to parity with the U.S. dollar for most of 2010, will continue to exert significant influence on the recovery.[20]
- Unemployment in Ontario is projected to remain high in the near future, hovering between 9.1 and 9.3% in 2009 and between 9.4 and 9.9% in 2010.[21]
- Retail sales are expected to pick up in 2010, registering an average growth of 4.1% after experiencing a decline around 3% in 2009.[22]
- While the auto industry started to show signs of growth in Q3 2009 due to the popular 'Cash for Clunkers' program in the U.S., any sustained recovery will rely on the overall economy's return to good health.

Sectoral Analysis and Outlook

Manufacturing



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

The centre of Canada's manufacturing sector, Ontario accounts for nearly half of Canada's manufacturing output. While GDP and employment levels in Canada's manufacturing sector have been declining over the past half century, a recent Statistics Canada report notes that this is attributable to the falling prices of manufactured goods. The manufacturing sector has consistently led the economy in productivity growth, and growth in the volume of output has tracked the rest of the economy over the last 40 years.[23] While the sector is currently confronting unprecedented challenges, from falling U.S. demand to an appreciating currency, the study provides some hope that the sector can successfully adapt and remain a key component of the economy.

Ontario's manufacturing GDP fell 4.0% in Q2 2009, the 9th consecutive quarterly decline, though not as steep as the 9.5% drop seen in Q1.[24] While the auto sector finally stabilized, growing by 0.7% in Q2 after falling by 40% over the previous two quarters, metal products dropped by 14.1%, accounting for nearly half of the overall decline in Q2. Year-over-year job losses continue to accelerate, with 14.4% fewer jobs in Q2 2009 compared with Q2 2008, following a 12.2% drop in Q1.[25] Jobs were lost in almost every sector, with motor vehicle parts, fabricated metal products, machinery, and plastics and rubber products each losing over 10,000 jobs over the past year.

Since the U.S. and Canadian manufacturing sectors are highly integrated, with over 80% of Ontario's manufactured goods exports going south of the border, sectoral recovery will depend largely on what happens in the U.S. There is some evidence that the U.S. manufacturing sector has turned the corner, with the ISM index indicating new orders have grown in the last three months (ending October). Growth has been spread amongst most sub-sectors, and has continued despite the expiration of the U.S. "Cash for Clunkers" program that stimulated demand in the auto and related sectors.[26] While the index indicates that inventories continued to fall in October, there is hope that if growth in consumer spending, up 3.4% in the U.S. for Q3 2009,[27] is sustainable, manufacturers will soon be forced to re-build inventories to meet demand.[28]

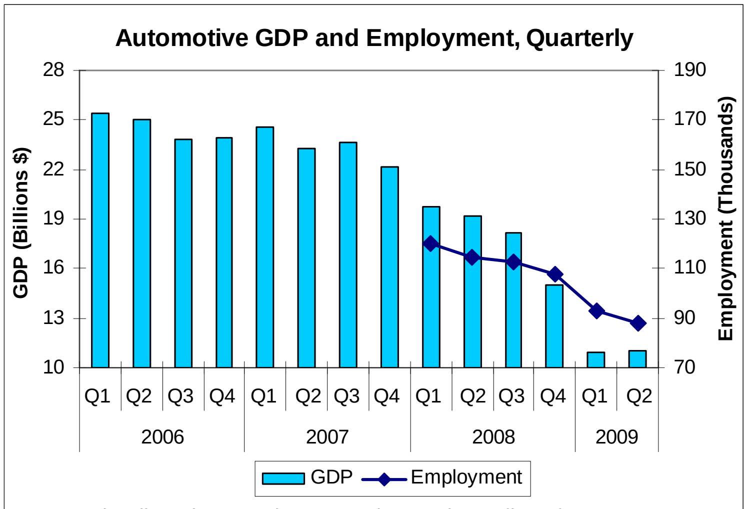
While rising U.S. demand is promising, the Canadian Manufacturers and Exporters (CME) reports that the volatile and appreciating currency, difficulties accessing credit, higher commodity prices and rising trade protectionism are threatening the nascent recovery beginning in the sector.[29] Between March and September, the Canadian dollar appreciated from 78.6 to 93.4 US cents, before falling back slightly to 92.4 cents in October.[30] CME has estimated that an appreciation of 1 cent results in 25,000 fewer Canadian manufacturing jobs.[31] An October survey of CME members showed that two-thirds are still finding it difficult to access financing for working capital and investment.[32] "Buy America" provisions are also preventing Canadian firms from participating in $275B in contracts, grants and loans authorized under the U.S. stimulus package. With over 80% of this money still unspent,[33] this barrier will become a competitive disadvantage for Canadian manufacturers going forward if ongoing bilateral negotiations are unable to resolve it.

There was mixed news in recent months from the steel industry. ArcelorMittal, owner of former Canadian steel-maker Dofasco, reported a profit of US$903M in Q3 following three consecutive quarterly losses. While the company expects Asian demand to continue to stimulate growth in Q4,[34] there are some concerns that rising steel production in China is over-shooting demand and could put downward pressure on global prices.[35] After falling by 54% year-over-year in Q2, Ontario shipments of primary metals were on track to continue to slide in Q3, falling by 55% through July and August.

U.S. Steel reported a loss of US$303M in Q3,[36] slightly lower than the Q2 loss of $392M and Q1 loss of $439M.[37] Production cuts in Hamilton by U.S. Steel have resulted in an ongoing dispute with the Government of Canada over commitments made when the company bought Stelco, and a labour dispute that has locked out employees at its Nanticoke plant.[38]

Essar Steel Algoma has also suffered three consecutive quarterly losses, culminating in a $143M loss in the quarter ending June 30, 2009, a massive loss relative to Essar's size.[39] The company is still highly leveraged from the $1.89B cost of acquiring Algoma and more than $300M invested since then. Moody's had been considering downgrading its ratings of Essar debt as deteriorating economic conditions were making it impossible for the company to comply with debt obligations. However, Essar was successful in re-negotiating terms with its creditors, and is hopeful demand growth will overwhelm concerns about its financial health.[40]

AUTOMOTIVE



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

As the global economy recovers, auto markets are showing signs of a modest and slow-paced recovery amid high unemployment and restrained consumer spending.[41] In Q2 2009, Ontario's quarterly automotive output grew for the first time since Q3 2007. However, the growth was small, at only 0.7%, and followed a sharp decline in the previous quarter.[42] Since Ontario accounts for about 90% of Canada's automotive sector,[43] a 17% increase in national output of motor vehicles and parts in July over June[44] largely reflects the resumption of vehicle assembly activity in Ontario.[45] Ontario auto sector employment fell 23.7% or 27,172 jobs in Q2 2009 compared to Q2 2008. Most of these losses (18,055) were concentrated in parts manufacturing.[46]

The vast majority of Ontario's auto output goes to the U.S., and light vehicle sales there were down 27.4% for YTD September 2009 compared to the same period last year.[47] With a seasonally adjusted annual rate (SAAR) of 10.2M units for the same period, U.S. sales are improving, but still well below a SAAR of 14.1M in YTD 2008 and 16.2M for YTD 2007.[48] The overall industry benefited from a spike in new vehicle purchases in August due to the US$3B "Cash for Clunkers" program that generated over 600,000 purchases,[49] ending a streak of monthly sales declines dating to October 2007.[50] However, as the program likely resulted in some consumers simply pushing forward planned purchases, September sales dropped sharply, resulting in the second worst month of the year for the industry. [51]

North American auto production was down 41.9% YTD in September 2009 compared to same period in 2008.[52] Canada's production was down by 38.2%,[53] and for the first time in decades, auto makers will build fewer vehicles than they sell here.[54] However, North American auto production levels are forecast to reach roughly 10.5M units in 2010,[55] and many automakers have increased production schedules to replenish low inventories.[56] High consumer demand for many Canadian-assembled vehicles has resulted in a 40% increase in planned Canadian light vehicle output for the final months of the year, and is expected to rise further with the transfer of Toyota Corolla production from its California plant.[57]

Change in Vehicle Production and Sales September 2009 YTD vs. September 2008 YTD			
	Canadian Production	North American Production	U.S. Light Vehicle Sales
General Motors	-51.0%	-52.1%	-36.3%
Ford	-35.7%	-28.6%	-23.3%
Chrysler	-46.5%	-59.9%	-39.5%
Honda	-37.3%	-34.5%	-25.1%
Toyota	-1.4%	-33.2%	-27.7%
Canada		-38.2%	
United States		-44.2%	-27.4%

*September YTD for production goes to September 26, 2009

General Motors has made steady progress on many of its post bankruptcy targets and expects to complete its restructuring by year end. The company plans to begin repaying government loans and rejoin the stock market by the latter half of 2010.[58] GM's global market share slid half a percentage point to 11.9% in Q3 2009, while its U.S. market share dipped 2.6 percentage points compared to last year to 19.5%.[59] The automaker's progress is attributed to quality improvements and its successful launch of new vehicles around the world.[60] In Ontario, GM added a third shift at its CAMI facility, recalling 350 laid-off workers.[61] CAMI employees recently ratified new contracts to secure new product commitments in 2014 and freeze wages until 2010 and pensions until 2017.[62]

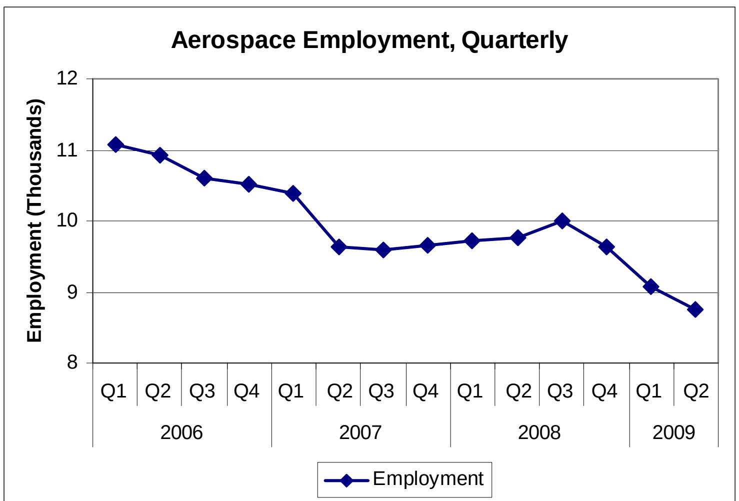
Ford Motor Co. continues to improve its sales performance and increase market share, due in part to successful product offerings and ongoing cost-cutting measures.[63] In October, Ford estimated its U.S. market share reached about 14%, the highest level in three years.[64] The company has been negotiating with its U.S. and Canadian unions to gain similar concessions as GM and Chrysler received this year. The CAW recently reached a new deal to bring more than $2B in new product investments to Ontario plants in exchange for reducing labour costs by $19/hour.[65] Under the deal, the Essex Engine plant will be the sole source of new, smaller, fuel-efficient engines, while the Windsor Engine plant will continue to exclusively supply Ford's larger engines until 2014.[66] Ford will also allocate a new global platform to its Oakville plant, and revamp current models assembled there. The new agreement will preserve a 10% manufacturing footprint in Ontario (down from 13%) and maintain between 6,000 and 7,000 jobs.[67] The St. Thomas plant, however, will permanently close in 2011, eliminating 1,400 jobs.[68]

Chrysler Group, which merged with Fiat in the spring, remains the weakest among the major auto makers. Its U.S. sales were down 39.5% YTD in September 2009[69] and its U.S. market share fell to 8.3% in September, despite high levels of incentive spending and fleet sales.[70] In November, the company unveiled a five-year plan that will see it update and redesign 75% of its product line-up by the end of 2010.[71] The plan includes new vehicle models, a major transfer of Fiat technology and projections to triple global sales by 2014.[72] Reaction to the plan has been positive, but some analysts are concerned about Chrysler's ability to quickly re-establish itself in the North American market with limited resources.[73] The CAW has been assured that Canadian production at the Windsor and Brampton plants is secure.[74] The Windsor plant is now running three shifts[75] to assemble diesel and right-hand drive minivans for global markets.[76] There has also been speculation that Fiat will assemble the rear-wheel-drive Alfa Romeo 169 sedan at the Brampton plant beginning in 2012.[77]

Despite improving sales and having the top-selling vehicle in the "Clunkers" program, Toyota Motor Corp. has steadily cut costs and adjusted production capacity to rebuild profits. Toyota's recent announcement to end production at its NUMMI plant in California was part of its global plan to reduce capacity by 10% in order to better utilize the rest of its facilities.[78] Toyota's Cambridge plant will benefit from the transfer of Corolla production, but the company's Canadian operations will still face cuts, including five paid days off beginning next year for factory workers, and cuts to executive compensation.[79]

Looking ahead, rising vehicle production volumes will bring some relief to parts suppliers, but many companies still face challenges resulting from months of slow business and decreased available credit. GM has expressed concern over the viability of over 100 of its suppliers, and has taken steps to increase the frequency of its payments.[80] In Canada, the Business Development Bank of Canada (BDC) introduced a Purchase Order Financing initiative to provide working capital to Canadian parts companies. Linamar, a leading auto parts company in Ontario, announced the opening of its Frank Hasenfratz Centre of Excellence in Manufacturing in Guelph. The $360M initiative recently received a $54.8M repayable contribution from the federal government to develop fuel efficient powertrain products.[81] In the automotive repair and service sector, the Canadian Automotive Service Information Standards (CASIS) agreement was signed by the major Canadian vehicle and aftermarket associations, and endorsed by the federal Minister of Industry. This voluntary agreement allows independent repair shops across Canada to access auto industry service and repair information, diagnostic tools and training information in a manner similar to what is offered in the U.S. In May, Bill C-273 was introduced to establish a legislative solution to the "right to repair" issue, but the associations are now calling for the bill to be withdrawn.[82]

AEROSPACE



Note: Employment is unadjusted.

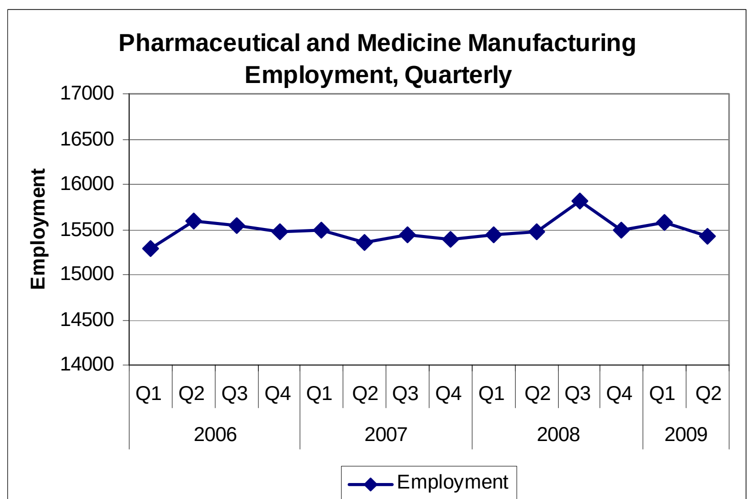
Ontario's aerospace industry, which produces aircraft parts and systems, accounts for 20.5% of Canadian aerospace GDP, second in Canada behind Quebec at 66.4%.[83] Approximately 350 aerospace companies are located in Ontario and over 70% of their products are designated for export.[84]

Ontario's aerospace GDP reached $1.7B in 2008, up 9.0% from 2007. Annual GDP has been volatile in recent years, with three years of double-digit increases followed by a drop of 11.5% in 2007. For the first eight months of 2009, aerospace shipments were roughly equal to the same period a year ago, down only 0.3%.[85] Employment in the sector has declined in six of the past seven years and this downward trend is continuing into 2009. Quarterly employment was down 10.5% in Q2 as the sector lost over 1,000 jobs compared to the same period a year ago.[86] This followed a quarterly decline of 6.7% in Q1.

The Conference Board of Canada forecasts that Canadian aerospace GDP and employment will grow in 2009 as order backlogs carry the sector. However, by 2010 both GDP and employment are expected to decline.[87] President and CEO of the Aerospace Industries Association of Canada (AIAC), Claude Lajeunesse, has expressed concern that Canada—now the 5th largest aerospace industry in the world—is absent from the top 10 countries in the world for investment in aerospace R&D; manufacturing; and maintenance, repair and overhaul.[88] Popular destinations for engineering centres currently include Russia, the U.S., India, and Singapore. The Canadian industry is also threatened by the tendency of original equipment manufacturers (OEMs) to locate their labour-intensive activities in lower cost regions such as Mexico, China, the U.S., and Russia.[89]

Globally, the business jet market has been hit hard and there are indications that buyers will remain reluctant for some time yet. Honeywell International forecasts that global business-jet deliveries will fall to less than 800 units this year, a 30% decline from 2008.[90] This figure is expected to fall below 700 next year before beginning a slow rise over several years. In the long term, there is hope that demand will be strong for business aviation, especially from Europe, Russia, the Middle East, Africa, Asia, and the Pacific.[91]

BIOTECHNOLOGY AND PHARMACEUTICAL



Note: Employment is unadjusted.

Ontario is a leading region in the pharmaceutical and biotechnology industry. It is home to more than half of the brand-name pharmaceutical companies in Canada and has the largest regional concentration of biotechnology firms in North America. Ontario has 34% of Canadian biotechnology companies[92] and ranks 6th in North America in terms of revenue earned.[93] Nationally, the pharma/biotech sector was the only sector to increase its R&D commitment in 2008.[94] Of the top 100 Canadian corporate R&D

spenders in 2008, 31 were pharma/biotech companies, accounting for 19% of spending. Of those 31 companies, nine are based in Ontario and accounted for more than $720M, or 7.2%, of spending by the top 100 R&D spenders.[95]

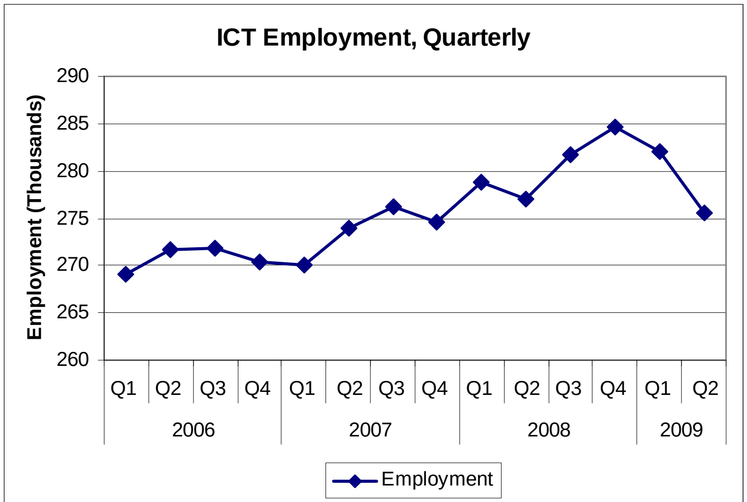
As of October, the YTD GDP for the national pharmaceutical and medicine manufacturing industry, of which Ontario accounts for 63%, was up 11.4%.[96] This follows a 13% rise in GDP in 2008. Statistics Canada shipments data have been revised downward but still show improvement compared to Q2 2008. Shipments increased 15.4% from the same period last year, following an 11.4% increase in Q1. The sector accounted for 3.2% of Ontario's total manufacturing shipments for October YTD, up slightly from the 2.5% share in 2008.[97] Export Development Canada predicts that Ontario's industry exports will remain strong and outpace the national average for 2009.[98]

There was little change (-0.4%) in pharmaceutical and medicine manufacturing employment compared to the same time period last year. Indeed, employment growth is nearly flat as the industry gained a net 37 jobs in Ontario compared to the first six months of 2008.[99] Employment in the biotechnology sector, however, is languishing. A recent national report by BIOTECanada found that 2,500 scientists lost their jobs during the first six months of 2009. The number of job losses is expected to rise to 7,000 if the current operating environment does not change.[100]

The pressures facing the biotech sector are considerable. BIOTECanada found that 70% of Canadian biotech companies will run out of money in 2009 and will not continue their research operations.[101] Recent trends in access to capital illustrate the sector's troubles. In 2008, Ontario raised US$138M in total investment, second to Quebec, but led all provinces on the venture-capital front, attracting nearly US$109M.[102] The Q2 DowJones VentureSource report revealed that the overall number of venture capital deals in Canada was off 30% and total investment was off 50% from 2008 levels.[103] This follows a Q1 venture capital decline of 25%.[104] Given that a quarter of venture capital in Canada goes towards the life sciences industry, it is no surprise that of the 167 biotechnology firms surveyed in the 2009 Biotech Industry Forecast, 80% listed access to capital as their main concern.[105]

Some indicators, however, point to a reversal of 2008 fortunes. Following a 61% decline in market capitalization in 2008, many of the leading Canadian biotechnology companies have increased market capitalization in the first six months of 2009.[106] However, only one of the top-ten firms is located in Ontario. While stock prices of Canadian biotech firms fluctuated over the first six months of 2009, most have fared better than during the last half of 2008.[107]

INFORMATION AND COMMUNICATIONS TECHNOLOGY



Note: Employment is unadjusted.

Ontario accounts for about 50% of the country's ICT firms and revenue, as well as about half of national ICT employment and GDP.[108] In 2008, Ontario's ICT sector contributed $28.3B, or 5.8%, to the provincial economy.[109] ICT manufacturing generated almost 20% of Ontario's ICT GDP, while ICT services contributed over 80%. In Q2 2009 an average of 275,530 people were employed in Ontario's ICT sector.[110] Employment in the sector was basically unchanged compared to the same period a year ago[i] as losses in ICT manufacturing were balanced by growth in ICT services.

Ontario accounts for nearly 70% of Canada's ICT goods exports. For the first eight months of 2009, ICT exports remained virtually unchanged from the same period last year.[111] Exports to the U.S., the main market accounting for about 70% of Ontario's ICT exports, fell by 3.3% for the period, but other markets posted impressive growth, namely Mexico. Exports to Mexico jumped by 86.5% in the first eight months of 2009, and the country now accounts for 6.4% of Ontario's ICT exports.[112]

[i] 2008 employment for telecommunications, a sub-sector of ICT, was estimated using a share of national telecommunications employment in order to calculate total ICT employment.

Ontario's ICT industry is very research-intensive and firms make a significant contribution to Canada's research economy. Nortel Networks was Canada's top corporate R&D spender in 2007, spending over $1.8B.[113] However, with Nortel filing for bankruptcy protection in January and its assets currently being liquidated, there is concern over how much of the company's R&D will stay in the province.

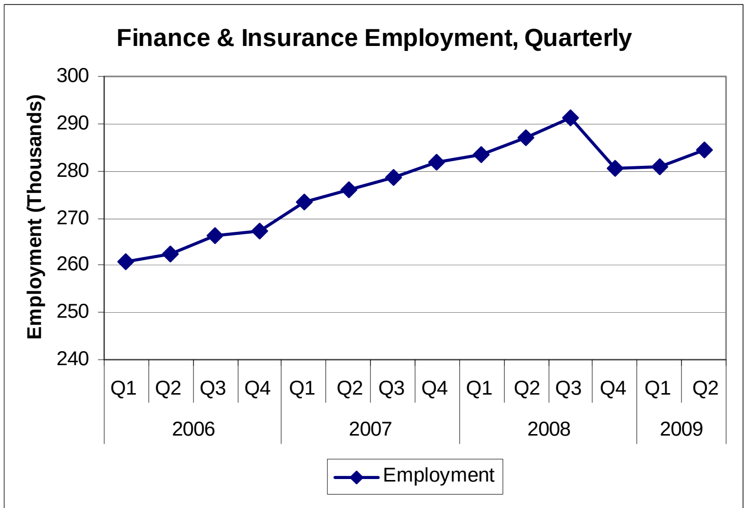
Nortel has already auctioned off a number of its assets. In July, Ericsson was the winning bidder for the CDMA and LTE wireless technologies, with a bid of US$1.13B. In September, Avaya was the highest bidder for Nortel's Enterprise Solutions Business with a cash bid of US$900M, plus an additional US$15M reserved for an employee retention program.[114] In October, Nortel auctioned the assets of its Carrier Networks business associated with the development of Next Generation Packet Core network components. The winner, and only interested party, was Hitachi Ltd. The deal included certain assets associated with the development of next generation packet core network components for a purchase price of US$10M.[115] In November, Nortel plans to auction its global GSM/GSM-R business and its Metro Ethernet Networks business which will include all assets, patents, and IP as well as 2,000 employees. Other asset auctions to come will include CVAS Carrier VoIP and Application Solutions (CVAS), LGNortel (JV), and any outstanding IP and patents that have not been involved in other auctions.[116]

In order to remain globally competitive, Ontario's ICT sector will need to address some major challenges, namely the attraction and retention of talent, the need to increase commercialization of R&D produced by Ontario ICT firms and universities, as well as the need to address declining enrolment in computer science at Ontario universities.[117]

FINANCE AND INSURANCE

The financial services sector employs roughly 350,000 people in Ontario and accounts for 7.7% of Ontario's total GDP.[118] About 230,000 in the sector are employed in Toronto, making the city the third largest financial sector in North America after New York and Chicago. Another 290,000 jobs are indirectly supported by the sector.[119] 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.[120] 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.[121]

Ontario's finance and insurance GDP was $30.4B in 2008, an increase of 20.7% since 2000 and 3.3% higher than 2007. Banks accounted for a significant portion of the growth over both periods, increasing 31.2% since 2000 and 4% since 2007, while insurance companies showed a modest growth of 1.5% since last year.[122]



Note: Employment is unadjusted.

Quarterly employment in the industry was down 0.9% overall in Q2 2009 compared to Q2 2008. Employment was down 7.8% in the credit intermediation sub-sector made up of non-securitized lenders, including retail and commercial banks. There was employment growth, however, in the smaller insurance and securities sub-sectors. This was the third consecutive quarter in which employment dropped compared to the previous year. On a monthly basis, industry employment dropped by 2.2% in July 2009 compared to July 2008.[123]

Canadian banks continue to post strong earnings. Of the six largest Canadian banks, only CIBC failed to meet analysts' expectations for Q3 2009. The combined earnings of these banks were nearly $4.7B for the quarter.[124] Loan losses were kept in check by the strong housing market, and securities trading was a large contributor to quarterly profit.[125]

The market for asset-backed securities (ABS) has not recovered in Canada, and liquidity has remained an issue for banks and corporations. At the same time, Canadian regulators have encouraged banks to remain cautious about releasing too much capital from their balance sheets.[126] In October, RBC was the first bank in Canada to issue covered bonds. As with ABS, covered bonds are backed by underlying assets; the assets supporting covered bonds, however, remain on the issuer's balance sheet. RBC's bond issue was for $750M, and both BMO and CIBC also have shelf prospectuses that would allow them to issue such bonds.[127]

Canada's Top Six Banks: Q3 2009 Earnings				
	2009 Q3 earnings (C$, millions)	Change in Earnings from Q3 2008 (%)	2009 Q3 EPS (C$/share)	Change in EPS over Q3 2008 (%)
BMO	557	6.9%	0.97	-1.0%
CIBC	434	511.3%	1.02	827.3%
RBC	1561	23.7%	1.05	14.1%
TD	912	-8.5%	1.01	-16.5%
Scotia	931	-7.8%	0.87	-11.2%
National	303	5.9%	1.78	2.9%

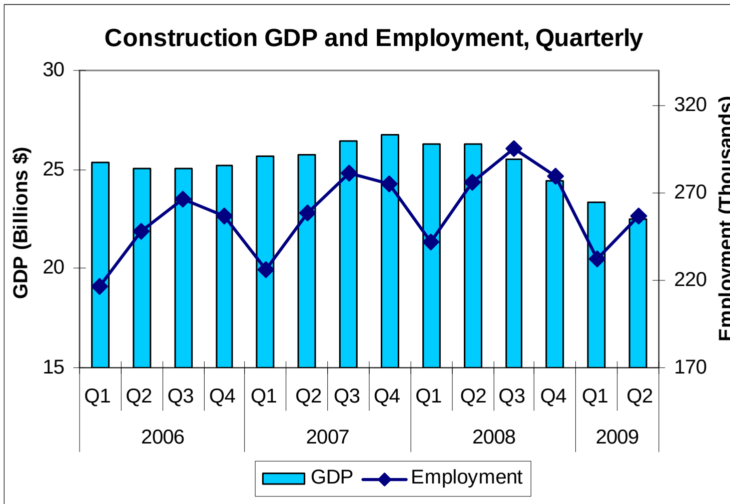
*Banks in bold are headquartered in Ontario

Manulife Financial's dividend cut in August remains the only such measure taken by a major Canadian financial services provider since the economic downturn began. Changes in actuarial assumptions at Sun Life and Manulife may reduce reported income, but Q3 earnings are expected to be supported by narrowing credit spreads and stronger equity markets.[128]

Following a five-year review of the auto insurance industry in Toronto, Ontario Minister of Finance, Dwight Duncan, announced 41 regulatory changes.[129] The reduction in minimum basic medical and rehabilitation coverage from $100,000 to $50,000 had been called for by insurers who felt that payouts for minor injuries had grown too large under the previous minimum. Other changes were designed to reduce costs by eliminating paper work and red tape.[130]

Construction

Ontario's construction industry, traditionally a driver for economic expansion, continued to struggle in Q2. Construction sector GDP in Ontario declined 3.7%, falling for the sixth straight quarter. Declines were led by a 7.7% drop in residential construction and a 2.6% drop in engineering activity. Output in non-residential construction grew by a modest 2.0% following a decline of 4.0% in Q1 2009.[131] Non-residential construction investment also fell, dropping by 5.1% following a 7.2% drop Q1 and a 9.7% drop in 2008. Investment in residential construction slipped by 0.5% since the previous quarter owing to an 8.5% drop in new housing construction and a 7.3% drop in



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

renovation activities.[132] Total construction investment declined for the fifth consecutive quarter.

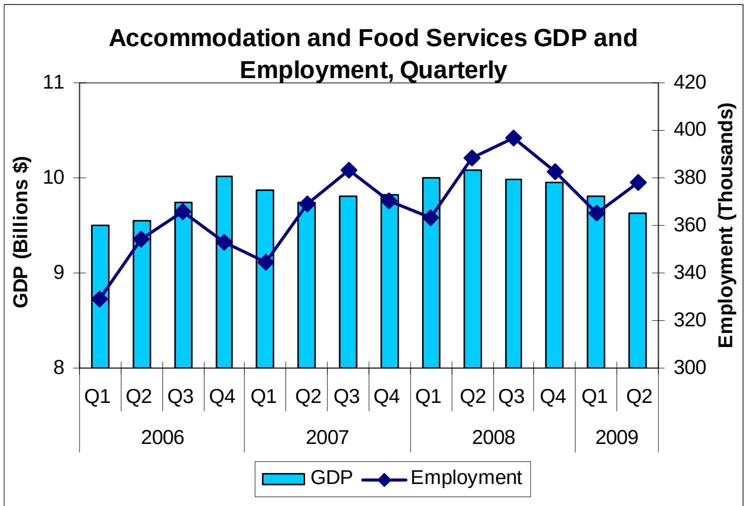
Housing starts were also down for the fifth straight quarter in Q2, falling 21.7% from Q1.[133] The trend stopped in Q3 as Ontario's housing starts grew by 5.9% over Q2, slower than the Canadian average of 15.4%.[134] However, since Q2 2008, Ontario housing starts have plummeted 46%, the largest decline in 18 years.[135] Declines were not evenly distributed throughout the province. Areas of the province where the economy is closely tied to auto production and manufacturing—such as Barrie, Guelph, Oshawa, and Hamilton—experienced quarterly drops of more than 60% year-over-year.[136]

Employment in the construction industry dropped by 7.2% in Q2 compared to the same quarter last year, the largest year-over-year decrease in employment since 1994. The decline was particularly notable in the sub-sector of specialty trade contractors, where more than 14,000 jobs were lost. Compared to the first half of 2008, employment is down 6.1% with a net job loss of close to 15,000.[137]

In Q2, total building permits were up for only the second time in the past six quarters, increasing by 3.2%. This increase was led by a 25% jump in residential permits which had fallen 24% in the previous quarter. The situation was reversed for the non-residential subsector where permits dropped 13% following a 35% increase in Q1. Compared to the first six months of 2008, however, total building permits were 24% lower, reflecting the overall trend in the sector.[138]

Looking ahead, the downward trajectory of the construction sector is expected to stabilize due to the pending flow of infrastructure program spending and higher anticipated consumer and business spending. Construction activities related to infrastructure investments should begin to peak by the end of the year, offsetting continued weakness in residential housing.[139] However, in 2010 housing construction is expected to begin recovering while employment and consumer spending also begin to improve.[140]

TOURISM



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

Trips by international travellers to Ontario hit a new low in Q2 2009 at 3.3M, a decline of 7.9% compared to the previous quarter and 11.9% compared to Q2 2008.[141] This also represents a 59.9% drop from Q2 2001, the quarter prior to the September 11, 2001 attacks. The sector is expected be hampered by additional challenges in the coming months, including the appreciation of the Canadian dollar and the impact of H1N1 flu. The relatively high loonie not only discourages American tourists from coming to Canada but also lures domestic travellers south of the border, where trips are becoming comparatively cheaper. The impact of the H1N1 flu remains to be seen, but it could hurt the industry through reduced economic activity and possible travel restrictions.[142]

Visitors from the U.S., which make up approximately 90% of Ontario's international visitors, fell by 8.0% in Q2 2009 compared Q1.[143] For September YTD, two-way passenger car traffic fell at all but one of the Ontario-U.S. land crossings. This represents an overall decline of 13.2% compared to the same period last year.[144] The largest declines for this year were posted in June as travellers entering the U.S. were required to have a passport or passport alternative. Rates of decline, however, have since decelerated. Travel from Ontario's other significant international markets has also fallen sharply, with declines of 17.2% from the U.K., 5.7% from Germany and 33.2% from Mexico for July YTD.[145] While visits from Mexican travellers were falling before Canada introduced new visa requirements for Mexican travellers in July, visits were almost cut in half during that month, compared to July 2008. Overall, international visits from countries other than the U.S. were down 14.5% in the first seven months of 2009.

While international tourists are important, Ontario's biggest tourism market is within the province itself, accounting for over 80% of total visitors.[146] Out-of-country travel by Ontarians fell sharply for July YTD (-13.8%)[147] as many travellers cut costs and chose destinations closer to home. Nationally, domestic demand for accommodations has improved this year.[148]

Despite improvements in domestic demand, the accommodation and food services sector, the largest segment of the tourism industry, was hit by falling GDP and employment in Q2 2009. GDP fell for the fourth consecutive quarter, this time at a slightly faster pace of -1.9%.[149] Compared to Q2 2008, roughly 7,700 (-12.5%) jobs were lost in accommodation services while over 2,800 (-0.9%) jobs were lost in food services.[150]

Occupancy rates at Ontario's hotels fell 5.1 percentage points in the first half of 2009, down to 54.2%.[151] Ontario hoteliers cited regional economic conditions as the number one business obstacle they were facing and 85% of hoteliers expect lower occupancy rates in Q3 2009 relative to Q3 2008.[152] The Greater Toronto Area experienced some of the fastest falling occupancy rates for the period, particularly in hotels around Pearson International Airport, but overall occupancy rates are still above the provincial average. Some of the lowest occupancy rates are in Southern Ontario, with Windsor posting a rate of just 42.0%.[153] One of Windsor's main attractions, Caesars Windsor Casino, announced 120 layoffs in October in addition to the 82 layoffs earlier in the year.[154] The Casino is citing the economy, new passport requirements and the high Canadian dollar as the reasons behind these cuts.

The Ontario Ministry of Tourism is forecasting a recovery in the tourism industry beginning in 2010.[155] The total number of visitors (domestic and international) is expected to grow in the range of 1.3% to 1.8% annually between 2010 and 2013, after experiencing a 2.6% decline in 2009. Some major international events are also expected to provide a boost for Ontario's tourism sector in the long run. On November 6, Toronto and the Greater Golden Horseshoe won the bid to host the 2015 Pan American

Games. The games are expected to bring 10,000 participants and 250,000 visitors to the area[156] and create over 15,000 new jobs, primarily in tourism and construction.[157] Toronto was also recently chosen to host the 2014 World Pride event. This past summer, Toronto Pride pulled in an estimated 1M attendees and contributed over $100M to the provincial economy and World Pride is expected to be much larger.[158]

RETAIL AND WHOLESALE TRADE

Ontario's retail and wholesale trade sector accounted for 11.8% of the province's total output and 17.3% of employment in Q2 2009.[159]

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

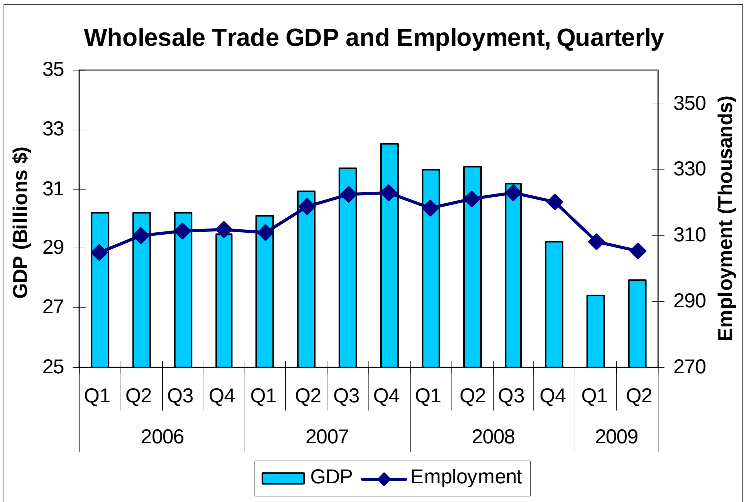
With unemployment rates inching upwards and the related slack in consumer spending, Ontario's retail sector continues to struggle. In recent years, retail has been a strong contributor to jobs growth in the province, but after showing virtually no growth in Q1 2009, Q2 employment declined by 2.1%, or 13,988 fewer jobs compared to the same period a year ago.[160] Sector output made modest gains in the first two quarters (0.5% and 0.3%) but has yet to recover from the 2.2% loss posted in Q4 2008.[161] Retail sales fell by 5.2% in Q2 over the same period last year, topping the record set in Q1 for sharpest year-over-year quarterly decline (statistics available since 1991).[162] The majority of the decline in sales was due to gasoline stations, which saw sales fall 27.0% from a year ago, as gasoline prices fell. If gasoline stations are excluded, retail sales experienced a 2.0% decline.

Supermarkets, the second largest retail subsector in terms of sales, were the only subsector to post strong sales growth in Q2, up 8.9%,[163] in large part due to high food price inflation. Generally, grocers pass food price inflation into the retail price and then 'round up' to a common retail price (for example, from $2.96 to $2.99), boosting profits.[164] However, there is now indication that food price inflation is decelerating, weakening the outlook for grocers.[165] In addition, many grocers are lowering prices to compete for price-sensitive customers, putting further downward pressure on margins.[166] Loblaw, Canada's largest supermarket chain, cut prices at its 37 Ontario Superstores in October, for example, and says its prices are now on par with Wal-Mart's.[167]

There are a number of challenges facing retailers in the coming months, not least of which is the near-parity Canadian dollar. Retailers fear they might face consumer backlash similar to two years ago as price disparities between the U.S. and Canada become apparent.[168] Doug Porter, Deputy Chief Economist of BMO Capital Markets, estimates the current gap is about 12% to 13% compared to an average of 20% two years ago.[169] Passing cost savings onto consumers can be difficult as many retailers purchase inventory months earlier at different import prices. In addition, many Canadians will likely be lured to shop in the U.S. where retailers are engaging in deep discounting. In the coming months, 51% of Canadians plan to spend the same amount this holiday season as they have the past two years and 44% plan to spend less than last year, according to a September survey by Deloitte.[170]

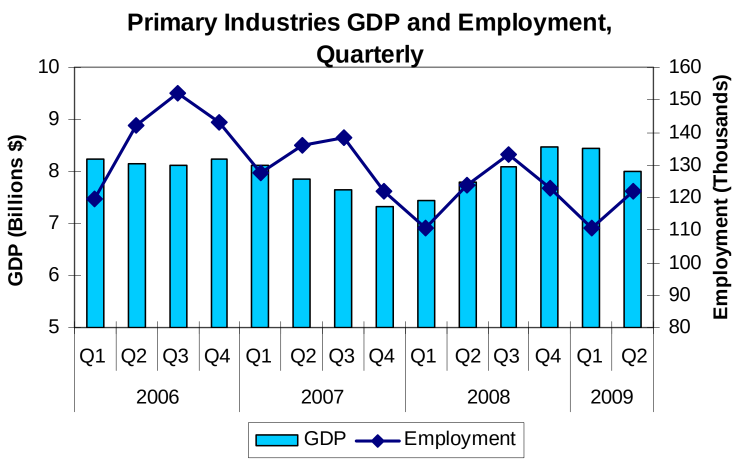
There are, however, some signs of recovery in the retail sector. After two months in which seasonally adjusted sales were relatively stable, sales in August were up 1.2% over July.[171] From their peak, retail sales were down 10% late last year, but by August Ontario was only 3% to 4% short of its previous peak. TD Bank Financial Group expects this difference can be made up before year-end or by early next year.[172]

While the wholesale trade sector has been affected by lower domestic demand, it has also had to grapple with weakness in export markets, an important driver



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

for the sector. Output in the sector recovered slightly in Q2, up 1.8% after declines in excess of 6% in the previous two quarters. Wholesale employment took a 4.8% hit in Q2, losing 15,500 jobs compared to the same period a year ago. Sales dropped by 10.8% in Q2 compared to the same period a year ago and have continued to fall into August.[173]



Note: GDP is adjusted at annual rates. Employment is unadjusted.
*Employment data is from the Labour Force Survey

Agriculture

Ontario's agriculture sector employed[ii] 86,700 workers in Q2 2009, accounting for 1.3% of provincial employment. The agricultural workforce grew by 1.8% over Q2 2008, led by 8% growth in crop production and 2% growth in animal production.[174]

The province generated $2.4B in farm cash receipts in Q2 2009, accounting for 23% of the national total. Receipts increased by 15% from the previous quarter but fell by 1.6% when compared to the same period a year earlier. The livestock sector was largely responsible for the year-over-year quarterly declines, as it was hard hit by high feed costs, inventory reductions, the U.S. Country of Origin Labelling legislation, the H1N1 flu virus, and the economic crisis. Crop receipts increased 1% to $1.2B in Q2 2009 over Q2 2008, led by strong sales, particularly for canola.[175]

Animal production exports totalled $418M in the first eight months of 2009, down 25% from $554M during the same period in 2008. The hog sector is being negatively impacted by the H1N1 outbreak which will continue to drive down 2009 exports. However, on a positive note, a number of countries have lifted H1N1-related restrictions on Canadian pork exports, leaving China as the only significant market with a ban still in place.[176] The trend towards consumption of cheaper substitutes for beef and pork during the economic downturn will likely continue to hurt export levels into 2010. Crop production exports increased to $1B (+7%) for September YTD, led by growth to its top 3 markets: the U.S. (3.5%), Japan (4.7%) and Hong Kong (38.9%).[177]

Mining

Ontario's mining sector has been facing turmoil in global credit and capital markets along with temporary maintenance-related closures and labour unrest. Provincial mining sector GDP fell by 7.9% in Q2 2009 over the previous quarter, the third consecutive quarterly decline.[178] Mining employment fell by 4,245 (-14.8%) workers compared to the same period last year, adding to Q1 losses.[179] Job losses were primarily in support activities for the sector (-2,653) and mining & quarrying (-1,503).

For August YTD, provincial mining exports fell by $1.0B (-16.2%) to $5.3B over the same period last year. Losses were largely within metal ore mining ($1.0B), owing to temporary mine closures and labour disputes.[180] National exports of ores and metals are forecast to continue to fall (-33%) in 2009 before rising 11% in 2010. A collapse in the price of nickel, which fell 11% in September,[181] is expected to significantly draw down shipment volumes in 2009.[182]

Spending intentions for exploration and deposit appraisals in Ontario have declined by 37% for 2009 to $421M. Junior companies, which will likely account for more than half of provincial exploration spending, are expected to decrease spending to $218M in 2009 from $344M in 2008. Spending by senior companies is also forecast to slow to $203M in 2009 from $310M last year.[183]

About 3,300 steelworkers in Sudbury and Port Colborne have been on strike against Vale Inco since July 13, 2009 after 3 months of bargaining failed to produce a new collective agreement.[184] Exports of nickel and other by-products such as zinc and cobalt will be impacted by this labour unrest along with maintenance related closures at Vale's Sudbury and Voisey's Bay operations.[185]

Forestry

Depressed U.S. housing starts and the global financial crisis continue to create havoc in Ontario's forestry sector. Forestry sector employment averaged 3,723 in Q2 2009, which compares to Q2 averages of over

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

9,000 workers prior to 2005. In Q2, the sector lost nearly half (-49.0%) of its workforce when compared to the same period a year earlier. It has suffered consecutive year-over-year quarterly employment losses since Q3 2005.[186]

Ontario's August YTD forestry exports fell by 22.1% to $12.7M from $17.6M in the same period in 2008. The province's forestry exports accounted for 7% of the national total for the period.[187] Paper and wood product manufacturing, sectors highly integrated with the forestry industry, saw exports decline by 16.5% and 32.3% respectively.

Announcements of forestry related closures, layoffs and temporary shutdowns have been commonplace in 2009 and have included big names such as AbitibiBowater, Tembec and Domtar. Recently, AbitibiBowater stated that weak market conditions forced it to indefinitely idle two paper machines in Thunder Bay effective August 21, 2009. Employees at that facility had just returned to work from two weeks of downtime.[188] In a rare bit of good news, it was announced in September that a new wood product mill will be built in Thunder Bay, creating 70 to 80 full-time jobs.[189] The mill is expected to be competed by January.

The forestry sector is expected to finish the year on a weak note with softened demand for all sector products carrying on into 2010. The industry is expected to continue to curtail production and incur shutdowns with further job losses.[190] Declining demand for newsprint, the strong Canadian dollar and rising energy costs will draw down prices. The pulp market is expected to face weakening demand in China along with increased competition in North America and Europe. Lumber prices are expected to increase in 2010 when demand gains momentum and builders and dealers begin to replace inventories.[191] Nationally, forestry exports are forecast to fall 18% in 2009 and increase 4% in 2010.[192]

BUSINESS CONDITIONS

Positive economic news has received a great deal of attention recently. Canadian job numbers showed improvement in September 2009, with the largest monthly increase in full-time jobs since May 2006.[193] Unfortunately, employment levels fell in October, erasing most of the gains from the previous two months. U.S. GDP grew by an annualized 3.5% in Q3 2009, according to the initial estimate, exceeding the consensus expectation of 3.2% growth.[194] Optimism is returning, as demonstrated by data such as the Bank of Canada's Business Outlook survey; the balance of opinion of respondents expecting sales volume to grow over the next 12 months was at its highest level since the survey began in 1997.[195] The Bank's Financial Conditions Index also continued to rise in positive territory in late September 2009, representing financial conditions that are better than average and continuing to improve.[196]

At this point, however, it is not clear how quickly recovery from recession will occur. Poor job figures in the U.S.[197] and a lack of significant GDP growth in Canada[198] have led to some suggestions that we may experience an atypical recovery. Rather than the usual strong growth seen in a V-shaped recovery, growth could be slow (U-shaped), or even be tempered by another round of economic contraction (W-shaped).[199]

Canadian inventories remain at a historically high level in relation to sales. There is concern that production capacity that had been built up to meet unrealistic expectations of growing demand in the years leading up to 2007 has resulted in a large output gap. Canada's trade balance continues to be in deficit as global demand recovers slowly.[200] These factors may slow the recoveries in production and employment, with Canadian exporters particularly susceptible to weak demand in the U.S.[201]

Within Canada, Ontario was hit relatively hard by the economic downturn. The province's recovery depends heavily on factors such as growth in the U.S., the price of oil, and the value of the Canadian dollar.[202] Oil is forecast to average between $75 and $80 per barrel through 2011, but prices tend to be volatile;[203] high oil prices would act as a drag on the Ontario economy.[204] Appreciation of the Canadian dollar and weaker than expected growth of real GDP in the U.S. would also hold back economic growth in Ontario.[205]

Credit conditions in Canada as measured by the Bank of Canada continued to tighten overall. Most respondents to the Bank's quarterly survey, however, actually indicated no change in credit conditions, as the balance of opinion moved close to crossing into the realm of easing credit for this first time since Q2 2007.[206]

Consumer confidence has been growing in Canada, but dipped slightly in October following seven consecutive monthly increases. Ontario's index rose, however, for the seventh consecutive month to reach 84.3, compared to a base score of 100 for the year 2002. The Prairies (90.3) and British Columbia (100.8) were the only regions to surpass Ontario.[207]

Business confidence continued its upward trend with the second consecutive quarter of double-digit growth in Canada in Q3 2009. The index rose to 97.8, its highest level since 2007. The majority of survey respondents (63.1%) expected improvement in overall economic conditions in the next six months, compared to 6.9% who expected deterioration.[208]

Insolvencies, generally considered a lagging economic indicator, have recently shown divergence between consumers and businesses. Consumer insolvencies were up 36.9% in Canada and 41.3% in Ontario in August 2009 compared to August 2008. Business insolvencies, though, were down 18.8% in Canada and 16.9% in Ontario for the same period.[209]

U.S. ECONOMY

A number of prominent industries in Ontario, including forestry, automotive and tourism, are closely linked with the U.S. economy. With over 80% of Ontario's exports destined for the U.S.,[210] making up significant proportion of the province's GDP,[211] any sustainable economic recovery will depend on a significant improvement in the U.S. economy. In addition to weak demand in the U.S., the declining U.S. dollar continues to hurt Ontario's exports by making them relatively more expensive.

The pace of decline in the U.S. economy slowed during Q2 2009, with GDP contracting 0.7%, showing a marked improvement from the 6.4% drop in Q1.[212] The smaller decline can be attributed to smaller reductions in exports and business investment combined with an increase in government spending.[213] However, consumer spending was down 0.9% for the quarter, after rising 0.6% in Q1, denting hopes of a sustained rise.[214] Growth was down 3.8% on a year-over-year basis from Q2 2008.[215]

Domestic corporate profits grew 6.7% at a quarterly rate in Q2 after rising 9.6% in the previous quarter. Profits of financial firms increased 12% while non-financial profits were up by 4.7%.[216] Within the financial sector there was a stark contrast between Wall Street profits, which have seen healthy growth since the injection of government funding, and the profits of consumer banks, which have suffered as consumers continue to fall behind on credit card bills and mortgage payments. This trend was illustrated by the recent contrasting announcements by Goldman Sachs and Citi, with the former reporting near-record earnings of $3.2B in Q3, and the latter suffering its seventh loss in eight quarters, having accumulated $42B in credit losses since the beginning of 2008.[217]

There was no respite for the floundering labour market in the U.S., with the unemployment rate rising from 8.5% to 9.5% during Q2.[218] Recent figures indicate that the U.S. economy shed 263,000 jobs in September with the unemployment rate hitting a 26-year high of 9.8%. Since the recession began in December 2007, 7.2M jobs have been lost in the U.S. and the number of unemployed workers has climbed to 15.1M.[219] The data suggest that the U.S. might be on track for another jobless recovery similar to the one that followed the 2001 downturn as employers delay hiring until substantial signs of economic recovery emerge.[220]

In terms of the economic outlook, consensus results from the National Association of Business Economists project a 3.4% growth in GDP in Q3, followed by 2.4% for Q4 and 3% for 2010. At these levels of predicted growth, the unemployment rate is projected to remain around 8% at the end of 2011.[221]

The economic recovery will face strong challenges over the next two years as stimulus programs end and government funding is clawed back. With the ratio of debt to GDP expected to reach between 71% and 80% by 2013—up from 41% at the end of 2008—the U.S. will face mounting pressure to tighten its fiscal policy.[222] Government projections indicate that by mid-2010, the contribution of stimulus funds towards economic growth will be minimal.[223] While programs like the "Cash for Clunkers" rebate contributed to the growth of consumer spending in Q2, their withdrawal may slow down spending once again, especially in light of rising unemployment.[224] Although it is likely that the first-time homebuyer tax credit will be extended until April, the housing industry continues to suffer with a 3.4% year-over-year drop in new home sales for August YTD and an 11.7% drop in the median price of new homes. Current homeowners have struggled to keep up with mortgage payments and, at the end of Q2 2009, one in eight mortgages in the U.S. was either delinquent or in foreclosure.[225]

ONTARIO-U.S. BORDER

Total traffic volume for Ontario's border crossings with Michigan and New York was down 14.9% for YTD September 2009 compared to the same time last year.[226] Commercial truck traffic was down 21.8% for the period, but there are signs that volumes are starting to recover, mirroring the uptick in auto sector activity. Declines at the beginning of the year were as high as 30%, but in September, truck traffic declines slowed to 10.3%.[227] On the other hand, car volumes were down 13.2% for YTD September 2009 compared to a year earlier. There was a notable drop in passenger traffic through the summer months, especially in June, when it fell by 21.8%.[228] While border operators and tourism officials blame the economy, poor weather and a relatively high Canadian dollar for the decline in cross-border travel, they claim that confusion over the documents needed under the Western Hemisphere Travel Initiative (WHTI) that took effect in June also contributed to the decrease.[229]

Business groups in both Canada and the U.S. continue to raise concerns about the “thickening border” and the undue cost burden on the North American supply chain involved in cross border trade. In September, the U.S. Department of Agriculture’s (USDA) Animal and Plant Health Inspection Service (APHIS) proposed to increase the fees it charges to inspect trucks, trains, ships and international airline passengers arriving at U.S. ports of entry, effective November.[230] However, in response to strong objections from stakeholders, particularly the trucking industry, the USDA recently announced the withdrawal of the interim rule to increase APHIS user fees.[231]

At the Windsor-Detroit border, Michigan legislators are once again questioning the need for a new bridge proposed under the Detroit River International Crossing (DRIC) initiative, in light of declining cross-border traffic and Michigan’s huge budget shortfall. Opponents of the DRIC argue that 80% more traffic can be accommodated with the addition of the Ambassador Bridge’s privately-funded twinned span, thus eliminating the need for a third bridge at this time.[232] The Michigan Department of Transport (MDOT) has restricted spending for DRIC to an additional $2.5M over the next fiscal year.[233] The agency must conduct a new investment-grade border traffic study and submit a proposal to the Legislature by May 1, 2010. Michigan lawmakers will then decide if the MDOT is allowed to proceed with the DRIC project.[234] Although Michigan officially supports both bridge proposals, Governor Granholm noted during a recent interview that the twinned Ambassador Bridge span would likely be the “first priority”.[235]

Meanwhile, the Ontario government is ready to start pre-construction work on the Windsor-Essex Parkway, which is planned to link Highway 401 with the new bridge proposed by DRIC. Over the past few months, companies from around the world participated in a competitive bidding process, and Infrastructure Ontario recently announced the short list with the three consortiums selected to design, build, finance and maintain the parkway.[236] The short listed bidders are diverse and their team members include many local contractors and businesses.[237] A final bidding process will begin in December, with the final selection to be made later next year. Construction is expected to start by the latter part of 2010.[238] At other crossings, construction is underway on the second phase of improvements to the Canadian plaza at the Queenston-Lewiston Bridge.[239] The new plaza will improve customs capacity and include a new building for the Canada Border Services Agency and the Canadian Food Inspection Agency. The federal government also recently announced $44M to redevelop the customs plaza at the Sault Ste. Marie International Bridge.[240]

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