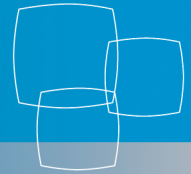




Ontario Economic Overview

November 2010 Update



HIGHLIGHTS

- Ontario's real GDP advanced by 0.6% in Q2 2010 compared to the previous quarter, matching national growth and outpacing U.S. growth.
- The manufacturing sector continues to limit provincial employment growth. Many manufacturers became more efficient during the recession, allowing them to be profitable with fewer employees.
- The research intensive ICT industry showed well in a recent ranking of Canada's top corporate R&D spenders in 2009. Half of the top ten spenders were Ontario-based ICT companies.
- While the strong Canadian dollar still weighs on the tourism sector, the number of international visitors entering Ontario finally increased in Q4 2009 and Q1 2010 before retreating slightly in Q2. Accommodation services firms are adding jobs and hotel occupancy rates have begun to improve.
- Investment in the clean energy sector continues to pick up steam, despite international opposition to the domestic content requirements in the province's Green Energy Act.
- While the U.S. economy has resumed growth, relatively weak consumption and ongoing challenges in the housing sector could limit demand for Ontario exports.
- Ontario's economy is forecast to grow by 3.4% in 2010, exceeding national growth, though recovering from a more severe decline in 2009. Employment is expected to advance by 1.9% while the unemployment rate recedes slightly to 8.8%.



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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 | -3.6 | 3.4 | 2.3 | -2.4 | 1.9 | 1.5 | 9.0 | 8.8 | 8.5 |
| Canada | -2.5 | 3.0 | 2.4 | -1.6 | 1.6 | 1.7 | 8.3 | 8.1 | 7.9 |
| United States | -2.6 | 2.7 | 2.3 | -4.3 | -0.5 | 1.0 | 9.3 | 9.6 | 9.4 |

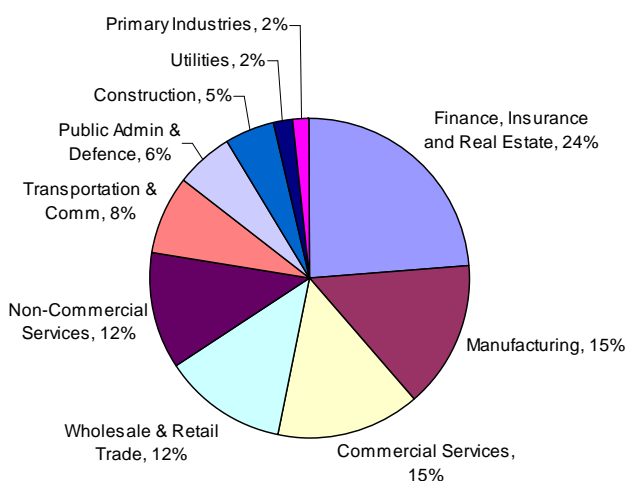
Source: Statistics Canada, U.S. Bureau of Economic Analysis; f indicates forecasted data, using median forecasts released in September 2010 or later, where available, from Conference Board of Canada, Scotiabank, RBC Financial, TD Economics, BMO Financial, CIBC World Markets and Desjardins. Forecasts collected on November 30, 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 | -2.1 | -4.2 | -10.3 | -15.0 | -2.1 | -4.5 | -5.7 | -13.2 |
| Automotive | -4.2 | -4.0 | -24.5 | -28.3 | x | x | x | -21.2 |
| Pharmaceutical and Medicine | 28.5 | -11.4 | 0.4 | 7.8 | 0.7 | -0.3 | 0.9 | -1.5 |
| Information and Communication Technology | 5.5 | 3.0 | -0.2 | -1.2 | 2.3 | 1.1 | 2.5 | -1.9 |
| Aerospace | 25.7 | 3.7 | 8.6 | -1.9 | -0.7 | -9.0 | -0.4 | -11.9 |
| Finance and Insurance | 5.7 | 4.3 | 1.2 | 3.3 | 3.5 | 5.0 | 4.3 | 3.3 |
| Construction | 2.6 | 3.2 | -0.6 | -6.7 | 4.9 | 5.4 | 5.0 | -5.2 |
| Accommodation and Food Services | 0.4 | 0.6 | 2.0 | -3.8 | 3.0 | 4.6 | 4.4 | -2.0 |
| Wholesale Trade | 4.4 | 4.5 | -1.0 | -5.5 | 1.2 | 3.0 | 0.6 | -4.4 |
| Retail Trade | 4.1 | 2.0 | 3.2 | 0.1 | 0.8 | 2.7 | 3.9 | -1.1 |
| Primary Industries* | -4.5 | -3.4 | 4.5 | -10.5 | 8.8 | -5.9 | -6.3 | -2.3 |

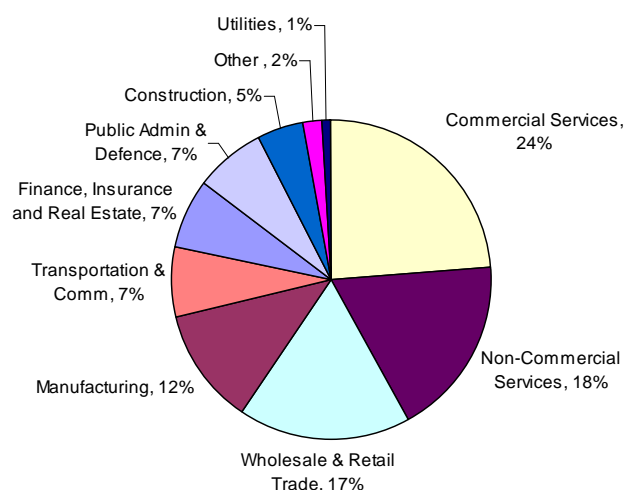
* Employment data from LFS and is not strictly comparable to SEPH data used elsewhere

Ontario GDP by Sector, 2009



Source: Statistics Canada

Ontario Employment by Sector, 2009



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

ECONOMIC OUTLOOK

- The median real GDP growth forecast for Ontario in 2010 is 3.4% according to seven recent private sector forecasts. This follows a 3.6% decline suffered in 2009 and outpaces the 3.0% median growth forecast for Canada. Forecasts for Ontario ranged from a low of 3.2% (TD) to a high of 3.8% (Conference Board).¹
- Vehicle production and exports contributed to the province's recovery,² as did lower interest rates, which boosted consumer spending.³
- For 2011, provincial output growth is forecasted to cool on account of sluggish U.S demand⁴ and an appreciating dollar,⁵ which will put pressure on exports in the auto and manufacturing sectors.⁶
- On a positive note, Ontario's unemployment rate is anticipated to decline in 2011 from 8.8% to 8.5%, although

it will remain higher than the forecasted national average of 7.9%.⁷

- After a moderate rise in the U.S. unemployment rate from 2009 to 2010, the rate is predicted to decline in 2011.⁸ However, unemployment will still be very high compared to rates historically seen in the U.S.
- Employment growth in Ontario is forecasted to drop from 1.9% in 2010 to 1.5% in 2011.⁹ Job growth will be limited by continued restructuring in the manufacturing sector¹⁰ and constraints in public sector employment as federal and provincial governments tighten their spending.¹¹
- The service sector is expected to drive employment growth in coming years. Particularly strong growth is expected in professional and technical services, financial services,¹² trade, transportation and commercial services.¹³

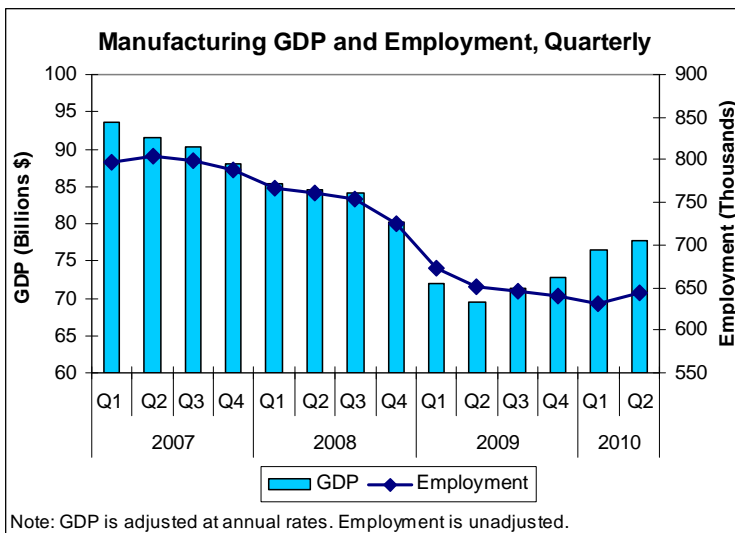


ECONOMIC FUNDAMENTALS

- Ontario's nominal GDP reached \$595.5B in Q2 2010,¹⁴ accounting for 37.0%¹⁵ of the national total.
- Provincial real GDP grew by 0.6% in Q2 2010 from the previous quarter, the fourth consecutive quarterly gain. This matched national performance¹⁶ and outpaced U.S. growth of 0.4% for the same period.¹⁷
- Driving factors behind continued growth in Q2 included gains in machinery and equipment investment (+6.9%) and consumer spending (+0.6%). The only major expenditure category to decline in Q2 was investment in residential construction (-0.5%).¹⁸
- Real industrial output increased by 0.6% in Q2 with gains in most sectors. Prominent gains were made in manufacturing (+1.7%) and professional and administrative services (+1.6%).¹⁹
- The province gained 81,600ⁱ jobs in Q2 compared to the previous quarter. Job growth continued in Q3, adding 27,700 more jobs.²⁰
- Ontario's unemployment rate was 8.6% in October 2010, down from 9.0% in October 2009. The provincial unemployment rate remained above the national average of 7.9%.²¹ Windsor (10.9%) and Oshawa (10.3%) had the two highest unemployment rates of all Canadian Census Metropolitan Areas (CMAs) in October.²²
- Credit conditions, in both price and non-price terms, continued to ease in Q3 2010 according to the Bank of Canada's Senior Loan Officer Survey. Lending conditions eased for the fifth consecutive quarter for corporate borrowers and for the second consecutive quarter for commercial borrowers. Small business borrowers have yet to report any significant easing. Overall easing is credited to increased competition among lenders, better industry conditions and an improved economic outlook.²³
- Consumer insolvencies were down by 17.1% in Q2 2010 over the same period last year.²⁴ All Ontario CMAs had fewer consumer insolvencies in Q2.²⁵
- Business insolvencies in the province decreased by 29.5% in Q2 year-over-year, compared to national declines of 23.7%. There were almost 500 business insolvencies in Ontario during the period.²⁶
- Ontario's index of consumer confidence improved by 8 points in November to reach 76.8. This was the largest gain observed since January 2010. Improvements were attributed to consumers being more optimistic about employment.²⁷
- Total venture capital (VC) financing deals in Ontario in Q2 2010 improved significantly over Q2 2009, jumping 63.5% to \$104.5M.²⁸

SECTORAL ANALYSIS AND OUTLOOK

MANUFACTURING



Ontario's manufacturing sector has continued to recover some of the ground lost during the recession. There was a modest 1.7% increase in GDP in Q2 2010 compared to a gain of 5.0% in Q1.²⁹ While output in

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

Q2 was up 11.9% from the previous year it was still 15.0% lower than in Q2 2008, prior to the recession.³⁰ The Conference Board of Canada forecasts Ontario's manufacturing GDP will jump by 10.3% in 2010, but growth thereafter will be more moderate as the Canadian and U.S. economies cool.³¹

Output in the automotive sub-sector grew by 4.1% in Q2 over Q1, contributing about half of overall manufacturing GDP growth for the period. Excluding auto, output grew by 1.1%. Primary metal and fabricated metal products also made a significant contribution to Q2 growth (+2.1%). Output declined in three of the eleven manufacturing sub-sectors in Q2, including paper products and printing (-3.3%), chemical and petroleum products (-1.4%), and textile, clothing and leather (-1.9%).³²

Unlike output, employment in manufacturing has continued to decline. The recession compelled many manufacturers to become more efficient, allowing them to be profitable with fewer employees.³³ Overall, Ontario's manufacturing sector lost 7,700 jobs in Q2 2010 compared to Q2 2009, adding to a string of year-over-year quarterly losses that commenced in Q2 2003.³⁴ Some of the largest sub-sector job losses were in computer and electronic product manufacturing



(-3,200) and printing and related support activities (-2,000). The auto sub-sector reported growth of 2,200 jobs in Q2, rebounding from unsustainably low levels. Employment in primary metal manufacturing grew by 1,400 jobs in Q2.³⁵ The TD Bank Financial Group forecasts employment growth of 1.3% in 2011 and 1.8% in 2012 across Canada's manufacturing sector.³⁶

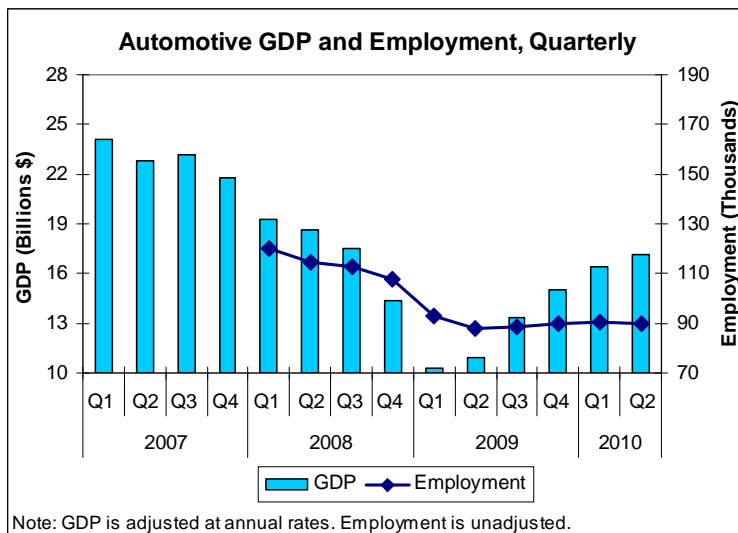
The steel industry faces many challenges, including relatively low prices and weak demand.³⁷ U.S. Steel, formally Stelco, announced in October that it was shutting down its Hamilton blast furnace and steelmaking operation with affected workers being deployed to other parts of the company. The company cited market conditions and weak demand as the reasons behind the move.³⁸ This was followed by the company locking out 900 Hamilton employees in early November related to a dispute over pensions.³⁹ In some positive news for Hamilton's steel workers, German-based Max Aicher North America Inc. closed a deal in November to buy two mills from U.S. Steel. The \$106M investment, which includes a \$9M loan from the Province of Ontario, involves plans for 300 employees by 2014. The company has already hired 125 people, many of whom were locked-out U.S. Steel workers.⁴⁰

Welland-based Lakeside Steel announced in October that it plans to reduce its salaried staff by one quarter, affecting 15 to 20 employees.⁴¹ While many steel companies continue to struggle, there has been some positive news recently. Pemco Inc, which distributes steel and related metal products, announced it was expanding to Hamilton, including relocating its headquarters to the city from Brampton. The company plans to hire fifty new people in the coming years as part of the move.⁴² Ontario's steel industry also continues to benefit from the many clean energy projects taking place in the province. For example, 37 wind towers recently delivered to Essex County were made of 100% Ontario steel, and wind turbines in Pointe-aux-Roches used 4,600 metric tonnes of steel plates produced by Essar Steel Algoma.⁴³

AUTOMOTIVE

The North American automotive industry continued its gradual recovery, but slow consumer spending in the U.S. led to some moderation in Q3 2010 sales.⁴⁴ During Q2 2010, Ontario's automotive output increased by 4.1% compared to the previous quarter, with improvements in both the automotive assembly and parts sectors. Q2 marked the fifth consecutive quarter of GDP growth, though the pace of growth has slowed in each quarter since Q3 2009. Compared to the low point reached in Q1 2009, output was up over 65%, but was still 29% below levels in Q1 2007.⁴⁵

Ontario's auto sector employment increased by 2.5% in Q2 2010 compared to the same period last year. This gain was driven by motor vehicle manufacturing (+8.8%), while parts manufacturing continued to lose jobs (-0.9%).⁴⁶



U.S. light vehicle sales for September 2010 YTD improved by 10.3% compared to the same period a year ago. Sales of light trucks were up 16.2%, outpacing the 5.5% sales increase for passenger cars.⁴⁷ In September, the seasonally adjusted annual rate of sales reached 11.7M, the highest level of the year.⁴⁸ However, this was still well below the annual average of 16.8M from 2000 to 2007.⁴⁹ A moderate recovery in U.S. auto sales is expected to continue into next year, with further significant sales growth depending primarily on fundamental improvements to the U.S. economy.⁵⁰ Revised forecasts project U.S. light vehicle demand of 11.5M units in 2010, and 13.1M units in 2011.⁵¹ Canadian light vehicle sales were up 7.2% for September 2010 YTD,⁵² with total sales expected to reach 1.6M units for 2010.⁵³ North American light vehicle production was 8.9M units for September YTD, up 53.1% compared to same period a year ago.⁵⁴ Canada accounted for 17.5% of North American production for the period, up slightly from last year. North American production is forecast at 11.7M units for 2010 and 12.2M units for 2011.⁵⁵

Demand for GM's remaining four core brands continued to strengthen in the U.S. market, with combined sales up 24.0% for September 2010 YTD from a year ago.⁵⁶ Overall the company's U.S. light vehicle sales increased by just 6.4%, dragged down by brands that have been discontinued or sold off.⁵⁷ Canadian output was up by 24.6%, but production at the CAMI plant in Ingersoll, which builds the popular



| Change in Vehicle Production and Sales September 2010 YTD vs. September 2009 YTD* (% Change) | | | |
|--|------------------------|---------------------------------|--------------------------------|
| | Canadian Production | North American Production | U.S. Light Vehicle Sales |
| General Motors | 24.6% | 61.0% | 6.4% |
| Ford | 54.2% | 39.8% | 19.1% |
| Chrysler | 96.2% | 98.2% | 14.6% |
| Honda | 17.0% | 34.8% | 3.2% |
| Toyota | 55.0% | 59.3% | 1.1% |
| Canada | - | 58.4% | - |
| United States | - | 53.1% | 10.3% |

*includes production up to September 25, 2010 and September 26, 2009

Source: Automotive News Data Center

Chevrolet Equinox and GMC Terrain models, soared 218.6% for the same period.⁵⁸ The plant is now operating three shifts with scheduled overtime.⁵⁹ GM's Oshawa assembly plant, which is providing additional capacity for CAMI production, is also operating on three shifts and has recalled 600 laid-off workers.⁶⁰ GM reported a Q3 profit of US\$2B and expects to remain profitable for the full year.⁶¹ GM returned to the market with a historic Initial Public Offering (IPO) held in November. The entire offering could reach \$23.1B, including the sale of additional preferred shares and exercising an overallotment option.⁶² The U.S. Treasury's ownership will be reduced to a minority position, falling as low as 33% from 61%. The Canadian and Ontario governments will reduce their combined share from 11.7% to about 9%, while the United Auto Workers health care trust share will be reduced to as low as 13% from 20%.⁶³

Ford Motor Co. continues to gain market share and improve profitability. Demand for its new Ford and Lincoln models remains strong, and the F-series truck was ranked the top-selling vehicle in the U.S.⁶⁴ September marked Ford's 23rd increase in U.S. market share in the past 24 months.⁶⁵ Canadian production grew by 54.2% for September YTD, with particularly strong growth of 74.8% in production of the popular Edge, which is manufactured in Oakville.⁶⁶ Ford recently reported record Q3 net income of US\$1.69B, its sixth straight quarterly profit. The company also said it was paying down debt faster than expected.⁶⁷

Chrysler Group posted solid sales gains for its new Jeep Grand Cherokee, as well as its minivan and Ram pickup brands. In Canada, Chrysler marked its tenth consecutive month of sales growth at the end of Q3.⁶⁸ North American production nearly doubled for the

first nine months of the year compared to 2009. Minivan production at the Windsor Assembly plant, which also builds the Volkswagen Routan, was up by 101.2% for the same period. The company plans to boost production of the redesigned Dodge Grand Caravan, which began in late November.⁶⁹ Chrysler Group reported an operating profit of US\$239M for Q3, an improvement of \$56M over Q2, and is projecting operating profit for the year to be higher than previously expected.⁷⁰

Toyota Motor continues to deal with the fallout from major global recalls. U.S. light vehicle sales for September YTD were largely unchanged from last year. Light truck sales rose by 14.1%, but passenger cars sales declined by 6.3%,⁷¹ reflecting the overall market shift to light trucks from cars.⁷² However, production has increased since last year, up 55.0% at Canadian facilities for September 2010 YTD.⁷³ In September, Toyota Canada celebrated its four-millionth Canadian built vehicle—a Corolla—at its Cambridge assembly plant.⁷⁴ The Cambridge South plant also recently received the J.D. Power Gold Plant Quality award for manufacturing.⁷⁵ Toyota announced plans for new products and redesigns over the next 18 months. The Corolla is expected to be restyled for the 2012 model year, with a redesign in 2014, while the new RAV4, which is assembled in Woodstock, is expected in spring of 2012.⁷⁶ Toyota reported that it had completed over 5M repairs on vehicles involved in three key recalls.⁷⁷ It also announced a number of quality improvement measures aimed at restoring consumer confidence in its brands, and it is working more closely with suppliers in North America to improve quality control and testing of key components.⁷⁸

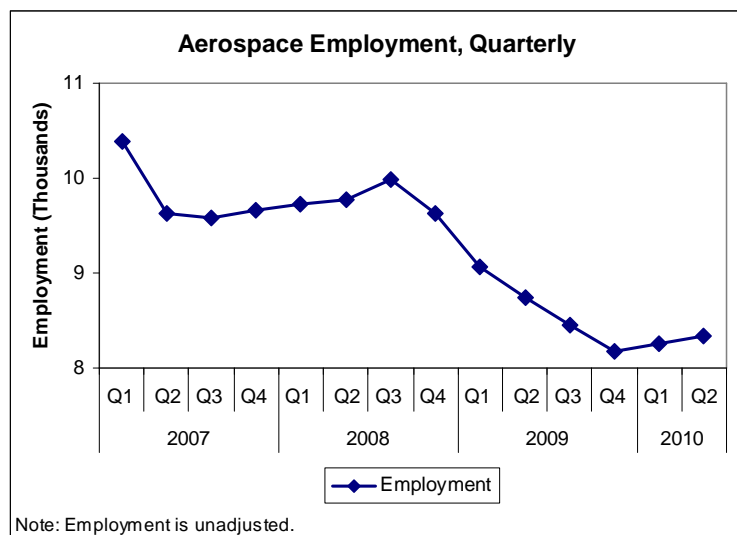
Honda Motor Co. posted a modest improvement in U.S. light vehicle sales for September 2010 YTD, ending with September monthly sales up by 26.1%.⁷⁹ The company's Canadian YTD sales were down by 3% despite strong demand for the CR-V sport utility vehicle.⁸⁰ Canadian production was up by 17.0% for September YTD.⁸¹ The company recently launched the redesigned 2011 Odyssey minivan, and product redesigns are expected next year for the Civic and the CR-V, and for the Accord by mid-2012.⁸² Honda Motor Co. recently reported strong Q2 results for its global operations, with the company's biggest regional profit in the North America market during the quarter which ended September 30 (59%).⁸³

The health of the automotive parts industry continues to strengthen as vehicle volumes recover. Recent industry surveys of suppliers from North America, Europe and Asia found that supplier profitability is



improving, and that the parts industry expected business activity to expand in the coming year.⁸⁴ Likewise, the Conference Board of Canada forecast Canada's automotive parts industry to return to profitability in 2011, and reach a projected profit of \$894M by 2014.⁸⁵ Cost-saving measures taken by the companies during the recession and better access to capital are allowing many companies to reduce debt servicing costs and improve cash balances as they position themselves for increased business opportunities.⁸⁶ With U.S. vehicle sales below replacement rates, suppliers are also expected to benefit from higher demand for aftermarket parts.⁸⁷ However, many companies still remain cautious about making investments or hiring workers given uncertain economic growth. Other supplier concerns include raw material prices and the ability to meet customer production demands.⁸⁸

AEROSPACE



Ontario's aerospace industry, which produces aircraft parts and systems, accounted for 27.7% of Canadian aerospace GDP in 2009, second in Canada behind Quebec (61.6%).⁸⁹ Approximately 350 aerospace companies are located in Ontario and over 70% of their products are designated for export.⁹⁰ Notable firms with a presence in Ontario include Bombardier Aerospace, Pratt & Whitney Canada, Honeywell Canada, L-3 Electronic Systems, Magellan, and Northstar Aerospace.⁹¹

In 2009, Ontario's aerospace output was over \$2B.⁹² Annual output was down by 1.9% according to revised data, a steeper decline than preliminary data had indicated. Nationally, GDP fell by 4.7% in 2009 and continued declining in the first half of 2010.⁹³ Conversely, Ontario's aerospace shipments grew by

1.3% in Q2 over the previous quarter, adding to Q1 gains of 2.0%.⁹⁴ Employment in the sector has fallen in each year since 2006, a trend which continued in the first half of 2010. An additional 400 aerospace jobs were lost in Q2 2010 over Q2 2009, bringing total employment in the sector to 8,300.⁹⁵ The Conference Board of Canada expects that Canada's aerospace sector could face labour shortages in the future as it faces a combination of an older than average workforce, lower than average retirement age and requirements for highly skilled workers.⁹⁶

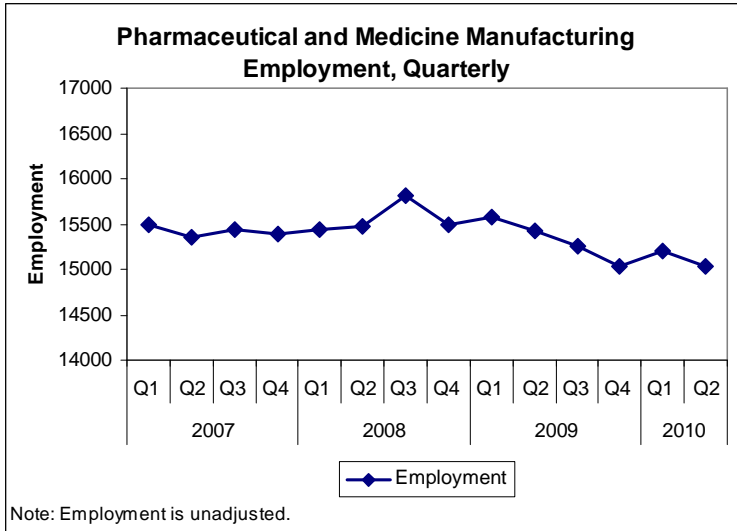
There have been a number of positive announcements for Ontario's aerospace industry recently. In late August, Bombardier announced that Smart Aviation of Egypt had signed a firm order for two Q400 NextGen turboprop aircraft, which are built in Toronto.⁹⁷ In November, the board of India's SpiceJet approved the order of 15 Q400s with the option for 15 more. While no agreement has been signed, it is estimated that the deal could be worth US\$900M.⁹⁸ Ontario suppliers are also benefiting from some of Bombardier's other aircraft programs, including the Learjet 85. Ontario-based suppliers involved in that project will include Cam-Tag Industries, Coordinate Industries, Cyclone Manufacturing, Dellcom Industries, Koss Aerospace and Noranco.⁹⁹ Pratt & Whitney recently announced that it would hire 100 engineers in Mississauga to work on developing plane and helicopter engines.¹⁰⁰ While Cambridge-based Com-Dev announced 81 job cuts in September,¹⁰¹ the following month brought news of a contract worth more than C\$6M for satellite equipment to be produced at its Cambridge plant.¹⁰² In October, Toronto-based Engineering Services Inc. was awarded a \$3M contract from the Canadian Space Agency to build the next Canadarm.¹⁰³ Canada's Joint Strike Fighter program will also benefit suppliers. Toronto-based Magellan Aerospace has already delivered \$35M in parts for the F-35 project.¹⁰⁴

Canada's aerospace products industry is expected to face GDP declines of 5.3% and employment declines of 2.8% in 2010 before posting gains starting in 2011.¹⁰⁵ Going forward, emerging economies should stimulate demand.¹⁰⁶ Globally, demand for aircraft is growing rapidly, bringing heavy competition.¹⁰⁷ The Aerospace Industries Association of Canada (AIAC) suggests that Canada's R&D intensity is likely insufficient to sustain future growth. In order to compete, the AIAC says the industry needs to adapt through specialization and technology innovation.¹⁰⁸

BIOTECHNOLOGY AND PHARMACEUTICAL

The pharmaceutical and biotechnology industries contribute approximately \$78B to national output, more than 6.4% of Canadian GDP.¹⁰⁹ Biotechnology





companies, of which 26% are based in Ontario,¹¹⁰ support one million direct and indirect Canadian jobs.¹¹¹ Ontario is the largest hub of biomedical activity in the country and fourth largest biomedical research cluster in North America.¹¹² The industry continues to face challenges, however, including difficulties in accessing capital. In addition, pricing pressure from governments and private-sector payers is growing as healthcare costs rise, a trend that is expected to continue as governments manage healthcare spending as they tackle large budget deficits.¹¹³

Ontario accounts for over half of Canada's pharmaceutical and medicine manufacturing sector output. Provincial output for the sector grew by 7.8% in 2009, lagging national growth of 10.0%. Nationally, output for the sector fell by 0.9% in Q2 2010 from the previous quarter after growth of 6.8% in Q1.¹¹⁴ The Conference Board of Canada's Leading Indicator of Industry Profitability, which predicts short-term movements in corporate profitability, dropped for the second straight month in October for the pharmaceutical sector.¹¹⁵ Ontario's employment in this sector also decreased for Q2 2010, dropping 2.5% (400 fewer jobs); this was the fifth straight year-over-year quarterly drop.¹¹⁶

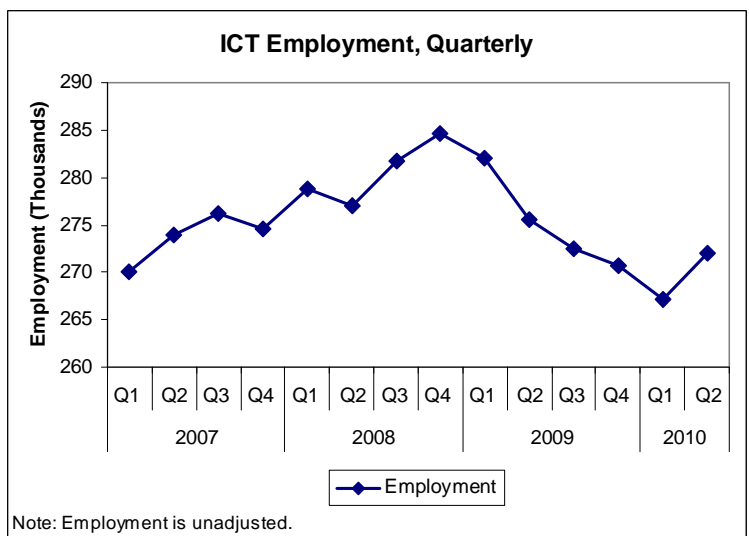
Another area of concern for Ontario's pharmaceutical and medicine manufacturing sector is exports. After posting annual growth for well over a decade, exports dropped 28.7% during the first nine months of 2010 compared to the same period last year.¹¹⁷ This decline was mainly due to a 26.0% decrease in exports to the U.S. as well as a significant decline (80.3%) to what was Ontario's second biggest market, Switzerland. Export Development Canada noted that weak pharmaceutical exports this year are part of a structural

decline, but expected exports to experience a modest recovery in 2011.¹¹⁸

A recent Ernst and Young (E&Y) report on global biotechnology highlighted the difficult financial climate for biotech firms. The report warned that difficulties accessing capital were leading to extensive restructuring, lay-offs and a reduction in R&D spending, which fell by 44% nationally in 2009.¹¹⁹ This decrease was also reflected in RESEARCH Infosource's recent ranking of Canada's Top 100 Corporate R&D Spenders for 2009. Ten Ontario-based pharmaceutical/biotechnology companies (including foreign subsidiaries) were listed, six of which spent less on R&D than in the previous year. Bayer (+40.1%) and Biovail (+39.4%), on the other hand, increased their spending substantially.¹²⁰ E&Y warned that reductions in corporate R&D may significantly harm the long-term growth of the sector.¹²¹

Despite the gloomy outlook, VC investment during the first half of 2010 improved after a rough 2009, when VC for Ontario's life sciences sector dropped 36.6% from 2008 levels. Biopharmaceutical VC activity for Q2 2010 totalled \$5.3M; combined with Q1, this amounts to a YTD increase of 35.0% from the same period in 2009. VC financing in the medical devices and equipment subsector was also up significantly, with a 16.2% YTD increase from 2009.¹²² The Canadian government is planning to amend the Canada-US Tax Treaty which may have a positive impact on non-resident venture fund investment. Investors had identified double tax filing and administrative delays as disincentives to investment of foreign capital.¹²³

INFORMATION AND COMMUNICATIONS TECHNOLOGY



With more than 16,000 ICT firms, Ontario accounts for about half of Canada's ICT industry. Activity is concentrated in three large technology clusters in Toronto, Ottawa and Kitchener-Waterloo. The province is home to many of the country's industry leaders, such as IBM, Alcatel-Lucent, AMD, Cognos, Rogers, OpenText, RIM, Celestica and Aastra.

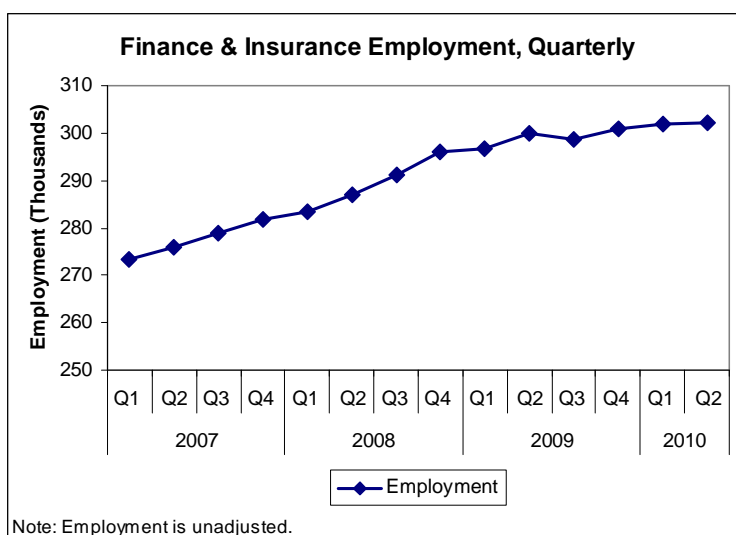
Ontario accounts for about half of national ICT GDP, revenues and employment. In 2009, the ICT sector contributed \$26.7B, or 5.7%, to Ontario's GDP.¹²⁴ Ontario's ICT output fell by 1.2% in 2009, with ICT manufacturing falling more sharply than services. Revised data indicate that there was also an annual decline of 0.2% in 2008. On a positive note, national ICT output, of which Ontario accounts for about half, posted growth in the first two quarters of 2010, at 0.7% (Q1) and 0.6% (Q2).¹²⁵ Ontario's ICT manufacturing shipments increased by 4.9% for August YTD compared to last year, after falling for much of 2009.¹²⁶ ICT manufacturing exports, however, fell 13.1% for September YTD compared to last year.¹²⁷ The decline was largely concentrated in exports to the U.S., but exports to Ontario's next largest markets, Mexico and the U.K., also posted double-digit declines for the period.¹²⁸

Ontario averaged 271,900 ICT employees in Q2 2010. Employment fell by 1.3% in Q2 2010 over last year, the fifth consecutive quarter in which employment declined year-over-year.¹²⁹ The decline in Q2 was mainly concentrated in manufacturing, with approximately 2,900 jobs lost. ICT services employment was relatively stable for the period.¹³⁰

The sector is very research intensive, with Ontario accounting for the majority of private sector ICT R&D spending in Canada.¹³¹ Seven of Canada's top ten R&D spenders for 2009 were ICT firms, five of which are located in Ontario.¹³² Within the ICT sector seven of the top ten R&D spenders were Ontario firms. RIM jumped from sixth place in 2008 to first in 2009, knocking Nortel out of the top position it has held for a number of years.

Almost three quarters of Ontario's total VC investments took place in the IT sector in 2009.¹³³ In Q2 2010, IT VC levels rose by 13.7% over last year, reaching \$60.0M. The biggest investments took place in communications and networking firms (\$30.8M) and software companies (\$20.0M).¹³⁴

FINANCE AND INSURANCE



The financial services sector in Ontario employed about 300,000 people¹³⁵ and had output of \$31.1B in 2009.¹³⁶ Toronto is the third largest financial centre in North America after New York and Chicago, employing approximately 230,000 in the sector.¹³⁷ A further 290,000 jobs in the Greater Toronto Area are supported by financial services.¹³⁸ Toronto is home to the headquarters of Canada's five largest banks, six of the country's top ten life insurance companies, Canada's five largest pension plans, over 100 securities firms, 80% of the country's mutual fund industry, and the Toronto Stock Exchange.¹³⁹ In the most recent Global Financial Centres Index, Toronto remained 12th in the world and was considered one of only eight "Global Leaders" that combined depth and breadth in financial services with strong connections to other financial centres.¹⁴⁰

| Ontario ICT Firms that Placed within Canada's Top 50 Corporate R&D Spenders for 2009 | | | |
|--|-----------------------------|------------------|--------------------|
| Rank | Company | R&D Expenditures | |
| | | FY2009 \$000 | % Change 2008-2009 |
| 1 | Research In Motion Limited | \$1,101,848 | 51.0 |
| 2 | Nortel Networks Corp. | \$864,494 | -48.5 |
| 5 | IBM Canada Ltd. (fs) | \$556,500 | 40.2 |
| 9 | Alcatel-Lucent (fs) | \$224,000 | -5.5 |
| 10 | Ericsson Canada Inc. (fs) | \$197,000 | 56.3 |
| 17 | Open Text Corporation | \$132,659 | 17.5 |
| 26 | Aastra Technologies Ltd. | \$86,201 | -18.3 |
| 28 | Rogers Communications Inc. | \$81,000 | 52.5 |
| 30 | Constellation Software Inc. | \$74,952 | 45.8 |
| 31 | Mitel Networks Corporation | \$68,634 | 2.9 |
| 39 | Zarlink Semiconductor Inc. | \$52,532 | 3.3 |
| 47 | DALSA Corporation | \$41,209 | 4.9 |

fs = Foreign subsidiary

Source: ReSearch Infosource



Following growth of nearly 5,200 jobs in Q1 2010, the sector added another 2,200 jobs in Q2 2010 compared to Q2 2009, an increase of 0.7%. The credit intermediation sub-sector, which includes banks, was responsible for all of the growth in Q2, with employment declining slightly in the insurance and securities sub-sectors.¹⁴¹ In 2009, Ontario's finance and insurance sector posted output gains of 3.3%, contrary to the overall decline in provincial performance.¹⁴² Nationally, finance and insurance GDP continued to grow in the first half of 2010.¹⁴³

| Canada's Top Five Banks: Q3 2010 Earnings | | | | |
|---|-----------------------------|---------------------------------|-------------|--------------------------|
| | 2010 Q3 earnings (millions) | Change in Earnings from Q3 2009 | 2010 Q3 ROE | Tier 1 capital ratio (%) |
| BMO | \$669 | 20% | 13.7% | 13.6% |
| CIBC | \$640 | 47% | 19.8% | 14.2% |
| RBC | \$1,276 | -18% | 14.3% | 12.9% |
| TD | \$1,177 | 29% | 12.2% | 12.5% |
| Scotia | \$1,060 | 14% | 18.2% | 11.7% |

For the quarter ending July 31, 2010, earnings at Canada's five largest banks were up almost 10% over Q3 2009. CIBC exceeded analyst expectations while the other four missed earnings estimates, although TD and Scotia were almost in line with expectations. Following several quarters of strong returns from capital markets, the banks saw trading revenues decline in Q3.¹⁴⁴ As CIBC was not as reliant on trading revenues as other banks, its trading profits declined less.¹⁴⁵

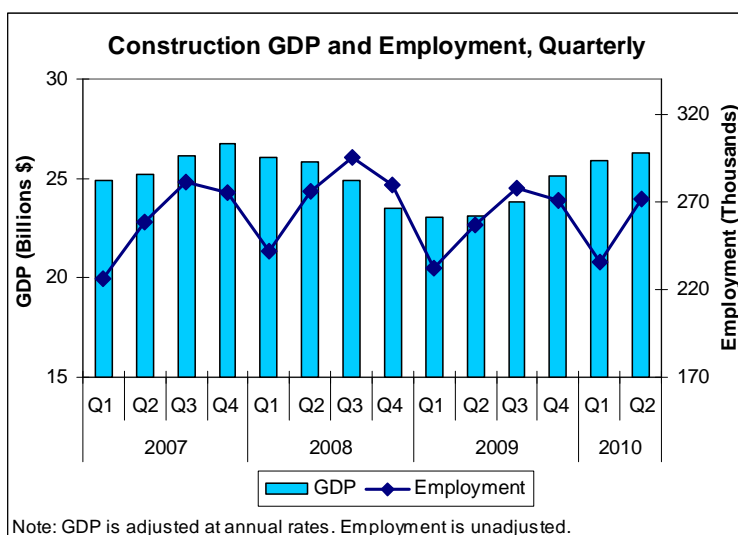
Sun Life Financial reported net income of \$213M in Q2 2010, down 64% from the same quarter in 2009. Analysts had expected a difficult quarter, and revenues suffered due to volatile equity markets and low interest rates that affected the company's fixed income group.¹⁴⁶ Manulife suffered for the same reasons and failed to meet analyst expectations, although the volatility of its earnings was highlighted by a \$2.4B loss in Q2, compared to profit of \$1.8B in Q2 2009.¹⁴⁷

Visa launched its first Canadian debit card in October. Issued by CIBC, the card allows holders to pay for many online, mail, or telephone purchases using a debit card instead of a credit card. The launch was not without controversy, however, as groups such as the Retail Council of Canada pointed out that fees associated with the card would be higher than those for Interac transactions.¹⁴⁸ Further criticism focused on the discovery that some purchases made with the cards

are being routed through the Visa network instead of the Interac network, in apparent violation of the voluntary code of conduct for the payments industry in Canada.¹⁴⁹ These developments may influence plans by the other banks for their own enhanced debit card products.

In August, the Investment Industry Regulatory Organization of Canada (IIROC) sent a request for information on trades conducted using the Alpha alternative trading system. The request went to brokerages that owned and used Alpha, a trading system that competes with the TSX. IIROC's request was related to the Alpha Group's Momentum initiative, a plan in which brokerages were encouraged to switch trades from other systems to those of the Alpha Group. The request for information is a standard practice,¹⁵⁰ but critics have pointed out the possibility for conflict of interest given that the Alpha Group's owners are also the country's most active traders.¹⁵¹

CONSTRUCTION



Ontario's construction sector GDP grew by 1.4% in Q2 2010 over the previous quarter, for its fifth consecutive quarterly gain.¹⁵² Advancements in building permits, housing starts, sector employment and non-residential investment contributed to the sector's positive performance.

The value of Ontario building permits increased by 9.2% in Q2 2010 over the previous quarter and jumped 43.1% from the same period last year. Growth between Q1 and Q2 was largely driven by the non-residential sector. In Q3, there was a decline of 2.1% in the value of permits compared to Q2; compared to last year, however, there were still significant gains.¹⁵³



Employment in the construction sector dropped in each quarter of 2009. This trend reversed in 2010, with year-over-year sector employment increasing 1.9% in Q1 and 6.0% in Q2. Employment growth was observed in all sub-sectors except non-residential building construction, which continued to struggle and has lost jobs in every quarter dating back to Q1 2009.¹⁵⁴

Housing starts have made a notable turnaround since the economic downturn in 2008. Starts were up throughout the second half of 2009 and in the first two quarters of 2010 compared to the same time period the previous year. Ontario housing starts rose by 47.8% in Q2 compared to last year and were up 7.2% over Q1.¹⁵⁵ However, they declined by 5.0% to 60,800 (SAAR) in Q3 from Q2.¹⁵⁶ All CMAs posted year-over-year growth in starts in Q2 with the exception of Kingston.¹⁵⁷

Investment in non-residential buildings in Ontario is on pace to surpass 2009 levels this year. In Q2, investment in industrial buildings was up by 10.3% and investment in commercial buildings grew by 3.4%.¹⁵⁸ Despite a 2.0% decline in institutional and government buildings, overall non-residential investment was up by 2.3%. This was followed by 4.5% growth in Q3, with particularly strong growth in industrial and commercial buildings. Toronto posted the largest increase of all Canadian CMAs, growing by 7.5% for the period.¹⁵⁹ Looking forward, Toronto may experience further gains in non-residential building investment as it prepares for the 2015 Pan Am Games.¹⁶⁰

TOURISM

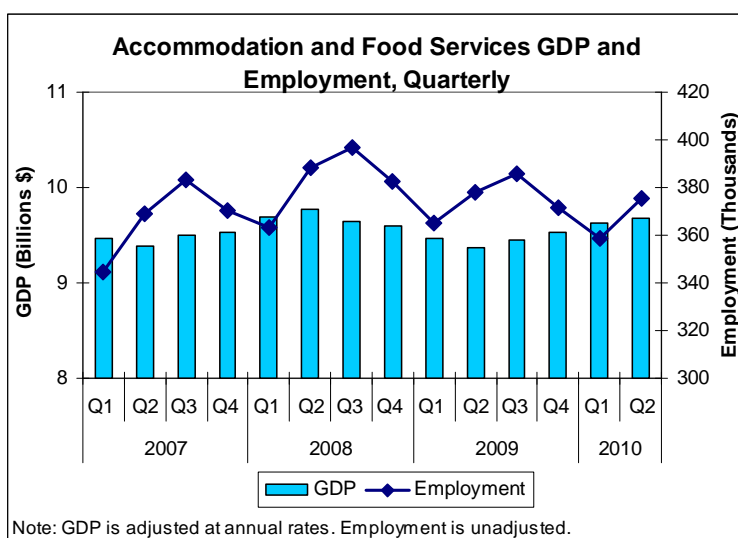
Ontario accounts for over half of international travellers entering Canada. The number of international travellers entering the province increased slightly in both Q4 2009 and Q1 2010—by about 1% in each quarter according to revised data.¹⁶¹ These increases were supported by growth in both American and overseas travellers. In Q2 2010, the number retreated by 0.4% over Q1 with levels still 5.2% lower than a year ago, and over 60% below the peak reached in Q4 1998.¹⁶²

The U.S. accounts for nearly 90% of Ontario's visitors. While there has been growth observed in recent months, declines earlier in the year resulted in a 6.4% decrease in the number of American travellers to Ontario for July YTD compared to last year.¹⁶³ Losses were concentrated in entries by automobile. However, passenger car border crossings between Ontario and the U.S. were up by 3.9% for August YTD,¹⁶⁴ possibly reflecting an increase in Ontarians making trips south

of the border. The largest increases were observed at the Seaway International Bridge in Cornwall, which was closed for part of 2009, and the Ambassador Bridge in Windsor.¹⁶⁵

The number of overseas travellers entering Ontario grew by 5.3% for July YTD over 2009.¹⁶⁶ While there was a 2.5% decline in entries from the U.K., Ontario's largest overseas market, there was double digit growth in other important markets such as Japan, India and China. The number of Chinese travellers grew by one quarter for July YTD, with a 51.7% increase in July alone. Growth can be partially attributed to China's granting of Approved Destination Status to Canada in June. Further strengthening ties with China, Ontario signed a number of tourism cooperation agreements with Chinese provinces in October and November, which are expected to bring \$200M in benefits to Ontario's tourism economy.¹⁶⁷

Ontarians made 11.4% more international border crossings for July YTD compared to a year ago, with twice as many Ontarians visiting international destinations as the province received in foreign tourists.¹⁶⁸ A relatively strong Canadian dollar will continue to make the U.S. and other international locations relatively attractive travel destinations. However, improving economic and labour market conditions in Canada will also support domestic travel.¹⁶⁹



Accommodation and food services account for a large share of tourism output and employment in Ontario. Sector GDP grew for the fourth consecutive quarter in Q2 2010, gaining 0.4% to reach just 1.0% below the pre-recession peak in Q2 2008.¹⁷⁰ Sector employment was still down in Q2, but not as sharply as in previous



quarters. Overall, employment was down by 0.8%, with losses concentrated in food services. Employment in accommodation services increased 8.3%.¹⁷¹ The Conference Board of Canada forecasts that national accommodation output will grow 5.1% and employment will grow 2.2% in 2010.¹⁷²

Hotel occupancy rates have begun to improve. Occupancy rates for July YTD reached 58.8%, a 3.3 percentage point increase over 2009.¹⁷³ The highest occupancy rates were in downtown Toronto at 72.6%, an 8.0 percentage point increase over last year. However, Toronto faced a number of strikes by hotel workers over the summer and a two-week strike at the Delta Chelsea that started October 27 related to work conditions, job security, benefits and workload.¹⁷⁴ Average daily room rates for Ontario hotels increased by 1.6% while revenue per available room jumped by 7.6% for July YTD.¹⁷⁵

There is concern that Ontario's tourism industry could face steep labour shortages in the future. While the recent recession dampened tourism demand, leading to labour surpluses in the industry, it is forecast that shortages could return by 2013.¹⁷⁶ Indeed, by 2025, unfilled jobs could exceed 80,000, with over half of these shortages concentrated in Toronto.

RETAIL AND WHOLESALE TRADE

Combined, retail and wholesale trade accounted for 12.1% of Ontario's GDP and employed 973,700 people in 2009.¹⁷⁷

the previous quarter and were up 5.1% compared to a year ago.¹⁷⁹ Sales for August YTD were up by 5.0% over last year, with gains in most subsectors.¹⁸⁰ While only accounting for roughly 10% of overall retail sales, a significant 14.5% jump in gasoline station sales accounted for over one quarter of retail sales growth for the period. There were no severe sales declines in major retail subsectors for August YTD. However, there was a small 0.2% sales drop in Ontario's largest retail subsector, food and beverage stores, which was related to a decline in supermarket and other grocery store sales.¹⁸¹ Looking ahead, Ontario's retail sales are expected to continue strengthening. Retail sales are forecast to grow by 5.6% in 2011 by the Conference Board of Canada, 4.7% by RBC and 3.5% according to TD.¹⁸²

Employment in Ontario's retail sector stabilized in Q2 2010, growing 0.2% after four consecutive year-over-year quarterly declines.¹⁸³ Gains in building material and garden equipment dealers (+3,000), clothing stores (+2,200) and several other subsectors counterbalanced losses in food and beverage stores (-3,900) and general merchandise stores (-2,000).¹⁸⁴ The outlook for retail hiring intentions in the second half of the year appears to be positive. Nationally, the Manpower Employment Outlook Survey found that 23% of wholesale and retail trade employers intended to increase hiring in Q4, 68% expected to maintain staffing levels and only 8% planned cutbacks.¹⁸⁵ In October, electronic retailers Future Shop and Best Buy announced plans to hire 4,000 and 2,000 seasonally workers respectively across Canada for the holiday season.¹⁸⁶



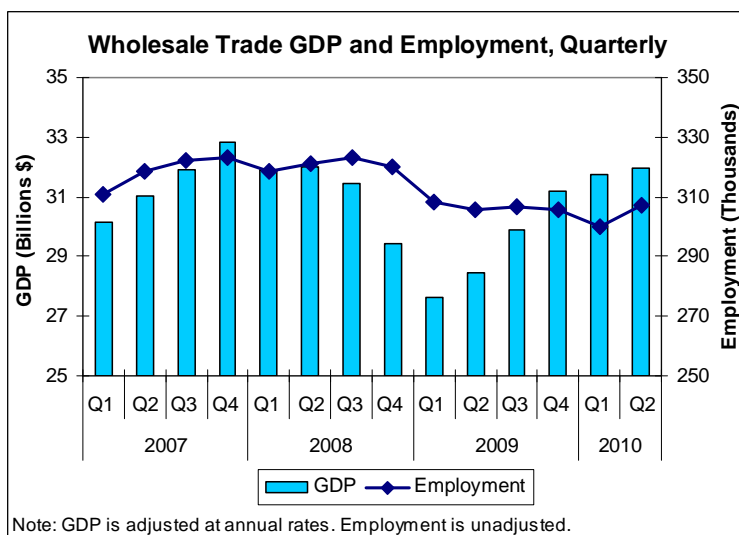
Output in Ontario's retail sector reached \$29.0M in Q2 2010, surpassing the previous peak reached prior to the recession.¹⁷⁸ Compared to Q1, output was up by 0.7% in Q2. Retail sales improved by 0.3% in Q2 over

| Retail Trade Employment and Sales by Subsector | | | |
|---|-----------------------|------------------------|---------------------------|
| | Employment | | Sales |
| | Share of Total (2009) | % change (Q2 Y/Y) 2010 | % change (August YTD Y/Y) |
| Retail trade | 100% | 0.2% | 5.0% |
| Food and beverage stores | 26% | -2.3% | -0.2% |
| General merchandise stores | 16% | -1.9% | 6.1% |
| Clothing and clothing accessories stores | 12% | 2.9% | 5.1% |
| Motor vehicle and parts dealers | 9% | -0.5% | 6.4% |
| Health and personal care stores | 9% | 2.2% | 2.7% |
| Building material and garden equipment and supplies dealers | 7% | 6.4% | 10.8% |
| Miscellaneous store retailers | 5% | -0.6% | -0.8% |
| Sporting goods, hobby, book and music stores | 5% | 1.1% | 2.1% |
| Furniture and home furnishings stores | 4% | 3.4% | 5.3% |
| Electronics and appliance stores | 4% | 3.9% | 5.1% |
| Gasoline stations | 3% | -3.0% | 14.5% |

Source: Statistics Canada. Data is not seasonally adjusted.



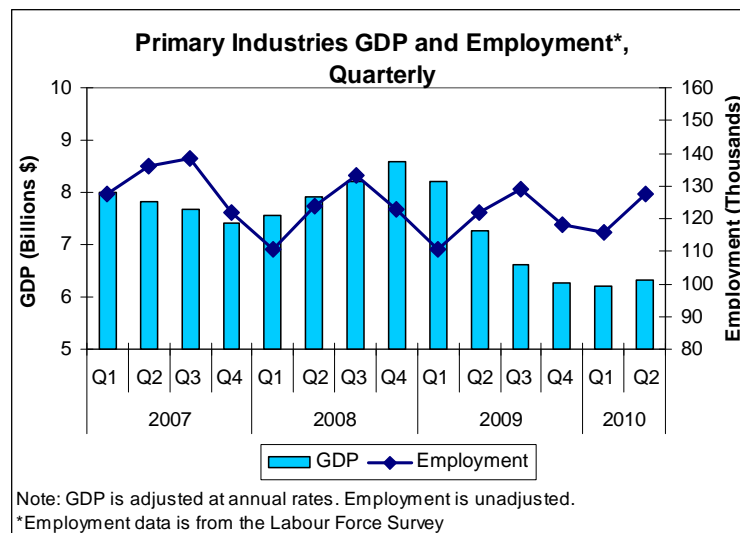
Internationally, Canada is viewed as having a relatively robust market that is not as saturated with retailers as other markets. Canadian tastes are similar to those of Americans, making Canada an attractive location for international retailers to expand.¹⁸⁷ Indeed, major U.S. brands that have entered the Canadian market in the past few years include Anthropologie, Brooks Brothers, Bath and Body Works, Victoria's Secret and Loews.¹⁸⁸ Other foreign retailers expanding in Canada include Denmark's Bestseller, which entered Canada in mid-2009 and has plans to add over 200 more stores during the next five to seven years.¹⁸⁹ On the other hand, RioCan, a Toronto-based real estate investment trust focused on retail, has taken advantage of a relatively strong loonie and preferential capitalization rates in the U.S., to begin buying properties south of the border in October 2009. RioCan owned 15 U.S. properties as of August 2010, and expects to grow that number to 25 by the end of 2010.¹⁹⁰



Ontario's wholesale trade sector GDP was up 0.6% in Q2, adding to consecutive quarterly gains since Q2 2009.¹⁹¹ Gains in food, beverage and tobacco, and machinery and equipment supplies wholesalers helped drive overall growth.¹⁹² Quarterly employment in the sector improved for the first time in Q2 2010 since the last quarter of 2008, albeit by 0.6% over the same period last year. Subsectors that added the most jobs included building materials (+1,300) and personal and household goods wholesales (+1,200).¹⁹³ Wholesale sales rebounded by 12.4% for August YTD over last year, outperforming the national increase of 8.4%.¹⁹⁴

AGRICULTURE

There were 86,500 agricultural workers in Ontario in Q2 2010, down slightly (-0.2%) from employment levels in Q2 2009. Year-over-year employment gains



in animal production were not enough to compensate for losses in crop production, mix farming and support activities for the agriculture sector.¹⁹⁵ Agriculture workers made up 1.3% of Ontario's labour force and Ontario accounted for 28.2% of Canada's agricultural employment in Q2.

Ontario agricultural exports totalled \$774.7M in Q2 2010, up 22.6% from the same period last year. There were notable gains in animal production exports (64.6%) along with crop production increases (6.4%) during the period. Exports to the U.S., Ontario's largest agricultural export destination, increased by 8.3%, or \$33.7M, in Q2 2010 from Q2 2009.¹⁹⁶ Increases in exports to Hong Kong (+\$58.3M) and China (+\$32.0M) were other major drivers behind export growth over the last year.¹⁹⁷

Provincial slaughterhouses are disappearing, unable to keep up with increasingly tough regulations and cheap pork coming in from European markets that make use of low-cost labour. With world prices at low levels, some report that cutting and wrapping the pork costs more than the pig itself.¹⁹⁸ Maple Leaf recently sold its pork processing business in Burlington to a division of Sun Capital Partners for an estimated \$20M.¹⁹⁹ One positive development was that Canadian poultry regained access to the Mexican market after being locked out in 2004 due to the avian flu outbreak.²⁰⁰

MINING

Ontario's mining sector resumed growth, operating against the backdrop of a global economic recovery. This reprieve from last year's economic downturn is currently being driven by factors including the need to rebuild currently low levels of inventories and strong economic growth in emerging markets such as China. Global prices for nickel, gold, copper and zinc were all



above those seen a year earlier.²⁰¹ The number of workers in Ontario's mining sectorⁱⁱ fell by 10.6% below those in Q2 2009.²⁰² The sector has been facing consecutive year-over-year quarterly employment declines since Q1 2009, though the pace of decline has slowed from the 20%+ drops seen in the previous three quarters.

Mining GDP totalled \$1.7B in Q2 2010, up 0.8% from the previous quarter, but still almost 40% below the peak reached in Q3 2008.²⁰³ Provincial mining exports totalled \$2.2B in Q2 2010, accounting for 31.7% of the national total. Ontario's metal ore exports alone, however, made up a significant proportion (60.3%) of the national total during the period.²⁰⁴ In Q2, Ontario's mining exports increased by 18.1% compared to last year, almost completely driven by growth in gold and silver ore exports.

Vale announced in early July an end to an almost year long strike as production and maintenance workers at its Sudbury and Port Colborne operations ratified a new five year collective agreement.²⁰⁵ Ontario will benefit from Vale's plans to invest \$10B over five years in Canada, including \$3.4B to upgrade mining and processing facilities in Sudbury and \$360M to open the Totten Mine, west of Sudbury, which will employ 130 workers once production begins in late 2011.²⁰⁶

Layoffs at Xstrata Copper's Kidd Creek Metallurgical Site began in May. The company staggered the layoff of about 650 workers as operations were winding down at the smelter, with most workers gone by June.²⁰⁷ Despite these challenges, Xstrata's Canadian division generated an operating profit of \$86M in the first half of the year, against a loss of \$61M in the same period a year ago, as copper and nickel prices soared from recessionary lows.²⁰⁸

Gold is expected to remain an attractive commodity in 2010, boding well for investment in jurisdictions like Kirkland Lake and Northwestern Ontario. Mineral exploration and deposit appraisal expenditures in Ontario are expected to increase from \$469M in 2009 to \$608M in 2010, with significant activity expected in gold and new development also planned in chromite.²⁰⁹ While the volume of gold production in Canada in the first three quarters of 2010 was 13% below 2009 levels,²¹⁰ high prices will continue to drive investment in increased production. Lake Shore Gold invested heavily in Timmins this year, spending \$11M

ⁱⁱ Oil and gas extraction is included in employment figures for this section but only accounts for a small portion of total employment.

in exploration and \$60.8M in mine projects through the first six months.²¹¹ Heightened demand for gold has also spurred employment growth in Kirkland Lake, where Kirkland Lake Gold more than doubled its workforce from a year and a half ago with further plans for future hires.²¹²

FORESTRY

Forestry and its related sectors play an important role in many of Ontario's communities, 40 of which are classified as highly dependent on employment in the industry for survival.²¹³ After watching more than half of jobs disappear over the last five years, the logging and support industry boosted employment to 4,300 in Q2 2010 to deal with rising demand. This was a 16.1% increase in jobs compared with a year earlier. The industry added jobs in both forestry and logging (9.3%) and support activities (39.2%).²¹⁴ An additional 36,000 people were employed in the related paper and wood product manufacturing sectors in Q2. Employment in both sectors was relatively unchanged compared to a year ago.²¹⁵

The value of forestry and logging exports posted year-over-year gains in Q2 as well (35.9%). Exports to the U.S., Ontario's largest forestry market, increased by 42.5%. The United Arab Emirates became the third largest market for Ontario's forestry exports in Q2, after China and the U.S. The province's forestry and logging exports accounted for 4.6% of the Canadian total in Q2.²¹⁶ Export Development Canada forecasts that Ontario's forestry exports will grow by 12% this year followed by 4% growth in 2011.²¹⁷

There are indications that the apparent reprieve in difficult conditions facing the forestry industry could be short-term. While U.S. housing starts have risen by one quarter since the trough reached in April 2009, they are still well below pre-recession levels.²¹⁸ Future growth will face headwinds as sales of both new and existing homes fell in October, leaving 10.5 months of housing inventory on the market.²¹⁹ The province's home construction industry has also begun to stall and demand in China is starting to soften.²²⁰

Challenging conditions have forced many of Ontario's forestry related companies to shut down or cut production levels. As of September 2010, 20 of 47 large sawmills, 9 of 18 paper mills and 5 of 11 panel/veneer plants have been either permanently or indefinitely closed. Many of the remaining companies are operating at reduced capacity.²²¹

CLEAN ENERGY – SOLAR

Ontario's clean energy sector continues to pick up steam thanks to investment driven by premium rate



contracts provided under the Green Energy Act's (GEA) feed-in-tariff program (FIT). As of mid-October, more than 24,400 FIT and microFIT (projects 10 KW and less) applications had been received by the Ontario Power Authority.²²² The province is counting on clean energy alternatives to play a significant role in filling the energy supply gap created by the commitment to phase-out coal-fired generation by 2014. The sector should also benefit from the Canadian Intellectual Property Office's recently announced plan to speed-up the patent application process for green technologies.²²³

The GEA and its local sourcing requirements remain controversial amongst many of Canada's largest trading partners. Japan launched a World Trade Organization (WTO) dispute in September claiming that the FIT's domestic content requirements are a "prohibited subsidy" under international trade law.²²⁴ The U.S. and the EU also filed notices in October with the WTO expressing concern.²²⁵ WTO Director General Pascal Lamy and John Krenicki, Vice Chairman of General Electric, have also stated their opposition, arguing that such policies stifle competition, raise energy prices, and slow the global conversion to clean energy.²²⁶ The requirements may also be a potential hurdle in Canada's free trade talks with the EU, which is seeking improved access to provincial procurement.²²⁷

The GEA's domestic content requirements are also receiving some opposition from the solar energy sector. A recent study commissioned by Japan's Mitsubishi Electric Corp. on behalf of a coalition of foreign and Canadian solar-power manufacturers concluded that Ontario's local content rules would result in increased costs, 9,000 fewer jobs and \$2B less in investment.²²⁸ A recent iSuppli report also predicts that the requirements will slow short-term growth given the lack of manufacturing capability for key solar components.²²⁹

Despite this opposition there have been numerous investment announcements in the solar energy sector recently. In August, Canadian Solar announced the establishment of a \$24M manufacturing plant in Guelph that will employ approximately 500 people.²³⁰ Italian solar module manufacturer Silfab announced in September an investment of \$15M for a facility in Mississauga.²³¹ Spanish solar company, Siliken S.A. also recently announced a new facility in Windsor that will create 175 jobs and will be one of the largest solar module plants in North America.²³²

The wind energy sector continues to grow at a rapid pace. The Canadian Wind Energy Association predicts

a record year for 2011 and expects wind energy production to triple in the next five years.²³³ The world's third largest wind turbine manufacture, Chinese-based Sinovel, has opened a sales office in Toronto.²³⁴ International Power Corp. secured \$117M in financing from Manulife for a wind farm project outside of Windsor, one of six wind energy deals that Manulife expects to close in North America this year.²³⁵ Brookfield Renewable Power began construction on a new wind project in Essex County in October. The Comber project, combined with a similar project in Gosfield, will see \$650M invested and 300 temporary jobs created.²³⁶

Venture capital investment in Ontario's alternative energy sector was strong in Q2 2010 with \$23.1M raised, doubling the \$9.5M raised in all of 2009.²³⁷ Sustainable Energy Technologies announced in October the drawing of \$800,000 in equity to meet an increase in demand for its inverters in Ontario.²³⁸ Corporate financial services firm Asta Corp. and Canadian-based Solar Income Fund announced a partnership in September to provide much needed debt financing for small solar projects.²³⁹ Obtaining financing for major renewable energy projects remains a challenge given high up-front costs.²⁴⁰

ISSUES FACING THE PROVINCIAL ECONOMY

ONTARIO-U.S. BORDER

Total traffic volume for Ontario's border crossings with Michigan and New York was up 5.6% YTD in September 2010 compared with the same time last year. Passenger car volumes rose slightly, up 3.9%, while bus volumes were up 3.0%.²⁴¹ However, total commercial truck traffic was up 13.8%, reflecting ongoing improvements in economic activity.²⁴² Commercial truck traffic was up for the same period at the Ambassador (21.4%) and Blue Water (12.6%) crossings, where there are high concentrations of automotive shipments. The increase in truck traffic was consistent with the increase in Ontario automotive product exports to the U.S., which were nearly \$31.7B, up 58% as of August 2010 YTD compared to same time last year.²⁴³

Infrastructure enhancement projects are proceeding at a number of Ontario border crossings, with some notable recent announcements. In August, the Canadian government announced funding for the construction of a new North Channel Bridge at the Seaway International Bridge in Cornwall.²⁴⁴ Capacity improvements are still underway for the Peace Bridge, where an environmental impact assessment is being completed for a three-span companion bridge and new U.S. plaza. The record of decision is expected in



spring of 2011, and the Peace Bridge Authority is taking steps to begin bridge construction as early as summer 2012.²⁴⁵ In Windsor, the Ontario government announced that Windsor Essex Mobility Group—an equity-led consortium of Fluor Canada Inc., ACS Infrastructure Canada Inc., and Acciona Concessions Canada—had been chosen for the design, construction, and maintenance of the \$1.6B Windsor-Essex Parkway, the access highway to the proposed new bridge. Construction of the parkway, which is the biggest road project in Ontario history, is expected to begin in August 2011 and be completed by 2014.²⁴⁶ However, progress has stalled on the bi-national Detroit River International Crossing (DRIC). Although Canada has offered up to \$550M to help Michigan cover its share of costs, several hurdles remain before the project can proceed. DRIC still faces political opposition in the Michigan legislature, which must approve legislation allowing the Michigan Department of Transportation to enter into P3 agreements with Canada. The Michigan House voted in favour of the DRIC in May, but the Senate has delayed voting due to disputes over projected toll revenues and the possible tax burdens on Michigan residents.²⁴⁷ The project is also strongly opposed by the owner of the Ambassador Bridge, who has plans for a private twinned span and has launched a series of lawsuits.

The Canada Border Services Agency (CBSA) recently announced the implementation of the first stage of the eManifest initiative, a paperless process for commercial goods coming into Canada. Electronic data interchange (EDI) systems now allow highway carriers to transmit their cargo and conveyance data to the CBSA before arriving at the border. This first milestone is one of several more to come for highway cargo shipments, to be followed by rail and marine.²⁴⁸ A study released by the C.D. Howe Institute calls for greater use of preclearance for people and goods in advance of arrival at the Canada-U.S. land border, building on the successful models used for air travellers and cargo at airports. The study also recommends the creation of a joint, independent commission to provide governments of both countries with advice on issues related to preclearance.²⁴⁹

U.S. ECONOMY

Although Ontario has become less reliant on its southern neighbour as an export destination in recent years, over \$100B of Ontario exports—80% of the total—still went to the U.S. in 2009.²⁵⁰ As such, economic conditions in the U.S. are important to Ontario businesses.

While the U.S. economy managed to maintain positive growth for the fifth consecutive quarter in Q3, the pace of growth was much slower than what is usually seen during an economic recovery. GDP grew by an annualized 2.5% in Q3, up from a revised 1.7% in Q2 but much slower than the 3.7% posted in Q1. Inventory accumulation was responsible for just over half of growth in Q3, while real final sales grew by 1.2%. Export growth slowed to 6.3% from 11.4% in Q1 and 9.1% in Q2, while residential investment resumed its downward trend, falling 27.5% and losing all the ground it had gained in Q2, in part due to the expiry of the home buyer tax credit. Inventory accumulation cannot drive production indefinitely, raising concerns that even the moderate pace of current growth may not be sustainable unless American consumers ramp up spending.²⁵¹

Convincing consumers to increase spending may be a challenge as the economy continues to struggle to create new jobs and housing prices are stuck at levels only marginally higher than those seen during the recession. Current indicators on U.S. jobs growth are inconclusive. Firms reported adding 159,000 jobs in the private sector in October, part of over 1M jobs added over the last 12 months. However, a survey of American workers that includes the self-employed indicates 330,000 lost jobs in October, with the unemployment rate virtually unchanged at 9.6% compared with 9.8% 12 months ago. Public sector employment has shrunk by 280,000 over the last year as state and local governments have coped with fiscal pressures by eliminating jobs.²⁵²

Rapid increases in home prices fuelled consumption prior to the recession as homeowners used home equity to finance purchases. However, the dramatic decline in home prices combined with higher mortgage financing costs have left one quarter of mortgages in the U.S. “underwater,” with loans higher than home values.²⁵³ New home sales fell in October by 11.7%, while sales of existing homes also dropped by 2.2%. This left 10.5 months worth of housing stock on the market, much higher than the 6 months seen in a healthy market.²⁵⁴ When homes in foreclosure or with significantly delinquent mortgages are included, the inventory rises to 23 months at current sales rates, making it more difficult for prices to recover.²⁵⁵

Given weak consumption and the recent troubles in the housing sector, federal stimulus has played an important role in the modest recovery in jobs and output to date. If stimulus is reduced it will be a drag on growth, forcing the private sector to assume the primary role in driving the recovery.



With growth more restrained than typical during an economic recovery, the Federal Reserve announced in early November that it would maintain rock-bottom interest rates of 0-0.25% for an “extended period” and purchase \$600B in longer-term U.S. Treasuries by Q2 2011. This move is intended to make it easier to access credit and encourage spending, stimulating the economy while also guarding against the potential for deflation.²⁵⁶





Annex: Selected Indicators for Ontario Census Metropolitan Areas (CMAs): Q2 2010

| | | Population ¹ | | Employment ² | | | Housing Starts (units) ³ | | GDP ^{4*} | | Consumer Insolvencies ⁵ | |
|-----------------|--------------------------|-------------------------|-----------------------|---|-------------------|-----------------|-------------------------------------|----------------------------------|-----------------------|-------------------|--|-------------------|
| | | Population 2009 (000s) | Percentage of Ontario | Job growth per 1,000 people [^] (Q2 y/y) | Unemployment Rate | | Percentage of Ontario | Housing Starts per 10,000 people | Percentage of Ontario | % Change (Q2 y/y) | Insolvencies per 1,000 people [^] | % Change (Q2 y/y) |
| | | | | | % | Change (Q2 y/y) | | | | | | |
| EASTERN | Ottawa* | 919.3 | 7.0% | 38.4 | 5.9 | -0.3 | 9.4% | 17.4 | 9.5% | 4.5 | 1.0 | -30.1% |
| | Kingston | 160.7 | 1.2% | -3.2 | 5.8 | -0.4 | 1.0% | 10.8 | 1.0% | 3.7 | 1.5 | -8.1% |
| | Peterborough | 121.4 | 0.9% | -40.9* | 10.6* | +3.4* | 1.0% | 13.8 | X | X | 1.3 | -18.4% |
| CENTRAL | Oshawa | 361.4 | 2.8% | 32.5 | 9.7 | +1.3 | 3.2% | 15.0 | 2.8% | 4.7 | 1.8 | -6.9% |
| | Barrie | 190.4 | 1.5% | 66.9* | 9.1* | -1.6* | 0.1% | 0.5 | X | X | 1.8 | -30.1% |
| | Toronto | 5,623.5 | 43.0% | 12.4 | 9.4 | -0.3 | 46.6% | 14.2 | 45.9% | 5.6 | 1.3 | -13.5% |
| | Guelph | 135.9 | 1.0% | 33.0* | 7.7* | -0.4* | 1.7% | 21.2 | X | X | 1.2 | -28.4% |
| | Hamilton | 739.4 | 5.7% | -16.7 | 7.7 | +0.5 | 4.6% | 10.5 | 5.5% | 5.4 | 1.5 | -14.3% |
| | Kitchener | 489.1 | 3.7% | 36.7 | 7.9 | -2.0 | 5.8% | 20.3 | 3.9% | 7.1 | 1.5 | -22.1% |
| | Brantford | 137.7 | 1.1% | -26.9* | 10.8* | +0.1* | 0.9% | 11.3 | X | X | 2.4 | -2.0% |
| | St. Catharines - Niagara | 404.4 | 3.1% | 34.8 | 8.2 | -2.5 | 1.7% | 7.0 | 2.6% | 4.2 | 1.6 | -25.0% |
| WESTERN | London | 489.3 | 3.7% | 26.2 | 8.3 | -2.3 | 5.3% | 18.4 | 3.4% | 3.5 | 1.9 | -13.1% |
| | Windsor | 331.5 | 2.5% | 6.6 | 12.5 | -2.0 | 1.1% | 5.7 | 2.2% | 5.1 | 1.9 | -23.7% |
| NORTHERN | Greater Sudbury | 165.3 | 1.3% | 10.4 | 8.0 | -0.8 | 1.1% | 11.7 | 1.1% | 3.8 | 1.7 | -10.6% |
| | Thunder Bay | 124.8 | 1.0% | 1.9 | 5.2 | -3.3 | 0.4% | 5.1 | 0.8% | 1.9 | 1.3 | -22.3% |
| | ONTARIO (total) | 13,069.2 | 100.0% | 13.7 | 8.7 | -0.5 | 100.0% | 13.1 | 100.0% | 5.2 | 1.4 | -17.1% |
| | Canada (total) | 33,739.9 | X | 10.6 | 8.0 | -0.4 | X | 16.4 | X | 3.9 | 1.3 | -11.9% |

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Notes

- Red box denotes CMA is performing below the provincial average
- [^] Calculated by using the working age population
- * Seasonally unadjusted data not comparable to seasonally adjusted figures
- + GDP at Basic Prices (\$2002)
- * Ottawa-Gatineau CMA used in GDP and Insolvencies calculations; Ottawa only for rest

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