

TRANSPORTATION

Air Canada, WestJet both report a rise in load factors

Canadian airlines carried more passengers in June compared with a year ago as the industry continues its turnaround. **Air Canada** reported a record June load factor — or average amount of seats filled on its planes — of 84.7%, up 3.8 percentage points from June 2009, on a consolidated basis with Jazz. Its traffic improved 15% from a year ago, outpacing its 10% capacity increase for the month. **WestJet** also managed to increase its June load

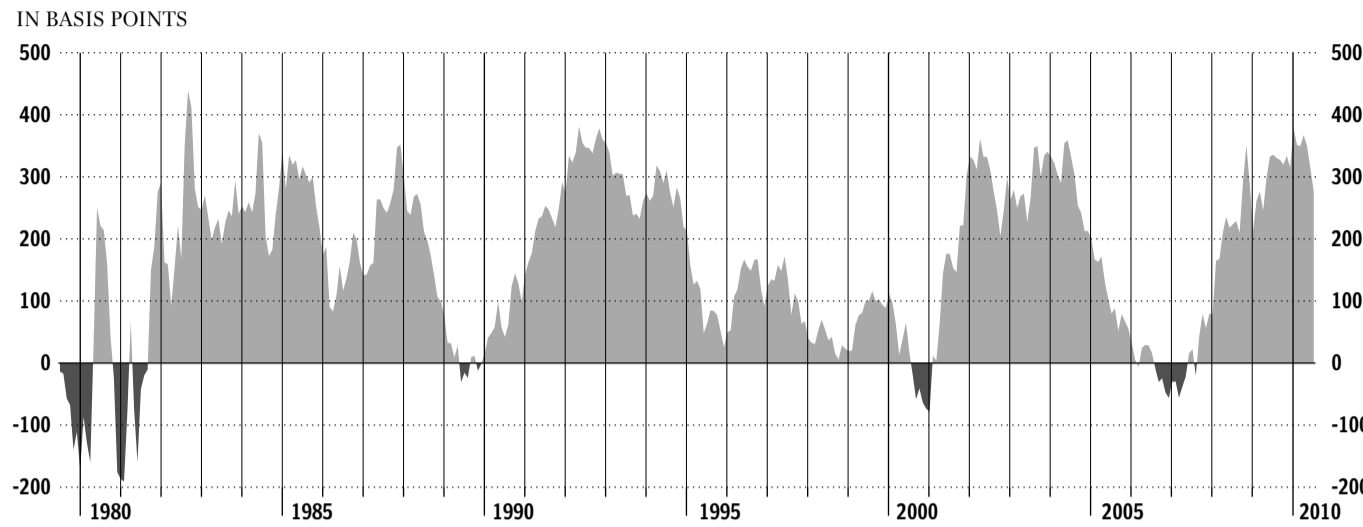


factor by 5.3 percentage points to 78.2% after its traffic improved 19% and its capacity improved 11% compared with a year ago. WestJet's strong performance, combined with a general increase in air fares, led to an earnings upgrade for the Calgary carrier by Cameron Doerksen, Versant Partners analyst, yesterday. Mr. Doerksen, who has a "buy" rating on the stock, raised his price target to \$17.85 a share from \$16.25 previously. *Scott Deveau, Financial Post*

ECONOMY

CAN THE YIELD CURVE STILL BE TRUSTED?

Spread between three month U.S. Treasury and the 10 year U.S. Treasury



SOURCE: BLOOMBERG NEWS

RICHARD JOHNSON / NATIONAL POST

Drop in home sales may be sign of peak

PACE 'MODERATED'

By GARRY MARR

Existing home sales dropped sharply in Canada's two most expensive markets, a further indication that the real estate market may have peaked.

The Toronto Real Estate Board said sales in June were down 23% from a year ago, leaving activity for the quarter up 1% from the same period a year earlier.

"We experienced a record number of existing home sales during the first half of 2010 but these sales were weighted more towards the beginning of the year," said Bill Johnston, president of TREB.

"The pace of home sales has moderated from record levels over the past two months with the prospect of higher mortgage rates."

In addition to the fear of higher mortgage rates, the housing market was impacted earlier in the year by new mortgage rules that made it tougher to borrow.

The real estate industry has said many customers simply pushed forward their

purchase to beat the new rules, predicting slower sales through the spring.

The industry is also now dealing with the impact of the harmonized sales tax, which was introduced in British Columbia and Ontario on July 1. Consumers trying to beat that tax — which will be newly applied to services such as real estate commissions — are said to have pushed their purchases forward, which will deprive the

"We experienced a record number of existing home sales in first half

summer and fall of a number of sales.

Vancouver's market is also feeling the brunt of the new real estate reality. Sales in Canada's most expensive market were off 30.2% in June from a year ago, the Real Estate Board of Greater Vancouver said earlier this week. President Jake Moldowan

noted June 2010 sales are still up 22.6% from 2008 recession levels.

The slowing market appears to be a phenomenon right across the country with Calgary also reporting last week June sales were off about 42% from a year ago. June sales were 16% from May alone.

So far, the drop in demand has not hit prices dramatically, but coupled with increased supply, the double-digit year-over-year price increases we saw for most of 2010 have ended. The average sale price of a home in Toronto last month was \$435,034, an 8% increase from a year earlier.

"With more to choose from in the second quarter, many home buyers have been making less-aggressive offers. This has resulted in less upward pressure in the average selling price," said Jason Mercer, senior manager of market analysis for TREB, who said price increases will remain in single-digit territory for the rest of 2010.

New listings continue to put pressure on the Toronto market. New listings were up 13% in June from a year ago while total active listings climbed 28% during the same period.

In Vancouver, the total number of properties for sale is up 32% from a year ago. Prices in Vancouver were up 11.8% from a year ago with the board's housing price index benchmark price climbing to \$580,237 from \$518,855. In Calgary, the average price of a home sold in June was \$483,240, an increase of 8% from a year earlier.

The existing home market may get a break from the fact it looks like builders are ramping down on construction. Statistics Canada said the value of building permits applied for in May was off 10.8% from a month earlier. Housing permits were off 4.4% from a month earlier.

"If there is hope for house prices in Canada, it lies in curtailing supply. That's where any room for optimism lies in an otherwise bleak report that displayed widespread losses in value and volume terms within both the non-residential and residential categories," said Derek Holt, an economist with Bank of Nova Scotia.

Financial Post

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Curve has been accurate for European, U.S. economy

YIELD

Continued from Page FP1

The most recent inversion was in August 2006 — or a year before the credit crunch hit home, when it inverted about 30 basis points.

Now at about 280 basis points, the curve is still a long way from inversion but it has been flattening in recent months.

The spread was at 369 basis points in April and 316 basis points at the end of June, the report says.

Nevertheless, "right now the curve is still fairly steep," Joseph Haubrich, vice-president in charge of banking and financing research at the Cleveland Fed, said in an interview.

Still, the curve has also accurately predicted output levels in the United States and Europe dating back to 19th century and on that front, the research would suggest U.S. real GDP would grow only 1% over the next 12 months.

And while odds of the economy falling into a recession a year from now climbed slightly to 12.4% in June and up from April's 7.1% reading, it "remains at a low level," the commentary said.

The 10-year treasury yield now trades below 3%, and yesterday hit 2.93% — the lowest level since April of last year. Benchmark long-term yields on British and German debt are also reaching "very low levels," said a report by HS-BC's global economics team, as investors "recognize that the Western world has yet to deliver an economic expansion without the need for life support."

David Rosenberg, chief economist and strategist at Gluskin Sheff + Associates, said the yield curve may have lost its effectiveness as an economic indicator. He cited Japan, in which the country's last three recessions unfolded even though the yield curve was sloped upward.

Financial Post

NATIONAL REPORT



CPPIB EXTENDS ITS OIL-AND-GAS HOLDINGS

Canada Pension Plan Investment Board extended its foray into Canada's oil-and-gas sector yesterday, buying a 17.1% stake in closely held Calgary oil sands company **Laricina Energy Ltd.** The CPPIB, which invests surplus cash from the national Canada Pension Plan, has some \$127-billion in assets under management. The board paid \$250-million, or \$30 each, to acquire more than 8.3 million common shares of Laricina in a private placement. "Laricina has an experienced and proven management team and has strong growth potential from its world-class resource base," said André Bourbonnais, senior vice-president for private investments at CPPIB. "We are pleased to be making an investment that we believe will deliver attractive returns over the long term." The Alberta oil sands, the largest crude reserves outside the Middle East, are again attracting new investment as oil prices recover from recessionary lows and technology improves to extract the extra-heavy oil. The investment is the second this year in the Canadian oil-and-gas sector by CPPIB. *Reuters*

CIBC LOWERS 5-YEAR MORTGAGE RATE, MATCHING CHANGES BY ITS RIVALS

Canadian Imperial Bank of Commerce announced yesterday a reduction in its mortgage rates. Its benchmark five-year closed rate was to decline 10 basis points to 5.79%, effective today, matching changes recently made by Bank of Montreal, Royal Bank of Canada and Toronto-Dominion Bank. Desjardins

Group, a smaller player operating in Quebec and Ontario, announced mortgage reductions yesterday in line with the bigger banks. As of yesterday afternoon, Bank of Nova Scotia was the only one of the five biggest commercial financial institutions with five-year closed mortgages as high as 5.89%. *Canwest News Service*



REVIEW ALL 'UNCONVENTIONAL' OIL EXPLORATION, NDP LEADER URGES

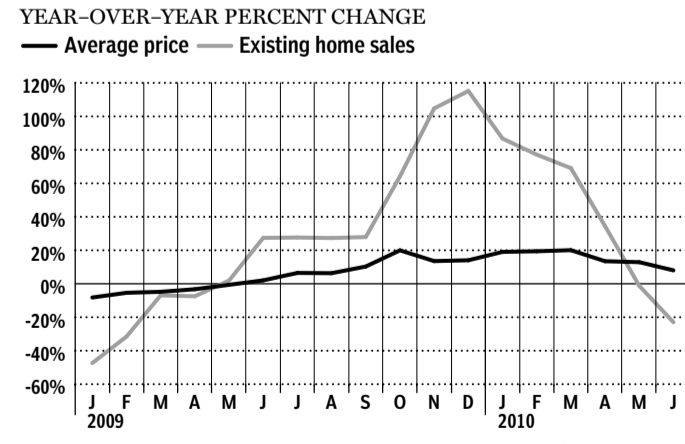
Canada should review regulations on all "unconventional" oil exploration, including oil sands and offshore projects, before allowing new work to proceed, New Democratic Party Leader Jack Layton said. The review would be broader than the current one being conducted by the federal regulator, Mr. Layton told reporters in Ottawa yesterday. Safety questions about drilling in remote regions using newer technologies must be answered after the spill at a BP PLC well in the Gulf of Mexico. "The BP spill has got to be a wake-up call," said Mr. Layton, the leader of the smallest of four parties in Parliament. He also reiterated his opposition to any new oil sands projects. Prime Minister Stephen Harper has touted Canada as a secure supplier of energy to the U.S., citing the development by companies such as Syncrude Canada Ltd. of the oil sands in Alberta. Canada, home of the world's second-largest oil reserves, is also working with the U.S. and Russia to settle claims to the arctic that could allow exploration for energy in that region. *Bloomberg News*

MANULIFE SHARES GIVEN A DOWNGRADE



CIBC World Markets downgraded shares of **Manulife Financial** yesterday and cut earnings estimates for Canada's insurance sector, citing weaker equity markets and bond yields. The unit of Canada's No. 5 lender, Canadian Imperial Bank of Commerce, cut its rating on Manulife to "sector performer" from "sector outperformer" and lowered its 12-month share price target on the company to \$19 from \$22. CIBC said that while economic growth does appear to be returning — which would be a boost for Manulife — the brokerage remains wary of what has been a volatile stock in what is still a "choppy environment." Manulife's shares are down 62% since the end of 2007, underperforming peers Sun Life Financial, Great-West Lifeco and Industrial Alliance. Canadian insurers posted generally strong profits during the first quarter, but CIBC expects gloomier results when second-quarter results are released later this month, as weaker equity markets hit the huge investments held by insurers. "We look for the significant declines in equity markets and interest rates to weigh on earnings for all four companies this quarter," CIBC said, noting it has cut earnings estimates for all four. *Bloomberg News*

TORONTO HOUSING COOLS



SOURCE: BMO CAPITAL MARKETS

ANDREW BARR / NATIONAL POST



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