

Canada: Weekly Notes

Key events for weeks of January 24 – February 4, 2011

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Jan 25	CPI M/M – Dec (7:00)	0.1%		0.1%	Major	<ul style="list-style-type: none"> A number of categories should experience some significant pricing swings. On the upside, we are forecasting large price increases for both gasoline, +3.1%/m/m, and autos, +2.0%/m/m, as vehicles from the new model year hit dealer lots at full MSRP. Cumulatively, these two categories should push monthly prices up by 0.3ppt. Food prices are also on the rise due to the seasonal effects associated with the switch from domestically sourced produce to imported perishables. This is should add upward of 0.12ppt onto the monthly reading. Acting as an offset will be significant declines in both apparel and recreation prices, which together should knock 0.25ppt out of headline CPI. Recreation prices also should be softer. Altogether, we are forecasting a 0.1% m/m jump in consumer prices.
	CPI Y/Y – Dec (7:00)	2.0%		2.5%	Major	<ul style="list-style-type: none"> Despite the modest rise in month-over-month prices, the base effects from last year's plunge in apparel and gasoline prices will aggravate the year-over-year measure. This base effect will produce significant increases for both the headline and core measures of inflation. The bulk of this base effect will disappear from the headline reading on inflation by January but linger in the core CPI until February. In the current report, gasoline will continue to play a significant role in year-over-year prices. If our forecast is correct, gasoline prices will have risen almost 14%/y/y, accounting for nearly one-third of the 2.5%/y/y rise in prices. From a policy standpoint, the BoC may fall back on the view that inflation expectations remain firmly wedded to the BoC's inflation control range of 1-3%, in which it targets a 2% inflation rate.
	Core CPI M/M – Dec (7:00)	0.0%		-0.1%	Major	<ul style="list-style-type: none"> The core measure on prices will remove the inflationary effects of higher prices for fresh fruit, vegetables, and gasoline. For the forecast, we are looking for core CPI to have declined by 0.1%/m/m.
	Core CPI Y/Y – Dec (7:00)	1.4%		1.7%	Major	<ul style="list-style-type: none"> As is the case with the headline measure on consumer inflation, December's core year-over-year reading will be impacted by a base effect, which will persist through January's numbers. Despite the decline in month-over-month core prices, the expectation is for a significant pickup in core year-over-year prices in December due to this base effect.

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Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Jan 31	GDP M/M – Nov (8:30)	0.2%		0.2%	Major	▶ Output in goods-producing sectors is forecast to be flat (-0.0%) on the month. On the upside, housing starts jumped 13%/m/m in November, pointing to some significant upside for construction, while the trade data suggested that mining, oil, and gas output also experienced strong growth. On the downside, manufacturing shipments plunged on the back of plant shutdowns in the auto industry, which is expected to offset gains in other categories. For services, we are looking for output to have grown by 0.2%/m/m, led by wholesale, financial services, and retail. Overall, we are forecasting November GDP to have risen by 0.2%/m/m (0.16% unrounded).
Feb 4	Net change in employment – Jan (7:00)	22.0K		15K	Major	▶ For the January employment report, we are looking at a net rate of jobs creation in keeping with the incremental rate of expansion for the broader economy. At 15K, our forecast suggests that jobs growth is falling back of the number needed to keep the unemployment rate in check, given that, on average, population growth will add 23K new workers per month to the labor force. However, the biggest impact on the unemployment rate will come from the participation rate, which we expect will edge higher by 0.1ppt to 67%, and which would draw ~40K more people into the work force and push the unemployment rate up 0.1ppt to 7.7%. ▶ The jobs mix should consist of a decent salting of gains across most service sector categories, generating 27K jobs. Goods-producing industries should record job losses in manufacturing and construction for an overall decline of -12K. Subjectively, we will also be looking at the qualitative nature of the jobs, ie the mix between full-time and part-time employment.
	Participation rate – Jan (7:00)	66.9		67.0%	Major	▶ Following November's decline of 0.3ppt in the participation rate, we were surprised that there was no recovery in December. For January, we are once again looking for the rate to move forward by 0.1ppt, taking the participation rate up to 67%.
	Unemployment rate – Jan (7:00)	7.6%		7.7%	Major	

Source: HSBC Canada

Disclosure appendix

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