

Canada: Weekly Notes

Key events for the week of April 12-16, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Apr 12	Housing Starts – Mar (8:15)	196.7	200.0K	185K	Minor	<p>▶ The downside associated with the February building permits number has encouraged us to lop some of the top side off the starts number. Recall that the latest building permits data pointed to a decline of 27.1% in the number of multi family units approved for construction. Overall, total units approved for construction in February dropped by 14.2%/m/m which we expected to have impacted the March starts number. For the forecast, we are looking for starts in the condo sector to have fallen to 76K, down from February's 89.9K, with starts in the singles and rural categories improving moderately.</p>
	BoC Business Outlook Future Sales – Q1/10 (10:30)	49.00			Major	<p>▶ The Bank of Canada business survey is expected to reflect the balance of opinion on future sales as continuing to run at historically high levels, a function of the severely depressed state of sales previously. That said, some moderation in the headline is expected as the initial flush of economic recovery begins to fade. For the BoC, monetary policy and markets, the focus will continue to be on the survey questions associated with fleshing out the picture on economic capacity and inflation expectations. Shifts in these particular areas of the survey have in the past tended to dovetail with changes in rates policy. The BoC is scheduled to deliver a rate decision on April 20, to be followed by the release of its Monetary Policy Report on the 22nd.</p> <p>▶ Our expectations are that the story on capacity utilization and inflation is expected to be evolving favorably (excess capacity is easing and inflation expectations are gravitating out of the bottom of the Bank's target range into the middle) overall, with capacity pressures remaining subdued. For inflation, we are looking for expectations to have gravitated higher, but the move is more evolutionary rather than revolutionary. Part of the story here is going to be higher gasoline prices experienced over the reporting period. Changes in gasoline prices tend to correlate with changes in inflation expectations. Still, expectations are expected to be still very well contained within the BoC's target range.</p> <p>▶ In that vein, while the story on inflation is expected to be evolving, it does not necessarily imply the BoC need abandon its conditional pledge to hold its key overnight rate at 25bp through to the end of Q2/10. Indeed, we expect that the report will continue to suggest that the BoC maintains some policy elbow room.</p>

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Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Apr 12	BoC Senior Loan Officer Survey – Q1/10 (10:30)	-8.7			Major	<p>▶ Canadian lending officers, on balance, are expected to have eased up on credit conditions. In the previous survey, the balance of opinion at -8.7 was indicative of an outright easing in overall lending conditions. For the current quarter, we are looking to see continued improvements in both the price and non-pricing elements of credit. To wit, we would point to a turnaround in M3 growth as indicative of a banking sector that is once again beginning to lend and continued improvements in market liquidity contributing to improved pricing for credit. In February, M3 was growing at 3.1%/y, well ahead of the depressed readings recorded in the final quarter of 2009 when on average, M3 growth was running at less than 1%/y.</p> <p>▶ On a cautious note, business lending remains depressed, having contracted by 0.5%/y in February. However, corporate demand for credit is believed to have remained weak as businesses remain reticent to expand capacity and invest in their companies given the large amount of excess capacity sloshing about in the domestic and global economies.</p>
Apr 13	New Housing Price Index – Feb (8:30)	0.4%	0.4%	0.5%	Minor	<p>▶ Again, the building permits data for February reflected continued builder interest in projects dedicated to single family homes. Homes tend to come in at higher pricing points than the typical condo or multi-family project. For February, we are looking for new home prices to have risen by 0.5%/m, up 1.3%/y, well back of the high of 12.1%/y from August 2006.</p> <p>▶ Industry data on existing home sales for the month of February continued to reflect upward pressure on prices month over month. While the environment could still be characterized as a sellers' market, new listings are on the rise, creating a more balanced market. In February, the supply of unsold homes stood at 4.7 months up from December's 4.3 although the improvement came in part on the back of reduced resale activity courtesy of a nation's fascination with the Vancouver Olympics.</p>
	Int'l Merchandise Trade – Feb (8:30)	C\$0.8B	C\$0.5B	C\$0.2B	Med	<p>▶ Natural gas prices started to come off in February as seasonal temperatures failed to materialize. Crude prices were also weaker, all of which will drag on the headline surplus. Exports in the metals and ores categories are expected to have edged higher. Overall, both export and import volumes are expected to have been hit by the severe weather conditions in the US northeast which will show up in the auto sector numbers.</p> <p>▶ We believe that the key to a sustainable and balanced economic recovery for Canada is through a necessary recovery in external demand. After a bone crunching contraction in exports for both Q2 and Q3/09, net trade began to contribute positively to GDP in Q4/09.</p>
Apr 16	New Motor Vehicle Sales M/M – Feb (8:30)	0.0%	7.0%	7.0%	Minor	<p>▶ Preliminary evidence suggests that new vehicle sales on a unit basis soared in February. Unfortunately the preliminary report provides no breakdown of sales per category class of vehicle. Knowing the sales mix provides some insight into what the dollar sales are going to look like on the basis that the SUV/truck and foreign vehicle categories tend to come in at higher MSRP than the North American passenger car group. In other words, changes in unit sales for the SUV and truck categories will tend to have a bigger impact on the retail sales report (measured in dollar sales) than changes in the number of unit sales for passenger vehicles.</p> <p>▶ In translating unit sales into dollar sales for the retail sales report, we would look at the explosion in unit sales as a function of significant discounting as some auto makers struggled to defend market share among a number of high profile recalls. As such, the impact of unit sales on retail sales is not going to be linear given the heavy discounting. That said, the impact will undoubtedly be positive given the overall magnitude of the pickup in unit volumes.</p>
	Manufacturing Sales – Feb (8:30)	2.4%	0.6%	-0.5%	Med	<p>▶ The auto sector is expected to have dragged on manufacturing sales in February. We looked at the US durables and factory shipment reports as a means of getting a leg up on what could conceivably be expected to have flowed from Canadian manufacturers. The North American factory floor in a number of cases (autos) transcends the border. In those reports, vehicles and parts shipments were down between 2 and 3%/m and while Canadian factories have been awarded some of the top selling North American vehicle models, it is unlikely they escaped the slowdowns seen in the US data in the month of February. We suspect that weather may have been a significant factor with severe winter storms in the US northeast hitting manufacturing supply chains. So too would have Canadian shipments been adversely affected by the softer pricing metrics for petroleum and coal products. Aerospace and computer shipments are expected to be softer as well. As an offset, primary metals, machinery, and electronics shipments are expected to have picked up.</p>

Source: HSBC Canada

Disclosure appendix

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