

Canada: Weekly Notes

Key events for the week of August 2 – 6, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Aug 2	Civic holiday					▶ Markets closed.
Aug 5	Building permits M/M – Jun (8:30)	-10.8%		-5.8%	Minor	<p>▶ Canada is approaching what ostensibly we believe is an inflection point for the residential new-build category. Changes in the funding model for mortgages, the onset of a harmonized tax structure in Ontario and BC (two of the most active housing markets will see additional taxes applied to new homes), and higher interest rates overall should curb builder appetite for residential projects. In keeping with this theme, we expect to see residential permits decline for the third straight month, falling -3.5% m/m as the industry continues to burn off the 14.3% m/m spike in permits in March, as well as contends with the changed economics of the residential market.</p> <p>▶ Non-residential permits for June also should be significantly weaker, too. For the forecast, we expect that institutional and government permits will continue to work off the 70% m/m jump in permits in April. Industrial construction is weaker, following an unexpected 47% m/m pickup in permits in May. The one bright spot should be found in the commercial segment, where permits are forecast to be up 15% m/m.</p>
Aug 6	Net change in employment – Jul (7:00)	93.2K		5.0K	Major	<p>▶ In the past three months, the Canadian economy has generated in excess of 225K jobs, growth of historical proportions. But at the same time that the Canadian economy has been generating an abundance of jobs, it has delivered a paucity of growth. For the first two months of the second quarter, the period in which we are seeing sharp growth in jobs, economic growth by contrast has appeared to have stagnated.</p> <p>▶ For July's forecast, we are looking for moderate growth in goods-producing jobs (+10K), pushed along by increased employment in the utilities (July was hot) and construction industries (infrastructure projects abound). Service sector employment is expected to have declined (-5K), hampered by a significant decline in educational employment related to the seasonal effects associated with the winding up of the school year. Some moderation in a few categories from last month's very strong jobs creation also should feed into the forecast of soft jobs growth.</p>

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Economic diary – Canada (cont'd)

Date	Last	Median	HSBC	Impact	Comments
					<ul style="list-style-type: none"> ▶ Despite bearing the brunt of the economic downturn, the goods-producing sector – from its cyclical peak in September 2008, it had shed 392K jobs in just slightly less than a year – has failed to participate appreciably in the economic recovery. Since reaching the low point in August 2009, total goods sector employment has recovered just 65K of nearly 400K jobs lost. ▶ By contrast, services sector employment was largely spared the damage witnessed in the goods sector, despite a spate of employment growth prior to financial contagion and economic recession. Recall that between 2006 and 2007, the services sector generated a net 750K jobs. At the peak of the financial crisis and economic recession, in 2008, the services sector still managed to eke out a net gain of 70K jobs. Moving into the present, on a year-over-year basis, service sector jobs are up 333K, having risen a huge 242K in the past three months alone (overall jobs growth is up 227K). ▶ So what do we make of this? What is readily evident to us is that the decades-long shift in the Canadian economy away from a manufacturing and goods producing economy has been accelerated by the latest recession. As is the case with most First World economies, with the exception of Japan and Germany, for the most part, they are becoming service sector economies, and Canada is no different. Those jobs lost in the goods-producing segments of the Canadian economy to financial contagion (which precipitated an overbuilding of economic capacity) and economic recession have yet to return and arguably may have been lost forever.
Unemployment rate – Jul (7:00)	7.9%		8.0%	Major	▶ In forecasting the unemployment rate, we assumed that the participation rate remained unchanged. Population growth alone should push another 22K workers into the labor force without sufficient jobs growth to offset this.
Participation rate – Jul (7:00)	67.4		67.4	Minor	▶ After having seen the participation rate rise by 0.4ppt in just three months, the event risk is that with the onset of the summer holidays, people have voluntarily pulled themselves out of the work force, causing the participation rate to settle in at a lower level. In turn, this would put further downward pressure on the unemployment rate.
Aug 6 IVEY PMI – Jul (10:00)	58.9		52.0	Med	▶ Typically the strength that shows up in the headline purchaser index in June bleeds away in the July report. In part, the index is affected by the seasonal summer shutdowns in the auto industry. Canada truly is a seasonal economy, and the IVEY PMI is a number that is not adjusted for seasonality. On average, outside of particularly strong readings in 2006 and 2008, the July index has averaged just 50.2, with comparably little variation from the mean. Although our forecast of 52.0 is well back of June's reading, it is well with in the historical context of the number set.

Source: HSBC Canada

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