27 August 2010

Economics
Canada

HSBC Global Research

Canada: Weekly Notes

Key events for the week of August 30 – September 3 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Aug 30	Current Account Q/Q - Q2 (8:30)	-C$7.8B		-C$10.7BE	Minor	We expect the current account to have deteriorated in Q2/10 as the trade balance slipped from a position of surplus into deficit. We have pencilled in a trade deficit of CAD1.6bn for Q2/10, which is in contrast to the CAD1.163bn surplus posted in the preceding quarter. In other areas of the report, we expect the travel deficit to have widened by CAD250mm as travel to Canada declined as the Winter Olympics came to a conclusion. As is usually the case, one uncertainty for the report is going to be the disposition of investment income flows, which can swing around wildly. On a net basis we expect to see a slight improvement in the investment income deficit as Canadian corporate profits have weakened, reducing the payments portion. For the forecast, we assume that the investment income deficit narrowed by CAD150mn. All in, we are looking for the current account deficit to have widened to C$10.7bn.
Aug 31	GDP M/M – Jun (8:30)	0.1%	0.2%	0.1%	Med	The Canadian economy ran at a full sprint throughout the first quarter, only to have fallen flat on its face in Q2/10. April was flat and in May, the Canadian economy managed to pinch out a growth rate of just 0.1% m/m. Rather than opening up any new ground in June, we forecast another month of mundane economic growth. On the upside, we expect the mining/oil and gas sectors to have continued to contribute positively to the overall GDP picture. Building permits remain strong, driven by the non-residential category hinting at continued strength in the construction sector. On the downside, residential construction has softened in keeping with declining levels of activity in the real estate sector, which knocks some of the sparkle off the overall story for construction. In the same vein, we look for a decline in the financial services sector as existing home sales declined by 8.2% m/m in June. Agricultural activity is also expected to be hard hit by an extraordinarily wet spring. We expect manufacturing to be dragged lower by seasonal factors as summer shutdowns come to bear. Although Canada entered into the first quarter like a lion it is exiting the first half of the year like a turkey.

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Source: HSBC Canada estimates

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Economic diary – Canada (cont'd)

Date	Last	Median	HSBC	Impact	Comments
GDP Q/Q – Q2 (8:30)	6.1%	3.2%	2.4%	Med	▸ After a blistering start to the year, the Canadian economy is expected to suffer a significant loss of momentum in Q2. To be fair, a good deal of Q2's weakness could be seen as a by-product of Q1's strength. For Q2, absent will be the demand associated with the Olympics on the west coast, the tax incentive-driven consumption in the home renovation sector, and the activity pulled forward into Q1/10 from future quarters associated with the impending changes in the rate structure, the onset of new taxes and changes to the funding model for mortgages. Net trade will continue to weigh on the quarter. We are encouraged by the fact that q/q exports rose by 3.1%, although trumped by an even greater 5.2%q/q rise in import volumes. Incidentally, export volumes have grown at the same time that the currency is up 9.25% since June 2009 vs. USD. ▸ Three things seem clear. I) The Canadian consumer is hitting a wall of debt – consumer debt to disposable income is at a historically high 146%. II) The spending associated with the fiscal stimulus comes to a halt at the end of Q1/11. In turn, this suggests that both the consumer and government need to hand the economic football on to growing external and business demand that has yet to move to the fore. And while employment growth was remarkably strong in Q2 (227K jobs were generated over the period), given the lack of follow-through in economic activity in keeping with the surge in employment, this hints at a rather dismal print for Q2 productivity. ▸ One other area of concern we have is in business investment – plants, equipment, and non-residential structures – which continues to lag the broader recovery. To be certain, business investment is up. The problem is that growth in business investment has landed squarely at the feet of the residential structures component rather than in the plant and equipment segments. And as housing market activity comes off the boil, without a commensurate pickup in business investment in plants and equipment, the Canadian economy will lose one of the necessary pillars of the economic recovery. Recall that in Q1/10 business investment contributed 1.6ppt to GDP.

Source: HSBC Canada estimates

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