10 December 2010

Economics
Canada

HSBC Global Research

Canada: Weekly Notes

Key events for the week of December 13-17, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Dec 13	Capacity utilization – Q3 (8:30)	76.0%		76.6%	Med	▸ Industrial production rose 0.9% at a q/q annualized rate in Q3/10; while this was disappointing, we expect it to have been able to spark an incremental pickup in the rate of capacity utilization. For the forecast, we are looking at utilization rates rising to 76.6%, as productivity saw only a tepid increase over the course of the quarter. And while corporate Canada has begun to raise business investment rapidly, we believe it has yet to expand capacity appreciably in the face of a still-challenging environment. On the whole, although capacity utilization rates are up significantly from the cyclical low of 68.5%, they are still well off the pre-financial crisis trend at about 85%.
	BoC Governor Carney (12:30)					▸ "Reflections on the Economic Outlook."
Dec 14	Leading indicators M/M – Nov (8:30)	0.2%		0.7%	Minor	▸ When looking at the constituents of the LEI, we expect to see the housing index reverse its extended slide and provide a positive contribution to the overall index. Recall that in November, housing starts jumped 12% m/m, while at the same time activity in the existing home sales market is expected to have improved. Money supply and stock prices should make positive contributions. Business employment and the outlook on manufacturing should be flat. ▸ For the forecast, we are looking for the majority of the 0.7% pickup in the LEI to be associated with a smart improvement in the housing index.
	Labor productivity Q/Q – Q3 (8:30)	-0.8%		0.3%	Med	▸ Working harder or smarter? It would seem that Canadians were working just a little bit smarter in Q3/10, but so incrementally as to pale in comparison to rates of US productivity growth. A less-than-impressive 0.3% q/q ann. pickup in business sector output in Q3/10 should have been complemented by an equally unimpressive pickup in productivity. For our forecast, we are assuming that hours worked were largely unchanged over the quarter, as the 40K part-time jobs created in Q3 were offset by a loss of 22K full-time positions, suggesting a labor productivity increase of 0.3%q/q. ▸ With an aging demographic (baby boomers begin retiring in 2011), Canada needs to work smarter, not harder, if it is to maintain a first world standard of living. From a policy standpoint, the BoC has noted that a strong Canadian dollar and poor productivity rates are threatening to damp the expected recovery in net trade, which would adversely affect the Canadian economic recovery and overall growth profile.

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Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Dec 15	Manufacturing sales M/M – Oct (8:30)	-0.6%		0.6%	Med	The October trade data suggest to us that there is some decent potential upside to the manufacturing shipments, with aerospace, primary and non-metallic mineral and primary metal producers contributing to the outlook.
Dec 16	Int'l securities transactions – Oct (8:30)	CAD12.3bn		CAD10.0bn	Minor	The flurry of foreign currency (primarily USD) new issuance out of Canadian corporate and crown entities continued unabated in October. A cursory calculation comes up with about CAD9bn in foreign currency bond deals that for the most part would have been marketed to foreign investors. For the forecast, we looked at the sizable pickup in foreign interest in Canadian equity (CAD3.6bn for the month) and did not expect it to be repeated in the current month. Neither are the sizable bond retirements associated with September (CAD7.4bn in retirements) expected to take place in October; for government of Canada issues, coupon and maturity dates are clustered around the months of March, June, September, and December. On a net basis, our forecast is for CAD10.0bn, driven in large part by new issuance. For some context, in Q3/10, net foreign interest in Canadian securities ran on average at a rate of CAD9.4bn per month.

Source: HSBC Canada

Disclosure appendix

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