HSBC Global Research

Canada: Weekly Notes

Key events for the week of December 27 2010–January 14 2011

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Dec 27	Markets closed					In observance of the Christmas and Boxing Day holidays.
Dec 28	Markets closed					
Jan 6	IVEY PMI – Dec (10:00)	57.5		49.0	Med	The IVEY PMI number is unadjusted for seasonality. For a seasonal economy like Canada's, past performance is often a decent guide to future behaviour for the IVEY index. History suggests that the December reading tends to print on the weak side. In each of the last five years, the index has come in below the boom bust line at 50. Against this backdrop, our forecast for 49.0 is in keeping with the historical context of the number set but is not suggestive of anything untoward for the Canadian economy beyond what could be attributed to seasonal influences. From a practical standpoint, the IVEY index has not provided much good guidance in terms of expectations for economic performance, detracting from the overall utility of the number set.
Jan 7	Net change in employment – Dec (7:00)	15.2K		30.0K	Major	For the December employment report, we are looking at net jobs growth in keeping with the incremental like rate of expansion for the broader economy. At 30K, our forecast suggests that jobs growth is more than sufficient to keep the unemployment rate in check given that on average population growth will contribute 23K new workers per month to the labor force. However, our forecast for the participation rate to edge higher by 0.1ppt to 67%, following last month's 0.3ppt decline, will instead push another 40K people into the workforce and squeeze the unemployment rate up 0.1ppt to 7.7%. The jobs mix is expected to be composed of gains in the financial services and manufacturing sectors that will in part reverse steep losses in the preceding month, and a pick-up in hiring amongst utilities, partially offset by losses in construction. Subjectively, we will also be looking at the qualitative nature of the jobs, ie full-time vs. part-time employment.
	Participation rate – Dec (7:00)	66.9		67.0	Major	Following a decline of 0.3ppt in November, we forecast a 0.1ppt increase in December, taking the participation rate up to 67%.
	Unemployment rate – Dec (7:00)	7.6%		7.7%	Major	***Continued on page 2.***

Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Jan 10	Building permits M/M – Nov (8:30)	-6.5%		-0.7%	Minor	For the November forecast, we see residential construction having risen by 3.0% m/m following October's 11.4% m/m decline. Total non-residential permits are expected to have dropped by -5.3% m/m, led lower by commercial intentions. Overall, we expect building permits to be down by -0.7% m/m.
Jan 11	Housing starts – Dec (8:15)	187.2K		180.0K	Minor	Residential building permits plunged by 11.2% m/m in October and are forecast to have only incrementally recovered in November (see above). By contrast, November housing starts jumped by 12% m/m. The divergent stories between the permits number and starts data suggest that a lot of the project backlog we believed to have built up in preceding months has since been cleared out. For December, in the absence of a project backlog and the expectation for comparatively subdued growth in residential permits, we are looking for housing starts to have settled back to an annualized rate of 180K units (-3.8% m/m) led lower by dips in both multi- and single-family unit construction. At 180K, new home construction is running just ahead of the 175K units necessary to keep on top of population growth and attrition.
Jan 12	New Housing Price Index M/M – Nov (8:30)	0.1%		0.1%	Minor	Existing home prices have steadied and begun to creep higher as activity picked up over the fall period, bringing balance to the market. Industry data suggested that average existing home prices are up around 2% on a year-over-year basis. In the forecast we are looking for new home prices to have edged up by 0.1% m/m, which would yield a 2.2% rise in year-over-year prices.
Jan 13	Int'l Merchandise Trade – Nov (8:30)	-C$1.7B		-C$1.4B	Med	We are looking for some significant improvement in the trade deficit on the back of rising energy shipments as seasonal temperatures come to the fore. Higher prices and seasonal drawdowns in stored natural gas inventories are reflective of the increased demand for gas. Crude petroleum is also expected to benefit from a pick-up in refinery utilization rates as production of heating distillates ramps up. We expect auto exports to be higher on the back of brisk sales and rising inventories amongst the big three domestic producers. However, truck exports are expected to have declined following two back-to-back months with gains averaging 36% m/m. On the downside, the significant pick-up in copper, nickel and precious metal exports in October is expected to be partially unwound in November. Imports in the agriculture and energy products categories should also have risen smartly. The importance of the trade picture to the overall Canadian economic story should not be underestimated given the significance of the drag associated with the trade deficit. In Q210, net trade chopped 6.0ppt out of GDP on a q/q annualized basis. In Q310 net trade scooped another 4.4ppt out of headline GDP. Moving beyond the incremental rates of growth that have been plaguing the Canadian economy for the last couple of quarters necessitates reducing the net drag associated with trade.

Source: HSBC Canada

Disclosure appendix

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