

# Canada: Weekly Notes

## Key events for the week of December 6 - 10 2010

### Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Dec 6	Building Permits M/M – Oct (8:30)	15.3%		-7.1%	Minor	▶ September's 15.3%/m surge in permit approvals was driven by a 27%/m jump in the non-residential category, a rise that was in part a function of unwinding -24%/m decline in August. For October, we are looking to see some of this upside subside, led by a -10.1%/m slide in non-residential permits. Residential permits also put in a strong showing in September with the total number of approved units for construction rising by 4%/m at a time when housing starts have been steadily declining, falling by 9.2%/m in the month of October alone. To us, it suggests that there is a growing project backlog in the residential building sector, which is expected to have negatively impacted permit applications in October. Overall, building permits are forecast to be down by -7.1%/m.
	IVEY PMI – Nov (10:00)	56.7		58.5	Med	▶ The IVEY PMI is a number that is unadjusted for seasonality. For a seasonal economy like Canada's, it tends to suggest that the past performance on the IVEY PMI is often a decent guide to its future behavior. At 58.5, our forecast is in keeping with the historical norms of the number set. From a practical standpoint, while the IVEY cut into a lot of new territory in the third quarter this year in terms of some new historical highs, the economy by contrast slumped. On that basis, the IVEY has not provided a lot of good guidance in terms of expectations for economic performance, detracting from the overall utility of the number set.
Dec 7	Bank of Canada Rate Decision (9:00)	1.00%	1.00%	1.00%	Major	▶ We expect the BoC will leave rates unchanged at the December meeting. The decision is expected to be driven by the evident deceleration in the rate of economic growth and the persistent uncertainty associated with the uneven economic recovery in the US. Yet the patience of the BoC is expected to be challenged in 2011 by dismal levels of productivity growth, which suggest that even uncharacteristically-low levels of economic growth will be sufficient enough to continue chipping away at the economy's excess capacity. So too will its patience be tried by the rapid and continued accumulation of household debt as consumers respond to low borrowing rates. Total household debt to disposable income has galloped along, rising from 130% in Q1/08 to 147.3% in the present. And of course, we remain impressed by the rate of growth for M3, which is running at 6.5%/y.

**Stewart Hall**

Economist  
HSBC Securities (Canada) Inc  
+1 416 868 7523  
stewart\_hall@hsbc.ca

View HSBC Global Research at:  
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Issuer of report: HSBC Securities  
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Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Dec 8	Housing Starts – Nov (8:15)	167.9K		178K	Minor	<p>▶ At the same time that the builder permits data have been reflecting (September is the latest month for which we have data) a rise in approved units for construction, actual starts have been cascading lower. October's decline in housing starts to 168K from September's 185K appeared excessive against the back drop of the building permits data, which saw unit approvals rising by 4%/m/m. For our forecast, we have taken into consideration what appears to be a growing project backlog (permit approvals up, starts down) as providing the foundation for a boost to the November housing starts number.</p>
Dec 9	New Housing Price Index M/M – Oct (8:30)	0.2%		0.3%	Minor	<p>▶ Existing home prices have steadied and begun to creep higher as activity picked up over the fall period. Industry data suggested that average existing home prices edged higher in the month of October. On that basis, we are forecasting a moderate pick up in new home prices for the month of October as the overall housing market moves into a better balance after having experienced a significant decline in activity over the summer months. If we are correct and new home prices are up 0.3%/m/m, on a year over year basis prices will have risen by 2.7%.</p>
Dec 10	Int'l Merchandise Trade – Oct (8:30)	-CAD2.5B		-CAD2.0B	Med	<p>▶ We are looking to see some significant improvement in the trade deficit on the back of rising energy shipments. The supply interruptions that plagued petroleum exports into the US in August and September were largely fixed by October. Auto exports expected to pick up on the back of the introduction of the new year models. A massive plunge in copper exports in September is expected to largely unwind itself, providing some decent upside as well. On the downside, Canadian exports to China declined by 3.2%/m/m according to Chinese customs data.</p> <p>▶ 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 Q2/10, net trade chopped 6.0ppt off GDP on a q/q ann. basis. In Q3/10 net trade scooped out 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 requires reducing the net drag associated with trade.</p>

Source: HSBC Canada

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**HSBC Securities (Canada) Inc.**  
70 York Street, 8th Floor  
Toronto, Ontario M5J 1S9, Canada  
Telephone +1 416 868 7523  
Fax +1 416 364 2543  
Website: [www.research.hsbc.com](http://www.research.hsbc.com)

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