

# Canada: Weekly Notes

## Key events for the week of June 21–25, 2010

### Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Jun 22	CPI m/m – May (7:00)	0.3%		0.2%	Major	<p>▶ Gasoline prices were little changed in May. For our forecast, we are assuming a 0.7% m/m increase, which would have a moderate impact only on the headline. Recreation costs should provide the largest boost, as travel service costs jumped in May. In the foods category, fresh fruits should provide some moderate pricing pressure, adding roughly 0.05ppt onto the headline. Autos expected to be flat, while apparel prices should knock nearly 0.1ppt out of the index. Overall, we are looking for consumer prices to have risen by 0.17% m/m.</p>
	CPI y/y – May (7:00)	1.8%		1.3%	Major	<p>▶ Base effects: Aside from the month-to-month pricing variations, May's CPI should be dominated by a year-over-year base effect that would pull down significantly on the pricing index, knocking as much as 0.7ppt out of the headline for May alone. Our forecast of an increase in inflation of 0.2% m/m translates into a year-over-year rate of 1.3%. A preliminary peek at June's rate now looks like it could dip below 1.0% as the base effect continues to chip away at headline inflation.</p> <p>▶ The year-over-year rise in gasoline prices, based on our assumption of a 0.7% m/m rise in May, comes in at 8.1%. On its own, this would be a significant contribution but well back of the 16.3% y/y increase in April, which added 0.6ppt on to the headline reading year-over-year. In May, it contributed a still sizable 0.3ppt. By June, based on the assumption that gasoline prices are significantly lower, we can expect to see petrol prices dragging on headline prices. We are assuming a 6.7% m/m decline in petrol prices for June, given the current slate of data available, which would send the year-over-year price for gasoline toppling to -5.5% y/y. In turn, declining gasoline prices could knock 0.2ppt out of the headline for June.</p> <p>▶ Suffice it to say, what looked like a potentially challenging inflation profile at the outset of the year has dissipated rather sharply due to the underlying base effects associated with the ebb and flow of gasoline prices.</p> <p>▶ That said, monetary policy isn't about what prices were doing in May 2010, but what the expectations are for prices in May 2012. On that basis, policy is more about what the BoC assumptions are as they pertain to output gaps and capacity utilization, along with the flavoring afforded by changes in inflationary expectations, rather than CPI, which for all intents and purposes is a historical look back on where prices were, rather than where prices are going.</p> <p>▶ <b>CPI continued on page 2.</b></p>

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Jun 22	Core CPI m/m – May (7:00)	0.3%		0.1%	Major	▶ The core will remove the impact of moderately higher gasoline and fresh fruit prices.
	Core CPI y/y – May (7:00)	1.9%		1.5%	Major	▶ Base effect: Neither is the core CPI insulated against the base effects wreaking havoc on the headline CPI. For May, the base effect should knock 0.5ppt out of the core pricing index. On that basis, we believe the base effect will be the dominant factor in the May CPI. From a policy standpoint, the CPI, dissected of its energy component, seems to pose little in the way of an inflationary problem for the BoC. In April, CPI ex-energy was running at 1.1% y/y. We see little reason to believe that the pricing profile ex-energy has changed radically.
Jun 23	Retail sales m/m – Apr (8:30)	2.1%		-1.0%	Med	▶ An early Easter, in conjunction with other major religious holidays falling in March, is expected to have cannibalized April sales, and on that basis, April's weakness should be viewed in the context of March's strength.  ▶ For the forecast, we look toward the 4.7% drop in unit vehicle sales in April, led by a 15.7% drop in foreign passenger car sales (foreign passenger cars tend to come in at higher pricing points than domestic ones), as significantly impacting dollar receipts among new-car dealers. We are penciling in a 5.0% decline in auto sales, which would drag down the overall headline numbers. It is a less-than-linear relationship, however. Recall that a 4.2% decline in unit sales in March coincided with a 3.5% m/m rise in dollar receipts for new-car dealers. Other areas of softness are expected to be found in the electronics, clothing, and building center categories – all areas that exhibited significant strength in March.
	Retail sales m/m – Apr (8:30)	1.7%		-0.2%	Med	▶

Source: HSBC Canada

# Disclosure appendix

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