HSBC Global Research

Canada: Weekly Notes

Key events for the week of March 15-26, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Mar 15	New Motor Vehicle Sales M/M – Jan (8:30)	2.6%		0.0%	Minor	▸ Preliminary evidence suggests that new vehicle sales on a unit basis were flat in January. Unfortunately the preliminary report provides no breakdown of sales per category class of vehicle. Knowing the sales mix provides some insight into what the dollar sales for the auto category will look like given the tendency for the SUV/truck and foreign vehicle categories to come in at higher MSRP than the North American passenger car category. In other words, changes in SUV and truck unit sales will tend to have a bigger impact on the retail sales report than unit sales of passenger vehicles.
Mar 16	Manufacturing Sales M/M – Jan (8:30)	1.6%		0.1%	Med	▸ At the time of writing, we have yet to see the trade report which is often useful in forecasting the manufacturing report. However, we do know that some components of the auto sector experienced extended holiday shutdowns which will negatively impact manufacturing shipments. Capital equipment and aerospace sales are also expected to have been adversely affected by reduced levels of activity in the US as born out by soft factory orders data. As an offset, petroleum/coal, primary metals, and a surge in electronic equipment are expected to provide the bulk of the upside.
	Labor Productivity Q/Q – Q4/09 (8:30)	-0.2%		1.2%	Med	▸ The question surrounding the Q4/09 5.0% q/q ann. rise in GDP is whether or not it was complimented by an equally impressive pickup in productivity. Average weekly hours data suggests that there were significant declines in the hours worked that were not wholly offset by the slight increase in employment that occurred over the period. Although getting a handle on hours worked has proved rather illusive in the past. For the forecast, we are assuming that total hours worked remained unchanged. On that basis, we would expect to see productivity grow by 1.2%q/q in line with GDP growth. If we are wrong, and there is no corresponding pickup in productivity of material magnitude, the concern then focuses on the BoC estimates as they pertain to the rate at which the economy is closing the output gap and by extension their estimates on inflation with hawkish implications for policy. ▸ With an aging demographic (baby boomers begin retiring in 2011), Canada needs to work smarter, not harder, if it is expected to maintain a first world standard of living.

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Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Mar 17	Wholesale Sales M/M – Jan (8:30)	0.7%		0.4%	Med	▸ In January, we will look to see auto sector sales build on the previous month's gains along with a some recovery from last month's declines in the auto parts and accessories component. Warm weather is expected to have continued to coax out sales in the building materials category while conversely, warm weather is expected to have hit apparel sales (clothing sales have been very strong in the last months) along with personal and household goods sales. Machinery and equipment sales are expected to have softened in keeping with a rather large decline seen in US wholesale sales in these same categories. Total sales ex-autos are up 0.3%m/m.
Mar 18	Int'l Securities Transactions – Jan (8:30)	C$11.2B		C$8.0B	Minor	▸ Again, a decent flurry of large foreign currency Canadian bond deals were printed in January, including a GOC benchmark Euro, which would have placed Canadian securities in foreign investor hands. A quick tally of Bloomberg deal data showcased over CAD8.0bn in deal flow in January. Offsetting the new supply is the expectation that the onset of investor risk aversion in January prompted some foreign paring of Canadian stock positions. Money market expected to have seen some renewed interest. Boring is beautiful. Foreign investor interest in Canada has accelerated dramatically over the past year, jumping from CAD29bn in 2008 up to CAD109bn in 2009.
Mar 19	CPI M/M – Feb (7:00)	0.3%		0.5%	Med	▸ Gasoline remains problematic. For our forecast, petrol prices are expected to have risen by 4.6%m/m which will tack 0.16ppt onto the headline CPI. Travel services (introduced into the CPI every Jan-Mar period) will also figure prominently as tour package prices move in on peak season prices for travel to southern destinations. This will add an additional 0.1ppt onto the headline. Food and apparel prices are each expected to add 0.1ppt as seasonal prices continue to exert their influence. And lastly recreational prices tend to see a seasonal boost in February that threatens to add another 0.2ppt. As an offset, auto prices are expected to have declined as companies fight for market share in the midst of a wave of product recalls which could knock as much as 0.17ppt out of the headline inflation rate.
	CPI Y/Y – Feb (7:00)	1.9%		1.6%	Med	▸ For the year over year pricing measure, the base effect associated the rapid rise and fall in the price for gasoline will continue to wreak havoc. In February, gasoline prices are expected to have risen by 22.8%y/y(accounting for 0.84ppt of total CPI) which is in direct contrast to the picture painted in February 2009 when prices plunged by -19.7y/y (taking out 0.72ppt). The petrol base effect is expected to have largely have faded by May 2010. ▸ For the BoC and policy, the base effect is more of a mathematical problem than a policy problem given that the base effect is unlikely to have an impact on consumer inflation expectations as it is a function of that which has already happened to prices rather than a function of current changes to pricing levels.
	Core CPI M/M – Feb (7:00)	0.1%		0.3%	Med	▸ The core measure on prices is forecast to drop by -0.16%m/m as the impact of gasoline and prices for perishables are removed.
	Core CPI Y/Y – Feb (7:00)	2.0%		1.7%	Med	▸ There was some concern registered in January with the core CPI hitting 2% and the headline running just back of the BoC target rate of 2.0% so early on into the economic recovery. February's softening in the year over year readings will arguably take some pressure of the BoC. Further pricing relief is expected to occur in both May and June that will take some of the public pressure off the BoC. Other mitigating factors include the forward looking survey data on inflation expectations and capacity utilization that support the maintenance of a relaxed medium-term view on inflation.
	Retail Sales M/M – Jan (8:30)	0.4%		0.5%	Med	▸ Retail sales are expected to have been boosted by higher petrol prices. Recall that gasoline prices rose by 3.6%m/m in January. Preliminary evidence suggests unit auto sales were flat. Ex-autos, sales are forecast to be up by 0.7%. Food and apparel sales are expected to have contributed to the bottom line. Home renovation sales experienced a late day surge in December ahead of the expiration of a government tax incentive program that is not expected to have been repeated in January. Sales ex-gasoline are up a marginal 0.2%m/m.
	Retail Sales X-autos M/M – Jan (8:30)	0.4%		0.7%	Med	▸ Sales in the ex-autos category are forecast to be up by 0.7% although the primary driver is petrol.
Mar 23	Leading Indicators M/M – Feb (8:30)	0.9%		0.7%	Minor	▸ Of the index constituents, the headline is expected to be driven by continued strength in the housing component (existing home sales are at historical highs), although activity on a seasonally adjusted basis eased back in January. Retail trade, money supply and the US leading indicators index will have contributed positively. The wild card remains the disposition of durable goods orders which has provided a steady and significant contribution to the overall LEI lately.

Source: HSBC Canada

Disclosure appendix

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