

Canada: Weekly Notes

Key events for the weeks of October 11 – November 5 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Oct 13	New Housing Price Index M/M – Aug (8:30)	-0.1%		0.2%	Minor	<p>► Builders began working the harmonized sales tax into the cost of a new home well before its official introduction on 1 July. In the calculation of the new home price index, value added taxes like the HST are stripped out. We believe that by August, the bulk of the impact of the HST will have already been realized. That said, the pricing environment has begun to soften as activity in the sector decelerates and existing home sale prices begin to decline. Industry data suggest that existing home sale prices softened in July. If we are correct and new home prices are up 0.2%/m/m, on a year over year basis, prices are up 3.0%.</p>
Oct 14	Int'l Merchandise Trade – Aug (8:30)	-\$2.7B		-\$2..2B	Med	<p>► Trade is acting as a significant drag on the Canadian economic growth with net trade knocking 4.4ppt out of second quarter GDP. On the upside, export volumes are up 4.4%/y/y. On the down side, import volumes are up a whopping 14.7%/y/y. For August, we expect to see a slight improvement in the trade picture with some narrowing in the deficit. Still, the month was challenged by a number of transitory factors, not the least of which was a leaky pipeline that cut energy exports by 190,000 bbl/day. So too was the energy picture challenged by a slide in spot natural gas prices (indicative of soft external demand).</p> <p>► On the upside, Canadian exports to China rose 4.5%/m/m according to Chinese customs data. For Canada, this is expected to resonate in the industrial goods and materials sector (metals). Machinery and equipment exports also expected to have bounced back as well in keeping with the story painted by the US durable goods shipments data. And there is the expectation that crude exports that backed up at the border may have knocked on into the import side of the equation as demand for imported light crude for blending with heavier domestic grades would have been cut as well.</p>
Oct 15	Manufacturing Sales M/M – Aug (8:30)	-0.9%		-0.6%	Med	<p>► Inventories might see an involuntary spike as energy liquids back up in the system as key pipelines sprung some leaks. We are expecting that sales remained soft in August, with the forecast looking at a decline of 0.6%/m/m - blame the petroleum components and weak sales for vehicle parts. On the upside, a decent rebound in previously weak data for clothing, wood products, machinery and motor vehicles will soften the blow.</p>

Continued on page 2

Stewart Hall

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

View HSBC Global Research at:
<http://www.research.hsbc.com>

Issuer of report: HSBC Securities
 (Canada) Inc.

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Oct 15	New Vehicle Sales M/M – Aug (8:30)	2.4%		-5.0%	Minor	▶ Preliminary evidence suggests that new vehicle sales on a unit basis were down 5.0%/m in August. Unfortunately, the preliminary report provides no breakdown of sales per category class of vehicle. Knowing the sales mix provides some insight into what dollar sales may look like given that the SUV/truck and foreign vehicle categories tend to come in at higher MSRP than the North American passenger car group. In other words, changes in unit sales for the SUV and truck categories will tend to have a bigger impact on the dollar sales reported in the retail sales report than changes in the number of unit sales for domestic passenger vehicles.
Oct 18	Int'l Securities Transactions – Aug (8:30)	C\$5.5B		C\$4.7B	Med	▶ As the summer holidays picked up, there was a material reduction in the rate of new issuance out of Canadian provincial and corporate entities. Although the rate of bond retirements in August is expected to have declined significantly as well. We expect that the combination of new issuance, retirements, and foreign purchases of outstanding bond issues is expected to net out around CAD4.6B. Filling out the report is expected to be increased purchases of money market instruments which will largely be offset by sales of Canadian stocks on the back of general risk aversion in global markets.
Oct 19	Bank of Canada Rate Decision (9:00)	1.00	1.00	1.00	Major	▶ We expect the BoC to pause the rate cycle at its October meeting. The decision is expected to be driven by the evident deceleration in the rate of the economic recovery and the increasing uncertainty associated with the uneven economic recovery in the US. So too has the Canadian inflation rate profile been tracking below plan. Yet the patience of the BoC is expected to be challenged by dismal levels of productivity growth which suggest that even uncharacteristically low levels of growth will be sufficient enough to continue chipping away at the economy's excess capacity. ▶ In broad terms, the Canadian economy is expected to continue along the road of recovery, although growth rates will be characterized as incremental in keeping with the overall tone and tenor of the developed world economic environment. Although we are impressed by the rate of growth in broad money, M3 which is growing by 6.9%/y, total household debt to disposable income has galloped ahead, rising from 130% in Q1/08 to 146% as of Q1/10. Our concern, which we feel is likely shared by the BoC, is that the consumer is borrowing based upon the cost of carry rather than worrying about the aggregate amount of debt that they are accumulating, leaving Canada with a consumer debt problem of its own if left unchecked.
Oct 20	Wholesale Sales M/M – Aug (8:30)	-0.1%		0.7%	Med	▶ Auto sector sales are expected to have bounced back as the sector restocks following a 4.3%/m decline in vehicle inventories in July. Machinery and equipment sales continue to grow at elevated levels and the economic recovery and business investment continue to grind forward. On the down side the food and beverage category is expected to have moderated following last month's 2.3%/m jump in sales. Overall, we are forecasting sales to have risen by 0.7%/m as the Canadian economy overall improves marginally in August.
	Bank of Canada Monetary Policy Report – (10:30)				Major	▶ A press conference with BoC Governor Carney is expected to follow (11:15 ETD). We expect to see the BoC trim its near term growth forecasts. Uncertainty will color the report along with references to the uneven nature of the US economic recovery.
Oct 21	Leading Economic Indicators M/M – Sep (8:30)	0.5%		0.7%	Med	▶ At 0.7 %/m, our forecast for the LEI is not all that far off the average for 2010 running at 0.8%/m. After having seen the housing index rapidly decelerate over the last four months, in September we are looking to see some signs of recovery as the rate of decline for new housing starts is easily offset by a pick up in the existing home sales component. New orders for durable goods which have been driving the boat for much of the year are again expected to have experienced continued strength in September.
Oct 22	CPI M/M – Sep (7:00)	-0.1%		-0.1%	Med	▶ Our forecast is looking for a back to back 0.1%/m decline for headline CPI. The impact of gasoline, so prominent in previous months, has continued to moderate with prices expected to have declined in September, dragging 0.06ppt out of the headline. So too are travel services and auto purchase prices expected to have cumulatively pulled another 0.15ppt out off headline reading on inflation. Both fresh fruits and fresh veggies are expected to have knocked close to 0.1ppt of the headline as cheaper local produce supplants more expensive imported produce. On the upside, apparel prices will experience upward seasonal pricing pressures, adding 0.16ppt onto the headline, while recreational product prices are expected to tack on another 0.06ppt. Taken together, CPI is expected to be down just slightly less than 0.1%/m.
	CPI Y/Y – Sep (7:00)	1.7%		1.7%	Med	▶ Much the same story on year over year CPI which is forecast to be up 1.7% (1.65% unrounded) with the impact of gasoline prices having dissipated dramatically. Recall that in December of 2009, gasoline prices were rising at a rate of 26%/y, adding 1.2ppt onto the index. If our forecast for a decline of -0.6%/m for gasoline prices is correct, petrol prices are expected to be up a comparably minor 2.7%/y in September. From a policy standpoint, the BoC will fall back on the view that inflation expectations remain firmly wedded to the 1 – 3% inflation band around which they target a 2% inflation rate.

Economic diary – Canada (cont'd)

	Core CPI M/M – Sep (7:00)	0.1%	0.1%	Med	▶ At the core, the removal of lower fresh fruit, veggie, and petrol prices will cause the reading on core prices to rise by 0.1%/m/m.
	Core CPI Y/Y – Sep (7:00)	1.6%	1.4%	Med	▶ In September, the core reading on CPI is expected to experience some downward pressure associated with a base effect from last September's jump in core prices which will dampen the current reading. In looking at CPI's constituents, we find that the bulk of the pricing pressure is coming out of the services sector where prices are up 2.2y/y as of August vs. goods prices which rose by 1.2%/y of which 0.47ppt were flowing from the energy category.
Oct 22	Retail Sales M/M – Aug (8:30)	-0.1%	-0.2%	Med	▶ Consumer confidence leaked lower in the third quarter of this year as uncertainty over the direction and strength of the economic recovery took their toll on consumer attitudes. Still, there remains a decent backdrop to the retail picture in that employment growth in the first half of the year was extraordinarily strong. For August, we see a number of elements dampening the overall picture on retail sales, not the least of which is the preliminary data out on new vehicle unit sales suggesting a 5.0%/m decline. So too would a late start to the calendar school year have pushed sales that normally show up in late August into September. In particular, apparel sales are expected to have softened as back to school purchases were delayed. On the upside, significant declines in the home furnishings (-15%) and furniture (-4.5%) categories are expected to right themselves to some extent and help to offset the drag coming out of the auto component.
	Retail Sales Less Autos – Aug (8:30)	-0.4%	0.3%	Med	▶ We see x-gasoline, x-auto sales running at 0.2%/m/m.
Oct 29	GDP – Aug (8:30)	-0.1%	0.2%	Major	▶ Following July's decline of 0.1%/m/m, we are forecasting a rebound of sorts in August with the Canadian economy growing at 0.2%/m/m. A forecast not out of context with our longer term outlook for the economy to be growing at incremental rates only. For the month of August, manufacturing activity is expected to have slowed, while construction and natural resources make significant contributions. Overall, we are expecting goods producing industries to have grown by just slightly more than 0.2%/m/m. Real estate activity rose by 4.1%/m/m in August which will feed positively into the financial services sector (the largest GDP category). For the bulk of the services component, we are expecting to see moderate gains in activity salted across the sector. Overall, service sector output expected to have grown by just slightly better than 0.1%/m/m.
Nov 4	IVEY PMI – Oct (10:00)	70.3	64.0	Med	▶ Canada truly is a seasonal economy and the IVEY PMI is a number that goes unadjusted for seasonality and as such is subject to some fairly volatile swings. The October IVEY tends to hold onto the momentum that is seen in September although it is not a perfect relationship. In the last two months, the IVEY PMI has printed historical highs for the respective months. Our forecast for 64.0 is near to the historical high of 65.9 for the October series and as such, not out of context with the direction the IVEY has taken as of late. While the IVEY has been cutting into a lot of new territory, the economy by contrast has reflected a more incremental growth profile. So too is it important to remember that the sample size (175 companies) is comparatively small.
Nov 5	Net Change in Employment – Oct (7:00)	-6.6	25.0	Major	▶ September's employment report by all appearances was a clean number absent of the seasonalities that have recently been playing havoc with the data set. On the basis that the Canadian economy is moving towards a growth platform that we expect to be characterized by incremental, we are looking for October's net jobs to reflect the subdued trend like pattern. At 25K, our forecast suggests that jobs growth is just sufficient enough to keep up with the natural growth in the labor force while holding the line on the unemployment rate at 8.0%. On average, population growth alone will push another ~26K new workers into the economy each month. The participation rate is assumed to be unchanged at 67.3%.
	Participation Rate – Oct (7:00)	67.3	67.3	Major	
	Unemployment Rate – Oct (7:00)	8.0%	8.0%	Major	
	Building Permits M/M – Sep (8:30)	-9.2%	-1.2%	Minor	▶ August's decline of 9.2%/m/m represented a smoothing out of some very large increases in the non-residential category. Despite non-residential permits having fallen by 23%/m/m in August, we are looking for some continued softening in the category in September. For September, non-residential permits are expected to have declined by 5.6%/m/m, led by a 19%/m/m drop in institution and government permits. Residential permits are expected to have improved by 1.5%/m/m with total permits declining by 1.2%/m/m. Year over year, total permits are forecast to have risen by 6.5%.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Stewart Hall

Important Disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is intended solely for the clients of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

- 1 This report is dated as at 08 October 2010.
- 2 All market data included in this report are dated as at close 07 October 2010, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

* Legal entities as at 31 January 2010

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiple, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report

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

This document has been issued by HSBC Bank Canada, HSBC Securities (Canada) Inc., and/or their affiliates (collectively "HSBC"). The material contained in this document is for the information of clients of HSBC and is not for publication to other persons, whether through the press or by other means. Unless otherwise stated, any pricing information given in this document is indicative only, is subject to change and does not constitute an offer to buy or sell any securities, currency or related financial instrument at any price quoted. HSBC is not liable for any errors or omissions in the content or transmission of this email. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any currency or related instrument. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient in the preparation of the Commentary. The Commentary is derived from sources HSBC believes to be reliable but which HSBC has not independently verified. No representation or warranty is made with respect to the completeness or accuracy of the Commentary. HSBC, its affiliates, their directors, officers, employees and agents: (1) are not liable for any direct or consequential loss arising from use of or reliance on the Commentary, and (2) may have a long or short position in, or otherwise participate in markets for, the currencies and securities mentioned in the Commentary.

This document may be distributed in the United States solely to "Major US Institutional Investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934); such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV). HSBC Bank (Panama) S.A. is regulated by Superintendencia de Bancos de Panama. Banco HSBC Honduras S.A. is regulated by Comisión Nacional de Bancos y Seguros (CNBS). Banco HSBC Salvadoreño, S.A. is regulated by Superintendencia del Sistema Financiero (SSF). HSBC Colombia S.A. is regulated by Superintendencia Financiera de Colombia. Banco HSBC Costa Rica S.A. is supervised by Superintendencia General de Entidades Financieras (SUGEF). Banistmo Nicaragua, S.A. is authorized and regulated by Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF).

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities (Canada) Inc. HSBC Securities (Canada) Inc. is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada. Member CIPF. ©Copyright 2010. MICA (P) 142/06/2010 and MICA (P) 193/04/2010