

# Canada: Weekly Notes

## Key events for the week of October 4-8, 2010

### Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Oct 6	IVEY PMI – Sep (10:00)	65.9	62.0	62.0	Med	<p>Canada is a seasonal economy and the IVEY PMI is a number that goes unadjusted for seasonality. September is typically a back to work month which tends to produce strong readings in the IVEY purchaser index. On that basis, we are forecasting the index at 62.0 which is well within the historical context of the number set. Recall that August's 65.9 was a historical high for that particular month.</p>
Oct 7	Building Permits M/M – Aug (8:30)	-3.3%	-2.0%	-6.1%	Minor	<p>The biggest surprise in the permits data has been the persistent strength in the non-residential category which has acted as an offset to weakening interest in residential projects. For August, we are looking to see some of that strength begin to dissipate. Overall, non-residential permits are expected to decline by 12.3%/m following June's 23.8%/m jump that was barely dented by a relatively slight 4.3%/m decline in July. Residential permits are expected to have slipped by just 1.0%/m with total permits declining by 6.1%/m.</p> <p>Underneath the headlines, institutional and government permits are forecast to have fallen by 15%/m after having risen by a whopping 68% in the last two months. Commercial permits also expected to be down by 15%/m following June's jump of 39%/m that was not fully smoothed out by July's 9.2%/m decline. Industrial permits are expected to be up by 4.0% following back to back months of rather significant declines. Year over year, total permits are forecast to be up by 16%.</p>
Oct 8	Net Change in Employment – Sep (7:00)	35.8K	10.0K	20.0K	Major	<p>In September, we are looking for the Canadian economy to have generated a net 20K new positions. Jobs growth is expected to have been driven by a pickup in goods producing industries (+30K), courtesy of a bounce in manufacturing jobs. Seasonal shutdowns are believed to have contributed to the loss of 26K manufacturing positions in the previous month. Service sector jobs are expected to see a marginal salting of losses across the category amounting to a decline of 10K positions.</p> <p>In the past 36 months, the goods sector has shed a little over 230K positions. By contrast, service sector employment has grown by 570K.</p>

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Source: HSBC Canada

Economic diary – Canada (cont'd)

Date	Last	Median	HSBC	Impact	Comments
Unemployment Rate – Sep (7:00)	8.1%	8.0%	8.1%	Major	<ul style="list-style-type: none"> <li>▶ In forecasting the unemployment rate, we have assumed that the participation rate remained unchanged at 67.4% (pre crisis high was 68%). Our assumption for jobs growth of 20K is not sufficient enough to offset the natural growth in the labor force yet not weak enough to cause the unemployment rate to edge higher. On average, population growth alone will push c26K new workers into the economy.</li> <li>▶ Of note: payroll data for the month of July (the latest month for which we have data) reflected average weekly earnings growing of 3.9%/y, while core inflation is running at 1.6%/y.</li> </ul>
Participation Rate – Sep (7:00)	67.4		67.4	Major	
Housing Starts – Sep (8:15)	183.3K	179.0K	175K	Minor	<ul style="list-style-type: none"> <li>▶ July building permits (the latest month for which we have numbers) reflected a 4.6% decline in the number of dwellings approved for construction, led by a 7.3% plunge in the multi family dwelling category. August housing starts showed a marginal 3.7% decline in the multi family category suggesting that there may be further weakness in the pipeline based on what we are seeing in the permits numbers. On that basis, along with the view that residential permits continued to soften in August, we are looking for starts to drop back to 175K units led by a decline in multi family dwellings (from 97.8K to 90K) followed up by a slight softening in single family starts.</li> <li>▶ The backdrop to overall declining builder interest in cutting new ground on residential projects consists of changes to the tax regime in Ontario and BC that added to costs in the new build sector, a changed funding model for mortgages enacted in April, and higher interest rates, which together are raising the financial barriers to entry into the housing market. An uncertain and uneven economic recovery is contributing to a softening in consumer confidence which is also complicating the picture.</li> </ul>
BoC Business Outlook Future Sales – Q3/10 (10:30)	25.00	-	-	Med	<ul style="list-style-type: none"> <li>▶ The Bank of Canada business survey is expected to reflect a balance of opinion on future sales that continues to run at decent levels. However, the best days of the economic recovery appear to be behind us, as the initial flush of optimism is replaced by more moderate levels of economic activity.</li> <li>▶ From a policy standpoint, it is our view that the BoC will tend to ignore the headline number (based on sales outlook) and concentrate on those survey questions concerned with economic capacity and inflation expectations. Shifts in these particular areas of the survey have in the past tended to dovetail with changes in rate policy.</li> <li>▶ With gasoline prices having settled down into a less volatile pricing regime, it is expected that inflation expectations will have also moderated in kind to some degree. The BoC may be mindful of any dip in inflation expectations given that inflation is currently running below target. However, comfort may be drawn from the view that the 1-3% target band will generally capture the bulk of the expectations responses.</li> </ul>
BoC Senior Loan Officer Survey – Q3/10 (10:30)	-24.8	-	-	Med	<ul style="list-style-type: none"> <li>▶ Canadian lending officers, on balance, are expected to have continued to ease up on credit conditions in keeping with the findings of the Q2/10 report. For the current quarter, we are looking to see continued improvements in both the pricing and non-pricing elements of credit. To wit, we would point to a dramatic turnaround in M3 growth (6.9%/y or 0.8%/m) and overall loan growth as indicative of improved bank intermediation. Tighter credit spreads are expected to have resonated as an easing in the pricing of credit.</li> <li>▶ On a cautious note, bank lending into the business segment remains depressed, having declined by 0.7%/y in August. This may be a function of cheaper term debt to found in markets. So too do we believe that the corporate demand for credit has remained weak as businesses remain reticent to expand capacity and invest in their companies given the large amount of excess capacity sloshing about in the domestic economy and the uncertainty associated with global current events.</li> </ul>

Source: HSBC Canada

# Disclosure appendix

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