

Canada: Weekly Notes

Key events for the week of September 13 – 24 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Sep 14	Labor productivity Q/Q – Q2 (8:30)	0.7%		-0.5%	Med	<p>▶ Working harder or smarter? It would seem that Canada was working harder in Q210 and generating less output as a result. Recall that over the course of the second quarter, jobs growth picked up rather impressively, with nearly 230K jobs created, pointing to a considerably higher tally of total hours worked than in the previous quarter. While business output was up 0.7% q/q, employment jumped 1% while hours worked rose 1.2%, suggesting that productivity declined by a rather significant -0.5%. 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.</p>
	Capacity utilization rate Q/Q – Q2 (8:30)	74.2%		76.7%	Med	<p>▶ Industrial production jumped 2.2%q/q in Q210, which we expect will spark a decent pickup in the rate of capacity utilization, lifting the index to 76.7% against a backdrop of declining productivity. A 0.3ppt upward revision to Q1 industrial output is expected to sponsor a slight upward revision to the Q1 utilization rate, bumping it up to 74.5% from 74.2%. A nice pickup from the low water mark printed in Q209 at 68.5%, but well off the trend such as 85% that prevailed prior to the onset of financial and economic crisis.</p> <p>▶ There is also the event risk that the still-soft picture on capacity utilization is overstated, given that some capacity that has been idled by recession should be considered permanently lost (auto industry). So too are the measures on utilization likely slow to remove obsolete capacity, given the accelerated pace of technological change that businesses now are operating in. For the forecast, we are assuming that there was a slight reduction in overall capacity.</p>
	New motor vehicle sales M/M – Jul (8:30)	2.5%		1.0%	Minor	<p>▶ Preliminary evidence suggests that new vehicle sales on a unit basis in June rose 1.0% m/m. 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 MSRPs 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.</p>

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Source: HSBC Canada

Economic diary – Canada (cont'd)

Date	Last Median	HSBC	Impact	Comments
Sep 15 Manufacturing shipments M/M – Jul (8:30)	0.1%	0.4%	Med	▶ Although the trade report opened up some potential downside for the manufacturing shipments number, we believe that domestic activity and the propensity to build inventory will dominate the picture. On the upside, transportation will provide a moderate contribution to overall sales, along with strong gains in the foods, textile, chemicals, and computers/electronics categories. On the downside, primary metals, clothing, and petroleum/coal products are expected to have softened.
Sep 20 Int'l securities transactions – Jul (8:30)	CAD5.4bn	CAD 10.0bn	Minor	▶ We saw considerable US dollar issuance out of Canadian financials in July. So too did we see a number of global USD benchmark issues placed by some Canadian provinces that would invariably have been marketed to foreign investors. Equities may have fallen out of favor, given how Canada underperformed US indexes. A rate hike at the July BoC meeting may have encouraged purchases of money market products as yields advanced in the front end of the curve. With a strong calendar of new issuance, combined with foreign interest in bond issues outstanding, which has been averaging CAD7.0bn per month, and retirements expected to come in around –CAD4.0bn, we are looking for a net pickup in foreign purchases of CAD10.0bn. ▶ Boring is the new beautiful and against the backdrop of credit event in other areas of the world in June, there wasn't much more boring than a Canadian bond. As of June, YTD, net bond purchases by foreigner investors was at CAD51.3bn vs. CAD359m for money market and CAD7.4bn for stocks.
Wholesale sales M/M – Jul (8:30)	-0.3%	0.8%	Med	▶ Some very large swings in USD/CAD occurred in July, although on average the Canadian dollar was slightly softer vs. June, which will support the wholesale number when USD receipts are converted back into CAD for reporting purposes. We are looking for positive contributions from the auto industry, along with a bounce-back in machinery sales following last month's dismal -2.3% decline. We also expect to see some potential additional upside from the agricultural supplies category, following May's CAD400m decline. On the downside, building materials are expected to have continued softening in keeping with the picture painted by the trade report, although the decline is expected to be much less than the -2.0% recorded in June.
Sep 21 CPI M/M – Aug (7:00)	0.5%	0.0%	Major	▶ Monthly CPI is expected to have settled down a bit in August, following July's introduction of the HST in BC and Ontario, which accounted for approximately 0.4ppt of last month's increase. Gasoline prices, which have tended to have their way with the CPI, saw only limited movement, with our forecast incorporating just a slight increase in prices. Apparel prices are on the rise as the new fall fashions and back-to-school lines hit retailer shelves at full retail prices. Travel services and food prices which can swing around with the seasons and have a significant impact, are expected to be flat along, with auto prices, as seasonal discounting aimed at clearing inventories comes to the fore. Putting this altogether, we are looking for no change in the monthly CPI.
CPI Y/Y – Aug (7:00)	1.8%	1.8%	Major	▶ The impact of gasoline prices on year-over-year prices has dissipated sharply. Recall that in December 2009, gasoline prices were rising at a rate of 26% y/y, adding 1.2ppt to the index. If our forecast of a 0.3% rise in gasoline prices is correct, the index will have risen in August by a comparably mild 2.5% y/y. However, the onset of the harmonized sales tax in the provinces of BC and Ontario is adding roughly 0.4ppt onto the year-over-year inflation rate, although the BoC will look past the impact of the HST when determining policy. ▶ That said, monetary policy isn't about what prices were doing in July 2010 anyway, but the expectations for prices in July 2012. CPI for all intents and purposes is a historical look back on where prices were, rather than where prices are going. In its latest policy statement, the BoC said, "Inflation in Canada has been broadly in line with the bank's expectations, and its dynamics are essentially unchanged."
Core CPI M/M – Aug (7:00)	-0.1%	0.1%	Major	▶ The core reading on CPI will expunge the impact of gasoline, natural gas, and food prices, as well as changes to the tax structure from the reading on inflation. We are looking for core prices to be up 0.1% m/m once the damping effects of fruit and vegetable prices are removed.
Core CPI Y/Y – Aug (7:00)	1.6%	1.6%	Major	▶ From a policy standpoint, the CPI dissected of its energy component running at 1.3% y/y seems to pose little in the way of an inflationary problem for the BoC. The bulk of the pricing pressure is coming out of the services sector, where prices were up 2.4% y/y as of July.
Sep 22 Leading indicators M/M – Aug (8:30)	0.4%	0.3%	Minor	▶ Last month's slide in the LEI was the first real hiccup in the data since early 2009. At 0.3%, our forecast for the LEI is well off the pace established over the previous 12 months, which on average was growth of 1.0% m/m but in keeping with July's reading and profile. Gone are the sizable increases in the housing index that defined 2009. And while we continue to look for some moderation in the new orders component, it continues to move from strength to strength. For August, we expect to see new orders decelerate, although this should be mostly offset by an improvement in the retail trade component.

Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last Median	HSBC	Impact	Comments
Sep 22	Retail sales M/M – Jul (8:30)	0.1%	0.5%	Major	<ul style="list-style-type: none"> ▶ Passenger cars and petrol: For July, we expect headline sales to be boosted by a 3.5% m/m increase in the cost of petrol that fills up the tanks of those newly purchased vehicles. While we don't know the vehicle sales mix for July, preliminary evidence suggests that unit sales rose by 1.0% m/m. For the forecast, we are looking for a slight pickup in volume sales of gasoline, while dollar sales of new vehicles are expected to be up by 0.4% m/m as price discounting ate into dollar sales. On the downside, a large spike in used car sales (4.5% m/m) and electronics (+5.1%) are expected to see some significant moderation in July. ▶ The backdrop to the retail picture remains firm. Remarkably strong employment gains in Q2 and continued wage growth are expected to underpin consumption. And HST checks were already in bank accounts by July.
	Retail sales X-autos M/M – Jul (8:30)	-0.5%	0.5%	Major	<ul style="list-style-type: none"> ▶ We see x-gasoline, x-auto sales, running at 0.1% m/m.

Source: HSBC Canada

Disclosure appendix

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