

Canada: Weekly Notes

Key events for the week of September 6 – 10 2010

Economic diary – Canada

Date	Last	Median	HSBC	Impact	Comments
Sep 6	Labor Day				▶ Markets closed.
Sep 8	Building Permits M/M – Jul (8:30)	6.5%	-6.0%	-10.8%	Med ▶ The big surprise in the permits data has been the persistent strength in the non-residential category, which has acted as an offset to the weakening interest in residential. For July, we are looking to see some continued moderation in the institutional and government permits category following a 70%/m/m jump in May. For the forecast, we have pencilled in a decline of -15%/m/m. In the commercial category, we are looking for a -20%/m/m decline following a 39%/m/m rise in June. Industrial permits are also expected to have declined (forecast -13%/m/m) following a 58%/m/m increase in May that was not fully smoothed out in June. Again, the bulk of the softening in the non residential category is a by-product of some very chunky increases over the last couple of months. ▶ After three months of steady, sizeable declines, we are looking for residential permits to have stabilized as the industry scaled itself back in keeping with declining activity in real estate. Our forecast looks for a moderate rise of just 1.0%/m/m. Overall permits are expected to have declined by -10.8% led by a -24.9%/m/m decline in the non-residential category following a 23.5%/m/m rise in June.
	Bank of Canada Rate Decision (9:00)	0.75%	1.00%	1.00%	Major ▶ We expect to see the BoC conduct itself in the same modus operandi as in the past since starting up the rate cycle. In that we are looking for a 25bp rate hike cloaked in what ostensibly will be seen as a dovish post meeting statement, leaving very little on the table other than the notion that these are uncertain times. The uneven nature of the US economic recovery is paramount for Canada although as an offset, emerging market growth has continued to hold in at high levels of activity. So too would we point out that while Canadian GDP has decelerated considerably, dropping from Q1's 5.8%/q/q ann to 2.0%/q/q ann. in Q2, final domestic demand continues to run at decent levels, 3.6%/q/q ann in Q2. So too are we impressed by the rate of growth in broad money with M3 which is rising by 6.0%/y. For the first seven months of the year, it has averaged a growth rate of 0.7%/m/m. And on a more pragmatic note, with a banking system that continues to lend out all this liquidity afforded by the current rate policy, there is a need to change the pricing signals for money that have encouraged a consumer binge on debt. Cheap money has encouraged its consumption to the detriment of the household balance sheet. Total household debt to disposable income has galloped ahead at the same time that much of the developed world's consumers have been deleveraging. For Canada debt to disposable income has risen from 130% in Q1/08 to 146% as of Q1/10. On a more fundamental basis, the Canadian economy generated nearly 230,000 jobs in Q2/10 alone, while at the same time the average weekly earnings in June jumped by 4.0%/y/y the fastest rate of growth since before the financial crisis.

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

Continued on page 2

Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Sep 8	IVEY PMI	54.0	55.5	55.0	Med	<p>Typically the weakness in the data set that shows up in July (due to summer shutdowns) makes an appearance in August as well. Canada truly is a seasonal economy and the IVEY PMI is a number not adjusted for seasonality. On that basis, we are expecting to see a moderate pick up in the number set although are cautious given the environment of uncertainty that prevails. At 55.0, our forecast is well within the historical context of the number set.</p>
Sep 9	Housing Starts – Aug (8:15)	189.2K	184.5K	186.0K	Minor	<p>While we are expecting to see a small rise in the value of residential permits, we are not expecting to see a commensurate rise in actual housing starts. Front and centre, we are looking for a moderation in the rapid pick up in multi family unit construction that was recorded in July. On that basis, multi family starts are expected to have decline to 91K from July's 101.4K while single family starts which suffered a significant decline in the previous month are expected to experience some recovery with starts rising to 72K from 67.9K. Rural starts expected to pick up some lost ground as well rising from 19.9K to 23K.</p> <p>The back drop 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 and higher interest rates which together are conspiring to raise the financial barriers to entry into the housing market.</p>
	International Merchandise Trade – Jul (8:30)	-C\$1.1B	-C\$1.0B	-C\$0.6B	Med	<p>The trade data will provide us with the first real whiff of how July GDP may be shaping up. It is worth pointing out the net trade knocked 4.4ppt out of the headline reading on GDP in Q2/10. Competing themes on the trade front. On the upside, despite a stronger Canadian dollar (vs USD) export volumes on a year over year basis have risen dramatically (+14.5%). On the downside, import volumes have swamped the pick up in exports having risen by 21.6%. But so too does that have some glimmer in that it is in part a reflection of rising business investment in Canada feeding into imports. For a small and open economy like Canada's, an active border equates into an active economy. Indeed, our inclination is to tolerate a marginally worse trade balance if it is coming on the back of overall expanding trade volumes at this stage.</p> <p>For July, China's import data reflects a decline in imports from Canada. So too may have auto exports been hampered by the seasonal shutdowns for retooling. On the upside, stronger pricing metrics for non-ferrous metals and mineral fuels are expected to have benefitted the industrial goods and energy segments. Forestry products expected to continue to churn out solid gains. Natural gas exports expected to have benefitted from warmer temperatures.</p>
Sep 10	Net Change in Employment – Aug (7:00)	-9.3K	17.8K	35K	Major	<p>In Q2/10 the Canadian economy generated nearly 230,000 jobs. Unfortunately, at the same time the Canadian economy has been generating an abundance of jobs, it has delivered a paucity of growth. Given the deceleration in economic activity recorded in Q2 (2.0%/q ann vs. 5.8% in the previous quarter) it seems fair to ask what all these people are doing with their time. In July, the first decline in jobs growth was report YTD. Alas the details remained in keeping with a fervent jobs environment in Canada with the bulk of the losses concentrated in education (-65.3K) and financial services (-30,000). For the most part, the jobs lost in the educational sector are expected to return along with the inevitable end of summer vacation for students. Job losses in the financial services category may be related to real estate licensing that is renewed annually in July. For the forecast, we are expecting to see job gains in both these categories as the large declines recorded in July begin to moderate in August, lifting a sizeable weight off of the headline number. Overall, the goods sector employment is expected to have generated 5,000 jobs while services spun off 30,000.</p>
	Unemployment Rate – Aug (7:00)	8.0%	8.0%	7.9%	Major	<p>In forecasting the unemployment rate, we have assumed that the participation rate remained unchanged at 67.3% (pre crisis high was 68%). Population growth alone will on average push ~26,000 new workers into the economy. If we are correct in our assumptions, jobs growth of 35,000 will be sufficient enough to knock the unemployment rate down by 0.1ppt to 7.9%. Of note: payroll data for the month of June (payrolls data lags the household survey by several months) reflected average weekly earnings rising by 4.0%/y which is the fastest rate of growth since February of 2008.</p>
	Participation Rate – Aug (7:00)	67.3		67.3	Major	<p>For the forecast, we are assuming that the participation rate will remain unchanged.</p>

Source: HSBC Canada

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 03 September 2010.
- 2 All market data included in this report are dated as at close 02 September 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 Múltiplo, 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