12 February 2010

Economics
Canada

HSBC Global Research

Canada: Weekly Notes

Key events for the week of February 15–19, 2009

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Feb 15	Family Day holiday					Toronto markets closed.
Feb 16	Manufacturing shipments – Dec (8:30)	0.1%		1.9%	Med	The December trade report reflected a rise in merchandise export volumes, which has encouraged our outlook for a solid pickup in manufacturing shipments. Our estimates for December look for significant increases coming out of the transportation sector – aerospace should have bounded back from its -15% m/m decline – and energy. Supporting this view are the US durable goods numbers on aerospace and US factory orders data on energy. By and large, the factory floor is viewed as transcending the 49th parallel. As a knock-on effect, plastics and rubber should benefit from increased activity in the auto industry.
Feb 17	Wholesale sales – Dec (8:30)	2.5%		-0.6%	Med	Although the international merchandise trade report pointed at brisk activity in the auto industry, as a number of popular models made in Canada were shipped south, wholesale sales in the motor vehicle category nonetheless should be softer, reflecting some settling out in the previous month's 9.6% jump in vehicles sales. This should provide the bulk of the downside associated with the forecast for a -0.6% decline. X-auto sales are forecast to have fallen by a more moderate -0.1% m/m following last month's rather robust 2.5% m/m gain. On the upside, sales in the machinery and other products category should have carried on at a good clip.
	Bank of Canada Dep. Governor Longworth (12:20)					C.D. Howe Institute, Toronto ON. Speech to begin at 12:35. Remarks will be published on the bank's Web site at 12:20.

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Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Feb 18	CPI M/M – Jan (7:00)	-0.3%	0.3%	-0.1%	Med	▸ In our inflation forecast, gasoline prices should have risen 2.4% m/m, which would tack +0.09ppt onto the headline. Apparel prices should have recovered from significant declines in December, adding +0.04ppt to the January CPI. Food prices are up on seasonal effects, contributing an additional +0.12ppt. ▸ As an offset, tour package prices, which typically experience significant declines at this time of year, should knock -0.13ppt out of the headline rate. Recreational prices also should be down significantly, taking out another -0.18ppt with it. Auto prices remain a bit of a wild card. Steady price increases in each of the last two months tend to suggest that some moderation in prices may be in order, given less than ideal seasonal sales conditions. However, sales data suggest that decent consumer demand has helped clear out inventories. For our forecast, we are staking out the middle ground and looking for auto prices to be relatively unchanged as decent demand acts as an offset to seasonal price declines. All in, our forecast looks for CPI to have declined -0.056% m/m.
	CPI Y/Y – Jan (7:00)	1.3%	1.9%	1.5%	Med	▸ Year-over-year prices continue to be propped up by the base effect associated with the price of gasoline, which is up 22.4% y/y (accounting for 0.8ppt of total CPI), in contrast to January 2009 when gasoline prices were plunging at a rate of -23.5% y/y (taking out 0.9ppt). The petrol base effect should largely fade by May 2010. ▸ For the BoC, 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 – Jan (7:00)	-0.3%	0.0%	-0.2%	Med	▸ The core measure on prices is forecast to drop -0.16% m/m as the effects of gasoline (+0.09ppt) and fresh fruits (+0.015ppt) prices are removed.
	Core CPI Y/Y – Jan (7:00)	1.5%	1.9%	1.7%	Med	▸ The current readings on headline and core CPI pose little threat to BoC policy, we believe. Neither do the forward-looking survey data on inflation expectations or the capacity utilization measures suggest there is much concern about inflation going forward, and little risk to the BoC's pledge to hold rates at 25bps through the end of Q2/10. Headline and core CPI seem to pose little challenge for BoC policy.
	Int'l securities transactions – Dec (8:30)	C$10.5 B		C$1.5B	Minor	▸ Again, a decent flurry of large foreign currency bond deals in December would have pushed Canadian securities into foreign investors' hands. A quick tally based on Bloomberg data showcased close to CAD6.0bn in deal flow over the course of the month. Offsetting the new supply is a correspondingly large maturity calendar for GOC issues, which would take securities out of investor hands. Foreign investors are expected to have continued to sell money market paper in December.
Feb 19	Leading Indicators – Jan (8:30)	1.5%		1.1%	Minor	▸ Of the index constituents, the headline should be driven by continued strength in the housing component (existing home sales are at historical highs), continued improvements in the US LEI, Canadian stocks, and money supply. The bulk of the upside on the LEI has been provided for by a huge turnaround in the new orders durable goods index. ▸ On its own, Canada's leading indicators suggest that the economy embarked upon a rather robust recovery beginning in July 2009. Alas, the recovery in GDP has been considerably less successful, with the economy generating a 0.4% q/q annual rate of growth in Q3/09. Although Q4/09 looks considerably better, with the economy in reach of the BoC forecast of 3.3%q/q ann., it is far from a typical V-shaped recovery.
	Retail sales – Dec (8:30)	-0.3%		0.3%	Med	▸ Unit auto sales are forecast to be up by 2.0% m/m in December, based on preliminary evidence from Statcan, although at this time the vehicle mix is unknown. Vehicle mix is important in determining the potential impact of unit sales on dollar sales, given that domestic passenger cars tend to come in at lower pricing points than foreign passenger cars and SUVs. For the forecast, dollar sales at new dealers are expected to be up by 1.8% m/m. Recreational vehicle sales should have softened on the back of uncomplimentary seasonal weather. Gasoline sales should have been negatively impacted by a -2.9% m/m decline in prices, although we are expecting to see a slight pickup in volumes that would help moderate the drop. Clothing and accessory sales were hard-hit in November by unseasonably warm temperatures. For December, the expectation is that the onset of colder weather encouraged a large pickup in sales of seasonal items. So too should significant retailer discounting (apparel prices plunged 4.7% m/m in December) have helped drive customer traffic.
	Retail sales X-auto – Dec (8:30)	0.0%		-0.1%	Med	▸ Sales in the X-autos category are forecast to be down -0.1% m/m, a function of weak sales in the gasoline component. Sales X-gasoline, +0.5%m/m.

Source: HSBC Canada

Disclosure appendix

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