

When up is down. Canadian IVEY PMI (Jan) disappoints.

Although rising to 50.8, the PMI remains seasonally depressed.

IVEY PMI at 50.8 in January, while improved from the 48.4 printed in December, is none-the-less a disappointing outcome. The market median had been looking for 53.0. Our own forecast was looking for 55.0.

True, the index reflects a significant improvement from last January when the PMI was scrapping along at a rather disappointment 36.1 in keeping with the theme of recession. From a seasonal standpoint it is well off the pace.

The outlook for a robust recovery in the headline IVEY PMI, rather than signalling a significant bounce back in activity was instead a reflection of the expectation that the index would return to the historical norms for a number set that had appeared to have shaken loose the trappings of recession. Since the bursting of the tech bubble in 2001, the IVEY, with the exception of last year's recession riddled number, has averaged a reading of 54.0 for the month of January. The IVEY PMI is not seasonally adjusted and on that basis, tends to often have a distinct seasonal rhythm to it.

And there was good reason to believe that the number set would return to its seasonal patterns. While December at 48.4 looks disappointing, it is indeed in keeping with what would be considered a "normal" outcome for the month of December. Which in turn suggested that the January IVEY as well could reasonably have been expected to return to its seasonal norms in keeping with the theme of economic recovery.

Instead, the reading of 50.8 for January is better characterized as depressed and may be reflective of some extended shutdowns in the auto sector that began in December and extended on into January. An event that could have upset the seasonal patterns for the index. Perhaps the value in the number is to remind of the less than typical economic recovery confronting the developed world economies, of which Canada is entangled. As a small open economy with a significant chunk of its economy reliant upon external demand, the country is subject to the vagaries of the global economic recovery that has been reticent to emerge.

Underneath the headline IVEY number, market participants may be inclined to lever the employment index for some insight into tomorrow's employment number (7:00 EST). The IVEY employment index continued to deteriorate in January, dropping to 48.4 from 49.2. The market median for tomorrow's jobs number is looking for a net gain of 15K. HSBC is forecasting a net decline of -15K jobs. While the IVEY tends to align with our view on tomorrow's jobs report, we will take little comfort from this fact as the IVEY employment index typically bears little resemblance to actual economic activity.

The price index jumped to 67.8 from 52.5. Although the IVEY pricing index is up significantly, BoC survey data tends to suggest that business inflation expectations are firmly anchored around their 2% target rate. So too does the survey data tend to suggest that there continues to exist scads of excess capacity. The other element to note is that the spike in the pricing index provides only some sense of breadth (more seeing prices higher) rather than any orders of magnitude as they pertain to price changes.

Disclosure appendix

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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

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