26 February 2010

Economics
Canada

HSBC Global Research

Canada: Weekly Notes

Key events for the week of March 1 - 5 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Mar 1	GDP M/M – Dec (8:30)	0.4%	0.4%	0.4%	Major	▸ A tease no more. The economic recovery in Canada, after months of flirtation, appears now to be underway as years of monetary nurturing have bore fruit in Q4/09. Recall that a rate cut in December 2007 ushered in a string of adjustments totalling -425bps, culminating in a current overnight target rate at 0.25%. ▸ For December, we are penning in a growth rate of 0.4%m/m (0.44%m/m unrounded) in line with the pace of growth recorded in November. October's economic growth rate originally reported at 02% was revised up to 0.3%m/m which altogether is setting the economy up to finish off 2009 with a flourish. ▸ And contrary to expectations, evidence suggests that the precautions sparked by H1N1 led to a less virulent flu season than in past years which suggests less of a drag on economic activity. Overall, goods producing sectors are expected to be up 0.7%m/m, while services rose by 0.3%.
	GDP Q/Q – Q4/09 (8:30)	0.4%	4.5%	4.1%	Major	▸ Recovery. Q/4 will be largely about narrowing the gap on trade as cross border activity recovers and net trade begins to positively contribute to GDP. As consumer leverage continues to grow (total household debt to disposable income is at a historically high 142%) for Canada to achieve a sustainable economic recovery the economy needs to transition away from its reliance upon pumped up consumer demand and shift on over to growing business investment and recouping and growing external demand lost to global (primarily US) economic recession. Q4/09 GDP is expected to be reflective of this process towards a re-balancing of economic demand for Canada.
	Industrial Product Price Index M/M – Jan (8:30)	-0.1%	0.5%	1.0%	Minor	▸ CAD was up c1% vs. USD which will apply some downward pressure on producer prices, shaving as much at 0.4%ppt off of the index. In December, the petroleum and coal products category helped to cap upside pressure on prices, in January we expect to see the picture reverse itself with weaker coal prices trumped by stronger pricing metrics for crude oil which will provide for the primary source of pricing pressure. Lumber prices expected to be firmer along with higher prices for pulp. Although we look to paper product prices to have softened. Metal products price are up. Transportation prices are weaker save for the truck category. Capital equipment prices overall, expected to be flat.

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Source: HSBC Canada

Stewart Hall
Economist
HSBC Securities (Canada) Inc
+1 416 868 7523
stewart_hall@hsbc.ca

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Mar 1	Raw Materials Price Index M/M – Jan (8:30)	-1.7%	1.9%	2.5%	Minor	▶ Again, we are expecting the mineral fuels category to provide the push on overall prices. Animal product prices – accounting for 20% of the materials index are also significantly higher. Metals prices are also on the rise following December's declines. On that basis, we are forecasting raw material prices to be up 2.5%m/m.
Mar 2	Bank of Canada Rate Decision (9:00)	0.25	0.25	0.25	Major	▶ The non-decision decision. We are looking for no change in the overnight rate with a post meeting statement crafted in the context of the January Monetary Policy Report. Although we are forecasting the economy to have turned in a 4.1%q/q ann. rate of growth in Q4, well ahead of the BoC's forecast for 3.3%, it is expected that the BoC will stick to the view that the economic recovery is broadly in line with its expectations as they pertain to its inflation forecast. That said, there is however room for the BoC to crowd some added economic optimism into the text of the post meeting statement although this needs to be checked by an economy that is just beginning to transition away from a reliance upon pumped up consumer demand towards a more balance demand profile that would see business and external demand growth taking up the slack. ▶ CAD is expected to have continued to attract ink, although the BoC can draw some comfort from the softer tone on the currency vs. USD, and the comparatively stable profile on the North American dollar pair over the last couple of quarters. Too early yet for the BoC to begin prepping markets for that inevitable move off the monetary sidelines. The tendency of the market to aggressively price any perceived changes in the BoC's monetary stance potentially threatens the Bank's ability to control the monetary story. On that basis, why muddy the waters or confuse the message and risk an unanticipated market response. ▶ Little to fear from inflation at this juncture. Survey data reflects inflation expectations continue to remain anchored around the BoC 2.0% inflation target while measures of capacity utilization suggest that a good slug of excess capacity continues to slosh around in the economy, allaying fears for any near term economic bottlenecks. On that basis, the forward looking language is expected to stick to the BoC's conditional pledge to hold rates at 0.25% through to the end of Q2/10.
Mar 4	Building Permits M/M – Jan (8:30)	2.4%	1.0%	-3.9%	Minor	▶ There is a growing backlog of activity in the residential category. In November, approved housing units jumped 9.7%m/m although starts were down -6.6%m/m. In December, housing starts were flat, while the number of approved units was up by 2.4%m/m. In January, housing starts jumped by 5.8%m/m although given the backlog, this does not necessarily suggest that residential permit approvals have to follow suit. The so too is the builder communities growing project preference to build out multi family dwellings going to have a depressing impact on the dollar value of residential permits. Multi family dwellings tend to come in at lower pricing points than single family homes. Recall that in December, although approvals on a unit basis were up, the dollar value of permits were unchanged (-0.1%), a function of the builder interest having emphasized multi family construction. We are forecasting a decline of -3.0%m/m for the dollar value of residential permits. ▶ A 6.8%m/m rise in non residential permits in December's provided the upside for the number set. However, strong gains in commercial construction intentions pushed permits in the category up to very loft levels. For January, we are looking for non-residential permits to have declined by -5.4%m/m led by a 20% drop in commercial permits that will be partially offset by a near 30% jump in industrial permits and a 21% rise in institutional projects.
	IVEY PMI – Feb (10:00)	50.8		60.0	Med	▶ Historically, February is a strong month for the headline purchaser index as activity moves clear of the holiday interruptions associated with December that can at times bleed into January. This was the case with last month's disappointing 50.8 which was related to extended holiday shutdowns in the auto sector. For the February forecast, we are assuming that the auto sector has returned to operations which will contribute to a reading on the IVEY that is in keeping with the seasonal norms. The forecast for 60.0, although well above January's depressed reading is however well within the seasonal norms for February. ▶ Coming a full week ahead of the Statcan employment report, the market may be inclined to leverage the IVEY employment index for some insight into the jobs report although it typically correlates very badly with actual economic activity.

Source: HSBC Canada

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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