

Canada: Weekly Notes

Key events for the week of June 14 – 18, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Jun 14	New motor vehicle sales M/M – Apr (8:30)	-4.2%		-5.0%	Minor	<ul style="list-style-type: none"> ▶ Preliminary evidence suggests that new vehicle sales on a unit basis pulled back in April, dropping 5.0% following March's 4.2% decline. It is on this preliminary evidence that we are basing our forecast. ▶ The preliminary report provides no breakdown of sales per category class of vehicle. Knowing the sales mix provides some insight into what dollar sales might 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 tend to have a bigger impact on the retail dollar sales than changes in the number of unit sales for passenger vehicles.
Jun 15	Labor productivity Q/Q – Q1 (8:30)	1.4%		1.6%	Med	<ul style="list-style-type: none"> ▶ Working harder or smarter? ▶ The question surrounding the impressive 1.7% q/q pickup in business sector output in Q1/10 is whether it was complemented by an equally impressive pickup in productivity. The average weekly hours data suggest that there was a decline in the number of hours worked, although getting a handle on hours worked has proved rather illusive in the past. At the same time, jobs growth picked up rather impressively, suggesting that total hours worked is slightly higher than in the previous quarter. On that basis, we expect to see productivity grow 1.6% q/q, just slightly back of the increase in business output. ▶ With an aging demographic (as more 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, in our view.
	Manufacturing sales M/M – Apr (8:30)	1.2%		0.8%	Med	<ul style="list-style-type: none"> ▶ At the time of this writing, we have yet to see the April trade numbers, which should provide welcome color in the effort to flesh out the story on manufacturing sales. For our forecast, we are looking for stronger prices and higher demand for petroleum products to have provided significant support to headline sales. Wood and computer products – this is a widely disparate pair of product lines – are also expected to have bounded back. Recall that computers declined 5.3% in March, while persistent demand for wood/lumber has spurred pricing gains. Electrical equipment also contributed positively, along with motor vehicle and parts production. Primary metals and machinery sales should be soft, as evidenced by shipments out of US manufacturers.

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Jun 17	Wholesale sales M/M – Apr (8:30)	1.4%		-0.3%	Med	<ul style="list-style-type: none"> ▶ The Canadian dollar gained 2.8% vs. the USD over the course of the month. Better than one-third of the wholesale activity is cross-border, which implies that US dollar receipts will be reduced when converted back to CAD for reporting purposes. However, while the headline dollar sales may be down, we are looking to see continued growth in sales volumes. Weakness is expected in the machinery category, following last month's 4.9% m/m surge. Metal product sales also should be softer. On the upside, a continued recovery in the motor vehicle sales category, along with stronger apparel sales, are expected. The building materials and supplies segment has been consistently and persistently strong, although we expect to see some moderation in the rate of growth in this category.
Jun 18	Leading indicators M/M – May (8:30)	0.9%		0.5%	Minor	<ul style="list-style-type: none"> ▶ A number of components should tug at the leading indicators index. Our May forecast looks for declines in new orders for durable goods, a fat-finger plunge on the TSE, and weak retail sales for "other durables," as unit auto sales should be down significantly. On the upside, business and personal employment are up, M1 continues to grow, and retail sales in the furniture and appliance category remain strong. ▶ At 0.5%, the LEI in May was well off the pace established over the previous 10 months, which on average has been growing 1.0% m/m. Gone are the sizable increases in the housing index that defined 2009, along with a significant slowdown in the pace of new orders. Lurching equity markets have not helped the outlook on the LEI, either.
	Int'l securities transactions – Apr (8:30)	-CAD0.6bn		CAD5.5bn	Med	<ul style="list-style-type: none"> ▶ A couple of benchmark-strength provincial issues in US dollars were placed in April, along with some decent-sized short-dated US paper coming out of Canadian financials. Together, these issues, which would tend to have been marketed to foreign investors, will have pumped up the net number of bonds in foreign hands, we expect. Absent in April will be the significant drag associated with a heavy calendar of bond retirements and maturities in March, June, September, and December, which tend to drag on the number set. Stocks may have been boosted by a decent performance in the Canadian stock markets, although bonds have been the favored investor conduit through which to express a view on Canada. Foreign investor interest in Canada has accelerated sharply over the past year, jumping from CAD29bn in 2008 to CAD109bn in 2009, with interest primarily executed through bond purchases. Continued downward pressure on Canadian short yields should have prompted significant selling in the front end of the curve, negatively impacting foreign disposition for Canadian money markets.

Source: HSBC Canada

Disclosure appendix

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