

Canada: Weekly Notes

Key events for the week of June 7–11, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Jun 7	Fin. Min. Flaherty and BoC Governor Carney (13:50)					<ul style="list-style-type: none"> Both the finance minister and the Bank of Canada governor will be participating in a panel discussion at the Conference de Montreal along with French central bank governor Noyer.
Jun 8	Housing Starts – May (8:15)	201.7K	205K	192K	Minor	<ul style="list-style-type: none"> The latest data (April) on building permits points to some softening up in the housing starts data. In March, a 46% jump in the number of approved multi family units for construction spawned a 21K jump in multi family starts. In April, an 8.2% decline in approved units for the multi family category is expected to have foreshadowed a return to a level of activity in the condo category in keeping with recent trends. And although the single family unit permits reflected a 6.4% decline in approved units, we expect that a backlog of activity will support some recovery in single family starts in the current month. Recall that March's 2.5% rise in approved single family units corresponded with a near 13% decline in April starts. In terms of the May housing starts number, we are looking to see multi family starts decline from a rather inflated looking 98.6K units, down to a more trend-like 82K. Rural starts are expected to have recovered some ground following a significant decline in April, with starts running at 23K up from 19.2K. Despite the drop off in permits activity, single family starts are expected to see some clawing back of the significant decline in April's activity, with unit starts rising from 83.9K to 87K. The overall picture on housing starts corresponds with the 7.6K jobs that were shed in the construction sector in May.
Jun 10	New Housing Price Index M/M – Apr (8:30)	0.3%	0.3%	0.2%	Minor	<ul style="list-style-type: none"> The onset of the introduction of a harmonized sales tax in July in both the provinces of BC and Ontario is expected to depress prices as builders continue to work the HST into the cost of a new home. In calculating the new home price index, the HST is stripped out. In Ontario, as early as February, builders had begun to include HST in prices. We expect that this process will continue to detract from new home prices in both BC and Ontario over the coming months. Industry data on existing home sales for the month of April showed a decline in activity (unit sales dropped by 2.6%) while at the same time, new listings have been increasing dramatically, favoring a more balanced market. Given both market conditions and the onset of the HST, we are looking for new home prices to rise by a rather moderate 0.2%/m/m or 1.8%/y/y.

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
	Int'l Merchandise Trade – Apr (8:30)	C\$0.3B	C\$0.7B	C\$1.1B	Med	<ul style="list-style-type: none"> ▶ The trade data will provide us with the first real look at how April GDP may be shaping up. In terms of the trade balance, we looked at higher crude prices and an expected pickup in crude volumes to provide a significant boost to the trade surplus. Increased crude volumes are linked to a rise in US refinery capacity related to the run-up in activity geared to building supplies of high grade gasoline in front of the summer driving season. On the downside, poor pricing metrics for natural gas and weaker demand linked to mild temperatures will offset some of the upside linked to crude. Helping to support the outlook for a decent pickup in the trade surplus, China's trade data reflected a large pickup in the appetite for Canadian exports, which jumped by a healthy CAD290m. As an aside, we find it interesting to note that since May 2009, export volumes have risen 15% despite a steady strengthening in the CAD vs USD over the period. ▶ In terms of sustainable economic recovery, it is necessary to see a continued recovery in trade, and on that basis, regardless of the headline trade surplus, we will look for continued growth in trade volumes.
Jun 11	Capacity Utilization Rate – Q1 (8:30)	70.9%	73.1%	73.9%	Med	<ul style="list-style-type: none"> ▶ Industrial production jumped by 2.8%q/q in Q1/10, which we expect will spark a decent pickup in the rate of capacity utilization, lifting the index up to 73.9%. A slight upward revision is expected to lift the Q4/09 reading up to 71.0%. At 73.9%, utilization rates are nicely up off the bottom printed in Q2/09 at 68.5%, but well off the trend-like 85% that prevailed prior to onset of financial and economic crisis. ▶ Activity in energy, mining, utilities and manufacturing were all higher in Q1/10 – significantly so in some cases. There is also the event risk that the still soft picture on capacity utilization is overstated given that some capacity that has been idled by recession should be considered permanently lost (auto sector). So too are the measures on utilization likely slow to remove obsolete capacity given the accelerated pace of technological change that businesses are now operating in. For the forecast, we are assuming that there was a slight reduction in overall capacity.

Source: HSBC Canada

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