14 May 2010

Economics
Canada

HSBC
Global Research

Canada: Weekly Notes

Key events for the week of May 17 - 21 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
May 18	Int'l Securities Transactions – Mar (8:30)	C$6.7B		C$3.5B	Minor	▸ A good slug of corporate money market paper in USDs was floated in March along with a moderate number of USD corporate bonds. A typically heavy coupon and maturity schedule for GoC bonds coincides with March, which will impact bond retirements and by extension, possibly drag on the transactions data. Canadian equity markets rolled along with the other North American indexes on a currency adjusted basis but stocks have not drawn much favour in 2010. On that basis, we think that the dollar value of the March transactions comes of the recent robust pace established over the last 6-months. ▸ Boring is beautiful. Foreign investor interest in Canada has accelerated dramatically over the past year, jumping from CAD29bn in 2008 to CAD109bn in 2009, with interest primarily executed through bond purchases.
May 19	Wholesale Sales M/M – Mar (8:30)	-1.2%	0.4%	0.6%	Med	▸ We are looking for auto sales to have recovered from February's -5.3%m/m decline along with machinery and equipment which also suffered a significant drop of -2.8% in the previous month. Pharmaceutical sales are expected to be moderately stronger. On the downside, the CAD gained 3.6% vs. USD. Better than 1/3 of the wholesale activity is cross border which infers that US dollar receipts will be reduced when converted back to CAD for reporting purposes. We are also looking for some softening in the building supplies category following a steady string of strong growth.
May 20	Leading Indicators M/M – Apr (8:30)	1.0%		0.6%	Minor	▸ Absent are the sizeable increases in the housing index that defined 2009. In its stead, March's 1.0%m/m gain in the LEI was a by product of a 3.2%m/m gain in the new orders category. For the forecast, we are expecting the housing index to have continued to limp along with only marginal gains, while at the same time the new orders category fails to provide the boost seen in March. Rather, there is some potential for new orders to see a moderate decline. Money supply, stocks, business employment, and the US LEI are all expected to make positive contributions to the index, contributing to our forecast for LEI to rise by 0.6%, well back of trend. On average, over the last 9 months, the LEI has been growing by 1.0%m/m.

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Source: HSBC Canada

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
May 21	CPI M/M – Apr (7:00)	0.0%	0.2%	0.1%	Major	▸ Gasoline prices, which have been problematic in the past, are expected to be relatively benign in April. Although we are expecting mortgage interest costs to come to the fore as 5-year fixed rate mortgages jumped from 5.25% in March to 6.25% in April at the same time that Canadians flocked to move from variable rate mortgages on over to fixed rate product. Food prices continue to march higher adding 0.05ppt onto the headline CPI. On the down side, auto prices are expected to have fallen again, knocking nearly 0.1ppt out of the index. Recall that the arrival of dollar parity in North America coincided with a number of rebate schemes aimed at keeping Canadians kicking the tires domestically rather than looking across the border for deals. Recreational prices are expected to be unchanged following a significant decline in March that unwound a good slug of the upside on prices afforded by the Olympics. Apparel prices expected to drop following March's seasonal surge, lopping another 0.1ppt off the index. Core is expected to be flat, once the impact of higher mortgage rates is removed.
	CPI Y/Y – Apr (7:00)	1.4%	1.7%	1.6%	Major	▸ On a year over year basis, gasoline prices are still exhibiting a strong influence over consumer prices, having risen by over 16%y/y and contributing 0.6ppt to the headline reading. To wit, as of March, energy prices are running at 5.8%y/y while goods prices are trundling along at a rather modest 1.3%y/y. Removing the impact of energy, the CPI is up just 1.0%y/y. And our tendency is to look beyond the current report ahead into the May and June CPI reports, where one can expect to see a significant negative base effect come into play. For illustration purposes, assuming no change in prices, CPI will plunge from our April forecast for 1.6%y/y to 0.9%y/y in May and 0.5%y/y in June. ▸ Monetary policy isn't about what prices were doing in April 2010, but what are the expectations for prices in April 2011? On that basis, policy is more about what the BoC assumptions are as they pertain to output gaps and capacity utilization, along with the flavoring afforded by changes in inflationary expectations. In that vein, with the output gap closing rapidly, (BoC advanced its expectations for its closing by a full quarter) and inflation expectations in the BoC business outlook survey drifting/shifting upwards (although we felt the expectations was a bit of a red herring - more about rising gasoline prices at the time than necessarily indicative of broader inflation expectations), the BoC is likely focusing its efforts on these factors rather than the historical look back on prices afforded by today's CPI. So too do we suspect that the BoC may harbor some concerns for a consumer who has gorged on debt courtesy of a rate policy that drove the cost of money down to historically low levels. ▸ Regardless of the policy drivers, the BoC has seen fit to telegraph the message that it is time for the BoC to begin moving away from a rate policy which was brought to bear at a time of great uncertainty, massive market dislocation and economic recession that seemed doomed to turn into economic depression. Our forecasts for rate policy look for the Bank of Canada to hike rates by 25bps at its 1 June policy meeting.
	Core CPI M/M – Apr (7:00)	-0.2%	0.1%	0.0%	Major	▸ The core is not immune to the base effects either. Assuming no change in month over month prices, the year over year core CPI rate for May and June would drop back to 1.1%y/y. While the CPI dissected of its energy component seems to pose little challenges to the current BoC rate regime, it is worth remembering that CPI is a historical look back on prices while inflation is a forward fought battle.
	Core CPI Y/Y – Apr (7:00)	1.7%	1.8%	1.6%	Major	▸ The core is not immune from the base effects that will pull at the headline CPI. For illustration purposes, assuming no change in month over month prices, the year over year core CPI rate for May and June would drop back to 1.1%y/y.
	Retail Sales M/M – Mar (8:30)	0.5%	0.0%	0.3%	Major	▸ Where auto sales boosted overall retail receipts in February, we expect that a decline of -4.2% for unit vehicle sales in March will have acted as a significant drag on headline sales. Outside of autos, gasoline station sales will provide the primary upside for the report given gasoline prices were up 3.7%m/m. Other categories experiencing growth, building materials and garden centres (a warm March is expected to have encouraged early sales in the seasonal categories). On the down side, clothing sales are expected to be weaker following the surge in activity around the Olympics. Home furnishing sales are expected to have declined as the category continues to smooth out the 15%m/m jump in January sales that coincided with Canadian's setting up their living rooms for the Olympics.
	Retail Sales X-autos M/M – Mar (8:30)	-0.1%	0.4%	0.6%	Major	▸ Sales x-autos, x-gasoline are down a little less than -0.1%

Source: HSBC Canada

Disclosure appendix

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