Weekly Commentary – April 17, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
April 18	Manufacturing Production Y/Y	March 17	0.8%	1.3%
April 18	Building Permits	March 17	1.223 M	1.216 M
April 20	Philadelphia Fed Manufacturing Index	April 17	23.7	32.8
April 21	Markit Manufacturing PMI Flash	April 17	53.7	53.3
Canada				
April 18	Foreign Securities Purchases	February 17	$10.1B	$6.2B
April 21	Inflation Rate	March 17	0.11%	0.20%

Key Earnings:
April 17: Ezra Holdings Ltd., Netflix Inc., Pinnacle Financial Partners Inc., Rogers Communications Inc.
April 18: Bank of America Corp., Goldman Sachs Group Inc., Johnson & Johnson, Progressive Corp.
April 19: American Express Co., Canadian Pacific Railway Ltd., Steel Dynamics Inc., U.S. Bancorp.
April 20: Citizens Holding Co., IMAX Corp., Matell Inc., PPG Industries Inc., Tecon Biology Co. Ltd., Visa Inc.
April 21: General Electric Co., Morningstar Inc., NextEra Energy Inc., Pacific Securities Co. Ltd.

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada revises forecast

At its latest monetary policy announcement window, the Bank of Canada held rates steady at the same level established in July 2015. The press release that accompanied the statement highlighted the surprising strength in the Canadian economy of late, specifically stating that "recent data indicates that economic growth has been faster than was expected in the January Monetary Policy Report." Indeed the update to this report reveals material upgrades to the forecast for domestic economic growth. GDP for 2016 was revised to 1.4% (up from the January estimate of 1.3%) while growth for 2017 is now expected to be 2.6% (up from 2.1%). Still, the central bank underscored one of the key differences between Canada and the U.S. It stated that "the U.S. is close to full employment" but that "material slack remains" in the domestic labour market. With respect to interest rates, it appears that some thoughts of a possible rate cut have now faded into the background, yet it appears too early for the markets to be factoring in a rate hike.

U.S. producer prices ease off

For the first time in seven months producer prices declined as the U.S. Bureau of Labor Statistics reported a 0.1% (seasonally adjusted) drop in its Producer Price Index – Final Demand. Declines in services prices were responsible for three-quarters of the monthly move. However, on a year-over-year basis, the broader index is now up 2.3%, the fastest annual pace since March 2012. Even though this measure is not the Federal Reserve's bogey for inflation, it has risen steadily since it exited negative territory in March 2016. Further, analysts expect that Saudi Arabia's plan to extend the production cuts announced in November for another six months, will maintain some upward pressure on energy prices.

China's trade returns to surplus as exports bounce back

After February saw the first trade deficit (US$ 9.2 billion) since early 2014, China rebounded to a trade surplus of US$23.9 billion in March, doubling the market's expectations. Exports grew 16.4% from a year earlier and while imports also reported a significant gain (20.3%), it was actually down from the 38.1% surge seen in February. Economists, however, questioned whether the strong March figures are sustainable as the nation's neighbouring economies, such as Taiwan and South Korea, are also performing well in terms of exports in recent months. Meanwhile, China's trade surplus with its main export partner, the United States, grew to US$17.74. These results came at a sensitive time as U.S. President Donald Trump, and his Chinese counterpart, Xi Jinping, have now agreed to a "100-day plan" for trade, intended to boost U.S. exports and reduce China's trade surplus with the U.S. Given the highly charged political environment, the actual results remain to be seen.

Longer View

Following several years of a general expansion in the price-earnings ratio of equities, we believe returns from this asset class will moderate somewhat and become more closely tied to the rate of growth in company earnings. With equity market volatility increasing to at least the normal range, it's important to keep in mind that equities are best suited for long-term investing, and that the allocation in your portfolio should reflect your investment horizon and risk tolerance. Fixed-income investments, while generally providing limited income in today's low interest rate world, are an effective diversifier in a portfolio. When there is extreme pessimism in the equity market, fixed-income tends to outperform. There is no one asset class that looks better than others, in our view, as their current valuations accurately reflect their potential and risk. Talk to your professional advisor to ensure your portfolio is optimized and continues to meet your needs.

Weekly Summary

April 10

▲ Canada Mortgage and Housing Corporation announced that housing starts totalled 253,720 units (seasonally adjusted annual rate) in March. This is the highest level since September 2007 and is well above the upwardly revised 214,253-unit level in February (originally reported as 210,207). Both multiple and single-detached urban starts were sharply higher in the latest report. These results are stronger than market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

April 11

▲ The Centre for European Economic Research's ZEW Indicator of Economic Sentiment for Germany strengthened to 19.5 in April 2017, up 6.7 points from 12.8 in the previous month. It is the highest reading since August 2015. The index was highlighted by the solid figures for growth in industrial production, the construction sector and retail sales from February. Meanwhile, private consumption has been boosted by consistently high demand for labour. Most of the analysts surveyed struck an optimistic tone as 27% anticipate a pickup in economic activity in the coming six months and 65.5% expect the economy to remain unchanged. In addition, the Current Conditions Index rose 2.8 points to 80.1 in April, the highest level since July 2011. The results are well above market expectations, indicating the German economy has remained fairly robust in the first quarter.

April 12

■ The Bank of Canada announced that it was maintaining the target for its key overnight interest rate at 0.50%. The bank rate was correspondingly left unchanged at 0.75% and the deposit rate at 0.25%. The central bank highlighted that despite the fact that the U.S. is nearing full employment, significant slack remains in the domestic labour market. However, the bank did upgrade its domestic GDP forecast going out the next three years. The "no-change" policy results (with respect to interest rates) are in line with consensus expectations. Canadian monetary policy, as decided by the Bank of Canada, has significant influence on both the domestic economy and the value of the currency.

April 13

▼ The U.S. Department of Labor announced that initial jobless claims totalled 234,000 (seasonally adjusted) in the week ending April 8, a decrease of 1,000 from the previous week's revised level. The previous week's level was revised up by 1,000 to 235,000. The four-week moving average was 247,250, a decrease of 3,000 from the previous week's revised average. The previous week's average was revised up by 250 to 250,250. These results are marginally stronger than consensus estimates.

▼ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) declined 0.1% (seasonally adjusted) in March. The index increased 2.3% for the 12 months ending March 2017, the largest increase since moving up 2.4% for the 12 months ending March 2012. These figures are just below consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.4% in February. Ontario accounted for the majority of the gain, as new house prices increased in all 10 of its surveyed metropolitan areas. On a year-over-year basis, the overall index is up 3.4%. These results are above expectations and suggest continued gains in net worth for homeowners.

▼ Statistics Canada also reported that manufacturing sales edged 0.2% lower in February, following three consecutive monthly increases. Despite the decline, sales on a year-over-year basis are now up 6.8%. As the market was braced for a larger monthly decline, this report is actually stronger than consensus estimates. This data is closely watched as manufacturing can create high-value employment and it has been one of the slowest sectors to recover from the recession.

▲ According to China's General Administration of Customs, the nation logged a trade surplus of US$23.9 billion in March 2017, bouncing back sharply from the $9.15 billion trade deficit posted in February. Exports were helped by strong global demand with shipments increased 16.4% (year-on-year) in March, reversing a 1.3% decline in February. Meanwhile imports rose 20.3% compared with February's 38.1% increase. The customs data also showed that China's trade surplus with the United States rose to US$17.74 in March from US$10.42 in February. As Trump and Xi have now agreed to a "100-day action plan" on trade, the resultant China-U.S. trade balance remains uncertain. China's overall trade surplus is more than double of the expected figure.

▲ The Thomson Reuters/University of Michigan index of consumer sentiment rose to 98.0 in the mid-month reading for April. This is stronger than the 96.9 level recorded for March and is the best reading since January. This result is stronger than market expectations. This is another indicator of the likely pattern of consumer spending.