Weekly Commentary – December 11, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
December 12	PPI Y/Y	November 17	2.2%	2.8%
December 13	Inflation Rate	November 17	0.2%	0.1%
December 14	Retail Sales	November 17	0.32%	0.20%
December 15	Industrial Production	November 17	0.27%	0.90%

Key Earnings:
December 11: Investors Real Estate Trust, Panhandle Oil and Gas Inc., Value Line Inc.
December 12: Civitas Solutions Inc., Daily Journal Corp., Verifone Systems Inc.
December 13: ABM Industries Inc., Oracle Corp., Progressive Corp., Scholastic Corp.
December 14: Adobe Systems Inc., Costco Wholesale Corp., NQ Mobile Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada holds steady

Despite evidence of a strengthening labour market and higher than expected inflationary pressures, the Bank of Canada decided to leave administered interest rates unchanged at the conclusion of its latest policy deliberations. While the press release that accompanied the announcement did acknowledge both higher inflation and the "diminishing" slack in the labour market, it also pointed out temporary factors that had influenced the data and that "considerable uncertainty, notably about geopolitical developments and trade policies" remained. Analysts suggest that interest rates will remain stable through the first quarter of next year. The bank is scheduled to provide its next policy announcement on January 17, 2018, and will provide its updated economic forecast at that time.

U.S. labour market continues to roll

The U.S. Bureau of Labor Statistics announced a 228,000 gain in non-farm payrolls during November. The advance came on the back of a downwardly revised 244,000 increase in October. Despite the revision, the latest report capped the best back-to-back monthly gains since June and July of 2016. The updated information also provides a clearer picture of the U.S. job market in the wake of hurricanes Harvey and Irma. The unemployment rate was steady at the seventeen-year low of 4.1%. However, average hourly earnings growth was reported at a relatively modest 2.5% (year-over-year), suggesting that slack remains within the job market despite the steady growth in employment and the low unemployment rate.

Australian GDP figures raise doubts on forecast

The latest figures from the Australian Bureau of Statistics revealed a 0.6% (quarter-over-quarter) growth pace for overall GDP during the third quarter of 2017. Coupled with upward revisions to prior data, the year-over-year growth rate came in at 2.8%, much faster than the prior quarter's 1.9% pace and the strongest yearly figure since the second quarter of 2016. Nevertheless, the underlying data raises some questions with respect to the sustainability of this growth. Household consumption expanded only 0.1%, its lowest level in almost a decade. The weak consumer activity was made more surprising by the apparent strength of the Australian labour market. The bureau reported that household disposable income rose 0.5% and compensation per employee rose 0.3%. The soft consumer activity raises some doubts that the Reserve Bank of Australia's 3% GDP target for 2018 will be achieved.

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

December 5

▼ Statistics Canada announced that Canada's merchandise trade deficit with the world totalled $1.5 billion in October, narrowing from a $3.4 billion deficit in September. Exports were up 2.7% on higher exports to the United States, while imports decreased 1.6% on lower imports of motor vehicles and parts. With the market looking for only a minor improvement in the October deficit, these results are stronger than expected. They suggest that trade will be a smaller drag on overall GDP growth.

▲ The U.S. Census Bureau reported that the country's international trade deficit in goods and services was $48.7 billion in October, up $3.8 billion from September's revised $44.9 billion. October exports were $195.9 billion, down less than $0.1 billion from September exports. October imports were $244.6 billion, $3.8 billion more than September imports. The trade deficit was larger than expected and the weaker results will soften overall GDP growth.

▼ The U.S. Institute for Supply Management announced that its Non-Manufacturing Index recorded a 57.4 reading in November. It was down 2.7 points from the 60.1 level registered in October, but remained well above the key 50.0 (generally expanding) level for a 95th consecutive month. This figure is below consensus expectations for a smaller decline. This result indicates continued growth, but at a slightly slower rate in the non-manufacturing sector.

December 6

▲ According to the U.S. Bureau of Labor Statistics, non-farm labour productivity increased at a 3% (annualized) rate during the third quarter of 2017, while unit labour costs fell 0.2% on the same basis. These figures are broadly in line with market expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

▼ Statistics Canada reported that labour productivity of Canadian businesses tumbled 0.6% (quarter-over-quarter) in the third quarter of 2017, after edging down 0.2% in the second quarter and posting a 1.3% increase in the first quarter. This was the largest decrease since the second quarter of 2015 (-1.2%). On a year-over-year basis, productivity growth slipped to 0.8% from 2.7% in the second quarter. These results are weaker than market expectations.

■ The Bank of Canada announced once again that it was maintaining the target for its key overnight interest rate at 1%. The bank rate was correspondingly left at 1.25% and the deposit rate at 0.75%. The press release that accompanied the announcement highlighted evidence that slack within the labour market was diminishing and inflation had been somewhat above expectations. However, it also referenced recent weakness in international trade. The on-hold policy decision matched market expectations. The next policy announcement is scheduled for January 17. Canadian monetary policy, as decided by the Bank of Canada, has significant influence on both the domestic economy and the value of the currency.

▲ The Australian Bureau of Statistics announced that the economy expanded 0.6% (quarter-over-quarter) in the third quarter of 2017, following an upwardly revised 0.9% growth in the prior quarter. Positive contributions came from non-dwelling construction and changes in inventories. However, weaker domestic demand and foreign trade held back overall growth. On a year-over-year basis, the economy grew 2.8%. This is much faster than the 1.9% expansion in the prior quarter and is the strongest yearly figure since the second quarter of 2016. With the upward revisions, these results are largely in line with market expectations.

December 7

▼ The U.S. Department of Labor announced that initial jobless claims totalled 236,000 (seasonally adjusted) in the week ending December 2, a decrease of 2,000 from the previous week's unrevised level of 238,000. The four-week moving average was 241,500, a decrease of 750 from the previous week's unrevised average of 242,250. These results are in line with consensus estimates.

▲ Statistics Canada reported that building permits issued by Canadian municipalities rose 3.5% to $8.2 billion in October, a second consecutive monthly gain. All building components increased with the exception of the institutional component, which declined 14.3%, offsetting much of the gain from the previous month. On a year-over-year basis, permits are up 1%. These results are stronger than consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

December 8

■ The U.S. Bureau of Labor Statistics reported that the unemployment rate was unchanged at 4.1% in November, and non-farm payroll employment rose by 228,000. Employment continued to trend up in professional and business services, manufacturing, and health care. With a mild downward revision to the previous payrolls result, the overall data are broadly in line with expectations. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

▲ The Canada Mortgage and Housing Corporation announced that housing starts totalled 252,184 units (seasonally adjusted annual rate) in November. This is up from the 222,695-unit level in October (originally reported as 222,771) and is the strongest recording since the end of the 2008-09 financial crisis. The gain in housing starts was due to an increase in both single-detached urban and multiple urban starts. These results are well above market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada reported that Canadian industries operated at 85% of their production capacity in the third quarter, up from 84.3% in the previous quarter. This was the fifth consecutive quarterly increase. The result is in line with expectations and does not suggest that the economy is running into any capacity constraint that could be inflationary.