# Weekly Commentary – December 4, 2017

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## Economic Calendar

| Date | Release | Period | Consensus | Previous |
|---|---|---|---|---|
| **U.S.** | | | | |
| December 4 | ISM New York Index | November 17 | 54.0 | 51.6 |
| December 4 | Factory Orders | October 17 | -0.7% | 1.4% |
| December 5 | Markit Composite PMI Final | November 17 | 54.6 | 55.2 |
| December 8 | NFIB Business Optimism Index | November 17 | 105.9 | 103.8 |
| December 8 | Wholesale Inventories | October 17 | -0.4% | 0.1% |
| **Canada** | | | | |
| December 7 | Ivey PMI s.a. | November 17 | 57.4 | 63.8 |
| December 8 | Housing Starts | November 17 | 214.7 k | 222.8 k |

**Key Earnings:**
December 4: Coupa Software Inc., DAVIDsTEA Inc., Powell Industries Inc.
December 5: Costco Wholesale Corp., Oxford Industries Inc., Veeva Systems Inc.
December 6: H&R Block Inc., Mitcham Industries Inc., OncoSec Medical Inc.
December 7: Dell Technologies Inc., Finisar Corp., Medley Capital Corp.
December 8: Johnson Outdoors Inc.

Source: Trading Economics, Yahoo Finance

## Market Focus

### Canadian job market extends gains

Statistics Canada reported a surprise 79,500 surge in employment during November, the largest single-month gain since April 2012. The November advance capped the best twelve-month gain (390,000) in a decade and year-over-year growth stands at 2.1%, with all of the advance attributable to full-time work (+441,400 or +3%). The move higher was led by a 1% increase in employment in goods-producing industries, which established a new high-water mark for the first time in five years. Manufacturing (+1.7%) and construction (+1.1%) led the way. Still, gains were not confined to the goods sector as services (+0.3%) also expanded during the month. Not surprisingly, with the labour force posting a very small increase (<0.1%), the unemployment rate dropped from 6.3% to 5.9%, its lowest level since February 2008 (also 5.9%). Despite the signs of slowing economic growth in the third quarter, the strength of the labour market points to a likely rebound in the final quarter of 2017.

### U.S. growth revised to three-year high

Updated GDP figures from the U.S. Bureau of Economic Analysis showed that the economy grew 3.3% (annualized) in the third quarter of 2017. This was up from the first estimate of 3% (on the same basis) and the 3.1% recorded in the second quarter. In fact, it is the strongest single-quarter growth rate since the third quarter of 2014 (5.2%), and came despite the havoc caused by hurricanes Harvey and Irma. With rebuilding and purchases of new autos continuing into the final quarter of the year, at least some momentum remains. Additionally, some balancing was seen within the report as strengthening business investment made up for a moderation in consumer activity. It remains to be seen if this pace of growth is deemed sufficient for the Federal Reserve to raise interest rates again at its next meeting, scheduled for December 12 and 13.

### Indian economy surges ahead

Following five consecutive quarters of deceleration, India's Ministry of Statistics and Programme Implementation announced that overall GDP growth moved to a 6.3% pace (year-over-year) during the third quarter of 2017. The improvement in growth comes on the heels of a 5.7% (on the same basis) growth rate in the second quarter, which was the weakest since a 4.6% figure was recorded during the fourth quarter of 2014. The country has seen some economic challenges of late, with both the 500 and 1,000 rupee notes removed from circulation, and the introduction of the goods and services tax (GST). However, the recent upgrade of its sovereign debt by Moody's was the first in 14 years. In addition, Finance Minister Arun Jaitley stated that the growth in fixed capital formation would produce further benefits going forward.

## 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

### November 27

▲ The U.S. Census Bureau announced that new-home sales totalled 685,000 units (seasonally adjusted annual rate) in October 2017. This is 6.2% above the revised September rate of 645,000 units and 18.7% above the October 2016 level of 577,000 units. These results are stronger than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

### November 28

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) climbed 1% and its Raw Materials Price Index (RMPI) jumped 3.8% during October. On a year-over-year basis, the indexes are up 1.8% and 6.6%, respectively. Higher prices for motor vehicles led the IPPI during the month, while energy products were the biggest driver for the RMPI in October. These figures are both above expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ The U.S. Conference Board announced that its Consumer Confidence Index gained again in November from October's upwardly revised level. The index stands at 129.5, up from 126.2 in October (previously reported as 125.9). The Present Situation Index increased from 152.0 to 153.9, while the Expectations Index rose from 109.0 last month to 113.3. The overall index is at a new 17-year high (November 2000, 132.6). With the upward revisions, these results are stronger than market expectations. Consumer confidence is an indicator of spending patterns.

### November 29

▲ The U.S. Bureau of Economic Analysis announced that real GDP grew at an annual rate of 3.3% in the third quarter of 2017. This figure is the "second estimate" and the original growth estimate was 3%. In the second quarter of 2017, real GDP increased 3.1% on the same basis. Non-residential fixed investment, state and local government spending, and private inventory investment were all revised up from the prior estimate. These results matched expectations as the market was looking for an upward revision of this size. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

### November 30

▲ After slipping for five consecutive quarters, India's economy expanded 6.3% (year-over-year) in the third quarter. This is significantly stronger than the 5.7% GDP growth pace (on the same basis) seen in the second quarter, which was the softest in nearly three years. Investment and inventories growth rebounded, offsetting a slowdown in both private and public spending. Despite the rebound, these results are marginally weaker than consensus expectations.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 238,000 (seasonally adjusted) in the week ending November 25, a decrease of 2,000 from the previous week's revised level. The previous week's level was revised up by 1,000 from 239,000 to 240,000. The four-week moving average was 242,250, an increase of 2,250 from the previous week's revised average. The previous week's average was revised up by 250 from 239,750 to 240,000. These results are in line with consensus estimates.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.4% in October and personal consumption expenditures (PCE) increased 0.3%. Based on revised figures, personal income increased 0.4% and PCE increased 0.9% in September. While income figures for October were above expectations, spending results were in line with expectations. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▲ Statistics Canada reported that Canada's overall current account deficit widened by $3.8 billion in the third quarter to $19.3 billion (on a seasonally adjusted basis), as the deficit on international trade in goods expanded for the third quarter in a row. These results largely match market expectations. Current account deficits must be funded by borrowing from foreign lenders.

▼ The U.S. Institute for Supply Management reported that its Chicago Purchasing Managers Index dropped to a 63.9 level in November. This is down from October's 66.2 reading, but remains well above the key 50.0 (generally expanding) level. As the market was anticipating a larger moderation, the reading is above consensus expectations and indicates a mild deceleration in manufacturing activity within the region.

**December 1**

▲ Statistics Canada announced that 79,500 jobs were added in November and the unemployment rate fell by 0.4 percentage points to 5.9%, the lowest rate since February 2008. This decline came as the labour force was virtually unchanged during the month. In line with the recent gains, employment was up 2.1% (+390,000) from 12 months earlier, with all of the advance attributable to full-time work (+441,000 or +3%). These results are far stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

▲ Statistics Canada announced that real GDP advanced 1.7% (on an annualized basis) in the third quarter of 2017, after gaining a downwardly revised 4.3% in the second quarter (originally reported as 4.5%). Weakening trade results were the greatest contributor to the overall decline in the GDP growth pace during the quarter. On a monthly basis, real GDP by industry increased 0.2% in September after contracting 0.1% in August. A dramatic slowdown in the pace of economic growth had been widely anticipated in the third quarter and this data is in line with market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ The U.S. Institute for Supply Management reported that its Purchasing Managers Index edged lower to a 58.2 reading in November. This is a 0.5-point loss from October's 58.7 figure, but remains above the key 50.0 (generally expanding) level for a 15th consecutive month. The reading is marginally lower than expectations and indicates a slight deceleration in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 1.4% in October, following a 0.3% advance in September. On a year-over-year basis, construction spending was up 2.9. The monthly growth figure is well above consensus estimates. This result indicates continued gains in the construction sector.