Weekly Commentary – January 23, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 24	Existing Home Sales	December 16	5.60 M	5.61 M
January 26	Wholesale Inventories Adv.	December 16	0.2%	1.0%
January 27	Durable Goods Orders	December 16	1.40%	-4.6%
January 27	Personal Spending	December 16	0.49%	0.20%
Canada				
January 27	Budget Balance	November 16	-$1.3 B	-$1.5 B

Key Earnings:
January 23: HomeStreet Inc., Mercury Systems Inc., Chemical Financial Corp., ResMed Inc., Sierra Bancorp.
January 24: First National Corp., Ascott Residence Trust, Samsung Electronics Co. Ltd., Trustmark Corp.
January 25: Vertex Pharmaceuticals Inc., State Street Corp., NovaGold Resources Inc., Kia Motors Corp.
January 26: Juniper Networks Inc., Caterpillar Inc., Regis Corp., Praxair Inc., Computer Programs and Systems Inc.
January 27: American Airlines Group Inc., NextEra Energy Inc., Siemens Ltd., Whirlpool Corp., Gentex Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada adopts wait and see posture

To the surprise of no one, the Bank of Canada held administered interest rates steady at its latest announcement window. However, the January Monetary Policy Report, which accompanied the rate decision, was clear in that U.S. trade policy will be closely monitored. It stated that "prospective protectionist trade measures in the United States would have material consequences for Canadian investment and exports." At the same time, the central bank made no effort to forecast their possible impact. In fact, domestic GDP growth for 2017 is now expected to come in at 2.1%, up marginally from October's anticipated 2.0%. The bank also expressed broader concerns for trade in a global context, stating that "the process of globalization – and notably the development of global value chains, which has underpinned world growth in recent decades – could go into reverse."

U.S. inflation edges higher

Updated figures from the U.S. Bureau of Labor Statistics revealed a 0.3% (seasonally adjusted) increase in the consumer price index during December. While the monthly gain is far from alarming, the year-over-year pace of CPI growth rose to 2.1%, the fastest rate since June, 2014. The acceleration at the end of the year left the annual pace of inflation for 2016 as a whole at an identical 2.1%, the highest in five years. The rhetoric heard during most of the presidential race pointed to a high probability of increased inflation. With the U.S. presidential inauguration now relegated to the history books, speculation on the implications of the new administration's policies will eventually be replaced by a better understanding of the actual risks.

Chinese growth hits target

The National Bureau of Statistics announced that China's economy grew by 6.8% in the fourth quarter of 2016, a modest improvement from the 6.7% figure recorded in the previous three quarters. For the year, GDP expanded at a 6.7% rate, down from 6.9% in 2015. This is the slowest full-year growth figure since 1990, but stands in the middle of Beijing's target range of 6.5% to 7.0%. Consumer spending was a significant driver, as personal consumption accounted for 64.6% of overall GDP in 2016. Meanwhile, per capita consumption rose 8.9%. Robust monetary and fiscal stimulus also contributed significantly to economic growth. While analysts continue to question the extraordinary consistency between official government forecasts and actual results, the latest GDP figures dispel lingering concerns over a much steeper deceleration in the Chinese economy.

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

January 18

▲ The U.S. Bureau of Labor Statistics reported that the consumer price index increased 0.3% (seasonally adjusted basis) in December. Over the last 12 months, the index increased 2.1%. These results matched consensus estimates. These figures show a modest increase in inflationary pressures into the 2.0% range. These results are unlikely to alter the U.S. Federal Reserve's current policy path.

■ 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 also specifically cited the uncertain global outlook, particularly with respect to policies in the U.S. 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.

▲ The U.S. Federal Reserve announced that industrial production expanded 0.8% in December after declining 0.7% in November (originally reported as a 0.4% decline). On a year-over-year basis, industrial production was reported to have gained 0.5%. Capacity utilization for total industry rose to 75.5% from 74.9% in November and 75.4% a year earlier. Given the scale of the revisions, these monthly results are in line with expectations. The improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

January 19

▲ The Australian Bureau of Statistics announced that total employment climbed by 13,500 (seasonally adjusted) in December. Employment has now grown for three consecutive months. However, it was not enough to offset a gain in the labour force, which boosted the participation rate to 64.7% (from 64.6%) and lifted the unemployment rate higher to 5.8% in December (from 5.7%), the highest level since January of 2016. Despite the increase in the unemployment rate, the overall report was stronger than expected.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 234,000 (seasonally adjusted) in the week ending January 14, a decrease of 15,000 from the previous week's revised level. The previous week's level was revised up by 2,000 to 249,000. The four-week moving average was 246,750, a decrease of 10,250 from the previous week's revised average. This is the lowest level for this average since November 3, 1973 when it was 244,000. The previous week's average was revised up by 500 to 257,000. These results are stronger than consensus estimates.

▲ The U.S. Census Bureau announced that housing starts in December were at a seasonally adjusted annual rate of 1,226,000. This is 11.1% above the upwardly revised November estimate of 1,102,000, and is 5.7% above the December 2015 rate of 1,160,000. At the same time, the number of building permits issued in December was at a seasonally adjusted annual rate of 1,210,000. This is 0.2% below the upwardly revised November rate of 1,212,000 but is 0.7% above the December 2015 figure of 1,201,000. These figures are considerably stronger than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The U.S. Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in January and at a more robust pace. The Philly Fed general business conditions index rose to 23.6 from a downwardly revised 19.7 in December. These results are above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▲ Statistics Canada announced that foreign investors acquired $7.2 billion of Canadian securities in November, following a dramatic $15.8 billion acquisition during the previous month. Canadian investors reduced their holdings of foreign securities by $7.9 billion in November, largely through sales of U.S. instruments. The foreign acquisition of Canadian securities was below expectations. Foreign investment flows can significantly influence the relative strength of the Canadian dollar.

▲ Statistics Canada also reported that manufacturing sales rose 1.5% in November to $51.8 billion, following a 0.6% decline in October. The increase was mainly the result of higher sales in the primary metal, petroleum and coal product, and chemical manufacturing industries. On a year-over-year basis, manufacturing sales rose 2.1%. The monthly gain is stronger than market consensus. This data is closely watched as it can create high-value employment and it was one of the hardest-hit sectors during the recession.

January 20

▲ According to the National Bureau of Statistics, China's economy grew 6.8% in the fourth quarter of 2016, slightly higher than the 6.7% increase in the previous three quarters and market expectations of 6.7%. The full-year GDP expanded 6.7%, down from 6.9% in 2015. It was the slowest full-year growth figure since 1990 but comfortably sat right in the middle of Beijing's target range of 6.5% - 7%. The results showed a consistent growth of China's economy.

▲ Statistics Canada reported that consumer prices rose 0.3% (seasonally adjusted monthly basis) in December. The transportation index (+1.5%) posted the largest gain while the alcoholic beverages and tobacco products index recorded the only decline (0.1%). On a year-over-year basis, overall CPI was up 1.5%, following a 1.2% gain in November. The three new inflation measures used by the Bank of Canada were stable. CPI-common rose to 1.4% from 1.3% while both the CPI-median (2.0%) and CPI-trim (1.6%) were unchanged (all year-over-year). These figures are broadly in line with expectations, and are consistent with the Bank of Canada's forecast for subdued inflation.

▲ Statistics Canada also announced that retail sales rose for the fourth consecutive month, edging up 0.2% to $45.2 billion in November. Higher sales at motor vehicle and parts dealers and building material and garden equipment and supplies dealers were the main contributors to the gains. These results are somewhat weaker than consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.