Weekly Commentary – January 8, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 9	NFIB Business Optimism Index	December 17	107.02	107.50
January 10	Wholesale Inventories	November 17	0.7%	-0.4%
January 11	PPI Y/Y	December 17	3.18%	3.10%
January 12	Inflation Rate Y/Y	December 17	2.3%	2.2%
January 12	Retail Sales Y/Y	December 17	5.56%	5.80%
Canada				
January 9	Housing Starts	December 17	238.5 k	252.0 k

Key Earnings:
January 8: A. Schulman Inc., Barracuda Networks Inc., Long Blockchain Corp., TSR Inc.
January 9: Acuity Brands Inc., Schnitzer Steel Industries Inc., SYNNEX Corp., WD-40 Co.
January 10: Delta Air Lines Inc., Lennar Corp., Skyline Corp., Taylor Devices Inc.
January 11: Bank of America Corp., First Horizon National Corp., FuelCell Energy Inc.
January 12: JPMorgan Chase & Co., PNC Financial Services Group Inc., Wells Fargo & Co.

Source: Trading Economics, Yahoo Finance

Market Focus

Employment numbers surprise

The Canadian and U.S. job markets have experienced different results for several years and the most recent data is no different. Updated figures for Canada show a strong close to 2017 with 78,600 jobs added during the month and a drop in the unemployment rate to 5.7%, the lowest reading since consistent data was first collected in 1976. The strong finish to 2017 yielded a 12-month total of 422,500 new jobs, the best calendar year since 2002. Conversely, U.S. non-farm payrolls increased by 148,000 in December, well below the gains seen in the previous two months. In addition, the retail sector lost 20,000 jobs during the month despite the holiday shopping season, reflecting the ongoing struggle faced by traditional retailers as consumers turn to online retailers. Even though the data suggests that the U.S. labour market is stronger than Canada's, the 2.1 million jobs added in the U.S. in 2017 is the smallest calendar-year gain since 2010.

Trade deficits rise

For first time since January 2012, the U.S. reported a monthly trade deficit that topped the US$50 billion mark. The November 2017 figures revealed an international trade deficit of US$50.5 billion, up from $48.9 billion in October. The politically sensitive U.S.-China trade deficit rose 0.6% to $35.4 billion in November. Domestically, Statistics Canada announced the merchandise trade deficit grew to CAD$2.5 billion in November from October's $1.6 billion level. Interestingly, Canada's trade surplus with the U.S. decreased from $3.5 billion in October to $3.3 billion in November on the back of a 6.5% increase in imports from the U.S. This occurred despite the fact that the Canadian dollar lost one U.S. cent relative to the American dollar during the month. The widening deficits in both countries will weigh down the fourth quarter GDP growth results.

German retail sales jump in November

Germany's statistics gathering agency reported that retail sales experienced a dramatic 2.3% jump in November, following a 1.0% decrease in October. The November gain was the strongest single-month advance of the year and propelled year-over-year sales to a 4.4% growth rate from the 0.9% increase seen during the prior month. This advance is partially a gift of holiday effects, as there was one more shopping day in November 2017 compared with 2016. Still, the November figures show the rebound of overall German consumption and greater confidence in the broader economic environment. Germany remains the core of economic activity in Europe and market watchers will continue to focus on economic developments within the country as the European Central Bank continues to measure its monetary policy.

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 3

▼ Germany's statistics gathering agency announced that the nation's total number of jobless individuals fell by 29,000 to 2.442 million (seasonally adjusted) in December 2017. This follows an upwardly revised decline of 20,000 in November. The unemployment rate edged down to 5.5% (also seasonally adjusted), the lowest level since German reunification in 1990. Additional data showed that the harmonised unemployment rate fell to a 37-year low of 3.6% in November. These results are stronger than market expectations.

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved higher to a 59.7 reading in December. This is a 1.5-point gain from November's 58.2 figure and remains above the key 50.0 (generally expanding) level for a 16th consecutive month. The reading is above expectations and indicates an acceleration in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.8% in November, following a downwardly revised 0.9% gain in October (originally reported as 1.4%). On a year-over-year basis, construction was up 2.4%. Given the extent of the revisions, these results are broadly in line with expectations and indicate continued growth in the construction sector.

January 4

▲ The U.S. Department of Labor announced that initial jobless claims totalled 250,000 (seasonally adjusted) in the week ending December 20, an increase of 3,000 from the previous week's revised level. The previous week's level was revised up by 2,000 from 245,000 to 247,000. The four-week moving average was 241,750, an increase of 3,500 from the previous week's revised average. The previous week's average was revised up by 500 from 237,750 to 238,250. These results are somewhat weaker than consensus estimates.

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) and its Raw Materials Price Index (RMPI) rose by 1.4% and 5.5%, respectively in November. On a year-over-year basis, the two indexes are up 2.7% and 14.2%, respectively. Higher prices for energy and petroleum products were seen during the month. These figures are above consensus expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

January 5

▲ Statistics Canada announced that 78,600 jobs were added in December, and the unemployment rate slipped lower by 0.2 percentage points to 5.7%, the lowest reading since comparable data became available in January 1976. In line with the recent gains, employment was up 2.3% (+422,500) from 12 months earlier. These results are dramatically 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 Canada's merchandise trade deficit with the world totalled $2.5 billion in November, widening from a $1.6 billion deficit in October. Imports were up 5.8% and exports rose 3.7%. Since the market was looking for a narrowing of the deficit in November, these results are considerably weaker than expected. They are a negative sign for overall GDP growth, but will be overshadowed by the employment data.

■ The U.S. Bureau of Labor Statistics reported that the unemployment rate was unchanged at 4.1% in December, and non-farm payroll employment rose by 148,000. Employment gains occurred in health care, construction and manufacturing. November's payrolls gain was revised upward from 228,000 to 252,000. Despite the upward revision, the employment figures are weaker than market 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 U.S. Census Bureau announced that the nation's goods and services deficit was $50.5 billion in November, up $1.6 billion from October's revised $48.9 billion. November exports were $200.2 billion, $4.4 billion more than October exports. November imports were $250.7 billion, $6.0 billion more than October imports. The trade deficit was larger than expected and the weaker trade results will hamper overall GDP growth.

▲ Germany's statistics gathering agency reported that retail sales experienced a significant 2.3% rise in November, after a 1.0% decrease in October. On a year-over-year basis, sales are up 4.4%, following a downwardly revised 0.9% increase (on the same basis) during the prior month. These results were dramatically stronger than the consensus forecast. The 2.3% increase is deemed to be the strongest performance since October 2016. This indicator is important as it tracks Germany's broader economic environment.

▲ The U.S. Census Bureau announced that factory orders increased 1.3% in November, following an upwardly revised 0.4% rise in October (originally reported as -0.1%). Excluding transportation, new orders increased 0.8% in November. These figures are somewhat stronger than expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

▼ The U.S. Institute for Supply Management reported that the Non-Manufacturing Index recorded a 55.9% reading in December, 1.5% lower than November's 57.4% level. This figure shows continued slower growth in the non-manufacturing sector, as it remained above the key 50.0% and is below consensus expectations. Overall, it indicates that 2017 ended on a positive, and the economic condition and business outlook remain optimistic.