Weekly Commentary – January 30, 2012

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 30	Personal Income	December 11	+0.4%	+0.1%
January 31	Case-Shiller Home Price Index	November 11	138.8	140.3
January 31	Consumer Confidence	January 12	70.0	64.5
February 1	ADP Employment Survey	January 12	185 k	325 k
February 1	ISM Manufacturing Index	January 12	54.0	53.9
February 2	Initial Jobless Claims	Week ending January 28	365 k	377 k
February 3	Non-Farm Payrolls	January 12	+170 k	+200 k
February 3	Factory Orders	December 11	+1.5%	+1.8%
Canada				
January 31	GDP	November 11	+0.1%.	Unch.
January 31	Industrial Product Price Index	December 11	-0.1%	+0.2%
January 31	Raw Materials Price Index	December 11	-0.5%	+3.8%
February 3	Employment	January 12	+20.0 k	+17.5 k

Key Earnings
January 30 – McKesson Corp, Wendy's
January 31 – Aflac, Amazon.com, Archer-Daniels-Midland, Eli Lilly & Co., ExxonMobil, Imperial Oil, Mattel, Pfizer, Tyco International
February 1 – Aetna, Allstate, AOL, Canadian Oil Sands, Qualcomm, Suncor Energy
February 2 – AstraZeneca, Boston Scientific, CME Group, Deutsche Bank, Dow Chemical, Kellogg Co., Mastercard, Merck, Royal Dutch Shell, Viacom
February 3 – Aon, Domtar, Tyson Foods, Weyerhaeuser

Source: Action Economics, Bloomberg

Market Focus

Canadian sales rose heading into holiday season

The most recent figures from Statistics Canada revealed a 0.3% rise in retail sales during November. The advance was the fourth consecutive monthly gain, which sent total spending to a record $38.7 billion. Gains by sector were widespread as seven of the 11 major sub-groups reported an advance. Geographically, half of the 10 provinces reported higher monthly sales with Saskatchewan (+1.3%) and Alberta (+1.0%) leading the way. It remains to be seen if the momentum that developed during the fall found follow-through into the end of 2011.

U.S. Fed sets a new target

At the end of its recent two-day meeting, the U.S. Federal Reserve announced that "economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014." The Fed also lowered its forecast range for GDP growth in 2012 to between 2.2% and 2.7%, down from the 2.5% to 2.9% range established in November. It further predicted the U.S. economy will expand between 2.8% to 3.2% in 2013, down from a previous forecast of 3.0% to 3.5%. In addition, in a change of policy, the Fed established a 2% target for its benchmark inflation measure, much like the Bank of Canada. These moves set the stage for the possibility of further economic stimulation if economic and market conditions warrant.

India eases reserve requirement

The Reserve Bank of India left its benchmark repurchase rate at 8.5% following the latest policy deliberations. However, in a bid to protect the nation's economic growth, the central bank decided to reduce the reserve requirements for the country's main lenders. It reduced its cash reserve ratio to 5.5% from 6.0%, stating that this should add some 320 billion rupees (US$6.4 billion) to the borrowing market. At the same time, the central bank lowered its growth forecast to 7.0% in the 12 months ending in March from the 7.6% pace predicted in October. India's action follows similar moves in the other three BRIC nations – Brazil, Russia and China.

Longer View

Investment returns from stocks are closely tied to corporate earnings growth and the price you pay for those earnings. Historically, over the long term, corporate earnings have been fairly stable and have grown along with productivity gains and inflation. Stock valuations, though, are more volatile than earnings, since they are influenced by investor sentiment, which swings between optimism and pessimism. Uncertainty about the pace of global growth, together with government debt levels in Europe, added to market volatility in 2011, and it will likely take longer than many people expect for these issues to be resolved. However, it is also important to keep a sense of perspective. The challenges have also created opportunities. Market weakness has caused stock valuations to fall to levels that are substantially below their long-term average – and this has created an environment in which quality stocks can be purchased at attractive prices. We believe investors are best served by staying invested through a diversified portfolio that matches their risk tolerance and is actively managed by investment professionals.

Playbook - Market Alert! Weekly Summary

January 23

Statistics Canada announced that its index of leading indicators rose 0.8% in December, after a gain of 0.9% in November. In December, eight of the 10 components increased, while two declined. These results are considerably stronger than expected and point to continued improvement in the Canadian economy.

January 24

Statistics Canada reported that retail sales rose 0.3% in November, reflecting growth at most store types. This figure is marginally higher than consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical to overall GDP results.

January 25

The U.S. Federal Reserve held interest rates steady following its latest policy meeting. Also, the Fed said it will likely not raise interest rates until at least late 2014, much later than it had said previously. The no-change policy is in line with expectations. U.S. monetary policy, as decided by the Fed, has significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

January 26

The U.S. Department of Labor reported that initial jobless claims totalled 377,000 (seasonally adjusted) in the week ending January 21, an increase of 21,000 from the previous week's revised figure of 356,000 (originally 352,000). The four-week moving average was 377,500, a decrease of 2,500 from the previous week's revised average of 380,000 (originally 379,000). These results are marginally weaker than market consensus. The market will view the headline figure, which remained well below the 400,000 level, as a sign of an improving employment situation.

The U.S. Census Bureau announced that durable goods orders increased $6.2 billion or 3.0% to US$214.5 billion in December. Excluding transportation, new orders increased 2.1%. Excluding defence, new orders increased 3.5%. These figures are considerably stronger than market expectations as November figures were also revised higher. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

Statistics Canada reported that average weekly earnings were virtually unchanged at $883.96 in November. On a year-over-year basis, average weekly earnings rose 2.2%. These results are broadly in line with expectations. As this indicator measures growth in income, it can reveal trends in consumer spending.

The U.S. Conference Board announced that its Leading Economic Index (LEI) increased 0.4% in December, following a 0.2% increase in November and a 0.6% increase in October. The December data inaugurates a number of major changes to the components within the index and to prior index measurements. This is the first major overhaul of the LEI since 1996. For this reason, market estimates did not form a reliable consensus ahead of the release. The report suggests that economic activity in the U.S. will continue to improve.

The U.S. Census Bureau reported that new-home sales totalled 307,000 units (seasonally adjusted annual rate) in December 2011. This is 2.2% below the revised November rate of 314,000 units and 7.3% below the December 2010 level of 331,000 units. These results are weaker than expected. Activity in the housing market has a significant "ripple" effect on the broader economy.

January 27

The U.S. Bureau of Economic Analysis announced that real gross domestic product grew at an annual rate of 2.8% in the fourth quarter of 2011, based on its first estimate. Real GDP increased 1.8% in the third quarter. These results are weaker than expected as the market was looking for a figure above 3%. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

The Thomson Reuters/University of Michigan final index of consumer sentiment rose to 75.0 in the month-end reading for January. This is significantly stronger than the 69.9 level in December and is the highest since February 2011. This result is stronger than expected, and is another indicator of the likely pattern of consumer spending.