Weekly Commentary – May 8, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
May 8	Fed Labor Market Conditions Index	April 17	-0.2	0.4
May 9	Wholesale Inventories	March 17	-0.01%	0.40%
May 12	Inflation Rate Y/Y	April 17	2.6%	2.4%
May 12	Business Inventories	March 17	0.33%	0.30%
Canada				
May 8	Housing Starts	April 17	238.0 k	253.7 k

Key Earnings:
May 8: Athabasca Minerals Inc., Genesis Healthcare Inc., Marriott International Inc., Yellow Pages Ltd.
May 9: Canadian Solar Inc., JP-Holdings Inc., Mitsubishi Motors Corp., Sun Life Financial Inc.
May 10: Evotec AG, Hitachi Chemical Co. Ltd., Pinnacle Entertainment Inc., Sotheby's Inc., Time Inc.
May 11: CI Financial Corp., Nordstrom Inc., Pioneer Power Solutions Inc., Suzuki Motor Corp., Telus Corp.
May 12: Digital Media Professionals Inc., Japan Petroleum Exploration Co. Ltd., North Pacific Bank Ltd.

Source: Trading Economics, Yahoo Finance

Market Focus

Loonie swoons to new low

On May 2, 2017, the Canadian dollar dipped below US$0.73 for the first time since February 24, 2016, falling on heavy selling amid a wide variety of factors. Analysts viewed the drop in currency against the backdrop of a pullback in oil prices below US$50 per barrel, domestic mortgage market concerns and an uncertain outlook for the North American Free Trade Agreement. These issues, coupled with expectations for further disparity between the Bank of Canada and the U.S. Federal Reserve regarding monetary policy, left little opportunity for the Canadian dollar to find support. Even though the Fed left rates unchanged at its May meeting, most currency market participants expect U.S. interest rates to continue to rise with no commensurate move in Canada.

U.S. Federal Reserve pauses – for now

The latest meeting of the U.S. Federal Reserve Board's Open Market Committee concluded with no changes to monetary policy. The Fed acknowledged the weak 0.7% annualized gross domestic product (GDP) growth pace in the first quarter of 2017. However, its press release specifically stated that the slowing growth during the first quarter was likely to be transitory. It went on to state that inflation has recently been close to the committee's 2% long-run objective and that, on average, job gains were solid in recent months, and the unemployment rate declined. With the tone of the press release reinforcing expectations for at least one follow-up move to the March 15 interest rate hike this year, market participants will now shift their focus to the Fed's next two-day meeting beginning on June 13.

U.S. and Canadian job markets move out of step

Even though both Canada and the U.S. saw new post-recession lows of 6.5% and 4.4% in their respective unemployment rates during April, the two job markets remain on different paths. Stateside, non-farm payrolls added 211,000, recovering from the modest 79,000 gain posted for March and moving back in line with the advances seen earlier in the year. Meanwhile, the U.S. labour force rose to a new all-time high. On the domestic front, the decline in Canada's unemployment rate was due entirely to 45,500 workers exiting the labour force, pushing the participation rate down to 65.6%. The 3,200 jobs that were added in April represented the weakest figure since November and were distributed unfavourably as a 34,300 gain in part-time employment and a 31,200 decline in full-time jobs.

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

May 1

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.2% in March. Personal consumption expenditures (PCE) increased less than 0.1%. Based on revised figures, personal income increased 0.3% and PCE was unchanged in February. With the downward revisions, these results are below consensus expectations. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▼ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved lower to a 54.8 reading in April. This is a 2.4 point loss from March's 57.2 figure but remains above the key 50.0 (generally expanding) level for an eighth consecutive month. The reading is below expectations and indicates an acceleration in manufacturing activity.

▼ The U.S. Census Bureau announced that construction spending fell 0.2% in March, following an upwardly revised 1.8% gain in February (originally reported as +0.8%). On a year-over-year basis, construction was up 3.6%. Given the recent volatility of the data and the scale of the upward revision, the overall results are broadly in line with market expectations.

May 3

▼ Destatis reported that in Germany, the total number of unemployed workers fell by 15,000 (seasonally adjusted) to 2.5 million in April 2017. This follows a downwardly revised 29,000 in March. It was the 21st straight monthly decline and was stronger than anticipated. At the same time, Eurostat reported that its "flash" estimate of the Eurozone economy revealed a 0.5% (quarter-over-quarter) gain in the three months to March 2017, the same pace as in the previous period and in line with market expectations.

■ The U.S. Federal Reserve left interest rates unchanged following its latest two-day policy meeting, with the target range for the federal funds rate remaining at 0.75% to 1.00%. The Fed raised interest rates by 0.25% on March 15, 2017. The statement highlighted the continued strength in the U.S. labour market, despite the broader economic slowdown experienced in the first quarter. It further pointed out that inflation had been running close to the Fed's 2.0% target. As further rate hikes are anticipated by market participants over the remainder of 2017, speculation will turn to the next meeting scheduled for June 13-14. The announcement of unchanged interest rates at the latest meeting is in line with expectations. 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.

May 4

▼ The U.S. Bureau of Labor Statistics announced that non-farm labour productivity declined at a 0.6% (annualized) rate during the first quarter of 2017 while unit labour costs rose 3.0% on the same basis. These figures are considerably weaker than market expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 238,000 (seasonally adjusted) in the week ending April 29, a decrease of 19,000 from the previous week's unrevised level of 257,000. The four-week moving average was 243,000, an increase of 750 from the previous week's unrevised average of 242,250. These results are somewhat stronger than consensus estimates.

▼ The U.S. Census Bureau announced that the country's international trade deficit in goods and services narrowed to US$43.7 billion in March from a revised $43.8 billion in February. March exports were $191.0 billion, $1.7 billion less than February exports. March imports were $234.7 billion, $1.7 billion less than February imports. The trade deficit was smaller than expected. The improved trade results should provide a modest lift to GDP growth.

▼ Statistics Canada announced that Canada's merchandise trade balance with the world posted a $135 million deficit in March, narrowing from a $1.1 billion deficit in February. Exports rose 3.8% in March to a record high of $47.0 billion, due to stronger exports of energy products and consumer goods. Imports were up 1.7% to $47.1 billion. Since the market was looking for a much larger deficit in March, these results are considerably stronger than expected. They are a positive sign for overall GDP growth.

May 5

▼ The Australian Bureau of Statistics reported that the nation's trade surplus narrowed to A$3.11 billion in March 2017 from an upwardly revised A$3.66 billion in February. Exports rose 2.4%, driven by higher commodity prices and expanded services exports, while imports rebounded sharply, rising by 4.6%. The surplus was below market expectations and will dampen expectations for the quarterly GDP figures.

▲ Statistics Canada announced that 3,200 jobs were added in April, as full-time employment fell by 31,200 and part-time employment rose by 34,300. At the same time, the unemployment rate dropped by 0.2 percentage points to 6.5%, marking a new cyclical low. However, this was due almost entirely to a 45,500 decline in the labour force. These results are weaker 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.

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate fell by 0.1 percentage points to 4.4% in April, the lowest rate in the post-recession period. Meanwhile, non-farm payroll employment rose by 211,000. Job gains occurred in leisure and hospitality, health care and social assistance, financial activities, and mining. Despite some downward revisions to prior data, this report is stronger than expected. 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.