

Weekly Commentary – November 28, 2011

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
November 28	New Home Sales	October 11	308 k	313 k
November 29	Consumer Confidence	November 11	43.0	39.8
November 30	ADP Employment	November 11	+140 k	+110 k
December 1	Initial Jobless Claims	Week ending Nov. 26	390 k	393 k
December 1	ISM Manufacturing Index	November 11	51.5	50.8
December 2	Non-farm Payrolls	November 11	+130 k	+80 k
Canada				
November 29	Current Account	Q3 11	-\$10.0B	-\$15.3B
November 30	GDP	Q3 11	+3.0%	-0.4%
November 30	GDP By Industry	September 11	+0.2%	+0.3%
November 30	Consumption Spending	Q3 11	+2.5%	+1.6%
November 30	Industrial Product Price Index	October 11	+0.2%	+0.4%
December 2	Employment	November 11	+10 k	-54 k

Key Earnings

December 1 – CIBC, Kroger, Lululemon Athletica, Toronto-Dominion Bank
December 2 – Scotiabank, Royal Bank of Canada

Source: Action Economics, Bloomberg

Market Focus

Canadians keep spending

Consumers were able to ignore the bumpy ride in the capital markets during September and increase their spending, according to the latest data from Statistics Canada. Retail sales jumped 1.0% during September, the largest single-month advance since November 2010 and a fifth gain for the last six months. Advances were widespread as gains were reported in nine of the 11 major sub-groups. Autos led the advance with a 2.8% gain, while furniture stores (-0.5%) posted the largest drop. The September advance raised the quarterly growth in retail sales to an annualized 3.3%, the strongest figure since the fourth quarter of 2010.

Indian currency suffers record decline versus U.S. dollar

Recent uncertainty in the world's financial markets saw the Indian rupee fall to 52.73 per U.S. dollar, weakening below the previous record low of 52.18 reached on March 3, 2009 at the peak of the financial crisis. Thus far in 2011, the currency has dropped 14.6% versus the greenback despite higher interest rates. Asia's third-largest economy, which subsidizes fuel prices, also imports 80% of its oil and has seen inflation above 9% for 11 consecutive months. As a result, the Reserve Bank of India has cut the nation's growth forecast to 7.6% from 8.0%, as the rupee's slide pushed the trade deficit to a 17-year high of US\$19.6 billion in October.

U.S. economy reflects slower growth

Updated information from the U.S. Bureau of Economic Analysis showed GDP growth in the third quarter at a more modest 2.0% (annualized) pace, a downward revision from the prior estimate of 2.5%. The agency indicated that the change was "primarily reflecting downward revisions to private inventory investment, to non-residential fixed investment, and to personal consumption expenditures that were partly offset by a downward revision to imports." Nevertheless, data for the early part of the fourth quarter suggest an improvement. Retail and business sales, as well as housing data, point to continued gains for the final quarter of 2011.

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. Recent uncertainty about the pace of the global economic recovery, centred on government debt in parts of the developed world, has added to market volatility. It is important to keep a sense of perspective, to remember that recessions do occur from time to time, and that they are followed by recoveries. The summer market correction has caused stock valuations to fall to levels that are substantially below their long-term average – and this has provided investors with a rare investment opportunity. 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

November 21

Statistics Canada reported that wholesale sales increased for a fifth consecutive month in September, rising 0.3% to \$48.7 billion. This advance was broadly in line with expectations. Activity at the wholesale level can be an indicator of future consumer trends.

According to the U.S. National Association of Realtors, existing-home sales rose 1.4% to a seasonally adjusted annual rate of 4.97 million units in October from a downwardly revised 4.90 million units in September. On a year-over-year basis, sales are up 13.5% from the 4.38 million-unit level in October 2010. These results are well above consensus expectations. This release provides a gauge of the momentum in the U.S. housing market.

November 22

The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew at an annual rate of 2.0% in the third quarter of 2011. The original growth estimate was 2.5%. In the second quarter, real GDP increased 1.3% on the same basis. These results are weaker than expected as the market was looking for a more modest downward revision. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

Statistics Canada reported that retail sales rose 1.0% in September, reflecting growth at most store types. This figure is well above consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical to overall GDP results.

November 23

The U.S. Department of Labor reported that initial jobless claims totalled 393,000 (seasonally adjusted) in the week ending November 19, an increase of 2,000 from the previous week's revised figure of 391,000. The four-week moving average was 394,250, a decrease of 3,250 from the previous week's revised average of 397,500. These results are in line with expectations. The market has been looking for sustained results below the 400,000 level as a sign of an improving employment situation.

The U.S. Census Bureau announced that durable goods orders decreased US\$1.4 billion or 0.7% to \$197.7 billion in October. Excluding transportation, new orders increased 0.7%. Excluding defence, new orders increased 0.2%. These figures are stronger than market expectations of a larger decline. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

According to the U.S. Bureau of Economic Analysis, personal income increased US\$48.1 billion or 0.4% in October. Personal consumption expenditures (PCE) increased \$8.2 billion, or 0.1%. Based on revised figures, personal income increased \$15.5 billion, or 0.1% and PCE increased \$74.5 billion or 0.7% in September. While income figures for October were above expectations, spending results were weaker. Income and spending patterns of consumers are critical factors in the health of the broader economy.

The Thomson Reuters/University of Michigan final index of consumer sentiment rose to 64.1 in the month-end reading. This is significantly stronger than the 60.9 level in October and is now the highest since June. This is marginally lower than expectations. This is another indicator of the likely pattern of consumer spending.

November 24

Statistics Canada reported that average weekly earnings declined 0.3% to \$872.75 in September, partly offsetting an increase in August. On a year-over-year basis, average weekly earnings rose 1.1%, the smallest increase since November 2009. These results are in line with expectations. As this indicator measures growth in income, it can reveal trends in consumer spending.

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