

## Weekly Commentary – October 31, 2011

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
November 1	ISM Manufacturing Index	October 11	52.0	51.6
November 1	Construction Spending	September 11	+0.5%	+1.4%
November 2	ADP Employment	October 11	+125 k	+91 k
November 2	Fed Funds Target	November 11	0.125%	0.125%
November 3	Initial Jobless Claims	Week ending Oct. 29	400 k	402 k
November 3	Productivity (preliminary)	Q3 11	+3.0%	-0.7%
November 3	Factory Orders	September 11	Unch.	-0.2%
November 4	Non-farm Payrolls	October 11	+100 k	+103 k
<b>Canada</b>				
October 31	GDP	August 11	+0.2%	+0.3%
October 31	Industrial Product Price Index	September 11	+0.1%	+0.5%
November 4	Employment	October 11	+20.0 k	+60.9 k
November 4	Building Permits	September 11	+1.0%	-10.4%

### Key Earnings

October 31 – Allstate, Loews Corp, Manitoba Telecom Services

November 1 – Bell Aliant, Imperial Tobacco Group, Pfizer, Toromont Industries, Thomson Reuters, TransCanada Corp

November 2 – AOL, Comcast, Kinross Gold, Kraft Foods, Mastercard, News Corp, Qualcomm, Sun Life Financial, Talisman Energy

November 3 – BCE, Canadian Natural Resources, Husky Energy, Manulife Financial, Suncor Energy

November 4 – Pengrowth Energy, Telus

Source: Action Economics, Bloomberg

### Market Focus

#### Bank of Canada lowers forecast

In its latest Monetary Policy Report, the Bank of Canada reduced its expectations for Canada's economic growth. According to the report, "The Canadian economy is projected expand by 2.1% in 2011, 1.9% in 2012 and 2.9%." In the July update, these forecasts stood at 2.8%, 2.6% and 2.1%, respectively. While the new figures are weaker in the near term, the central bank's forecast indicates that the economy will not soon suffer a technical recession. Given the -0.4% (annualized) decline in economic output during the second quarter of 2011, some observers had feared that a "double-dip" was possible if the third quarter also saw an economic contraction. The latest forecast calls for 2.0% growth in the current quarter. Despite this modest rebound, interest rates are expected to remain at very low levels for the foreseeable future.

#### U.S. economic growth shows improvement

According to initial estimates, U.S. real GDP grew at an annualized 2.5% pace in the third quarter of 2011, a significant improvement over the 1.3% figure reported for the second quarter and the fastest quarterly pace of growth since the third quarter of 2010 (also 2.5%). Consumer spending climbed 2.4% in the last quarter, the strongest since the fourth quarter of 2010. Gains in consumer spending helped to deplete inventories as businesses recorded a US\$33.7 billion reduction in their stockpiles. Meanwhile, business investment in plant and equipment jumped 16.3%, the highest rate in more than a year. Declining inventories and increasing business investment bode well for industrial production going forward.

### Yen hits new high

The Japanese yen moved to its highest level against the U.S. dollar in the post-Second World War era as currency traders sought to distance themselves from the euro and continued uncertainty over the European sovereign debt crisis. Solid buying interest saw the yen strengthen to 75.49 per U.S. dollar, after trading as weak as 85 to the greenback as recently as April. The advance of the yen left government policymakers and Bank of Japan officials to ponder a possible expansion of the ¥50 trillion asset purchase program, already underway. Trade considerations can be expected to continue to raise calls for official intervention in the currency market.

### 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

#### October 25

Statistics Canada announced that retail sales rose 0.5% to \$37.8 billion in August. Gains were reported in six of 11 sub-sectors, led by higher sales at gasoline stations and motor vehicle and parts dealers. These results are stronger than market consensus.

The Bank of Canada reported that it was maintaining the target for its benchmark overnight interest rate at 1.00%. Also, the bank rate was left at 1.25% and the deposit rate at 0.75%. These results are in line with market expectations.

The U.S. Conference Board announced that its Consumer Confidence Index declined in October. The index now stands at 39.8, down from 46.4 in September. Both the Present Situation Sub-Index and the Expectations Sub-Index declined during the month. These figures are weaker than expected.

#### October 26

The U.S. Census Bureau reported that durable goods orders decreased \$1.5 billion or 0.8% to \$200.3 billion in September. This decrease, the third in the last four months, followed a 0.1% decrease for August. The latest decline was actually smaller than consensus estimates.

The U.S. Census Bureau announced that new-home sales totalled 313,000 units (seasonally adjusted annual rate) in September. This is 5.7% above the revised August rate of 296,000, but 0.9% below the September 2010 level of 316,000 units. These results are stronger than expected.

#### October 27

Statistics Canada reported that average weekly earnings of non-farm payroll employees increased 0.8% from July to \$877.28 in August, following two months of small declines. The monthly increase was well above consensus expectations.

The U.S. Labor Department announced that initial jobless claims totalled 402,000 (seasonally adjusted) in the week ending October 22, for a decrease of 2,000 from the previous week's revised figure of 404,000. The four-week moving average was 405,500, an increase of 1,750 from the previous week's revised average of 403,750. These results are marginally stronger than expected.

The U.S. Bureau of Economic Analysis reported that real gross domestic product increased at an annualized rate of 2.5% in the third quarter of 2011. In the second quarter, real GDP increased 1.3%. This growth rate is in line with market expectations.

**October 28**

The U.S. Bureau of Economic Analysis announced that personal income increased US\$17.3 billion or 0.1%, and personal consumption expenditures (PCE) increased \$68.7 billion or 0.6% in September. In August, personal income decreased \$13.6 billion or 0.1% while PCE increased \$24.2 billion or 0.2%, based on revised estimates. Income growth was weaker than market consensus while consumption was higher than expected.

The Reuters/University of Michigan consumer sentiment index's month-end reading was 60.9, a significant improvement over the mid-month level of 57.5. This is also stronger than the prior month's 59.4 figure and above consensus estimates.

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