

Weekly Commentary – October 3, 2011

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
October 3	ISM Manufacturing Index	September 11	50.5	50.6
October 3	Construction Spending	August 11	-0.3%	-1.3%
October 4	Factory Orders	August 11	-0.2%	+2.4%
October 5	ADP Employment	September 11	+75 k	+91 k
October 5	ISM Non-Manufacturing Index	September 11	53.5	53.3
October 6	Initial Jobless Claims	Week ending Oct. 1	415 k	391 k
October 7	Non-farm Payrolls	September 11	+100 k	Unch.
October 7	Wholesale Inventories	August 11	+0.6%	+0.8%
October 7	Consumer Credit	August 11	+\$8.0B	+\$12.0B
Canada				
October 6	Building Permits	August 11	-1.0%	-0.6% (revised)
October 7	Employment	September 11	+10 k	-5.5 k

Key Earnings

October 3 – Marriott International
October 4 – Yum Brands, Jean Coutu
October 5 – Monsanto

Source: Action Economics, Bloomberg

Market Focus

Domestic economic growth improves

Canada's economy gained momentum at the start of the third quarter. On the heels of a 0.2% advance in June, gross domestic product grew by 0.3% in July. This was the strongest monthly advance since January and was sufficient to raise the annual growth rate from 2.2% to 2.3%. Gains for goods production were led by manufacturing, as output increased 1.4% in July following three consecutive monthly declines. The sector now holds a 1.0% annual gain. On the services side, the transportation and warehousing sector advanced by 1.8% on the month and 3.1% on a year-over-year basis. It remains to be seen how much of this early momentum will be preserved over the balance of a volatile quarter.

U.S. manufacturing picture continues to brighten

The latest round of data revealed that despite a modest 0.1% drop in overall durable goods orders in August (the July increase was revised upward to 4.1% from 4.0%), continued gains were seen in business infrastructure. Orders for machinery rose 0.1%, while larger gains emerged in the computers and electronics category, and for electrical equipment (both up 1.3%). Although U.S. businesses appear to remain reluctant to hire new workers, they continue to order new durable equipment. These investments also bode well for future productivity growth.

India focuses on inflation

Reserve Bank of India Governor Duvvuri Subbarao highlighted the central bank's growing concerns over inflation during a recent speech. "Inflation has been fairly stubborn," he said, adding that "above a threshold, you can't accept high inflation (if you want) to have higher growth." The central bank has raised its key interest rate by a total of 350 basis points (a basis point is 1/100th of one per cent) since mid-March 2010. This is now the fastest round of increases since the Reserve Bank of India was established in 1935. The nation's benchmark wholesale-price inflation accelerated to a 13-month high of 9.78% in August. An inflation rate of

“4% to 6% is the short-term comfort range,” Mr. Subbarao said. “We expect inflation to slow by March 2012, but more slowly than initially expected.”

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

September 26

The U.S. Census Bureau reported that new housing sales were at a seasonally adjusted annual rate of 295,000 in August 2011. This is 2.3% below the revised July rate of 302,000, but 6.1% above the August 2010 figure of 278,000. These results are in line with expectations.

September 27

The U.S. Conference Board announced that its consumer confidence index showed marginal improvement in September. The main index reading rose to 45.2 from 44.5 in August. The improvement still failed to meet expectations.

September 28

The U.S. Census Bureau reported that new orders for durable goods decreased US\$0.2 billion or 0.1% to \$201.8 billion in August. This is the second decline in three months and followed a 4.1% increase in July. These results are in line with expectations.

September 29

Statistics Canada announced that in July, average weekly earnings of non-farm payroll employees increased 0.1% from the previous month to \$872.70. On a year-over-year basis, average weekly earnings grew by 2.2%. This was the slowest earnings growth rate since January 2010. The monthly advance was below market consensus.

Statscan also reported that between July and August, its Industrial Product Price Index increased 0.5%, led by motor vehicles and chemical products. The Raw Materials Price Index fell 3.2%, largely as a result of lower prices for mineral fuels. Both the IPPI increase and RMPI decline were larger than anticipated.

The U.S. Department of Labor announced that initial jobless claims totalled 391,000 (seasonally adjusted), in the week ending September 24, a decrease of 37,000 from the previous week's revised figure of 428,000. The four-week moving average was 417,000, a decrease of 5,250 from the previous week's revised average of 422,250. These figures are better than consensus estimates.

According to revised estimates released by the U.S. Bureau of Economic Analysis, America's real gross domestic product increased at an annualized rate of 1.3% in the second quarter of 2011. The growth rate was previously reported as 1.0%. The upward revisions were marginally stronger than expected.

September 30

Statistics Canada announced that gross domestic product rose 0.3% in July following a 0.2% increase in June. Manufacturing and, to a lesser extent, wholesale trade and transportation services were the main sources of growth. The monthly advance is stronger than expected.

The U.S. Bureau of Economic Analysis reported that personal income decreased US\$7.3 billion, or 0.1% in August. At the same time, personal consumption expenditures (PCE) increased \$22.7 billion, or 0.2%. According to revised estimates, personal income increased \$17.1 billion, or 0.1% and PCE increased \$76.6 billion, or 0.7% in July. These results are weaker than market consensus.

The U.S. Institute of Supply Management announced that its Chicago regional composite index rebounded in September, climbing 4.9 points to 60.4, its best reading since June. This suggests a resurgence in regional manufacturing. This report is much stronger than expected.

The Reuters/University of Michigan consumer sentiment index rose to 59.4 at the end of September from 57.8 for the mid-September reading and 55.7 for the final August reading. This result is stronger than market consensus.

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