Assante® WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – September 18, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
September 18	Overall Net Capital Flows	July 17	$17.4B	$7.7B
September 20	Existing Home Sales	August 17	5.42 M	5.44 M
September 22	Markit Composite PMI Flash	September 17	53.8	55.3
Canada				
September 22	Retail Sales Y/Y	July 17	6.84%	7.30%
September 22	Inflation Rate Y/Y	August 17	1.5%	1.2%

Key Earnings:
September 18: Cesca Therapeutics Inc., Lennar Corp., Sino-Global Shipping America Ltd.
September 19: Adobe Systems Inc., FedEx Corp., HB Fuller Co., Progressive Corp.
September 20: General Mills Inc., Leading Brands Inc., Rite Aid Corp., Scholastic Corp.
September 21: Alliance California Municipal Income Fund Inc., Herman Miller Inc.
September 22: Carmax Inc., Finish Line Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing data continues to show regional bias

The Canada Mortgage and Housing Corporation announced that overall housing starts continued to recover from the May dip, rising 0.6% in August and 21.5% on a year-over-year basis. Ontario starts jumped 19.9% during the month, while starts in British Columbia tumbled 20.5%. Conversely, Statistics Canada's New Housing Price Index revealed a 0.4% increase overall for July. However, the results were flat for Toronto and Oshawa compared to a 2% increase in Vancouver. Finally, overall residential building permits dropped 2.2% in July as Toronto's 26% monthly drop outweighed Vancouver's 11.2% gain. It is expected that the Bank of Canada's tightening of monetary policy will dampen housing activity, but that the regional disparities will remain.

U.S. inflation ticks up

Following five months of soft data, the U.S. Bureau of Labor Statistics reported a 0.4% gain in the overall consumer price index (CPI) during August. In addition, the index is up 1.9% on a 12-month basis. Energy prices were a significant driver as they jumped 2.8% in this report, the most since January. This advance likely reflects some early impact from Hurricane Harvey. Also suggestive of this influence was the 4.4% monthly increase in lodging away from home. The less volatile core CPI (excludes food and energy components) rose a more modest 0.2% in August, and is up 1.7% on a year-over-year basis. It is likely that the influence of Hurricanes Harvey and Irma will bias the data for several months to come.

Australian job market strengthens

The latest data from the Australian Bureau of Statistics revealed a 54,200 (seasonally adjusted) job gain in August. This was the 11th consecutive monthly advance and was sufficient to boost year-over-year growth in employment to 2.7%. At the same time, the unemployment rate remained steady at 5.6%, despite a move up in the participation rate to 65.3% from July's 65.1%. The participation rate is now the highest since September 2012 (65.3%). As has been the recent trend, most of the employment gains were in full-time positions (40,100) rather than part time (14,100). Annual growth in full-time jobs stands at 3.1%, while the pace of part-time growth is 2%. Despite the obvious strength in the labour market, analysts suggest that the Reserve Bank of Australia is in no hurry to raise interest rates, with the next scheduled policy meeting set for October 3.

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

September 13

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) advanced 0.2% (seasonally adjusted) in August. The index increased 2.4% for the 12 months ended August 2017, up from the 1.9% pace reported for July. These figures are marginally below consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

September 14

▲ The Australian Bureau of Statistics announced that 54,200 (seasonally adjusted) jobs were added nationwide in August. Meanwhile, the unemployment rate remained steady at 5.6%, despite a move up in the participation rate to 65.3% from July's 65.1%. As has been the recent trend, most of the employment gains were in full-time positions (40,100) rather than part time (14,100). These results are considerably stronger than market consensus. The employment data reflect the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 284,000 (seasonally adjusted) in the week ending September 9, a decrease of 14,000 from the previous week's unrevised level of 298,000. The four-week moving average was 263,250, an increase of 13,000 from the previous week's unrevised average of 250,250. This is the highest level for this average since August 13, 2016 when it was 263,250. While Hurricanes Harvey and Irma influenced the data in this report, the overall results are somewhat stronger than consensus estimates.

▲ The U.S. Bureau of Labor Statistics announced that the consumer price index rose 0.4% (seasonally adjusted basis) in August. Over the last 12 months, the index increased 1.9%. These results were above expectations. These figures suggest some firming in consumer prices, which is in line with the U.S. Federal Reserve's expectations for inflationary pressures.

▲ Statistics Canada announced that its New Housing Price Index rose 0.4% in July, following a 0.2% increase in June. On a year-over-year basis, the index is up 3.8%. Even though there is considerable regional variance, these results are somewhat stronger than consensus expectations. The data suggest continued improvements in net worth for homeowners, particularly in some regions.

▼ September 15

The U.S. Census Bureau announced that retail and food services sales were down 0.2% (seasonally adjusted) for the month of August and were 3.2% above August 2016 levels. Excluding autos, sales were up 0.2% during the month and up 3.6% on a year-over-year basis. These figures are weaker than expected. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▼ The U.S. Federal Reserve announced that industrial production declined 0.9% in August, following six consecutive monthly gains. Hurricane Harvey, which hit the Gulf Coast of Texas in late August, is estimated to have reduced the rate of change in total output by roughly three quarters a percentage point. On a year-over-year basis, industrial production was reported to have gained 1.5%. Capacity utilization for total industry fell to 76.1% from 76.9% in July, but was up slightly from 75.8% a year earlier. These results are weaker than expected. The drop in production will affect real economic output in the quarterly GDP figures.

▲ The U.S. Census Bureau announced that business sales rose 0.2% in July and were up 4.9% from July 2016 levels. At the same time, inventories climbed an identical 0.2% and were up 3% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of July was 1.38. The July 2016 ratio was 1.40. These results matched consensus expectations. Rising business sales suggest stable economic growth, while diminishing inventories/sales ratios suggest a business need to replenish dwindling stockpiles.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment dropped to 95.3 in the mid-month reading for September. This is down from the 96.8 level seen for August. The influence of Hurricanes Harvey and Irma are reflected in the data. The results are weaker than market expectations. This is another indicator of the likely pattern of consumer spending.