

Weekly Commentary – February 20, 2012

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 22	Existing Home Sales	January 12	4.90M	4.61M
February 23	Initial Jobless Claims	Week ending Feb.18	355 k	348 k
February 24	New Home Sales	January 12	320 k	307 k
Canada				
February 21	Retail Sales	December 11	+0.1%	+0.3%
February 21	Wholesale Trade	December 11	+1.0%	-0.4%
February 23	Corporate Profits	Q4 11	-0.3%	-0.5%
February 23	Average Weekly Earnings	December 11	+0.1%	Unch.

Key Earnings

February 20 – Enerplus Resources, Inmet Mining, National Bank of Canada, Toromont Industries

February 21 – Dell, Home Depot, Kraft Foods, Macy's, Medtronic, Wal-Mart

February 22 – Analog Devices, Canadian Utilities, Daimler, Hewlett-Packard, Magna International, MGM Resorts International, Mullen Group, Toll Brothers, Yamana Gold

February 23 – Alamos Gold, Allianz, American International Group, Iamgold, Loblaw

February 24 – AIA Group, BASF, Eldorado Gold, Lloyds Banking Group, Newmont Mining

Source: Action Economics, Bloomberg

Market Focus

Canadian manufacturing recovery continues

With a fifth advance in the last six months, Canada's manufacturing sector has moved closer to recovering from the downturn that began in the final quarter of 2008. Manufacturing sales stood at \$49.9 billion in December 2011, a 9.1% gain on a year-over-year basis and a mere 0.6% below the \$50.2 billion recorded in October 2008. In fact, Statistics Canada reported that seven of the 21 major manufacturing industries had reached or surpassed levels recorded in 2008. The year-end drive higher was led by auto manufacturers whose sales rose 2.9% in December to their highest monthly total since November 2007. As well, declines in both inventories and inventory-to-sales ratios indicate a pending increase in production.

U.K. inflation cools

The latest data from the United Kingdom's Office for National Statistics revealed a 3.6% inflation rate for the nation during January. This is down dramatically from the 4.2% pace of December and the 5.2% peak recorded in September. Much of the decline was attributed to the fact that a sales tax hike in early 2011 dropped out of the year-over-year comparisons. Still, Bank of England Governor Mervyn King suggested that inflation is expected to move toward the 2.0% target over the course of 2012, although "the pace and extent of the fall in inflation remain highly uncertain." An extended drop in the inflation rate may open the door to more bank stimulus in coming quarters.

U.S. industrial production levels out

The U.S. Federal Reserve reported that industrial production was largely unchanged in January and that capacity utilization actually dipped 0.1% to 78.5%. However, the neutral headline results for the month masked significant upward revisions to previous months' data. Additionally, unseasonably warm weather in the first month of 2012 served to limit demand for utilities and sector output slumped 2.5%. Despite these influences, both January's overall production and total plant usage actually hit their highest levels since August 2008. Auto production, in particular, is expected to fuel additional gains in industry output as analysts point to a record average vehicle age of 10.8 years.

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. Uncertainty about the pace of global growth, together with government debt levels in Europe, added to market volatility in 2011, and it will likely take longer than many people expect for these issues to be resolved. However, it is also important to keep a sense of perspective. The challenges have also created opportunities. Market weakness has caused stock valuations to fall to levels that are substantially below their long-term average – and this has created an environment in which quality stocks can be purchased at attractive prices. 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

February 14

The U.S. Census Bureau announced that retail sales totalled US\$401.4 billion (seasonally adjusted) in January, an increase of 0.4% from the previous month and 5.8% above January 2011 levels. These figures are below consensus expectations. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

The U.S. Census Bureau also reported that business sales totalled US\$1.23 trillion (seasonally adjusted) in December, up 0.7% from November 2011 and up 8.9% from December 2010. At the same time, inventories were estimated at an end-of-month level of \$1.56 trillion, up 0.4% from November 2011 and up 7.7% from December 2010. As a result, the total business inventories/sales ratio at the end of December was 1.26. The September 2010 ratio was 1.28. These results are stronger than expected. Strong business sales suggest stable economic growth while diminishing inventories/sales ratios suggest a business need to replenish dwindling stockpiles.

February 15

The U.S. Federal Reserve announced that industrial production was unchanged in January after jumping by a revised 1.0% (originally +0.4%) in December. On a year-over-year basis, industrial production was reported to have gained 3.4%. Capacity utilization for total industry edged lower to 78.5% from December's upwardly revised 78.6% (originally 78.1%) but was well above the 76.9% recorded a year earlier. These headline results are weaker than expected, but are in part offset by the significant upward revisions to prior data. The general improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

February 16

The U.S. Department of Labor reported that initial jobless claims totalled 348,000 (seasonally adjusted) in the week ending February 11, a decrease of 13,000 from the previous week's revised figure of 361,000 (originally 358,000). The four-week moving average was 365,250, a decrease of 1,750 from the previous week's revised average of 367,000 (originally 366,250). These results are considerably stronger than consensus expectations. The market will view the continued move lower as a sign of an improving employment situation.

The U.S. Census Bureau announced that housing starts in January were at a seasonally adjusted annual rate of 699,000. This is 1.5% above the revised December estimate of 689,000, and is 9.9% above the January 2011 rate of 636,000. At the same time, building permits in January were at a seasonally adjusted annual rate of 676,000. This is 0.7% above the revised December rate of 671,000 and is 19.0% above the January 2011 figure of 568,000. These figures are mixed, with housing starts stronger than market expectations and permits just below expectations. Activity in the housing market has a significant "ripple" effect on the broader economy and strength here suggests ancillary strength in appliance purchases and other household goods.

The U.S. Bureau of Labor Statistics reported that its Producer Price Index (PPI) declined 0.1% (seasonally adjusted) in January. The index increased 4.1% for the 12 months ended January 2012, the smallest year-over-year advance since a 3.6% rise in January 2011. These figures are below consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

Statistics Canada announced that manufacturing sales rose 0.6% to \$49.9 billion in December, the fifth increase in six months. On a year-over-year basis, manufacturing sales rose 9.1%. This is much stronger than market consensus. This data is closely watched as it can create high-value employment and it was one of the hardest-hit sectors during the recession.

The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region accelerated in February. The Philly Fed general business conditions index jumped to 10.2 from 7.3 in January, its highest point since October. These results are above market expectations. This data release is followed as an indicator of regional manufacturing sector trends.

February 17

Statistics Canada announced that consumer prices rose 0.5% (seasonally adjusted monthly basis) in January. On a year-over-year basis the consumer price index was up 2.5%, led by higher prices for gasoline and food. This follows a 2.3% increase in December. The Bank of Canada's benchmark core price index rose 2.1% on a year-over-year basis. These figures are somewhat higher than consensus expectations, but are consistent with the Bank of Canada's forecast for subdued inflation.

Statscan also reported that its index of leading indicators rose 0.2% in October, after a gain of 0.1% in September. In October, five of the 10 components increased, while four declined. These results are better than expected and point to continued improvement in the Canadian economy.

The U.S. Bureau of Labor Statistics announced that the consumer price index increased 0.2% (seasonally adjusted basis) in January. Over the last 12 months, the index increased 2.9%. These results are in line with expectations. These figures are consistent with the U.S. Federal Reserve's expectations of easing inflationary pressures.

The U.S. Conference Board reported that its Leading Economic Index (LEI) increased 0.4% in January, following a 0.5% increase in December. The monthly move was the fourth consecutive gain and was led not only by improving financial and credit indicators, but also by a rising average work week in manufacturing. This figure matches market consensus. The report suggests that the U.S. began 2012 amid positive economic conditions.

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