# Weekly Commentary – February 6, 2012

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## Economic Calendar

| Date | Release | Period | Consensus | Previous |
|---|---|---|---|---|
| **U.S.** | | | | |
| February 7 | Consumer Credit | December 11 | +$7.0B | +$20.4B |
| February 9 | Initial Jobless Claims | Week ending February 4 | 365 k | 367 k |
| February 9 | Wholesale Sales | December 11 | +0.8% | +0.6% |
| February 9 | Wholesale Inventories | December 11 | +0.6% | +0.1% |
| February 10 | International Trade | December 11 | -$49.0B | -$47.8B |
| **Canada** | | | | |
| February 7 | Building Permits | December 11 | +2.0% | -3.6% |
| February 8 | Housing Starts | January 12 | 200.0 k | 200.2 k |
| February 9 | New Home Price Index | December 11 | +0.2% | +0.3% |
| February 10 | International Trade | December 11 | +$0.5B | +$1.1B |

**Key Earnings**
February 6 – Loews, Sysco, Yum Brands
February 7 – ArcelorMittal, Bell Aliant, BP, Coca-Cola, Emerson Electric, GlaxoSmithKline, Saputo, Walt Disney, Xstrata
February 8 – Agrium, BHP Billiton, CAE, Cisco Systems, News Corp, Sanofi, Sprint Nextel, Statoil, Time Warner, Visa, WestJet
February 9 – BCE, Cameco, Canadian Tire, Credit Suisse Group, Diageo, Fortis, Great-West Lifeco, Husky Energy, ING Groep, LinkedIn, Manulife Financial, PepsiCo, Philip Morris International, Rio Tinto, Shoppers Drug Mart, Thomson Reuters
February 10 – Alcatel Lucent, Barclays, Brookfield Office Properties, IGM Financial, Manitoba Telecom Services, Telus, Total

Source: Action Economics, Bloomberg

## Market Focus

### Canadian economy contracts

Canada's economy shrank 0.1% in November, its first contraction since May 2011. This left year-over-year growth in gross domestic product at 2.0%, its slowest pace since February 2010. The monthly drop in output came on the heels of a no-change result for October and points to a weak fourth quarter figure, set to be released by Statistics Canada on March 2. Mining and energy production were the main culprits behind the reversal as the sub-group's output fell 2.2% during the month. Advances in manufacturing and retail merchandising (both +0.6%) were not sufficient to offset the move. The Bank of Canada's forecast of 2.4% growth in 2011 may be in jeopardy, barring a material strengthening in the December figures.

### U.S. job market begins 2012 on strong note

The latest figures from the U.S. Bureau of Labor Statistics revealed a solid 243,000 advance in non-farm payrolls during January. This was the strongest single-month gain since April 2011 (251,000). In addition, revisions to the previous two months of data added another 60,000 jobs to the tally. At the same time, more robust employment conditions have attracted discouraged workers back into the job market as the labour force grew by some 508,000. Despite this advance, the unemployment rate dropped from 8.5% to 8.3%, its lowest level since February 2009 (8.2%). While the broader economy still has much ground to cover in order to regain all of the jobs lost during the recession, there is considerable evidence that the gap is now closing.

### Eurozone unemployment hits new high

The unemployment rate among the 17 countries sharing the euro rose to 10.4% in December, according to Eurostat, the European Union's statistics office. This is the highest rate of unemployment since June 1998, before the introduction of the euro on January 1, 1999. Not surprisingly, there are significant regional variations. Germany's unemployment rate fell to 6.7% in January, a new record low for the two decades since figures for unified Germany were first published. Conversely, unemployment in Spain reached a new high of 22.9% in December. Nations facing significant austerity measures will continue to see much higher unemployment rates than their less encumbered neighbours.

## 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

### January 30

The U.S. Bureau of Economic Analysis reported that personal income increased US$61.3 billion, or 0.5% in December. Personal consumption expenditures (PCE) decreased $2.0 billion, or less than 0.1 %. Based on revised figures, personal income increased US$7.4 billion, or less than 0.1% and PCE increased US$11.4 billion or 0.1% in November. While income figures for December were above expectations, spending results were weaker. Income and spending patterns of consumers are critical factors in the health of the broader economy.

### January 31

Statistics Canada announced that real gross domestic product edged down 0.1% in November, following no growth in October. Most of the November decline was accounted for by lower output in the energy sector. These results are weaker than expected. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

Statscan also reported that in the November to December period, the Industrial Product Price Index declined 0.7% and the Raw Materials Price Index was down 2.4%. These declines were mainly the result of lower petroleum and metals prices. These figures are both below consensus expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

The U.S. Institute for Supply Management reported that its Chicago Purchasing Managers Index declined to a 60.2 reading in December. This is down from November's 62.2 reading but remained well above the key 50.0 (generally expanding) level. The reading is below consensus expectations but indicates continued strength in manufacturing activity within the region.

The U.S. Conference Board announced that its consumer confidence index had eased back in January. The index now stands at 61.1, down from 64.8 in December. The Present Situation sub-index dropped to 38.4 from 46.5. The Expectations sub-index dipped to 76.2 from 77.0. These results are below consensus expectations. This is an indicator of consumer spending patterns.

### February 1

The U.S. Institute for Supply Management reported that its Purchasing Managers Index rose to 54.1 in January. This is a 1.0 point gain from December's revised 53.1 reading and remains above the key 50.0 (generally expanding) level for a 30th consecutive month. The reading is broadly in line with expectations and indicates an acceleration in manufacturing activity.

The U.S. Census Bureau announced that construction spending during December 2011 totalled US$816.4 billion (seasonally adjusted annual rate). This is 1.5% above the revised November figure of $804.0 billion. The December 2011 level is 4.3% above the December 2010 total of $782.9 billion. The monthly growth figure is above consensus estimates. This result indicates continued growth in the construction sector.

**February 2**

The U.S. Department of Labor reported that initial jobless claims totalled 367,000 (seasonally adjusted) in the week ending January 28, a decrease of 12,000 from the previous week's revised figure of 379,000 (originally 377,000). The four-week moving average was 375,750, a decrease of 2,000 from the previous week's revised average of 377,750 (originally 377,500). These results are stronger than consensus expectations. The market will view the continued move lower as a sign of an improving employment situation.

The U.S. Bureau of Labor Statistics announced that labour productivity increased at a 0.7% (annualized) during the fourth quarter of 2011 while unit labour costs rose 1.2%. These figures are broadly in line with expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

**February 3**

Statistics Canada reported that 2,300 jobs were added in January, but the unemployment rate rose by 0.1 percentage points to 7.6% as an additional 23,700 workers came off the sidelines and entered the labour force. Overall, employment was up 0.7% (+129,100) from 12 months earlier. These results are weaker than market consensus. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

The U.S. Bureau of Labor Statistics announced that non-farm payroll employment rose by 243,000 in January, and the unemployment rate decreased by 0.2 percentages points to 8.3%. Job growth was widespread, with large gains in professional and business services, leisure and hospitality, and manufacturing. Government employment continued to trend down. The figures are considerably stronger than market consensus. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

The U.S. Census Bureau reported that factory orders increased US$5.3 billion or 1.1% to US$466.2 billion in December. This followed an upwardly revised 2.2% increase in November. Excluding transportation, new orders increased 0.6%. Given the magnitude of the revisions, these results are broadly in line with expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

The U.S. Institute for Supply Management announced that its Non-Manufacturing Index surged to a 56.8 reading in January, up 3.8 from the 53.0 level registered in December. This figure is well above consensus expectations. This result indicates continued growth, and at a more rapid rate in the non-manufacturing sector.