Weekly Commentary – November 26, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
November 27	House Price Index	September 18	0.4%	0.3%
November 28	New Home Sales	October 18	1.7%	-5.5%
November 29	Personal Spending	October 18	0.3%	0.4%
November 30	Chicago PMI	November 18	59.2	58.4
Canada				
November 30	GDP	September 18	0.2%	0.1%
November 30	PPI Y/Y	October 18	5.9%	6.2%

Key Earnings:
November 26: Buckle Inc., Diana Shipping Inc., Huami Corp., Puxin Ltd.
November 27: Cracker Barrel Old Country Store Inc., LAIX Inc., Seadrill Inc.
November 28: La-Z-Boy Inc., Perry Ellis International Inc., Tiffany & Co.
November 29: Abercrombie & Fitch Co., Build-A-Bear Workshop Inc., HP Inc.
November 30: Citi Trends Inc., Destination XL Group Inc., Movado Group Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian retail sales edge up in October

The latest data from Statistics Canada revealed that retail sales had edged 0.2% higher in September, following a flat result in August. Consumer spending was a primary driver of broader economic growth during 2017, as retail sales jumped 7.1% for the year. Still, the sharp slow-down seen in the first quarter of this year (-2.0% annualized) has moderated and third quarter growth in retail sales stands at 3.6% (on the same basis). However, the Bank of Canada has raised interest rates three times thus far in 2018, adding to the two rate hikes in 2017. Given that the bank appears likely to continue tightening monetary policy, further moderation in consumer activity will not come as a surprise.

U.S. housing market signalling weakness

Following six straight months of decline, the U.S. National Association of Realtors (NAR) reported that existing-home sales had increased 1.4% to a seasonally adjusted annual rate of 5.22 million units in October. However, despite the month-over-month gain, sales still stood 5.1% below the pace reported in October 2017, the sharpest 12-month drop since July 2014. According to the NAR, a dearth of properties for sale has pushed up prices by 3.8% (on a year-over-year basis), marking the 80th straight month of year-over-year gains. At the current sales pace, there has been a buildup in inventories in recent months, with a 4.3-months' supply of homes on the market at the end of October. This information coincided with the report from the U.S. Census Bureau, which indicated that housing starts rose 1.5% in October, following a 5.5% drop in September. With rising interest rates and the 30-year fixed-rate mortgage nearing 5.0%, it appears that demand has weakened while current homeowners' unwillingness to sell has increased. As a result, the NAR has suggested that the Federal Reserve should consider pausing its rate hikes to give the housing market some time to find sturdier ground.

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

November 19

▲ According to preliminary estimates from Eurostat, the European Union statistical agency, annual growth in construction output in the euro area rose by 4.6% (seasonally adjusted) in September, following a downwardly revised 2.2% growth in August. Accordingly, monthly growth in construction output surged to 2.0% in September, offsetting a downwardly revised 0.6% decline in August. The year-over-year figures showed the steepest increase in construction output since January and sharply beat market consensus. Output growth is linked to fast-paced business activity expansion and civil engineering.

▼ The Ministry of Finance Japan announced that Japan's merchandise trade deficit widened to ¥449 billion in October, following a revised surplus of ¥278.6 billion in the same month a year ago. Imports surged the most since 2014, as rising energy prices helped boost oil imports, while exports rebounded less than expected. Notably, on a year-over-year basis, Japan's trade surplus with the U.S. contracted 11.0%, while its trade gap with China jumped 52.1%. From January to October, Japan recorded a trade gap of ¥401 billion, compared to a surplus of ¥2.4 trillion in the same period of 2017. The merchandise trade figures were considerably weaker than market expectations of a ¥70 billion gap.

▼ The National Association of Home Builders (NAHB) reported that the Housing Market Index (HMI) for the U.S. buckled eight points to a 60 reading in November, following a revised 68 measure in October. Among components of the HMI, future sales posted the largest decline, down 10 points to 65, registering the weakest showing since May 2016. Additionally, current sales fell seven points to 67 which also pointed to its lowest reading since August 2016. It is likely that rising mortgage rates, with the fixed 30-year mortgage rate in the U.S. averaging 5.17% in the week ending November 9, is a key underlying factor behind the unexpected plunge in the HMI. These results were much weaker than the market consensus range of 66 to 69 and will not lift expectations for tomorrow's report on U.S. housing starts and permits for October. The NAHB HMI is a gauge of the general economy and housing market conditions in the United States.

November 20

▲ The U.S. Census Bureau announced that housing starts in October were at a seasonally adjusted annual rate of 1,228,000. This is 1.5% above the revised September estimate of 1,210,000 but is below the October 2017 rate of 1,265,000. At the same time, the number of building permits issued in October was at a seasonally adjusted annual rate of 1,263,000. This is 0.6% below the revised September rate of 1,270,000 and is 6.0% below the October rate of 1,343,000. These figures are marginally weaker than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

November 21

▲ The U.S. Department of Labor announced that initial jobless claims totalled 224,000 (seasonally adjusted) in the week ending November 17, an increase of 3,000 from the previous week's revised level. The previous week's level was revised up by 5,000 from 216,000 to 221,000. The four-week moving average was 218,500, an increase of 2,000 from the previous week's revised average. The previous week's average was revised up by 1,250 to 216,500. These results are somewhat weaker than consensus estimates.

▼ The U.S. Census Bureau announced that durable goods orders tumbled 4.4% in October, following a downwardly revised 0.1% decline in September (originally reported as a 0.8% gain). Excluding transportation, new orders increased 0.1% in October. Excluding defence, new orders decreased 1.2%. With the downward revisions to the previous data, these figures are considerably weaker than market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

▲ According to the U.S. National Association of Realtors, existing-home sales rose 1.4% in October, to a seasonally adjusted annual rate of 5.22 million units, marking the first increase in sales after six consecutive months of decline. Compared to a year earlier, sales in October declined 5.1%, the largest drop since 2014. These results are marginally above consensus expectations. Sales activity in the housing market provides a gauge of not only the demand for housing, but a general sense of broad economic momentum.

November 23

▲ Statistics Canada reported that consumer prices rose 0.3% (seasonally adjusted, monthly basis) in October, after falling 0.1% in September. On a year-over-year basis the consumer price index (CPI) was up 2.4%, above September's 2.2% pace. The recreation, education and reading sub-index (+1.0%) reported the largest increase during the month. The three measures of core inflation, established by the Bank of Canada, showed modest increases in underlying inflation but remained near their 2.0% target, ranging from 1.9% to 2.1%. CPI common, which the central bank says is most closely correlated with the output gap, was steady at 1.9%. The overall figures are slightly higher than market expectations.

▲ Statistics Canada reported that retail sales edged up 0.2% (seasonally adjusted) in September, following a relatively flat August. Sales were up in six of 11 subsectors, representing 75% of retail trade with general merchandise sales (+1.2%) reporting the largest monthly advance. Building material and garden equipment and supplies dealers (-1.9%) recorded the largest decline. Year-over-year sales growth stood at 3.8%. These results are marginally higher than consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.