Credential

Market Insights | MONTHLY

Month in Review

For the month ended September 30th, 2018

Overall Highlights

- **S&P/TSX falls.** Canada's major stock index fell for the second consecutive month in September as NAFTA talks continued to drag on. Of the eleven sectors on the Composite, nine were in the negative territory. However, the health care sector surged 12% for the month thanks to the big gains for shares of cannabis-related companies. TSX closed the month at 16,073, down 1.2% from the previous month.
- **Dollar jumps.** Despite continued uncertainties around NAFTA, the Loonie was higher in September thanks to better than expected July GDP figures reported on the last business day of the month. These positive numbers also increased the likelihood of a rate hike by Bank of Canada at their October meeting, causing a late surge of the Loonie. At September close, our Dollar jumped 0.8% to finish at 77.25 U.S. cents.
- **Gold drops.** The price of gold continued to fall in September, making it six straight months of decline. Strength in the U.S. dollar continued to hold back the yellow metal. Gold closed at US$1,195.20 an ounce for a December contract, dropping 1% for the month.
- **Oil surges.** Crude oil had a strong month in September as multiple factors pointed to higher prices. U.S. sanctions on Iran and OPEC's decision not to raise output after its meeting in Algiers were causing concerns about tightening global supplies. At month's end, a November contract on a barrel of WTI crude settled at US$73.53, a 5.3% jump from August.
- **Rates on hold.** Still fresh from last month's rate hike, the Bank of Canada went against market suspicions and did not hike rates again so soon afterwards.
- **GDP grows more than expected.** Statistic Canada reported that Canada's GDP grew by 0.2% in July, higher than economists' expectation of a 0.1% growth.
- **Inflation slips.** The price of a representative basket of goods fell 0.1% in August as the pace of rising prices of gasoline, shelter, and utilities slowed.
- **Unemployment rate rises.** After touching the historical low again, the national jobless rate rose to 6% as part-time jobs were shed with the summer coming to a close.
- **Retail sales higher.** Lifted by higher fuel and food, national retail sales in July rose 0.3%.
- **Dow Jones gains, but NASDAQ falls.** The three major U.S. stock indices went in different directions in September.
- **Fed hikes rates.** The Federal Reserve raised interest rates by 0.25% for the third time this year after its September meeting.
- **U.S. Q2 GDP growth unrevised.** Third estimate of the Q2 GDP growth pace remained at a 4.2% annualized rate.
- **U.S. CPI rises.** U.S. consumer prices rose 0.2% in August, lower than expected.
- **U.S. retail sales increase.** Retail sales edged up 0.1% in August, down from July's 0.7% pace.
- **U.S. consumer sentiment improves**. Consumer sentiment improved significantly in September.
- **ECB stays its course.** The ECB kept its monetary policy unchanged, staying on track to wind down bond purchases this year, and expecting to raise benchmark interest rates sometime next fall.
- **Euro-zone Q2 GDP rises.** Q2 GDP within the Euro-zone grew by 0.4% quarter over-quarter.
- **Japan's CPI rises.** Government data showed that Japan's consumer prices increased by 1.3% year-over-year in August.
- **China services PMI falls.** Growth in China's service sector decelerated in August.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,073.14	-189.7	-136.0
	-1.2%	-0.8%
Dow Jones Industrial Average		
26,458.31	493.5	1,739.1
	1.9%	7.0%
S&P 500		
2,913.98	12.5	240.4
	0.4%	9.0%
NASDAQ Composite		
8,046.35	-63.2	1,143.0
	-0.8%	16.6%
MSCI-EAFE Index		
1,973.60	11.6	-77.2
	0.6%	-3.8%
WTI Crude Oil (per barrel, in $US)		
73.53	3.7	13.4
	5.3%	22.3%
Gold (per ounce, in US$)		
1,195.20	-11.5	-109.8
	-1.0%	-8.4%
Canadian Dollar (¢ per US$)		
77.25	0.7	-2.5
	0.8%	-3.1%

Sources: Bloomberg

Canadian Markets

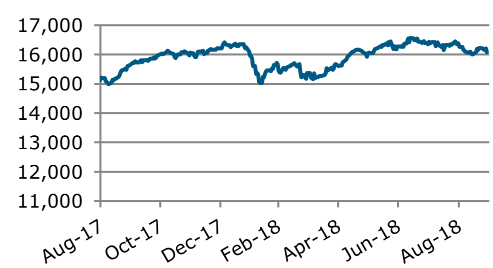
- **GDP grows more than expected.** Statistic Canada reported that Canada's GDP grew by 0.2% in July, higher than economists' expectation of a 0.1% growth. Strength in the manufacturing sector drove the growth. The better than anticipated GDP figure increased the odds of an October rate hike by Bank of Canada.
- **Rates on hold.** Still fresh from last month's rate hike, the Bank of Canada went against market suspicions and did not hike rates again so soon afterwards. Opting to see the effects of its last 25bps rate increase to 1.50% on the economy, Governor Stephen Poloz also cited the uncertainty of the outcome of NAFTA as Canada continues to negotiate with the U.S. Despite this, the central bank remains on track with its gradual, rate-hiking strategy with the next meeting scheduled for October 24.
- **Unemployment rate rises.** After touching the historical low again, the national jobless rate rose to 6% as part-time jobs were shed with the summer coming to a close. For August, 51,600 jobs were lost, primarily of a part-time basis in the services, trade, and construction sectors. Expectations were for an increase of 5,000 positions with the rate rising to 5.9%. The participation rate fell slightly to 65.3% in August.
- **Inflation slips.** The price of a representative basket of goods fell 0.1% in August as the pace of rising prices of gasoline, shelter, and utilities slowed. The decline was the first after seven consecutive monthly gains. On an annualized basis, inflation also fell from a seven-year high of 3% to 2.8% in August. All eight of the major sectors were higher for this period with the largest contribution coming from the transportation sector. Core inflation, which removes volatile components, edged higher to 1.7%, ahead of forecasts of 1.5%.
- **Producer prices fall.** Producer prices dropped for the second straight month in July. Statistics Canada reported that the Industrial Product Price Index (IPPI) fell 0.5% in July, more than economists' expected decrease of 0.3%. IPPI also fell 0.2% in June after six straight months of increase.
- **Manufacturing sales rise.** Factory sales were higher in July on the backs of higher demand for transportation equipment and chemical products. For the month, manufacturing receipts tallied to $58.6B, a 0.9% increase over the previous month, and bettering economist expectations of a 0.6% gain. Of the 21 industries tracked by the Statistics Canada index, 11 were higher, representing 68% of total sales. On a constant dollar basis, sales rose 1%, representing an increase in goods by volume.
- **Retail sales higher.** Lifted by higher fuel and food, national retail sales in July rose 0.3%, as reported by StatCan, on par with economist estimates. An increase in consumer spending as well as business investments helped the metric move higher as eight of the 11 sectors followed by the national statistics agency rose, accounting for 54.8% of all retail trade during the month. On a volume basis, however, retails sales were lower on an annualized basis, which declined from 4% to 3.7% in July.

- Canada Housing News:
    - **Starts slow.** The number of ground-breaking for new homes slowed in August as the six-month trend saw 214,598 units started compared to 219,656 units during the previous month. The reading has trended lower since peaking in March as demand fell 2.4% for multi-unit structures. Single-detached homes fell even more by 2.6% to 52,225 units, as reported by CMHC.
    - **New home prices rise.** For a second straight month, the price of a new home in Canada rose in July by 0.1%. Of 27 metros tracked by Statistics Canada, 15 were higher led by London, Ontario with a 0.5% gain on favourable market conditions and rising costs in that region. Perennial hot spots Toronto and Vancouver were mixed with a 0.1% gain and 0.2% loss, respectively. On an annualized basis, prices are higher by 0.5%.
    - **Building permits drop.** Intentions to build, especially in the multi-dwelling market, fell in July as Statistics Canada reported a 0.1% decline, where estimates were for a 1% increase. Regardless, the month's reading was an improvement over a revised higher 1.3% drop in June as total permit values tallied to $8.2B. Apartments and similar fell 1.1%, while single-family homes and non-residential structures rose 0.6% and 0.2%, respectively.
    - **Sales rise.** For a fourth straight month, CREA reported a rise in home sales, with the Greater Toronto Area region leading the way, followed by Montréal and Edmonton. For the month, half of the markets followed gained, equating to an overall national increase of 0.9% from the previous month. On a year-over-year basis, but not seasonally adjusted, home sales are down 3.8% as the effects of new mortgage rules and higher interest rates begin to take their toll.

S&P/TSX Composite Index
Sector Snapshot

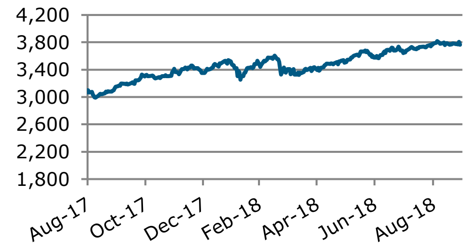
Sector	Month Return	YTD Return	Weight (%)
Energy	-3.59	-3.99	19.10
Communication Services	1.68	6.06	5.30
Industrials	-0.11	11.33	10.60
Consumer Staples	-0.39	-4.55	3.40
Utilities	-2.14	-11.08	3.70
Financials	-0.25	-0.36	34.30
Consumer Discretionary	-4.59	-6.22	4.40
Health Care	12.14	29.13	2.00
Materials	-1.51	-10.96	10.10
Information Technology	0.06	25.61	4.10
Real Estate	-0.86	5.51	3.10

S&P/TSX Composite - 1Y Return

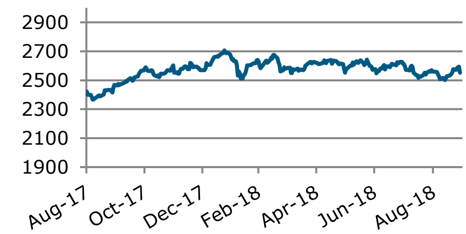


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **Dow Jones gains, but NASDAQ falls.** The three major U.S. stock indices went in different directions in September. The broad-based S&P 500 index went up 0.4% for the month, closing at 2,914. The Dow Jones Industrial Average was the best performer of the month, up 1.9%, closing September at 26,458. The tech-heavy Nasdaq lagged in September, declining 0.8% to end the month at 8,046.
- **Fed hike rates.** The Federal Reserve raised interest rates for the third time this year. The Federal Open Market Committee (FOMC) decided to raise its benchmark interest rates by a quarter percentage point to a range of 2% to 2.25% after its September meeting. Chairman Jerome Powell signaled that the central bank will maintain a gradual path of raising rates. "These rates remain low, and my colleagues and I believe that this gradual returning to normal is helping to sustain this strong economy", stated Powell at the press conference. The central bank also removed the word "accommodative" from its description of monetary policy.
- **U.S. Q2 GDP growth unrevised.** The Commerce Department reported its third estimate of the Q2 GDP growth. The growth pace reported remained at a 4.2% annualized rate, unchanged from the second estimate released back in August. It was the fastest growth pace since Q3 2014.
- **U.S. economy creates more jobs than expected.** The U.S. economy pumped out more jobs than expected in August, according to the report by the Bureau of Statistics. Non-farm payrolls increased by 201,000 in August, more than economists' forecast of 191,000. Unemployment rate held at a generational low of 3.9%. The average hourly wage increased by 2.9% year-over-year, the fastest growth pace since April 2009.
- **U.S. CPI rises.** U.S. consumer prices rose less than expected in August. The Labor Department reported that the consumer price index (CPI) increased by 0.2% in August, less than economists' expected increase of 0.3%. On a year-over-year basis, CPI was up 2.7%. The core measure, which excludes food and energy prices, advanced 0.1% on the month and 2.2% on the year, both missing forecasts.
- **U.S. PPI drops.** Producer prices in U.S. fell for the first time in one and a half years. The Labor Department reported that the producer price index (PPI) dropped 0.1% in August, the first monthly drop since February 2017. Economists were expecting an increase of 0.2%. On a year-over-year basis, PPI rose 2.8%.
- **U.S. core PCE price index unchanged.** The Fed's preferred measure of inflation remained stable in August. The core personal consumption expenditure (PCE) price index, which excludes food and energy prices, rose 2% year-over-year in August, unchanged from the previous month's pace. On the same report, consumer spending was reported to increase by 0.3% in August after jumping 0.4% in July; the pace of growth was in line with economists' forecast.
- **ISM manufacturing and non-manufacturing indices rise.** Manufacturing activity accelerated to a 14-year high in August according to the Institute for Supply Management (ISM). The ISM manufacturing index rose from July's 58.1 to 61.3 in August, the highest reading since May 2004. U.S. services sector also expanded faster than expected as reflected in the ISM non-manufacturing index, coming in at 58.5, up from July' reading of 55.7, exceeding economists' expectations of 56.8 by a wide margin.
- **U.S. industrial production rises.** The Federal Reserve reported that industrial production increased by 0.4% in August, beating economists' expected increase of 0.3%. Manufacturing output increased by 0.2%, thanks to a 4% rise in motor vehicles and parts. Mining output rose 0.7% while utilities output was up 1.2%.
- **U.S. durable goods orders rise.** The Commerce Department reported that durable goods orders rose 4.5% in August, beating economists' expected increase of 2.2%. However, core capital goods orders, which exclude the volatile aircraft sector, fell 0.5% after four straight months of increase; economists were expecting a 0.4% rise.
- **U.S. merchandise trade deficit rises.** Despite all the trade tariffs being put in place, the goods trade deficit of U.S. widened in August. The Commerce Department reported that the goods trade deficit increased by $3.8 billion to $75.8 billion in August. Exports of goods decreased by $2.3 billion to $137.9 billion while import of goods rose $1.5 billion to $213.7 billion.
- **U.S. retail sales increase.** The Commerce Department reported that retail sales edged up 0.1% in August, down from July's 0.7% pace. It was the smallest rise since February. Economists were expecting an increase of 0.4%. Weakness in the auto sector, which fell 0.8% in August, contributed to the slowdown in sales. On a year-over-year basis, retail sales were up 6.6%.
- **U.S. consumer sentiment improves**. Consumer sentiment improved significantly in September, according to a report by the University of Michigan. September's final reading of the university's consumer sentiment index rose to 100.1 from August's reading of 96.2. Economists were expecting an even stronger reading of 100.8.
- **U.S. Housing News:**
    - **U.S. housing starts rise.** Homebuilding in U.S. jumped more than expected in August, according to a report by the Commerce Department. Housing starts surged 9.2% to a seasonally adjusted annual rate of 1.28 million units in August, beating economists' expected pace of 1.24 million by a wide margin. August's starts were boosted by a 29.3% jump in the volatile multifamily segment. Building permits, however, dropped 5.7 % to an annual rate of 1.23 million units, missing economists' forecast of a 1.32 million annual pace.
    - **U.S. existing home sales stay flat.** The National Association of Realtors reported that August's existing home sales remained stable at a seasonally adjusted annual pace of 5.34 million units. It was after four straight months of decline. Economists were expecting a slight increase of 0.3% in August sales.
    - **U.S. new home sales rebound.** New home sales rebounded in August after two months of decline. The Commerce Department reported that new home sales increased by 3.5% to a seasonally adjusted annual pace of 629,000 units in August; economists were expecting an annual pace of 630,000 units. On the year, new home sales were up 12.7%.
    - **U.S. home price increase decelerates.** The S&P CoreLogic Case-Shiller National Home Price Index rose 6% year-over-year in July, slowing from June's pace of 6.2%. The 20-city index increased 5.9% on the year, also decelerating from June's pace of 6.4%. Las Vegas, Seattle, and San Francisco continued to lead the group in terms of percentage increases.
    - **U.S. pending home sales fall.** The National Association of Realtors reported that its pending home sales index dropped 1.8% to a reading of 104.2 in August. Economists were expecting a 0.4% decline. It was the fourth monthly decline in the last five months. On a year-over-year basis, pending home sales were down 2.3%.

European Markets

- **ECB stays its course.** In its September meeting, the ECB kept its monetary policy unchanged, staying on track to wind down bond purchases this year, and expecting to raise benchmark interest rates sometime next fall. The bank confirmed it will halve bond purchases to $15 billion euros per month starting in October. The central bank also lowered growth projections of the 19-member bloc due to uncertainties around trade dispute.
- **Euro-zone Q2 GDP rises.** Eurostat reported that Q2 GDP within the Euro-zone grew by 0.4% quarter over-quarter, confirming the preliminary reading. Year-over-year growth was revised from 2.2% down to 2.1%.
- **Euro-zone inflation rises**. Eurostat reported that the Harmonised Index of Consumer Prices (HICP) rose 2.1% year-over-year in September, up from August's pace of 2%. It was the highest level since April 2017. A 9.5% annual increase in energy prices was the major factor pushing up prices.
- **Euro-zone 'flash' composite PMI falls.** Euro-zone 'flash' composite fell slightly in September as manufacturing activity cooled down. The IHS Markit's 'flash' composite purchasing managers' index (PMI) fell from August's reading of 54.4 to 54.2 in September; economists were expecting a reading of 54.3. Manufacturing PMI fell from 54.6 to 53.3, missing forecasts of 54.2. Services sector PMI rose slightly to 54.7 from 54.4, better than economists' expected 54.5.

Asian Markets

- **Japan composite PMI rises.** Japan's business activity expanded faster in August, according to the composite PMI. The Markit/Nikkei Japan composite purchasing managers' index (PMI) rose to 52.0 in August, up from July's reading of 51.8. Manufacturing PMI increased from 52.3 to 52.5 while services PMI advanced from July's 51.3 to 51.5.
- **Japan's CPI rises.** Government data showed that Japan's consumer prices increased by 1.3% year-over-year in August, up from the 0.9% annual pace reported in July. The core measures, which excludes fresh food and energy prices, rose 0.4% on the year, also up from July's pace of 0.3%.
- **Economic data out of China.** A slew of economic data came out of China this week. Retails sales grew 9% year-over-year in August, beating economists' expected 8.8% increase. Industrial output expanded by 6.1% year-over-year in August, slightly higher than consensus forecast of a 6% rise. Fixed asset investment was up 5.3% year-over-year in August, missing expectations.
- **China services PMI falls.** Growth in China's service sector decelerated in August. The Caixin/Markit services purchasing managers' index (PMI) declined to 51.5 in August, down from July's reading of 52.8. It was the lowest reading in 10 months.

Key Take-Aways

Not hiring, at least not right now. Statcan released the unemployment numbers for August and the results were 92,000 part-time positions lost, mostly in Ontario where 80,100 were shed. Of this number, 19,600 were in wholesale and retail trade and 16,400 in construction, typical sectors where employers find temporary workers to help during the busy summer period. Unfortunately, this bumped the unemployment rate up from a recorded low of 5.8% to 6%. On the bright side, the economy is considered on firmer ground as full time hirings grew by 40,400 for the month and has added 326,100 permanent positions for a net increase of 171,700 jobs for the last 12-month period. In the U.S., it's a different story as 201,00 jobs were created, above estimates, and the unemployment rate held at a historical low of 3.9%. Given the speedbumps overcome in the past and the hurdles to encounter in the upcoming months, the Canadian economy has fared well and will have the ability to get more people working, just not at the moment.

Brighter Days in Eurozone. As many had anticipated, the European Central Bank (ECB) announced they are keeping their main financing rate unchanged at 0%—a level it's been at since 2016. Although the Eurozone has made strides in its recovery since the sovereign debt crisis in 2009, ECB president Mario Draghi made the choice to keep the rate at ultra-low levels to provide additional support to the economy. Economic metrics monitored by the ECB have improved such as unemployment—which has fallen to a decade low—and inflation that has settled within the central bank's targets. However, Draghi forewarned the good times will not last as the ECB will keep rates at record lows at least until next summer, after which it will likely begin hiking them upwards. In addition, the asset purchasing program that has been in place since 2015 will be scaled back to €15B per month starting in October and eliminated entirely in 2019. After years of austerity, the European community is finally seeing economically brighter days ahead.

Higher rates on the horizon. Statistics Canada recently released an inflation report that shows a slight cooling in August by -0.1% compared to the previous month. On an annualized basis, it was a similar story as that measure fell from a seven-year high of 3% to 2.8%. This slowdown is mostly due to the uncertainty of the outcome of NAFTA negotiations, but also partly due to the retaliatory tariffs imposed on inbound goods from the U.S. Most importantly, however, is the trio of the Bank of Canada's (BoC) core inflation measures that were all at or above the mid-way mark of the central bank's 1-3% target range for the first time since early 2012. As the strength in these core measures continues to mount, so too does the economy move closer to full capacity, giving the BoC reason to pull the trigger on another rate hike after holding steady in their September meeting. The latest odds place an October interest rate increase at over 88%. Gone are the days of cheap money as things will become more expensive.

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