Credential
Market Insights | MONTHLY

Month in Review

For the month ended August 31st, 2018

Overall Highlights

- **TSX drops.** Canada's largest equity index continued to be driven by NAFTA trade talks as Canada and the U.S. failed to reach a deal before the month-end deadline, despite the latter having reached a bilateral agreement with Mexico. Of the 11 sectors on the Composite, eight were lower led by Energy, which declined due to pressures of trade worries. On the close, the TSX ended the month at 16,263, a decline of 1.0%.
- **Dollar lower.** The Loonie's wings were clipped during the last trading week of the month as prospects of a tri-lateral NAFTA agreement faded past U.S. president Trump's month-end deadline. Our currency was also affected by the decreased likelihood of a rate hike by the BoC at their early-October meeting, as well as upcoming jobs data where unemployment was expected to rise. At August's close, our Dollar fell 0.3% to finish at 76.60 U.S. cents.
- **Gold tarnishes.** The yellow metal fell for a fifth month in a row after having gained back some losses recently. The strength of the U.S. greenback continued to hold back any substantial gains of the resource as investors drove the currency higher as trade tensions linger. For August, gold closed at US$1,206.90 an ounce for a December contract, a decrease of 2.1%.
- **Oil gushes.** Despite being shadowed by the U.S.-China trade spat that has been going on for almost four months, crude had a surprisingly strong gain in August as U.S. sanctions on Iranian oil was anticipated to tighten global oil supplies. As well, talks of additional tariffs on China and lower U.S. inventories have provided a lift for oil after some recent softness. At month's end, an October contract on a barrel of WTI crude settled at US$69.80, a 2.1% increase from July.
- **GDP flat.** Canada's economic growth was little changed in June following May's 0.5% increase as economists had expected a 0.1% gain for the month.
- **Unemployment falls.** The summer months bought on more hirings by employers as the national jobless rate fell to 5.8% from 6% in June.
- **Inflation moves higher.** Canada's consumer price index rose way above estimates as the cost of gasoline drove prices higher. For July, prices rose 0.5%, above the 0.1% consensus that was forecasted.
- **Retail sales dip.** Consumers slowed their spending at the end of the second quarter as retail sales fell 0.2% in June.
- **U.S. Q2 GDP growth revised up.** The Commerce Department reported its second estimate of Q2 GDP growth. The growth pace was revised from the first estimate of 4.1% annualized to 4.2%, notching its best performance in nearly four years.
- **U.S. CPI rises.** The Labor Department reported that the consumer price index (CPI) rose 0.2% in July, matching economists' forecast.
- **U.S. consumer sentiment rises.** Consumer sentiment in the U.S. rose in August but has recently remained at a relatively low level.
- **Euro-zone Q2 GDP growth revised higher.** Eurostat revised Q2 GDP growth of the single-currency bloc upward as Germany and the Netherlands had stronger than expected growth.
- **Euro-zone unemployment falls.** Unemployment rate within the 19-member region fell to a decade low in July. Eurostat reported that the unemployment rate within the Euro-zone fell from July's 8.3% to 8.2% in August.
- **Japan's GDP rebounds.** Japan's economy returned to positive growth in Q2. After contracting in Q1, Q2's GDP grew by 0.5%, according to data released by the Cabinet Office.
- **China's PPI slows but CPI picks up.** Factory price inflation rose at a slower pace in China in July but consumer prices accelerated. The National Bureau of Statistics reported that the producer price index (PPI) increased by 4.6% year-over-year in July.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,262.88	-171.1	53.7
	-1.0%	0.3%
BMO Nesbitt Burns Small Cap		
912.60	7.3	-23.8
	0.8%	-2.5%
Dow Jones Industrial Average		
25,964.82	549.6	1,245.6
	2.2%	5.0%
S&P 500		
2,901.52	85.2	227.9
	3.0%	8.5%
NASDAQ Composite		
8,109.54	437.8	1,206.2
	5.7%	17.5%
MSCI-EAFE Index		
1,962.05	-44.0	-88.7
	-2.2%	-4.3%
WTI Crude Oil (per barrel, in $US)		
69.80	1.4	9.7
	2.08%	16.1%
Gold (per ounce, in US$)		
1,206.70	-26.3	-98.3
	-2.1%	-7.5%
Canadian Dollar (¢ per US$)		
76.60	-0.2	-3.1
	-0.3%	-3.9%

Sources: Bloomberg, PC Bond

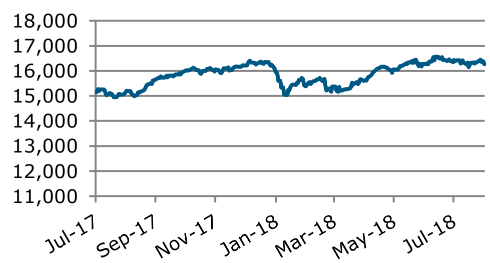
Canadian Markets

- **GDP flat.** Canada's economic growth was little changed in June following May's 0.5% increase as economists had expected a 0.1% gain for the month. A decline in demand for goods was offset by gains seen in the manufacturing and services sector. For the quarter, however, it provided the biggest surprise as GDP grew at 0.7% on increased exports to an annualized rate of 2.9%, doubling Q1's pace. This reading was just under the 3% forecasted, but not expected to trigger a move by the Bank of Canada in October.
- **Unemployment falls.** The summer months bought on more hirings by employers as the national jobless rate fell to 5.8% from 6% in June. Over 54,000 jobs were added into the economy, mainly of a part-time, non-permanent nature in the services sectors as 28,000 full time positions were lost. Labour force participation remains strong, hovering at 65.4%, down slightly from the previous month's 65.5%.
- **Inflation moves higher.** Canada's consumer price index rose way above estimates as the cost of gasoline drove prices higher. For July, prices rose 0.5%, above the 0.1% consensus that was forecasted. Of the eight components that make up Statistics Canada index, all gained for the month led by rising energy costs. On an annualized basis, prices are up 3% from a year ago, the highest since 2011, while core inflation—which omits volatile variables—rose to 1.6% for the same period, up from 1.3% in June.
- **PPI lower.** A drop in the cost of non-iron containing metal products pushed producer costs lower as PPI fell 0.2% in July. This was the first decline in seven months as June`s number was revised higher to 0.7%. Statistics Canada`s tracking of 21 commodity groups saw declines in seven of them while 10 where higher. Annualized, PPI rose to 6.6% during the month from 5.3%.
- **Wholesale sales fall.** A decline in motor vehicle and parts sent factory trade lower in June by 0.8% to $63.1B. This was the second decline in three months, as reported by Statistics Canada, where five of the seven sectors monitored fell, led by a 1.9% drop in the auto industry. In volume terms, sales decreased by 1.1%, while on a quarterly basis for Q2, wholesales sales rose 1% in current dollar terms.
- **Manufacturing sales up.** Factory sales topped analyst forecasts driven by higher demand for coal and oil shipments. In June, manufacturing sales rose 1.1% to $58.1B, besting expectations of a 0.9% gain. This follows strong May sales that rose 1.5%. The better than expected reading from StatCan increased the odds of the Bank of Canada gradually raising rates again.
- **Manufacturing PMI lower.** Factory activity across Canada was lower, but strong nonetheless as IHS Markit's July reading of manufacturing PMI was 56.9. This was comfortably within expansionary territory as overall improvements in business conditions helped output and new orders rise. This was the fastest since March 2017. However, the effects of U.S. tariffs on steel and aluminum appear to be having an impact raising prices to end consumers.
- **Retail sales dip.** Consumers slowed their spending at the end of the second quarter as retail sales fell 0.2% in June. Total receipts were $50.7B as fewer cars and their parts were sold and demand fell at the gas pumps. Expectations were for an increase of 0.1% for the month. On an annualized basis, sales were higher, moving to 3.8% from 3.6% in May.

S&P/TSX Composite Index Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	-4.04	-0.42	19.30
Telecoms	-0.86	-4.45	4.50
Industrials	0.57	11.45	10.50
Consumer Staples	-1.72	-4.18	3.40
Utilities	-1.33	-9.14	3.80
Financials	1.06	-0.11	34.10
Consumer Discretionary	-3.67	-1.70	5.50
Health Care	28.36	15.15	1.70
Materials	-8.23	-9.59	10.20
Information Technology	5.06	25.54	4.00
Real Estate	1.92	6.43	3.00

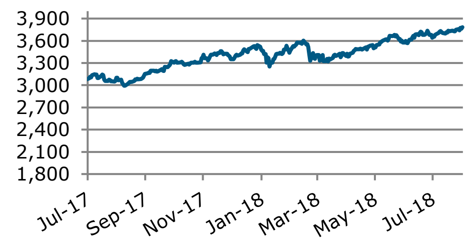
S&P/TSX Composite - 1Y Return



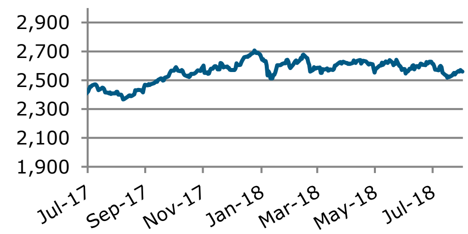
- Canada Housing News:
  - **Prices higher.** As reported by Teranet-National Bank, the average price of a home across Canada rose in July by 0.8%, just below the historical average for this time of the year. Gains were seen in ten of the 11 metros followed by the index led by the Ottawa-Gatineau regions (+2.3%) and Winnipeg (+1.9%). Former hot market Toronto was on par at 0.8%, while Vancouver rose only 0.4%.
  - **Existing home sales rise.** In July, CREA released data showing an increase in existing home sales rising 1.9% from the previous month. This was the third straight month of gains as the Greater Toronto Area led all advancers where roughly half of the regional markets tracked saw gains. For the same period, the number of newly listed homes fell 1.2% as the average sales price was up 1% year-over-year.
  - **Building permits fall.** Softness in residential demand unexpectedly caused a 2.3% decline in June, way off of the 1% increase expected by analysts. Statistics Canada reported an 8% drop in applications for multi-family dwellings as overall residential permits fell 5.7%. Conversely, increased demand in Ontario and Alberta for commercial and industrial structures helped cushion the decline rising 4.6% during the month.
  - **Housing starts decline.** The number of ground breakings for new homes fell in July to an annualized 206,314 units. Most of the declines were in the multi-unit dwellings that fell 20.3% to 136,231 units while detached homes decreased at a smaller 3.6% pace to 53,862 units. Despite the pull-back during the month, CMHC reported the pace of home building continues to be high relative to historical data.
  - **New home prices edge up.** The price of a new home rose in June as construction, material, and development costs bumped prices up by 0.1%. Of the 27 metros tracked by StatCan, 11 saw increases led by the Montréal and Ottawa regions, while 10 were unchanged. Perennial hot markets Toronto and Vancouver had no growth and 0.2% increases, respectively. On an annualized basis, new home prices have risen 0.8%.

U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. stock market surges.** The U.S. stock market had a strong month in August despite the lingering uncertainties around trade war and Donald Trump's legal woes. All three major indices posted solid gains; S&P 500 and Nasdaq both reached record-highs during the month. The broad-based S&P 500 index was up 3%, closing the month at 2,902. The Dow Jones Industrial Average gained 2.2%, ending August at 25,965. The tech-heavy Nasdaq surged 5.7% in August, closing at 8,110. Two heavyweights of the index, Apple and Amazon, continued to reach new highs.
- **U.S. Q2 GDP growth revised up.** The Commerce Department reported its second estimate of Q2 GDP growth. The growth pace was revised from the first estimate of 4.1% annualized to 4.2%, notching its best performance in nearly four years. Economists were expecting an annualized growth pace of 4%. Stronger business spending was offsetting downward revision of consumer spending.
- **Powell speaks at Jackson Hole.** Federal Reserve Chairman Jerome Powell spoke at the Fed's annual symposium at Jackson Hole, Wyoming, delivering a speech that market participants closely watched for clues about the monetary policy path. In his prepared remarks, Mr. Powell hinted that the central bank will likely follow a gradual path of raising interest rates if the U.S. economy remains strong. "As the most recent FOMC statement indicates, if the strong growth in income and jobs continues, further gradual increases in the target range for the federal funds rate will likely be appropriate," Mr. Powell said in his speech.
- **U.S. CPI rises.** The Labor Department reported that the consumer price index (CPI) rose 0.2% in July, matching economists' forecast. On a year-over-year basis, CPI rose 2.9%. The core measure, which excludes food and energy components, also advanced by 0.2% in July, on par with estimate. On a year-over-year basis, core CPI was up 2.4%, slightly higher than consensus of a 2.3% increase.
- **U.S. producer prices remain flat.** Factory prices in U.S. were unchanged in July according to a report by the Labor Department. The Labor Department reported that the producer price index (PPI) remained flat in July after a 0.3% increase in June. On the year, the PPI increased by 3.3%, slowing from June's pace of 3.4%. Both figures missed economists' forecast.
- **U.S. job openings rise.** The number of job openings edged higher in June, as per the monthly Job Openings and Labor Turnover Survey (JOLTS). According to the report, there were 6.66M openings in June, up slightly from May's figure. Economists were expecting 6.65M openings. When compared to the same month last year, the number of job openings was up 8.8%. The Labor Department also reported that U.S. non-farm payrolls increased by 157,000 in July, while the unemployment fell a tick from 4% to 3.9%.
- **U.S. industrial production rises.** The Federal Reserve reported that industrial production was up 0.1% in July, missing economists' estimate of a 0.3% increase. The manufacturing component rose 0.3%, supporting the overall increase, while mining and utilities output both fell in July.
- **U.S. 'flash' composite PMI drops.** Business activity in U.S. slowed across the board in August, according to the preliminary PMI readings. The IHS Markit composite 'flash' purchasing managers' index (PMI) fell to 55.0 in August, down from July's reading of 55.9; economists were expecting a reading of 55.6. Manufacturing PMI slid from 55.5 to 54.5 while services PMI dropped from 56.2 to 55.2. Both sectors missed economists' expectations.
- **U.S. consumer spending rises.** The Commerce Department reported that consumer spending rose 0.4% in July. Economists were expecting the same percentage increase. Consumer spending was the main driver of the robust GDP growth in Q2. It was reported to grow at a 3.8% annualized rate in Q2 compared to 0.5% reported for Q1.
- **U.S. consumer sentiment rises.** Consumer sentiment in the U.S. rose in August but has recently remained at a relatively low level. The University of Michigan consumer sentiment index increased to 96.2 in August, up from July's reading of 95.3; economists were expecting a reading of 95.5. Despite the uptick, August's reading remained at the lowest level since January.
- **U.S. retail sales increase.** Retail sales rose more than expected in July, according to the Commerce Department. July's retail sales rose 0.5%, up from the 0.2% increase reported in June. Economists were expecting sales edging up by only 0.1%. Core retail sales—which excludes autos, gas, building materials, and food services—also rose 0.5% after dipping 0.1% in June.
- U.S. Housing:
  - **U.S. housing starts rebound.** Housing starts rebounded after a decline in June, but the increase was less than expected. The Commerce Department reported that homebuilding rose 0.9% in July to a seasonally adjusted annual pace of 1.17 million units; economists were expecting housing starts to rise at a pace of 1.26 million units. Building permits increased 1.5% to an annual pace of 1.31 million units, beating economists' forecasts.
  - **U.S. pending home sales fall.** Pending home sales fell for the seventh straight month in July. The National Association of Realtors reported that July's pending home sales dropped 0.7% from June; economists were expecting sales to stay flat. On a year-over-year basis, sales were down 2.3% in July. It was the seventh straight month of annual declines.
  - **U.S. home prices grow slower**. U.S. home prices posted its slowest monthly increase in almost two years. The S&P CoreLogic Cash-Shiller 20-city home price index advanced by 0.1% in June, less than economists' expected increase of 0.2%. On a year-over-year basis, home prices climbed 6.3% in June, slowing from the previous month's pace of 6.5%, but also lower than the forecasted rise of 6.5% rise. Las Vegas, Seattle, and San Francisco were the three cities with the largest year-over-year percentage increase.
  - **U.S. new home sales fall.** The Commerce Department reported that new home sales declined 1.7% to a seasonally adjusted annual pace of 627,000 units in July, the lowest level since October 2017. Economists were expecting a rise to an annual pace of 645,000 units.
  - **U.S. existing home sales fall.** Sales of previously owned homes fell for the fourth straight month in July. National Association of Realtors reported that existing home sales declined by 0.7% to a seasonally adjusted annual pace of 5.34 million units in July. Economists were expecting a gain of 0.6%. Higher home prices and tight supplies continued to force potential buyers out of the market.

European Markets

- **Euro-zone Q2 GDP growth revised higher.** Eurostat revised Q2 GDP growth of the single-currency bloc upward as Germany and the Netherlands had stronger than expected growth. The second estimate of Q2 GDP growth came in at 0.4% quarter-over-quarter, up from the previous estimate of 0.3%. The economic locomotive of the zone, Germany, posted growth of 0.5% while the Netherlands recorded a 0.7% expansion.
- **Euro-zone unemployment falls.** Unemployment rate within the 19-member region fell to a decade low in July. Eurostat reported that the unemployment rate within the Euro-zone fell from July's 8.3% to 8.2% in August. Economists were expecting the unemployment rate to stay at 8.3%. The rate was the lowest level since November 2008. Italy's unemployment rates dropped 0.4% to 10.4% while France saw a 0.1% increase to 9.2%.
- **Euro-zone inflation falls.** Eurostat reported that the preliminary reading of August's harmonised index of consumer prices (HICP) fell a tick to 2%, down from July's pace of 2.1%. Economists were expecting the pace to stay at 2.1%.
- **Euro-zone 'flash' composite PMI rises.** Preliminary reading of August's composite PMI indicated that business activity within the 19-member bloc expanded slightly faster than the previous month. IHS Markit composite 'flash' purchasing managers' index (PMI) moved up to 54.4 in August from July's final reading of 54.3; economists were expecting a reading of 54.5. The manufacturing PMI dropped from July's reading of 55.1 to 54.6 while services PMI stayed flat at 54.4.
- **Euro-zone industrial production falls.** Industrial output within the Euro-zone fell in June. The Eurostat reported that industrial output fell 0.7% in June, worse than economists' expectations of a 0.5% drop. May's production increase was revised up from 1.3% to 1.4%.
- **Euro-zone's goods trade surplus falls.** Goods trade surplus within the 19-member zone fell in June, according to Eurostat. June's merchandise trade surplus came in at $22.5 billion euro, down from May's surplus of $25.7 billion euro, but much higher than economists' forecast of $18.0 billion. Imports into the Euro-zone rose 8.6% while exports were up 5.7% on the year.

Asian Markets

- **Japan's GDP rebounds.** Japan's economy returned to positive growth in Q2. After contracting in Q1, Q2's GDP grew by 0.5%, according to data released by the Cabinet Office. Economists were expecting 0.2% growth. On an annualized basis, GDP grew 1.9% in Q2, beating economists' estimate of 1% growth. A solid increase in consumer spending was the major factor driving Q2's growth.
- **Japan CPI rises.** Consumer prices rose faster in July, according to the data released by the Ministry of Internal Affairs and Communications. The consumer price index (CPI) rose 0.9% year-over-year in July, up from the 0.7% pace reported in June. Economists were expecting a year-over-year rise of 1%. The core measure, which excludes food and energy prices, was up 0.3% on the year, up slightly from June's pace of 0.2%.
- **China's PPI slows but CPI picks up.** Factory price inflation rose at a slower pace in China in July but consumer prices accelerated. The National Bureau of Statistics reported that the producer price index (PPI) increased by 4.6% year-over-year in July, a tick slower than previous month's pace of 4.7%; economists were expecting a 4.4% rise. The consumer price index (CPI) was up 2.1% from a year earlier compared with June's pace of 1.9%; economists were expecting the year-over-year CPI to stay unchanged.
- **China manufacturing PMI rises.** The official manufacturing PMI was higher than expected in August. The official purchasing managers' index (PMI), with a focus on large state-owned enterprises, came in at 51.3 in August, rising slightly from July's reading of 51.2. Economists were expecting the gauge to fall to 51.0.

Key Take-Aways

What a Difference a Year Makes. In July 2017, annual inflation was sitting at 1%, at the low end of the Bank of Canada's target range of between 1% to 3%. At that time, the economy was also clocking annual growth of 3.8% at the end of Q2, while unemployment was sitting at 6.5%. It was at this point that BoC Governor Stephen Poloz felt it was the right time to raise interest rates in Canada after holding steady at 0.5% for two years. Fast forward 12 months and the GDP growth is not as strong as it was back then but still at a respectable and sustainable 2.3% annualized pace. The manufacturing sector has picked up, helping push the unemployment rate to a four-decade low of 5.8%. Inflation is the latest metric that's fared better than anyone expected with the latest reading at 3% annualized. This puts the central bank in a precarious position of needing to control inflation but not at the expense of economic growth, which remains at the mercy of ongoing trade talks. With two hikes proposed, the Bank may only do one more increase in 2018 and see its effects on the economy after having done four since mid-2017.

Jobs and the Economy. The economy continued to surprise as the latest job numbers from Statistics Canada blew past early forecasts from analysts. In June, the unemployment rate fell to 5.8%, back to a historical low, as 54,000 people were able to find work. The concerns of trade anxieties, mainly between the U.S. and the rest of the world, didn't deter businesses from hiring. However, the loss of 28,000 full-time positions offset by 82,000 part-time, temporary job placements spoke of the uncertainty employers feel about the economy going forward. It's a different story in the U.S. where their jobless rate hovers at 3.9%, close to an 18-year low. The structure of that labour market is more stable as roughly 4/5th of employed are full-time in nature. Regardless, for both economies, getting people working is a criterion for sustainable economic growth and that's been achieved. Maintaining it, though, is a different challenge as protectionism and retaliation actions prevail and threaten growth.