

Weekly Commentary – June 21, 2010

Daniel Conti, CFA, CFP
Investment Counsellor

Alfred Lam, MBA, CFA
Vice President, Investment Consulting

Richard J. Wylie, CFA
Vice President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 22	Richmond Fed Manufacturing	June 10	20	26
June 22	Existing Home Sales	May 10	+7.1%	+7.6%
June 23	New Home Sales	May 10	-14.7%	+14.8%
June 23	FOMC Rate Decision	June 23	0.25%	0.25%
June 24	Durable Goods Orders	May 10	-1.0%	+2.9%
June 24	Durables ex. transportation	May 10	+1.0%	-1.0%
June 24	Initial Jobless Claims	Week ending June 19	460K	472K
June 25	GDP (final)	Q1 10	+3.0%	+3.0%
June 25	Michigan Sentiment	June 10	75.3	75.5
Canada				
June 22	CPI	May 10	0.0%	+0.3%
June 22	Bank of Canada CPI	May 10	+0.3%	+0.3%
June 23	Retail Sales	April 10	-0.3%	+2.1%
June 23	Retail Sales ex. autos	April 10	+0.1%	+1.7%

Key Earnings:

June 21 – Herman Miller, Palm, Sonic
 June 22 – Carnival Corp, Walgreen
 June 23 – AGF, CarMax, Bed Bath & Beyond, Nike, Rite Aid, Paychex
 June 24 – Accenture, ConAgra, Darden, Oracle, RIM
 June 25 – Empire Company, KB Home

Source: CIBC World Markets, Bloomberg

Market Focus

Canadian manufacturing continues to gain

The most recent data from Statistics Canada showed a 0.2% gain in manufacturing sales, the eighth increase in the last 10 months. Overall, sales are now 10.5% higher than they were during the same period in 2009. One of the primary drivers has been a resurgence in the sales of motor vehicles, which have grown by 35.0% over the past 12 months. The figures also suggest continued growth going forward. New orders for all manufactured goods stand 22.2% higher on a year-over-year basis and inventories are down 7.5% on the same basis.

U.S. inflation remains subdued

U.S. producer prices slipped 0.3% in May while consumer prices dropped 0.2% during the month. At the same time, the Federal Reserve reported that capacity utilization climbed to 74.7%. It is worth noting that this measure stood at 81.2% during the peak of the previous business cycle. Coupled with the continued slow growth in U.S. job creation, this combination points to continued slack in the broader economy. Investors will continue to worry about the longer term inflationary effects of the stimulus packages and the low interest rate environment. However, at this juncture the threat of material inflationary pressures remain remote.

U.K. job picture brightens...for now

According to the U.K.'s Office for National Statistics, unemployment slipped to 2.47 million people from 2.51 million in the first quarter of 2010. This translates to an unemployment rate of 7.9%, which compares favourably with 10.1% in the euro area, 9.7% in the U.S. and 8.1% in Canada. However, it is widely anticipated that Chancellor of the Exchequer George Osborne will announce deep spending cuts in an emergency budget scheduled for June 22. Analysts suggest that the reversal of the recent spate of economic stimulus will hamper the country's economic recovery, reducing the chance for additional job gains over the near term.

Longer View

We expect 2010 will be a volatile year characterized by modest global economic growth and increasing interest rates. Some companies will no doubt fail in this less-than-robust environment while the stronger ones will grow at the expense of their competitors. Having the ability to selectively pick securities, as opposed to owning everything in the markets, will be the key to success, in our opinion. Our long-term view is constructive and optimistic. We believe emerging countries will continue to drive global growth. Rapid economic growth will eventually drive consumption. This will not only benefit businesses in regions throughout the world, we believe, but also the multinational companies that own the desirable brand names.

Playbook - Market Alert! Weekly Summary

June 15:

Statistics Canada reported that manufacturing sales advanced 0.2% in April to \$44.5 billion. Sales increases by primary metal and petroleum and coal product manufacturers were largely offset by a decline in the food industry. These results are weaker than consensus estimates.

Statscan also announced that labour productivity of Canadian businesses rose 0.7% in the first quarter, after increasing 1.2% in the fourth quarter of 2009. These figures are also weaker than expected.

June 16:

The U.S. Bureau of Labor Statistics reported that the Producer Price Index dropped 0.3% (seasonally adjusted) in May. This decline followed a 0.1% decrease in April and a 0.7% increase in March. Excluding volatile food and energy components, the index rose 0.2% in May. These figures are in line with expectations.

The U.S. Census Bureau announced that housing starts in May were at an annual rate of 593,000 (seasonally adjusted). This is a 10.0% decline from April's revised 659,000 level but is 7.8% above the May 2009 rate of 550,000. At the same time, building permits in May were at a seasonally adjusted annual rate of 574,000. This is 5.9% below the revised April rate of 610,000, but is 4.4% above the May 2009 level of 550,000. These results are weaker than market consensus.

The U.S. Federal Reserve reported that industrial production advanced 1.2% in May after having risen 0.7% in April. Total industrial output in May was 7.6% above its year-earlier level. The capacity utilization rate for total industry rose 1.0% to 74.7%, a rate 6.2% above the rate from a year earlier. These figures are stronger than expected.

June 17:

The U.S. Bureau of Labor Statistics reported that the consumer price index (CPI) declined 0.2% (seasonally adjusted basis) in May but was up 2.0% over the last 12 months. A 2.9% decline in the energy sub-index in May of 2.9% more than offset a 0.1% increase in the index for all items less food and energy, accounting for the monthly decrease in the overall index. These figures match market consensus.

The U.S. Department of Labor announced that initial jobless claims totalled 472,000 (seasonally adjusted) in the week ending June 12, an increase of 12,000 from the previous week's revised figure of 460,000. The four-week moving average was 463,500, a decrease of 500 from the previous week's revised average of 464,000. These results are weaker than expected.

June 18:

Statistics Canada reported that foreign investors bought \$12.4 billion of Canadian securities in April, mainly in the form of government bonds. Meanwhile, Canadian acquisitions of foreign securities were focused on equities, and the pace of purchases eased to \$1.4 billion. These figures are largely in line with expectations.

Statscan also announced that its index of leading indicators rose by 0.9% in May, lead by gains in manufacturing components. These results are stronger than expected.

Although the above information has been compiled from sources believed to be reliable, as at the date indicated, we cannot guarantee its accuracy or completeness. The information is provided solely for informational and educational purposes and is not to be construed as advice in respect of securities or as to the investing in or buying or selling of securities, whether express or implied. All data provided is subject to change without notice. United Financial and/or United Financial and design are trademarks of CI Investments Inc. Neither CI Investments Inc. nor any of its affiliates or their respective officers, directors, employees or advisors is responsible in any way for damages or losses of any kind whatsoever in respect of the use of this information. © 2010 CI Investments Inc.