

Weekly Commentary – May 10, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
May 11	Wholesale Inventories	Mar 10	+0.5%	+0.6%
May 12	Trade Balance	Mar 10	-\$39.9B	-\$39.7B
May 12	Monthly Budget Statement	Apr 10	-\$20.0B	-\$20.9B
May 13	Import Price Index (m/m)	Apr 10	+0.8%	+0.7%
May 13	Initial Jobless Claims	Week ending May 8	440K	444K
May 14	Retail Sales	Apr 10	+0.4%	+1.6%
May 14	Retail Sales ex. autos	Apr 10	+0.4%	+0.6%
May 14	Industrial Production	Apr 10	+0.5%	+0.1%
May 14	Capacity Utilization	Apr 10	73.6%	73.2%
May 14	Michigan Sentiment	May 10	72.8	72.2
May 14	Business Inventories	Mar 10	+0.4%	+0.5%
Canada				
May 10	Housing Starts	Apr 10	200K	200K
May 12	Merchandise Exports	Mar 10	+1.5%	+2.8%
May 12	Merchandise Imports	Mar 10	+1.0%	+0.9%
May 12	New House Price Index	Mar 10	+0.3%	+0.1%
May 12	Int'l Merchandise Transactions	Mar 10	\$1.6B	\$1.4B
May 14	Motor Vehicle Sales	Mar 10	-4.0%	+8.1%

Key Earnings:

May 10 – ACE Aviation, Bulgari, Denny's, Dillard's, Fluor, Freddie Mac, Leon's Furniture, Nortel, Power Corp of Canada, Quebecor, Tyson Foods, Trican Well Services, Wal-Mart

May 11 – Dexia, Electronic Arts, Fannie Mae, Fossil, George Weston, Hitachi, Toyota, Vivendi, Walt Disney

May 12 – Benetton, Cisco, ING, Macy's, Russel Metals, Whole Foods

May 13 – Blockbuster, CAE, Cascades, Finning International, Gildan, Kohls, Nordstrom, Nvidia, Tim Hortons, Urban Outfitters, Wendy's

May 14 – Nippon Telegraph & Telephone, Petrobras, Toromont, UTS Energy

Source: CIBC World Markets, Bloomberg

Market Focus

Canadian job market surges ahead

The most recent data from Statistics Canada paints a dramatically different picture of the job market than it did just a brief nine months ago. Since July 2009, the Canadian economy has added 285,000 jobs, largely reversing the recessionary slide that began in November 2008. In addition to the record 0.6% gain in employment during April, the rebound in the broader economy encouraged 92,000 people to enter the labour force. Even as the recovery gains additional ground, monthly job gains of this magnitude are unlikely to be repeated. Still, it is just a matter of time before the 417,000 jobs lost from the October 2008 peak are reclaimed.

Rise in U.S. unemployment rate masks job gains

April's 290,000 advance in U.S. non-farm payrolls was the biggest single-month gain in four years and marked a fifth advance in six months. Since the beginning of 2010, 573,000 jobs have been added in the U.S. Nevertheless, some market players raised

concerns over the uptick in the unemployment rate from 9.7% to 9.9%. This was due, not to a rise in the number of unemployed, but rather a massive 805,000 one-month addition to the labour force. As in Canada, evidence of an improving underlying economic environment has encouraged individuals who had given up looking for work to reenter the hunt. Arguments suggesting a “jobless U.S. recovery” are now falling by the wayside.

Australian housing shrugs off rate hikes

The Reserve Bank of Australia boosted its benchmark lending rate by 0.25% to 4.50% on May 4, marking the sixth time in seven meetings that monetary policy has been tightened. Following the move, Governor Glenn Stevens indicated that interest rates were now at “average” levels. Not surprisingly, currency traders pushed the Australian dollar higher in the wake of the news and expectations that the trend would continue. Despite the rate increases, home-building approvals rose 15.3% in March, the fastest monthly pace since 2002. With a considerable lag between a change in monetary policy and its effect being felt in the economy, it remains to be seen how much further Australian interest rates will rise.

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

May 3:

The U.S. Commerce Department announced that consumer spending rose 0.6% in March, the best showing in five months. However, personal incomes edged up just 0.3%, leaving the rest of the spending increase to be financed from savings. The savings rate fell to 2.7% from 3.0% in February. These figures are in line with market expectations.

The U.S. Institute for Supply Management announced that its Purchasing Managers Index jumped to 60.4 in April from 59.6 in March. This is now nine consecutive readings in the “generally expanding” zone (above 50.0) and is the strongest overall level since June 2004 when the index hit 60.5. These results are better than market expectations.

The U.S. Census Bureau of the Department of Commerce announced that construction spending in March was estimated at a seasonally adjusted annual rate of US\$847.3 billion, 0.2% above the revised February figure of \$845.5 billion. The March figure is 12.3% below the March 2009 level of \$966.7 billion. These figures are stronger than expected as the market was anticipating another monthly drop in construction spending.

May 4:

The U.S. Census Bureau reported that factory orders increased US\$5.0 billion or 1.3% to \$391.5 billion in March. The gain followed an upwardly revised 1.3% February increase. Orders are now up 11 of the last 12 months. Excluding transportation, orders were up a dramatic 3.1% during March, the biggest gain since August 2005. During the first quarter of 2010, overall orders are up 7.7% compared to the same period in 2009. These results are far stronger than market consensus.

May 5:

The U.S. Institute for Supply Management reported that its NMI (Non-Manufacturing Index) registered a 55.4 reading in April, the same level reported in March. This is the fourth consecutive reading in the “generally expanding” (over 50.0) range and indicates continuing growth in the non-manufacturing sector. These results are generally in line with expectations.

May 6:

The U.S. Bureau of Labor Statistics reported that labour productivity increased 3.6% (annualized seasonally adjusted) during the first quarter of 2010, with output rising 4.4% and hours worked rising 0.8%. From the first quarter of 2009 to the first quarter of 2010, output increased 3.1% while hours fell 3.0%, yielding an increase in productivity of 6.3%. This gain in productivity from the same quarter a year ago was the largest since output per hour increased 7.0% over the four-quarter period ending in the first quarter of 1962. These results are better than consensus expectations.

The U.S. Department of Labor announced that initial jobless claims fell 7,000 to 444,000 (seasonally adjusted) in the week ending May 1. The prior week's figure was revised down to 451,000. The four-week moving average was 458,500, a decrease of 4,750 from the previous week's revised average of 463,250. These figures are better than expected.

Statistics Canada reported that the value of building permits increased 12.2% in March to \$6.3 billion following four months of decline. This was 38.9% higher than the level in March 2009. The increase came mainly from multi-family and industrial building permits. These figures far exceeded expectations.

North American equity markets were subject to a considerable bout of volatility today. Worries that the recently announced US\$146 billion bailout of Greece would have to be repeated for the other so-called PIIGS nations (Portugal, Ireland, Italy, Greece and Spain) sent a shiver through stock markets on both sides of the border. Questions about how the less troubled nations would be able to afford such a program left investors seeking the safe haven of U.S. Treasuries. At one point during the session, the Dow Jones Industrial Average was down almost 1,000 points (997.21 or 9.2%) before bargain hunters entered the fray. The TSX was hit for 525 points (4.4%) and the Canadian dollar was off 4 cents on an intra-day basis.

May 7:

Statistics Canada announced that employment increased by 109,000 in April, the largest monthly gain in percentage terms since August 2002. At the same time, the unemployment rate edged down 0.1 percentage points in April to 8.1%. These results are far ahead of consensus estimates.

The U.S. Bureau of Labor Statistics reported that non-farm payroll employment rose by 290,000 in April and the unemployment rate edged up to 9.9% from 9.7%. Despite the uptick in unemployment, the jobs results are much stronger than anticipated.

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