United Financial

The Playbook

Weekly Commentary – August 2, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
August 2	ISM Manufacturing	July 10	54.5	56.2
August 2	Construction Spending	June 10	-0.5%	-0.2%
August 3	Personal Income	June 10	+0.2%	+0.4%
August 3	Personal Spending	June 10	+0.1%	+0.2%
August 3	Factory Orders	June 10	+0.8%	-1.4%
August 3	Auto Sales	July 10	3.9M	3.7M
August 3	Truck Sales	July 10	4.5M	4.8M
August 4	ADP Employment	July 10	+30K	+13K
August 4	ISM Services	July 10	53.2	53.8
August 6	Non-farm Payrolls	July 10	-116K	-125K
August 6	Unemployment Rate	July 10	9.6%	9.5%
Canada				
August 5	Building Permits	June 10	-1.0%	-10.8%
August 6	Employment	July 10	+20.0K	+93.2K
August 6	Unemployment Rate	July 10	7.8%	7.9%

Key Earnings:

August 2 – Ace Aviation, BNP Paribas, DaVita, Humana, HSBC, Midas, Power Corporation of Canada, Quebecor,

August 3 – Anadarko Petroleum, Archer Daniels Midland, Clorox, Coach, Duke Energy, Electronic Arts, FirstEnergy, Marathon Oil, Mastercard, Mitsui, Molson Coors, MGM Resorts, Pfizer, Pitney Bowes, Proctor & Gamble, Dow Chemical

August 4 – AOL, Avis, Bank Atlantic, Dundee Wealth, Devon Energy, Garmin, Kenneth Cole, Murphy Oil, Owens Corning, Prudential, Sirius, Sun Life, Allstate, Time Warner, Toyota, Trican Well Services, Transocean

August 5 – BCE, Barclays, Biovail, Cardinal Health, Cigna, Direct TV, Intact Financial, Kraft, Manulife Financial, Public Storage, Rio Tinto, Tesco, Walt Disney, WestJet, Zurich Financial

August 6 – Brookfield, Magna International, Manitoba Telecom, Ritchie Bros., SNC-Lavalin, Telus, Royal Bank of Scotland

Source: CIBC World Markets, Bloomberg

Market Focus

Canadian economy advances again

According to the latest figures from Statistics Canada, the Canadian economy resumed its growth path in May after pausing in April. The broader economy has expanded in eight of the last nine months and stands with a 3.8% annual growth rate. Over the past 12 months, the economic advance has been lead by a resurgence in goods-producing industries, which boast year-over-year growth of 6.3%. The rebound in manufacturing has given this sector an 8.6% annual growth rate. At the other end of the scale, utilities (-1.4% year-over-year) continued to post negative numbers. Given the warmer-than-usual summer, it is anticipated that this sector will see some improvement in future data.

U.S. economy shows resilience

Despite forecasts from some quarters calling for a double-dip recession for the U.S., second quarter growth figures remained positive as the economy expanded at a 2.4% annualized pace. In addition, the first quarter growth figure was revised higher by a full percentage point to 3.7%. Within the second quarter data, there were signs of strengthening fundamentals. Residential investment rebounded, investment in equipment and software accelerated and both consumer and government spending posted moderate gains. The main drag on growth was international trade. Unfortunately, one of the side effects of this data will likely be a renewed call for protectionist trade measures in the U.S.

U.K. to hold rates steady

In recent testimony, Bank of England Governor Mervyn King said there may be a considerable way to go before U.K. interest rates return to "normal." Focusing on external issues, he further stated that "wider economic problems around the world underline the fact that we cannot be confident that the recovery in demand, output and employment here in the U.K. will be sustained." King also indicated that analysts should be wary of any single data point as the recent report of a 1.1% advance in GDP during the second quarter, which was the strongest figure in four years, resulted in speculation of a near-term rate hike.

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

July 26:

The U.S. Census Bureau announced that new-home sales were at an annual rate of 330,000 (seasonally adjusted) in June. This is 23.6% above the revised May rate of 267,000, but 16.7% below the June 2009 level of 396,000. The estimate of new houses in inventory at the end of June was 210,000. This represents a supply of 7.6 months at the current sales rate. These figures are considerably stronger than expected.

July 27:

The U.S. Conference Board reported that its Consumer Confidence Index (CCI), which had declined sharply in June, retreated further in July. The index now stands at 50.4, down from 54.3 in June. The Present Situation sub-index decreased to 26.1 from 26.8, while the Expectations sub-index declined to 66.6 from 72.7 in June. These results are weaker than expected.

July 28:

The U.S. Census Bureau announced that durable goods orders decreased US$2.0 billion or 1.0% to $190.5 billion in June. This was the second consecutive monthly decrease and followed a 0.8% decline in May. Excluding transportation, new orders decreased 0.6%. Excluding defence, new orders declined 0.7%. These figures are considerably weaker than consensus.

July 29:

Statistics Canada reported that its Industrial Product Price Index (IPPI) fell 0.9% in June, led by petroleum and metals. The Raw Materials Price Index (RMPI) declined 0.3%, largely because of lower prices for non-ferrous metals. These figures are well below consensus expectations.

The U.S. Labor Department reported that there were 457,000 initial jobless claims filed in the week ended July 24, down 11,000 from an upwardly revised 468,000 the previous week. The four-week moving average of initial claims, which is calculated to smooth out volatility, was 452,000, down 4,500 from the previous week. These results are better than anticipated.

July 30:

Statistics Canada announced that Canada's real gross domestic product increased by 0.1% in May, mainly on the strength of oil and gas extraction. This result is marginally weaker than anticipated.

The U.S. Bureau of Economic Analysis announced that, according to the "advance" estimate, real gross domestic product increased at an annualized rate of 2.4% in the second quarter. This is in line with consensus estimates.

Statistics Canada reported that average weekly earnings of non-farm payroll employees rose to $848.45 in May, a 0.4% advance. The move was enough to push the annual growth rate to 3.7%, the fastest year-over-year increase since February 2008.

The Chicago Institute for Supply Management reported that its overall business index rebounded in July, moving to a 62.3 reading from the 59.1 level seen in June. This is the 10th consecutive month that the index has been in "generally expanding" (above 50.0) territory. This release is considerably stronger than expected.

The University of Michigan/Reuters consumer sentiment index rose 1.3 points to 67.8 at the end of July compared to a 66.5 mid-month reading and a 76.0 level at month-end for June. The release was largely in line with expectations.