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Economic and Financial Bulletin

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Polar vortex or loss of momentum?

Without a doubt, U.S. economic activity has slowed down since December. Several signs point to unusual weather conditions, whether in terms of precipitation or temperatures well below seasonal averages, which has thinned the crowds heading to shopping centres and car dealers and, especially, limited the number of housing starts in the regions most affected by the harsh winter conditions. We believe this sudden loss of momentum is indeed a result of these extreme meteorological conditions. In fact, various surveys conducted among households and businesses show that, contrary to what headlines have been suggesting, there is no loss of confidence, no slowing in hiring intentions, no dramatic decline in order books and no change in readings of the current economic climate. In short, economic activity is being curbed by a factor that is beyond the control of consumers and producers, and not by a drop in demand. Although we must beware of complacency, the most likely scenario is that economic activity will accelerate in the coming months as we see the sectors hit hardest by Mother Nature working to catch up.

Canada: Waiting for the effects of the loonie's decline

- Unlike our southern neighbours, employment brought a welcome surprise in January, with 29,400 jobs added in the country against expectations of 20,000, bringing the unemployment rate to 7.0%. The gains were exclusively in full-time positions.
- Canada's trade deficit widened for the third month in a row, reaching 1.7 billion (last month's numbers were revised from 940 million to 1.5 billion). The value of our imports has reached a new record, while the effects of the loonie's decline have yet to be felt on exports.
- The real estate market is showing clear signs of slowing. Building permits saw their smallest increase in 9 months, with a 9.3% drop in multi-family dwellings. In addition, for the first time since the creation of the Teranet-National Bank™ index, prices in the Ottawa-Gatineau region have fallen on an annual basis, indicating another breach in the Canadian housing market.

United States: Weather continues to wreak havoc

- The first revision of GDP growth for the fourth quarter of 2013 was (not surprisingly) downward, from 3.2% to 2.4%. The biggest revisions were related to consumer spending, inventory accumulation and exports. The year 2014 therefore starts out on a loss of momentum south of the border, but the coming months should be marked by a catch-up effect after several months where economic activity was held back by adverse weather.
- Job creation disappointed once again, but to a lesser degree than the previous month. Some 113,000 jobs were added in January, well below expectations of 180,000, as stores and government agencies laid off large numbers of workers.
- After having shown a significant acceleration at the end of 2013, the real estate market slowed abruptly in 2014. A portion of this slowdown is clearly related to the weather (drop in the number of visits to sales offices and 16% decline in construction starts), but the waning number of building permits issued, down 5.4%, suggests the market was ripe for a slowing of pace.
- It is the U.S. trade deficit's turn to disappoint. Exports in petroleum products reached a new record in December, but the strength of the recovery also pushed up goods imports, inflating the deficit. It is difficult to determine what direction the trade deficit will take in 2014; the increased demand for foreign goods will likely be offset by the positive effects of the energy revolution.

Europe: Confident despite all

- Europe's economic growth rate remained weak at 0.3% in the fourth quarter of 2013, but now all major European economies are playing a part. Italy, the continent's third largest economy, has finally emerged from recession, and France has managed not to slide back into one.

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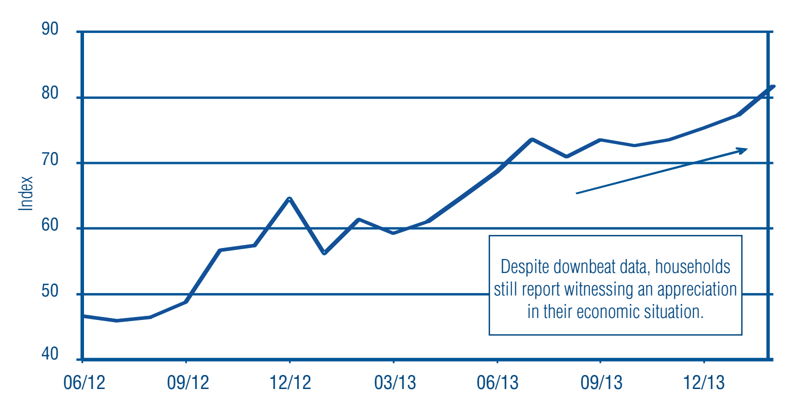
Economic and Financial Statistics

	As at 2014-02-28[1]	As at 2013-12-31
Canada - Unemployment rate	7.0%	6.9%
Canada - CPI (year/year variation)	1.5%	0.9%
Canada - GDP (year/year variation)	2.3%	2.7%
U.S. - Unemployment rate	6.6%	7.0%
U.S. - CPI (year/year variation)	1.6%	1.2%
U.S. - GDP (year/year variation)	2.5%	2.0%
2-year Canada Bonds	1,00%	1.14%
10-year Canada Bonds	2.43%	2.78%
Oil (West Texas) ($US)	102.3	99.2
Gold ($US)	1,325.7	1,207.9
CRB Commodities Index ($US)	302.4	280.2
Exchange rate $CA/$US	1.1066	1.0623

Source: IAIM

[1] Most recent data available at such date

United States: Households seeing a more favourable economic environment



Source: Conference Board survey

Reference indexes[1] - Returns as at February 28, 2014

	Simple returns[2]			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
DEX 91 day Tbill Index	0.1	0.3	0.2	1.0	1.0	0.8	2.0
DEX Short Term Bond Index	0.2	1.0	1.1	2.1	3.1	3.4	3.9
DEX Universe Bond Index	0.3	2.5	3.0	1.5	5.0	5.5	5.2
S&P/TSX Capped Income Trusts (Total Return)	3.4	6.1	4.1	0.3	10.6	24.2	12.4
SB - World Government Bonds (Can. $)	1.0	6.4	7.0	8.9	6.5	1.6	2.4
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	3.7	6.1	4.2	13.6	3.0	13.9	7.9
S&P/TSX Completion Index	4.6	9.0	6.3	16.4	3.6	19.4	8.4
S&P/TSX Composite Index	3.9	6.9	4.8	14.3	3.2	15.1	7.7
S&P/TSX Capped Composite Index	3.9	6.9	4.8	14.3	3.2	15.1	7.7
S&P/TSX SmallCap Index	5.9	10.6	7.7	16.4	(2.8)	17.4	3.7
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	4.2	8.2	5.1	35.0	19.4	19.7	5.1
S&P 500 (Can. $) (Reuters)	3.8	8.2	5.2	35.0	19.3	19.7	5.1
MSCI - World (Can. $)	4.6	7.9	5.3	31.0	14.6	16.7	4.7
MSCI - EAFE (Can. $)	5.1	7.4	5.5	28.4	11.3	14.4	4.6
MSCI - EAFE (Can. $) (Reuters)	4.8	7.5	5.5	28.4	11.3	14.4	4.6
MSCI - Europe (Can. $)	6.9	10.3	7.5	35.9	13.9	16.8	5.7
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	2.0	1.7	1.8	12.9	7.5	12.8	4.9
MSCI - Emerging Markets (Can. $)	2.9	(0.5)	0.6	1.6	2.6	14.1	8.2
MSCI - World Health Care (Can. $)	6.2	13.2	11.7	43.5	24.9	16.4	4.9
NASDAQ 100 (Can. $)	4.5	10.7	7.1	45.3	21.4	23.6	7.6
S&P/TSX Capped REIT Index	3.4	6.1	4.1	(3.5)	8.6	23.5	9.8

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at February 28, 2014: 1.1075	(0.4)	4.5	4.1	7.7	4.4	(2.7)	(1.9)
EXCHANGE RATE (US $ / Can. $) As at February 28, 2014: 0.9029	0.4	(4.3)	(4.0)	(7.1)	(4.2)	2.8	1.9

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- As has been noted for the last few months, it seems that neither the poor quality of the economic data, nor the situation in Ukraine, nor the possibility of having to deal with the tough enemy of deflation is undermining Europeans' confidence. The significance of this resilience is not to be downplayed, as the next few years may prove critical for the euro zone's survival.

World: Can we trust Chinese data?

- China caused quite a stir when it published data showing an impressive 10.6% increase in exports in January, implying a rapid acceleration of world demand. However, this report was immediately nuanced by some analysts, who pointed out that import data published by its commercial partners, in this case Hong Kong, suggest that China is greatly over-estimating the value of goods traded between the two countries.

Financial markets

- The positive tone continues on the Canadian market. The S&P/TSX Composite Index recorded a sixth consecutive monthly gain, with a total return of 3.9%.
- After a major decline on the U.S. stock market in January, the S&P 500 Index gave a strong performance of 4.6% (4.2% in Canadian dollars) in February, thereby erasing the losses recorded since the start of the year.
- World indices MSCI - EAFE and MSCI - World were also back in the black in February, with gains of 3.7% for the MSCI - EAFE Index and 4.2% for the MSCI - World Index (5.1% and 4.6% respectively in Canadian dollars). Emerging markets, measured by the MSCI - Emerging Markets Index, saw a more moderate rebound of 2.2% (2.9% in Canadian dollars).
- The Canadian bond market, measured by the DEX Universe Bond Index, continued its positive trend with a gain of 0.3%.

1 Indexes presented in this document are total return index.
2 The rates for the period are non-annualized.

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