Industrial Alliance
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Economic and Financial Bulletin

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Clearing skies

The month of March brought a clearer reading of the underlying strength of the Canadian and U.S. economies. After a few disappointing months, we are starting to see signs confirming the theory that it was indeed the weather that put the brakes on the momentum gained at the end of 2013. Economic activity sectors exposed to Mother Nature, such as retail trade and shipping, are recovering the time lost. The U.S. Federal Reserve's most recent Beige Book, which compiles the results of surveys carried out among businesses by the Fed's district offices, shows that harsh weather was a genuine obstacle, hampering commercial activities across the country. Yet despite all this, there are still concerns on the international front. No one yet knows the potential impact of a sustained slowing of growth in China, where we are used to seeing sky-high growth rates, nor of an escalation of the political conflict surrounding Ukraine, should Russia decide to use its energy exports to Europe as an economic weapon against Europe.

Canada: Off to a good start

- Canadian GDP growth rose 0.5% in January, month-over-month, exceeding expectations. The push came primarily from a rebound in durable goods production. The performance of the Canadian economy since mid-2013 indicates that it is accelerating, even surpassing that of the U.S. economy in the fourth quarter.
- Bank of Canada Governor Stephen Poloz caused the Canadian dollar to fall sharply when he delivered a speech on the obstacles likely to hinder Canadian economic growth over the next decade. He believes the ageing of the Canadian population will weigh on growth potential and cause the Canadian economy to follow a weaker trend, which would imply equilibrium interest rates below the historical norm.

United States: Confidence unshaken despite disappointing data

- The third and final revision of U.S. GDP growth for the fourth quarter of 2013 confirms growth of 2.6%, led primarily by consumer spending and business investment. Government spending bit off 1.0%, as previously estimated.
- February saw a slight rebound in retail sales, up 0.3%, recovering some of the losses incurred in January. Consumers went shopping last month despite the cold and the snowstorms, suggesting that the U.S. economy's underlying momentum was merely held back and not stopped.
- Job creation also bounced back in February, with 175,000 jobs added. The upward trend seems to be resuming on the labour market, and gains above 200,000 in the coming months would confirm the theory that most of the slowdown was due to the harsh weather.
- The real estate market continues to lose speed, as the increase in interest rates and prices makes homes less affordable, especially for first-time buyers (see graph). Sales of existing homes are down, while new home sales, considered a more timely indicator, have been stagnating for several months. The low inventory of houses on the market is a factor, as it limits the choice for new buyers; given the context of rising prices, they may prefer to exercise patience before taking the plunge.

Europe: An alarming geopolitical conflict

- The situation in Ukraine is causing concern among German firms; as expected, the confidence index dropped after Russia's annexation of Crimea. The European Union's imposition of sanctions against prominent Russian leaders is making a number of European business managers sufficiently nervous to lobby their politicians not to take retaliations against the Putin regime too far.

World: Is China collapsing under reforms?

- China reiterated its 7.5% growth target for 2014, an ambitious objective given that it is in the midst of deep reforms to its financial system and trying to tackle pollution in the country's biggest cities. The Chinese manufacturing sector has been slowing for the past five months, and many are wondering whether this target is in fact too ambitious,

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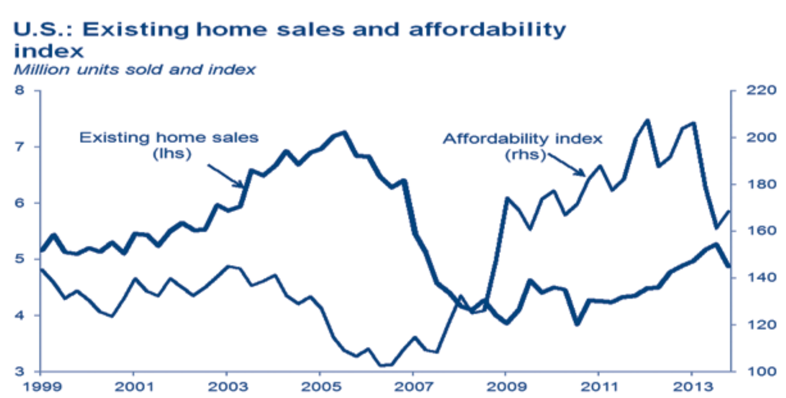
Economic and Financial Statistics

	As at 2014-03-31[1]	As at 2013-12-31
Canada - Unemployment rate	7.0%	6.9%
Canada - CPI (year/year variation)	1.1%	0.9%
Canada - GDP (year/year variation)	2.5%	2.7%
U.S. - Unemployment rate	6.7%	7.0%
U.S. - CPI (year/year variation)	1.1%	1.2%
U.S. - GDP (year/year variation)	2.6%	2.0%
2-year Canada Bonds	1,07%	1.14%
10-year Canada Bonds	2.46%	2.78%
Oil (West Texas) ($US)	101.5	99.2
Gold ($US)	1,289.3	1,207.9
CRB Commodities Index ($US)	304.7	280.2
Exchange rate $CA/$US	1.1050	1.0623

Source: IAIM

[1] Most recent data available at such date

United States: Existing home sales and affordability index



Source: IAIM

Reference indexes[1] - Returns as at March 31, 2014

	Simple returns[2] 1 month %	3 months %	YTD %	Compound annual returns 1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
FTSE TMX Canada 91 Day T-Bill Index	0.1	0.2	0.2	1.0	1.0	0.8	2.0
FTSE TMX Canada Short Term Bond Index	0.0	1.1	1.1	1.9	3.1	3.2	3.9
FTSE TMX Canada Universe Bond Index	(0.2)	2.8	2.8	0.8	5.0	5.0	5.1
S&P/TSX Capped Income Trusts (Total Return)	1.2	5.3	5.3	1.0	8.4	23.2	12.5
SB - World Government Bonds (Can. $)	(0.3)	6.7	6.7	10.3	6.4	1.2	2.4
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	1.2	5.5	5.5	15.7	3.5	12.4	8.3
S&P/TSX Completion Index	1.2	7.6	7.6	16.6	3.6	18.5	8.5
S&P/TSX Composite Index	1.2	6.1	6.1	16.0	3.6	13.7	8.1
S&P/TSX Capped Composite Index	1.2	6.1	6.1	16.0	3.6	13.7	8.1
S&P/TSX SmallCap Index	0.3	7.9	7.9	15.4	(3.1)	16.7	3.7
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	0.6	5.8	5.8	32.6	19.7	18.0	5.6
S&P 500 (Can. $) (Reuters)	0.5	5.8	5.8	32.4	19.6	18.0	5.6
MSCI - World (Can. $)	(0.1)	5.2	5.2	29.6	15.1	15.2	5.0
MSCI - EAFE (Can. $)	(0.8)	4.6	4.6	27.9	11.9	13.0	4.7
MSCI - EAFE (Can. $) (Reuters)	(0.9)	4.6	4.6	27.7	11.8	13.0	4.7
MSCI - Europe (Can. $)	(1.2)	6.2	6.2	36.3	13.8	15.2	6.2
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	0.4	2.2	2.2	13.8	8.0	11.3	4.3
MSCI - Emerging Markets (Can. $)	2.9	3.5	3.5	7.7	1.7	11.9	8.6
MSCI - World Health Care (Can. $)	(2.2)	9.3	9.3	35.1	23.9	14.9	5.3
NASDAQ 100 (Can. $)	(2.9)	4.0	4.0	38.8	20.5	20.6	7.7
S&P/TSX Capped REIT Index	1.7	5.8	5.8	(1.7)	7.4	24.2	10.0

	Variation 1 month %	3 months %	YTD %	Compound annual variation 1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at March 31, 2014: 1.1053	(0.2)	3.9	3.9	8.8	4.4	(2.6)	(1.7)
EXCHANGE RATE (US $ / Can. $) As at March 31, 2014: 0.9047	0.2	(3.8)	(3.8)	(8.1)	(4.2)	2.7	1.7

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or whether some aspects of the reforms underway should not simply be postponed. In fact, Chinese industrial production opened the year at its slowest pace in five years, enough to send a wave of uncertainty across emerging markets.

Financial markets

- It was another positive month for the Canadian stock market. The S&P/TSX Index recorded its seventh consecutive monthly gain, with a total return of 1.2%. The return for the year to date is 6.1%.
- The month of March was less impressive for the U.S. stock market, with the S&P 500 Index up just 0.8% (0.6% in Canadian dollars). The total return since the start of the year is currently 1.8% in local currency, but the weak loonie inflates this return to 5.8% for Canadian investors.
- March results were mixed for the MSCI - EAFE and MSCI - World indices, with the MSCI EAFE Index losing 0.6% and the MSCI World Index gaining 0.1% (-0.8% and -0.1% in Canadian dollars). Emerging markets, measured by the MSCI - Emerging Markets Index, were up 3.1% (2.9% in Canadian dollars). Three months into the year, returns to date are 0.7% for the MSCI - EAFE, 1.3% for the MSCI - World and -0.4 % for the MSCI - Emerging Markets (respectively, 4.6%, 5.2% and 3.5% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, also dipped into the red, down 0.2%. After one quarter, the Canadian bond market's return is now 2.8%.

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