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Towards quantitative easing in Europe?

The stars are aligning for the European Central Bank (ECB) to put in place a program of quantitative easing, in this way following in the footsteps of the United States and Japan. The sustained decline in the Old Continent's credit is weighing dangerously on inflation, which has dropped to 0.5% according to the latest statistics. Jens Weidmann, president of the Bundesbank (Germany's central bank), has broken with German tradition to support the use of unconventional instruments, such as the ECB buying bank loans and sovereign debt. Mario Draghi can therefore count on the unanimous support of his governing council should disinflation worsen. Then there is the euro, which has been hovering stubbornly around $1.40 and which, according to Mr. Draghi, is directly harming price stability in the euro zone. If the ECB goes ahead with such a program, creating downward pressure on European interest rates, the collateral effects on North American bond markets will have to be assessed.

Canada: Many jobs created, but devil is in the details

- Some 42,900 jobs were added in March, the most in seven months, pushing the unemployment rate down from 7.0% to 6.9%. Almost all the new jobs were in the public sector, with the private sector creating only 3,900 of these positions. The report also indicates that nearly three-quarters of these new jobs were part-time, and that annual salary growth slowed to 2.4%.
- The Bank of Canada revised its economic growth forecast for 2014 downward, from 2.5% to 2.3%. It is now anticipating 2.5% growth in 2015 and 2.2% in 2016.

United States: A tough winter!

- The first estimate for U.S. GDP growth for the first quarter of the year was well below expectations, at 0.1% compared to a consensus of 1.2%. Despite a very solid 3% performance in personal consumption, buoyed among other things by a 4.4% increase in demand for services (the highest in 14 years), exports fell sharply, resulting in the U.S. economy's lacklustre performance. One should remember that the first estimate will be revised twice (the export component is usually volatile during these revisions) and that trade balance data published in May will shed more light on the situation.
- Inflation is showing signs of life, up from 1.1% to 1.5%, an encouraging sign that the worst may be behind us. Same signal from the core index, which excludes the most volatile elements, and which rose from 1.6% to 1.7%. Of note, two-thirds of the increase can be attributed to an increase in rental costs, as the evolving U.S. real estate market prompts many households to rent rather than buy.
- Some 192,000 jobs were added in March, following an upward revision that added 37,000 jobs to the two previous months. The highlight of the March job report, however, is the increase in average weekly hours worked, which went from 34.3 to 34.5, the equivalent of an additional 1 million positions. The participation rate, which has been on a downward slope since the credit crisis, was also up 0.2%, resulting in the unemployment rate remaining steady at 6.7%.
- The real estate market was down again, but seems to be stabilizing. Sales of existing homes dropped slightly, from 4.60 to 4.59 million units, in reaction to the increase in prices (which are up 12.9% on an annual basis) and tight inventories. New home sales, however, slowed significantly to 384,000 units at an annualized rate, down 14.5% from February.

Europe: Time to get out the heavy artillery

- Despite the sustained confidence of households and businesses in Germany, as well as the good performance of manufacturing production indicators, disinflation continues. More and more pressure is being placed on the shoulders of Mario Draghi, chairman of the European Central Bank, to resort to alternative measures to stimulate a price increase and to prevent the continent from sliding into deflation. The addition of the support of the president of the Bundesbank, Germany's central bank, whose predecessors were opposed to any unconventional measures, indicates that the implementation of new measures is highly probable in the very near future.

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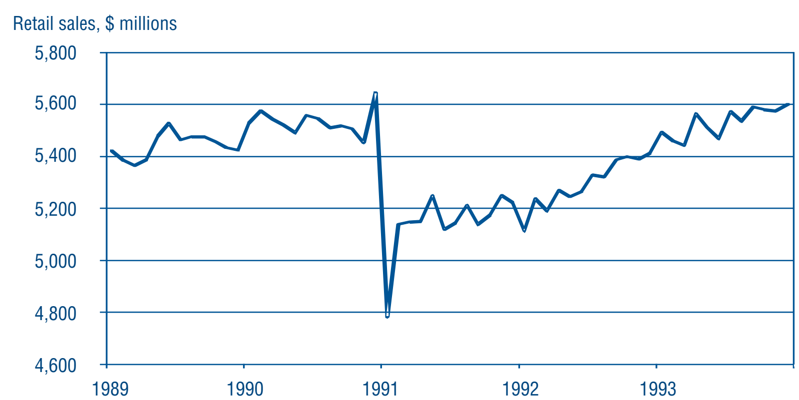
Economic and Financial Statistics

	As at 2014-04-30[1]	As at 2013-12-31
Canada - Unemployment rate	6.9%	6.9%
Canada - CPI (year/year variation)	1.5%	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)	1.5%	1.2%
U.S. - GDP (year/year variation)	2.3%	2.0%
2-year Canada Bonds	1,06%	1.14%
10-year Canada Bonds	2.40%	2.78%
Oil (West Texas) ($US)	99.8	99.2
Gold ($US)	1,293.7	1,207.9
CRB Commodities Index ($US)	309.5	280.2
Exchange rate $CA/$US	1.0962	1.0623

Source: IAIM

[1] Most recent data available at such date

Canada: Impact on retail sales from the introduction of the GST in 1991



Source: IAIM

Reference indexes[1] - Returns as at April 30, 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							
FTSE TMX Canada 91 Day T-Bill Index	0.1	0.2	0.3	1.0	1.0	0.8	2.0
FTSE TMX Canada Short Term Bond Index	0.3	0.4	1.3	1.8	3.0	3.1	4.0
FTSE TMX Canada Universe Bond Index	0.5	0.7	3.3	0.2	4.9	5.1	5.3
S&P/TSX Capped Income Trusts (Total Return)	1.5	6.2	6.9	(2.0)	9.9	21.9	13.1
SB - World Government Bonds (Can. $)	0.2	1.0	6.9	10.3	6.2	2.3	2.4
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	2.3	7.4	8.0	21.6	4.7	11.3	9.0
S&P/TSX Completion Index	2.7	8.7	10.5	20.4	4.7	17.5	9.1
S&P/TSX Composite Index	2.4	7.8	8.6	21.3	4.7	12.7	8.8
S&P/TSX Capped Composite Index	2.4	7.8	8.6	21.3	4.7	12.7	8.8
S&P/TSX SmallCap Index	4.0	10.3	12.2	25.8	(1.6)	15.4	4.8
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	(0.1)	4.7	5.7	31.0	19.4	17.1	5.2
S&P 500 (Can. $) (Reuters)	0.2	4.6	5.9	31.4	19.5	17.3	5.3
MSCI - World (Can. $)	0.1	4.7	5.4	26.9	14.4	14.1	4.8
MSCI - EAFE (Can. $)	0.6	4.9	5.2	23.3	10.9	11.6	4.5
MSCI - EAFE (Can. $) (Reuters)	0.9	4.7	5.5	23.7	10.9	11.8	4.5
MSCI - Europe (Can. $)	1.7	7.5	8.1	33.7	12.4	13.7	5.9
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	(1.3)	1.2	0.9	8.0	7.4	9.6	4.3
MSCI - Emerging Markets (Can. $)	(0.5)	5.4	3.0	7.2	1.3	9.5	8.9
MSCI - World Health Care (Can. $)	(0.7)	3.2	8.5	30.2	21.8	16.0	4.4
NASDAQ 100 (Can. $)	(1.2)	0.2	2.7	35.0	19.8	18.7	7.4
S&P/TSX Capped REIT Index	1.7	7.0	7.6	(4.8)	8.3	22.7	11.7

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at April 30, 2014: 1.0957	(0.9)	(1.5)	3.0	8.8	4.9	(1.7)	(2.2)
EXCHANGE RATE (US $ / Can. $) As at April 30, 2014: 0.9127	0.9	1.5	(2.9)	(8.1)	(4.7)	1.7	2.3

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World: Slowdown in China is confirmed

- As expected, China's GDP growth is slowing, falling from 7.7% in the last quarter of 2013 to 7.4% in the first quarter of 2014. The credit market has tightened and demand, primarily for residential investment, is losing its momentum. One will recall that a portion of this slowdown has been orchestrated by the government, which is working feverishly to control the financial market in order to avoid a wave of defaults in the non-banking system.
- The much-anticipated sales tax hike in Japan became effective at the start of April, going from 5% to 8%. Initially, there was a spike in retail sales in March, exceeding 6%, as consumers moved up their purchases. If we are to judge from the Canadian experience in 1991 when the GST was introduced (see graph), we should not be surprised to see a major drop in sales in April. In Canada, retail sales plunged 15% at the time, and did not regain their December 1990 level until two years later.

Financial markets

- It was another positive month for the Canadian stock market. The S&P/TSX Composite Index recorded its eighth consecutive monthly gain with a total return of 2.4%. The return for the year to date is now 8.6%.
- It was a neutral month for the S&P 500, which spun its wheels (-0.1% in Canadian dollars). The return for the year to date remains at 2.6% in local currency, but the weakness of the loonie inflates this return to 5.7% for Canadian investors.
- World indices MSCI - EAFE and MSCI - World were up in April, with gains of 0.8% and 1.0% (+0.6% and +0.1% respectively in Canadian dollars). Emerging markets, measured by the MSCI - Emerging Markets Index, were down 0.1% (-0.5% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, was back in positive territory with a gain of 0.5%.

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