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## Canadian household balance sheets improve

For several years, Canadians have been hearing non-stop about how their level of household debt is so high that it could be considered the single most important challenge to the country's economic stability. Perhaps the message is finally being heeded: publication of the latest national accounts indicates widespread improvement in the financial position of households, primarily because of a sharp decrease in the use of credit. The good news is that Canadian households have never been so wealthy, even after adjusting for inflation. The net wealth of Canadian households is now \$7.9 trillion, or \$223,000 per capita. Household liabilities increased \$7 billion in the first quarter, an increase of just 0.4% (the lowest quarterly increase in four years), and 4.2% over the first quarter of 2013, the lowest annual increase since 2001. The household debt-to-disposable income ratio, which has generated much media attention, was down slightly for a second quarter in a row, to 165.3% (see graph). Finally, debt servicing (interest payments on the debt as a portion of disposable income) is now at a historical low of 6.97%. It remains to be seen whether a healthier trend is taking root, but with the obvious benefits of a weaker loonie for Canadian exports, it is very possible that the Canadian economy's rotation from consumption to exports, much-anticipated by the Bank of Canada, may have indeed begun.

### Canada: Real estate market looks up

- Construction permits jumped to a seven-month high in May, as the effects of the severe winter faded. Work began on 198,324 homes in May, at an annual rate, compared to an average of 174,984 in the first quarter. The slowdown in the construction sector in the first few months of the year acted as a stick in the spokes of the Canadian economy for the first quarter, as the sector posted its worst decline since the recession.

### United States: Rebound continues into second quarter

- The second revision of U.S. GDP first-quarter growth was negative once again (the worst second revision ever recorded, in fact!), bringing the contraction to 2.9% at an annual rate. It was healthcare's turn to disappoint, as the responsible statistical institute had expected a sharp increase in spending in this sector, which never materialized. Almost all of this contraction took place in January, and the acceleration of key economic indicators since then causes us to be very optimistic about second quarter results.
- Job creation continues at a good clip. No less than 217,000 jobs were added in May, a fourth consecutive month where the total was above 200,000. One has to go back to January 2000 to find such a sequence, indicating that last winter's data marked an aberration rather than a window onto the true state of the economy's health.
- Signs of inflation setting in are clear, with total inflation climbing above the 2.0% target and the core index, which excludes the most volatile elements, now right on target. Prices are now increasing more quickly than the Fed's target range across a majority of sectors, and median inflation is currently at 2.3%.
- Clear rebound in the U.S. real estate sector, with construction starts exceeding one million (annual rate) in May. The stronger job market and lower interest rates provided a boost to this sector, after a challenging winter season.

### Europe: Little good news this month

- Hard to find positive news in Europe this month. Inflation remains slow at 0.5%, confidence is slightly down, and the manufacturing production index is stagnating, although it still indicates expansion. In short, Europe is still undergoing a timid and fragile recovery.

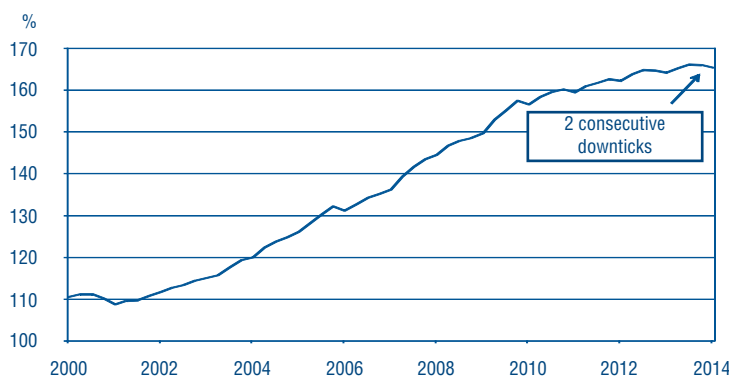
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### Economic and Financial Statistics

	As at 2014-06-30 <sup>1</sup>	As at 2013-12-31
Canada - Unemployment rate	7.0%	6.9%
Canada - CPI (year/year variation)	2.3%	0.9%
Canada - GDP (year/year variation)	2.1%	2.7%
U.S. - Unemployment rate	6.3%	7.0%
U.S. - CPI (year/year variation)	2.1%	1.2%
U.S. - GDP (year/year variation)	1.5%	2.0%
2-year Canada Bonds	1.10%	1.14%
10-year Canada Bonds	2.24%	2.78%
Oil (West Texas) (\$US)	105.4	99.2
Gold (\$US)	1,316.9	1,207.9
CRB Commodities Index (\$US)	308.2	280.2
Exchange rate \$CA/\$US	1.0671	1.0623

Source: IAIM

### Canada: Household debt ratio Household debt/personal disposable income



Source: IAIM

<sup>1</sup> Most recent data available at such date

## Reference indexes<sup>1</sup> - Returns as at June 30, 2014

	Simple returns <sup>2</sup>			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
<b>INDEXES RELATED TO INCOME FUNDS</b>							
FTSE TMX Canada 91 Day T-Bill Index	0.1	0.2	0.4	1.0	1.0	0.8	2.0
FTSE TMX Canada Short Term Bond Index	0.1	0.7	1.7	3.2	2.8	3.2	4.1
FTSE TMX Canada Universe Bond Index	0.3	2.0	4.8	5.3	4.8	5.2	5.5
S&P/TSX Capped Income Trusts (Total Return)	1.3	4.1	9.6	13.3	10.4	19.5	13.2
SB - World Government Bonds (Can. \$)	(1.0)	(1.2)	5.4	8.5	5.1	1.8	2.5
<b>INDEXES RELATED TO CANADIAN EQUITY FUNDS</b>							
S&P/TSX 60	3.9	6.3	12.2	28.3	7.5	9.7	9.0
S&P/TSX Completion Index	4.6	6.7	14.8	29.6	7.9	15.9	8.9
S&P/TSX Composite Index	4.1	6.4	12.9	28.7	7.6	11.0	8.8
S&P/TSX Capped Composite Index	4.1	6.4	12.9	28.7	7.6	11.0	8.8
S&P/TSX SmallCap Index	7.0	9.4	18.0	36.2	2.7	14.1	5.1
<b>INDEXES RELATED TO U.S. &amp; INTERNATIONAL EQUITY FUNDS</b>							
S&P 500 (Can. \$)	0.3	1.6	7.5	26.6	20.6	16.8	5.4
S&P 500 (Can. \$) (Reuters)	0.1	1.6	7.4	25.8	20.5	16.8	5.3
MSCI - World (Can. \$)	0.0	1.3	6.6	26.0	15.7	13.0	4.8
MSCI - EAFE (Can. \$)	(0.8)	0.5	5.2	25.5	11.8	9.9	4.5
MSCI - EAFE (Can. \$) (Reuters)	(1.0)	0.4	5.0	24.8	11.7	9.9	4.5
MSCI - Europe (Can. \$)	(1.8)	0.1	6.3	32.0	13.1	11.8	5.7
<b>INDEXES RELATED TO SPECIALTY FUNDS</b>							
MSCI - AC Asian Pacific Free (Can. \$)	1.3	2.7	5.0	16.4	9.2	8.2	5.0
MSCI - Emerging Markets (Can. \$)	0.9	3.1	6.7	16.5	3.4	7.7	9.8
MSCI - World Health Care (Can. \$)	0.5	0.8	10.1	28.6	21.6	14.9	4.9
NASDAQ 100 (Can. \$)	1.2	3.4	7.6	34.4	22.4	19.1	7.3
S&P/TSX Capped REIT Index	1.0	3.9	9.9	10.0	8.9	19.0	11.3
<b>EXCHANGE RATE (Can. \$ / US \$)</b>							
As at June 30, 2014: 1.0676	(1.8)	(3.4)	0.4	1.6	3.5	(1.7)	(2.3)
<b>EXCHANGE RATE (US \$ / Can. \$)</b>							
As at June 30, 2014: 0.9367	1.8	3.5	(0.4)	(1.5)	(3.3)	1.7	2.3

Continued from first page

### World: Stabilization in China

Industrial production and retail sales picked up the pace in China in May, indicating that the second world economy is beginning to stabilize. Growth in investments remained stable as compared to the previous year. The Chinese administration had orchestrated a slight stimulus in order to counter one of the slowest annual starts in 15 years, and the results are satisfying for the moment, enough to reassure Asian markets.

### Financial markets

The S&P/TSX Composite Index was up notably in June, with a monthly gain of 4.1%. The return for the year to date is now 12.9%, far ahead of most of the developed countries.

- It was a very positive month for the S&P 500 index as well, which climbed 2.1% (0.3% in Canadian dollars) in June. The return for the year to date is now 7.1% in local currency, and the loonie's renewed strength makes the return for the year to date similar for Canadian investors (7.5%, a bonus of just 0.3%).
- World indexes MSCI - EAFE and MSCI - World were up by 0.2% and 1.4% respectively (-0.8% and 0.0% in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, gained 2.4% (0.9% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, posted a third consecutive gain with a return of 0.3%.

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