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Economic and Financial Bulletin

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U.S. economy accelerates

The U.S. economy has demonstrated once again that it is on the right track. After a tough winter, which had many people doubting the true strength of the world's first economy, the most recent revision of second-quarter growth confirmed a sustained upward trend. In addition to improvements in the job market and consumer spending, we are now seeing an increase in business investment, which should further contribute to growth in the coming months. Add to all this the energy revolution which will benefit the foreign trade balance and we can conclude that almost all the pieces are in place for sustained growth over the next few years. Finally, the vigour of the U.S. economy and the divergence between the monetary policies of the Fed and the European Central Bank (ECB) should continue to bolster the U.S. dollar and bring down natural resource prices.

Canada: job market continues to yo-yo

- Employment was down again in Canada in August, with a loss of 11,000 jobs. The decline was felt both in full-time positions (-2,300) and part-time positions (-8,700). In the last 12 months, a total of 81,000 jobs were added in the country, the large majority of them part-time (+66,000 jobs). The most curious aspect of the latest labour market report is that the private sector shed 111,800 jobs, or 1% of the total number of private-sector jobs, the highest percentage since 1982. It remains to be seen whether this figure will be revised in the coming months.
- The real estate market is sending mixed signals: construction starts dropped for the first time in five months to 192,368 units in August (down 3.7%), but building permits rose a surprising 11.8% in July, driven by new condominium projects in Vancouver and Toronto. It therefore appears that the lull in the construction sector is merely temporary.

United States: second-quarter growth revised upward

- GDP growth in the second quarter was revised upward once again, this time to 4.6%, its highest level since the end of 2011. The main revisions were related to business investment (which climbed at a 9.7% annual rate for the quarter) and exports. The recovery since the winter has therefore been stronger than anticipated and recent data suggest that GDP growth could reach 3.5% for the year's third quarter. In the end, apart from a few extraordinary events, the U.S. economy has been expanding at a robust pace for a few years now (see graph).
- The month of September began on a positive note, with the report that the ISM Manufacturing Index had reached a three-year high of 59 in August, exceeding expectations. Economic growth is therefore continuing where it had left off in the second quarter.
- The string of months where job creation exceeded 200,000 has stopped at six. A total of 142,000 jobs were added in August, below expectations of 230,000, but still adding to the strong surge in employment in 2014. The unemployment rate fell to 6.1% and the jobs created were primarily in the private sector. Average weekly wages were up an attractive 0.2% over the previous month, while the average number of hours worked per week remained unchanged.
- After reporting a slowing in retail sales last month, we saw a renewed upswing in August, while data from the last few months were revised upward and the pace of sales even reached a four-month high. Retail sales grew at a monthly rate of 0.6% in August and showed 5.0% growth over 12 months, their fastest pace since summer 2013.

Europe: Confidence and inflation still slipping

- It is now household confidence that is crumbling in Europe, a sign that the ECB's first steps toward quantitative easing have not yet garnered the population's optimism. Europe's composite confidence index fell to its lowest level since November 2013 and core inflation once again came dangerously close to negative, slipping from 0.9% to 0.7%. The pressure has therefore gone up yet another notch for the ECB to find an innovative solution to prevent the euro zone from falling into a deflationary spiral.

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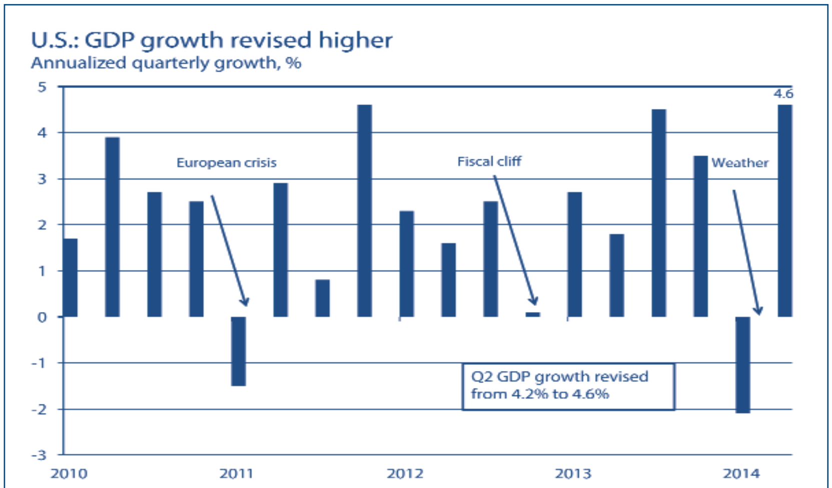
Economic and Financial Statistics

	As at 2014-09-30[1]	As at 2013-12-31
Canada - Unemployment rate	7.0%	6.9%
Canada - CPI (year/year variation)	2.1%	0.9%
Canada - GDP (year/year variation)	2.5%	2.7%
U.S. - Unemployment rate	6.1%	7.0%
U.S. - CPI (year/year variation)	1.7%	1.2%
U.S. - GDP (year/year variation)	2.6%	2.0%
2-year Canada Bonds	1.12%	1.14%
10-year Canada Bonds	2.15%	2.78%
Oil (West Texas) ($US)	91.3	99.2
Gold ($US)	1,212.8	1,207.9
CRB Commodities Index ($US)	287.6	280.2
Exchange rate $CA/$US	1.1199	1.0623

Source: IAIM

[1] Most recent data available at such date



Source: IAIM

Reference indexes[1] - Returns as at September 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	0.7	0.9	1.0	0.9	2.0
FTSE TMX Canada Short Term Bond Index	0.0	0.4	2.1	2.9	2.1	2.9	3.9
FTSE TMX Canada Universe Bond Index	(0.6)	1.1	5.9	6.3	3.4	4.9	5.4
S&P/TSX Capped Income Trusts (Total Return)	(1.9)	0.5	10.2	13.7	10.7	16.4	12.0
SB - World Government Bonds (Can. $)	(0.2)	1.0	6.5	8.9	2.0	2.5	2.8
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	(3.5)	0.4	12.7	21.3	12.3	7.9	8.8
S&P/TSX Completion Index	(5.3)	(3.4)	10.9	17.7	11.3	11.3	8.6
S&P/TSX Composite Index	(4.0)	(0.6)	12.2	20.4	12.1	8.7	8.5
S&P/TSX Capped Composite Index	(4.0)	(0.6)	12.2	20.4	12.1	8.7	8.5
S&P/TSX SmallCap Index	(9.3)	(9.4)	7.0	14.4	6.0	7.5	4.1
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	1.8	6.2	14.2	30.5	26.1	16.7	6.8
S&P 500 (Can. $) (Reuters)	1.6	6.1	14.0	30.2	25.9	16.6	6.8
MSCI - World (Can. $)	0.4	2.7	9.5	22.3	20.9	11.9	5.8
MSCI - EAFE (Can. $)	(0.7)	(1.2)	3.9	13.6	16.6	7.5	5.0
MSCI - EAFE (Can. $) (Reuters)	(0.9)	(1.2)	3.7	13.3	16.3	7.4	5.0
MSCI - Europe (Can. $)	(0.6)	(2.3)	3.9	15.9	19.2	8.5	5.9
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	(1.6)	2.1	7.2	13.4	13.3	7.3	6.0
MSCI - Emerging Markets (Can. $)	(4.4)	1.5	8.3	14.1	10.3	5.7	9.7
MSCI - World Health Care (Can. $)	3.6	8.3	19.2	34.0	26.5	16.0	6.6
NASDAQ 100 (Can. $)	2.4	10.4	18.8	37.1	26.9	19.7	9.8
S&P/TSX Capped REIT Index	(3.0)	(0.9)	8.9	12.3	8.6	14.0	10.6

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at September 30, 2014: 1.1208	3.2	5.0	5.4	9.0	2.6	0.9	(1.2)
EXCHANGE RATE (US $ / Can. $) As at September 30, 2014: 0.8922	(3.1)	(4.7)	(5.1)	(8.2)	(2.5)	(0.9)	1.2

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World: China slowing down

- Since the start of the year, Chinese industrial output has been growing at its slowest pace since the financial crisis, up just 6.9% compared to this time last year. Business investment is below expectations and retail sales are not keeping up the pace that had been expected. This slowdown suggests that the Chinese administration's stimulus plans are not succeeding, for the moment, in restarting the economy once and for all, and doubt is setting in over the likelihood of reaching the GDP growth target of 7.5% in 2014.

Financial markets: strength of the greenback weighs on natural resource prices

- The S&P/TSX Composite Index saw a big drop in September, losing 4.0% as a result of pressure on resource prices. The total return for the year to date is now 12.2%.
- The S&P 500 Index fell as well, down 1.4% (a 1.8% gain in Canadian dollars) in September. Since the start of the year, the U.S. index has grown 8.3% in local currency (14.2% in Canadian dollars).
- World indices MSCI - EAFE and MSCI - World generated monthly returns of 0.2% and -1.0% respectively (-0.7% and +0.4% in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, were down 4.2% (-4.4% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, was down 0.6%.

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