# Market Bulletin

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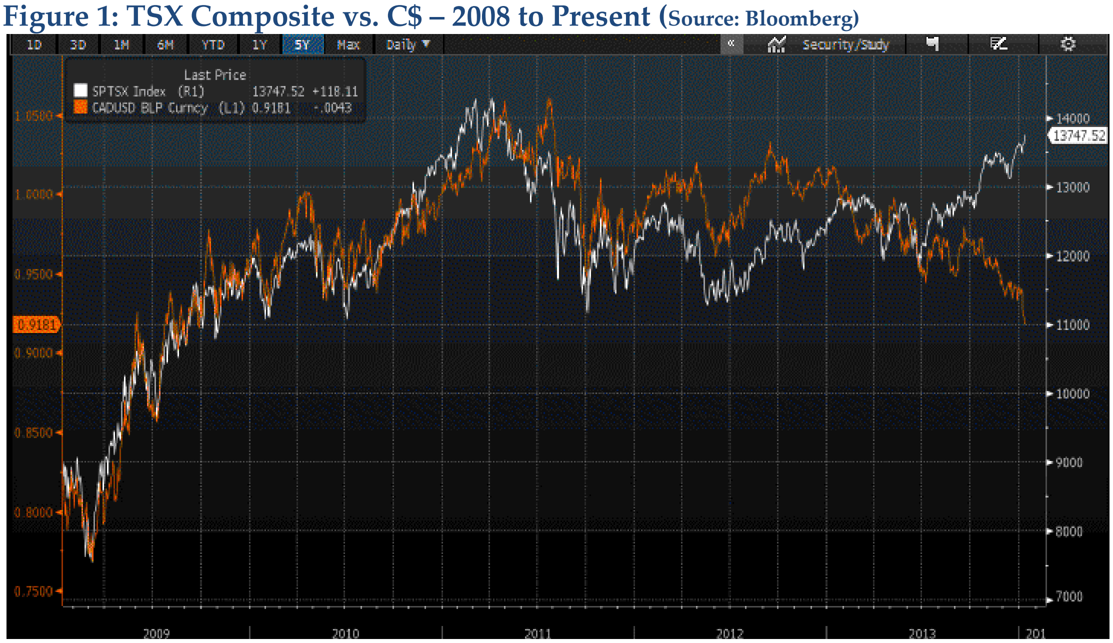
## Commentary – Divergence widening between TSX and Canadian dollar

*Loonie at four-year low may provide tailwind for TSX earnings*

The divergence between the TSX Composite and the C$, which we had first highlighted in our November 25 Bulletin, is widening (Figure 1). While the TSX has gained 2% since November 25 and closed on Friday at its highest levels since May 2011, the loonie has slumped 3.4% to its lowest levels since October 2009. The C$ is currently under pressure on speculation that the Bank of Canada may consider cutting interest rates, at a time when the Fed is scaling back its bond purchases. Despite the recent plunge in the C$, we continue to hold the view that it may recover from these oversold levels over the course of the year as commodity prices firm up with the strengthening global economy. While the timing of the loonie's recovery remains uncertain, the weaker currency has two important implications for Canadian investors. The first is that the weaker C$ may provide a tailwind for Canadian corporate earnings. The second is that C$ weakness and the surge in US equities over the past year makes this a sub-optimal time to increase US equity exposure. **Both factors support the thesis for increasing Canadian equity exposure, while taking some profits to trim US equity allocations**.

**Figure 1: TSX Composite vs. C$ – 2008 to Present (Source: Bloomberg)**



# Economic Analysis

## Canadian jobless rate rose last month from five-year low on unexpected job loss

***Jobs losses driven by cutbacks in full-time positions***

After four successive months of job gains, the Canadian economy shed jobs in December, losing 45,900 positions, contrary to economists' expectations for a gain of 14,100 jobs. The jobless rate rose to 7.2%, after holding at 6.9% – the lowest since December 2008 – for three straight months, while the labour participation rate was unchanged at an 11½-year low of 66.4% for the fourth month. Key points of the December jobs report are summarized below –

- A decline of 60,000 full-time positions (Table 1) led job losses in December, while part-time jobs increased by 14,200. The ranks of the self-employed also dwindled by 37,900, while 8,000 employee positions were lost as a decline in private-sector positions (-26,300) more than offset an increase of 18,200 public sector jobs.
- Job losses were split evenly among goods producers (-23,800) and service providers (-22,100), led by construction and agriculture in the former, and educational, accommodation, and business services in the latter category.
- Three of the four biggest provinces – Ontario, Quebec and Calgary – registered job losses that were led by declines in full-time positions. BC bucked the trend, as a decline of 10,300 full-time jobs was offset by an increase of 23,100 part-time positions, for a net increase in employment of 12,800. The jobless rate in BC declined to 6.6% (from 6.7%).
- **Overall, the Canadian economy registered tepid job growth in 2013. Only 102,000 jobs were created last year, an increase of 0.6% that was the slowest since 2009 and one-third of the 1.8% employment growth pace seen in 2012. The quality of jobs created in 2013 was also below par, with 82,800 part-time jobs and 19,200 full-time positions**.

**Table 1: Canadian employment metrics (**Source: Statistics Canada**)**

| | **Sept. '13** | **Oct. '13** | **Nov. '13** | **Dec. '13** |
|---|---|---|---|---|
| **Unemployment Rate** | **6.9%** | **6.9%** | **6.9%** | **7.2%** |
| | | | | |
| **Employment (net change)*** | **11,900** | **13,200** | **21,600** | **-45,900** |
| Full-time | 23,400 | 16,000 | 1,400 | -60,000 |
| Part-time | -11,500 | -2,700 | 20,000 | 14,200 |
| | | | | |
| **Worker classificn. (net change)** | **11,900** | **13,200** | **21,600** | **-45,900** |
| Employees | 57,300 | 25,200 | 2,500 | -8,000 |
| Self-employed | -45,400 | -12,000 | 19,100 | -37,900 |
| | | | | |
| **Public/private sector (net chg.)** | **57,300** | **25,200** | **2,500** | **-8,000** |
| Public sector | -16,300 | 47,300 | -28,800 | 18,200 |
| Private sector | 73,600 | -22,100 | 31,400 | -26,300 |
| *totals may not add up due to rounding | | | | |

## U.S. jobs gains of 74,000 in December weakest in three years on weather woes

### *Jobless rate slides to 6.7% (from 7.0%) as labor participation rate continues downward trend*

The US economy added only 74,000 jobs last month, the smallest jobs gain since January 2011 and well below the 197,000 increase expected by economists. The coldest December in four years and above-average snowfall may have contributed to the weak numbers, as the household survey showed 273,000 people – the most for any December since 1977 – could not report for work due to the weather. November's initial jobs estimate of 203,000 was revised higher by 38,000 to 241,000, indicating the labor market remains solid and December's weakness may be an aberration. Overall, the economy created 2.19 million jobs in 2013, little changed from 2012.

The unemployment rate resumed its declining trend, falling to a five-year low of 6.7%. The jobless rate averaged 7.4% in 2013, the lowest since 2008. The jobless rate is being forced lower partly because more people are leaving the work force, with the labor participation rate falling to 62.8% last month (from 63.0% in November), the same level as October and the lowest rate since 1978. Average hourly earnings for all employees rose by 2 cents from the previous month to $24.17, for a 1.8% increase over the past 12 months.

Last month's job gains continued to be driven by the US private sector (+87,000), which offset a decline of 13,000 government jobs. Private-sector job creation continued to be concentrated in the service sector (+90,000), all of which were in retail/wholesale trade and temporary help services, while goods producers shed 3,000 positions, led by a 16,000 decline in construction jobs that may have been weather related.

**Market reaction:** After three months when payroll gains averaged 193,000, December's soft numbers took the market by surprise. Treasuries rallied and the greenback fell against most major currencies on Friday as traders trimmed bets that the Federal Reserve would accelerate its tapering of bond purchases. Futures contracts now show the odds that the Fed will raise its interest-rate target by January 2015 at 23%, down from 31% on Thursday.

## Market Snapshot

**At close on Friday, January 10, 2014**

| **S&P TSX** | 13747.52 | +118.11 | **Commodities** | | | **Yields (%)** | **Can.** | **US** |
|---|---|---|---|---|---|---|---|---|
| **TSX Venture** | 966.55 | +9.85 | Canadian $ (US cents) | 91.81 | -0.43 | 90 Day T-Bill | 0.87 | 0.04 |
| **DJIA** | 16437.05 | -7.71 | Gold (Spot)-US$ | 1248.45 | +20.50 | 2-Year Bond | 1.01 | 0.37 |
| **S&P 500** | 1842.37 | +4.24 | Oil (WTI-Feb.) | 92.72 | +1.06 | 10-Yr.Bond | 2.55 | 2.86 |
| **NASDAQ** | 4174.66 | +18.47 | CRB Index | 275.42 | +3.13 | 30-Yr. Bond | 3.11 | 3.80 |

## Thought for the Day

"Just because something doesn't do what you planned it to do doesn't mean it's useless." – Thomas Alva Edison

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