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Employment poised for turnaround

But markets react to sudden US dollar strength

December 4, 2009 – A sure sign of economic recovery is a revival of the labor market. In Canada, at least, November's employment numbers sure seemed to show an impressive return to growth after a surprising monthly drop in October. That's good news for thousands of Canadians who have been on the unemployment (or "self-employment") rolls for the better part of 18 months. That augurs well for consumer spending going into the all-important Christmas shopping season, and by extension for both staple and discretionary consumer-related stocks.

Canada's employment data over the past two months seems strangely anomalous, as October saw a 43,000 loss in jobs, while November posted a 79,000 gain. Both numbers took economic deep-thinkers by surprise. However, the overall trend since July has been to positive job growth, with a monthly average 25,000 increase. November's numbers are particularly striking, because growth in permanent full-time employment advanced robustly at the expense of self-employment.

In the US, the trend to ever-smaller monthly job losses that's prevailed since July got a major boost with a much stronger than expected nonfarm payroll report for November. That, in turn, was underpinned by positive manufacturing surveys that have shown a slow but steady increase in new orders and manufacturing activity over the past four months.

An overall US loss of only 11,000 jobs in November contrasts sharply with an average 135,000 jobs lost in each of the previous three months, and is miles better than July's 304,000 drop. The US unemployment rate also ticked down to 10% in November from 10.2% in October. The declining trend in job cuts to November's virtually negligible number (in US terms, of course) points to a potential return to US employment growth, perhaps even as early as this month.

While the official kickoff to the US (and increasingly the Canadian) holiday shopping season was no barn burner, some 195 million shoppers braved "Black Friday" (so named, because it's the shopping day that typically kicks US retailers into profitability – "into the black" – for the year), visiting stores or clicking away happily online, to the tune of about US\$343 per person. According to the US National Retail Federation, that's more than the 172 million shoppers recorded last year, but about 30 bucks less than the US\$372 that each spent last year.

Businesses, however, were still a reluctant to invest or ramp up production beyond what they've been doing for the past couple of months. The Institute for Supply Management's November survey of manufacturing activity posted a decline in the rate of growth in November. The index fell to 53.6, from 55.7 in October. Any reading above 50 for the index indicates growth in the manufacturing economy, so the number was still positive, just a tad less robust than October's.

The real surprise was in the various surveys for factory orders. The ISM index for new orders rose to 60.3 November, indicating strong growth. Meanwhile, the US Commerce Department's survey showed a 0.6% increase in factory orders for October, the sixth increase in the past seven months. Inventories also showed marked growth for the fourth straight month, following several months of inventory drawdown.

It all adds up to a picture of subdued economic recovery in the US, as painted by the US Federal Reserve in its most recent "beige book" survey of economic conditions around the country. The Fed says the US economy has "improved modestly" since October, with rising consumer spending but a still-weak labor market. With no upward pressure on wage growth, it's a safe bet the Fed will continue to sit on its near-zero interest rate policy until well into next year.

The relatively encouraging economic news from south of the border gave the US dollar a boost, as the US Dollar Index rose 1.6%, a one-month high. That, of course, put pressure on commodities, most of which are priced in US dollars. Gold futures, for example, backed off 4%, to US\$1,168, on Friday, the largest single-day retreat in 20 months.

Friday's US dollar surge took some lustre of the commodity-heavy S&P/TSX Composite Index, which gave back nearly all of its gains won earlier in the week. The index closed the week essentially flat from the previous week's close, gaining only 0.4%. However, the index gained 4.9% for the month of November, and to November 30 was ahead 27.4% for the year to date, and up 53% from the March bear-market low.

Similarly, the Dow Jones Industrial Average closed Friday with a week-over-week advance of only 0.7%. For November, the DJIA gained 6.5% (3.7% in Canadian dollar terms), and had advanced 17.9% year-to-date to November 30 (2.1% in Canadian dollars). From its low point in March, the Dow Industrials have scored a mighty 60% advance (31% in C\$).

And the broad-based S&P 500 Composite Index gained 1.3% week-over-week, despite downside pressure from basic materials and energy stocks on Friday. For November, the S&P was up 5.7% (2.9% in C\$). And in the year to date to November 30, the index advanced 21.3% (5.1% in C\$). From its March low, the S&P advanced 64% (35% in C\$) to the end of November.

The complex interplay of varying rates of economic recovery around the world, volatile US dollar exchange-rate differentials, still-vulnerable financial institutions (think Dubai's de facto debt default last week), and year-end portfolio manoeuvring (including

institutional profit-taking and equity-allocation reductions) and you have a recipe for stock market volatility for the remaining four weeks of the year. ■

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