

# *focus*

*A Weekly Financial Digest*

- 2008: Record (or Near-Record) Losses in Stocks and Commodities...
- ...Central Banks Take Overnight Rates to Record Lows...
- ...CAD Suffers Biggest Annual Drop Ever
- 2009: Welcomed with Cautious Hopes Riding on Fiscal Actions
- U.S. Automakers Await Bail-Out Funds
- Crude Oil Falls below \$42 Despite Geopolitical Risks

## CANADA

Michael Gregory, CFA, Senior Economist

### Employment

Friday, 7:00 am

**Dec. (e)** -30,000 (-0.2%)

*Consensus* -22,000 (-0.1%)

Nov. -70,600 (-0.4%)

### Unemployment Rate

**Dec. (e)** 6.5%

*Consensus* 6.5%

Nov. 6.3%

### Average Hourly Wages

**Dec. (e)** +4.3% y/y

Nov. +4.6% y/y

As if taking a big breath before heading underwater, September's record-sized (+106,900) job gain gave way to net job losses during October and November (after adjusting for election-related distortions). November's total job loss of 70,600 was particularly telling, centred exactly where you would expect it to be if the U.S. was pulling Canada into a deepening recession, i.e., in manufacturing, transportation and warehousing. Job losses in these trade-dependent sectors totalled 64,300 in November, the most in history. Although reductions here during December should be less, they'll likely be augmented by payroll parings in construction and financial services. We look for total employment to drop by 30,000, which should lift the unemployment rate a couple notches to 6.5%, the highest in almost 2½ years. The mounting slack in labour markets should apply a damper on wages, with the growth in average hourly earnings expected to ease to 4.3% y/y.

### Housing Starts

Friday, 8:15 am

**Dec. (e)** 178,000 a.r.

*Consensus* 172,500 a.r.

Nov. 172,000 a.r.

### Building Permits

Friday, 8:30 am

**Nov. (e)** +1.0%

Oct. -15.7%

The prior torrid construction sector continues to cool. Although housing starts are expected to increase 3.5% to 178,000, owing to a rebound in multi-family units following their near-30% plummet in November, this will still mark the second slowest clip since late-2001. The demand for new homes continues to ebb as existing home sales slide amid rising inventories, mortgage credit conditions tighten up a bit and, most importantly, job losses begin to mount. Building permits are expected to inch up 1% in October, as a rebound on the perennially volatile non-residential front is barely able to offset a fourth consecutive fall on the residential side.

## UNITED STATES

Sal Guatieri, Senior Economist

### ISM Non-Manufacturing

Tuesday, 10:00 am

**Dec. (e)** 35.0

*Consensus* 37.0

Nov. 37.3

The ISM measure of services, construction and resource activity likely ended the year on a downswing after plunging to its lowest level in the series' 11-year history. The once-sturdy commercial construction pillar is now buckling amid tightening credit conditions and rising retail and office vacancies, while the housing market continues to spiral downwards. Meantime, the resource sector continues to struggle with the monumental collapse in commodity prices. The employment sub-index likely slid further after posting a record decline the prior month.

### Pending Home Sales

Tuesday, 10:00 am

**Nov. (e)** -3.0%

*Consensus* -1.0%

Oct. -0.7%

Pending home sales are expected to fall for the third straight month in November, by 3%, as mortgage applications for purchase dipped to eight-year lows. This would point to a third straight decline in existing home sales in December. After stabilizing through most of 2008 as investors bought cheap foreclosed properties, home sales have lurched down again amid tightening credit conditions and accelerating job losses.

### FOMC Meeting Minutes

Tuesday, 2:00 pm

The Fed slashed its target rate to nearly zero and said it would pull out all the stops to address a worsening economic outlook. The press statement suggested policymakers would keep rates at "exceptionally low levels...for some time," and keep the Fed's balance sheet sufficiently bloated with new loans to support an economic recovery and prevent deflation. The minutes may provide some sense of how aggressively the Fed will purchase long-term Treasuries.

**Nonfarm Payrolls**

Friday, 8:30 am

**Dec. (e)** **-500,000**
*Consensus* -490,000

Nov. -533,000

**Unemployment Rate**
**Dec. (e)** **7.0%**
*Consensus* 7.0%

Nov. 6.7%

**Average Hourly Earnings**
**Dec. (e)** **+0.2%**
*Consensus* +0.2%

Nov. +0.4%

**ADP Employment**

Wednesday, 8:15 am

**Dec. (e)** **-500,000**

Nov. -472,000

With jobless claims at a quarter-century high and job prospects worsening (according to the Conference Board's consumer confidence survey), employment losses likely remained large in December even after the biggest monthly decline (533,000) in 34 years. Nonfarm payrolls are expected to contract 500,000, taking total job losses to 2.4 million (1.7%) for the year. The unemployment rate is expected to climb three-tenths to 7%, the highest in 15 years, and is likely headed towards 9% by year's end, the highest in 25 years.

Note that the methodology to compile the **ADP employment** measure (released two days prior to the payrolls report) has changed, and should provide a more accurate estimate of payrolls than was the case in the past year (when it continually overstated the monthly change in payrolls by a wide margin). The new methodology uses the ADP figures, plus data on jobless claims and previous payrolls, to model current payrolls. The new measure has an average error of zero in the past year and an average absolute error of 58,000 (about one-third the standard deviation of payroll changes).

CHANGE FROM: (BASIS POINTS)

	JAN 2*	DEC 26	WEEK AGO	4 WEEKS AGO	DEC. 31/08
<b>Canadian Money Market</b>					
Call Money	1.50	1.50	0	-75	0
Prime Rate	3.50	3.50	0	-50	0
<b>U.S. Money Market</b>					
Fed Funds (effective)	0.25	0.25	0	-75	0
Prime Rate	3.25	3.25	0	-75	0
<b>3-Month Rates</b>					
Canada	0.83	0.87	-4	-56	0
United States	0.09	-0.01	10	7	1
Japan	0.20	0.22	-2	-27	0
Eurozone	2.86	2.99	-13	-70	-3
United Kingdom	2.71	2.87	-17	-67	-6
Australia	4.85	4.88	-3	-23	0
<b>Bond Markets</b>					
<b>2-year Bond</b>					
Canada	1.11	1.21	-10	-45	1
United States	0.75	0.89	-14	-17	-2
<b>10-year Bond</b>					
Canada	2.71	2.80	-9	-38	2
United States	2.24	2.13	11	-46	3
Japan	1.16	1.21	-5	-21	-1
Germany	2.96	2.94	1	-7	0
United Kingdom	3.05	3.05	-1	-37	2
Australia	3.96	4.09	-13	-32	-3
<b>Currencies</b>					
				(% CHANGE)	
US\$/C\$	82.30	81.84	0.6	4.5	0.3
C\$/US\$	1.215	1.222	—	—	—
¥/US\$	91.00	90.81	0.2	-2.0	0.4
US\$/Euro	1.3945	1.4028	-0.6	9.6	-0.2
US\$/£	1.448	1.458	-0.7	-1.4	-0.8
US\$/A\$	70.36	68.38	2.9	8.8	0.1
<b>Commodities</b>					
CRB Futures Index	228.72	215.28	6.2	9.6	-0.4
Oil (generic contract)	44.40	37.71	17.7	8.8	-0.4
Natural Gas (generic contract)	5.65	5.81	-2.8	-1.6	0.5
Gold (spot price)	875.80	869.30	0.7	15.8	-0.7
<b>Equities</b>					
S&P/TSX Composite	9063	8311	9.0	11.6	0.8
S&P 500	912	873	4.5	4.1	0.9
Nasdaq	1596	1530	4.3	5.7	1.2
Dow Jones Industrial	8873	8516	4.2	2.7	1.1
Nikkei	8860	8740	1.4	11.9	0.0
Frankfurt DAX	4921	4629	6.3	12.3	2.3
London FT100	4516	4217	7.1	11.5	1.8
France CAC40	3294	3116	5.7	10.2	2.4
S&P ASX 200	3714	3582	3.7	6.4	-0.2

\* as of 10:30 am

**MONDAY JANUARY 5**
**ITALY**
**Consumer Price Index**

<b>Dec. P (e)</b>	<b>-0.1%</b>	<b>+2.4% y/y</b>
Nov.	-0.5%	+2.7% y/y

**TUESDAY JANUARY 6**
**EUROZONE**
**Services PMI**

<b>Dec. F (e)</b>	<b>42.0</b>
Dec. P	42.0
Nov.	42.5

**Consumer Price Index**

<b>Dec. P (e)</b>	<b>+1.8% y/y</b>
Nov.	+2.1% y/y

**Services PMI**

<b>Dec. (e)</b>	<b>39.0</b>
Nov.	40.1

**Nationwide Consumer Confidence**

<b>Dec.</b>	
Nov.	50

**Nationwide House Price Index**

<b>Dec. (e)</b>	<b>-1.5%</b>	<b>-14.6% y/y</b>
Nov.	-0.4%	-13.9% y/y

**WEDNESDAY JANUARY 7**
**EUROZONE**
**Producer Price Index**

<b>Nov. (e)</b>	<b>-0.9%</b>	<b>+4.5% y/y</b>
Oct.	-0.8%	+6.3% y/y

**GERMANY**
**Unemployment**

<b>Dec. (e)</b>	<b>+10,000</b>
Nov.	-10,000

**Jobless Rate**

<b>Dec. (e)</b>	<b>7.5%</b>
Nov.	7.5%

**AUSTRALIA**
**Retail Sales**

<b>Nov.</b>	
Oct.	+0.7%

**THURSDAY JANUARY 8**
**EUROZONE**
**Real GDP**

<b>Q3 F (e)</b>	<b>-0.2%</b>	<b>+0.6% y/y</b>
Q3 P	-0.2%	+0.6% y/y
Q2	-0.2%	+1.4% y/y

**Economic Confidence**

<b>Dec. (e)</b>	<b>72.0</b>
Nov.	74.9

**Jobless Rate**

<b>Nov. (e)</b>	<b>7.8%</b>
Oct.	7.7%

**GERMANY**
**Trade Surplus**

<b>Nov.</b>	
Oct.	€16.4 bln

**Factory Orders**

<b>Nov. (e)</b>	<b>-1.6%</b>	<b>-19.7% y/y</b>
Oct.	-6.1%	-17.3% y/y

**Bank of England Monetary Policy Meeting (January 7-8)**

**AUSTRALIA**
**Building Approvals**

<b>Nov.</b>	
Oct.	-5.4%

**Trade Surplus**

<b>Nov.</b>	
Oct.	A\$3.0 bln

**MEXICO**
**Consumer Price Index**

<b>Dec. (e)</b>	<b>+0.7%</b>
Nov.	+1.1%

**Consumer Price Index—Core**

<b>Dec. (e)</b>	<b>+0.6%</b>
Nov.	+0.5%

**FRIDAY JANUARY 9**
**Leading Index**

<b>Nov. P (e)</b>	<b>81.4</b>
Oct.	85.2

**EUROZONE**
**Retail Sales**

<b>Nov. (e)</b>	<b>-0.1%</b>	<b>-1.6% y/y</b>
Oct.	-0.8%	-2.1% y/y

**GERMANY**
**Retail Sales**

<b>Nov. (e)</b>	<b>+0.4%</b>	<b>-0.1% y/y</b>
Oct.	-1.6%	-1.5% y/y

**Industrial Production**

<b>Nov. (e)</b>	<b>-2.0%</b>	<b>-5.5% y/y</b>
Oct.	-2.1%	-3.8% y/y

**FRANCE**
**Industrial Production**

<b>Nov. (e)</b>	<b>-0.8%</b>	<b>-5.8% y/y</b>
Oct.	-2.7%	-7.2% y/y

**Manufacturing Production**

<b>Nov. (e)</b>	<b>-0.4%</b>	<b>-6.6% y/y</b>
Oct.	-3.2%	-8.4% y/y

**Industrial Production**

<b>Nov. (e)</b>	<b>-0.6%</b>	<b>-5.3% y/y</b>
Oct.	-1.7%	-5.2% y/y

**Manufacturing Production**

<b>Nov. (e)</b>	<b>-0.6%</b>	<b>-5.1% y/y</b>
Oct.	-1.4%	-4.9% y/y

**Producer Price Index—Input**

<b>Dec. (e)</b>	<b>-2.0%</b>	<b>+3.1% y/y</b>
Nov.	-3.3%	+7.5% y/y

**Producer Price Index—Output**

<b>Dec. (e)</b>	<b>-0.6%</b>	<b>+4.0% y/y</b>
Nov.	-0.7%	+5.1% y/y

CANADA

## MONDAY JANUARY 5

**Auto Sales**  
Dec. -10.3% y/y  
Nov.

**7:30 am Challenger Layoff Report**  
Dec. 181,671  
Nov.

**10:00 am Construction Spending**  
Nov. (e) -2.0%  
Consensus -1.2%  
Oct. -1.2%

**Vehicle Sales (mln a.r.)**  
**Total Domestic**  
Dec. (e) 10.1 7.5  
Nov. 10.2 7.6

3 & 10-year note auction announcement

**1:00 pm 3 & 6-month T-bill auction \$53.0 bln**  
(New cash \$4.0 bln)

## TUESDAY JANUARY 6

**8:15 am Foreign Reserves**  
Dec. (e) +\$2.3 bln  
Nov. +\$163 mln

**8:30 am Industrial Product Price Index**     **Raw Materials Price Index**  
Nov. (e) -0.7%     -6.5%  
Consensus -1.0%     -9.0%  
Oct. unch     -12.5%

**10:35 am 3, 6 & 12-month T-bill auction \$13.5 bln**  
(New cash -\$18.4 bln)

**8:55 am Redbook**  
Jan. 3 -0.5%  
Dec. 27

**10:00 am Factory Orders**  
Nov. (e) -3.0%  
Consensus -2.2%  
Oct. -5.1%

**10:00 am ISM Comp Index (non-mfg)**  
Dec. (e) 35.0  
Consensus 37.0  
Nov. 37.3

**10:00 am Pending Home Sales**  
Nov. (e) -3.0%  
Consensus -1.0%  
Oct. -0.7%

**2:00 pm FOMC Minutes from December meeting**

**5:00 pm ABC News/Washington Post Consumer Comfort Index**

**Jan. 4**  
Dec. 28 -49

**1:00 pm 10-year TIPS auction \$8.0 bln**  
(New cash \$8.0 bln)

## WEDNESDAY JANUARY 7

**8:15 am ADP National Employment Report**  
Dec. (e) -500,000  
Nov. -472,000

**10:35 am DoE's Petroleum Status Report (Jan. 2 week)**

**1:00 pm 3-year note auction \$25.0 bln (e)**  
(New cash \$25.0 bln)

## THURSDAY JANUARY 8

**10:00 am Ivey Purchasing Managers' Index**  
Dec. (e) 38.0  
Nov. 40.2

**8:30 am Initial Claims**  
Jan. 3 (e) 530,000 (+38,000)  
Dec. 27 492,000 (-94,000)

**10:00 am Conference Board CEO Confidence Index\***  
Q4 40  
Q3

**10:00 am Philadelphia Fed Index Revisions**

**10:35 am DoE's Natural Gas Status Report (Jan. 2 week)**

**3:00 pm Consumer Credit**  
Nov. (e) +\$0.5 bln  
Oct. -\$3.6 bln

**Chain-Store Sales**  
Dec. (e) -2.0% y/y  
Nov. -2.7% y/y

**1:00 pm 10-year note auction \$12.0 bln (e)**  
(New cash -\$4.0 bln)

## FRIDAY JANUARY 9

**7:00 am Employment**  
Dec. (e) -30,000 (-0.2%)  
Consensus -22,000 (-0.1%)  
Nov. -70,600 (-0.4%)

**7:00 am Unemployment Rate**  
Dec. (e) 6.5%  
Consensus 6.5%  
Nov. 6.3%

**7:00 am Average Hourly Wages**  
Dec. (e) +4.3% y/y  
Nov. +4.6% y/y

**8:15 am Housing Starts**  
Dec. (e) 178,000 a.r.  
Consensus 172,500 a.r.  
Nov. 172,000 a.r.

**8:30 am Building Permits**  
Nov. (e) +1.0%  
Oct. -15.7%

**8:30 am Nonfarm Payrolls**  
Dec. (e) -500,000  
Consensus -490,000  
Nov. -533,000

**8:30 am Unemployment Rate**  
Dec. (e) 7.0%  
Consensus 7.0%  
Nov. 6.7%

**8:30 am Average Hourly Earnings**  
Dec. (e) +0.2%  
Consensus +0.2%  
Nov. +0.4%

**10:00 am Wholesale Inventories**  
Nov. (e) -1.0%  
Consensus -0.8%  
Oct. -1.1%

UNITED STATES

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