

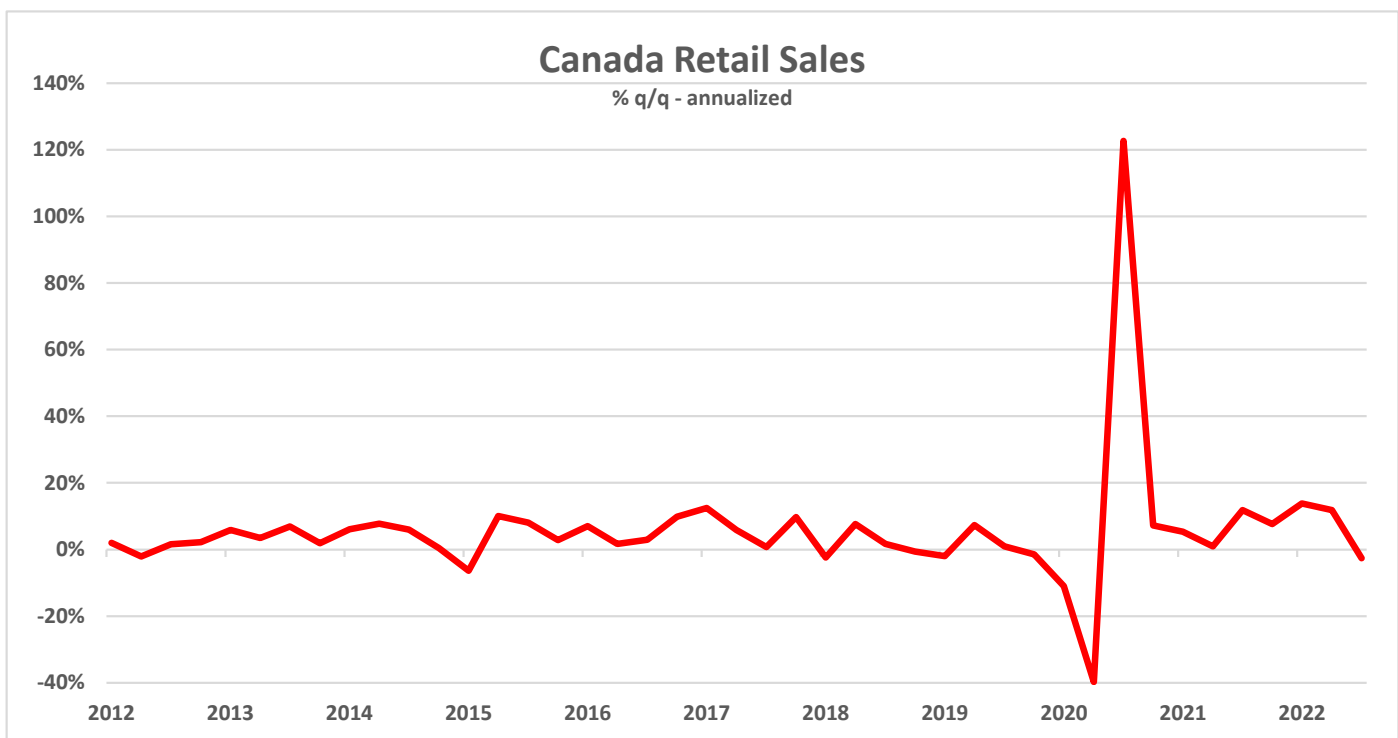
## MONTHLY COMMENTARY

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### Retail spending slows



Source: Statistics Canada

### MARKET FOCUS

#### Canadian consumers retrench

Statistics Canada provided an update on the state of the Canadian consumer, with the release of retail sales figures for August 2022. Retail spending steadied during the month, rising 0.7% following July's dramatic 2.2% decline. Sales were mixed with six of 11 key sub-sectors revealing a gain in August. The overall advance left the annual growth rate at 7.0%. However, on a quarterly basis, the picture is far less rosy. As it has done since the pandemic, the statistics agency provided forward guidance, indicating that retail sales were likely to have dropped back 0.5% in September. If this figure is borne out in the next report, it will leave sales for the July

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to September quarter down from the second-quarter level. As can be seen in the accompanying graph, the anticipated 2.6% annualized quarterly decline would be the first since the second quarter of 2020 during the pandemic-induced recession. Given the current pace of inflation and the string of interest rate hikes, it is not surprising that Canadians appear to be cautious with their spending. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results, with a much weaker result anticipated for the third quarter.

## U.S. inflation concerns remain

The latest data from the U.S. Bureau of Labor Statistics revealed that its consumer price index rose 0.4% (seasonally adjusted basis) in September. On a year-over-year basis, the overall index was up 8.2% (unadjusted). This is down from the 9.1% high reported for June, which was the highest since 9.6% in November 1981. Nevertheless, core inflation, which excludes volatile food and energy components, rose 0.6% during the month to stand with an annual growth rate of 6.6%. This is now the fastest pace of this core measure since August 1982 (7.1%). The report highlighted the broad-based increases in the underlying index components, stating that “increases in the shelter, food and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase.” Regardless of the modest decline in the annual pace of the headline figure, elevated inflationary pressures remain within the U.S. economy and the market focus will be on the Fed’s upcoming policy meeting scheduled for November 1 and 2.

## LONGER VIEW

The Federal Reserve has raised rates aggressively this year and that is expected to cool inflation. The side effect of this strategy is a slowing economy and rising unemployment. Until we know how bad these side effects will be, the markets will remain a “guessing game”. Over the long term, we expect rates to average 2.25-2.5%; this means the 10-year bond at 3.7% yield today is oversold. Stocks will likely continue to benefit from low long-term interest rates and technology advancement. Economic cycles have been short and volatile as they are heavily influenced by dramatic policies. Therefore, investors should not be overly excited or concerned about what they see in the immediate term.

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