THE PLAYBOOK

CI ASSANTE WEALTH MANAGEMENT

MONTHLY COMMENTARY

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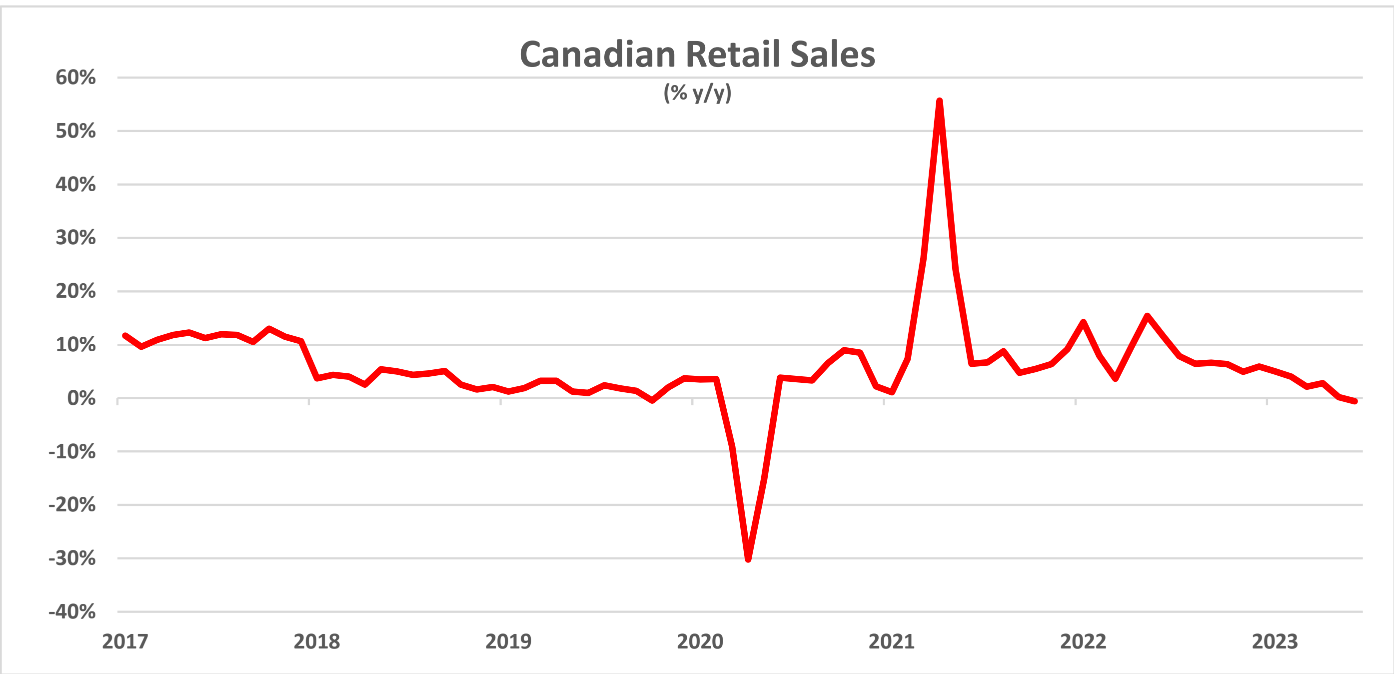
Canadian consumers pause



Source: Statistics Canada

MARKET FOCUS

Interest rate hikes take hold

Statistics Canada released an update on the state of Canadian consumer retail sales for June 2023. Retail spending edged higher during the month, rising a modest 0.1% and matching May's downwardly revised figure (previously reported as 0.2%). Furthermore, estimates for both March and April were also revised downward. Sales for June were mixed, with only three of the nine key sub-sectors reporting a gain. As illustrated in the accompanying graph, although overall sales for June advanced, the annual growth rate turned negative (-0.6%) for the first time since May 2020, which marked the early days of the pandemic. Additionally, on a quarterly basis, retail sales fell an annualized 0.1%, the weakest result since the third quarter of 2022. It appears that the ongoing series of interest rate hikes is now being reflected in softer consumer spending. The Bank of Canada recently raised its administered interest rates by 25 basis points (a basis point is 1/100th of one per cent) during its July monetary policy meeting. Since March 2, 2022, there has been a cumulative increase of 475 basis points. This is the largest set of interest rate increases since November 1987 to May 1990, which saw a rise of 596 basis points. The last time the Bank rate stood at its current level was April 16, 2001. Notably, the statement accompanying the announcement highlighted that “CPI inflation is forecast to hover around 3% for the next year before gradually declining to 2% in the middle of 2025. This is a slower return to target than was forecast in the January and April projections.” The next policy announcement is scheduled for September 6, 2023.

U.S. consumers hold back

The U.S. Bureau of Labor Statistics reported that the Consumer Price Index (CPI) rose 0.2% on a seasonally adjusted basis in July, matching the June increase. Over the past year, the index has risen 3.2%, slightly higher than the 3.0% figure reported for June. However, it is still significantly lower than the peak of 9.1% high recorded for June 2022, which was the highest rate since November 1981 at 9.6%. Even so, inflation remains above the U.S. Federal Reserve’s (the “Fed”) 2.0% target. These numbers suggest some flattening of overall price pressures within the U.S. economy. However, core inflation (CPI ex-food and energy) was up 4.7% year-over-year in July. Similarly to Canada, the Fed continues to worry that inflation will get “stuck” on the way down. The market’s focus remains squarely on the Fed’s next policy meeting, scheduled for September 19 and 20.

LONGER VIEW

The Federal Reserve has raised rates aggressively this year and last year; we have seen inflation cooling. However, these measures may inadvertently slow economic growth and increase unemployment. Until the extent of these side effects becomes clear, 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 over 4% yield today is oversold. Stocks are poised 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.

For more information, we encourage you to speak to your advisor or visit us at assante.com