Weekly Updates Issue # 571

1. Weekly Markets Changes

[July 1, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,064.54 +172.7 +1.24%	2,102.95 +65.54 +3.22%	17,949.37 +548.6 +3.15%	4,862.57 +154.6 +3.28%	$0.7757 -0.09¢ -0.17%	$1,344.90 +25.80 +1.96%	$49.28 +1.71 +3.59%

2. GDP up slightly in April

[June 30, 2016] Statistics Canada says the economy grew 0.1% in April after shrinking in February and March.

The result matches economist expectations, according to Thomson Reuters.

Gains in manufacturing, utilities and the public sector helped drive the growth in real gross domestic product, offset by a drop in non-conventional oil extraction.

Service-producing industries rose 0.2% in April, after being essentially unchanged in March, while goods-producing industries pulled back 0.1% for the month.

Mining, quarrying, and oil and gas extraction fell 1.4%, the third consecutive month the sector has pulled back.

The main reason for the drop was a 2.4% drop decline in oil and gas extraction, as output from non-conventional oil extraction fell 7.3% due to maintenance shutdowns at upgrader facilities. Conventional oil and gas grew 1.7%.

The overall gain for April comes ahead of what is expected to be a weak May due to the forest fires in Alberta that forced the evacuation of Fort McMurray and the shut down of several oilsands operations.

3. More Canadians warming up to robos

[June 30, 2016] More than two out of five Canadian bank customers (43%) are open to using computer-generated advice and services, independent of a human advisor, according to a report by Accenture.

Canadian consumers welcome robo-advice from banks to determine how to allocate their investments (77%), determine the type of bank account to open (76%), and plan for retirement (70%).

The report is based on a survey of more than 4,000 retail bank customers in North America, including 1,210 in Canada.

"Robo-advice is gaining significant traction in the wealth management industry in Canada, and our research shows that consumers are open to working with robo-advisors for their retail banking needs," said Bob Vokes, managing director of Accenture's Canadian financial services practice. "Consumers are excited about the potential savings and accuracy that robo-advice offers. We are now seeing leading financial services players starting to embrace intelligent automation and robotics to simplify and improve the customer experience."

This year's survey found that speed and convenience (50% for Canada vs. 49% for U.S.) and lower costs (33% for Canada vs. 27% for U.S.) were cited by respondents as the primary benefits of robo-advice, with millennials and mass-affluent consumers expressing the most interest in the service. Mass-affluent consumers are defined as those earning over $100,000 in annual income.

Non-traditional banks continue to gain momentum

The survey found that Canadian consumers are increasingly willing to bank with non-traditional players, closing the gap with those switching to national banks. Nine percent of Canadian consumers broadened their banking relationship with a new financial services provider in the past year.

Among those respondents who have broadened their banking relationship to other providers, 21% joined a non-traditional provider (online-only bank, payments providers, retailer or insurer), versus 29% who switched to a large regional or national bank. Of those Canadians who switched, 15% of consumers ages 55+ joined an online-only bank, up from only 5% who did the same last year. Millennial switchers increased the move to non-traditional providers from 24% in 2015 to 27% this year. Consumers ages 35-54 had a reverse trend: 30% moved to non-traditional providers in 2015, down to 24% in 2016.

Among Canadians, 23% would consider switching to a branchless bank, which is up eight percentage points from last year. Across North America, 26% of millennials would consider switching to a branchless bank (up three percentage points from last year), and 34% of mass affluent consumers would do so, up 10 percentage points from 2015.

Online channel dominant, but branches still relevant

Today, 21% of Canadian survey respondents use the branch at least weekly, and it remains the second most preferred channel, after online.

By a wide margin, Canadians who use the branch prefer "full service branches," which include extended office hours and full sales support, over all other formats (64%). However, 19% of millennials prefer "light branches" – highly automated with videoconferencing access to remote specialists.

According to the survey, the vast majority (87%) of Canadian consumers say that they will use the branch in the future. Respondents said they anticipate using the branch two years from now because "I trust my bank more when speaking to someone in person" (50% vs. 48% for U.S.), and "I receive more value from my bank when speaking to someone in person" (49% vs. 47%).

Despite security breaches, customers willing to share data

Sixteen percent of Canadian respondents have experienced at least one incident of their financial data being hacked online over the past two years. Consumers remain willing to share their data in order to receive better service from their bank.

Nearly two-thirds (62%) of Canadian respondents said they would give their banks direct access to personal information, such as mortgage, credit card and student loan data, so their bank can use it to present them with suitable products and services. Respondents want banks to use their data to provide access to lower prices, faster service (such as rapid loan approval), more relevant advice, and personalized offers based on location.

4. B.C. to end self-regulation of real estate industry

[June 30, 2016] British Columbia's real estate industry no longer deserves the privilege of self-regulation and will have that authority stripped away, Premier Christy Clark announced after a damning report concluded the sector had lost the public trust.

Clark said Wednesday the province will hire a new superintendent of real estate, who will take over the rule-making, oversight and disciplinary powers that have been held by the Real Estate Council of B.C. since 2005.

"The real estate sector has had 10 years to get it right on self-regulation and they haven't," Clark told a news conference. "So we are going to end the right of the real estate sector to self-regulate."

Read: Gen X driving recreational property demand

The announcement comes a day after an independent advisory group tasked with restoring consumer confidence in the industry released a report with 28 recommendations, including hefty fines for misconduct.
The report did not make a recommendation on self-regulation, but it said such a regime works when members of the profession hold themselves and each other to a higher standard than anyone else.
“Each member of a self-regulating industry needs to be part of the compliance regime and report misconduct promptly,” it said. “The independent advisory group found this culture is lacking in the real estate industry.”
Clark said the report showed self-regulation of the industry must end because consumers are being put at risk and the reputations of honest agents are being tarnished.
She said the government will take immediate action on all the recommendations, including prohibiting a single agent from acting for both the buyer and seller in a transaction and raising maximum fines to $250,000 for individual Realtors and $500,000 for brokerages.
The province will also revamp the industry-funded real estate council and replace 50 per cent its members with people from outside of the industry.
The council said in a statement that it is “ready, willing and able” to work with the government to implement the steps announced Wednesday.
The province already has a superintendent of real estate, Carolyn Rogers, but she is set to leave for a job in Ottawa at the end of July and has long had other duties as head of the Financial Institutions Commission of B.C.
The new position has already been posted and will be solely focused on real estate, Clark said.
Rogers said she was pleased the province would implement all the recommendations and establish a dedicated superintendent of real estate.
Read: Vancouver property investors face vacancy tax
David Eby, housing critic for the Opposition New Democrats, has been calling for an end to self-regulation of the industry for months.
“It’s common sense based on the findings of the report,” he said. “It’s clear that this was a failed regulator.”
But Eby criticized the premier for not making an announcement on affordability, and accused her of failing to address the underlying issues of speculative investment, foreign capital, money laundering and tax evasion.
Earlier Wednesday, the NDP called on the province to launch a task force of police, Crown prosecutors and auditors that would investigate and prosecute fraud and money laundering in the housing market.
Clark said the province was already taking action to crack down on criminal activity. She promised to announce new actions to tackle affordability guided

by six principles: increasing housing supply; linking communities through smart transit; supporting first-time homebuyers; protecting consumers; increasing rental supply and improving affordability for the middle class.

The premier has been criticized for not addressing foreign ownership in these principles, and she said Wednesday that everything was on the table.

"We are considering all the suggestions that have come from citizens, local governments, that we've learned from other jurisdictions," she said. "All of those things are on the table. Nothing is off."

5. Feds ask CMHC for ways to cool housing prices

[June 29, 2016] The federal government wants the Canada Mortgage and Housing Corporation to come up with ways to keep housing prices affordable in the country's hottest markets — and do it by the end of the year.

The first hints of what those measures could be will be in the government's hands by the end of the summer, with a working plan due by Sept. 1 as the government signals it wants to find ways to quickly cool housing prices.

The assignment to the CMHC was made official Monday in a letter sent to the Crown corporation's president from the minister in charge of the government's push to create a national housing strategy.

Social Development Minister Jean-Yves Duclos told the CMHC he wants the organization to investigate the "rapid and recurring" rise in property prices since 2010 in some of Canada's largest cities.

While the review will mostly look at housing prices in Vancouver, Toronto, and Montreal, Duclos' letter leaves the door open for other cities to be added to the study.

"The rise in property prices in these large urban centres is a concern shared by many of our fellow citizens, and particularly by the middle class," Duclos wrote in the letter dated June 27.

"We also share this concern and wish to intervene quickly in order to fulfil the mandate given to us by the prime minister and to ensure that Canadians are able to access properties that meet their needs and respect their capacity to pay."

The Bank of Canada has warned that housing prices in Vancouver and Toronto are rising at an unsustainable pace that is beyond local economic fundamentals.

The federal government only has so many tools at its fingertips to cool housing prices in hot markets, especially where there is concern that buyers are purchasing beyond their means or pricing too many people out of the market.

The Liberals this year increased the minimum down payment for homes over $500,000 as a direct response to concerns in Vancouver and Toronto over skyrocketing housing costs.
Earlier this month, Finance Minister Bill Morneau announced plans to create a working group that would advise him on ways to affect demand, affordability and stability in Canada's housing market.
The working group, combined with Duclos' assignment to CMHC, is part of the government's push for a national housing strategy.
Duclos has said the strategy, when finalized some time next year, will look at everything from shelters, to transitional housing, to affordable housing, rental units and market housing and where governments can get involved to provide homes to those who need them.
Broad details of the strategy were made public by Duclos during a meeting Tuesday of national and provincial housing providers and advocates in Victoria, B.C.

6. Standard & Poor's downgrades Saskatchewan

[June 28, 2016] Low natural resource prices have prompted Standard & Poor's to downgrade Saskatchewan's credit rating to AA+ from AAA.
The agency says persistently low natural resource prices, in particular oil and potash, have had and are expected to continue to affect the province's budget.
Further, the Saskatchewan government ran a deficit in the fiscal year that ended March 31 and is projected to have a deficit this year too.
The credit rating agency's negative outlook also says that, in the next two years, there is a one-in-three chance the province will not be able to meet its budget targets of low or no growth in operating expenditures.
It says that Saskatchewan's cash reserves have fallen notably and cannot be used to cover deficits.
The report notes Saskatchewan's financial results are less volatile than those of other provinces with resource-based economies such as Alberta and Newfoundland because of the diversity of its resource base.

7. U.K. businesses in limbo due to Brexit

[June 28, 2016] The impact of Britain's vote to leave the European Union was swift and painful for Ed Bussey's small tech firm in London.
The founder and CEO of Quill, an online content company, had been looking to fill a software development job paying 70,000 pounds ($95,000) a year that's been open for six months. He had a job interview set up with a

promising candidate from EU member Italy on Friday — the day after the vote.
"Because of what had happened on Thursday, he was not prepared to up sticks and move to London," Bussey says. "He was saying: 'Look, I'm not sure I'm not going to get booted out in two years."
Businesses in Britain already are seeing the impact of the seismic vote to have the country leave the other 27-nations in the trading bloc and strike out on its own. Companies large and small are feeling the shockwave which left Britain in uncharted waters, unclear of what the future will hold.
Being part of the EU guarantees no tariffs on trade on goods and services and the free movement of workers, without the hassle of visas or work permits. Now that it is leaving, Britain will have to first negotiate its exit, which could take years, and then renegotiate new relations with Europe, which could take even longer.
With so much uncertainty looming for so long and financial markets crashing, a lot of business is suddenly in limbo. Some companies are even looking to pull back.

Brexit impact

In the first direct reflection of the uncertainty hitting business confidence, a leading business group says 20% of its members plan to move some of their operations outside of the U.K. to be closer to clients on the mainland.
The Institute of Directors says a survey of its 1,000 members showed that three out of four believe that Britain's exit from the EU, known as Brexit, will be bad for business. About a quarter would freeze hiring and 5% said they would cut jobs.
"Ultimately we think that our members are very resilient, we think that British business is tough and will adapt but certainly at the moment there is a lot of nervousness out there in the business community," IoD spokesman Edwin Morgan told The Associated Press.
Companies are already issuing profit warnings. Real estate agency Foxtons says it is no longer confident that business will improve in the second half of the year. The parent company of British Airways, IAG, warns that profits would take a hit this year, as did budget airline easyJet, saying it anticipates economic and consumer uncertainty this summer.
Richard Branson, founder of Virgin Group, tells ITV on Tuesday that he pulled the plug on a deal involving 3,000 jobs over the uncertainty that Britain now faces. He suspects that the group, which owns shares in various companies including Virgin Media and Virgin Trains, lost a third of its value since the country voted to leave the EU.

Multinationals that have chosen the U.K. as a base for operations across the EU are expected to reconsider some of their operations in Britain. Global banks like JPMorgan, Goldman Sachs and HSBC have said thousands could move to the mainland.

So worrisome is the overall picture that Treasury chief George Osborne offered a statement before markets even opened in hopes of calming the jittery nerves. Success on that score was decidedly mixed.

The pound hit a new 31-year record low, dropping another 3.6% to $1.3187. Stock markets also declined across Europe. Bank shares were particularly hard hit, as they are considered a mirror on the larger economy. Shares in Royal Bank of Scotland, once the world's largest bank and now mostly state-owned, fell some 15%. Adding to Friday's losses, that alone has cost the U.K. taxpayer some 7.3 billion pounds ($9.6 billion) in two days.

But the turmoil is perhaps tougher for small business owners like Bussey, whose 25-person firm doesn't have a phalanx of lawyers and a human resources department — never mind facing the expense — to seek out software developers outside of the single market.

"In effect, it is closing the door on fast-growth businesses like mine in terms of hiring the best talent in Europe," Bussey says.

And he's not alone. Artisan London perfume maker Sarah McCartney has found Britain's choice to leave the EU has already bruised her small business, called 4160Tuesdays.

"The future doesn't smell so sweet at the moment," she says. "I buy raw material from Europe, and I sell to Europe. I just think it is going to become a heck of a lot more complicated, and it has already gotten more expensive."

Italy was supposed to be Sarah McCartney's next export market, but the uncertainty of whether she soon will be buried in tariffs, duty and paperwork has left her doubting if she should enter Italy at all. Now, she may not participate in Italian perfume trade fair next week that was meant to be her way in.

The plane ticket alone is expensive — never mind the uncertainty of why she should go in the first place. "I completely understand people feeling cut off from decision-making and voting 'leave,'" she said, citing many "leave" voters' desire to protest against the establishment. "But I don't think they got at all what will happen day by day for people running little businesses, trying their best to earn a living and pay taxes."

8. China a potential winner in Britain-EU breakup

[June 27, 2016] China is a potential winner as Britain and the European Union rework trade deals and look for investors after a British exit.

Beijing faces a blow from weaker European demand for its exports and pressure to hold its yuan steady in turbulent currency markets. But economists and political analysts say both Britain and the EU may look to cash-rich Chinese companies that are expanding abroad—with the possible bonus for Beijing of closer political ties.

"One of the benefits China can gain from Brexit is a stronger and closer economic relationship with the U.K. and even with the EU," said Zhang Lihua, director of the Center for China Europe Relations at Tsinghua University in Beijing. "Both the U.K. and the EU need that kind of co-operation with China under the current circumstances."

Chinese leaders urged Britain to stay in the 28-nation EU and have thus avoided mentioning the possible benefits of a split.

On Monday, Premier Li Keqiang, the country's top economic official, said Beijing wants to see a "united and stable" EU and a "stable and prosperous" Britain. This is a possible reference to concern the vote might inspire separatist sentiment in other EU members or parts of the United Kingdom.

"We are seeing increasing uncertainties in the world economy," Li said in a speech at the World Economic Forum in the eastern city of Tianjin. "We need to jointly handle challenges [and] strengthen confidence and create a stable international environment."

Europe is China's biggest trading partner, and Chinese investors already see the region as more welcoming than the United States, where some acquisitions have been stymied by security concerns.

Chinese companies own France's Club Med, the makers of Pirelli tires, Volvo cars and Weetabix cereal and football teams Inter Milan of Italy and Aston Villa of Britain. London is the second-biggest center outside mainland China for settling transactions valued in Beijing's yuan.

Britain has technology China needs as the ruling Communist Party tries to evolve beyond low-skilled manufacturing, said Lu Zhengwei, chief economist for Industrial Bank in Shanghai.

"China will benefit from industrial development experience in the U.K.," says Lu. "I do recommend seizing the opportunity to establish China-U.K. free trade to enhance bilateral co-operation between the two countries."

Closer economic ties could lead to warming political relations, Zhang said.

"The U.K. and the EU may become more friendly with China politically, but this is not what China tries to seek," he said.

Dealing separately with the two sides also might allow Beijing to reach agreements that might have been blocked previously by the need for Britain and Europe to agree, said Liu Yuanchun, executive dean of the National Academy of Development and Strategy of Renmin University.

“The political gain for China is bigger than the economic gain,” Liu said.

Still, China also faces a risk that Britain’s departure might leave other EU members free to take more forceful action on trade disputes including steel.

The EU and the United States accuse China of exporting steel at improperly low prices, hurting foreign competitors and threatening thousands of jobs. Washington imposed anti-dumping duties of up to 522% but British resistance blocked the EU from imposing higher tariffs.

In the short run, European uncertainty might depress demand for Chinese goods, but trade matters less to China than it did a decade ago. China is the world’s biggest trader but exports as a share of the economy declined last year to 22% from 2007’s 33%.

A more serious problem is downward pressure on China’s yuan in currency markets, according to economists.

The British pound and the euro currency used by 17 EU countries have sunk relative to the dollar. As currencies of other developing countries also weaken, the Chinese central bank will be forced to decide whether to let the yuan, also called the renminbi, fall with them or stick closer to the dollar.

Last year, the People’s Bank of China spent tens of billions of dollars to prop up the yuan after a change in the mechanism used to set its exchange rate allowed it to fall. That fueled expectations that Beijing was weakening the currency to boost exports and prompted investors to move capital out of China.

If the dollar gains against the yuan, “this could set off a renewed bout of fears over renminbi depreciation and a pick-up in capital outflows,” Julian Evans-Pritchard and Mark Williams of Capital Economics said in a report.

9. Don’t forget: first payment of child benefit coming soon

[June 27, 2016] As of July 20, 2016, families will start receiving the new Canada Child Benefit (CCB). It will be issued monthly and replaces the Canada Child Tax Benefit, including the National Child Benefit Supplement and the Universal Child Care Benefit.

All payment dates

- July 20, 2016
- August 19, 2016
- September 20, 2016
- October 20, 2016

- November 18, 2016
- December 13, 2016
- January 20, 2017

Quick facts

- Families with less than $30,000 in net income will receive the maximum benefit.
- Families benefiting will see an average increase in child benefits of almost $2,300 in the upcoming 2016–2017 benefit year.
- The maximum annual benefit will be up to $6,400 per child under the age of 6, and up to $5,400 per child aged 6 through 17.

If you need more information this link will take you to Canada Revenue Agency's website.

Happy Canada Day!

Have a nice and fruitful week!