Weekly Updates Issue # 580

1. Weekly Markets Changes
2. Is Canada poised for a rebound?
3. Canada Child Benefit to be indexed to inflation
4. Trudeau plans to draw more Chinese tourists
5. G20 leaders endorse trade, tighten import controls
6. Two futures for Toronto and Vancouver real estate
7. Canadian economy shrinks in worst showing since financial crisis
8. Canada asks to join Chinese infrastructure bank
9. CMHC reports rise in troubled mortgages in Alberta, Saskatchewan

1. Weekly Markets Changes

[September 2, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,795.70 +155.8 +1.06%	2,179.98 +10.94 +0.50%	18,491.96 +96.56 +0.52%	5,249.90 +30.98 +0.59%	$0.7695 +0.02¢ +0.03%	$1,328.80 +4.80 +0.36%	$44.20 -3.09 -6.53%

2. Is Canada poised for a rebound?

[September 2, 2016] Canada's trade deficit narrowed in July to $2.5 billion, in what could be a sign that the economy is poised for a rebound, says Statistics Canada.

The agency says the trade deficit was down from the previous month, which had a revised shortfall of $4 billion, compared with an initial reading of $3.6 billion, as exports grew and imports fell.

Economists had expected a deficit of $3.25 billion for July, according to Thomson Reuters.

Canadian exports increased 3.4% to $42.7 billion in July, as volumes gained 3.7%. Still, prices fell 0.3%.

Overall, nine out of 11 sectors posted gains, boosted by non-energy exports. Excluding energy products, exports were up 4.1%.

"Trade was a sore spot for Canada in Q2, but July's data took a big step back in the right direction," says Avery Shenfeld of CIBC Capital Markets in a research note.

"The trade deficit still looms wide at $2.5 billion, after hitting a record $4 billion in June, and we'll need more support from oil prices to make much headway. But in terms of real GDP, trade should be a big part of the rebound from a negative Q2 to a healthy Q3," he adds.

Imports dropped 0.1% to $45.2 billion, as volumes fell 1.2% and prices gained 1.1%. The overall drop came despite growth in six of the 11 sectors tracked.
Exports to the United States increased 3.3% to $32.5 billion while imports fell 0.5% to $29.9 billion. That puts Canada's trade surplus with its largest trading partner at $2.6 billion in July.
Exports to countries other than the U.S. rose 3.9% to $10.2 billion in July, while imports were up 0.6% to $15.3 billion in July.
Canada's trade deficit with countries other than the U.S. was $5.1 billion in July, compared with $5.4 billion in June.

3. Canada Child Benefit to be indexed to inflation

[September 1, 2016] The federal government says the newly created Canada Child Benefit will be indexed to inflation, starting in 2020, The Globe and Mail reports.
A spokesperson for Finance Minister Bill Morneau says indexation will ensure "families can count on this extra support now and well into the future," the Globe reports.
Without that measure, Canadian families will see their payments slowly erode over time, says Parliament's budget watchdog.
In a report released Thursday, the parliamentary budget officer explained that as salaries rise along with inflation, the number of families whose low incomes qualify them for the benefit would decline in the long run — even though their purchasing power would stay the same.
The original three benefits that were replaced by the new system — the universal child care benefit, the Canada child tax benefit and the national child benefit supplement — were all indexed to inflation.
The changes that ushered in the Canada Child Benefit removed that index, meaning that over time, inflation will reduce the buying power, or so-called "real value," of the monthly payments, the report says.
While 91% of Canadian families are eligible for benefits this year, that will fall to 86% by 2021, and will continue to decline as some families see their income levels rise high enough to no longer qualify for the benefit, the report says.
The PBO predicts that by 2025, the new Liberal benefit will cost less than the three programs it replaced, including the universal child care benefit.
The benefit is expected to cost the government $22.4 billion next year — the first full year it will be in place. In five years, as a result of the declining number of eligible families, that number falls to $21.5 billion, the report says.

Were the new benefit to be indexed to inflation, the net cost over the next five years would have been $42.4 billion, instead of the $17.2 billion the PBO forecasts.

The new benefit, a central plank in last year's Liberal election platform, kicked in on July 1. The government says the new benefit provides the average family with $2,300 a year, with a maximum of $6,400 per child under six going to families with net incomes of less than $30,000.

The value of the benefit drops as incomes grow, phasing out entirely around $189,000, according to the government's online benefits calculator.

The PBO report acknowledges that the number of families who qualified for the original benefits also declined somewhat over time, since incomes tend to grow faster than inflation.

The Liberals say the benefit will cut the child poverty rate in Canada to 6.7% from 11.2% by this time next year, once families feel the full effect.

4. Trudeau plans to draw more Chinese tourists

[September 1, 2016] The Canadian government will open seven additional visa application centres in China to help serve a growing number of Chinese tourists who are crossing the Pacific to explore Canada.

The two countries confirmed the agreement Thursday in a joint statement that followed the first leg of Prime Minister Justin Trudeau's official visit to China.

Over two days in Beijing, Trudeau held several meetings with Chinese leaders at the highest levels, including President Xi Jinping and Premier Li Keqiang.

Trudeau's in China to strengthen Canada's business and cultural ties with the world's second-largest economy and an expanding middle class.

On Thursday, the government announced that Canadian and Chinese companies signed 56 new commercial contracts and agreements worth $1.2 billion.

Boosting tourism is also part of the government's plan to create closer links.

The Canadian envoy to China told reporters that, until now, visa offices for Chinese tourists were limited to cities where Canada has a diplomatic presence.

"This is an important element that Prime Minister Trudeau is promoting in his visit to China," said Guy Saint-Jacques, who joined Trudeau at the Great Wall of China for an announcement that the countries would co-operate on the development of Chinese national parks.

"As of this summer, you can fly to Canada from 11 cities here in China, so therefore that's why need to have more visa application centres."

Saint-Jacques said Chinese tourist travel to Canada rose 24% in the first six months of this year. He noted that now only Americans and Brits visit Canada more than the Chinese.
The number of Chinese tourists who visited Montreal this year has spiked 200% since a direct Air China flight from Beijing was added in September 2015, he added.
After the national parks announcement, Trudeau explored a section of the Great Wall with his wife Sophie Gregoire and their daughter, Ella-Grace.
The portion of the Wall they walked was temporarily closed to the public — providing them with a peaceful section to stroll, away from the usual hordes of visitors.
Trudeau also met Thursday with Zhang Dejiang, chairman of the National People's Congress at the Great Hall of the People.
"I do believe that your current visit to China will have an important influence on further deepening the strategic partnership between our two countries," Zhang told Trudeau through an interpreter, shortly after they sat in a massive meeting room. "Mr. Prime Minister I know that you came to China a long time ago … But I know this visit to China — first time as prime minister of Canada — will certainly leave you a deep and new impression."
Trudeau told Zhang that his visit was an opportunity to continue to "build on the strong friendship between Canada and China, and talk about how we move forward in ways that will benefit both of our peoples."
Later Thursday, Trudeau travelled south to Shanghai.
He is scheduled to deliver what one senior government official described as an important speech Thursday at a gala hosted by the Canada China Business Council. His address is expected to focus on economic investments, clean technology and trade.
Later in the eight-day visit to China, Trudeau will attend the G20 leaders' summit in Hangzhou.

5. G20 leaders endorse trade, tighten import controls

[September 1, 2016] Leaders of the United States, China and other G20 economies who meet this weekend say more trade would shore up sluggish global growth but are tightening their own controls on imports.
China hopes its status as G20 host will give it more sway in managing the global economy and has made trade a theme of the meeting in Hangzhou, a scenic lakeside city southwest of Shanghai. Chinese officials say Beijing will propose a plan to promote commerce through co-operation in finance, tax and energy.

Governments also have said they want to discuss climate change, efforts to reduce surplus production capacity in steel and other industries and limits on use of tax havens, though no detailed agreements are expected.
U.S. President Barack Obama, German Chancellor Angela Merkel and other leaders will speak out against protectionism, their governments say. But at the same time, G20 governments are ratcheting up restraints on imports of steel and other goods, prompting concern that support for global trade might be eroding.
The summit is the first global event for British Prime Minister Theresa May after her country's June vote to leave the European Union, a move seen by some political analysts as the start of a possible wave of nations pulling back from economic integration. In the United States, France and elsewhere, politicians are calling for protection for local industry.
"Protectionism is resurfacing," says a Chinese deputy foreign minister, Li Baodong. "In many parts of the world, we have seen calls for deglobalization."
This year's global trade growth is forecast by the World Trade Organization at an anemic 2.8% — its fifth straight year below 3%. Global economic growth is forecast by the IMF at an equally lacklustre 3.4%.
Progress on initiatives such as Obama's Trans-Pacific Partnership and a WTO plan to help poor countries integrate into global markets has stalled. On Sunday, German Economy Minister Sigmar Gabriel said talks on a U.S.-European trade deal "have de facto failed," though EU officials denied that.
In Hangzhou, Obama will call for an "open, integrated global economy," according to a senior American official who described the government's plans on condition of anonymity.
"There are very real concerns about globalization and technology, but the answer cannot be to close ourselves off," the official said in an email.
Leaders including South Korean President Park Geun-hye say they will call for "inclusive growth" — a reference to spreading economic benefits to millions of people who have been left behind by wrenching change.
Yet despite such endorsements, G20 economies including the United States, Japan and Canada are tightening import controls in response to what they say are unfair foreign tactics — and the trend is accelerating.
The number of restrictions imposed by governments worldwide on imports from machine parts to sugar soared to 150 in Q1 of this year, according to researchers Simon J. Evenett and Johannes Fritz of the Centre for Economic Policy Research in London. That was up 50 to 100 such measures imposed during the same periods of 2010-15.

The United States has imposed import duties of up to 500% on Chinese steel to offset what it says are improper subsidies. Unions for European steelworkers are calling for investigations of low-cost Chinese steel exports they say threaten thousands of jobs. China hit back in April by hiking its own tariffs on European steel.

“In a world where global commerce isn’t growing any more, governments may conclude that securing larger slices of the world market ultimately requires tilting the commercial landscape against foreign firms,” said Evenett and Fritz in a report in July.

That raises the possibility of a “negative feedback loop” of governments responding to weak trade by doing more to protect their companies, further depressing trade, say Evenett and Fritz.

So far, protectionist measures don’t appear to be to blame for the latest trade slump, says Andrew Kenningham of Capital Economics. It is due mostly to the end of an era of rapid growth driven by China’s integration into the global economy and manufacturing supply chains.

“Admittedly, there has been an increase in the absolute number of trade-distorting measures implemented,” says Kenningham in an email. “However, they have affected only a very small fraction of products traded.”

In May, the EU parliament passed a resolution calling for controls on Chinese imports in the event Beijing is declared a market economy, a status that makes it harder to pursue trade cases.

“Politicians on the right or on the far left are talking about closing our market,” says Joerg Wuttke, president of the European Union Chamber of Commerce in China. “This would be terrible.”

China has massive surplus production capacity in industries including steel, cement and coal that mushroomed in size during the economic boom. That has prompted complaints Beijing is trying to clear a backlog by subsidizing exports.

6. Two futures for Toronto and Vancouver real estate

[August 31, 2016] A new study suggests the two hottest real estate markets in Canada appear to be headed in different directions, as Vancouver softens and Toronto looks to maintain its momentum.

In a report published Tuesday, TD Bank said Vancouver has started what is expected to be a modest correction, which will be reinforced by the recent implementation of the land transfer tax on non-residents.

“Home prices are projected to decline by about 10% in the region by mid-2017, before stabilizing later in the year,” TD said.

However, even with a drop of that size, the bank noted that prices will still be well above were they were just one to two years ago.

A 15% property transfer tax on foreign buyers came into force this month in Metro Vancouver. The B.C. government brought in the tax in hopes of helping to improve home affordability.

In contrast, the TD report predicted Toronto will continue to show strength.

"Toronto has more room to accelerate over the near term. Barring the levying of a similar tax, foreign investors could switch focus to the more affordable Toronto market," TD said.

Nationally, the bank said it continues "to bet on a sustained soft landing in both markets — and in Canada by extension — over the next two to three years."

"To the extent that bond yields fail to track higher, policy-makers may need to consider other alternatives to rein in the Canadian housing market," the report said.

The report by TD came as Royal Bank said the first half of this year marked the biggest six-month drop in housing affordability in the Vancouver area since at least the early 1990s.

RBC reported its cost-of-ownership measure for Vancouver rose to 90.3% of the median family pre-tax income, after rising 6.1 percentage points in the second quarter and 6.6 percentage points in the first quarter.

The bank said it was the biggest back-to-back deterioration in affordability for the Vancouver area in 26 years of record-keeping.

RBC tracks how much of a typical family's pre-tax income would be required to cover monthly mortgage interest and principal payments, property taxes and utilities for two categories of housing in 14 urban markets across Canada.

Vancouver's overall numbers were skewed by rising costs for single-family detached houses while the cost of condos increased modestly over the second quarter compared to the first quarter.

The Toronto area had the country's second-biggest deterioration in housing affordability during the quarter, with its index of home-ownership costs rising by 2.1 percentage points to 60.2% of median pre-tax income.

RBC said most other major cities saw only a modest decline in housing affordability during the second quarter, while the cities of Calgary, Saint John, N.B., and St. John's, N.L., bucked the trend with a reduced cost of ownership.

Overall, the Canadian cost of ownership was equal to 42.8% of median family pre-tax income in the second quarter, up 1.2 percentage points since the prior quarter and 2.9 percentage points since the second quarter of 2015.

7. Canadian economy shrinks in worst showing since financial crisis

[August 31, 2016] The Canadian economy shriveled in the second quarter to its worst performance in seven years, Statistics Canada said Wednesday.

The federal agency said real gross domestic product fell at an annualized rate of 1.6% in the three-month period, due in large part to the wildfires that destroyed parts of Fort McMurray, Alta. That's the biggest quarterly decline since the second quarter of 2009 when Canada was in the midst of the global financial crisis.

The contraction reported Wednesday compared with growth at an annual pace of 2.5% in the first quarter, which was revised from an initial reading of 2.4 per cent.

Economists had expected a drop of 1.5% in the second quarter, according to Thomson Reuters.

"It wasn't pretty, but it wasn't expected to be," Avery Shenfeld of CIBC Capital Markets said in a research note.

The drop in GDP came as exports of goods and services fell 4.5% in the quarter following a 1.9% increase in the first three months of the year. Exports of goods were down 5.5%, while exports of services grew 0.6%.

Already hurting from the drop in energy prices, the Alberta wildfires dealt a blow to the energy sector, forcing the evacuation of Fort McMurray and shutdown of several oilsands operations in the region.

Energy product exports fell 7.5%, with crude and bitumen exports declining 9.6% and refined petroleum products down a whopping 19.6%. Motor vehicles and parts also dropped 5.8% due to lower exports of passenger cars and light trucks.

Exports of aircraft and other transportation equipment and parts were up 5.6%.

However, despite the pullback for the quarter as a whole, the economy ended the quarter with growth in June.

Statistics Canada said real GDP rose 0.6% that month, boosted in part to non-conventional oil extraction as production in the Alberta oilsands region started to resume. Economists had expected a gain of 0.4% for the month, according to Thomson Reuters.

Mining, quarrying and oil and gas extraction climbed 3.6% in June, boosted by 12% gain in non-conventional oil extraction.

"The best news was that June GDP rebounded with a brighter than expected 0.6% gain, and less than half of that came from the rebound in mining/oil/gas, as manufacturing also had a healthy gain," Shenfeld said.

"All told, a quarter we will like to forget, and for the next few months, a more supportive Q3 will help us do just that."

The second-quarter result reported Wednesday was worse than forecast by the Bank of Canada in its July monetary policy report. The central bank had predicted that the economy would contract at an annual rate of 1% during the second quarter due to the damage caused by the wildfires.

But the Bank of Canada has also predicted that growth will pick up in the third quarter to an annual pace of 3.5% as oil production ramps up and rebuilding efforts begin in Fort McMurray. It also expects the federal government's new Canada child benefit and a boost to infrastructure spending to lend a hand to the economy.

8. Canada asks to join Chinese infrastructure bank

[August 31, 2016] Justin Trudeau has officially submitted Canada's application to join a controversial new international infrastructure bank led by China — an initiative the Asian country hopes will help build its economic credibility around the world.

China founded the US$100-billion Asian Infrastructure Investment Bank late last year to provide other countries in the region access to capital for investments in projects in areas such as transportation, power and telecommunications.

The Canadian government made the announcement after the prime minister met with Chinese Premier Li Keqiang on Wednesday in Beijing, but did not immediately specify how much money it would put into the new bank.

The government said joining the bank will help Canada further engage in multilateral infrastructure efforts, and help pave the way for Canadian companies looking for new business opportunities.

Finance Minister Bill Morneau, who is traveling with Trudeau in Beijing, said Ottawa believes the bank will make an important impact on the global economy, and therefore the Canadian economy, through infrastructure investments.

Canadian firms can benefit, too, he added.

"That is important, obviously, for those Canadian companies that will be part of the work that the AIIB does," said Morneau, who met with the bank president Jin Liqun on Wednesday.

Morneau said the bank has shown Canada that it will be a highly effective institution.

"They've put forward approaches to governance, approaches to management at the institution that shows us the impact that's possible," he said.

The bank has already invested more than US$500 million in Bangladesh, Indonesia, Pakistan and Tajikistan, and Chinese officials have said it plans to loan out US$10-15 billion over the next five years. The AIIB has about US$100-billion in capital.

Canada is aiming to become the first North American member of the bank.

By joining, Canada would add its name to the list of 57 other member countries, including Australia, the United Kingdom, France, Germany and South Korea, which signed on last year in the face of opposition from the United States.

In order to join, countries agree to contribute funds in exchange for shares. Australia agreed to contribute $930 million over five years, making that country the sixth-largest shareholder.

The bank's governors could decide on new members early in 2017, according to Canadian government documents, which also indicated that the size of Canada's share would be decided at that time.

American officials have warned that the new bank would provide loans to developing countries without requiring any caveats about the environment, labour rights or anti-corruption reforms, as are typically included in loans from the World Bank and International Monetary Fund.

On Tuesday, Trudeau hinted that Canada's application had been in the works.

"My government believes very, very much in the importance of investing in infrastructure," Trudeau said during a roundtable discussion with business leaders.

"That's one of the reasons why we're looking very favourably at the possibility of joining the AIIB."

Former Canadian diplomat Charles Burton said joining the bank would signal that Canada is prepared to see China take a seat at the table in terms of having input on the global economic landscape.

"Certainly we're trying to show that we are prepared to see China take an important role in the global economy," said Burton, a political scientist at Brock University.

"And by supporting this institution that's primarily initiated by China indicates that we're trying to build trust that China will use this institution for the greater good in a liberal, internationalist way and not simply as a device to expand its geopolitical reach."

There is still some wariness in official Ottawa about supporting China's global influence, particularly with its recent actions the South China Sea, said Paul Evans of the University of British Columbia's Institute for Asian Research.

But he said most officials feel Canada made a mistake by not joining the bank last year.

The four projects approved earlier this year addressed many of the concerns western countries had about the new bank, he said, including that China would use it to advance its own strategic and commercial interests.

Evans said the Liberal government's decision to sign on would be symbolically important in terms of Canada-China relations.

While the cost — which he estimated will be as much as $1 billion — could be high, he said Canadian companies would indirectly benefit from the billions of dollars in projects the bank will finance.

9. CMHC reports rise in troubled mortgages in Alberta, Saskatchewan

[August 30, 2016] Canada's mortgage insurance agency is reporting a 52% increase in the number of insured home loans in arrears in Alberta, as low oil prices weaken the provincial economy.

Canada Mortgage and Housing Corporation says in its second-quarter report that payments on 1,487 mortgages in Alberta were three months or more overdue as of June 30–up from 978 at the same time in 2015.

Saskatchewan's list of troubled mortgages is also up, to 529 from 392, in the same period.

The numbers are in stark contrast with those in British Columbia, Ontario and Quebec, which all posted hundreds of fewer loans in arrears in the same period.

Ontario's rate of troubled loans is the lowest in the country at less than a fifth of a percentage point, while Alberta's is 0.41% and Saskatchewan's is 0.69%.

CMHC says its Canadian arrears rate fell slightly over the year but remains at about one-third of 1% of its portfolio.

The national agency says it provided mortgage insurance for about 135,000 units nationally in the three months ended June 30, up 11 per cent from the same period last year.

Have a nice and fruitful week!