Weekly Updates Issue # 594

1. Weekly Markets Changes

[December 9, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,312.20 +259.7 +1.73%	2,259.53 +67.58 +3.08%	19,756.85 +586.4 +3.06%	5,444.50 +188.8 +3.59%	$0.7586 +0.66¢ +0.88%	$1,161.40 -17.80 -1.51%	$51.48 -0.20 -0.39%

2. U.S. housing gains lift American wealth to US$90.2 trillion

[December 8, 2016] A healthy increase in home values and higher stock prices drove up U.S. household wealth in the third quarter, though the gains are largely concentrated among wealthier Americans.

The Federal Reserve says real estate values increased US$554 billion in the third quarter, while Americans’ stock and mutual fund portfolios rose US$494 billion. Total household wealth, which includes checking and savings accounts and subtracts mortgages and other debt, increased 1.8% to $90.2 trillion.

The rise suggests that Americans’ finances are improving, with more families building equity in their homes. Greater wealth can encourage more spending and boost economic growth.

Still, national wealth isn’t widely shared, which limits the benefits of any increase. The wealthiest 1% held 42% of the nation’s wealth in 2012, the latest data available.

3. SNC-Lavalin cuts 405 Canadian jobs

[December 8, 2016] Engineering giant SNC-Lavalin is cutting another 405 jobs in Canada due to weakness in the mining sector and ongoing efforts to boost its profit margin.

Spokesman Louis-Antoine Paquin says the company will eliminate 186 positions in Montreal, 195 in Ontario and 24 in Saskatoon.

About 70% of the positions are in the mining and metallurgy division.

SNC-Lavalin's office in Sudbury, Ont., will close, although employees will work directly with customers at their operations.

SNC-Lavalin has a goal of increasing its adjusted margin to 7% next year, up from 4.3% in the first nine months of 2016.

Earlier this year, the Montreal-based company cut 950 jobs around the world, including 600 in Canada. That followed the elimination of 4,000 positions in 2014.

4. BoC holds rate at 0.5% amid 'significant economic slack'

[December 7, 2016] The BoC held its benchmark interest rate at 0.5%, noting slack in the labour market and an expectation of moderate growth in Q4.

In making the scheduled announcement Wednesday, the central bank said while the global economy has strengthened, persistent international uncertainty has continued to have a negative effect on business confidence and investment among Canada's trading partners.

"Following a very weak first half of 2016, growth in the third quarter rebounded strongly, but more moderate growth is anticipated in the fourth quarter," the BoC said. "There have been ongoing gains in employment, but a significant amount of economic slack remains in Canada, in contrast to the United States."

CIBC economist Nick Exarhos said in a note: "We continue to see any tightening as a late-2018 prospect for Canada, with the door still open to a cut in the near-term if the data disappoints materially."

The BoC said Canadian inflation, which it carefully analyzes when making rate decisions, was slightly below what it had anticipated, in large part because of lower food prices.

In a closer analysis of economic conditions, the bank highlighted recent steps taken by the federal government in an effort to help boost growth.

"Consumption growth was robust in the third quarter, supported by the new Canada Child Benefit, while the effects of federal infrastructure spending are not yet evident in the (gross domestic product) data," the bank said its one-page statement.

“Meanwhile, business investment and non-energy goods exports continue to disappoint.”

The bank predicted the recent tightening of financing rules for real estate would help slow the continued rise in Canadian household debt.

The decision to maintain the rate was widely anticipated by experts and came ahead of an announcement next week by the U.S. Federal Reserve, which is expected to raise its key interest rate.

Last week, governor Stephen Poloz addressed how the bank views the uncertainty following the U.S. election. He said it was too soon for the central bank to factor president-elect Donald Trump’s election win into its decision making.

This was the bank’s final rate announcement for 2016. Its next decision, which will be accompanied by fresh economic projections, is scheduled for January 17.

In October, the BoC downgraded its growth outlook and Poloz said its governing council actively discussed cutting the key rate before deciding to keep it on hold.

Last week, a data release showed the Canadian economy had slightly exceeded expectations in the third quarter to grow at its fastest pace in more than two years.

That increase in real gross domestic product by 3.5% marked a rebound from a Q2 contraction.

Experts had long predicted the economy to bounce back from the second-quarter slump, which was largely due to oil-production shutdowns linked to May’s Alberta wildfires and scheduled maintenance at oilsands facilities.

5. Consumer debt and delinquency rates climb in Q3: Equifax

[December 7, 2016] A new Equifax Canada report says low interest rates and falling oil prices drove up consumer debt and delinquency rates in Q3.

The credit reporting agency found that average debt increased by 3.6% to $22,081 in the quarter ended September 30 compared to the same period last year. This average debt figure does not include mortgages.

As of Q3, Canadian consumers owed $1.702 trillion compared to $1.587 trillion a year earlier. This overall debt figure does include mortgages.

Equifax says the percentage of people who are 90 days or more behind paying their debt grew to 1.14% from 1.05% during the same year-over-year period.

It says the increase in delinquency was largely driven by oil-producing provinces in Western Canada and Newfoundland and Labrador, where default rates tend to be higher.

Total consumer debt, excluding mortgages, remains on the rise fuelled in part by low interest rates, it said.

"What we are seeing in Western Canada and Newfoundland would be of more concern if people in the two regions hit hard by the oil bust were also piling on a lot more debt and they are not, especially in Alberta and Saskatchewan," Regina Malina, senior director of decision insights at Equifax Canada, said in a release issued Wednesday.

"The majority of consumers are actually decreasing their debt, but those who are still increasing it are adding larger amounts on average and by enough to increase the total levels. The fact is people who can afford to do so are buying more cars, spending more on housing and borrowing more from financial institutions."

Equifax said auto and instalment loan sectors showed significant increases of 7.8% and 7.7% in Q3 year-over-year, respectively.

6. The 3 trends that will affect the economy in 2017

[December 6, 2016] There are three trends that will guide the Canadian economy in 2017. Those are:

1. the strength, or lack thereof, of oil prices;
2. domestic housing developments; and
3. whether the U.S. economy continues to improve.

So finds Russell Investments' 2017 Global Market Outlook, which calls for modest growth in the coming year for Canada.

"Moderate improvement in the price of oil and reasonable growth of the U.S. economy are weighed down by debt-laden households," says Shailesh Kshatriya, director of Canadian strategies at Russell Investments Canada Limited. "We expect domestic equities to be positive, but without the exuberance of 2016. However, domestic bonds likely will be challenged as lacklustre fundamentals may be partially offset by rising yields in the U.S. […] On balance, we see 2017 economic growth in the range of 1.6% to 2.0%."

The report doesn't downplay the Bank of Canada's admission that it entertained a rate cut during its October 2016 meeting, but strategists question how effective a 25 basis-point cut would be–considering current market conditions.

"We believe it is critical the BoC maintain traditional levers to deal with the next downturn," says Kshatriya. "Cutting rates in the near term, while recession probabilities are low, is a view that is difficult to reconcile. As such, we expect the central bank will keep their target rate steady at 0.50% in 2017."

Kshatriya adds Canadian 10-year bond yields are headed higher, albeit moderately, and expects them to trade within a range 1.5% and 1.9% by year-end 2017. "With our anticipation that the U.S. Federal Reserve will raise the federal funds rate, potentially as many as three times by the end of 2017, we believe the upward bias in the U.S. yields could help pull domestic yields higher."

Global forecast overview

Russell Investments' strategists anticipate a challenging global market environment in 2017. The team says global economic growth is likely to improve, spurred by fiscal stimulus as political leaders worldwide move away from austerity, but that the pciture isn't as rosy in the long term.

The prospect of trade protectionism raised by Brexit and the U.S. presidential election could lead to slower growth and higher inflation in coming years, they add. "Buckle up for what could be a rollercoaster investing ride in 2017," said Andrew Pease, global head of investment strategy at Russell Investments. "We will watch closely for evidence that markets have moved too far into fear or euphoria and look for downside protection when it is cheap."

In the U.S., the strategists see equity market valuations as already expensive, and they caution that euphoric anticipation of Trump stimulus could lead to an extended overbought period. Corporate profit growth is likely to be in the mid-single digits at best, while currently high margins may feel pressure from rising labor costs and a stronger dollar.

"Trumponomics is directionally pro-growth, pro-inflation, and our central scenario is a net addition of half a percentage point to real GDP growth," said Paul Eitelman, multi-asset investment strategist for North America at Russell Investments. "We continue to favor Europe and Japan equities over the U.S. in global portfolios, and expect expensive U.S. valuations to limit future market performance."

Inflation and a more hawkish U.S. Federal Reserve appear as headwinds for bonds, the report says, but uncertainty is the primary reason that Russell Investments has upgraded the 10-year U.S. Treasury yield forecast. Trumponomics is untested, it says, and too much stimulus could overheat the U.S. economy–resulting in more Fed tightening and an economic downturn in 2018.

7. Alberta less attractive for oil and gas investors: survey

[December 6, 2016] Alberta looks less attractive for investors when it comes to oil and gas companies, while neighbouring Saskatchewan is looking better, finds an annual global survey of petroleum-sector executives released by the Fraser Institute.

"The Alberta government has introduced policies that are confusing and possibly costly, creating uncertainty for the oil and gas industry," says Kenneth Green, senior director of the Fraser Institute's Centre for Natural Resources and co-author of the survey.

This year, Alberta dropped 18 spots to 43rd out of 96 jurisdictions worldwide on the Policy Perception Index, a measure of the extent to which policy deters oil and gas investment.

Saskatchewan, which ranked seventh last year, has ranked as the fourth most attractive jurisdiction in the world to invest in petroleum exploration and production in 2016–behind Oklahoma, Texas and Kansas.

The harder they fall…

In 2014, Alberta ranked in the top 15. But it tumbled last year to 25th, before continuing its downward slide to 43rd this year (that's lower than British Columbia, which maintained its 39th spot overall).

It's worth noting that the survey was completed before the Canadian government last week approved two pipeline expansions. Also, President-elect Donald Trump's support of Keystone XL means Alberta's score could improve in future years.

Still, Alberta earned low marks for regulatory duplication and inconsistencies, high taxation, and uncertain environmental regulations. Meanwhile, Saskatchewan earned high marks from petroleum executives in the areas of fiscal terms, the cost of regulatory compliance, and clear environmental regulations.

In a separate ranking, which only includes jurisdictions with the world's largest reserves, Alberta has also dropped from 2nd in 2014 to 4th this year, behind Texas, the United Arab Emirates and Qatar.

"Increasingly Alberta is competing with jurisdictions that are more attractive for investment from the oil and gas sector–a worrying trend that will likely negatively impact Canadian jobs and government revenue," said Taylor Jackson, policy analyst at the Fraser Institute and co-author of the study.

Canadian jurisdiction rankings from the Global Petroleum Survey*:

Province	2016 Rank	2015 Rank
Saskatchewan	1	1
Manitoba	2	2

Newfoundland and Labrador	3	3
British Columbia	4	7
Alberta	5	4
Nova Scotia	6	9
Northwest Territories	7	8
Yukon	8	5
New Brunswick	9	10
Quebec	10	11

–

***NOTE:** *Ontario was included in the 2015 ranking, but did not generate sufficient survey responses in 2016.*

8. Electric-vehicle charging stations coming to 25 Canadian Tire locations

[December 5, 2016] Electric-vehicle charging stations are being added to 25 Canadian Tire gas stations across Ontario.

AddÉnergie Technologies says the stations, which starting rolling out early next year, join the 2,500 stations along its FLO Canadian charging network.

Natural Resources Minister Jim Carr, who participated in Monday's announcement in Toronto, says the federal government will be contributing nearly half of the $1.8-million investment through a loan.

The funding is part of the government's commitment to provide $62.5 million for fast-charging stations for electric vehicles, as well as natural gas and hydrogen refuelling stations along key transportation corridors.

The charging stations will be added to some of the province's busiest highways, particularly Highway 401, and accommodate all electric vehicles.

They will be equipped with direct-current fast chargers that can replenish 80% of a vehicle's capacity in up to 30 minutes and with dual Level 2 curbside chargers that take three to four hours.

The rapid charging costs $20 per hour, with per minute billing, while the standard charging costs $1.50 per hour.

Canada's FLO charging network currently includes 70 fast-charging stations. About 65% of the network is located in Quebec, 20% in B.C., 10% in Ontario and 5% in the Maritimes.

9. California dreamin': Toronto's Tricon buys U.S. retirement communities

[December 5, 2016] Toronto-based Tricon Capital Group, an investor and asset manager focused on residential real estate, says it's Tricon Lifestyle Communities venture has bought three manufactured-housing communities in California.

Two of the communities, Riverdale Estates and Palmdale Estates, are age-restricted properties. Retirees can buy a prefabricated home and install it on a rented site in the community. The two communities have 336 rental pads located in Indio, California. Indio sits in the Coachella Valley, a popular residential market for retirees, near Palm Springs. The third property, Springdale Estates, is located in San Marcos and is a family community consisting of 85 residential pads. TLC intends to execute a capital improvement program focused on the amenity centre and entrance features at all three communities.

The total purchase price of US$30.4 million was satisfied with cash and a seven-year non-recourse financing package at an average 62% loan-to-value and 3.85% fixed interest rate. This transaction expands TLC's presence into California and increases its portfolio size to 3,065 residential pads across 14 communities, with approximately US$129 million of assets under management.

Have a nice and fruitful week!