Weekly Updates Issue # 597

1. Weekly Markets Changes

[January 13, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,497.28 +1.23 +0.01%	2,274.64 -2.34 -0.10%	19,885.73 -78.07 -0.39%	5,574.12 +53.06 +0.96%	$0.7625 +0.72¢ +0.95%	$1,197.30 +24.40 +2.08%	$52.52 -1.18 -2.20%

2. Economic momentum not enough for BoC action

[January 13, 2017] "Nobody is expecting anything from the Bank of Canada these days, and for good reason."

So says Avery Shenfeld, chief economist of CIBC Capital Markets, in his latest weekly update.

Though Canada's growth is meeting BoC's last projection, he expects the Bank to stand pat on rates.

Even with Donald Trump in the foreground, "the Bank doesn't tend to incorporate government policy changes before they've happened, suggesting only slight adjustments to their U.S. assumptions," he says.

Shenfeld isn't alone in his view.

Reports from TD, BMO and National Bank all point to the bank holding on rates on Wednesday and in the months to come.

As BMO senior economist Benjamin Reitzes says, "The January 18th Bank of Canada meeting approaches with perhaps the least amount of uncertainty seen in some time. The Bank is universally expected to keep policy rates steady at 0.5%."

He adds: "Any talk of rate cuts is now history, with the conversation turning to when policymakers will follow the Fed's lead and start hiking rates. [But] the latter still remains a long way off, likely a 2018 story, as Canada continues to have a sizeable output gap."

This month, the bank will highlight why domestic interest rates should remain low, despite the upbeat tone of the its latest Business Outlook Survey. That survey found the economy is beating the central bank's forecasts and businesses are optimistic.

But, says TD senior economist Brian DePratto, "Bank of Canada Governor Stephen Poloz is seemingly trapped between two conflicting sets of data: on one side is near-term economic growth. […] Offsetting this is soft inflation." He says the BoC's main concern is its inflation target.

DePratto expects that "Poloz may push back against expectations of interest rate increases, perhaps hoping to talk down longer-term yields."

He adds: "In contrast to market views, TD Economics sees the risks around Canadian monetary policy as remaining skewed towards further easing, not an increase. […] Weak inflation may be the catalyst that spurs further monetary easing."

National Bank will be watching for the BoC's updated economic forecasts in its Monetary Policy Report.

Also this week, crucial November data on the manufacturing and retail sectors will be available, National Bank notes, along with December data on the consumer price index. "All told, annual inflation is expected to be 1.6%, up four-tenths from November's level," the bank says.

As Shenfeld notes in his report, Canadians will have to remain patient. "If the [Bank's] growth forecast doesn't change much; the numbers would still leave a lot of slack through 2017. Having seen five-year and longer rates move up with those stateside, the Bank of Canada will certainly be reminding markets that we're a lot further from any policy tightening than the U.S."

As a result, markets should focus on political developments south of the border. He says, "There are major downside risks to Canada in some of the protectionist measures built into tax reform and trade policies under discussion by those in Congress and the incoming administration."

The vote is in…

The C.D. Howe Institute's Monetary Policy Council agrees the BoC should keep its target for the overnight rate at 0.50% for the next six months. The council recommends the rate be raised by January 2018.

MPC members are confident that global and domestic growth will bring Canadian inflation back to its 2% target as we move into 2018; their calls for a higher overnight rate target going forward reflects this outlook.

The group points to improvements in private-sector sentiment in the United States and Canada, and to higher oil prices and a better tone to investment intentions. Several MPC members see potential protectionist measures in the

United States as a medium-term threat, but their dominant sentiment is that demand will get more robust.

MPC members also discussed the U.S. labour market and the potential for more aggressive interest rate hikes by the U.S. Federal Reserve than the market expects, which would knock the Canadian dollar.

But the dominant topic was inflation expectations. Many MPC members say the dominance of below-2% inflation readings since 2012 hasn't damaged confidence that Canada's inflation rate will average 2%, but some members worry expectations are dropping.

In particular, the MPC is looking for further discussions of inflation expectations and the associated risks in future communications from the Bank.

3. Home prices to slow down from biggest annual gain in a decade

[January 12, 2017] Canada's residential real estate prices gained 13% in Q4 from a year earlier, recording the highest year-over-year rise in more than a decade, Royal LePage says.

The aggregate residential price rose to $558,153, largely supported by gains in the Greater Toronto Area and Greater Vancouver.

But expect the Toronto and Vancouver regional extremes to narrow in 2017, with a price correction in Vancouver and strong but moderating price appreciation in the GTA, the report says. The agency expects prices to trend upward in Quebec, Atlantic Canada and Alberta.

Prices

The price of a two-storey home rose 14.3% year-over-year to $661,730; the price of a bungalow, 12.5% to $481,460; and the a condominium gained 7.4% to $356,307. Aggregate prices are calculated using a weighted average of the median values of homes.

Over 2017, Royal LePage forecasts the aggregate price of a home will increase 2.8%, slowing significantly from 2016.

Market	Q4 2015	Q4 2016	Year-over-year % change
53-city composite	$494,158	$558,153	13.0%
GTA	$620,744	$720,761	16.1%

Greater Vancouver	$979,523	$1,230,718	25.6%
Greater Montreal	$348,466	$371,085	6.5%

Note: Data is compiled from Canada's 53 largest real estate markets. Numbers shown are aggregates of two-storeys, bungalows and condos — the three most common housing types in Canada.

4. U.S. files trade complaint against China's aluminum industry

[January 12, 2017] The Obama administration is filing a trade complaint with the World Trade Organization against China for allegedly "dumping" aluminum on the global market at artificially low prices.

U.S. trade representative Michael Froman says China is using artificially cheap loans and illegal subsidies to undercut the global price of aluminum. That makes it harder for the U.S. aluminum industry to sell its products overseas at competitive prices.

President Barack Obama says in a statement that China is giving its aluminum industry an "unfair advantage." He says his administration is trying to protect workers hurt by those policies.

This is the 16th trade complaint the U.S. has filed against China through the WTO. It's unclear what effect it will have considering the Obama administration ends in just over a week.

5. Why disability insurance claims rise with economic growth

[January 11, 2017] Group long-term disability (LTD) rates rise and fall with the cyclical movement of economic growth, RBC Insurance research shows.

It's similar to how a prolonged adrenaline rush puts stress on the body, RBC suggests in a release. During challenging or uncertain economic times, workers are worried about job security and performance, creating significant mental and physiological stress. As GDP rises and the economic outlook brightens, workers begin to feel more secure. At that point, pent up stress and anxiety take their toll, resulting in illness.

RBC says that while most Canadians think the leading cause of disability is physical or due to workplace accidents, the majority of claims are stressinduced, such as mental or nervous system disorders (e.g. depression and anxiety) or circulatory diseases like heart attacks.

Given that one in three employed Canadians will be off work for 90 days or more at some point during their career due to disability, putting off buying insurance isn't a good risk. The bank predicts LTD incidence rates will increase 2.1% in the last half of 2017 relative to last year, driven by a more positive outlook for the Canadian economy.

6. High-end home sales in Toronto set to dominate for another year

[January 11, 2017] Sotheby's International Realty Canada says Toronto is poised to lead the country in high-end home sales for the third consecutive year.

The latest report from the realtor showed sales of homes worth $1 million or more in the Greater Toronto Area rose 77% last year compared to 2015, with a total of 19,692 properties sold.

Sales of the priciest homes — those worth more than $4 million — in the GTA rose 95% year-over-year.

Meanwhile, high-end home sales in Vancouver started off strong but slowed in the second half of the year as a number of government policy changes took effect.

Among those changes is a one-per-cent tax on vacant homes implemented by the City of Vancouver, and the B.C. government's 15% tax on foreigners buying homes in Metro Vancouver.

Those changes amplified a cooling in the Vancouver real estate market that started over the summer, according to Sotheby's.

Sales in Vancouver's $1 million-plus market were down 34% year-over-year in the second half of the year compared to the same period in 2015.

But on an annual basis, sales of Vancouver homes worth $1 million or more were relatively flat last year, down 1% year-over-year to 4,515 units.

Sales of homes priced over $4 million were up 36% year-over-year in Vancouver.

Sotheby's predicts that the Vancouver market for $1-million-plus homes will remain stable in the first quarter of 2017.

In Montreal, high-end home sales increased 23% year-over-year to 613 properties, thanks to a stable provincial economy and political landscape, according to Sotheby's.

Calgary's $1-million-plus market also saw a boost last year. After declining 40% year-over-year in 2015 due to the oil price shock, sales of homes worth $1 million or more were up 19% to 612 units in 2016.
But the realtor says it's expecting a buyers' market in Calgary in the first quarter of the year as the city's economic challenges drag on.

Why Toronto — and Canada — attract buyers

Brad Henderson, president and CEO of Sotheby's International Realty Canada, said there are a confluence of factors responsible for the red-hot growth in Toronto's top-tier real estate market.
Among them are low interest rates, strong employment and consumer confidence and a limited supply of properties for sale, particularly in the single-family home segment.
"With natural boundaries like the lake and the greenbelt, the Greater Toronto region has less developable land than other markets, and as a consequence there are less opportunities to add to the supply," Henderson said.
Sotheby's says global turmoil — including Britain's vote to exit the European Union and Donald Trump's election win in the U.S. — injected uncertainty into global real estate markets last year.
Canada, which is regarded as a safe haven, has a low dollar and a strong real estate market, making it a desirable destination for real estate investment and immigration, according to the report.

7. Germany approves equal pay law for men and women

[January 11, 2017] Germany's Cabinet has approved legislation meant to help ensure that men and women receive equal pay for doing equivalent work. Under the draft law passed Wednesday, workers in companies with 200 employees or more will be legally entitled to information on what criteria they are paid under. Manuela Schwesig, the minister for women and families, said it's meant to ensure that "wage determination is no longer a black box" and employees could sue if the company can't demonstrate their pay is fair.
Companies with 500 or more employees will be obliged to report regularly on equal pay efforts.
Statistics show that women's gross earnings average some 21% less than men's in Germany, though that sinks to 7% when directly comparing men and women with equivalent qualifications and jobs.

8. Is mortgage fraud on the rise?

[January 11, 2017] High-risk and suspected fraudulent mortgage activity is on the rise, says Equifax Canada, which finds there has been a 52% increase in suspected fraudulent mortgage applications since 2013.

According to system data from Equifax, falsified account statements and documents are increasingly being flagged, as is conflicting information. Of the applications being flagged, 67% were from Ontario while 12% were from B.C.

Equifax also conducted a survey to examine the attitudes and perceptions of Canadians about the current housing market. It finds one in five Canadians who do not have a mortgage say they're nervous they'll never own a home because of rising prices. Further, they want to buy a home but can't afford the down payment.

The survey was conducted online using Leger's weekly OMNI via LegerWeb. It polled 1,547 Canadians from across the country.

"We're certainly seeing more mortgage applications being flagged as suspicious by our reporting institutions," says Tara Zecevic, vice president, Customer Insight, at Equifax Canada. "We cannot entirely attribute these increases to consumers overstating personal income or falsifying applications, [but] we do want to remind people that there are serious consequences for making false or inaccurate claims on any loan or mortgage applications."

With respect to mortgage fraud, the results of the recent Equifax survey show 13% of Canadians indicate it's acceptable to tell "little white lies" when applying for a mortgage to get the houses they want.

As well, 16% said they believe mortgage fraud is a victimless crime and 8% admitted to misrepresenting the facts on a credit or loan application.

Homes too expensive

When asked about housing prices and markets, respondents of the Equifax survey said:

- the cost of home ownership is too high for first-home buyers today (84%); and
- there's more demand than supply (29%) and more foreign buyers (27%); both are factors that are driving up home prices according to respondents.

The survey notes B.C. residents are significantly more likely to cite foreign buyers as the top reason for home prices being driven up (75%, versus 42% for all other provinces, respectively).

9. Don't miss these 2017 tax deadlines

[January 10, 2017] When it comes to tax season, many people think of March or April.

But good tax planning should happen year-round – and there's no time like January, says Jamie Golombek, managing director, Tax and Estate Planning with CIBC Wealth Advisory Services.

"When we file our returns, that's backwards-looking," he says, adding there are a few strategies that can be applied retroactively, such as sharing donations and choosing medical expense periods.

"But when it comes to 2017, there is so much you could be doing" during the year, Golombek points out. This includes:

- income splitting with family members or a family trust;
- maximizing RESPs for children and grandchildren;
- maximizing RDSPs for disabled family members in order to optimize government grants and government bonds; and
- choosing between TFSA or RRSP contributions, or deciding to pay down debt.

Key dates

The new year brings with it two early deadlines.

"The first one is January 30," says Golombek, noting, "that's the deadline for paying interest on prescribed-rate loans."

Such loans typically involve a higher-income family member loaning money to his or her lower-income spouse; then, the money is invested and any income is taxed at the spouse's marginal rate. The prescribed interest rate for these loans has been 1% since April 2009 (except for Q4 2013), making them quite attractive for wealthy families.

If people miss the interest payment deadline, "the [spousal loan] strategy not only falls apart for last year, 2016, but it actually falls apart for all future years. You have to sell the investments, pay off the loan, and do a brand-new prescribed-rate loan in 2017 for the strategy to work if you miss that 30-day deadline."

People should also heed the RRSP deadline, which is March 1, 2017. Golombek offers this advice to taxpayers: "Be sure to sit down and look at your RRSP contribution limits, and look at that opportunity to be able to put money away for your retirement. Or, would you forgo that altogether and consider the TFSA? It all depends on your tax rate now versus your tax rate in retirement."

Last chance

This year is the last time people can claim the First-Time Donor's Super Credit, which was introduced in 2013.

“It allows an individual to claim an additional 25% federal credit if they are a first-time donor,” says Golombek. “That means neither the individual nor their spouse or partner has claimed a charitable donation for any year after 2007.”

Up to $1,000 in donations are eligible for the additional 25% First-Time Donor’s Super Credit. Plus, you can share the claim for the credit with a spouse or common-law partner, but the total combined donations claimed cannot exceed $1,000.

Have a nice and fruitful week!