Weekly Updates Issue # 611

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1. Weekly Markets Changes

[April 21, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,614.48 +79.00 +0.51%	2,348.69 +19.74 +0.85%	20,547.76 +94.51 +0.46%	5,910.52 +105.4 +1.82%	$0.7406 -0.97¢ -1.30%	$1,286.00 -3.00 -0.23%	$49.63 -3.39 -6.39%

2. CPI unexpectedly slows to 1.6%

[April 21, 2017] The country's annual inflation rate slowed to an unexpectedly weak 1.6% last month as the continued decline in food prices played a big role in offsetting the higher cost of gasoline, Statistics Canada said Friday.

The agency's latest reading shows the pace of inflation decelerated from February's year-over-year reading of 2%, which was right on the Bank of Canada's ideal target.

A consensus of economists had predicted 1.8% inflation for March, according to Thomson Reuters.

Statistics Canada's consumer price index shows some of the biggest downward forces on inflation were lower prices for clothing and footwear, which declined 0.9%, and food, which fell 1.9%.

A closer look at the data shows that, compared to a year earlier, the cost of fresh fruit dropped 12.4% while fresh vegetable prices fell 10.2%. The report says year-over-year food prices fell 1.9% in March — a sixth-straight monthly decline.

The agency says higher costs for transportation and shelter made big contributions to the upward pressure on prices. For example, gas prices increased 15.2% last month.

The higher prices for travel tours, which rose at a 6.8% rate, were also among the primary contributors to the change in inflation.
Excluding food and energy prices, the report said annual inflation was up 1.7% last month, which follows a 2% increase in February.
Across Canada, Prince Edward Island was the only province that saw its annual inflation rate accelerate last month.

3. Trudeau responds to latest anti-Canada trade tirade

[April 21, 2017] One day after Donald Trump called Canada a "disgrace" for policies that hurt American farmers, Prime Minister Justin Trudeau said he plans to be respectful and engage with the U.S. on a fact-based approach to solve problems.
"I will stand up for Canada's interests, I will stand up for Canadians," Trudeau said Friday during a news conference alongside the visiting Italian prime minister, Paolo Gentiloni. "The way to do that is to make arguments in a respectful fashion, based on facts, and work constructively and collaboratively with our neighbours."
Trudeau offered that reply to the U.S. president's latest anti-Canada trade tirade, one in which Trump savaged Canada for creating a new lower-priced classification of milk product that he argues is hurting U.S. producers.
Both Trudeau and Gentiloni, who was in Washington himself on Thursday, were keen to display their support for free trade and open borders, including the Canada-EU free trade pact, in the face of growing populist opposition.
Trump's presence was strongly felt during the visit, as is becoming almost routine with most of Trudeau's international interactions.
In the wake of his own visit to the White House, Gentiloni said Canada and Italy share a common, pro-trade world view and that they live in "interesting times." He also said the anti-trade movement is bigger than one single country, the U.S.
"The United States president's opinions are perfectly legitimate," the Italian leader said through a translator.
"But we have to be aware of the fact that this push that goes against free trade as a catalyst for world growth […] that is why we need to work politically, culturally and economically to fight against this trend."
Italy is to host the G7 leaders' summit next month, which will be part of Trump's entry into the world of multilateral summitry. Trudeau said the subject of the upcoming summit formed a large part of his talks with Gentiloni. Trudeau also said he will have an audience with Pope Francis in Vatican City after the G7 talks.

Trump on Thursday praised Italy's contributions to the wars in Iraq and Afghanistan and its efforts to promote stability in Libya.
Italy has also committed to increase its defence spending to 2% of gross domestic product, the target Trump wants all NATO members to reach. Trudeau, however, has long insisted Canada is already doing its fair share.
Gentiloni said Italy supports free-trade agreements and its economy relies on exports. The remark stood in contrast to Trump's latest denunciation of the North American Free Trade Agreement–the president said this week he's anxious to see some "some very big changes" to the pact.
As he offered congratulations on Canada's 150th birthday, Gentiloni said the two countries share "the same line" on many issues.
Trudeau also lauded the "tremendously strong" trade ties between the two countries. "We are living in interesting times and this common vision, I think, will be helpful for us and for the world," Gentiloni said.
Trudeau thanked him for Italy's support bringing the Canada-EU free trade deal together. "On a broad range of things, we find ourselves tremendously aligned," Trudeau said, who visited Europe last winter to praise free trade agreements, including the Canada-EU pact.
Trump's arrival on the broader world stage is set to happen in late May.
It will start with the NATO leaders' summit in Brussels, just before the G7 leaders meet in Italy–summits which both Trump and Trudeau are expected to attend.
Trump has roundly criticized many of the world's international institutions, and once called NATO obsolete.
The G7 summit will be important for Trudeau because it will serve as a handover of sorts for next year, when it becomes Canada's turn to host the gathering.

4. It's here: 15% tax on GTA's foreign buyers

[April 20, 2017] Foreign nationals who don't live in Toronto and its surrounding communities will pay an additional 15% tax on homes under legislation proposed by the Ontario government.
Ontario Premier Kathleen Wynne made the announcement Thursday in an effort to cool a hot housing market in Canada's largest city.
It matches the 15% tax the Pacific coast city of Vancouver has implemented.
Wynne said the tax is not about targeting immigrants.
"We're targeting those are who aren't looking to raise a family. They are only looking for a quick profit or a safe place to park their money," Wynne said.

The average price of detached houses in the Greater Toronto Area rose to $1.21 million Canadian (US$900,000) last month. Wynne said when the market jumps 33 per cent in a year they know there's a problem.

"There is a need for interventions right now in order to calm what's going on," Wynne said.

The tax will be imposed on buyers in what's known as the Greater Golden Horseshoe area who are not citizens, permanent residents or Canadian corporations. Once the legislation passes, the foreign tax would be effective retroactively to April 21.

"Other provinces will be watching closely to see if Ontario's new regulations drive foreign capital into their residential property markets, with Montréal having already sparked overseas interest," National Bank economists said in a research note.

Wynne introduced other measures as well. Ontario is also expending rent control, which currently only applies to units built before November 1991. Tenants in newer units have complained of dramatic spikes in rent.

The premier said they are taking aim at speculators and are tackling affordability.

The government doesn't keep statistics on the number of foreign buyers. There has been talk Asian investment in Toronto picked after Vancouver introduced its foreign buyer tax last summer.

Ontario's proposed measures

- A 15% non-resident speculation tax to be imposed on buyers in the Greater Golden Horseshoe area who are not citizens, permanent residents or Canadian corporations.
- Expanded rent control that will apply to all private rental units in Ontario, including those built after 1991, which are currently excluded.
- Updates to the Residential Tenancies Act to include a standard lease agreement, tighter provisions for "landlord's own use" evictions, and technical changes to the Landlord-Tenant Board meant to make the process fairer, as well as other changes.
- A program to leverage the value of surplus provincial land assets across the province to develop a mix of market-price housing and affordable housing.
- Legislation that would allow Toronto and possibly other municipalities to introduce a vacant homes property tax in an effort to encourage property owners to sell unoccupied units or rent them out.
- A plan to ensure property tax for new apartment buildings is charged at a similar rate as other residential properties.

- A five-year, $125-million program aimed at encouraging the construction of new rental apartment buildings by rebating a portion of development charges.
- More flexibility for municipalities when it comes to using property tax tools to encourage development.
- The creation of a new Housing Supply Team with dedicated provincial employees to identify barriers to specific housing development projects and work with developers and municipalities to find solutions.
- An effort to understand and tackle practices that may be contributing to tax avoidance and excessive speculation in the housing market.
- A review of the rules real estate agents are required to follow to ensure that consumers are fairly represented in real estate transactions.
- The launch of a housing advisory group which will meet quarterly to provide the government with ongoing advice about the state of the housing market and discuss the impact of the measures and any additional steps that are needed.
- Education for consumers on their rights, particularly on the issue of one real estate professional representing more than one party in a real estate transaction.
- A partnership with the Canada Revenue Agency to explore more comprehensive reporting requirements so that correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.
- Set timelines for elevator repairs to be established in consultation with the sector and the Technical Standards & Safety Authority.
- Provisions that would require municipalities to consider the appropriate range of unit sizes in higher density residential buildings to accommodate a diverse range of household sizes and incomes, among other things.

5. Small business accounts for 42% of new jobs

[April 19, 2017] While self-employment has risen noticeably slower than paid employment since the beginning of the decade, Canadian small- and medium-sized enterprises (SMEs) have been creating a more significant share of jobs since 2010, finds a report by CIBC World Markets.

Between 2010 and 2016, 42% of new jobs were created by businesses with less than 100 employees, up from 30% between 2000 and 2010.

The trend is particularly strong west of Quebec. “Each province from Ontario to B.C. has exhibited a growth rate of more than 9% in the number of companies with employees," notes the report, authored by Benjamin Tal, deputy chief economist, and Royce Mendes, director, at CIBC World Markets .

Last year, more than 350,000 businesses were created and just under 300,000 exited, with the entry rate (the ratio of business creation to total businesses) on the decline since 2004, while the exit rate has been more stable, despite the impact of the fall in oil prices a couple of years ago.

"Small business optimism has been grinding higher since bottoming out early last year and appears headed back to levels seen prior to the oil price shock," say Tal and Mendes. "With the Canadian economy in recovery mode, the environment for small businesses remains constructive."

Challenges: revenue expansion and financing

While the World Bank ranks Canada as one of the best places to start a new business due to access to capital and a favourable tax regime, the CIBC report highlights several gaps, including slow revenue expansion outside North America and funding gaps for some entrepreneurs.

"SME revenue continues to be geographically concentrated in North America, creating risk," say the authors. "Currently, only 10% of SMEs are involved in any sort of exporting at all, and roughly 90% of those companies are sending their wares to the U.S. In the current political environment, it has become a risky proposition to focus solely on the U.S. market."

As an alternative, the ratio of Canadian goods and services exported to Asia and Latin America could be increased.

"The age of digital connection has made it much easier to send Canada's high-end service exports all over the world, something many SMEs could benefit from," they say.

Further, financing issues are faced by young business owners.

Canadians between 25 and 39 make up more than 25% of the population, yet represent less than 15% of small business owners and less than 10% of medium-sized business owners.

In contrast, Canadians aged 50 to 64 years also represent about 25% of the population but represent 47% of small business owners and 51% of medium-sized business owners.

"It will be important to watch this segment of the population as Canada tries to compete with other countries in the tech landscape, which is more tilted toward younger business owners than other industries," say Tal and Mendes.

6. Vancouver housing market stalls for first time since 2013

[April 18, 2017] The Canadian Real Estate Association says home sales last month hit a record high nationwide, even as Vancouver-area home prices fell from last quarter.

Home sales over CREA's Multiple Listings Service system increased by 1.1% in March to top the previous monthly record set in April 2016.

Sales were up on a month-over-month basis in more than half of the local markets measured, led by Greater Vancouver and the nearby Fraser Valley region in B.C., as well as London, Ont., St. Thomas, Ont. and Montreal.

Compared with a year ago, sales were up 6.6%, as gains in the Greater Toronto Area led the way.

The actual national average price for homes sold in March this year was $548,517, up 8.2% from a year ago.

Excluding Greater Vancouver and Greater Toronto, the average price was $389,726.

Markets in Vancouver and Toronto diverge

Though Vancouver home prices are up compared to the first quarter last year, the pace of year-over-year home price appreciation in Greater Vancouver was noticeably lower — with a 10% year-over-year change — than the historic highs witnessed in 2016. In fact, for the first time since 2013, home values for the region as a whole declined on a quarterly basis.

"The Vancouver market stalled, as confused consumers took to the sidelines after a series of unco-ordinated moves by all three levels of government," says Phil Soper, president and CEO of Royal LePage, in a release. "With the housing shortage becoming more acute, Toronto easily stepped forward to assume the title of Canada's most overheated real estate market."

In the Lower Mainland, sales activity is down 40% compared to recent norms, says Soper. Further, as much as 90% of lost housing sales in that region, following the introduction of the foreign buyer tax, is a result of Canadian residents — not foreign investors — putting off buying, he says.

Meanwhile, price appreciation in the Greater Toronto Area reached new heights in the first quarter, rising by an unprecedented 20% year-over-year across all housing types studied.

And home price appreciation is extending further into other southwestern Ontario markets like London and Windsor, due to strong demand, supportive economic factors and the quest for affordability.

The steep price gains have some analysts forecasting major downward price adjustments, while others call for public policy measures.

The federal finance minister is set to meet today with his Ontario counterpart and the mayor of Toronto to discuss the hot housing market in the Greater Toronto Area. The gathering in Toronto comes as the Ontario government readies to unveil a much-anticipated package of housing affordability measures.

7. Global economy upgraded to 3.5% growth in 2017: IMF

[April 18, 2017] A resilient China, rising commodity prices and sturdy financial markets are offering a sunnier outlook for the global economy and helping dispel the gloom that has lingered since the Great Recession ended.

That's the picture sketched by the International Monetary Fund (IMF), which predicts that the world economy will grow 3.5% this year, up from 3.1% in 2016. The IMF's latest outlook for 2017 is a slight upgrade from the 3.4% global growth it had forecast in January.

The Washington-based organization continues to estimate Canada's GDP will grow by 1.9% this year, unchanged from its previous forecast.

By contrast, the Bank of Canada projects the economy will expand by 2.6% this year, up from its previous estimate of 2.1% growth.

The central bank cautioned, however, that Canada's economy might be unable to maintain the pace set in early 2017.

The Bank of Canada also lowered its estimate for next year to 1.9%, below the IMF forecast of 2.0%.

The IMF's most recent world economic outlook provides little analysis of Canada's performance but notes that it stands to benefit this year from improved commodity prices and a stronger outlook for the U.S.

The IMF expects the U.S. economy to grow 2.3%, up from 1.6% in 2016; the 19-country eurozone to expand 1.7%, the same as last year; Japan to grow 1.2%, up from 1%; and China to expand 6.6%, down from 6.7% in 2016.

8. The story behind oil market volatility

[April 18, 2017] In March, there was a lot of volatility around the price of oil, "led by data out of the U.S. with respect to inventory levels," says Scott Vali, vice-president of equity for CIBC Asset Management.

"If you think about the U.S., it's where we get the most [oil] data. We get that data on a weekly basis, continuously, to show [whether] inventories are building at the current time," says Vali, who manages the Renaissance Global Resources Fund. "But, that data is comprised of a lot of different inputs: inventory levels, imports [and] exports out of the U.S."

In addition, oil prices can be affected by the demand and production capacity of refineries. Vali notes that, as of the week of March 6, inventory levels were building because of increasing imports. Then, during the week of March 13, he says, "we saw inventories draw because of lack of imports."

This shows you that "import data can be very volatile and, on a weekly basis, doesn't really tell you much," says Vali.

Also consider that "we're in what is seasonally a really weak period for refinery demand." In March, refineries were conducting mid-winter maintenance and that affected their production capacity. "Typically during the mid-season, refiners will update their equipment and prepare themselves for the demand for gasoline in the summer months. There's also a winter-grade and summer-grade gasoline," he adds, and both have "different specifications [that] has to do with the coldness of the outdoor temperature."

Since March saw weak demand, production fell "by about 1.5 million barrels per day," says Vali, who explains, "Between [March] and the beginning of April, that will fall to 400,000 barrels a day of capacity offline, [meaning] we're going to have an additional 1.1 million barrels a day of demand for oil in the U.S., simply because of the seasonal change in the refining systems' utilization."

Until now, crude oil inventory increased while gasoline inventory dropped, but he predicts that trend will reverse as we head into summer.

Watch global indicators

Vali also watches for trends outside North America that can affect oil prices. He follows Brent time spreads, which show the difference between the value of Brent oil in the one-month period relative to where it trades six months out. "Those spread have been narrowing, and what that signals is that near-month demand is actually increasing," he says. "As we see that continue to narrow, that signals to us that the market is getting tighter."

And, a tightening oil market is positive, says Vali. "That's exactly what we want to see because remember, it's OPEC that is cutting production, not the U.S. So, although a lot of people are focused on U.S. data, it doesn't tell you the global story."

Typically, he explains, consider that when refinery maintenance is at its highest, "speculation in the market is also at an all-time high," which can lead to volatility. In March, he found "speculators [had] bought crude contracts with the expectation that prices would start to rise. As such, they were getting nervous as we went further into the season and continued to see crude inventories build."

9. Q1 growth shows China's economy gaining steam

[April 17, 2017] China’s economic recovery is gaining traction, with growth rising to its fastest pace in over a year in January-March.
The 6.9% annual pace of expansion for the world’s second-largest, reported Monday, surpassed economists’ forecasts and was an improvement from 6.8% growth in the last quarter of 2016. Growth was last that strong in July-September of 2015.
Analysts said government spending and a property boom spurred by easy credit were the main factors helping to driving stronger demand in China.
In 2016, China saw its slowest growth in nearly three decades at 6.7%. The official full-year economic growth target for 2017 is 6.5%.
“Currently, China’s economy is demonstrating good signs of pickup in growth, overall price stability, expansion in employment and improvement in the international balance of payments,” Mao Shengyong, a spokesman for the National Bureau of Statistics, told reporters in Beijing.
Another piece of good news is that fears of being dragged into a trade and currency war with the U.S. have abated after U.S. President Donald Trump toned down his previously antagonistic comments against Beijing.
A summit earlier this month with Chinese President Xi Jinping ended calmly, and the U.S. Treasury Department did not label China a currency manipulator in its latest assessment.
During the first quarter, investment in fixed assets such as factories expanded 9.2% from a year earlier, while retail sales grew 10%. Industrial production rose 6.8%, including a stronger-than- expected 7.6% year-on-year gain in March.
Although exports have also shown sharp improvement, strong lending and investment figures suggest Beijing is relying on its traditional strategy of powering growth through government stimulus. China’s leaders have been trying to shift to an approach based more on consumer demand but tend to open the spending and credit taps at times when growth appears to be slowing too much.
“The question we need to ask is whether this investment-led model is sustainable as the authorities have trouble taming credit,” said Raymond Yeung and David Qu, economists at ANZ.
The latest figures indicate China’s economy is on track to meet its official growth target–a good sign for China’s communist leaders, who don’t like surprises and are preparing for a twice-a-decade party congress in the autumn to appoint new leaders.
“The 6.5% target this year, you could say it’s more important than ever, because of the political reshuffle later this year,” said Amy Zhuang, chief Asia

analyst at Nordea Markets. “At least being able to maintain the stability in growth is very, very important for Beijing.”

On a quarter-to-quarter basis, which is how other major economies report data, the economy lost steam, expanding just 1.3%. That’s slower than 1.7% n the fourth quarter of 2016 (the economists at ANZ said such figures should be viewed cautiously because they might reflect changes in how the government made adjustments for seasonal factors).

Economists say they expect the boost from the government’s policies and the property boom to persist for a few more months before fading later in the year. Real estate plays an outsize role in fueling growth in the wider Chinese economy by spurring knock-on demand in the manufacturing and service sectors.

House prices will likely start cooling this year as tighter restrictions finally kick in, but Beijing will probably take steps to offset that decline with more stimulus to meet its annual growth target, Zhuang said.

Have a nice and fruitful week!