# Weekly Updates Issue # 617

**1. Weekly Markets Changes**
**2. Unemployment rate ticks up to 6.6% in May**
**3. BoC review highlights hot housing, cyber attacks, liquidity**
**4. Canada's GDP solid, but housing risk requires action: OECD**
**5. Should people get family loans to make mortgage down payments?**
**6. Do new housing measures 'distort the market'? Experts are split**
**7. Canada's infrastructure bank could bear significant risk, says Trudeau adviser**
**8. GTA home transactions drop 20.3% as prices keep climbing**

## 1. Weekly Markets Changes

**[June 9, 2017]**

| S&P TSX | S&P 500 | Dow Jones | NASDAQ | CAD/USD | Gold | WTI Crude |
|---|---|---|---|---|---|---|
| 15,473.21<br>+30.46 +0.20% | 2,431.77<br>-7.30 -0.30% | 21,271.97<br>+65.68 +0.31% | 6,207.92<br>-97.88 -1.55% | $0.7423<br>+0.10c +0.13% | $1,268.80<br>-12.70 -0.99% | $45.90<br>-1.84 -3.85% |

## 2. Unemployment rate ticks up to 6.6% in May

**[June 9, 2017]** The national unemployment rate was 6.6% in May, says Statistics Canada, compared to 6.5% in April.

StatsCan also released seasonally adjusted, three-month moving average unemployment rates for major cities. But the agency cautions the regional figures may fluctuate widely because they are based on small statistical samples.

Here are the jobless rates last month by city, in percentages (previous month in brackets):

- St. John's, N.L. 8.5 (8.3)
- Halifax 7.0 (6.8)
- Moncton, N.B. 6.1 (6.9)
- Saint John, N.B. 5.6 (6.2)
- Saguenay, Que. 6.8 (6.5)
- Quebec 4.6 (4.2)
- Sherbrooke, Que. 6.2 (6.2)
- Trois-Rivieres, Que. 6.5 (6.5)
- Montreal 6.6 (6.7)
- Gatineau, Que. 5.6 (5.7)
- Ottawa 5.8 (5.1)

- Kingston, Ont. 5.5 (5.8)
- Peterborough, Ont. 6.7 (5.2)
- Oshawa, Ont. 5.9 (6.1)
- Toronto 6.9 (6.9)
- Hamilton, Ont. 5.2 (5.4)
- St. Catharines-Niagara, Ont. 6.9 (6.8)
- Kitchener-Cambridge-Waterloo, Ont. 5.3 (5.2)
- Brantford, Ont. 5.1 (4.7)
- Guelph, Ont. 3.9 (4.6)
- London, Ont. 6.2 (5.7)
- Windsor, Ont. 5.0 (4.9)
- Barrie, Ont. 5.4 (5.8)
- Sudbury, Ont. 6.6 (6.7)
- Thunder Bay, Ont. 5.5 (5.7)
- Winnipeg 5.9 (6.3)
- Regina 4.7 (4.6)
- Saskatoon 8.3 (7.8)
- Calgary 9.3 (9.3)
- Edmonton 7.9 (8.1)
- Kelowna, B.C. 4.0 (4.8)
- Abbotsford, B.C. 5.6 (5.7)
- Vancouver 5.2 (4.8)
- Victoria 3.9 (3.7)

In a research note, Nick Exarhos of CIBC World Markets says, "It was an excellent May for Canadian employment, with the 55K increase trouncing more muted expectations. […] So there's evidence that the economy carried momentum beyond what was a strong Q1 for GDP."

While the unemployment rate "rose a tick," he adds, "that was a result of a higher participation rate—another positive for the economic outlook."

## In the U.S.

The Labor Department reports fewer Americans applied for unemployment benefits last week as most U.S. workers continue to enjoy job security.

**The numbers:** The Labor Department said Thursday that claims for jobless aid fell by 10,000 to a seasonally adjusted 245,000 last week. The less-volatile, four-week average rose by 2,250 to 242,000.

**The takeaway:** Applications for unemployment benefits are a proxy for layoffs. They've come in below 300,000, a historically low figure, for 118 straight weeks, longest such streak since 1970.

Overall, nearly 1.92 million people were collecting unemployment checks, down nearly 10% from a year ago. The four-week average number of Americans receiving jobless aid was 1.91 million, lowest since January 1974.

**Key drivers:** The job market is healthy, though hiring has slowed recently– partly because employers can't find workers when the unemployment rate is at a 16-year low 4.3%.

The economy has generated 162,000 jobs a month so far this year, up from an average 157,000 a month from January through May last year, but down from an average 187,000 a month for all of 2016.

"Claims remain low, consistent with the trend in employment growth remaining more than strong enough to keep the unemployment rate trending down," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics, in a research note.

## 3. BoC review highlights hot housing, cyber attacks, liquidity

**[June 8, 2017]** Canada's financial system is becoming increasingly exposed to economic shocks as household debt levels climb and major housing markets remain red hot, the BoC said in its latest review of the financial system. The central bank also continued to identify cyber attacks and bond market liquidity as system vulnerabilities.

Even as the BoC warned that the country's most significant weak spots have widened, governor Stephen Poloz said Thursday that the overall financial system remains resilient and broader economic conditions have shown signs of improvement.

"At this stage, I'm just comforted by the fact that the economy is showing better dynamics and that does go into this equation of financial risk as a positive," Poloz said at a news conference. "It means that the resilience is rising in the background, even if the vulnerabilities are also rising in the foreground."

The bank's assessment was rolled into its bi-annual review, which explores and identifies the key vulnerabilities and risks surrounding the stability of the financial system.

The two biggest concerns on the bank's radar are also intertwined. It said the growth in mortgage lending in Toronto and Vancouver has largely fuelled an increase in Canada's overall household indebtedness since the bank's last review six months ago.

"Highly indebted households have less flexibility to deal with sudden changes in their income," said the bank.

"As the number of these households grows, it is more likely that adverse economic shocks to households would significantly affect the economy and the financial system."

The document was released as concerns about the Canadian real estate market — domestically and from abroad — continue to pile up.

This week, the Paris-based OECD became the latest international organization to urge Canada to do more to address risks associated with its high-priced housing markets.

The central bank report also noted Moody's recent credit downgrading of Canada's six largest banks due to growth in private sector debt and higher housing prices.

Over the past year, various governments in Canada have introduced housing measures and policy changes that the bank predicted will help ease the vulnerabilities over time.

However, while recent federal measures have improved the credit quality of insured mortgages, the banks said the share of uninsured mortgages has increased and their characteristics are showing more signs of risk.

The report warned that another financial stability concern could emerge if more and more borrowers accumulate debt elsewhere to enable them to put down bigger down payments because of recent changes to mortgage rules.

## Bond liquidity

The BoC continues to see bond liquidity as a financial system vulnerability, noting that the affects of bond ETFs in periods of market stress remain unclear.

"Regulatory reforms have made major liquidity suppliers—including bank-owned broker-dealers—more resilient and less prone to dramatically reducing their supply of liquidity during stress," the BoC said. "Nonetheless, during a stress event, dealers will naturally manage their overall balance sheet risk by lowering their supply of market liquidity. The increased use of agency trading, in part driven by regulatory constraints, may exacerbate the reduction in supply of liquidity in times of stress, since it may become even more difficult to directly match clients after a shock."

## Cyber attacks

Cyber threats are also listed in the report as a financial system vulnerability as the level of sophistication and frequency of cyber attacks have grown and the tools and skills needed for attacks have become more widely available.

"Financial institutions, including central banks, are frequent targets of high-profile cyber attacks," the BoC said. "For example, in 2016 alone, at least eight monetary authorities in various jurisdictions were victims of a cyber attack; the most notable incident was the Bangladesh Bank heist, where hackers stole US$81 million."

### Risks

The bank also outlined two key risks to the financial system.

The first risk is a large, persistent shock in foreign demand that would lead to a severe recession. While the bank noted the probability of such a risk is low, it said that rising household vulnerabilities mean the severity of such an event, should it occur, has expanded.

The other risk identified in the review, which has a "moderate" chance of occurring, is a regional correction in housing prices in sizzling markets like Toronto, Vancouver and their surrounding areas. Such a development would hurt the broader economy and the financial system, the bank said.

## 4. Canada's GDP solid, but housing risk requires action: OECD

**[June 7, 2017]** The Organization for Economic Co-operation and Development (OECD) estimates Canada's gross domestic product will grow by 2.8% this year, double last year's 1.4% growth in GDP. (The new OECD estimate is above the Bank of Canada's most recent forecast of 2.6% growth in 2017.)

The estimate would put Canada's economic growth this year ahead of the United States, which the OECD estimates will have GDP growth of 2.1% this year.

But the Paris-based economic think-tank is calling on Canada to do more to address risks associated with high-priced housing markets in cities such as Toronto and Vancouver. For example, OECD suggests there should be further tightening of macro-prudential measures undertaken last year.

Those measures included new standards for federally regulated lenders and mortgage insurers, among other things.

### Global forecast

Overall, the OECD's latest world economic outlook projects global growth of 3.5% this year and 3.6% in 2018, up from 3.0% in 2016.

The OECD, whose members include Canada, the United States and many of the world's richest economies, said businesses and consumers are increasingly confident and employment and trade are recovering.

OECD chief economist Catherine Mann said, however, that "policy-makers cannot be complacent." There is uncertainty over government policies in major countries, and wages are not yet growing as much as hoped.

## 5. Should people get family loans to make mortgage down payments?

**[June 6, 2017]** Nearly one in five first-time home buyers (18%) received help with a down payment from a family member, according to the 2017 mortgage consumer survey conducted by the federal housing agency, released Tuesday. While family members offering support seems helpful, the Canada Mortgage and Housing Corp. found buyers who received this kind of financial aid were less likely to feel comfortable about their current level of mortgage debt. Plus, these buyers were less confident about knowing where to turn in the event that they run into financial trouble.

"Similarly, they were less likely to have other assets to supplement their needs should they run into financial trouble.," says CMHC, given they likely didn't have assets to make the down payment in the first place.

This was the first time CMHC included these questions as part of its annual mortgage consumer survey, which was completed online in March and included 3,002 recent mortgage consumers.

These results come amid concerns that record household debt is a key risk for the Canadian economy. The federal government has tightened mortgage lending rules several times in recent years, including expanding stress tests on mortgages.

The poll found that just over half of buyers were aware of the latest mortgage qualification changes and about one in five (19%) noted that the latest changes affected their purchase decision.

**Additional highlights:**

- About four in ten buyers received a recommendation to use a specific lender (38%), and 35% a recommendation to use a specific broker. These recommendations are most likely to come from a real estate agent or family member.
- Fifty-five percent of buyers received advice on the amount of down payment to put down. Among those, 24% received advice to put down less, and 69% received advice to put down more for a variety of reasons, such a minimizing overall interest paid and avoiding mortgage loan insurance.
- Overall, 40% of buyers mentioned having concerns during the home buying process (compared to 43% in 2016). Among this group, the uncertainty came mostly from unforeseen costs, noted by 57% of buyers, followed by the fear of paying too much for their home, and living with post home buying costs (both at 51%).

- Thirty-two percent of all buyers incurred unexpected expenses during the home buying process, of which immediate repairs were the most common unexpected costs identified.
- Thirty percent of buyers reported making repairs or improvements costing over $5,000 since purchasing their current home, and 58% noted they are likely to make repairs or improvements over $5,000 in the next 5 years.
- The survey also notes more than three-quarters of mortgage consumers polled research online, and that almost half say they would feel comfortable using more technology to arrange their next mortgage transaction. Also, the use of social media among mortgage consumers has increased.

## 6. Do new housing measures 'distort the market'? Experts are split

**[June 6, 2017]** Quebec recently rejected a tax on foreign buyers of real estate, and British Columbia and Ontario should do the same, says Mathieu Bédard, economist at research organization MEI.

In an op-ed, Bédard argues that tax changes and measures like rent control won't help solve the issue of rising home prices. Instead, he writes, they are "the kind of policy that contributes to the problem."

He adds home prices in cities like Toronto and Vancouver "have been high since long before current worries about foreign buyers.In both places, zoning and land-use policies have been driving up real estate prices for more than 50 years."

In fact, he says, "When these policies become too restrictive, housing prices skyrocket and the burden falls disproportionately on the poorest, with fewer affordable housing units being built in favour of more luxurious ones," and this is a trend in Toronto, Vancouver and Montreal.

On the topic of rent control, Bédard argues, "Those who keep the same apartment for a long period of time can benefit from rent control, but for those who move into new apartments just being made available, prices are actually increasing faster than they otherwise would due to the artificially limited supply."

He concedes that Montreal "is by no means comparable to that of Toronto or Vancouver" when it comes to hot housing, but also says, "While it's arguable that foreign buying has had an impact on prices in the Vancouver area, the evidence is far less conclusive in Toronto."

His recommendation? Rather than “distort the market,” governments should stick to “allow[ing] the price mechanism to work, incentivizing developers to build more when prices go up.”

Bédard’s not alone in his opposition to further government intervention.

At the end of the May, the new CEO of the Canadian Bankers Association, Neil Parmenter, said policy-makers should take time to ensure there are no unintended consequences stemming from efforts to rein in Toronto’s runaway housing prices before introducing further measures.

In his first interview with a Canadian news organization since taking the helm of the association, he noted all of the banks are closely watching the housing market. Further, the CEOs of Canada’s biggest banks have said recently that they are seeing early signs that the Toronto real estate market is slowing down.

But not all stakeholders agree. Take experts like Canadian Mortgage and Housing Corporation chief executive Evan Siddall and groups like the IMF, which hold the opposite view. Siddall gave a recent speech on Canada’s housing strategy and its benefits, while the IMF has urged governments to do more to protect against the risks of a possible correction in Canada’s housing market.

## 7. Canada’s infrastructure bank could bear significant risk, says Trudeau adviser

**[June 6, 2017]** The man advising Prime Minister Justin Trudeau on building a new infrastructure financing agency was told the body could take on a “significant” amount of risk to help projects come to fruition.

The agency would “help bear a significant portion of the risk” in a project if the government took on an equity stake to make a project more attractive to private investors, says a confidential briefing package prepared for special adviser Jim Leech.

The Feb. 20 briefing document says the bank could take on debt that allows other debtors to be paid first in order to provide a “loss buffer” to the private sector, or invest on an equal footing “at concessionary terms.”

That latter reference could mean giving a private partner exclusive rights to use and receive revenue from a piece of infrastructure, like a rail line — such as the arrangement between the U.K., France and the private companies involved in the Channel Tunnel.

The briefing note, obtained by The Canadian Press under the Access to Information Act, says agency officials would look to structure deals that “most effectively crowd-in private sector investment, as well as the expected return on investment” to the government.

The Liberals were pressed Monday about the risk taxpayers are being asked to carry through the bank, adding to the government's troubles with the idea as the agency inches closer to the parliamentary approval necessary to open its doors.

The legislation to create the bank is contained within the government's budget implementation bill, which is nearing Commons approval despite opposition concerns that there hasn't been enough time to scrutinize the plan.

On Monday, NDP MP Daniel Blaikie called the bank a "slush fund" for the Liberals' "international corporate buddies." Meanwhile, Conservative Leader Andrew Scheer called on Trudeau to put the brakes on his government's plans and listen to "serious concerns about this $35 billion boondoggle waiting to happen."

Trudeau said the government remained committed to getting Canadians the infrastructure they need. "We know that drawing in private capital from around the world will get more things built for Canadians, will grow our economy and create a better future for our kids," he said during daily question period.

**The road ahead**

The plan for the next 11 years is to infuse the agency with $15 billion in cash and $20 billion in financing like loans, which officials say wouldn't hurt the government's bottom line because the money would be paid back. The bank will not borrow money; rather, its funding will come from the government on a per-project basis.

The hope is that the funding lures three or four times that amount from the private sector to build bridges, roads, and energy transmission networks that cross city, provincial and even national borders and are in the public interest. The Liberals say they will avoid projects that are too risky.

The focus of any funding would be to minimize the amount of public funding required to make the project financially viable, shifting revenue risks to the private sector. The rate of return to private investors will be tied to their share of the risk _ the bigger the risk, the bigger the payoff _ and negotiated on a project-by-project basis.

The departments overseeing the creation of the bank say funding agreements will include provisions about how revenues that exceed expectations are shared among all involved, and how the pain is spread around if revenues fall short of expectations.

During a technical briefing Monday, officials said any losses must be balanced among other factors, such as whether the piece of infrastructure would have been built regardless, or would have required much more taxpayer funding to do so.

"In addition, by moving forward projects via the (bank) and leveraging private capital, we free up more public funding for important investments in affordable housing, disaster mitigation, and shelters for women fleeing domestic violence," said Brook Simpson, a spokesman for Infrastructure Minister Amarjeet Sohi.
Cities and provinces can pitch projects directly to the bank. In other cases, the bank chooses from project lists submitted by provinces through traditional funding programs; still others may be unsolicited, non-government proposals.
There is also a section in the document about federal projects for the agency, but officials have redacted the details, citing it as advice too sensitive to release publicly.

## 8. GTA home transactions drop 20.3% as prices keep climbing

**[June 5, 2017]** The Toronto Real Estate Board says home sales transactions in the Greater Toronto Area (GTA) plunged last month by 20.3%, compared to May 2016, as prices continued to climb.
The board says the average selling price for all properties in May was $863,910, an increase of 14.9% from the same month last year.
Sales of detached homes, which had an average selling price of $1,141,041, fell by 26.3% in the GTA.
Referring to the drop in sales, Benjamin Tal, deputy chief economist at CIBC World Markets, says, "That trajectory is exactly what the region needs. A market that is falling due to the force of its own gravity as opposed to an external shock."
The data captures a month during which the Ontario government implemented a 15% tax on foreign buyers in the Greater Golden Horseshoe, a fast-growing region stretching from the Niagara Region to Peterborough, Ont., retroactive to April 21.
The measures are intended to temper rapid price growth that has given rise to concerns that Toronto has become increasingly unaffordable.
They are also aimed at preventing or mitigating the damage that could result from a housing correction if one were to occur.
The board said in a statement Monday that the effects of Ontario's housing changes have yet to be seen.
However, Bank of Montreal's morning note to clients says there's "little doubt" the government measures have had an impact.

The bank — which includes mortgage lending in its business — says “foreign buyers have likely pulled back, while domestic buyers appear to have stepped back as well to see how the changes shake out.”

Policy-makers at various levels are watching the city’s housing market closely as there are fears that the fallout from a possible crash in prices could have ramifications on the national economy.

There are signs that Canada’s other real estate market of concern — Vancouver — may be heating up again after that city’s real estate board reported Friday that home sales last month have rebounded to near record levels.

Transactions in Metro Vancouver in May were down 8.5% year-over-year, while the MLS benchmark price for all properties hit $967,500, an increase of 8.8% since May 2016.

Like Ontario, British Columbia introduced several measures including a tax on foreign buyers in the Vancouver area last August in an effort to stabilize the housing market.

Though he sees the current trajectory of home sales in the GTA as a positive, Tal says, “Given the lack of external shock as a trigger, we believe that this adjustment will be relatively short-lived, not unlike the situation in Vancouver where activity is already rebounding.”

## Have a nice and fruitful week!