Weekly Updates Issue # 631

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1. Weekly Markets Changes

[September 15, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,173.03 +187.7 +1.25%	2,500.23 +38.80 +1.58%	22,268.34 +470.6 +2.16%	6,448.47 +88.28 +1.39%	$0.8198 -0.26c -0.32%	$1,320.18 -26.42 -1.84%	$49.89 +2.02 +4.22%

2. Household debt continues to rise faster than income: StatsCan

[September 15, 2017] Canada was richer overall at the end of the second quarter, says Statistics Canada. The country's national wealth — the value of non-financial assets in the Canadian economy — edged up 0.1%, and the value of Canada's international financial assets continued to exceed liabilities (as of Q2, Canada's net foreign asset position rose by $25.7 billion to $271.5 billion, a fourth consecutive quarterly advance).

But there are issues.

For example, says Statistics Canada, "Household residential real estate grew by $4.5 billion, the smallest increase since the first quarter of 2009 […]." The agency points to "lower real estate prices and less activity in the resale market," due in part to changes implemented by the Government of Ontario to dampen housing market growth.

And even though household net worth dipped but remained stable over the same period, Canadians continue to borrow without upping the debt servicing ratio. Statistics Canada says non-financial assets grew at a faster pace (+0.3%) than financial assets in the second quarter (+0.1%), but that total financial liabilities increased 1.9% over the same period.

Household credit market debt as a proportion of household disposable income increased to 167.8%, up from 166.6% in the first quarter. At the same time, household income (+1.2%) rose at a slower pace. As a result, says

Statistics Canada, "[…] there was $1.68 in credit market debt for every dollar of household disposable income."
Total household credit market debt includes consumer credit, mortgage and non-mortgage loans, and totalled nearly $2.08 trillion in the second quarter. Mortgage debt increased 1.6% to $1.36 trillion, while consumer credit grew 2.4% to $609.6 billion.

3. Fewer foreign buyers purchasing properties in Toronto

[September 14, 2017] The latest home sales data show a drop in the number of purchases by non-Canadians in an Ontario region that includes Toronto and is subject to a foreign buyer tax.
The 15% tax was imposed in April on buyers in the Greater Golden Horseshoe area — stretching from the Niagara Region in Ontario to Peterborough, Ont. — who are not citizens, permanent residents or Canadian corporations.
The government previously released data from April 24 to May 26, which showed that about 4.7% of properties were bought by people who aren't citizens or permanent residents.
The latest set of numbers covers May 27 to Aug. 18 and it shows the percentage of foreign transactions in the region dropped to about 3.2%.
Finance Minister Charles Sousa says that the measures in the government's housing plan — which include the tax — are working.
York Region saw the highest percentage of foreign buyers in that three-month time period, with those transactions representing 6.9% of the sales, and in Toronto that number was 5.6%.
The new figures also looked outside the Greater Golden Horseshoe region, and in the first month of the tax foreign transactions represented 1.5% of sales, while in the following three months it was nearly the same, at 1.6%.
The foreign buyer tax was one part of a 16-part housing plan the government introduced as the housing market in the Toronto area and beyond saw year-over-year price increases of over 30%.
The tax applies to purchases made on or after April 21, though there are exemptions for refugees, foreign nationals under the Ontario Immigrant Nominee Program, or if the property is jointly purchased with a spouse who is a Canadian citizen, permanent resident, refugee or exempt under the Ontario Immigrant Nominee Program.
Rebates will be available to people who subsequently get citizenship or permanent resident status, as well as foreign nationals working in Ontario and international students.

4. Expect ‘significant’ increase in bond yields: economist

[September 13, 2017] What a difference a year makes.

Not long ago, investors were asking how low rates could go. Now, with most central banks in neutral or tightening mode, investors are asking the opposite. Despite action from central banks, long-term bond yields are so far unimpressive.

“The significant change in tone by several central banks has had little impact on the financial markets,” says senior economist Mathieu D’Anjou in a Desjardins economics report. “Even in the United States, where the Fed raised its key rates by 1%, the 10-year yield is staying near 2%.”

The problem is real yields are low, with the real 10-year yield “hovering at around 0.50%, which is a far cry from the yields of 2% or higher commonly seen in the early 2000s,” says the report. “After rebounding into positive territory in late 2013, real 10-year yields have not shown an upward trend since the Fed began its key rate hikes in December 2015.”

As short-term yields rise, however, long-term yields should eventually follow suite.

“It would not be logical for lenders to accept a lower real yield on 10-year bonds than on one-year bonds, unless they are counting on an imminent recession,” says the report.

Over the past year, the yield curve flattened significantly — an unsustainable trend, particularly since the supply of U.S. bonds is abundant.

“In addition, the Fed’s estimates show that the term premium on a 10-year bond, which reflects the part of the bond yield that cannot be explained by anticipations over short-term rates, is already negative, and an additional drop would be surprising,” says the report.

Monetary policy outlook

To assess the future of monetary policy, the report discusses the theoretical concept of the neutral rate, defined as the rate that maintains an economy operating at its full capacity, as well as maintains inflation at the level targeted by the central bank once cyclical influences have dissipated.

The neutral rate thus indicates when central banks should end monetary tightening.

While there’s uncertainty surrounding the exact value of neutral rates, “the weight of evidence suggests that they are at least 2.5% in nominal terms,” says the report.

At that value, assuming economic growth and inflation both rise as expected, the Fed and BoC can “continue to gradually raise their key rates in the coming

quarters without worrying about implementing a contractionary monetary policy."
That means "a significant increase in long-term bond yields in the next few quarters."

5. Result of Ontario's minimum wage hike? Job losses, says FAO report

[September 12, 2017] Ontario's proposed minimum wage hike could result in more than 50,000 job losses, says the Financial Accountability Office (FAO) of Ontario in a new report.

As part of Bill 148, the Fair Workplaces, Better Jobs Act, 2017, says the FAO, the government proposed in July to raise Ontario's general minimum wage from its current rate of $11.40 per hour to $14 per hour on January 1, 2018 and $15 per hour the following year.

The problem, says Financial Accountability Officer Stephen LeClair, is that could result in job losses that are concentrated among teens and young adults.

As the report notes, the minimum wage increase might provide greater incentive for businesses to "reduce costs more aggressively."

The report says the new policy would increase the number of minimum wage workers in Ontario from "just over 500,000 to 1.6 million in 2019."

It could "also lead to 'spillover' effects that would result in higher wages for workers earning just above the new minimum wage," the report adds, citing FAO assumptions and a paper from 2000 called The Effects of Minimum Wages Throughout the Wage Distribution.

Groups representing both small and large businesses across Ontario have said the minimum wage increase would lead to layoffs.

6. B.C. budget hikes tax on rich

[September 12, 2017] British Columbia's minority New Democrat government says it is starting to build the province all residents want, tabling a budget update that promises to hire 3,500 teachers and build rental units and homes for the homeless — while hiking taxes at the top end.

The budget includes tax measures that lowers the corporate income tax rate for small business to 2% from 2.5%, but increases the general corporate tax rate from 11% to 12%.

The personal income tax rate will jump from 14.7% to 16.8% for those earning $150,000 and over.

Jock Finlayson, B.C. Business Council vice-president, said the business community expected the tax changes as they were part of the NDP's election platform, but "this budget isn't going to create a lot of new investment."

He said the increase in personal income tax, coupled with federal government tax changes, could result in B.C. businesses not being able to attract top-job candidates.

Surplus forecasted

Finance Minister Carole James said Monday the government's first budget document puts people first after 16 years of Liberal rule where families, students and seniors struggled.

The government forecasts a surplus of $246 million this year and economic growth of 2.9%, up from the 2.1% projected in last February's budget.

The New Democrats formed a minority government last June after the May election did not produce a clear winner in the 87-seat legislature. The NDP, with 41 seats, and the Greens with three seats, combined their seat totals to oust the Liberals in a non-confidence vote.

"The budget really does invest in people to invest in B.C.," James said in a briefing before introducing the budget in the legislature.

"I am a big believer that a budget does not stand alone," she said. "A budget is a tool to make sure the people of this province who built our economy benefit from the economy."

The updated budget confirmed many of the NDP's spring election promises, but other major pledges appeared to be under review and considered works in progress.

Carbon tax

B.C.'s carbon tax, currently at $30 a tonne, will increase by $5 per tonne on April 1, 2018, James said. The $5 annual increases ensure B.C.'s carbon tax reaches the federal goal of $50 a tonne a year before Ottawa's 2022 deadline for a set carbon price agreement across Canada.

She also said the carbon tax will no longer be required to be revenue neutral and the expected $1.2 billion in revenues this year will fund government programs rather than tax measures.

"We will use carbon tax revenue to support families and fund green initiatives to address our climate action commitments," said James.

Green Leader Andrew Weaver said he supports the increase and the move to drop revenue neutrality, saying the government could use the money to fund transportation initiatives.

James acknowledged the government's plan for a universal, $10-a-day child-care program and its promised $400 subsidy for renters are currently in planning stages and may be more fully addressed in the government's budget this February.

"We will implement programs and services as we are able," she said. "You can't turn back the clock on 16 years overnight. That's not possible."

The Canadian Centre for Policy Alternatives said investing in affordable housing and offering start-up funding for a poverty reduction strategy are welcome changes, but delaying work on the child-care promises raises concerns.

"The question is how ambitious their plan is going to be," said economist Iglika Ivanova. "I'm expecting to see a lot more in the budget in February."

James said the government will invest $681 million over three years to hire more teachers and provide services for students.

A Supreme Court of Canada ruling last year ordered B.C. to reinstate classroom composition rights taken away from the B.C. Teachers' Federation about 15 years ago.

The budget update contains immediate housing initiatives for renters and the homeless and housing will remain a major focus of February's budget.

She said the government will spend $208 million to build 1,700 affordable rental housing units and $291 million to build 2,000 modular housing units for homeless people.

"Putting people first is our government's priority, and we're working on a comprehensive strategy to improve housing affordability, close speculation loopholes and reduce tax fraud and money laundering in B.C. real estate," James said in her speech to the legislature.

She said the government will cut Medical Services Premiums by 50 per cent in January and the government's promise to increase income and disability assistance by $100 a month are budgeted at $472 million.

Opposition Liberal finance critic Shirley Bond said the budget did not contain a jobs plan or an economic agenda.

"Today we see the NDP delivered a plan to spend," she said. "There was no single mention of a jobs plan."

7. Ont., B.C. housing correction won't disrupt labour markets: DBRS

[September 12, 2017] A new report says the real estate boom in Ontario and British Columbia has been a boon for housing-related jobs, but a home-price correction won't trigger a major bust for the labour markets in those provinces.

DBRS says in a report today that the hot housing markets in B.C. and Ontario boosted job growth over the last decade in sectors such as construction, home-related retail and real estate by 28% — faster than other parts of Canada.
The ratings agency says if house prices fall dramatically, other sectors of the economy should be able to absorb those jobs thanks to strong economic growth and steady population gains.
"Ontario and B.C. do not exhibit the clear labour market imbalances seen in some U.S. states during the U.S. housing boom," says the report. "Housing-related job growth has been substantially lower in Ontario and B.C. than in the boom states. In addition, strong demand for housing in Ontario and B.C., driven by economic expansion and population gains, appears to provide a firmer foundation for housing-related employment growth."
But risks remain.
"A sharp and sustained fall in home values could weaken bank asset quality and generate adverse wealth effects for households, all of which could dampen consumption and investment," the report says. "An external shock that results in an economic downturn could amplify the adverse effects of the housing market correction and create negative feedback loops that further dampen economic activity."
That being said, "a correction in housing prices in Ontario and B.C. in isolation is unlikely to cause major disruption to their local jobs markets."

8. Why there's too much love for the loonie

[September 11, 2017] The loonie gained 2% last week, after the BoC hike and on general U.S. dollar weakness.
As a result, "Commodities benefited [and] oil gained slightly, while precious metals gained +1.5%," says Prab Sagoo, associate director at Nasdaq Advisory Services, in his latest weekly update. Year-to-date, the loonie's looking at a 10% increase.
However: "Currency markets shouldn't dismiss what was a very poor trade report for July," says senior economist Andrew Grantham in a weekly CIBC economics report. Consequently, the export gains made in the first half of the year vanished.
In Canadian dollar returns, exports fell by 4.9% month over month, and imports fell by 6%. In volume terms, exports fell by 1% and imports fell by 2.3%. "More of the decline in export and import values was therefore due to lower prices," notes Derek Holt, vice-president and head of capital markets economics at Scotiabank, in commentary last week.

The dip can't be written off as related to weaker commodity prices or impacts from B.C. fires, says Grantham, as Alberta and B.C. saw smaller trade dips than the other large provinces.

"Overall, there are few excuses, and this could be the first sign of a slowdown in the economy, which will see the BoC turn less hawkish and result in USDCAD moving back toward the 1.30s," he says.

While one month doesn't make a trend, non-commodity export volumes have stagnated over the past seven years, says Benjamin Reitzes, Canadian rates and macro strategist at BMO Capital Markets, in a weekly economics report. Perhaps the currency's level doesn't have as big of an impact on trade as it once did, he suggests.

"Consider that the loonie traded around parity from 2010 to early 2013 before weakening consistently and hitting its cyclical nadir in early 2016, amid a global market meltdown," he says. "And yet, there was no major progress or setbacks for non-commodity exports over that period."

But that doesn't mean there's no impact.

"The biggest quarterly trade deficit in history came in 2016Q2 when the loonie surged 6.7%," he says.

The loonie is on pace for a similar gain this quarter, and July's trade shortfall means the gap for the quarter could be significant — and possibly set a record.

"The already sizeable current account deficit looks poised to worsen, reinforcing that the currency is already overvalued and going in the wrong direction," he concludes.

Have a nice and fruitful week!