Weekly Updates Issue # 661

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1. Weekly Markets Changes

[April 27, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,668.93 +184.6 +1.19%	2,669.91 -0.23 -0.01%	24,311.19 -151.8 -0.62%	7,119.80 -26.33 -0.37%	$0.7778 -1.60c -2.02%	$1,324.00 -12.36 -0.92%	$68.10 +0.04 +0.06%

2. TSX closes hours early due to technical problems

[April 27, 2018] The Toronto Stock Exchange and Montreal Exchange have shut down early for the day as a result of technical problems that erupted about 2 p.m.
The Toronto-based company that owns the exchanges announced the unusual decision through Twitter.
A spokeswoman for Toronto-based TMX Group said the company was investigating the cause of the disruption but would be confining its comments to its social media feed.
The first tweet was sent out about 2 p.m., with two hours remaining in the normal trading day.
A later update said TMX had decided to shut down all markets for the remainder of the day and apologized for the inconvenience.

3. TD, RBC raising five-year posted mortgage rates

[April 27, 2018] Two of Canada’s biggest banks are raising their benchmark rates for five-year, fixed-rate mortgages.
TD says as of Wednesday it increased its posted rate for five-year fixed mortgages to 5.59% from 5.14%.

Mortgage planner and rate comparison website founder Robert McLister says the increase is "unusual" as the benchmark rate hasn't seen a jump of 45 basis points or more since March 2010.

TD spokeswoman Julie Bellissimo says a number of factors are considered when determining rates including the competitive landscape, the cost of lending and managing risk.

Meanwhile, Royal Bank spokesman AJ Goodman says the lender plans to raise its posted rate for a five-year fixed mortgage on Monday to 5.34% compared with the 5.14% currently posted.

McLister says the actual rates banks offer to borrowers are not seeing an increase, but notes the Bank of Canada uses the posted rates at the big banks to calculate the rate used in stress tests to determine whether homebuyers qualify for loans.

4. Why first-time homebuyers—especially millennials—are struggling

[April 26, 2018] Preparing to buy a home is an exciting experience, but also a stressful one. In Canada, home prices and sales activity dipped in March, on average—by 10.4% and 22.7%, respectively—but prices remain sky-high in many regions and Canadians are still struggling with debt.

At the very least, people are unsure how to save for a home, according to a new TD survey that polled, in February, 1,001 adults who were identified as first-time homebuyers. It revealed many of those surveyed aren't taking the steps needed to prepare when purchasing a home, given just 39% are reducing their debt and less than one-third (28%) are working to improve their credit scores.

Further, seven out of ten respondents (71%) said they worry about being hit with unanticipated costs during the homebuying process.

While many homebuyers save for down payments, that's just one item to prioritize, says Marc Kulak, vice-president of TD Bank Group, in a release. "For example, when you prepare to have kids, there are numerous steps and stages you go through to help prepare for their arrival. But when it comes to buying your first home, first-time buyers often enter the process with lots of unanswered questions."

Indeed, lack of knowledge about the home-buying process was a concern for those polled. More than half (56%) are anxious about forgetting to take a crucial step, and nearly one-quarter (24%) said the process was stressing them out. One-fifth (21%) admitted they were overwhelmed.

Millennials' worries and budgets

While Canadians aged 18-37 who rent or live with family dream of owning a home, few are on track to make it a reality, says a CIBC survey that polled 1,471 randomly selected Canadian adults in that age range in March.

Nearly half (46%) of those who intend to buy plan to do so within the next five years, but 76% haven't started to save or have only accumulated less than one-quarter of their down payments, the survey finds.

Grant Rasmussen, senior vice-president of mobile advice at CIBC, says in a release that higher house prices, the prospect of higher rates, and new qualifying rules for mortgages are the main barriers for millennials, causing them to "pause and question whether being a homeowner is realistic or even desirable for them."

So, while 46% of respondents felt renting is a waste of money and 49% want to own to a home to start a family, many millennials aren't taking the leap.

What's important, the survey stresses, is that young, aspiring homeowners understand the costs they'll face when they do. Even if they feel renting is a waste, they need to know that their home-owning peers spend as much as 50% more per month on housing costs than renters do, and more than half (51%) admit they didn't realize what the total costs would be.

The good news is millennial homeowners still manage to save more each month than renters or live-at-homers, on average, the CIBC survey says: the former group saves $566, compared to $368 or $360, respectively.

Further, young homeowners that were polled said they'd amassed an average nest-egg of just over $60,600—more than double that of their peers who rent or live at home.

This is a surprise, says CIBC, since those who rent have fewer housing expenses. Yet, only 18% of renters and live-at-homers who intended to buy a home had met with a financial expert, and less than half (45%) had set a monthly budget.

What are millennials paying for homes?

There are significant disparities in the types of properties young homebuyers can afford in the country's largest cities, says Royal LePage in a Thursday release.

With an average salary of $38,148 in 2016, according to Statistics Canada data, millennials typically have a maximum home-buying budget of $203,246. This amount factors in a 20% down payment and the impact of OSFI's new stress test, which has reduced the average peak millennial's purchasing power by approximately 16.5% or $40,103. (The term peak millennial was coined by U.S. economist Dowell Myers and describes the cohort born between 1987 and 1998.)

The challenge is that amount is far below the aggregate Canadian home value of $605,512, a figure from Royal LePage's National Home Price Composite from Q1 2018. As a result, millennials are either biding their time or looking for creative solutions to finance a home purchase, the Royal LePage release says.

"In our largest cities, it is difficult for young people to purchase a home on a single household income," says Phil Soper, president and CEO at Royal LePage, in the release. "Some will purchase homes with family or friends, and some are following the age-old practice of saving money and waiting until they can effectively double their maximum budget with a life partner."

With a partner, peak millennials have "a combined average maximum budget of $406,479, exclusive of any help from the bank of mom and dad," the release says. For that amount, on average in Q1 2018, couples could find homes with 2.7 bedrooms, 1.8 bathrooms and nearly 1,300 square feet of living space.

Of course, that varied by region, with Vancouver and Toronto offering smaller spaces for that price—typically, entry-level condos. Halifax "delivered the biggest bang for a peak millennial's buck, offering them an average of 3.1 bedrooms and [three] bathrooms," the release says.

Greater Vancouver was Canada's most expensive market, where high prices have pushed many peak millennials into suburbs such as Coquitlam, Langley and Surrey.

5. Story behind spiking oil prices, greenback appreciation: report

[April 26, 2018] Oil prices are surprising to the upside lately, hitting their highest levels since 2014, say Desjardins economists in a Thursday report.

West Texas Intermediate (WTI) closed at US$68.01 on Wednesday while Brent Crude closed even higher at US$74.06.

"One might wonder what is behind this increase when the dramatic surge in U.S. crude production signalled just recently a balanced global oil market and the price of WTI staying at around US$60 a barrel," says the report.

The answer, the economists explain, is "worries have surfaced about the Organization of the Petroleum Exporting Countries (OPEC) oil supply, which explains the recent rise in oil prices." While "most analysts" had called for OPEC production to remain steady, a "sharp drop" in Venezuela's production has affected activity.

The extra hurdle is other OPEC members may not be willing to pick up the slack, "particularly Saudi Arabia," the report says, adding that markets are

now worried about the after-effects of “another supply shock” that could further derail oil market stability.
The economists say they’re “now banking on the WTI price to remain close to US$65 a barrel in the coming quarters. In addition, the risk to this scenario is on the upside for the short term if new sanctions are imposed on Iran,” leading up to the May 12 OPEC meeting.

U.S. dollar news

In a separate Thursday report, Desjardins experts highlight the recent appreciation of the greenback.
“Greenback appreciation is widespread across all major currencies and is consistent with the surge in bond yields observed since about mid-April,” that report says. “This surge was stronger in the United States, benefiting the currency.”
The major driver of this development is renewed confidence in the U.S. Federal Reserve, the report adds. “Not so long ago, many doubted that the Federal Reserve would announce three increases of 25 basis points in its key rates during the year. Now, analysts are increasingly starting to consider a scenario with four hikes.”
The loonie isn’t on the same path, given “Continued monetary tightening remains uncertain in Canada.” While rising oil prices are providing a boost, the report says, economic and global trade risks are weighing on the currency.
The Desjardins economists expect the U.S. dollar to lose momentum as “monetary tightening is set to become widespread,” while the loonie “is expected to hold its own in the short term, provided that the risks hovering over the Canadian economy fade and the BoC continues its monetary tightening.”

6. Canada’s debt-to-income ratio will stabilize: BOC’s Wilkins

[April 24, 2018] Speaking before a parliamentary committee, senior deputy governor Carolyn Wilkins said she expects the country’s high levels of household debt relative to disposable income to gradually start winding down.
The central bank is seeing a slowdown in credit growth for both mortgages and other forms of household debt at a time when labour income is moving higher.
Wilkins says, over the coming years, the ratio of household debt to disposable income should stabilize—although she expects it to take time, since the accumulation itself was a long process.

The latest figure for the household debt ratio shows Canadians' burdens have remained in record-breaking territory at 170.4%, which translates to just over $1.70 in debt for every dollar of disposable income.

The reading for the final three months of 2017 was a slight decrease from the ratio's historical peak of 170.5% in the previous quarter, a downturn some analysts believe could suggest Canada's debt growth may have turned a corner.

Wilkins says the debt buildup has included asset purchases such as housing, meaning Canadians have also benefitted from higher net worths—which she believes is a more reassuring story.

The debt ratio is a popular measure for policy-makers, but some experts see it as just one number out of many. They insist consideration must also be given to the composition of the debt, such as how much of it is high-risk.

"Household debt to income has been rising for quite a number of years and, in fact, since the early 2000s," said Wilkins, who appeared at the committee alongside Bank of Canada governor Stephen Poloz.

"And so, for what took such a long time to build up, it's going to take a bit of time to wind down."

The ratio has been steadily rising since 1990, when it was 90%.

The Bank of Canada has carefully assessed the economic risks of consumer debt in order to determine how quickly it can raise interest rates without piling on too many debt-servicing costs for over-stretched households. The central bank, which has raised rates three times since last July, has called Canadians' debt burdens an area of top concern.

On Monday, Poloz said Canadians' high debt loads have likely made households 50% more sensitive to interest rate movements.

In his opening remarks to the committee, Poloz shared the central bank's "concern" that as interest rates rise and a greater share of household income goes toward servicing debt, less money to spend on other goods and services could put downward pressure on inflation.

"It will take more time to assess this issue, particularly because new mortgage guidelines are currently affecting the housing market and mortgage lending," he said, according to speaking notes. "However, the growth of household borrowing is slowing, which is consistent with the idea that consumers are starting to adjust to higher interest rates and new mortgage rules."

Poloz also told the committee that the Canadian economy's expected 2% growth this year should rely less on household spending and more on business investment and exports.

7. Feds to post deficits $8B bigger than expected in next 2 years: PBO

[April 23, 2018] The Trudeau government is on track to run deficits nearly $8 billion deeper than expected over the next two years, the federal budget watchdog said Monday in a new report.

The parliamentary budget officer estimated the Liberals will post a $22.1-billion shortfall this fiscal year, which would be $4 billion more than the projection of $18.1 billion in the federal government's February budget.

For 2019-20, Jean-Denis Frechette's team predicted a $21.4-billion deficit, $3.9 billion higher than the government's forecast of $17.5 billion.

"We believe that the deficit is going to rise somewhat above what the government was assuming in the budget," Mostafa Askari, the deputy parliamentary budget officer, said in an interview.

The report's release comes two months after the Liberal government introduced a budget that predicted deficits across the planning horizon, until 2022-23, with no timetable to return to balance. During the 2015 campaign, the Liberals had vowed to keep annual deficits at no more than $10 billion and to balance the books by 2019.

Finance Minister Bill Morneau has argued the shortfalls will help Canada make investments to raise long-term economic growth.

Any hope of returning to the black any time soon are remote, the budget office said Monday. It predicted there's approximately a 5% chance the federal budget will be balanced or will show a surplus in 2020-21.

Big spend includes Canada Workers Benefit

The blows to the federal bottom line will come from several sources, the independent budget office said.

"Our higher deficit forecast largely reflects our higher projections for public debt charges, direct program expenses and children's benefits," the PBO wrote in its report.

The analysis predicted the government will spend a total of $19.5 billion more than it had forecasted in the budget to service the federal debt between 2017-18 and 2022-23. Askari noted the discrepancy between the estimates is mostly due to the fact the PBO used a higher projected interest rate for its calculation than the budget predicted.

The government's fiscal position is also expected to take a hit—a total of about $1 billion over the next five years—from a higher-than-anticipated cost for its budget commitment to expand benefits for the working poor, through its Canada Workers Benefit. The details were included in a separate report also released Monday by Frechette's office.

The federal budget projected the Canada Workers Benefit, a rebranded version of a program introduced by the Harper government, to have a fiscal impact of about $831 million between 2018-19 and 2022-23. The PBO believes Ottawa has underestimated the program's cost and that it will come in at $1.84 billion over that period.

Most of the extra cost, the PBO said, will come from the government's effort to make more people eligible for the benefit and a change to allow the Canada Revenue Agency to automatically enrol those who qualify. That tweak alone is expected to add 300,000 more workers.

Effects of carbon and cannabis

The PBO also predicted the federal government's forthcoming carbon tax would lower the country's real gross domestic product by 0.5%, or $10 billion, in 2022.

The carbon price is set to rise from $10 per tonne per year until it reaches $50 per tonne in 2022.

"Implementation of the federal government's carbon pricing levy will generate a headwind for the Canadian economy over the medium term," Frechette's report said.

To make its assumption, the budget office based its estimate on an analysis by the Ecofiscal Commission.

"The carbon levy will generate significant revenues over the medium term," the PBO said. "As has been noted by the Ecofiscal Commission, the impact on the economy will depend on how those revenues are used."

Among Monday's projections, the PBO also predicted that over the next five years, Canada would generate about $70 million less in revenue from cannabis taxation than the federal government is expecting.

8. Big banks weigh in on inflation, bonds, rate hikes

[April 23, 2018] The yield on the 10-year Treasury is closing in on 3%—a threshold that's been crossed only briefly in the past seven years. Canadian 10-years are also up, by roughly 30 basis points so far this year.

A contributing factor to rising yields in both the U.S. and Canada is a "quiet upward drift in both headline and core inflation," says BMO chief economist Douglas Porter, in a weekly financial digest. Last week, StatsCan reported that Canada's inflation rate hit 2.3% in March.

Though Porter doesn't foresee a looming "big bounce" in inflation, he says that "the risks of such a bounce have clearly increased." For example, adding to inflation pressures are strong oil prices and global trade tariffs.

Analyzing the data, RBC senior economist Nathan Janzen says in an economic update that recent trends underlying inflation are stronger than year-over-year rates imply. “Month-over-month gains in ex-food-and-energy prices have averaged 2.9% at an annualized rate over the last six months,” he says. “That’s the highest in 15 years.”

He expects economic data to continue to improve enough to justify “further modest removal” of monetary policy stimulus.

Though Porter’s not bearish on bonds, “the underlying upward [yield] trend will stick for some time,” he says. The 10-year Treasury will inevitably pierce 3% soon, and Canadian 10-years will likely return 3% by late next year, says Porter—especially if NAFTA news continues to improve.

He’s calling for two more rate hikes from the Bank of Canada, with the next one likely coming in July.

In a monthly fixed income report, Paul-André Pinsonnault of National Bank says that once uncertainties about NAFTA and housing lift, the BoC may “quickly deliver a rate hike.” He forecasts two more hikes in 2018, with Canadian 10-years trading at 2.68% by year-end.

In contrast, CIBC’s call is for one more hike.

Referring to the BoC’s revised forecasts for GDP in its April monetary policy report, CIBC economists Katherine Judge and Andrew Grantham say in a weekly economics report, “A sizable downward revision in expected Q1 growth, from 2.5% to 1.3%, along with upward revisions to potential real GDP growth, suggests the [central] bank thinks there is more slack to chew through than previously envisioned. That will work to tame near-term rate hike expectations.”

They expect a sole remaining hike in July, adding that “the revisions should calm investor appetite for the loonie.”

TD senior economist James Marple expects at least one more BoC hike this year, saying in a weekly economics report that some economic data suggest upside to the central bank’s dreary outlook for Q1 GDP, such as recent readings for manufacturing sales and retail sales volumes.

“The data support the notion that growth will rebound convincingly in the second quarter, something the data-dependent central bank is looking to see for confirmation that further increases in its key interest rate are warranted,” says Marple. “On balance this supports the case for at least one more hike this year, which we expect to come in July.”

Scotiabank also forecasts the next hike for July, but says strong economic data are worth watching closely. “The May 30 [BoC] meeting remains live on the back of the broad set of figures with a lot of information on fundamentals, prices and NAFTA ahead of us over the next six weeks,” says Derek Holt,

vice-president and head of capital markets economics at Scotiabank in an economics report. Scotiabank forecasts two more hikes this year, as indicated in its forecast tables.

9. February wholesale numbers disappoint

[April 23, 2018] Wholesale sales declined 0.8% to $62.8 billion in February, reports StatsCan. That's the largest downward movement and the second monthly drop since September 2017, and was below consensus.

Lower sales were recorded in four of seven subsectors, representing 64% of total wholesale sales. The miscellaneous and motor vehicle and parts subsectors contributed most to the decline.

In volume terms, wholesale sales decreased 0.9% from January to February.

The soft February reading will "go down as yet another disappointment in the components for Q1 GDP," says CIBC chief economist Avery Shenfeld in emailed commentary to clients.

Though the reading isn't likely to move markets, Shenfeld says that "it does feed into what has been a more cautious trend for both growth and Bank of Canada rate expectations."

Have a nice and fruitful week!

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