Weekly Updates Issue # 663

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1. Weekly Markets Changes

[May 11, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,983.32 +253.9 +1.61%	2,727.72 +64.30 +2.41%	24,831.17 +568.66 +2.34%	7,402.88 +193.3 +2.68%	$0.7825 +0.50c +0.64%	$1,314.50 +4.80 +0.37%	$69.79 +0.72 +1.03%

2. Unemployment steady at 5.8% as wage growth reaches six-year high

[May 11, 2018] Wage growth hit its highest level in nearly six years last month as the economy posted a slight net loss of 1,100 jobs and an unemployment rate that held steady at 5.8%.

Statistics Canada released a new jobs report Friday that showed average hourly wages in April were 3.6% higher than they were a year earlier. It was the monthly reading's largest annual increase since October 2012.

The indicator, which is closely monitored by the Bank of Canada ahead of its interest-rate decisions, posted an annual increase of 3.3% in March.

Signs that wage growth is strengthening could nudge the central bank closer to raising its trend-setting rate. The bank's next rate decision is scheduled for May 30.

Overall, the decline in jobs last month was so small the federal agency did not consider it statistically significant.

The unemployment rate stayed at its record low of 5.8% for a third-straight month. It matches its lowest mark since the agency started measuring the indicator in 1976.

The participation rate, however, edged down in April to 65.4%, from 65.5% in March, as fewer people looked for work.

The agency said the economy produced 28,800 full-time jobs last month and shed 30,000 part-time positions. The country also saw a decrease of 13,600 positions in the country's public sector, while the number of private-sector jobs rose by 28,000.

The goods-producing sector shed 15,900 positions, mostly in construction. Services sectors, meanwhile, created 14,800 jobs following big increases in professional, scientific and technical services as well as accommodation and food services.

The youth unemployment rate increased in April to 11.1% following a net gain of 17,700 new jobs. The labour force participation rate for youth slipped to 63.4% from 63.8%.

Compared with 12 months earlier, employment was up 1.5% following the creation of 278,300 jobs, which was fuelled by 378,300 new full-time positions.

"Canadian employment disappointed on the headline, but the details were fairly solid and shouldn't do much to change expectations regarding the Bank of Canada and future rate hikes," said Andrew Grantham, senior economist at CIBC Capital Markets, in a note. CIBC is forecasting an interest rate hike in July, added Grantham.

3. BoC raises 5-year mortgage rate to 5.34%

[May 10, 2018] The bar is now higher for homebuyers to qualify for mortgages in Canada after the central bank raised a key metric used in stress tests that determine borrowers' eligibility.

The BoC raised the conventional five-year mortgage rate from 5.14% to 5.34% after all Big Six banks raised their posted five-year fixed mortgage rates in recent weeks.

The central bank qualifying rate is separate from the actual mortgage rates offered by banks to borrowers, but is used to assess homebuyers who are seeking loans.

Homebuyers with less than a 20% down payment who are seeking an insured mortgage must qualify at the central bank's benchmark five-year mortgage rate.

And, as of Jan. 1, buyers who don't need mortgage insurance are required to prove they can handle payments at a qualifying rate of the greater of the central bank's five-year benchmark rate or two percentage points higher than the contractual mortgage rate.

"Mortgage borrowers will be qualifying for less than they were able to earlier this year," mortgage broker Samantha Brookes writes in an email. "With all

the new rule changes, we've definitely noticed the effect on the market with home purchases, renewals and refinances."

The higher rates come as an estimated 47% of all existing mortgages will need to be refinanced in 2018, up from the 25%-to-35% range in a typical year, according to a recent CIBC Capital Markets report.

The increase is an unintended consequence of various rounds of regulatory changes in the past few years aimed at reducing risk coupled with rising house prices that made it harder for homebuyers to qualify.

Borrowers who find the bar too high for the home they want can make some adjustments in order to make a purchase, Brookes adds. Those options include purchasing a smaller home and taking on less mortgage, or purchasing where prices are lower, notes Brookes, who is founder of Mortgages of Canada.

Canada's largest lenders raised their benchmark posted five-year fixed mortgage rates in recent weeks as the cost of borrowing rises.

In late April, TD Bank was the first of the Big Five lenders to raise the benchmark rate, increasing it from 5.14% to 5.59%, due to factors including the "competitive landscape, the cost of lending and managing risk." Royal Bank of Canada, Canadian Imperial Bank of Commerce, National Bank of Canada, Bank of Montreal and the Bank of Nova Scotia followed suit, but with smaller increases.

The slew of bank moves was preceded by a rise in government bond yields. The yield on the Government of Canada benchmark five-year bond was 2.16% on Tuesday, compared to 1.01% a year earlier.

Fixed-rate mortgages tend to move with government bond yields of a similar term, reflecting the change in borrowing costs.

4. Loose fiscal controls lead to blown budgets: C.D. Howe Institute

[May 10, 2018] Over the last 15 years (from 2002/03 to 2017/18) Canada's federal, provincial and territorial governments have regularly missed budget spending and revenue targets, with spending overshoots of $69 billion combined.

So finds a report from the C.D. Howe Institute, which also reveals a consistent lack of fiscal accountability by Canada's senior governments.

Report authors William B.P. Robson and Farah Omran compare the expenses and revenues projected in the budgets of Canada's senior governments at the beginning of the years in question with the results they reported in their public accounts after the end of those years.

This comparison highlights persistent spending overshoots and cumulative revenue overrun, adding up to $104 billion—that equals much more tax collected than prefigured in budgets.

"Canadian governments miss their targets in predictable ways: expenses and revenue typically come in above what the budgets promised," says Robson. "Had they delivered on the past budget commitments, Canadians would now enjoy lower taxes and smaller governments."

Expenses

Ottawa's average overshoot of 0.5% annually is less than the overruns seen in the other 13 governments assessed. Ontario and Nova Scotia come second at 0.7%, followed by Quebec and New Brunswick, which both had average overshoots of 1%.

Saskatchewan and Alberta had the largest—3.4% and 3.9%—among the provinces. For the territories, Yukon and Nunavut had the worst average overshoots of all: 5.5% and 5.7%, respectively.

The Institute's annual Pinocchio index further details the cumulative spending overshoots.

Revenues

Ontario was the only jurisdiction to undershoot its revenue projections over the 15-year period measured.

Ottawa, Nova Scotia, New Brunswick and PEI had the smallest overshoots: 0.8% or less annually. Not surprisingly, provinces more dependent on natural resource revenues overshot by more: Alberta, Saskatchewan, and Newfoundland and Labrador were among that group.

Canada's senior governments have improved their stewardship of public money during the past 15 years, the C.D. Howe report says, but their tendency to overshoot most of the time is a concern.

So, too, is an annual pattern of spending surprises that coincide with revenue surprises, the report says. This suggests governments are spending windfalls and managing their bottom lines.

The authors recommend several steps to improve fiscal controls of public finances at the federal, provincial and territorial level. These include:

- more timely estimates presented in the context of the government's fiscal plan;
- a stronger role for legislative committees that authorize spending; and
- faster and more frequent publication of actual expense and revenue results.

"Control of public funds in Canada is looser than it should be," says Omran. "Senior governments should improve the quality of their budget forecasts and

their adherence to those forecasts, and legislators and voters should hold them accountable for doing so.”

5. Luxury home sales down, but prices resilient

[May 10, 2018] Luxury home sales in Greater Vancouver and the Greater Toronto Area (GTA) fell significantly in the first four months of the year, but prices have remained relatively resilient, according to a Royal LePage report. Overall sales activity declined in Greater Vancouver and the GTA luxury real estate market as both sellers and buyers adjusted to federal and provincial measures affecting both domestic and foreign buyers.

The introduction of the new mortgage stress test implemented by OSFI at the beginning of 2018 has created market turmoil, for example, causing buyers to move to the sidelines to gauge the impact on luxury home prices.

This was also witnessed in the residential resale market, says Royal LePage.

More significantly, the 2018 provincial budget in B.C. included policies targeting foreign and domestic buyers who do not pay tax in the province. It also included a tax increase for all homes valued at more than $3-million through increases to the property transfer and school tax.

Similarly, the non-resident property tax included in Ontario’s 16-Point Fair Housing Plan, which first came on the scene in April 2017, has dampened price expectations for the GTA region.

What about prices?

The Greater Montreal Area posted the largest year-over-year price gain in the detached luxury home segment in the first four months of 2018, increasing 9.1% to $1,569,515 in the first four months of the year.

During the same period, detached luxury homes in Ottawa (6.3%) and Greater Vancouver (5.2%) also saw prices rise, while home values in Calgary (0.6%) and the Greater Toronto Area (-0.2%) remained flat.

“Home prices in Canada’s luxury real estate market have remained remarkably resilient when you consider the economic headwinds that serial government interventions have created,” says Phil Soper, president and CEO of Royal LePage.

“The resilience of home values reflects the strong aspirations of luxury buyers to reside and work in cities that are consistently ranked among the most desirable on the planet,” he adds.

What was surprising is, during the same period, the price appreciation of a luxury condominium in Greater Vancouver and the GTA outpaced that of a luxury detached home, with median condo prices rising by 7% and 10.4% year-over-year, respectively.

The median price of a luxury condo in the Greater Montreal Area and Ottawa rose by 3.9% and 4%, respectively, while Calgary posted the only decline, decreasing 6.1%.

"Somewhat unusual in historical terms, and reflecting an important demographic shift happening across North America, appreciation in the luxury condominium market is outpacing the traditional target for large value residential property investment, the detached house," says Soper, who notes boomers are "finally exiting their large family homes, and luxury condos, with their low maintenance lifestyles, are the favoured destination."

Also, wealthy homebuyers aren't immune from the strain of rising prices, Soper adds. "They didn't reach the point in their lives where they have the capacity to acquire high-value real estate without being financially astute. Luxury condominiums represent value in today's market."

Spring 2019 forecast

The momentum behind luxury condo price growth is forecast to continue through the year and into the 2019 spring market in all cities surveyed, with the exception of Calgary.

Broken out by region, the median price of a luxury condo in the GTA is forecast to post the largest price gain, rising 8% to $1,847,194 in the first four months of 2019 compared to the same period in 2018.

Over the same timeframe, the prices of luxury condos in both Ottawa and the Greater Montreal Area are forecast to increase 3%.

Calgary is the only city surveyed that is expected to see the median price of a luxury condominium dip in spring 2019 when compared to 2018, decreasing 4% year-over-year.

Detached luxury home prices in Greater Vancouver are forecast to decline in the first four months of 2019, decreasing 3% year-over-year to $5,619,153, while properties in this segment in the GTA are estimated to remain flat over the same period.

The Greater Montreal Area and Ottawa are both forecast to increase 5% year-over-year, and detached luxury homes in Calgary are expected to rise 2% during the same period.

6. Why Gen X struggles to save for retirement: survey

[May 10, 2018] More than a quarter of Canadian Gen-Xers (28%) haven't saved anything for retirement, finds a Franklin Templeton Investments Canada survey that contrasts that finding with 37% in the U.S.

On both sides of the border, Gen-Xers would consider retiring later than planned if they do not have enough income (56% in Canada and 59% in the

U.S.), the survey adds, noting even millennials who are likely decades away from retirement would consider retiring later. More than half of North American millennials are open to pushing out their retirement timelines (51% in Canada and 54% in the U.S.).

What must be considered is pre-retirees may not have as much say in when they retire as they think. The survey says nearly a quarter of North American retirees surveyed actually stopped working earlier than expected due to circumstances beyond their control, including health issues and company downsizing (23% in Canada and 22% in the U.S.).

"With the rising cost of living—coupled with school-aged children, their own student loans or aging parents to attend to—generation X is being stretched beyond their financial limits," says Duane Green, president and CEO, Franklin Templeton Investments Canada, in a release.

"This reinforces the importance of financial planning advice, and incorporates tools like setting up automatic contributions to help ensure you are better prepared for the future."

Why Gen-Xers aren't saving

Nearly half of Canadian Gen-Xers, who do not maximize or know their annual contribution limits in all of their registered accounts, say they can't save more because their incomes are too low. More than a quarter say their expenses are too high.

Meanwhile, 24% have prioritized paying down debt; 46% have a mortgage; and 28% are renting out their homes.

Matthew Williams, senior vice president of Franklin Templeton Investments Canada, forecasts that Gen-Xers may not be as lucky as the previous generation when it comes to saving and retirement, given many baby boomers were able to sell in high-flying real estate markets and had pensions.

Conversely, many Gen-Xers could "have hefty mortgages that they can barely afford—especially if interest rates increase—and some do not even have home equity as they are renting," he says in the Thursday release.

But the picture isn't rosy for all baby boomers, either. Even where that cohort can rely on housing market gains, it's still shocking that 20% of pre-retiree baby boomers have saved nothing for retirement, the survey says. This could be why 74% of them are stressed and anxious about their retirement funds.

Financial advice helps

Canadians who have never had an advisor are much more likely to have some kind anxiety compared to those who currently get advice (71% vs. 56%). Indeed, those who have never had an advisor are four times more likely to experience significant stress about their retirement savings than those who have.

Further, the correlation between working with a financial advisor and saving more for retirement is strong across generations: Canadians who are not retired and have an advisor are three times more likely to have saved more than $100,000 for retirement versus those who currently do not have one (49% vs. 16 %).

When asked if they have a strategy to generate income for retirement that could last thirty years or more, those with an advisor were more than twice as likely to have a strategy, the survey finds.

Additional findings

Generational

- 48% of millennials haven't saved anything for retirement.
- 28% of millennials live with their parent(s) or their spouse's parent(s).
- 47% of millennials, who do not maximize or know their annual contribution limits in all of their registered accounts, claim their income is too low to save for retirement.
- Twice as many pre-retiree baby boomers expect that the government pension will be their primary or secondary source of retirement income compared to millennials (40% vs. 19%).
- Over half of pre-retiree baby boomers would retire later if they had to but, when faced with the reality of that choice, only one third of retired baby boomers actually did leave the workforce later due to insufficient income (52% vs. 33%).

Retired vs. not retired

- 51% of retired people are relying on a government pension as their primary and secondary source of retirement income, compared to 25% of pre-retirees.
- 39% of retired baby boomers are relying on a workplace pension plan as their primary source of retirement income, compared to 21% of pre-retiree baby boomers.
- 41% of pre-retiree women say their top concern about retirement is running out of money, compared to 15% of retired women.
- 27% of those newly retired (one to five years into retirement) say their expenses increased since they retired, compared to 38% of those 11 or more years into retirement.

Regional findings

- 31% of Ontario and 31% of Quebec residents haven't saved anything for retirement, compared to 15% of Manitoba residents.
- 55% of Alberta residents did or would consider retiring later due to insufficient income, compared to 40% of Quebec residents.

- Saskatchewan residents are most concerned about running out of money in retirement, while both Alberta and Quebec residents are least concerned (39% vs. 28%, respectively).
- B.C. residents are most concerned about health issues in retirement while Saskatchewan residents are least concerned (35% vs. 19%).
- Quebec residents are most concerned about lifestyle expenses in retirement while Atlantic Canadians are least concerned (27% vs. 17%).

About the survey: *Conducted online among a sample of 2,009 Canadians and 2,002 Americans, the survey was administered from Jan. 17 to Jan. 28, 2018. The data is statistically weighted by age, gender and geographic region in Canada, and by age, gender, geographic region, education and race in the U.S.*

7. Small biz not accessing funding to support growth: BMO report

[May 9, 2018] Small business owners are not taking advantage of available resources to help their businesses innovate and grow. In fact, 61% have not pursued government grants to support innovation, finds a BMO Wealth Management report.

Reasons for not applying include:

- not wanting to incur any debt (33%);
- believing that the process of acquiring funding was too complicated (25%); and
- fear of being declined (22%).

Additionally, 64% are not aware of the network of accelerators, incubators and hubs available to help them innovate. This response was cited significantly more by women (74%) than men (55%).

Why innovation is important

The report also examined why small business owners implement innovation in their businesses. Meeting client needs was cited as most important (70%), followed by creating a better product or service (66%) and maintaining growth and stability of the business (61%). The responses from women and older business owners were more client centric, while men and younger business owners had a higher focus on creating better products or services.

The report offered innovation tips for small business owners:

- Join a support network of business owners with different opinions and backgrounds

- Consider a balanced approach in a personal wealth plan that includes investing personal and retirement funds in other industries and regions to reduce risk
- Only a small percentage of businesses are sold when a business owner chooses to retire, so consider investing a small amount each month through a monthly purchase plan, which will allow for automatic and consistent contributions throughout the year to help fund long-term goals such as retirement.
- Insure yourself against unforeseen events, such as illness, to keep the business running and pay staff until the business owner recovers.

About the report: *An online sample of 1,005 Canadian small business owners were surveyed between Nov. 29 and Dec. 2, 2017 with. The overall probability results for a sample of this size would be accurate to within +/- 3.01% at the 95% confidence level.*

8. Housing starts slow in April: CMHC

[May 8, 2018] The annual pace of housing starts in April slowed compared with March, said the Canada Mortgage and Housing Corp.

The seasonally adjusted annual rate of new home construction, which is seen as a measure of the health of the housing market, fell to 214,379 units in April compared with 225,459 in March.

The move came as the pace of starts in urban areas fell 4.7% in April to 198,090.

The rate of multiple urban starts, which includes apartments, townhouses and condominiums, fell 2.7% to 141,032, while the rate of single-detached urban starts dropped 9.3% to 57,058.

Rural starts were estimated at a seasonally adjusted annual rate of 16,289.

The six-month moving average of the monthly seasonally adjusted annual rates edged down to 225,696 in April compared with 226,942 in March.

Weather might have been a factor in the slower housing starts, said Royce Mendes, senior economist at CIBC World Markets, in a note.

"That said, activity is likely to cool over the remainder of the year, with homebuilders' costs rising and the housing market no longer running at such a torrid pace," he wrote. "Little market reaction expected. "

9. Banks raise five-year posted mortgage rate

[May 8, 2018] Scotiabank has joined its Big Five banking peers in raising its benchmark fixed-rate mortgage rate.

Canada's third-biggest lender raised the posted rate for a five-year fixed-rate mortgage from 5.14% to 5.34%, effective Tuesday, while also increasing the posted rates for other terms.
Late last month, TD Bank was the first of the Big Five lenders to raise the benchmark rate, increasing it to 5.59%, due to factors including the competitive landscape, the cost of lending and management of risk.
Royal Bank later raised its benchmark rate to 5.34%, followed by CIBC which raised its posted rate for five-year fixed term mortgages from 4.99% to 5.14.
The Bank of Montreal earlier this month upped the benchmark rate slightly to 5.19%.
The mortgage rate increases from Canada's biggest lenders come as government bond yields rise, signalling higher borrowing costs for corporations.

Have a nice and fruitful week!

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