Weekly Updates Issue # 675

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1. Weekly Markets Changes

[August 3, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,420.24 +26.29 +0.16%	2,840.35 +21.53 +0.76%	25,462.58 +11.52 +0.05%	7,812.02 +74.6 +0.96%	$0.7702 +0.46c +0.60%	$1,214.90 -9.32 -0.76%	$68.49 -0.20 -0.29%

2. Toronto home sales climb 18.6% in July, Vancouver sales plunge

[August 3, 2018] Home sales in the Greater Toronto Area climbed significantly in July in a divergence from the latest numbers in Vancouver.

Residential home sales were up 18.6% in the GTA for the month compared with last July, the Toronto Real Estate Board said Friday.

The average selling price of the 6,961 homes that changed hands during the month rose 4.8% on an annual basis to $782,129.

July's climb follows a 2.4% increase in June sales compared with a year earlier after a steep sales drop of 22.2% in May.

"The positive results over the last two months are encouraging," said TREB president Garry Bhaura.

The results from Toronto show a trend toward stabilization and a more balanced market, said TD economist Rishi Sondhi.

"It's improving. It still has a ways to go to get back to the levels it was at before, but overall the market appears to be healthy."

Results from Toronto are a contrast to Metro Vancouver, where the real estate board said Thursday that home sales tumbled to their lowest level in 18 years.

The Greater Vancouver Real Estate Board said 2,070 properties changed hands in July in a 30% plunge compared to the same month last year.

The general divergence in markets comes after the B.C. government pushed forward with further measures to cool the housing market in February while Ontario has held off, said Sondhi.
"The market's still sort of contending with those measures as well, and that's causing sort of a wedge, year to date."
Toronto's housing market is stabilizing following the shock from the federal government's tighter mortgage rules that came into force in January, said Scotiabank Economics vice-president Derek Holt.
"This fits our broad narrative that the second half of 2018 would begin to witness stronger housing figures as the transitory shock from tightened macroprudential rules ebbs," he said in a note.
Sondhi said TD also expects the market to improve later in the year, but said sales growth will be tempered by rising interest rates and the continued effects of the tighter mortgage rules.
The Toronto real estate board also reported 13,868 new listings during the month, including 4,511 in Toronto alone, but the overall GTA figure was down by 1.8% year over year.
The city recorded 2,574 sales in July at an average price of $824,336, while in the rest of the GTA, the 4,387 properties sold last month fetched an average price of $757,365.
Detached homes sold in Toronto were the most expensive, with an average price of $1.35 million. The average detached home price in the rest of the GTA was $907,347.
TREB said while the MLS home price index composite benchmark during the month was down slightly compared to July 2017, the annual growth rate "looks to be trending toward positive territory in the near future."
The Ottawa Real Estate Board said Friday that sales in the city were up 5.9% for July compared to last year with 1,614 homes sold, above the five-year average of 1,501 sales for July.

3. Canadian exports surge while U.S. trade deficit widens

[August 3, 2018] Canada's merchandise trade deficit with the rest of the world shrank dramatically in June to $626 million, the smallest in 17 months, while the U.S. trade deficit widened—including politically sensitive trade gaps with China, Mexico and Canada.
Statistics Canada says the improvement was due to a 4.1% increase in exports compared with May, to a record high $50.7 billion, mainly from higher exports of energy products and aircraft.

“Canada’s economy proved more than resilient in the face of newly minted U.S. tariffs,” said CIBC Capital Markets senior economist Royce Mendes in a Friday research note. “Despite affected industries taking a hit, a surge in other exports powered a narrowing of the deficit to levels not seen since beginning of last year.”

Energy exports—primarily oil—rose 7.1% to $9.9 billion, the highest since October 2014.

Exports of transportation equipment and parts were up 18.9% to a record $2.5 billion, with exports of business jets accounting for much of the increase.

Canada’s largest trading partner, the United States, was the destination for a record $37.1 billion of exports, up 2.5%—mainly because of passenger cars and light trucks.

Meanwhile, imports from the United States were up 0.3% to $32.9 billion, resulting in Canada’s trade merchandise trade surplus with the U.S. rising to $4.1 billion.

Canada’s overall imports were down 0.2% in June to $51.3 billion.

Derek Holt, vice-president and head of capital markets economics at Scotiabank, wrote in a note that the figures show Canada is benefiting from stronger U.S. growth, while a rebound in cap-ex is driving exports.

“Data speaks louder than NAFTA negotiations,” he wrote. “The figures incrementally reinforce our expectations for a BoC rate hike on Sept. 5.”

CIBC Capital Markets chief economist Avery Shenfeld called the numbers “a large and pleasant surprise” in a research note Friday.

“The result looks to bump Q2 GDP tracking to above 3%, ahead of the Bank of Canada’s last projection by a few ticks,” he wrote.

The data adds “a bit of weight to the odds for a September hike, or at a minimum, gain[s] even more confidence about one in October.”

U.S. trade deficit grows to $46.3 billion

The U.S. trade deficit widened in June for the first time in four months as exports fell and imports grew.

The Commerce Department said Friday that the deficit in goods and services—the gap between what the U.S. sells and what it buys from other countries—rose 7.3% to $46.3 billion in June from $43.2 billion in May. U.S. exports slid 0.7% to $213.8 billion; imports rose 0.6% to $260.2 billion, led by increases in medicine and crude oil. (All figures are in U.S. dollars.)

The United States ran goods deficits in June of $33.5 billion with China, up 0.9% from May; $7.4 billion with Mexico, up 10.5%; and $2 billion with Canada, up 39.7%.

In the first half of the year, the United States has registered a trade deficit in goods and services of $291.2 billion, up 7.2% from January-June 2017.

President Donald Trump campaigned on a promise to bring down the gap, which he views as a sign of economic weakness resulting from bad trade deals and abusive behaviour by U.S. trading partners like China and Mexico.
In a flurry of activity this year, he has slapped taxes on imported steel and aluminum and on $34 billion in Chinese products. He has threatened to dramatically increase the tariffs on China and to begin taxing imported cars, trucks and auto parts. He also is attempting to renegotiate the North American Free Trade Agreement with Canada and Mexico.
But his efforts have so far failed to contain the deficit.
“The president promised a transformation of trade policy to bring down the deficit,” said Lori Wallach, director of the left-leaning Public Citizen’s Global Trade Watch. Trump, she said, “has not lived up to his promises.”
Mainstream economists blame persistent U.S. trade deficits on an economic reality that can’t be changed much by trade policy: Americans spend more than they produce, and imports fill the gap.
In June the United States posted a surplus of $22.5 billion in the trade of services such as banking and education. But that was offset by a $68.8-billion deficit in the trade of goods.

4. China plans tariffs on $60 billion of US products

[August 3, 2018] China has announced plans to put tariffs of up to 25% on US products worth $60 billion, the latest salvo in an escalating trade war.
The Chinese government said Friday that it would impose duties of 25%, 20%, 10% and 5% on the products if the Trump administration follows through on threats to tax $200 billion of Chinese goods.
"In violation of the bilateral consensus reached after multiple rounds of negotiations, the United States has again unilaterally escalated trade frictions," the Chinese State Council Tariff Commission said in its statement on Friday.
China listed 5,207 US products that it would target in an effort to "safeguard its own legitimate interests."
Products in line for tariffs include meat, coffee, nuts, alcoholic drinks, minerals, chemicals, leather products, wood products, machinery, furniture and auto parts.
Sarah Sanders, the White House press secretary, said in a statement that "instead of retaliating, China should address the longstanding concerns about its unfair trading practices."

The United States and China trade goods and services worth about $650 billion each year, the largest trading relationship in the world between two countries.
But China exports far more to the United States than the other way round, making it more challenging for the country to hit back against US tariffs.
These new tariffs would affect about 38% of all American exports to China, which are worth about $170 billion in total.
Trade tensions between the United States and China have been on the rise since April 2017, when President Donald Trump directed the US Commerce Department to investigate whether imports of steel and aluminum from China and other countries threatened national security.
The investigation resulted in tariffs on steel and aluminum products from China and many other countries in March. Beijing responded with equal measures.
Then, in July, the United States imposed tariffs on $34 billion of Chinese goods to pressure the country into abandoning what the Trump administration describes as unfair practices such as stealing intellectual property. Beijing again responded with penalties of an equal scale, targeting American products such as motorcycles and communications satellites.
The most recent threat from the Trump administration came this week, when it warned that it could impose steeper tariffs than originally planned on another batch of imports from China.
The White House had previously asked the Office of the United States Trade Representative about the possibility of imposing a 10% tariff on $200 billion worth of Chinese goods. Under the new plan, tariffs of 25% would be applied.
Protectionist moves by the United States have drawn a response from other trading major partners. Canada, Mexico and the European Union have responded to US taxes on steel and aluminum with retaliatory tariffs.

5. BoE raises interest rate in face of Brexit strife

[August 2, 2018] The Bank of England raised its main interest rate Thursday for only the second time since the 2008 financial crisis as it weighed a strong jobs market and high inflation against growing concerns about Brexit.
The bank's nine-member Monetary Policy Committee voted unanimously to raise the rate from 0.50% to 0.75%, the highest level since March 2009. Economists had been expecting the move but believe the central bank will be more cautious about further increases in coming months as Britain's Brexit talks with the EU enter a crucial phase and uncertainty about the future heightens.

Bank of England governor Mark Carney said “rate rises are expected to be limited and gradual,” with about three hikes over the next three years.
“Policy needs to walk, not run, to stand still,” he told a news conference.
Britain’s economy is sending mixed signals. Unemployment is at the lowest since the 1970s and inflation is above the 2% target, at 2.4%. But growth has been weak so far this year, people are not spending much and companies are worried about the lack of progress in Brexit talks, which could see Britain crash out of the European Union without a deal on trade and business ties.
The increase was only the second in more than 10 years, following a hike in November.
Higher rates make loans more expensive, weighing on some mortgage holders and businesses looking for credit to invest. But the rate hike will increase returns on some investments.
“While an interest rate rise is positive news for people living on their savings income, or holding pensions and investments, it may prove to be the tipping point for those in financial difficulty or struggling with debt,” said Richard Haymes, head of financial difficulties at credit data firm TDX Group.
The Bank of England, like the U.S. Federal Reserve and European Central Bank, is trying to gradually unwind the easy-money policies it deployed during the financial crisis to keep the economy afloat.
But while the U.S. and eurozone economies have seen strong growth in the past year, the British economy has wilted under the uncertainties of Brexit. Britain is due to leave the EU in March, and the two sides have yet to agree on the divorce terms and future trade relations.
Both Britain and the EU have hardened their negotiating positions, and companies are worried. Major manufacturers including Airbus have warned they could pull their operations out of the country, and drug maker Sanofi says it’s stockpiling more medicines in Britain in case of customs trouble during Brexit.
Carney said “there are signs that business confidence is softening,” with companies increasingly expressing concerns about Brexit. He insisted the central bank was “well prepared for whatever path the economy takes, including a wide range of potential Brexit outcomes,” and would be able to keep lending even in the event of “a disorderly, cliff-edge Brexit.”
More broadly, trade disputes between the U.S. and major powers are also casting a shadow over the world economy’s outlook.
George Brown, an economist at Investec, said he expects the Bank of England will not raise rates again until February.

6. Economy grows by 0.5% in May, beating expectations

[July 31, 2018] The Canadian economy grew by 0.5% in May, amid solid growth in both domestic and export-oriented sectors, reports StatsCan.

The 0.5% month-over-month increase was two ticks above consensus, and compares to an increase of 0.1% in April.

The strong number is enough to put the second quarter on pace for roughly 3% growth "even with a soft June," says CIBC chief economist Avery Shenfeld in emailed commentary, referring to last month's disruption in the energy sector.

May's growth was widespread across 19 of 20 sectors studied.

The oil and gas sector led the way with a 2.5% increase—the sixth increase in seven months. The sector benefited from a restart at an oilsands facility as well as ongoing capacity growth, says Shenfeld in a report.

The retail trade sector rose 2%, its largest monthly increase since October 2017. Notable activity increases in the sector came from motor vehicle and parts dealers and from stores associated with springtime activities such as building materials and garden equipment, says StatsCan.

Export-oriented sectors also registered gains, including wholesale trade (1.4%) and manufacturing (0.1%).

The finance and insurance sector grew 0.4%, led by a 0.6% increase in depository credit intermediation, says StatsCan. Financial investment services (+0.4%) and insurance carriers and related activities (+0.2%) also increased.

Forecast for rate hikes

With today's data, Shenfeld is moving up his timetable for the next interest rate hike by the central bank.

"The Bank of Canada already hiked once in anticipation of a strong Q2, and will likely want to see at least the first readings on Q3 to ensure this isn't just a blip quarter after three quarters averaging only 1.5%," he writes. "That suggests that barring bad news on the NAFTA or auto tariff front, the Bank of Canada will be raising rates in October, which is now our call."

The potential hike would delay any material softening in the loonie, which is likely to remain range-bound for the next few months as both the Fed, and then the Bank of Canada, deliver a quarter-point hike, he says.

However, expect the loonie to be weaker toward year-end if the Bank of Canada fails to match the Fed by hiking 50 basis points more this year, he adds. After October, he forecasts only one more quarter-point hike from the BoC through mid-2019, as "Canada's household sector will be more vulnerable to higher rates than that of the U.S., where debt levels are lower and mortgages are locked in for 30 years."

Today's data didn't move markets much, which were already priced for an October rate hike. Says Shenfeld: "As a result, there was only a marginal gain for the C$, and a slight uptick in two-year yields in the wake of the release."

7. The structure of current mortgage debt (CHMC)

[July 30, 2018] In its mortgage and consumer trends report for Q4 2017, the Canada Housing and Mortgage Corporation (CMHC) reveals that the growth rate of debt from home equity line of credit (HELOC) more than doubled when compared to the fourth quarter of 2016—potentially indicating more Canadians are making use of this debt.

Information about HELOCs can be found on the government's website, including advantages and disadvantages, among other details and tips.

For example, HELOCs often offer lower interest rates than other types of credit, but lenders can take possession of clients' homes if they miss payments, says Canada.ca.

The government also reminds that to qualify for a HELOC at a bank, clients must pass a stress test. (Credit unions and other lenders aren't required to comply with stress tests mandated for federally regulated institutions.)

First-time buyers struggle

The CMHC report also says that the country's mortgage debt increased at a slower pace in the last quarter of 2017 compared to the year before, likely because of rising rates and decreasing home sales.

Still, it also finds that the number of consumers with a mortgage loan in the fourth quarter reached its highest point in the most recent three-year period.

Young Canadians hoping to become part of that growing number face a challenge when saving for a down payment—especially for homes in certain urban centres.

While two-thirds of young Canadians would like to buy a home within a year, one-third (30%) have less than $10,000 in savings, and 10% have no savings at all, finds a survey from Point2 Homes. (The national average down payment amount is about $25,

Meeting a savings goal for a down payment within a year is a pipe dream for many.

That's because prospective homebuyers need between 14 and 35 years to save for a down payment in Canada's seven most expensive markets: West Vancouver; Vancouver; North Vancouver; Burnaby, B.C.; Oakville, Ont.; Richmond Hill, Ont.; and Richmond, B.C.

Most young Canadians are unaware of the contrast in their expectations versus reality.

For example, while the minimum down payment for a Vancouver home is close to $300,000, says Point2 Homes, 80% of survey respondents believe they need less than $100,000. In Toronto, the average down payment is about $62,000, but 70% estimate they need less than $50,000.

There is good news, however.

In 40 Canadian cities, young Canadians could save for a down payment in 12 months or fewer. These include Timmins, Ont.; Trois-Rivières, Que.; Fredericton, N.B.; Medicine Hat, AB.; and Prince George, B.C.

About the survey: *Point2 Homes conducted an online survey of more than 9,000 prospective homebuyers.*

8. Younger, middle-class households to bear brunt of rate hikes

[July 30, 2018] A newly released federal analysis says younger, middle-income households will feel the biggest impacts from the Bank of Canada's gradual move towards higher interest rates.

The briefing note prepared for Finance Minister Bill Morneau examines the types of households—by income, age and region—most affected by the central bank's rate-hiking path from extremely low levels.

The September 2017 document obtained by The Canadian Press under the Access to Information Act puts a particular focus on how rising rates will boost debt payments for highly indebted households, which are described as those with debt-to-income levels of at least 350%.

The memo says 12% of all Canadian households carry these heavy debt loads and are most likely to be middle-income earners, young to middle-aged, mortgage holders, and live in Ontario and British Columbia.

The Bank of Canada recently raised its trend-setting interest rate for the fourth time in a year to bring the benchmark to 1.5%, its highest level since December 2008, but still low by historical standards.

The central bank raises its interest rate as a way to help keep inflation from climbing above its ideal target range of 1-3%.

Have a nice and fruitful week!

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