Weekly Updates Issue # 680

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1. Weekly Markets Changes

[September 7, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,090.27 -172.6 -1.06%	2,871.68 -29.84 -1.03%	25,916.54 -48.28 -0.19%	7,902.54 -207.0 -2.55%	$0.7596 -0.64c -0.84%	$1,196.92 -6.70 -0.56%	$67.75 -2.05 -2.94%

2. ‘Noisy’ Canadian jobs numbers offer mixed results

[September 7, 2018] Canada’s seesawing employment report posted particularly volatile numbers last month that showed big, mid-summer gains had essentially been wiped out by August.

The economy lost 51,600 net jobs last month in a decrease that helped drive the national unemployment rate to 6%, up from 5.8% in July, Statistics Canada reported Friday in its monthly labour force survey.

Last month’s drop, fuelled by the loss of 92,000 part-time positions, largely eliminated July’s healthy net increase of 54,100 positions.

However, August also featured a notable bright spot: full-time jobs rose by 40,400.

“A little bit of a mixed bag, but definitely not quite as bad as the headline would suggest,” TD senior economist Brian DePratto said of the August jobs report.

“Another messy one, to be frank… It’s always a noisy report, but it seems like the last few months have been particularly noisy.”

A closer look at the August data revealed even more turbulence in the month-to-month numbers.

Ontario lost 80,100 jobs last month after gaining 60,600 in July—with both data points almost entirely driven by swings in part-time work.

The August decrease, a drop of 1.1%, was by far the biggest decline among the provinces. It helped bump Ontario's unemployment rate up to 5.7%, from 5.4%.

DePratto said it's difficult to determine the cause of July's "odd, significant spike" in Canada's most-populous province.

Some commentary, he noted, had connected the jump to a summertime hiring boost in the university sector that many expected would recede in the subsequent months.

But DePratto said the August drop didn't reflect any significant reversals from earlier increases because the losses were concentrated in areas like construction and professional, scientific and technical services.

"Unfortunately, by and large, it looks like statistical noise," he said.

Royce Mendes, director and senior economist for CIBC Capital Markets, summed up the jobs report in a research note to clients as "Now you see them, now you don't."

He described the Statistics Canada employment report as "always volatile and at times implausible".

"While you can't put too much faith in any one reading from the (labour force survey), there's certainly nothing in the report to suggest that the economy is racing ahead," Mendes wrote.

Mendes doesn't expect the results to be enough to prevent the Bank of Canada from raising its benchmark interest rate in October, although if the economy remains in a "lower gear" he believes governor Stephen Poloz will need to follow a more-gradual, rate-hiking approach thereafter.

The central bank will also pay close attention to more signs Friday that wages are softening in Canada despite the tightened labour market.

The report showed that average hourly wage growth, which is closely watched by the Bank of Canada ahead of rate decisions, continued its gradual slide last month to 2.9% after expanding 3.2% in July and 3.6% in June.

Compared with 12 months earlier, Canada's overall employment was still up 0.9% following the addition of 171,700 jobs, including 326,100 full-time positions.

In August, the data also show the economy lost 38,000 public-sector employee jobs last month, while the private sector shed 30,700 positions.

By industry, the goods-producing sector lost 30,400 jobs last month in a decline led by notable losses of 16,400 positions in construction and a drop of 9,200 in manufacturing.

The services sector shed 21,200 jobs in August after shedding 22,100 positions in professional, scientific and technical services.

3. Trump: Ready to tax an additional $267B in Chinese imports

[September 7, 2018] President Donald Trump said Friday that he's prepared to impose tariffs on an additional $267 billion in Chinese imports. Such a step would significantly escalate his trade war with Beijing and would likely increase costs for a broad range of U.S. businesses and consumers.

Those potential tariffs would come on top of tariffs Trump has said he's poised to slap on $200 billion worth of Chinese goods—everything from handbags to bicycle tires. It would also be in addition to tariffs his administration has already imposed on $50 billion in Chinese imports, for which Beijing has retaliated with an equal amount of import taxes on U.S. goods.

"I hate to say this, but behind that there is another $267 billion ready to go on short notice if I want," Trump told reporters on Air Force One. "That totally changes the equation."

The trade war the president has initiated between the world's two largest economies stems from concerns that China has deployed predatory tactics—including cyber-theft—to try to supplant America's technological supremacy. Trump also wants to reduce the United States' gaping trade imbalance with an ascendant Chinese economy. The president says he believes that narrowing the trade gap will bring jobs to the United States, even though it could spark higher inflation.

The president's comments Friday came one day after a public comment period ended on his proposed taxes of up to 25% on $200 billion of Chinese imports. Trump said earlier Friday that his administration could "very soon" impose those tariffs.

If the president followed through with all of his proposed tariffs, essentially every good being imported from China would be taxed. The administration has said the tariffs would force China to trade on more favourable terms with the United States.

"To a certain extent it's going to be up to China," he said.

4. Why Canada is among top 10 countries for retirement security

[September 6, 2018] Canada has risen two spots overall to number nine in a global index measuring retirement security.

The Global Retirement Index (GRI) by Natixis Investment Managers and CoreData Research ranked 43 countries in an annual assessment of welfare in retirement. The GPI assessed 18 factors in four categories that affect

retirement security, including finances in retirement, material well-being, quality of life and health.

Canada’s ranking rose for 2018 mainly because of improved economic conditions and the natural environment, a report about the index says.

The strength of Canada’s financial institutions also stood out, helping to maintain its tenth spot in the finances in retirement category. Canadians’ level of savings and income in retirement improved, and higher scores were awarded for non-performing bank loans, governance, tax pressure and rising interest rates, the report says.

In the quality of life category, Canada placed ninth overall due to better scores for air quality, biodiversity and other environmental indicators. Breaking that down, Canada ranked second for air quality and seventh for personal happiness.

Canada’s employment and income equality scores also rose, in the material well-being category, but a decline in the income per capita indicator led to a drop in the country’s ranking to the 22nd spot in the overall category.

The top three countries overall are Switzerland, Iceland and Norway.

Challenges facing retirement security

The world is facing a retirement security crisis, the report says, noting that the “traditional three-pillar model” that involved workers using savings, employer pensions and government benefits to fund their retirements is no longer a stable solution.

One reason is the increase in aging populations that’s leading to rising payout liabilities for employers, it says. If you add stagnant wage growth, increasing personal debt and the rising cost of living to the equation, the model becomes unsustainable.

These factors are “straining the resources of individuals, employers and governments around the world,” said Jean Raby, CEO at Natixis Investment Managers, in a release.

The report calls for “active participation” from policy makers, employers, individuals and other stakeholders to reduce the burden on retirees.

Methodology: *The Global Retirement Index assesses factors that drive retirement security across 43 countries where retirement is a pressing social and economic issue. Compiled by Natixis Investment Managers, with support from CoreData Research, it includes International Monetary Fund advanced economies, members of the OECD and the BRIC countries. The report captured data from a variety of sources, including the World Bank. The researchers calculated a mean score in each category and combined the category scores for a final overall ranking of the 43 nations studied.*

5. Selling price of GTA homes rose 4.7% in August

[September 6, 2018] The Greater Toronto Area housing market continued to rebound last month with an 8.5% increase in sales compared with a year ago, following a slowdown during the first half of 2018.

The Toronto Real Estate Board (TREB) said on Thursday that August saw 6,839 homes in the region sold through the MLS system. The average selling price also rose 4.7% to $765,270 from $730,969 in August 2017.

It was the third month of year-over-year sales growth for the region, with July up 18.6% from a year earlier and June up 2.4%.

TREB president Garry Bhaura attributed the increases to homebuyers who are wading into the market after holding off on purchases because of stricter mortgage regulations and Ontario's Fair Housing Plan, which introduced a foreign buyers tax and speculation fees on vacant homes in April 2017.

"It is encouraging to see a continued resurgence in the demand for ownership housing," Bhaura said in a statement.

While preliminary seasonally adjusted sales in August were up 2% compared with July, TREB found the seasonally adjusted average selling price last month was down 0.2% from the month before.

The board said August brought a spike in new listings. They totalled totalled 12,166 for the month, up about 6% from 11,481 a year ago.

TREB's director of market analysis, Jason Mercer, said the annual rate of sales growth outpaced the annual rate of new listings growth, creating a market that was "tighter" than the year before.

He noted in a release that the region has less than three months of inventory. Toronto itself has less than two months of supply available.

"This means that despite the fact the sales remain off the record highs from 2016 and 2017, many GTA neighbourhoods continue to suffer from a lack of inventory," he said. "This could present a problem if demand continues to accelerate over the next year, which is expected."

The Multiple Listing Service home price index revealed a 6.52% drop in York Region, a 1.17 decrease in Durham Region and a 1.29% fall in South Simcoe County. Halton and Peel regions, however, rose by about 2% each, while Toronto jumped by 6.07%.

BMO analyst Robert Kavcic said in a note to investors that the market is "relatively stable (though a bit soggy)."

While pointing to the 8.6% increase in year-over-year sales, he said "Toronto looks to be firming."

6. BoC holds interest rate, but data 'reinforce' view more hikes needed

[September 5, 2018] The Bank of Canada left its interest rate unchanged Wednesday in what could be just a brief pause along its gradual path to higher rates.

The central bank kept its benchmark at 1.5%—but many experts have predicted it could introduce another increase as early as next month.

In a statement Wednesday, the Bank of Canada said more hikes should be expected thanks to encouraging numbers for business investment, exports and evidence that households are adjusting to pricier borrowing costs.

“Recent data reinforce governing council’s assessment that higher interest rates will be warranted to achieve the inflation target,” the bank said as it explained the factors around its decision.

“We will continue to take a gradual approach, guided by incoming data. In particular, the bank continues to gauge the economy’s reaction to higher interest rates.”

Bank of Canada governor Stephen Poloz has raised the rate four times since mid-2017, and his most recent quarter-point increase came in July.

The bank can raise its overnight rate as a way to keep inflation from running too hot. Its target range for inflation is between 1% and 3%.

The Bank of Canada said the economy has seen improvements in business investment and exports despite persistent uncertainty about the North American Free Trade Agreement and other trade policy developments. NAFTA’s year-long renegotiation, which resumes Wednesday in Washington, and other trade unknowns are under close watch by the central bank.

The statement also pointed to other encouraging signs in Canada, including evidence the real estate market has begun to stabilize as households adjust to higher interest rates and new housing policies. Credit growth has moderated, the household debt-to-income ratio has started to move down, and improvements in the job market and wages have helped support consumption, it said.

Heading into Wednesday’s rate decision, analysts widely expected Poloz to hold off on moving the rate—at least for now.

Last month, Poloz stressed the need to take a gradual approach to rate increases in times of uncertainty. He made the remarks during a panel appearance at the annual meeting of central bankers, academics and economists in Jackson Hole, Wyo.

“Taking a gradual, data-dependent approach to policy is an obvious form of risk management in the face of augmented uncertainty,” he said in his prepared remarks.

In its statement Wednesday, the bank also explained why it's not going to raise the interest rate based on a recent inflation reading that showed the number had climbed to the top of its target range.
July's unexpectedly high inflation number of 3% was just a temporary spike in the data caused by airfare and gasoline prices, the bank said. It predicted inflation to edge back down toward 2% in early 2019.
Core inflation, which omits volatile components such as pump prices, has remained firmly around 2%, the bank noted.
That reading, along with ongoing NAFTA negotiations and an "as expected" GDP figure last week, supports today's rate decision, said CIBC chief economist Avery Shenfeld in emailed commentary to clients. He added that today's decision shouldn't move markets.
Shenfeld also noted the central bank's positive outlook for capital spending and housing stability.
An October rate hike looks likely, he said, if "as we expect, we have the makings of a NAFTA deal by then."
Michael Hewson, chief analyst for CMC Markets, also forecasts an October rate hike, citing such things as a weak loonie relative to the dollar, rising inflation, positive economic data and a potential rate hike by the Federal Reserve when the Federal Open Market Committee meets next on Sept. 25-26.
"The smart money appears to be on an October move in response to a Fed move later this month, as well as the political concerns surrounding a NAFTA agreement," said Hewson in emailed commentary.
The Bank of Canada's next rate announcement is scheduled for Oct. 24.

7. Canadians' finances improve but debt remains high: survey

[September 5, 2018] A survey by the Canadian Payroll Association finds that 66% of working Canadians report being in a better financial position than a year ago, but many continue to face financial challenges.
While there's been a positive shift in the number of employees with total household incomes over $125K, along with low unemployment figures, 44% of workers say they'd have difficulty meeting their financial obligations if their paycheques were delayed by a week. (On a positive note, that figure is down from the three-year average of 48%.) And one-fifth of working Canadians say they couldn't come up with $2,000 within a month for an emergency expense (down from one-quarter previously).

Encouragingly, fewer employees say they spend all or more than their net incomes (35% compared to the three-year average of 40%), and 69% of those trying to save more report they've been successful at doing so. Still, 65% said they save 10% or less than their earnings.

While some working Canadians are in an economic position to save more, they may require help to understand the risks they face, and to take appropriate action.

For example, debt levels are increasing among some working Canadians, with more than one-third (34%) of survey respondents saying their debt loads have increased over the year, up from 31%.

Further, more Canadians are expecting to take longer to pay down their debt: 43% say it will take more than 10 years, up from 42% a year ago and 36% in 2016. More than one in 10 (12%) believe they'll never be debt-free.

Overall, 94% of respondents carry debt, including mortgages (28%), credit cards (18%) and car loans (18%).

Higher living expenses (27%) and unexpected expenses (20%) remain the top two reasons for increased spending, and most (96%) anticipate their cost of living will increase over the coming year.

For the first year ever, the survey results indicate that employees are more concerned with work-life balance (33%) than with earning higher wages (26%). This is especially true of those in their 30s (38% rank work-life balance as most important).

When asked about the best way to improve their financial well-being, the number one response was higher wages (25%), versus spending less (19%).

And, while 72% concede they have saved only one-quarter or less of what they feel they will need to retire, the target retirement age of 61 hasn't changed from 2017 and half still feel they need at least $1 million to retire.

About the Canadian Payroll Association survey: *A total of 5,074 employees from across Canada, and from a wide range of industry sectors, responded to an online research survey between June 22, 2018, and Aug. 1, 2018, using a convenience sampling methodology.*

8. Student debt and bankruptcy

[September 5, 2018] Student debt is often cited in insolvency.

In fact, almost one in seven insolvencies involve student debt, says a report by Hoyes, Michalos and Associates Inc., which is based on a seven-year review of student debt and bankruptcy statistics.

In 2017, more than 15% of people filing a bankruptcy or consumer proposal carried student debt, up from about 13% in 2011, finds the firm.

"Rising tuition costs are certainly contributing to a financial crisis for graduates," says Doug Hoyes, licensed insolvency trustee, in a release.

Average yearly tuition cost at a Canadian university is now more than $6,800, reports StatsCan, up 3.3% from the previous academic year. For some programs, such as dentistry, tuition can top $20,000 per year.

Hoyes says the average student debt among those aged 18 to 29 filing insolvency increased by 20% over the past seven years to $13,168 from $10,962 in 2011.

Those of all ages who file insolvency with student-related debt owe an average of $13,877 in student loans, representing 31% of their unsecured debt, says the report.

While debt amounts have increased, the average age of an insolvent student debtor has decreased—to 35.1 years, after peaking at 36.1 years in 2012.

Student debt–driven insolvencies are more likely to be filed by those in their 30s but almost three in 10 are filed by those aged 18 to 29, says the report. (Debtors must be out of school for at least seven years to have their student debt dissolved in bankruptcy.)

Those who successfully pay off their student debt typically take nine to 15 years to do so. More than three-quarters of Canadian graduates under 40 (77%) say they have some regrets about the amount of student debt they took on, finds an Ipsos poll.

Most student debtors cite poor financial management as the number-one cause of their debt problems, says the report.

9. Canada's trade deficit shrinks in July

[September 5, 2018] Canada's merchandise trade deficit with the world shrank in July, and the country's trade surplus with the U.S. grew to its largest since 2008.

Canada's trade deficit was $114 million in July, down from $743 million the previous month, reports StatsCan. The July deficit is the smallest since the most recent surplus in December 2016.

Total exports rose 0.8% for the month, mainly on higher crude oil prices, while total imports declined 0.4% due to fewer aircraft imports.

Export prices, which rose 1.6%, were behind the export gain in nominal terms. The price increase was largely attributable to higher energy prices, the StatsCan report says.

"All of the strength in exports came from higher prices, particularly energy prices, leaving real exports down on the month," noted CIBC director and senior economist Royce Mendes in emailed commentary to clients. Real exports (in volume terms) declined 0.8%.

Mendes further noted that the decline in import volumes, due to a drop in aircraft imports, is a "volatile" category.
Total import volumes fell 1.1% in July, and prices were up 0.7%.

Trade surplus with the U.S. grows

Canada's trade surplus with the United States widened to $5.3 billion in July from $4.1 billion in June.
Exports to the U.S. rose 3.3% to $38.4 billion in July and increased 15.8% year over year. Imports from the U.S. declined by 0.1% to $33.1 billion for the month.
The trade surplus with the U.S. represents "the largest trade surplus observed since October 2008," says the StatsCan report.
Year to date through July, Canada's merchandise trade surplus with the U.S. was $24.2 billion, compared to $25.6 billion for the same period in 2017.

Effects of tariffs

July marked the second month of tariffs on exports of steel and aluminum products to the U.S., and the first month in which tariffs were imposed on imports of steel, aluminum and other miscellaneous products from south of the border.
Exports of steel products to the U.S. that were subject to a 25% tariff rose 16.4% in July on a Customs seasonally adjusted basis, following a 36.3% decline in June.
Compared with July 2017, steel exports were up 3.2%.
Aluminum exports subject to the 10% tariff fell 2.0% in July after a 4.7% decline in June. Aluminum exports were up 8.1% year over year.
Canadian imports of U.S. steel and aluminum products decreased, the agency reported.
On a Customs seasonally adjusted basis, imports of steel products from the U.S. subject to a 25% tariff fell 39.6% in July, says StatsCan. Aluminum product imports subject to a 10% tariff fell 5.2% in July.
Canada's retaliatory tariffs on U.S. imports were only a part of the reason imports declined in July, says CIBC's Mendes, adding that seven of 11 product categories decreased.
Overall, he says the positive headline reading for the trade balance "masks what is actually looking like a slow start to the quarter for trade."

10. Amazon is now worth $1,000,000,000,000

[September 4, 2018] Amazon has become America's second $1 trillion company.

Amazon's total market value passed $1 trillion on Tuesday, following Apple's ascent into 13-digit territory at the beginning of August. Amazon and Apple now make up more than 8% of the entire value of the S&P 500, according to Howard Silverblatt, senior index analyst for S&P.

A trillion dollars may be an arbitrary threshold, but it's still a remarkable statement of how quickly the 24-year-old company has grown, and the boundless confidence investors have in its future.

Just contrast Amazon with the brick and mortar sector, where 90% of American retail spending still takes place. In order to get to a $1 trillion market cap, you'd have to add up the valuations of the 14 largest big box retailers ranked by 2017 revenues, from Walmart to Autonation.

Investors are also way more excited about Amazon than other grocery, building supply, and general retail stocks, which have an average price-to-earnings ratio of between about 20 and 40 for the previous year, according to New York University finance professor and valuation expert Aswath Damodaran. Amazon's price-to-earnings ratio is about 180.

So how did we get here?

For years, investors buoyed Amazon's stock without seeing the company generate significant profits, as it poured revenues back into the business: Building out its fulfillment center network, buying up companies, and developing new technologies.

But over the past year, Amazon has started turning up the dial on profits.

At the beginning of 2018, the company was worth just $580 billion. In the second quarter, the company's net income ballooned to $2.5 billion, compared to $197 million in second quarter of 2017.

Driving those margins: The success of Amazon Web Services, the company's cloud business, as well as the advertising it sells across its sites and revenues from Prime membership subscriptions.

Impressing skeptical investors

Watching Amazon flex its profit muscles has boosted analysts' enthusiasm for the stock even further.

Morgan Stanley recently raised its price target to $2,500, which would make Amazon worth $1.2 trillion, based on revenue growth projections of 24% per year through 2020. It values Amazon Web Services, now an ubiquitous layer of the internet that supports enterprises ranging from the smallest startup to the Central Intelligence Agency, at $375 billion.

The company's moves over the past year have even won over former skeptics who previously believed Amazon's stock was overhyped.

Daniel Martins, who heads his own independent research firm, thought Amazon was too expensive in early 2017 because optimistic growth

expectations seemed already baked in to the price. But after evaluating its most recent financial results, including aggressive expansion into new industries and other countries, he now predicts Amazon could double in value by 2020.

"It's too high of a bar to assume that they'll succeed at everything that they do," Martins says. "But at the same time, I think Amazon is the best combination in the world of the scale of a large company anjd that entrepreneurial DNA with the spirit of a startup."

Amazon is appealing to investors because it appears able to dominate any industry it enters through the power of the data it has on Prime members and its ability to get stuff from point A to point B extremely quickly. Groceries! Healthcare! Financial services! Media! Even your home cleaning service!

But if that vision became reality, wouldn't it put Amazon on a collision course with antitrust regulators? Are investors pricing in the risk that a store that sells everything might get broken up?

Under current interpretations of federal laws, they probably have little to worry about.

Antitrust regulators typically look at whether a company has used its dominance in a given market to raise prices on consumers. So far, Amazon has only lowered prices — no competitive harm.

But scholars have raised concerns that over time, Amazon's control of consumer pocketbooks could prevent the next trillion dollar company from ever gaining traction.

"if it means a long-term innovation loss, the tradeoffs might be ones that we don't want to live with," says Hal Singer, a senior fellow at George Washington University's Regulatory Studies Center and a principal at Economists, Inc.

He has proposed creating a special tribunal for complaints that online platforms are unfairly discriminating against content providers or potential challengers, which Senator Mark Warner referenced in a policy framework for internet companies.

At the moment, though, no such protection exists.

"If antitrust stays the same, then there really is no risk," Singer says. "I think Amazon shareholders should sleep very well at night."

Have a nice and fruitful week!

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