Weekly Updates Issue # 700

1. Weekly Markets Changes
2. How the Bank of Canada views cryptoassets
3. Private-sector hiring fuels job growth in January
4. Canada's real estate market 'vulnerable' despite easing in priciest markets
5. Where Canada is behind on open banking
6. Holiday overspending hits 8-year low
7. OSFI defends tougher mortgage rules
8. Why Canadian business sentiment remains positive
9. More firms face class actions over trailers

1. Weekly Markets Changes

[February 8, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,633.33 +127.03 +0.82%	2,707.88 +1.35 +0.05%	25,106.33 +42.44 +0.17%	7,298.20 +34.33 +0.47%	$0.7536 -1.01c -1.32%	$1,316.61 -1.37 -0.10%	$52.72 -2.54 -4.60%

2. How the Bank of Canada views cryptoassets

[February 8, 2019] With about 2,000 cryptoassets now available, the Bank of Canada is studying how they might affect central bank functions.

"The trading volume of cryptoassets is currently about the same as that of U.S. municipal bonds, which is also roughly the same as that of Canadian-dollar spot foreign exchange markets," says a new report published by the Bank of Canada.

Further, during peak cryptoassets trading in 2017, bitcoin and other tokens rivalled U.S. corporate bond trading volumes, the report says.

It outlines the workings of blockchain, a ledger for digital record-keeping of cryptoassets that is updated by consensus, as well as blockchain's underlying economic mechanisms. For example, its decentralized structure can represent a vulnerability where the ledger is distorted through manipulation.

Thus, trust in those who develop the computer code that supports a cryptoasset is critical. "Users need to know that the code is free from bugs, is resilient to tampering and does what it claims," the report says.

As it stands, cryptocurrencies don't present impediments to carrying out monetary policy in Canada or in other economies with solid monetary policy regimes, the report says. Nor do they provide a viable basis for an alternative framework.

"It is quite unlikely that a regime based on cryptocurrency would be a viable alternative to a credible central bank at supporting domestic price stability," the report says. Bitcoin's supply function, for example, is not elastic enough to meet fluctuating demand at a stable price.

When it comes to the possibility of the central bank issuing its own digital currency, the report says that policy and design questions must be answered before determining whether a central bank digital currency would be in the public interest.

Answering those questions is important, the report says, "before some inadequate private digital currency gains traction as the de facto currency of an economy."

3. Private-sector hiring fuels job growth in January

[February 8, 2019] The country saw a rush of 66,800 net new jobs in January in a gain fuelled by a hiring surge in the private sector, Statistics Canada said Friday.

The agency's latest labour force survey said more people also searched for work last month, which pushed the unemployment rate to 5.8%, up from its 43-year low of 5.6% in December.

Economists had expected the addition of 8,000 jobs for the month and an unemployment rate of 5.7%, according to Thomson Reuters Eikon.

The biggest boost came from the number of private-sector employee positions, which climbed by 111,500 in January for the category's biggest month-to-month increase since the agency started collecting the data point in 1976. The number of self-employed positions, which can include unpaid work, declined by 60,700.

The services sector saw a gain of 99,200 positions, led by new work in wholesale and retail trade, while the goods-producing industries experienced a net loss of 32,300 jobs, the report said.

Year-over-year average hourly wage growth in January for permanent employees was 1.8%, which was up from December's reading of 1.5%, but still well below its May peak of 3.9%.

The Bank of Canada has been monitoring wage growth ahead of its interest-rate decisions as it tries to determine how well indebted households can absorb higher borrowing costs.

Last week, Bank of Canada senior deputy governor Carolyn Wilkins said the country has been in a "puzzling" stretch of weak wage growth at a time when the job market has been experiencing one of its biggest labour shortages in years.

She said the struggles of energy-producing provinces, which began with the late-2014 oil slump, have been a big factor that has dragged down national wage-growth numbers. The Bank of Canada has expressed confidence that wage growth will pick up its pace.

In emailed commentary, CIBC senior economist Royce Mendes said that, with weaker economic growth expected for the first quarter because of the oil sector, “the Bank of Canada is still likely on the sidelines for the first half of 2019.”

He added that today’s jobs data will be bullish for the loonie and bearish for fixed income.

The numbers Friday also showed that, year-over-year, the number of employee hours worked was up 1.2% compared to 0.9% in December.

Canada added 30,900 full-time jobs last month and 36,000 part-time positions, the report said.

More young Canadians, between the ages of 15 and 24 years old, also found work last month as youth employment gained 52,800 positions. The youth jobless rate edged up to 11.2%, from 11.1% in December, as more young people looked for work.

By region, Ontario and Quebec had the biggest employment increases last month. Energy-rich Alberta, hit hard by the oil-price decline, shed jobs for a second-straight month and saw its jobless rate rise to 6.8%, up from 6.4%.

Housing starts

Also released today were housing starts for January, the pace of which slowed compared with December.

Canada Mortgage and Housing Corp. says the seasonally adjusted annual rate came in at 207,968 units for the first month of the year compared with 213,630 in December.

Still, January was the fourth consecutive month that starts hit above 200,000, said Mendes in separately emailed commentary.

Economists had expected an annualized pace of 205,000 for January, according to Thomson Reuters Eikon.

The annual pace of urban starts slowed 2.1% in January to 190,912 units as single-detached urban starts fell 10.4% to 44,559 units. The annual pace of multiple-unit projects such as condominiums, apartments and townhouses increased 0.7% to 146,353 units.

Multi-unit building tends to be volatile, said Mendes, so the recent strength could be transitory, though recent building permit data suggest strength could continue for the next few months.

Looking ahead, Mendes said he expects a slower pace to building activity relative to last year, given the dampening effects of stricter mortgage rules and higher interest rates.

4. Canada’s real estate market ‘vulnerable’ despite easing in priciest markets

[February 7, 2019] The country’s overall real estate market remains “vulnerable” despite an easing in overvaluation in cities like Toronto and Victoria in the third quarter, according to a report by Canada Mortgage and Housing Corporation.

The federal agency said Thursday that this is the tenth quarter in a row where it has given the national housing market a “vulnerable” assessment.

The findings in the quarterly report are based on a number of factors including the level of imbalances in the housing market related to overbuilding, overvaluation, overheating and price acceleration when compared with historical averages.

CMHC said it changed Toronto and Victoria’s overvaluation ratings from high to moderate when it measured it against factors such as population growth, personal disposable income and interest rates.

Meanwhile, the degree of overall vulnerability remains high in Hamilton, Ont., and also in Vancouver, where the housing market has cooled in recent quarters but property prices remain high compared to these economic fundamentals.

Still, the agency noted that the country’s overall vulnerability rating could be downgraded in future quarters due to signs that overheating and overbuilding remain low in some markets.

“In Toronto, we’ve seen an easing of the pressures of overvaluation because house price growth has moderated and so the level of prices isn’t increasing as quickly but fundamentals are still growing at a strong rate so there has been a narrowing of that gap between actual house prices and fundamentals,” CMHC chief economist Bob Dugan said in a conference call with reporters.

Dugan noted that the agency doesn’t “target” any level of overvaluation in its report.

“Overvaluation doesn’t really have anything to do with affordability,” he said. “In Toronto, you can have prices in line with fundamentals but that doesn’t mean that affordability isn’t a challenge. What it means is that there is a relationship between these fundamentals and prices that can explain the level of prices.”

Last month, the Canadian Real Estate Association reported that national home sales were down 19% in December year over year, capping off the weakest annual sales ever reported since 2012.

The mortgage stress test, which is mandated by the Office of the Superintendent of Financial Institutions, came into effect in 2018 and has resulted in the cooling of some housing markets— particularly in Toronto and Vancouver—by limiting the ability of those with a more than 20% down payment to qualify for mortgages.

The stricter rules require borrowers to prove that they can service their uninsured mortgage at a qualifying rate of the greater of the contractual mortgage rate plus two percentage points or the five-year benchmark rate published by the Bank of Canada. The policy also reduced the maximum amount buyers would be able to borrow to buy a home.

Earlier this week, the Toronto Real Estate Board urged Ottawa to “revisit” whether the stress test is still warranted, especially given the higher interest rate environment of today. Some bank economists have also recently called into question whether the rules around the test should be loosened.

Dugan said the impact of the stress test is clear, but it cannot be blamed to be the sole contributor to the slowing in some markets.

“What we’ve observed in housing markets is that we’ve seen a moderation in activity in many centres across Canada since the stress test has been imposed. But there are other things going on as well with respect to fundamentals which are contributing to some of the slower demand,” he said.

“We’ve seen mortgage rates inch up this year. There is a combination of factors. It is hard to isolate the impact of the stress test by itself but certainly it attributed to some of the slowing demand we have seen.”

Kevin Lee, chief executive with the Canadian Homebuilders’ Association, said adjusting the mortgage stress test was one of the group’s proposals to the federal government.

Lee said he’s had a number of meetings recently with the Prime Minister’s Office and other government officials where he’s shared the association’s concerns about the lack of housing affordability.

“The economic times have changed but the stress test, the way it was put in place, wasn’t built to change no matter what the economic conditions…,” he said. “We do think it’s time to revisit it.”

He said the group also suggested increasing the current amortization period of mortgages to 30 years, from the current 25 years, especially for first-time homebuyers.

“There have been so many changes at the federal and the provincial level over the past few years. We really felt like the changes were coming one on top of

one another very quickly and the impact of them wasn't getting a chance to play out before the next change came," he said.
"Our concern was just the compounding effect of all the different changes, one on top of another. That's unfortunately where we are right now."

5. Where Canada is behind on open banking

[February 6, 2019] With the federal government examining the idea of bringing "open banking" to Canada, research from Ernst & Young Global Ltd. (EY) suggests that Canada has work to do before it can embrace the idea.
The firm reports that Canada ranks eighth out of 10 countries in terms of its readiness for open banking, based on the EY Open Banking Opportunity Index, which assesses the current state of regulation, the industry, and consumer interest. In particular, Canada ranks last in both "adoption potential" and "regulatory environment," and eighth in "consumer sentiment" towards open banking.
EY Canada says that its analysis of online sentiment finds that concerns about cybersecurity and data protection loom particularly large for Canadians.
"Open banking will succeed only if customers trust that their data is safe, and many Canadians still need winning over when it comes to sharing their information online," says Abhishek Sinha, EY Canada's open banking leader. "This is especially true of older generations, whereas millennials are more comfortable with the idea."
According to the index, Canada ranks fifth in terms of its "innovation environment," which EY Canada attributes to a strong fintech industry, private investment and government support for startups. Yet, it also notes that fintech adoption remains relatively low in Canada, with only 18% of Canada's "digitally active population" using two or more fintech services, and only 44% of smartphone users engaging in mobile banking.
"A crucial component to accelerating the adoption of open banking is having the right regulatory framework in place to manage customer privacy and consent—something Canada's Advisory Committee on Open Banking is working on now," said Anthony Rjeily, financial services digital leader at EY Canada.
"But regulation is not a prerequisite for a healthy open banking system. Bankers can make meaningful progress by coordinating internal initiatives, opening their platforms to innovators and proactively promoting digital adoption to consumers."
The federal government launched its public consultation on open banking last month. Following the consultation, which ends Feb. 11, the Advisory

Committee on Open Banking will submit a report assessing the merits of the idea for Canada.

6. Holiday overspending hits 8-year low

[February 6, 2019] Holiday overspending dropped to its lowest level in Canada in eight years, according to a poll by Toronto-based Royal Bank of Canada (RBC).

The RBC Post-Holiday Spending & Saving Insights Poll found that overspending was down 28% from 2017, with Canadian consumers spending an average of $384 over their budgets (down from $530 in 2017).

The biggest drop was among women and those between the ages of 18 and 34, who cut their spending by nearly $200. While 40% of Canadians went over their budgets, one-third have already paid off that debt.

"Canadians are starting 2019 off on the right foot," said Vinita Savani, RBC's vice-president, GICs and savings, in a statement.

Over the holidays, Canadians spent the most on experiences for family and friends ($129), followed by gift cards ($119), electronics ($102), toys ($96), entertainment ($51), gifts for pets ($29) and giving to charities on behalf of family and friends ($28).

To climb out of their holiday spending holes, the poll found that Canadians plan to spend less on entertainment, lunch and coffee (30%); and spend less on day-to-day living expenses (25%). Some are planning to carry costs on credit cards, in which case 20% plan to pay off the balance in two months or more, and 14% plan to pay off the balance immediately.

7. OSFI defends tougher mortgage rules

[February 5, 2019] The solution to the deteriorating dream of home ownership cannot be more household debt or weak mortgage underwriting standards, argues a federal banking regulator.

Speaking Tuesday at a lunch in Toronto hosted by the Economic Club of Canada, Carolyn Rogers, assistant superintendent with the Office of the Superintendent of Financial Institutions (OSFI), defended the recent adoption of tougher mortgage underwriting rules.

Last year, OSFI introduced a stress test for borrowers to its underwriting guidelines, known as B-20, which was itself first introduced in response to the global financial crisis. The stress test component was added last January amid concerns that both borrowers and banks were taking too much risk, given the low interest rate environment and relentlessly rising house prices.

“Against a backdrop of record levels of consumer debt, this was a level of risk-taking that OSFI decided needed to be reined in,” Rogers said.

However, that step has been met with a number of criticisms, including that it is being driven by particularly hot housing markets in Toronto and Vancouver; that tougher rules on banks may drive borrowers to unregulated lenders; and that the policy has a host of other unintended consequences, such as freezing out young homebuyers, driving up rents and exacerbating economic inequality.

Rogers addressed these criticisms in her speech today, acknowledging that “the escalating cost of homeownership in Canada, and its knock-on effects to the economy and to society, is a problem. And it’s a problem that is proving very challenging to address.”

However, Rogers insisted that the solution to the problem is not greater household debt, enabled by weak underwriting standards. “Recent history has shown that relaxing bank underwriting standards can lead to extreme and persistent levels of financial instability that more than undo any economic gains they were intended to support,” she said.

Rogers also conceded that the risk of pushing more borrowers to deal with unregulated lenders is a legitimate worry. “But it cannot be a reason not to act, or not to do our job,” she said.

Instead, Rogers called on the real estate industry—mortgage brokers in particular—to help borrowers avoid making bad decisions, or being exploited by unscrupulous lenders. “If you see risks, if you think these options put your borrower in a vulnerable position, you can steer them away. That would be the right thing to do,” she said.

Rogers also rebuffed criticisms that the tougher rules are a broad, blunt response to an issue that is largely confined to the hot housing markets in Toronto and Vancouver. She said that such criticism misses the fact that the stress test was introduced to target mortgage underwriting standards, not home prices.

“Sound underwritings look the same no matter what city or province you live in. Ensuring a borrower is not over-leveraged and can withstand a change in circumstances, including a change in interest rates, is sensible regardless of what city you’re in,” she said. “And when interest rates rise, they will go up in Calgary and Winnipeg at the same time and by the same amount that they will go up in Vancouver and Toronto.”

That said, Rogers also allowed that the stress testing requirements may evolve as economic conditions change. “The introduction of the stress test was, itself, an adjustment… in response to a shift in the environment—a shift in risks facing the financial sector,” she said. “OSFI monitors the environment on a

continual basis and when we determine that adjustments to our standards and guidelines are warranted, we make them."

8. Why Canadian business sentiment remains positive

[February 5, 2019] While growth in Canada's broader economy moderates, Canadian business owners are generally positive about their prospects, finds an economic outlook report from BMO.

The report identifies two themes playing out across the country.

"First, oil prices have again become a downside risk for the three producing provinces," says Robert Kavcic, BMO senior economist, in the report. Second, "most provinces are coming off very strong runs and are in the process of moving back in line with their longer-run growth rates," he says.

The report finds that businesses are investing in innovation to increase productivity, and expanding into new markets, such as the U.S., to increase growth potential. For example, while Alberta's growth is forecast at only 1.5% this year, innovation in technologies geared toward oil exploration and pipeline management remains a bright spot for its economy, as start-ups continue to emerge.

In a January economics report, RBC senior economist Josh Nye also said business confidence was holding up, despite a relatively soft handoff for GDP at the turn of the year because of energy-sector challenges. He cited Canada's addition of 115,000 jobs in the last quarter of 2018, and an unemployment rate that fell to a 44-year low.

Further, the Bank of Canada business outlook survey showed generally positive sentiment, he said.

Such indicators "serve as evidence that Canada's economy is performing better than incoming growth figures are likely to indicate," he said.

Overall, BMO forecasts Canadian growth in 2019 at 1.8% annualized, down from an estimated 2.1% in 2018. The growth forecast for 2020 is 1.7%.

British Columbia is positioned to be the country's leading economy this year, with growth of 2.5% on the heels of a $40-billion liquefied natural gas project. That follows 2.2% growth in 2018.

After averaging 2.4% growth over the last four years, Ontario's economy is forecast to pull back slightly to 2% in 2019. The report says businesses have been expressing a positive outlook in the province, propelled by strength in core sectors—manufacturing, agriculture and technology.

The slowest growth is expected in New Brunswick, at 0.7%, after stronger runs over the last couple of years. However, renewed corporate investment in the province will provide a needed boost, the report says.

9. More firms face class actions over trailers

[February 4, 2019] Three more financial giants—Royal Bank of Canada, Bank of Montreal and National Bank—face proposed class-action lawsuits over the payment of trailing commissions to discount brokers.

London, Ont.-based Siskinds LLP and Bates Barristers P.C. of Toronto had already brought several class actions against bank-owned asset managers and one independent fund firm, seeking hundreds of millions of dollars in damages. Today, the law firms announced three additional lawsuits: against BMO Investments Inc.; RBC Global Asset Management Inc. and RBC Investor Services Trust; and National Bank Investments Inc. and Natcan Trust Co.

As with their previously proposed class actions against divisions of Toronto-Dominion Bank, Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Mackenzie Financial Corp., the law firms seek damages on behalf of investors over the practice of funds paying trailing commissions to discount brokers. Trailers are typically paid, at least in part, for investment advice, a service discount brokers are prohibited from providing.

"The actions allege that the defendants paid trailing commissions to discount brokers through which the mutual funds were sold or held, and that these payments were improper because the investors in these mutual funds received no value (such as professional investment advice) for the trailing commissions paid. The actions seek compensation for the affected investors," Siskinds and Bates Barristers stated in a release announcing the proposed lawsuits.

None of the proposed lawsuits against the seven financial services institutions has been certified as a class action, and the allegations have not been tested in court.

Separately, securities regulators are considering possible reforms to outlaw the practice of funds paying trailers to discount brokers.

Have a nice and fruitful week!

To Unsubscribe Click Here