Weekly Updates Issue # 707

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1. Weekly Markets Changes

[March 29, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,102.09 +12.76 +0.08%	2,834.40 +33.69 +1.2%	25,928.68 +426.36 +1.67%	7,729.32 +86.65 +1.13%	$0.7483 +0.26c +0.35%	$1,292.38 -21.30 -1.62%	$60.14 +1.10 +1.86%

2. Canadian economy surprises with January growth

[March 29, 2019] The Canadian economy returned to growth to start the year after contracting in November and December as broad-based growth led by the manufacturing and construction industries offset weakness in the resource sector.

Statistics Canada said Friday real gross domestic product grew 0.3% in January.

Economists on average had expected no growth for the month, according to Thomson Reuters Eikon.

"There are no two ways about this one, as it was quite simply above everyone's expectations," said Doug Porter, chief economist at the Bank of Montreal.

"This nice gain augurs very well, given that Alberta's oil production cuts were viewed as the biggest drag on the economy at the start of the year, and growth sailed right through that headwind."

The growth came as 18 of 20 industrial sectors moved higher.

Goods-producing industries increased 0.6%, led by growth in manufacturing and construction. The manufacturing sector rose 1.5% in January, while the construction sector grew 1.9%, its best showing since July 2013.

Services-producing industries rose 0.2% as all but one sector increased.

The better-than-expected result for January came after the economy ended 2018 on a weak note.
Growth in the fourth quarter of 2018 came in at an annualized pace of 0.4%, its worst showing in two and a half years.
The weakness prompted economists to raise concerns about the strength of economic growth this year, while the possibility the Bank of Canada may even look to cut interest rates this year was also raised.
The Bank of Canada kept its key interest rate on hold in its rate announcement earlier this month, but did warn Canadians of a weaker economic performance in the months ahead.
Weakness in the report Friday could be found in the mining, quarrying and oil and gas extraction sector that pulled back 3.1%.
Oil and gas extraction fell 2.6%, due in part to Alberta's imposition of oil production cuts that began at the start of the year.
Mining, excluding oil and gas, fell 4.0%.
CIBC chief economist Avery Shenfeld said Friday he's expecting a more modest gain in February, but noted his bank is raising its first-quarter GDP forecast to 1.3% from 0.5%.
"If that's on the mark, it's not slow enough to prompt a Bank of Canada rate cut, but neither is it quick enough to justify a further monetary tightening," he said.
"Markets had been piling on bets that the Bank of Canada would be pushed into an ease, and today's data were seen as making that less likely."

3. It's official: FPSC becomes FP Canada on April 1

[March 29, 2019] As the Financial Planning Standards Council (FPSC) becomes FP Canada on Monday, the rebranded organization is looking to boost its education and services to advisors, its president and CEO says.
"The FP Canada Institute is all about elevating the practice of financial planning in this new world order," Cary List, president and CEO of FP Canada, said in an interview.
"We'll do a much more integrated job of preparing [advisors]—before they have to write our exam and study for our exam—for what it means to be a professional financial planner."
The new organization comprises two divisions: the FP Canada Standards Council, a semi-autonomous body responsible for establishing and enforcing financial planning standards, and the FP Canada Institute, which will offer e-learning courses to help advisors prepare for certified financial planner (CFP) exams, as well as a variety of continuing education courses.

Also new is the qualified associate financial planner (QAFP) certification, which FP Canada will offer in addition to the CFP designation. The QAFP was introduced to meet the demand from advisors who aren't currently credentialed and want to "up their game" without becoming full-fledged certified financial planners, List explained.

The QAFP designation will replace the FPSC level 1 certification beginning Jan. 1, 2020.

Additionally, the FP Canada Institute will offer a variety of continuing education courses on topics including professional ethics, holistic planning and behavioural economics.

"Even if you are already a CFP, you'll be able to take a professional education program and you'll get recognition for it through a digital certificate," List said.

4. Small business confidence falls in March

[March 28, 2019] Optimism among small business owners dropped in March, causing the Canadian Federation of Independent Business's (CFIB) Business Barometer index to fall three points.

The index fell to 55.9, which is "one of the worst readings we've seen in the past three years," CFIB vice-president and chief economist Ted Mallett said in a Thursday press release. An index level of about 65 suggests a healthy economy.

Only about 17% of business owners plan to hire full-time staff, and 15% plan to cut back. Plans to increase wages and prices also dropped in March, the CFIB said.

"It's not typical for hiring intentions to be so low at this time of year, as businesses should be gearing up for the busier spring and summer seasons," Mallet said in a statement. "But it's indicative of the low level of optimism that private-sector firms are reporting."

The generally low level of business confidence echoes fears in other parts of the economy, the CFIB said, like lagging consumer demand, rising inventories, trade pressures and an expected slowdown south of the border.

Of small business owners, 43% said their business is in "good shape," but 14% said they're navigating troubled waters.

Nova Scotia and Quebec posted high levels of confidence this month (66.8 and 65.3, respectively) but Ontario and Saskatchewan dropped significantly month-over-month, to 59.5 and 50.8, respectively. Alberta remained the least optimistic province with a reading of 42.1.

Natural resource companies dropped in confidence, falling 5.8 points from February to 38.8, the lowest of any sector. The wholesale industry had the most confidence, at a level of 61.0.

5. U.S. growth slows sharply in fourth quarter

[March 28, 2019] U.S. economic growth slowed sharply in the fourth quarter last year to an annual rate of just 2.2%. There are concerns that growth has slowed even more in the first quarter this year as global weakness, fading government stimulus and rising trade tensions take a toll on the economy.

The increase in the gross domestic product, the economy's total output of goods and services, was revised down from an initial estimate of 2.6% growth in the fourth quarter, the Commerce Department reported Thursday. The change reflected weakness in a number of areas. Consumer spending, business investment, government spending and housing all came in lower than first thought.

Economists believe growth has slowed further in the current January-March quarter to around a 1.5% rate.

The downward revision to the fourth quarter did not affect the annual growth rate for all of 2018, which remained at 2.9%, the best showing since a similar increase in 2015.

President Donald Trump and other administration officials highlighted last year's GDP performance as evidence that the administration's policies of tax cuts, deregulation and tougher trade enforcement were working.

The president's new budget, released earlier this month, is projecting that the economy will grow at rates of 3% or better through much of the next decade. This forecast is well above the estimates of most private economists who believe that growth will revert to the modest pace seen throughout this expansion of around 2%.

This has been the weakest economic recovery in the post-World War II period. But the expansion is set to become the longest in U.S. history if it goes past June, surpassing the 10-year expansion of 1991 to 2001.

Economists say slow growth in the labour force, reflecting low birth rates and the retirement of baby boomers, along with weak productivity gains are the major reasons GDP growth will not be able to sustain annual gains of 3% or better. However, this assessment is disputed by Trump and his economic advisers who believe the administration's policies will power growth to higher levels.

In a separate report Thursday, the government said that applications for unemployment benefits, a reflection of layoffs, fell by 5,000 last week to a

seasonally adjusted 211,000. The result suggests that businesses are keeping their workers in a tight job market.
The economy's 2.2% annual growth rate last quarter, though solid, was the slowest since a similar 2.2% pace in the first quarter of 2018. That was followed by two strong quarters with GDP growth of 4.2% in the second quarter and 3.4% in the third quarter.
Thursday's GDP report from the Commerce Department was the final look at the fourth quarter.
The report showed that consumer spending slowed to a still solid growth rate of 2.5% in the fourth quarter, below the estimate last month of a 2.8% gain. Business investment spending came in at a still-strong 5.4% annual rate, down from an initial 6.2% estimate.
Government spending fell at a rate of 0.4%, down from an initial estimate of a small 0.4% gain. Domestic spending by the federal government was revised lower to show a 6.1% rate of decline, likely reflecting the impact of the 35-day partial government shutdown.

6. Advice and distribution take a hit from Australian reforms

[March 27, 2019] An analysis of fund flows indicates that distribution and advice have suffered a reputational hit in Australia following the country's royal commission, which resulted in sweeping reforms for the financial sector. Australia's year-long Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry culminated in a report released last month that detailed widespread misconduct and set out a series of 76 reform recommendations.
Core issues addressed in the report included compensation schemes that solely reward sales and a lack of best interest standards.
The resulting reputational damage disproportionately affected distribution and retail advice, relative to not-for-profit industry funds, according to statistics from the Australian Prudential Regulation Authority.
For example, Australian wealth manager AMP's superannuation product exhibited the country's greatest fund outflows last year, while the greatest inflows went to industry fund AustralianSuper, the country's largest superannuation and pension fund.
"AMP's numbers, in particular, provide a useful illustration of just how badly this side of the industry had been hit," said Cerulli Associates, a global research and consulting firm, in a release on Wednesday.

In fiscal 2017, AMP's statutory net profit was $848 million; in 2018, it was a relatively meagre $28 million (all figures are AUS).
That stark difference is the result of advice remediation—money put aside to pay back people that the management firm shouldn't have been charging in the first place, Cerulli said in the release.
As a result of lost profit, Cerulli noted that, while the royal commission didn't change the vertical integration model that's been dominant in Australian financial services, most of the country's big four banks started to sell their life insurance and wealth management businesses well before the commission released its final report.
Despite the fallout for distributors and retailers, Australia remains attractive for managers and consultants, with $2.65 trillion in superannuation assets, Cerulli said.
"Super funds will still need to make exactly the same decisions about asset allocation, currency hedging and liquidity as they always did, and nothing in the royal commission is likely to make them choose any different underlying managers than they have done in the past," Ken Yap, Cerulli's managing director, Asia, said in the release.
Industry effects resulting from reforms aren't easily comparable from country to country. In Canada, potential upcoming reform includes a ban on embedded commissions—already banned in Australia as a result of reforms introduced in 2012.
In its initial proposal to ban these fees, CSA said that specific industry impacts are shaped by local market participants, market structure and savings habits, as well as the scope of reforms, which are so far much narrower in Canada relative to Australia.

Forecasted pros and cons for the financial sector

After Australia's royal commission report was published in February, major rating agencies weighed in on the expected impact of its recommendations, citing a potential rise in legal and regulatory risks for the sector, which could affect earnings.
For example, Moody's Investors Service said in a report that "civil and criminal proceedings may well emerge" as a result of evidence brought to light during the commission.
This view is echoed by Fitch Ratings, which forecasted increased regulatory scrutiny of non-financial risks, as well as legal action to address identified shortcomings.
Further, it said any legal actions could negatively impact industry earnings, while also distracting management. "We will continue to monitor the potential impact on ratings as the extent to which the banks are confronted by legal

action, compensation or other remediation requirements becomes clearer," the rating agency said in a report.
Moody's noted that, despite the big banks' divestment of their insurance and wealth management businesses, "remediation and other costs related to the wealth management businesses are likely to drag on bank profits in 2019."
At the same time, Moody's expected that regulatory oversight of the financial sector would be beefed up, and that the sector could become more litigious. That's because the commission recommended, for example, that the powers of the Australian Securities and Investments Commission be extended and that provisions within industry codes of conduct be legally enforceable.
According to Fitch, while Australia's banking system will face short-term challenges as it tries to fix the weaknesses in culture and governance that are identified in the commission's report, the financial system will be stronger in the long run.
Further, it said that the commission's report is notable for what it doesn't recommend, such as requiring that financial product manufacturing and distribution be separate or that lending laws be tightened. As such, the country's highly concentrated banking system and its long-run profitability will be reserved, the Moody's report said.
However, with a federal election looming in Australia, Fitch cautioned that both major political parties could call for reforms that go beyond what's recommended by the royal commission, adding to the challenges facing the financial system.

7. StatsCan finds older households are growing their share of wealth

[March 27, 2019] Households on the verge of retirement are accounting for an increasing share of household wealth, according to data from Statistics Canada.
New research from StatsCan finds that households headed by older earners (aged 55 to 64) had average wealth of $1.2 million in 2018, which represented 31.2% of overall wealth, up from 27.1% in 2010.
The report says the rising share of wealth for older households is due to both the aging population and increases in the value of real estate and other non-financial assets.
At the same time, StatsCan reports that older households are also taking on debt later in life; particularly in the 45-to-54 age group. "In general, older income earners have a greater capacity to access credit relative to other

households, and are consequently in a favourable position to manage debt," it says.

In the same report, StatsCan also finds a vast disparity in net savings (defined as disposable income minus consumption, plus the value of pension entitlements) between high-income and low-income households.

In 2018, average net savings for all Canadian households was just $852, it says. Yet this overall average masks a wide gulf between the top 20% of income earners, which had $41,393 in net savings per household, and the bottom 20% of earners, who had net dissaving of $27,935 on average, as they consumed more than their annual income.

StatsCan notes that some of the bottom 20% is composed of retirees who are drawing down their assets to fuel consumption. It reports that, overall, households headed by an earner aged 65 or older had average net dissaving of $17,129.

The report also indicates that the top 20% of earners had average net worth of $1.8 million per household in 2018, compared with about $200,000 for the bottom 20%. The top 20% accounted for almost half of household wealth in 2018 (48.7%), which has remained relatively stable over time.

8. Where the loonie will land

[March 27, 2019] Investors concerned about currency fluctuation should take note that the range-bound loonie could soon make some moves—both up and down.

CIBC chief economist Avery Shenfeld expects the Canadian dollar to first see a relative increase in value.

With the Federal Reserve projecting no interest rate hikes this year because of a slowing economy—and with the potential for a Fed rate cut in 2020—the U.S. dollar index could broadly weaken against other major currencies, Shenfeld wrote in a recent outlook report on foreign exchange.

Canada's central bank is also on hold; however, "an expected rebound in Q2 for the Canadian economy should lend support to the loonie in the near term," the report said, owing to such things as a recovery in oil production and improved manufacturing shipments. For USDCAD, Shenfeld forecasted a mid-year low in the 1.31 range.

Don't expect the loonie to rest in that range, though. In a March 4 interview, Shenfeld said Canada's dollar will likely weaken longer term, based on economic fundamentals.

"It's clear that if Canada is going to stay at somewhere close to full employment without another housing boom or consumer spending boom,

we’re going to need a weaker Canadian dollar over time to get there,” Shenfeld said.
That’s because, in contrast to housing and consumption, trade has made a disappointing contribution to economic growth over the last 14 years, he said, with real export volumes significantly trailing those of the U.S.
“Canada has been losing export competitiveness, exporters have been reducing capacity in Canada relative to the U.S. and, with a few exceptions like oil, Canada has struggled to increase the volume of its exports to the rest of the world,” he said.
For example, the CIBC report pointed to the bank’s research suggesting a lack of cost competitiveness as key in encouraging non-resource export industries to relocate elsewhere.
Lacking solid contributions from trade, “we got ourselves to full employment on the back of a housing boom and a debt-financed consumer spending boom,” Shenfeld said.
That won’t fly going forward, considering higher interest rates (the Bank of Canada raised its key rate five times from mid-2017 to last fall) and macroprudential measures for housing, such as the mortgage stress test introduced last year. Monetary policy and regulation have helped cool overheated housing markets, but now “gaps in the Canadian economy are starting to show,” Shenfeld said.
The Canadian economy’s inability to shift growth from housing and consumption to exports and capital spending will put downward pressure on the loonie, he said. Further, the Bank of Canada might keep interest rates sufficiently below those of the U.S. to “encourage the gradual repositioning of the Canadian dollar,” he said.
He added that a depreciating loonie isn’t ideal.
“It’s certainly not the outcome we’d prefer,” he said. “We would prefer a productivity boom in Canada, a capital spending boom by business in Canada to take place in order to lever up exports. But it seems that the data are telling us that Canada is just not that cost-competitive at today’s exchange rate.”
To bring trade into better balance, Shenfeld forecasts the loonie to weaken through 2020, reaching the 1.40 range, or about US$0.70, by 2021.

9. Canada’s trade deficit narrows to $4.2B in January

[March 27, 2019] Statistics Canada says the country’s merchandise trade deficit narrowed to $4.2 billion in January as higher oil prices helped exports rise faster than imports.

The result followed a revised deficit of $4.8 billion for December compared with an initial reading of a deficit of $4.6 billion for the final month of 2018. Economists had expected a deficit of $3.5 billion for January, according to Thomson Reuters Eikon.
In a report, Royce Mendes, CIBC director and senior economist, described the narrowing trade deficit as "only modest," and as a reading that "won't do anything to inspire hopes for a rebound in the Canadian economy."
Still, the monthly increase in exports was enough for National Bank to increase its forecast for first-quarter GDP to 0.96% from 0.83%. Statistics Canada said total exports rose 2.9% to $47.6 billion in January, the first increase since July 2018. Excluding energy products, exports rose 1.2% in January.
Meanwhile, total imports rose 1.5% to a record $51.8 billion in January, boosted by imports of aircraft and other transportation equipment and parts, which rose 52.6% to a record $2.7 billion due to higher imports of airliners from the United States.
Also released today, the payroll survey showed a "substantial" pickup in hiring in January, Mendes said, with non-farm payroll employees increasing by about 71,000 during the month on the back of broad-based gains across categories.
Overall, Mendes said today's trade deficit and payroll data were a "mixed bag," indicative of an economy that is "clearly slowing down, but also not on the precipice of a recession given the trends in employment."
He added that Canada's persistent trade deficit suggests that the Canadian dollar will likely need to weaken over the medium term.

10. Gains in U.S. home prices fall to six-year low

[March 26, 2019] U.S. home prices rose at their slowest pace in more than six years in January, as higher mortgage rates last year weighed on sales.
The S&P CoreLogic Case-Shiller 20-city home price index increased 3.6% in January from a year earlier. That's down from a 4.1% pace the previous month.
The slowdown in price appreciation has helped make homes more affordable. Mortgage rates have also fallen since January. Cheaper homes and lower rates appear to be reversing last year's sales slump. Sales of existing homes soared in February, though they remain slightly below where they were a year ago.
Some red-hot markets have cooled off. Home prices in Seattle rose just 4.1% in January from a year ago, compared with a 12.8% gain in January 2018.

And in San Francisco, where the typical home costs well over $1 million, the annual price increase was 1.8% in January, down from a 10.2% increase a year earlier.
Las Vegas reported the sharpest increase in January from a year ago at 10.5%, followed by Phoenix with 7.5% and Minneapolis at 5.1%.
Home prices are now rising at roughly the same pace as incomes, a remarkable shift after six years of increases that far outpaced wages. Average hourly earnings rose 3.4% in February from a year ago.
Mortgage rates jumped roughly a full percentage point last year, peaking at nearly 5% in November. That throttled home sales, which fell 3.1% in 2018.
But rates have since slipped to 4.28% for an average 30-year fixed rate mortgage. Rates will likely fall further as the Federal Reserve has signalled it may not raise short-term rates at all this year.
Lower rates haven't yet turned around home construction, which is being held back by higher prices for labour and land.
The number of homes under construction fell 8.7% in February, as ground breakings for single-family houses plunged to their lowest level in nearly two years.
The Commerce Department said that builders started construction at a seasonally adjusted annual rate of 1.16 million units last month, down from a 1.27 million pace in January. The setback stems from a 17% drop in the building of single-family houses, which posted the weakest pace since May 2017. Apartment construction increased in February.
Single-family housing starts are running 2.3% below last year's pace. Lower mortgage rates at the start of 2019 appear to be boosting buyer demand for housing, but builders are contending with rising costs for labour and land that limit how much new construction can take place.
Starts plummeted 29.5% in the Northeast. They declined by 6.8% in the South and 18.9% in the West. Home construction increased 26.8% in the Midwest, but the gains came entirely from apartment complexes.
Housing permits, an indicator of future activity, fell 1.6% to an annual rate of 1.30 million.

Have a nice and fruitful week!

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