Weekly Updates Issue # 711

1. Weekly Markets Changes
2. Despite current surplus, Liberals project $15B deficit in 2018-19
3. U.S. Q1 GDP growth of 3.2% beats expectations
4. Canada's mining industry saw positive results in Q1
5. Household debt, cyberattacks among key risks identified by OSFI
6. BoC holds interest rate, downgrades growth forecast for 2019
7. Cross-border investment surged in 2018: StatsCan
8. Report predicts Canadian banks will face rising volatility
9. Many first-time homebuyers hope for financial assistance: survey
10. CRA - Warning: Buyer beware when it comes to Health Spending Accounts

1. Weekly Markets Changes

[April 26, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,613.46 +0.65 +0.00%	2,939.88 +34.85 +1.20%	26,543.33 -16.21 -0.06%	8,146.40 +148.34 +1.85%	$0.7429 -0.44c -0.59%	$1,286.16 +10.41 +0.82%	$63.30 -0.70 -1.09%

2. Despite current surplus, Liberals project $15B deficit in 2018-19

[April 26, 2019] The Trudeau government says it remains on track to post a budgetary shortfall of about $15 billion in 2018-19 even though a new estimate says the federal books ran a $3.1-billion surplus through the first 11 months of the fiscal year.

The number was released Friday in the Finance Department's latest fiscal monitor, a document that provides a preliminary look at the federal balance sheet.

In last month's budget, the Liberals projected the government to post a $14.9-billion shortfall in 2018-19, so a report showing Ottawa $3.1 billion in the black with one month to go appears to have the government on pace for a better fiscal result.

The surplus, however, is poised to be more than wiped out by promised spending, the department said.

The budget contained "several significant measures" that will be booked in the 2018-19 fiscal year once the legislation is adopted, the report said.

It listed big-ticket items from the budget, including a $2.2-billion transfer to communities for infrastructure projects, $1 billion to improve energy

efficiency in buildings and $900 million towards forgiving and reimbursing loans to Indigenous governments for comprehensive claim negotiations.

“Taking these measures, along with expected March 2019 results and end-of-year adjustments, into account, the results to date are broadly in line with the budgetary deficit for 2018-19 projected in budget 2019,” the Finance Department said.

The government has raked in higher-than-expected revenues following a strong economic run in 2017 and 2018. The economy, however, has eased up in recent months after nearly stalling in late 2018 following a sudden fall in oil prices.

The report Friday said the April-to-February surplus was an improvement compared to the same period in 2017-18, when the government ran a deficit of $6 billion.

Overall revenues during the period were up $23.5 billion, or 8.5%, compared to the same 11-month stretch the previous year. The increase was due in large part to higher revenues from taxes and incoming employment-insurance premiums, the report said.

Program expenses rose by $12.7 billion, or 4.8%, mostly because of increases in major transfers to individuals and other levels of government as well as higher direct program spending.

The department said public debt charges increased $1.7 billion, or 8.4%, in a change mostly due to the higher effective interest rate on government debt.

In February alone, the report said the government had a surplus of $4.3 billion, which was driven by a revenue boost of $3.5 billion, or 12.2%, compared to the year before.

The Liberals’ budget also predicted the government would run annual deficits of $19.8 billion in 2019-20, $19.7 billion in 2020-21 and $14.8 billion in 2021-22.

With the federal election just six months away, Canadians should expect to hear more and more debate focused on the country’s fiscal situation.

The opposition Conservatives and some economists have criticized the Trudeau government for ditching its 2015 campaign vow to run annual deficits of no more than $10 billion and to balance the books by 2019. The Liberals have also faced objections for not providing a timetable to return to budgetary balance.

Finance Minister Bill Morneau has instead focused on reducing the net-debt-to-GDP ratio—a measure of how burdensome the national debt is—each year. He’s argued the extra spending, in areas such as infrastructure, has been necessary to help raise the country’s long-term growth.

3. U.S. Q1 GDP growth of 3.2% beats expectations

[April 26, 2019] The U.S. economy grew at a solid 3.2% annual rate in the first three months of the year, a far better outcome than expected, overcoming a host of headwinds including global weakness, rising trade tensions and a partial government shutdown.

The advance in the gross domestic product, the broadest measure of economic health, marks an acceleration from a 2.2% gain in the previous October-December period, the Commerce Department reported Friday. However, about half the gain reflected two factors not expected to last—a big jump stockpiling by businesses and a sharp contraction in the trade deficit.

Still, the GDP gain surpassed the 3% bar set by President Donald Trump as evidence his economic program is working. Trump is counting on a strong economy as he campaigns for re-election.

It was the strongest first quarter growth rate since 2015. In recent years, GDP has been exceptionally weak in the first quarter. There had been fears growth could dip below 1% this year due to a variety of adverse factors such as the December stock market nosedive, rising weakness in key economies overseas, the U.S. trade war with China and a 35-day partial government shutdown that ended in January.

But the economy shrugged off those concerns, helped by an announcement in early January from the Federal Reserve that after raising rates four times last year, it was declaring a pause on further rate hikes. That spurred a stock market rebound by easing concerns that the central bank might overdo its credit tightening and send the country into a recession.

Still, economists believe the current April-June quarter will not match the first quarter's performance. Many are looking for GDP growth to slow to around 2% in the current quarter.

In the first quarter, inventory rebuilding added 0.7 percentage point to growth, while a falling trade deficit boosted growth by a full percentage point. Analysts think both of those factors will reverse in the current quarter.

Consumer spending, which accounts for 70% of economic activity, slowed to growth at a rate of just 1.2% in the first quarter. In particular, spending on durable goods fell at a rate of 5.3%, the biggest decline in a decade, led by a sharp drop in light truck sales.

Government spending was up 2.4% as a big 3.9% gain in state and local spending, reflecting increases in highway construction, offset a flat performance for the federal government. The government estimated that the 35-day partial federal shutdown trimmed 0.3 percentage point from growth in the first quarter after trimming fourth quarter growth by 0.1 percentage point.

For the year, economists believe GDP will expand 2.4%, down from last year's 2.9% gain, as the boost from the 2017 tax cuts and increased government spending over the past two years start to fade.
The consensus view of private forecasters is well below expectations of the Trump administration, which contends that its economic policies have broken a decade-long period when GDP gains averaged 2.2% annually. The administration is predicting growth will top 3% in coming years.
There are factors that could help lift growth in coming quarters. The global economy appears on better footing, given improvements in such major economies as China, and a trade war between the world's two largest economies that appears closer to being resolved than it did at the start of the year.
Mark Zandi, chief economist at Moody's Analytics, said he expects growth for this year to be around 2.2%, close to the average for the past 10 years.
"We got a temporary boost to growth last year because of the tax cuts but that money has been spent so we are back to the kind of growth we have had," Zandi said. "I think we are back to the 2% world we have been in since the recession ended."
The current recovery from the Great Recession of 2007-2009 is currently the second longest in history and will become the longest if it lasts past June.
But it has also been the slowest in the post-World War II period, a development economists attribute to slower growth in the labour force and weak gains in productivity.

4. Canada's mining industry saw positive results in Q1

[April 26, 2019] Canada's mining industry saw a positive start to the year with the EY Canadian mining eye index rising 5% in the first quarter of 2019 (Q1 2019) from Q4 2018, Ernst & Young announced Thursday.
Following an 8% quarter-over-quarter gain in Q4 2018, gold prices continued to increase by 1% in Q1 2019, EY says. This was due, in part, to the possibility of fewer U.S. Federal Reserve rate hikes in 2019 and will likely continue to benefit gold prices in the near-term.
"Gold production estimates are up in Canada with several major projects expected to begin or expand production this year," Jay Patel, EY Canada's mining and metals transactions leader, said in a statement. "Capital expenditures are also increasing reflecting renewed confidence in the sector."
Base metal prices also fared well in Q1 2019. A surge in demand for electric vehicles (EVs) boosted nickel prices by 22% following a 15% decline in Q4

2018, EY said. The outlook for nickel remains positive with ongoing demand for stainless steel and reduced inventory levels.
Similarly, zinc and copper prices increased by 19% and 9%, respectively, in Q1 2019, and are likely to benefit in the near-term from declining inventories and tight market conditions.
"Improving market conditions are inspiring new confidence in the mining and metals sector and putting growth back on the boardroom agenda," Jeff Swinoga, EY Canada's mining and metals leader, said in a statement.
EY research suggests that mining and metals deal activity will continue to shift from divestment-led to investment-led with a focus on replenishing portfolio growth options in the near-term.

5. Household debt, cyberattacks among key risks identified by OSFI

[April 25, 2019] Federal financial regulator the Office of the Superintendent of Financial Institutions (OSFI) is seeking to improve financial firms' readiness for and resilience to risks ranging from hackers to high household debt loads.
OSFI released a new strategic plan on Thursday that sets out the regulator's vision for the next several years (2019 to 2022).
In that plan, OSFI detailed its main objectives, which include improving firms' preparedness for and resilience to financial risks, and their ability to identify and handle non-financial risks (such as technology risks, cyber risks and conduct risks).
"Household debt, asset imbalances, extreme weather events and cyber-attacks are among the key risks to federally regulated financial institutions," the regulator said.
Against that backdrop, it also noted that the Canadian financial sector has grown significantly since the financial crisis.
For instance, over the past five years, OSFI said deposits at the Big Six banks have increased by more than 50%, their international assets have grown by 67% and total assets at firms under OSFI oversight has grown by almost 40% to more than $7 trillion.
Additionally, the growth of fintech, industry fragmentation and the provision of financial services outside of OSFI oversight have also increased the system's complexity, it noted.
"While Canada's financial system has been stable, OSFI cannot be complacent and must be ever vigilant," OSFI said.

The regulator said its latest strategic plan will be used as a "management tool" to keep it on track as the industry evolves and the risk environment develops too.
"The Canadian financial sector is constantly undergoing change. Our strategic plan charts a path for the future that builds on past achievements, while focusing us on future challenges so OSFI can continue to provide strong prudential regulation and supervision," OSFI superintendent Jeremy Rudin said in a statement.

6. BoC holds interest rate, downgrades growth forecast for 2019

[April 24, 2019] The Bank of Canada ditched its discussion of interest rate hikes Wednesday as it downgraded its 2019 growth forecast on a prediction the economy nearly ground to a halt at the start of the year.
The central bank kept its key interest rate unchanged, as expected, and appeared to be in no hurry to move the interest rate any time soon. Unlike its recent statements, the announcement Wednesday made no mention of a need for future increases.
The decision left the trend-setting rate at a still-stimulative 1.75% for a fourth-straight announcement—a pause that followed governor Stephen Poloz's stretch of five hikes between mid-2017 and last fall.
The economy was operating close to full tilt for most of 2017 and 2018, the bank said, before a sudden deceleration in the final three months of last year.
The slowdown was largely caused by a drop in oil prices and unexpectedly weak numbers for investment and exports—and the bank says its effects have spilled into 2019.
"In Canada, growth during the first half of 2019 is now expected to be slower than was anticipated in January," said the bank, noting how weaker-than-expected housing and consumption also weighed on the economy.
In its latest quarterly projections, also released Wednesday, the bank predicted growth in real gross domestic product of 1.2% for 2019, down from its January forecast of 1.7%. The Bank of Canada projected growth at an annualized rate of just 0.3% in the first three months of 2019.
Following the release Wednesday, the Canadian dollar came under pressure and fell nearly half a cent.
The central bank, however, also predicted better days ahead.
The economy should pick up its pace in the second quarter on expectations of stronger housing activity, consumer spending, exports and business investment, the bank said. It expects the economy to build momentum through

2019 before returning to above-potential growth of 2.1% in 2020 and 2% in 2021.
Even with the anticipated improvements, the bank avoided mentioning future rate hikes in its statement Wednesday like it had in the past.
"Given all of these developments, governing council judges that an accommodative policy interest rate continues to be warranted," the bank said. "We will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive."
The central bank's March rate announcement said there was "increased uncertainty about the timing of future rate increases." The January statement said the benchmark would need to rise over time to a so-called neutral range that had been estimated at between 2.5 and 3.5%.
In addition to the change in the statement's language, the central bank also updated its estimate Wednesday of the neutral—or destination—range, which is the preferred level when the economy is running at full capacity and when inflation is within its target zone of one to 3%.
The bank said its new, slightly lower estimated range is between 2.25 and 3.25%.
Many economists expect the bank to leave the interest rate untouched until at least late in the year, with some warning a rate cut could arrive before the next increase.
The Bank of Canada, which was widely expected to stand pat on the rate Wednesday, will make its next policy announcement on May 29.
Poloz has stressed the bank's dependence on data, and the statement Wednesday said it will pay close attention to the evolution of household spending, oil markets and global trade policy.
Looking ahead, the bank projects a gradual expansion of investment outside the oil and gas sector before it turns into solid growth in the second half of 2019. It expects the boost to come with companies' responses to capacity constraints, higher operating profits and investment incentives from the federal and Ontario governments.
Exports of goods and services, in particular, are expected to grow with a lift from foreign demand, though the bank noted there's still uncertainty given global trade tensions.
The bank predicts consumption to continue expanding along with growing wages—even though households are burdened with high debt loads—and for the dampening effects of recent housing measures to fade over time.

7. Cross-border investment surged in 2018: StatsCan

[April 24, 2019] Canadian investment abroad ramped up in 2018, largely driven by a weaker Canadian dollar, and foreign investment in Canada also rose, thanks to an increase in merger and acquisition activity, according to a Statistics Canada report.
StatsCan said Canadian direct investment abroad jumped by 10.4% to $1.3 trillion in 2018. Most of the gain came in equity holdings, which rose by $115 billion to almost $1.2 trillion, it said. At the same time, offshore debt holdings rose by $6 billion to $91 billion.
Most of the increase was driven by weakness in the Canadian dollar, which dropped by 8.7% against the U.S. dollar, declined by 3.7% against the euro and 2.8% against the British pound during the year.
By sector, most of the growth in the stock of direct investment abroad came in the finance and insurance industry, StatsCan reported, with the value of investment in the sector rising by $53 billion to $471 billion.
At the same time, the stock of foreign direct investment (FDI) in Canada also rose by 5.0% to $877 billion in 2018, StatsCan said.
"The increase was the largest in four years and was the result of higher equity positions (up $44 billion to $732 billion), moderated by lower debt instrument positions (down $2 billion to $145 billion)," StatsCan noted.
"The increase in the equity position was stimulated by a pickup in merger and acquisition activity following a net decline in this activity in 2017," it added.
StatsCan said the growth in FDI was widespread, with the manufacturing sector leading the way, followed by wholesale trade, and the agriculture, forestry, fishing and hunting industries.

8. Report predicts Canadian banks will face rising volatility

[April 23, 2019] Amid increasingly unpredictable loan losses and rising acquisition risk, Canadian banks are facing intensifying market volatility, says Hamilton Capital Partners Inc.
In a research note, the Toronto-based investment firm said it expects Canadian banks to experience higher volatility over the next two years, pointing to U.S. merger and acquisition activity and a shift in the accounting rules as the primary reasons.
In particular, banks with U.S. commercial banking platforms, including Bank of Montreal, CIBC, Royal Bank and TD Bank, face rising acquisition risk, the firm said.

"Recent high profile bank mergers south of the border suggest that, after several years of limited activity, U.S. bank M&A is poised to accelerate," the report said.

Canadian banks with significant U.S. platforms "will likely feel pressure" to participate in the M&A action, it added.

"Today, we believe TD is most at risk, given its lower quality Southeast platform (largely built through the acquisition of failed/failing U.S. banks), higher capital ratios (signalling preparation for a deal), and the fact it has not done a U.S. commercial bank acquisition in the region since 2010. However, BMO, CIBC and [RBC] are also potential acquirers thereby increasing acquisition risk," the firm said.

Additionally, a change in how loan losses are accounted for "is likely to create additional volatility – both upside and downside," the firm said.

Under the new approach, "banks now need to estimate the potential loan losses in their existing loan portfolios based on their expectations for changes in the broader economy," it noted.

"Reduced visibility in this critical expense will very likely make it more difficult for analysts to forecast quarterly [earnings], increasing the probability of beats/misses and resultant share price volatility," it said.

9. Many first-time homebuyers hope for financial assistance: survey

[April 23, 2019] First-time homebuyers across Canada are seeing home ownership as less elusive than it was—but, even so, many are hoping that family and friends will help them pay for a big chunk of the cost, according to a new report from Toronto-based BMO Financial Group.

More than one-quarter of Canadians are looking for a contribution of between $5,000 and $50,000 from family and friends, and over 10% are hoping for a gift of $100,000 or more. Millennials, on average, are hoping for $61,431 and Gen X for $43,400, the survey found.

"Up against external headwinds, parents and family members are being asked to help first-time buyers enter the real estate market. While a financial gift can help, a home financing solution that fits a homebuyer's budget is equally important," Hassan Pirnia, head, personal lending and home financing products, BMO Bank of Montreal, said in a statement. "It comes down to ensuring that the homebuyer can sustain the costs of homeownership on their own."

Of respondents looking to purchase a home in the next year, 42% said the housing market is affordable. But, at the same time, more than a third said

they plan to share the financial responsibility with someone else to ease affordability.

And when it comes to affordability, sentiment varies across the country. First-time buyers in Atlantic Canada are more likely to see the market as affordable (62%), as are Albertans (58%), but first-time buyers in Ontario and B.C. don't share the same optimism (respectively, 32% and 34% see the market as affordable). According to data from BMO Economics, six out of 11 of Canada's larger cities are currently buyer's markets (Calgary, Edmonton, Saskatoon, Regina, Vancouver and Victoria).

Nearly 40% of survey respondents said they'd be more likely to get a fixed-rate mortgage due to rising rates.

10. CRA - Warning: Buyer beware when it comes to Health Spending Accounts

[Apr 18, 2019] The Canada Revenue Agency (CRA) is always on the lookout for tax schemes and opportunities to warn Canadians about them. Lately, the CRA has noticed several businesses improperly claiming deductions related to Health Spending Accounts (HSA), and it wants to alert potential participants about this scheme.

What are tax schemes?

Tax schemes are plans and arrangements that contravene the Income Tax Act and deceive taxpayers by promising to reduce the taxes they owe. For example, these schemes may promise large deductions or tax-free income.

What are HSAs?

HSAs are self-insured health plans arranged by employers for their employees residing in Canada. They provide a way that small businesses can provide tax-free health and dental benefits to their employees (and their employees' family members). This makes the HSA appear to be an extremely attractive and cost-effective way of getting and providing health and dental benefits.

However, a valid HSA plan must conform to private health service plan rules set out in the Income Tax Act. The information below clarifies the rules on what are acceptable Health Spending Accounts.

What HSAs are acceptable?

Incorporated businesses, including shareholder employees and all other corporate employees, are eligible to participate in an HSA. Corporations with as few as one employee can be eligible as well. However, the HSA cannot be solely for shareholders unless the shareholders are also employees earning a T4 income.

In the case of unincorporated businesses or sole proprietors, the owner and their employees are also eligible if the owner has at least one arm's-length employee.

What HSAs are not acceptable?

Some insurance agents/brokers and financial planners are marketing HSAs to businesses operating as sole proprietorships that have no arm's-length employees. Participants are told that they will be onside with meeting the Income Tax Act rules for private health services plans if they purchase additional types of insurance.

Bottom Line: If the business is a sole proprietorship with no arm's-length employees, the CRA does not consider an HSA to be a private health services plan and any costs incurred for amounts paid to this account are not deductible business expenses.

What can you do?

The CRA encourages all Canadians to seek an independent second opinion from a reputable tax professional on important tax matters.

If you suspect tax evasion, you can report it online at Canada.ca/taxes-leads or by contacting the Informant Leads Centre line at 1-866-809-6841. Steps will be taken to protect your identity, although you may provide information anonymously.

In addition, the CRA continues to encourage taxpayers to come forward and correct their tax affairs through the Voluntary Disclosures Program (VDP): Canada.ca/taxes-voluntary-disclosures.

For more information about misleading statements and myths about Canada's tax laws, resources are available online at the CRA website: Debunking tax myths.

For more information on tax schemes, please go to Canada.ca/tax-schemes.

SOURCE Canada Revenue Agency

Have a fruitful week!

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