Weekly Updates Issue # 721

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1. Weekly Markets Changes

[July 5, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,541.99 +159.8 +0.96%	2,990.41 +48.65 +1.65%	26,922.12 +322.2 +1.21%	8,161.79 +155.54 +1.94%	$0.7634 -0.07c -0.09%	$1,399.45 -10.1 -0.72%	$57.51 -0.96 -1.64%

2. BoC rate announcement to balance domestic data and global uncertainty

[July 5, 2019] As the Bank of Canada prepares for another rate decision next week, policy makers have an easier decision than their global counterparts, a CIBC report says.

"Markets aren't clamouring for a move in the near term, and neither, for that matter, are Canada's political leaders," wrote CIBC Capital Markets chief economist Avery Shenfeld in a report on Friday. "[Federal Reserve chairman] Jay Powell would no doubt like that sort of quietude."

Economists expect the central bank to maintain its overnight rate at 1.75% on Wednesday. The C.D. Howe Institute called for a hold next week and through July 2020, with members of the think-tank's monetary policy council weighing Canada's "relatively robust" economic performance against a more concerning global outlook.

National Bank Financial's (NBF) report on Friday pointed to a first half of 2019 that saw almost 250,000 new jobs (the best period since 2002) and wages up an annualized 6.5% (the fastest rate since 2007). Add to that inflation (2.1%) at its highest level since 2012 and signs of an oil sector rebound.

That performance contrasts with economic data elsewhere that has led central bankers to take more dovish positions. While the BoC can emphasize global

uncertainties, the NBF report said, "there's a limit to how dovish it can sound without appearing out of touch with domestic data."
So, while governor Stephen Poloz may have an easier decision on Wednesday, there's "a risk that even a balanced approach might sound hawkish to markets in comparison to the dovish turns performed by other central banks lately," the NBF report said.
CIBC's Shenfeld raised the same concern about a hawkish tone, while others signalled a policy ease could "send the Canadian dollar on an export-denting tear."
"Governor Poloz has been of the view that a hike is more likely than a cut when the day comes to act, and the recent pick up in growth, and a marginal uptick in core inflation, may have reinforced that leaning," he wrote.
However, Shenfeld said a hold is "highly likely" and that there's no reason for the bank to give a signal next week about where it's headed.
The BoC will also release its monetary policy report on Wednesday with updated economic projections. NBF expects a "significant" upward revision to the second quarter growth forecast and corresponding adjustment for full-year growth.

3. Fed repeats pledge to act to sustain economic expansion

[July 5, 2019] The Federal Reserve on Friday repeated its pledge to "act as appropriate" to sustain the current economic expansion, now the longest in U.S. history, while noting that most Fed officials have lowered their expectations for the future course of interest rates.
The Fed's statement on interest rates came in its semi-annual monetary policy report, which said that since May "the tenor of incoming information on economic activity, on balance, has become somewhat more downbeat and uncertainties about the economic outlook have increased."
Federal Reserve Chairman Jerome Powell will testify before Congress on the monetary report on Wednesday and Thursday of next week. He will likely face questions on whether the strong jobs report Friday, showing 224,000 jobs created in June, lessens the chances for a June rate cut.
The Fed at its last meeting in June had signalled that it was prepared to start cutting interest rates if needed to protect the U.S. economy, a change from the pledge it had been making since January to remain "patient" before changing rates.
The Fed pushed its key policy rate up four times in 2018, angering President Donald Trump, who blamed the rate hikes for slowing economic growth and

depressing the stock market. The Fed's benchmark rate currently stands in a range of 2.25% to 2.5%.

Financial markets have been expecting a rate cut with the CME Group's Fed tracker putting the odds of at least one rate cut at the July meeting at 100%.

However, that expectation reflected investor views before the government reported the sizeable 224,000 gain in jobs in June, which was a rebound from a gain of 72,000 jobs in May.

In the monetary report, the Fed noted that views of Fed officials about the economic outlook had changed beginning in May as global growth slowed and U.S. businesses and farmers began to express "heightened concerns" about rising trade tensions.

In early May, Trump increased penalty tariffs on $250 billion in Chinese goods and threatened to broaden the tariffs to $300 billion in other Chinese imports after trade talks between the world's two biggest economies stalled.

The Fed said that in its updated economic forecast released in June, about half of the Fed officials expected they would need to cut interest rates this year. The other half believed the benchmark rate could stay where it is currently.

Trump last week declared a ceasefire in his trade war with China after a meeting with Chinese President Xi Jinping at the Group of 20 summit in Japan. Both countries agreed to resume negotiations to reach a deal to satisfy American demands for better protection of American technology.

Trump has levelled a number of attacks at Powell and the Fed. Earlier this week, he announced his intention to fill two remaining vacancies on the seven-member Fed board with economists Judy Shelton, who had served as a Trump economic advisor, and Christopher Waller, currently the research director at the Fed's St. Louis regional bank.

If confirmed by the Senate, both officials are expected to support Trump's call for the Fed to cut interest rates.

4. Canadian employment declined slightly in June

[July 5, 2019] Canada's economy posted a slight decline in employment in June, a month that still saw the jobless rate stay near its four-decade low and wages rise to their highest level in over a year.

The unemployment rate edged up to 5.5%, compared with 5.4% in May—which was its lowest mark since the government started collecting comparable data in 1976, Statistics Canada said Friday.

Overall, the report said the economy shed 2,200 net positions after adding about 24,000 full-time jobs and the losing about 26,000 part-time jobs.

Even with the small decline, the labour market has had a strong start to the year.
The economy added 248,000 new positions—almost all of which were full time—over the first half of 2019 to give Canada its strongest six-month stretch of job growth to start a year since 2002.
The labour force survey's measures for wages, among the indicators closely followed by the Bank of Canada ahead of its interest-rate decisions, perked up last month.
Year-over-year average hourly wage growth for all employees was 3.8% in June, giving the indicator its strongest month since May 2018 and second-best reading in a decade. It has been climbing in recent months—after hitting 2.8% in May and 2.5% in April.
Quebec saw wage growth reach five% for its highest level since April 2009.
CIBC chief economist Avery Shenfeld didn't expect the jobs report Friday to change the Bank of Canada's thinking ahead its interest-rate announcement next Wednesday. Like most analysts, he predicts the central bank to leave the rate unchanged.
"We'll forgive Canada's job market for taking an early summer holiday in terms of employment gains, given the massive surge in hiring that preceded it," Shenfeld wrote in a report to clients.
"The details of June were a bit more encouraging with a (24,000) climb in full-time employment and the weakness concentrated in 'self employment,' as paid jobs gains a hefty (39,000)."
Compared with a year earlier, employment was up 421,100 or 2.3%, the report said. Of those new positions, 314,500 of them were full time.
Last month, paid employee positions rose by 39,200, with 16,200 new jobs in the public sector and 23,000 in the private sector.
The number of people who identified themselves as self-employed dropped by 41,400.
The factory sector shed 32,800 jobs in June with the bulk of the losses in manufacturing.
The services sector added 30,600 jobs last month following a surge of new positions created in health care and social assistance.

5. Average price for Toronto home rose 3% from last year

[July 4, 2019] The Toronto Real Estate Board says home sales were up 10.4% in June compared with last year as the market continued a moderate spring rebound.

It says the Greater Toronto Area saw 8,860 sales through the Multiple Listing Service system in the month, up from 8,024 in the same month last year.

The rise in sales, combined with a very slight dip in new listings, helped push the average selling price up 3% to $832,703.

Sales data for the month falls roughly in line with trends for the first half of the year, which saw sales up 8.5% and the average selling price climb 2.4%.

"Buyers started moving off the sidelines in the spring, as evidenced by strong year-over-year price growth," said TREB chief market analyst Jason Mercer in a statement.

"Because we saw virtually no change in the number of new listings, market conditions tightened and price growth picked up, especially for higher density home types."

Average condo selling prices have climbed 5% so far this year, townhouse prices are up 2.7%, semi-detatched homes are up 4.5%, while detached home prices have dipped 0.8%.

For June, condo prices climbed 5.2% as sales dropped 3.2%, while detached home prices dipped 1.4% as sales rose 18.6%.

New listings for June totalled 15,816, down 0.4% from last year.

6. Strong employment numbers mask concerns over job quality, report says

[July 4, 2019] Although Canada is adding more full-time jobs than part-time jobs, the quality of employment in the country continues to deteriorate, finds a new report from CIBC Economics.

The bank's index of employment quality—which compares data from part-time versus full-time jobs, self-employment versus paid employment and compensation rankings from more than 100 industry groups—declined by 1.4% during the year ending May 2019.

CIBC found that while full-time employment accounted for 81% of the jobs created over the past year, the growth was strongest among low-paying jobs and weakest among high-paying jobs. Growth was particularly strong in low-paying sectors such as food services, accommodation, personal services, administration and personal care.

The report also found that the majority of workers paid below the average wage continues to rise. These workers accounted for just under 61% of the labour force in 2018.

"That trend is consistent with a widening wage gap symptomatic of deteriorating labour market quality," wrote report author Benjamin Tal, deputy chief economist with CIBC Economics.

Growth in jobs that pay between 50% and 100% of the average wage was strongest over the past year, a trend that has been consistent over the past few decades, the report noted. Workers in this wage range accounted for 51% of total employment.

The report observed that, although Canada currently has the lowest unemployment rate since the 1970s, new jobs aren't adding much to the country's productive capacity, with real GDP growth "not remotely close to where it should be."

"Simply put, all other things being equal, lower employment quality means that the labour market must run faster to stay in the same place since we need relatively more workers to generate the same increase in income," it concluded.

7. Metro Vancouver's benchmark home price falls below $1M in June

[July 3, 2019] Metro Vancouver's once hot housing market is experiencing an "expectation gap" between buyers and sellers as the benchmark property price fell under $1 million for the first time since May 2017.

"Sellers are often trying to get yesterday's values for their homes, while buyers are taking a cautious, wait-and-see approach," Ashley Smith, the real estate board's president, said in a statement.

The composite benchmark price for detached houses, townhomes and condos in Metro Vancouver was $998,700 in June, said the Real Estate Board of Greater Vancouver. That's down 9.6% from the same time last year and 0.8% from May.

Detached houses saw the biggest drop, falling 10.9% from June 2018 to $1,423,500. However, the price inched forward month-over-month, up 0.1% since May.

Townhomes fell 8.6% to $774,700 and condos dropped 8.9% to $654,700. Both also saw month-over-month drops with townhomes losing 0.6% and condos 1.4% compared to May.

Prices dropped as the area recorded the lowest number of home sales last month than any June in nearly two decades.

The board says 2,077 homes sold in June 2019—down 14.4% from the same month last year, down 34.7% from the 10-year June sales average and the lowest June total since 2000.

Condos experienced the biggest slowdown. In June, sales of condos fell 24.1% compared with a year ago to 941. Meanwhile, townhome sales last month dropped nearly seven% and detached home sales fell 2.6% compared with June 2018.

The number of newly listed homes also fell, dropping 10% from June 2018 to 4,751 homes across all categories. However, the total number of homes listed for sale rose 25.3% from June 2018 to 14,968 homes in June 2019.

The sales-to-active-listings ratio, a key measure that indicates whether it's a buyers' or sellers' market, was 13.9% for all property types in June. It dropped to 11.4% for just detached homes, but rose to 15.8% for townhomes and 15.7% for condos.

A ratio under 12% for a sustained period suggested downward pressure on home prices will occur, while upward pressure is expected when the ratio exceeds 20% for several months.

"Home buyers haven't had this much selection to choose from in five years," said Smith, adding sellers need to price their homes accordingly to be successful in the current market.

Have a nice and fruitful week!