Weekly Updates Issue # 723

1. Weekly Markets Changes
2. Mortgage stress test is now less stressful
3. Retail sales dip in May on lower grocery and liquor spending
4. Boomers worried they aren't saving enough: survey
5. Seniors unhappy with mutual funds, disclosure docs: report
6. With a July cut almost assured, how far will the Fed go?
7. Inflation hits BoC target of 2%
8. More homeowners turning to alternative lenders: report
9. June saw slight increase in home sales
10. Tariff war continues to take toll on Chinese economy

1. Weekly Markets Changes

[July 19, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,485.94 -2.18 -0.01%	2,976.61 -37.16 -1.23%	27,154.20 -177.83 -0.65%	8,146.49 -97.66 -1.18%	$0.7651 -0.19c -0.25%	$1,425.37 +9.62 +0.68%	$55.63 -4.58 -7.61%

2. Mortgage stress test is now less stressful

[July 19, 2019] The Bank of Canada has lowered the rate used by mortgage stress tests to determine whether would-be homeowners can qualify, marking the first drop in three years.

The central bank's five-year benchmark qualifying rate is now 5.14%, down from 5.34%.

It's the first decrease in the five-year fixed mortgage rate since September 2016, when it dropped from 4.74% to 4.64%, and increased steadily since.

The qualifying rate is used in stress tests for both insured and uninsured mortgages, and a lower rate means it is easier for borrowers to qualify.

These stress tests require potential homebuyers to show they would still be able to make mortgage payments if faced with higher interest rates or less income.

The Bank of Canada's five-year benchmark rate is calculated using the posted rates at the Big Six banks.

Home sales softened last year after the federal government introduced new stress test rules for uninsured mortgages, or those with a down payment of more than 20%, and mortgage rates inched higher.

As of Jan. 1, 2018, to qualify for an uninsured mortgage, borrowers needed to prove they could still make payments at a qualifying rate of the greater of two

percentage points higher than the contractual mortgage rate or the central bank's five-year benchmark rate.
An existing stress test already stipulated that homebuyers with less than a 20% down payment seeking an insured mortgage must qualify at the central bank's benchmark five-year mortgage rate.
The federal financial regulator has said that the new, stricter regulations aimed to tighten mortgage lending and take some of the risk out of the market.
Meanwhile, home sales have improved in recent months as mortgage rates have moved lower.
But on Thursday, the Ontario Real Estate Association called for less stringent mortgage rules, saying that policy changes are needed to counter a downward trend in home ownership.
OREA's chief executive Tim Hudak said in a letter to federal policymakers that Ottawa should consider restoring 30-year insured mortgages, ease up on the interest rate stress test and eliminate the test altogether for those renewing their mortgage with a different lender.
Borrowers looking to renew their mortgages are subject to stress tests if they switch to a new lender, but not if they stick with their current one.
In a May letter to policymakers, the chief executive of Canada Mortgage and Housing Corporation defended the stricter lending rules, arguing that "the stress test is doing what it is supposed to do."

3. Retail sales dip in May on lower grocery and liquor spending

[July 19, 2019] Canadian retail sales fell for the first time in four months as shoppers spent less at grocery and liquor stores in May.
Statistics Canada said Friday retail sales fell 0.1% in May to $51.5 billion.
Economists had expected an increase of 0.3%, according to Thomson Reuters Eikon.
CIBC senior economist Royce Mendes said the weakness was relatively narrowly based, with only four of 11 sectors lower on the month.
"Food and beverage stores curiously represented the largest decline, odd for a series that should usually be quite consistent," Mendes wrote in a report.
"As a result, some of that softness could turn out to be transitory, but from a longer-term perspective, real sales have still shown little growth since the start of 2017."
Sales at food and beverage stores decreased 2.0% in May after increasing for three consecutive months as sales at supermarkets and other grocery stores fell 2.0% and sales at beer, wine and liquor stores dropped 2.7%.

Clothing and clothing accessories stores saw sales fall 2.7%, while general merchandise stores dropped 1.1%.
Meanwhile, sales at motor vehicle and parts dealers edged up 0.5% and sales at cannabis stores rose 14.8%.
Excluding sales at motor vehicle and parts dealers and gasoline stations, retail sales fell 1.0%.
In volume terms, retail sales fell 0.5% for the month.
Benjamin Reitzes, Canadian rates and macro strategist at BMO Capital Markets, said there were a couple of factors that likely weighed on the retail sales.
"First, gasoline prices were up sharply in the month, pushing gas station sales up 3.5%. That spending tends to get diverted from other sectors," he said.
"And, the weather in May was simply awful, generally a negative for retail activity. The sectors hit hardest, clothing, sporting goods, alcohol, general merchandisers are consistent with bad weather."
However, Reitzes noted that Canadians remain heavily indebted and that will likely restrain spending growth for years to come.
The weaker-than-expected retail sales report came as the Canadian economy has been showing signs of strength as it has bounced back from a weak end to 2018 and start to 2019.
The Bank of Canada kept its key interest rate on hold last week when it also released its updated monetary policy report.
In its forecast, the central bank raised outlook for second-quarter growth to an annual pace of 2.3% compared with its April projection of 1.3%. It predicted growth at an annual pace of 1.5% for the third quarter.
The Bank of Canada stands in contrast to the U.S. Federal Reserve, which is expected to cut its key interest rate later this summer.

4. Boomers worried they aren't saving enough: survey

[July 18, 2019] A Royal Bank of Canada (RBC) poll released on Thursday finds Canadian boomers aged 50+ are concerned they're not saving enough for retirement.
While boomers across the country worry they're falling short of their goals, the amount of that shortfall differs depending on their investable assets and where they live.
RBC found that boomers with more than $100,000 in investable assets had a goal of saving $949,000, on average, but were falling short by an average of $275,000.

Boomers with less than $100,000 in investable assets hoped to save $574,000, on average, but were falling short by an average of $500,000, RBC found.
Boomers in Alberta thought they would need the most money to retire — $1.1 million, on average — while boomers in Atlantic Canada had the most modest retirement goal of $788,000. Both of these groups fell short of these goals, with Albertans reporting they had saved an average of $821,000 to date, and Atlantic Canadians saying they'd saved an average of $331,000.
RBC found that respondents were considering a number of options to make up for their perceived savings shortfalls, including downsizing/moving (52%), working in retirement (41%), borrowing against home equity (25%), relying on an expected inheritance (21%) and hoping to win the lottery (3%).
Alberta women concerned about retirement savings
A report, also released on Thursday, from ATB Wealth, the wealth management division of ATB Financial, found that women in Alberta were particularly concerned about their retirement savings.
The report found that only 30% of women in the province were confident they were saving enough to retire comfortably.
ATB also found that women and men in Alberta differ noticeably in their investment knowledge and risk tolerance.
Forty-one per cent of women said they were inexperienced when it came to investment knowledge, compared to 26% of men. Fifty-three per cent of women said their risk tolerance was very low or low, compared to 35% of men.
Fifty-four per cent of Albertans — both male and female — said they prefer to talk to professionals about investment decisions, and 36% said it was worth the cost. Forty-seven per cent of respondents worried that advisors were not looking out for their best interests.

5. Seniors unhappy with mutual funds, disclosure docs: report

[July 18, 2019] Financial industry firms need to ramp up their capabilities for dealing with senior clients, and they should also be empowered to help defend seniors against financial abuse, suggests a new report from the Ombudsman for Banking Services and Investments (OBSI).
Among other things, the report found that seniors are more likely to bring complaints to OBSI than younger consumers. Seniors generated 38% of the complaints OBSI received in 2017 and 2018, yet they only represent 30% of the population.

On the investment side, suitability and disclosure issues were the top complaints from seniors, whereas fraud was the top banking-related complaint. Mutual funds and equities were the most complained-about products for senior investors. Credit cards were the banking product that raised the most issues.

The report also highlighted some of the challenges faced by seniors in dealing with the financial industry, including an array of barriers to access, such as information barriers, emotional and social barriers and physical barriers that impact seniors more than younger clients.

"Seniors often report being overwhelmed by lengthy disclosure documents that contain too much information and require extended periods of attention and focus," OBSI reported.

OBSI also said that seniors are less likely to utilize technology, or may be more vulnerable than younger clients in their use of technology due to their weaker knowledge about online security.

The report made a number of recommendations for both the industry and regulators to try to alleviate some of these challenges.

For instance, it said that firms should have legal protections to report suspected elder abuse, and that they should implement "trusted person" procedures so they can address suspected issues with senior clients, such as diminishing capabilities.

It also recommended that firms work to improve the accessibility of their disclosure to clients; enhance risk warnings for senior clients; bolster training for employees on the issues that seniors may face; and properly incentivize employees to provide appropriate services to seniors.

6. With a July cut almost assured, how far will the Fed go?

[July 18, 2019] As anticipation grows for a Fed rate cut this month, many are still wondering whether action is necessary, CIBC Capital Markets chief economist Avery Shenfeld writes in a report released Thursday.

After all, positive U.S. economic data, from jobs growth to a rise in core inflation, would usually indicate there's no need for such a move.

But Shenfeld says a cut on July 31 is "a done deal," viewing the move as an insurance policy based on a risk-versus-reward calculation: the cost of not cutting rates if it turns out such action was needed is higher than the costs of having to undo a rate cut that the economy didn't need.

A slight drop in hours worked in the second quarter and the downward trend in residential construction are potential signs of a recession ahead, which

could be enough for a quarter-point cut later this month and another before the end of the year, Shenfeld writes.
Given the early action, 50 basis points of total cuts will suffice, he says. That's less than the extended cuts into 2020 that the bond market is pricing in.
"Our call is that this year's rate relief, and perhaps some progress on trade talks in the first half of 2020, should obviate the need for additional Fed cuts next year," Shenfeld says. "If so, equities will get some comfort from signs that the expansion has more room to run, but Treasuries investors will give back some of the past year's winnings."
Shenfeld notes that the biggest growth concern is the potential hit from a trade escalation, which "can't of course be seen in the data today." A report from the C.D. Howe Institute addresses the issue of uncertainty for central bankers. The commentary from former senior deputy Bank of Canada governor Paul Jenkins urges central bankers to distinguish between risk and uncertainty. While policy decisions require a judgment about the economic outlook that balances risks, issues such as Brexit, U.S.-China trade tensions and climate change present a degree of uncertainty that makes a single judgment "nearly impossible."
In these situations, there isn't enough information to calculate probabilities and base a policy on them. Rather than ignoring the uncertainties, Jenkins writes that it's better to acknowledge them as part of a modelling and communications strategy.
"In such a situation, it is far better for the central bank to be up front about the extent of uncertainty, share a narrative that acknowledges these uncertainties and relays a story to assist economic agents to understand what they are confronting," the report says.

7. Inflation hits BoC target of 2%

[July 17,2019] Canada's price picture softened to 2% last month following a sharp drop in gasoline prices compared to a year ago.
The annual inflation number for June hit the Bank of Canada's ideal target as it came down from 2.4% in May, Statistics Canada said Friday in a new report.
It marked the first price deceleration after four straight months of year-over-year increases.
The result matched the expectations of economists, according to Thomson Reuters Eikon.
The neutral position of 2% — right at the mid-point of the Bank of Canada's range of one to 3% — doesn't put immediate pressure on governor Stephen Poloz to adjust his key interest rate.

Leaving out gas prices, Statistics Canada said last month's annual inflation number was 2.6%.
The 9.2% drop in pump prices was partly due to rising inventory levels in the United States and Alberta's elimination of its carbon pricing measures at the end of May, Statistics Canada said.
Energy prices fell in every province, with Alberta easily seeing the largest decrease compared to a year earlier.
In addition to weaker gas prices, consumers paid less last month for internet services, digital equipment and traveller accommodation.
Upward pressures on prices last month, compared with a year earlier, were led by a 17.3% increase in the cost of fresh vegetables — the biggest acceleration since January 2016. The report said poor weather in farming regions helped drive up prices.
Consumers also shelled out more in June for auto insurance, mortgage borrowing costs, vehicle purchases and rent.
The average of Canada's three gauges for core inflation, which are considered better measures of underlying price pressures by omitting volatile items like gasoline, decelerated slightly to 2.03%, down from a revised 2.1% the previous month.
By region, overall consumer prices last month rose at a slower pace in nine provinces, while British Columbia's annual inflation rate was 2.6% once again.
Last week, the Bank of Canada predicted overall inflation to drop temporarily in the third quarter of 2019 to 1.6% as it reflects movements in gas prices, airfare volatility and the recent elimination countermeasures against U.S. steel and aluminum tariffs.
The central bank estimated inflation to be 1.8% for the year before picking up its pace to about 2% in 2020 and 2021.

8. More homeowners turning to alternative lenders: report

[July 16, 2019] An increasing number of homeowners turned to alternative lenders last year, while new mortgage growth reached its slowest pace in more than a quarter of a century amid government interventions aimed at cooling the housing market, according to a new report.
Alternative lenders, which take on clients with riskier profiles for shorter terms at higher interest rates, held 1% of Canadian mortgages last year, according to a first-of-its kind report from the Canada Mortgage and Housing Corporation.

There were 200 to 300 active alternative lenders in Canada last year holding $13 billion to $14 billion of outstanding Canadian mortgages. That's up from $11 billion to $12 billion the year prior and $8 billion to $10 billion in 2016.

The data suggests that "their share in this space is growing," said Tania Bourassa-Ochoa, a specialist in housing research with CMHC.

Loans from alternative lenders typically have terms between six months and two years. In 2018, they offered interest rates between 7.3 and 11%, with an average of 8.99%. Banks, by contrast, offered 3.3% to 5.4% rates on mortgage loans with terms that generally last several years.

People who turn to alternative lenders have riskier profiles, according to the report. Their clientele includes people who are self-employed, investors carrying more than one property, and borrowers who need short-term cash due to poor credit history, health problems, divorce or other issues.

Such mortgages have higher delinquency rates than those given by other lenders. In the third quarter of 2018, the delinquency rate for alternative lenders was 1.93%, according to the report. Mortgage finance companies, credit unions, caisses populaires and banks all reported delinquency rates at 0.25% or lower during that same time.

An April report from CIBC's deputy chief economist raised concerns over the rise in alternative lenders in Ontario. In 2018, alternative lenders made up nearly 12% of transactions in Ontario and about 15% in Greater Toronto, according to the report. That represented a roughly 2% rise since Ottawa's new mortgage stress test for traditional lenders came into play.

Alternative lenders account for close to 7% of the market based on dollars, since average loan size is about half the size of bank loans.

Benjamin Tal said at the time that alternative lending is part of a normally functioning mortgage market, but a fast-growing segment is not.

A 1% market share is still a relatively small figure, said Bourassa-Ochoa.

"We're going to have to monitor how these numbers are changing in time in order to really see and understand more clearly if there is a vulnerability and what it is."

Last year also saw the slowest year-over-year growth in total mortgage debt in more than 25 years, according to the report. Throughout 2018, mortgage debt grew by between 3.4% and 5.2% with the pace maintaining at 3.4% in the first quarter of this year. That's down from between 5.2% and 6.2% in 2017 and 6.1 to 6.5% in 2016.

That decline comes from tougher government lending rules, higher borrowing costs and other factors.

This is the first report of its kind by the CMHC, which plans to produce it on an annual basis and provide quarterly updates.

“This report is really looking at filling so many missing pieces of the residential mortgage landscape,” said Bourassa-Ochoa, adding businesses, policy makers and others can use the data to make more informed decisions.

CMHC’s report comes on the heels of a similar effort by Statistics Canada. The agency last week released its first set of data from a survey of non-bank mortgage lenders.

It noted this data was previously “only collected by some organizations at the provincial level, for certain industries and with varying levels of detail.”

9. June saw slight increase in home sales

[July 15, 2019] The Canadian Real Estate Association says home sales in June edged higher compared with a year ago, as gains in Greater Toronto and Montreal offset declines in B.C.

The association says sales through its Multiple Listing Service last month were up 0.3% compared with June 2018.

The increase came as the number of newly listed homes edged up 0.8% in June.

On a month-over-month basis, however, home sales were down 0.2% in June.

CREA says stable sales and a slight increase in new listings caused the national sales-to-new listings ratio to ease to 57.1% in June from 57.7% in May.

The national average price for a home sold in June was just under $505,500, up 1.7% from the same month last year.

10. Tariff war continues to take toll on Chinese economy

[July 15, 2019] China’s economic growth sank to its lowest level in at least 26 years in the quarter ending in June, adding to pressure on Chinese leaders as they fight a tariff war with Washington.

The world’s second-largest economy grew 6.2% over a year ago, down from the previous quarter’s 6.4%, government data showed Monday.

Forecasters expected China’s economy to rebound in late 2018 but pushed back that target after President Donald Trump hiked tariffs on Chinese imports to pressure Beijing over its technology development tactics. Now, economists say the slowdown might extend into next year.

Trump and Chinese President Xi Jinping agreed last month to resume negotiations on the fight that has battered exporters on both sides. But economists warn their truce is fragile because they still face the same array of disputes that caused talks to break down in May.

“The trade war is having a huge impact on the Chinese economy,” Edward Moya of OANDA said in a report. “As trade negotiations struggle for meaningful progress, we are probably not near the bottom for China’s economy.”

Chinese leaders have stepped up spending and bank lending to keep growth within this year’s official target range of 6% to 6.5% and avert politically dangerous job losses. But they face an avalanche of unexpectedly bad news including plunging auto sales.

In the second half of the year, “the external environment may still be more complicated,” said a government spokesman, Mao Shengyong, at a news conference.

Quarterly growth was the lowest since China began reporting such data in 1993, according to an employee of the press office of the National Bureau of Statistics, Dong Hui.

In 2009, the NBS reported growth of 6.1% for the first three months of that year. However, Dong said that later was revised up to 6.4%.

Jittery consumers are putting off major purchases, depressing demand for autos, home appliances and other goods.

“I don’t think the country’s economy is as good as it looks,” said Peng Tao, a 26-year-old delivery courier who said he makes 5,000-6,000 yuan ($750-$870) a month.

“China has been surely hurt more in the trade war,” said Peng. “I am not very happy about job prospects because there just aren’t many opportunities out there.”

Weaker Chinese activity has global repercussions. China is the biggest export customer for its Asian neighbours and a major market for global suppliers of food, mobile phones, industrial technology and consumer goods.

The International Monetary Fund and private sector economists have cut this year’s Chinese growth forecast to as low as 6.2%, a further marked decline after last year’s three-decade low of 6.6%.

Growth in retail sales slowed to 8.4% in the first half of 2019, down 0.1 percentage points from the first quarter, the government reported. Growth in factory output decelerated to 6% in the first half, down 0.1 percentage points from the first quarter.

Auto sales, reported earlier, fell 7.8% in June, extending a yearlong contraction in the industry’s biggest market. Chinese exports to the United States fell 7.8% in June from a year ago.

Urban families the ruling Communist Party is counting on to help propel consumer-driven growth to offset weak trade are being squeezed by rising living costs and slower wage growth.

Qiu Wanli, who works for an insurance company in the northwestern region of Xinjiang, said her family has little left over each month after paying a mortgage and expenses for her 3- and 6-year-old daughters and two elderly relatives.

“The burden to support the family is fairly heavy,” said Qiu, 30. “We rarely travel and have no plans to because of financial conditions.”

The fight between the two biggest global traders has disrupted sales of goods from soybeans to medical equipment and rattled financial markets.

The biggest factor in the latest Chinese economic weakness is lacklustre activity in construction and industry, according to Julian Evans-Pritchard of Capital Economics. He said that was likely to worsen because a boom in real estate development is fading.

“Combined with increasing headwinds from U.S. tariffs and weaker global growth, we expect this to culminate in a further slowdown in economic growth over the coming year,” Evans-Pritchard said in a report.

Beijing is pumping money into the economy through higher spending on building highways and other public works. That has shored up growth but set back efforts to reduce reliance on investment, which has pushed debt to levels that prompted credit rating agencies to cut China’s credit rating for government borrowing.

Spending on factories, real estate and other fixed assets rose 5.8% in the first half of the year, up 0.2 percentage points from the first five months.

Credit growth to support that has accelerated to dangerously high levels, according to Iris Pang of ING. She said in a report Friday that suggests the economy “would be deteriorating” without stimulus.

“This worries us,” she said.

Have a nice and fruitful week!