Weekly Updates Issue # 725

1. Weekly Markets Changes

[August 2, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,271.66 -259.38 -1.57%	2,932.05 -93.81 -3.10%	26,485.01 -707.44 -2.60%	8,004.07 -326.14 -3.92%	$0.7561 -0.25c -0.33%	$1,440.83 +8.63 +0.60%	$55.66 -0.54 -0.96%

2. U.S. economy adds 164,000 jobs in July

[August 2, 2019] U.S. employers slowed their hiring in July but still added a solid 164,000 jobs to an economy that appears poised to extend its decade-long expansion.

The unemployment rate remained at 3.7% for a second straight month, the government said Friday. Average hourly earnings rose 3.2% from a year ago, up from a 3% year-over-year gain in June.

Though the pace of hiring has slowed this year, one reason is that a growing share of Americans already have jobs. Unemployment is near a half-century low. The overall U.S. economy remains on firm footing, and last month the expansion became the longest on record.

"This report is a sigh of relief," said Daniel Zhao, a senior economist for the jobs site Glassdoor. "It had good solid numbers and was largely in line with expectations."

Still, the economy has faced some tumult as President Donald Trump has escalated his trade conflict with China. On Thursday, Trump announced plans to impose tariffs on an additional $300 billion of Chinese imports beginning in September. That move could slow U.S. economic growth if the tariffs remain in effect indefinitely, especially if Beijing retaliates as expected.

U.S. consumers will likely feel the pain. Trump's earlier tariffs had been designed to minimize the impact on ordinary Americans by focusing on industrial goods. But the new tariffs will hit a vast range of consumer products.

The Federal Reserve has acted to try to sustain the expansion in part because some of the benefits are only now reaching America's lower-income communities. The Fed on Wednesday cut its benchmark interest rate for the first time in a decade to try to counter the impact of Trump's trade wars, stubbornly low inflation and global weakness.

As Trump's trade conflicts escalate, the economy and the job market could weaken. Recession fears could increase. But for now, hiring appears solid.

"We're really at a sweet spot despite all the negatives swirling around us," said Robert Frick, corporate economist at Navy Federal Credit Union. Frick said the slowdown in monthly job gains was organic given the size of past gains and the length of expansion.

Nevertheless, the trade frictions have been weighing on global financial markets. The Dow Jones Industrial Average was down nearly 300 points in late-morning trading.

"The sometimes backward-looking nature" of the jobs data make it less relevant for the financial markets given the possibility of additional tariffs against China that could raise prices for U.S. consumers," said Rick Rieder, BlackRock's chief investment officer of global fixed income.

In Friday's employment report for July, the government revised down its estimate of job growth for May and June by a combined 41,000. Over the past six months, the economy has added jobs at a monthly average of roughly 141,000. That is down from a monthly average of 236,000 during the same period last year.

One clear positive is that wage gains have been strongest for poorer workers.

Fed Chairman Jerome Powell told reporters Wednesday that one reason to cut rates was to sustain the longest expansion in U.S. history because people living in distressed communities finally "are now getting opportunities to add new and better chapters to their lives."

Lower-wage industries reported that average hourly earnings in those sectors jumped 4.6% from a year ago, considerably above the 2.5% pay gain for higher-wage industries, according to an analysis of the jobs report by Martha Gimbel, research director at the jobs site Indeed.

In July, several industry sectors posted solid gains. Health care added a robust 30,400 jobs. Restaurants and bars added 15,400 jobs. Local governments contributed 14,000 jobs, primarily in education. The finance and insurance industry added 13,900.

The manufacturing sector, though, has been struggling with declines in output. Manufacturers posted healthy gains of 16,000 jobs in July, though most of the growth was in the transportation sector that could soon be hit by auto plant layoffs.

Other areas showed some signs of weakness. Construction companies added just 4,000 workers. The transportation and warehousing sector added just 300 jobs. Retailers shed 3,600.

Though it is growing consistently, the economy does appear to be sliding into a slower phase. The gross domestic product — the total output of goods and services produced in the United States — grew at a decent if unspectacular 2.1% annual rate in the April-June quarter, down from a 3.1% pace in the January-March period.

Consumer spending increased at a 4.3% annual rate and helped propel much of the growth. But business capital investment declined for the first time in three years, a likely sign that Trump's aggressive use of tariffs against China and other countries has slowed corporations' expansion plans.

Home sales have fallen as high prices have kept many people out despite the benefits of low mortgage rates and job gains. Sales of existing homes have tumbled 2.2% over the past 12 months, according to the National Association of Realtors.

Factories have also been coping with a slowdown. In part, that's because the global economy has weakened and the president's tariffs on hundreds of billions of dollars' worth of goods — and threats to add more — have disrupted supply chains. The Fed said this month that manufacturing output has improved just 0.4% from a year ago after having declined over the past six months.

There are signs, though, that consumers are optimistic. The Conference Board's index of consumer confidence last month reached its best reading since November. A higher percentage of Americans anticipate pay raises in the next six months.

3. Canada's trade surplus shrank to $136 million in June

[August 2, 2019] Statistics Canada says the country's trade surplus narrowed in June to $136 million, as both exports and imports dropped largely due to trade decreases in crude oil, aircraft and other transportation equipment and parts.

The federal agency says **exports fell 5.1% to $50.3 billion**, offsetting a strong gain in May amid a 3.6% drop in export prices.

Exports of crude oil dropped 8.6%, the first monthly decrease this year, as crude oil export prices fell 13.5% even as volumes rose 5.6%.

Aircraft exports, meanwhile, were down 40.8%, mainly on lower shipments of commercial aircraft to the United States.
Imports were down 4.3% to $50.2 billion, the lowest level since November 2018.
Analysts had expected a trade deficit of $300 million, according to financial services firm Refinitiv.
June's surplus narrowed from a stronger $556 million in May.

4. Portfolio manager urges prospective homebuyers to beware

[August 1, 2019] After enduring bidding wars and skyrocketing home prices, would-be homebuyers are facing a relatively new dilemma: jump in to take advantage of lower national average prices or tread cautiously to avoid making a costly mistake.
While current conditions may be too hard to resist, prospective homeowners should be in no hurry to make the largest purchase of their lives if they're nervous about a coming economic slowdown and eventual recession, says the author of a book forecasting a housing crash in Canada that takes a decidedly contrarian view to that of the real estate industry.
"I would say wait," says Hilliard MacBeth, portfolio manager at Richardson GMP in Edmonton and author of the recently updated "When the Bubble Bursts: Surviving the Canadian Real Estate Crash."
"When prices are flat or falling, renting is always financially more successful than buying."
The Canadian Real Estate Association's most recent market forecast released in June projected the national average price would edge down 0.6% to around $485,000 this year following a 4.1% drop in 2018. Home sales softened last year in the wake of new mortgage stress test rules and a rise in mortgage rates.
Still, CREA's most recent figures show the national average price for a home sold in May was close to $508,000, up 1.8% from a year ago.
Elevated home prices are squeezing some would-be buyers out of the market, sending others to seek out smaller homes and leaving some homeowners in a cash crunch.
The Canada Mortgage and Housing Corp. said in May that household debt reached a record high at the end of last year even as mortgage activity slowed compared to a year earlier. Canadians debt-to-income ratio hit a record high of 178.5% in the fourth quarter last year as mortgage holders continued to take on non-mortgage debt.

International reports have suggested the Canadian economy could be at risk due to overinflated house prices.
Canada's largest real estate markets are at the highest risk of a major price correction since the 2008 financial crash when the U.S. housing bubble burst sending housing prices lower, said an International Monetary Fund report.
The Bank of Canada said in May that housing prices in key markets of Toronto and Vancouver have cooled, but imbalances in real-estate markets are still an important vulnerability in Canada's overall financial system.
However, Canada's Business Development Bank said that it doesn't see a crash coming because the economy is doing well and job growth is strong.
"As long as people continue to work, they will likely to be able to meet their debt repayments," it wrote in April.
MacBeth believes Canadians' heavy debt loads and run-up in housing prices in recent years put the country's housing market on the path to a dramatic correction that will be worse and last longer than what the United States experienced more than a decade ago.
"Given that scenario it would be best to wait because the U.S. bubble when it crashed, it took four years to bottom, so one would expect that a larger bubble in Canada would probably take at least that long and probably a little bit longer."
Restoring affordability to housing will require a 40 to 50% decrease in prices from the peak, he said.
Prices have come down in Vancouver and while true affordability may never be restored in Toronto, the market is softer.
Those in the real estate industry have a different view of what the softening market means for potential buyers and point to historical trends that suggest home purchases are always a wise investment.
Phil Soper, chief executive of Royal LePage, one of the country's largest real estate firms, believes the cooling presents buyers with great opportunities to profit in the long-term as housing inevitably appreciates in value.
Canada's housing market doesn't have a history of severe depreciations even in tough times and that over several decades, Canadian home prices have appreciated more than 5% per year, he said.
He cautioned buyers not to try to time the housing market by waiting for the ultimate bottom.
"Slowdowns are really hard to predict. It's not necessarily going to happen," he said.
"We're probably going to see an American recession sometime over the next couple of years which will slow the market in Canada but not necessarily so. And if history is any guide you'll do well in almost any place in Canada."

The housing market tends to adjust during economic downturns or recessions because the number of homes listed for sale plummets and the number of buyers decrease so supply and demand remains largely in balance.

"If you look back over the last 20 or 25 years there have been very few periods where we actually had a drop in prices for more than 12 months in most markets," said Craig Hennigar, director of market intelligence at Colliers International.

With prices flat, and houses sitting longer without offers, it's a great time to be buying because there is less competition and more opportunity to include conditions such as financing and inspection, says Hennigar.

Mortgage rates are also so low that more of the monthly payments can go to principal.

The decision to buy a house is more about it meeting your personal needs than it is price and value, he said.

"Once you're used to paying your mortgage do you care what your house is worth until you want to sell it," Hennigar said.

"So it's really a forced savings. It's a great tax-free investment that really supports your ability to live your life, which is probably the more important question, but people do get hung up on pricing."

5. Fed cuts key rate

[July 31, 2019] The Federal Reserve cut its key interest rate Wednesday for the first time in a decade to try to counter threats ranging from uncertainties caused by President Donald Trump's trade wars to chronically low inflation and a dim global outlook.

The Fed also repeated a pledge to "act as appropriate to sustain the expansion" — wording that the financial markets have interpreted as a signal for possible future rate cuts.

The initial reaction in the financial markets was muted. Stocks fell slightly after the Fed issued its statement at 2 p.m. Eastern time.

The central bank reduced its benchmark rate — which affects many loans for households and businesses — by a quarter-point to a range of 2% to 2.25%.

It's the first rate cut since December 2008 during the depths of the Great Recession, when the Fed slashed its rate to a record low near zero and kept it there until 2015.

The economy is far healthier now despite risks to what's become the longest expansion on record.

The Fed's action Wednesday was approved 8-2 vote, with two dissents: Esther George, president of the Fed's Kansas City regional bank, and Eric Rosengren, head of the Boston Fed, wanted to keep rates unchanged.

It was the first time there have been as many as two dissents since December 2017 and suggested that Chairman Jerome Powell may face opposition if he seeks further rate cuts this year.

Compared with when the Fed previously cut rates more than a decade ago, the economy is now solid by most measures, if not spectacular. Consumers are spending. Unemployment is close to a half-century low. A recession hardly seems imminent.

Yet the Fed under Powell has signalled that rising economic pressures, notably from Trump's trade wars and from weakness in Europe, Asia and elsewhere, have become cause for concern. So has an inflation rate that remains stubbornly below the Fed's 2 per cent target level.

So the Fed has decided that a rate cut now — and possibly one or more additional cuts to follow — could provide a kind of insurance policy against an economic downturn. The idea is that lowering its key short-term rate could encourage borrowing and spending and energize growth. Wall Street has welcomed that prospect with a stock market rally since the start of the year.

A key concern expressed by the Powell Fed is that Trump's pursuit of trade conflicts, with his punishing tariffs on hundreds of billions of dollars in Chinese and European goods, have escalated uncertainties for American companies. Some companies have put off plans to expand and invest.

Powell has also expressed concern about undesirably low inflation. In delivering the Fed's semiannual monetary report to Congress this month, he noted that the central bank needs to prevent the economy from sinking into a low-inflation trap like the one that has bedeviled Japan's economy for more than two decades. Ultra-low inflation can slow growth by causing consumers to postpone purchases, which, in turn, slows consumer spending, the economy's main fuel.

Another source of pressure for the Fed has been a relentless series of public attacks by Trump over its rate policy under Powell. Trump has blamed the Fed's four rate hikes in 2018 as a key reason why the U.S. economy is slowing.

This week, the president said he wanted to see a "large cut" in rates as well as an immediate halt in the reduction of the Fed's bond holdings, to avoid putting upward pressure on long-term rates.

Powell has asserted that Trump's pressure has had no effect on the rate policies of the Fed, which is considered an independent agency. But the president's incessant criticism raises the question of whether the attacks could eventually undermine confidence that the Fed will remain politically independent and not try to boost the economy before next year's presidential election.

Recent government reports — on economic growth, consumer spending and orders for durable manufactured goods — have confirmed that the economy remains on firm footing even with pressures at home and abroad. As a result, some analysts believe the Fed may pause after Wednesday's rate cut to see if the economic outlook further brightens before deciding on any further easing.

And skeptics wonder whether Fed rate cuts at this point would really do much to bolster an economy whose borrowing rates are already low. Some even worry that the central bank will be taking a needless risk: By cutting rates now, the Fed is disarming itself of some ammunition it would need in case the economy did slide toward a recession. Some also suggest that by driving rates ever lower, the Fed might be helping to fuel dangerous bubbles in stocks or other risky assets.

Yet many market traders foresee two or even three rate cuts this year as the Fed tries to counter global threats that risk spreading to the United States.

The Fed's current rate policy marks the continuation of a policy shift made early this year. In December, the Fed had raised its benchmark rate for the fourth time in 2018 and projected two additional rate increases in 2019. At the time, Powell also suggested that the Fed would keep reducing its bond portfolio indefinitely — a step that would further contribute to higher rates. Stock prices tumbled for days afterward.

But in January, Powell and the Fed shifted, indicating that they would be "patient" about any changes in rates and implying that rate hikes were off the table. After U.S.-China trade talks initially collapsed in May, the Fed went further and began considering acting to sustain the economic expansion.

6. GDP grew by 0.2% in May: StatsCan

[July 31, 2019] The Canadian economy grew for a third consecutive month in May, rising 0.2% overall as 13 of 20 sectors advanced.

Statistics Canada says the increase in real gross domestic product was led by a rebound in manufacturing, following a decline in April.

It says manufacturing expanded 1.2% overall as motor vehicle production returned to normal in May, following temporary shutdowns and unusual production schedules.

The construction sector as well as transportation and warehousing sector also grew in May.

But Statistics Canada says wholesale trade declined 1.4% after four consecutive gains and retail trade contracted 0.4%, the first monthly decline since last July.

7. Small biz optimism drops in July

[July 29, 2019] Small business confidence dropped this month, setting up decreased expectations for Canada's growth in the third quarter.

Canadian small business confidence decreased almost four percentage points from June's reading, hitting 57.8 in July, according to the business barometer published monthly by the Canadian Federation of Independent Business (CFIB).

While sentiment improved in May and June, it may have been "too fast to be sustainable," the barometer report said.

With an index value of 56, Ontario was the main cause of the negative reading, losing almost 7 percentage points month over month.

By industry, big declines in optimism among retailers (−5.4 percentage points) and professionals (−7.4) weighed the sector average down, the report said.

Optimism in most industries remained below long-term norms. However, of the report's 13 sectors, six showed improved sentiment, including the financial, insurance and real estate sectors (+5.3 percentage points).

And, on a year-over-year basis, July's reading was slightly higher. "Confidence may have bent, but has not broke," said a report by TD Economics. "Small businesses (the vast majority of firms in Canada) remain relatively upbeat, despite the risks posed by a slowing external backdrop."

For example, there was a one-percentage-point decrease in respondents citing "insufficient foreign demand" as limiting their ability to increase sales.

Further, TD noted that confidence levels moved away from near-term lows in Canada's oil-producing provinces. For example, though Alberta's index decreased 1.8 percentage points in the month, the index remained near its highest level since early 2018. "This fits with other data showing that Alberta's economy is gaining some traction," TD said.

Two provinces had increases in business sentiment. The indices in Manitoba and New Brunswick reached four-point increases to 60.1 and 61.2, respectively, which the barometer report called "modestly healthy."

Overall business health remained steady, with 41% for respondents continuing to say their firms were in good shape, compared to 14% in poor shape—an increase of one percentage point month over month.

Also stable were wage and price plans, which remained at about 2%, though the TD report said that these measures were both lower than they were in July 2018. And full-time hiring plans showed a decrease, with about 16% of owners expecting to hire staff in the next few months, compared to about 18% in June.

Overall, TD Economics said the drop in confidence suggests “a softer tone for growth to begin the third quarter.”

In its July monetary policy report, the Bank of Canada projected real GDP to be 1.1% year over year in the third quarter, compared to 1.3% in the second. It forecasted GDP of 1.3% for 2019, and 1.9% for 2020—the latter downgraded from the previous projection in April of 2.1%.

Business sentiment and investment in Canada is improving, the central bank said, but geopolitics present uncertainty.

About the CFIB business barometer: *Findings are based on 710 responses, received through July 15, to a web survey. Responses were collected from a stratified random sample of CFIB members. Findings are statistically accurate to +/− 3.7% 19 times in 20.*

8. Business groups bracing for a no-deal Brexit

[July 29, 2019] Prime Minister Boris Johnson pushed Britain closer to a no-deal exit from the European Union on Monday, insisting he will not hold Brexit talks with EU leaders unless the bloc lifts its refusal to reopen the existing divorce deal.

Johnson is trying to pressure the EU to give ground by intensifying preparations for the U.K. to leave the bloc in three months without a deal.

But the pound fell to a two-year low as business groups warned that neither Britain nor the EU is ready for a no-deal Brexit, and that no amount of preparation can eliminate the economic damage if Britain crashes out of the 28-nation trading bloc without agreement on the terms.

Johnson became prime minister last week after winning a Conservative Party leadership contest by promising the strongly pro-Brexit party membership that the U.K. will leave the EU on the scheduled date of Oct. 31, with or without a divorce deal.

The EU struck a withdrawal agreement with Johnson’s predecessor, Theresa May, but it was rejected three times by Britain’s Parliament. Johnson is insisting the bloc make major changes to May’s spurned deal, including scrapping an insurance policy for the Irish border that has been rejected by U.K. lawmakers.

“The withdrawal agreement is dead, it’s got to go,” Johnson said Monday. “But there is scope to do a new deal.”

He said he was “very confident” of getting a new deal, even though Britain is due to leave the EU in less than 100 days.

The EU says it won’t reopen negotiations on the deal or remove the border “backstop.”

Johnson has spoken to several EU leaders by phone since he took office but has no meetings scheduled. His spokeswoman, Alison Donnelly, said he would not agree to negotiations unless the bloc lifts its refusal to change the withdrawal agreement.

“He remains confident that the EU will stop claiming that the withdrawal agreement can’t be changed,” she said.

If they don’t, she added, “we must assume there will be no deal on the 31st of October.”

Before he took office, Johnson said the odds of Britain leaving the EU without a deal were a million to one.

The pound fell to $1.2287 on Monday, its lowest value since March 2017.

Economists warn that leaving the bloc without an agreement on terms would disrupt trade by imposing tariffs and customs checks between Britain and the bloc. The British government’s financial watchdog says that could send the value of the pound plummeting and push the U.K. into recession.

The Confederation of British Industry, the country’s biggest business lobby group, urged both Britain and the EU to accelerate Brexit preparations. It made 200 recommendations, including new laws, new IT systems and agreements to temporarily maintain some common regulations.

But it said “the unprecedented nature of Brexit means some aspects cannot be mitigated.”

“It’s like putting sandbags down for a flood. Your kitchen’s still going to be underwater but maybe we can save the bedrooms upstairs,” said the group’s head of EU negotiations, Nicole Sykes.

Another warning came from French automaker PSA, which said it could move production of its Vauxhall Astra model out of Britain if Brexit makes it unprofitable. Chief executive Carlos Tavares told the Financial Times that would mean closing Vauxhall’s Ellesmere Port plant in Wales, which employs 1,000 people.

Johnson, contradicting the opinion of most experts, has said leaving without a divorce deal will be “vanishingly inexpensive” if Britain is properly prepared.

He says he will “turbo-charge” plans for a no-deal Brexit — including beefed-up border measures and a multimillion-pound (-dollar) information campaign for individuals and businesses — and has set up bodies including a high-level Cabinet “exit strategy committee” to oversee preparations.

But he faces strong resistance from Parliament, which opposes a no-deal Brexit.

Beyond Brexit, Johnson has made ambitious domestic policy promises, including more money for police and schools, and major infrastructure projects including high-speed trains.

But independent think-tank the Institute for Government said in a report that the effects of a no-deal Brexit would consume much of the government’s energy for years, pushing out other issues and sucking up large sums of money.

“Rather than ‘turbo-charging’ the economy, as Johnson has suggested, the government is more likely to be occupied with providing money and support to businesses and industries that have not prepared or are worst affected by a no-deal Brexit,” it said.

On Monday, Johnson visited a naval base in Scotland, where his plans also face heavy resistance. While the U.K. as a whole voted to leave the EU in 2016, Scotland backed remaining by a large margin.

First Minister Nicola Sturgeon, who leads the semi-autonomous Edinburgh-based government, says Scotland should hold a vote on independence from the U.K. if it is dragged out of the EU against its will.

Scottish Conservative leader Ruth Davidson opposes independence but also says she won’t support leaving the EU without an agreement.

“I don’t think the government should pursue a no-deal Brexit, and, if it comes to it, I won’t support it,” she wrote in the Scottish Mail on Sunday.

Have a nice and fruitful week!