Weekly Updates Issue # 726

1. Weekly Markets Changes

[August 9, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,341.34 +69.68 +0.43%	2,918.65 -13.40 -0.46%	26,287.44 -197.57 -0.75%	7,959.14 -44.93 -0.56%	$0.7564 +0.03c +0.04%	$1,496.95 +56.12 +3.89%	$54.50 -1.16 -2.08%

2. Housing starts beat economists' expectations in July

[August 9, 2019] Ontario bucked a national trend that saw the pace of construction of new homes slow in July, the Canada Mortgage and Housing Corp. said Friday.

CMHC's seasonally adjusted annualized rate of housing starts fell by 9.6% in July to 222,013, compared with 245,455 in June.

However, the decline was smaller than expected and CMHC's six-month trend rose to 208,970 units from 205,765 units in June.

Economists had estimated a seasonally adjusted annualized rate of 203,500, according to financial markets data firm Refinitiv.

CMHC said housing starts in urban areas fell by 10.4% in July to 209,122 _ led by a 12% decline in multiple-unit dwellings to 162,722 units. Single detached urban starts fell 4.6% to 46,400 units.

Housing starts in rural areas rose 7.9% to a seasonally adjusted annual rate of 12,891 units.

The "national trend" in housing starts increased in July, despite the reduced seasonally adjusted number, said Bob Dugan, CMHC's chief economist, in a statement.

“High levels of activity in apartment and row starts in urban centres in recent months continued to be reflected in the high level of the total starts trend in July.”

While seasonally adjusted urban starts in the country’s largest province increased 4.2%, they fell elsewhere led by a 43% drop in Atlantic Canada and down 15% in B.C., 9.6% in Alberta and 8.2% in Quebec.

July home starts fell five% in Toronto, 23% in Vancouver and 37% in Montreal.

After a 25-per-cent surge in June that was the highest level since 1990, housing starts returned to more sustainable levels in July, said Krishen Rangasamy, senior economist with the National Bank of Canada.

That’s in line with the bank’s view of Canadian economic growth after a blockbuster second quarter, he wrote in a report.

“That’s not to say, however, residential construction is doomed for the rest of 2019. Note that in the last 12 months, there’s been an unusually large gap developing between permit applications and housing starts, perhaps reflecting builder caution amid uncertainties with regards to the economic outlook.”

Despite July’s drop, he continues to forecast that housing starts will average roughly 200,000 this year.

Sri Thanabalasingam, an economist for TD Economics, said declines across most provinces were more muted than anticipated last month, standing above their year-to-date averages.

“These data suggest that while residential investment is slowing, it will remain healthy in Q3,” he wrote.

Homebuilding also appears more robust with solid fundamentals such as increasing population, low interest rates and rising wages suggesting that “residential investment could see sustained healthy gains through the second half of this year, he added.

But Royce Mendes, senior economist at CIBC World Markets said that after a decent start to the second half of the year, there are still headwinds for the Canadian housing markets.

“As a result, following healthy growth in the second quarter, residential construction could cool back down over the final six months of 2019.”

3. British economy contracts for first time since 2012

[August 9, 2019] The British economy shrank in the second quarter of the year for the first time in six and a half years largely because Brexit uncertainties weighed heavily on business investment, official figures showed Friday.

The decline, the first since the fourth quarter of 2012, was unexpected. Most economists thought that the economy would be flat.

The Office for National Statistics said the contraction came "at a time of increased volatility around the U.K.'s original planned exit date from the European Union in late March."

Brexit was meant to happen on March 29 but has been delayed to the end of October after Parliament rejected the withdrawal agreement that the previous prime minister, Theresa May, had negotiated with the EU. Compelled by Parliament, May requested the extension.

Before the extension request, many firms stockpiled products to help cushion them in case Britain crashed out of the EU on March 29 without a deal. That business activity helped the economy grow by 0.5% in the first quarter. Since then, companies have stopped stockpiling as much, weighing on growth overall.

The disappointing figure is set to raise alarm that Brexit uncertainty is weighing on the British economy more than anticipated. Business investment, which has been historically weak since the country voted in June 2016 to leave the EU, weakened further in the second quarter, contracting by 0.5% following a modest uptick in the first three months of the year.

May's replacement as prime minister, Boris Johnson, has insisted that there will be no further delay to the Brexit date and that Britain will leave the EU on Halloween come what may. That's stoked fears, particularly in currency markets where the pound has been sliding, that Britain will leave the EU without a deal, a development that would see tariffs and other restrictions imposed on traded goods.

With all that uncertainty, the Bank of England warned last week that there's a one-in-three chance that Britain will slip into recession in the early part of 2020 even if a Brexit ends up being smooth.

The pound fell after the release of Friday's GDP figures, down 0.2% on the day at $1.2115.

4. Wage growth hits highest mark since 2009

[August 9, 2019] Wage growth accelerated last month to its fastest clip in more than decade, according to numbers released Friday from Statistics Canada.

The 4.5% burst came in a month that also produced less-positive data: the unemployment rate moved up to 5.7% as Canada shed 24,200 jobs.

The increase in wages — as measured by year-over-year average hourly wage growth for all employees — marked the indicator's strongest month since January 2009.

The reading, one of several wage measures closely watched by the Bank of Canada, was up from 3.8% in June and 2.8% in May. In Quebec, wage growth sped up to nearly 6.2%, while Ontario's number was 5.1%.

In terms of job creation, the economy saw its weakest three-month stretch since early 2018. Until the spring pause, Canada had a been on a healthy run of monthly employment gains since last summer.

The survey found the numbers were nearly flat between May and July, a period that saw Canada add an average of 400 jobs per month. The agency cautions, however, that the recent monthly readings have been small enough that they're within the margin of error and, therefore, statistically insignificant.

Even with the July decline, compared to a year earlier, the numbers show Canada added 353,000 new positions — almost all of which were full time — for an encouraging overall increase of 1.9%.

The July unemployment rate remained near historic lows even after edging up to 5.7% from 5.5% in June. The rate was 5.4% in May, which was its lowest mark since 1976.

Stephen Brown, senior Canada economist for Capital Economics, said the wage data released Friday — along with other recent wage indicators — suggest the measures are finally catching up to the tightened job market.

Brown predicts that even with solid wage numbers at home, the Bank of Canada will likely have to address something much bigger in the coming months: the weakening global economic environment.

"You're now seeing this strong labour market in terms of the wage numbers, but we know conditions elsewhere in the world are deteriorating — so it's certainly something interesting for the policy-makers to think about," he said in an interview.

Capital Economics, Brown added, is among a minority of forecasting shops that predicts the Bank of Canada will cut interest rates in October to respond to fallout from an escalation in ongoing trade wars and weakening demand from the United States.

TD senior economist Brian DePratto wrote in a report Friday to clients that "the Bank of Canada remains caught between two opposing trends: relatively healthy domestic conditions, and a worsening external backdrop."

He added that unless we see a marked shift in either of these, the central bank will "likely remain happy to sit on the sidelines."

A closer look at July's jobs numbers shows the economy lost 69,300 private-sector employee positions last month, while the public sector gained 17,500 jobs.
Alberta, Nova Scotia and New Brunswick posted notable declines in employment last month — and jobless rates moved higher in each of the provinces.
Quebec and Prince Edward Island added jobs last month, the report said.
Youth employment fell by about 19,000 positions, pushing the jobless rate up 0.7 percentage points to 11.4%.
The number of positions for core-aged women — between 25 and 54 years old — dropped by about 18,000.

5. Report offers positive outlook for Canadian life insurers

[August 8, 2019] The outlook for the Canadian life insurance sector remains stable in the face of an array of challenges, thanks to the companies' strong capital positions and diversified business models, says DBRS Inc.
In a new report, the rating agency said that the big lifecos — Manulife Financial Corp., Sun Life Financial Inc. and Great-West Lifeco Inc. — remain in good shape to weather the prevailing low-return environment.
DBRS said the sector will continue to face a variety of challenges over the coming year, including slowing economic growth in Canada and the U.S. and escalating trade tensions, which represent downside risks.
Yet, DBRS believes Canadian lifecos are in relatively good shape to face these forces.
"The sector remains well capitalized with strong operating earnings," it said, noting that the trio of companies is expected to produce continued revenue growth from their domestic operations, with these results bolstered by their foreign businesses.
"In general, these life insurers have been managing their exposure to interest rate and equity market exposure by pivoting their product portfolio toward less capital-intensive offerings to maintain healthy regulatory capitalization ratios," the report said.
"In the face of market uncertainties, life insurers will need to remain disciplined in managing the overall risks they are willing to take to grow their businesses and remain profitable," it added.
Additionally, the rating agency said that a variety of regulatory and accounting changes are under consideration that will affect life insurers, and that technological innovation is expected to impact the industry too.

6. China is trying to weaken its currency without freaking markets

[August 8, 2019] All eyes have been on China this week after it allowed a surprise devaluation of its currency on Monday, sending global markets into a tailspin.

It has continued to guide the yuan lower since then, triggering memories of the last time the country caused a market freakout by weakening the currency, also known as the renminbi. But make no mistake: This isn't 2015.

The People's Bank of China on Thursday set the yuan's reference rate, which limits the range in which the currency can trade, above the 7-to-1 ratio with the US dollar for the first time since the Great Recession. Beijing had already allowed the yuan to trade around that level earlier in the week.

Stock markets in China broke a 6-day losing streak and the yuan actually traded a little higher than the previous day.

Before this week, 7 yuan to the dollar was a psychological threshold that many didn't think China would allow the currency to cross just yet.

But since last week's dramatic escalation in the US-China trade war, when the Trump administration announced plans to tax every Chinese export, Beijing has had less incentive to prop up its currency in the face of mounting pressure on the economy.

And outside of the Trump administration's decision to label China a "currency manipulator," there hasn't yet been any meaningful backlash.

In fact, Thursday's yuan rate fix shows that the country is comfortable with its "new normal," said Ken Cheung Kin Tai, chief foreign exchange strategist for Asia at Mizuho Bank in Hong Kong.

The Chinese central bank had for the most part managed to achieve a "soft landing" for the yuan, he wrote in a research note.

Soft landing

The slow, steady guidance from Beijing is quite a shift from what happened four years ago, when the yuan plunged after the People's Bank of China slashed its daily rate. Investors were spooked, and almost $680 billion flooded out of the country in 2015, according to the Institute of International Finance.

"Regulators weren't at all prepared to respond to the surge in outflow pressures" at that time, wrote economists from Capital Economics in a research note Thursday. "Since then, they have put in place a much stronger infrastructure to monitor and control capital flows."

What the yuan's latest move does show, however, is just how bad the relationship with the United States has become.

While a weaker yuan does make Chinese goods cheaper for foreign buyers, most experts say China has been trying to boost its currency in recent years, contrary to the Trump administration's claims.

Monday's move may have been a warning shot across America's bow. But China shows no sign of engaging in a full-blown currency war, wrote analysts with Pictet Wealth Management in a research note Thursday.

Handle with care

Still, they added that President Donald Trump's decision to slap tariffs on China last week "likely eliminated any remaining incentives for the Chinese government to show more goodwill."

"Trump's habitual flip-flopping in his handling of the trade negotiations seems to have worn out the patience of Chinese leaders," the analysts wrote.

China does have to be careful about how it manages this devaluation, though. The Pictet analysts pointed out that the country's non-government foreign debt makes up roughly 13% of GDP. If the yuan weakens too sharply, that could put stress on the companies that have borrowed overseas by making it harder for them to repay, they added.

Beijing, for its part, has maintained that it is being cautious about how it handles its currency. Earlier this week, the People's Bank of China said it is committed to keeping the yuan's exchange rate at a "reasonable and balanced level."

7. Proposed class action alleges RBC Life Insurance shortchanged commissioned employees

[August 8, 2019] An $80-million proposed class action lawsuit has been filed against RBC Life Insurance Company alleging the firm short-changed commissioned employees on vacation and public holiday pay and failed to pay them for overtime.

A statement of claim detailing the allegations was filed by Toronto-based law firm Monkhouse Law on Tuesday. In April, the same law firm launched a proposed class action against RBC Insurance Agency Ltd. and Aviva General Insurance Company, alleging they also short-changed commissioned employees in calculating their vacation and public holiday pay.

The statement of claim alleges that Maureen Barrett, a former commissioned employee of RBC Life Insurance, had her vacation pay and statutory holiday pay calculated based solely on her base salary, without factoring in her commissions, in contravention of Ontario’s Employment Standards Act. It also alleges that Barrett regularly worked in excess of 44 hours per week without receiving overtime pay.

Barrett seeks to be a representative plaintiff in the proposed class action. Monkhouse Law seeks to have the time period for the class action, which has not been certified, run from 1999, when RBC Life Insurance was founded.

8. Report outlines potential of ALDAs, as well as risks

[August 7, 2019] A proposed new annuity model could fill a gap in the retirement product market, but it also poses risks, says DBRS Ltd. in a new report.

The Toronto-based rating agency said that a new annuity product that was proposed in the latest federal budget, known as the advanced life deferred annuity (ALDA), could help guard against the risk of retirees outliving their savings.

The proposed ALDA would enable investors to buy an annuity for a lump sum at age 65, with payments beginning at age 85, and continuing for the rest of their life.

"The lengthier deferral period in an ALDA is important, as it enables the guaranteed income payments to be much larger than if the payments started right away," DBRS said, adding, "Purchasing an ALDA reduces the likelihood of an individual outliving their retirement savings or not having adequate income in their later years when expenses generally rise as a result of increasing assisted living needs, health care needs and inflation."

Yet, DBRS also warned that there are potential downsides to the product that must be factored in when evaluating it.

These risks include inflation, a lack of liquidity in the product, giving up control over investments, diminishing assets to pass along and the risk of dying before the payments kick in.

Ultimately, DBRS says that ALDAs will likely appeal to a relatively small portion of the overall population — such as retirees who can expect to live well into their 90s, and have enough savings to enable them to wait for years until the annuity payments kick in.

"Nonetheless, the concept of the ALDA is an encouraging step towards ensuring enough retirement income for Canada's growing population of retirees age 85+," DBRS concluded.

9. Toronto area housing sales up 24.3% in July

[August 6, 2019] The Greater Toronto Area's home price index was up 4.4% last month as the supply of properties for sale tightened and the number of sales jumped 24.3% from July last year, the Toronto Real Estate Board reports.

The overall average selling price for properties in the Greater Toronto Area was up 3.2% year-over-year to $806,755, TREB said in a monthly report issued Tuesday.
The number of properties sold increased to 8,595 from 6,916, with sales of all four categories of housing up by double digits.
“Broadly speaking, increased competition between buyers for available properties has resulted in relatively strong price growth above the rate of inflation for semi-detached houses, townhouses and condominium apartments,” Jason Mercer, the real estate board’s chief market analyst, said in a statement.
On the other hand, he said, sales of fully detached homes have been more affected by a stress test required for federally regulated mortgages and the average price for that category of housing was down 0.9% overall.
In the City of Toronto itself, the average price for fully detached homes fell 9.1% to $1.23 million, offsetting a 2.5% increase in the surrounding 905 area to an average of $929,633.
TREB says that the supply of properties for sale in the Greater Toronto Area was also tighter than it was last year.
There were 14,393 new listings in the GTA during the month, up from 13,873 in July 2018, but the total number of active listings at the end of July was down 9.1% from a year ago.
TREB CEO John DiMichele said there’s a growing demand for residential properties due to population growth.
“As more and more households come to terms with the stress test and move back into the market in the coming months and years, they could suffer from a chronically under-supplied marketplace and an acceleration of home price growth to unsustainable levels,” DiMichele predicted.
“Fortunately, policy makers have acknowledged the housing supply issue and are working toward solutions.”
The board said it welcomes a move by Toronto Mayor John Tory and the city council, which instructed staff to report on ways to increase housing options in neighbourhoods that traditionally have had single-family dwellings.
TREB also said it supports provincial government consultations to “spur on and speed up” the development of different forms of housing.

Have a nice and fruitful week!