Weekly Updates Issue # 728

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1. Weekly Markets Changes

[August 23, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,037.58 -112.21 -0.69%	2,847.11 -41.57 -1.44%	25,628.90 -257.11 -0.99%	7,751.77 -144.22 -1.83%	$0.7513 -0.14c -0.19%	$1,526.96 +13.44 +0.89%	$54.17 -0.70 -0.28%

2. Powell says Fed may cut interest rates; Trump lashes out

[August 23, 2019] Federal Reserve Chairman Jerome Powell signalled Friday that the Fed stands ready to cut interest rates further if the economy needs it but wasn’t clear about when or by how much.

Powell had barely finished speaking to central bankers in Jackson Hole, Wyoming, before President Donald Trump escalated his attacks on the Fed, which he has repeatedly accused of keeping rates too high.

“As usual, the Fed did NOTHING!” Trump tweeted. “It is incredible that they can ‘speak’ without knowing or asking what I am doing, which will be announced shortly. We have a very strong dollar and a very weak Fed. I will work” brilliantly’ with both, and the U.S. will do great.”

The president added: “My only question is, who is our bigger enemy, Jay Powel (sic) or Chairman Xi?” referring to China’s leader.

On a day of fast-moving events in the financial world, Powell’s speech followed China’s announcement earlier Friday that it will impose new tariffs on $75 billion of U.S. products in retaliation for Trump’s latest planned tariff increases. China will also raise import taxes on U.S.-made autos and auto parts. Beijing's actions deepened a trade conflict that threatens to tip a weakening global economy into recession.

China's move also ignited a separate attack by Trump on Twitter against Beijing:

"Our Country has lost, stupidly, Trillions of Dollars with China over many years. They have stolen our Intellectual Property at a rate of Hundreds of Billions of Dollars a year, & they want to continue. I won't let that happen!"

In his speech in Jackson Hole, Powell said Trump's trade wars have complicated the Fed's ability to set interest rates and have contributed to a global economic slowdown.

The Fed cut rates last month for the first time in a decade, and financial markets have baked in the likelihood of more rate cuts this year.

Powell's speech came against the backdrop of a vulnerable economy, with the financial world seeking clarity on whether last month's rate decision likely marked the start of a period of easier credit.

The confusion only heightened in the days leading to the Jackson Hole conference, at which Powell gave the keynote address. Minutes of the Fed's July meeting released Wednesday showed that although officials voted 8-2 to cut their benchmark rate by a quarter-point, there was a wider divergence of opinion on the committee than the two dissenting votes against the rate cut had indicated.

The minutes showed that two Fed officials favoured a more aggressive half-point rate cut, while some others adopted the polar opposite view: they felt the Fed shouldn't cut rates at all.

The minutes depicted the rate cut as a "mid-cycle adjustment," the phrase Powell had used at his news conference after the rate cut. That wording upset traders who interpreted the remark as suggesting that the Fed might not be preparing for a series of rate cuts to support an economy that's struggling with a global slowdown and escalating uncertainty from President Donald Trump's trade war with China.

There was even a difference of opinion among the Fed members who favoured a rate cut, the minutes showed, with some concerned most about subpar inflation and others worried more about the threats to economic growth.

Comments Thursday from Fed officials gathering in Jackson Hole reflected the committee's sharp divisions, including some reluctance to cut rates at least until the economic picture changes.

"I think we should stay here for a while and see how things play out," said Patrick Harker, the president of the Fed's Philadelphia regional bank.

Esther George, president of the Fed's Kansas City regional bank and one of the dissenting votes in July, said, "While I see downside risk, I wasn't ready to act on that relative to the performance of the economy."

George said she saw some areas of strength, including very low unemployment and inflation now closer to the Fed's target level. She said her decision on a possible future rate cut would depend on forthcoming data releases.

Robert Kaplan, president of the Fed's Dallas branch indicated that he might be prepared to support further rate cuts.

If "we are seeing some weakness in manufacturing and global growth, then it may be good to take some action," Kaplan said.

George was interviewed on Fox Business Network; Harker and Kaplan spoke on CNBC.

The CME Group, which tracks investor bets on central bank policy, is projecting the likelihood that the Fed will cut rates at least twice more before year's end.

Adding to the pressures on the Fed, Trump has kept up his attacks on the central bank and on Powell personally, arguing that Fed officials have kept rates too high and should be cutting them aggressively.

Trump has argued that a full percentage-point rate reduction in coming months would be appropriate — a suggestion that most economists consider extravagantly excessive as well as an improper intrusion on the Fed's political independence.

The president contends that lower rates in other countries have caused the dollar to rise in value and thereby hurt U.S. export sales.

"Our Federal Reserve does not allow us to do what we must do," Trump tweeted Thursday. "They put us at a disadvantage against our competition."

Earlier in the week, he had told reporters, "If the Fed would do its job, you would see a burst of growth like you have never seen before."

Powell has insisted that the White House criticism has had no effect on the Fed's deliberations over interest rate policy.

3. Fund sales recovered in July, finds IFIC

[August 23, 2019] Both mutual fund and ETF sales surged in July, according to new data from the Investment Funds Institute of Canada (IFIC).

The industry trade group reported that mutual funds recorded $2.5 billion in net sales for July, up from $771 million in June.

A turnaround in equity fund sales powered the net sales improvement. Equity funds generated $460 million in positive net sales in July, after suffering $1.4 billion in net redemptions in June.

Bond fund sales also ticked up in July, coming in at $1.4 billion, up from $1.1 billion in June.

Conversely, balanced fund sales dropped to $314 million from $662 million in June.

ETF sales also jumped in July, IFIC reports. Monthly ETF sales came in at $1.6 billion, up from $331 million in June.

Equity ETF flows also improved in July but didn't make it to positive territory. Instead, equity funds recorded a more modest $152 million in redemptions, compared with $902 million of redemptions in June.

At the same time, bond ETFs also saw sales surge to $1.4 billion from $870 million in June. Balanced ETF sales were up slightly to $163 million from $137 million in the previous month.

Both mutual fund and ETF assets under management (AUM) also increased in July.

IFIC reports that mutual fund assets rose by $9.5 billion in July to $1.57 trillion, which represents a 0.6% gain.

ETF assets grew faster, gaining 1.3%, as AUM increased by $2.3 billion to $183.8 billion.

4. High taxes could dissuade low-income parents from working, finds C.D. Howe

[August 23, 2019] A new C.D. Howe Institute report argues that low-income Canadian families with children encounter high "all-inclusive" tax rates that could dissuade parents from working longer or entering the workforce altogether.

Alexandre Laurin, director of research at the Institute and author of the report "The Paycheck Blues: Why Extra Work is Often Not Worth the Effort for Lower-income Families," found that parents may lose a significant chunk of their take-home pay through taxes and reduced fiscal benefits.

Laurin identified the "marginal" effective tax rate (METR), which "conveys the loss, through additional taxes and diminished benefits, associated with an extra dollar of earnings"—in other words, "the financial penalty that must be paid for working extra hours," he wrote.

Laurin also identified the "participation" tax rate (PTR), the cumulative effect of all taxes, payroll deductions, fiscal contributions and loss of fiscal benefits on all earnings from work. "For a stay-at-home parent, it represents the financial penalty that must be paid out of the total income derived from getting a job," he noted in the report.

Low-income families' METRs have generally been higher than those of higher-income families, because benefit programs pile up at the lower end of the income scale.

"In some cases, the lower-earning parent in a dual-earner family with three children might lose more than 70 cents of an extra dollar of earnings, and an unemployed parent more than 65% of a prospective salary for taking on a job," Laurin wrote.

The report found that nationally, 16% of working single parents, or the lower-earning parents in dual-income families, experience an METR above 50%. Further, 12% of stay-at-home parents face a PTR above 50%.

"These proportions have risen substantially since the mid-1980s and early 1990s, when very few families faced a METR or PTR greater than 50%," Laurin wrote.

The report provides several policy recommendations.

"Federal and provincial governments should be careful not to pile up income-tested fiscal benefit programs on top of one another," Laurin wrote, noting that clawback rates can create effective tax rates above 50% at lower income levels.

He also suggested that policymakers monitor the effectiveness of Quebec's Tax Shield, which partly compensates workers for the loss of the work premium and the tax credit for childcare expenses in the first year they take on more work.

Finally, Laurin proposed a refundable credit at the federal level for childcare costs "with very generous rates for lower-earning families."

5. June retail sales essentially unchanged: StatsCan

[August 23, 2019] Statistics Canada says retail sales were essentially unchanged in June as lower sales at motor vehicle and parts dealers and gas stations offset gains in most of the other subsectors.

Economists on average had expected a decline of 0.1%, according to the financial markets data firm Refinitiv.

Sales were down in four of 11 subsectors tracked by Statistics Canada.

Motor vehicle and parts dealers fell 2.5% in June as sales at new car dealers down 3.2%. Gasoline station sales fell 3.4% as the price of gasoline moved lower.

Excluding sales in these two subsectors, monthly retail sales gained 1.7%.

Retail sales in volume terms increased 0.4%.

6. Annual inflation rate hits 2% in July

[August 21, 2019] Canadian annual inflation hit the Bank of Canada's ideal target for a second straight month, providing a stretch of price stability that's unlikely to weigh heavily on next month's interest-rate decision.

The inflation number came in at 2% last month, Statistics Canada said Wednesday, which kept it right at the mid-point of the central bank's range of 1% to 3%.

Compared with a year earlier, consumers paid less in July for gasoline, internet services and traveller accommodation, the report said.

Prices showed strength in other areas, including an 18.9% increase in the cost of fresh vegetables compared to July 2018. The consumer price index also found higher costs, year-over-year, for auto insurance, mortgage interest and passenger vehicles.

The overall 2% reading for July came in a few ticks above market expectations.

Royce Mendes, senior economist for CIBC Capital Markets, said the higher-than-predicted number was supported by a temporary spike in airline fares that he attributed to a methodological change by Statistics Canada. It also occurred last year, he said.

"The rise in inflation is really just a bit of a flash in the pan and, as a result, won't do much to alter the thinking at the Bank of Canada," Mendes said.

He added the bank is more preoccupied at the moment with economic growth, the impacts of the U.S.-China trade war and weakening global conditions than risks to the inflation outlook. The central bank's next policy meeting is scheduled for Sept. 4.

The Canadian economy has continued to perform well despite mounting international concerns.

The report Wednesday also showed that core inflation, which excludes volatile items like gasoline, was once again close to target last month.

The average of Canada's three gauges for core inflation, which are considered better measures of underlying price pressures, was 2.03%, up slightly from a revised reading of 2% in June.

On their own, the headline and core numbers don't put immediate pressure on the inflation-targeting Bank of Canada to adjust interest rates. The central bank can move the interest rate as a tool to try and promote or cool off inflation.

But amid deteriorating global economic conditions related to the trade war, some economists have predicted governor Stephen Poloz will reduce interest rates this fall — and perhaps as early as Sept. 4. Other major central banks have already signalled a more dovish turn on monetary policy.

BMO chief economist Douglas Porter said at the very least Wednesday's stronger-than-expected inflation reading "dims the odds of a September surprise" from the Bank of Canada, but that October's option remains open.

"Inflation in Canada remains remarkably stable right around the Bank of Canada's target, and looks to remain there for a spell," Porter wrote in a research note to clients.

"With their measures of core also holding tight around the target, inflation is giving the bank no free pass to trim rates, although it's also not so high as to block the door completely."

Porter added that the Bank of Canada's decision on rates will come down to its assessment of how trade risks will affect domestic growth.

A closer look at the inflation data for July shows gas prices took less of a year-over-year fall than in the previous month's report. The smaller drop applied more upward pressure on the headline number as consumers paid more for gas in July compared with June.

By omitting pump prices, the agency said last month's overall annual inflation number was 2.4%.

Prices, the report said, increased in all eight of its major categories compared with a year earlier. However, annual price pressures in the services index slowed last month to 2.4%, down from 2.8%.

By region, consumer prices slowed the most in Manitoba and British Columbia, the report said. Statistics Canada attributed the deceleration in Manitoba to the July 1 drop in the province's retail sales tax.

On a month-to-month basis, the agency said consumers paid 2.5% less for telephone services in July compared with June. The drop followed pricing changes across the industry as wireless companies faced tougher competition.

The agency said the decrease in phone plan costs was offset somewhat by higher price tags on devices like smartphones and tablets. From June to July, the price of these devices rose 42.5%.

7. Many Canadians 'misinformed' about purpose of TFSAs: poll

[August 20, 2019] While 74% of Canadians understand TFSAs can contain cash or investments, 43% are "misinformed" and believe TFSAs are for savings rather than for growing money, according to an Ipsos survey conducted for RBC.

Savings accounts and cash were the most common holding for those with a TFSA, the survey found, with 42% using their accounts for this purpose. Mutual funds (28%) were the next most common holding, followed by stocks (19%), GICs/term deposits (15%), ETFs (7%) and bonds (6%).

The top reasons for having a TFSA among those surveyed were saving for retirement (38%), saving for an emergency (35%), sheltering savings from taxes (32%), and everyday savings (25%).

More of those surveyed had a TFSA (57%) than an RRSP (52%), and when asked which they would choose if they could only have one, 64% chose a TFSA.

Moreover, 65% of TFSA holders reported they have not withdrawn money from their account.

8. Housing prices see smallest gains since 2009: report

[August 20, 2019] Growth in home prices over the past year were the slowest since November 2009, according to the Teranet-National Bank House Price Index (HPI) report, released Tuesday.

From July 2018 to July 2019, the HPI increased by a below-inflation rate of 0.4% nationwide, with the biggest year-over-year declines coming from Vancouver (-6.2%), Calgary (-3.1%) and Edmonton (-2.8%).

Other Western cities—such as Victoria and Winnipeg—saw their indices increase by 0.6% and 0.5%, respectively.

The report described the annual index growth in most of the six regions in Central and Eastern Canada as "decent," pointing to Ottawa-Gatineau (+6.0%), Montreal (+5.8%), Hamilton (+5.1%), Toronto (+3.2%) and Halifax (+3.1%).

On a month-over-month basis, the index rose in 10 of the 11 markets mentioned in the report: Winnipeg (+2.9%), Ottawa-Gatineau (+2.0%), Montreal (+1.7%), Halifax (+1.6%), Hamilton (+1.3%), Toronto (+1.3%), Calgary (+0.7%), Victoria (+0.6%), Edmonton (+0.5%), and Quebec City (+0.1%). The HPI was down by 1% in Vancouver, month-over-month.

9. Aging population could exacerbate government deficits: report

[August 20, 2019] Unlike Canada's previous episode of extended fiscal pressure, which came at a time of workforce growth, today's deficits are accompanied by an aging population that could exacerbate the challenge, suggests a new report from the Fraser Institute.

The Vancouver-based think tank is sounding the alarm about government spending, which it warns could return Canada to the state of fiscal turmoil that prevailed from the mid-1960s through the mid-1990s, before the government finally got its budget back in balance.

In particular, the report worries about government spending habits, noting that actual spending has exceeded budgeted spending since 2015.

"We saw similar trends during the 1965-1975 period when the federal government routinely spent every dollar of its higher-than-expected revenues," it notes.

A crucial difference this time is demographics. The previous period of spending-induced fiscal turmoil was accompanied by a growing workforce, which supports economic growth.

Now, with an aging population, the labour-force participation rate is declining.

This is expected to pressure government finances by increasing healthcare costs and transfers to seniors while also curbing the economy's growth potential.

"Put simply, demographics worked in favour of government finances during the period from the mid-1960s to the 1990s while it is working against government finances now and will do so for the foreseeable future," the report notes.

It says that similarities between the current state of government finances and past periods of fiscal turmoil, "should be worrying, particularly given the shift in demographics and the Department of Finance's own estimates of the long-term fiscal health of the federal government."

10. Almost three-quarters of American economists expect a recession by end of 2021

[August 19, 2019] A strong majority, 74%, of U.S. business economists appear sufficiently concerned about the risks of some of President Donald Trump's economic policies that they expect a recession in the U.S. by the end of 2021.

The economists surveyed by the National Association for Business Economics, in a report released Monday, mostly didn't share Trump's optimistic outlook for the economy, though they generally saw recession coming later than they did in a survey taken in February. Thirty-four per cent of the economists surveyed said they believe a slowing economy will tip into recession in 2021. That's up from 25% in the February survey.

An additional 38% of those polled predicted that recession will occur next year, down slightly from 42% in February. Another 2% of those polled expect a recession to begin this year.

In February, 77% of the economists expected a recession either this year, next year or in 2021.

A strong economy is key to the Republican president's 2020 re-election prospects. Consumer confidence has dropped 6.4% since July.

Trump has dismissed concerns about a recession, offering an optimistic outlook for the economy after last week's steep drop in the financial markets. He said Sunday, "I don't think we're having a recession. We're doing tremendously well. Our consumers are rich. I gave a tremendous tax cut and they're loaded up with money."

Still, Trump on Monday called on the Federal Reserve to cut interest rates by at least a full percentage point "over a fairly short period of time," saying that would make the U.S. economy even better and would quickly boost the flagging global economy.

In two tweets, Trump kept up his pressure on the politically independent Fed and its chairman Jerome Powell, whom he chose to lead the Fed, asserting the U.S. economy was strong "despite the horrendous lack of vision by Jay Powell and the Fed."

While the economists in the NABE survey generally saw recession coming later than they had in February, the latest survey was taken between July 14 and Aug. 1 _ before the financial markets last week signalled the possibility of a U.S. recession, sending the Dow Jones Industrial Average into its biggest one-day drop of the year. Stock markets around the world shuddered as the White House announced 10% tariffs on an additional $300 billion of Chinese imports, the Chinese currency dipped below the seven-yuan-to-$1 level for the first time in 11 years and the Trump administration formally labeled China a currency manipulator.

The 226 economists responding work mainly for corporations and trade associations.

The economists have previously expressed concern that Trump's tariffs and higher budget deficits could eventually dampen the economy.

The Trump administration has imposed tariffs on goods from many key U.S. trading partners, from China and Europe to Mexico and Canada. Officials maintain that the tariffs, which are taxes on imports, will help the administration gain more favourable terms of trade. But U.S. trading partners have simply retaliated with tariffs of their own.

Trade between the U.S. and China, the two biggest global economies, has plunged. Trump decided last Wednesday to postpone until Dec. 15 tariffs on about 60% of an additional $300 billion of Chinese imports, granting a reprieve from a planned move that would have extended duties to nearly everything the U.S. buys from China.

The economists surveyed by the NABE were skeptical about prospects for success of the latest round of U.S.-China trade negotiations. Only 5% predicted that a comprehensive trade deal would result, 64% suggested a superficial agreement was possible and nearly 25% expected nothing to be agreed upon by the two countries.

As a whole, the business economists' recent responses have represented a rebuke of the Trump administration's overall approach to the economy.

Still, for now, most economic signs appear solid. Employers are adding jobs at a steady pace, the unemployment rate remains near a 50-year low and consumers are optimistic. U.S. retail sales figures out last Thursday showed that they jumped in July by the most in four months.

The survey showed a steep decline in the percentage of economists who found the $1.5 trillion in tax cuts over the next decade "too stimulative" and likely to produce higher budget deficits that should be reduced, to 51% currently from 71% in August 2018.

Have a nice and fruitful week!