Weekly Updates Issue # 730

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1. Weekly Markets Changes

[September 6, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,442.07 +404.49 +2.52%	2,926.46 +79.35 +2.79%	26,403.28 +774.38 +3.02%	7,962.88 +211.1 +2.72%	$0.7522 +0.09c +0.12%	$1,526.96 -6.58 -0.43%	$55.10 +0.93 +1.72%

2. Clock is ticking for fraud victims

[September 6, 2019] Victims of an investment fraud scheme involving a day trading school and software firm Welcome Place Inc. have three months to make compensation claims.

In 2016, the Ontario Securities Commission reached a settlement agreement with Mississauga, Ont.-based Welcome Place and various individuals regarding illegal distribution and unregistered trading violations that included almost $3 million in disgorgement.

Over $900,000 has been collected by the regulator, which is available to be returned to investors.

Now, according to a notice from the Civil Remedies for Illicit Activities Office (CRIA) of the Ministry of the Attorney General of Ontario — which is administering the forfeited funds — victims in the case have until Dec. 6 to file claims for compensation.

CRIA said that direct victims of the misconduct involving violations of securities law that took place between March 2008 and May 2013 "are entitled to make a claim for compensation."

An adjudicator will determine whether a victim is eligible for compensation and the amount to be awarded.

All claims will be reviewed before compensation is awarded and paid out on a pro-rata basis.

3. U.S. added a modest 130,000 jobs in August amid trade war

[September 6, 2019] U.S. employers added a modest 130,000 jobs in August, a sign that hiring has slowed but remains durable amid economic weakness and President Donald Trump's trade war with China.

The job gain was boosted by the temporary hiring of 25,000 government workers for the 2020 Census. Excluding all government hiring, businesses added just 96,000 jobs, the fewest since May.

The Labor Department reported Friday in its monthly jobs report that the unemployment rate remained 3.7%, near the lowest level in five decades. The jobless rate was flat for a positive reason, though: Americans surged into the workforce, lifting the proportion of adults who are either working or looking for work to its highest level since February.

And average hourly pay rose 3.2% from a year earlier, outpacing inflation and lifting Americans' spending power.

Job gains from the previous two months were revised lower by a combined 20,000. That lowered average job growth to 150,000 a month for the past six months, down from 223,000 for all of last year. Hiring at that pace is enough to keep up with population growth and lower the unemployment rate over time.

The rate of job creation is significant because at a time when the economy has been slowing, additional steady hiring _ and higher pay _ can continue to fuel consumer spending, the primary driver of growth. Unlike consumers, many businesses have slowed their spending and delayed expansion and investment given their uncertainty about the duration and impact of the trade war. In addition, retaliatory tariffs from China have cut into U.S. exports.

For now, Americans are still spending and keeping the economy moving. Consumer spending rose in the April-June quarter by the most in five years. It had also increased at a healthy clip in July.

The unemployment rate for African-Americans fell to 5.5%, a record low. Trump has repeatedly highlighted that decline, which has been steady since the Great Recession ended in 2009. In August, however, the rate fell because more African-Americans stopped looking for work and were no longer counted as unemployed.

Consumers generally feel positive about the economy despite some cautionary signs. Their confidence, as measured by the Conference Board, is still strong. But an index of sentiment compiled by the University of Michigan fell in

August by the most in nearly seven years. In that survey, Americans expressed rising concern about the consequences of tariffs.
U.S. and Chinese officials plan to meet in early October in negotiations that are intended to resolve their dispute. The announcement Thursday of next month's resumption of talks helped ignite a rally on Wall Street.
The impact of the trade war is evident in industry-specific hiring figures. Manufacturers added just 3,000 jobs, the latest sign their hiring has fallen off sharply from last year. Employment in shipping and warehousing companies was essentially unchanged, with fewer factory and farm goods to transport. Retailers cut 11,000 jobs, the seventh straight month of decline, which is partly a reflection of the impact of online shopping.
As the tariffs increasingly take effect, trucking companies could absorb a hit if they have fewer factory and farm goods to ship. And retailers might cut workers as tariffs start to affect such consumer goods as clothes, toys, and electronics. If setbacks in those industries become severe enough, they could eventually raise the unemployment rate.

4. Job growth up, but wage growth down in August

[September 6, 2019] Canada's economy posted a job surge last month of 81,100 net new positions, the bulk of which were part time, in the services sector and picked up by young people.
Statistics Canada said in a report Friday that even with the increase the August unemployment rate stayed at 5.7% as more people looked for work. The jobless rate remained near its four-decade low.
The overall monthly gain — the biggest since Canada added 106,500 jobs in April — came as wage growth decelerated.
Average hourly wage growth, year-over-year, for all employees was 3.1% last month, down from a 4.5% pace in July that was the strongest monthly reading since January 2009.
Economists had expected an addition of 15,000 jobs and an unemployment rate of 5.7%, according to the financial markets data firm Refinitiv.
Compared with a year earlier, the numbers show Canada added 471,300 jobs — the majority of which were full time — for an increase of 2.5%. The number of hours worked, year-over-year, were up 1.2%.
The new jobs in August included a boost of 94,300 jobs in the private sector and a rush of 73,300 new positions in services industries, the agency said in its latest labour force survey. Job creation in services was concentrated in areas such as finance, insurance, real estate, retail and education.

The report says 57,200 of the new jobs were part time and 42,000 of the positions were held by young workers aged 15 to 24 years old, almost all of whom were women. The number of summer students, who planned to return to school after working between May and August, rose 5% compared to 2018. By province, the biggest employment increases were in Ontario and Quebec, while Manitoba, Saskatchewan and New Brunswick saw smaller gains.

In emailed commentary, Avery Shenfeld, chief economist at CIBC Capital Markets, said the August job numbers were "consistent with our view that Q3 GDP will still be in the 2% range, enough to keep the Bank of Canada on hold in October."

But Shenfeld also said he anticipates the global economic slowdown to take a "a more material bite" out of the Canadian economy by the end of the year, leading to what he expects will be a quarter-point rate cut either in December or Q1 2020.

5. Insolvencies increase in July

[September 5, 2019] Insolvencies rose in July, according to the latest data from the Office of the Superintendent of Bankruptcy Canada (OSB).

The total number of insolvencies, including bankruptcies and proposals, rose by 5.5% in July, compared with the previous month. The OSB reported that bankruptcies increased by 5.9% during the month, and proposals grew by 5.2%.

The rise in insolvencies is more dramatic when compared year over year. The number of insolvencies in July was up by 17.2% compared with the same month last year, with business insolvencies rising by 30.2% and consumer insolvencies up 16.9%.

Looking at the 12 months ended July 31, the number of insolvencies was up 6.5% versus the prior 12-month period, led by a 7.2% increase in business insolvencies.

A sector described as "other services" reported the biggest increase in insolvencies over that period, followed by the real estate sector, and the rental and leasing sector, the OSB noted. (Its data includes bankruptcies and proposals filed under the Bankruptcy and Insolvency Act, not filings made under the Companies' Creditors Arrangement Act.)

For the 12-month period ended in July, consumer insolvencies increased by 6.5% year over year, with a rise in consumer proposals driving the increase, which were up by 14.3%. Conversely, the number of consumer bankruptcies decreased by 2.8% year over year.

6. Big bank CEOs talk lower rates, living in ‘unprecedented times’

[September 4, 2019] The top executives of Canada’s biggest banks are signalling slower growth ahead amid looming trade tensions and America’s falling interest rates, but the lenders remain confident they’ll be able to adapt to the changing environment.

CIBC chief executive Victor Dodig told an industry conference Wednesday that the prospect of more countries moving to negative interest rates is an issue and questions loom over whether trade wars can worsen.

He added that “you can’t keep your blinders on” but CIBC will manage by adjusting its business and investment spending accordingly.

“That’s going to be the plan going forward,” Dodig told the Scotiabank Financials Summit. “We are living in very unprecedented times. Political leadership tends to be on the angrier side, the more aggressive side. Negative rates, trade wars. These aren’t good trends.”

The executives’ comments came days after Canada’s biggest banks reported their financial third-quarter results, with a mix of beats and misses, as tensions between the U.S. and China weighed on business sentiment.

As well, concerns of a potential recession and a recent interest rate cut by the U.S. Federal Reserve cast a shadow over the lenders’ earnings prospects. On Wednesday, the Bank of Canada stayed put on interest rates as other central banks have been signalling or taking policy action in response to expanding trade risks. Analysts have predicted that Canada’s central bank will lower rates at its next announcement in October.

The Canadian banks’ U.S. businesses have benefited in recent years from economic stimulus and rising interest rates, which helped fuel robust earnings growth and spurred several lenders to expand their footprints south of the border.

And as rising interest rates had padded banks’ net interest margins — the difference between the money banks earn on the loans they make and the interest they pay out to savers — the recent rate cut puts pressure on them.

Dodig said Wednesday a 25-basis-point rate cut translates to between $10 million and $20 million of revenues, which is “a manageable amount.”

BMO Financial Group chief executive Darryl White on Wednesday said with declining rates, the growth will be slower. Still, lower rates may stimulate consumer behaviour and unemployment remains quite low, he added.

“If the last two or three (years) were a tailwind, is this a gale-force headwind?… I think it feels like a breeze in the face,” White told the conference. “And that’s really important, because it doesn’t mean that we put the brakes on investment and offence, but it does mean that you start to shift the way you think about benefiting from investments you've made over the last three years."

RBC chief executive Dave McKay agreed there are headwinds but the outlook is "not as dark," adding that if there is a lower-growth, lower-rate environment the bank will shift gears.

"If there is less growth opportunity, you have less deployment of sales capacity, you have less advertising… we're still focusing on economic opportunity, but if that doesn't present itself, we'll pull back."

Scotiabank chief financial officer Raj Viswanathan said the lender's biggest tool to help navigate the changing landscape is its diversification, such as its international footprint.

TD Bank chief executive Bharat Masrani told the summit that while lower rates are not helpful, he would also expect business activity to pick up as a result.

"The part that we should keep in mind is, as quickly as things appear to have turned, it could turn the other way as well," he said. "And we have to just be mindful of operating the bank as thoughtfully as we can through this turmoil and through this volatility."

7. Bank of Canada holds rate as analysts eye possible October move

[September 4, 2019] The Bank of Canada says it's staying put on interest rates as it gauges the extent of the damage that deepening trade conflicts are having on the domestic and global economies.

The rate decision Wednesday kept the central bank's overnight rate at 1.75% and followed a solid second-quarter rebound for the Canadian economy.

The announcement came as other central banks around the world have been signalling or taking policy action — including interest rate cuts — to respond to expanding trade risks and the deteriorating global economy.

Heading into the announcement, governor Stephen Poloz was widely expected to leave the rate unchanged, though some had expected the bank to give indications that a policy move could be on the way. Many analysts have predicted the bank will lower rates at its next rate announcement on Oct. 30 when it will also release its updated outlook for the economy as part of its fall monetary policy report.

The central bank said the current level of policy stimulus remains "appropriate" as it monitors evolving international conditions ahead of next month's policy decision.

“Canada’s economy is operating close to potential and inflation is on target,” the bank said in its first public statement since July 10.

“However, escalating trade conflicts and related uncertainty are taking their toll on the global and Canadian economies.”

The central bank’s statement Wednesday said the intensification of the U.S.-China trade war is “weighing more heavily on global economic momentum” than it had projected in July.

At home, the bank said some of the unexpected strength in the second quarter will likely prove to be temporary and it predicted economic activity to slow in the second half of 2019.

The solid growth was fuelled by rebounds in energy production and exports, it said. Housing activity also bounced back faster than anticipated although the bank warned it could pile more debt onto already stretched households.

The statement noted that while wages have increased, consumer spending was unexpectedly weak in the second quarter.

Among the weak spots in the data, the bank pointed to a sharp contraction in Canadian business investment that coincided with the increased trade tensions.

“As the bank works to update its projection in light of incoming data, governing council will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation,” said the bank, referring to next month’s rate decision and monetary policy report.

On Thursday, Bank of Canada deputy governor Lawrence Schembri will provide more detail about the governing council’s thinking when he gives a speech and holds a news conference in Halifax.

With the stronger domestic data, the central bank has an opportunity to “wait and see” how the latest round of U.S.-China trade talks unfold before they give a nod to any policy response, said Alicia Macdonald, principal economist for the Conference Board of Canada

“As we’ve seen over the past few months, the situation on the global trade front is pretty fluid. Things… can change every hour sometimes,” Macdonald said in an interview.

“I think they don’t want to commit themselves one way or the other at this point because we just don’t [know] how the forthcoming trade talks between China and the U.S. will play out.”

Douglas Porter, chief economist of BMO, wrote in a report to clients that he still predicts a rate cut at the Oct. 30 meeting.

Porter said over the next eight weeks the bank will assess two full months worth of jobs and inflation reports, and consider the impact of another likely rate reduction by the U.S. Federal Reserve.

“Clearly, much will ultimately depend heavily on how the US-China trade war plays out; but, given that we are not optimistic on that front, we lean to a rate cut in late October,” he wrote.

The bank’s decision Wednesday kept the rate at 1.75% for seventh-consecutive policy meeting. The Canadian economy experienced an abrupt deceleration over the winter that nearly brought growth to a halt.

Last week, a report from Statistics Canada said the economy expanded at an annualized pace of 3.7% in the second quarter, which was higher than the Bank of Canada’s projection of 2.3%.

8. Survey finds most value their online identity more than money

[September 3, 2019] Just over half of Canadians say that protecting their identity online is more important than protecting their money, according to new research from payments company Interac Corp.

The Toronto-based firm reported that a survey of 1,500 Canadians found that 52% believe it’s more important to guard their identity online than it is to protect their money.

The survey also noted that 83% of respondents said that their identity represents one of their most valuable assets, and that 65% believe that a digital ID would be at greater risk of theft than their physical identity documents (driver’s licences, passports, etc.).

For Canadians to feel secure relying on a digital ID, the survey found that they would need control over their data, and for their ID to be protected by at least the same level of online security used by financial institutions.

In fact, the survey found that 62% would prefer using a digital ID to a physical ID, if it was protected by bank-level online security.

Fifty-eight per cent of respondents said that “transparency around how their information is used is the most important factor in trusting digital ID.”

“Building digital ID platforms that are anchored in convenience, control over personal information, and security will be key to unlocking the full potential of Canada’s digital economy,” Debbie Gamble, chief innovation labs and new ventures officer at Interac, said in a statement.

The national online survey of 1,500 residents of Canada was carried out by Hill+Knowlton Strategies in partnership with Leger, between Feb. 20-26. Quotas based on census data were used to ensure representation by province, age and gender.

9. OSFI sets out capital rules for first-time homebuyer mortgages

[September 3, 2019] Federal financial regulators issued guidance today that sets out how mortgage insurers will be expected to calculate capital requirements for mortgages provided under a new incentive program for first-time homebuyers that kicks in this fall.

The Office of the Superintendent of Financial Institutions (OSFI) issued guidance on Tuesday that aims to define the capital requirements for insured mortgages under the first-time homebuyer incentive (FTHBI mortgages).

OSFI says that the existing capital rules aren't set up to capture the mortgage insurance risk associated with these new mortgage arrangements, which allow eligible buyers to apply to finance 5% or 10% of their home purchases through a shared equity mortgage with CMHC.

The regulator says that, all else being equal, these new mortgages will have different default probabilities compared to traditional mortgages, because they will have different loan-to-value ratios.

The guidance sets out OSFI's approach to accounting for these new mortgages, which will take effect on Nov. 1.

It also said that OSFI will "monitor the effectiveness of the new advisory and make any necessary modifications."

Have a nice and fruitful week!