Weekly Updates Issue # 731

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1. Weekly Markets Changes

[September 13, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,682.42 +240.35 +1.46%	3,007.39 +80.93 +2.77%	27,219.52 +816.24 +3.09%	8,176.72 +213.8 +2.69%	$0.7543 +0.21c +0.28%	$1,488.53 -38.43 -2.52%	$54.85 -0.25 -0.45%

2. Income grew faster than debt in Q2

[September 13, 2019] Statistics Canada says household income grew slightly faster than debt in the second quarter, resulting in a slightly lower debt-to-income ratio.

The agency says credit market debt as a proportion of household disposable income edged down to 177.1% on a seasonally adjusted basis, compared with about 177.5% in the first quarter.

In other words, Canadians owed roughly $1.77 in credit market debt, which includes consumer credit, mortgages and non-mortgage loans, for every dollar of household disposable income.

On a seasonally adjusted basis, total credit market borrowing increased to $23.5 billion from $18.9 billion in the previous quarter.

Credit market debt totalled $2.25 trillion in the second quarter including nearly $1.47 trillion in mortgage debt and $782.9 billion in consumer credit and non-mortgage loans.

The household debt service ratio, measured as total obligated payments of principal and interest on credit market debt as a proportion of household disposable income, edged up to 14.93% in the second quarter.

3. Liberals target first-time buyers in pricey housing markets

[September 12, 2019] The federal Liberals say that if they're re-elected in October, they'll sweeten a deal for first-time homebuyers in some of Canada's priciest markets.

In the March federal budget, the Liberals unveiled a first-time homebuyer incentive designed to help households that make less than $120,000 buy their first home with the help of a shared equity mortgage with the Canada Mortgage and Housing Corporation (CMHC).

Homebuyers need only a 5% down payment to qualify for the program, which launched Sept. 2. The CMHC would provide up to 10% in shared equity (which the homebuyer would have to repay), and the program limits the incentive amount to four times the household's annual income.

The incentive applies only to mortgages of no more than $480,000, including the CMHC's portion. That meant households in Canada's hottest markets — where average house prices hover around $1 million — wouldn't qualify unless they had a down payment substantial enough to bring the value of the mortgage below $480,000.

On Thursday, the Liberals said that, if elected, they would allow mortgages (including the CMHC's portion) of up to $750,000 in Vancouver, Toronto and Victoria to qualify for the incentive. They also said they would raise the household income cap to $150,000 for first-time buyers in these markets.

The Liberals also acknowledged that housing speculation by foreign owners has driven up the cost of homes across the country.

In a release, the party pledged to address this by "putting in place a consistent national speculation and vacancy tax for non-resident, non-Canadians." Canadians who live abroad, as well as non-Canadians who live in Canada, would not be affected, the party said.

4. Wealth preservation trumps wealth creation for HNW clients

[September 12, 2019] High net worth (HNW) Canadians are prioritizing protecting their wealth over growing their wealth, according to an annual survey commissioned by RBC Wealth Management.

The survey found that 53% of respondents said that preserving their wealth was their most important financial goal, while only 34% said increasing their wealth was most important.

When asked what factors posed the biggest threat to wealth preservation, 48% of respondents rated Canadian tax changes as their biggest concern, followed closely by global economic uncertainty (46%) and the increased cost of living (45%).

"While investment and portfolio management remain a priority, increasingly, we find that our high-net-worth clients are asking us for guidance and support in the areas of tax strategy, wealth preservation, estate planning and philanthropy," Tony Maiorino, head of RBC Wealth Management Services, said in a release.

Almost two-thirds (63%) of HNW clients said they are more attentive to their portfolios than ever before due to the current economic cycle, with 76% agreeing that "today's market requires investors to be more flexible and more responsive," the release said.

The survey also found that the gap between how younger and older HNW clients approach their investments has widened.

Seventy-three per cent of younger HNW Canadians said personal wealth creation should be balanced with ensuring opportunities to accumulate wealth across society, compared to 66% of older HNW Canadians.

While 62% of Canadian respondents agreed it is important to invest ethically, younger respondents were much more likely (56%) to consider environmental, social and governance factors than older investors (27%).

RBC Wealth Management commissioned the Economist Intelligence Unit to survey 1,051 high net-worth individuals (HNWIs) with at least $1.35M in investable assets, 522 adult children of HNWIs and 521 respondents who are not yet HNWIs but who have a minimum income of $134,000. The study took place from May to June, 2019, and included 614 respondents in Canada.

5. OPEC mulls further production cut in December

[September 12, 2019] OPEC and its non-cartel allies on Thursday discussed further cuts to oil production and the possibility of Iran re-entering the global market but said that any decision would have to wait for a meeting in December.

Global oil prices fell on the news as forecasts predict a coming economic slowdown and a renewed supply glut.

Officials at the Organization of the Petroleum Exporting Countries committee meeting held in Abu Dhabi, including new Saudi Energy Minister Prince Abdulaziz bin Salman, sought to stress the group remained committed to stabilizing the market through a package of cuts that began in 2017.

However, Iraq and Nigeria openly acknowledged going beyond their allotments while promising further cuts. Estimates similarly show Russia, another heavyweight outside of OPEC, going beyond its allotments.

Meanwhile, Saudi Arabia continues its “extra-voluntary reductions,” Prince Abdulaziz said. A statement by the committee said that there was 136% compliance with the accord last month.

The prince said there would be “no half-cooked transparency” under his watch, while going out of his way to repeatedly praise those involved in the deal.

“It was productive, it was fruitful, it was transparent and more importantly every participant did see that there is a role to play and a way to improve this endeavour,” Prince Abdulaziz told journalists after the meeting.

Benchmark Brent crude traded at $60 a barrel after the meeting ended. Before the meeting started, it was trading above $61.

Crude oil sold for over $100 a barrel in the summer of 2014 before bottoming out below $30 a barrel in January 2016. That fall largely came from a boom in U.S. shale oil and countries like Saudi Arabia keeping their production high to hold onto market share.

Hoping to boost prices, OPEC partnered with non-OPEC nations like Russia to lower their production beginning in 2017, the first such cut for the cartel in a decade. It reduced production by 1.2 million barrels per day, with 800,000 coming from OPEC and 400,000 coming from non-OPEC members.

That deal helped push prices back up, becoming what Prince Abdulaziz earlier this week described as an arrangement “’til death do us part.”

But the accord does not include America, which was the world’s top oil producer in 2018, according to the U.S. Energy Information Administration.

President Donald Trump has been pushing both OPEC and ally Saudi Arabia in tweets to keep prices low as well, mindful of how gasoline prices can swing elections in America. The average price for a gallon of regular gasoline in the U.S. is $2.56, down from $2.83 a year ago, according to AAA.

The Paris-based International Energy Agency said in a report Thursday released during the meeting that the U.S. momentarily even overtook Saudi Arabia in June as the world’s No. 1 gross oil exporter.

It’s “a reminder to the producers that competition for market share is getting tougher,” the IEA said.

It added that growth continued to weaken amid “uncertainty around the global economy, and particularly trade.” That’s a nod toward the trade war between China and the U.S., which has seen billions of dollars in tariffs levied between them.

“The challenge of market management remains a daunting one well into 2020,” the agency said.

That was a sentiment echoed by analysts.

“A combination of new tariffs being imposed by China and the U.S., weakening data from major economies and uncertainty over the next steps from central banks all worked to weigh on the outlook for crude oil, particularly for demand in the coming months,” wrote Edward Bell, an commodities analyst for Dubai-based Emirates NBD.
Tensions between Iran and the U.S., while sparking temporary spikes in the oil market, have not caused sustained higher prices. Asked about whether a thaw between the U.S. and Iran could affect energy markets after Trump’s firing of national security adviser John Bolton, Prince Abdulaziz said the committee spoke about it.
“That time when that situation prevails, we will look at the assessment,” he told journalists. “If the issue of addressing them requires certain measures, all these certain measures will be reviewed.”
Venezuelan Petroleum Minister Manuel Salvador Quevedo Fernandez similarly criticized, linking him to the oil sanctions crushing the South American country’s economy during its political turmoil.
“They are against our Venezuelan people,” he said. “These measures damage our economy.”
But a possible further cut, while it could boost prices, could hurt the ones who need the money most. OPEC-heavyweight Saudi Arabia, which noticeably has cut into its production to help sustain the deal, needs more oil revenue to help support Crown Prince Mohammed bin Salman’s ambitious “Vision 2030” plans.
But Prince Abdulaziz seemed to acknowledge a further cut could be in the cards, though he stressed any decision would come during OPEC’s December meeting in Vienna.
“We are going to carry our voluntary reductions to end of year and definitely we will have the meeting in December,” he said. “I don’t want to preempt the conference.”

6. ECB cuts rates, restarts bond-buying program

[September 12, 2019] The European Central Bank on Thursday delivered a new blast of monetary stimulus to help the shaky economy in the face of uncertainties like the U.S.-China trade conflict and Brexit.
The decision comes as central banks around the world including the U.S. Federal Reserve move toward lower rates to support slowing global trade and growth.

The ECB, the central bank for the 19 countries that use the euro, cut the rate on deposits it takes from banks to minus 0.5% from minus 0.4%. That is a penalty rate that pushes banks to lend excess cash.

It also said it would restart its bond-buying stimulus program, which pumps newly created money into the financial system to lower borrowing costs and help the economy. It will buy 20 billion euros ($22 billion) a month in government and corporate bonds for as long as needed.

The central bank furthermore extended its promise to keep rates at record lows until inflation goes back up sustainably to its goal of just under 2%. At last count, inflation was just 1%.

The ECB has joined the Fed and other central banks around the world in lowering rates and making credit cheaper to help the economy. The Fed cut its key policy rate in July for the first time in a decade, to a new range of 2% to 2.25%. Markets believe there is a near certainty the Fed will cut rates for a second time at its next meeting Sept. 17-18.

ECB President Mario Draghi was able to push the stimulus package through the 25-member governing council despite skepticism about the size of the package voiced by several members ahead of time. Some aspects of the package such as the rate cut and the bond purchases were smaller than some analysts expected although the open-ended timing could partly offset that.

The package ensures that the stimulus policies will influence the ECB’s stance for months after Draghi leaves office. Thursday was his next-to-last meeting before his eight-year term ends on Oct. 31; Christine Lagarde, the outgoing head of the International Monetary Fund, is due to take his place and has endorsed Draghi’s measures in hearings on her nomination.

The euro fell after the ECB’s announcement, to its lowest level against the dollar since May 2017, according to financial data provider Factset. The currency was down 0.5% at $1.0958.

“This was a kitchen sink job” said Neil Wilson, chief markets analyst at Markets.com. “Mario Draghi has done pretty much everything he could do with this one and is leaving the door open for Christine Lagarde to cut further.”

Economic growth in the eurozone has slowed to 0.2% in the second quarter from the quarter before and Germany, the largest member of the euro, shrank by 0.1%, putting it on the verge of a recession, defined as two straight quarters of declining output.

While services firms and employment have held up relatively well, industrial firms have seen activity slump amid uncertainty about global trade. U.S. President Donald Trump has imposed higher tariffs on Chinese imports as he seeks a new trade deal, leading to Chinese retaliation and uncertainty among firms about where they should locate supply lines of parts and products. The IMF has lowered its forecast for growth in global trade this year by 0.9% to 2.5%.

Further uncertainty has been piled on by lack of clarity over whether Britain will leave the European Union on Oct. 31 with a divorce deal to smooth the movement of goods. Without an exit deal, new tariffs and border checks would suddenly be imposed, disrupting business dealings between major trade partners.

Stimulus measures make borrowing cheaper and thus stimulate economic activity, assuming businesses see enough prospect of profit to be willing to risk borrowing. Low interest rate policy also tends to support the prices of financial assets such as stocks and bonds, helping to ward off market turmoil that could further undermine confidence.

"On both sides of the Atlantic, highly accommodative monetary policies limit the risk of financial turbulence," said Holger Schmieding, chief economist at Berenberg bank in London.

Like the Fed, the ECB has had to change its stimulus stance as the global economic outlook has grown shakier. The bank ended a previous bond purchase stimulus only in December after purchasing 2.6 trillion euros ($2.9 trillion) in financial assets from banks. The bank kept those bond holdings by reinvesting the proceeds of expiring bonds, thus maintaining the level of monetary stimulus. But deteriorating economic data pushed the bank to start developing plans for more stimulus.

7. Small biz asks federal parties to address tax changes

[September 11, 2019] With the federal election underway, small business owners are asking the federal parties to include certain measures in their platforms, including a reversal of the new rules on passive investment income and an exemption for spouses from the new rules for tax on split income.

The Canadian Federation of Independent Business (CFIB), a vocal critic of recent tax changes for private corporations, is delivering almost 9,000 signed letters from small business owners across the country as it meets with the major party leaders, the organization said in a release on Wednesday.

Small business owners want all parties to "put forward measures that address their biggest concerns around affordability, labour and financing," said Dan Kelly, CFIB president, in the release. "They're not asking for government handouts, but they are looking for careful consideration and common sense."

Under the new passive income rules, the small business deduction is reduced by $5 for every $1 of investment income and reduced to zero at $150,000 of investment income. The rules were introduced by the Liberal government in its 2018 budget, effective in the 2019 tax year.

CFIB is asking the parties to commit to a wholesale reversal of the rules.

The new rules for tax on split income (TOSI) were part of the government's controversial 2017 tax changes. Effective in 2018, TOSI was expanded to include adults and more types of income.

When a business owner pays dividends to a spouse, TOSI can be avoided if:

- the owner meaningfully contributes to the business and is aged 65 or older;
- the spouse is aged 18 and older and makes "regular, continuous and substantial" labour contributions to the business in the current or any five preceding years (generally, 20 hours per week); or
- the spouse is aged 25 and older and owns at least 10% of the corporation, and less than 90% of its income is from services and it isn't a professional corporation.

CFIB is asking for the parties to exempt spouses automatically.

Intergenerational business transfers

Another request involves action on intergenerational business transfers. Currently, business transfers to a family member are treated as a dividend, while sales to a third party are treated as a capital gain. As a result, business owners can't access the lifetime capital gains exemption if they sell to their children.

In its 2019 budget, the federal government committed to reaching out to business owners throughout the year to develop new proposals to better accommodate intergenerational business transfers.

In their letters to the federal party leaders, small business owners are also asking for the following commitments:

- addressing the growing tax burden by slowing down or halting additional CPP increases after 2019;
- reducing the costs of hiring and training by lowering the employment insurance (EI) rate for small firms or introducing an EI holiday for youth between the ages of 15 to 24;
- repealing the federal carbon tax and instead working with each province to find a way to address climate change that minimizes any negative impacts on small businesses;
- cutting red tape in policies, guidelines and legislation, and improving government services; and
- putting in place a plan to balance the budget within the next five years.

Earlier this summer, CFIB released its small business platform with detailed policy recommendations on how these goals can be achieved. The recommendations have been presented to members of Parliament, ministers and senior representatives from all major parties, the release said.

8. Canada’s economy dependent on family businesses: report

[September 11, 2019] Family-owned businesses have a significant impact on Canada’s economy, according to new research from the Family Enterprise Xchange Foundation (FEX-F) and the Conference Board of Canada.

The research, summarized in a white paper, reveals that family enterprises generated approximately $574.6 billion in 2017, which accounted for more than 35% of Canada’s real GDP and 48.9% of GDP originating from the private sector.

Family-owned businesses also provide employment for a significant portion of Canada’s working population. The research indicated that family enterprises directly accounted for 6.9 million jobs in 2017, amounting to 46.9% of private sector employment and 37.4% of the entire workforce.

Over 90% of these jobs are in small and medium-sized family enterprises, which the paper described as the “backbone” of Canada’s economy.

“Rooted in communities across our diverse geography, successful family enterprises can sustain a multigenerational commitment to job creation and to the social cohesion that builds community and national prosperity,” Jim Burton, chair of FEX-F, said in a statement.

Additionally, the study found that family-owned enterprises perform better on important business metrics, such as growth and longevity.

Among family enterprises, total revenues grew 14.6% on average between 2007 and 2013, compared 13.9% of all other firms in the dataset. Of firms that were operating in 2007, 70.1% of family enterprises were still operating in 2013, compared to 65.2% of other firms.

“In many Canadian communities, family enterprises are the biggest employers, particularly in small communities. Yet demographics, unintended consequences of tax policy, and a lack of trained advisors are threatening the continuity of family enterprise,” Burton said.

The paper said the full economic impact of family-owned businesses is unclear, and that “more in-depth information is necessary to gain a clearer grasp of the family enterprise landscape across Canada.” It suggested that significant data gaps remain in creating policies that maximize the value of family-owned enterprises to regional economies, strategic industrial sectors and community wellbeing.

9. Canadians' wealth declines for first time since 2008

[September 10, 2019] Last year, Canadian investors' financial wealth suffered its first decline since the global financial crisis, according to new research from Toronto-based research firm Investor Economics.

In 2018, discretionary financial wealth — including deposits, investment funds and securities holdings — declined by 1% to $4.4 trillion, the firm reported.

This marked the first dip in financial wealth since 2008, it noted.

The erosion in investors' wealth was driven by a 5.7% drop in equities, coupled with a 3.7% decline in long-term investment funds, which more than offset a 4.7% jump in deposits.

"The final months of 2018 delivered a sobering message to Canadian households and the financial services industry alike, with market concerns over Brexit, a U.S.-China trade war, and other factors depressing asset valuations and prompting a rise in interest rates," said Goshka Folda, president and CEO of Investor Economics, in a statement.

"This has translated into a sharper focus by Canadian households in diverting discretionary financial assets toward lowering personal debt with associated adverse impacts for the retail financial services industry," she added.

In fact, Investor Economics estimated that an added $45 billion was directed to debt repayment in 2018.

"From the perspective of the retail financial services industry, this could be viewed as a direct reduction in the addressable market for the wealth management and banking industries in 2018," the firm said.

Investor Economics projects that aggregate household financial wealth will grow at an average annual rate of 5.6% over the next 10 years, down from 6.7% growth from 2008 to 2018.

10. Housing starts up 1.9% in August

[September 10, 2019] Canada Mortgage and Housing Corp. says the pace of new housing starts in August climbed 1.9% compared with July.

The housing agency says the seasonally adjusted annual rate of housing starts rose to 226,639 units in August, up from 222,467 units in July.

Economists on average had expected an annual pace of 215,000, according to financial markets data firm Refinitiv.

The six-month moving average of the monthly seasonally adjusted annual rate of housing starts in Canada increased to 218,998 in August compared with 208,931 in July.
The increase in the result for August came as the pace of urban starts increased 2.0% in August to 213,663 units. Multiple-unit urban starts fell 1.4% to 160,388 units in August while single-detached urban starts increased by 13.6% to 53,275.
In emailed commentary, Avery Shenfeld, chief economist at CIBC Capital Markets, noted that single-family home starts had their best month in just over a year.
“As a result, while starts in Q3 are running only a bit above Q2 levels, the gains in singles starts should entail some growth in the GDP contribution from home building, given their higher average cost per unit,” Shenfeld wrote.
Rural starts were estimated at a seasonally adjusted annual rate of 12,976 units.

Have a nice and fruitful week!