Weekly Updates Issue # 733

1. Weekly Markets Changes

[September 27, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,694.27 -205.42 -1.22%	2,961.79 -30.28 -1.01%	26,820.25 -114.81 -0.43%	7,939.63 -178.04 -2.19%	$0.7548 +0.15c +0.20%	$1,497.01 -19.89 -1.31%	$58.09 -2.18 -3.75%

2. Online shopping makes it hard to measure inflation: report

[September 27, 2019] As online shopping becomes increasingly common, accurately collecting consumer economic data is more challenging, Statistics Canada says.

In a new paper, the national statistical agency evaluated the impact of digital commerce on its efforts to measure consumer inflation.

The increasing prevalence of online shopping poses a growing challenge to economists because the prices that consumers pay aren't nearly as stable online as they are in traditional stores.

For instance, online retailers have much more data on consumer demand, competitor prices and supply factors that enable them to adjust prices much more frequently.

"The use of algorithmic pricing, which can result in rapidly changing prices, may pose challenges in terms of the measurement of consumer price inflation," the paper noted.

An inability to measure high consumer price volatility "introduces the potential for significant month-to-month volatility in the headline CPI. This may distort the measure of pure price change reported in the monthly CPI," the paper stated.

“It is not inherently problematic for online prices to exhibit a greater degree of volatility than their in-store counterparts since the prices collected do indeed represent a new market reality faced by consumers,” StatsCan said.

“Rather, challenges emerge in interpreting inflation dynamics based on a CPI that was designed to capture a monthly snapshot of prices, rather than prices that change as frequently as those in the online world,” it said.

The paper said that, at this point, the impact of these changing economic dynamics is having a “minimal impact” on monthly inflation reporting.

Yet, as the significance of the digital economy continues to grow, StatsCan said that its methods of collecting pricing data must continue to evolve to ensure statistics continue to accurately reflect economic conditions.

For instance, StatsCan reported that it is updating data collection methods for certain consumer categories and expanding the baskets of goods and services that it collects prices on to include emerging sectors, such as spending on ride-share services and online streaming services.

3. Q2 U.S. GDP slows to 2%

[September 26, 2019] The U.S. economy grew at a modest 2% annual rate in the second quarter, a pace sharply lower than the 3%-plus growth rates seen over the past year. Many analysts believe growth will slow further in coming quarters as global weakness and rising trade tensions exert a toll.

The April-June increase in the gross domestic product, the economy’s total output of goods and services, slipped from a brisk 3.1% gain in the first quarter, the Commerce Department reported Thursday.

The government’s third and final look at second-quarter GDP growth was the same as the previous estimate, although the components were slightly altered. Consumer spending and business investment rose at slower rates than previously estimated, but this was offset by slightly stronger gains in government spending and exports.

In the current quarter, analysts believe GDP is likely growing at the same modest 2% rate, and they are forecasting a similar outcome in the final quarter.

For the year, GDP is expected to rise around 2.2%, down from the strong 2.9% gain seen last year, which had been the best performance since 2015.

President Donald Trump, who is counting on a strong economy to boost his re-election bid, has called the economy’s performance the best ever. But after a spurt in growth last year due to the president’s $1.5 trillion tax cut program, growth has slowed noticeably to slightly below the 2.2% annual growth rates turned in during the current economic expansion.

While the economic recovery from the Great Recession is now in its 11th year, the longest in U.S. history, it has been the slowest in terms of annual growth rates, a fact economists attribute to slower growth in the labour market, due to the retirement of baby boomers, and a slowdown in productivity.

Trump, however, repeatedly attacked Obama administration economic policies for the lacklustre GDP rates and pledged to achieve annual growth above 3% with his economic program of big tax cuts, deregulation and tougher enforcement of trade laws.

The economy has achieved four quarters of 3%-plus GDP rates since Trump took office in early 2017, but economists doubt that this pace can be achieved on a sustained basis given the labour force and productivity issues facing the country.

This year's expected slowdown has been attributed to a fading of the impact of the Trump tax cuts as well as adverse effects of Trump's trade war with China.

Mark Zandi, chief economist at Moody's Analytics, said that if Trump carries through with an escalation of the tariffs nest month and in December, it could be enough to push the country into a recession next year.

"It all hinges on the president and what he decides to do with trade," Zandi said. "If he follows through on this tariff threats later this year, then in all likelihood growth will slow and we would end up in a recession next year."

Zandi is forecasting that GDP growth this year will slow to 2.3% and then slow further to 1.6% next year, but that is based on no escalation in the trade war with China.

The GDP report showed that consumer spending, which accounts for 70% of economic activity, came in at a sizzling rate of 4.6%, the best quarterly performance since late 2014, but down slightly from last month's estimate of a 4.7% rate of gain for consumer spending.

Spending by the federal government and state and local governments increased at a 4.8% rate in the spring, up from last month's estimate of a 4.5% gain.

In a separate report, the Labor Department said Thursday that the number of Americans filing initial claims for unemployment benefits, a proxy for layoffs, rose by 3,000 last week to 213,000. That is still a low level indicating a strong labour market.

4. RESPs would be eliminated under Green plan

[September 25, 2019] The Green Party of Canada would, if elected, eliminate the Registered Education Savings Plan (RESP).
The party's platform, released earlier this month, discussed broad plans to "make college and university tuition free for all Canadian students" through a variety of measures.
The RESP measure wasn't included in the platform document, but is included in its platform costing document, which was released on Wednesday.
A major element of the free-tuition plan would be eliminating the RESP. This would carry an initial cost of nearly $1.5 billion in 2019-2020 but result in increased savings in subsequent years, with projected savings of nearly $1.4 billion in 2024-2025.
A Green Party representative said in an email that the party "is proposing to eliminate tuition fees, [and] invest $10 billion in post-secondary education. We believe this removes the need for RESPs. Cutting it helps provide revenue."
RESPs are designed to help save for a child's future post-secondary education. Individual and family plans are available, and incentives such as the Canada Education Savings Grant (CESG) and Canada Learning Bond are tied to the plans.
Once a child is attending post-secondary, funds withdrawn from an RESP can be used to pay for tuition as well as other school costs, such as books, tools and administration fees.
The Green Party representative contacted by Advisor's Edge didn't provide detail on how current RESP balances would be treated or whether government grants that have already been given would need to be repaid.
The representative also didn't comment on how students' non-tuition costs would be paid for if RESPs were eliminated.
However, the representative did say that the Green Party would "introduce the change in a manner that would not penalize those who have been saving for their children's educations."
According to a 2017 annual statistical review of the Canada Education Savings Program, total RESP assets had reached $55.9 billion by 2017, up from $23.4 billion 10 years earlier. By the end of 2017, nearly 4 million had received a CESG.
Last week, the Conservative Party of Canada announced its plans to boost RESP grants and raise the maximum lifetime grant limit.

5. Conservatives pledge to scrap rules for passive income

[September 24, 2019] The Conservative Party of Canada says it will repeal certain tax changes affecting small businesses if elected in next month's federal election.

In a release on Tuesday, the Tories announced several measures to support small business, topping the list with a full repeal of the new rules for passive investment income.

The reversal would restore full access to the small-business tax rate for corporations earning more than $50,000 in passive investment income in a given year, a supporting document said. Full access to refundable taxes for corporations on the distribution of eligible dividends would also be restored.

The rules for passive income were introduced by the Liberal government in its 2018 budget, effective in the 2019 tax year.

The Conservatives also pledged to exempt spouses (including common-law partners) from the tax on split income (TOSI). Effective in 2018, TOSI was expanded to include adults and more types of income — part of the Liberal government's controversial 2017 tax changes.

Today's announcement by the Tories aligns with recent requests from the Canadian Federation of Independent Business. A vocal critic of the Liberals' tax changes for private corporations, the federation asked the federal parties earlier this month to repeal the passive income rules and exempt spouses from TOSI, among other measures.

Other efforts announced by the Tories today to support small businesses include deregulation, with a 25% reduction of federal regulations over four years; a two-for-one rule for regulations, whereby any new regulation would require scrapping two others; and the assignment of a minister to lead red-tape reduction efforts.

The Conservatives also pledged changes related to the Canada Revenue Agency (CRA). For example, the Tories said they'd make it easier to navigate the tax system and get set up with the CRA by creating information packages for small businesses. If elected, the Conservatives would also reduce complexity in CRA rules and appoint an expert panel to review taxation to make it modern, simple and fair.

The release also said the Tories would champion Canada's small businesses globally and mandate that ministers and regulators support "innovation, economic growth and global competitiveness."

In the release, Conservative leader Andrew Scheer said that a Conservative government would “continue to celebrate small businesses as drivers of prosperity, and not view them merely as sources of revenue.”

6. Why Wall Street fell out of love with Netflix

[September 24, 2019] Netflix's stock plunged over the past several months, hammered by fears of increased competition from other streaming rivals. The planned launches of Disney+ and Apple TV+ are propelling streaming into a new era, with established companies like Netflix facing off with new players in the industry.

Netflix shares plunged 30.2% from its last peak on July 10 through the close on September 23. On July 18, shares dropped 10.2% following Netflix's second quarter earnings for 2019 the day before, which reported worse-than-expected subscriber additions. Netflix stock turned negative for the year Monday and is down 0.7% year-to-date as of Monday's close.

"When they lost subscribers for the first time in eight years, it spooked investors and they thought maybe something was wrong," said Michael Pachter, an analyst at private financial services firm Wedbush.

Netflix had the first-mover advantage in the industry, with substantial growth in both subscribers and revenue since it rolled out streaming in 2011. However, with Disney+ and Apple TV+ set to offer streaming at a much lower price point, Netflix may not be able to replicate its past phenomenal growth.

Growing content costs, including renewals and fees for exclusive agreements, also challenges Netflix to make money without raising subscription fees.

Last year the company reportedly paid $100 million to continue licensing the '90s sitcom "Friends" through 2019. It's also going to lose "The Office," as NBCUniversal reportedly paid $500 million to pull the hit show off Netflix for its upcoming streaming service Peacock. Cable providers are losing customers at a staggering rate, so expanding or building their own streaming services is becoming increasingly important. That adds new also challengers to Netflix.

"All the media companies are going to fight back and draw back their content," Pachter said.

As Netflix looks at greater international expansion, poor infrastructure in some markets poses a challenge. Africa, the second most populous continent with 1.2 billion people whose median age is 20, is a logical market to expand streaming. But only 22% of its population has internet access, the research firm Trefis said.

"Expansion costs money, and they are burning a lot of cash internationally on infrastructure, which is so poor that they're not even close right now," Pachter said.

Subscriber growth is an important part of its business model, but Netflix's performance is no longer driven by subscribers. The popularity of its content drives Netflix's success. To attract subscribers internationally, it needs to have a broad content library that caters to the preferences of a diverse audience.

While much of Netflix's US content has global appeal, it is unclear how much the content developed for other countries or regions appeals outside of that specific geography.

"While International looks like a stronger growth story, investors must worry about how this drives up content costs as these countries appear to demand more local content," said Jim Nail, an analyst at research firm Forrester. "This further fogs the path to profitability."

In its pursuit of attracting and keeping subscribers, Netflix is burning staggering amounts of cash to pay for blockbuster original hits like "Stranger Things," " The Crown" and "Ozark."

Instead of looking like a technology company with fast growth and a limitless customer pool, Netflix is starting to look more like a movie studio, depending on blockbuster hits for phenomenal numbers.

"Netflix's own content has to be good enough to keep subscribers — it doesn't even have to be great — but I'm just not seeing them successful with that so far," Pachter said.

7. Canadian financial centres take a hit in global rankings

[September 23, 2019] Canadian financial centres had mixed fortunes in the newest Global Financial Centres Index (GFCI 26), released on Thursday by Z/Yen, a London, U.K.-based commercial think tank.

The index evaluates the competitiveness of the world’s major financial centres.

Seven of the top 10 rankings are Asia-Pacific centres, continuing the region’s strong performance in recent years.

Toronto’s rating fell 18 points compared to GFCI 25 and the city lost its top-10 ranking, falling four places from seven to 11 in GFCI 26. Toronto was edged out by Shenzhen, Dubai and Sydney, leaving only one North American city — New York, ranked first — in the top 10.

Montreal was ranked 20th, down from 18, after its rating slipped six points.

Vancouver's rating dropped as well, causing the city to fall five places to 24.

Calgary was the only Canadian city to improve its standing in GFCI 26. The city's rating rose 16 points, and its ranking rose to 57 from 58.

The ratings of all five of the top centres fell in GFCI 26. New York retained first place in the index, extending its lead over London by 10 points. Hong Kong now sits only two points behind London, while Singapore and Shanghai remain in the fourth and fifth positions, respectively.

While the majority of Canadian centres dropped back following their improved performance in GFCI 25, U.S. centres generally improved in their rankings and ratings.

Seven out of the 10 North American centres in the index are in the top 20.

8. Canada's Big Five haven't signed on to UN Principles on Responsible Banking

[September 23, 2019] About a third of the global banking sector has signed onto the United Nations' initiative to promote sustainable banking, with limited participation from Canada.

The UN formally launched the Principles for Responsible Banking at the UN Climate Action Summit in New York on Monday, with 130 banks from around the world committing to aligning their businesses with the goals of both the Paris Agreement on Climate Change and the UN's Sustainable Development Goals (SDGs).

The founding signatories collectively represent US$47 trillion in assets in 49 countries, but only include a couple of major Canadian financial institutions — National Bank of Canada and Desjardins Group.

The principles were developed by a core group of 30 banks working with the UNEP Finance Initiative, which is a UN-private sector collaboration. They are backed by an implementation framework that sets out accountabilities and requires banks to set and work toward specific targets.

"A banking industry that plans for the risks associated with climate change and other environmental challenges can not only drive the transition to low-carbon and climate-resilient economies, it can benefit from it," Inger Andersen, executive director of the UN Environment Programme (UNEP), said in a statement.

“When the financial system shifts its capital away from resource-hungry, brown investments to those that back nature as solution, everybody wins in the long-term,” Andersen added.

One of the initial signatories, Swiss banking giant UBS AG said that the principles will provide it with a framework to identify new business opportunities in the emerging sustainable economy, while also identifying and addressing related risks.

“Now we have a clear framework that allows us to benchmark ourselves against ambitious targets. As an industry, it’s of increasing importance to all go in the same direction and speed up efforts to support the UN SDGs,” said UBS group CEO, Sergio Ermotti.

Have a nice and fruitful week!