Weekly Updates Issue # 741

1. Weekly Markets Changes
2. Retail sales dropped 0.1% in September, StatsCan reports
3. Economists forecast BoC rate cuts
4. Poloz warns of the risks climate change poses to financial systems
5. Canadians agree they have too much debt
6. Canada facing financial planning challenges with aging population
7. Inflation held steady in October, StatCan reports
8. 72% say retirement isn't what they expected
9. Survey finds Canadians' financial confidence slipping
10. Changing the central bank's mandate could have 'dangerous' consequences: report

1. Weekly Markets Changes

[November 22, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,954.84 -73.63 -0.43%	3,110.29 -10.17 -0.33%	27,875.62 -129.3 -0.46%	8,519.89 -20.94 -0.25%	$0.7526 -0.32c -0.42%	$1,461.93 -0.97 -0.07%	$57.77 +0.05 +0.09%

2. Retail sales dropped 0.1% in September, StatsCan reports

[November 22, 2019] Statistics Canada says retail sales fell 0.1% in September to $51.6 billion, weighed down by lower sales at motor vehicle and parts dealers and gasoline stations.

The result matched the expectations of economists, according to financial markets data firm Refinitiv.

The overall decline came as sales in the motor vehicle and parts dealers subsector fell 1% due to a 1.9% drop at new car dealers. Sales at gasoline stations fell 2.3%, due in part to lower prices.

Statistics Canada says excluding these two subsectors, retail sales rose 0.7%.

Sales at food and beverage stores rose 1.2%, boosted by a 1.1% increase at supermarkets and other grocery stores and a 3.2% increase at beer, wine and liquor stores. Building material and garden equipment and supplies dealers saw sales rise 3.3%.

Overall retail sales in volume terms fell 0.1%.

3. Economists forecast BoC rate cuts

[November 22, 2019] Interest rate cuts from Canada's central bank could be on tap in the new year, assuming forthcoming data support such a move.

While the Bank of Canada (BoC) is largely expected to hold its key rate at 1.75% on Dec. 4, Canadian Imperial Bank of Commerce (CIBC) anticipates a quarter-point cut in the first quarter of 2020. Bank of Nova Scotia does one better, calling for two rate cuts in 2020, one in each of in the first and second quarter.

CIBC says the accuracy of its forecast depends on forthcoming evidence of economic weakness, specifically in the next two employment reports.

"The jobs data has been the most important pleasant surprise in the past year, and it's understandable that without any meaningful climb in the unemployment rate, the central bank would have doubts about the need for an ease," stated Avery Shenfeld, managing director and chief economist at CIBC Capital Markets, in a report on Friday.

Canada's most recent jobs report indicates weakness, after accounting for the 20,000 temporary jobs at polling stations for the federal election, Shenfeld noted. "We need two more of these to look like a trend," he said.

Evidence of downside risk to the central bank's growth forecast would also be required to support CIBC's forecast. For example, global PMIs (purchasing managers' indexes) have been weak, which could "cast doubt" on the BoC's current view that "the picture abroad is turning," Shenfeld said.

Alternatively, evidence in support of monetary policy easing could come in the form of a strengthening loonie, which would create fears about export competitiveness.

"Our research showed that Canada has been steadily losing share of U.S. imports to other countries, including those with softer currencies," Shenfeld said.

Loonie strength was also cited by Scotiabank as a factor in potential easing of monetary policy.

"If the Fed cuts again into 2020 as we forecast, then staying parked at 1.75% on the BoC's overnight rate risks driving currency appreciation," said Derek Holt, vice-president and head of capital markets economics at Scotiabank Economics, in a report on Thursday.

The result of loonie strength would be a further deterioration in export competitiveness, and "it's doubtful the BoC would welcome such a development," Holt said.

In addition to that concern, Holt's outlook is based on several factors, including slack in the Canadian economy that could rise and subsequently put downward pressure on inflation, and the demonstrated lack of success by fiscal stimulus — expected by the newly re-elected federal Liberal government — to sustainably boost the economy.

4. Poloz warns of the risks climate change poses to financial systems

[November 21, 2019] Bank of Canada governor Stephen Poloz wasn't asked about climate change risks at a discussion about economic change and emerging risks on Thursday, so he brought them up himself.

"It's about the transition risk, right, as everyone's portfolio and all their lending practices kind of converge on a different climate trend line, that that could have significant consequences for financial systems," he said.

"So we need to model that and do stress testing and so on, and so we're building new tools for that."

His comments came the same week the Bank of Canada outlined its research priorities on the potential impacts of climate change, including physical risks of intensifying weather, the financial risks of stranded assets, and wider risks to the system of increased volatility and unpredictability.

The report by Miguel Molico, senior research director at the bank's Financial Stability Department, notes that carbon-intensive sectors like oil and gas could be hurt by significant changes in pricing in a transition away from a carbon economy.

"Maintaining the warming below 2.0 degrees Celsius implies that some of the existing fossil fuel reserves will become stranded assets," he wrote.

"These transition risks are of particular significance for Canada given its endowment of carbon-intensive commodities, the current importance of some of these carbon-intensive sectors for the Canadian economy, and the energy needs for cooling and heating."

More frequent or severe extreme weather events, or an abrupt transition to a low-carbon economy could have significant impacts on the Canadian financial system, with potential systemic consequences, he said.

Molico said that while much is unknown about the potential impacts of climate change, its physical effects could reduce global annual GDP by 1.5% to as much as 23% by end of the century.

In May, the Bank of Canada for the first time listed climate change among the top worries for the economy as part of its financial system health report.

5. Canadians agree they have too much debt

[November 21, 2019] Most people think Canadians have too much debt, according to research published by Toronto-based Manulife Financial Corp. on Thursday.

The Manulife Bank Debt Survey found that virtually all Canadians (94%) agreed that the average household is in too much debt. The vast majority of the indebted population (84%) said getting out of debt is their top financial priority.

Most indebted Canadians indicated that debt makes them feel like they are unable to do things in life that they enjoy (30%), that it makes them feel vulnerable (19%) and that they fear having to live with it for the rest of their life (18%).

The overall attitude toward debt was resignation. Two-thirds of indebted Canadians (67%) assumed everyone else was in debt, while two in five indebted Canadians said they didn't expect to become debt-free in their lifetime.

Household debt is rising

The incidence of Canadians who report having considerable non-mortgage related debts increased to 55%, up from 46% in Spring 2019. Canadians who reported having non-mortgage related debts on credit cards increased to 60%, up 12 points over the same period.

Further, Canadians' spending is outpacing income growth, with only 12% of Canadians saying their income is increasing faster than their spending.

Generational divide

Manulife's research found that baby boomers are currently in the best financial shape out of the three generations surveyed, while Gen-Xers are in the worst. Further, Gen-Xers and millennials are struggling more than baby boomers ever did.

Compared to people younger than 55, boomers said they were more comfortable with their overall debt levels (68% vs 56%) and their financial situation (79% vs 68%) and felt as though their debt situation is under control (54% vs 32%). Only 41% of boomers reported carrying non-mortgage related debt, compared to 64% of Gen-Xers and 62% of millennials.

Gen-Xers, who perceived themselves as the most indebted, reported saving the lowest portion of their after-tax income (11%). They were also the most likely to report a negative spending-to-income ratio (54% vs 46% of millennials and 38% of boomers).

Millennials experienced the most difficulty entering the workforce (14% of millennials said they struggled, vs 9% of those aged 41-69). However, millennials were the most likely to say their income is increasing faster than their spending (14% vs 10%) and were also the most likely to utilize technology to improve their finances.

Three in four millennials said it was important to have access to financial plans online, preferably through an app, and over half of indebted millennials who felt in control of their situation indicated that technology has helped them manage debt.

The value of advice

Three-quarters of Canadians said they knew where to go for good financial advice.

Among those interested in taking control of their debt, millennials were more likely to say they wanted a financial advisor (38% vs 21% of people 41-69), but boomers were most likely to know where to go for advice (84% vs 71% under 55).

The vast majority of Canadians said it was at least "somewhat important" to have a financial plan that supports their children well into adulthood (84%) and that prioritizes savings as well as investments (81%).

6. Canada facing financial planning challenges with aging population

[November 21, 2019] When an annuity of almost a thousand dollars a month stopped coming in to Neil Hewton's 94-year-old mother, she just thought it was supposed to end.

It was only months later, when her son had to take over her finances after a health scare, that he caught the strange cutoff in payments.

"It's kind of flukey that I even caught it," said Hewton, who noticed it while trying to get a handle of her accounts.

He said he followed up with Desjardins Insurance and was told they had sent a letter that his mother hadn't replied to, so they assumed she had died.

As Canada's population ages, more children will be thrust into a reversed role of looking out for their parents and their finances and will have to be on guard for a wide range of issues like missing payments.

Hewton said he's angry that more wasn't done to follow up with his mother, and wonders how many others have had payments cutoff that they haven't noticed.

"These companies don't follow up, because they don't want to."

Desjardins said it doesn't comment on individual cases, but said its process is to send letters to annuitants every two years to confirm information.

If it doesn't hear back after 60 days, Desjardins policy is reach out by other means including email and phone, as well as potentially to the person's financial representative or someone else they know, said spokesman Jacques Bouchard. If it can't reach anyone, payments are suspended.

While Hewton's issue was resolved, Canada is only starting to grapple with the wider issue of financial management as the country ages, said Stuart Small, a financial security adviser at Continuum II Inc.

"The front wave of the baby boomers just turned 75, so we haven't seen anything yet…This is just the tip of the iceberg, this is just the beginning."

Adults worried about their aging parents should keep an eye out for things like missed bills or confusion about finances as warning signs that their parents may need help, said Small.

He said any conversations about managing finances should be approached delicately.

"Aging parents, no matter what issue they've got, they still have feelings, no one wants to be walked all over, no one wants to feel like they're being told what to do or taken charge of."

When potentially taking over someone's finances it's important to build a support team with legal, financial and others to provide advice, said Small.

It's also crucial for family, including siblings, to keep open conversations throughout the process, he said.

"Communication and transparency go a long, long way to thwarting issues and concerns later."

When taking over finances, the person with power of attorney should have a full understanding of expenses, income, accounts, and mortgages to make sure items aren't missed, he said.

Early planning is crucial, said Marissa Lennox, chief policy officer at the Canadian Association of Retired Persons, not only to avoid problems with banks, but to safeguard from the financial elder abuse that is most often perpetrated by adult children.

"While a senior is still in charge of their finances, it is so critical that they make sure they choose a person to be their power of attorney that they can trust beyond any doubt."

An aging parent can assign power of attorney to a trusted child and still go on managing all their finances independently, with the backup in place and ready to go, she said.

Hewton had asked his mother to prepare her financial affairs, but like many she had put it off, making for a stressful process when he needed power of attorney to look into issues like the missing payments.

"When the time came and I thought she was going to die, and I'm looking at this stuff, it was like pulling teeth."

He urges aging parents to make sure their finances, will, and power of attorney are settled long before it's needed.
"You're leaving your loved ones in a state of shock, for one, and then they have to deal with this mess, and it can be overwhelming."
Fortunately, his mother recovered, and the payments were restored, but he's still angry that the payment was cut off after so little.
"That's what gets my back up, is that this is not just done by mistake," said Hewton.
"To just cut someone off from their money, and they don't even know it."

7. Inflation held steady in October, StatCan reports

[November 20, 2019] The annual pace of inflation held steady in October as the consumer price index rose 1.9% compared with a year ago, matching its moves in August and September, Statistics Canada said Wednesday.
The result was also in line with the expectations of economists, according to financial markets data firm Refinitiv.
The overall rise in prices came as food prices rose 3.7% compared with a year ago. Fresh fruit prices rose 7.9% and fresh vegetable prices climbed 7.5%.
Compared with a year ago, the price of gasoline was down 6.7% in October compared with a 10.0% decline in September. Natural gas prices rose 3.3% compared with a year ago following a 5.8% increase in September.
Statistics Canada said although global demand for oil remained low in October, there were slight price increases on a monthly basis due to temporary supply disruptions in the Middle East and a drop in crude oil inventories in the United States.
Excluding gasoline, the annual pace of inflation was 2.3% in October, down from 2.4% in September.
The average of Canada's three measures for core inflation, which are considered better gauges of underlying price pressures, was 2.07% compared with a revised figure of 2.03% in September.
The core readings are closely monitored by the Bank of Canada, which adjusts its key interest rate target to manage inflation.
Regionally, prices were up 2.3% compared with a year ago in Quebec, while Manitoba and B.C. both saw increases of 2.2%. The annual pace of inflation was 1.7% in Ontario.

8. 72% say retirement isn't what they expected

[November 19,2019] Nearly half of working Canadians are worried about being financially secure in their retirement, according to the 2019 Sun Life Barometer released Tuesday.

The survey found that 47% of Canadians who are currently working believe they are at risk of outliving their retirement savings. Of Canadians who are already retired, 23% describe their lifestyle as "frugal," and 72% say their retirement is not what they were expecting.

Among the penny-pinching retirees who continued to work past age 66, almost two thirds (65%) said it was not out of enjoyment, but out of necessity. Only 14% of retired Canadians said they had a financial plan prior to retirement.

Among working Canadians, 75% said they do not have a financial plan, and 44% expect to be employed full-time at age 66.

"For most Canadians, managing day-to-day finances is hard enough, let alone worrying about planning and saving for the future," said Jacques Goulet, president of Toronto-based Sun Life Canada, in a release.

To build retirement income, the survey recommends working with an advisor and taking advantage of an employer's contribution-matching programs, if applicable.

"Many Canadians don't realize their employer offers tools and resources designed to help them achieve lifetime financial security" such as defined contribution pension plans, RRSPs and TFSAs, said Tom Reid, senior vice president, Group Retirement Services, Sun Life Canada, in a release. "Investing early and making contributions when you can, will pay off in the long run."

The 2019 Sun Life Barometer is based on the findings of an Ipsos poll with a sample of 2,151 working Canadians aged 24 to 60 and 750 retired Canadians aged 55 to 80. The online poll was conducted between Mar. 28 and April 3, 2019.

9. Survey finds Canadians' financial confidence slipping

[November 18,2019] While their confidence in the stock market and the economy hasn't wavered, Canadians are feeling a bit less confident about their personal finances, according to a new survey from IG Wealth Management.

The Winnipeg-based firm reported results from its latest IG Financial Confidence Index survey, which saw its overall reading decline by three points from 59 to 56.

The survey — conducted by Ipsos with a sample of 2,600 respondents from across Canada between Sept. 23 and 30 — found that overall confidence in

the stock market and the Canadian and global economies was more or less unchanged from last year.
“What contributed to the small decline year-over-year, are areas related to personal finance,” the report found.
“While this year’s result showed a small decrease, the good news is that the main factors which contributed to it are well within all Canadians’ control to change,” Jeff Carney, president and CEO of IG Wealth Management, said in a statement.
The survey found that both seniors (aged 65 and over) and recent immigrants to Canada (people who have been in Canada for less than three years) are more confident than the national average. The index reading for seniors came in at 64, and recent immigrants recorded a 66 on the index.
“It’s encouraging to see that both seniors and newcomers scored higher than the national average when it comes to their level of financial confidence, especially since both groups have many unique challenges,” Carney said.
“For example, many Canadians are so focused on saving for retirement that they don’t realize how complicated retirement can be including developing an RRSP withdrawal strategy and taxation optimization. And those who are new to Canada face a variety of challenges, including understanding new financial systems, savings, taxation and getting access to credit to get their families settled,” he noted.
The credibility interval for an online survey of 2,600 respondents is ±2.3 percentage points, 19 times out of 20.

10. Changing the central bank’s mandate could have ‘dangerous’ consequences: report

[November 18,2019] The Bank of Canada should stick to its knitting when it comes to monetary policy, according to an upcoming report from the C.D. Howe Institute.
The report, which will be released on Tuesday, studied whether the central bank’s mandate should be expanded to include financial stability — something C.D. Howe said “would bring the institution dangerously close to making political-style decisions.”
Report authors Michael D. Bordo and Pierre L. Siklos wrote that financial stability “requires a much wider set of tools” than those at the disposal of the central bank.
The report argued that the idea of a central bank being able to maintain financial stability is based on mistaken assumptions, including that all financial crises are the same.

The global financial crisis of 2008, the report noted, was driven by excessive credit growth, but it's "up to the politicians" to curb things like credit growth. "For example, restrictions on the type and size of mortgage loans, or the make-up of risky versus riskless assets in portfolios, represent decisions not historically associated with monetary policy and central banking, at least in advanced economies," the report stated.

There is also the mistaken assumption that the size and timing of financial crises can be predicted. "In reality, the effects are heterogeneous over time and across countries," the report stated, adding that "there is no one-size-fits-all response to these crises."

The report observed that the central bank's monetary policy is forward-looking and has been successful at managing inflation for more than 20 years, but there is "little evidence yet that the same is currently feasible when it comes to maintaining future financial stability."

Another issue is that "no common understanding about how to define financial instability exists," which makes it challenging to design policies aimed at counteracting instability, according to the report.

Business cycles are also different from financial cycles, which means that a central bank tasked with managing both would have to decide "whether and when policy-rate changes represent too blunt an instrument to deal with a threat to financial stability."

Further, there is the issue that "central banks themselves have acknowledged that monetary policy can come into conflict with the objective of financial stability."

The report referred to the Bank of Canada's observation that financial system conditions can impact the effectiveness of monetary policy, and monetary policy can contribute to financial imbalances, "thus magnifying the economic consequences of future adverse shocks and increasing the probability and severity of future crises."

In its conclusions, the report stated that "a country is best prepared for a financial crisis, especially the kind that afflicted the global economy in 2008-09, when monetary, regulatory and fiscal authorities jointly respond aggressively to looming threats and consequences of financial malfeasance."

Have a nice and fruitful week!