Weekly Updates Issue # 742

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1. Weekly Markets Changes

[November 29, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,040.20 +85.36 +0.50%	3,140.98 +30.69 +0.99%	28,051.41 +175.8 +0.63%	8,665.47 +145.58 +1.71%	$0.7525 -0.01c -0.01%	$1,463.98 +2.05 +0.14%	$55.17 -2.60 -4.50%

2. Statistics Canada reports pace of economic growth slowed in third quarter

[November 29, 2019] Statistics Canada says the pace of economic growth in Canada slowed in the third quarter.

The federal agency says real gross domestic product grew at an annualized rate of 1.3% in the three-month period.

It also revised its reading for the second quarter to show growth at an annual rate of 3.5% compared with its initial estimate of 3.7% released in August.

Economists had expected annualized growth of 1.2% in the third quarter, according to financial markets data firm Refinitiv.

The latest reading on the economy comes ahead of the Bank of Canada's interest rate announcement next week.

The central bank is widely expected to keep its key interest rate target on hold.

3. Alberta cities rank highest for household financial health

[November 28, 2019] Out of Canada's 35 largest cities (with populations over 100,000), Calgary and Edmonton came out on top in a new report that assesses average income, debt and asset levels, as well as poverty levels.

The report, released by Prosper Canada and Canadian Council on Social Development, is part of a research initiative sponsored by the Investment

Industry Regulatory Organization of Canada called Urban Spotlight: Neighbourhood Financial Health Index findings for Canada's cities.

The findings are based on data from the Neighbourhood Financial Health Index (NFHI), which "provides a more comprehensive and accurate picture of household financial health than income statistics alone," according to a release. A distribution of financial health and vulnerability in different communities can be found on the NFHI Community Financial Health Maps.

Overall, 20 of the Census Metropolitan Areas (CMAs) in the report posted above-average scores for household financial health when compared to Canada overall. Fifteen cities fell below the national average.

Western cities had above-average levels of financial health, with Calgary and Edmonton topping the index by a wide margin, while cities in Quebec and the Maritimes tended to score below the average.

Three cities in Quebec ranked the lowest on the NFHI scale (Saguenay, Sherbrooke and Trois Rivières) and the four Maritime cities (Moncton, Halifax, St. John's and Saint John) were also in the bottom half of the index.

Income alone does not determine financial health

The NFHI includes asset and debt indicators, along with income and neighbourhood poverty, to attempt to provide a more balanced assessment of financial health.

The index takes into consideration a city's income rating, but also encompasses the ability of individuals and families to balance their spending and saving, use credit productively and build savings and assets for the future.

On the West Coast, Victoria ranked 16th out of the 35 CMAs studied with respect to income, but fifth on the NFHI index thanks to high asset values and comparatively low levels of poverty.

The Maritime city of St. John's ranked ninth overall with respect to income, but 22nd on the NFHI index due to low asset levels and high levels of debt.

Financial strengths and vulnerabilities accumulate in certain cities

While the financial health of Canadian cities varied significantly, there were also some striking similarities among certain groups of cities.

Cities in Quebec, as well as Halifax and, in Ontario, Peterborough, Thunder Bay and Windsor, were characterized as "living challenged." Income and assets were lower in these communities, but low debt levels made households "more resilient" to potential interest rate hikes. Similar cities with lower poverty levels were described as "living constrained." These included Moncton and Saint John in New Brunswick, and Belleville, Brantford and St. Catherines - Niagara in Ontario.

In contrast, some cities were categorized as “living large,” with high income and high wealth, but also high debt relative to the national average. Toronto and Vancouver were the most extreme examples, but Guelph, Ont., Calgary and Kelowna also fell into this category.
Additionally, cities with good average income but high debt and low savings were characterized as “living on the edge.” These cities — which included St. John’s, Barrie, Ont., Oshawa, Ont., and Abbotsford-Mission, B.C. — were financially stable, but highly vulnerable to interest rate increases and economic downturns.

4. How a recession can be avoided in 2020

[November 27, 2019] Canadian and U.S. economic growth will remain slow through 2020, but a recession can likely be avoided with the right policy moves, says Avery Shenfeld, managing director and chief economist at CIBC Capital Markets.
“Typically, about one year in 10 is a recession year, so we certainly can’t rule it out,” Shenfeld said in a Nov. 12 interview.
“Particularly with the global economy looking sluggish and some of our overseas trading partners on the verge of recessions, there is certainly a risk that a slowdown that we’re seeing now turns into recession.”
Still, CIBC’s base case is that a recession will be avoided; Shenfeld put the chances of recession in the coming year at about 25%.
Why? Just because some countries may experience a recession in 2020, it doesn’t automatically mean a recession will occur here. He gave the example of the European recession in 2012, which North America avoided.
“The Bank of Canada still has some tools at its disposal to lower interest rates, if need be, to prevent a recession,” Shenfeld said.
While the U.S. Federal Reserve cut rates for the third consecutive time in October to a range of 1.5% to 1.75%, the Bank of Canada held its key rate at 1.75%.
“Part of this is simply that the Federal Reserve had actually hiked interest rates further than the Bank of Canada,” said Shenfeld.
“U.S. overnight rates went close to 2.5%. The Bank of Canada rightly saw this slowdown coming and stopped raising rates at 1.75%. We’ve now reached the point where U.S. overnight rates are slightly below those in Canada.”
As a result, Shenfeld predicted the BoC would nudge Canadian rates lower in the first quarter of 2020. Such a move would keep the currency from appreciating and hurting Canada’s exports, he said.

But it would also reflect some expected disappointments in the economic numbers over the coming months and serve "as an insurance move to make sure this soft patch for the global economy doesn't hit Canada too hard," he said.

The central bank's next rate announcement is on Dec. 4. The two interest rate decisions in the first quarter of 2020 will take place Jan. 22 and March 4.

Shenfeld also pointed to fiscal stimulus coming from the federal government. "If the economy started to look weaker, that could be ramped up to provide some additional spending power in the economy," he said.

When the Bank of Canada held its overnight rate on Oct. 30, it said it would monitor the rollout of federal government fiscal support — in the form of tax cuts promised during the election campaign — ahead of future policy decisions. Parliament returns on Dec. 5.

The BoC also warned that Canada's economy would be "increasingly tested as trade conflicts and uncertainty persist."

Shenfeld said a renewed trade war would pose a major risk to Canada.

"The biggest risks are if a trade war breaks out more heatedly between the U.S. and China, or between the U.S. and Europe, that we put another dent into the global scene," he said. "That will be tough for Canada to avoid. But at this point, the most likely scenario is that we escape through this soft patch."

Shenfeld predicts the Canadian economy will grow by about 1.5% next year, compared to 1.7% growth in the U.S.

With both countries near full employment, this "tightness" in the labour market "puts a ceiling on economic growth," he said.

However, there are some bright spots.

"We're hoping that 2020 brings some healing to the global economy catching up to the benefits of lower interest rates around the world, and some settling of the trade frictions that have slowed growth in 2019," he said. If this occurs, it could boost Canadian growth for 2021.

5. Calculating contribution room for TFSA

[November 27, 2019] Canadians born in 1992 and later should know that their TFSA contribution room begins to accumulate in the year in which they turn 18, and not the year in which the TFSA program launched.

A person who was 18 years or older in 2009, the year the TFSA was launched, and who has never contributed to a TFSA, would in 2019 have $63,500 in total accumulated contribution room. For 2020, an additional $6,000 will be available, for total contribution room of $69,500 for an eligible person who has never contributed to the TFSA.

However, Canadians born in 1992 and after (and thus who were 17 years old or younger in 2009), and who have never contributed to a TFSA, would calculate their total TFSA contribution room amount by adding up the yearly contribution limits from the year in which they turned 18 onward.

“You do hear people say, ‘The accumulated room for TFSAs [in 2019] is $63,500.’ And that’s correct — as long as you were 18 and over in 2009, when the whole thing got going,” says Doug Carroll, practice lead for tax, estate and financial planning at Meridian Credit Union in Toronto. “Otherwise, you start calculating based on reaching the age of 18, not based on the program coming into existence.”

For example, someone who was born in 1994, and who would have turned 18 in 2012, would have $48,500 in total TFSA contribution room in 2019 if he or she had never contributed to a TFSA. In 2020, with the $6,000 of TFSA contribution room for that year, he or she would have $54,500 if he or she still had never contributed.

Below are the TFSA dollar amounts by year:

For 2009, 2010, 2011 and 2012	**$5,000**
For 2013 and 2014	**$5,500**
For 2015	**$10,000**
For 2016, 2017, and 2018	**$5,500**
For 2019 and 2020	**$6,000**

A TFSA is a tax-sheltered account in which contributions are made with after-tax dollars, but for which withdrawals are tax-free. Any unused TFSA contribution room is carried forward indefinitely, and any withdrawal in a given year is added to the contribution room of the following year.

Canadian residents accumulate contribution room regardless of whether or not they open a TFSA. In provinces and territories where the age of majority is 19, people will not be able to open a TFSA until the year they turn 19. Nevertheless, people in these jurisdictions will carry over the unused contribution room from the year in which they turn 18 so it’s added to the contribution room from the year they turn 19.

“If you get into a routine of setting aside some amount that’s reasonable in terms of your income sources, you can park that amount into a straight savings account,” Carroll says. “Then, when you can legally open the TFSA, you can move that money over from where it was to the TFSA.”

TFSAs may be well suited to younger Canadians, who often earn modest salaries. Low income earners are taxed at lower rates than high income earners, so they don’t receive as much tax relief from making contributions to an RRSP as a high-income earner would. In contrast, while the TFSA doesn’t offer a tax break on contributions, it does allow for tax-free withdrawals. Withdrawals from an RRSP are taxable as income.

It's not uncommon for Canadians to overcontribute to their accounts, typically by withdrawing money and recontributing within the same year in such a way as to exceed the contribution limit for the year. The Canada Revenue Agency (CRA) imposes a penalty of 1% a month on an excess amount over the limit.

Canadians who want to find out their TFSA contribution room can do so via the CRA's My Account or MyCRA websites, or by authorizing a representative through Represent a Client to do so on their behalf. They can also contact the CRA directly to ask for their TFSA room statement and/or TFSA transaction summary.

However, Canadians would be well advised to keep track of their TFSA withdrawals and contributions themselves "to ensure that they don't end up in any overcontribution situation, because there can be some delay between when a [TFSA] transaction occurs and when information is reported to the CRA," says Wilmot George, vice president of tax, retirement and estate planning with Toronto-based CI Investments Inc.

6. U.S. economy's 2.1% growth rate in Q3 beats expectations

[November 27, 2019] The U.S. economy grew at a moderate 2.1% annual rate over the summer, slightly faster than first estimated, the government said Wednesday. But many economists say they think growth is slowing sharply in the current quarter.

The July-September growth rate in the gross domestic product, the economy's total output of goods and services, exceeded the Commerce Department's initial estimate of a 1.9% annual rate. A key reason is that businesses didn't cut back on investment spending as much as first estimated.

The economy had begun the year with a sizzling 3.1% GDP rate, fueled largely by the now-faded effects of tax cuts and increased government spending. Many analysts have estimated that GDP growth is weakening in the current October-December quarter to a 1.4% annual rate or less. The most pessimistic forecasters foresee growth slowing to a sub-1% annual rate this quarter, largely because the U.S.-China trade war is causing businesses to reduce investment and inventories.

Still, the holiday shopping season is expected to be relatively healthy given solid job growth and consumer spending.

For the July-September quarter, consumer spending expanded at a solid 2.9% rate. That strength is expected to continue, with households enjoying rising incomes and nearly the lowest unemployment rate in a half century.

Last quarter, business investment fell at a 2.7% annual rate, the second consecutive decline. Residential investment did rebound to an annual growth rate of 5.1% after six consecutive quarters of falling home investment. Analysts attribute that rebound in part to falling mortgage rates.

For the full year, economists think GDP will expand 2.3%, down sharply from a 2.9% GDP gain in 2018. That increase had been fueled by the $1.5 trillion tax cut that President Donald Trump pushed through Congress and billions in additional spending for the military and domestic programs.

For 2020 as a whole, many economists envision growth of around 2%. That would be roughly the annual average that has prevailed since the Great Recession ended in 2009. But it is well below the 3%-plus economic growth rates that Trump pledged to achieve with his program of tax cuts, deregulation and America-first trade policies.

As recently as several months ago, as U.S.-China trade tensions were escalating, global growth was slowing and financial markets were suffering losses, many analysts worried that the economy might be on the verge of recession.

But the Federal Reserve, which had raised rates four times in 2018, began cutting rates in July, giving a boost to interest-rate sensitive sectors of the economy. This month, after its third rate cut of the year, the Fed signalled that it would likely keep rates unchanged in coming months unless it saw signs of significant economic weakness.

That stance isn't likely to please Trump, who has attacked Powell and his colleagues for raising rates last year and for being slow to cut them this year. Heading into the 2020 presidential election, Trump may keep up his Fed attacks, seeing the central bank as a convenient target if the economy starts to falter.

But the Fed is widely thought to have achieved its goal of a soft landing in which it's slowed growth enough to keep the tightest job market in a half century from igniting inflation but not so much as to cause a downturn.

"We are in sort of a Goldilocks situation, with an economy that is not too hot or too cold," said Sung Won Sohn, a professor of economics and finance at Loyola Marymount University. "We are sailing along at a nice pace, and we should enjoy it."

7. LVMH scoops up Tiffany for $16.2 billion

[November 25, 2019] LVMH and Tiffany & Co. are finally getting together after weeks of anticipation.

The two companies announced Monday that LVMH will buy the Manhattan jeweler, famous for its little blue boxes and Fifth Avenue flagship store. The French luxury group will pay $135 per share, valuing Tiffany at about $16.2 billion.

A deal had been expected for weeks. Tiffany and LVMH both confirmed in October that they were in talks to combine after Paris-based LVMH reached out with an unsolicited initial offer of $14.5 billion. That was already a premium over Tiffany's stock price at the time.

The deal is one of the largest in the history of the luxury sector and in the career of LVMH CEO Bernard Arnault, Europe's richest man.

LVMH is the world's biggest luxury group and home to 75 different brands, including Christian Dior and Bulgari. Analysts have been bullish on its latest deal, saying that Tiffany is a good acquisition target because of its strong global brand.

"A takeover of Tiffany could make a lot of sense," analysts at Bernstein wrote in a research note last month. While Tiffany is one of the world's best-known luxury brands, analysts say it still has room to grow, particularly in jewelry and watches. And LVMH's deep pockets could help Tiffany turn around after a rocky few years and fuel its effort to better connect with millennial consumers.

In a statement Monday, Tiffany chairman Roger N. Farah said the deal would give the company "an exciting path forward with a group that appreciates and will invest in Tiffany's unique assets and strong human capital."

The deal would also bolster LVMH's jewelry and watch lineup, which already includes legacy brands such as Hublot and TAG Heuer. It would also boost the French company's presence in the United States, which accounts for about a quarter of its revenue.

LVMH has for years been the top seller of high-end goods, according to a Deloitte analysis published this year. But sales in its jewellery and watch division make up only 9% of the company's total revenue.

Tiffany, a 182-year-old jeweler, employs 14,000 people and operates 300 stores around the globe. In recent years, however, its sales have slumped.

LVMH, meanwhile, has enjoyed much more success among millennials, attracting attention from prominent influencers including Kylie Jenner and Cardi B. It owns major fashion houses such as Fendi and Louis Vuitton, as well as beverage brands Moet and Hennessy. Earlier this year, the conglomerate acquired Rihanna's Fenty and Fenty Beauty fashion and

cosmetics lines, which have enjoyed unique success marketing to a diverse swath of young women.
Tiffany and LVMH said Monday that the deal is expected to close in the middle of 2020.

Have a nice and fruitful week!

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