Weekly Updates Issue # 743

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1. Weekly Markets Changes

[December 6, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,996.97 -43.23 -0.25%	3,145.91 +4.93 +0.16%	28,015.06 -36.35 -0.13%	8,656.53 -8.94 -0.10%	$0.7544 +0.19c +0.25%	$1,460.17 -3.81 -0.26%	$59.20 +4.03 +7.30%

2. Report calls for changes to rules governing DC plans, RRSPs

[December 6, 2019] A new report from the Association of Canadian Pension Management (ACPM) is urging the federal government to replace the "Factor of 9" component that underpins the Pension Adjustment (PA) calculation with a "Factor of 12." The PA rules in the Income Tax Act are intended to align the tax treatment of defined-contribution (DC) plans and RRSPs as well as defined benefit (DB) plans.

If the government were to make the change to the factor, a Canadian's RRSP contribution limit would increase to 24% from 18% of annual earnings. In addition, the money purchase limit (MPL) would rise to about $36,000 from about $27,000.

"[The change to the factor] would allow individuals to save more in their RRSPs and DC plans so that they could accumulate a larger sum of money that would be enough to, in theory, replicate what you could do in a DB plan," says Todd Saulnier, a member of the executive committee of the ACPM in Toronto and principal at Mercer Canada in Halifax.

Saulnier is co-author of the ACPM report *Increasing Support for Retirement Savings: Proposals to Modernize Tax Rules Applicable to Registered Plans*, released last week.

The report argues that the factor needs to be updated to better reflect today's economic and demographic realities, and to level the playing field between DC plans/RRSPs and DB plans. The "Factor of 9" component was set in the early 1990s.

"[Investment] return expectations today are quite a bit less than they were 30 years ago, bond yields are a lot lower, GDP growth is expected to be a lot lower than it was back then, so equity returns in the future are expected to be lower, and people are generally expected to live longer," Saulnier says. "So if you want to equate those two arrangements [DC plans/RRSPs and DB plans], then that equivalence factor needs to be bigger."

The report argues that as encouraging retirement savings has long been a policy goal of Canadian governments, updating tax rules governing registered plans would help in achieving that goal.

In addition to the change to the PA calculation, the report makes several other recommendations, including:

> Eliminate Transfer Limits of Commuted DB Plans. Employees who choose to transfer the commuted value of their DB plans to DC plans (such as locked-in retirement accounts) are subject to transfer limits under Income Tax Regulation 8517. Amounts above the limits often have to be taken in cash, which is immediately taxable. The report argues that this result is punitive to taxpayers.

"We certainly see situations where half or more of somebody's commuted value is not transferrable to an RRSP arrangement, so it ends up being taxed immediately," Saulnier says. "You end up with a person with a much smaller retirement savings as a result and being really challenged to try to replicate that previous income [under the DB plan.]"

> Raise mandatory retirement age to 75 from 71. Income tax rules mandate that Canadians begin withdrawing from their registered retirement plans by the end of the year in which they reach 71 years of age. The report argues that the mandatory age should be gradually raised to 75 to reflect Canadians' increasing longevity.

"To force people to commence an income at age 71 when we know there are people who are continuing to work in their 70s just seems to be counterproductive," Saulnier says. "If people are working, why should they be forced to take retirement income. And the longer you wait to start that income, the longer it's going to last."

The report also recommends that tax rules be changed to permit uninsured variable payment lifetime annuities (VPLAs) as part of capital accumulation plans, such as group RRSPs. VPLAs would allow for longevity and investment risk to be pooled, but not insured.

> **Equalize Taxation of Pension Income from Various Retirement Vehicles.** While income from DB plans can be split with a spouse immediately upon retirement, income from DC plans can be split only when both the annuitant and the spouse have reached the age of 65. The report argues that the rules should be changed so that income from DC plans is treated in the same way as income from DB plans for pension income-splitting purposes, as there doesn't appear to be a good tax reason for the difference in tax treatment.

"It's really a function of legal terms in the Income Tax Act that got defined slightly differently and gave the DB plans a leg up over RRSPs," Saulnier says.

3. Canada posts biggest monthly job loss since financial crisis

[December 6, 2019] The Canadian economy posted its biggest monthly job loss since the financial crisis as the unemployment rate also pushed higher in November.

Statistics Canada said Friday the economy lost 71,200 jobs last month and the unemployment rate rose four-tenths of a percentage point to 5.9% to its highest point since August 2018 when it hit 6%.

Economists on average had expected a gain of 10,000 jobs and the unemployment rate to hold steady at 5.5%, according to financial markets data firm Refinitiv.

The loss in jobs came as both full-time and part-time employment moved lower. The number of full-time jobs fell by 38,400, while part-time employment fell 32,800.

The goods-producing sector lost 26,600 jobs in the month as the number of manufacturing jobs fell by 27,500 jobs and the natural resources sector shed 6,500.

Meanwhile, the services sector lost 44,400 jobs as the number of public administration jobs fell by 24,900 jobs in November.

Regionally, Quebec lost 45,100 jobs in November due to a decline in manufacturing as well as accommodation and food services. Alberta and B.C. both lost 18,200 jobs.

Compared with November last year, the economy has added 293,000 jobs.

The jobs report followed a decision by the Bank of Canada earlier this week to keep its key interest rate on hold at 1.75%, where it has been set for more than a year.

In making its decision, the central bank said the Canadian economy has remained resilient despite the global uncertainty caused by the trade war between the United States and China.

The Bank of Canada has stood out from many of its international peers who have moved to cut rates and loosen monetary policy in response to weakness in the global economy. The U.S. Federal Reserve has cut its rate three times this year.

4. U.S. employers added 266,000 in November

[December 6, 2019] Hiring in the United States jumped last month to its highest level since January as U.S. employers shrugged off trade conflicts and a global slowdown and added 266,000 jobs.

The unemployment rate dipped to 3.5% from 3.6% in October, matching a half-century low, the Labor Department reported Friday. And wages rose a solid 3.1% in November compared with a year earlier.

Stock futures surged on the unexpectedly strong jobs report.

November’s healthy job gain runs against a widespread view that many employers are either delaying hiring until a breakthrough in the U.S.-China trade war is reached or are struggling to find workers with unemployment so low. The pace of hiring points to the resilience of the job market and economy more than a decade into the U.S. economic expansion — the longest on record.

The steady job growth has helped reassure consumers that the economy is expanding and that their jobs and incomes remain secure. Consumer spending has become an even more important driver of growth as the Trump administration’s trade conflicts have reduced exports and led many businesses to cut spending.

Monthly job growth has in fact accelerated since this summer, averaging 205,000 over the past three months, up from just 135,000 in July.

Renewed concerns that trade will continue to hamper the U.S. economy drove stock prices lower earlier this week, after President Donald Trump said he was willing to wait until after the 2020 elections to strike a preliminary trade agreement with China. With the two sides still haggling, the administration is set to impose 15% tariffs on an additional $160 billion of Chinese imports beginning Dec. 15.

Both sides have since suggested that the negotiations are making progress, but there is still no sign of a resolution.

The return of striking General Motors autoworkers added about 40,000 jobs in November, a one-time bounce-back that followed a similar decline in

October, when the GM strikers weren't counted as employed. Excluding the returning strikers, factories added 13,000 jobs last month.

In Friday's hiring data, besides reporting the healthy November gain, the government revised up its estimate of job growth for September and October by a combined 41,000.

Outsize hiring for the holiday shopping season did not appear to be a major driver of last month's job growth. Retailers added just 2,000 jobs on a seasonally adjusted basis. And transportation and warehousing firms gained fewer than 16,000. Both figures are below last year's totals. The shopping season is shorter this year because Thanksgiving occurred later than in recent years, which might be delaying some temporary hiring.

Employers have been adding jobs at a solid enough pace to absorb new job seekers and to potentially lower the unemployment rate, though the pace of job growth is still down from last year's rate.

With tariffs hobbling manufacturing, the job market this year has underscored a bifurcation in the economy: Service industries — finance, engineering, health care and the like — have been hiring at a solid pace, while manufacturers, miners and builders have been posting weak numbers.

Most analysts say they remain hopeful about the economy and the job market. The economy grew at a 2.1% annual rate in the July-September quarter, and the annual pace is thought to be slowing to roughly 1.5% to 2% in the final three months of the year — sluggish but far from recessionary.

Consumer confidence has slipped in recent months but remains at a decent level, helping boost sales of expensive purchases, such as autos and appliances.

With inflation surprisingly low, the Federal Reserve has cut its benchmark short-term interest rate three times this year. Those rate cuts have helped support the housing market. Sales of existing homes have risen nearly 5% in the past year. Sales of new homes have soared by one-third.

5. Fitch bumps up Canada's GDP forecast for 2019

[December 6, 2019] In the wake of upward revisions to prior quarters, Fitch Ratings boosted its growth forecast for the Canadian economy in 2019.

The rating agency hiked its growth forecast for 2019 to 1.7% from its previous forecast of 1.5%.

The change follows revisions to growth results in the first half of 2019 and fourth quarter of 2018.

Fitch's growth forecasts for 2020 and 2021 are unchanged at 1.6% and 1.7%, respectively.

"Consumption will grow steadily, helped by a firm labour market and a recovery in housing activity," it said in a research note. "We expect a positive contribution from investment, despite trade risks."
Fitch also expects government spending to provide some support for growth.
"A minority Liberal government […] is likely to increase public spending," it said, noting that the deficit for fiscal 2020 will likely come in higher than predicted in the last federal budget.
Given the modest growth forecast, Fitch expects the Bank of Canada (BoC) to keep interest rates at 1.75% in 2020.
"Despite several U.S. Fed rate cuts in 2019, the BoC has remained cautious about the risk of reflating the housing market," it said. "That risk will persist in 2020, and the apparent reduction of trade risks coupled with the firm labour market and services performance has weakened the argument for near-term rate cuts."

6. Millennials' debt-to-income ratio more than 200%

[December 5, 2019] Many millennials are struggling to buy a home, according to a recent poll commissioned by KPMG in Canada.
The KPMG Millennials and Retirement poll found that although 72% of millennials aspire to own a home, almost half (46%) say ownership is a "pipedream."
Additionally, 46% of millennials who do own a home say they received financial assistance from their parents. Even so, this younger generation takes an average of 13 years to save for a 20% down payment, while a Canadian Mortgage and Housing Corp. report said their parents took only five years as of 1976.
"The combination of rising home prices, high levels of personal debt and annual incomes that are just a fraction of the cost of buying a home compared with their parents' generation, is pushing the dream of home ownership out of reach for many millennials," said Martin Joyce, partner, national leader, human and social services, at KPMG, in a release.
The poll indicated that millennials tend to have decent incomes, but that they're not necessarily better off. As "the most educated generation," they have amassed high levels of student debt, making home ownership even more unaffordable.
Debt-to-income ratio for young millennials stands at 216%, far surpassing the 125% for Gen-Xers and 80% for baby boomers at the same age, primarily because of mortgage debt, the release said. Further, Statistics Canada data

shows that millennials "have taken on larger mortgages relative to their incomes than those who came before them," it added.
The KPMG Millennials and Retirement poll surveyed 2,500 Canadians, including 1,000 millennials between the ages of 23 and 38.

7. 2020 outlook dips for global banks, says Moody's

[December 5, 2019] The outlook for the global banking sector has dipped to negative from stable amidst weak economic growth, low rates and challenging operating conditions, declared Moody's Investors Service in a release published Dec. 5.
"Risks are on the downside for banks," said Simon Ainsworth, associate managing director at Moody's. "Rising recession risk in the U.S. and Europe, together with slowing growth in [Asia-Pacific] and emerging markets, will lead to deteriorating loan quality and higher loan-loss provisioning costs."
At the same time, the release said, a return to monetary easing, including the use of negative interest rates in some markets, is adding to the banking sector's profitability pressures.
"Banks with higher cost structures will be hardest hit, reopening questions about the long-term viability of certain business models. Profitability will continue to be a credit weakness for many banking systems, particularly in Europe," the release said.
Additionally, Moody's said that ongoing trade tensions between the U.S. and China have negative consequences for banks in those two countries and in other export-oriented economies.
"Trade tensions are likely to result in deteriorating loan quality of banks in Asia and U.S., and there is a risk that further escalation would trigger a financial market sell-off," the release said.
Similarly, a no-deal Brexit could weaken the U.K. banking sector.
Within the sector, disruptive technologies will continue to drive innovation, Moody's noted.
"Incumbent banks are having to invest heavily in digital innovation to defend their businesses from a wave of new digital entrants," said Antonello Aquino, associate managing director at Moody's, in the release.
"To date, small technology-driven finance firms have not been a real threat to the core businesses of large incumbent banks. However, disruption to payment services is advanced and we expect further encroachment by Big Tech into financial services," he added.

8. BoC holds rate at 1.75%

[December 4, 2019] The Bank of Canada is keeping its key interest rate on hold where it has been for more than a year as it says ongoing trade conflicts and related uncertainty continue to weigh on the global economy.
The central bank's overnight rate target has been set at 1.75% since October of last year.
A resilient Canadian economy has allowed the Bank of Canada to keep interest rates on hold even as many of its international peers have moved to ease monetary policy amid concerns about the global economy.
The central bank says there is early evidence that the global economy is stabilizing, and growth is still expected to edge higher over the next couple of years, but that trade conflicts and related uncertainty remain the biggest risks to its outlook.
"The statement overall was maybe a little more hawkish than markets were expecting," said Andrew Grantham, senior economist at CIBC World Markets Inc., in a note. "Investors will now be dialing back the probability of a BoC interest rate cut in the near-term, which has seen bond yields rise."
Economic growth in Canada slowed to an annual pace of 1.3% in the third quarter, in line with what the central bank forecast, but the Bank of Canada noted investment spending was stronger than expected.
It says it will be assessing the extent to which the improvement points to renewed momentum in investment.
In a release, the Bank of Canada noted that CPI inflation remains at target and core inflation is around 2%, "consistent with an economy operating near capacity." However, "inflation will increase temporarily in the coming months due to year-over-year movements in gasoline prices," the bank added.

9. Survey uncovers growing pessimism about Canada's economy

[December 3, 2019] An uncertain outlook about Canada's economy prevails among business leaders, according to a new survey conducted for Chartered Professional Accountants of Canada (CPA Canada).
The latest CPA Canada Business Monitor surveyed professional accountants in leadership positions across Canada and found that respondents were torn about their expectations of the economy over the next 12 months, with 28% saying they were optimistic and 28% saying they were pessimistic.
Optimism decreased from 31% in the previous quarter, while pessimism increased from 24%. The largest portion of respondents (44%) took a neutral position.

Business leaders' lists of worries included general uncertainty surrounding the Canadian economy (15%), U.S. protectionism, the state of the U.S. economy and a lack of skilled workers (all tied at 11%), and a minority government (10%).

Almost half (48%) of those surveyed said they were optimistic about their own businesses in the coming year, while 18% reported being pessimistic and 33% were neutral.

Looking at the next 12 months, two-thirds of business leaders predicted their businesses would see increased revenues, 59% expected increased profits and 45% anticipated adding employees.

The CPA Canada Business Monitor is issued quarterly, based on a survey commissioned by CPA Canada and conducted by Nielsen. The Q3 2019 study was conducted from Oct. 31 to Nov. 17. Emailed surveys were completed by 386 respondents identified by CPA Canada as holding senior positions in industry.

Have a nice and fruitful week!