Weekly Updates Issue # 744

1. Weekly Markets Changes

[December 13, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,003.13 +6.16 +0.04%	3,168.80 +22.89 +0.73%	28,135.38 +120.32 +0.43%	8,734.88 +78.35 +0.91%	$0.7586 +0.42c +0.56%	$1,476.33 +16.16 +1.11%	$60.07 +0.87 +1.47%

2. Household debt rises in Q3 on higher borrowing

[December 13, 2019] Household borrowing ramped up in the third quarter, according to the latest data from Statistics Canada, highlighting ongoing debt worries.

StatsCan reported that total borrowing increased to $28.5 billion in the third quarter, from $21.7 billion in the previous quarter.

Mortgage loan demand rose to $18.5 billion in the quarter. Consumer credit and other non-mortgage borrowing increased to $10.0 billion, StatsCan said.

With the growth in debt, the household debt service ratio rose from 14.82% to 14.96% in the third quarter, and **the debt to income ratio ticked up to 175.9%** from 175.4% in the previous quarter.

Commenting on the data, BMO Economics said, “household debt burdens will remain a crucial vulnerability for the Canadian economy for some time.”

At the same time, StatsCan also reported that Canada’s national net worth was stable at $12.6 trillion in the third quarter. In particular, household net worth rose by $101.4 billion in the third quarter to $11.5 trillion.

The increase in household net worth was driven by an increase in financial assets, which rose by $88.1 billion in the quarter. Non-financial assets also

rose by $50.0 billion in the quarter, primarily due to rising real estate values, StatsCan said.
The increase in assets outpaced the growth in financial liabilities, which were up by $36.7 billion in the quarter.

3. Canadians fear being in debt for life

[December 13, 2019] With household debt on the rise, many Canadians are convinced they will be in the red for life.
A recent Ipsos poll conducted for Manulife Bank of Canada found that 45% of Canadians report spending more than they earn, and 40% doubt they will ever be debt free. While almost half of Canadians fear being indebted for life, 67% assume everybody is in the same situation.
Further, the percentage of Canadians who are unable to save any of their after-tax income has increased (19% compared with 15% in Q1 2019), as well as the percentage of non-mortgage related debts (54% compared with 46%).
Additional non-mortgage related debt is driven by credit card debt, according to a release from the New Westminster, B.C-based Credit Counselling Society. Canadians now average a debt load of $30,000 in unsecured, non-mortgage debts, up from $12,000 20 years ago.
"With so many Canadians relying on credit cards and other means of lending, the stress of being in debt has simply become a normal part of life," said Scott Hannah, president of the Credit Counselling Society. "Carrying overwhelming amounts of debt and having limited means to pay them down, it's understandable that many consider it an impossible situation to resolve."
The overwhelming majority of Canadians (94%) agree that the average household carries too much debt, with 84% saying that paying it off is their top priority.

4. Pension wealth rises as RRSPs decline, StatsCan reports

[December 13, 2019] Overall pension wealth ticked higher in 2018, but the value of individual registered savings plans declined, according to Statistics Canada.
The national statistical agency reported that Canadians' pension wealth grew by 0.8% in nominal terms last year, rising to $3.85 trillion.
The rise in overall pension wealth was powered by a 1.3% increase in the value of employer-based pension plans during the year, to $2.2 trillion.
However, the value of registered savings plans (including RRSPs, RRIFs and LIRAs) declined by 2.7% during the year to $1.2 trillion, StatsCan said.

The highest growth in pension wealth came in the Canada Pension Plan (CPP), which saw its wealth rise by 9.2% during the year.
The Quebec Pension Plan (QPP) increased by 2.9% over the same period.
StatsCan also reported that total pension contributions rose by 3.4% during the year, to $200 billion.
Individual plan contributions enjoyed the strongest growth, up 4.1% during the year. Contributions to employer-based plans, the CPP and QPP were up by 3.2%.
The modest increase in total pension wealth for 2018 was significantly less than the 7.0% rise the previous year.
This softer growth came amid equity market weakness in late 2018.
"By the end of 2018, the Toronto Stock Exchange (TSX) had dropped by 11.6% and the Standard and Poor's 500 declined 6.2%," StatsCan said. "However, these exchanges quickly rebounded in the beginning of 2019."

5. Pension assets have doubled since 2010

[December 12, 2019] Pension fund assets topped $2 trillion in the second quarter of 2019 — which represents a doubling over the past nine years — according to data from Statistics Canada.
The national statistical agency reported that the market value of assets held by Canadian pension funds grew 2.0% in the second quarter to finish at over $2 trillion.
On a year-over-year basis, assets were up 4.9%. Pension assets have now doubled since they first hit the $1-trillion mark in 2010.
Equity returns powered the second-quarter gains, as equities gained 3.1%, StatsCan reports.
Bonds were up 1.5%, mortgages rose 3.7%, and real estate investments edged up 0.7% in the quarter.
Conversely, short-term investments dropped 9.0% in the quarter.
StatsCan also reports that overall pension revenue declined 3.2% in the quarter due to a 26.1% drop in profits from securities sales. Yet plan contributions increased 14.6% in the second quarter, and investment income rose 12.2%.
Pension fund expenditures rose 2.1% in the quarter, which, combined with the drop in revenue, resulted in net income declining 7.7% from the previous quarter.

6. Healthy buyer demand expected to fuel growth in home prices next year

[December 12, 2019] Canadian real estate is expected to see healthy appreciation by the end of next year, according to the Royal LePage Market Survey Forecast.

The annual report forecasts the aggregate price of a home in Canada will be $669,800 in 2020, an increase of 3.2% year over year.

The median price of a condominium is expected to rise 3.6% to $506,100, and two-storey detached houses are projected to increase by 3.1% to $785,400.

The positive outlook for 2020 is based on healthy buyer demand, the report said.

A recent shift in millennial demand for larger homes is expected to lead to a surge sales activity in the suburbs. Condominiums will remain in demand in regions where affordability restricts buyers' choice of housing types.

The report indicated that Canada's immigration rate has also become a driver of demand. According to October's Royal LePage Newcomer Survey, 75% of newcomers arrive in Canada with savings to put toward the purchase of a home.

Regional markets differ in demand

Low supply and a growing population is expected to fuel home price growth in the Greater Toronto Area, according to the report. The aggregate price of a home in the GTA is forecast to increase 4.75% in 2020, rising to $883,700.

The Greater Montreal Area is expected to see the highest year-over-year appreciation of all regions analyzed at 5.5%, and Ottawa's home prices are expected to increase 4.5%.

In Greater Vancouver, house prices are forecast to stabilize in 2020 after a decline in 2019. The aggregate price of a home is expected to increase 1.5% to $1,125,200. Both the prices of condominiums and standard two-storey homes are expected to see an increase by the end of next year as well.

Edmonton, Calgary and Halifax are expected to see modest gains (1%, 1.5% and 1.75%, respectively) in 2020. Winnipeg and Regina have a flat forecast.

7. CSA promises SRO review for 2020

[December 12, 2019] Investment industry self-regulation may be in for an overhaul, as the provincial regulators pledged on Thursday that they will review the structure of self-regulation in the coming year.

The Canadian Securities Administrators (CSA) are planning to undertake a review of the regulatory framework for industry self-regulatory organizations (SROs) the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) in 2020.

The CSA said that it is expecting to publish a consultation paper in mid-2020 that will, among other things, review the underlying policy justification for the current structure, as well as its strengths and weaknesses. The regulators also said that they plan to consult with the industry and consider the impact of innovation on the current framework.

The MFDA was launched in 1998 after the mutual fund industry experienced exponential growth, and the provincial regulators determined that an SRO was needed to ensure adequate oversight of the fund dealers.

IIROC was created about a decade later, in mid-2008, from a merger of the regulatory side of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc., which brought together the dealer and market regulators, with the IDA's trade association function being hived off to create a stand-alone industry lobby group, the Investment Industry Association of Canada.

Even before IIROC was created, there was talk of possibly merging the MFDA and the IDA, and that issue resurfaced repeatedly over the years. In late October, Toronto-based think tank the C.D. Howe Institute published a paper that raised the possibility once again.

In the years since the current SRO structure was adopted, the investment business has evolved considerably, as industry consolidation has created more firms with both IIROC and MFDA divisions.

At the same time, the exempt market has grown significantly, yet exempt market dealers remain under the direct regulation of the provincial authorities.

In the last few years, the industry has also seen an increase in innovation, including the emergence of novel businesses that don't fit neatly into the existing regulatory structure.

"The regulatory framework for these self-regulatory organizations has been in place for several years, and the industry has evolved significantly during this time," said Louis Morisset, chair and president and CEO of the Autorité des marchés financiers (AMF), in a statement.

"In response to requests formulated by market participants, we believe it is appropriate to revisit the current structure and seek comment from stakeholders," he said.

In a statement, IIROC welcomed the planned CSA review, saying that it looks forward to "participating in the CSA's consultation and in exploring options that make sense in today's environment."

At a reception in Toronto in late November, IIROC president and CEO Andrew Kriegler said that it's not up to IIROC and the MFDA to determine whether a merger makes sense.

“However, I will say that it is up to the two of us to propose solutions that work and which make sense for the system and for Canadians,” he said.

“For we are self-regulatory organizations – in the same industry – and if we shy away from tackling the difficult questions, if we try only to protect the status quo, if we look only to the CSA to solve our problems and industry’s challenges, then we aren’t doing our job and we are letting Canadians down,” Kriegler added.

The MFDA also welcomed the review.

“This is a very important initiative for Canadian investors, industry and regulators,” MFDA president and CEO Mark Gordon said in a statement. “As part of its ongoing strategic planning, the MFDA has conducted extensive research and analysis on the role of SROs with a view to determining the regulatory model that will best meet Canada’s current and future needs. The MFDA will share this analysis with the CSA and all relevant stakeholders in early 2020.”

8. Fed holds, signals more of the same in year to come

[December 11, 2019] The Federal Reserve left its benchmark interest rate alone Wednesday and signalled that it expects to keep low rates unchanged through next year.

The Fed’s decision follows three rate cuts earlier this year. It reflects its view that the U.S. economy has so far withstood the U.S.-China trade war and a global slump and remains generally healthy. Its benchmark rate — which influences many consumer and business loans — will remain in a low range of 1.5% to 1.75%

In a sign of the Fed’s confidence about the economy, its latest policy statement dropped a phrase it had previously used that referred to “uncertainties” surrounding the economic outlook. That suggests that the Fed is less worried about the impact of the U.S.-China trade war or overseas developments.

Financial markets moved slightly up soon after the Fed issued its statement.

The Fed may prefer to leave rates alone through 2020, an election year. But many analysts note that the economy faces risks from the trade conflicts, a global slowdown and a potentially disruptive Brexit and say the Fed may feel compelled to cut rates at least once next year.

Persistently low inflation with very low unemployment has led many Fed officials to conclude that rates can remain lower for much longer than they thought without spurring higher prices. Low rates help consumers and businesses afford to borrow and spend. Still, savers have struggled to find returns outside the stock market that can keep them ahead of inflation.

Chairman Jerome Powell has said that this year’s Fed rate cuts have helped lower mortgage rates and spurred growth in home purchases. Auto sales have also remained healthy as more Americans have borrowed to buy cars.

After having raised its benchmark short-term rate four times in 2018, the Fed reversed course this year and cut rates three times to a range of 1.5% to 1.75%. Powell has portrayed those cuts as mainly “insurance” against a slowdown resulting from weak global growth and President Donald Trump’s prolonged trade war with China.

Monthly job growth reached its highest point this year in November, and the unemployment rate matched a 50-year low of 3.5%. Measures of consumer confidence also remain at historically high levels.

Powell and other Fed policymakers have made clear that they are no longer worried that a healthy job market will necessarily fuel excessive inflation. Instead, they would like to see inflation reach their 2% target level after running below it for most of the past seven years. Even with unemployment at a 50-year low of 3.5%, the Fed’s preferred inflation gauge showed prices rising by just 1.3% in October compared with a year earlier.

Tame inflation and ultra-low unemployment have led Fed officials to rethink their view of the so-called “neutral rate.” This is the point at which the Fed’s key rate is believed to neither accelerate economic growth nor restrain it. The neutral rate typically shouldn’t change very often or very much. But the Fed’s policymakers estimate that the neutral rate is now 2.5%, down from 3% as recently as September 2018.

And Fed Vice Chair Richard Clarida suggested last month that full employment — the lowest rate that the Fed thinks the jobless rate can go before it starts escalating inflation — could be as low as 3.6%. A year ago, the Fed thought it was 4.4%.

At his previous news conference in late October, Powell had set a high bar for a rate hike. Recent economic data has been healthy, providing another reason for the Fed to stay on the sidelines.

Fed policymakers are also weighing their options to stabilize short-term lending in money markets. In late September, overnight lending markets seized up, and banks and other financial institutions struggled to find short-term loans. This problem briefly lifted the Fed’s benchmark rate out of its target range.

The Fed started buying Treasury bills in October, with an initial monthly purchase of $60 billion, to boost banks’ cash reserves and make more money available for short-term lending.

The Fed has also provided additional liquidity through temporary overnight and other short-term loans. Together, the operations have increased the Fed's balance sheet by nearly $300 billion.

Powell maintains that the purchases are intended to improve the functioning of the financial system and not to ease borrowing rates. That makes it different, he says, from the Fed's bond purchases during the Great Recession and its aftermath, when it sought to drive down long-term borrowing rates to stimulate spending and economic growth.

9. Who leads in small business banking?

[December 11, 2019] Serving small business is no small matter.

Most businesses in Canada are small — 99%, according to the Canadian Federation of Independent Business (CFIB) — and small business owners require a variety of services, including banking, investment and retiring planning, and financing.

Which bank is serving the most small business owners? Royal Bank of Canada, according to the CFIB's latest survey of small-business banking market share, released on Wednesday.

RBC held its top spot in the survey, with 20% of market share. It's the only Big Five bank to gain ground since the last survey in 2015 when it had 18.5% of market share. Over three decades, however, the bank's share of small-business banking exhibits an overall downward trend, after holding about 24% of the market in 1982.

Scotiabank maintained its spot in second place with 17% of market share in 2019. That figure is up more than 50% since 2000. The survey found that Scotiabank leads among businesses with five employees or fewer.

TD took third spot at about 15% market share, a decline from about 16.5% in the last survey. In 1982, the bank had about 11% market share.

Canadian Imperial Bank of Commerce (CIBC) continued its steady decline in market share, going to less than 9% in 2019 from 20% in 1982.

In a release on Wednesday, CIBC pointed to efforts to improve its position in the small-business space. The bank said it had added to its ranks 200 "business banking specialists" in key markets in the last 18 months, and plans to add more in 2020.

Bank of Montreal also saw its share of the small-business banking market decline, holding just over 9%. That's down from almost 11% in 2015 and 15% in 1982.

Over its many years of tracking small-business banking, the federation has found that credit unions and regional banks have increased their market share

— potentially indicating, at least in part, the importance of personalized service.

Credit unions more than tripled their market share since 1982 to 12% in 2019. Despite the demonstrated long-term increase in growth, credit unions' share of small-business banking has held close to 11% to 12% since 2006. One challenge for credit unions is that their market share tends to decrease as a business's number of employees increases, the survey found.

The survey's category of "other" institutions exhibited the greatest increase in market share since the last survey, reaching 18% in 2019 from 15% in 2015. The category includes small or regional banks such as Desjardins in Quebec and ATB Financial in Alberta.

Such regional institutions are "often seen as better able to understand their community's needs," said CFIB in a release.

10. U.S. consumers buoy global economy, while Canadians face debt

[December 9, 2019] Divergent job reports from Canada and the U.S. on Friday may suggest different paths for consumers on either side of the border. While that doesn't bode well for the Canadian economy, a report from Richardson GMP says, the American consumer is the one with the world on its shoulders.

The U.S. consumer represents roughly 20% of the global economy, the firm's weekly Market Ethos report said, and remains "in very good shape." Debt to disposable income exceeded 140% before the last recession but now sits below 100%.

"From a balance sheet perspective, U.S. consumers are in their best shape in decades," the report said.

By contrast, Canadians owed roughly $1.77 in credit market debt for every dollar of household disposable income in the second quarter of this year. Richardson GMP noted this is high even compared to the precarious position south of border prior to the financial crisis.

And while the U.S. economy added 266,000 jobs in November, Canada posted its biggest monthly drop since the financial crisis, shedding 71,200 positions. Consumer insolvencies are also up 9.2% year over year in Canada, as of October, the report said. "Granted this is from a low base, but with the employment situation having deteriorated rather materially, this could lead to a sharper increase," the report said.

Richardson GMP pointed to Canadian banks' Q4 results, which reflected the credit situation with all banks reporting higher provisions for credit losses.

“The economic mood in Canada has soured recently, and the increasingly defensive posturing by local banks has us believing that the trend heading into 2020 will be towards tighter lending standards, which could further constrain the consumer,” the report said.
Fortunately, there’s still the American consumer, whom the report called the global economy’s “last person standing.”
“The good news is that while the Canadian consumer is at risk, it’s the U.S. consumer that matters most for the global economy,” the report said.
And while they’re “holding the line,” Richardson GMP points to indicators such as job openings and consumer confidence to watch in the coming months.

Have a nice and fruitful week!

To Unsubscribe Click Here