Weekly Updates Issue # 747

1. Weekly Markets Changes

[January 17, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,559.02 +324.53 +1.88%	3,329.62 +64.27 +1.97%	29,348.10 +524.3 +1.8%	9,388.94 +210.1 +2.23%	$0.7656 -0.06c +0.08%	$1,557.24 -5.10 -0.33%	$58.54 -0.50 -0.87%

2. Trailer-fee class action launched

[January 17, 2020] Koskie Minsky LLP has commenced a class-action lawsuit concerning the payment of trailing commissions to Canadian discount brokerages, the Toronto-based law firm announced Friday.

Trailer fees are paid to brokers by mutual fund companies from fees charged to investors who buy mutual funds.

Several Canadian financial services firms face similar proposed class actions in connection with the practice.

The Canadian Securities Administrators is moving to ban the payment of trailers to discount brokers, with rule changes to be published later this year.

Trailing commissions are designed to compensate brokers for advice and services provided to investment clients.

“Because discount brokerages cannot and do not provide advice or services to investors,” the Koskie Minsky class action alleges “that these commissions are inappropriate and unlawful and that these funds should be returned to investors.”

"Improper investment commissions whittle away the retirement savings of ordinary Canadians. The practice of collecting trailing commissions for no reason must stop," said Kirk Baert, a partner at Koskie Minsky, in a statement.

3. Slowing economic momentum could prompt rate cut

[January 17, 2020] The Canadian economy may be entering 2020 in a "favourable position," but waning momentum could force the Bank of Canada to consider a rate cut by midyear, according to a report from CIBC.

The report, authored by CIBC chief economist Avery Shenfeld, noted that the Canadian economy started the new year with "historically low unemployment" and inflation tracking the Bank of Canada's target rate.

"But that doesn't mean investors should become complacent," Shenfeld wrote.

Shenfeld observed that Canada's strong population growth, driven by high immigration targets, will likely help fuel the economy over the long term. But the demand for labour will determine economic growth in the short term.

"Over the past few months, hiring has looked tepid at best," Shenfeld wrote, adding that a soft demand for labour could lead to rising unemployment.

Shenfeld noted immigration in 2019 "was heavily skewed towards new Canadians 29 years of age and younger." While this will help counteract Canada's aging population, it also means new immigrants likely won't be fuelling demand for new houses — either because they'll still be living with their parents or because they'll be priced out of the market.

"As a result, we see housing starts leveling off rather than rebounding to the faster pace seen earlier in 2019," Shenfeld wrote.

Another sour note is retail spending, which has declined in recent months. Shenfeld predicted overall consumption growth in 2020 might not look any better than it did in 2019, "which is set to post its weakest advance since the crisis."

Also concerning is a lack of demand for Canadian non-energy exports, which have made "virtually no gains over their pre-crisis peak" and hampered business investment in Canada, Shenfeld observed. He predicted that if job growth continues to be sluggish, the central bank "could be pushed into action to support the non-energy parts of the economy."

"A rate cut would also get the ball rolling on currency depreciation, something we see as a necessary ingredient in 2020 and 2021 to rotate demand towards business investment and exports, and chew up economic slack," Shenfeld wrote. "Non-energy exports and business investment have long been sore spots in terms of growth but will now be more of a focal point as housing and consumption lose vigour."

4. U.S.-China trade deal eases tensions — for now

[January 16, 2020] The signing of a trade deal between the U.S. and China should boost confidence and shore up global growth, but risks remain, says Fitch Ratings.

In a new report, the rating agency said that the so-called "phase one" trade deal bolsters Fitch's view that the global economy will stabilize in 2020.

"A pause in the U.S.-China trade war avoids further direct disruption…from higher tariffs," Fitch said, noting that it has boosted its forecast for global GDP growth in 2020 by 0.1 percentage point to 2.6%.

Yet, the recently signed deal doesn't end the trade war, Fitch cautioned. U.S. tariffs on Chinese imports are still much higher than they were a couple of years ago, it noted.

The full impact of the U.S.-China agreement will depend on how it's implemented, "including whether China can meet its commitment to dramatically increase imports from the U.S., as well as possible trade diversion effects on other exporting economies," Fitch said.

Additionally, Fitch noted that future talks on a broader deal would cover contentious areas, such as structural economic reforms in China.

"The global economy will therefore still have to navigate significant risks and uncertainties in 2020 and beyond," Fitch said.

5. HELOC borrowing drops in November

[January 16, 2020] As house prices surged over the past decade, a growing number of Canadians began borrowing money against the value of their homes. But that trend could be coming to an end.

November saw the growth in home equity line of credit (HELOC) borrowing from chartered banks contract for the first time since 2015, falling by 0.4% month over month, according to a report from Scotiabank.

The report noted that growth in HELOC borrowing began slowing in 2018, when the housing market "entered a period of turbulence" following the introduction of tax and regulatory measures designed to cool the market.

Now, despite home prices rising again in several large cities and affordability improving thanks to lower interest rates and a lower qualifying rate, growth in HELOC borrowing hasn't recovered, the report said. But why?

Scotiabank noted that a 2018 survey conducted by the Financial Consumer Agency of Canada found that half the money borrowed through HELOCs was used for renovations, rather than relocating or buying additional properties.

Today's improvement in housing affordability "may have made moving more attractive than renovating," the report suggested, adding that the slowdown in HELOC borrowing "may simply be the case that a wave of renovation projects designed to improve homes' attractiveness for sale have been completed and the properties are slowly moving to market."

6. New initiative aims to future-proof the U.S. dollar

[January 16, 2020] The former head of the U.S. Commodity Futures Trading Commission (CFTC), Chris Giancarlo, is launching an initiative to explore digitizing the U.S. dollar.

Giancarlo announced the Digital Dollar Project, which will encourage research and public debate — including stakeholder meetings, roundtable discussions and open forums — on the creation of an official digital currency.

"We are launching the Digital Dollar Project to catalyze a digital, tokenized U.S. currency that would coexist with other Federal Reserve liabilities and serve as a settlement medium to meet the demands of the new digital world and a cheaper, faster and more inclusive global financial system," Giancarlo said in a statement.

The project will also propose possible models and develop a framework for establishing a digital U.S. dollar.

Enthusiasts believe that a digital dollar could cut transaction costs, improve transparency and enhance security by allowing instant digital settlement.

"The digital 21st century is underserved by an analog reserve currency," said Giancarlo.

"A digital dollar would help future-proof the greenback and allow individuals and global enterprises to make payments in dollars irrespective of space and time," he added.

To advance the project, a non-profit, the Digital Dollar Foundation, is also being launched, with Accenture as its lead architect and technology partner.

7. Longevity gains go to wealthy, educated Canadians, StatsCan says

[January 15, 2020] One of the chief drivers of Canada's looming demographic challenge is the fact that people are living longer, but these gains aren't distributed evenly throughout the population — wealthier, better educated Canadians live longer, in better health, than those at the bottom of the socioeconomic ladder.

According to a new study from Statistics Canada, people with either higher levels of education or higher incomes live longer, and they can expect more years of good health.

"Education- and income-related disparities in life and health expectancy persist and may be wider than they were 15 years ago among the household population in Canada," the study concluded.

For instance, the study found that, for men at age 25, those with a university degree live 7.8 years longer than those that don't graduate high school.

And, at age 65, better educated men can expect to live 4.3 years longer than the least educated.

For women, the differences are somewhat smaller — a university degree is associated with 6.7 years of additional life expectancy at age 25, and 4.0 years at age 65.

The better educated also spend a greater portion of their lives in good health.

For men at age 25, university graduates can expect to be healthy for 89% of their lifespan, versus 81% for those with less than a high school diploma.

For women, the numbers are 87% and 79%, respectively, StatsCan reported.

When comparing income levels, the study found that, for men at age 25, those in the top 20% of the income distribution can expect to live 7.7 years longer than those in the bottom 20%.

At age 65, those in the top 20% can expect to live 4.7 years longer than those at the bottom of the distribution.

Again, the effects are somewhat less dramatic for women.

At age 25, women in the top 20% of income can expect to live 5.4 years longer than those in the bottom 20%. And, at age 65, the difference between the top and bottom of the income distribution is 2.8 years.

StatsCan noted that education and income are often used as indicators of socioeconomic position, but that they are not considered interchangeable.

"Education is widely thought to increase health knowledge and literacy, which in turn can promote the adoption of healthier lifestyles and facilitate access to appropriate health care. Higher income allows access to better-quality material resources — such as food and shelter — and better, easier or faster access to services," it said.

8. Household credit growth slows in November

[January 14, 2020] Household credit growth slowed in November, putting the brakes on an upward trend observed earlier in 2019.

Total household credit decelerated to 3.7% month over month (seasonally adjusted and annualized) in November, said Scotiabank in a report released on Monday. That figure compares to October's two-year high in total borrowing of 5.3%, the report said, when mortgage growth hit its fastest pace in three years.

Despite November's slower rise in household credit, year-on-year trend growth of 3.9% was unchanged from October, the report said.

Monthly mortgage growth slows, but housing market is strong

November's deceleration in credit growth was led by a slowing in mortgage borrowing (from 7.3% to 4.7% month over month) and a continued decline in consumer credit growth.

Still, mortgage credit growth remained on an upward trend for the seventh month in a row, and the housing market showed no signs of cooling.

"Though five-year mortgage rates were on hold in late 2019, they remained relatively low compared with earlier in the year, and Canadians continued to take advantage of favourable borrowing conditions," the report said.

Consumer credit growth has been mostly on a downward trend since mid-2017, consistent with a broader decline in consumption growth, even though the average interest rate charged on consumer loans fell by about 50 basis points during the year.

"Rising household expenses and high debt levels may be outweighing strong wage growth in household-finance decisions," the report said.

Evidence of increased interest in reverse mortgages

A household-finance decision that more Canadians may be considering is a reverse mortgage.

In a release on Tuesday, HomeEquity Bank, the largest Canadian provider of reverse mortgages, said it originated $820 million in new reverse mortgages in 2019, "marking a record year" for the Schedule 1 bank. It now administers a portfolio of about $4 billion in reverse mortgage loans, the release said.

The release also noted that in December 2019, the bank sold $75 million of its portfolio of loans to another bank — the first such sale for HomeEquity and the first such transaction in Canada to involve reverse mortgages.

The company attributed growing interest in reverse mortgages to demographics and economics.

"The number of Canadians aged 55 and over continues to increase," the release said. "Many in this cohort have not saved enough money to finance their desired lifestyle in retirement and also face workplace pension shortfalls."

The bank expects its 2019 results to continue this year.

"We're anticipating a very strong 2020, as interest and demand for reverse mortgages continues to grow," said Steven Ranson, president and chief executive officer at HomeEquity Bank, in the release.

9. How much time people spend worrying about money?

[January 13, 2020] Millennials spend more time worrying about finances than older Canadians, according to a poll commissioned by Scotiabank.

The Financial Worry poll found that Canadians spend an average of two hours a day worrying about finances — and the amount of time spent worrying decreases with age.

Canadians aged 18 to 34 worried the most — 2.4 hours a day, on average. They were followed by people 35 to 54, who worried for two hours a day. People aged 55 and over worried for 1.4 hours a day.

The poll also found that Canadians with lower household incomes spent more time worrying than those with higher household incomes.

Households making less than $50,000 a year worried an average of 2.25 hours a day — considerably more than households making at least $100,000, who spent just over an hour a day worrying.

Regionally, residents in Atlantic Canada spent the most time worrying about finances (3.4 hours a day), followed by Albertans (2.7 hours a day), and people in Saskatchewan and Manitoba (2.4 hours a day).

Quebecers spent the least amount of time worrying about their finances, averaging just five hours a week.

The Financial Worry poll was commissioned by Scotiabank and conducted by Maru Blue on September 20, 2019. The online survey captured the opinions of 1,520 Canadians across the country.

10. Ontario regulator issues proposed guidance on handling troubled DB plans

[January 13, 2020] The Financial Services Regulatory Authority of Ontario (FSRA) is seeking feedback on proposed guidance on its approach to overseeing single-employer, defined benefit (DB) pension plans that may be at risk.

The guidance outlines the tools and methods the FSRA will use to "improve outcomes for pension plan beneficiaries" when plans are facing enhanced supervision due to concerns about the security of the benefits.

The proposed approach to supervision will be risk-based and transparent, and will focus on plans where the risk of insolvency "would have a significant impact not only on beneficiaries but also on the larger community, as well as

having potential consequences to the sustainability of the [provincial contingency fund],” the FSRA said.
The FSRA indicated that the guidance was developed with the supervisory best practices currently used by both Canadian and international regulators in mind. It also said that “the interests of plan sponsors will be an important consideration” in deploying its supervisory approach.
The proposed guidance is out for comment until Feb. 27, 2020.

11. Federal budget to focus on the environment: Morneau

[January 13, 2020] The federal Liberals’ first budget of their minority mandate will put a heavy focus on the environment, which Finance Minister Bill Morneau says should get the opposition support he needs for the budget to pass.
Consultations kicked off Monday on the financial blueprint that is to be released by spring.
Speaking to a group of students at Ryerson University, Morneau added that health care and safety issues, such as gun control, are also themes in his spending plan.
But it was the environment that he returned to in his town-hall meeting, saying a strong majority of Canadians showed in October’s election that the issue was important to them.
“We think that we have a mandate, together with other parties, in government to move forward on issues around environment and climate change,” he said.
Morneau said the Liberals would consult opposition parties and work with those that want to work with the government on issues related to the environment, and reconciliation with Indigenous Peoples.
The Liberals will need the help of opposition parties to pass the budget, since the government lost its majority in the House of Commons in the 2019 federal election.
If the budget fails a vote in the House of Commons, the government could fall and trigger another general election, but Morneau seemed optimistic about his upcoming budget’s chances of gaining parliamentary approval.
“If it turns out that one or a collection of parties don’t support us as we go about that, well, then we’ll have to face that reality and ask Canadians what they want us to do, but I’m hopeful that won’t happen in the near term,” Morneau said in response to a question.
The federal books are projected to show a deficit this fiscal year of $26.6 billion — $6.8 billion deeper than originally planned. Next year’s deficit is

expected to reach $28.1 billion, and that's before accounting for the Liberals' election promises.

The Finance Department's fiscal update last month said the deeper deficit is largely driven by changes to how employee pensions and benefits are calculated — a hit that grows when interest rates are low but could drop sharply if interest rates rise.

Experts and the parliamentary budget officer have suggested the government's fiscal wiggle room has narrowed considerably and will tighten more if the economy slows down.

Morneau said his budget will take into account issues beyond Canada's borders, like trade wars that can send ripples through the domestic economy.

"We need to make sure that we maintain that strong balance sheet, that we maintain our strong fiscal position so we can do deal with the potential for issues that we can't necessarily predict up front," he said.

Have a nice and fruitful week!