Weekly Updates Issue # 750

1. Weekly Markets Changes
2. Canadian economy beats expectations by adding 34,500 jobs in January
3. M&A activity tapered off in Q4
4. Home affordability worsens in Q4 2019
5. Canadian households will come out ahead with carbon tax: PBO
6. Optimism about global economy dims as coronavirus spreads
7. C.D. Howe calls for tougher regulation of shadow banks
8. Household debt, insolvencies still rising: Report
9. Consumer credit growth surged in December

1. Weekly Markets Changes

[February 7, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,655.49 +337.0 +1.95%	3,327.71 +102.2 +3.17%	28,256.03 +846.5 +3.0%	9,520.51 +369.57 +4.04%	$0.7516 -0.41c -0.54%	$1,570.44 +18.72 +1.18%	$50.32 -1.31 -2.54%

2. Canadian economy beats expectations by adding 34,500 jobs in January

[February 7, 2020] The Canadian economy added 34,500 jobs in January, fuelled by gains in the manufacturing, construction and agriculture industries, Statistics Canada said Friday.

The increase in jobs came as the unemployment rate fell to 5.5% compared with 5.6% in December, according to the monthly labour force survey.

Economists on average had expected an increase of 15,000 jobs for January, according to financial markets data firm Refinitiv.

Bank of Montreal chief economist Doug Porter said underlying job growth appears to be on track, after a brief scare late last year, and conditions remain tight.

“While the Bank of Canada is clearly on high alert over the potential economic implications of the new coronavirus, recent indicators suggest the economy had decent underlying momentum at the start of the year,” Porter said.

The Bank of Canada kept its key interest rate target on hold last month at 1.75% but left the door open to future rate cuts if weakness seen in the economy at the end of last year is more persistent than expected.

Porter said that if the economy does start to weaken due to the new coronavirus, he expects the Bank of Canada will move, but that the latest job numbers likely give the central bank a measure of comfort.

He added that average hourly wages in January were up 4.2% compared with a year ago.

"This labour force report is very consistent in suggesting that there is some serious wage pressures building which frankly you would expect given an unemployment rate of 5.5%," he said.

Average hourly wage growth is one of several measures watched by the Bank of Canada, which aims to keep inflation in check.

The job growth in January was powered by the goods-producing sector as it gained 49,100 jobs. The manufacturing group added 20,500 jobs for the month, while the construction subsector added 15,800. Agriculture added 11,500.

Meanwhile, the services-producing sector lost 14,500 jobs, weighed down by the loss of 16,000 jobs in the health care and social assistance subsector.

The gain in jobs for the month came as the number of full-time jobs rose by 35,700, while part-time employment fell by 1,200.

Regionally, Quebec added 19,100 jobs in January, while Manitoba added 6,500 jobs. New Brunswick added 4,600. The number of jobs fell by 18,900 in Alberta.

CIBC senior economist Royce Mendes said the January jobs report built on a gain in December, suggesting that maybe the labour market rebounded from weakness around the turn of the year.

"That said, other indicators of the economy, in particular consumption, have looked soft. So the picture remains decidedly mixed," Mendes wrote in a report.

"We'll need to wait for the to-be-released payroll data to confirm the strength in hiring, and some of the activity indicators to see how persistent the slowdown in spending is."

Compared with January 2018, the number of jobs in Canada increased by 268,000, or about 1.4%.

3. M&A activity tapered off in Q4

[February 7, 2020] Global merger and acquisition (M&A) activity retreated in the fourth quarter, according to new research from GlobalData.

The London-based firm reported that deal value dropped by 4.5% compared with the same quarter in 2018, and deal volume dipped by 0.6% over the same period.

The decline in global M&A was attributed primarily to a drop in North America, which saw deal value plummet by about 13% year over year.

The region's deal volume also declined, from approximately 3,000 deals in Q4 2018 to about 2,800 transactions in Q4 2019.

Conversely, the Asia-Pacific region saw M&A deal volume rise by about 20% in Q4. Deal value was also up by about 10% compared with the same quarter in 2018.

GlobalData said that M&A activity also ticked up in Europe, with deal volume edging up to about 2,100 from 2,000 transactions in Q4, and deal value rising from US$118 billion to US$130 billion.

M&A in South and Central America saw transaction value rise in Q4 and deal volume fall.

Deal activity was also down in the Middle East and Africa.

4. Home affordability worsens in Q4 2019

[February 6, 2020] Home affordability in Canada worsened in the last quarter of 2019, after three consecutive quarters of improvement, said National Bank in a report on Thursday.

Seasonally adjusted home prices increased 1.8% in the fourth quarter compared to the previous quarter. At the same time, the five-year mortgage rate increased three basis points, and median household income grew 0.4%.

"While mortgage interest rates were essentially unchanged from Q3, income growth was unable to keep pace with the rise in home prices for the urban composite," the report said.

Only Vancouver saw improved affordability in the quarter: the monthly mortgage payment as a percentage of income exhibited a fourth consecutive decline — something that hasn't happened since 2008–2009, the report said.

Along with Winnipeg, Vancouver saw incomes rise faster than home prices during the quarter.

Affordability in all other markets deteriorated, with the greatest declines coming from Toronto, Hamilton and Ottawa-Gatineau.

In Toronto, for example, the time required to save for a down payment on a representative home at a savings rate of 10% rose more than three months, to 92.4 months. (Toronto's representative home price is about $881,000.)

While affordability in markets such as Vancouver, Toronto and Hamilton remain concerning, all other markets were either in line with their historical norms or even better, the report said, highlighting the divergence of affordability according to various markets.

In fact, 2019 saw overall improvement in affordability thanks to an 85-basis-point decline in mortgage interest rates and one of the smallest increases in

home prices among member countries of the Organization for Economic Cooperation and Development, the report said.
However, further improvements in affordability aren't expected. National Bank said interest rates will likely level off and home prices likely accelerate given tight supply in the resale market.
For affordability details for all urban centres, see the National Bank housing affordability report.

5. Canadian households will come out ahead with carbon tax: PBO

[February 4, 2020] A new analysis by Parliament's budget watchdog has found that most households in provinces where the federal carbon tax applies will receive more money back in rebates than they will pay through the scheme — just not as much as projected last year.
"Under the federal government's current rebate structure, most households will still receive more than what they pay in fuel charges," parliamentary budget officer Yves Giroux said Tuesday.
"However, once the provincial and federal sales taxes on carbon pricing are accounted for, these amounts will be lower on a net basis when compared with the analysis in our previous report."
The finding, which comes nearly four months after the majority of Canadian voters cast their ballots for parties that favoured some form of carbon tax, appears to bolster the Liberal government's argument that Canadians will not be negatively affected by the tax.
Ottawa implemented a fuel surcharge last year of $20 per tonne of emissions on five provinces — Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick — that did not have carbon-pricing schemes of their own. New Brunswick has since implemented its own tax.
The federal government has written into law that 90% of the revenues collected from the fuel charge will be returned to individual households in the provinces where the revenues were raised.
In a report last April, the PBO estimated the carbon-tax costs and rebates for households in Saskatchewan, Manitoba, Ontario and New Brunswick, and found the majority would come out ahead. Alberta was excluded because the federal tax was imposed later.
It latest report adopted the same approach, and while the findings were similar, Giroux said the net gain for most households was lower because of the impact of provincial and federal sales taxes.

"Most households will receive higher transfers than amounts paid in fuel charges," according to Giroux's report.
"However, by now accounting for the carbon cost embedded in the provincial and federal sales taxes, fewer households will be categorized as better off, on a net basis, in comparison with the analysis in the previous report."
While the federal government has said the carbon tax will be revenue neutral, the PBO found it will raise about $100 million this fiscal year in additional GST because of the added cost on products, a figure that will triple by 2022-23 as the price of carbon rises to $50 per tonne.
Large and higher-income households were also expected to pay a cost, as the rebate did not keep up with their consumption. Part of the reason is wealthier Canadians tend to own bigger homes, own bigger cars and drive more often. But the rebate also tails off as households have more children.

6. Optimism about global economy dims as coronavirus spreads

[February 4, 2020] The emergence of the coronavirus and its uncertain impact on China's economy is clouding what had been an improving outlook for global sovereign ratings, says DBRS Ltd. in a new report.
The outlook was brightening coming into 2020 as global trade tensions diminished and fears of a slowing global economy receded. But "the coronavirus has put a damper on this positive outlook," DBRS said.
The outbreak, which originated in China, has sparked uncertainty about the impact on the world's economy, DBRS noted. Additionally, some of the downside risks that loomed last year may resurface, further weighing on momentum, according to the report.
"Political and policy events, including negotiations around a UK-EU trade deal and the November U.S. elections, may continue to generate some uncertainty and adverse surprises," the report read. "Trade tensions and investment disputes between the U.S. and China could also heat up again."
The report added that "geopolitical conflicts could escalate and lead to commodity price shocks or other significant shifts in capital flows, posing significant challenges to vulnerable emerging markets."
Most advanced economies are currently in a stronger position to weather oil price shocks than they have been recently, DBRS noted.
"Canada, the UK and U.S. would be affected, but negative effects on consumption would be offset by positive impact on energy producers," the rating agency said. "Japan and Europe are in a relatively weaker position."
While the outlook for sovereign ratings will be determined partly by the evolution of these risks, DBRS said that governments' efforts to strengthen their balance sheets will also play a big part. For instance, recent positive

rating action in Europe reflects progress in reducing deficits and debt burdens, DBRS said.
“Slowing economic growth would make further progress on fiscal and structural reforms more difficult to achieve,” the rating agency said.
There’s also limited room for monetary policy to help address the development of downside risks, but DBRS said that the “United States, Canada and the UK have some room to cut rates, if the adverse effects last longer than expected or if other shocks emerge.”

7. C.D. Howe calls for tougher regulation of shadow banks

[February 4, 2020] The so-called shadow banking sector should face tougher regulation, argues a new paper from the C.D. Howe Institute.
The Toronto-based think tank reported that assets in the shadow banking sector in Canada have continued to grow since the global financial crisis.
While this phenomenon has ramped up competition in the traditional financial sector, it also heightens the sector’s potential vulnerabilities. Shadow banks are not as tightly regulated as banks, they aren’t covered by deposit insurance and they can alter the impact of monetary policy, the C.D. Howe paper noted.
“Our findings suggest that both the traditional monetary policy tool of the overnight rate and tightening mortgage underwriting standards through macroprudential policy might have the unintended side effect of increasing financial instability,” the paper said.
The paper suggested that one way to address this is to beef up regulation on shadow banks to level the playing field with traditional banks.
“At a minimum, the systemically important [shadow banks] should face capital requirements and underwriting standards similar to those imposed on traditional banks,” the paper said.

8. Household debt, insolvencies still rising: Report

[February 3, 2020] Cracks in Canadians’ household finances are starting to show, cautions to a new report from DBRS Ltd.
The rating agency reported that, over the past decade, Canadians have added more debt relative to income than their counterparts in the U.S.
As a result, Canada’s household debt/personal disposable income ratio averaged 166.3% in the third quarter, compared with 130.7% in the U.S.
“In fact, the current Canadian rate is comparable with the rate the U.S. reported prior to the global financial crisis of 2007–08,” it said.

“With high debt trends and declining savings, the average Canadian consumer is vulnerable to a downturn in the market, particularly to a sudden change in unemployment or increases in interest rates,” the report said.

The report also noted that insolvencies are on the rise in Canada. For example, in the third quarter of 2019, the number of insolvencies rose by 14.9% compared with the same period a year ago, DBRS said.

“While, on average, Canadian consumers appear to have the capacity to carry a larger amount of debt supported by the significant wealth accumulation achieved over the last decade, a combination of cash-flow pressure and potentially less liquid asset holdings in the form of real estate could lead to an increase in the number of credit arrangements,” DBRS stated in its report.

In particular, the report warned that insolvency risks are high among the 8.4% of Canadians with a net worth of less than $500.

For investors in structured finance transactions, the report said, high-quality collateral and conservative underwriting policies in Canada will help guard against credit losses.

“We expect the performance of the collaterals and the structured securities to continue remaining stable,” the report stated.

9. Consumer credit growth surged in December

[February 3, 2020] Total Canadian household credit growth slowed in December, but continued a yearlong upward trend, according to a report from Scotiabank.

Overall, household credit growth decreased to 4.9% month over month (seasonally adjusted and annualized) in December, down from 5.9% in November. Total household credit grew by 4.2% year over year in 2019, compared with 3.5% in 2018.

Mortgage growth slowed to 5.1% in December from a revised pace of 7.7% in November. Despite the slowdown, mortgage growth was still substantially faster than the average growth of 4.5% over the past two years.

Consumer credit growth rose by 4.4% month over month, marking the fastest monthly growth since October 2018. Scotiabank noted that a 50-basis-point decline in consumer credit rates in 2019 and strong labour markets and rising wages may have contributed to the jump in credit growth.

Have a nice and fruitful week!