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1. Weekly Markets Changes

[March 6, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,175.02 -88.0 -0.54%	2,972.37 +18.15 +0.61%	25,864.78 +455.4 +1.79%	8,575.62 +8.25 +0.10%	\$0.7451 +0.04c +0.05%	\$1,673.83 +88.14 +5.56%	\$41.28 -3.48 -7.77%

2. Morneau says Ottawa will announce support for economy amid mounting coronavirus concerns

[March 6, 2020] The federal government will provide financial help for quarantined Canadians over novel coronavirus concerns and pad its budget contingency should the economic hit be prolonged and deep, Finance Minister Bill Morneau said Friday.

Details about those plans will be coming shortly, Morneau said, who also noted federal officials are mulling measures to insulate the economy from the effects of the outbreak that has now spread to more than 75 countries around the world.

The disease known as COVID-19 has roiled financial markets, spurring the Bank of Canada to take a deeper cut to its trend-setting interest rate this week than it originally envisioned. It has caused sharp declines in trade with China, a drop in oil prices, upended travel plans, and sickened dozens of Canadians and hundreds of thousands more globally.

The full effect COVID-19 will have on the national economy will depend on the depth and geographical spread of the coronavirus outbreak in Canada, Morneau said in a breakfast speech to the Canadian Club of Toronto.

Speaking afterwards, Morneau said the government has the fiscal wiggle room to help businesses through any challenges, as well as workers who may have to be away from work for any period of time.

He said the upcoming budget will have a “greater provision for risk” in the economy, and help with immediate health issues, while trying to decrease the federal debt as a percentage of the national economy, known as the debt-to-GDP ratio.

“In crafting a budget, we’re going to need to balance all of those things — as we always do,” Morneau told reporters.

“What I can tell you is we will maintain our fiscal firepower to deal with potential challenges down the road while ensuring that we are also dealing with the issues immediately.”

In November, the government reduced the cushion for this fiscal year to \$1.5 billion because data through two-thirds of the fiscal year suggested risk “as a whole has been reduced.” The fall economic update had a \$3 billion cushion in its projections for the new fiscal year that starts April 1.

The figure is projected revenues the government sets aside annually as a shock absorber if the money doesn’t materialize due to an economic downturn. If untapped, it can go to pay down the federal debt.

The number counts against the deficit, which is projected to be \$28.1 billion before accounting for any new spending promises.

CIBC chief economist Avery Shenfeld, in a note following Morneau’s speech, suggested the finance minister shouldn’t be tempted to cut spending or raise taxes to hit a deficit target. He added a one-time bump in federal health transfers to provinces may be in order to cover any increased costs from COVID-19, as well as direct fiscal stimulus to prod consumer spending, which the economy relies upon.

Morneau said the fiscal response here would account for domestic conditions and may look different than in other countries.

The federal NDP’s health critic said Morneau’s comment amounted to “announcing that you will announce something” in the face of immediate needs.

“People who can’t afford to take a sick day need help right now,” Don Davies said in a statement.

The Opposition Conservatives questioned how much the Liberals could muster in spending. Pat Kelly, the party’s associate finance critic, said the Liberals failed to prepare for a downturn by running deep deficits during better economic times.

“Now the cupboard is bare as Canada’s economy faces both a domestic economic crisis of capital flight, project cancellations and supply disruptions

due to the illegal blockades, and the prospect of a global downturn triggered by the coronavirus,” he said in a statement.

The blockades cancelled train service and prompted temporary layoffs as demonstrators across the country showed support for Wet’suwet’en hereditary chiefs who oppose construction of the Coastal GasLink pipeline through their territory in British Columbia.

Morneau said he sees the issues around the blockades as being “largely resolved,” but added, “will things happen again? I can’t predict.”

3. Canada’s unemployment rate edged up to 5.6% in February

[March 6, 2020] The unemployment rate in Canada nudged up a tenth of a percentage point to 5.6% as the economy added 30,300 net new jobs in February, Statistics Canada said Friday.

The agency said the gain was led by Quebec, which posted its third consecutive month of job gains.

Quebec saw its unemployment rate fall to 4.5%, the lowest level for the province over the past four decades of comparable data.

The agency’s latest labour force survey said most of the gains nationally were in full-time work, where there was an increase of 37,600 positions, while part-time employment declined by 7,300 compared to January.

Young workers saw an increase of 20,000 jobs month-over-month, mostly for those aged 20 to 24, but the cohort’s unemployment rate didn’t change from 10.3%.

While there were gains for young workers, employment for the core of Canadian workers who are aged 25 to 54 as well as those over 55 held steady for a third consecutive month in February.

The agency said there were gains in manufacturing, by 16,000 jobs, and a bump of 23,000 jobs in the retail sector. Those gains were offset by 15,000 fewer people working in professional, scientific and technical services in February, concentrated in Ontario, and 13,000 fewer jobs in the accommodation and food services sector.

Compared with a year earlier, the overall numbers show Canada added 245,000 jobs, an increase of 1.3%, which was largely driven by gains in full-time work.

Average hourly wages increased to \$28.66 from \$27.54 for all workers 15 years and older compared with the same month in 2019, for an increase of about 4.1%.

4. Credit unions continue to beat big banks in serving small biz: CFIB

[March 5, 2020] Small business owners are more satisfied with service from smaller banks than from the Big Five.

The Canadian Federation of Independent Business's (CFIB) latest bank rankings found that credit unions scored better than conventional banks in providing service to small- and medium-sized businesses. Regional banks followed, with ATB Financial, Desjardins and National Bank all holding spots ahead of the Big Five.

The Bank of Montreal was the first of the big banks in the rankings, coming in fifth overall, while Royal Bank of Canada scored the lowest, sitting at ninth place. For the second year in a row, HSBC scored the lowest out of all 10 banks in serving small businesses.

Financial institutions were rated on the satisfaction of small business owners within the areas of financing, fees, account management and service. Credit unions achieved the highest scores across those four categories. According to the survey, credit unions have held first place since 2009.

Among the Big Five banks, BMO received had the best results in the areas of financing and account management but underperformed its counterparts in the service and fees categories. CIBC received a strong score in the area of service but placed second among the big banks due to a low score in the fees category. TD scored the lowest out of all 10 banks in providing financing but received the best score in the area of service among the Big Five.

Businesses with few than five employees reported the lowest level of satisfaction overall. Scotiabank, TD and RBC performed significantly better among businesses with 50 to 499 employees, the report found.

The survey was conducted between Apr. 9 and July 29, 2019 and is based on a sample of 11,599 small- and medium-sized business owners across Canada.

5. Poloz leaves door open to further rate cuts

[March 5, 2020] Canada's central bank was leaning towards cutting its trend-setting interest rate this week before the novel coronavirus pushed it to take a more dramatic step to get ahead of the shock the outbreak will have on the economy, Bank of Canada governor Stephen Poloz says.

Poloz said Thursday the bank wanted to cut rates "in a decisive manner" to have a cushion for Canada's economy against the effects of Covid-19, similar to when oil prices collapsed about five years ago.

He said the immediate effects the virus will have on business investment and consumer spending meant the downside risks to the economy today

outweighed continuing concerns that cutting rates would fan financial vulnerabilities in Canada, such as high household debt.

On Wednesday, the bank cut its key rate target to 1.25% — the first cut since the summer of 2015, which brought the rate to its lowest level since early 2018.

“We made a decision this week not to dip our toe in the water, but rather to make a decisive and clear move so that people get immediate impact through mortgage renewals and cash flow for those with flexible mortgages,” Poloz said in a news conference in Toronto.

“We believe we’ve done a lot there to cushion a blow. We don’t know how big the blow might be, so we’ll be looking at ways to figure out how big that blow might be and how long it might last.”

Poloz left the door open to further rate cuts should circumstances require it. During a luncheon speech, he said the economy may snap back if things quickly return to normal but warned the situation could be more persistent and include longer-term layoffs.

“It underscores that the need for further policy steps is going to depend heavily on which of several possible paths Covid-19 and its economic consequences take,” CIBC chief economist Avery Shenfeld said in a note about the speech. Weakened commodity prices related to the outbreak will add to tough times in oil-producing regions, Poloz said, before likely spreading the financial hit elsewhere as people affected “spend less money on everything.” He also said a drop in rates could stabilize the housing market, instead of contributing to froth, if a slide in consumer confidence reduces activity.

On the other hand, a rate cut could be passed along to high-interest savings accounts and other fixed-income investments that would lower monthly cash flow for retirees, said James Laird, co-founder of Rathub.ca.

Many of the implications and responses to Covid-19 lie beyond the bank’s control, Poloz said, such as if production is disrupted, or if people need to stay home from work. He spoke about strengthening the labour market and suggested federal policymakers find ways to remove hurdles that make it hard for workers to match up with available positions, of which there are half a million in the country.

The unknowns about the virus have rattled financial markets, disrupted global supply chains and shuttered factories in China, where the outbreak began, that many Canadian businesses rely on for inventories. Worries about catching Covid-19 could also depress consumer spending, which the economy relies on.

Add into the mix a slowdown in the fourth quarter of 2019, rail blockades, unusual winter weather and job action by Ontario teachers and the outlook for

growth over the first quarter of this year is weaker than previously forecasted, and could easily affect the second quarter, Poloz said.

The missing piece in Poloz's speech was the role federal fiscal policy can play in mitigating the economic effects of the virus, said Brian DePratto, senior economist at TD Economics. In a note, he said Poloz has in the past spoken about the relationship between fiscal policy and monetary easing, "which would imply that there is some scale of fiscal response that could obviate further monetary easing."

The spotlight will be on federal Finance Minister Bill Morneau on Friday morning when he is scheduled to deliver a speech about the economy.

6. Banks drop prime rate to match Bank of Canada cut

[March 5, 2020] Several Canadian banks and financial institutions have dropped their prime lending rate by 50 basis points to 3.45%.

The moves by the Royal Bank, Toronto-Dominion Bank, Scotiabank, Bank of Montreal, CIBC, Desjardins Group, Laurentian Bank, B2B Bank and HSBC match the Bank of Canada's decision Wednesday to drop its key lending rate by 50 basis points, which was itself a matching of what the U.S. Federal Reserve had cut a day earlier over the novel coronavirus.

The Bank of Canada said it cut its target for the overnight rate because Covid-19, as the virus is named, was "a material negative shock" to Canada's already softening economic outlook.

The cut in the bank's key rate is the first since the summer of 2015 and brings the rate to a level not seen since early 2018. The bank had not dropped its rate by 50 basis points since the financial crisis.

The rate cut will make mortgages and other borrowing cheaper but has also raised concerns it will further inflame already overheated housing markets.

Ratehub.ca says a homeowner with a five-year, \$450,000 mortgage at a 2.6% variable rate amortized over 25 years would save about \$115 a month if the mortgage were to drop 50 basis points to 2.1%.

Home sales and prices in Toronto surged in February.

7. Toronto home sales up almost 46% year over year

[March 4, 2020] The Toronto Regional Real Estate Board says home sales in February were up 45.6% compared with the same month last year when they hit a 10-year low.

The board says there were 7,256 homes sold last month in the Toronto region through its MLS system. That compared with 4,982 in February 2019.

After preliminary seasonal adjustments, the board says February sales were up 14.8% compared with January.

The average price rose to \$910,290 compared with \$779,791 in February last year.

New listings for the month totalled 10,613, up from 9,834 in the same month a year earlier.

TRREB's forecast for the year predicts 97,000 home sales in 2020, up from 87,825 in 2019. Sales growth will be strong this year," board president Michael Collins said in a statement.

"However, the annual pace of sales growth in February likely won't be sustained throughout the year because we will be making comparisons to much stronger sales results reported after the first quarter of 2019."

8. Bank of Canada matches Fed, cutting rate by half a percentage point

[March 4, 2020] The Bank of Canada is cutting its key interest rate target by half a percentage point, dropping it to 1.25% in response to the economic shock from the novel coronavirus outbreak.

The central bank said Wednesday that it cut its target for the overnight rate because Covid-19, as the virus is named, was "a material negative shock" to this country's economic outlook.

In January, the central bank said the global economy was showing signs of stabilizing, but governor Stephen Poloz opened the door to a possible interest rate cut if weakness in the economy was more persistent than expected.

In a statement Wednesday, the Bank of Canada said it is becoming clear the Canadian economy won't grow as much as previously forecasted for the first quarter of this year.

The central bank pointed to disrupted supply chains and rattled business and consumer confidence as well as rail line blockades, job action by Ontario teachers and harsh winter weather.

The statement also said the central bank may further adjust its key rate if the situation calls for it.

"In light of all these developments, the outlook is clearly weaker now than it was in January," the statement said.

"As the situation evolves, governing council stands ready to adjust monetary policy further if required to support economic growth and keep inflation on target."

The cut in the bank's key rate is the first since the summer of 2015 and brings the rate to a level it hasn't been at since early 2018.

Economists had widely forecasted the bank would cut its rate following an unexpected half-point cut by the U.S. Federal Reserve on Tuesday to its rate as an emergency economic buttress against Covid-19 concerns.

That decision came after a call among central bankers and finance ministers from G7 countries, including Canada, about how to deal with the economic shocks the outbreak might have.

The Bank of Canada generally finalizes its decision on rates by late Tuesday, meaning the call for its decision came after the U.S. Federal Reserve made its move.

Financial markets had expected at least one rate cut this year, but forecasts have pegged the decision Wednesday as the first of what could be multiple reductions to the central bank's key interest rate target.

In a research note Thursday, CIBC Capital Markets chief economist Avery Shenfeld called the move "a reasonable first step," with the central bank signalling it's prepared to do more if necessary.

"The Bank of Canada didn't wait to see the patient ailing before delivering a dose of preventative medicine, but where it goes from here is a matter of epidemiology rather than economics," he wrote.

The bank "wisely concluded" that its previous outlook "had deteriorated meaningfully given the global slowing, the hit to commodity prices, and the inevitable hit to confidence domestically."

Shenfeld said it's reasonable to assume a further 25 basis point cut in April.

9. Fed makes early cut amid virus fears, taking market by surprise

[March 3, 2020] The Federal Reserve shocked markets on Tuesday when it cut its benchmark rate by a half-percentage point two weeks ahead of its next scheduled policy meeting.

The timing may have been unexpected, but the element of surprise can be advantageous when you're running out of room to cut rates, according to Michael Greenberg, vice president and portfolio manager with Franklin Templeton Multi-Asset Solutions.

"When you have less ammunition at your disposal to fight these crises, it makes sense to go early and go big to try to surprise the market," Greenberg said in an interview. "If you can do that, you'll have to spend fewer bullets in the medium term."

Greenberg noted the size of the cut wasn't a surprise — the market had already priced in a half-point drop — but the timing provided a jolt.

“The market was kind of expecting a cut of 50 basis points in two weeks. If the Fed had waited and done that, it probably would have been a bit of a ho-hum reaction [from the market],” he said. “By doing it today, with the shock and awe of going early, they’re probably getting a bit more bang for the limited bullets they have left to support markets.”

While Greenberg acknowledged that a rate cut alone would not be enough to counteract the economic impact of Covid-19, he said it would help bolster consumer confidence, business confidence and financial conditions.

Greenberg predicted the Bank of Canada would cut its benchmark rate by between 25 and 50 basis points on Wednesday. He noted that Australia just cut its rate by a quarter point, and he expects the U.K., which also has room to cut, to make a similar move.

“Those [countries] that have room to cut rates have either done it or probably will do it,” Greenberg said.

In announcing the surprise cut on Tuesday, Fed Chairman Jerome Powell noted that the virus “poses evolving risks to economic activity.”

It was the Fed’s first rate cut since last year, when it reduced its key short-term rate three times. It is also the first time the central bank has cut its key rate between policy meetings since the 2008 financial crisis and the largest rate cut since then.

The Fed’s announcement of a steep rate cut signalled its growing concern that the coronavirus, which is depressing economic activity across the world, poses an escalating threat and could trigger a recession. Yet even before the Fed’s action Tuesday, economists had been cautioning that lower interest rates aren’t the ideal prescription for the threat posed by the coronavirus.

Lower rates can lead people and businesses to borrow and spend, which can boost economic activity. But they can’t directly address the problems that the virus has caused — from closed factories to cancelled business travel to disrupted company supply chains.

The Dow Jones Industrial Average, which had been down as much as 356 points shortly before the Fed’s announcement, was up only modestly a half-hour afterward. On Monday, though, the Dow had rocketed up nearly 1,300 points — its largest percentage gain since 2009.

Nearly every sector in the Standard & Poor’s 500 stock index was up Tuesday. A notable exception was bank stocks. Banks rely on interest payments from loans, which will likely shrink as a result of the Fed’s action. Shares of Bank of America and JPMorgan Chase dropped nearly 3%.

Earlier Tuesday, seven major economies had pledged to use “all appropriate tools” to deal with the spreading coronavirus but announced no immediate actions.

The group of major industrial countries, referred to as the G-7, said it was “ready to take actions, including fiscal measures where appropriate, to aid in the response to the virus and support the economy.” The joint statement from the United States, Japan, Germany, Britain, France, Italy and Canada followed an emergency conference call among the finance ministers and central bank presidents, led by Powell and U.S. Treasury Secretary Steven Mnuchin.

The G-7 has issued similar joint statements during periods of extreme market turmoil, such as the Sept. 11, 2001, terrorist attacks and the 2008 financial crisis.

Last week, the Dow plunged 14% from recent highs, its worst week since the 2008 global financial crisis.

“Given the potential impacts of Covid-19 on global growth, we reaffirm our commitment to use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks,” the G-7 said.

Global agencies have indicated this week that there will be a significant economic impact as the virus spreads.

On Monday, the Organization for Economic Cooperation and Development said that the coronavirus, which was first detected in China but has now spread to 60 nations in Europe, the U.S., Latin America and other parts of Asia, could cause the world economy to shrink this quarter for the first time since the international financial crisis more than a decade ago.

The OECD lowered its forecasts for global growth in 2020 by half a percentage point, to 2.4% — and said the figure could go as low as 1.5% if the outbreak is sustained and widespread. There are signs that the outbreak has begun to ebb in China.

10. World economy may shrink because of virus, watchdog says

[March 2, 2020] A global agency says the spreading new virus could make the world economy shrink this quarter for the first time since the international financial crisis more than a decade ago.

In a special report on the impact of the virus, the Organization for Economic Cooperation and Development said Monday that the world economy is still expected to grow overall this year and rebound next year.

But the OECD lowered its forecasts for global growth in 2020 by half a percentage point, to 2.4% — and said the figure could go as low as 1.5% if the virus lasts long and spreads widely.

In addition to the “considerable human suffering” the virus has wrought, with more than 3,000 deaths worldwide, the OECD said “Global economic prospects remain subdued and very uncertain.”

The last time the world economy shrank on a quarter-on-quarter basis was at the end of 2008, when a shock to the financial sector caused turmoil for businesses around the world and mass layoffs. On a full-year basis, it last shrank in 2009.

The OECD said China’s reduced production is hitting Asia particularly hard but also companies around the world that depend on its goods.

It urged governments to act fast to prevent contagion and restore consumer confidence.

The Paris-based OECD, which advises developed economies on policy, said the impact of this virus is much higher than past outbreaks because “the global economy has become substantially more interconnected, and China plays a far greater role in global output, trade, tourism and commodity markets.”

China’s viral outbreak has already disrupted global supply chains and cut business profits. And as the disease spreads, economists now worry about a graver scenario: That quarantines and greater caution among consumers will lead people to cancel travel plans, skip restaurant meals, avoid stores or stay home from work.

Already the European Union’s markets commissioner, Thierry Breton, estimated Monday that the virus has cost Europe 2 billion euros (\$2.2 billion) this year in tourism revenue alone, mainly because of the drop in number of Chinese tourists. Things are expected to get worse for Europe with the eruption of cases in northern Italy and the cancellation of events like the Venice Carnival.

Investors seem to expect central banks to come to the rescue by cutting interest rates, particularly in the U.S. But experts note that lower rates cannot fix the problem.

Lower rates can lead people and businesses to borrow and spend, which can boost economic activity. But they can’t make sick people healthy, reopen factories whose workers are kept home because of quarantines or restart supply chains in areas of the world struck by the outbreak.

Have a nice and fruitful week!

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