

Weekly Updates Issue # 757

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1. Weekly Markets Changes

[March 27, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,687.74 +835.9 +7.1%	2,541.47 +236.6 +10.3%	21,636.78 +2,462.8 +12.8%	7,502.38 +622.9 +9.05%	\$0.7114 +1.37c +1.96%	\$1,628.16 +129.5 +8.64%	\$21.84 -0.59 -2.63%

2. Bank of Canada cuts rate to 0.25% in another unscheduled move

[March 27, 2020] The Bank of Canada cut its key interest rate by half a percentage point to 0.25% in an unscheduled rate announcement Friday.

The central bank said its decision to lower rates is aimed at cushioning the economic shocks from Covid-19 and a sharp drop in oil prices by easing the cost of borrowing.

It added that providing credit in the economy for businesses that need it should help lay the foundation for the economy's return to normalcy.

The interest rate cut takes the key rate to what the central bank referred to as "its effective lower bound" or the lowest level that rates can be set.

The unexpected decision marks the second time this month the bank has made an unscheduled cut to its trend-setting interest rate and the third cut overall from the start of March when the rate was at 1.75%.

Bank governor Stephen Poloz said the goal of the decision Friday is to restore market functioning and help create a bridge for businesses and consumers over the economic shutdown linked to curbing the spread of Covid-19.

The move puts the overnight rate at an all-time low last seen in 2008-09. Poloz downplayed the idea of sending interest rates into negative territory, saying negative rates aren't sensible at this stage.

The central bank also launched two new programs.

One will aim to alleviate strains in short-term funding markets, while the other will see the central bank begin acquiring federal government securities in the secondary market with a minimum of \$5 billion per week.

In a research note Friday, CIBC Capital Markets senior economist Royce Mendes said the introduction of “a form of quantitative easing” should help alleviate some economic pain and eventually support the recovery.

“The asset purchases should engender a hunt for yield that could support longer-end private assets, but at some point, credit easing could also become more targeted if that spillover doesn’t transpire,” he wrote.

3. Liberals increase wage subsidy for small biz

[March 27, 2020] The federal government’s proposed wage subsidy for businesses will increase to 75%, the government said on Friday. The increase, announced on the same day as an interest rate cut by the central bank, is part of the government’s two-pronged effort to further combat the economic shock from Covid-19.

A broad swath of business and labour groups had criticized the original proposal of a 10% wage subsidy for falling well short of what was needed to avoid mass layoffs.

The Liberals said they are also working with banks to provide loans of up to \$40,000 for small businesses. They will be interest-free for the first year and up to \$10,000 could be waived for repayment.

Speaking outside his Ottawa residence, Prime Minister Justin Trudeau said the government needs to hammer out the details of the proposal, which he hoped to provide by Monday.

Asked about paying for the measures, the prime minister said the government’s economic foundations were strong before the pandemic, and he expressed confidence the economy will bounce back after Covid-19 passes.

Parliament’s budget watchdog said in its own report Friday that the federal government does have the room to spend more, particularly with rates as low as they are.

The report, which paints one possible scenario for the Canadian economy from a six-month downturn, suggested the federal deficit for the coming fiscal year could be \$112.7 billion — a jump of \$89.5 billion from previous forecasts as government spending climbs to combat the economic fallout from Covid-19.

An RBC report earlier this week suggested that a \$200-billion deficit may not be out of the realm of possibility, depending on the depth and duration of the downturn.

Trudeau didn't detail the timeline the Liberals were exploring, but said federal financial aid was aimed at bridging the economic gap over the next few months.

4. Canada can absorb 'large, short-term negative shock,' DBRS says

[March 27, 2020] Despite the negative effects of the Covid-19 outbreak on Canada's growth outlook, and the federal government's emergency spending to relieve the impact, DBRS Inc. is confirming Canada's AAA sovereign rating and maintaining its stable outlook.

In a research note, the rating agency said the government's strong balance sheet has plenty of room to absorb a large, short-term negative shock.

"Notwithstanding the deep recessionary outlook in the near term, Canada has substantial capacity to absorb shocks and cope with pending challenges without putting downward pressure on the ratings," it said.

DBRS noted that Canada's credit profile is underpinned by the country's large, diverse economy, its prudent approach to macroeconomic policy, and its strong governing institutions.

While the effects of the pandemic and the collapse in oil prices "pose a clear downside risk to Canada's growth outlook," the economy was relatively strong before the crisis took hold, DBRS said.

"The unemployment rate was near its lowest level in over forty years and inflation was hovering around the Bank of Canada's 2% target," it noted.

This solid starting point puts Canada in a relatively strong position to weather the pandemic in the near term.

Measures to combat the outbreak could cause the federal deficit to widen from previous projections of \$28 billion to more than \$80 billion. DBRS said that additional fiscal support is expected, which could grow the deficit much further.

"While the public health crisis will need to subside for a recovery to firmly take hold, large and timely stimulus should lessen the damage stemming from the sudden stop in commercial activity and then accelerate the recovery by reinforcing pent-up demand as the virus-containment measures ease," it said. Additionally, DBRS noted that the Canadian banks are well-capitalized and have strong liquidity, "which should help them manage market volatility and absorb greater provisioning, if necessary."

However, high household debt levels could force some households to reduce consumption and investment, it noted.

“Household deleveraging could end up dampening the recovery,” it said.

“Once the shocks dissipate, the Canadian economy is expected to expand at a moderate pace over the medium term,” DBRS said.

5. Federal deficit to exceed \$112 billion in coming fiscal year: PBO

[March 27, 2020] Parliament’s budget watchdog is projecting that the federal deficit for the coming fiscal year could be \$112.7 billion, a jump of \$89.5 billion from previous forecasts as government spending climbs to combat the economic fallout from Covid-19.

The report made public this morning also warns that the deficit for the current fiscal year, which closes March 31, could be \$26.7 billion, which would be an increase of \$5.5 billion compared to the budget officer’s November forecast. The projected deficit for the 2020-2021 fiscal year doesn’t include extra spending the Liberals announced on Wednesday in the form of a new benefit for affected workers.

That measure pushed direct spending on the government’s economic bailout package to \$52 billion from \$27 billion.

Parliamentary budget officer Yves Giroux’s report also predicts that the economy will contract by 5.1% this calendar year, the weakest on record since 1962.

Giroux says in his report that extra stimulus measures may be required to ensure the economy hits “lift-off speed,” especially if consumer and business behaviour does not quickly revert back to “normal” fast enough.

6. CMHC expands insured mortgage purchase program to \$150B

[March 27, 2020] Canada Mortgage and Housing Corp. is expanding its insured mortgage purchase program to \$150 billion as part of its response to the Covid-19 crisis.

The move to help bolster the financial system is an increase from an initial plan for \$50 billion announced March 16.

The expansion is part of the emergency measures passed by the government to deal with the fallout of the novel coronavirus and the steps taken to slow its spread.

CMHC has said the insured mortgage pools already carry government backing, so there is no additional risk to taxpayers.

Ottawa had a similar program to buy insured mortgages during the 2008-09 financial crisis.

In buying the insured mortgages, CMHC helps provide funding for the banks that they can then use for other loans to help businesses and other borrowers.

7. OSFI measures to help banks, insurers, pension plans through crisis

[March 27, 2020] Federal financial regulators are taking measures designed to give banks, insurers and pension plans more flexibility to deal with the effects of the Covid-19 outbreak.

The Office of the Superintendent of Financial Institutions (OSFI) said it's adjusting a variety of capital, liquidity and reporting requirements on federally regulated financial institutions in an effort to help reduce operational stress.

In the banking sector, OSFI said that loans subject to payment deferrals due to the outbreak will be treated as still-performing loans for regulatory capital purposes.

The regulator also said it's tweaking banks' capital and liquidity requirements so they're suited for these "unprecedented circumstances."

These adjustments include raising the balance sheet limit on covered bonds, easing liquidity requirements, and encouraging banks to use their leverage and liquidity buffers to provide flexibility against heightened stress.

OSFI said these steps are all being introduced to provide "further flexibility in addressing current conditions while promoting financial resilience and stability."

"Over the coming weeks, OSFI will provide additional details on the implementation and disclosure issues associated with these changes," it said.

The regulator also announced that it's delaying the implementation of new capital and liquidity requirements for smaller banks to 2023.

Earlier today, global banking regulators pushed back the implementation of certain Basel III capital and liquidity requirements by a year. OSFI indicated that it is adopting that approach too.

For insurers, OSFI said that payment deferrals "will not cause insured mortgages to be treated as delinquent or in arrears."

It also suspended the requirement to provide progress reports on the implementation of new accounting standards.

Finally, for private pension plans, OSFI is "temporarily freezing portability transfers and annuity purchases to protect the benefits of plan members and beneficiaries," while also extending certain filing deadlines.

“The regulatory changes we are announcing today will ensure that our capital and liquidity requirements are fit for purpose in today’s extraordinary conditions,” said Jeremy Rudin, superintendent at OSFI, in a statement.

“We are also acting to alleviate some of the pressure on federally regulated banks, insurers and private pension plans so that they can focus their efforts on the most critical operational areas during the current disruption.”

8. Liberals rejig benefits for workers affected by Covid-19

[March 26, 2020] The Liberals are repackaging two previously promised benefits for Canadians whose working lives are disrupted by Covid-19, a change that will almost double direct spending in the government’s economic plan to \$52 billion.

Combining the two benefits into one will mean a \$2,000 per month payment for up to four months to workers whose income drops to zero because of the pandemic, including if they have been furloughed by their employers but technically still have jobs.

Finance Minister Bill Morneau said the measure allows companies to temporarily let go of workers to cut payroll costs and leave money in the affected employees’ pockets.

“Companies don’t need to separate their employee from their company. They just need to say, ‘we can’t pay you during this time period.’ And when that happens, there is a direct wage subsidy to people, to employees so that they can actually live their lives,” he said.

“When this is done, they can go back to work for their employers and that we think is critically important.”

Affected workers would have to fill out an online application and meet a few conditions to qualify.

It would apply to any affected workers between March 15 and Oct. 3.

Over the last week or so, there were almost one million new EI claims — far above the typical 45,000. Depending on how things go, the unemployment rate could jump as high as 11.7% by the second quarter, TD Economics wrote in a report Wednesday.

Demand for the new benefit would have overwhelmed the decades-old EI system, the Liberals said Wednesday in a partial explanation for the spending change.

Previously, the Liberals proposed two benefits — one to flow through the employment insurance system and another for those who don’t qualify for EI benefits, such as self-employed workers.

The benefits, along with a 10% wage subsidy for qualifying businesses, was part of a package valued at \$27 billion in direct spending and \$55 billion in tax deferrals.

Now, spending will be \$52 billion because the new benefit is being funded from general revenues, and not the EI fund covered by employee and employer premiums.

Morneau said the change in spending plans raises the overall value of the economic response to \$107 billion from \$82 billion.

He said more help would be announced for the oil and gas sector, airlines and the hospitality industry, but didn't put a timeline on when the details will be unveiled.

TD senior economist Brian DePratto wrote in a note that the benefit should ease the burden on businesses, but there is still a need to help small- and medium-sized businesses.

"The pain that small- and medium-sized firms are feeling is intense," he wrote.

"We hope that additional measures to ensure that furloughed workers' firms still exist after the pandemic control measures are lifted will be forthcoming."

The government is aiming to have the new benefit, paid once a month, available starting April 6 with payments landing 10 days afterward, meaning the first benefits won't arrive until the middle of April at the earliest. A \$300 increase to the Canada Child Benefit lands in May.

Those already receiving EI benefits would receive the new benefit, dubbed the Canada Emergency Response Benefit, if payments end before Oct. 3 and they can't go back to work due to Covid-19.

NDP Leader Jagmeet Singh, who this week called on the Liberals to provide \$2,000 payments to all Canadians, tweeted that the "announcement isn't perfect, but it will help so many people."

"We need to work to get it to people as quickly as possible," he added.

The Canadian Federation of Independent Business called the new benefit a "significant step forward," but said it didn't change the need to increase the 10 per cent wage subsidy to 75 per cent or higher as many business and labour groups have requested.

"CFIB is focused on measures that will keep the connections between workers and employers and not require layoffs," president Dan Kelly said in a statement. "This is imperative to ensure employees can go back to work the day after the emergency ends, allowing Canada's economy to return to normal as quickly as possible."

9. Real estate boards shutter open houses, while Trudeau points to aid for renters

[March 23, 2020] The Toronto Regional and Ontario real estate boards have urged realtors to stop holding open houses because of the Covid-19 pandemic, following a similar move by the Greater Vancouver Area board last week.

TRREB, which first issued the guidance on Saturday, said Monday that while the decision to hold open houses is up to realtors and their clients, the board will suppress information about the in-person showings on its listing system and website.

“We’re at a critical phase with this pandemic and we all have to do our part to be successful in confronting this challenge,” said TRREB president Michael Collins in a statement.

The board is encouraging realtors to use alternatives such as video and virtual tours to help limit public gatherings and slow the spread of the virus, as requested by public health agencies.

The Ontario Real Estate Association also said on Saturday that realtors should stop holding open houses during the province’s state of emergency.

Last Thursday, the Real Estate Board of Greater Vancouver strongly recommended its 14,000 realtors not hold open houses based on comments from government authorities.

The Real Estate Council of Ontario, which regulates the realtor profession, said in an update Monday that it also recommends an end to open houses, except when “absolutely necessary,” but has stopped short of banning them.

Stephen Glaysher, a realtor with Remax Urban Toronto, said in a note that he had already noticed a “significant downturn” in activity for the Toronto region in recent days, based on MLS data.

The numbers show that while overall sales between March 1 and 19 were up about 22% this year compared to last, for the March 16 to 19 stretch, sales were down 16% compared with last year.

Showings were also already down to 48 for last Thursday, compared with 150 the previous Thursday, noted Glaysher.

Real estate boards have also waived a rule requiring listed properties to be available for showings.

Bailout package could help renters

Prime Minister Justin Trudeau is pointing to an impending bailout package as a way to help renters affected by Covid-19, though new research suggests hundreds of thousands of households may be in dire financial straits before the federal money arrives.

The Liberals are asking the opposition parties and Senate to rapidly approve a \$27-billion spending package, with a further \$55 billion in tax breaks and available credit.

The House will take up the measure on Tuesday and the Senate is scheduled to deal with the legislation on Wednesday.

Speaking outside his Ottawa residence, Trudeau said the legislative package would allow the government to quickly get money into the pockets of Canadians who need the help paying their bills, such as rent.

“We know that there are significant pressures on Canadians right across the country who are facing bills coming in, who are facing pressures on caring for their families,” Trudeau said.

“That is why we are working extremely quickly to get money out the door and into the pockets of Canadians during this extraordinary time.”

However, some of the benefits won’t flow for a few weeks and a new report out Monday suggests many renters may not be able to wait until the first aid flows next month.

Research from the Canadian Centre for Policy Alternatives says just under half of renters in this country, or 1.6 million households, might have only enough money saved in the bank to pay their bills for a month or less.

A further quarter, roughly 830,000 households, don’t have enough income to get through a single week without pay, the analysis says.

“As the crisis worsens, the need to support low-income renters becomes even more urgent,” said Ricardo Tranjan, a political economist with the centre and the report’s author, in a statement. “Both the federal and provincial governments must work to keep renters safe and solvent.”

Covid-19 has produced a rapid downshift in the economy as businesses are forced to close and Canadians asked to stay home, which has led to a sharp drop in consumer spending and a sharp jump in claims for employment insurance benefits. Last week alone, the government received 500,000 new EI claims.

Many people who file for employment insurance are able to find new jobs before very long, in normal times. But the Conference Board of Canada estimated in a report of its own Monday that the economy could shed more than 330,000 jobs between April and October, which would raise the unemployment rate to 7.7%. If the projections hold true, the organization estimates Canada’s economy would contract by 1.1% this year.

Many of the hardest-hit sectors employ many of the nation’s renters.

To help them, the Canada Mortgage and Housing Corporation, which oversees the federal government’s national housing strategy, has done a massive shift of its resources to deal with the crisis.

It has also told any organization it funds to suspend evictions until the situation improves.

“We are shifting teams, extending deadlines and easing requirements to ensure accelerated approvals. All of us at (CMHC) want to get as much money into the housing sector as we can,” chief executive Evan Siddall tweeted over the weekend.

“Everyone needs a safe home.”

Have a nice and fruitful week!

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