

## Weekly Updates Issue # 760

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### 1. Weekly Markets Changes

[April 17, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,359.88 +193.25 +1.36%	2,874.56 +84.74 +3.04%	24,242.49 +523.1 +2.21%	8,650.14 +496.6 +6.09%	\$0.7124 -0.27c -0.38%	\$1,682.82 -13.83 -0.82%	\$18.27 -4.49 -19.73%

### 2. Hard-hit sectors to receive help from feds

[April 17, 2020] The federal government is rolling out financial help targeting hard-hit sectors of the economy, acknowledging that some companies need more help while others are slipping through the safety net of emergency aid. The combined package of spending and loans will target the oil and gas sector, small companies that haven't been able to access existing loan programs, and help for startups that had just got off the ground before the pandemic struck last month.

Since then, the economy has gone into a tailspin.

The latest figures the federal government has provided about the Canada Emergency Response Benefit, which will now be updated and published, show the program has paid out \$17.35 billion to date.

The Liberals budgeted \$24 billion for the program, which provides \$2,000 a month to eligible workers to a maximum of 16 weeks. So far, there have been almost 6.4 million unique applicants for the program, which is to expand to

capture seasonal workers and those who have seen a steep drop in their earnings.

On Friday, the Liberals announced \$1.7 billion to help clean up “orphaned wells” in oil-producing provinces, and a \$750-million fund to cut methane emissions by providing loans to companies.

Speaking outside his Ottawa residence, Prime Minister Justin Trudeau said the government expects all the spending to maintain 10,000 jobs across the country in the oil sector as it faces plummeting prices from decreased demand and a glut of global supply.

Trudeau added the government is going to provide \$962 million to regional development agencies to help more businesses, particularly those that don’t have relationships with traditional financial institutions.

And he promised hundreds of millions of dollars in support for the arts and culture industries.

### **3. Almost 40% of employees worked from home in March: StatsCan**

**[April 17, 2020]** Almost 40% of Canadian employees have begun working from home amid the Covid-19 outbreak, according to new data from Statistics Canada.

StatsCan reported that five million workers shifted to home working arrangements in late March. Alongside the 1.8-million employees who already work from home, the combined home-bound employee population represents 39.1% of workers.

An almost equal number, 6.7 million, were still working outside of their homes in late March, StatsCan reported.

Another 3.9 million workers (22.4%) were absent from their jobs in late March, it said.

It reported that 2.8 million were absent due to Covid-19, including temporary layoffs.

Overall employment declined by more than 1 million from February to March, and 2.1 million workers remained employed but worked less than half their usual hours (including zero hours) during the week of March 15 to 21, StatsCan noted.

The agency said that employment declines “were greatest in occupations — such as those in sales and services — which require face-to-face interactions or where working from home is not practical.”

Conversely, employment was hardly changed in categories where remote working is more feasible, including management, finance and administration.

StatsCan also reported that those with higher education were more likely able to work from home.

Among those who started working from home in late March, 58.4% have at least a bachelor's degree, compared with just 21.5% of those who continued to work outside the home, and 26.9% of those who were off work.

"This provides further evidence that working from home is more feasible for workers employed in professional or managerial occupations, which typically require higher levels of education," it said.

#### **4. Major pensions on solid footing: Report**

**[April 17, 2020]** Canada's major public pension funds are well positioned to ride out the short-term effects of the current market turmoil and to meet their longer-term pension obligations, says DBRS Inc.

In a new report, the rating agency examined the impact of the recent downturn on the large public pension plans — including the Canada Pension Plan Investment Board (CPPIB), the Public Sector Pension Investment Board (PSPIB), Caisse de dépôt et placement du Québec (CDPQ), Ontario Teachers' Pension Plan Board, OMERS Administration Corp. and the Ontario Pension Board.

The report said that the current challenges facing the funds, such as lower asset valuations, "are generally viewed as temporary."

Additionally, the funds' long-term investment horizons "provide them with the time needed to respond to opportunities to adjust asset allocations, recalibrate the pension liability for updates to long-term interest rate changes, and issue longer-term debt," the rating agency said.

The funds have "strong governance and management frameworks in place with a disciplined approach to investments," the report noted.

"While there still remains uncertainty around the magnitude and duration of the longer-term impacts resulting from measures implemented to contain the coronavirus, DBRS Morningstar views the pension funds as being well positioned to meet short-term liquidity needs and longer-term liability obligations," the report said.

#### **5. Feds' wage subsidy payments to arrive early May**

**[April 17, 2020]** The first payments from a \$73-billion federal wage subsidy program will flow by the end of the first week of May, acting as a buttress against the economic shock from Covid-19.

The Liberals are hoping the 75% wage subsidy will prompt companies to rehire vast swaths of the six million Canadian workers who have asked for

emergency federal aid since the pandemic brought the global economy to a virtual standstill.

Online applications will open April 27 and officials expect to have processed 90% of claims by May 4 with payments landing later that week, MPs on the House of Commons finance committee were told Thursday.

Canada's top central banker told the committee the federal fiscal measure would help maintain employer-employee ties to aid in a recovery.

With expectations the freeze on the economy will be lifted before summer, Bank of Canada governor Stephen Poloz warned it might still be some time before the economy is back to its pre-crisis level.

"We're going to get a V-shaped trajectory, so down very sharply, then of course back up, but not all the way," Poloz said.

"That's when it takes another, maybe a year for the economy to get back to the same path that it was on before all this started."

The longer it takes for economic activity to resume, though, the more likely that businesses will close for good and the longer workers will face unemployment as they look for new jobs.

On Thursday morning, the government announced an expansion to a loan program for small and medium-sized businesses and promised a new support for companies having trouble paying rent.

The Canadian Emergency Business Account will now provide up to \$40,000 in government-guaranteed loans to businesses that had payrolls last year between \$20,000 and \$1.5 million. It previously offered loans to business with a narrower range of payrolls, between \$50,000 and \$1 million.

"Our government is here to help you through these challenging times. So when we hear the program is not reaching as many people as it should, we make changes," Prime Minister Justin Trudeau said, acknowledging the criticism the government faced from companies who had felt left out.

Since the loan program was launched last month, businesses have taken out 220,000 loans worth \$8.8 billion, Finance Minister Bill Morneau told the finance committee.

The loans are interest-free until Dec. 31, 2022 and if they're paid off by then, up to 25% will be forgiven.

Pushed about some small businesses that may still not qualify for the help because they pay in dividends or employ contractors, Morneau suggested those workers would qualify for the \$2,000-a-month Canada Emergency Response Benefit.

The federal government is also working on a program to help businesses and commercial landlords cover their rents for at least three months, though the

details still need to be worked out with the provinces and territories, Morneau said.

The federal government has upped its spending by over \$105 billion to cover fiscal help, with monetary policy playing a supporting role as the economy went into a tailspin from Covid-19.

Adding to the shock has been plummeting oil prices — Alberta's benchmark price is down 90% from the start of the year due to declining demand and a glut of international supply.

Poloz said the central bank would likely have slashed its key interest rate in response to the oil price drop alone.

The Bank of Canada made three rate cuts — two unscheduled announcements — in March to reduce its target overnight rate from 1.75% to 0.25%, which Poloz said is effectively as low as it can go.

“Just on the basis of the drop in commodity prices alone, I would say we would have cut interest rates by at least 100 basis points, such as what we did in 2015,” he said during his final scheduled appearance before the committee before he leaves his post in June.

“Possibly we would have ended up doing all 150 basis points if that were the only shock we were facing.”

The economic shock from Covid-19 is unlike anything the country has ever seen, Poloz said.

A preliminary estimate by Statistics Canada suggested the economy contracted by 9% last month, which would be the worst one-month drop on record.

The central bank on Wednesday announced plans to start buying provincial and corporate bonds on the secondary market to reduce the risk those markets will lock up. Those measures are to inject up to \$60 billion into the economy and will last, tentatively, for a year.

The bank is also increasing the quantity of federal treasury bills it's willing to buy, beyond a \$5-billion-a-week purchase, effectively making more low-interest loans to the government.

## **6. Feds expand access to CEBA, announce plans for commercial rent relief**

**[April 16, 2020]** Prime Minister Justin Trudeau says the federal government is expanding a loan program for small businesses suffering from the Covid-19 pandemic and is working on a new support for companies having trouble paying rent.

The loan program will now be open to businesses that had payrolls last year between \$20,000 and \$1.5 million.

The Canada Emergency Business Account previously offered up to \$40,000 in loans to business with payrolls between \$50,000 and \$1 million.

Trudeau says 195,000 loans worth a total of \$7.5 billion have so far been approved.

But he says some businesses and entrepreneurs in need had been excluded, which is why the criteria are being expanded.

Trudeau also says a program is coming to help businesses cover rents for at least three months, but the details still need to be worked out with the provinces and territories.

## **7. Home sales fall 14% in March**

**[April 16, 2020]** Canadian home sales nosedived in March as the Covid-19 pandemic began to take hold and caused both buyers and sellers to pull back. The Canadian Real Estate Association (CREA) said Wednesday that home sales last month were down 14.3% compared with February, on a seasonally adjusted basis.

The drop marks an abrupt downward shift from what was expected to be a busy spring for home sales.

“March 2020 will be remembered around the planet for a long time,” said association president Jason Stephen in a statement.

“After Friday the 13th, everything went sideways.”

Restrictions on physical distancing and the closure of non-essential businesses began in the middle of March in a bid to slow the spread of Covid-19.

While realtors have been designated as essential services, real estate boards have urged increasingly stringent measures to avoid in-person activity as much as possible.

Home sales for March were still up 7.8% compared with a slow March a year ago, but CREA noted that figure contrasted with a year-over-year gain of close to 30% in February.

The March numbers also only started to drop near the end of the month, said CREA senior economist Shaun Cathcart.

“The numbers that matter most for understanding what follows are those from mid-March on, and things didn’t really start to ratchet down until week four. Preliminary data from the first week of April suggest both sales and new listings were only about half of what would be normal for that time of year.”

The drop in sales activity varied by region, with Calgary marking a 26.3% decline, Greater Toronto Area sales down 20.8%, Montreal down 13.3%,

Ottawa down 7.9%, Greater Vancouver off 2.9%, while Regina actually saw a 7.1% sales gain.

The national average price for a home sold in March was just over \$540,000, up 12.5% from a year ago, while the composite price index rose 6.9% from a year ago.

Excluding the Greater Toronto Area and Greater Vancouver, two of the country's most active and expensive housing markets, the average price was about \$410,000.

The sales-to-new-listings ratio slipped to 64% from 65.4% in February, a relatively small change given what's going on, said Dominion Lending chief economist Sherry Cooper in a note.

"While this is down slightly, the bigger picture is that this measure of market balance was remarkably little changed considering the extent to which current economic and social conditions are impacting both buyers and sellers."

She said that with the market still largely balanced for March, the impact on housing prices will likely take a little longer to become apparent.

"Clearly this is only the beginning, but the plunge in sales and new listings in the second half of March is indicative of the stall out in housing market activity likely until social distancing is removed and people feel safe enough to resume normal activities."

Activity could, however, then rebound fairly sharply if physical distancing measures are lifted by the end of June, said Royal LePage Canada president Phil Soper.

"Unlike, say, restaurants, where you'll never make up for a month of zero sales, in the real estate industry, bad weather, a short term economic shock, regulatory change, can shift the pattern of transactions from one quarter to the next."

He said he doesn't expect a full rebound in sales this year, but that a lot will depend on what kind of knock-on effects the business restrictions end up having on the economy.

"The question is, will the severe downturn in the second quarter carry on for the full year, and I just don't believe it will. I believe some of those transactions, a significant number will be pushed into the third and fourth quarters."

He noted that most job losses to date have been with younger and part-time workers who are less likely to be in the housing market, while the potential drop in immigration levels could also have a more muted impact because newcomers generally take several years to enter the market.



If physical distancing measures, however, stretch on past June, then the realtor agency forecasts that it could put pressure on the market and prices could decline.

CREA, meanwhile, has held off on any revisions to its 2020 outlook, which in December called for an 8.9% rise in sales to 530,000 homes, because there is too much still unknown, said spokesman Pierre Leduc.

“As the Bank of Canada said [on Wednesday], ‘the outlook is too uncertain at this point to provide a complete forecast’,” he said by email.

“There isn’t enough data and way too much uncertainty to determine any trends moving forward. It will be near impossible to do so until containment measures are relaxed.”

## **8. Governments urged to provide rent relief to small biz**

**[April 15, 2020]** As the Covid-19 shutdown drags on, there’s a growing call for governments to help small businesses pay rent.

A new report from CIBC Capital Markets recommends adapting a rent-relief program proposed by the Federation of Rental-Housing Providers of Ontario to the commercial space.

The program, CIBC suggested, would see the federal government offer time-limited, interest-free loans to small businesses for their rent payments.

Under the plan, tenants would sign a declaration to their landlords indicating that they can’t pay their rents in full. The federal government would pay the landlord the tenant’s unpaid portion of rent, and the tenant would repay the government as it resumes its operations.

CIBC said such a program, which could be administered through the income tax system, would help the federal government reduce the demand for the Canada Emergency Business Account.

The bank also suggested that rent relief would enhance the effectiveness of the 75% wage subsidy for businesses, since it would help businesses that are struggling to pay rent retain employees.

Meanwhile, the Canadian Federation of Independent Business (CFIB) is calling on provincial governments to help small businesses cover rent through hardship grants of up to \$5,000 per month for as long as the Covid-19 shutdown lasts.

A CFIB survey found that the average small business rent is \$10,000 a month, but there’s a “wide range” around that number, the association said.

“Small businesses take no joy in asking for government help but we are in extraordinary circumstances,” Laura Jones, the CFIB’s executive vice-



president, said in a statement. “Without more lifelines, too many otherwise healthy businesses will be left drowning in debt.”

Saskatchewan and Nova Scotia are already providing one-time grants of up to \$5,000 for small businesses, the CFIB noted.

“We would like to see other provinces adopt the Saskatchewan model and make grants widely available to all small businesses, especially vulnerable sectors such as retail, hospitality and personal services,” said Corinne Pohlmann, the CFIB’s senior vice-president of national affairs.

## **9. Data indicate economy plunged in March: StatsCan**

**[April 15, 2020]** Initial Statistics Canada data shows economic activity collapsed in March, dropping 9% — the biggest monthly decline on record.

The COVID-19 pandemic brought business to a halt across the country as Canadians were urged to stay at home as a preventative measure.

The preliminary estimate is the first from the agency.

The data comes ahead of the Bank of Canada’s interest rate announcement and monetary policy report expected later this morning.

The central bank has slashed its trend-setting interest rate since the beginning of March, including two unscheduled cuts as an emergency move against the pandemic’s economic fallout.

There is general expectation among economists that the Bank of Canada will keep its key interest rate target at 0.25%.

At the same time, the central bank will also release its view of the economic impact from COVID-19 and outlook for the domestic economy a day after the International Monetary Fund predicted Canada’s economy would contract by 6.2% this year.

## **10. IMF predicts global economy will shrink 3% in 2020**

**[April 14, 2020]** Beaten down by the coronavirus outbreak, the world economy in 2020 will suffer its worst year since the Great Depression of the 1930s, the International Monetary Fund says in its latest forecast.

The IMF said Tuesday that it expects the global economy to shrink 3% this year — far worse than its 0.1% dip in the Great Recession year of 2009 — before rebounding in 2021 with 5.8% growth. It acknowledges, though, that prospects for a rebound next year are clouded by uncertainty.

The outlook for Canada calls for a contraction of 6.2% this year followed by growth of 4.2% in 2021.

The bleak assessment represents a breathtaking downgrade by the IMF. In its previous forecast in January, before COVID-19 emerged as a grave threat to

public health and economic growth worldwide, the international lending organization had forecast moderate global growth of 3.3% this year. But far-reaching measures to contain the pandemic — lockdowns, business shutdowns, social distancing and travel restrictions — have suddenly brought economic activity to a near-standstill across much of the world.

The IMF's twice-yearly World Economic Outlook was prepared for this week's spring meetings of the 189-nation IMF and its sister lending organization, the World Bank. Those meetings, along with a gathering of finance ministers and central bankers of the world's 20 biggest economies, are being held virtually for the first time in light of the coronavirus outbreak.

In its latest outlook, the IMF expects economic contractions this year of 5.9% in the United States, 7.5% in the 19 European countries that share the euro currency, 5.2% in Japan and 6.5% in the United Kingdom. China, where the pandemic originated, is expected to eke out 1.2% growth this year. The world's second-biggest economy, which had gone into lockdown, has begun to open up well before other countries.

Worldwide trade will plummet 11% this year, the IMF predicts, and then grow 8.4% in 2021.

Last week, the IMF's managing director, Kristalina Georgieva, warned that the world was facing "the worst economic fallout since the Great Depression." She said that emerging markets and low-income nations across Africa, Latin America and much of Asia were at especially high risk. And on Monday, the IMF approved \$500 million to cancel six months of debt payments for 25 impoverished countries so they can help confront the pandemic.

Just three months ago, the IMF had forecast that more than 160 countries would register income growth on a per-capita basis. Now, it expects negative per-capita income growth this year in 170 countries.

The IMF cautioned Tuesday that its latest forecast is shrouded by unknowns. They include the path that the virus will take; the effectiveness of policies meant to contain the outbreak and minimize the economic damage; and uncertainty over whether, even many months from now, people will continue to isolate themselves and depress spending as a precaution against a potential resurgence of the virus.

On a hopeful note, the IMF noted that economic policy-makers in many countries have engineered what it calls a "swift and sizable" response to the economic crisis. The United States, for instance, has enacted three separate rescue measures, including a \$2.2 trillion aid package — the largest in history — that is meant to sustain households and businesses until the outbreak recedes and economic life begins to return to normal.

That package includes direct payments to individuals, business loans, grants to companies that agree not to lay off workers and expanded unemployment benefits. And Congress is moving toward approving a possible fourth economic aid measure.

Meghan Clem, CEO of the wedding and party-planning company Intertwined Events, says she is hoping that some government loans come through so she can continue to pay her staff. The next two to three months will likely be the worst of the crisis for Intertwined Events.

“All events have been cancelled or postponed to the fourth quarter, so we are seeing a full stop of revenue for May, June and likely July,” said Clem, whose company is based in Irvine, California.

Some countries can’t afford sufficiently aggressive rescue plans, the IMF said, and “may require external support.” Georgieva has said that the IMF is prepared to commit its \$1 trillion in lending capacity to support nations that need help in dealing with the pandemic.

The IMF is also calling on countries to work co-operatively to fight the pandemic.

“Countries urgently need to work together to slow the spread of the virus and to develop a vaccine and therapies to counter the disease,” the lending agency said.

## **11. Feds have processed almost 5.4 million CERB applications**

**[April 13, 2020]** The federal government says nearly 5.4 million Canadians are now receiving emergency aid to replace incomes lost due to Covid-19.

The figures this morning show 5.38 million applications have been processed since March 15, a figure that includes people who were previously on employment insurance before being moved over to the Canada Emergency Response Benefit.

During the first week it was available, there were just under 3.5 million claims for the \$2,000-a-month benefit.

In all, the government has received 5.97 million claims for financial help since the crisis began about one month ago.

More help is to arrive next week in the form of a new loan program to help eligible small businesses cover costs.

And more federal aid from a 75% wage subsidy program, approved by Parliament on Saturday, will be available by early May.

Conservative finance critic Pierre Poilievre is calling on the government to rejig the credit program that runs through banks and credit unions to increase the value of loans and allow small businesses to use it to pay wages.

He says that would help companies pay workers now instead of waiting a few weeks for the wage subsidy program to pay out.

When the government is able to pay the subsidy to eligible businesses, Poilievre is proposing that companies take the first tranche to pay off the increased loans.

The Opposition Conservatives are also calling on the Trudeau Liberals to come up with a plan specifically to help the nation's restaurant, hospitality and tourism sectors.

Many of those businesses were either among the first to close due to public health concerns related to Covid-19, or have seen dramatic declines as consumer spending drops.

A handful of Conservative critics say in a statement this morning that the government must give these businesses the tools to open their doors again, and to retain workers through the pandemic, especially in areas with historically high unemployment.

Among the ideas being proposed are temporarily allowing owner-operators to qualify for the federal wage subsidy program as well as refunding a year's worth of GST remittances to small businesses.

A report last week by the parliamentary budget officer estimated that refunding federal sales tax to small businesses would cost Ottawa's coffers about \$12.9 billion.

## **12. A look at the BoC's bond-buying program**

**[April 13, 2020]** While quantitative easing (QE) programs resulted in significantly lowered bond yields after the financial crisis, the Bank of Canada's recently announced QE program likely won't work the same way, says a report from CIBC Capital Markets published on Monday.

QE programs act to lower interest rates by depressing term premiums on longer-term government bonds, as central banks buy these bonds and thus remove supply.

In the last week of March, the Bank of Canada (BoC) announced a debt purchasing program with a minimum target of \$5 billion per week. However, in contrast to the Fed's QE program following the financial crisis, the BoC's bond purchases are focused across the yield curve, not solely on long bonds, as Canada's central bank aims to add liquidity to problem areas of the market.

“So far, the [central] bank has purchased a majority of bonds at the short end of the curve,” the CIBC report said. “That’s a key point of differentiation between what the Bank of Canada is conducting and the standard definition of quantitative easing.”

Even traditional QE would likely not be effective at lowering borrowing rates much, because research shows that direct effects of QE programs on term premiums in small open economies are relatively small.

“Much of the movements in Canadian bond yields are dictated by those in larger economies,” the report said.

Regardless of these considerations, lowering borrowing rates via QE isn’t the most important task for monetary policymakers, the report said.

Instead, considering that yields on government debt fell dramatically ahead of the program’s announcement, “the immediate challenge is to see those prior declines transmitted to the private sector,” it said.

That seems to be happening to some extent, with key funding markets showing fewer signs of stress and borrowing rates starting to drop.

The report also considered the relationship between QE and fiscal spending, noting that, after the crisis starts to abate, large fiscal stimulus won’t push the BoC to raise rates. (In normal times when unemployment is low, government spending crowds out private investment, because central banks must raise rates to keep the economy from overheating.)

Tighter monetary policy won’t be needed because the economy will be operating well below capacity — likely more than 4% below at year-end, CIBC forecasted.

Key to kickstarting the pace of acceleration will be borrowers’ appetites, which likely won’t be great.

“Even after the shutdowns, many businesses and households will already have taken on additional debt to weather the storm and will therefore likely be restrained in terms of spending and investment plans,” the report said.

As such, more fiscal stimulus will be required to support economic recovery later this year — and that’s where the benefit of QE comes in.

While Canada’s QE program likely won’t work in the typical way by significantly lowering longer-term yields, as well as depressing the exchange rate, it will likely be best suited for “keeping a lid on the government’s borrowing costs at a time when fiscal policy has the most scope to provide stimulus during the recovery,” the report said.

Further details on the BoC’s bond-buying measures could be provided at its next rate announcement on Wednesday.

In its latest weekly economics report, Scotiabank Economics said the BoC's stimulus work is "by no means done as the pace of its actions continue to slip behind the Federal Reserve's."

Among the options to apply more stimulus are "broadening targeted markets and firming guidance surrounding open-ended bond purchases while nevertheless retaining guidance that 0.25% is the effective policy rate floor," the Scotiabank report said. (The BoC has said that its current overnight rate of 0.25% is the effective lower bound on rates.)

For targeted markets, one option is to buy provincials, the spreads of which remain stubbornly high, it said. Regarding guidance for bond buying, Scotiabank forecasted that QE could continue until year-end 2020 or mid-2021.

If the BoC were to move forward with buying provincials and extending bond buying, "potentially hundreds more billions of dollars of stimulus could be added into the Canadian financial system in an effort to further force monetary stimulus through the cracks in the financial system," the Scotiabank report said.

**Have a nice and fruitful week!**

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