Weekly Updates Issue # 761

1. Weekly Markets Changes

[April 24, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,420.36 +60.48 +0.42%	2,836.74 -37.82 -1.36%	23,775.27 -467.2 -1.93%	8,634.52 -15.62 -0.18%	$0.7097 -0.27c -0.38%	$1,729.60 +46.78 +2.78%	$16.94 -1.33 -7.28%

2. Small biz gets federal support for rent

[April 24, 2020] Prime Minister Justin Trudeau is announcing significant rent relief for businesses that cannot afford to pay their landlords at a time when their operations are shut down due to the Covid-19 pandemic.

The federal help, expected to lower rent by 75% for affected small businesses, will be provided in partnership with the provinces and territories, which have jurisdiction over rents.

The Canada Emergency Commercial Rent Assistance for small businesses will provide forgivable loans to qualifying commercial property owners to cover 50% of three monthly rent payments payable by eligible small business tenants experiencing financial hardship during April, May and June.

The loans will be forgiven if the mortgaged property owner agrees to reduce the eligible small business tenants’ rent by at least 75% for the three corresponding months under a rent forgiveness agreement, which will include a pledge not to evict the tenant while the agreement is in place.

The small business tenant would cover the remainder, up to 25% of the rent.

Affected small business tenants are those paying less than $50,000 per month in rent and who have temporarily ceased operations or have experienced at least a 70% drop in pre-Covid-19 revenues.

The federal Canada Mortgage and Housing Corp. will administer and deliver the program.

Provinces and territories have agreed to cost share total costs and ensure implementation of the program. They will cover up to 25% of costs, subject to terms of agreements with Ottawa.

It is expected the new program will be operational by mid-May, with commercial property owners lowering the rents of their small business tenant's payable for the months of April and May, retroactively, and for June.

3. Fitch predicts central banks will spend US$6T on QE

[April 24, 2020] The world's central banks are forecast to spend US$6 trillion on quantitative easing (QE) measures this year as they buy up large quantities of assets as part of their efforts to combat the effects of the Covid-19 pandemic on the global economy and financial markets.

In a new report, Fitch Ratings said that global asset purchases by central banks have ramped up sharply in recent weeks. For instance, the U.S. Federal Reserve Board grew its balance sheet from US$4.3 trillion in mid-March to US$6.5 trillion by late April.

"Central banks' balance sheets are expanding extremely rapidly as they buy up large quantities of public and private assets and increase their lending to financial institutions in their efforts to counter the damaging economic impact of the coronavirus," Fitch said.

Since mid-March, the Fed bought US$1.4 trillion worth of US Treasuries, exceeding its purchases during the global financial crisis, while also expanding its balance sheet through currency swaps with other central banks, expanding existing credit facilities and introducing new programs to support markets.

The central banks in Canada, Europe, the U.K. and Australia are rapidly growing their own balance sheets too, Fitch said.

"Six trillion dollars is a staggering amount that is equal to more than half the cumulative global QE total seen over 2009 to 2018," said Robert Sierra, director at Fitch.

4. Decline in U.S. factory orders signals beginning of economic slide

[April 24, 2020] Orders for big-ticket manufactured goods in the U.S. plunged 14.4% in March, the second-biggest decline on record. The worse-than-expected slide underscored the severity of the economic impact from the pandemic.

New orders for commercial airlines actually went negative as cancellations outpaced sales. Those orders plunged 295.7% with skies largely empty of planes. The last time so few people travelled by plane was in the pre-jet era.

The March decline was surpassed only by an 18.4% drop in August 2014. There was a 1.1% gain in February, before the government-mandated shutdowns to contain the virus had begun. Demand in a key category that serves as a proxy for business investment eked out a 0.1% gain, but that followed a 0.8% decline in February.

The report Friday from the Commerce Department showed widespread weakness, with demand for transportation products falling 41%. Demand for motor vehicles and commercial airliners both tumbled.

The dire numbers from Commerce followed a report showing that manufacturing production collapsed in March, with declines that have not been seen since the country demobilized after World War II.

And worse is on the way.

The numbers from March capture only the beginning of the lockdown in mid-March. When April manufacturing numbers are released next month, the full force of the pandemic will be on display.

"We expect the coronavirus will deal a severe blow to U.S. business spending via suppressed global and domestic demand, broken supply chains, depressed oil prices, tighter financial conditions and elevated uncertainty," said Gregory Daco, chief economist at Oxford Economics.

"This will translate into some of the largest pullbacks in capital spending of all time," Daco said.

5. New home sales in U.S. drop more than 15% in March

[April 23, 2020] U.S. new home sales plunged 15.4% in March as a winding down in the middle of the month due to the coronavirus began to rattle the breadth of the housing market.

The Commerce Department reported Thursday that sales of new single-family homes dropped to a seasonally adjusted annual rate of 627,000 last month after sales had fallen 4.6% in February.

The decline was expected, though economists say it will grow much worse as the country struggles with a shutdown that has thrown millions of people out of work and disrupted wide swaths of the economy.

The report said that the median price for a new home sold in March was $321,400, down 2.6% from a median price of $330,100 in February.

6. One in six American workers lose employment

[April 23, 2020] More than 4.4 million laid-off workers applied for U.S. unemployment benefits last week as job cuts escalated across an economy that remains all but shut down, the government said Thursday.

Roughly 26 million people have now filed for jobless aid in the five weeks since the coronavirus outbreak began forcing millions of employers to close their doors. About one in six American workers have lost their jobs in the past five weeks, by far the worst string of layoffs on record. Economists have forecast that the unemployment rate for April could go as high as 20%.

The enormous magnitude of job cuts has plunged the U.S. economy into the worst economic crisis since the Great Depression of the 1930s. Some economists say the nation's output could shrink by twice the amount that it did during the Great Recession, which ended in 2009.

The painful economic consequences of the virus-related shutdowns have sparked angry protests in several state capitals from crowds insisting that businesses be allowed to reopen. Thursday's report, showing that the pace of layoffs remains immense, could heighten demands for re-openings.

Some governors have begun easing restrictions despite warnings from health authorities that it may be too soon to do so without causing new infections. In Georgia, gyms, hair salons and bowling alleys can reopen Friday. Texas has reopened its state parks.

Yet those scattered re-openings won't lead to much rehiring, especially if Americans are too wary to leave their homes. Most people say they favour stay-at-home orders, according to a survey by The Associated Press-NORC Center for Public Affairs and believe it won't be safe to lift social distancing guidelines anytime soon. And there are likely more layoffs to come from many small businesses that have tried but failed to receive loans from a federal aid program.

The number of people who are receiving unemployment benefits has reached a record 16 million, surpassing a previous high of 12 million set in 2010, just after the 2008-2009 recession ended. This figure reflects people who have managed to navigate the online or telephone application systems in their states, have been approved for benefits and are actually receiving checks.

In some states, many laid-off workers have run into obstacles in trying to file applications for benefits. Among them are millions of freelancers, contractors, gig workers and self-employed people — a category of workers who are now eligible for unemployment benefits for the first time.

"This has been a really devastating shock for a lot of families and small businesses," said Aaron Sojourner, a labour economist at the University of Minnesota. "It is beyond their control and no fault of their own."

In Florida, applications for unemployment benefits nearly tripled last week to 505,000, the second-highest total behind much-larger California's 534,000. Florida has had trouble processing many of its applications. Its figure suggests that the state is finally clearing a backlog of filings from jobless workers.

In Michigan, 17% of the state's workforce is now receiving unemployment aid, the largest proportion in the country. It is followed by Rhode Island at 15%, Nevada at 13.7% and Georgia at 13.6%.

Just about every major industry has absorbed sudden and severe layoffs. Economists at the Federal Reserve estimate that hotels and restaurants have shed the most jobs — 4 million since Feb. 15. That is nearly one-third of all the employees in that industry.

Construction has shed more than 9% of its jobs. So has a category that includes retail, shipping and utilities, the Fed estimated. A category that is made up of data processing and online publishing has cut 4.7%.

When the government issues the April jobs report on May 8, economists expect it to show breathtaking losses. Economists at JPMorgan are predicting a loss of 25 million jobs. That would be nearly triple the total lost during the entire Great Recession period.

A $2 trillion-plus federal relief package that was signed into law last month made millions of gig workers, contractors and self-employed people newly eligible for unemployment aid. But most states have yet to approve unemployment applications from those workers because they're still trying to reprogram their systems to do so. As a result, many people who have lost jobs or income aren't being counted as laid-off because their applications for unemployment aid haven't been processed.

Among them is Sasha McVeigh, a musician in Nashville. Having grown up in England with a love of country music, she spent years flying to Nashville to play gigs until she managed to secure a green card and move permanently two years ago. McVeigh had been working steadily until the city shut down music clubs in mid-March.

Since then, she's applied for unemployment benefits but so far has received nothing. To make ends meet, she's applied for some grants available to out-of-work musicians, held some live streaming concerts and pushed her merchandise sales.

By cutting expenses to a bare minimum, McVeigh said, “I’ve managed to just about keep myself afloat.” But she worries about what will happen over the next few months.

7. 'Welcome to the house of horror': The awful economic data for April is here

[April 23, 2020] Economists and investors had been bracing for dismal economic data for this month. But the latest readings of the closely-watched Purchasing Managers' Index, which surveys senior executives at private sector companies, are gut-wrenchingly awful.

The numbers: The eurozone composite PMI, which tracks activity in the manufacturing and services sectors, hit 13.5 in April, down from 29.7 in March — easily the worst reading since the survey started in 1998.

It's a sign of the extent to which Europe's economy has imploded as shutdowns to prevent the spread of the novel coronavirus hit citizens from Berlin to Paris and Amsterdam. The lowest reading during the global financial crisis was 36.2 in February 2009. Readings below 50 indicate that activity is shrinking.

"Welcome to the house of horror," Claus Vistesen, chief eurozone economist at Pantheon Macroeconomics, said in a note to clients.

PMI data from the United Kingdom and Japan on Thursday also turned up the worst declines in business output on record. The United States composite PMI reading for the services and manufacturing sectors hit 27.4, down from 40.9 in March. It's the fastest reduction in output since the data series was first compiled in 2009.

The bad news doesn't end there. South Korea, which moved quickly to contain coronavirus infections, just suffered its most severe contraction since 2008 as the pandemic weighed on consumer demand and exports, my CNN Business colleague Laura He reports. Trade is expected to remain under pressure as lockdowns around the world continue.

Still more: The US government just reported that another 4.4 million Americans filed for their first week of unemployment benefits last week. That's on top of the 22 million people who filed in the four weeks prior.

"Claims have moved past the peak more visibly now, but the cumulative number is still rising significantly," Morgan Stanley economists said in a note to clients this week. They project that the US unemployment rate will rise above 15% in April.

Unemployment will surpass that level in May, peaking at 16.4%, Morgan Stanley predicted.

Europe's leaders debate how to fund the region's recovery

Europe's leaders are gathering by videoconference on Thursday to tackle a difficult question: how to fund the bloc's recovery, an initiative some have described as a new version of the post-World War II Marshall Plan.

The challenge is protecting against an uneven aftermath wherein northern states such as Germany and the Netherlands bounce back much faster than southern countries including Italy and Spain, an outcome that could bolster anti-EU sentiment.

Ahead of the meeting, EU leaders seem to agree that they need to go beyond the €500 billion ($539 billion) package that finance ministers endorsed on April 9, according to Berenberg Bank's Holger Schmieding.

But they still disagree on how to finance a larger package, including whether Europe should issue joint debt or jointly-guaranteed debt, dubbed "corona bonds."

German Chancellor Angela Merkel reiterated her opposition to such bonds on Thursday, saying they would require all 27 countries to agree to change the EU treaty.

"This would be a long and difficult process and not one that could help in the current situation because right now it is about helping fast," Merkel told the German parliament.

Leaders aren't expected to solve all their problems this week, but investors will look for signs of compromise and some progress on the major principles of a large recovery fund.

"It is easier to impair than to repair trust," Schmieding said in a note to clients. "The longer the dispute rages, the bigger and the more generous would a future package have to be in order to achieve its political purpose."

Whatever it takes: Meanwhile, the European Central Bank continues to pull out all the stops within its mandate to ease economic pain and financial market distress. The central bank said Wednesday that it will allow banks to post bonds that were recently downgraded to junk status as collateral.

This will help prevent a credit crunch should Italy's sovereign debt and a growing number of companies face downgrades.

Big Business is bracing for a long-term slowdown

In some parts of the world, government leaders are projecting optimism that citizens will be allowed to return to work before long. But companies are taking a much more cautious stance, warning that they're digging in for long-term disruptions.

Luxury group Kering said this week that it doesn't expect to see a recovery in the United States or Europe before June or July. Unilever CEO Alan Jope said

Thursday that the company is "preparing for lasting changes in consumer behavior."
And here's AT&T CEO Randall Stephenson on the company's earnings call: "The range of possible outcomes just for the second quarter of 2020 is unbelievably wide. And then you begin to push that out for what the full year 2020 looks like, and it remains as wide."
Companies including Chipotle and Heineken also continue to withdraw their guidance for sales and earnings in 2020, indicating they're struggling to forecast a return to normalcy.

8. Fitch downgrades global forecast amid lengthy lockdowns

[April 22, 2020] As the effects of the Covid-19 outbreak on the global economy materialize, Fitch Ratings has slashed its forecasts for 2020.
“World GDP is now expected to fall by 3.9% in 2020, a recession of unprecedented depth in the post-war period,” Brian Coulton, chief economist at Fitch, said in a statement. “This is twice as large as the decline anticipated in our early April [forecast] and would be twice as severe as the 2009 recession.”
Fitch’s revised forecasts follow the imposition of longer-than-expected lockdowns worldwide.
“Several major economies recently have extended lockdown measures, and we now need to incorporate national lockdowns of around eight or nine weeks as a central case assumption for most major advanced economies,” Fitch said.
The rating agency’s previous assumption was that lockdowns would last for about five weeks.
“An extra month of lockdown would, all else being equal, reduce the annual flow of income (GDP) by around two percentage points,” Fitch noted.
Additionally, economic data is demonstrating that the lockdowns are proving more painful than initially assumed.
Fitch said that official first-quarter estimates “point to a daily loss of activity through lockdown episodes of closer to 25% than the 20% assumed previously.”
The rating agency said that its forecasted decline in GDP would be equivalent to a US$2.8 trillion fall in global income levels relative to 2019, and a US$4.5 trillion drop in global GDP compared with its initial expectations for 2020.
Fitch now expects Canadian GDP to drop by 5.5% this year, in line with a 5.6% decline for the U.S.

Eurozone GDP is now forecasted to decline by 7% this year, which represents Fitch's largest downward revision.
Additionally, Fitch has sharply revised its GDP forecasts for emerging markets.
"Falling commodity prices, capital outflows and more-limited policy flexibility are exacerbating the impact of domestic virus-containment measures," the rating agency said.
"Macro policy responses have been unprecedented in scale and scope and will serve to cushion the near-term shock. But with job losses occurring on an extreme scale and intense pressures on small and medium-sized businesses, the path back to normality after the health crisis subsides is likely to be slow," said Coulton, who added that Fitch now expects U.S. and eurozone GDP to remain below 2019 levels throughout 2021.

9. Feds announce monthly payments for post-secondary students

[April 22, 2020] Prime Minister Justin Trudeau is promising a new emergency benefit for students whose education and job prospects are disrupted by Covid-19.
He says a $1,250 monthly payment is coming for post-secondary students, running through August, to make up for lost work and cut hours.
The benefit can increase to $1,750 for people with disabilities or who care for others.
Trudeau also says students will soon be eligible to receive monthly payments of between $1,000 and $5,000 for volunteering in their communities to reward them for their efforts.
These benefits are intended to target support at young people who have fallen through the cracks of other emergency relief programs.
Trudeau says these measures and others, such as increased education grants and an expanded government-supported job program, will total $9 billion.

10. Inflation rate slows to 0.9% in March

[April 22, 2020] The annual pace of inflation in Canada posted its biggest one-month decline in more than a decade, dropping below 1% in March as the price of oil collapsed and the economy was first gripped by the Covid-19 pandemic.
Statistics Canada said Wednesday the consumer price index for March was up 0.9% compared with a year ago, the smallest year-over-year increase since May 2015 — also a period of low oil prices.

The drop from a year-over-year increase of 2.2% in February was the largest drop since September 2006.
Economists on average had expected a reading of 1.2% for March, according to financial markets data firm Refinitiv.
Bank of Montreal chief economist Douglas Porter said the slowdown in Canada was bigger than those in some other major economies, including the United States and United Kingdom.
"Canadian inflation hit the brakes hard at the start of the shutdowns," Porter wrote in a report.
And Porter said to look for inflation to fall even further in coming months with "a trip into negative terrain likely for a spell."
The economy ground to a halt last month as governments ordered the closure of non-essential businesses in an effort to slow the spread of Covid-19.
The reading on inflation follows the March jobs report earlier this month that indicated that the economy lost more than one million jobs last month.
A preliminary estimate by Statistics Canada has also suggested the economy contracted by an unprecedented 9% in March.
"Inflation is the least of anyone's concerns at the moment, but it is notable that the mandated closure of large swathes of the economy in late March is having a profound effect on price growth," TD Bank senior economist James Marple wrote.
"This is yet another data series showing unprecedented movements and which will continue to do so at least through the month of April."
The collapse in the annual pace of inflation came as energy prices fell 11.6% on a year-over-year basis in March, driven by the largest one-month price decline since November 2008.
Statistics Canada said drivers paid 21.2% less for gasoline compared with March last year due to low crude oil prices, which also resulted in a 9.5% drop in the price of fuel oil and other fuels and an 18.5% drop in the price for fuel, parts and accessories for recreational vehicles.
Excluding energy, the consumer price index rose 1.7%.
The average of Canada's three measures for core inflation, which are considered better gauges of underlying price pressures and closely tracked by the Bank of Canada, was 1.83% in March compared with 1.97% for February.

11. GTA home sales plummet halfway through April

[April 22, 2020] The Toronto Regional Real Estate Board says home sales were down 69% in the first 17 days of April compared with a year ago as the Covid-19 outbreak put a chill on market activity.

Board president Michael Collins says in an unusual mid-month update that uncertainty about jobs and the economy contributed to the decline, as did physical distancing measures that make homebuying more difficult.
Sales, totalling 1,654 homes, declined the most in the condo segment that attracts a high share of first-time buyers who have more flexibility on timing, while higher-end detached sales in the City of Toronto also saw elevated declines.
The board says new listings declined a similar 63.7% to 3,843, leaving market conditions tight enough to support the average selling price in line with 2019 levels.
It says the average selling price was down 1.5% to $819,665 as both general uncertainty and the types of homes being sold affected the average.
The board says the market could see year-over-year average price declines through the second quarter, though it expects the average price for the year to likely remain near the 2019 level because of the overall lower volume of sales expected during the quarter.

12. Feds increase scrutiny of foreign investments, takeovers

[April 20, 2020] The federal government has moved to protect Canadian businesses battered by the Covid-19 pandemic or producing medical supplies from being gobbled up by outside interests by tightening the rules around foreign investments and takeovers.
The new measures announced over the weekend follow the lead of other countries in Europe and elsewhere by adding additional scrutiny to a range of proposed investments and transactions until the economy recovers from the pandemic.
"We recognize that countries around the world are looking at their own regimes and recognizing there are vulnerable businesses that are going to be important to our recovery who are perhaps exposed to foreign purchases in a vulnerable time," Prime Minister Justin Trudeau said Sunday.
"So, we will be strengthening our oversight and paying close attention to foreign investment in this country to ensure that there aren't people taking advantage of this crisis."
Foreign investments in Canadian businesses that deal with public health or the provision of what the government loosely defines as "critical goods and services" are among those that will get an extra close review, according to Innovation, Science and Economic Development Canada.

The federal government will also be examining all investments by companies or entities with direct or suspected links to foreign governments, while some other investments will be required to apply for approval from the federal industry minister.

The added scrutiny comes as countries around the world are ramping up their at-home abilities to produce critical medical supplies and personal protective equipment for healthcare workers and others working on the frontlines during the Covid-19 pandemic.

"As we strengthen our own domestic industry and production, we wouldn't want a foreign investor to be able to take that production that is being made for Canadians in this moment of crisis and send it overseas," Trudeau said.

"We also recognize that there are perhaps some startups with brilliant ideas that are facing a cash-crunch right now that we would very much want to remain Canadian for the coming years who could be exposed to predatory foreign investors."

The government's decision to add an additional layer of scrutiny is "prudent" given the circumstances in which Canadian businesses are currently finding themselves thanks to Covid-19, said Brian Kingston, vice-president of policy at the Business Council of Canada.

"Given what's going on right now and the fact that corporate valuations are down, there is a risk that there might be opportunistic efforts by state-owned companies, other governments around the world to acquire companies in this environment," he said.

At the same time, Kingston hoped the measures announced by the federal government and other countries are only temporary given Canada's reliance on trade and foreign investment for its economic prosperity.

"My hope is that this is temporary in nature," he said. "Of course, countries will take a more strategic look at their medical supply chains just to make sure that they have built-in resiliency. But I'm hoping that this isn't a permanent shift to a greater level of protectionism."

Have a nice and fruitful week!