Weekly Updates Issue # 762

1. Weekly Markets Changes

[May 1, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,620.34 +199.98 +1.39%	2,830.71 -6.03 -0.21%	23,723.69 -51.58 -0.22%	8,604.95 -29.57 -0.34%	$0.7109 +0.12c +0.17%	$1,700.42 -29.18 -1.69%	$19.78 +2.84 +16.77%

2. Pandemic devastation has led to recession: report

[May 1, 2020] Canada has officially entered a recession due to the economic devastation caused by the COVID-19 pandemic, the C.D. Howe Institute's Business Cycle Council declared Friday.

The council, which acts as an arbiter of business cycle dates in Canada, said the economy peaked in February before the steps taken to slow the spread of the coronavirus brought the economy to a standstill.

"Members agreed that by applying the council's methodology to the preliminary data available, Canada entered a recession in the first quarter of 2020," the council said in statement.

There are no hard and fast rules for determining a recession, though a commonly used definition is two consecutive quarters of negative quarter-over-quarter economic growth.

However, the C.D. Howe council **defines a recession as a pronounced, persistent, and pervasive decline in aggregate economic activity** — and it looks at both GDP and employment as its main measures.

The March jobs report showed **more than a million jobs were lost in the month**, while a preliminary estimate by Statistics Canada suggested **the economy contracted by 9% in the same month**.

"The council agreed the magnitude of the contraction makes it extremely unlikely that any future adjustments will overturn the conclusion of a major drop in economic activity in the first quarter," the council said.

While the decline in March was record setting, economists expect the data for April will show an even bigger drop with the measures taken to slow the spread of the coronavirus in place for the entire month.

The council, which normally meets once a year in December, plays a role similar to that of the National Bureau of Economic Research in the United States in declaring if a recession is occurring or has occurred.

The ruling Friday came after a special meeting of the council this week.

Statistics Canada reported Thursday that economic growth had stalled going into the crisis, with real gross domestic product essentially unchanged in February due to teacher strikes in Ontario and rail blockades across many parts of the country.

The official estimates of GDP for March and the first quarter of 2020 will be released on May 29.

3. Covid-19 to affect housing market well into next year

[May 1, 2020] The housing market will emerge from the Covid-19 recovery damaged, with a weaker labour market and other economic factors creating challenges over the coming 12 to 18 months, says a report from CIBC Economics.

"In the coming few quarters, housing activity will dance to the volatile tune of economic activity," wrote Benjamin Tal and Katherine Judge, authors of the report.

The Bank of Canada's efforts to lower borrowing costs and create liquidity are bringing mortgage rates down, they wrote, "but **the cost of borrowing is always secondary in an environment of low confidence, increased unemployment, and slower income growth**."

Government shutdowns have "basically frozen" the retail market, with **Toronto sales down 69% year over year as of the first few weeks of April**, and new listings down 64%.

Even as the economy starts to return to normal next year, the housing market will face downward pressure on prices. A softer labour market and weaker investment activity will reduce demand, and forced sales will add to supply, likely offsetting the impact of fewer new units, the report said.

"Overall, as the fog clears, we expect to see average prices 5%–10% lower relative to 2019 levels, with high-cost units in the high-rise segment of the market seeing the most notable price declines."

Housing starts are expected to fall from more than 200,000, annualized, before the crisis, to around 70,000 in the second quarter, rebounding "with some luck" to 100,000 in Q3.

Canadians' high levels of household debt will add to the shock from job losses and lead to more mortgages in arrears, the report said. Mortgage payment deferrals will push the deterioration to next year.

"By 2021, however, as the unemployment rate stabilizes at north of 8%, we expect to see the arrears rate rise to just below 0.4%," the report said.

4. New BoC governor named

[May 1, 2020] Tiff Macklem is the new governor of the Bank of Canada.

The dean of the business school at the University of Toronto was senior deputy governor of the bank from July 2010 to May 2014. Macklem will begin his term on June 3; current governor Stephen Poloz's seven-year term expires June 2.

"After pursuing an exhaustive domestic and international selection process for this crucial role, I'm delighted to say that Tiff Macklem has the exceptional qualities to fulfil this role," said Claire Kennedy, chair of the special committee of the Bank of Canada's board of directors, in a release.

"Tiff has deep knowledge of monetary policy and financial stability issues, a proven crisis management track record, and extensive senior leadership experience. We are confident Tiff will make an outstanding contribution to promoting the economic and financial welfare of Canada, and to upholding the bank's exemplary reputation as a leading central bank."

Finance Minister Bill Morneau says Macklem brings a deep knowledge of and expertise in financial markets and will serve the central bank well as it navigates an economic crisis like no other.

Speaking at a morning press conference, Macklem says he found out about the appointment yesterday and is hoping for a seamless transition over the coming weeks.

Poloz calls leaving the bank "bittersweet," but says the central bank will be "in solid hands" when Macklem officially takes over.

Macklem was considered a top candidate to become governor in 2013 but was passed over when Poloz was appointed. Before Macklem's term as senior deputy governor, he was associate deputy minister at the Department of

Finance, serving as Canada's representative at the G7, G20 and Financial Stability Board.

Macklem first joined the BoC in 1984, after graduating from Queen's University in 1983 with a bachelor's degree in economics. He also holds a master's degree and a PhD in economics from Western University.

Many industry observers had pegged Carolyn Wilkins, BoC senior deputy governor, as the likely successor to Poloz.

The bank controls the country's money supply, trying to support economic growth and stability while keeping inflation low.

Its governor's statements about the economy and the financial system set trends and move markets.

5. Oil plunge reflected in March price indexes

[April 30, 2020] The prices for raw materials dropped by 15.6% in March, according to Statistics Canada, as **crude oil prices fell by a record 39.7% in the month**.

The huge fall in crude prices followed the drop in global demand due to Covid-19 and the failure of OPEC and Russia to agree on supply cuts, which left daily supply outstripping demand.

The decline in raw materials prices was the largest monthly decrease since the global financial crisis in late 2008.

Excluding crude energy products, StatsCan's raw materials price index rose 0.4% in March as precious metals prices gained 7.3%.

"The market for gold in March was volatile," StatsCan said. "In the first half of the month, prices fell sharply, corresponding to declines in equity markets worldwide."

Yet, in the second half of the month, prices surged as investors sought safe haven assets, the agency noted.

"Global liquidity of gold was also impacted by Covid-19 as refineries were shut down and supply routes were disrupted," StatsCan said.

While raw materials prices were down sharply in March, the prices for products manufactured in Canada also dropped by 0.9%, StatsCan reported.

Again, weaker energy prices led the way. For example, gas prices dropped 20.7% in March.

Excluding refined energy products, industrial prices were up 1.0% during the month, as pulp and paper prices rose 3.2% and vehicle prices increased 2.0%.

StatsCan noted that the Canadian dollar depreciated 5.0% relative to the U.S. dollar during the month, pushing up the Canadian-dollar prices for products that are typically denominated in U.S. dollars.

Absent the decline in the loonie, industrial prices would have dropped by 2.1% in March, StatsCan said.
Separately, StatsCan also reported that average weekly earnings rose 3.7% in February. Average hours worked remained stable, but payroll employment declined by 35,000 from the previous month.
These data largely predate the effects of the Covid-19 outbreak but will serve as the benchmark for measuring the impact of the crisis in future releases.
"Although the landscape of the Canadian labour market has shifted since February, data from the early stages of the Covid-19 pandemic are important for monitoring when and where changes will occur over the following months," the agency said. "As a result, this release largely serves as a benchmark for measuring the effects of Covid-19 on payroll employment, earnings and hours worked in Canada."

6. Budget officer says federal deficit could top $252B

[April 30, 2020] Parliament's budget watchdog says that it's likely the federal deficit for the year will hit $252.1 billion as a result of the Covid-19 pandemic.
The figure is an estimate based on the almost $146 billion in spending measures the government has announced to help cushion the economic blow from the pandemic, estimated declines in the country's gross domestic product, and the price of oil remaining well below previous expectations.
Parliamentary budget officer Yves Giroux's report assumes **real GDP will contract by 12% this year and help shoot the federal debt-to-GDP ratio to 48.4%.**
"To date, budgetary measures announced by the government are intended to be temporary. Once the budgetary measures expire and the economy recovers, the federal debt-to-GDP ratio should stabilize," Giroux says in a statement.
"But if some of the measures are extended or made permanent, the federal debt ratio will keep rising."
He also warns anew that extra spending may be required if the situation persists for longer than expected, or the economy is slow to recover when restrictions are lifted.
His report says the estimates are one possible scenario if current public health measures remain or are slowly, but not entirely, lifted over the rest of the calendar year.
The restrictions that were put in place in March across the country forced non-essential businesses to close their storefronts, sending many employees who could to work from home. Others were laid off or had their hours slashed.

So far, more than seven million people have received federal emergency aid through the Canada Emergency Response Benefit, which has paid out more than $25.6 billion in benefits, based on the latest federal figures.
The Liberals have budgeted $35 billion for the CERB, which pays $2,000 a month for up to 16 weeks to anyone whose income has dropped below $1,000 a month. Giroux's report estimates the measures will end up costing the government $35.5 billion.
A more detailed note explaining the figure, published separately this morning, estimates the CERB will end up reaching 8.5 million people.
But the note warns the estimates are "highly sensitive" to the course the economy takes over the coming months, as well as the spread of Covid-19. Some of the spending, too, will rest on the interaction the program has with a new wage subsidy program that begins payments next week.
Giroux also estimates the wage subsidy program will cost $76 billion, slightly higher than the $73-billion price tag the Liberals have put on the measure.
The subsidy will cover 75% of employee salaries, up to $847 a week for 12 weeks, retroactive to mid-March and through to the start of June.
In a costing note specifically about the subsidy, the PBO says the cost of the program will depend somewhat on the behavioural response of employers.

7. Economic growth stalled in February

[April 30, 2020] Economic growth in Canada stalled in February ahead of the collapse in March due to the Covid-19 pandemic, Statistics Canada said Thursday.
The agency said real gross domestic product was essentially unchanged for the month as it was hit by teacher strikes in Ontario and rail blockades across many parts of the country.
The educational services sector fell 1.8% in February due to rotating strikes by Ontario teachers, while the transportation and warehousing sector pulled back 1.1% due to rail blockades across many parts of the country and a train derailment near Saskatoon.
Excluding these two sectors, Statistics Canada said the economy would have grown 0.2% in February.
In a preliminary estimate for March released earlier this month, the agency said the economy posted a 9% decline for the month as business came to a standstill due to measures taken to slow the spread of the pandemic.
TD Bank senior economist Brian DePratto said the February data offer a chance to reflect on how quickly the pandemic has changed things.

“Real estate has gone from running hot to virtual stasis in less than a month’s time, and the necessary hit to sectors like accommodation and food services and arts, entertainment and recreation will be historically unprecedented,” he wrote in a brief report.

“Fortunately, with economic re-opening plans starting to take shape across the country, there is a little bit of light beginning to form at the end of the tunnel.”

Overall, 13 out of the 20 sectors tracked by Statistics Canada increased in February.

Goods-producing industries edged up 0.1% for the month, while services-producing industries remained essentially unchanged.

Real estate agents and brokers saw an increase of 5.9% in February, the largest uptick since December 2017, while the mining, quarrying, and oil and gas extraction sector rose 0.9%.

The manufacturing sector contracted 0.2% in February and accommodation and food services fell 0.9% in the month as travel restrictions around the world expanded.

Royal Bank senior economist Josh Nye said April is expected to show a sharp decline as the measures taken to slow the spread of Covid-19 will have been in place for the entire month.

“Whatever the number, we think it will tee up for an unprecedented decline in Q2 GDP,” Nye wrote.

A survey from Statistics Canada on Wednesday, suggested that more than half of Canadian businesses have seen a drop in revenue of at least 20%, while nearly a third have seen a drop of 40% or more.

The results were from an online survey this month done in tandem with the Canadian Chamber of Commerce.

The official estimates of GDP for March and the first quarter of 2020 will be released on May 29.

8. The oil bankruptcies are just beginning. Here's who could be next

[April 30, 2020] The oil crash is blocking American frackers from accessing the cheap credit that fueled their prolific rise. That reversal of fortunes could prove fatal for overleveraged shale oil companies.

The downturn in the oil industry has laid bare just how much America's rise to superpower status in the energy world was made possible by easy money.

Virtually unlimited borrowing allowed shale companies to dramatically ramp up production, whether that oil was needed or not.

Getting locked out of the junk bond market will tip the weakest players into bankruptcy, risking countless US jobs along the way. That's what happened during the last oil crash that began in 2015.

The looming oil patch bankruptcies underscore the fragile state of the boom-to-bust industry even before the coronavirus crisis.

"These companies were in trouble before COVID-19 happened," John Kempf, senior director at Fitch Ratings, told CNN Business. "After 2015 and 2016, they never really got their balance sheets back together. When stress came, they weren't prepared for it."

Despite a recent rebound, US oil prices have imploded by three-quarters since early January, to just $15 a barrel. The crash was driven by excess supply, especially from Russia and Saudi Arabia, and an unprecedented collapse in demand because of the coronavirus pandemic.

There's so much crude that the world is running out of space to store it all. That conundrum caused crude to tumble well below zero last week, marking the first instance of negative oil prices since futures launched in 1983.

$43 billion of energy junk bond defaults

Prices are so weak that Rystad Energy has warned that hundreds of US oil exploration and production companies could file for bankruptcy by the end of 2021.

The bankruptcy wave has already started. Earlier this month Whiting Petroleum filed for bankruptcy, marking the first high profile Chapter 11 filing of the current crisis. Diamond Offshore Drilling joined the bankruptcy club on Sunday. Diamond, which provides offshore drilling rigs for Hess, Occidental and BP, was posting losses months before the crisis.

Fitch Ratings is warning that more than $43 billion of high-yield bonds and leveraged loans in the energy sector will default in 2020. For context, that's nearly five times the sector's average level of defaults over the previous dozen years.

Moody's Investors Service cut its near-term oil price assumptions this week, forecasting that US oil prices will now average just $30 per barrel in 2020, a price too low for virtually any US shale oil company to turn a profit. Moody's sees US crude rising to just $40 in 2021.

"Financial risk is rising and likely to remain very high for all but the highest-rated oil and gas issuers," Moody's wrote in the report.

Chesapeake Energy at risk

The energy sector dominates Fitch's Top Bonds of Concern list of troubled debt, accounting for 60% of the list.

Fitch warned several of those companies "could be imminent defaults," including Chesapeake Energy, the shale pioneer that recently transitioned from a focus on natural gas to target oil.

Reuters reported Wednesday that Chesapeake is preparing a potential bankruptcy filing and has held talks with creditors about a possible loan to keep its in business while navigating Chapter 11 proceedings. The company did not respond to a request for comment.

Chesapeake's share price has crashed more than 80% just this year. In order to keep its stock above the $1 minimum required by the New York Stock Exchange, Chesapeake recently launched a 1-for-200 reverse stock split. The shale company also suspended quarterly dividends on preferred stock, noting that the move "does not constitute a default" under debt instruments.

California Resources, another oil company flagged by Fitch as a potential default, has suffered a 76% drop in its stock this year. The energy company has cut spending to the bone, keeping just the bare minimum needed for "mechanical integrity."

In response to market speculation about its fate, California Resources released a statement last month saying it is "fighting hard for the best outcome for our shareholders and other stakeholders."

Fitch also cited elevated default risk at Denbury Resources, an oil-and-gas driller focused on the Gulf Coast and Rocky Mountain regions. Denbury's stock is down more than 70% this year. Last month, the company cut its capital budget nearly in half.

Other companies that could imminently default on their debt include Chaparral Energy Colorado-based Jonah Energy, Houston's Bruin E&P Partners and Vine Oil and Gas, Fitch said.

'Skittish' lenders

No one wants to lend to a shale oil company that can't generate free cash flow at cheap prices. That makes it difficult for frackers to roll over existing debt before it's due.

"There is no access to capital markets to refinance. Lenders are skittish about giving money to this industry," said Kempf, the Fitch director.

Moreover, there is investor fatigue given that the energy industry has struggled for years. The S&P 500 energy sector was the worst performer -- by a long shot -- throughout last decade.

"Portfolio managers are tired of the volatility in oil and gas prices. They don't want to be in the sector anymore," Kempf said.

Washington to the rescue?

One big wild card is President Donald Trump's promise to rescue the oil industry. Trump tweeted on April 21, ta day after crude went negative, that he

instructed officials to "formulate a plan" to "make funds available" to oil and gas companies.
"We will never let the great US oil & gas industry down," the president said.
Treasury Secretary Steven Mnuchin said last weekend that the Trump administration is considering providing a "lending facility" to the energy industry.
"We're looking at a lot of different options, and we have not made any conclusions," Mnuchin told Bloomberg News. No concrete details have been released on what this program might look like.
Analysts said oil companies with sturdy investment grade credit ratings will likely have access to these emergency funds.
"We can only make loans to solvent entities with the expectation that the loans will be repaid," Federal Reserve Chairman Jerome Powell said Thursday while speaking generally about the central bank's lending abilities.
But it's not clear whether junk-rated shale oil companies will get access to the funds they need to survive because of their shaky financial conditions.
"I'm not counting on it to protect against defaults," Fitch's Kempf said. "A lot of these companies could not access capital markets even before COVID."

9. Canadian companies report significant drops in sales since crisis began

[April 29, 2020] Statistics Canada reports **nearly one-third of Canadian businesses who responded in a newly released survey have seen their revenues plummet by 40%** as a result of the Covid-19 pandemic.
A further one-fifth of businesses reported a revenue drop of between 20% and 40%, suggesting that more than half of Canadian companies have watched sales drop significantly since the crisis began in March.
That has led to widespread layoffs and furloughs, with the crowd-sourced survey results from more than 12,600 companies suggesting nearly one in five businesses have laid off 80% or more of their workforce.
The highest proportion of businesses reporting heavy losses and large layoffs were in the accommodation and food services sector, as well as retail.
However, 62.3% of businesses that took part in the survey say they could re-open or return to normal operations less than one month after public restrictions like physical distancing measures are removed.
The results are from an online survey this month done in tandem with the Canadian Chamber of Commerce. Statistics Canada says the study cannot be applied to the overall Canadian economy because the voluntary survey does not represent a random sample of the population.

In a statement, chief statistician Anil Arora says the results should help public and private sector decision-makers.
It has been some six weeks since public health officials asked Canadians to stay home and governments ordered the closure of non-essential businesses to slow the spread of the novel coronavirus outbreak.
The impact on the Canadian economy has been swift with more than one million workers losing their job at the outset of the pandemic, and more than two million having the hours reduced. Since mid-March, more than seven million people have applied for emergency federal aid.
Heading into the crisis, 42.2% of businesses in the survey said they couldn't operate more than 60 days without a source of revenue, the Canadian Chamber of Commerce notes in a release.
The chamber's chief economist, Trevin Stratton, says in a statement the data suggest thousands of businesses are quickly approaching permanent closures the longer restriction stay in place.
He says policy measures like an emergency wage subsidy, which opened for applications this week, and federally backed loans will help many businesses who are "on the clock."

10. CRA says it will not force households into bankruptcy

[April 29, 2020] The Canada Revenue Agency (CRA) says that it won't push households that are already financially troubled into bankruptcy due to the economic effects of the Covid-19 outbreak.
According to a notice from the Office of the Superintendent of Bankruptcy (OSB), the CRA has heard concerns from insolvency trustees and the OSB about debtors who are worried about defaulting on their debt proposals as a result of losing their jobs or suffering a decline in income during the pandemic.
The OSB said in cases where the CRA is the majority creditor, the CRA has proposed deferring payment requirements until Sept. 1 and granting a waiver of the defaults that would otherwise occur for missed payments.
"Hopefully, this will offer taxpayers the time to focus on other aspects of their financial wellbeing without having to file for bankruptcy," the OSB notice said.

11. America's economy just had its worst quarter since 2008

[April 29, 2020] The US economy contracted for the first time in nearly six years between January and March, as the coronavirus crisis put the world in a choke hold.

America's **first-quarter GDP**, the most expansive measure of the US economy, **fell at a 4.8% annualized rate**, the US Bureau of Economic Analysis reported on Wednesday.

It was the first contraction of the US economy since the first quarter of 2014, and the worst drop since the fourth quarter of 2008, the height of the financial crisis.

Investments and consumer spending, which are the largest contributors to GDP, both fell sharply. Consumer spending declined at a 7.6% annualized rate, as people were ordered to stay at home. Last quarter marked the deepest decline in US consumer spending since the second quarter of 1980.

Much of America's GDP decline was driven by lower-than-usual healthcare spending, as people delayed elective procedures.

The awful first-quarter report was alarming, considering the US economy was humming along in January and February until it came to a screeching halt in mid-March, when businesses shut and stay-at-home orders were put in place across the country. That was enough to offset the economic activity in January and February. The decline was worse than economists had predicted: The Refinitiv consensus forecast was -4%.

The BEA cautioned that "the full economic effects of the Covid-19 pandemic cannot be quantified in the GDP estimate" because the impact of the outbreak cannot be stripped out of that data.

Ahead of the report, economists warned that this was only an advance reading of GDP growth that could be revised down as more data from the quarter trickles in. The first revision will be reported on May 28.

Even so, the message is clear: six years of straight quarterly growth are over and America is almost certain in a deep recession.

"The economy has fallen off the cliff and broken its neck with the only thing consumers are buying are nondurable goods like food and beverages for 'off-premises consumption,'" said MUFG chief financial economist Chris Rupkey.

How bad is the downturn?

Historically, recessions have been manufacturing-led. But the situation is very different this time around as the economy faces both a demand shock from consumers staying home and a supply shock from businesses shutting down.

On top of that, 26.5 million Americans have filed for initial unemployment benefits since mid-March following large-scale layoffs and furloughs. This will drag down incomes and could lead people to save their money rather than spend it.

"The way we've been thinking about this based on evidence from around the world is that each week of lockdown probably knocked off between 0.5 and 1 percentage points off annual growth," said Michael Grady, chief economist at Aviva Investors.
This doesn't bode well for the current quarter. Even optimistic views of lockdowns lifting within the next couple of weeks would mean around half the quarter was spent in lockdown, Grady said.
Some projections suggest the economy will contract at an annualized rate of as much as 40%, which would be the worst since the BEA began tracking quarterly GDP growth in 1947.
Some states are beginning to reopen, but experts believe it will be some time until activity levels are back to what they were before the outbreak.
Another question on economists' minds is how consumers will react when the economy opens back up. After weeks of social distancing, people might be less inclined to engage in the economic activity they participated in before, and restaurants and movie theaters could remain empty for a long time even after the lockdown lifts.
"Unfortunately, we doubt that the US will experience a V-shaped recovery," said ING chief international economist James Knightley. A "V-shaped" recovery is a speedy economic bounce-back from a sharp downturn.
With the legacy of the coronavirus crisis lingering and the potential for long-term structural changes in the economy has consumer adapt to a new normal, the economy won't bounce back until late 2022, according to Knightley.

12. IIAC calls for tax relief

[April 27, 2020] The Investment Industry Association of Canada (IIAC) is calling on the federal government to provide investors with some relief on their 2020 income taxes.
In a letter to federal Finance Minister Bill Morneau, the industry trade group is requesting two changes to the treatment of capital losses for the 2020 tax year.
“These proposed tax measures would cushion retirement savings, bolster investor confidence and provide underlying stability to share prices,” the association stated in the letter.
Specifically, the IIAC called on the government to suspend the “superficial loss” rule for 2020, allowing investors to “sell a security at a loss in a non-registered account, benefit from the capital loss, and then repurchase the identical security in a registered account.”

The IIAC added: “This would enable investors to reposition assets and rebuild their retirement savings plans. For Canadians who may need to sell investments to access cash, this would allow them to repurchase the investments in a RRSP or RRIF without being denied the capital loss which may result.”

The group also recommended that the government allow investors to use a portion of their capital losses in 2020 to offset income, instead of capital gains.

“The allowance to apply net capital losses against personal income should be limited to ensure it primarily helps average, ordinary Canadians,” it said.

For example, it suggested that the losses that could be used against income should be limited to $100,000, and that no more than 50% of taxable income can be offset in the current year.

Have a nice and fruitful week!

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