Weekly Updates Issue # 763

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1. Weekly Markets Changes

[May 8, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,966.56 +346.22 +2.37%	2,929.80 +99.1 +3.50%	24,331.32 +607.6 +2.56%	9,121.32 +516.4 +6.0%	$0.7177 +0.68c +0.96%	$1,702.70 +2.28 +0.13%	$24.74 +4.96 +25.08%

2. Wage subsidy program gets extension

[May 8, 2020] Prime Minister Justin Trudeau says the federal government's emergency wage subsidy program will be extended beyond its early-June endpoint.

The program covers 75% of worker pay up to $847 a week to try to help employers keep employees on the job in the face of steep declines in revenue due to the Covid-19 pandemic.

"Since it launched last week, employers have applied for subsidies for almost two million workers," Trudeau said in his daily news conference Friday. "As provinces and territories start to gradually reopen over the coming months and the [Canadian Emergency Response Benefit] becomes less and less needed, this subsidy will play an even greater role."

Trudeau said more details on the extension will come next week.

The Canadian economy lost almost two million jobs in April, a record high, as the closure of non-essential services to slow the spread of Covid-19 forced businesses to shutter temporarily.

The loss of 1,993,800 comes on top of more than one million jobs lost in March, and millions more having their hours and incomes slashed.

The unemployment rate soared to 13% as the full force of the pandemic hit, compared with 7.8% in March, Statistics Canada reported Friday morning, as the full force of the pandemic hit.

It was the second-highest unemployment rate on record as job losses spread beyond the service sector to include construction and manufacturing.

Economists on average had expected the loss of four million jobs and an unemployment rate of 18%, according to financial markets data firm Refinitiv.

The unemployment rate would have been 17.8% had the agency's labour force survey counted among the unemployed the 1.1 million who stopped looking for work — likely because the Covid-19 economic shutdown has limited job opportunities.

In all, more than one-third of the labour force didn't work or had reduced hours in April, an "underutilization rate" that was more than three times higher than in February before the pandemic struck.

"Canadians should be confident that we will do whatever we can to ensure that their jobs are safe as we continue to fight the global Covid-19 outbreak," a trio of federal cabinet ministers said in a joint statement this morning in response to the jobs report.

"As provinces and territories begin to lift restrictions and our government continues to take steps towards economic recovery, we will be there for Canadians."

Vulnerable workers who tend to have part-time or temporary work, or be in low-paying jobs have been particularly impacted with heavy job losses. Women have seen larger job losses overall, but the number of men out of work in April closed the gender gap in cumulative unemployment losses.

Nearly all of the job losses for men since February were in full-time work, compared to 69.9% for women.

"This, combined with the different industries in which men and women have lost their jobs — for example, more job losses among men have been in construction, and fewer have been in retail trade — signals that the challenges associated with recovering from the Covid-19 economic shutdown may be different for women and men," the labour force survey says.

In March, health restrictions forced the closure of non-essential businesses, leading to layoffs and cuts in work hours as companies tried to manage costs without enough or any revenue coming in.

Smaller companies — defined as those with less than 20 employees — have shed 30.8% of their workers, medium-sized firms have let 25.1% of workers go, and large companies have seen employment decline by 12.6%.

Hard-hit sectors at the outset include retail, hotels, restaurants and bars, which continued to see losses in April. The losses in the service sector continued in April, down 1.4 million or 9.6%, Statistics Canada says.
Proportionally, the losses were greater in goods-producing sectors like construction and manufacturing, which combined lost 621,000 jobs for a drop of 15.8% after being virtually unchanged in March.
Job losses in April were spread across all provinces, with Quebec particularly hard hit. The unemployment rate in the province climbed to 17%, the highest rate among all provinces and the highest rate for Quebec itself in over more than four decades of comparable data.

3. U.S. suffers worst monthly job loss on record

[May 8, 2020] The U.S. unemployment rate hit 14.7% in April, the highest rate since the Great Depression, as 20.5 million jobs vanished in the worst monthly loss on record. The figures are stark evidence of the damage the coronavirus has done to a now-shattered economy.
The losses, reported by the Labor Department Friday, reflect what has become a severe recession caused by sudden business shutdowns in nearly every industry. Nearly all the job growth achieved during the 11-year recovery from the Great Recession has now been lost in one month.
The report indicated that the vast majority of April's job losses — roughly 90% — are considered temporary, a result of businesses that were forced to suddenly close but hope to reopen and recall their laid-off workers. Whether most of those workers can return to their jobs anytime soon, though, will be determined by how well policymakers, businesses and the public manage their response to the public health crisis.
The collapse of the job market has occurred with stunning speed. As recently as February, the unemployment rate was a five-decade low of 3.5%, and employers had added jobs for a record 113 months. In March, the unemployment rate was just 4.4%
The jump in the unemployment rate didn't capture the full devastation wrought by the business shutdowns. The Labor Department said its survey-takers erroneously classified millions of Americans as employed in April even though their employers have closed down. These people should have been classified as on temporary layoff and therefore unemployed. If they had been counted correctly, the unemployment rate would have been nearly 20%, the government said.
President Donald Trump, who faces the prospect of high unemployment rates through the November elections, said the figures were "no surprise."

“What I can do is I’ll bring it back,” Trump said. “Those jobs will all be back, and they’ll be back very soon. And next year we’ll have a phenomenal year.”

But economists increasingly worry that it will take years to recover all the jobs lost. The nonpartisan Congressional Budget Office expects the jobless rate to be 9.5% by the end of 2021.

Racial minorities and lower-income workers suffered the most from the economic shutdown. Job losses were especially severe for Latinos, whose unemployment rate leapt up to 18.9% from 6% in March.

In addition to the millions of newly unemployed, 5.1 million others had their hours reduced in April. That trend, too, means less income and less spending, perpetuating the economic downturn. A measure of what’s called underemployment — which counts the unemployed plus full-time workers who were reduced to part-time work — reached 22.8%, a record high.

Though some businesses are beginning to reopen in certain states, factories, hotels, restaurants, resorts, sporting venues, movie theatres and many small businesses are still largely shuttered. As companies have laid off tens of millions, lives have been upended across the country.

One of the newly unemployed, Sara Barnard, 24, of St. Louis, has lost three jobs: A floor manager at a pub and restaurant, a bartender at a small downtown tavern and the occasional stand-up comedian. Her main job was at McGurk’s, an Irish pub and restaurant near downtown that closed days before St. Patrick’s Day. She had worked there continually since high school.

McGurk’s tried selling food curbside, Barnard said, but it was costing more to keep the place open than the money that was coming in. Around that time, the bar where she worked closed, and comedy jobs ended when social distancing requirements forced clubs to close.

McGurk’s is a St. Louis landmark, and Barnard expects it to rebound quickly once it reopens. She just doesn’t know when.

Job losses and pay cuts are ranging across the world. Unemployment in the 19-country eurozone is expected to surpass 10% in coming months as more people are laid off. That figure is expected to remain lower than the U.S. unemployment rate. But it doesn’t count many people who either are furloughed or whose hours are cut but who receive most of their wages from government assistance.

In France, about half the private-sector workforce is on a government paid-leave program whereby they receive up to 84% of their net salary. In Germany, 3 million workers are supported in a similar system, with the government paying up to 60% of their net pay.

In the five weeks covered by the U.S. jobs report for April, 26.5 million people applied for unemployment benefits.

The job loss reported Friday was a smaller figure because the two are measured differently: The government calculates job losses by surveying businesses and households. It's a net figure that also counts the hiring that some companies, like Amazon and many grocery stores, have done. By contrast, total jobless claims are a measure of just the layoff side of the equation.

The government's report noted that many people who lost jobs in April but didn't look for another one weren't even counted in the unemployment rate. They are captured in a separate index: The proportion of all working-age adults who are employed. This figure is now just 51.3%, the lowest proportion on record.

For the United States, a key question is where the job market goes from here. Applications for unemployment aid, while high, have declined for five straight weeks, a sign that the worst of the layoffs has passed. Still, few economists expect a rapid turnaround.

A paper by economists at the San Francisco Federal Reserve estimates that under an optimistic scenario that assumes shutdowns are lifted quickly, the unemployment rate could fall back to about 4% by mid-2021.

But if shutdowns recur and hiring revives more slowly, the jobless rate could remain in double-digits until the end of 2021, the San Francisco Fed economists predict.

Raj Chetty, a Harvard economist, is tracking real-time data on the economy, including consumer spending, small business hiring and job postings. Chetty noted the economy's health will hinge on when the viral outbreak has subsided enough that most Americans will feel comfortable returning to restaurants, bars, movie theatres and shops.

The data suggests that many small businesses are holding on in hopes that spending and the economy will rebound soon, he said. Small business payrolls have fallen sharply but have levelled off in recent weeks. And job postings haven't dropped nearly as much as total jobs have. But it's unclear how much longer those trends will persist.

"There's only so long you can hold out," Chetty said.

4. April unemployment stats may not be important

[May 8, 2020] April's unemployment numbers are "for the record books," but may not be particularly meaningful, says Darcy Briggs, senior vice president and portfolio manager with Franklin Templeton Canada.

On Friday, Statistics Canada announced the economy shed just under 2 million jobs in April — a staggering number, but about half of what economists had predicted. The unemployment rate hit 13%, the second-highest rate on record.

While the numbers are cataclysmic, they don't provide much insight on where the economy is headed, Briggs said.

"It'll catch people's attention, because we've never seen numbers this big in a month before," Briggs said, but he added that Franklin Templeton isn't "attaching a whole lot of importance" to the data.

"We had fully expected 'cliff economics' — everything just fell off a cliff in March and April," Briggs said. "How's it going to look on the other side?"

In positioning portfolios going forward, Briggs said he'd be paying closer attention to the speed at which the economy recovers as provinces gradually lift lockdown restrictions.

"When you restart the economy, what does the restart look like?" Briggs asked. "That'll have a direct impact in terms of asset valuations and economic activity."

Briggs said there are "multiple scenarios" for an economic recovery, ranging from a quick, V-shaped recovery, to a lengthy, L-shaped recovery, in which people are so spooked they don't venture out to support businesses that reopen.

Restarting the economy, Briggs said, "should improve the unemployment rate," but he added that Friday's unemployment figures don't capture everyone who's out of work, such as those receiving the recently extended emergency wage subsidy.

"There is a scenario where you reengage the economy and then those on the emergency wage benefit aren't recalled because the demand isn't there," Briggs said. "They may be off to the unemployment line because the demand just isn't back."

Briggs said Franklin Templeton's base case is for a gradual economic recovery, but the firm's projections will "constantly evolve" because there's no base case to which Covid-19 can be compared.

"There's really nothing to benchmark this to," he said. "The last pandemic of any consequence was 100 years ago."

5. DBRS lays out grim scenarios for Canada's mortgage market

[May 6, 2020] Mortgage arrears in Canada are set to increase as a result of the economic shock from Covid-19, rating agency DBRS Morningstar says, though the severity will depend on how long it takes for economies to reopen.

A DBRS report outlined two scenarios for how the pandemic could impact Canada's mortgage market.

In the moderate scenario, mortgage arrears increase to 65 basis points in 2020 before gradually declining, while home prices drop 10% through 2022.

In the adverse scenario, mortgage arrears rise to 100 basis points and housing prices see a 15% correction by 2022. The oil-producing provinces see a greater rise in mortgage arrears, but the formerly hot housing markets of Toronto, Vancouver, Ottawa, and Victoria see the most significant declines in house prices.

This week, the Toronto Regional Real Estate Board said April home prices in the Greater Toronto Area fell 11.8% from March on a seasonally adjusted basis.

In Vancouver, home sales hit their lowest levels in nearly 40 years in April, and experts say buyers can expect price declines to eventually follow.

The Canadian economy lost more than a million jobs in March, and economists expect April will be even worse when the numbers are released on Friday.

The employment shock comes as Canadian debt to disposable income is at 176%. The federal government's emergency fiscal support should cushion the impact of unemployment and help with mortgages in the near term, the DBRS report said, but "the rise in unemployment will inevitably lead more households to fall behind, and potentially default, on their mortgage payments."

In addition to federal government support, banks are offering mortgage payment deferrals of up to six months for borrowers affected by the virus on a case-by-case basis.

Some workers will not be eligible for federal programs, the report said, and for others, the support will not be enough.

"Many lenders have also said that deferrals would only be an option for those borrowers that were in good standing prior to the crisis and current on their mortgage payments," the DBRS report said.

"This means that many people who were struggling to meet their mortgage obligations before the shock are unlikely to find much relief and could see their arrears balance increase."

DBRS's moderate scenario assumes strict social-distancing measures are gradually relaxed this quarter, with a relatively robust economic recovery in the third quarter. Growth is above trend next year and the national unemployment rate goes below 8% by the end of 2021.

In the adverse scenario, containment measures are more drawn out and the recession is deeper, with long-lasting damage to some sectors. The national unemployment rate stays in double digits until the second half of 2021.
The report assumes that arrears increase nine basis points for each percentage point increase in the unemployment rate.
"In the moderate scenario, arrears nationwide increase to approximately 0.65% in 2020 as the unemployment rate hits 10%. In the adverse scenario, mortgage arrears rise to 1.00%, which would be on par with the early 1980s when Canada experienced its worst housing market crash."

6. The US is becoming the king of debt. It's a necessary risk

[May 6, 2020] President Donald Trump is living up to his self-given nickname "King of Debt." On his watch, the United States has borrowed aggressively -- during the good times, and now the bad times.
Instead of whittling down the federal deficit when the economy was strong, Trump directed the federal government pile on even more debt to pay for massive tax cuts and spending surges.
That meant that the United States entered this crisis in rough financial shape. Debt-to-GDP stood at nearly 80% even before the coronavirus pandemic struck -- a rate more than twice as high as the historical average and double the level before the Great Recession.
Now, the national debt is exploding because Washington is being forced to rescue the US economy from its greatest shock ever. The Treasury Department said this week it will borrow $3 trillion this quarter alone. That's nearly six times the previous record, which was set in 2008.
Still, while the national debt is scary -- it now stands at nearly $25 trillion -- now is not the time to cut back on the borrowing.
Economists agree that the United States must continue to rack up debt to prevent a full-blown depression. Otherwise, there won't be much of an economy left to repay the debt once the health crisis is over.
Even deficit watchdogs are urging Uncle Sam to keep borrowing.
"We made a huge mistake being so in debt when the economy was strong," Maya MacGuineas, president of the bipartisan Committee for a Responsible Federal Budget, told CNN Business. "But just because we were reckless and foolish going into the crisis, [that] doesn't mean we shouldn't borrow during it."

Of course, there will be long-term consequences for the mountain of debt Washington is racking up. Eventually it will mean higher interest rates, hotter inflation and likely higher taxes.

'Absolute necessity'

But for now, the focus is on keeping American businesses and households afloat. In March, Congress passed a $2.3 trillion stimulus package, the largest in US history. Half a trillion dollars of forgivable loans have been handed out to small businesses. Direct payments were made to low- and middle-income families.

The Congressional Budget Office expects the federal budget deficit will hit $3.7 trillion this year, up from an eye-popping $1 trillion in 2019.

And more stimulus is likely coming, perhaps another $2 trillion later this year, to help out states and local governments battered by the crisis.

All of this will add yet more debt to the pile. But there's no other viable option to stave off further crisis.

"The fiscal stimulus and resulting explosion of the deficit is an absolute necessity to combat the devastating impact from the economic shutdown and to avoid a second depression," said Steven Oh, global head of credit and fixed income at PineBridge, an investment firm that manages $101 billion.

Spiking deficits are also the result of a dramatic loss of tax revenue caused by the shutdown of businesses and 30 million Americans out of jobs.

The federal deficit is expected to hit 18.4% of GDP in 2020 and decline only gradually over the next decade, according to Moody's Investors Service.

Powell: 'Not the time' to worry about debt

Jerome Powell, the Federal Reserve chair, recently expressed regret about America's failure to get its debt situation under control years ago.

"It tells you the importance of getting your fiscal house in order," Powell said during a press conference last week. "Ideally, you would go into an unexpected shock like this with a much stronger fiscal posture."

Yet Powell urged politicians not to worry about that now. "This is not the time to let that concern, which is a very serious concern, get in the way of us winning this battle," he said.

Worries about debt forced the United States to rein in spending shortly after the Great Recession a decade ago. Economists say that premature withdrawal of stimulus hobbled the economy.

"The anemic recovery was a direct result of not enough fiscal stimulus," said Kristina Hooper, chief global market strategist at Invesco.

The national debt has been on an unsustainable path for decades, in large part because of high entitlement spending on Social Security and Medicare.

Before the pandemic, Moody's forecast US debt would hit 100% of GDP in 2030. Now, it expects debt to stand at 128% of GDP by then.

Markets don't seem to mind, at least not yet

The good news is that Uncle Sam is having no trouble, at least so far, with financing the deficit. The 10-year Treasury rate is near all-time low at just 0.7%. That signals investors don't fear the US debt situation is even near a breaking point.

Markets aren't freaking out about US debt for a few reasons.

First, this spending is temporary and emergency in nature.

Second, the US dollar remains the preeminent international reserve currency and US Treasury market is the deepest and largest in the world. Those are huge advantages that keep demand strong for US debt.

Third, it's extremely cheap to borrow right now. The Fed slashed interest rates to near-zero --and economists think they may stay there into 2022.

"It doesn't blow us up -- because interest rates are so low," said David Kelly, chief global strategist at JPMorgan Funds.

Rate hikes could set off a crisis

But that equation would change, of course, if rates rose sharply. Given the sheer magnitude of the debt, even a tiny increase in interest is costly. Interest payments were the fastest-growing expense for the federal government even before the crisis.

One risk is that a surprisingly strong rebound in the US economy forces the Fed to rapidly reverse course.

"If the economy comes back too hot, then you could have inflation, higher interest rates -- and that could lead to a fiscal crisis," said JPMorgan's Kelly.

That's exactly why some believe the Fed will be forced to keep rates at rock-bottom levels. "It will be that much harder this time to wean the economy off ultra-low rates because the debt is that much greater," said Invesco's Hooper.

Higher taxes, less spending

Still, it's a mystery when and if the bond market will eventually balk at high US debt and demand much higher interest rates.

"The breaking point is like an invisible dog fence," said MacGuineas, the president of CRFB. "You don't know where it is, but if you actually hit it, it'll be a huge problem."

To avoid hitting it, politicians will eventually have to make difficult decisions to get the United States back towards a sustainable fiscal path -- most likely less spending and higher taxes -- both of which would translate to slower economic growth.

"If we live beyond our means today," JPMorgan's Kelly said, "we will have to live within our means in the future."

7. Toronto, Vancouver see massive declines in home sales

[May 5, 2020] Home sales in the Greater Toronto Area plunged 67% in April as unprecedented Covid-19 social distancing measures and economic uncertainty affected sales and new listings, the Toronto Regional Real Estate Board reported Tuesday.

In Vancouver, home sales hit their lowest levels in nearly 40 years in April, and experts say buyers can expect price declines to eventually follow.

“Past recessions and recoveries do not necessarily provide the best guide as to how the housing market will recover from the impact of the Covid-19 pandemic,” TRREB chief executive John DiMichele said in a statement.

“A key factor for the housing market recovery will be a broader reopening of the economy, which will result in an improving employment picture and a resurgence in consumer confidence.”

Provincial, local and federal officials say they’re making cautious plans to relax or remove restrictions that were put in place in mid-March to slow the spread of the novel coronavirus, which has been blamed for more than 1,300 deaths in Ontario.

In the meantime, Ontario continues to restrict non-essential business activities to reduce the chances of spreading the virus from person to person.

“The necessary social distancing and economic impacts associated with Covid-19 clearly impacted home sales and listings throughout April 2020,” added TRREB president Michael Collins.

He said TRREB members have used live video streaming to replace in-person open houses “and I would expect the use of these innovative techniques to increase as some level of social distancing remains in place for the foreseeable future.”

TRREB said there were 2,975 residential transactions in the GTA in April, compared with 9,005 transactions in April 2019. New listings fell to 6,174 from 17,212 in April 2019, a decline of 64%.

On a seasonally adjusted basis, TRREB said April home prices in the GTA fell 11.8% from March.

Prices for renters were also down for the month, with the average one-bedroom rent falling 2.7% to $2,107, and the average two-bedroom rent falling 4.1% to $2,705.

April’s sales in the City of Toronto fell nearly 68% year over year, while the average price fell 2.5%, to $881,424 in April 2020 from $904,199 a year earlier.

Condo rentals were down on a year-over-year basis in April, falling 57.9% for one-bedroom units and 54.4% for two-bedroom units.

In Vancouver, the sales total of 1,109 homes was 62.7% below the 10-year average for April and the lowest total for the month since 1982 after a full month of Covid-19 restrictions.

New home listings also fell, down by 59.7% to 2,313 in April compared with a year earlier, while the total number of active listings was down 34.6% compared with April 2019.

The Real Estate Board of Greater Vancouver says the sales-to-active listings ratio was 11.8% for the month, just nudging into the level analysts consider as signalling potential for downward pressure on prices.

For April, prices held with the composite benchmark index price up 2.5% from a year earlier, and up 0.2% from March, at $1.04 million.

It could take months, however, for changes in the economy and housing market to start to reflect in home prices, said Steve Saretsky, a realtor at Oakwyn realty.

“Real estate’s really slow moving, it’s sticky. It’s especially hard to judge prices when you have volumes that are the lowest they’ve been in 35, 40 years.”

He said so far he’s only seen some marginal price discounting, but does expect pressure on prices as the confluence of higher unemployment, economic uncertainty, lower immigration and other consequences of the pandemic play out.

Supply could also eventually be affected as builders hold back, but the current level of record housing construction in the area will still have to be completed, said Saretsky.

“That supply’s coming online regardless of whether the demand’s there to meet it.”

Foreclosures could also add to supplies, said CIBC economists Benjamin Tal and Katherine Judge in a note Friday.

“Forced sales will add to supply, and probably outweigh the offsetting impact of reduced supply of new units.”

They predict large swings in both supply and demand in the coming quarters and expect to see average prices down five to 10% relative to 2019 levels when the market stabilizes.

“By 2021, as the economics of housing returns to fundamentals, we expect an array of factors to result in a weaker market with some downward pressure on prices.”

8. U.S. services sector contracts for first time since Great Recession

[May 5, 2020] The U.S. service sector shrank for the first time in a decade last month as the pandemic forced shutdowns and layoffs nationwide.

The Institute for Supply Management said Tuesday that its service-sector index fell to 41.8 in April, compared with a March reading of 52.5.

Any reading below 50 signals that the service sector, where the majority of Americans work, is in a contraction. It was the first time the services index has been in contraction since December 2009 and it was the lowest reading since March of that year with the nation mired in the Great Recession.

In April, all major categories fell sharply with the business activity index dropping to 26, the lowest reading on record. The new orders index fell to 32.9, and the employment index dropped to 30.

The survey found growth in only two service sector industries last month, public administration, as well as finance and insurance, while 16 industries reported declines.

In the agriculture sector, survey respondents said that the virus had created significant challenges with milk prices plunging 29% in a just a few weeks. "Milk is being dumped on farms because of the loss of markets," the ISM survey found.

The Congressional Budget Office is forecasting that the overall economy, as measured by the gross domestic product, will plunge by a record annual rate of 40% in the current April-June quarter.

Last week, the ISM also reported that its manufacturing index was in contraction territory with a reading of 41.5 in April.

While the Trump administration is hoping for a big rebound this summer if and when the economy re-opens, many economists believe the recession could drag on until a vaccine is widely available.

"Social distancing measures are being gradually lifted, but it will take time to undo the economic damage," said Oren Klachkin, lead U.S. economist at Oxford Economics. "Significantly weaker demand, supply chain disruptions … and uncertainty over the virus' trajectory will pose considerable headwinds to an economic rebound."

9. BoC's Wilkins says risk to taxpayers from expanded balance sheet is low

[May 4, 2020] The Bank of Canada will need to maintain its independence to aid the economy during and after the COVID-19 pandemic, particularly as the country's debt levels rise, says the bank's second-in-command.

In a speech on Monday, senior deputy governor Carolyn Wilkins detailed how the bank's actions through the pandemic have been aimed at ensuring businesses and individuals can access lines of credit and short-term loans, and spur demand during an expected recovery through low interest rates.

The bank's balance sheet has more than tripled from around $120 billion in early March before the shutdown, to around $385 billion as of last week as it purchases more federal and provincial bonds, effectively providing low-cost loans to finance government stimulus that federally stands at roughly $146 billion.

Wilkins said the financial risk to taxpayers is low because of restrictions around the bond purchase programs.

The country will be left with more public and private debt than before the pandemic forced a freeze on economic activity, she said.

"Whether it's a risk of inflation or deflation, central bank credibility is critical," she said in the text of her speech posted online by the bank.

"This requires keeping our eye on the ball in terms of our mandate and retaining the operational independence to achieve it."

The question of keeping the bank free of political influence faced Finance Minister Bill Morneau last week when he unveiled the next governor, Tiff Macklem.

The Liberals and central bank have an "effectively working relationship," Morneau said at the Friday press conference, adding the Liberals saw "the independence of the Bank of Canada as critical" to the future of the economy.

Wilkins was considered a top candidate to replace outgoing governor Stephen Poloz, just as Macklem had been the favourite seven years ago when he was the bank's No. 2 and Poloz got the top job.

The choice to appoint Macklem received praise in some quarters: private sector economists spoke highly of his skills and environment groups saw promise in his interest in the effects of climate change on the economy.

"Canada needed to move climate change to the front of the financial line, and with Tiff as incoming governor that need has been met," said Blair Feltmate, head of the Intact Centre on Climate Adaptation at the University of Waterloo.

But there was criticism as well, including from some women's groups who questioned why Prime Minister Justin Trudeau's government didn't appoint Wilkins to head an institution that has never had a female governor.

"We made the determination on who would be the best to see us through this difficult time and seven years into the future as well, and I know that Tiff Macklem will do just that," Trudeau said Monday outside his Ottawa residence.

The bank estimates that pandemic-related restrictions, which have closed non-essential businesses and led to more than seven million workers receiving federal aid, will result in a 15% to 30% drop in gross domestic product for the second quarter from its level in late 2019.

Wilkins said the bank hasn't published a full forecast because of the uncertainty about when restrictions will be lifted. There could also be other head winds slowing a recovery, she said, citing low oil prices.

"But even in a good scenario, lost output will be made up only gradually as containment measures are lifted, people return to work and production ramps up," she said.

That level of uncertainty is why the Liberals have yet to introduce a budget, Trudeau said.

The government had pledged to introduce the spending blueprint at the end of March, but scuttled plans after MPs agreed to put the House of Commons on an extended hiatus as the pandemic took hold.

Trudeau said the Liberals are looking at when to present a budget or an economic update.

10. Feds should be in no rush to tackle deficit: report

[May 4, 2020] The federal government has announced billions in spending since the onset of Covid-19, leaving some wondering how the feds will pay for everything when the pandemic is behind us.

Since mid-March, the government has unveiled $146 billion in direct fiscal stimulus. The federal deficit for the year is now projected to exceed $250 billion, according to the parliamentary budget officer. Could this mean we'll be facing tax hikes and austerity measures in the near future?

Not necessarily, according to a report from CIBC Capital Markets. Senior economist Royce Mendes compares the current crisis to previous recessions and suggests that this year's projected deficit may not lead to higher taxes or cuts to government services in the near term.

Canada entered the Covid-19 crisis with "the lowest central government debt-to-GDP ratio of the Group of Seven economies," Mendes wrote. By comparison, when Canada was recovering from a recession in the mid-1990s, its debt-to-GDP ratio ranked sixth in the G7.

Mendes noted that the current low interest rate environment sets the current situation apart from previous government deficits. Currently, the federal government can fund its crisis response by borrowing for 10 years at a rate of 0.6%, Mendes said.

“Had the current government been operating in a situation where its benchmark 10-year bond yield was averaging more than 10%, as it was in the 1980s, there would be a huge cost in taking even a one-time hit to the budget deficit,” Mendes wrote.

Still, even with the government being able to borrow so cheaply, it’s possible the feds may introduce post-pandemic austerity measures. But Mendes noted that 2011 research from Olivier Blanchard, then the chief economist with the International Monetary Fund, found that “austerity could actually be self-defeating when attempting to lower debt-to-GDP ratios.”

Blanchard’s research, which focused on depressed economies, found that every dollar cut by governments reduced GDP by about $1.50, and every dollar of stimulus provided generated as much as $1.50 in GDP.

“As a result, it might cost more in terms of both GDP and the debt-to-GDP ratio to raise taxes or cut program spending too early,” Mendes wrote, adding that the cost of government inaction or introducing austerity measures too quickly “clearly outweighs any perceived benefits.”

“At some point, the federal government might raise taxes or cut program spending to create more room for the next downturn, but it doesn’t need to do so in the near term,” Mendes wrote.

Have a nice and fruitful week!