Weekly Updates Issue # 764

1. Weekly Markets Changes

[May 15, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,638.90 -327.66 -2.19%	2,863.70 -66.1 -2.26%	23,685.42 -645.9 -2.65%	9,014.56 -106.8 -1.2%	$0.7095 -0.82c -1.14%	$1,742.90 +40.20 +2.36%	$29.73 +4.99 +20.17%

2. April home sales plunge more than 50% across the country on Covid-19 impact

[May 15, 2020] The Canadian Real Estate Association says national home sales fell by more than half in April as the Covid-19 outbreak put a chill on market activity.

The association says April home sales were down 57.6% from a year earlier, and down 56.8% on a month-over-month basis, posting the lowest volume for the month since 1984.

Sales fell by 66.2% in the Greater Toronto Area (GTA), 64.4% in Montreal, 57.9% in Greater Vancouver, 54.8% in the Fraser Valley, 53.1% in Calgary, 46.6% in Edmonton, 42% in Winnipeg, 59.8% in Hamilton-Burlington and 51.5% in Ottawa.

Nationally, new listings were down 55.7% from March to April, but inventory levels jumped to 9.2 months in April compared with 4.3 months in March as older listings stayed active while sale fell.

The composite benchmark price was down 0.6% in April compared with March for the first decline since last May but is still up 6.4% year-over-year.

The national average price for homes sold in April was just over $488,000, down 1.3% from the same month last year.

Excluding the high-priced Toronto and Vancouver area markets, the average price was less than $392,000.

The real estate association said realtors are showing properties and completing documents virtually as they try to conduct business amid the pandemic.

"Like so many other parts of normal daily life, a lot of buying and selling activity in housing markets across Canada has been put on pause," said Shaun Cathcart, the association's senior economist, in a statement.

Preliminary data suggest sales and new listings may be picking up this month, he said.

3. Feds extend emergency wage subsidy

[May 15, 2020] A federal wage subsidy for employees in businesses hit hard by Covid-19 will last at least through the summer and the federal government is asking companies to rehire laid off staff — many of whom have received aid from an emergency benefit that has gone over budget.

The $73-billion Canada Emergency Wage Subsidy was set to expire in the first week of June, only a few weeks after the first payments rolled out and with only a small fraction of its budget spent.

Subsidies will now be available through to the end of August, though the legislation that created the subsidy gave the government the authority to extend qualifying periods for help to the end of September.

Take-up for the program has been below federal expectations, with less than $4 billion in benefits to date for 1.7 million workers.

Speaking outside his Ottawa residence, Prime Minister Justin Trudeau said employers now have more runway and should have confidence to resume operations slowly if they have to.

Trudeau also said the government will make adjustments to the program, including changes to the threshold for how much qualifying companies' revenues must have declined, to ensure employers can continue getting help as business kicks back up.

"As the economy reopens, there is a danger of unintended consequences," Trudeau said.

"If part of the eligibility criteria for getting the wage subsidy is a decrease of 30% of your business, we wouldn't want people who are getting back their business going to feel like they have to hold back on their growth, on their expansion, on their rehiring in order to be able to continue benefiting from the wage subsidy."

Eligibility is also being expanded to more organizations to include tax-exempt Indigenous-owned corporations or partnerships, amateur athletic associations registered journalism organizations, and private colleges and training schools.

Dan Kelly, president of the Canadian Federation of Independent Business, said the simplified wage subsidy would be a boost for small businesses and a relief for seasonal industries like tourism, where operators are looking ahead to a soft summer.

He called for changes to other federal programs that haven't reached many small businesses.

"Small-business owners are eager to get back to business and get off the government subsidies they have had to rely on through the Covid-19 pandemic. Unfortunately, we are not there yet," he said in a statement.

The Canadian Chamber of Commerce said many companies have closed or are not operating at full capacity, which has limited applications for the funding, while others simply haven't qualified. The organization said the modified wage subsidy should be an "important tool" for eligible businesses "to help in the process of resuming and stepping up operations."

Finance Minister Bill Morneau was unable to say Friday how much the extension would cost. He said much of that will be determined by the changes to be debated with employer groups and labour organizations.

The most recent federal figures on the program show payouts of around $3.36 billion to 123,642 companies.

Morneau said the design of the expanded wage subsidy will take into account its effect on the CERB, to have "the right incentives and right support" for workers and businesses "so they can get back to work appropriately."

The subsidy covers 75% of wages for employers that have seen sharp declines in revenue since the novel coronavirus pandemic hit Canada hard in March, up to $847 per worker, per week.

The government expected the subsidy would pull workers onto payrolls and away from the $2,000-a-month emergency benefit for employees who have either lost their jobs or seen their incomes drop below $1,000 a month.

Federal figures posted Friday morning show just under eight million people have applied for that Canada Emergency Response Benefit, receiving just under $35.9 billion between them. The program had a budget of $35 billion, and the Liberals have faced calls to extend a program developed quickly in late March.

"Simple designs were needed to get them up and running in a hurry," CIBC chief economist Avery Shenfeld wrote in a note about the emergency aid. "But just as a patient has to be carefully weaned off pain medication, policy makers need to adjust their prescriptions as we take small steps towards economic health."

The federal government has promised $151.7 billion in direct aid to date, including money for a new student benefit and funding for a retooled Canada Summer Jobs program, both of which opened for applications on Friday.

The government also announced Friday payroll support to universities and health-research institutes through a $450-million fund to match the help offered through the emergency wage subsidy program.

4. Housing market fears 'overblown,' Scotiabank says

[May 14, 2020] Reports of the Canadian housing market's death have been greatly exaggerated.

That's the opinion of Scotiabank chief economist Jean-Francois Perrault in a research note that says the real estate market is experiencing a "Covid-related pause" rather than a prolonged downturn.

"Concerns of a significant adjustment in housing markets appear overblown," the report from Perrault and Scotiabank modelling and forecasting director René Lalonde said.

National housing prices will decline modestly to about 4% lower by year-end relative to the same period last year, and then rise by about 11% by the end of 2021, they wrote.

The report comes after real estate boards reported dismal April numbers due to physical distancing measures and the broader economic fallout from the coronavirus.

Home sales in the Greater Toronto Area plunged 67% last month, while sales in Vancouver hit their lowest levels in nearly 40 years. Toronto prices fell 11.8% from March on a seasonally adjusted basis.

A report earlier this month from rating agency DBRS warned that mortgage arrears would rise to anywhere from 65 basis points to 100 basis points depending on the severity of the Covid-19 recession. In the agency's adverse scenario, housing prices could see a 15% correction by 2022.

On Thursday, the Bank of Canada warned that the number of households that fall behind on debt payments is likely to rise, even with deferrals.

The Scotiabank report acknowledged the long-standing concerns raised by the central bank and others about household debt.

"Given these concerns, economic trauma caused by Covid-19 could well be the trigger to a prolonged adjustment in housing markets, owing to its impact on employment, incomes, confidence, and potentially population growth," it said.

"In our view, these fears are misplaced."
The report points to a pre-crisis under-supply, with new housing failing to keep up with higher immigration totals since 2016. The massive unemployment resulting from Covid-19 will dampen demand, but it will also affect supply, with housing starts down 20% from February, it said.
The report forecasts a 40% decline in housing sales nationally for the second quarter, followed by a 12% quarter-over-quarter rebound in Q3 and 17% rise in Q4. Housing starts will also bounce back, by 12% in the third quarter and 31% in the fourth, it said.
"Covid-19 is not expected to have a large or lasting impact on house prices," the report said.
"The impact of the rise in the unemployment rate will be muted by the exceptional fiscal support measures relative to what has been observed historically. In the absence of exceptional fiscal support measures, for instance, the fall in house prices would be roughly double our current forecast."
Provided population growth continues, the bank forecasts house prices exceeding pre-Covid levels by mid-2021.

5. Economic shock of pandemic weighs on business, households: BoC

[May 14, 2020] The Bank of Canada says there are signs in the country's financial markets that suggest concern about the ability of companies to weather the Covid-19 economic crisis.
The central bank has spent the last two months making a flurry of policy decisions that has seen it slash its target interest rate and embark on an unprecedented bond-buying program to ease the flow of credit.
In a report, the Bank of Canada suggests these measures have helped ease liquidity strains and provide easy access to short-term credit for companies and households.
But it is warning this morning that a cash-flow problem for businesses seeing sharp revenue declines during the crisis could soon develop into a solvency issue.
The Bank of Canada's review of the country's financial system says market prices point to a concern that defaults are likely to rise.
The report also raises concerns that household debt levels are likely to rise and become acute for households whose incomes don't fully recover from the pandemic.

“We entered this global health crisis with a strong economy and resilient financial system. This will support the recovery,” bank governor Stephen Poloz is quoted as saying in the review.

“But we know that debt levels are going to rise, so the right combination of economic policies will be important too.”

Aside from what is now approaching $150 billion in direct federal aid, the central bank over the course of March alone slashed its target interest rate to 0.25% from 1.75%.

It has also snapped up federal bonds to effectively provide low-cost financing to Ottawa to cover a massive spike in spending.

The bank’s balance sheet has more than tripled to $392 billion since early March, as part of an expansion larger and faster than during the financial crisis of 2008 and 2009 when its balance sheet increased by 50%.

But the longer the economic shock from Covid-19 lasts, the more it drives the risks of consumer insolvencies, the central bank says.

The number of vulnerable households — those putting more than 40% of their income to cover debt payments — “is likely to rise,” the bank says, and fall behind on loan payments even with deferrals to some 700,000 households so far.

The central bank’s review also suggests financial institutions may be much less capable of responding to and containing a cyber security incident while many employees work from home.

“There is evidence of increased phishing and malware attacks designed to take advantage of the growth in remote work and the public appetite for information related to Covid-19,” the report said.

“Cyber criminals are also using public interest in new government support programs to lure users to malicious websites.”

6. Companies already in financial trouble face insolvency reckoning

[May 14, 2020] Olivier Benchaya knew from early in the Covid-19 shutdown that Canada’s business community was headed for significant upheaval, but even weeks later, the restructuring and insolvency partner at Richter is still trying to grasp the severity of what’s ahead for the country’s most troubled companies.

“We’re getting clear indications there’s going to be ramifications more significant than just going back to business as usual,” explained Benchaya, a member of the independent business advisory firm’s team in Montreal.

Nothing has quite prepared him or his peers for what could be around the corner once companies succumb to mounting debts and begin to file for protection under the Companies' Creditors Arrangement Act, most commonly called CCAA.

Benchaya has worked in the restructuring business for more than 15 years, and even the painful economic downturn that played out in 2008–09 doesn't match the global fallout that's taken hold since March.

"Even restructuring professionals who are used to navigating this world were stunned that the economy completely halted," he said.

"Everybody was sort of at a standstill. The banks weren't taking action, courts were closed […]. [Business owners] were just waiting, trying to navigate through this and avoid a formal restructuring."

The shutdown has delayed the inevitable for many companies whose debt and rent obligations are piling up, he said. He predicts some will see the real financial impact after they reopen for business and revenues begin to fall short.

Over the coming months, larger corporations on the brink of collapse, who owe their creditors more than $5 million, will be filing for protection under the CCAA in hopes of turning around their business under the guidance of the courts. Other companies, with smaller debts below the $5-million threshold can tap into the Bankruptcy and Insolvency Act for similar measures.

Less certain is exactly how many businesses will fall, and how fast, once the federal government closes the tap of financial support.

A report from the Bank of Canada, released on Thursday, highlighted concerns that a sharp drop in revenues caused by Covid-19 will make it difficult for many businesses to meet fixed payments, including debt payments. The problem will only be intensified for highly indebted businesses.

"There's going to be a calm before the storm," suggested Mohammad Rahaman, associate professor of finance at the Sobey School of Business, part of Saint Mary's University in Halifax.

Earlier this week, Prime Minister Justin Trudeau offered bridge financing to companies with at least $300 million in revenues. The goal is to keep their businesses open, employees working and hopefully avoid bankruptcies of otherwise viable firms.

However, companies that faced insolvency before the crisis will not qualify under the new rules.

Even before Covid-19, the number of corporate insolvencies was on the rise in Canada. The mining, oil & gas sector saw a 75% increase in the number of filings in 2019 compared with the year before, according to the Canadian

Association of Insolvency and Restructuring Professionals. Among the other sectors seeing double-digit increases were wholesale trade and manufacturing. More recently, the cannabis sector took a significant hit, with six companies filing for creditor protection in the first quarter of this year, leading business law firm McMillan to predict "significant consolidation" among the cannabis labels by the end of 2020, as the virus "places further stress" on an industry already in the midst of consolidation.

Other unstable industries under threat, say industry observers, include the battered retail sector where some traditional bricks-and-mortar brands were too slow to accommodate demands for online sales, even before Covid-19.

Richard Leblanc, a professor of governance law and ethics at York University, predicts businesses that were already drifting towards the brink of CCAA or bankruptcy filings before the virus will reach the crest even faster over the coming months.

"The companies that will go over the edge first are the [ones] that had cash flow problems before," he said.

"Cover will be the straw that broke the camel's back. They don't have cash reserves. They haven't saved for a rainy day. Their revenue model might be flawed."

In early May, a number of prominent retailers were pushed to CCAA filings they blamed on the fallout of Covid-19, including Montreal-based footwear retailer Aldo Group Inc. and Toronto-headquartered camera store chain Henry's.

Other businesses have already blamed Covid-19 for their decision to wind up operations.

Global fleet manager Splend, which leases vehicles to Uber drivers, declared bankruptcy for its Canadian operations after it faced a steep downturn in business due to physical distancing — which it said eroded on-demand passenger travel in Toronto to less than 20% of its normal levels.

"As a result of this drastic reduction of demand in Ontario, many of our members struggled to make their weekly rental payments and opted to return vehicles under the terms of their contracts," the company said in a statement provided to The Canadian Press.

"With the return of vehicles, the corresponding loss of revenue, and refusal of our financiers to modify the terms of our existing loans, we found that the business model in Canada was simply not sustainable."

While federal government support has become a temporary measure for many operations, Rahaman suggested it's up to Canadian banks to "step up to the plate" with better lending measures.

"They can do way more to help businesses," he said.

"Banks — particularly the big banks — need to identify 'good credit' companies, and they need to help them weather the crisis […]. I'd go as far as calling for payment holidays, and perhaps some loan forgiveness, to help good credit-risk companies to weather this economic storm."

Those measures could slow — or perhaps even mitigate — the number of companies filing for CCAA in the months ahead, which could lessen the burden that's expected to weigh on Canada's court system. Exhausting the courts would lead to a significant backlog, which could exacerbate the problem by leaving many creditors in the lurch as their own businesses falter due to unpaid bills.

"Is the current court system equipped to handle such a large volume?" said Dushyant Vyas, associate professor of accounting at University of Toronto Mississauga.

"In the eventuality that the crisis is significantly more pronounced than what we've seen so far, and the court system isn't fully equipped in terms of capacity to handle such a large scale of defaults and restructuring requests, what sort of action would the government take to facilitate an orderly restructuring across the economy?"

At Richter, those bigger questions are less the focus than getting the restructuring and insolvency team prepared for what lies ahead. Benchaya said the group is hiring more experts in the area to ensure they're staffed to accommodate clients.

"We're preparing ourselves for this uptick," he said.

"It'll depend on how much that volume picks up in the coming weeks and months."

7. Trudeau cites uncertainty as reason for budget delay

[May 13, 2020] Prime Minister Justin Trudeau isn't saying when his government will provide a budget or fiscal update, citing economic uncertainty around Covid-19.

The government's first budget since the fall election wasn't delivered in late March as originally planned when the House of Commons went on an extended hiatus as a result of the pandemic.

Trudeau says the government is having difficulty determining what's going to happen to the economy over the next few weeks, let alone the next year.

He says the government will look for ways to keep taxpayers apprised of spending

Federal spending to combat the economic fallout from the pandemic is approaching $150 billion, not including tens of billions more in loans and tax deferrals to help companies cover costs, prompting an expected tenfold increase in this year's deficit.

On Tuesday, the parliamentary budget officer told a House of Commons committee the deficit would likely be more than $250 billion, up from the $28.1 billion estimated in the Liberals' fiscal update from late last year.

Yves Giroux also warned all that emergency aid, and possible spending to aid in a recovery, would likely shoot the national debt to $1 trillion.

"Unlike previous recessions or economic downturns, this is a situation that has no antecedent," Trudeau said Wednesday.

"It is a completely outside health issue that has caused us to choose to cease a massive amount of economic activity in this country to keep Canadians safe."

Trudeau made the comments after saying that seasonal and tourism companies that don't qualify for other federal programs, or who are still facing cash-flow issues, can get help through one of six regional development agencies.

The $962-million regional relief fund will also in some cases help non-profit groups that offer unique financing that entrepreneurs can't get from traditional lenders.

Perrin Beatty, president of the Canadian Chamber of Commerce, said in a statement the money will provide "desperately needed help" to small- and medium-sized businesses that have fallen through the cracks of federal aid programs.

"As we enter the third month of economic lockdown, many businesses that have not qualified for support urgently need help now. Unfortunately, for some it's too late," he said.

The most recent federal figures on a new wage subsidy program show the government has paid $3.36 billion in a few days to 123,642 companies, helping to cover payroll costs for almost 1.7 million employees.

About 95% of the applications to the $73-billion program have been for $100,000 or more in help.

The Liberals have promised to extend the program beyond its June 6 end date.

Trudeau also said Wednesday that students will be able to begin applying Friday for a new emergency benefit that is part of a $9-billion package to catch students who haven't qualified for the $35-billion Canada Emergency Response Benefit.

The CERB has so far paid out $30.5 billion in benefits to over 7.8 million people, based on the most recently published federal figures.

The Opposition Conservatives have been pressing the Liberals about potential fraud in the program. The government has said that anyone wrongly receiving payments will be dealt with at tax time next year.

8. StatsCan suspends pre-release of jobs data after leak

[May 13, 2020] Statistics Canada is suspending the pre-release of its jobs report to a select group of government officials after a leak of the numbers last week.

The agency had provided an early look at the labour force survey (LSF) for key officials under strict conditions and through secure channels, but said that will no longer be the case.

"There will be no pre-release of LFS information until further notice," said the agency, which is conducting an investigation into the leak.

The monthly Statistics Canada labour force survey is an important economic indicator and can affect financial markets.

Last week, Bloomberg News reported the April jobs figures about a half hour before the official release at 8:30 a.m. ET on Friday. The news agency cited a person familiar with the data.

The jobs report revealed a loss of nearly two million jobs in April and an unemployment rate of 13%, however the result was better than the average expectations of economists.

Financial markets data firm Refinitiv said the average prediction ahead of the report had been for a loss of four million jobs and an unemployment rate of 18%.

The labour force survey has been provided to designated officials at Finance Canada, Employment and Social Development Canada and the Privy Council Office for a number of years.

As of April, early access was also granted to the Bank of Canada and Innovation, Science and Economic Development Canada.

Statistics Canada said all officials must sign a statement of their adherence to the confidentiality provisions prior to receiving the advanced release.

The information is sent through a secure file transfer system the day prior to release, and officials are forbidden from briefings until after the markets close.

Finance Minister Bill Morneau has called the leak of the April jobs report "absolutely unacceptable."

"We will be leaving no stone unturned," the minister said Tuesday of the investigation.

"We need to make sure that information that's important like this, that can be market moving, is kept confidential right up until the time that it is released publicly."

9. Use of cash isn't king during pandemic

[May 13, 2020] The number of Canadians who use cash to pay for goods has nosedived since the Covid-19 outbreak, according to a Payments Canada survey.

The survey found that 62% of respondents were using less cash five weeks into the pandemic than they were before Covid-19 resulted in widespread lockdowns. A similar proportion of respondents (61%) said they were using ATMs less frequently.

Respondents who pay for goods using cheques were less inclined to change their ways — only 40% said they had cut back on their usage of cheques.

The decreases in traditional spending habits could be partly explained by the fact that many respondents had less money to spend. Forty-four per cent reported a decrease in income during the pandemic, and 51% said their retirement savings and other investments had taken a hit.

More than half (53%) of respondents said they were using card or mobile tap payments for in-store purchases more frequently. Forty-two per cent said they avoid shopping at places that don't offer contactless payments, and 38% said they had increased their use of e-commerce platforms.

"While we have seen a continued shift towards digital payments over a number of years in Canada, there's no doubt that the prevailing pandemic has accelerated this shift — and will likely act as a catalyst in transforming the Canadian payment landscape forever," Tracey Black, president and CEO of Payments Canada, said in a release.

The results were based on a Leger/ACS survey conducted between April 17 and April 19 that polled 1,504 respondents aged 18 and older. Online surveys cannot be assigned a margin of error because they do not randomly sample the population.

10. Feds to offer one-time top-ups of OAS, GIS

[May 12, 2020] The federal government is giving seniors a one-time, tax-free top-up payment to help manage extra costs associated with Covid-19.

Seniors Minister Deb Schulte says seniors who receive old age security will get $300, and those who receive the guaranteed income supplement will receive $200.

In all, the $2.5-billion measure will provide payments to 6.7 million seniors, Schulte says.

She says many have faced an increase in the cost of living as a result of the Covid-19 pandemic, from more for dispensing fees for medications or delivery fees for food and services.

She also says their savings have taken a beating as stock markets have tumbled. (In March, the government reduced the minimum withdrawal rate from RRIFs by 25%.)
The government is also announcing that it won't suspend OAS and GIS payments to seniors who forget to file their taxes on time.
The most recent federal figures show there were 6.5 million seniors receiving old age security payments in March.
There were 2.1 million receiving GIS payments, which are meant to put a financial floor under seniors.

11. Expect a spike in insolvencies post-pandemic, association says

[May 11, 2020] Consumer insolvencies are expected to spike in the wake of the Covid-19 pandemic despite a reprieve in the number of filings in March.
The Canadian Association of Insolvency and Restructuring Professionals (CAIRP) says the number of people filing for insolvency will resume its growth even though government relief in the form of income support, along with increased payment flexibility among creditors, landlords and administrators have temporarily allowed many to make ends meet.
The Office of the Superintendent of Bankruptcy says the number of Canadians who filed for insolvency in the first quarter of 2020 was down 5.5% compared to the fourth quarter.
In March alone consumer insolvencies decreased by 8.5% compared to the same time last year.
Despite the dips, the total number of insolvencies filed for the 12-month period ending March 31 increased by 8.4% compared to the same period last year.
The number of consumers filing over the last year increased 8.7% to 138,166.
The number of business filings decreased 0.9% in the last year.
"For those who were already overstretched with more debt than they could reasonably afford, the government relief and short term payment reprieve have allowed many to stay afloat. But their underlying debt is a gaping hole in the lifeboat," stated CAIRP chairman Mark Rosen.
"The pandemic will magnify the debt problems Canadians were already facing and insolvency will be the way out for many."

Have a nice and fruitful week!