Weekly Updates Issue # 765

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1. Weekly Markets Changes

[May 22, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,913.64 +274.74 +1.88%	2,955.45 +91.8 +3.20%	24,465.16 +779.7 +3.29%	9,324.59 +310.0 +3.44%	$0.7135 +0.40c +0.56%	$1,734.68 -8.22 -0.47%	$33.25 +3.52 +11.84%

2. Housing market warming up after April chill, CIBC report says

[May 22, 2020] The future of Canada's housing market may not be rosy, but there are "clear early signs" that activity might warm up heading into the summer, says a new report from CIBC Capital Markets economists Benjamin Tal and Katharine Judge.

"The housing market was basically frozen in April," the Friday report said, with both sales and new listings down substantially last month. However, that resulted in "a relatively stable sales-to-listing ratio and a muted price response," and all provinces were affected similarly.

April numbers from real estate boards weren't good: national sales were down more than 50%, while home sales in the Greater Toronto Area (GTA) plunged 67% and prices in the region fell 11.8% from March.

But things may be looking up.

"Activity in the first two weeks of May was notably stronger than in the first two weeks of April, and as the economy starts to open, that pace will accelerate," the CIBC report said.

While the economists pointed to an increased transaction volume, they also forecast a softer market.

Data from the Canadian Real Estate Association signalled a shift in demand toward less expensive units, the report said. The authors attributed this demand to current economic conditions, but also to some opportunistic buyers looking for a second property.

Citing the results of a Covid-19 study CIBC conducted in April and May, the report said, “No less than 23% of homeowners suggested that the combination of a softer market and lower interest rates is encouraging them to consider purchasing a second unit.” (CIBC polled more than 1,500 Canadians who are renters or homeowners.)

Mortgage and rental outlook

Of the homeowners surveyed who have a mortgage, more than half are on a fixed rate rather than a variable rate mortgage, the report said, and 20% of them have already renegotiated their rates.

The uptake for the mortgage deferral program was roughly 15% across the country, the report said, with “clear signs that the rush is over as the number of new applications is falling steadily.”

Ontario has the highest participation rate in the mortgage deferral program while B.C. has the lowest uptake, despite both regions experiencing affordability issues. The greatest share of users in the program are lower-income borrowers as well as 18 to 34 year olds, the report said.

The report also noted that average rental collection for April and May was better than expected at 90%. The energy-dependent provinces and Ontario rank highest in terms of renters unable to pay, according to CIBC’s poll, but federal and provincial Covid-19 measures are likely helping from a macro perspective.

Forecasts looking at the pandemic’s impact on the housing market have been wildly divergent.

A recent report from Scotiabank called concerns “overblown,” predicting that national housing prices will decline modestly to about 4% lower by year-end relative to the same period last year, followed by a rise of about 11% by the end of 2021.

Canada Mortgage Housing Corporation (CMHC) CEO Evan Siddall painted a stark picture in House of Commons testimony this week. The CMHC forecasts house prices in Canada falling between 9% and 18% in the coming year, and that mortgage arrears could rise from 12% to 20% by September.

3. Largest monthly decline on record for March retail sales

[May 22, 2020] Retail sales in Canada posted their biggest monthly decline on record in March, and Statistics Canada warned that the drop for April is expected to be even bigger.

The agency said Friday retail sales fell 10% to $47.1 billion in March as non-essential businesses began to shut their doors mid-month due to the pandemic.

However, Statistics Canada also said a preliminary estimate for April indicates a 15.6% drop for the first full month of the pandemic.

The March retail numbers were in line with economists' average expectations, according to financial markets data firm Refinitiv.

The drop in March came as sales plunged a record 35.6% at motor vehicle and parts dealers with sales at new car dealers down 38.5% for the month.

Record declines were also reported for clothing and clothing accessories stores and gasoline stations as they fell 51.3% and 19.8% respectively.

But while Canadians stopped buying some things, sales of others soared as shoppers stocked up on household essentials.

Food and beverage stores, which gained 22.8%, and general merchandise stores, which climbed 6.4%, rose to their highest levels on record and posted their largest monthly gains.

Excluding motor vehicle and parts dealers, retail sales were down 0.4% for the month.

Regionally, sales were down in every province as Quebec posted the largest percentage decline at 15.7%. Alberta fell 13%, while Ontario dropped 9.0%.

The retail sales report comes ahead of gross domestic product figures expected on May 29.

A preliminary estimate by Statistics Canada last month pointed to a nine% drop in GDP for March.

4. Pandemic's toll on banks won't be evident for a while: report

[May 21, 2020] U.S. banks are expected to suffer significant deterioration in asset quality due to the economic fallout from Covid-19, but Fitch Ratings says the damage will take time to reveal itself amid government efforts to shore up the economy.

In a new report, the rating agency suggested that the true toll of the pandemic on bank balance sheets won't be immediately evident due to regulatory relief and other measures designed to ensure that credit continues to flow despite the market turmoil.

For instance, Fitch said that reporting standards for banks have been relaxed, "which means that impaired loans and troubled debt restructures could be understated in the near term."

Fitch said that the recognition of impaired loans will likely be delayed for several quarters, and potentially into 2021.

Additionally, Fitch said that forbearance programs could have the effect of artificially inflating bank earnings in coming quarters, "because banks can generally continue to accrue interest on loans subject to forbearance if the borrower was current on their obligations when forbearance was granted."

However, if the borrower ends up defaulting once the forbearance period ends, banks will then face losses that were not reported in earlier periods.

Alongside earnings and loan losses, measures designed to boost lending could also end up inflating reported regulatory capital ratios, Fitch said.

The rating agency cautioned that the delay in revealing the true effects of the pandemic on banks could pose secondary risks for the banks too.

"The sheer scale of coronavirus relief measures poses reputational risks for banks if mishandled or implementation is poor," said Michael Shepherd, director at Fitch.

"Disaster relief and forbearance programs are not a new phenomenon, but the breadth and scale/volume of coronavirus-related loan modifications create operational challenges for banks and could result in customers being negatively affected, tarnishing bank reputations," Shepherd noted.

5. Canada's AAA credit rating at risk: Report

[May 20, 2020] Canada's top-notch, AAA credit rating is under increasing pressure due to the fallout from Covid-19, says National Bank Financial Inc. (NBF) in a new report.

While Canada managed to retain its AAA rating through the global financial crisis of 2008-09 and the collapse in oil prices in 2015, the report suggested, the pandemic is a much tougher challenge.

"As related shutdowns/shut-ins lay waste to the global economy, fiscal fortunes have sunk … deep and quick," the report said. "In Canada's case, the deterioration in public sector finances appears more acute than elsewhere, owing to a hefty fiscal response to the virus and the added pressure of low commodity prices."

As a result, it warned that the risks to Canada's AAA rating are rising.

While the government has yet to be present its federal budget for 2020, NBF noted, recent scenarios presented by the Parliamentary Budget Officer (PBO)

warn that the federal deficit for 2020-2021 could be around $250 billion, equivalent to 12.7% of GDP.

"In dollar terms, that would be a roughly 10-fold increase in the deficit vs. the government's prior guidance," it said, adding that the debt-to-GDP ratio in that scenario would be equivalent to 48.4%.

This significant deterioration in government finances represents a growing risk to Canada's sovereign rating, NBF noted, although it added that the ratings in more immediate jeopardy are those of the provincial governments.

"Today's sharp erosion in provincial deficit and debt profiles could well result in provincial downgrades, particularly in those cases where economic and fiscal recovery paths are slow/uncertain," it said.

In a separate report published today, Fitch Ratings cautioned that, while provincial governments have some room to add debt, they will face credit rating downgrades if their fiscal situations deteriorate significantly.

"The likely depth of each province's downturn, the speed of their recoveries and the lasting damage to their economies and balance sheets are all relevant to assessing whether the current ratings sufficiently reflect long-term credit quality," Fitch said.

"For most provinces, a credible updated economic and revenue forecast remains at least weeks away, once the immediate health crisis passes, economic reopening progresses, and the magnitude of the recession becomes clearer," the report added.

Rising federal debt would reduce the capacity for added provincial debt at current rating levels, Fitch said.

In the meantime, NBF suggested in its report, the growing threat to the federal sovereign rating may well prove justified.

"If aggressively fighting the coronavirus ultimately ends up jeopardizing one of Canada's "As," that may well be an acceptable trade-off for millions of disaffected workers and a growing number of distressed business owners," NBF said.

"Bond investors are understandably watching Canada's unfolding economic and fiscal situation closely, capable of expressing their attitudes and anxiety via positioning and flow. Still, the final say on this country's fiscal future and the true value of credit rating will, as it always has, rest with Canadian voters," it concluded.

6. StatsCan study warns of Covid-19's effects on freelancers

[May 20, 2020] The devastating effects of the Covid-19 pandemic on Canada's workforce are likely understated as Canada's growing army of freelancers and self-employed workers are not captured in traditional employment data, according to a new study from Statistics Canada.

Before the pandemic hit, about 10% of the Canadian workforce (1.7 million people) toiled in the so-called "gig economy," StatsCan reported.

However, measuring the impact of the Covid-19 pandemic on this substantial segment of of the Canadian labour force is difficult, the study said, because gig workers "cannot be identified in any of the main sources of employment data."

As a result, their work loss "is not captured by standard employment or wage indicators," the research noted.

Absent hard data, the study theorizes that the impact of the pandemic will vary significantly based on factors such as the age of affected gig workers and the type of work they do.

"For instance, gig income is not the main income source for pension age [gig workers], and its loss will likely be mitigated by the continuing receipt of pension benefits," the study said.

"For young and prime working-age [gig workers], the income loss is likely to be far more consequential," it noted.

Previous research has found that about half of gig workers generated all of their income from their freelance work, and the other half supplemented wages with gig work.

Gig workers who have no other source of employment income won't qualify for EI benefits, the study noted — although workers who earned at least $5,000 in 2019 "should be eligible for Canada Emergency Response Benefits," it said.

Additionally, the pandemic's effects will vary by job type, the study said.

For example, workers who provide professional, scientific and technical services (about 19.0% of male gig workers and 17.4% of female gig workers) may still be able to work despite mandatory lockdowns, the study said.

Those who work in the arts and entertainment sector (8.2% of male and 7.2% of female gig workers), however, "may find it considerably more difficult to continue their business activities as social distancing is likely to remain in place for some time."

Workers in service industries that require face-to-face interactions — such as Uber and Lyft drivers, retail workers, and cooks, cleaners and nannies — will also "have a harder time dealing with the economic fallout of the Covid-19 pandemic," the study said.

There may also be longer-term impacts on the workforce and the economy, the study suggested.
In the wake of the global financial crisis, the gig economy grew rapidly, as many workers were "pushed" into self employment, it noted.
"Whether a similar trend will occur in the aftermath of the Covid-19 pandemic will likely depend on the speed and intensity of the post-Covid-19 overall economic recovery," the study concluded.
"Another important question is whether the current pandemic will facilitate the expansion of online platforms and crowdsourcing marketplaces, potentially leading to the increase in the size of the gig economy," it said.

7. Liberals urge commercial landlords to access rent relief program

[May 20, 2020] Prime Minister Justin Trudeau is asking Canada's commercial landlords to buy into a federal program launching next week that would give companies a break on the rent due in only a few days.
Applications open Monday but business groups have warned that leery landlords are unlikely to take part in the program, which is delivered jointly with provinces and territories.
Landlords that do sign up can receive a forgivable loan to cover half monthly rents in April, May and June, so long as they drop rents by at least 75% over the same period.
Speaking outside his Ottawa residence, Trudeau said Wednesday that businesses facing a rent crunch will need to hold on through the Covid-19 pandemic and help with an eventual economic recovery, instead of closing up and slowing the rebound.
He said the government "really hopes" commercial landlords will apply for the program, warning that they may find themselves out of cash in the future if they evict tenants now.
"With many people discovering that we can work from home … there may be a lot of vacancies in commercial buildings over the coming months and years. Who knows exactly what the post-pandemic world will look like exactly?" Trudeau said.
"That's why making sure we're supporting the businesses we have now to be able to stay in their spaces as we slowly restore our economy is going to be important, and we certainly expect landlords to be part of the solution."
The Canada Mortgage and Housing Corporation will handle applications for the program starting next week.

During testimony Tuesday at a Commons committee, CMHC president Evan Siddall said there would be information from the agency about how tenants can convince their landlords to apply for the program. He also said payments to landlords should arrive on time for June 1.

The announcement was one of two the Liberals made Wednesday about aid programs that are providing $151.7 billion in direct spending, and tens of billions more in loans and financing.

Federal figures posted Wednesday show that two of the biggest programs have seen bumps in applicants and payments.

The Canada Emergency Response Benefit now has more than 8.1 million applicants who have collectively received more than $38.4 billion — pushing the program further over its $35-billion budget.

Meanwhile, a federal wage subsidy program has now approved 215,661 claims for help, providing $5.7 billion in aid to companies to cover 75% of wages for almost 2.8 million workers. The program has a budget of $73 billion.

Earlier in the day, the government unveiled details of a bridge financing program for large companies, saying that any receiving loans will have to give the government the option to take an ownership stake, or provide a cash equivalent.

8. Gas prices drive annual inflation negative in April

[May 20, 2020] Canada's inflation rate turned negative in April as the economy came to a standstill in the first full month of the pandemic.

Statistics Canada said Wednesday the consumer price index for April fell 0.2% compared with a year ago as gasoline prices plunged by 39.3%, the largest year-over-year decline on record.

The overall drop in the annual rate was the first year-over-year decline since September 2009.

The reading compared with a year-over-year increase of 0.9% in March, when the pandemic first started to affect the broader economy.

Economists on average expected a reading of -0.1% for April, according to financial markets data firm Refinitiv.

The price changes helped paint a portrait of what shifted last month as the pandemic drove demand for some goods and services over others.

When prices drop, consumers may start to put off buying things now in hopes of paying less in the future. When that happens, businesses can be hurt, making the economy even worse.

Excluding energy, Statistics Canada said CPI rose 1.6%.

“The biggest item bringing down the index — the price at the pumps — has moved higher in recent weeks,” TD Bank senior economist James Marple wrote in a report.

“With activity slowly normalizing through May, the biggest of the price declines are likely in the rear-view mirror.”

Household cleaning products increased on a monthly basis by 4.6%, while toilet paper fuelled an increase in the “paper supplies” category by 6%, the largest monthly increase for that index on record.

Travel and accommodation prices fell 9.8% on a yearly basis in April, the largest decline since 2011 as public health restrictions limited travel to and within Canada, the agency said.

Statistics Canada said there were notable declines in locations near major tourist attractions, including Niagara Falls and the Rocky Mountains.

Food prices for rice, eggs and margarine posted “significant increases,” the agency said, coinciding with higher demand for non-perishable products as consumers were encouraged to limit shopping trips.

Prices for pork and beef increased by nine and 8.5%, respectively, compared with April 2019. The change was due to a boost in sales and supply issues, including a slowdown in cross-border shipping and production cuts or temporary closures of Canadian meat processing plants, Statistics Canada said.

CIBC senior economist Royce Mendes wrote in a note that the Bank of Canada will “look through the deflationary print” because the it didn’t reflect of the pricing environment for consumers.

Mendes said the average of the three core measures of inflation tracked by the Bank of Canada was 1.8%.

“Nevertheless, with the economy likely still underperforming if and when further restrictions are lifted, there will be an underlying drag on inflation that central bankers will need to offset with additional monetary easing,” Mendes writes.

In a separate report, Statistics Canada said wholesale sales fell 2.2% to $63.9 billion in March.

The overall drop came as the motor vehicle and motor vehicle parts and accessories subsector plunged 21.2%, the largest monthly percentage drop since January 2009. Excluding the subsector, wholesale sales rose 2.1%.

In volume terms, wholesale sales dropped 2.8%.

9. Feds impose rules on loans to large companies

[May 20, 2020] Large companies that receive bridge financing through a new federal loan program will have to give the government the option to take an ownership stake, or provide a cash equivalent.

Finance Minister Bill Morneau says the terms will be the same for any company asking for help through the program that opens for applications today.

He says the terms are designed to make sure companies using the program receive bridge loans, not bailouts, to get through Covid-19's economic disruptions.

Publicly traded companies, or any their private subsidiaries, will have to issue warrants giving the government the option of purchasing shares worth 15% of the loan, or receiving the equivalent in cash. Privately held companies will pay the same in fees, Morneau says.

"The idea behind the warrant is to make sure that if the firm does well that Canadians, and Canadian taxpayers, share in that upside," he says.

"The Canadian government will not be required to take that value in shares, it can take it in cash."

The Liberals have said the loans would be on commercial terms, and require companies to have already gone to banks or the market and been unable to meet their financial needs.

Recipients would also have to agree to limits on executive compensation, dividend payments and share buy-backs, as well as show they are contributing to the Liberals' goal of reducing greenhouse-gas emissions.

Loans would start at $60 million with no upper limit, Morneau says, and be targeted at firms with earnings of at least $300 million.

Morneau says the loan program for Canada's largest corporations is so they can stay open and keep employees on their payrolls and to avoid bankruptcies of otherwise viable firms, wherever possible.

Interest will be set at 5% in the first year, rising to 8% in the second year, and 2% annually thereafter. The terms of the program posted online say companies can pay off the interest on the loan through in-kind contributions, usually goods or services, for the first two years of the loan.

"What we've done here is make sure we're providing a low level of interest in the first year, but one that's appropriate so that employers that seek this will first go to their own sources of financing," Morneau said during a morning news conference in Toronto.

10. Hope for recovery hinges on resilient services sector, report says

[May 19, 2020] As certain businesses tentatively reopen, there is some hope that a recession centred on the services industry will have a faster recovery than previous ones.

A report from Richardson GMP says the current recession is unique because it was self-induced to stop the coronavirus from spreading, and because it's driven by the services sector.

In previous recessions, the services sector has been the stabilizer rather than the centre of the pain, the report said.

"The good news is that compared to past recessions, which had to work through excess inventories of houses or tech, this one doesn't have such a burden," the Richardson GMP report said.

"Instead of suffering two years of job losses and a long four years to get back to normal, this recession may have a similar pattern but over quarters. Of course, there are many unknowns as we are in the uncharted waters of a novel services recession."

A report from RBC based on its cardholders' data said April spending was down almost 30%, though it rebounded somewhat late in the month. Spending on household goods was still higher than pre-pandemic levels, household construction was strong and discretionary spending was low but had stabilized, the report said. However, spending on restaurants and entertainment was down 50% from pre-crisis levels.

Last week, the U.S. Commerce Department reported that retail sales in April were down 21.6% from the previous year, more than doubling the previous record drop set in March.

The Richardson GMP report looked at data from restaurant reservation app OpenTable in the southern United States to see how the services sector was faring as economies reopen. While the number of seats dropped by 100% in March, recent data has shown "the green shoots of normalcy and pent-up demand for dinner with family and friends."

Cities in Florida, Texas and Arizona have seen bookings gradually rise since they reopened at the start of May, the report said. The question is at what point will bookings stabilize — and how far below pre-crisis levels will they be? An OpenTable survey found one-quarter of restaurants may not reopen at all.

"Capacity constraints, virus fears and a consumer that will likely prefer to save more on the margin will all contribute to a more muted new normal," the report said.

Still, while the recovery in services won't be as fast as the decline, the authors expect the turnaround to be faster than previous recessions.

"Consumers and business will adapt to minimize the collateral damage and the pace of recovery could be surprising," the report said.

Have a nice and fruitful week!

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