Weekly Updates Issue # 775

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1. Weekly Markets Changes

[July 31, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,169.20 +172.14 +1.08%	3,271.12 +55.5 +1.73%	26,428.32 -41.57 -0.16%	10,745.27 +382.1 +3.69%	$0.7460 +0.09c +0.12%	$1,975.86 +73.84 +3.88%	$40.43 -0.91 -2.20%

2. May's GDP growth beat economists' expectations

[July 31, 2020] Statistics Canada says the economy grew by 4.5% in May as businesses began to reopen after the severe lockdowns of March and April.
The average economist estimate was for a 3.5% increase in gross domestic product for May, according to financial data firm Refinitiv.
The national data agency says rebounds in May were seen across multiple industries with the easing of Covid-19 restrictions, including retail trade that registered a 16.4% bump to mark its largest monthly increase since comparable readings began in 1961.
Motor vehicle and car sales contributed the most to the retail growth. Statistics Canada says the sector would have grown by 11.4% had they been excluded from calculations.
Activity at food services and drinking places rose 35.1% in May as dining rooms and patios began to open in certain parts of the country.
Air transportation edged up 1.9% in May from April's all-time low, but was still 96% below January's level before pandemic-related travel advisories and restrictions began.

In a preliminary estimate for June, the agency says the economy continued to pick up steam, with a 5% increase for the month.

Despite the two months of growth after two months of negative readings, Statistics Canada's preliminary estimate is that economic output contracted by 12% in the second quarter compared to the first three months of 2020.

The June and second-quarter figures will be finalized late next month.

CIBC senior economist Royce Mendes says in a note that a 12% drop in the second quarter would be the largest decline ever by a long shot, even if such a decline was expected.

The Bank of Canada's most recent economic outlook expected the second quarter of 2020 to be worse than the first, estimating a three-month drop in GDP of 14.6%.

Overall, the central bank expected an economic contraction of 7.8% this year, warning that after an immediate turnaround as restrictions eased, a recovery would be long and bumpy with some businesses and jobs not surviving the downturn.

Statistics Canada says economic activity still remained 15% below pre-pandemic level despite the gains over May as business activity was slowly allowed to resume.

3. Small biz confidence improves in July: CFIB

[July 31, 2020] Small business sentiment improved in July, as revealed by the latest survey from the Canadian Federation of Independent Business (CFIB). Yet, the survey also indicated that businesses continue to face challenges — and that some may have closed their doors for good.

CFIB's business barometer index had a reading of 61.3 in July — a level close to historical norms and up from 54.6 a month earlier. The reading is based on 12-month forward expectations for business performance.

Yet, the survey also captured other performance measures that were far from business as usual.

"Businesses are running at less than two-thirds capacity on average," the report said. "Staffing, wage and capital investment plans continue to significantly trail historical norms."

Only 22% of business owners said their businesses were in good shape — about half the usual proportion. And nearly 50% said insufficient domestic demand will limit sales or production growth — a figure little changed from the previous month.

To explain the overall normal July index reading, the report said business owners likely have much lower expectations for good performance 12 months out, so the index showed a "temporary overshoot profile during a recovery."

The shorter-term three-month outlook was far less optimistic, with a reading of 40.8.

In a report analyzing the survey results, TD Economics said the wide gap between the 12-month and three-month expectations suggested "business confidence has a long way to go to full recovery."

CFIB said July's normal index reading was also likely attributable to an observed survivor effect.

"It appears a notable number of weaker businesses polled in the spring no longer responded to the survey in July," the report said. "This suggests an acceleration of business exits between June and July."

With that sober observation stated, the survey showed optimism rose in all provinces except Saskatchewan (−0.8 points to 58.3). Ontario had the highest index score (66), followed by Nova Scotia (62.4).

Quebec businesses remained the most pessimistic (39.6), while those in the remaining provinces remained mostly in the mid-50s.

Business sentiment also rose across most sectors, **except finance, insurance, and real estate (down 2.3 points to 58.3); agriculture (down 2.5 points to 42.8); and hospitality (down 0.3 points to 58.7).** The retail sector showed a particularly large increase in optimism, hitting 62, up more than 11 points from the previous month as businesses began to reopen.

Looking ahead, the TD report said, notable downside risks remain for businesses in the near term, including the recent uptick in Covid-19 cases in some provinces and the potential for waning government income support for households.

TD Economics also noted that any pullback in U.S. activity as a result of surging infection rates would weigh on Canadian exports and business activity.

About the CFIB business barometer: *The July findings were based on 677 responses from a stratified random sample of CFIB members, to a controlled-access web survey. Data reflect responses received from July 2 to 20, 2020. Findings are statistically accurate to +/- 3.8% 19 times in 20.*

4. Government to create EI for contractors, extend rent relief for biz

[July 31, 2020] Prime Minister Justin Trudeau says the government will create a transitional benefit to help workers who exhaust emergency pandemic aid and don't qualify for employment insurance.

The $80-billion Canada Emergency Response Benefit is set to wind down over the coming weeks, with those who are EI-eligible to move onto that separate program.

Speaking this morning, Trudeau says many people who don't qualify for the program, such as gig or contract workers, will gain access to a transitional, parallel benefit that is similar to EI.

It will also include access to training, and the ability to work more hours without having as steep a clawback in benefit payments, Trudeau says.

He says more details will be unveiled at a later date.

The most recent figures on the CERB show that as of July 26, the government had paid out $62.75 billion in benefits to 8.46 million unique applicants since its launch.

The government also announced on Friday that the Canada Emergency Commercial Rent Assistance program has been extended once again and will now cover a portion of August's rent for businesses that qualify.

To get the rent assistance, businesses will not have to prove a 70% decline in sales for July or August but will have to show a 70% revenue shortfall that qualified them for CECRA in April, May and June.

The program's low adoption rate was previously criticized by the Canadian Federation of Independent Business, which cited the onus on landlords and stringent requirements.

But on Friday, the government said that thousands of new applications are being regularly submitted, "demonstrating a strong interest in CECRA from property owners and small business tenants."

About $613 million has been paid out to 63,000 tenants as of Thursday, the government said.

5. US economy shrank at record breaking 33% rate last quarter

[July 30, 2020] The U.S. economy shrank at a dizzying 32.9% annual rate in the April-June quarter – by far the worst quarterly plunge ever – when the viral outbreak shut down businesses, throwing tens of millions out of work and sending unemployment surging to 14.7%, the government said Thursday.

The Commerce Department's estimate of the second-quarter decline in the gross domestic product, the total output of goods and services, marked the sharpest such drop on records dating to 1947. The previous worst quarterly contraction, a 10% drop, occurred in 1958 during the Eisenhower administration.

Last quarter’s drop followed a 5% fall in the January-March quarter, during which the economy officially entered a recession triggered by the virus, ending an 11-year economic expansion, the longest on record in the United States.

The contraction last quarter was driven by a deep pullback in consumer spending, which accounts for about 70% of economic activity. Spending by consumers collapsed at a 34.6% annual rate as travel all but froze and shutdown orders forced many restaurants, bars, entertainment venues and other retail establishments to close.

Business investment and residential housing also suffered sharp declines last quarter, with investment spending sinking 27% and residential housing plunging 38.7%.

State and local government spending, diminished by a loss of tax revenue that forced layoffs, also fell at an annual rate of 5.6%.

But overall government spending was up 2.7%, powered by a 17.4% surge in federal spending, reflecting the more than $2 trillion in relief packages that Congress enacted to provide $1,200 payments to individuals, aid to small businesses and supplemental unemployment benefits.

The job market, the most important pillar of the economy, has been severely damaged. Tens of millions of jobs vanished in the recession. More than 1 million laid-off people have applied for unemployment benefits for 19 straight weeks. So far, about one-third of the lost jobs have been recovered, but the resurgent virus will likely slow further gains in the job market.

President Donald Trump has pressured states to reopen businesses despite concerns that the virus remains a threat to workers and customers at many service industry jobs that require frequent face-to-face contact.

So dizzying was the contraction last quarter that most analysts expect the economy to produce a sharp bounce-back in the current July-September quarter, perhaps of as much as 17% or higher on an annual basis. Yet with the rate of confirmed coronavirus cases having surged in a majority of states, more businesses being forced to pull back on re-openings and the Republican Senate proposing to scale back government aid to the unemployed, the economy could worsen in the months ahead.

The Trump administration is betting against that outcome in asserting that the economy will undergo a V-shaped recovery in which last quarter’s plunge would be followed by an impressive rebound in the current quarter – a hoped-for dose of good news that would be reported in late October, not long before Election Day.

Yet many economists note that the economy can't fully recover until the pandemic is defeated – a point stressed Wednesday at a news conference by Federal Reserve Chair Jerome Powell. The Fed chairman warned that the viral epidemic has been endangering a modest economic recovery and that as a result, the Fed plans to keep interest rates pinned near zero well into the future.

6. Fed stays the course as pandemic constrains growth

[July 29, 2020] The Federal Reserve is expressing concern that the viral outbreak will act as a drag on the economy and hiring in coming months and plans to keep its benchmark short-term interest rate pegged near zero.

In a statement at the end of its policy-making meeting Wednesday, the Fed acknowledged that the economy has rebounded from the depths of March and April, when nearly all states closed down nonessential businesses. But it said the ongoing coronavirus pandemic "will weigh heavily on economic activity, employment and inflation."

The Fed announced no new policies in its statement. The central bank said it will also continue to buy about $120 billion in Treasury and mortgage bonds each month, which are intended to inject cash into financial markets and spur borrowing and spending.

Economists say the Fed has time to consider its next policy moves because short- and long-term rates remain historically ultra-low and aren't restraining economic growth. Home sales have picked up after falling sharply in the spring. The housing rebound has been fueled by the lowest loan rates on record, with the average 30-year mortgage dipping below 3% this month for the first time in 50 years.

With the economy struggling just to grow, small businesses across the country in serious danger and unemployment very high at 11.1%, few investors expect the Fed to hike interest rates for perhaps years to come. After its previous meeting last month, the Fed had signalled that it expected to keep its key short-term rate near zero at least through 2022.

Beginning in March, the Fed has slashed its short-term rate, bought more than $2 trillion in Treasury and mortgage bonds and unveiled nine lending programs to try to keep credit flowing smoothly.

Since the Fed's previous meeting in June, the pandemic's threat to the economy has appeared to worsen. The number of laid-off workers applying for unemployment aid has exceeded 1 million for 18 straight weeks. Measures of credit card spending have declined. And companies that track small-business employment say the number of people at work has levelled off, far below pre-pandemic levels, after having risen in May and June.

Most analysts say they think the Fed's next move will be to provide more specific guidance about the conditions it would need to see before raising its benchmark short-term interest rate from zero.

Economists call such an approach "forward guidance," and the Fed used it extensively after the 2008-2009 recession. Some Fed watchers expect no rate increase until 2024 at the earliest given the bleak outlook for the economy and expectations of continued ultra-low inflation. But by providing more certainty for investors about when a rate hike may occur, forward guidance can help keep longer-term rates lower than they might otherwise be.

The Fed will likely provide such guidance at its next meeting in September, economists say.

According to the minutes of their June meeting, "various" Fed officials felt it would "be important in the coming months … to provide greater clarity" about the future path of rates.

One potential form of forward guidance would be for the Fed to announce that it won't raise rates until annual inflation has reached or exceeded its target of 2% for a specific period. This would be intended to allow inflation to rise above 2%, to offset inflation that has fallen below that target nearly continuously since 2012. (Inflation is now running at just 0.5%, according to the Fed's preferred gauge.)

In recent speeches and appearances, Fed policymakers have sounded largely pessimistic about the economy. Several, including Powell, warned in late May, as many states began allowing more businesses to reopen, that a resurgent virus could imperil any recovery.

Congress is in the early stages of negotiating an economic relief package that might extend several key support programs, such as an expiring unemployment benefit that is now paying out $600 a week. That benefit will likely be reduced in any final legislation.

For now, the two parties are far apart, and the federal jobless benefit will likely lapse for about 30 million people who have been unemployed for several weeks. That would likely slow consumer spending and weaken the economy.

7. Oilsands production facing record annual decline; air travel will not recover until 2024

[July 28, 2020] Forecasts for two of the sectors most affected by the Covid-19 pandemic show the extent of the damage and the rocky path to recovery.

A new report predicts Canadian oilsands production will have its biggest annual decline on record this year, dropping by an average of nearly 175,000 barrels per day due to issues associated with the pandemic.

Meanwhile, the trade association for the airline industry said Tuesday that global air travel is recovering more slowly than expected and will take until until 2024 to return to pre-pandemic levels.

Research firm IHS Markit said the step back in 2020 oil production isn't expected to greatly affect the rest of its 10-year forecast.

It expects oilsands production to reach 3.8 million barrels per day (bpd) by 2030, down slightly from a previous forecast for 3.9 million bpd, but still a 1.1-million bpd increase from the 2020 projected production.

Oilsands production is anticipated to rise over the second half of 2020 and into 2021 as barrels curtailed due to low prices come back online and capacity that has never been fully utilized ramps up.

IHS Markit suggested oilsands output by 2022 could be 300,000 bpd higher than in 2019 if the Alberta government eases its oil curtailment program introduced in early 2019 to better align production with limited pipeline takeaway capacity.

Most production growth will come from small investments in projects where some capital has already been deployed, the report said — less than one-third will come from new greenfield operations or project expansions.

"Despite the Covid-induced shocks of 2020, the longer-term expectations for Canadian oilsands are not far off from what was expected prior to the pandemic," said IHS vice-president Kevin Birn.

"The scale of installed production capacity that exists today, the lack of material production declines from existing operations in the medium-to-long term and the ability to optimize and leverage current operations support growth."

The recovery for air travel is going to take longer than originally thought. The International Air Transport Association pushed back its prediction by one year due to the slow containment of the outbreak in the U.S. and developing countries.

The industry is seeing a rebound from the depths of the shutdowns in April, but the bad new is that any increase "is barely visible," IATA chief economist Brian Pearce said Tuesday during an online briefing for journalists.

Pearce said that air travel is not rebounding along with rising levels of business confidence in Europe, the U.S. and China. Traffic was down 86.5% in June from the same month a year ago, compared with a drop of 94.1% in April, measured as revenue passenger kilometres, or the distance travelled by all revenue-generating passengers.

That improvement is "nowhere near the increase in business confidence," Pearce said. China is bouncing back more than some other places, while an upturn in the U.S. has been knocked back by the recent upsurge in Covid-19 cases in a number of states.

Besides renewed outbreaks, travel is also being held back by weak consumer confidence and constrained travel budgets at companies that are struggling.

Despite parking many of their planes, airlines are struggling to fill seats with enough people to make money. Planes were only 62.9% full on domestic flights around the world, well below levels at which airlines make money, and an abysmal 38.9% for international travel.

The U.S. is seeing more coronavirus cases after some states moved to lift restrictions on public life and business. The summer vacation season in Europe has seen more people move around and a rise in cases in Germany, which had earlier done better than many other countries in mitigating the outbreak.

The head of the Robert Koch Institute there expressed concern over the rise in cases. Germany issued a travel warning for three regions in Spain and the U.K. has imposed a 14-day quarantine for travellers returning from Spain, a popular holiday destination.

8. Canadians hesitant about resuming activities as Covid-19 restrictions ease

[July 27, 2020] Most Canadians remain reluctant to resume many everyday activities, even as provinces and cities begin to relax restrictions imposed as part of measures to fight the spread of Covid-19, a new study released Monday by Statistics Canada suggests.

According to the survey, Canadians reported being “very concerned” about the health risks of resuming shows, festivals, movies or sporting events (66%), travelling by airplane (64%), gathering in larger groups (57%) such as weddings and religious services, or visiting a retirement home or long-term care facility (55%).

Fewer than 10% of surveyed respondents reported being “not concerned at all” about resuming those activities.

The survey was undertaken between June 15 to 21 as part of the Statistics Canada’s Canadian Perspectives Survey Series. A sample of respondents, representative of the Canadian population, was asked if they were “very concerned,” “somewhat concerned,” or “not concerned at all” with resuming certain activities, as well as the measures they intended to adopt to reduce the risk of Covid-19 transmission.

Fewer than four of 10 respondents reported being very concerned about the health risks of returning to bars or restaurants (38%) and participating in

organized sports or going to the gym (38%). However, about half (50% and 47%, respectively) reported being somewhat concerned about resuming those activities.
Only 24% of respondents reported being very concerned about shopping in stores and malls, but 62% reported being somewhat concerned.
"Many people may feel torn between the need to resume their activities and the fear of a second wave of the virus," noted the study's authors.
"In addition, some provincial and municipal governments have made it mandatory to wear masks in indoor public spaces, and this has led to changes in how some activities take place. Relaxing lockdown measures may therefore constitute a source of anxiety and concern for these people, who are more reluctant to resume their activities and are more concerned about health risks."
The survey also found regional differences in the level of concern, with Ontario residents generally more concerned about the health risks of resuming activities than those of Quebec and the Prairie provinces.
"Not all provinces have been equally affected by the pandemic, and reopening strategies vary from region to region," noted the study's authors.
Among other things, residents of Ontario were more concerned about relaxing measures for shows, festivals, movies or sporting events (73%, compared with 57% in Quebec and 56% in the Prairies), for gathering in larger groups (63%, compared with 49% in Quebec and 48% in the Prairies) and participating in organized sports or going to the gym (44%, compared with 33% in the Prairies and 29% in Quebec).
However, residents of other provinces were just as concerned as residents of Ontario when it came to visiting people in retirement homes and long-term care facilities.

9. Consumer spending stabilizes, strengthening rebound

[July 27, 2020] Consumer spending stabilized in July, strengthening an economic rebound several weeks in the making, says a report released on Monday from RBC Economics.
The RBC report tracked spending using the bank's proprietary database of anonymized card transactions by its Canadian clients.
Across most spending categories, consumption remained close to levels from RBC's previous month of tracking and were also comparable to last year's spending levels.
For example, spending on apparel, gifts and jewelry was down just 1% by mid-July compared to year-ago levels, the report said. Also, volumes at

household and department and specialty stores remained well above levels seen last year.

Online purchases continued to be robust, especially in certain categories as social distancing continues.

“Even as stores reopened to customers, online and remote spending remained stronger for clothing retailers, restaurants and grocery stores as consumers avoided crowds,” the report said.

However, social distancing continued to negatively affect in-person dining, where spending levels remained 10% below last year.

Spending on larger entertainment venues, such as galleries and museums, also remained low — about 20% below last year’s levels.

In contrast, certain in-person entertainment and health spending — on golf courses and hair salons, for example — have bounced back to pre-pandemic levels.

In travel spending, a slight recovery continued into July, led mostly by car rentals and accommodation. Other forms of travel continued to drag down overall levels, which were about two-thirds below last year, the report said.

Canadians focus on financial responsibilities

As spending recovers, results from a recent poll suggest some Canadians may be more focused on financial responsibility than spending, with younger Canadians especially focused on creating positive cash flow and emergency savings.

In a study of 1,500 Canadians sponsored by Credit Canada, 54% of respondents said paying bills was their top financial priority, and 44% said cutting back on spending took precedence during Covid-19.

Younger respondents exhibited greater financial diligence in certain instances relative to older demographics.

Among 18- to 34-year-olds, 43% said maintaining a positive bank balance at month’s end was a top financial priority, compared to less than one-third (32%) of 35- to 54-year-olds, and 35% of those 55 and older.

Similarly, 40% of 18- to 34-year-olds ranked having emergency savings as a top financial priority, compared to 36% of those in the 35- to 54-year-old cohort, and 30% for those 55 and older.

Angus Reid surveyed a representative sample of 1,500 Canadians who are members of the Angus Reid Forum from July 8 to July 10 for Credit Canada. For comparison purposes only, the sample carries a margin of error of +/- 2.5 percentage points, 19 times out of 20.

Have a nice and fruitful week!