Weekly Updates Issue # 777

1. Weekly Markets Changes

[August 14, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,514.61 -29.87 -0.18%	3,372.85 +21.57 +0.64%	27,931.02 +497.54 +1.8%	11,019.30 +8.32 +0.08%	$0.7476 +0.16c +0.21%	$1,945.12 -90.43 -4.44%	$42.23 +1.01 +2.45%

2. Americans spent more at retail stores in July

[August 14, 2020] Americans spent more at retail stores and restaurants in July for a third straight month, but growing evidence suggests that sales are now slowing with the expiration of government rescue aid that had previously put more money in people’s pockets.

Friday’s report from the Commerce Department showed that retail purchases rose by a seasonally adjusted 1.2% last month, with solid gains at appliance and clothing stores helping drive up sales. The gains of the past three months have restored retail purchases to their levels before they plunged in March and April when the pandemic shuttered businesses and paralyzed the economy.

Still, with Americans’ overall income now likely shrinking, economists expect a drop in spending and potentially weaker growth. The July figures might have offered a preview: Though spending rose, the gain was much less than in May (18.3, when shoppers flocked to newly reopened businesses. In

July, though, the viral outbreak re-surged in much of the nation, forcing some businesses to shut down again and likely discouraging many shoppers.

Sales at restaurants and bars grew 5% last month after much more robust increases of more than 30% in May and 27% in June. Restaurant and bar revenue remains below its levels of a year ago. There were solid sales gains last month at electronics and appliances stores, reflecting the needs of mostly higher-income people who are now working from home. Furniture sales were flat after a huge gain in June.

The problem now is that roughly 28 million laid-off workers are no longer receiving a US$600-a-week (all figures are in U.S. dollars) federal unemployment check that they had received in addition to their state benefit but that lapsed last month. In addition, a $1,200 stimulus check that was sent to many Americans in April and May likely won’t be repeated. Negotiations in Congress on a new economic relief package have collapsed in rancour and show no sign of restarting anytime soon.

Many retailers have said the supplemental unemployment aid had helped spur sales of clothes and other non-discretionary items in the spring and early summer.

“Consumers have been largely shielded from economic realities by the various stimulus and benefit programs,” said Neil Saunders, managing director of GlobalData Retail. “However, many of those advantages expired at the end of July, and August will be the first month when the chill winds of economic turmoil hits many households.”

Consumers started to cut back on spending in late July, according to a GlobalData survey, and spending fell sharply in the first week of August, a sign that many Americans are already pulling back.

Retail sales include only about one-third of all consumer spending. The rest involves services _ from haircuts and gym memberships to movie tickets and hotel rooms _ all of which were hit disproportionately hard by the pandemic and have yet to recover

In the April-June quarter, consumer spending collapsed by a record amount, causing the economy to shrink at a previously unheard-of annual rate of 32.9%. Economists have forecast that growth is rebounding in the July-September quarter at a roughly 20% annual rate, though that pace would still leave the economy far below pre-pandemic levels.

The government’s figures mask a huge shakeout in the retail industry, with Americans pulling sharply back on in-person shopping and spending more online. More than 40 retailers have filed for bankruptcy protection this year, about half of them since the pandemic. That’s about double the number for all of 2019.

Many of these retailers had been ailing before the pandemic. But analysts envision another wave of retail bankruptcies in coming months that would include some companies that were financially healthy before the virus struck. In recent weeks, Ann Taylor's parent company declared bankruptcy. So did the Lord & Taylor department store chain and the discount store chain Stein Mart, which had been in business for 112 years.

Stein Mart cited the resurgence of coronavirus cases in Florida, Texas and California as a key factor in its bankruptcy filing. The company has many stores in those states, a fact that hurt customer traffic and drained its cash.

The upscale outdoor CityPlace Doral mall in Miami had closed in March, reopened in May and then enjoyed strong sales and traffic in June, according to Mauro Olivieri, the mall's general manager of the upscale outdoor mall. When the virus resurged in July, local mandates forced it to close indoor dining.

Yet the mall has since recaptured more than half its normal levels of traffic.

"Because we are an open-air centre, people are feeling more comfortable in returning to regular shopping patterns," Olivieri added.

President Donald Trump has signed an executive order that would replace the now-lapsed $600 a week in federal jobless aid with $300 a week from a disaster relief fund. Yet that would require the states to establish a separate payment system that would likely take weeks. In the meantime, the loss of the $600 will cut recipients' income, on average, by one-half to three-quarters.

That prospect has unnerved Tia Ferguson. A 40-year-old substitute teacher in Columbus, Ohio, Ferguson was laid off in March. Beginning in June, she managed to receive both her state's unemployment benefit and the $600 federal check. It's unclear when she might be recalled to work, and she is reluctant in the meantime to teach in person until after a vaccine is approved. A diabetes and asthma patient, she worries about the risks of returning to the classroom.

Ferguson's husband earns income as an auto mechanic but is still building a business that he recently started. The couple has taken to reducing their three kids' video game time to save on electricity.

With her weekly jobless aid now just $171, Ferguson has cut back on groceries and gone on Facebook to find information on food pantries.

"I don't know when I'll have a steady stream of income that's even close to what I was making," she said.

3. Record gain for manufacturing sales in June: StatsCan

[August 14, 2020] Statistics Canada reports manufacturing sales climbed a record 20.7% in June to $48.7 billion as production returned following widespread shutdowns earlier in the year.
The increase was led by the motor vehicle and motor vehicle parts industries and followed growth of 11.6% in May.
Economists on average had expected an increase of 16.4% for June, according to financial markets data firm Refinitiv.
Sales in the transportation equipment industry more than doubled to $8.8 billion in June as most factories in the automotive sector returned to full production following shutdowns earlier in the pandemic.
Sales in the petroleum and coal product industry also rose by 31.5% to $3.3 billion in June due to higher prices and volumes as refineries ramped up production.
Despite the gains, total manufacturing sales in June were 13.2% below their pre-pandemic level in February.

4. Apple and Tesla just announced stock splits. Here's what that means for your investments

[August 13, 2020] Apple and Tesla, arguably two of the market's most popular companies, both announced stock splits in recent weeks. Are these maneuvers good or bad for investors?
Here's what you need to know if your shares are being split in two (or three, or four, or five).
A stock split does exactly what it sounds like: One share gets split up into multiple shares, with no change to the total value of investors' holdings. They are simply are broken down into more individual units.
So, who benefits from a stock split?
Lowering a company's share price can put its stock within the reach of smaller, individual investors. That's good for the company's liquidity and creates more demand for its stock.
On Monday, Apple, one of the most valuable companies in the world, announced a 4-for-1 stock split, which will take effect August 31. A single share was trading at about $450 Wednesday. Starting September, that will be closer to $100.
This will be Apple's fifth stock split since going public.
The price change will be more dramatic at Tesla, whose stock was trading at more than $1,500 a share on Wednesday. Its 5-for-1 split, also set for August 31, will bring an individual share into the $300 range.

That's still not exactly cheap, but it's already been a boon to both companies, whose share values have risen even further since they announced their moves.
Some companies, meanwhile, abstain from splitting their shares entirely, and just watch their stock value rise ever higher. One such example is Warren Buffett's Berkshire Hathaway.
Berkshire's class A shares ended Wednesday at nearly $320,000 a share. You can do the math on just how many ways one might want to split that stock.
The company's class B shares, which have been split in the past, are a far more affordable $213 a share.

5. Three warnings on travel that point to a slow economic recovery

[August 13, 2020] The biggest question facing investors is how quickly the global economy can recover from the coronavirus pandemic.
Longer than expected may be the answer, if new data and forecasts from the travel and energy sectors are any indication.
First, energy: The International Energy Agency on Thursday cut its forecast for global oil demand in 2020 by 140,000 barrels per day.
The agency said its first downgrade in several months reflected the stalling recovery in travel, the high number of coronavirus cases and weakness in the aviation sector. The demand outlook for next year was also slashed.
Consumption is bouncing back in China, the agency said, but transportation activity is falling in places where the virus is continuing to spread quickly such as India and Latin America.
"The virus continues to impact road transport as people avoid non-essential trips and working from home remains the norm in much of the West," the agency said in its monthly report.
When will things get back to normal? Not anytime soon, if ever.
"By December 2021, global oil consumption will still be 2% lower than at the end of 2019," said the IEA.
Major producers see the same trend. On Wednesday, OPEC said it expects global oil demand growth to decline by 9.1 million barrels per day in 2020, or 100,000 barrels per day more than its previous forecast.
Now, travel: Shares in TUI dropped as much as 6.3% on Thursday after the German tourism company said it lost €1.1 billion ($1.3 billion) in the three months ending in June.
The world's biggest tour operator has obtained a second credit line from the German government, a step needed to "secure our liquidity in the event of further long-lasting travel restrictions and disruptions through COVID-19."

The company operates cruise ships, five airlines and more than 400 hotels, employing about 70,000 people worldwide.

TUI already announced plans to scale back its global operations and cut up to 8,000 jobs. It's reducing the size of its German fleet, restructuring its business in France and closing 166 travel agencies in the United Kingdom.

While some travel activities have resumed, the company said it still cannot forecast its financial performance for this year due to the pandemic.

More bad news: With coronavirus cases on the rise again in Europe, and restrictions on travel being reimposed, the situation may get even worse. The International Air Transport Association warned Thursday that 7 million jobs in Europe supported by aviation are now at risk — that's a million more than it expected in June.

"It is desperately worrying to see a further decline in prospects for air travel this year, and the knock-on impact for employment and prosperity," said Rafael Schvartzman, IATA's regional vice president for Europe.

Alibaba could be the next target in the tech war

The United States has taken aim at some of China's biggest tech champions, from Huawei and ByteDance's TikTok to Tencent's WeChat. Alibaba, one of the world's largest retail and internet conglomerates, could be next.

My colleague Sherisse Pham reports from Hong Kong that Alibaba may be targeted as President Donald Trump seeks to undermine Beijing's rising tech prowess by forcing global players to chose between China and the United States.

Alibaba operates widely popular e-commerce platforms, mostly available in China and Southeast Asian markets. It also started Alipay, one of the most dominant payment apps in China alongside Tencent's WeChat Pay.

The company hasn't yet been threatened with the same kinds of sanctions that Trump has proposed or levied against other Chinese tech firms. But Secretary of State Mike Pompeo name-checked Alibaba last week when he urged American companies to remove "untrusted" Chinese-owned technology from their digital networks.

Any action by Washington would likely not affect the company's e-commerce and retail business in China, which accounts for nearly 80% of its 509.7 billion yuan ($73.5 billion) in annual revenue.

But the broadly worded executive order issued against WeChat last week indicates that Washington may be preparing to cast a wider net. That order could cut WeChat off from all US technologies including the software and semiconductors it needs to keep operating.

"If they do something like that with Alibaba, that would also be a pretty big blow," said Dan Wang, a Beijing-based technology analyst with research firm

Gavekal Dragonomics. Alibaba has large cloud operations in China and "requires US semiconductors and software in order to continue these operations," he said.

Stores need to pay more attention to the air we breathe

During the coronavirus pandemic, supermarkets and retail stores have added a variety of safety features. Workers have been required to mask up and, more recently, most customers too. But most have yet to tackle what could be another important safety measure — changes to the systems that keep the stores hot and cold, and that can potentially recirculate air carrying the virus.

My colleague Nathaniel Meyersohn reports that the air in stores is now coming under closer scrutiny. Some epidemiologists, engineers and labor leaders hope that changing air filtration in stores during the pandemic will help protect against coronavirus spread.

Improved filtration in stores would be "an added layer" of protection for workers, Marc Perrone, president of the United Food and Commercial Workers union, said in an interview with CNN Business.

Some chains have already started to upgrade their filters.

"In light of COVID-19 and the latest CDC guidance, we are also upgrading to hospital-rated filtration systems of MERV 13 or higher wherever technically possible," said a spokesperson for German discount grocery chain Lidl, which has around 100 US stores.

6. Ontario budget deficit projected to jump to $38.5 billion in 2020-2021

[August 12, 2020] The Covid-19 pandemic continues to take a heavy toll on Ontario, the province's finance minister said Wednesday, as he announced the government has nearly doubled its deficit projection to $38.5 billion in just three months.

Finance Minister Rod Phillips said the pandemic has created an "unprecedented health crisis" and the province had to spend billions to support the health-care sector and help Ontario businesses and residents.

In March, the Progressive Conservative government had said the deficit would reach $20.5 billion by the end of 2020-2021, but Phillips said Wednesday the ongoing pandemic required billions more in spending.

"We remain in uncertain times and the risk of a second wave is real despite our collective efforts to avert it," he said. "The economic impacts of Covid-19 globally, and in Ontario, are still unfolding."

In it's spring fiscal update, the province announced a $17-billion spending package designed to provide aid during the pandemic. The government said

Wednesday that its Covid-19 relief spending will now total $30 billion by the close of the fiscal year.

Overall, the government expects to spend an additional $13 billion on programs this year, while it is expecting to collect $5.7 billion less in taxes and other revenues because of the pandemic.

Among the new measures announced in the update, the province now plans to add $4.3 billion more to a health-care spending contingency fund in advance of a potential second wave of Covid-19 this fall.

The safe restart agreement recently reached with the federal government to help municipalities with their Covid-19 expenses will cost Ontario $2.4 billion.

The province will add $2.2 billion to a standard contingency fund established in the wake of the pandemic.

The cost to Ontario for the promised pandemic pay for front-line workers is estimated at $1.1 billion.

All tax deferrals the province had put in place earlier this year will be extended to Oct. 1, which it estimates will cost $1.3 billion.

Prior to the pandemic, Ontario had been projecting a $9-billion deficit for 2020-2021 and Premier Doug Ford had pledged to balance the province’s books by 2023-2024.

Phillips stressed that the government had been on track to balance the books but Covid-19 has required immediate action.

“While the current level of government spending and deficits are not sustainable over the long term, they are necessary today,” he said.

Earlier this year, the province postponed its annual budget, which is normally introduced in March. The government said it will instead introduce its full spending package on, or before, Nov. 14.

7. Britain finally has something 'world beating.' A deep recession

[August 12, 2020] Britons woke up this morning to news that the UK economy shrunk by 20.4% in the second quarter, the worst slump on record and the biggest drop of any major global economy.

The crash follows a 2.2% contraction in the first quarter, meaning the economy is officially in recession. The country's finance minister, Rishi Sunak, said the figures "confirm that hard times are here."

"Hundreds of thousands of people have already lost their jobs, and sadly in the coming months many more will. But while there are difficult choices to be made ahead, we will get through this," he said.

Lockdowns necessitated by the coronavirus pandemic were the principle cause for the widespread economic destruction. But there is ample evidence that policy decisions made by voters and their elected leaders — both in the recent past and years ago — made the crisis worse than it could have been.

Rewind to June 23, 2016. That's the day the British people voted by a narrow margin to leave the European Union, their biggest export market, and embark on a new future outside the bloc.

The result was years of uncertainty that discouraged companies from investing in Britain and sapped the economy of much of its dynamism. Average annual gains in real GDP fell from 2.4% in the three years prior to the vote to 1.6% after, according to Berenberg.

"Future historians will mark 23 June 2016 as the day when the UK, like a train switching tracks, suddenly veered off onto a different path," Kallum Pickering, a senior economist at Berenberg, said in a research note.

The malaise was well established when the coronavirus pandemic struck earlier this year, leaving the economy more vulnerable and flummoxing a government led by Prime Minister Boris Johnson that has been widely criticized for its response.

Johnson promised a "world beating" track and trace system, but it has not materialized. Care homes for the elderly have been ravaged by the disease, the government was slow to add testing capacity and the prime minister's chief adviser confused government messaging on social distancing by driving hundreds of miles to a second home during lockdown.

One result: The UK economy has shed 730,000 jobs since the coronavirus pandemic shuttered businesses in March, with the young, the old and the self-employed bearing the brunt of the unemployment crisis.

The outlook for the UK economy remains bleak.

Even after years of back and forth over Brexit, the country has not yet negotiated a post-Brexit trade agreement with the European Union. The deadline for such a deal to be struck is the end of the year.

Talks are not going well — raising the possibility of another major shock just as the expected economic recovery gains momentum.

"Whether the post-Brexit path will run largely parallel to the old one, with the UK heading in a roughly similar direction ... or take a new direction entirely, remains an open question," said Pickering.

8. CRA launches updated CEWS calculator ahead of applications opening Monday

[August 11, 2020] The federal government has launched an updated calculator to help employers estimate what help they might receive from the next phase of the Canada Emergency Wage Subsidy (CEWS).
The calculator opened today on the CEWS website ahead of the opening of applications next Monday.
Employers enter information about their business situation to get an estimate of the subsidy they can expect to receive as they struggle to deal with the effects of the Covid-19 pandemic.
Canada Revenue Agency says knowing the amount will help companies to make informed decisions about retaining or re-hiring workers. A series of information sessions will be held in the coming weeks.
Tax news website Video Tax News has also launched a free CEWS calculator in partnership with Punchcard Systems.
Enhancements to CEWs include expanding eligibility criteria, introducing a sliding revenue-decline test to determine the subsidy amount, and a top-up subsidy for the most impacted employers.
Employers can expect to receive their payment within three to five business days after applying if they are registered with direct deposit on their payroll account.
"The Canada Emergency Wage Subsidy has enabled employers across the country to keep or re-hire millions of Canadians. The enhanced CEWS program launched today was redesigned to be more flexible and support a wider range of employers," stated National Revenue Minister Diane Lebouthillier.
The program has provided $26.58 billion in subsidies to more than 275,000 employers.

9. CMHC reports annual pace of housing starts climbed nearly 16% in July

[August 11, 2020] Canada Mortgage and Housing Corp. says the annual pace of housing starts in July rose nearly 16% compared with June.
The housing agency says the seasonally adjusted annual rate of housing starts rose to 245,604 in July, up from 212,095 in June.
Economists on average had expected an annual rate of 210,000, according to financial markets data firm Refinitiv.
"Housing starts continue to rebound nicely. Strong underlying demand and low rates mean builders likely won't be packing away those hammers any time soon," wrote Priscilla Thiagamoorthy, an economist at BMO Capital Markets Economics, in a note to clients.

The increase came as urban starts of apartments, condos and other types of multiple-unit housing projects rose 18.8% to 184,431 in July while single-detached urban starts climbed 12.3% to 47,564.

Rural starts were estimated at a seasonally adjusted annual rate of 13,609 units for July.

"The strength in homebuilding was widespread across all regions, but was, surprisingly, led by the Prairies and Atlantic Canada," wrote Omar Abdelrahman, an economist at TD Economics. "Indeed, aside from the complete pause in Quebec in April due to restrictions on non-essential economic activity, homebuilding has shown only a muted response to Covid-19, swiftly returning to pre-pandemic levels."

The six-month moving average of the monthly seasonally adjusted annual rates of housing starts rose to 204,376 in July, up from 199,778 in June.

Despite the upward trend, Bob Dugan, CMHC's chief economist, said in a statement that he expects homebuilding to slow in the near future. Dugan's statement cited the negative impact of Covid-19 on economic and housing indicators.

"Despite the housing market's durability thus far, we continue to see a soft spot ahead given the ongoing lack of immigration and upcoming resumption of many deferred mortgages," wrote Royce Mendes in a note to clients from CIBC Economics.

"Furthermore, interest from investors for short-term rental condo units in downtown cores has come under severe pressure just as demand dynamics are shifting toward a desire for suburban homes with more space and backyards."

10. Bank of Canada rolls back emergency measures

[August 10, 2020] Citing continued improvement in short-term funding markets, the Bank of Canada is revising the collateral requirements for a key liquidity support program.

Starting Aug. 24, the central bank will reduce the limits on non-mortgage loans and securities that can be used as collateral for its standing liquidity facility (SLF) from 100% back to pre-crisis levels by Sept. 21.

The bank pointed to "the continued improvement in short-term funding conditions" as the reason for the change announced Monday.

Back in March, the Bank of Canada increased the limits as part of its efforts to support market liquidity and the financial system amid "deteriorating market conditions" that accompanied the Covid-19 outbreak.

For non-mortgage loans, the limit will gradually be reduced back to 20% of total collateral; for securities, the limit will be reduced to 40%.

The bank said it will “continue to monitor short-term funding conditions as well as global market developments” and “revise these concentration limits if necessary.”

11. Kodak stock dives 30% after $765 million loan is put on hold

[August 10, 2020] Kodak stock plunged 30% Monday after a $765 million loan from the US government to help make drug ingredients was put on hold, as regulators are reportedly looking into allegations of insider trading.
The stock was temporarily halted after plunging as much as 43% earlier in the day.
"Recent allegations of wrongdoing raise serious concerns," the US International Development Finance Corporation said in a tweet Friday afternoon. "We will not proceed any further unless these allegations are cleared."
The DFC's announcement came a few days after questions arose about heavy trading volume for Kodak's stock, which soared as much as 2,757% following the initial July 29 announcement.
Kodak executives including CEO Jim Continenza are also facing criticism for receiving stock options on July 27, a day before the loan announcement.
White House Press Secretary Kayleigh McEnany on Monday would not say whether President Trump will pull the plug on a recent deal with Kodak, but said he takes allegations of insider trading against the company "very seriously." She added that the president has "strong faith in the process" and that the administration will not proceed until the allegations are cleared.
Last week the Wall Street Journal reported the Securities and Exchange Commission is investigating why Kodak announced the loan on the day prior to the official announcement, which sent shares 25% higher. The Journal said a local TV station in Kodak's home of Rochester, New York, published a media advisory about the upcoming announcement, adding that the station had not been given an embargo on the news.
The $765 million loan was meant to launch Kodak Pharmaceuticals, which will produce generic active pharmaceutical ingredients to reduce America's dependency on foreign drug makers. The company would hire some 350 workers, most in New York state, and create approximately 1,200 indirect jobs.
Kodak didn't immediately respond for comment.

Have a nice and fruitful week!