Weekly Updates Issue # 778

1. Weekly Markets Changes
2. U.S. home sales surged 24.7% in July
3. Retail sales top pre-pandemic levels for first time
4. Tech's magnificent seven are worth $7.7 trillion
5. Could inflationary pressure pick up?
6. A guide to the new EI and the government's three new benefits for workers
7. Plummeting applications for permanent residency threaten economy
8. Inflation rate falls to 0.1% as price growth slows
9. Wall Street thinks a double-dip recession is more likely than V-shaped recovery
10. Home sales hit new record in July: CREA

1. Weekly Markets Changes

[August 21, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,517.85 +3.24 +0.02%	3,397.16 +24.31 +0.72%	27,930.33 -0.69 -0.002%	11,311.80 +292.5 +2.65%	$0.7573 +0.97c +1.30%	$1,940.48 -4.64 -0.24%	$42.25 +0.02 +0.05%

2. U.S. home sales surged 24.7% in July

[August 21, 2020] U.S. home sales rose an unprecedented 24.7% in July, extending a rebound in June after the coronavirus pandemic all but froze the housing market this spring.

National Association of Realtors said Friday that sales of existing homes jumped last month to a seasonally adjusted annual rate of 5.86 million. With consecutive months of record-breaking gains, purchases are up 8.7% from a year ago. Home sales rose 20.7% in June, a record that lasted one month.

The housing market has been one of the more resilient sectors of the economy during the pandemic, but market activity continues to hinge on supply, which was limited even before the coronavirus outbreak.

The number of available homes for sale was 1.5 million units, down 2.6% from June and 21.1% from one year ago. At the current sales pace, there is a 3.1-month supply of houses, down from 3.9 months in June and the 4.2 months from July 2019.

The dearth of home available for purchase is pushing prices higher. The median price for a home cracked the $300,000 mark for the first time ever, settling at $304,100. That up a sharp 8.5% from July 2019.
“With only 3.1 months of existing supply on the market, even with the recent pickup in the pace of homebuilding, the lack of inventory is going to continue to be a hurdle by limiting some prospective buyers’ choices and weakening their purchasing power,” said Mike Fratantoni, chief economist at the Mortgage Bankers Association.
And homes put up for sale are vanishing from more quickly. Homes were on the market for an average of 22 days in July, down by two days from June, and they are disappearing seven days faster than they did in the same month last year. NAR said more than two-thirds of homes sold in July were on the market for less than a month.
Sales exploded in every region in the country, led by the Northeast and West, where sales grew by more than 30%. The Midwest was close behind as sales there rose 27.5%, while sales in the South rose 19.4%.
The jump in home sales, or closings, jibe with pending home sales report from May, when signed contracts jumped a record 44.3%. That report is a barometer of finalized purchases over the next two months — in this case, the record setting months of June and July.
Sales of both existing and new homes fell sharply during the traditional spring selling season as communities were locked down to prevent the spread of the coronavirus. But as areas have lifted restrictions and people are figuring out how to go about business under pandemic conditions, home sales have skyrocketed.

3. Retail sales top pre-pandemic levels for first time

[August 21, 2020] Canadian monthly retail sales topped their pre-pandemic levels for the first time in June as more parts of the country moved ahead with plans to reopen their economies, Statistics Canada said Friday.
Retail sales soared 23.7% in June to $53.0 billion, while the agency also revised its reading for May to show a gain of 21.2%, up from its earlier estimate of 18.7%.
Statistics Canada said the June sales were 1.3% higher than in February, the last month before broad shutdowns were ordered by public health officials to slow the spread of the Covid-19 pandemic.
Economists on average had expected an increase of 24.5% for June, according to financial markets data firm Refinitiv.

TD Bank economist Ksenia Bushmeneva said the rebound in retail sales looked “pretty V-shaped,” a reference to a quick recovery from a sharp decline.
“Sales continued their recovery in June alongside the reopening process, regaining all ground lost in the pandemic and then some,” Bushmeneva wrote in a report.
“Strong motor vehicles continue to supercharge the sales numbers. Significant pent-up demand is also giving a boost to several other categories, such as clothing and furniture, where the impact of the mandatory shutdowns was most extensive.”
Despite the large gains, the trend sales seen in May and June are not expected to continue. Statistics Canada said early estimates suggest retail sales increased by 0.7% in July.
“The stalling of momentum in retail sales to begin the second half, and potential for backsliding after pent-up demand is satisfied, paints a picture of a long and bumpy road ahead for the economy,” said CIBC senior economist Royce Mendes.
“That said, the extension and augmentation of some unemployment benefits will help support household spending, offsetting some of the drag from the still-high unemployment rate.”
Retail sales in June were up across all of the subsectors with the motor vehicle and parts dealers group up 53.4%.
Sales at non-essential retailers also surged higher, with clothing and clothing accessories stores posting a 142.3% gain in June.
Furniture and home furnishing stores saw sales rise 70.9%, while building material and garden equipment and supplies dealers added 13.0%. Sales at sporting goods, hobby, book and music stores rose 64.9%.
For the second quarter, Statistics Canada said retail sales were down 13.3% compared with the first quarter.

4. Tech's magnificent seven are worth $7.7 trillion

[August 20, 2020] The titans of tech dominate the stock market.
Apple is now worth more than $2 trillion. The industry's Fab 5 — Apple, along with Amazon, Microsoft, Google owner Alphabet and Facebook — are collectively worth more than $7 trillion.
Add Tesla and Netflix to this list — a Magnificent 7 of the Nasdaq, if you will — and this septet is valued at a combined $7.7 trillion.
To put into context just how staggering this is, look at the Russell 2000.

The companies in that index, which includes nearly 2,000 of America's smaller publicly traded companies, have a total market value of about $1.9 trillion, according to data from Refintiv.

Apple and Tesla, which both have announced plans to split their high-flying stocks in order to lower the share price, are trading at record highs. The other five tech giants are not far from records either.

All seven Nasdaq leaders have thrived this year despite the global economic slowdown resulting from Covid-19.

Apple has generated booming demand for services and apps tied to its iPhone. Microsoft, Amazon, and Alphabet dominate cloud computing and a host of other industries, such as gaming, e-commerce, and search.

Facebook continues to be the leader in social media despite concerns about abuses on its platform. Tesla is the king of the electric car industry. And Netflix remains on top of the streaming world.

5. Could inflationary pressure pick up?

[August 20, 2020] At 0.6%, the increase in the U.S. consumer price index (CPI) in July was about twice what economists expected. In a report on Thursday, CIBC Economics considered the factors affecting stronger U.S. inflation and provided an inflation forecast.

CIBC noted that the recent increase in U.S. prices was the result of more than rebounding prices in clothing, air fare and car insurance following the economic shutdown.

“Prices even outside of these areas were, on average, firmer than the trends seen over the spring,” the report said.

The increase was due mostly to service industries where social distancing requirements keep capacity low and/or result in higher costs being passed on to consumers, CIBC said.

For example, restaurant prices have increased, as have prices for personal services such as haircuts.

The annual inflation rate in service industries could remain elevated until at least summer 2021, the report said, unless a vaccine lifts the supply constraints resulting from social distancing.

At the same time, a large output gap and high unemployment rate may have a dampening effect on price increases. (The output gap is the difference between actual and potential GDP.)

Given that both supply and demand have fallen significantly in various sectors because of the pandemic, measuring the output gap is difficult, the report explained. However, it noted that strong fiscal and monetary policy responses

to the pandemic support consumer demand, at least for services where consumers feel safe to resume spending. Price pressures in those areas will help offset weaker inflation in others, the report said.
At the same time, the end of the Canada Emergency Response Benefit and the Canada Emergency Student Benefit could have a negative impact on household spending, said Desjardins in an outlook report on Thursday. Desjardins forecasted U.S. inflation of 1.8% for 2021.
CIBC said it expects U.S. core CPI to firm further, potentially peaking at about 2.5% in spring 2021. Its outlook is based on higher inflation in those service industries where supply has been constrained, as well as potential pass-through from the weaker U.S. dollar to imported goods prices.
While U.S. inflation is likely to be higher than consensus expectations over the next year, "this is not a stagflation story or a story in which strong monetary support causes runaway inflation," the CIBC report said.
"Instead it is simply a by-product of the big changes in supply and demand seen during this unusual time, particularly within service industries where close contact with the customer is required."
If a vaccine emerges, inflation could eventually trend lower in a couple years. "There would therefore be little pressure on policymakers to raise interest rates until that final, post-vaccine stretch of the recovery is well underway," the CIBC report said.
CIBC also said Canada could start to catch up to the U.S. in the second half of 2020 in terms of inflation — the Canadian economy reopened later. Yet, differences in inflation between the two countries also reflect calculation differences, the report said.
Desjardins' inflation rate forecast for Canada was 0.7% for 2020 and 2.1% for 2021.

6. A guide to the new EI and the government's three new benefits for workers

[August 20, 2020] The federal government is switching up its relief programs for unemployed Canadians after doling out $69.37 billion to 8.61 million people across the country whose jobs were impacted by Covid-19.
Here's a look at how the new programs will work:

What is happening to the Canada Emergency Response Benefit and Employment Insurance?

The government is extending the CERB by an additional four weeks, thus offering a maximum 28 weeks of benefits. After that maximum is reached the government will launch a “simplified” EI program and three new kinds of benefits on Sept. 27.

Those on CERB will be able to transition to EI if they qualify under new parameters.

How many hours do you have to work to qualify for the new EI?

Canadians will now qualify for EI after working as few as 120 insurable hours, the equivalent of about 3.5 weeks, in the last 52 weeks.

EI claimants will receive a one-time credit of about 300 insurable hours for claims, if they have lost their job, or 480 insurable hours, if they have taken leave for a sickness, pregnancy or parental, compassionate care or family caregiver reasons.

Those credits will be available for one year and retroactive to March 15 for claimants who wanted to switch from CERB to EI maternity, parental, compassionate care, family caregiver or work-sharing benefits, but were stopped because they did not meet the hourly requirements.

How much money will people receive?

New EI claimants will receive at least $400 per week or $240 per week for extended parental benefits if this is higher than their benefits would otherwise be.

Previous EI claimants were given 55% of their average weekly earnings, up to a maximum $573 per week in 2020.

What is happening to the EI premium rate?

The EI premium rate is being frozen for two years at $1.58 per $100 in insurable earnings for employees and $2.21 per $100 in insurable earnings for employers.

What if I’m self-employed or don’t qualify for EI?

The first of the three new benefits is the Canada Recovery Benefit for workers who are self-employed or not EI-eligible and still require income support because their work has not yet returned due to Covid-19.

This benefit will provide $400 per week for up to 26 weeks, while claimants continue to look for work.

They will be able to earn income from employment or self-employment while receiving the benefit but need to repay 50 cents of every dollar earned above an annual net income of $38,000 through their income tax return.

The benefit will be available Sept. 27 and paid in arrears.

What if I get sick or have to isolate for Covid-19?

The government will offer the new and temporary Canada Recovery Sickness Benefit to provide income support for workers that are sick or must self-isolate because of Covid-19.

The benefit will offer $500 per week for up to two weeks and cannot be received while claimants are also taking paid sick leave.

It is also available Sept. 27 and paid in arrears.

What if I have to look after kids or family member?

The government has announced the Canada Recovery Caregiving Benefit, a new and temporary program for workers who must miss work to care for a child under the age of 12, a family member or dependant because schools, daycares or day program facilities are closed due to Covid-19.

This benefit offers $500 per week for up to 26 weeks per household. It may be shared, but only one member of a household at any time can receive the benefit at a time.

Workers who prefer to keep dependents at home when facilities are open are not entitled to the benefit, which is effective Sept. 27 and paid in arrears too.

7. Plummeting applications for permanent residency threaten economy

[August 20, 2020] A slowdown of immigration to Canada due to the Covid-19 pandemic threatens to derail a major source of economic and labour force growth, according to a report from the Royal Bank of Canada.

The shortfall jeopardizes the ability of the country to find employees needed in sectors such as health and elder care as the baby boom generation moves into retirement over the next few years, the report says.

It calls on the federal government to find new ways to encourage more immigrants to move to Canada.

“Canada does rely on having large numbers of people coming to the country to fuel growth and, if we see these large declines, one concern could be that people may decide maybe they don’t want to come to Canada anymore,” said report author Andrew Agopsowicz, a senior economist for RBC who studies labour trends.

“I think it’s really important for Canada to ensure the process is clear and that we still put out this attitude that we are open and we want people from the rest of the world to come to our country.”

Canada added 34,000 permanent residents in the second quarter, down 67% from the same period last year, the RBC study said.

Meanwhile, new permanent residency applications to Canada were down 80% and just over 10,000 new study permits were processed, down from 107,000 a year earlier.

Despite a recent recovery in the pace of immigration, the bank expects to see only 70% of the originally targeted 341,000 new permanent residents at the end of the year, a decline of about 100,000 people.

The shortfall is particularly bad news for elder care as labour shortages have gotten worse in the wake of the pandemic's deadly sweep through the country's nursing homes, said Dr. Samir Sinha, director of health policy research at the National Institute on Ageing at Ryerson University and director of geriatrics at Mount Sinai Hospital.

"We've been having a huge struggle finding workers and retaining workers in this sector for years … and we were only keeping it afloat by often recruiting immigrants who are willing to take on these jobs that we as Canadians didn't want to do," he said.

"The fact it's low paid and not valued also speaks to one of the reasons it's been incredibly hard retaining (staff)."

Sinha said higher wages are needed not only to recruit Canadian-born workers but also to keep ambitious immigrants on the job longer.

Canada's ability to attract immigrants with meaningful work as the economy struggles to rebound from the pandemic may be difficult.

A Statistics Canada report published Thursday finds that recent immigrants were harder hit by pandemic-related job losses, with 17% becoming unemployed from March to April compared with 13.5% of workers who are Canadian-born or immigrants who have been in Canada more than 10 years.

The percentage was higher, almost 20%, for recent female immigrants.

The difference is significant, said Statistics Canada analyst Feng Hou, adding it is attributed mostly to recent immigrants having less work experience and earning lower wages.

"From past experience, when immigrants come during hard times, they tend to have a hard time finding jobs," he said, adding there's no data as yet to tell if that will happen in the current environment.

Travel restrictions that began in March and continue today make it difficult for people to physically come to Canada, Agopsowicz said.

At the same time, the lockdowns in the early days of the pandemic slowed processing of applications in Canada and prevented potential immigrants from accessing programs to ease application in their home countries.

An unknown is whether the Covid-19 virus, which hits senior citizens hardest, will have a dampening affect on the desire of foreigners to come to Canada and leave behind their vulnerable elderly relatives, Agopsowicz said.

"There's a lot of uncertainty, I think, when people arrive already during normal times, so I think people are starting to work through what that means," he said.

"This may be somewhat of a lost year (but) is this going to be easy to recover from next year in terms of bringing increased numbers back?"

Only about 20% of new permanent residents are former students or temporary workers, he pointed out, suggesting Ottawa could do more to try to convince those people to permanently reside in Canada to bolster numbers.

8. Inflation rate falls to 0.1% as price growth slows

[August 19, 2020] The consumer price index for July rose 0.1% compared with a year ago, as gasoline prices fell nearly 15%, Statistics Canada said Wednesday.

The reading was down from a year-over-year increase of 0.7% in June. The average economist estimate had been for a year-over-year increase of 0.5% for July, according to financial data firm Refinitiv.

Excluding the drop in gasoline prices, the inflation barometer compared with a year ago was up 0.7% for July compared with a 1.2% increase excluding gasoline for June.

The statistics agency said the slower pace of price growth was broad-based, spanning goods and services.

Statistics Canada said air travel prices fell in July by 8.6%, the first year-over-year decline since December 2015.

It said the result was due to airlines offering incentives for people to travel again, including reduced fees, discounts and promotions even as many flights remained cancelled or suspended because of the pandemic.

Similarly, prices for traveller accommodations were down 27% compared with July 2019, marking the third straight month of declines as Canadians opted for staycations.

Annual prices for meat rose at a slower pace in July than June largely due to production ramping up again following plant closures caused by spikes in infection rates among workers.

The average of Canada's three measures for core inflation, which are considered better gauges of underlying price pressures and closely tracked by the Bank of Canada, was 1.6%, staying relatively steady since April.

The figures are below the Bank of Canada's 2% inflation target, but the central bank has warned that the price index readings are going to be low for this year and next.

Governor Tiff Macklem has said the central bank will maintain its key interest rate at the lower limit of 0.25% until inflation gets back into the Bank of Canada's target range.

In a separate report, Statistics Canada said wholesale sales rose 18.5% in June to $62.1 billion to bring them near their pre-pandemic levels.
The agency said all seven subsectors saw higher sales for the first time since November 2017 as the motor vehicle and motor vehicle parts and accessories subsector led the growth in dollar terms.
Wholesale sales volumes were up 18.8%.

9. Wall Street thinks a double-dip recession is more likely than V-shaped recovery

[August 19, 2020] America's stock market has swiftly recovered from the pandemic. Sophisticated investors don't think the real economy will do the same.
Just 17% of fund managers expect a rapid V-shaped economic recovery, according to a Bank of America survey released Tuesday.
Far more (31%) anticipate a gradual U-shaped recovery. Worse, the Bank of America survey showed that 37% of fund managers expect a double-dip recession via a W-shaped recovery.
The findings are yet another reminder that the stock market is not the economy. Wall Street may have catapulted back to record highs at lightning speed, but there is no guarantee Main Street will.
The fact that the S&P 500 recovered its pandemic losses is more of a reflection of the unprecedented steps taken by central bankers than the strength of the real economy. By slashing interest rates to zero and buying trillions of dollars of bonds, the Federal Reserve has left investors with almost no choice but to bet on risky stocks.
The S&P 500, home to some of America's richest and most powerful companies, has spiked more than 50% since the March 23 lows. But smaller companies, which are less suited to survive the pandemic, have lagged behind. The small-cap Russell 2000 is still down 10% below its August 2018 record high.
"Markets are still skeptical about the durability of the economic recovery," Solita Marcelli, UBS Global Wealth Management's Americas CIO, wrote in a note to clients Tuesday.

Is the rally overdone?

That's why 57% of fund managers surveyed by Bank of America want companies to focus on slashing debt. Just 30% are pushing companies to ramp up business investment. Tellingly, very few fund managers want companies to return cash to shareholders through buybacks and dividends.

The economic concerns revealed in the fund manager survey echo what America's leading CEOs are saying.

Just 9% of US CEOs anticipate a V-shaped recovery, according to a Conference Board survey released in late July. More than twice as many (23%) expect a double-dip through a W-shaped recovery.

Some investors worry the remarkable recovery on Wall Street may be overdone.

The percentage of fund managers saying an equal weighted portfolio of stocks, bonds and gold is overvalued reached the highest level since 2008, according to Bank of America.

And yet there were silver linings in the survey.

Seventy-nine percent of fund managers expect the economy will strengthen, the highest since late 2009 during the depths of the Great Recession. And more fund managers believe the stock market is in a new bull market (46%) than those that say this is just a bear market rally (35%) before new losses.

Even though the stock market is back to record highs, Bank of America strategists said they "do not think positioning is dangerously bullish." In other words, they don't fear a new market bubble.

Housing is booming. But what about the rest of the economy?

The debate over the shape of the recovery comes amid conflicting signals.

Some parts of the economy are showing signs of rapid recovery. For instance, housing starts surged in July and have now recovered 90% of their February-April decline, according to Jefferies.

"Housing data continue to paint a picture of a V-shaped recovery. In the case of housing, we believe it will be sustained and long-lasting," Aneta Markowska, chief economist at Jefferies, wrote in a note to clients Tuesday.

The housing boom -- fueled by limited inventory and pent-up demand from millennials flocking to the suburbs -- has lifted confidence among homebuilders to record highs. The housing strength is also padding the bottom lines of home improvement retailers Home Depot and Lowe's.

Consumer spending, boosted by a wave of stimulus from Uncle Sam, is also recovering swiftly. After crashing to a seven-year low in April, US retail sales have returned to pre-pandemic levels. In fact, retail sales in July hit their highest level on record.

Yet the labor market recovery will take much longer, economists say.

At 10.2%, the unemployment rate remains above even the worst levels of the Great Recession. The United States added an impressive 1.8 million jobs in July, yet that marked a slowdown from June's record-breaking pace of 4.8 million. And payrolls are still down nearly 13 million during the pandemic.

One-third of NY-area businesses wouldn't survive without aid

The true health of the economy is being masked by emergency aid from the federal government -- some of which has expired while Congress debates what to do.

Without that help, a staggering number of companies would struggle to survive.

If current revenue levels persist, about one-third of New York-area businesses would become insolvent without government support, according to a New York Federal Reserve survey released Tuesday. Manufacturers said they would become insolvent in an average of just six months, while service sector firms said they'd go under in an average of eight months.

The survey, which included companies based in New York, northern New Jersey and southwestern Connecticut, reflects deep concerns from companies about their finances.

About three-quarters of service-sector firms and manufacturers said they were either very or somewhat worried about collecting payments from customers. And roughly two-thirds said they were very or somewhat concerned about maintaining adequate cash flow.

Those Main Street worries suggest the risk of a double-dip recession should not be waved away by the euphoria on Wall Street.

10. Home sales hit new record in July: CREA

[August 17, 2020] The Canadian housing market saw more sales this July than any month in the past 40 years, with 30% more homeowners closing on properties compared to this time last year.

The Canadian Real Estate Association said Monday that the 62,355 sales in July 2020 marked the highest monthly sales figure on record, with data going back more than 40 years.

Sales in July were up 30.5% compared with the same month a year ago and up 26% from June, rebounding from lows of earlier this year when the Covid-19 pandemic froze the market.

CREA Senior Economist Shaun Cathcart said there was more than one driving force behind July’s full-tilt housing market, citing both Covid-19 and existing issues heading into 2020.

“A big part of what we’re seeing right now is the snap back in activity that would have otherwise happened earlier this year,” Cathcart said.

“Recall that before the lockdowns, we were heading into the tightest spring market in almost 20 years.”

“Some purchases will no doubt be delayed, but the new-found importance of home, lack of a daily commute for many, a desire for more outdoor and personal space, room for a home office, etc. will certainly also spur activity that otherwise would not have happened in a non-Covid-19 world."

CREA says the actual national average price for homes sold in July was a record $571,500, up 14.3% from the same month last year.

The uptick in prices was broad-based, with all 20 of the markets tracked by CREA reporting month-over-month increases in July.

The Toronto area, Guelph, Ottawa and Montreal saw the biggest price spikes, with prices climbing faster in most markets east of Saskatchewan. Prices rose more modestly in British Columbia and Alberta, CREA said.

In July, demand outpaced supply, as sales increased faster than new properties could be listed. Although new listings hit a record for the month of July, as the number of newly listed homes climbed by 7.6% in July compared with June, it came amid a 26% jump in sales.

Cathcart said in a statement that despite the surge in new listings hitting the market, the total number of listings that lingered on the market as inventory was at a 16-year low.

CREA's statement also suggested that new supply appears to be "tapering off in many parts of the country," with the Toronto area dominating new listings. The "sales-to-new listings" ratio in July was at its highest levels since 2001-2002, at 73.9%.

"There are listings that will come to the market because of Covid-19, but many properties are also not being listed right now due to the virus," said Cathcart.

Brian DePratto, senior economist at TD Economics, said it can be hard to understand how the housing market can be so hot when the unemployment rate remains in double-digits.

"The pandemic has disproportionately impacted lower income Canadians, who are less likely to be or become homeowners," wrote DePratto in a note to clients. "Borrowing costs have fallen."

DePratto said that the strength of the recent rebound in the housing market is "definitely surprising" and said there are still many factors to watch in terms of tracking the economic recovery from the pandemic.

"A number of support programs, including mortgage forbearance, are helping insulate the economy from the worst impacts of the pandemic," wrote DePratto.

"As autumn approaches, these programs will expire or change form. Depending on the progress of the broader economic recovery, this could bring significant headwinds to housing markets, particularly prices."

Have a nice and fruitful week!