Weekly Updates Issue # 781

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1. Weekly Markets Changes

[September 11, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,222.46 +4.45 +0.03%	3,340.97 -85.99 -2.51%	27,665.64 -467.7 -1.66%	10,853.55 -459.6 -4.06%	$0.7584 -0.56c -0.73%	$1,940.55 +7.15 +0.37%	$37.33 -2.12 -5.37%

2. Key household debt-to-income ratio fell in Q2

[September 11, 2020] The amount Canadians owe relative to their income fell in the second quarter as government aid to help offset the economic impact of the COVID-19 pandemic helped lift disposable income while the amount of debt was relatively unchanged.

Statistics Canada said Friday that household credit market debt as a proportion of household disposable income in the quarter fell to 158.2% on a seasonally adjusted basis compared with a reading of 175.4% in the first three months of the year.

In other words, Statistics Canada says there was $1.58 in credit market debt, which includes consumer credit, and mortgage and non-mortgage loans, for every dollar of household disposable income.

TD Bank economist Ksenia Bushmeneva said government income support measures boosted disposable income and as a result, income growth outpaced debt accumulation.

“One of the major risks heading into this pandemic-induced recession was the high level of household indebtedness in Canada, which could greatly amplify the hit to the economy and slow the subsequent recovery," Bushmeneva wrote in a report.

"So far, it appears that the consumer side of the economy has held up better than might have been expected at the start of the crisis. Reduced spending during the lockdown phase combined with government income support measures allowed some households to paydown consumer debt and ramp up savings."

Even so, Statistics Canada noted that annual trends show that lower income households tend to have a higher debt to disposable income ratio.

Bushmeneva noted that there are risks and challenges ahead as federal aid programs and payment deferrals by financial institutions have helped avert a "delinquency tsunami."

"These support measures will gradually begin to wane, and the state of the labour market and consumer finances cannot diverge indefinitely. As such, delinquencies and consumer insolvencies will likely begin to rise at the end of this year and into 2021," Bushmeneva wrote.

The household debt service ratio, measured as the total obligated payments of principal and interest on credit market debt as a proportion of disposable income, dropped to 12.4% from 14.5% as payment deferrals related to the Covid-19 pandemic reduced the obligated principal paid in the second quarter.

Overall, credit market debt totalled $2.33 trillion at the end of the quarter including $1.55 trillion in mortgage debt and $779.4 billion in consumer credit and non-mortgage loans.

3. As mortgage deferral programs end, defaults could increase

[September 10, 2020] About $1 billion worth of mortgage payments were deferred each month during the pandemic, Canada Mortgage and Housing Corp. said on Thursday.

The calculation, released in CMHC's annual residential mortgage industry report, is based on Equifax Canada's estimate that the average monthly mortgage payment in Canada is $1,333.

CMHC also said that it also expects fewer Canadians to get ahead on their mortgage payments this year, compared with 2019, a trend that will add to the national level of mortgage debt by the end of this year.

By the end of the second quarter, relatively few people were defaulting on their mortgages, although CMHC said it is expecting a rise in delinquent mortgages as deferral programs come to an end this fall.

CHMC's report comes as the financial industry is closely watching how homeowners react to resuming deferred mortgage payments.

When asked about housing activity at a Thursday press conference, Bank of Canada Governor Tiff Macklem told reporters that household credit growth is still "quite modest" at the moment.

"Incomes have been reasonably well-sustained, consumption has slowed, and so savings overall in the economy have gone up. That's helpful in reducing vulnerabilities," said Macklem on a conference call.

"Having said that, we've been very clear at the Bank of Canada, we've underlined the vulnerabilities caused by household indebtedness and too much reliance on the housing sector. Those have not entirely gone away, but when you look at our policy response — the best predictor of whether somebody is going to repay their mortgage is whether they have a job."

A Sept. 9 note by RBC Economics suggested that by the end of July, many Canadians had already resumed mortgage payments. Among the country's six major banks, 12.4% of mortgages were deferred, down from 15.2% at the end of April, wrote RBC senior economist Josh Nye.

But while high-income households have taken advantage of low interest rates and lockdown savings to pay down debt, Nye's note said that lower-income households are still struggling with existing debt levels, coupled with job losses related to low oil prices and the pandemic.

Nye noted that even before the pandemic, insolvencies jumped in both Newfoundland and Labrador and Alberta, while Saskatchewan led the country in mortgage defaults.

Canadians under the age of 35, meanwhile, have been more likely in recent years to carry mortgages that are harder to refinance, said Nye. Younger mortgage holders have less equity, their loans are more likely to be much higher than their income, and they tend to have more years of repayment ahead of them, Nye said.

CMHC's report suggested that, depending on how the lender accommodated them during the Covid-19 pandemic, about 20% of consumers said they were mulling moving their mortgages to a different lender. That data, cited by CMHC, stemmed from an April FIRM Residential Mortgage Survey by Altus Group and Ipsos.

CMHC also said that after interest rates were cut this year, variable rate mortgages gained popularity in April and May of this year.

Home Capital Group Inc. chief executive Yousry Bissada, who spoke at a conference on Wednesday, said that many of the borrowers who opted for Home Capitals' two-month mortgage deferrals this summer had FICO scores of 700 and above.

Despite a huge rush to defer payments during the early stages of the pandemic, Bissada said at the conference that, after four to six weeks, most borrowers opted to begin repayment — after considering interest costs, savings from reduced spending on restaurants and vacations, or government support payments.

Bissada also said that lenders who have equity in homes have an incentive to renegotiate terms to accommodate borrowers going forward.

“The trend seems to be quite positive,” said Bissada at the Scotiabank Annual Financials Summit.

4. Slumping energy prices translate to layoffs and bankruptcies for Texas oil country

[September 10, 2020] At the beginning of 2020, Bobby Bounds was running a successful industrial painting company catering to the oil and gas sector in Midland, Texas. He had 12 employees, painting everything from storage tanks to pipes and valves.

Now he's been forced to close his doors and let his workers go. His business was a victim of the plunge in oil prices, caused by a severe dropoff in demand during the Covid-19 pandemic and price war sparked by Saudi Arabia and Russia. Immediately after the Dow crashed more than 2,000 points on March 9, Bound lost half a million dollars in active jobs.

"It's kind of a slow death. You know, you start laying people off and finishing up the work you have and hoping the phone would ring," he said.

The Petroleum Equipment & Services Association estimates 103,420 jobs have been lost since the pandemic started, as dozens of producers and service providers have gone out of business. The industry, once booming, wasn't in a good place even before Covid struck. Companies were struggling to stay afloat and looking to merge, burdened by high levels of debt in a global energy market flooded with supply.

America is now producing 3 million fewer barrels per day than it was in March. That sharp contraction means companies don't need many workers or service providers like Bobby Bounds.

The real tragedy Bounds said isn't his business, but the skilled workers he had to lay off. "They're standing there in front of me and they can't feed their kids. They can't pay their rent," said Bounds.

The crisis is particularly acute in Midland, the heart of the US shale industry. Midland's unemployment rate has risen nearly five-fold in a year, from 2% to 9.4%, according to figures from the Texas Workforce Commission. In neighboring Odessa, it is at 13%, the highest in the state.

"As the industry continues to follow this path of consolidation, there are layoffs with every transaction," said Jeff Bush, the President of CSI Recruiting. Hiring is much quieter than in years past and it is especially tough finding new roles for those with expertise in drilling or land rights, since firms aren't doing new exploration or development.

"[Companies] are not looking for new places to drill, since we don't even have the inclination to drill what we've already got," he said. He expects it to be slow for the next few years.

Corey Wood is one of those hunting for work in the industry. After graduating from Texas A&M in 2017 with a degree in petroleum engineering, he landed a job at oil and gas producer Lillis Energy. The company filed for Chapter 11 Bankruptcy in June, after prices collapsed. Wood got laid off.

"I got a check when I walked out the door for my vacation days, that was just about it," he said.

Wood's living on unemployment and looking for new work. Despite the downturn, he's optimistic. He's had three interviews and he really wants to stay in the energy industry.

"I have seen quite a few people my age move out of the industry or go back to business school. What's making me want to stay? I really enjoyed my job. The industry as a whole is really supportive," he said.

Even the bigger industry players are cutting back. Pioneer Natural Resources sits on the region's largest shale assets as an independent producer. CFO Richard Dealy said the company is aggressively cutting costs and preparing for energy demand to remain stagnant until there is a Covid-19 vaccine.

"The world doesn't need a million barrels a day of growth coming from the US," said Dealy. "We'll have to adjust our staffing levels down to rightsize it to our activity levels and we're still in the middle of that process right now."

For Bobby Bounds, this downturn looks worse than the boom and bust cycle of years past. He's packed up and left Texas for New Mexico, where he has started a new company doing industrial cleaning.

"When you're totally dependent on one industry, then that industry collapses. You don't have a business," Bound said.

5. Uneven rebound poses risk for entire economy, BoC governor says

[September 10, 2020] The governor of the Bank of Canada warns the slower rebound facing women, youth and low-wage workers could pose a threat to a broader economic recovery from the Covid-19 pandemic.

Tiff Macklem says uneven recessions that affect some workers and sectors more than others tend to be longer and leave a larger mark on the labour market.

He notes in a speech to the Canadian Chamber of Commerce that women and young people are more likely now to be permanently laid off from their jobs due to the pandemic.

People permanently laid off take on average twice as long to return to work as people on temporary layoff, Macklem says, risking long-term damage to their jobs prospects and a lasting drag on earnings specifically for youth.

Macklem says the central bank is doing everything it can to support growth and get people back to work.

He adds that getting people back to work is the best way to improve economic outcomes over time, noting that uneven outcomes for some can lead to poorer outcomes for all.

“Striving for equality of opportunity is simply the right thing to do. It’s also good for growth. The loss of jobs for women, youth and low-wage workers is a problem for us all,” reads the text of his speech, provided in advance to journalists.

“If these workers become discouraged and leave the labour force or lose valuable skills over time, their reduced economic participation will lower our potential growth, limiting living standards for everyone.”

The noon-hour speech put more details in the thought process that went into the statement from the bank’s governing council on Wednesday that kept its policy interest rate at 0.25%.

The rate won’t move from near-zero until a recovery is well underway, and inflation sustainably back at the bank’s 2% target. Although Macklem didn’t put a timeline on that in his speech, experts suggest the rate could stay where it is until late 2022 or even into 2023.

He also says that the bank’s bond-buying spree, known as quantitative easing, will be adjusted as required to deliver some monetary stimulus as the economy requires.

Macklem says the bank is watching how the unconventional policy tool affects wealth inequality.

Low-wage earners and women were among the hardest hit when lockdowns in March and April led to three million job losses, and cut hours for 2.5 million more. The unemployment rate rocketed to a historic high from a four-decade low.

The country has gained back nearly two million of the jobs lost, but the pace of gains for women, youth, Indigenous people as well as workers from diverse communities have not seen as sharp a rebound.

A global drop in oil prices will continue to hurt the resource sector, Macklem says, which had been an important source of employment in many regions of the country and contributed to boosts in incomes.

"We know that monetary policy is a broad macroeconomic instrument that cannot target specific sectors or workers. But growth and how it is shared are not independent," Macklem says in the speech.

"The stronger and more durable the recovery, the more opportunity there is for everyone. And the more opportunity there is for everyone, the stronger the recovery, and the more durable is growth."

6. Trudeau announces cash for loans, support to Black Canadian entrepreneurs

[September 9, 2020] Black Canadians who want to start or expand a business will have access to loans and supports for training and mentorship under a new federal program unveiled by Prime Minister Justin Trudeau in Toronto on Wednesday.

The $221-million program jointly funded by the federal government and eight financial institutions is the first of its kind to help Black businesses on a national scale. It responds to one of the requests made in June by an open letter from the Parliamentary Black Caucus that was signed by more than 100 MPs and senators.

Trudeau said the Covid-19 pandemic has put a spotlight on the systemic gaps and economic barriers Black Canadians face every day, and that his government wants a pandemic recovery that is "inclusive and equitable for all Canadians."

"An investment in Black excellence is an investment in economic empowerment, and economic empowerment is an essential part of justice," he said. "It's justice against a system that has locked out far too many Black entrepreneurs and denied them the same opportunities as other Canadians."

Ottawa is putting up $93 million over the next four years for the Black Entrepreneurship Program, while banks are contributing up to $128 million for loans between $25,000 and $250,000 for Black business owners.

The federal cash will include $33 million toward the loans, $6.5 million to collect data on the barriers preventing Black Canadians from succeeding in business, and $53 million for Black business organizations to provide mentorship, financial planning and business training.

Trudeau made the announcement at a Toronto organization called HXOUSE, which describes itself as a "think centre" to help foster innovation and opportunities for young talents in Toronto.

HXOUSE co-founder Ahmed Ismail said the program is a welcome sign of a government acknowledging systemic racism exists, addressing the fact opportunities are not equally available, and taking “the uncomfortable step of doing something about it.”

“This is something I’ve never really witnessed in all my life in any country that I’ve studied,” said Ismail, who was born in Somalia and has also studied and worked in the United States.

Liberal MP Greg Fergus, the chair of the Parliamentary Black Caucus, said the program isn’t all that is needed but will help Black Canadians be economic actors, community leaders and see “that we are full Canadians and want to participate in this wonderful country that we call home.”

“It will not in one fell swoop eliminate all systemic discrimination and the consequences, but we’ve taken a positive step forward,” he said.

7. Bank of Canada holds key interest rate target

[September 9, 2020] The Bank of Canada is keeping its key interest rate target on hold at 0.25% and says it will stay there until inflation is back on target.

The central bank’s key rate has remained at its lower effective bound since March when Covid-19 lockdowns plunged the economy into crisis.

In a statement today, the central bank’s governing council says that bounce-back activity in the third quarter looks to be faster than it anticipated in July.

But it warns of indicators like an uneven rebound in employment and subdued business confidence that points to a slow and choppy recovery process.

The bank says its key rate will stay at near-zero until economic slack is absorbed and the 2% inflation target is “sustainably achieved.”

The statement reiterated that the central bank stands ready to do whatever is necessary to aid the economy as it recuperates from the Covid-19 crisis, which will include ongoing purchases of federal government bonds.

8. Liberals extend commercial rent relief program for last time

[September 8, 2020] An underused program to give hard-hit small businesses a break on their rent is getting one more month of service, but without any of the changes critics say are needed to prevent stores from permanently closing their doors.

On Tuesday, one week after rent was due, the Liberals said the commercial rent-relief program will provide help to cover rent and lease costs for eligible businesses for September.

In a release, the government called the one-month lifeline a “final extension” for the program.

The general sense from business groups was that the extension would help some businesses, but many more would be locked out because the Liberals didn’t address known flaws in the program.

The rent-relief program provides forgivable loans that cover half of rent for eligible small businesses, and also requires landlords to waive a further one-quarter of what they’d otherwise be owed.

Property owners have to apply for the help, and the Liberals have almost begged them to take part.

The Canadian Federation of Independent Business, which represents thousands of small businesses nationwide, said rent relief will be critical to the survival of many of its members whose revenues remain dampened even as their costs remain at 100%.

“The deep unfairness that has existed in the program since it was launched needs to be addressed as some businesses have been operating for six months without the rent relief they need and others have already made the tough decision to close,” vice-president Laura Jones said in a statement.

The government’s press release from Finance Minister Chrystia Freeland and Small Business Minister Mary Ng noted that federal officials are looking at other options to help small businesses. No details were provided.

Patrick Gill from the Canadian Chamber of Commerce said “main street businesses” need to know what comes next after the commercial rent program ends, and they need to know now. He said in a statement that whatever comes next should be easier for small businesses to use.

“The government has an opportunity to make a real difference for Canada’s businesses that continue to suffer from continued restrictions amid Covid-19,” said Gill, the organization’s senior director of tax and financial policy.

“Rent is one of the most significant fixed costs a main street business has, and it should be a focus for the federal government going forward.”

The government said that as of Monday, the rent-relief program had provided over $1.32 billion in aid to more than 106,000 small-business tenants.

Take-up of the program overall has lagged behind expectations and spending is projected to fall far short of the nearly $3 billion the Liberals have budgeted.

“It’s no mystery why less than one-third of the help promised has been distributed,” NDP small business critic Gord Johns said in a statement.

“The Liberals have got to step up for small business owners by fixing the program and actually supporting these people.”

He said extending a “failed program” wasn’t good enough, especially announcing it a week after rent was due and people needed help.

9. Oil prices are collapsing after Saudi Arabia sends ominous signal

[September 8, 2020] Demand fears are once again rippling through the oil patch.

US oil prices plunged 7% Tuesday to $36.76 a barrel. It was crude's worst day and lowest closing price in nearly three months. At one point, oil was down as much as 9%. Brent crude, the world benchmark, fell below $40 a barrel for the first time since late June.

The fierce selling in the energy market is being driven largely by rising concern about how much crude the fragile world economy needs. With Labor Day in the rearview mirror, summer driving season in the United States is over. Jet fuel demand remains extremely weak because many people don't want to fly during the pandemic. And no one knows for sure how long it will take to recover.

"Demand is down. Supply is up," said Robert Yawger, director of energy futures at Mizuho Securities. "The economic laws of survival are being violated on both ends of the spectrum."

The selloff comes after Saudi Arabia, the de facto leader of OPEC, slashed its official selling price to Asia and the United States, Bloomberg News reported. It's never a good sign when the world's leading oil exporter feels compelled to cut prices to draw buyers.

"That is a double-blinking warning sign," said Yawger. "OPEC kind of panicked today by putting out a bad signal to the energy community."

'Avalanche of sell orders'

The latest turmoil in the oil market comes during major turbulence in the stock market.

The Nasdaq plunged Tuesday for the third day in a row and is flirting with a 10% correction from record highs. Major pandemic winners like Tesla, Apple and Zoom are down much more.

"Oil is getting caught up in the risk-off trade," said Jeff Wyll, energy analyst at Neuberger Berman. He added that "nothing changed" in the fundamental supply/demand picture for oil to "warrant this kind of drop."

Just as investors are hitting the exits on tech stocks, they are unwinding speculative bets on crude oil.

"Everyone is trying to get out at once. There is an avalanche of sell orders," said Mizuho's Yawger.

Investors are also rushing out of oil stocks.

Apache, Occidental Petroleum and Diamondback Energy all tumbled more than 6% on Tuesday. ExxonMobil, which last month was kicked out of the Dow, retreated another 3%.

Weak air travel is depressing demand

The pandemic, along with a price war between Russia and Saudi Arabia, caused oil prices to implode this spring. US oil prices even briefly turned negative for the first time ever, bottoming at -$40 a barrel.

But unprecedented production cuts from OPEC and Russia helped trigger a V-shaped recovery in the energy market. Just seven weeks after bottoming, US crude returned to $40 a barrel. That led OPEC and Russia to agree to slowly increase production from very low levels.

The good news for oil bulls is that demand for gasoline has rebounded sharply. Road traffic is has nearly recovered and Bank of America expects global oil demand from road use to go positive year-over-year in the next few months. That has helped lift national average gasoline prices to $2.22 a gallon, up from a low of $1.77 in late April.

The bad news is that air travel is nowhere near pre-COVID levels -- and that's keeping demand for jet fuel very depressed. As the CNN Business Recovery Tracker shows, just 940,000 people were processed through TSA security lines on Monday, down 59% from a year ago.

Business travel likely won't recover until there is widespread access to a coronavirus vaccine, United Airlines Chairman Oscar Munoz recently told CNN Business.

That's why Bank of America warned in a report late last week that it will take three years for global oil demand to "normalize."

"Oil demand globally is really sluggish. All of the low hanging fruit from the global oil recovery has already happened," said Michael Tran, managing director of global energy strategy at RBC Capital Markets.

When will crude bottom?

Tran warned that the fundamentals in the oil market will likely "continue to be weak through the fall."

So how much lower can crude go?

Even at Tuesday's lows, US oil prices are still trading about $75 above the negative prices hit on April 20. But energy analysts don't expect a repeat of that trip below zero, maybe ever again.

Yawger anticipates crude won't go much lower than $30 a barrel because at that point OPEC would be forced to come to the rescue again.

"I don't think we're going into the abyss again like in the spring," he said.

10. Canadian debt issuance hit record in second quarter

[September 8, 2020] Canadian governments and corporations issued $521 billion in debt securities during the second quarter, according to data from Statistics Canada.

The federal government issued an “unprecedented” $302.3 billion in debt securities — more than five times greater than the previous record of $55.8 billion set during the global financial crisis.

The borrowing activity mainly occurred in April as the government was scrambling to prop up businesses and households impacted by Covid-19.

Corporations were also net borrowers of funds in the second quarter, StatsCan reported.

The financial sector issued a total of $128.6 billion in debt securities. Non-financial corporations issued $26.9 billion in debt securities, led by the transportation and warehousing, manufacturing and utilities sectors.

StatsCan reported that the total outstanding value of Canadian debt securities hit a record high of $5,034.6 billion at the end of Q2, a $471.6-billion increase from the previous quarter.

Canadian corporations retired a total of $6.7 billion in equity securities during the quarter, marking the third consecutive quarter in which retirements exceeded new issuances. Professional, scientific and technical service firms contributed the bulk of net retirements during the quarter.

The market value of Canadian-listed equities reached $2,812.6 billion at the end of Q2, up $388.6 billion from the previous quarter thanks to rallying equities markets.

Have a nice and fruitful week!

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