Weekly Updates Issue # 783

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1. Weekly Markets Changes

[September 25, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,065.35 -133.62 -0.82%	3,298.46 -21.0 -0.63%	27,173.96 -483.5 -1.75%	10,913.56 +120.28 +1.11%	$0.7465 -1.19c -1.57%	$1,861.58 -89.28 -4.58%	$40.25 -0.86 -2.09%

2. Federal deficit hit $148.6 billion through July

[September 25, 2020] The federal government ran a deficit of $148.6 billion during the first four months of its 2020–2021 fiscal year, the result of unprecedented spending in response to the Covid-19 pandemic.
The result compared with a deficit of $1.6 billion for the same period in the 2019–2020 fiscal year.
In its monthly fiscal monitor, the Finance Department says program expenses for the four-month period of April to July hit $215.7 billion, up $111.1 billion, or 106.2%, from the same period a year earlier.
Major transfers to persons — which consists this fiscal year of seniors benefits, employment insurance payments, the Canada Emergency Response Benefit and children's benefits — increased by 170.8% year-over-year, hitting almost $87.3 billion.
About $50.4 billion of the overall increase of $55.1 billion from the same period the year before was related to the Canada Emergency Response Benefit, which starts to expire this weekend.

Also adding to spending costs was the government's wage subsidy program, which the fiscal monitor says cost almost $30.6 billion over four months.
Revenues for the period totalled just over $73.9 billion, down $38.3 billion or 34.1% compared with the same period last year, mainly a result of measures such as the enhanced GST credit and tax deferrals.
Public debt charges decreased by about $2.4 billion, or 25.7%, to $6.8 billion from $9.2 billion, largely reflecting lower consumer price index adjustments on real return bonds.
In July, the Liberals projected a historic deficit of $343.2 billion for this fiscal year. The Finance Department says the figures through the same month remain consistent with that estimate.
The deficit estimate doesn't include the cost of a suite of new benefits to replace the expiring CERB, which the Liberals previously estimated to cost $37 billion, or any of the sweeping promises announced in this week's throne speech.
Private sector economists have estimated the promised new spending, combined with program spending to date, could push the federal deficit to as high as $400 billion.

3. Snowbirds win legal battle to reinstate out-of-province medical coverage for Ontarians

[September 25, 2020] The Canadian Snowbird Association has won a legal battle to restore out-of-province insurance coverage for Ontarians travelling outside of the country.
In the summer, the Snowbirds took the Attorney General of Ontario to court over the province's Jan. 1 decision to eliminate the Out-of-Country Travellers Program (OCTP), which reimburses Ontario residents for medical emergencies experienced outside of Canada.
The decision made Ontario the only province in the country to cut all emergency medical coverage for residents travelling abroad, the Snowbirds said in a release.
The Ontario Divisional Court has now ruled that the province does not have the legal authority to revoke the OCTP. Revoking the OCTP contravenes the federal government's Canada Health Act, which requires provinces to provide coverage to residents who are temporarily absent, the court found.
In a release, the Snowbirds said the decision restores reimbursement rates "to $200 and $400 per day for emergency inpatient services and up to $50 per day for emergency outpatient services."

The association said that it still advises its members to obtain adequate medical insurance prior to taking trips abroad, adding that the re-established OCTP "will lower insurance premiums, making travel more affordable, particularly for seniors in the province."

"The Canadian Snowbird Association is pleased with the court's decision," Snowbirds president Karen Huestis said in the release. "The ruling affirms the right of Ontario residents to out-of-country emergency insurance coverage, as required by the Canada Health Act."

The Canadian Snowbird Association has 115,000 members across Canada, including more than 50,000 members in Ontario.

4. Some CRA online services remain unavailable following cyberattack

[September 24, 2020] More than a month after the Canada Revenue Agency took its website offline in the wake of a major cyberattack, the federal tax collection agency won't say when it expects its online services to fully return to normal.

A number of services within the CRA's online portal for individual Canadians remain unavailable, including the ability to manage direct deposit information, change an address or authorize a representative.

Links with Service Canada accounts have also been deactivated.

The CRA is "working diligently to restore access to all services as quickly as possible," spokeswoman Sylvie Branch wrote in an email.

But the CRA won't say when it expects that to be, only that a "forensic analysis related to the recent cyber incidents continues."

The CRA has found suspicious activity on around 48,000 accounts after the two "credential stuffing" attacks in June and August, which took advantage of the fact that many people use the same log-in credentials for multiple services, the Treasury Board of Canada said earlier this month.

Jose Manuel Fernandez, a professor at Montreal's Polytechnique university who teaches about computer security, said it can take time to investigate cyberattacks and fix vulnerabilities.

"These systems are very complex," he said. "The industry as a whole has a terrible track record of building software that is reliable and free from bugs that can be exploited."

He said it's common for organizations to limit access to certain services while they're investigating, comparing it to the yellow police tape around a crime scene.

An organization like the CRA may also limit users' ability to make certain changes to reduce the risk of stolen information being used for fraud.

The CRA said the COVID-19 pandemic is not slowing its response.

"The fact that many CRA employees are working from home is not affecting the CRA's ability to return its online services to full functionality," Branch said.

5. Many first-time homebuyers ready to take the plunge

[September 24, 2020] More than 40% of prospective first-time homebuyers think now is a good time to buy, according to a survey commissioned by BMO Financial Group.

Respondents in Alberta and the Prairies were the most optimistic — 60% said now is the time to buy, compared to only 33% of respondents in Ontario and British Columbia.

The survey found that Covid-19 has led to many first-time buyers casting a wider net in their search for a new home. Twenty-nine percent of respondents said they were now looking at homes in the suburbs and rural areas, rather than homes in major cities.

With more people working from home, some first-time buyers are looking for more space. Twenty-five percent of respondents said they were moving their search from a condo or townhouse to a detached home.

But Covid-19 has also made it harder for many to afford a home. Approximately half of respondents said they had to tap into their down payment savings to cover unexpected costs during the pandemic.

A quarter of respondents said they're now looking at taking on a larger mortgage. Respondents in Ontario and B.C. were the most likely to take on large mortgages — 30% and 26%, respectively.

Almost one-fifth (19%) of prospective first-time buyers said they were already pre-approved for a mortgage. Half of respondents said they intended to obtain pre-approval.

BMO commissioned Pollara Strategic Insights to conduct an online poll of 801 prospective first-time homebuyers across Canada between Aug. 25–31, 2020. Online polls cannot be assigned a margin of error because they do not randomly sample the population.

6. Liberals vow wage subsidy extension to 2021

[September 23, 2020] The Liberals are reversing course on a decision to wind down a federal wage subsidy, vowing in their throne speech to extend the program for businesses harmed by Covid-19 into next year.

Over the summer the government decided to start scaling back the program through the rest of the year by providing a smaller subsidy with each passing month.

The criteria for using the program were also eased.

But the Liberals were warned that small businesses that have used the program would need the help into 2021 as their revenues stayed low while costs remained steady.

Today, the Liberals' throne speech promised to extend the subsidies to summer 2021, acknowledging the economic situation facing many employers is still fraught.

And for workers who lose their jobs, the throne speech also promises to put everyone under the employment insurance system, making it the only vehicle for benefits for hard-hit workers even if they previously didn't qualify for the decades-old program.

The Canadian labour market has been hammered by the pandemic, when lockdowns in March and April led to a loss of three million jobs and 2.5 million more workers having their hours slashed as non-essential businesses were ordered closed.

As of August, the country has recouped about two-thirds of those job losses but that recovery has been uneven: women, youth, low-wage and visible minority workers haven't rebounded as quickly.

Statistics Canada reported that about one-fifth of the labour force was considered underutilized in August, a combination of people who were unemployed, who were not looking for jobs but wanted to work, and who worked less than half their usual hours — usually due to the pandemic.

The throne speech vows to use federal spending to get back the last million or so jobs, including through direct investments in the social sector and incentives for employers to hire and retain workers. The extension of the wage subsidy is touted as another way to create jobs.

As of Sept. 13, the government had paid out just over $35.3 billion in benefits to 312,750 different companies, although the number of workers covered by the subsidies has fallen in recent weeks.

At the same time, the Liberals plan to wind down the Canada Emergency Response Benefit, which has paid out almost $78 billion in benefits to nearly 8.8 million people.

Anyone covered by employment insurance will move to that program with access eased, they say. Those who don't qualify, such as self-employed and gig workers, will be pushed to a new 26-week "recovery" benefit.

But the throne speech says that new benefit, which Parliament still has to approve, will be a transitional program before moving every worker in the country onto EI.

There is also a pledge in the throne speech to update the government's technology systems. That will be a must for EI because the core system that delivers payments is more than 40 years old.

In a separate story by Maan Alhmidi, also reporting for The Canadian Press, the creation of a new Canadian Disability Benefit is mentioned.

Covid-19 has disproportionately affected Canadians with disabilities, so the government has said it will bring forward a disability inclusion plan that will include a new Canadian Disability Benefit, an employment strategy for Canadians with disabilities and a better process to determine eligibility for government disability programs and benefits.

The Liberals promised to work with the provinces and territories to set new national standards for long-term care so that seniors get the best support possible, and to take additional action to help people stay in their homes longer.

7. Research links financial knowledge to confidence and mental acuity

[September 22, 2020] New research suggests that confidence in financial knowledge among seniors is associated with the risk of cognitive decline and the onset of dementia.

The investor education arm of the U.S. Financial Industry Regulatory Authority Inc. (FINRA) released a pair of studies examining the links between financial knowledge, confidence, cognitive health and decision-making.

The FINRA Investor Education Foundation said that the findings demonstrate "the importance of maintaining financial and health literacy as people age."

One study, which was produced in collaboration with researchers from Rush University Medical Center, found that confidence in financial knowledge is associated with a decreased risk of Alzheimer's dementia. The study found that seniors who are underconfident are at greater risk of developing Alzheimer's and experience faster cognitive decline.

The study did not find a similar association between cognitive decline and confidence in general, it reported.

"While it is not completely clear why this relationship exists, it could be that confident people are more motivated to engage with the world and actively seek to acquire new information," said Gerri Walsh, president of the FINRA Foundation.

"This research does suggest that education and outreach programs aimed at increasing financial and health literacy are important to preserve cognitive health among older adults. And targeting soft psychological factors, such as confidence, could benefit cognitive health and well-being," she added.

A second study found that, over time, a majority "showed an overall decline in financial and health literacy." This study, which also involved Rush University researchers, tracked responses from annual literacy assessments over a 10-year period.

The study also found that faster declines in literacy were associated with poorer decision making, a higher susceptibility to scams and lower psychological well-being.

"Declining financial and health literacy may represent a novel harbinger of adverse outcomes, and regular monitoring of financial and health literacy could serve as a useful tool to identify individuals at risk of impending degradations in their decision-making ability," said Walsh.

"These findings suggest that efforts to mitigate declining financial and health literacy may promote independence and well-being in old age," she said.

8. Financial sector faces further challenges: report

[September 22, 2020] The financial sector should brace for the risk of further market corrections that could constrict liquidity and erode profits and capital, European regulators are warning.

The European Supervisory Authorities (ESAs) — which include banking, insurance, pension and securities regulators — issued their first risk assessment report since the onset of the Covid-19 pandemic on Tuesday, highlighting the effects of the crisis on financial sector profits and investment fund liquidity.

"Valuation, liquidity, credit and solvency risks have increased across the board," the report said, adding that the investment fund industry saw a "significant deterioration" in liquidity in some asset classes, along with "substantial outflows" from investors.

Looking ahead, the report warned that the prolonged ultra-low interest rate environment will weigh on the future profitability and solvency of financial institutions.

"While low interest rates are important to support economic activity, they negatively impact bank profitability and remain the main risk for the life insurance and pension fund sector," the report said, adding that low rates also increase valuation risks in securities markets as investors search for higher yields.

The report also indicated that the medium- and long-term economic consequences of the pandemic remain very unsettled, leaving financial markets “fragile.”
“Given the high uncertainty regarding economic and market developments, financial institutions should be prepared for possible further market corrections and deterioration in financial market liquidity,” the report said.
The ESAs called on both financial institutions and regulators to carry out stress testing to assess potential shock scenarios. For the investment fund sector, they recommended particular attention to liquidity management.
The deterioration of bank asset quality is likely to be another key challenge in the years ahead, the ESAs said, as lenders have high exposures to the sectors most affected by the pandemic.
“Banks are likely to face deteriorating asset quality with growing volumes of non-performing loans and rising cost of risk amid the prospective macroeconomic deterioration,” the report said.
Against this backdrop, it’s critical that the financial sector remains well-capitalized, the report said. It suggested that banks make use of their capital and liquidity buffers to absorb losses, enabling continued lending to the economy.
Finally, the report also highlighted the rising operational risks posed by the sector’s increased reliance on technology to cope with the disruptive effects of the pandemic. It called on financial institutions and their service providers to ensure data security, business continuity and that they are prepared to face increasingly sophisticated cyber threats.
“Institutions should also pay particular attention to a growing number and new forms of financial crime in this period of large economic turmoil,” the report said.

9. Ontario provides pension relief due to pandemic

[September 21, 2020] Companies in Ontario will be able to defer required pension contributions for six months under temporary pandemic relief measures announced by the Financial Services Regulatory Authority of Ontario (FSRA).
The provincial regulator said Monday that employers will have the option of deferring contributions to certain defined benefit (DB) pension plans to alleviate pressure on their cash flow stemming from the economic fallout of Covid-19.
Eligible employers will be allowed to defer up to six months of pension contributions from October 1 to March 31, 2021.

The deferred contributions must be paid, with interest, by March 31, 2022.
"There will be restrictions on employers that choose to defer contributions to help ensure that funds made available from the contribution deferral are used to maintain business operations," FSRA said in a release.
Those restrictions include prohibitions on paying dividends, making share buybacks, increasing executive compensation or paying bonuses to executives, among other requirements.
The regulator has also updated its guidance to reflect how it plans to administer the temporary contribution deferral.

10. Housing market 'moderately' vulnerable amid potential overvaluation of homes: CMHC

[September 21, 2020] Canada's housing market experienced overvaluation in some pockets of the country in the spring amid the Covid-19 pandemic, the Canada Mortgage and Housing Corp. said in a new report released on Monday.
In cities such as Victoria, Moncton and Halifax, there was a widening gap between the selling price of houses and the price economists would expect, based on population growth, disposable income, mortgage rates and employment, the Crown corporation said.
That data comes from the agency's housing market assessment, which gives the housing market a grade based on whether homebuilding and rising prices could ultimately affect the stability of the economy. The report doesn't look at whether homes are affordable — but does try to inform homebuyers and lenders on what would happen to the equity in their homes if a sudden economic shock led to a spike in unemployment, for instance.
CMHC says there was a "moderate degree of vulnerability" in the housing market as of the end of June, the same grade the market received in February.
The preliminary report shows the slowdown during the height of Covid-19 lockdown measures, but doesn't include the record-setting sales in July and August — nor does the data reflect the ending of government income supports and mortgage payment deferrals.
Because the report's analysis of home price overvaluation relies heavily on analyzing Canadians' income, the authors suggested that the risk might be underestimated.
"The unprecedented income supports from Canadian governments to households (such as the Canada Emergency Response Benefit and the Employment Insurance Benefits) provide relief to individuals experiencing

financial hardship due to the Covid-19 crisis. These sources of income are, however, temporary," said the report.
CMHC economist Bob Dugan said that — despite giving the housing market a steady grade this summer — CMHC still expects a severe decline in home sales and in new construction to come as the economy recovers from the pandemic.
"I don't think we are out of the woods yet. I certainly hope our forecast is wrong," said Dugan in a phone call with reporters.
In May and June, CHMC had given a grim outlook for the housing sector, including a steep decline in housing prices. Although realtors have reported record-high home sales and prices in July and August, Dugan said he is not convinced that there is a "sustainable basis" for the current homebuying demand.
"I'm not confident yet in walking away from some of our predictions, given the tremendous amount of risk to the economy and housing market," Dugan said.
While Canada's housing market as a whole does not show signs of overheating, outsized price acceleration or overbuilding, some regions do pose moderate risks, the report said.
Winnipeg, Edmonton and Calgary are areas where there is "moderate" risk of overbuilding, CMHC said, looking at both second-quarter data and monthly inventories from July and August.
In Edmonton, there has been increased construction of detached homes despite weak employment in the oil sector, while in Winnipeg, incoming migration has slowed, CMHC analysts said. Calgary, meanwhile, has seen row houses and townhomes sit empty as cost-conscious buyers opt for condos instead — leaving the city approaching its 2001 record-high of empty new builds.
The report also gave Canada a "low" risk of price acceleration, but noted that prices are rising moderately more quickly in Ottawa and Montreal. In Montreal, the supply of homes for sale was at a 16-year low, pushing prices closer to "problematic" levels.
The Ottawa and Montreal housing markets are also at a moderately higher risk of overheating, as are Hamilton, Ont., Quebec City and Moncton, CMHC said. Overheating happens when there is more demand to buy homes than there are listings.
"The high economic uncertainty and temporary public health and workplace safety restrictions placed on property showings caused a greater number of sellers to exit the market than buyers," the report noted.

Have a nice and fruitful week!

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