Weekly Updates Issue # 785

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1. Weekly Markets Changes

[October 9, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,562.81 +363.6 +2.24%	3,477.13 +128.7 +3.84%	28,586.90 +904.1 +3.27%	11,579.94 +504.9 +4.56%	$0.7613 +1.00c +1.33%	$1,930.40 +30.56 +1.61%	$40.06 +3.55 +9.58%

2. Expect a pullback in housing sales and prices: TD Economics

[October 9, 2020] The shape of the housing market's recovery is not open to debate: hands-down, it's been V-shaped, indicating a strong bounce back. But outsized sales activity and record-high prices likely are not sustainable, said a report from TD Economics on Thursday.

Since their lows at the start of the pandemic, housing sales were up "an astronomical" 230% through August, the report said.

TD estimated that Canadian home sales beat their previous record by 20% in Q3, as every province recorded a "massive" comeback in sales.

The strong performance can be attributed to factors such as pent-up demand as the pandemic began and low interest rates, the report said.

In step, home prices increased, with the average price hitting a record high of just over $600,000 in August.

Every province saw positive annual price growth in the month, the report said, with six of 10 posting double-digit advances.

Surging sales are one reason for rising prices, but there are others as well, including a shift in what types of homes are being bought and sold.

A shift occurred — potentially motivated by the pandemic — away from condos toward larger, more expensive units like single-detached housing.

"This shift may be taking place in order to afford additional space for those who work from home, or to escape the density (and Covid-19 risk) of condos," the report said.

Whether the trend to detached housing will continue is unclear, because factors other than those related to the pandemic could also be at play.

For example, with condo prices appreciating at a stronger rate than single-detached homes in recent years in markets like Toronto and Vancouver, condo owners have equity to trade up to detached housing, the report said.

TD also noted that once a vaccine for Covid-19 is available, condos may outperform, "as they represent the most affordable window into homeownership (particularly as the detached market remains chronically undersupplied) and the attraction of big-city living resumes."

What's clear is that strength in the resale market isn't likely to persist, because economic fundamentals aren't supportive.

"A wide disconnect between housing, the economy and/or job markets doesn't tend to be sustained," the report said. "[I]t's more likely that housing moderates than [that] job fundamentals improve sharply from here, given the lasting impacts of the pandemic."

That moderation will occur over the next couple of quarters, TD forecast.

Longer term, through 2022, the pace of sales is expected to be weighed down by such factors as slower population growth and a modest increase in bond yields as the economy recovers.

Prices will also eventually pull back, though the current quarter could still see some increases.

TD forecast that prices will drop by about 7% through the first half of 2021 before "regaining some traction." Declines will likely be larger in the oil-producing provinces where mortgage deferrals have been relatively high.

Despite the drop, the upward trend in prices established prior to the pandemic would remain in place, the report said.

3. Liberals revamp rent relief for businesses hit by Covid-19, expand loan program

[October 9, 2020] The federal government will provide direct help to businesses hit by the Covid-19 pandemic to help them offset the cost of rent, Prime Minister Justin Trudeau announced Friday.

He said a revamped commercial rent-relief program will cover up to 65% of eligible expenses for companies, and up to 90% for those subject to localized lockdowns.

The government will also cover up to 65% of eligible wages through its subsidy program but only until the end of December, and expand a well-used loan program by providing an added $10,000 that could be forgivable.

Trudeau said that even though many businesses have reopened, a number of them are not at full capacity, while others are worried about surviving a second wave.

He said the government wants to help those companies hang on, and keep their workers employed.

Statistics Canada reported today that the country added 378,000 jobs in September, bringing overall employment to within 720,000 of pre-pandemic levels.

Overall, the unemployment rate fell to 9.0%, continuing its slide down from the record-high of 13.7% recorded in May. Still, there were 1.8 million Canadians unemployed in September, with the vast majority, about 1.5 million, looking for work.

Statistics Canada says the unemployment rate would have been 11.9% in September had it included in its calculation people who wanted a job but didn't look for work.

The 378,000 jobs added "smashed" consensus expectations of 150,000, wrote Derek Holt, Scotiabank vice-president and head of capital markets economics, in a research note on Friday. But September's "may be the last of the great jobs reports as October faces rising downside risk."

One contributing factor to the gains was jobs for women aged 25 to 54, which increased by 134,000 as children returned to school.

"With the mothers-fathers gap now shut, this suggests it all happened in September so don't look for a repeat of this effect in October," Holt wrote. "September's upside poses downside into October."

CIBC senior economist Royce Mendes warned that the good news from September comes with new virus cases trending in the wrong direction. After reporting record numbers of new cases in recent days, the Ontario government imposed restrictions on restaurants, gyms, movie theatres and casinos in Toronto, Ottawa and Peel Region.

As a result, "not much can be extrapolated from the solid print for September to future labour market readings," Mendes wrote.

Finance Minister Chrystia Freeland said the measures unveiled by the government Friday, including the new rent support measure that will be in place until next June, are part of a targeted plan promised in last month's throne speech.

The top of the rent relief will go to those who have had their incomes drop the most, with a sliding scale of help for others who have not been hit as hard.

"This is not for everyone. Some businesses are able to work at full capacity despite Covid-19 and they are doing well and that's great," Freeland said Friday.

"This support is not designed for them. These measures are targeted for those who need it most."

4. Covid-19 recession to have impact beyond uncertain recovery, experts say

[October, 8, 2020] Thanks to strong fiscal and monetary support from government, many Canadians have fared well through the first seven months of the Covid-19 pandemic — but the recovery remains highly uncertain and largely dependent on the path of the virus, experts said Thursday at an investing conference.

Direct and indirect government stimulus accounting for 20% of Canadian GDP has prevented a solvency crisis and delayed a deleveraging phase "that's characterized every economic cycle in modern history until now," said Stéfane Marion, chief economist and strategist with National Bank, who was speaking on a panel at the Global Risk Institute's summit, held virtually on Thursday.

While the collapse in real labour compensation is the highest on record, Marion said, it's been more than offset by massive government transfers to households, which have resulted in the savings rate rising to 28%. There's also been a V-shaped recovery in retail sales despite persistent high unemployment.

"This is amazing: in the midst of a recession, the biggest increase in real disposable income in history," he said, indicating that government supports were perhaps too generous.

Peter Levitt, executive vice-president and treasurer with CIBC, said government support has led to banks accepting significantly more money in deposits than they're handing out in loans. This has meant banks haven't had to rely on central bank liquidity.

However, the stability of these deposits remains unknown at this point, Levitt said, speaking on the same panel. The run-up was "extraordinarily fast" and money in chequing accounts essentially has a maturity date of one day, making it risky to put those funds in illiquid assets such as a five-year mortgage.

Levitt said the deposits are “highly dependent” on government support programs that will end at some point, meaning clients could withdraw funds just as quickly.

“It is important to note that measuring credit risk has never been more complex, as it relies on a confluence of factors that have never been seen before,” he said. “The interaction between economic lockdowns, unemployment, government support programs and human behaviour define future credit risk.”

Fortunately, he said, continued strong Canadian bank earnings act as an important shock absorber, and capital levels should be sufficient to withstand losses.

In the summit’s opening keynote, Bank of Canada Governor Tiff Macklem acknowledged that Canada’s big banks’ have “strong capital and liquidity buffers, a diversified asset base and the capacity to generate income.”

Financial institutions have allowed close to 800,000 households to delay payments on mortgages since the onset of the pandemic, in addition to deferrals on lines of credit and credit cards, Macklem said. While deferrals have kept debt payments down, the six-month payment deferral period is ending for most borrowers, making the next few months “crucial.”

Payment resumption “has been going quite well,” Macklem said, with the “vast majority” of mortgage payments resuming.

Beyond the immediate recovery, investors need to be thinking about longer-term global trends that have accelerated during the pandemic, said Jonathan Hausman, managing director and head of global strategic relationships with the Ontario Teachers’ Pension Plan.

Speaking on the panel with Marion and Levitt, Hausman said the pandemic — particularly its lopsided toll on the poor — has made social inequality a leading issue. “That is driving the social agenda that I think will have a big impact on investors, a big impact on our portfolio companies [and] a big impact on our policy going forward,” he said.

Hausman warned that investors should prepare for a sustained period of lower average returns. Growing economic nationalism will fragment markets and cut into corporate profits by interrupting supply chains and ending labour arbitrage. A political focus on inequality will also affect corporate taxes.

“Fixed income is essentially MIA today in terms of a beta return, so that makes portfolio construction really difficult,” he said.

There’s also growing divergence between winners and losers as large government intervention creates idiosyncratic opportunities, he said.

The bad news for Canada is that market fragmentation is particularly harmful to trading nations, and Canada shouldn't expect trade volumes to return to pre-pandemic levels, he said.

With the massive government spending set to continue, Marion said a fiscal anchor will be required — eventually.

"It's part of our Canadian culture to have these fiscal anchors," Marion said, adding that he favours net debt to GDP.

More than one-third of Canada's debt is held by foreign investors, he said, and they will demand a path to fiscal sustainability. But there's no blueprint for dealing with a pandemic, Marion said, and he's willing to give the federal government a few more months of leeway.

5. Housing starts plummet in September

[October 8, 2020] Canada Mortgage and Housing Corp. says the annual pace of housing starts in September plunged 20 per cent from August.

The housing agency says the seasonally adjusted annual rate of housing starts was 208,980 units in September, down from 261,547 units in August.

Economists had expected an annual rate of 240,000 starts in September, according to financial markets data firm Refinitiv.

The decrease came as the annual pace of urban starts fell 21.1 per cent in September to 195,909. The pace of urban starts of apartments, condos and other types of multiple-unit housing projects decreased 27 per cent to 146,005 units, while single-detached urban starts increased 3.4 per cent to 49,904.

Rural starts were estimated at a seasonally adjusted annual rate of 13,071 units.

The six-month moving average of the monthly seasonally adjusted annual rates of housing starts rose slightly to 214,647 in September, up from 212,609 in August.

6. Higher education pays, if you use it

[October 7, 2020] Post-secondary education still pays off, although not as much as it used to, according to a new report from the Bank of Canada.

Researchers at the central bank examine the benefits of higher education when it comes to future earnings potential, and one finding is that workers with post-secondary education still earn more than those without it, but that the advantage has declined over the past couple of decades.

Based on data from Statistics Canada, the researchers found that, in 2018, workers with a university degree earned 53% more per hour than those with

no post-secondary education. Further, those with other higher education (college, trade school etc.) earned 18% more.
"Wage premiums for higher education are substantial, but they have been falling over the past 20 years," the report said.
Back in 1997, university graduates earned 63% more, and other forms of post-secondary education generated 20% more.
This decline in the returns for post-secondary education has come as a greater proportion of the population has pursued higher education.
Back in 1997, 15% had a university degree and 29% had other post-secondary education. By 2018, those metrics had increased to 28% and 33%, respectively.
As the supply of workers with higher education rises, the payoff for having a degree declines.
However, the report also found that the premium on higher education has held up for those working in fields related to their degrees — such as accountants, doctors, engineers and teachers.
These professionals earned 74% more back in 1997, and that advantage has been maintained, the research found.
Conversely, for university graduates that aren't working in a job related to their degree, the payoff has dropped over time — falling from 51% in 1997 to just 35% by 2015.
"In short, getting a higher education still pays, especially if you land a job that uses your education in your daily activities," it said.
This same advantage has also been evident during the pandemic, the report noted.
For workers with no post-secondary education, about 18% lost their jobs due to the pandemic, while only 8% of university graduates lost their job, it added.
"But it's the nature of the job that matters, not the education level itself," the report said, noting that for university graduates who aren't working in a related field, 11% lost their jobs.

7. Indebted Canadian businesses more 'fragile' than during first wave: BDC

[October 7, 2020] A new study says many Canadian entrepreneurs are focused on shoring up their balance sheets after recording a drastic drop in revenues and mounting debt during the first wave of Covid-19.
The Business Development Bank of Canada survey says the top priority of business owners is getting their financial houses in order, including reducing operating costs and improving cash flow.

Investing in technology was also a priority for entrepreneurs, according to the study, which also listed a focus on remote work, online sales and reviving growth as other key areas.

The study found that small- and medium-sized businesses were hit hard by the crisis, with 76% reporting a decline in revenues and profits during the pandemic.

Nearly half ending up laying off staff, while about 39% of entrepreneurs took on more debt to survive, the BDC said.

Still, the BDC study said 87% of entrepreneurs are confident they will make it through the crisis.

Pierre Cleroux, BDC's vice-president of research and chief economist, says his "biggest worry" is the high debt levels of many businesses.

"If there's a second wave and we have to go into lockdowns, the good news is businesses are more prepared," he said in an interview. "They've worked hard to be more efficient, reduce costs and be more present online. The bad news is they are more in debt than they were six months ago, so they are more fragile."

Cleroux said the transition to remote working and the focus on technology and online sales has been a significant shift.

"I never saw such a momentum in terms of investing in technology," Cleroux said. "This is going to help them in the long run."

More than half of entrepreneurs surveyed said remote working helped their business innovate and improved employee productivity.

"For many years, businesses were not really open to remote work because they didn't think it would be beneficial," Cleroux said.

"The pandemic has really changed that perception."

Only one in five entrepreneurs said teleworking hurt innovation or productivity.

The BDC study also found that the pandemic has changed the spending habits of Canadians.

The research said more than 83% of Canadian shoppers were willing to pay more for local products, while 56% made more online purchases during the pandemic.

The study said the importance of e-commerce was highlighted by business owners and that companies that were already selling online reported being less affected by the lockdown.

The BDC said the study is based on two surveys, with 1,000 Canadian small- and medium-sized enterprise leaders and 2,000 consumers polled in May and June.

Scotiabank research also detects optimism

Even while two-thirds of small business owners say they’re in a worse situation now than before the pandemic, a new report from Scotiabank reveals 40% of small business owners are optimistic about the future.

The report — based on a survey of 500 small business owners conducted between August and September — found that most business owners (69%) said they’re equipped to survive a second wave of Covid-19.

Despite three in 10 expecting hurdles, the report found that almost two-thirds of small business owners don’t foresee the need for additional financing.

Tips for small businesses in the report include leveraging government programs, and doubling down on digital to increase sales.

“While we cannot predict how the next six months will unfold, now is the time to start focusing on the future, with cautious optimism,” said Jason Charlebois, senior vice president of small business at Scotiabank, in a release.

8. Toronto home sales surged 42% to set new September record

[October 6, 2020] It was the best September on record for Toronto home sales, with 42.3% more sales closing last month than in September 2019.

The Toronto Regional Real Estate Board says 11,083 existing homes were sold in September, at an average price of $960,772.

The board says the 14% year-over-year price jump was led by low-rise housing, while the condo market was slower.

Board president Lisa Patel says extremely low borrowing costs contributed to the record-breaking sales figures, as did built-up demand left over from the stunted spring season.

The real estate market has been playing catch up after sales plunged in the spring, when Covid-19 lockdowns prevented home showings.

As of the end of September, the board says home sales for the year were 1% higher than in the first nine months of 2019.

9. Slowing job gains to affect low-income earners most

[October 5, 2020] Canada’s slowing employment recovery is expected to disproportionately affect low-wage earners and young people, a report from CIBC Economics says.

Economists Benjamin Tal and Katherine Judge estimate that low-paying jobs account for 80% of the total lost since February.

“Following four months of a strong recovery, hours worked for those that earn less than $16 per hour is still 20% below its pre-recession level,” they wrote.

“And the number of those who earn over $40 per hour, in fact, has risen since the beginning of the crisis.”

The 15-to-24 age group only represented about one-tenth of the pre-Covid labour market, but that segment accounts for 35% of the jobs lost since February, the report stated.

The divide between outcomes for high- and low-wage earners helps to explain the increase in household savings during the pandemic, the authors noted, as those with high, stable incomes reduced spending. Statistics Canada reported that the amount Canadians owe relative to their incomes fell in the second quarter.

“That asymmetric performance also goes a long way in explaining the strong recovery in the housing market, since many of the low-income workers [who] lost their jobs were renters,” the CIBC report said.

Almost two-thirds of the three million jobs lost between February and April have been recovered, but the pace of recovery is expected to slow to about 50,000 jobs per month, compared to an average of 477,000 per month since April, the authors wrote. That means it will take until 2022 for a full recovery.

“With the fear factor regaining momentum in the fall and reaching zenith in the winter, future employment gains will be limited,” the report said.

Last month, a report from TD Economics found that the job gains have been concentrated in certain industries. That report also predicted the next phase of employment recovery would be bumpier.

Have a nice and fruitful week!