Weekly Updates Issue # 787

1. Weekly Markets Changes

[October 23, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,304.08 -134.67 -0.82%	3,465.39 -18.42 -0.53%	28,335.57 -270.74 -0.95%	11,548.28 -123.28 -1.06%	$0.7580 -0.33c -0.43%	$1,902.05 +2.76 +0.15%	$39.85 -1.03 -2.52%

2. Effects of travel halts weighing on economy: StatsCan

[October 23, 2020] The near-halt on travel due to the effects of Covid-19 has cost the Canadian economy billions in economic output and hundreds of thousands of jobs, according to a new study from Statistics Canada.

The study found that the combination of national border closures and curbs on intra-provincial travel “have had a major impact on the economy.”

StatsCan estimated that travel restrictions will cost between $27.9 billion and $37.1 billion in GDP, as well as lead to the loss of between 400,000 and 500,000 jobs in 2020.

The output loss represents a decline in overall GDP of between 1.3% and 1.7%, StatsCan said.

This range of estimates reflects StatsCan’s optimistic and pessimistic scenarios on the resumption of travel.

While the tourism industry only accounts for about 2% of the Canadian economy, the estimated output loss represents 14% of the total GDP decline due to the pandemic, StatsCan said, noting that this "underscores the disproportional adverse impact the pandemic has had on tourism."

The estimated effect of the travel restrictions includes both direct effects on tourism itself, and the knock-on effects to other sectors.

"As output in the tourism industry declines, the demand for intermediate products and services provided by other industries, such as wholesale and retail trade, utilities, food manufacturing, and other service industries, also declines," the study said.

In terms of direct impacts, the agency estimated that travel restrictions could amount to a GDP loss of between $17.6 billion and $23.3 billion, costing 306,000 to 406,000 jobs.

Further, it estimated that the indirect impact of curbs on travel could cost another $10.3 billion to $13.8 billion in lost GDP, along with 107,000 to 143,000 jobs.

3. Paying cash to contractors drives underground economy

[October 23, 2020] Shady home contractors remain the biggest contributors to Canada's black market economy, according to a new report from Statistics Canada.

The national statistical agency reported that underground economic activity amounted to $61.2 billion in 2018, which is approximately 2.7% of total GDP.

The value of off-book activity declined by 0.8% on a year-over-year basis, following a 1.9% increase the previous year.

StatsCan noted that while the latest data on the underground economy pre-date the Covid-19 pandemic, "they provide an important benchmark to measure the full effect of the pandemic on the Canadian economy."

Underground activity generally averages between 2.7% and 2.9% of GDP, although the proportion of off-book activity varies significantly by province.

In British Columbia, underground activity accounted for an estimated 3.7% of GDP in 2018, followed by PEI at 3.3%. In Nunavut, underground activity accounted for only 0.5% of GDP.

"Industries that are more prone to underground activity, such as crop production, residential construction, and accommodation and food services, have a larger economic presence in provinces and territories that have a higher share of underground economic activity," StatsCan said.

Home contractors being paid under the table continues to represent the largest share of underground activity at 26.2%, followed by retail trade at 12.3%, and companies involved in finance, insurance, real estate, rental and leasing at 10.3%, StatsCan reported.

StatsCan doesn't detail exactly how it arrives at estimates of underground activity, noting that its data collection relies on "assumptions, indicative information and various indirect methods."

While these estimates for underground economic activity exclude certain illegal transactions, such as drug trafficking and prostitution, the data now includes unlicensed cannabis production, following the legalization of cannabis in 2018.

4. Mixed sales results for ETFs and mutual funds in September

[October 22, 2020] ETFs continued to rack up positive net sales in September even as mutual funds returned to net redemptions, according to new data from the Investment Funds Institute of Canada (IFIC).

IFIC reported that mutual funds recorded $33 million in net redemptions last month as investors cashed out more than $1.6 billion worth of equity funds.

Balanced funds had modest monthly net redemptions, whereas over $1.5 billion flowed into bond funds, and specialty funds added $500 million in September.

Overall, long-term funds recorded $165 million in positive monthly net sales, but mutual funds were pushed into net redemptions by $198 million in money market funds.

Through the first nine months, mutual funds recorded over $14 billion in net sales with $9.5 billion in long-term net sales and $4.5 billion in money market sales.

The bond and specialty categories are in positive territory for the year, whereas the equity and balanced categories are in net redemptions.

The net redemptions in September came as mutual fund assets declined by $3.7 billion to $1.67 trillion — still higher than $1.63 trillion assets held in mutual funds at the start of 2020.

ETFs, meanwhile, generated $699 million in monthly net sales for September, according to IFIC.

Bond funds led the way with $804 million in net sales, while equity ETFs saw $343 million in net outflows.

Year-to-date, ETF net sales are up to $32.4 billion, more than double the $15.5 billion recorded in the same period last year.

Equity ETFs are the leading asset class so far this year, with $18.6 billion in net sales, up from $4.4 billion in 2019.

Yet, while ETFs recorded positive net sales in September, they couldn't escape the market turmoil, which slashed assets by $2.5 billion that month.
Total ETF assets are now $234.6 billion, up from $205.1 billion at the end of Dec. 2019.

5. Sun Life to take majority stake in U.S. investment manager

[October 22, 2020] Sun Life Financial Inc. has signed a deal to acquire a majority stake in Crescent Capital Group LP in an agreement worth up to $450 million.
Under the deal, Sun Life will acquire a 51 per cent stake in the alternative credit investment manager for an upfront payment of $370 million and up to an additional $80 million, based on the achievement of certain milestones.
Sun Life also says it has committed to co-invest up to approximately $1 billion in Crescent's investment strategies.
Crescent is focused on mezzanine debt, middle market direct lending in the U.S. and Europe, high-yield bonds and broadly syndicated loans.
The firm, which is based in Los Angeles, had approximately $38 billion in assets under management as of June 30.
It is expected to continue operating independently under its current leadership.

6. Annual inflation rate rises 0.5% in September

[October 21, 2020] Statistics Canada says September inflation was up 0.5% compared with a year ago.
The reading compared with an increase of 0.1% in August.
Economists on average had expected a year-over-year increase of 0.4%, according to financial data firm Refinitiv.
The statistics agency says that prices were up in six of the eight major components of the consumer price index, including increases in tuition fees as students headed back to school.
The price index for food was up 1.6% last month, a slight slowing from the 1.8% bump recorded in August. Passenger vehicle prices were up 2.7%, and housing was up 2.6%.
The agency also says the back-to-school shopping season wasn't as big as it was one year ago, noted by a year-over-year drop of 4.1% in clothing and footwear prices.
Statistics Canada says the consumer price index would have increased by 1% in September had a 10.7% year-over-year drop in the price of gasoline not been factored in.

The Bank of Canada intends to keep its key policy interest rate at 0.25%, which is as low as it will go, until inflation is back at the central bank's 2% target.

The hope is that by keeping its rate low, the central bank can drive down rates on mortgages and loans to make it easier for people to borrow and spend to aid the economy as it recuperates from the Covid-19 crisis.

In September, 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 about 1.7%.

The central bank will make its rate announcement next week, and release an updated economic outlook.

CIBC senior economist Royce Mendes wrote in a note that governor Tiff Macklem will have every reason to maintain the ample amount of monetary stimulus with headline inflation closer to zero than the central bank's target, even after adjusting for Covid-19 purchasing patterns.

The results in the monthly inflation reading showed the continued effect the pandemic has had on the travel and accommodation sector, where prices fell — albeit not as much compared to previous Septembers.

Air transportation prices fell by 3.2% in September compared to a 16% drop in August, bucking the traditional yearly trend of declines in September as demand weakens after the summer travel season.

Traveller accommodation prices were 26.5% lower in September than the same month last year as tourist activity remains weak.

Border closures, travel advisories and restrictions have contributed to lower prices for air travel and traveller accommodation, Statistics Canada says.

7. Canadian retail sales in August fail to meet expectations

[October 21, 2020] Statistics Canada says retail sales rose 0.4% to $53.2 billion in August.

It was the fourth consecutive monthly increase for retail sales since a record drop in April, when pandemic-related restrictions shuttered most non-essential businesses.

Economists on average had expected an increase of 1.1%, according to financial data firm Refinitiv.

Sales at building material and garden equipment and supplies dealers rose 4.5%, while sales at food and beverage stores climbed 0.8%.

Retail sales in volume terms were up 0.5% in August.

"Consumers continue to drive the recovery, with limited availability of services and travel at least partly redirected into goods spending," said Robert Kavcic, director and senior economist with BMO Economics, in commentary.

The results came as Statistics Canada says a preliminary estimate for September suggests retail sales were relatively unchanged for the month, but added that the figure will be revised.

Kavcic said that, with pent-up demand and lifestyle-adjustment spending seemingly running its course, momentum in retail sales "could be tougher to sustain in the quarters ahead."

8. Companies have modest hiring plans, low wage-growth expectations, Bank of Canada says

[October 19, 2020] The Bank of Canada says companies are hedging hiring plans and wage growth expectations in the coming months over heightened uncertainty from the Covid-19 pandemic.

The central bank's business outlook survey finds hiring intentions remain below their historical averages, suggesting modest hiring plans even as the overall outlook on employment edges up.

Almost one-third of businesses told the bank they expect their workforce numbers to remain below pre-pandemic levels for at least the next 12 months, or to never fully recover.

The survey also finds that wage growth is widely expected to slow over the next year, mostly a result of the pandemic and ongoing uncertainty, with some firms reporting a wage freeze.

The bank also says that nearly half of firms surveyed used the federal wage subsidy program to avoid layoffs or quickly refill positions.

About 100 firms took part in the bank's regular survey out this morning, but did so between late August and mid-September when Covid-19 case counts were still low.

9. Oil price stall, global uncertainty prompt caution as oil firms roll out Q3 reports

[October 19, 2020] Higher oil prices are expected to bolster returns as Canadian energy companies report third-quarter results over the next few weeks, but observers say a recent stall in the crude price recovery and ongoing oil market uncertainty make increases in production and spending plans unlikely.

Oil prices stabilized in the third quarter with U.S. benchmark West Texas intermediate crude selling for an average of US$40.85 per barrel. That's up

44%, or US$12.48 per barrel, from a second quarter that included the first-ever negative WTI close in April amid fears that North American crude storage was nearing its limit.

The Edmonton Par price for Canadian light oil jumped by 61% to $49.75 per barrel and the price for oilsands bitumen-blend Western Canadian Select rose 81% to $42.31 per barrel, according to a report from RBC.

"While oil prices saw a big jump quarter-over-quarter in Q3, prices continue to be below the levels these companies (with the exception of Canadian Natural Resources Ltd.) require to fund their sustaining capital and dividends, especially given the current refining margin environment," said analyst Michael Dunn of Stifel FirstEnergy in a report on Friday that noted soft refinery margins.

"While recent inventory drawdowns are constructive, the oil market remains reliant on drastic production cuts from OPEC+ to restore balance to the market, as the pace of demand recovery to more normalized levels appears to have lost momentum in the past several weeks."

Third-quarter reporting season starts next week with oilsands producer MEG Energy Corp. on Monday, followed by Suncor Energy Inc., Husky Energy Inc. and Cenovus Energy Inc. later in the week.

"The third quarter for the most part was better than the second quarter was, so producers should be feeling better," said Phil Skolnick, an analyst for Eight Capital, in an interview.

A cautious approach is still expected. "It's going to be talking about putting that money back toward the balance sheet, … share buybacks and to support current dividends — I don't think anybody at this point in time will want to increase spending," Skolnick said.

The ability to move more barrels of oil out of Western Canada has been enhanced recently thanks to incremental pipeline capacity additions but producers' ability to take advantage is limited by the Alberta's ongoing oil production curtailment program, introduced at the beginning of 2019 to prop up prices.

Both Skolnick and Dunn said they expect the program, originally intended to expire by the end of 2019, will continue into 2021, with Dunn noting companies likely won't announce formal plans for 2021 budgets until the Alberta government's intentions are known.

Many producers in North America are also waiting for results from the U.S. presidential election on Nov. 3 — Democratic hopeful Joe Biden has vowed to tear up the presidential permit for the Keystone XL pipeline project if elected — and an OPEC meeting in early December where output constraints could be adjusted.

Late last week, National Bank Financial cut its forecast for WTI pricing in 2021 to an average of US$42.25 per barrel from US$43.75.

"Following the unprecedented demand hit from Covid-19 earlier in the year, [global] consumption has improved from the lows but remains approximately five to seven million barrels per day below last year," it said.

"The demand recovery remains uncertain and a significant risk to any sustained oil price recovery, notably as the impact of a second wave of the pandemic is underway."

The reports notes that Western Canadian oil sector fundamentals remain "constructive."

It points out oil volumes on pipelines have recovered to just over four million barrels per day after dropping as low as 3.3 million to 3.4 million bpd in late May, while storage inventory has dropped to 21 million barrels, down from 40 million at the beginning of the year.

10. Ontario should reconsider advisor title standards: CLHIA

[October 19, 2020] The insurance industry is pushing back on proposed new rules on advisor titles in Ontario that would not include basic life agent licensing as adequate for reps to call themselves "financial advisors."

In a submission to the Ontario government ahead of its next budget, industry trade group, the Canadian Life and Health Insurance Association (CLHIA), is calling on the government to reconsider provisions of new title regulation in Ontario that aim to set minimum standards for reps that hold themselves out as either "financial advisors" or "financial planners."

Among other things, the minimum standards proposed by the Financial Services Regulatory Authority of Ontario (FSRA) deem that simply achieving the basic life agent licensing requirements — the Harmonized Life License Qualification Program (HLLQP) — does not meet the standard for using the "financial advisor" title (the "planner" requirements are more stringent, so it wouldn't meet those criteria either).

In its submission, the CLHIA said, that while it supports the objectives of the new rules, "we are concerned that it adds an unnecessary regulatory burden on those who hold life licenses."

"Completing the HLLPQ and maintaining a life license indicates a level of knowledge that meets or exceeds the baseline competency of someone who calls themselves a 'financial advisor'," it argued.

FSRA's proposed standards are out for comment until Nov. 12.

In the same submission, the CLHIA recommends that the government cut, and eventually eliminate, taxes on life and health insurance premiums and to match federal efforts to allow new types of annuities to be used.
As well, the group calls on the province to encourage greater retirement savings by allowing the use of automatic enrollment options in workplace savings plans.
“Automatic solutions – which include automatic plan participation at a pre-set (or starter) contribution rate, automatic annual contribution increases, and automatic investment in a default investment option – have proven to be highly effective in increasing participation in workplace savings plans and the rate of savings in several countries,” it said, noting that this is rare in Canada, primarily due to legislative restrictions.
“We recommend that Ontario enable automatic plan participation to make it easier for Ontarians to achieve lifetime financial security through higher retirement income, improving Ontario’s productivity, competitiveness and health outcomes,” it said.

11. China's economy is the envy of the world

[October 19, 2020] China's economy expanded by 4.9% in the third quarter compared to the previous year, according to government data published Monday, showing the rest of the world what's possible when Covid-19 is brought under control.
The pace of growth was a tad slower than economists had expected. But there were plenty of signs of strength, with the services and construction sectors performing especially well.
China's economy has now recovered from its historically bad first quarter, when the coronavirus forced the country to shut down. GDP grew a cumulative 0.7% through the first nine months of 2020, the data show.
"China's economy continued its rapid rebound last quarter, with the recovery broadening out and becoming less reliant on investment-led stimulus," said Julian Evans-Pritchard, senior China economist for Capital Economics.
Growth of less than 5% would normally be a cause for real concern in China, which is accustomed to much quicker expansion. But it's pretty good considering the circumstances, and even more remarkable when compared to the extremely fragile recoveries underway in most other big economies.
The big picture: The International Monetary Fund expects China's economy to expand by 1.9% in 2020. That compares to contractions of 5.8% in the United States and 8.3% in the 19 countries that use the euro.

Benefits of control: The way Beijing handled the initial outbreak of coronavirus late last year has been criticized by some Western politicians. But China's stringent lockdown and population tracking policies helped bring the virus under control within its borders. The country also set aside hundreds of billions of dollars for major infrastructure projects to fuel economic growth. The central bank has done its part, too.

The blueprint for controlling the virus has proved difficult for other countries to replicate, especially in places where leaders do not wield the same level of control over their populations as Beijing.

Europe and the United States are now facing another surge of coronavirus cases. Paris has imposed an overnight curfew. In London, people from different households are banned from meeting indoors. The United States is averaging more than 55,000 new cases a day — up more than 60% since a mid-September dip, and pretty much every state is trending the wrong direction.

What's next: The United States is probably not headed for a national lockdown anytime soon, but its economy will remain hamstrung until there's a dramatic reduction in the number of coronavirus cases.

China, meanwhile, will continue to power ahead. Economic data for the month of September indicated the country's recovery is gaining even more strength. Industrial production and retail sales figures were particularly robust.

"We think growth will continue to pick-up in the near-term," said Evans-Pritchard. "Fiscal policy is set to remain supportive until at least the start of next year, which should keep activity in industry and construction strong. Meanwhile, tightening labour market conditions and improving consumer confidence mean that the recovery in consumption and services activity probably has further to run."

Looking even further ahead: The International Monetary Fund predicts that China's economy will grow by 8.2% in 2021, a much faster pace than the United States or the eurozone.

Alibaba spots an opportunity

Alibaba has taken a controlling stake in one of China's leading supermarket chains as it tries to fend off rival JD.com in the fast growing online grocery industry, my colleague Sherisse Pham reports.

Alibaba is spending 28 billion Hong Kong dollars ($3.6 billion) to up its stake in Sun Art Retail Group from 36% to 72%, the company said in a statement Monday. Alibaba will then make a general offer to shareholders to buy out the rest of the the retail company.

The news sent shares in Sun Art up nearly 20% in Hong Kong. Alibaba's Hong Kong listed shares rose about 1%.

Alibaba is in a fierce battle with JD.com for China's online food market. The e-commerce giants are both using a mixture of physical supermarkets and online platforms to win shoppers.

The play: The Sun Art deals signals that Alibaba is pushing for the "accelerated digitization" of Chinese consumers post-pandemic, according to Jefferies analyst Thomas Chong. Sun Art operates nearly 500 hypermarkets and supermarkets across China.

Alibaba "has been highlighting digitization as the greatest opportunity to change how people live and work," and seeking "opportunities in traditional retail" by solving problems such as scalability and sustainability, said Chong.

What's next: Ant Group, a crown jewel of Alibaba co-founder Jack Ma's empire, is preparing to go public in what could be the biggest IPO in history.

Ant Group is one of the biggest technology firms in the world and the biggest online payments platform in China. The app has established its presence in every aspect of financial life in China, from investment accounts and micro savings products to insurance, credit scores and even dating profiles.

The company has secured a key approval from the China Securities Regulatory Commission for its listing in Hong Kong, Bloomberg reported on Monday. The IPO is expected to include a listing in Shanghai.

US debt hasn't been this high since World War II

The amount of money that the United States owes investors has hit record levels in more than a few ways, my colleague Jeanne Sahadi reports.

Both the annual deficit and total debt accumulated over the years has topped levels not seen since World War II.

Last week, the US Treasury reported that for fiscal year 2020, which ended September 30, the US deficit hit $3.13 trillion. As a share of the economy, the 2020 deficit is more than triple what the annual deficit was in 2019.

Having topped $21 trillion, the country's total debt owed to investors is now estimated to have outpaced the size of the economy, coming in at nearly 102% of GDP, according to calculations from the Committee for a Responsible Federal Budget. Debt hasn't been that high since 1946 when it hit 106% of GDP.

Extraordinary times: With millions of Americans still out of work and struggling to get by as a result, the country's burgeoning debt is understandably no one's top concern at the moment. Even deficit hawks are urging a dysfunctional Washington and a chaotic White House to approve another round of badly needed stimulus to the tune of trillions of dollars.

Big picture: The problem with such high debt levels going forward is that they will increasingly constrain what the government can do to meet the country's needs.

"There is no set tipping point at which a fiscal crisis becomes likely or imminent, nor is there an identifiable point at which interest costs as a percentage of GDP become unsustainable," Congressional Budget Office director Phillip Swagel said last month. "But as the debt grows, the risks become greater."

Have a nice and fruitful week!