Weekly Updates Issue # 790

1. Weekly Markets Changes

[November 13, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,675.64 +392.8 +2.41%	3,585.15 +75.71 +2.13%	29,479.81 +1,156.4 +4.08%	11,829.29 -65.94 -0.55%	$0.7606 -0.63c -0.82%	$1,889.20 -63.0 -3.23%	$40.13 +2.72 +7.27%

2. Canada's recovery will be uneven, says BoC's Wilkins

[November 13, 2020] The second-in-command at the Bank of Canada is warning that economic "scars" from the Covid-19 pandemic could become permanent without concerted effort from all Canadians.

The pandemic remains an important day-to-day concern for governments and policy-makers, but more discussion and preparation for the post-pandemic recovery needs to take place, said senior deputy governor Carolyn Wilkins, who is due to step down as of Dec. 9.

In a webcast speech to the Munk School of Global Affairs and Public Policy on Thursday, Wilkins said the economic recovery will likely be uneven and it must be recognized that some people and jobs will be left behind, despite positive outcomes such as the accelerated transition to digitization as a source of improved competitiveness.

"In our most recent projection, this adds up to a situation where Canada is likely to exit the pandemic with a lower profile for potential output," she said.

"That means, in regular people terms, a significantly diminished ability to generate the goods and services and incomes on a sustainable basis and any of those scars could become permanent without deliberate actions from all of us."

A report from TD Economics said the fact that Wilkins and the BoC's governor, Tiff Macklem, have spoken on the impact of inequality on the economy “raises the prospect of a dual mandate framework in next year’s renewal decision.”

A dual mandate would mean that the BoC would have two policy objectives: stable inflation and promoting full employment. The U.S. Federal Reserve, for example, has such a mandate.

In her speech, Wilkins said, rising numbers of Covid-19 cases across Canada are concerning and present a downside risk to the bank’s forecasts, but positive news about early success in developing a vaccine helps offset those concerns.

Canadians should reject the idea that economic goals must come at the cost of social goals, Wilkins said, citing Quebec’s daycare system as an example of a policy that created a “virtuous circle” in which families were helped and more women joined the workforce.

Canada could also be made more resilient through policies that encourage equity rather than debt financing as a way to foster business creation and growth, she said.

Conventional wisdom is that the economy is a public sector problem, but private sector investment in growth-enhancing initiatives and smart incentives, such as green technology, are also important for longer term growth, Wilkins said.

“It’s not lost on me that I’m encouraging you and all of us to explore the far side of the moon when right now life still feels pretty difficult here now on earth,” she said.

“The Covid-19 pandemic remains a formidable obstacle to both our health and our economic prosperity and we can’t have one without the other. Governments are acting decisively and monetary policy is complementing these actions by creating the financial conditions that support growth.”

She said the pandemic has damaged the potential for Canada and other countries to generate sustainable economic activity, and said sights need to be set higher to help businesses create good jobs and to make high debt loads more manageable.

Canada’s productivity and competitiveness issues remain, Wilkins said, arguing that the current crisis may present an opportune time to tackle those persistent problems.

She compared the time of recovery from the pandemic to the aftermath of major wars, with both events forcing governments and businesses to adapt and innovate at speeds they previously thought impossible.

TD Economics said that other areas the BoC will be keeping a close eye on in the wake of the pandemic could include climate-change risks to the economy and the modernization of Canada’s payment systems.

3. G20 agrees on debt relief framework amid Covid-19

[November 13, 2020] The Group of 20 nations, representing the world's biggest economies, announced Friday that low-income countries hardest-hit by the fallout of the coronavirus pandemic could potentially get an extension on their debt payments beyond mid-2021, and in the most severe cases, a debt write-off.

The G20 statement, released after a virtual gathering of the group's finance ministers and central bank governors, declared that the countries had agreed on a "common framework" for "timely and orderly" debt restructuring that aims to treat creditors equally and negotiate debt on a case-by-case basis.

But it did not specify which creditors would agree to possible debt cancellation. China, for instance, has repeatedly objected to portions of the debt relief plans. The country, considered to be Africa's largest creditor, is reluctant to give up the billions it is owed from its politically strategic projects across the developing world as its own economy slows.

The meeting comes a month after the G20 agreed to suspend US$14 billion in debt payments for an additional six months to support 73 of the world's neediest countries in their fight against the pandemic. Developing nations now have until June 2021 to spend on healthcare and emergency stimulus programs without fretting about grueling debt repayments to foreign creditors.

Although the pause on debt-service payments was welcomed as a reprieve, experts have pointed to the constraints of a scheme that leaves out private lenders like investment firms, banks and bondholders. Without buy-in from the private sector, economists say that poor countries' emergency funds may just land in other lenders' pockets, regardless of the G20's concessions.

The Institute of International Finance, a global banking association, said in a statement Thursday that private creditors "stand ready to engage in good faith on debt treatments." However, it said the private sector had received "very few requests" from eligible countries, revealing that borrowers may be wary of approaching private lenders for help, fearing credit downgrades.

The group's new "case-by-case approach" to debt negotiations unveiled Friday, also endorsed by the Paris Club, a group of mostly Western sovereign lenders, requires "fair burden sharing" among all official creditors _ suggesting that China and its disparate lending agencies will have to get on board. It asks that private creditors offer debt treatment "at least as favourable" as that offered by creditor countries.

Mohammed al-Jadaan, the finance minister for Saudi Arabia, this year's chair of the G20, hailed the framework as "an unprecedented agreement and a major breakthrough in international debt agenda."
Kristalina Georgieva, managing director of the International Monetary Fund, echoed the praise, saying the agreement would make the participation of private creditors "more likely" and "increase the viability of our action."
Still, she warned that the debt crisis "is not over," adding that "we need further support through debt relief and through fresh financing."
The group also announced Friday that it would reconvene next spring to see "if the economic and financial situation requires" an extension of the debt suspension by another six months. A repayment timetable of five to six years may be offered to eligible countries that make requests to individual creditors.
Before Covid-19 struck, much of the developing world, already in dire need of doctors and medical equipment, was spending huge shares of revenue to service external debt. Now that the pandemic has closed borders, halted tourism, pulled down oil prices and wiped out remittances, poverty is rising and resources are shrinking.
International aid groups have pushed for greater debt relief and partial forgiveness rather than mere suspension, arguing that poor countries should not cut spending that's badly needed for stimulus measures and healthcare systems under strain.
Ahead of Friday's finance meeting, over a thousand medical professionals from around the world sent a letter to the G20 urging debt cancellation for developing countries.
"It is perverse that poor countries are having to pay US$3 billion per month in debt repayments to rich banks, investment funds or the World Bank, while their populations fall further into poverty and destitution," wrote Chema Vera, Oxfam International's interim executive director.

4. Deutsche Bank proposes work-from-home tax

[November 12, 2020] White collar staff reaping the financial benefits of working from home should be taxed to help other workers who aren't getting the same advantages, experts at Deutsche Bank said in a new report.
In its report on how to rebuild the economy after COVID-19, the bank proposed a 5% daily tax on each employee that continues to work from home, which could raise tens of billions of dollars for governments. The money could be used to help lower income workers who have taken on greater risk because their jobs can't be done remotely, it said.

The bank noted that the global pandemic has turbocharged the shift to remote work, a trend that looks set to last for the long term with many workers expecting to spend at least a few days of their work week at home even after the pandemic ends.

These workers benefit from more convenience and flexibility. They also save money directly because they don't have to pay for commuting costs, takeout lunches, or buying and dry cleaning work clothes – but it means those businesses that have grown up to support officer workers won't be able to recover and "the economic malaise will be extended," the report said.

While it doesn't make sense for the government to support, say, a downtown sandwich shop if it doesn't have any more customers from nearby office towers, "it does make sense to support the mass of people who have been suddenly displaced by forces outside their control," the bank said. "From a personal and economic point of view, it makes sense that these people should be given a helping hand."

The tax would amount to just over $10 a day, assuming the average salary of an American working from home is $55,000. That's roughly the amount the worker might spend on commuting, lunch and laundry, which would leave them no worse off than going into the office, the report said. It could raise up to $48 billion in the U.S. Deutsche Bank carried out similar calculations for Germany and the U.K.

But the proposals faced heavy skepticism.

Andrew Hunter, co-founder of job search engine Adzuna.co.uk said the idea was misguided and predicted it would be incredibly unpopular.

"It punishes progressive companies and those with kids or caring responsibilities, who were responsible during the pandemic, who are already taking on more costs and helping the environment by staying at home," said Hunter. "Let's be honest, there are many better ways to raise taxes!"

5. Bidenomics: More stimulus, tougher regulation and gridlock

[November 11, 2020] President-elect Joe Biden will inherit a vulnerable economic recovery under threat from a resurgent virus, likely with a divided Congress that will hinder his ability to address the challenges.

Yet despite the obstacles, the former vice-president and senator will pursue a drastic shift in America's economic policy. He has vowed to reverse much of the Trump administration's aggressive deregulation and indifference to domestic spending and economic development in favour of big investments in education, infrastructure and clean energy. He wants stricter rules to rein in big tech companies and to fight climate change.

And to help pay for it all, the president-elect would turn to large tax increases for corporations and wealthy individuals by reversing much of President Donald Trump's tax cuts.

Biden is already distinguishing himself from Trump in his approach to the pandemic, which economists generally see as the gravest threat to the recovery. Trump saw the pandemic's impact on the economy through the lens of government-mandated shutdowns: he argued that to fight the pandemic by imposing curbs on face-to-face businesses like restaurants — the approach favoured by most health experts — was to doom the economy. Yet even when states reopened, many consumers stayed cautious about dining out, going to movies or flying.

"It wasn't all about shutdowns; it was about people getting scared," said Claudia Sahm, a former Federal Reserve economist. "I imagine people are getting scared again."

Biden's view reflects the warning from most economists that until the virus is controlled, the economy cannot fully recover.

"It starts with doing everything possible to get the Covid-19 under control," Biden said Monday, "so that we can reopen our businesses safely and sustainably."

Striking an ominous tone, the president-elect has warned, "We're still facing a very dark winter," with confirmed cases surging by roughly 120,000 a day — four times the pace of last spring. That trend, along with colder weather, will severely restrict the outdoor dining that has been a lifeline for restaurants and bars across the country. It could also hamper travel plans and visits to barber shops and yoga studios.

That slower growth, in turn, could intensify calls for more stimulus spending. Most economists, along with Federal Reserve Chair Jerome Powell, are warning that the economy needs more rescue aid from Congress.

The $2-trillion aid package that Congress approved in March is widely credited with fueling a sharp economic rebound this summer. But that stimulus is largely exhausted. Without additional aid, the hardships for roughly 10 million jobless Americans and thousands of struggling small businesses will deepen, along with the economy.

Biden's election victory makes another shot of stimulus spending more likely, though probably not until after his inauguration in January. A package of $1 trillion to $1.5 trillion would add as much as 4.5% to growth next year, according to Capital Economics. That would be enough to return the economy to its pre-pandemic level by the end of 2021. Most economists note that the economy’s painfully sluggish recovery from the 2008–2009 Great Recession was due in large part to government spending limits that took effect in 2010.

“The most important economic issue today, tomorrow and into the next several years is fiscal policy,” said Eric Winograd, U.S. economist at AllianceBernstein, referring to the government’s tax and spending policies. “With monetary policy [by the Fed] largely bled dry, fiscal policy is the only game in town.”

Unlike Trump, Biden regards big increases in spending on social, education and development programs as critical to longer-term growth. The president-elect has proposed nearly $5.4 trillion in new spending over the next decade, according to the University of Pennsylvania’s Penn Wharton Budget Model. That includes $1.9 trillion on education and $1.6 trillion on new infrastructure — roads, bridges, highways and other public structures — and research and development.

The president-elect has also said he would raise $3.4 trillion in additional tax revenue over a decade to help pay for it, Penn Wharton found. He has proposed raising the corporate income tax to 28% from 21%, reversing half of Trump’s cut from 35% in 2017. Biden would also raise income and payroll taxes for people making $400,000 a year or more — about 2% of the population.

Yet, Biden may be the first president since George H.W. Bush not to have both the House and Senate controlled by his party during at least his first two years in office. Whether that becomes true will depend on the outcome of two Senate runoff elections in Georgia in January. But most observers expect Biden to face a GOP Senate, which would likely block much of his agenda. Republican senators would fight Biden’s tax increases and at least limit the size of a new economic stimulus package.

“The outcome of the Senate race, arguably, is the most important consideration as far as likely tax legislation is concerned,” said Robert Willens, a professor of finance at Columbia University.

Biden’s spending proposals include $2 trillion over four years to counter climate change, a reversal from Trump’s focus on supporting oil and gas drilling. He wants to spend money to retrofit homes and buildings to make them more energy efficient and building out an infrastructure for electric vehicles.

In many areas, Biden can operate through executive orders or regulation. He could also reverse much of the administration’s approach to legal immigration, which has cut the annual number of new arrivals to to about 600,000 from one million. Most economists say the effects of Biden’s policies would be negligible in the short run but would expand the nation's long-run economic output by accelerating population growth.

Biden also plans to rejoin the Paris Agreement on behalf of the nation and has said he will sign executive orders to fight climate change. He aims to stop climate-damaging emissions from power plants by 2035 and to reach net-zero emissions in the economy overall no later than 2050.

The president-elect could also reverse some of Trump's executive orders by imposing tougher fuel economy standards, compelling coal plants to reduce emissions or restoring requirements that strengthen the oil and gas industry's reporting and reduction of toxic chemicals.

On trade, Biden will jettison Trump's go-it-alone style in confronting China. Instead, the president-elect says he will seek to build alliances with Europe and Japan to confront China's government subsidies, intellectual property rights violations and market restrictions, among other trade concerns.

To maintain those alliances, Biden is all but certain to drop his predecessor's inclination to target America's allies by threatening tariffs on car imports from Europe, or imposing tariffs on steel imports from Canada and Mexico. Still, Democrats in Congress are suspicious of China, and trade tensions will likely persist.

Trump has sought to ban Chinese apps TikTok and WeChat and has taken steps to root out Huawei from the small space it occupies in U.S. telecom networks. He has done so while pressuring other countries not to use Huawei in their next generation 5G networks.

Though Republican and Democrats are both suspicious of Huawei, TikTok could get a reprieve under Biden. Robert Atkinson, the president of the Information Technology and Innovation Foundation, which is funded by U.S. tech companies, said the TikTok ban was "much more of a Trump issue" that Biden might drop.

The president-elect could continue the government's rising efforts to curb the outsize power of the tech industry. The Trump administration launched what could be a landmark antitrust case against Google that will likely continue.

And, like the Trump administration, Biden has also taken aim at Section 230, a law that is foundational to the modern internet and gives tech firms liability protection from lawsuits for what users post. The president-elect has said it should be revoked. Trump and other Republicans have baselessly asserted that the social media companies were censoring conservatives. Democrats criticize the law because they think social-media companies are failing to suppress misinformation and hate speech.

Atkinson said he also sees relations between the White House and business returning to a more normal, predictable state under Biden, after Trump's willingness to loudly condemn companies that criticized him.
"If they would ever pressure a company, it would be very quiet," Atkinson said. "Biden is not going to use the bully pulpit to name and shame American companies."

6. Indebted households put recovery at risk, says report

[November 10, 2020] Low-income households spend 31% of their income on debt repayments, according to a report commissioned by Prosper Canada, a Toronto-based charity.
The report, Roadblock to Recovery, examines the distribution, amount and composition of consumer and mortgage debt held by Canadian households based on Statistics Canada's 2016 Survey of Financial Security.
The 31% figure is uncomfortably close to the Bank of Canada's definition of "financial vulnerability," which is when a household's debt service ratio is 40% or higher. The bank has warned that households with debt service ratios above 30% present a potential risk, since "unforeseen income or expense shocks can quickly put them in a financially precarious position," the Prosper report noted.
The highest-income households spent just 10% of their income on debt repayment.
The study also found that as household income increased, so did the percentage of households carrying debt: 49% of the lowest-income households carried debt, while 84% of the highest-income households carried debt.
The BoC has repeatedly warned of the economic risks of heavily indebted households. The Prosper report observed that the Covid-19 pandemic will probably increase the risk of insolvency among already vulnerable households.
Low- and moderate-income households with debt were most likely to owe credit card debt and installment loans, rather than mortgage debt — which was carried by just 20% of lowest-income households.
"Installment loans from high-cost credit lenders have emerged as a new alternative to payday loans and are the fastest growing form of consumer credit in Canada," the charity stated in a release.
Seventy-one percent of the highest-income households, on the other hand, held mortgage debt — a type of debt that, unlike most consumer debt, directly contributes to building wealth.

Nearly a quarter of the lowest-income households held student loan debt, compared with 15% of the highest-income households.

Prosper's report said that households in precarious financial situations have few options for obtaining financial advice, adding that other countries had established national money management and debt counselling services prior to Covid-19, and then expanded them in the wake of the crisis.

"Canada lags peer nations like Australia, New Zealand and the U.K. in ensuring vulnerable households have access to free, quality, financial help to deal with money and debt problems," said Elizabeth Mulholland, CEO of Prosper Canada, in a statement. "Canada has the necessary organizations, expertise and suitable programs we can quickly scale up to help those who are struggling — but only if our governments make the necessary public investments."

The report also recommends the government fund more frequent research into household debt. Statistics Canada has only administered the Survey of Financial Security five times since 1999, most recently in 2019 (for which data is not yet publicly available). "This infrequency means that the data we have is often years out of date and may not accurately reflect the actual debt experiences of households," the report said.

Prosper added that "modest public spending" would "prevent households from falling into crisis and placing additional pressure on public services. It will also address a major potential brake on Canada's broader economic recovery."

7. B.C. land registry unlikely to prevent money laundering, report says

[November 9, 2020] The high-profile effort to combat money laundering in British Columbia will likely fall flat, warns a new report from the C.D. Howe Institute.

The Toronto-based think tank issued a report arguing that B.C.'s new public land registry, which is being introduced in an effort to fight the funnelling of dirty money through the province's real estate market, is fatally flawed.

The report said that the registry has been stripped of "almost all its potential power and functionality."

Among other things, the report warned that the registry's identification information isn't actively verified, that the searchability and discoverability of information is "unreasonably restricted," and that the penalties for filing false information are unlikely to serve as a meaningful deterrent.

As a result, it warned that the registry "will likely do little to stop money laundering in B.C. real estate. And, once again, Canada will have failed to show it is serious about combatting money laundering."

The report makes a number of recommendations for addressing the perceived flaws in the new registry, including beefing up identity verification, imposing prison sentences for filing false information, and introducing a confidential whistleblower tip line to allow reporting of suspicious activity to both law enforcement and regulators, such as the Canada Revenue Agency (CRA).

"As it currently stands, the information on the registry will be unreliable, difficult to access, difficult to process and, even if it helps a searcher spot a falsely declared beneficial owner, the ability to communicate that discovery to Canadian law-enforcement officials and their ability to leverage it to catch criminals will be curtailed," the report's author, Kevin Comeau, said in a release.

"The good news is that all these flaws can be fixed. In doing so, the B.C. government will revolutionize the way we combat money laundering," he added.

The report said that adopting its recommendations to fix the registry would help combat money laundering while reducing upward pressure on housing costs and generating significant government revenue.

8. Volatility could persist as markets await Senate outcome: reports

[November 9, 2020] The U.S. election outcome is clearer, but investors should expect volatility in the coming months as Senate control remains up for grabs, potentially affecting bond yields, fiscal stimulus and other policies.

President-elect Joe Biden won't take office until Jan. 20, and with a Senate majority at stake in a pair of Georgia runoff elections that month, "market participants should expect considerable volatility," said a report by Derek Holt, head of Scotiabank Capital Markets Economics.

The Georgia Senate seats will determine whether Biden faces a "blue light" scenario, with a split Congress, or a Democratic "blue wave" in Washington, said the report.

"A blue light scenario would probably be ideal to bonds and equities together because it would reduce trade policy uncertainty at least for a time, while offering modest fiscal stimulus instead of more aggressive action that could put upward pressure on Treasury yields," the report said.

"It could also check some policies that may adversely impact specific equity sectors."

A Democratic Congress and White House, on the other hand, could see broader fiscal spending that drives faster growth and steepens the yield curve.
"Clearly there remains much at stake, which merits high caution surrounding forecasts for Treasury yields, stocks and other market variables," the report said.
Rather than the US$2-trillion stimulus bill House Democrats passed before the election that failed to make it through the Senate, a report from CIBC Economics said a bill worth US$1 trillion to US$1.5 trillion could be approved in December or early in the 2021 congressional session.
Even with a divided government, the U.S. government is likely to run large deficits, the report from economists Avery Shenfeld and Katherine Judge said.
That would put "upward pressure on bond yields as an improving economy allows the Fed to ease off on QE buying and, by 2023, begins to raise short rates," the report said.
The climb will be gradual, with rates remaining historically low and governments borrowing without amassing onerous debt service bills, the report said.
For Canada, the most important election impact could be a more co-ordinated effort to combat the Covid-19 pandemic, which would improve growth prospects for Canada's largest export market, CIBC stated. Other factors for the Canadian economy are U.S. corporate tax and immigration policies.
Biden pledged to roll back the corporate tax cuts enacted under President Donald Trump, but a Republican Senate could limit tax policy, the CIBC report said. Still, Canadian governments facing growing deficits and debts from pandemic spending could "see room to hike business tax rates or alter depreciation provisions here should the U.S. move that way."
U.S. immigration policy under Biden could also present a challenge to Canada's efforts to attract skilled workers, the report stated, if he lifts Trump's restrictions on visas.

Have a nice and fruitful week!