

Weekly Updates Issue # 791

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1. Weekly Markets Changes

[November 20, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,019.10 +343.5 +2.06%	3,557.54 -27.61 -0.77%	29,263.48 -216.33 -0.73%	11,854.97 +25.68 +0.22%	\$0.7651 +0.45c +0.59%	\$1,870.99 -18.21 -0.96%	\$42.15 +2.02 +5.03%

2. Retail sales rose in September for fifth consecutive month

[November 20, 2020] Retail sales climbed more than expected in September to mark the fifth consecutive monthly increase since the record drop in April due to the pandemic, but economists warned that rising Covid-19 cases and looming restrictions could mean weakness ahead.

Statistics Canada said Friday that retail sales rose 1.1% to \$53.9 billion in September, topping the 0.2% increase that economists on average had been expecting, according to financial data firm Refinitiv

"Today's release was a nice surprise, but with Covid-19 situation deteriorating rapidly across much of the country since September, further good news will likely be on hold for now," TD Bank economist Ksenia Bushmeneva wrote in a report.

"Tighter new restrictions in Manitoba and potentially a second lockdown in some of the hard-hit areas in Ontario does not bode well for in-store spending heading into a busy holiday season."

Government officials have warned that the spread of Covid-19 is accelerating and urged Canadians to reduce their personal contacts in an effort to help slow the pandemic.

Statistics Canada said its early estimate for October suggests retail sales for the month were relatively unchanged, but noted it was a preliminary figure and would be revised.

“Given the increasing Covid-driven regional restrictions in recent weeks, November and December could see some weakness,” wrote Benjamin Reitzes, director, Canadian rates and macro strategist at the Bank of Montreal. Statistics Canada said retail sales were up in nine of the 11 subsectors in September with core retail sales _ which excludes gasoline stations and motor vehicle and parts dealers _ rose 1.1%.

Sales at general merchandise stores climbed 1.8%, while sales at food and beverage stores rose 0.9%, partially due to higher prices for meat, fish and dairy products. Retail sales at furniture and home furnishings stores added 4.5%.

Sales at motor vehicle and parts dealers rose 1.5% in September, while sales at gasoline stations increased 0.2%.

In volume terms, retail sales were up 1.1% in September.

In a Friday release, CIBC senior economist Royce Mendes said, “The nascent second wave of Covid cases wasn’t enough to restrain retail sales in September.”

However, he warned, “That might have represented one last hurrah for the industry before the reality of the second wave sets in. Indeed, the statistical agency said that retail sales were unchanged in October after already hearing from roughly 50% of the companies in the survey.”

A report from Scotiabank had a similar tone, noting that even while retail sales expanded briskly in September, that acceleration ” is unlikely to last.”

A slowdown is expected, the report said, “but given that it comes in the context of a growing virus caseload and restrictions across provinces, the expected deceleration may be a sign of more weakness to come.”

3. New Covid-19 aid figures reveal who used CERB

[November 20, 2020] A key benefit for workers replaced lost earnings for thousands of higher-income Canadians, providing a new glimpse at the scope of federal aid during the Covid-19 pandemic.

The \$2,000-a-month Canada Emergency Response Benefit was a key part of the aid package the Liberals rolled out since March, paying out just over \$81.6 billion in benefits to 8.9 million people until it ended at the start of October.

It was predominantly used by people who earned under \$47,630 in 2019, figures from the Canada Revenue Agency show, but those higher up the income ladder also applied for the benefit program.

The CRA numbers show at least 114,620 people who earned between about \$100,000 and \$200,000 last year applied for the CERB. Another 14,070 people who had made more than \$210,000 applied for the benefit.

Lindsay Tedds, a tax policy expert at the University of Calgary, noted that many higher-income earners saw their workplaces closed and self-employed workers had contracts suddenly cancelled, or invoices left unpaid.

“The point was to replace income that was lost due to the pandemic, lost because of government regulations shuttering the economy to control the virus,” Tedds wrote in an email.

The CERB was available to anyone who had made at least \$5,000 in the preceding 12 months, and whose income crashed because of the pandemic, either from a drop in hours or being unable to work.

Filing a tax return wasn’t part of eligibility rules.

The issue earned a spot in the daily question period when the Conservatives asked about 823,580 recipients for whom the tax agency didn’t have 2019 income information at the time it compiled the data.

The figures, in response to a written question, were as of Sept. 23, one week before the tax filing deadline of Sept. 30.

Conservative finance critic Pierre Poilievre said everyone who lost their jobs because of Covid-19-related shutdowns should have received the CERB, but he decried payment to what he called suspected fraud cases.

He asked what the government was doing to ensure “the money didn’t go to people who didn’t earn the right to receive it.”

Finance Minister Chrystia Freeland responded by saying any fraud would be “completely unacceptable.”

“The hardworking public servants in the CRA are doing an outstanding job and they are going to make sure that all claims are legitimate,” she said.

The CRA said in a statement Thursday that “it would be erroneous to conclude” that CERB payments to those without a 2019 tax return were being paid to “fraudsters or to non-eligible individuals.”

It added that officials will be checking claims against upcoming tax returns and payroll records to find any cases of wrongful payments.

People can still apply for back payments of the CERB until Dec. 2.

The latest figures on its replacement, the Canada Recovery Benefit, show the amount in benefits paid has risen to over \$2.72 billion given to more than 1.1 million people since it became available in late September.

A wage subsidy program, which has so far paid out \$48 billion, and an emergency loan program round out some of the measures the Liberals took to keep employees on payrolls, and companies from going under.

The Senate passed the government's latest measures for businesses on Thursday, paving the way for a new commercial rent-relief program, extra help to companies subject to lockdowns, and an extension of the wage subsidy program to next summer.

Royal assent was expected later Thursday.

Data from the national statistics agency on Thursday showed companies that used the business loan program in the spring often put the money toward paying wages and suppliers.

Over half of businesses polled by Statistics Canada that received loans early on in the pandemic said the money was key to them keeping their doors open. In all, 756,115 loans have been approved, valued at \$30.24 billion, according to other figures tabled in the House of Commons this week.

The figures are up to Sept. 23 and show construction and retail companies in the top two spots for where the loans have gone by industry. About \$9.8 billion in loans went to small businesses with earnings under \$65,000.

4. Financial system resilient, but risks are significant: BoC survey

[November 20, 2020] While the Canadian financial system remains resilient, the risk of a significant shock has increased, say risk management experts surveyed by the Bank of Canada as part of its twice-yearly Financial System Review.

In the survey, which was released on Friday, experts cited a cyber incident and rising defaults in the household/corporate sector as the top two risks — both to individual firms and the Canadian financial system as a whole.

The autumn 2020 survey, completed by 47 respondents, was conducted between Sept. 8 and 25. Alongside recurring questions, it introduced questions about the impact of and the responses to Covid-19.

The BoC noted in a release that it had cancelled the spring 2020 survey due to the pandemic.

Among surveyed experts for the autumn edition, 98% indicated they were confident that the Canadian financial system will remain resilient, citing public sector support in response to Covid-19 as the reason.

However, the percentage of respondents who believed that risks have increased materially in the short term (less than one year) rose by 40

percentage points, while the percentage who believed that risks have remained unchanged fell by 36 percentage points, relative to the autumn 2019 survey. Further, the percentage of respondents who believed that risks have increased materially in the medium term (one to three years) rose by 20 percentage points, while the percentage who believed that risks have remained unchanged fell by 17 percentage points.

These respondents said the economy and financial system are in a more precarious position as a result of the pandemic, and that the public sector may now have limited capacity to intervene further.

When asked to list the three top risks that would most harm the Canadian financial system, the respondents said a cyber incident, rising defaults in the household/corporate sector, and deterioration in the global economic outlook. When asked to name the three top risks to their own organizations, the respondents also said a cyber incident and rising defaults in the household/corporate sector, but the third reason was the low-interest-rate environment.

A much larger proportion of respondents, as compared to the previous autumn 2019 survey, cited disruptions in information technology infrastructure as a top risk, with the new work-from-home environment given as the main factor driving that response.

5. Canadians see value in a wealth tax

[November 19, 2020] A new survey from Abacus Data finds the majority of Canadians — including those in the highest income bracket — are in favour of a wealth tax.

Abacus polled respondents about a proposed 1% tax on Canadian residents whose assets exceed \$20 million — an idea that has been championed by the federal NDP and Green Party.

Overall, 79% of Canadians said they supported the idea and 35% said they were strongly in favour of it. Support for the idea was high throughout Canada with at least 75% of respondents in every region of the country saying they favoured a wealth tax.

The idea also received broad support (73%) among households in the top income bracket.

Regardless of their political persuasion, most respondents were in favour of a wealth tax, including 64% of Conservative voters, 86% of Liberal voters and 87% of NDP voters.

In June, following the release of a Parliamentary Budget Officer report that revealed the top 1% of Canadians hold more than 25% of the country's wealth, both the NDP and the Green Party renewed their call for a wealth tax.

To date, that call has fallen on deaf ears. Earlier this week, the Liberals, Conservatives and Bloc Quebecois voted against an NDP motion to impose a wealth tax. That motion was supported by the Green Party.

Abacus also polled respondents on another NDP proposal to impose an "excess profit tax" that would double the corporate tax paid by companies on profits that exceed pre-pandemic levels.

Support for that proposal was more tepid, but still widespread: 68% of respondents said they favoured an excess profit tax, including 58% of Conservative voters, 73% of Liberal voters and 77% of NDP voters.

In a statement, David Coletto, CEO of Abacus Data, noted that this was "not the first" Abacus poll to reveal widespread support for a wealth tax.

"What's most striking is the general agreement across the political spectrum about a tax increase," Coletto said. "Raising taxes on the rich and highly profitable corporations is one of the few ideas that both progressives and right populists agree on."

Abacus surveyed 1,660 Canadians from Nov. 6–12, 2020. The survey's margin of error is +/- 2.5%, 19 times out of 20. For further details and a regional breakdown, see the Abacus poll results.

6. Commercial rent rebounded in Q3: StatsCan

[November 19, 2020] An initial casualty of the Covid-19 outbreak — commercial rents — rebounded slightly in the third quarter as the economy inched open.

According to new data from Statistics Canada, commercial rents rose 0.7% in the third quarter, as physical distancing requirements were relaxed and companies began restarting operations.

Office rents rebounded the most, rising 1.0%, while rents for industrial buildings and warehouses were up 0.6%, and retail rents rose 0.5%, the statistical agency reported.

"The increase in commercial rents in the third quarter reflected the gradual ending of rent relief and abatement that began in the second quarter. The increase also coincided with an improving labour market, as more Canadians were employed in the third quarter," StatsCan noted.

The rise in Q3 followed a record decline of 1.8% in the second quarter, StatsCan said.

However, that second quarter dip was revised from an initial reading of a 3.1% drop — after late responses were added to the data, and after the subsidies that businesses received were factored in too, the agency noted.

Those supports included the Canada Emergency Commercial Rent Assistance program, which lowered rents by 75% for qualifying small businesses. That initiative ran from April to October, when it was replaced by the Canada Emergency Rent Subsidy (CERS), which is in effect until June 19, 2021.

Ontario led the rent rebound in Q3, with commercial rents there rising by 2.1%, driven by a 2.9% gain for retail buildings as well as a 2.3% surge for warehouses and industrial buildings.

StatsCan reported that commercial rents also rose in the Atlantic provinces and Manitoba but were flat in Quebec and British Columbia.

Rents continued declining in Alberta, down 2.4% in Q3, and in Saskatchewan, down 0.3%.

Despite the recovery in Q3, rents remain down 0.8% year-over-year. StatsCan noted that, historically, commercial rents tend to rise an average of 1.6% year-over-year in the third quarter.

7. Three-quarters of small businesses needed CEBA: StatsCan

[November 19, 2020] The provision of emergency government financing in the face of the economic disruption caused by Covid-19 was critical to many small businesses, Statistics Canada reports.

Over half (53.7%) of businesses that qualified for zero-interest, partially forgivable loans offered under the federal government's Canada Emergency Business Account (CEBA) program said the financing was enough to keep them afloat, according to a recent StatsCan survey. Another 20.6% of businesses required other government assistance alongside CEBA.

Only 12.7% said that they could have maintained operations without CEBA, StatsCan reported.

Just under half of the firms that relied on CEBA (47.8%) also received either the Canada Emergency Wage Subsidy (CEWS), the Temporary Wage Subsidy or both.

Indeed, paying employees was the primary use of CEBA loans, the survey found.

StatsCan reported that 29.4% of the funding received under CEBA was used to cover payroll expenses, 19% went to pay suppliers and 16% went to location costs such as rent.

The construction industry was the top recipient of CEBA loans, accounting for 14.1% of loan approvals, followed by the professional, scientific and technical services sector at 12.5% and retail trade at 11%.

The survey also found that 30.4% of businesses that received government funding also tapped additional private funding, such as drawing on an existing line of credit (13%), using personal savings or loans from friends or family (11.9%).

StatsCan noted that future research may be carried out to measure the impact of changes to the CEBA program, which was expanded in June and then in October. It remains open to new applicants until Dec. 31, 2020.

8. Government should halt CPP premium increase, says CFIB

[November 19, 2020] The Canadian Federation of Independent Business has asked the federal government to hold Canada Pension Plan premiums at current levels next year when they're scheduled to rise.

The national lobby group for small and mid-sized businesses says that higher CPP rates will be a financial burden to both employers and employees as they struggle with the pandemic.

The CFIB estimates that one-third of small businesses are currently losing money during the pandemic and higher payroll taxes will limit their ability to hire and pay employees.

CFIB says employees could see their take-home pay fall when their CPP premiums go up.

The CFIB has long opposed a federal and provincial agreement to gradually raise CPP premiums over several years to improve retirement benefits for employees over the long term.

CFIB President Dan Kelly says higher mandatory expenses like pension premiums are hard for small businesses any year and will be even harder in 2021 because of COVID-19.

"Let's not forget that the premium hike hits employees too, ensuring that every working Canadian will see a drop in their take-home income unless their employer is able to give them a larger raise on Jan. 1," Kelly said in a statement.

9. Liberals shouldn't jettison spending restraints because of pandemic, former PBO says

[November 18, 2020] Canada's first parliamentary budget watchdog says there are ways for the federal government to impose some discipline on its upcoming spending plans to keep the deficit from spiralling out of control.

Kevin Page makes the argument in a paper publicly released Wednesday that the government should move away from spending to stimulate the economy as conditions improve following the shock of Covid-19.

Previous federal budgets have used raw numbers on deficits and surpluses as evidence of how well governments are handling public finances. The Liberals began emphasizing the ratio of government debt to Canada's economic output as a better measure. But as spending and borrowing have soared during the pandemic, neither is as useful as a "fiscal anchor" as it used to be.

To guide decision-making, Page proposes a series of measures the Liberals can use to focus planned spending while also keeping federal finances healthy. They include setting a range for federal debt as a percentage of the overall economy over a 10-year period and yearly limits for spending increases.

He also suggests the government prepare a policy response just in case economic conditions worsen, or improve beyond expectations.

Page says the Liberals shouldn't abandon all spending restraint because of Covid-19, despite what the government says about the need to support Canadians no matter what.

Setting some framework would address concerns from Canadians about how much spending room the government has to address the next crisis, as well as addressing big policy issues like climate and income inequality, said Page, now the head of the Institute of Fiscal Studies and Democracy at the University of Ottawa.

The deficit was last projected to hit \$343.2 billion this year. The government has pledged an update this fall, but a date has yet to be set for one.

The document is supposed to include rules the government plans to abide by as it goes about implementing some of its throne speech promises, such as national child care, but won't have a specific budget target like a declining debt-to-GDP ratio.

As Page points out in the article, published in "Policy" magazine, anchors remind governments they are not spending their own money, balance a natural political bias toward deficits instead of tax increases, and keep deficits from becoming uncontrollable.

He suggests the Liberals could try to keep the national debt between 46 and 50 per cent of the overall economy, and do so over a 10-year period. Page also suggests that spending could go up by at most four per cent annually, with priority placed on measures that would help the economic recovery.

“The government has argued that this is not the time to set a medium-term fiscal anchor. We say it is time to open debate,” Page said in an email.

The baseline scenario he and former PBO official Mostafa Askari produce, basing calculations on work of the current parliamentary budget office, suggest the base deficit could be \$42.9 billion in 2027 and \$36.9 billion in 2030.

The national debt would top \$1.5 trillion by the end of the decade and the debt-to-GDP ratio would fall to 46.2 per cent from 47.8 per cent this year. Last year, before the pandemic, the ratio was 31 per cent.

The scenario is what Page and Askara describe as a “relatively disciplined fiscal framework,” but one without room for the Liberals’ throne speech promises.

10. Growth, not taxes, will pay for pandemic spending: Poloz

[November 17, 2020] Governments can grow themselves out of the debts incurred from pandemic spending without relying on higher taxes to pay the bills, former Bank of Canada governor Stephen Poloz says.

Speaking Tuesday at the Portfolio Management Association of Canada’s annual conference, held virtually this year, Poloz pointed to the post-war period in the 1950s when debt levels were similar to where they are today.

“People acknowledge that we grew our way out of it,” said Poloz, who, since leaving his post at the central bank earlier this year, is now a special advisor at law firm Osler, Hoskin and Harcourt LLP.

Governments can do the same thing today, the difference being that rates are much lower and will likely remain so “for a full generation,” he said. This means less dramatic growth than the post-war period is required to steadily pay down debt.

“We should be doing everything we can to maximize the trend line of economic growth,” Poloz said, rather than “searching around for clever ways to increase taxes without people really thinking it’s higher taxes.”

Governments can reduce impediments to growth, such as inter-provincial trade barriers, and invest in childcare as Quebec has done to encourage female workforce participation.

“That’s the sort of thing we need to do to buttress the long-term growth line and that will allow us to pay for the debt that we’re incurring today,” Poloz said.

When asked about the possibility of negative interest rates, Poloz said they've been used in situations where central banks had their backs to the wall with no help from fiscal policy.

"If you're the only game in town, you have to use everything in the tool kit," he said.

However, he said the effect of negative rates on the economy is limited. Going a couple of basis points below zero may pull down the longer end of the yield curve, but it may also cause distortions in financial markets while doing little more to prime the broader economy. Those extra basis points won't encourage people to go out for dinner or book a vacation, for example.

"The economy is still weak but it's all in the bottom part of the K," he said, referring to how economies have rebounded asymmetrically during the pandemic. "Interest rates don't do anything for the bottom part of the K."

Soaring housing prices, elevated household savings rates and rebounding retail sales make up the top part of the K, while the bottom part represents the growing segment of permanent job losses.

"As long as fiscal policy has firepower, and I believe it has plenty, that is the policy to lean on," Poloz said.

Overall, the former governor was optimistic about the economic recovery from the pandemic.

"Since Covid arrived, every data point has surprised the analysts on the upside, and I expect that this trend will continue," he said. "People are far more resilient and more innovative than most economists give them credit for, and governments are doing the right thing with highly targeted fiscal policies."

11. October home sales set record, edge back from September high

[November 16, 2020] Home sales in October set a record for the month, even as sales fell back from the all-time monthly high set in September, the Canadian Real Estate Association (CREA) said on Monday.

The association said October sales were down 0.7% from September.

However, sales last month still set a record for October as they gained 32.1% compared with October last year.

The national average home price also set an October record at \$607,250, up 15.2% from the same month last year. Excluding sales in Greater Vancouver and the Greater Toronto Area — two of the most active and expensive housing markets — lowers the national average price by more than \$127,000, CREA said.

The housing market has been playing catch-up this summer and fall from Covid-19 shutdowns that dampened the usually busy spring housing market. Shaun Cathcart, CREA's senior economist, said that realtors may also be seeing a lot of moves, or "churn in the market," that would not have happened if not for Covid-19.

"As we've moved through the last few months of headline-grabbing data, we've seen sales activity for the year-to-date not just catch up with last year, which was surprising enough, but at this point activity in 2020 has a real shot at setting an annual record," said Cathcart.

"Many reasons have been suggested for why this is when many traditional drivers of the market — economic growth, employment and confidence, in particular — are currently so weak. Something worth considering is how many households are choosing to pull up stakes and move as a result of Covid-19."

The association noted that some 461,818 homes were sold over Canadian MLS systems in the first 10 months of the year, up 8.6% from the same period in 2019.

Two areas with big price surges during October were Ontario's Quinte & District Association of Realtors — including Prince Edward and Belleville, Ont. — and the Woodstock and Ingersoll Real Estate Board in southwestern Ontario.

Close behind were markets such as Ottawa, London, Barrie, Hamilton, Niagara, Guelph, and Kitchener, as well as what CREA dubbed "Ontario cottage country areas."

Canadian housing markets with slower price growth in October included Victoria and elsewhere on Vancouver Island, St. John's, Calgary and Edmonton, CREA said.

The number of new listings rose 2.9% in October to a new record for the month, but still fell short of the pace of sales growth. CREA said the housing market remains "very tight" in many parts of the country, with a new low of 2.5 months of housing inventory now on the market.

"For anyone waiting for the Canadian existing home market to begin to settle down following this summer's surprisingly strong recovery, they're going to have to wait a little longer. It was evident that the same trends we've been seeing since July — record sales and record prices amid tight overall supply — was once again the story in October," said Cathcart.

Have a nice and fruitful week!

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