Weekly Updates Issue # 792

1. Weekly Markets Changes
2. RBC expects feds to bolster support for households, businesses in update
3. Tax hikes needed to fund post-pandemic vision: CD Howe
4. Global house prices rose in the face of Covid-19: BIS
5. Provinces push for delay in planned CPP premium bump
6. National child-care system would boost women's job numbers and economy, report says
7. Fossil fuels to decline but remain big player in Canada's energy use by 2050: report
8. U.S. consumer confidence drops as virus spreads
9. Long awaited federal rent subsidy program for businesses hurt by Covid-19 opens today

1. Weekly Markets Changes

[November 27, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,396.56 +377.5 +2.22%	3,638.35 +80.81 +2.27%	29,910.37 +646.9 +2.21%	12,205.85 +350.88 +2.96%	$0.7701 +0.50c +0.65%	$1,787.79 -83.20 -4.45%	$45.53 +3.38 +8.02%

2. RBC expects feds to bolster support for households, businesses in update

[November 27, 2020] RBC Economics expects stronger support measures and higher deficits in next week's economic update from the federal government, even as the outlook has brightened since the government's July update.

In a new report, RBC projects that the government will report a deficit of around $370 billion for the current fiscal year, up from the $343 billion forecast back in July.

"We already see some stimulus bleeding into next year, with current announcements bringing the deficit to at least $90 billion in 2021-2022," it said, noting that extensions of existing government supports could add $40 billion to deficits through the end of 2021 "even before new spending announcements."

Once this temporary pandemic-driven spending winds down, RBC said that it expects the government to be facing “more manageable” deficits of about $35 billion per year.
However, the coming update will likely stick to a two-year projection horizon, rather than the typical five years, RBC said. As well, the bank expects the update to include a range of possible economic scenarios, given the uncertainty posed by the second wave of Covid-19.
Despite the deteriorating deficit outlook, RBC noted that the economic environment looks much better now than it did back in July.
“The unemployment rate at 8.9% is down materially from May’s 13.7% high but well above February’s 5.6%. The economy recovered ground through the third quarter, trimming our view of the annual GDP decline to 5.6%, smaller than the average summer forecast of -6.8%,” it said.
As a result, it expects that the government’s revenue forecasts will look stronger than they did in July too, albeit not strong enough to outweigh the rising spending demands.
On that front, RBC expects the government to focus its spending plans on cushioning the ongoing effects of the disruption created by the pandemic.
“We may see enhancements to the flagship wage subsidy for locked-down businesses mirroring the lockdown support in the new rent subsidy, or more targeted public investments like those in energy-sector environmental projects,” it said.
The bank also expects targeted government assistance for particularly hard hit industries, such as transportation, tourism and the energy sector.
For households, the RBC report suggested that more support for childcare could be coming too.
“Investments to create more socially distanced daycare spaces and a (temporary) boost to the Canada Child Benefit (CCB) to help cover costs for those comfortable sending children to daycare may be in the cards,” it said.
Yet, with several potential vaccines on the horizon, RBC said that it would be more concerned about overdoing stimulus this time around.
“If the path for debt-to-GDP is to return to its downward slope — the least we should do —we’ll need to be strategic and ensure lasting spending is focused on future growth,” it said.
As for financing all of this spending, RBC said it would be a mistake for the government to look for additional revenues at this point.
“That would be misguided given the fragility of the recovery,” it said.

3. Tax hikes needed to fund post-pandemic vision: CD Howe

[November 27, 2020] The federal government's latest throne speech signalled plans for major permanent spending increases — an effort that would have to be met with higher taxes, such as raising the GST and capital gains tax, suggests the C.D. Howe Institute.

In a new report, the Toronto-based think tank suggested that with the pandemic still raging, it's not time to consider permanent spending increases or tax hikes.

But, if the government intends to follow through on the initiatives promised in the latest throne speech — which it estimates could add between $19 billion and $44 billion in annual spending — then the country should expect higher taxes to finance these costs, the group's Fiscal and Tax Working Group concluded.

The top candidate for raising more revenue, it suggested, should be a GST hike.

The group estimated that restoring the GST to its original level of 7%, while also raising the GST tax credit to offset the impact on lower-income households, would raise around $15 billion in annual revenue.

While consumption taxes are politically unpopular, the group said that they distort economic growth the least and, "considering Canada's relatively low reliance on them among OECD countries, are an ideal way to raise needed revenues."

At the same time, the report suggested that a GST hike may be more politically palatable if the capital gains tax rises too, with an increase in the capital gains inclusion rate from 50% to 75%.

"The effective burdens of corporate and personal income taxes on capital gains and dividends have grown apart in recent years. Realignment of the capital gains inclusion rate to match the impact of the dividend tax credit would reduce the scope for tax planning," it said.

Overall, increasing the GST and the capital gains inclusion rate would raise nearly $20 billion per year, the report suggested.

"Such a move would set the debt-to-GDP ratio on a downward trend if the new spending from the throne speech sits at the lower end of the range," the report said.

"This downward trend is important," it noted, adding, "a clear fiscal anchor is necessary to exert fiscal discipline and improve government credibility with credit rating agencies and the public."

The group also considered various other potential tax reforms — such as raising the carbon tax, adopting a capital gains tax on primary residences and imposing wealth taxes — but ultimately concluded that the GST and capital gains tax are the most viable candidates for financing future spending.

4. Global house prices rose in the face of Covid-19: BIS

[November 26, 2020] Amid a pandemic that prompted unprecedented fiscal and monetary supports, global housing prices surged in the second quarter, the Bank for International Settlements (BIS) reports.

Real housing prices (defined as nominal prices adjusted for inflation) rose 1.9% year over year in the second quarter, the BIS said. The increase was led by the advanced economies.

On average, residential property prices in advanced economies rose by 3.7%, which was the fastest year-over-year growth rate since the end of 2016, the BIS noted.

Only Australia outpaced Canada among the advanced economies, with prices rising by 7%, compared to 6% for Canada. Prices were also up 5% in Europe and 4% in the U.S.

In emerging markets, prices were up a much more modest 0.6%.

However, the BIS called for caution in interpreting data from the pandemic period.

"Anecdotal evidence suggests that conditions in property markets changed markedly, possibly reflecting the impact of lockdowns and social distancing measures on household spending decisions," the BIS said. "Yet data are scarce and difficult to compare across countries."

At the same time, the bank also noted that worldwide housing prices have risen since in the financial crisis.

"Global house prices stood 18% above their average level in real terms, as recorded immediately after the great financial crisis," the BIS reported, with prices up 22% in advanced economies and 16% in emerging markets.

"Among the G20 economies, prices have soared in India and, although to a lesser extent, in Canada, Germany, the United States and Mexico since 2010," the BIS said.

5. Provinces push for delay in planned CPP premium bump

[November 26, 2020] Provincial finance ministers have quietly prodded Finance Minister Chrystia Freeland to pause planned increases in premiums that workers and businesses pay into the Canada Pension Plan.

The planned increase on Jan. 1 is part of a multi-year plan that was approved by provinces and the federal government four years ago to boost retirement benefits through the public plan by increasing contributions over time.

The first premium bump was in 2019, another was earlier this year and the next is due at the beginning of 2021.

A number of provincial finance ministers on a recent call with Freeland asked her to put a pause on next year's automatic increase because of the Covid-19 pandemic.

They argued it isn't a wise economic decision to take more off workers' paycheques and to charge businesses more when many are still struggling.

The details are in a letter Saskatchewan Finance Minister Donna Harpauer sent Freeland two days ago, a copy of which was obtained by The Canadian Press.

Harpauer's office confirmed the authenticity of the letter, and that her provincial counterparts raised the issue during a Nov. 20 teleconference with Freeland.

Any changes to contribution rates or the earnings ceiling at which point contributions top-out would need the approval of Parliament and seven provinces representing at least two-thirds of the national population — a higher bar than what's required to amend the Constitution.

Freeland is to deliver an economic update on Monday that should provide a full accounting of all federal spending on the Covid-19 pandemic to date.

The document will also detail the depth of the deficit this year, last estimated in July at $343.2 billion, and is expected to outline some new spending.

In her letter, Harpauer asked Freeland to use the document to announce a delay in any CPP contribution increases until at least 2022, when the country hopes to see "a recovery from our current economic difficulties."

"Our governments have provided a number of direct and indirect supports to businesses and workers to help sustain them through the current Covid-based economic downturn," Harpauer wrote.

"I believe that increasing CPP contribution rates at this time would be counterproductive to our many efforts over the past eight months."

A spokeswoman for Freeland said freezing the increases negotiated in 2016 would mean reducing future benefits for Canada's current workers.

"The federal government's top priority is supporting Canadians and businesses, very much including in Saskatchewan, as the country weathers the Covid-19 pandemic," Katherine Cuplinskas said. "With a second wave underway, many people in Saskatchewan and across Canada continue to face immense uncertainty."

Groups representing businesses big and large, and the workers they employ, say they are looking for some reshaping of federal aid programs.
Perrin Beatty, president of the Canadian Chamber of Commerce, said the government needs to put sectors that rely on a physical presence for their operations at the centre of any economic plan, through targeted emergency supports.
The National Airlines Council of Canada made a plea for aid on Thursday, noting newly released figures from Statistics Canada showing passenger counts continue to be down by more than 80 per cent.
Robert Asselin, senior vice-present for policy at the Business Council of Canada, said targeted aid for airlines has been slow to land compared to in other countries. The council, which represents large employers in the country, will be looking for clarity on targeted aid in Monday's update, he said.
Hassan Yussuff, president of the Canadian Labour Congress, said many workers using emergency benefits are worried about maxing out early in 2021. He said the government may want to use Monday's update to signal an extension, beyond 26 weeks, of how long someone can claim the new benefits.
"There is going to be a need for them to look at extending the benefit period because I think Canadians are going to need it for a little longer until we can start getting a (COVID-19) vaccine," Yussuff said.
Small businesses are also looking for any extra help the government can provide beyond a reprieve from CPP premium increases.
Dan Kelly, president of the Canadian Federation of Independent Business, said about one-third of small businesses are losing money even though they're open.
"The government does need to keep its focus very squarely on getting us through COVID and ensuring that there are sufficient economic supports in place," he said.

6. National child-care system would boost women's job numbers and economy, report says

[November 25, 2020] A new report estimates that hundreds of thousands of women could get back into the labour force if the Liberals follow through on a pledge to create a national child-care system.
The paper to be released Wednesday makes the case that federal spending to create a national program would "pay for itself" in the form of extra income tax, extra spending and reduced social costs as more parents entered the workforce.

There is also the potential for tens of thousands of construction jobs as new centres and spaces are built, along with an employment boost in the child-care sector as it expands.

Report author and economist Jim Stanford says the lack of accessible and affordable daycare is a key reason why fewer women in their 30s and 40s are in the workforce than men the same age.

He estimates that between 363,000 and 726,000 women in the "prime parenting age cohort" between 25 and 50 could join the labour force over a 10-year period as a national child-care program is developed.

Among them would be up to 250,000 women moving into full-time jobs.

Stanford's paper builds on previous research into the economic spinoffs of Quebec's publicly funded daycare system, but develops estimates based on how a national system might look.

The Liberals have promised to make a long-term spending commitment to create a national child-care system, seeing it as a key avenue to help women harder hit during the pandemic in what has been dubbed a "she-cession."

"Economists have agreed for years that child care has huge economic benefits, but we just can't seem to get the ball over the line in Canada," says Stanford, director of the Centre for Future Work.

"I finally think the ducks are being lined up here and we can actually make this happen," he adds.

"This really is the moment when we can finally move forward, and it is a moment when Canada's economy needs every job that it can get."

A recent report by RBC economists Dawn Desjardins and Carrie Freestone calculated that 20,600 women fell out of the labour force between February and October even as 68,000 more men joined it.

The situation was most acute for women ages 20 to 24, and 35 to 39; one of the reasons the duo cited for the sharper drop was the pandemic-caused closure of child-care centres.

Child-care centres, which often run on tight margins and rely on steep parental fees, couldn't keep up with costs during spring shutdowns and shed about 35,000 jobs between February and July. Some centres have closed for good.

The worry Stanford notes is that many of the job losses will become permanent and more centres will close without financial assistance from governments.

Scotiabank economists Jean-Francois Perrault and Rebekah Young suggested in September that creating nationally what Quebec has provincially would cost $11.5 billion a year.

Their analysis also suggested federal coffers could reap billions in new tax revenue as women in particular would get into the workforce in greater numbers, offsetting some of the overall cost.

Stanford's estimate is for a boost to government revenues of between $18 billion and $30 billion per year, split between federal and provincial governments.

"This literally is a social program that pays for itself," Stanford says.

"The economic benefits of giving this first-class care to early-age children, and getting their mothers in the labour market working to their full potential, are enormous."

He argues that provinces, mired in a fiscal quagmire worse than the federal government's, shouldn't stand in the way of "reasonable demands" from the federal government to create a national system.

Provinces have responsibility for child-care delivery. Stanford says they cannot afford to look this gift horse of new revenues in the mouth given the federal government would foot most of the bill.

7. Fossil fuels to decline but remain big player in Canada's energy use by 2050: report

[November 24, 2020] The Canada Energy Regulator says reaching net-zero emissions over the next 30 years will require a much more aggressive transition away from oil and gas.

The annual Energy Futures report released Tuesday comes just a few days after the federal government tabled a bill to enshrine into law its target to reach net-zero emissions by 2050.

But the report projects that even with many more policies to curb emissions than are currently in place, oil and gas would still make up nearly two-thirds of energy sources three decades from now.

"Achieving net-zero [greenhouse gas] emissions by 2050 will require an accelerated pace of transition away from fossil fuels," the report says.

Net-zero means either no emissions are produced, or any that are produced are absorbed by nature or technology so no more are added to the atmosphere, where they contribute to global warming.

Regulator CEO Gitane De Silva told The Canadian Press in an interview that the goal of the report isn't to comment on existing policy, but to paint a picture of where things could go using a variety of assumptions.

"Really, our hope is that this information will help inform that policy process going forward," she said.

The 104-page report looks at two potential scenarios for energy use in Canada. One involves using only the climate policies already in place. Another "evolving scenario" adds in the impacts of expanding those policies, including hiking the carbon tax, lower market prices for oil and gas, and lower costs to transitioning to renewables like wind and solar.

The current carbon tax is to stop rising in 2022 at $50 per tonne of emissions produced. The government is to review it at that point. The regulator's report looks at what would happen if the carbon tax was hiked to $125 per tonne by 2050.

Under the status quo scenario, demand for oil and gas remains relatively stable over the next three years.

In the "evolving scenario," oil and gas demand peaked in 2019. It will fall 35% by 2050 but will still account for 64% of all energy used.

Canada currently gets about one-sixth of its energy from electricity, about 20% of which comes from burning fossil fuels.

In the evolving policy scenario, the report projects electricity will generate more than one-quarter of Canadian energy by 2050, and that fossil fuels will provide about 10% of that.

Darren Christie, the chief economist at the Canada Energy Regulator, says Covid-19 added much more uncertainty to this year's projections, because fuel consumption and production fell substantially during the pandemic restrictions.

He says it's also not entirely clear how, or if, the country's work and commuting habits will return to the pre-pandemic normal.

"It really changes our starting point," he said.

Overall energy use is down 6% because of the pandemic, and oil production in Canada is down about 7%.

The evolving scenario projects that crude oil and natural gas production will both grow between 17 and 18% by 2039, but will then start to fall, dropping seven or 8% by 2050.

De Silva notes that if the three oil and gas pipelines under construction get finished — Keystone XL, Trans Mountain and Enbridge Line 3 — they will together be the final pipelines Canada needs to build to handle the projected growth and fossil fuel production before it begins to decline.

The report suggests Canada will also have to seriously pick up the pace on electric vehicles to meet its current targets. Even under the evolving scenario, the report projects only half of the passenger vehicles sold will be electric by 2050, a decade after Canada wants them all to be electric.

The large driver in that is the cost of electric-car batteries, said Christie.

8. U.S. consumer confidence drops as virus spreads

[November 24, 2020] U.S. consumer confidence fell to a reading of 96.1 in November as rising coronavirus cases pushed American optimism down to the lowest level since August.

The November reading released Tuesday by the Conference Board represents a drop from a revised 101.4 in October. The decline reflected a big drop in consumer expectations for income, business and labour market conditions.

“Heading into 2021, consumers do not foresee the economy nor the labour market gaining strength. In addition, the resurgence of Covid-19 is further increasing uncertainty and exacerbating concerns about the outlook,” said Lynn Franco, senior director of Economic Indicators for the Conference Board.

Consumer confidence is closely watched for signals it can provide of how willing households are to spend. Consumer spending accounts for 70% of economic activity in the U.S.

“We think the sharp rise in positive coronavirus cases nationwide, which has prompted new restrictions and shutdowns in many states, has led consumers to be more fearful of what lies ahead for them and their families as we head into the year-end holiday season,” said Chris Rupkey, chief financial economist at global financial group MUFG.

The consumer confidence index is set on a scale with 100 equaling the confidence level in 1985.

In the leadup to the pandemic with the country enjoying unemployment at a half-century low of 3.9%, the confidence index had risen above 130. It stood at 132.6 in February but plunged to 85.7 in April as millions of Americans lost their jobs after the country went into lockdown to try to halt the spread of the pandemic.

The index has bounced around since its big April decline but remains well below the levels seen before the pandemic hit.

For November, the present situations index, based on consumers’ assessment of current business and labour market conditions, decreased slightly to 106.2 from 105.9. However, the expectations index, based on consumers’ outlook for the future, declined from 98.1 in October to 89.5 in November.

9. Long awaited federal rent subsidy program for businesses hurt by Covid-19 opens today

[November 23, 2020] Businesses struggling to pay the bills because of the Covid-19 pandemic will be able to start applying today for a long-awaited new commercial rent-relief program offered by the federal government.

The new Canada Emergency Rent Subsidy replaces an earlier rent-support program for businesses introduced in the spring that saw little pickup because it relied on landlords to apply for help.
The new program will cover up to 65% of rent or commercial mortgage interest on a sliding scale based on revenue declines, with an extra 25% available to the hardest-hit firms.
Federal cabinet ministers will highlight the program during a news conference Monday, when they will also open two programs designed to help businesses owned by Black Canadians.
The Canadian Federation of Independent Business, which represents thousands of small companies across the country, is welcoming the new rent program as long overdue for firms hit hard by Covid-19.
However, it is criticizing the government for not opening it to businesses that would have qualified for the previous rent-relief program but could not access federal funds because their landlords chose not to apply.
Similarly, the Opposition Conservatives are criticizing the government for not rolling out the program sooner, and for shortcomings in the related legislation that still need to be fixed.
The revamped program includes a requirement that entrepreneurs pay their rent before applying, putting the subsidy out of reach for many cash-strapped stores.
Finance Minister Chrystia Freeland, who is scheduled to speak around midday in Ottawa, promised the Canada Revenue Agency wouldn't enforce the requirement for any companies that apply for the assistance.
She has pledged the government will quickly introduce legislation to formalize the directive.
"The government had all summer to come into September with draft legislation that is properly thought out to support small businesses and they blew it," said Conservative MP Pat Kelly, his party's small business critic.
"This is the first day that small businesses have been able to apply for the rent subsidy. Most didn't even qualify for the old subsidy, but even for those that did, that program expired in September, and December's rent is a little over a week away."
Statistics Canada reported last week that commercial rents rose by 0.7% in the third quarter of the year, after a record 1.8% plunge in the second year when the economy took a nose dive due to Covid-19.
Rents for office buildings rose at the fastest pace, followed by industrial and then retail buildings.

The national statistics agency said the rise in commercial rents in the third quarter “reflected the gradual ending of rent relief and abatement that began in the second quarter.”

Have a nice and fruitful week!

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