Weekly Updates Issue # 553

1. Weekly Markets Changes

[February 26, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,797.79 -15.61 -0.12%	1,948.05 +30.27 +1.58%	16,639.97 +248.0 +1.51%	4,590.47 +86.04 +1.91%	$0.7400 +1.36¢ +1.87%	$1,222.80 -3.80 -0.31%	$32.84 +1.21 +3.83%

2. Is a global recession on the horizon?

[February 26, 2016] Global growth is at its lowest in two years, and forecasters say the danger of recession is rising. Already, the IMF cut this year's global growth forecast by 0.2 percentage points to 3.4%, and it says another downgrade is likely in April.

So, today, officials at a global G20 finance meeting urged governments to stop relying on stimulus to perk up slackening growth, and to speed up promised job-creating reforms.

The current weak global outlook has upped pressure for reassurances and action from finance ministers and central bankers of major rich and emerging economies. But, leaders have sought to squelch expectations the meeting will produce specific growth plans.

Christine Lagarde, managing director of the International Monetary Fund, says governments should act faster on reforms that were promised at a G20 meeting in 2014. The list of promises includes about 800 commitments meant to simplify regulations and boost trade, and aid in investment and technology development.

But many have yet to be carried out. "Policymakers do not need to invent yet another trick, but they need to deliver steadily on the commitments they have

made," Lagarde said at an event organized by the Washington-based Institute of International Finance alongside the Shanghai meeting.
Referring to monetary and fiscal policy and structural reforms, Lagarde added, "There has to be action on all fronts."
Others at the meeting include U.S. Treasury Secretary Jacob Lew and Federal Reserve Chairwoman Janet Yellen; China's finance minister, Lou Jiwei, and central bank governor, Zhou Xiaochuan; Mario Draghi of the European Central Bank and their counterparts from Europe, South Korea, India and South Africa.
While central banks still have room to use interest rate cuts and other stimulus, the need for governments to follow through with promised economic changes is now, says Mark Carney, head of the Bank of England. "Global growth has disappointed because the innovation and ambition of global monetary policy has not been matched by structural measures," said Carney at the IIF event. "In most advanced economies, difficult structural reforms have been deferred."
Germany's finance minister, Wolfgang Schauble, says fiscal stimulus has "reached its limit" and his government will not agree to more coordinated spending in the event of further deterioration in the global economy. He urged other countries to deliver on reforms instead.
"We are not lacking in policy proposals," he says; "We are lacking in policy implementation."
Lew says Washington wants G20 governments to reaffirm pledges to avoid weakening their currencies to boost exports. "It doesn't lead anywhere good," he told reporters. "I hope we can get a commitment to avoid that."
A key concern in global financial markets, despite repeated Chinese denials, is that Beijing might weaken its yuan to support struggling exporters. That expectation has driven an outflow of capital from China that spiked to a record $135 billion in December.
Following complaints China fueled volatility in global markets by failing to explain policy changes, Lew appealed for clarity from Beijing. "The exchange rate policy is one in particular that needs to be clearly communicated," he says.
The Chinese hosts have hoped to use today's meeting to promote their campaign for a bigger voice in managing global trade and finance. Instead, the communist government is scrambling to defend its reputation for economic competence following stock market and currency turmoil.
Earlier Friday, China's central bank chief promised to avoid weakening the yuan as he tried to reassure nervous financial markets about his government's handling of its economy and currency.

“We will not resort to competitive depreciation to boost our advantage in exports,” said Zhou Xiaochuan, governor of the People’s Bank of China, at a news conference.

The foreign view of China’s economic health was shaken last year by a stock market collapse that wiped out $5 trillion in paper wealth. Its main market index fell by an unusually large daily margin of 6.4% on Thursday but gained 1% on Friday.

Speaking at a separate event earlier Friday, Zhou assured his audience the Chinese economy is robust after last year’s growth slowed to a 25-year low of 7.3%. He noted that it still was among the world’s strongest performances.

“China’s economic fundamentals remain strong,” he says. “The Chinese economy will continue to grow at a moderate-to-high pace.”

3. Tax changes in Ontario’s budget

[February 25, 2016] Ontario’s budget contains a few tax tidbits that may impact certain clients.

- In its 2015 budget, the federal government announced reductions in the federal small business corporate income tax rate over four years. The corresponding changes to the gross-up rate for non-eligible dividends (generally issued by companies taxed at the small business rate) will be paralleled by Ontario. As a result, Ontario’s non-eligible dividend tax credit rate will decline from 4.5% for 2015 to 4.2863% for 2016.
- Ontario will review its non-eligible dividend tax credit rate for 2017 and subsequent years.
- The Ontario government proposes to change the way it taxes income that is split with certain related children, by paralleling the federal approach of applying its top marginal personal income tax rate to all such income. Similar to the recent change in Ontario’s tax treatment of trusts, this approach would close a tax planning loophole. The measure is not designed to generate a net increase in revenue. Starting January 1, 2016, such split income would be taxed at Ontario’s top marginal personal income tax rate of 20.53%, and no surtax would be payable on that income.
- Ontario has a complex personal income tax system where tax brackets and other components result in effective tax rates that are not easily understood by tax filers. The government will examine ways to simplify the personal income tax calculation, including the Ontario surtax and Ontario Tax Reduction, so that Ontarians can better understand their effective tax rates.

- The Ontario government proposes to end the Healthy Homes Renovation Tax Credit as of January 1, 2017. The credit has had significantly lower take-up than projected and provides little support to lower income seniors.
- Ontario proposes to end the Children's Activity Tax Credit as of January 1, 2017, and will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children.
- The government proposes to discontinue the tuition and education tax credits. In their place, the government will create a single major upfront grant — the Ontario Student Grant (OSG), starting in the 2017–18 school year.

4. Ontario budget pushes CCMR, tougher regulations and enforcement

[February 25, 2016] Finance Minister Charles Sousa delivered the Ontario budget on Thursday. Here are some of the highlights:

- The budget deficit for fiscal year 2015-16 is expected to come in at $5.7 billion, down from the last estimate of $7.5 billion.
- The deficit for 2016-17 is projected to come in at $4.6 billion and be reduced to zero the following fiscal year.
- Ontario's net debt will hit $308 billion in 2016-17, the largest of any sub-national jurisdiction in the world, costing $11.8 billion in interest payments, which will increase to $13.1 billion by 2018-19.

Says IIAC president and CEO Ian Russell: "The IIAC is pleased to see the projected deficit for fiscal 2015-16 and 2016-17 is significantly lower than previously forecast and the target for fiscal balance has not changed.

"Reliance on economic growth for improvement in the fiscal position, rather than spending restraint, is a risky strategy given uncertain and volatile conditions. Overall spending remains excessive. The lack of progress in implementing the Drummond recommendations to reform program spending in the province is disappointing."

Eye on financial services

The budget document notes the government will push ahead with the Cooperative Capital Markets Regulatory System (CCMR). "[T]he government plans to introduce the Capital Markets Act and related CCMR legislation, following work with other participating jurisdictions to finalize the proposed CCMR legislative framework."

The budget also announces plans "to propose changes to update securities laws and continue to strengthen the financial services sector, protecting consumers and investors and bolstering the stability and efficiency of financial markets." The changes will aim to "strengthen enforcement provisions; create additional tools to provide protection for whistleblowers; and update the Securities Act related to the use of information obtained in investigations to allow such information to be used in a broader array of proceedings under the Securities Act."

Other budget highlights

- Single seniors earning up to $19,300 per year will be eligible for cheaper drugs starting in August, compared with the previous threshold of $16,018. Couples with an income of up to $32,300 will also be eligible, where before only those earning $24,175 qualified. The costs will be offset by raising deductibles and co-payments for seniors above the new income thresholds. Annual deductibles will rise to $170 from $100 and co-payments will increase by a dollar to $7.11.
- Income from the cap-and-trade plan to battle climate change is expected to hit $1.9 billion in 2017, up from last year's projection of $1.3 billion.
- University and college tuition will be free for students from families with incomes of $50,000 or less, and more than half of students from families with incomes up to $83,000 will receive non-repayable grants that exceed the average tuition — mostly students who live on their own.
- There will be a $3 increase in the price of a carton of 200 cigarettes, effective at 12:01 a.m. Friday, and the tobacco tax will keep rising at the rate of inflation each year over the next five years.
- The minimum price for a bottle of wine rises to $7.95, and there will be a series of increases in the LCBO's mark-up on wine, starting with a two percentage point hike in June — about 10 cents a bottle — followed by another two percentage points in 2017 and 2018, with a one-point hike in 2019.
- There will also be annual increases of about 10 cents in the tax on wine sold in private retail outlets, increasing from 16.1 cents to 20.1 cents over four years.
- The $30 fee for Drive Clean vehicle emissions tests will be eliminated in 2017-18, but not the tests themselves, which will cost the province $60 million a year.
- Hospitals will get their first funding increase in five years, up $345 million, plus $12 billion over 10 years in capital grants for about three dozen major hospital projects.

- There will be $333 million over five years to redesign and improve autism services.
- Shingles vaccines for seniors, which cost $170, will be free.

5. More than one-third pulling money from RRSPs

[February 25, 2016] Thirty-four percent of Canadians have withdrawn money from their RRSPs before retirement, according to a poll by BMO Financial Group. The study examined the reasons behind Canadians' decisions to make these withdrawals and their concerns about the consequences.

On average, Canadians have withdrawn $15,908 from their RRSPs. One-third have paid back the money, but 25% expect they will never pay it back.

Top reasons for making RRSP withdrawals include:

- buy a home (25%)
- pay off debt (21%)
- help pay living expenses (21%)
- cover costs after an emergency, such as a car accident or house flood (15%)

The study also found that, of those Canadians who have made an RRSP withdrawal, the majority (84%) said they only did so as a last resort. Three quarters said they were very concerned about the potential consequences of this decision, including:

- loss of retirement income (79%)
- withholding tax on the cash at the time of withdrawal (77%)
- not being able to save effectively for retirement (77%)
- loss of contribution room in the future (62%)

Regional Breakdown

Region	% who have made an RRSP withdrawal	Average amount withdrawn from RRSPs	% who have paid back the money withdrawn	Top reason for making an RRSP withdrawal
National	34	$15,908	33	To buy a home
Atlantic	40	$8,509	34	To help pay living expenses
Quebec	30	$12,622	42	To buy a home
Ontario	35	$17,092	30	To help pay living expenses
Alberta	32	$16,538	35	To buy a home

B.C.	33	$24,100	28	To buy a home

6. Ontario's net debt expected to exceed $300 billion

[February 25, 2016] Ontario's Liberal government will outline a plan to eliminate its deficit and stem the growth of its massive debt in today's provincial budget, the ninth in a row to be awash in red ink.

Low oil prices and a weaker loonie have helped Ontario lead the country in economic growth, but the province has the largest debt of any sub-national government in the world.

Premier Kathleen Wynne insists the $7.5-billion deficit will be eliminated by 2017-18 as promised, something credit rating agencies will be watching very closely.

Mike Moffatt of the Ivey Business School expects the 2016-17 deficit will be slightly lower than last year's budget forecast of $4.8 billion, and says it's important for the government to show bond markets it has a credible plan to get to balance.

Moffatt predicts Ontario's debt-to-GDP ratio of almost 40% will likely stay relatively flat, and he expects the net debt will crash through the psychological $300-billion mark in today's budget.

Progressive Conservative Leader Patrick Brown says interest payments on Ontario's debt are over $11 billion a year, and wants to see "immediate action" in the budget to reduce the debt.

"Will the government include in their budget a credible plan — not a stretch goal — for a balanced budget and take immediate action to pay down the $300-billion Liberal debt," Brown asked in Wednesday's question period.

The Tories also asked for improvements in health care and more affordable hydro rates, priorities Wynne called inconsistent.

"You cannot increase health care beyond what we are already doing and lower electricity prices, either through a subsidy or going back to coal, and at the same time speed up the elimination (of the deficit)," she said.

Wynne already disclosed that the cap-and-trade plan to fight climate change will add 4.3 cents to the price of a litre of gasoline and about $5 a month to natural gas bills, but the budget could detail other impacts from the scheme.

NDP Leader Andrea Horwath said she's really concerned about the state of Ontario's health care and education systems, and wants to see the freeze on hospital budgets lifted and more money for schools.

"Will this premier come clean and tell the people of this province and tell the students of this province if she, in fact, will be cutting another $250 million or more, in Thursday's budget, out of the education file," asked Horwath.

The budget will also detail already announced plans to let some grocery stores sell wine, which will get a new minimum price in the budget and could also be hit with a new tax.
There will also be more details on the government's strategy to combat violence against indigenous women, which Wynne announced Monday would get $100 million in funding over three years.

7. Even modest rate hike could derail Ontario budget

[February 24, 2016] An unexpected rise in interest rates could jeopardize provincial government promises of balanced budgets, says the Fraser Institute.
"During this era of record low interest rates, governments in Canada have accumulated significant debt, which could pose serious risks to their budgets if interest rates begin to rise and return to normal levels, causing debt interest payments to increase," says Jean Francois Wen, professor of economics at the University of Calgary and author of a report on the impact of interest rates on government debts.
The study spotlights the interest rate risks faced by governments across the country using Ontario and Quebec—Canada's two largest and most indebted provinces—as examples. It analyzes two scenarios: one where interest rates rise from a projected 3.8% in 2017/18 to 4.5%, and another with hikes to 5%.
In 2015/16, for example, Ontario expects to spend $11.4 billion on debt interest payments – equivalent to 9.2% of total revenues. If, however, interest rates rise by 4.5% to 5%, Ontario's annual interest payments on government debt could increase by between $409 million and $857 million in 2017/18, putting Ontario's plan to balance its budget in jeopardy.
Ontario's interest payments on government debt as a percentage of revenues could rise to between 9.7% and 10.2% by 2019/20.
"Higher than expected interest rates would not only put Ontario's plan to balance its budget at risk, it would also result in a larger percentage of revenues going to service outstanding government debt rather than to public programs that Ontarians value," Wen said.
The study notes that provincial governments have shifted the structure of their debt toward longer-term maturities to postpone refinancing at higher interest rates. But, this should not lull governments into a false sense of security—eventually, all public debt has the potential to be exposed to higher interest rates.
The study also examines the effect of potential interest rate hikes for Quebec. Unlike Ontario, the Quebec government is projecting budget surpluses in the near-term. But if interest rates were to rise, those surpluses would be lower

than planned, requiring the province to devote a larger share of revenues to financing interest payments.

"Ultimately, governments and their citizens should not be complacent about the risks of interest rate hikes," says Wen.

8. Cap-and-trade plan will lift gas prices

[February 24, 2016] Ontario Premier Kathleen Wynne says her government's cap-and-trade plan will add about 4.3 cents a litre to the price of gasoline and about $5 a month to natural gas bills.

However, Wynne says electricity consumers will be protected against rate hikes because of cap-and-trade and that they could even see their rates go down. She adds the government will use revenue raised from auctions of carbon emissions to keep electricity rates in check.

More details of the cap-and-trade plan are expected to be revealed in Thursday's Ontario budget.

So far, the plan is scheduled to take effect next January. The government expects to raise about $1.3 billion in its first full year of operation, which is money that will be devoted to lowering greenhouse gas emissions.

9. GTA new home sales dipped in January

[February 22, 2016] The new home building and development industry has had a slow start this year, says the Building Industry and Land Development Association. Following one of the biggest years ever for new homes in the GTA, sales of new homes were down in January and prices were mostly flat.

In 2015, in contrast, the average price of new homes hit record highs, particularly in the low-rise market (where the average price eclipsed the $800,000 mark for the first time ever). Last year was also the third-highest volume sales year on record in the GTA.

For January 2016, there were only 1,614 new homes purchased in the GTA, which is down 10% from the long-term average and 22% below January 2015. Prices remain relatively unchanged.

BILD president and CEO Bryan Tuckey attributes the dip to reduced inventory of new homes available for sale in January. "While the number of new projects launched in January was similar to last year, the number of actual units in these projects was significantly lower," he explains. "You can't sell what you don't have, so fewer new homes brought to market means fewer sales."

The industry brought 1,379 new homes to market in January 2016, compared to 2,011 the same period last year.

And, sales of high-rise condominiums were 17% below the long-term average in January, while sales of low-rise homes were 5% below the average.
But, "It's important to understand that one month does not a trend make," says Tuckey. "The next few months will tell a more accurate story about the market with the introduction of additional new projects across the GTA."

10. Liberals' deficit continues to climb, reveals Morneau

[February 22, 2016] Finance Minister Bill Morneau's updated picture of the economic backdrop heading into this year's budget isn't pretty, says CIBC chief economist Avery Shenfeld in a research note.
This morning, Morneau gave an economic update at a townhall event in Ottawa, as part of his pre-budget consultations. He announced the 2016 federal budget will be released on March 22nd and that it will be the first major step in enacting a new direction and economic plan.
But, Morneau also revealed the Liberal government is now projecting a deficit of at least $18.4 billion next year, which is nearly five times its $3.9-billion projection just three months ago. This means the shortfall could well exceed $20 billion, once a number of big-ticket Liberal campaign promises are factored in. The federal Finance Department is also predicting a $15.5-billion deficit in 2017-18, which is more than six times its estimate last fall of $2.4 billion.
The estimates released Monday don't include billions of dollars in Liberal spending commitments that are expected in the upcoming federal budget, such as infrastructure investments. But, the Liberals are banking on some of their spending vows to help revive economic growth and create jobs in Canada's struggling economy.
Shenfeld says, "The only question [now] is whether the modest dose of stimulus pledged in the campaign (roughly a half-percent of GDP) is enough to counter the drag on the economy from low commodity prices."
Today's calculations are based on an average projected oil price of $40 for 2016, down from $54 in the government's fall update, and projected growth of 1.4%, down from 2% in the fall.
Finance says the fiscal projections are about $2 billion lower per year because recent developments have been accounted for, including the Liberals' changes to the income-tax brackets and Canada's operations in the Middle East.
Ottawa also adjusted its deficit forecast for 2015-16, and a shortfall is now projected to be $2.3 billion rather than the previous estimate of $3 billion.
The government traditionally bases its fiscal predictions on the average forecasts of private-sector economists, whom Finance Minister Bill Morneau

met earlier this month. The government says the fiscal downgrades are largely due to the combination of lower oil prices and weaker-than-expected growth in the U.S. and other world economies.

This release, less extensive than the government's annual fall updates, comes amid numerous downgraded growth forecasts for Canada, which has been hit particularly hard by the steep slide in oil prices.

In support of the new, long-term economic plan for Canada, Morneau also announced the appointment of Dominic Barton, global managing director of McKinsey & Company, as the chair of the new advisory council on economic growth. This council, which will be selected shortly, will provide advice on policy actions to help create conditions for economic growth, with a focus on the middle class.

Morneau is also scheduled to appear Tuesday before the House of Commons finance committee. It's expected he will argue that, given the circumstances, it's more important than ever for the Liberal government to invest in the economy as a way to promote growth and help the country's so-called middle class.

Also, he may note that Prime Minister Justin Trudeau recently acknowledged the Liberals would no longer fulfil their promise to keep the 2016-17 deficit under $10 billion. Trudeau also cast doubt on whether he would make good on his vow to balance the books within his four-year mandate. This was a headline pledge in the Liberal election platform.

Trudeau's government has instead been emphasizing its other key promise to continue lowering Canada's debt-to-GDP ratio during its mandate. Experts have said Ottawa could run annual deficits as high as $25 billion and still shrink that ratio.

Have a nice and fruitful week!