Weekly Updates Issue # 561

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1. Weekly Markets Changes

[April 22, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,874.00 +236.8 +1.74%	2,091.58 +10.85 +0.52%	18,003.75 +106.3 +0.59%	4,906.23 -31.99 -0.65	$0.7893 +0.96¢ +1.23%	$1,233.70 -2.10 -0.17%	$43.75 +1.80 +4.29%

2. Annual inflation rate at 1.3%

[April 22, 2016] Inflation remained cool last month at 1.3% as stubbornly low energy prices continued to weigh down the annual rate, Statistics Canada said Friday.

The March inflation reading followed a 1.4% year-over-year increase in February and a 2% rise in January.

The agency's latest consumer price index said its headline inflation rate remained below the Bank of Canada's 2% target, largely due to a drop in prices for gasoline, natural gas and fuel oil. Prices dropped 13.6% at the pump, 17.4% for natural gas and 25.8% for fuel oil.

Those downward forces countered higher prices for shelter and food — particularly fresh vegetables and fresh fruit. Due in part to the lower Canadian dollar, vegetables prices were up 14.9% and fruit rose 11.3%.

The core inflation rate, which does not include some of the most volatile items such as gasoline, rose to 2.1% last month after a 1.9% reading in February. The central bank watches core inflation closely because it's a better indicator of underlying price pressures.

Inflation was lower in eight provinces in March compared to the previous month, leaving Alberta and British Columbia as the only ones that saw a higher rate.

Statistics Canada also released its latest numbers for retail trade, which showed an increase in sales for the second straight month.
Retail sales climbed 0.4% in February to $44.2 billion after rising 2% in January.
The February gains were seen in most sub sectors, with motor vehicles and parts dealers benefiting from the largest increase in dollar terms.
Sales were also up at clothing and clothing accessories stores, building material and garden equipment, as well as sporting goods, hobby book and music stores.
The biggest contributor of downward pressure on the headline retail number was the value of sales at gas stations, which slid for the eighth consecutive month to reach their lowest level since August 2010.

3. U.S. jobless claims fall to four-decade low

[April 21, 2016] The number of Americans seeking unemployment benefits fell to a four-decade low last week, a sign that employers are unconcerned about weak economic growth in the first three months of 2016.
Weekly applications for jobless benefits declined to a seasonally adjusted 247,000, the lowest reading since November 1973, the Labor Department said Thursday. The four-week average, a less-volatile figure, dropped 4,500 to 260,500. The total number of people receiving benefits has fallen 7.6% from a year ago to 2.14 million.
Applications are a proxy for layoffs. The historically low figures indicate that employers are holding onto workers and possibly looking to hire more, a positive sign for an economy that endured a rocky start to the year. Many analysts are forecasting sluggish growth of less than 1% annualized during the first three months of the year, as stock markets and the broader global economy turned volatile.
Yet the declining number of requests for jobless aid suggests that hiring will continue uninterrupted. A level of applications this low generally corresponds with monthly net job gains of more than 200,000. Applications have been below 300,000 for 59 straight weeks, the longest consecutive period since 1973.
Despite continued signs of weakness in manufacturing and retail sales slipping in March, a healthy job market should help propel economic growth in the coming months. The additional paychecks from more employment have historically boosted consumer spending in ways that feed broader growth. This could help overcome concerns about economic growth at the start of the

year being lower than the 1.4% annualized gain in the final three months of 2015.

4. ECB leaves key rates unchanged

[April 21, 2016] The European Central Bank has left its key interest rates unchanged as it waits to see whether current record lows will stimulate the tepid recovery in the 19 countries that share the euro currency.

The ECB said Thursday that its 25-member governing council kept its key benchmark at zero. The refinancing rate determines the cost of central bank credit to commercial banks, and through that steers many other short-term lending rates.

The central bank also didn't touch its rate of minus 0.4% on funds left on deposit at the central bank by commercial banks. That highly unusual negative rate is aimed at getting banks to lend the money, not stash it.

Analysts expect ECB head Mario Draghi to stress at a news conference that the bank could add stimulus measures if needed to boost the economy in the 19 countries that use the euro. Taken together, they are the second largest economy in the world after the United States and ahead of China, according to World Bank figures.

In addition to holding interest rates at drastic lows, the Eurozone's chief monetary authority is pumping newly printed money into the banking system by purchasing bonds from banks at the rate of 80 billion euros ($90 billion) per month. It is also planning long-term loans to banks that will earn negative interest — that is, the ECB will pay banks to take the loans instead of the other way around.

Cheap lending rates and infusions of newly created money are aimed at increasing inflation from its current level of zero. That's regarded as too low for a healthy economy, and it is far from the ECB's goal of just under 2%. More money and credit should also lift growth and reduce unemployment.

Draghi may also answer German criticism of the ECB's ultra-low rates. Some conservative German politicians have grumbled about the low returns to savers and on pension savings. Finance Minister Wolfgang Schaeuble went so far as to credit half of the support for the anti-euro, anti-immigration Alternative for Germany party to public discontent over ECB policies.

The European Union treaty that created the ECB and the euro forbids the central bank from taking advice from governments, and says that member governments agree to respect that. Political independence shields a central bank from pressure from politicians who may want more expansive monetary policy that could help them get re-elected — but which could cause long-term harm.

The Eurozone economy grew 0.3% in the fourth quarter of last year; unemployment is high at 10.3% but falling slowly, with pockets of much higher joblessness in places like Spain and Greece that have run into trouble with too much debt.

5. Average price of new detached Toronto home tops $1 million

[April 21, 2016] The average price of new detached homes in the Greater Toronto Area (GTA) has surpassed $1 million for the first time, says a Building Industry and Land Development Association (BILD) report.

According to Altus Group data, as of March 31 the average price of new detached homes available for sale in the GTA was $1,045,659.

The new detached home average price has grown by 21% in 12 months and in the last decade it has more than doubled. In March 2015 the average was $861,848 and in March 2006 it was $439,294.

BILD president and CEO Bryan Tuckey attributes much of the dramatic price increase to the supply of new housing not keeping pace with demand due to government intensification policies and a lack of serviced developable land.

There were 905 detached homes sold in March, down 9% from March 2015 and 3% below the 10-year average. As of March 31, across the entire GTA, there only 1,634 new detached homes available for sale in remaining inventory. In March 2006 there were 11,149 detached homes in remaining inventory.

Tuckey said the home building and land development industry continues to meet the province's intensification requirements and is building more townhomes and high-rise condos, but the demand for new detached homes remains strong.

The average price for low-rise homes overall, which includes townhomes and semi-detached homes as well as detached houses, also set a new record when it reached $849,312 in March. This is a 15% increase from March 2015.

The average price of a new townhome reached $672,419 while new semi-detached homes averaged $612,487.

"New low-rise homes are being purchased faster than they can be brought to market," Tuckey said. "As long as demand for low-rise homes continues to outpace supply, we will continue to see rapid price growth."

There were 2,032 low-rise homes sold in March, an increase of 16% from March 2015 and 26% more than the 10-year average. As of March 31 there

were only 3,036 homes in remaining inventory, a new record low. Ten year ago there were 16,757 low rise homes in remaining inventory.
With many first-time buyers unable to afford a low-rise home, the high-rise market provides a more affordable option due to its more moderate price increase.
The average price of a new high-rise home increased 2% from March 2015 to $459,231. On a price per square foot basis, prices increased 4% to $582.
The high-rise market recorded 1,560 new home sales in March, down 22% from March 2015 and 12% below the 10-year average. A detailed sales table broken down by region is available below.
Meanwhile high-rise inventory decreased to 18,280 across the GTA.

6. This carmaker just slumped 33% (Hint: it's not Volkswagen)

[April 21, 2016] Revelations that Mitsubishi Motors cheated on fuel economy tests have wiped out a third of the company's stock price in just two days.
The Japan-based automaker admitted on Wednesday afternoon that it had illegally rigged fuel economy tests affecting hundreds of thousands of vehicles.
Investors pressed the sell button as news broke and continued unloading shares during Thursday's trading session. The stock has now shed $2.5 billion in market cap and is sitting at a record low.
There are signs that more pain is to come. Japanese authorities raided Mitsubishi's offices on Thursday and the country's chief cabinet secretary said the company's actions were "extremely serious."
"This is a case of manipulation of test data which undermines consumers' trust, and it should not have happened," Yoshihide Suga said at a news conference.
The rigged tests affected four minicar models sold only in Japan, Mitsubishi said. It supplies two of the models to its bigger counterpart Nissan.
Mitsubishi is halting production and sales of the cars. It said it had sold 157,000 units of two of the models, and supplied 468,000 units of the other two models to Nissan.
Mitsubishi said it would "sincerely respond" to customers who bought the cars and would also discuss compensation with Nissan. The affected models are sold under the names eK Wagon, eK Space, Dayz and Dayz Roox.
The Mitsubishi announcement follows a huge scandal that rocked German auto giant Volkswagen last year after it admitted rigging diesel engine

emissions tests in America and Europe. VW's stock tanked 31% in the two days after news of its cheating first broke.

Other automakers have been penalized in recent years for putting a rosy spin on fuel economy figures.

Korean carmakers Hyundai and Kia agreed to pay a combined $100 million fine in the U.S. in 2014 for overstating fuel economy estimates for many of their vehicles. They also had to refund customers for the difference in estimated fuel costs.

That same year, Ford said it would compensate owners of about 200,000 U.S. vehicles after discovering the cars' gas mileage was overstated.

7. P.E.I. raises HST, delays balanced budget

[April 20, 2016] The Prince Edward Island government will increase HST to 15% as of Oct. 1, and is delaying plans to balance the provincial budget by one year.

Finance Minister Allen Roach unveiled the Liberal government's second budget Tuesday, saying the changes are necessary because of slow economic growth and a need to maintain essential public services.

"Islanders have told us that a balanced budget should not come at the expense of essential public services, such as health care and education. More investments are necessary to sustain these critical services," he said.

But Darlene Compton, the Opposition finance critic, says raising the tax rate won't create jobs or grow the economy.

"Once again Islanders are being asked to weather more pain for little gain. More than $30 million in new taxes, fees, licences and permits but still no balanced budget," Compton told the legislature.

She said the Island government is following the lead of other Liberal governments in the region and going for the "quick buck."

The government will boost funding for health, education and services to help settle immigrants and refugees.

Last year, Roach projected a balanced budget for 2016-2017, but instead he expects a $9.6 million deficit to be followed by a $9.2 million surplus in 2017-18.

While the population of Prince Edward Island increased by 0.2% last year, the number of people moving to the Island only slightly outpaced the number of people leaving.

Roach says this year's spending plan may not go as fast as some people may have wanted in achieving balance, "but I think it works better for Islanders."

He says the budget builds on the Island's primary industries like farming, fishing and tourism.

While last year's budget aimed to reduce the size of the public service through attrition, Roach says there are no expected cuts in the civil service this year.

KEY SPENDING

PEI's health budget is being increased by 3.1% to $605 million, or 35% of the total budget.

Education — early years and K-12 funding will increase by 3% to $243 million in the coming year.

A 1% increase in the operating grants for UPEI, Holland College and College Acadie.

The government will spend $100,000 in additional settlement supports to integrate immigrants and refugees.

TAX CHANGES

The provincial portion of the HST will increase to 10% on Oct. 1, raising the tax to 15% from 14%, and making it the same throughout the Maritimes. The change is expected to result in additional revenue of $11 million in 2016-2017 and $22 million in 2017-2018.

The government is bringing in a number of measures to provide tax relief to low income Islanders.

It is also eliminating the 1% Real Property Transfer Tax to all first-time home buyers effective Oct. 1, 2016.

CHALLENGES

Overall employment in Prince Edward Island declined for the second year in a row in 2015, down 1.1% from 2014.

Population grew in 2015, increasing by 0.2%, the fastest growth in the Atlantic region.

In 2015, Prince Edward Island had 1,336 international immigrants, and 2,202 inter-provincial migrants. However, 3,445 people left for other parts of the country.

FINANCIAL PROJECTIONS

The deficit for 2015-2016 is now forecast at $27.7 million, up $7.8 million from the budgeted deficit of $19.9 million. Roach says the main reason for the jump was an increase in health expenditures.

The projected deficit for 2016-2017 is $9.6 million, while a surplus of $9.2 million is forecast for 2017-2018.

The 2016-2017 budget increases the net debt by $19 million to $2.2 billion by the end of March 2017 — about $15,000 for every Islander.

8. Despite Paris deal, energy giants dismissing oil warnings

[April 18, 2016] Nearly 150 countries, including Canada, are poised to sign the Paris climate agreement at the end of this week. Still, some of the world's biggest oil companies aren't convinced the end in sight for fossil fuel use.

Prime Minister Justin Trudeau will be among signatories from some 147 countries convening Friday at the United Nations headquarters on Earth Day, the first opportunity to formally sign the global climate agreement completed in December.

The Paris accord envisions measures to hold the average global temperature increase to "well below two degrees Celsius above pre-industrial levels," and closer to 1.5 degrees. As of 2015, the world had already warmed one degree, according to the U.S. National Oceanic and Atmospheric Administration.

Many advocates heralded the Paris agreement as signaling the end of fossil fuels; the beginning of a swift transition to a decarbonized world by mid-century. And, environment minister Catherine McKenna, speaking at a World Bank event last week in Washington, said the clean energy transition is a "$3 trillion opportunity." So, "If you're in oil and gas you should be thinking about renewables. That's a huge opportunity for you, for your shareholders."

But amid the hoopla and enthusiasm that will surround this week's UN signing ceremonies for the Paris agreement, some global energy giants are suggesting that the most aggressive carbon-cutting scenarios simply won't come to pass.

Calgary-based Imperial Oil's 2016 shareholder circular, sent in advance of the company's April 29 annual general meeting, states that "the company's assessment is that its operations will exhibit strong performance over the long-term."

It cautions that international accords and the accompanying government regulations "are evolving with uncertain timing and outcome," but states, "Imperial's estimates of potential costs related to possible public policies covering energy-related greenhouse gas emissions are consistent with those outlined in Exxon Mobil Corporation's long-term Outlook for Energy."

Exxon, which owns 70% of Imperial Oil, also isn't buying the talk of "stranded assets" that have flared before and since the Paris agreement. "We expect that oil, natural gas and coal, the three fuels that together built the modern economy, will continue to meet almost 80% of the world's energy needs through 2040," says Exxon's 2016 energy outlook, which predicts oil demand will rise 30% over the next 24 years.

Further, “We expect oil to continue to be the world’s leading fuel, driven by demand for transportation fuels and by the chemical industry, where oil provides the feedstock to make plastics and other advanced materials,” says the outlook.

Both Exxon and Chevron had been seeking to block shareholder proposals at next month’s annual general meetings that dealt with transparency over the business impact of global carbon emissions policies. The U.S. Securities and Exchange Commission ruled this month that the companies must include the shareholder proposals at their AGMs.

Not all former oil executives are as bullish. Jeroen van der Veer, the former CEO of Royal Dutch Shell who retired in 2009, wrote last week that “uncertainty about whether oil demand will continue to grow is already impacting the strategies of oil and gas firms.”

In an article for the World Economic Forum, van der Veer asserted that “producers are coming to realize that oil under the ground might soon be less valuable than oil produced and sold in the coming years. This dramatic shift in expectations is changing the operating environment for the future of oil and gas.”

Mark Carney, the Canadian-born governor of the Bank of England, has been warning about the financial dangers of stranded assets since 2014.

Keith Stewart, Greenpeace Canada energy researcher, said in an interview that bankruptcies among major coal producing companies should be a cautionary example for the oil giants as the world meets to sign on to the Paris accord. “They can adapt to this new reality and become energy companies rather than oil companies, or they can join the dinosaurs,” says Stewart, adding, “This is no longer just the Greenpeace crazies” saying so.

9. Britain would be “permanently poorer” if Brexit occurs: Osborne

[April 18, 2016] Britain’s Treasury chief George Osborne has put a price tag on an exit from the EU by the U.K. Based on recent analysis of the long-term costs and benefits of EU membership, he says Brexit would cost the equivalent of $7,800 per household.

Osborne notes the U.K. economy would be 6% smaller in 2030 than currently forecast if the country were to leave the EU, but opponents reject the estimate as absurd.

But, “the conclusions could not be clearer,” Osborne has told the BBC. “Britain would be permanently poorer if we left the European Union, to the tune of 4,300 pounds ($7,800) for every household in the country. That’s a fact everyone should think about as they consider how to vote. As chancellor, I'm clear we're stronger, safer and better off in the European Union."

Osborne said the analysis looks at the benefits the U.K. receives from being inside the EU. It also considers alternatives that range from relying only on World Trade Organization rules, like Russia and China, to negotiate a Norway-style agreement in which Britain would gain access to the single market. However, it would then be required to pay into the EU budget and accept the free movement of people.

The Canadian option, where Britain strikes a similar trade deal as Canada with the EU, represents the middle ground, Osborne says. "What I would reject, however, is the idea that Britain can sign up to some kind of deal where we get all the benefits of European Union membership but none of the obligations or costs," he said. "The Germans or French wouldn't give that to us because it's a better deal than Germany or France gets and it's not credible."

His analysis concludes tax receipts would face a £36 billion black hole. "This is more than a third of the (National Health Service) budget and equivalent to 8 (pence) on the basic rate of income tax," the analysis says. It also estimated 3.3 million jobs are linked to exports from the U.K. to other EU countries.

Osborne also rejects the idea that his analysis was merely campaign propaganda dressed up as fact, but supporters of the leave campaign argued that the warnings were an attempt to confuse the British public.

Writing in his column for the Daily Telegraph, the leading figure in the out campaign, London Mayor Boris Johnson, argued that the public was being asked to "accept the accelerating loss of democratic self-government as the price of economic prosperity."

Even so, he said the public sees "the emperor has no clothes and that Britain could have a glorious future outside the EU." The migrant crisis shows the dangers of remaining in the bloc, Johnson said.

"They all know that there is one event in the next few weeks that could remind the British people of at least one salient point in this debate—that this country has lost control of its frontiers—and that is another migration crisis on the borders of the EU, and within the EU itself," he writes.

Have a nice and fruitful week!