Weekly Updates Issue # 566

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1. Weekly Markets Changes

[May 27, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,105.23 +185.7 +1.33%	2,099.06 +46.74 +2.28%	17,873.22 +372.3 +2.13%	4,933.51 +163.9 +3.44%	$0.7682 +0.56¢ +0.75%	$1,212.40 -40.50 -3.23%	$49.56 +1.38 +2.86%

2. Pending U.S. home sales hit highest level in 10 years

[May 27, 2016] Americans signed more contracts to buy homes in April for the third straight month, driving pending home sales to the highest level in more than a decade.
The National Association of Realtors says its seasonally adjusted pending home sales index surged 5.1% last month to 116.3, the highest since 117.4 in February 2006.
The April numbers are the latest example of good news for the housing industry, which is in the middle of the spring home-buying season. Pending home sales are up 4.6% from a year ago.
Sales climbed 11.4% last month in the west, 6.8% in the south and 1.2% in the northeast. In the midwest, sales dipped 0.6%.
Lawrence Yun, NAR chief economist, credited long-term mortgage rates that remain below 4% and steady job growth, which gives consumers the incomes and confidence to buy homes.
Pending sales contracts are a barometer of future purchases. A sale is typically completed a month or two after a contract is signed.
The Commerce Department reported Tuesday that new home sales shot up 16.6% last month, to a seasonally adjusted rate of 619,000, the most since January 2008. Sales of existing homes, which make up 90% of the housing market, rose in April for a second straight month to an annual pace of 5.45 million.

3. BMO to cut about 1,850 positions

[May 26, 2016] The Bank of Montreal is cutting about 1,850 positions from its workforce as consumers shift more of their banking online and technological advancements allow it to digitize some of its operations.
There were 46,166 full-time equivalent employees at the bank as of the second quarter, a decline of 616 employees from the previous quarter.
The lender said it will trim its head count by an additional 4%, which amounts to roughly 1,846 positions, as it took a $132 million restructuring charge relating to severance costs for employees.
“The underlying activity that drives the charge really relates to the increased use of technology in our business,” BMO chief financial officer Thomas Flynn said during a conference call to discuss the bank’s quarterly earnings.
“And that’s true both on the customer-facing side, where customers are increasingly doing things in a digital way — either mobile or online — but also in terms of how we use technology to drive efficiency in our business.”
BMO was the first of the big Canadian banks to report its second-quarter earnings results. CIBC, Royal Bank and TD Bank will follow on Thursday, and Scotiabank will wrap up the earnings parade next week.
The bank said its second-quarter profit slipped three per cent as it set aside more money for bad loans to the oil and gas sector, in addition to feeling the brunt of the restructuring costs.
It reported net income of $973 million during the quarter or $1.45 per share, down from $999 million or $1.49 per share, during the same period last year.
Restructuring charges have emerged as a common theme among Canada’s biggest banks in recent quarters, as the lenders look to reduce costs and digitize certain functions in response to a tough economic environment and changing consumer behaviours.
“The banks are responding to a very difficult loan growth and revenue growth environment by getting a lot more aggressive with expenses,” said Edward Jones analyst Jim Shanahan.
“Ultimately, this is really bad for financial services industry employment in the greater Toronto market.”
Shanahan added that other banks could also report similar restructuring charges — if not this quarter, then perhaps in the second half of the year.
“I don’t think this is over,” he said.
Despite the fact that BMO increased its provisions for credit losses to $201 million during the quarter ended April 30, up from $161 million a year ago,

Shanahan said he's still concerned that the bank isn't setting aside enough money for bad oilpatch loans.
"I'd still argue that outstanding reserves aren't really adequate relative to this large and growing oil and gas exposure that they have," he said.
On an adjusted basis, BMO earned $1.152 billion or $1.73 per share, up from $1.146 billion or $1.71 per share a year ago. That includes a $79 million writedown of an equity investment. Excluding the writedown, the bank said its adjusted net income was up seven per cent.
Revenue increased to $5.10 billion from $4.53 billion during the second quarter of last year.
BMO also announced its quarterly dividend will go up by two cents to 86 cents per share, effective Aug. 26.

4. G7 seeks way forward for aging, faltering economies

[May 25, 2016] Leaders of the Group of Seven rich nations plan to voice unity over fighting terrorism, pandemics and tax evasion at their summit in Japan this week. Finding a consensus on how to breathe life into their sluggish economies is proving more elusive.
Aging workforces, sagging productivity and lingering damage from the 2008 financial crisis are complicating efforts to spur growth while the effects of the slowdown in China and the other big developing economies ripple across the globe.
Ahead of the summit meetings that begin Thursday, finance ministers and central bank governors of the G7 meeting in northern Japan failed to concur on a co-ordinated approach to fighting what Nobel prize-winning economist Joseph E. Stiglitz calls the "Great Malaise."
They did agree the world's growth engine is running on fumes: "We as the G7 believe the biggest economic problem is demand. Demand — there is no demand — and that is the biggest problem around the world," said Japan's finance minister, Taro Aso.
The reluctance of consumers to buy and businesses to invest, despite rock-bottom interest rates, has caught economists by surprise and policymakers flatfooted, as the IMF, World Bank and governments repeatedly have had to downgrade overly rosy forecasts.
That stagnation is evident in the run-down business districts of Ise and many other places in Japan.
Last month, the IMF lowered the economic growth projection for 2016 and 2017 for the world's advanced economies, including Europe, the United

States and Japan, where collectively growth has remained below 2% since 2010.

"It's a difficult environment indeed," PepsiCo CEO Indra Nooyi said last month. "Most of the developed world outside the United States is grappling with slow growth."

When G7 meetings began in the 1970s, Japan was in the midst of its post-World War II industrial boom. Growth peaked in the late 1980s, and has mostly stagnated since a massive stock market and lending bubble imploded in the early 1990s. It has continued to limp and languish despite massive public works spending and, more recently, a barrage of monetary stimulus.

In Sendai, U.S. Treasury Secretary Jack Lew and other officials said co-ordinating growth strategies was difficult given the varied challenges and resource constraints of each country.

"It's not a one-size-fits-all," Lew said. Nonetheless, he made a point of urging Japan not to derail its faltering recovery with a sales tax hike planned for next year and cautioned Tokyo against intervening to drive the yen weaker for the sake of its exporters.

The IMF says advanced economies could get a healthy economic payoff by investing in research and development, roads, bridges and other infrastructure, and to rewrite tax codes that discourage people from working. Instead, governments have tended to rely on central banks to keep interest rates low, or — in Japan and Europe — even negative.

Meanwhile, some economists, notably Robert Gordon at Northwestern University, worry the world lacks the kinds of technological advances needed to drive up productivity and growth.

Japan's population is shrinking and aging the fastest among G7 countries, and its predicament is deepened by productivity that lags behind its G7 peers.

The country appeared poised for a revival, emerging from recession as Prime Minister Shinzo Abe took office in late 2012, promising to "bring Japan back" with share price-plumping plans to fire up growth through government spending and a flood of stimulus from the central bank.

The "Abenomics" three-pronged combination of monetary easing, government spending and structural reforms was supposed to end deflation and get households and businesses to spend more in the sort of "virtuous" cycle all major economies have been striving for ever since the global financial crisis.

The Bank of Japan's "big bazooka" of monetary easing pumped trillions of dollars into the economy, helping to weaken the yen against the U.S. dollar as profits of big exporters like Toyota Motor Corp. soared.

But Japan is still dipping in and out of recession, and a 2% inflation target remains far beyond reach. Recent data show the outlook deteriorating, despite a 1.6% uptick in annual growth in January-March.
After more than three years, Abenomics is viewed mainly as a "marketing slogan," said Kenneth S. Courtis, chairman of Starfort Holdings and a former Asia vice chairman at Goldman Sachs Group Inc. Japan needs to "take a blowtorch" to regulations and red tape that discourage competition, he says.
"There's a much more critical view of the Abe regime today than in the past," he said.
Most Japanese companies simply are not investing in their shrinking domestic market, even after the Bank of Japan pushed interest rates on some bank deposits it is holding below zero.
The G7 summit venue of Ise once was a centre for silk and cotton processing and shipbuilding. Today, its main industries are pearls, "Matsuzaka" fat-marbled beef and tourism.
The region is picturesque but sparsely populated: Villages have been emptying out for decades as businesses, mines and entire communities were abandoned.
Some were casualties of earlier shifts in the global market, as factories migrated to China and other developing countries.
Stalling growth is not unique to rural Japan: Long-term economic growth in each of the G7 countries is the worst it has been since the annual summits began 42 years ago, says Howard Rosen, an independent economist based in Washington.
In the advanced economies, automation and online commerce have meant the disappearance of many skilled, high-wage jobs. To a growing extent, the meagre or unpredictable pay of service-sector and contract or part-time work is sapping consumers' purchasing power.
As the usual policy tools fail, for the G7 as a whole what prevails is uncertainty, said Dave Tilstone, president of the National Tooling and Machining Association.
His group's members are showing "a lot more hesitation, more than before, to make long-term commitments. Their customers just aren't getting those long-term contracts either," he said.
Looming unknowns include the ups and downs of oil prices; whether the Federal Reserve will raise interest rates again, possibly slowing the U.S. economy; whether Britain will opt to leave the European Union in a June 23 vote; and the outcome of the U.S. presidential election, which could put Donald Trump in the White House.

Europe is struggling with floods of refugees, as its banks, still holding bad debts left over from the financial crisis, remain wary of lending.
"There are deep holes in the banking system, and there is no appetite to deal with it," said Ashoka Mody, visiting professor at Princeton University. "Someone has to bear the losses and no one wants to deal with the losses."
Though Germany alone has kept its conservative stance toward spending, the other G7 members have been constrained in varying degrees by law, politics and financial limitations from pursuing needed spending increases.
"Years ago, they came out with a co-ordinated growth plan and everyone kicked into gear," said Courtis. "Now there are very different views and that's what's paralyzed the G7."

5. BoC holds steady on rates

[May 25, 2016] The Bank of Canada says economic growth in the second quarter is expected to be weaker than predicted due to the Alberta wildfires as it kept its key interest rate on hold.
The central bank is keeping its target for the overnight rate steady at 0.5%. The rate is a key factor used by Canada's big banks in determining their prime lending rate, which is used for variable rate mortgages and lines of credit.
The Bank of Canada said growth in the first quarter appears to be in line with its April forecast, although business investment and intentions remain disappointing.
But its preliminary assessment is that the damage from the wildfires and curtailment of production in the nearby oilsands operations will cut about 1.25 percentage points off real GDP growth in the second quarter.
The central bank expects the economy to bounce back in the third quarter as oil production resumes and reconstruction begins.
"There are some longer-term challenges for the Canadian economy," writes Nick Exarhos, economist at CIBC World Markets, in a note to investors.
The bank highlighted that business investment is still weak, Exharos notes. It also seemed to be more concerned about the real estate sector than in its previous statement.
Exharos explains: "There was also a slight shift in tone on the housing market, with household vulnerabilities seen as 'moving' rather than just 'edging' higher as regional divergences become more pronounced."
Overall, Exharos says, "The bank seems to be balancing some negatives on business investment intentions with heightened risks in the housing market, which suggests that they're firmly on hold for now."

6. Feds must enforce anti money laundering laws in real estate

[May 25, 2016] Ottawa needs to beef up its efforts to combat money laundering in the real estate industry, say critics and housing observers after documents revealed that dozens of companies haven't shown how they're trying to detect questionable transactions. The Canadian Press reported this week that at least 85 firms have not fully implemented compliance plans intended to flag questionable transactions — including cases where money laundering is suspected — nearly 15 years after they were legally required to do so. "We can have the best rules possible around keeping laundered money out of our real estate market, but if no one is enforcing those rules, what good are they?" said David Eby, the NDP housing critic in British Columbia, where some have said the housing market is particularly susceptible to money laundering. "The realtors appear not to be taking the rules or the reporting obligations seriously, and Fintrac seems to be not too concerned when they see mass noncompliance." Data obtained from Fintrac through an access to information request showed that 38 companies had only partially implemented a compliance regime while another 47 had not at all. The names of the companies were not included in the documents. The data was compiled from 337 compliance assessment reports that were submitted to the federal anti money laundering agency from roughly 1,000 companies in the real estate sector. It represents only a sliver of the overall industry — there are about 20,000 real estate companies overseen by Fintrac. "I just wonder how many more audits with dismal results like this have to be returned to Fintrac and the federal government before they decide to really crack down," Eby said. A spokeswoman for Finance Minister Bill Morneau, to whom Fintrac reports, directed questions to 27/05/2016 Feds must enforce anti money laundering laws in real estate | Advisor.ca Darren Gibb, a spokesman for Fintrac, said compliance assessment reports are only one tool that the agency uses in its enforcement process. "They educate our risk based approach, and that's essentially all that they're supposed to do," Gibb said. Fintrac has used the data gathered from the compliance reports to significantly boost the number of onsite examinations it is performing in the real estate sector, he said. It has also invested "significant time and effort" into working with the real estate industry and the Canadian Real Estate Association to help realtors better understand their obligations under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, Gibb added. But Christine Duhaime, a lawyer specializing in anti money

laundering and counterterrorist financing, said most of the realtors she has met have no compliance plan, no compliance officer and don't know what a suspicious transaction is or how to report one. "I literally have never met a realtor across the country who really understands or fully complies with AML (anti money laundering) law," Duhaime said. A U.S. based short seller who has been a vocal critic of the Canadian housing market says it's clear that policymakers and law enforcement are not doing their job. Marc Cohodes, who once ran a hedge fund called Copper River Management, says he believes **it's illegal activity such as money laundering — and not local demand — that's driving house prices in the red hot market of Vancouver higher**, given that price growth has outpaced wages. "It's just not real and it's not sustainable and it won't last," he says. "Unless people do something and do something quickly, it's going to blow the place up." The federal NDP consumer affairs critic says it's troubling that Ottawa has been ignoring its responsibility to ensure that companies are complying with anti money laundering laws. "The government should not be taking a lax approach to these practices," Brian Masse said in an email. "Instead it needs to ensure that real estate markets aren't being used for money laundering — and that money laundering isn't helping to drive rising real estate costs for Canadians." The Real Estate Council of Ontario said it will remind its members of their legal obligations as a result of The Canadian Press report.

7. CRA minister on tax evasion: "NO ONE WILL BE IMMUNE"

[May 25, 2016] New to the federal political arena, National Revenue Minister Diane Lebouthillier has been busy since her election last October. The Panama Papers, the KPMG affair, revising the tax code: she's handling a lot of hot files.

Lebouthillier, who represents Gaspésie-Les Îles-de-la-Madeleine, Que., was involved in local government before being elected federally. She's worked as an elected warden of the Regional County Municipality of Rocher Percé, and in the office of a local member of Quebec's National Assembly. She also owns a small business, La Ferme du Petit Moulin, which hosts tourists. But it's her more than 23 years as a social worker that Prime Minister Justin Trudeau has asked her to draw on as head of CRA, says Lebouthillier. "When the prime minister named me minister of revenue, to be honest I was very surprised and I said to him, 'Listen, I'm a social worker by training, not a tax specialist," Lebouthillier recalls.

“And he responded by saying, “It is precisely because you are a social worker that you will be much closer to the people and you will understand the human aspect much faster. You will work with the agency to help those who are disadvantaged and less educated. Your work will provide these people with access to the programs they need to make their lives easier.”
In an interview with Advisor.ca’s sister publication, Conseiller, Lebouthillier dives into her biggest files.
This interview has been translated from French.
Advisor.ca: CRA is investigating tax evasion in the Isle of Man and three other jurisdictions, which you haven’t named. Can you tell us anything more?
Lebouthillier: We are currently working on the Isle of Man, and three other jurisdictions will be targeted. We’ll be investigating four jurisdictions per year. As I said in Parliament, no one will be immune.
I cannot name the three other jurisdictions, because if we announced an investigation in advance, those people who want to avoid paying taxes would simply change jurisdictions. Much work is being done internationally to protect this information. If we announce which jurisdictions we are going to investigate, all the work currently being done upstream will have been done for nothing. People had good reason to be indignant because what was happening with tax evasion and tax avoidance is unacceptable.
Advisor.ca: CRA asked RBC to hand over information regarding clients named in the Panama Papers, which it did. Will you be targeting any other financial institutions?
Lebouthillier: Not at this time. We’re working with RBC, which has decided to comply and co-operate with the agency, and we are happy.
Advisor.ca: There have been ethical questions raised about senior CRA bureaucrats attending a cocktail event organized by CPA Canada, which was also attended by KPMG employees. At the time, CRA was fighting KPMG over the identities of clients using offshore tax plans. What do you think of the situation?
Lebouthillier: We can’t isolate people. All departments work with stakeholders, not just the agency. We’re working to improve the system, improve laws and make connections with those who are in the field.
In addition, employees who went to the CPA Canada event were required to declare their participation by informing their immediate supervisor. I can assure you, having personally verified [this], that no officials who worked on the KPMG file in 2014 or in 2015 were present at the CPA Canada event.

Advisor.ca: In an era of greater scrutiny, how does CRA intend to maintain good ties with the practitioner community to foster greater compliance and understanding, while preserving its independence?

Lebouthillier: The agency is governed by a strict, highly regulated code of ethics and conduct. So much so that if an employee, or even someone who has retired or left the CRA, discloses information, no matter how long it has been since that person left the agency, that person is liable to criminal prosecution. And that applies as much for employees of the agency as it does for the minister. Nobody is above the law.

"People had good reason to be indignant because what was happening with tax evasion and tax avoidance is unacceptable."

Advisor.ca: Have there been changes in the way CRA officials are monitored?

Lebouthillier: I have a great deal of confidence in the people who work at the agency. I've been in office for six and a half months and I make a point of touring agency offices and meeting with directors, section heads and employees. People who work at CRA are very proud of the work they do and they feel strongly about doing things properly and in compliance with the rules.

Stakeholders also want to work to participate in improving processes. We have new challenges today that we did not necessarily have 10, 15 and 20 years ago, for example, by technology. We need to work with our stakeholders in the field who always have suggestions to improve our service quality.

Advisor.ca: What are the main questions or interpretation requests CRA gets from taxpayers?

Lebouthillier: We fielded a number of questions indicating that people wanted the information they received to be much simpler. There was also talk of humanizing our services and making everything concerning the tax system more accessible and easier for taxpayers.

We received a great deal of complaints. People would call and have to wait a long time for answers to their questions. They would call back because they got disconnected; it could happen up to 10 times. That's why it became so very important to improve customer service.

Advisor.ca: What measures are you taking to improve the situation?

Lebouthillier: During the winter we announced measures to simplify correspondence and I can tell you that in the budget presented by Finance Minister Morneau, we talk about major investments precisely to better respond to our clientele.

We started this year, as soon as tax season began. We hired many more people to answer the phone. Even though we know that many more people are now using online services (the percentage has increased from 82% to 84%), a major segment of the population is still not comfortable with online services.
When we look at the elderly, the less educated, or people in rural areas—where online services are not accessible—it's important to communicate by paper mail and by phone. People still use the telephone a great deal.
We're also working on simplifying forms. For people who have the same income every year, some information is already available online and entered into their tax return so they have less to fill out.
Advisor.ca: Regarding the tax act review, what can we expect?
Lebouthillier: Discussions regarding the tax system are currently underway with the Department of Finance. CRA is responsible for applying laws and the Department of Finance makes changes to them.
Everything is on the table at the moment. What we want is to be fair and equitable to the everyone. It would be premature for me to announce anything. I can assure you that there will be changes in the course of this mandate.

8. Canadians struggling to pay bills as housing costs rise

[May 24, 2016] Rising housing costs are making it difficult for homeowners to balance paying down their mortgage, saving for retirement and managing day-to-day expenses. In fact, 37% were caught short at least once in the last year, and did not have enough to cover expenses, finds a Manulife Bank Canada survey. And just 40% are confident they will have enough savings for retirement.
For some, the rising cost of housing means they will approach retirement with significant home equity but insufficient savings to fund their retirements.
"Our research has consistently found that becoming debt-free is among the top financial priorities for Canadian homeowners," says Rick Lunny, president and CEO, Manulife Bank of Canada. "They must also find a balance between debt repayment and saving for retirement so they don't end up house-rich and asset poor."
RISING MORTGAGE DEBT
The average Canadian homeowner with a mortgage has an outstanding balance of $181,000, up from $175,000 reported last fall. Average mortgage

debt remains highest in Vancouver, at $259,000, compared to $217,000 for Calgary and Edmonton and $194,000 for Toronto.

DECREASE IN CROSS-BORDER SHOPPING

Homeowners also appear to be quite sensitive to changes in the value of the Canadian dollar — 57% of respondents say the recent decline in the Canadian dollar would have some impact on their spending. Within this group, a quarter report they've reduced online cross-border shopping, 23% have reduced in-person cross-border shopping and 17% have changed or cancelled a trip to the U.S.

EXPECTATION VS. REALITY

For most homeowners, their home is a key component of their vision for retirement — 94% say they wish to continue to be homeowners during the first several years of retirement. Among those in their 50s, 74% would prefer to remain in their current home.

More than a quarter predict their home equity will comprise 80% or more of their household wealth at the time they retire. A further 17% believe it will make up between 60% and 80% of their household wealth. Notably, 24% of homeowners in their fifties expect their home equity will make up 80% or more of their wealth when they retire.

DIFFICULT DECISIONS

Here are some options for homeowners who find themselves with significant home equity, but limited retirement savings.

1) Retire later than originally planned
2) Accept a lower standard of living in retirement
3) Move to a less expensive home and use extra equity to fund retirement
4) Borrow against their home equity

"Your home is […] a significant financial asset that you should take into account when planning your retirement income," says Lunny. "With a conservative, disciplined plan, borrowing against your home equity can be an effective, low-risk way to supplement your retirement income, while still enjoying all of the benefits of staying in your current home."

Have a nice and fruitful week!