Weekly Updates Issue # 567

1. Weekly Markets Changes

[June 03, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,226.78 +121.6 +0.86%	2,099.13 +0.07 +0.00%	17,807.06 -66.16 -0.37%	4,942.52 +9.01 +0.18%	$0.7732 +0.50¢ +0.65%	$1,246.50 +31.30 +2.58%	$48.90 -0.66 -1.33%

2. Toronto's real estate market gets even hotter

[June 3, 2016] The Toronto area's real estate market set a new record last month, with nearly 13,000 homes sold. That's up 10.6% from May 2015 in what was already one of Canada's hottest real-estate markets.

The Toronto Real Estate Board says there's a shortage of listings for low-rise types of housing, such as single family homes.

As a result, the industry group says there's heated competition among buyers that has pushed up prices. Its home price index was up 15% in May compared with the same month last year.

Last month's average sale price in Toronto itself was $782,051. In the rest of the GTA, the average was $734,924.

The association says there were 12,870 homes of all types sold through its Multiple Listing Service in May. That included 4,638 in the city itself and 8,232 in surrounding areas.

Those compared with 11,640 home sales of all type in May 2015, including 4,166 in the City of Toronto and 7,474 in the surrounding areas.

TREB president says there's no shortage of buyers but the bigger story is a "shortage of listings, which has resulted in strong upward pressure on home price."

The total number of new listings across the GTA last month was 17,412 - 6% fewer than 18,611 in May 2015.
TREB's director of market analysis, Jason Mercer, adds that "widespread competition between buyers of singles, semis and townhouses across the GTA has underpinned the robust annual rates of price growth experienced so far this year."
The average price for a detached house in Toronto proper was $1.28 million last month, up 15.2% from a year earlier.
The real estate association's monthly statistics follow a warning on Wednesday from the Paris-based OECD, an economic think-tank, which said Ottawa should do introduce new measures to reduce some of the risk associated with soaring home prices and household debt levels in Toronto and Vancouver.
It wasn't the first time that the OECD called for measures to cool sky-high house prices in Toronto and Vancouver, which together comprise a third of the country's real estate market. It made similar comments in its report last December.
Since then, Finance Minister Bill Morneau has increased the minimum down payment for homes over $500,000, a measure aimed specifically at the Toronto and Vancouver markets.
As of February, homebuyers must put down 10% on the portion of a home over $500,000. Buyers can still put down 5% on the first $500,000 of a home purchase.

3. Trade deficit narrows to $2.9 billion: StatsCan

[June 3, 2016] Canada's trade deficit narrowed to $2.9 billion in April, helped by higher energy prices. However, the result fell short of expectations for the first month of what is expected to be a weak second quarter for the economy.
CIBC economist Nick Exarhos said exports rebounded, but not as much as was expected.
"We got a bounce, but it was an underwhelming bounce if we have to be honest," Exarhos said.
"There were some signs that some external demand was firming for Canadian exports, but with volumes up under one%, I don't think April is likely to recoup all of the lost ground that the Canadian economy suffered in March."
The trade deficit for April compared with a revised shortfall of $3.2 billion for March. Initial estimates last month had put the March deficit at $3.4 billion.

For April, economists had expected a deficit of $2.45 billion, according to Thomson Reuters.

The trade report followed a weaker-than-expected report on economic growth in the first quarter ended March 31.

The GDP report suggested a weak hand-off to the second quarter. The economy grew at an annual pace of 2.4% in the first three months of the year, but that was due entirely to strength in January as it contracted in both February and March.

The weak end to the first quarter compounds the difficulties for the economy caused by the Alberta wildfires, which the Bank of Canada has estimated will cut 1.25 percentage points off growth in the second quarter, implying a contraction for the three-month period ending June 30.

Statistics Canada reported Friday that exports increased 1.5% to $41.8 billion in April as prices climbed 1.1% and volumes rose 0.5%.

The gain came as exports of energy products rose 7.6% to $5.0 billion in April. Energy prices gained 9.7%, but volumes fell 1.9%.

David Madani, senior Canada economist at Capital Economics, said there could be a further drop in volumes for May because of the disruption in the oil sands production due to last month's wildfires.

"This could mean that exports overall actually fell back last month, compounding matters somewhat," Madani wrote in a note to clients.

Excluding energy products, Statistics Canada said exports gained 0.8%.

Exports of industrial machinery, equipment and parts rose 10.5% to $2.8 billion, while metal and non-metallic mineral products gained 5.7% to $4.8 billion.

Imports increased 0.9% to $44.7 billion, as volumes gained 0.8% and prices added 0.1%.

Imports of aircraft and other transportation equipment and parts rose 52.0% to a record $2.2 billion in April, while imports of energy products rose 5.9% to $1.7 billion in April.

Canada's trade surplus with the United States narrowed to $1.6 billion in April compared with $1.7 billion in March, while the trade deficit with the rest of the world narrowed to $4.5 billion compared with $4.9 billion the previous month.

4. IIROC boss wants crackdown on jurisdiction shoppers

[June 2, 2016] It's a problem that's getting more and more attention: people banned in one regulatory jurisdiction jump over to another. IIROC's president and CEO, Andrew Kriegler, put the spotlight on this issue—and what he wants to do about it—in comments he made Thursday before the Ontario government's Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives.

The Committee would like to see regulators, including IIROC, working together to develop harmonized standards that would apply consistently to all financial planners.

That was music to Kriegler's ears.

"I would […] like to highlight what we see as an indirect but very positive consequence of your recommendation," he said. "As regulators responsible for Financial Planning in Ontario, we would need to ensure that Financial Planners adhere to the common standards we establish. And when they don't, we would need to enforce them and bring disciplinary action as appropriate. Bringing the regulators together opens the door for greater mutuality and reciprocity of sanctions—which is something that IIROC has already been working hard to achieve across the country."

Kriegler continued: "For example, if an individual was sanctioned by one regulator for sufficiently serious misconduct relating to his or her Financial Planning activities, the partner regulators would recognize that sanction, and that individual would not be permitted to register as a Financial Planner with them. We would also expect that the individual would not be able to be registered in any capacity with any of the regulators" (emphasis in original).

The Committee's also proposing a central registry, which received strong support from Kriegler. "IIROC currently offers a web-based tool which allows consumers to research the background, qualifications and disciplinary information of over 28,000 individuals at IIROC-regulated firms. We would be happy to discuss the potential to leverage this database and our expertise in implementing your recommendation," he said.

5. OECD lowers Canadian growth estimate

[June 2, 2016] The Organization for Economic Co-operation and Development is increasingly pessimistic about the global economy, including Canada's, and is warning that the "low-growth trap" will continue if governments don't change tack on spending and trade.

Overall, the OECD is forecasting global growth of 3% this year and 3.3% next year. Both are down 0.3 percentage points from its November outlook.

It's estimating Canada's gross domestic product will grow by 1.7% this year and 2.2% in 2017. That's down from the OECD's November estimate of 2.0% growth in Canadian GDP in 2016 and 2.3% in 2017.

The OECD notes that Canada's resource sector has been contracting but says the decline will slow. Activity in other parts of the economy will "gain traction," the organization said Wednesday.
"Business investment in the oil and gas sector continues to fall sharply — it is likely to be about 60% below its 2014 level in 2016 — but should be a smaller drag on growth thereafter," OECD said in its analysis for Canada.
The OECD report was released a day after Statistics Canada reported that the national GDP grew by an annualized rate of 2.4% in the first quarter of 2016, which was less than economist expectations of 2.9%.
The quarter covered a period before the Alberta wildfires that shut down a significant portion of Canada's oilsands production in May. The disruption and devastation caused by the fires, which forced the evacuation of Fort McMurray and surrounding communities, is expected to cause a short-term drag on the economy.
The Bank of Canada said last week that its preliminary assessment shows that the disaster will cut 1.25 percentage points off real GDP growth in the second quarter.
In its April monetary policy report, the bank had predicted growth at an annual rate of 1.0% for the second quarter.
Among the risks to OECD's global outlook is a potential British exit from the European Union.
The OECD reiterated its view that a so-called vote for Brexit in the country's referendum this month "would depress growth in Europe and elsewhere substantially."
It says the refugee surge to Europe — and a lack of a unified response — also threatens global financial stability.
Above all, the OECD said weak growth risks becoming chronic.
"This low growth trap involves a cycle in which diminished expectations become self-fulfilling," said Angel Gurria, the OECD's secretary-general.
According to the OECD, firms are too cautious to invest and are holding back innovation and productivity. As a result, households are getting more pessimistic about jobs and the future. The ensuing weaker consumer spending then feeds back into pessimism among companies, creating a vicious cycle.
Though the U.S. economy has improved in recent years, the next biggest economy, China, is slowing. Because it's a major consumer of raw materials and energy, as well as being a huge exporter and increasingly important consumer, concerns have grown over the state of the world economy.
Elsewhere, the European economic recovery has failed to gain much traction while Japan remains sluggish. And emerging markets are struggling to deal

with volatile currencies, high debt and the crash in prices for goods they export — Brazil and Russia, for example, are in deep recessions.
The OECD said countries have relied too much on central banks to stimulate demand and should instead look to strengthen public investment and make their economies more competitive through structural reforms.

6. Ontario's stance on CPP key challenge to expanding pension plan: Feds

[June 1, 2016] Federal sources say Canada's most populous province has become Ottawa's main challenge to gain the required provincial support to expand the Canada Pension Plan.
Ontario's position in the ongoing talks is that it wants reforms to the CPP to dovetail with the provincial pension program Ontario has vowed to create.
The province's finance minister says there needs to be "some degree of substantial benefit" from a revamped national pension plan through higher benefits for retirees.
But replacing more of a retiree's income through the CPP would require increases in premiums paid by employees and employers.
And if the premiums are too high, that reform would likely alienate the provincial governments in British Columbia and Saskatchewan, both of which don't want to see rates rise over concerns about potentially negative ripple effects on small businesses and low-wage earners — further complicating talks about expanding CPP.
Ontario Finance Minister Charles Sousa plans to use the Ontario program as the starting point for negotiations to push for timely amendments to the national program. But he adds that the province isn't intractable in its position.
"I'm not suggesting that we're going to obstruct CPP enhancement because we're introducing (the Ontario Retirement Pension Plan). We're using ORPP now as a means to have something substantive on the table for other provinces to review and we recognize that other provinces won't go to that extent. So we will work to find a compromise," Sousa says in an interview.
Federal, provincial and territorial finance ministers will meet the third week of June in Vancouver, where CPP reform will be a key part of the agenda.
Federal Finance Minister Bill Morneau has said he wants to see a deal for an expanded CPP completed by the end of the calendar year.
Sousa wants to see early action. He says the talks will be for naught if a majority of provinces don't signal their backing for immediate changes to the pension plan at the June meeting.

“Timing is critical and, frankly, it does put everybody on notice that Ontario will work with the federal government, we are working with the federal government, and other provinces to recognize that we have an opportunity to make a deal here. So Ontario’s willing to play,” he says.

“What we don’t want is to go back and have this: ‘We’ll do CPP enhancement at some time in the future at some amount without real determination.’ I want us to have details, I want us to discuss the parameters of what that enhancement will be. And we are prepared to move forward with CPP enhancement in a form that is close to what ORPP is.”

Ontario has proposed to almost double the income replacement rate by supplementing CPP benefits that would lead to annual payments of about $25,000 — but which would also require a increase in premiums. The province also wants to see coverage to Ontarians higher up on the income scale by raising the year’s maximum pensionable earnings amount, known as the YMPE.

“That’s not going to palatable to all provinces. So Ontario is willing to discuss that and have a meeting of the minds as to what amount should be preferable,” Sousa says.

Since December when the federal and provincial finance ministers last met, political and bureaucratic conversations have been intensifying behind the scenes to garner support for an expanded pension plan. But coming to a consensus has proven difficult.

Morneau spokesman Dan Lauzon said Ontario has always “acted in good faith” from the start of talks around CPP reforms.

“The fact that they argue passionately for the people of Ontario only adds to the discussions both behind the scenes and around the ministers’ table,” Lauzon says. “We look forward to a collegial and lively discussion at the upcoming finance ministers’ meeting in Vancouver, as we work together to advance retirement security of all Canadians. Ontario’s voice is crucial to the success of that meeting.”

The finance ministers are scheduled to meet again this coming December where Morneau expects a deal to be finalized.

Changes to the national pension plan require the support of at least seven provinces holding two-thirds the population of the country — a high bar that makes it mathematically difficult to make changes without buy-in from Ontario.

“Were that to happen, then we would not get a national CPP reform,” said former Bank of Canada governor David Dodge.

It would be the first major CPP overhaul in almost 20 years after the provinces and federal government agreed to increase premiums in 1997.

Most provinces were ready to agree to an expansion of CPP in 2013. But the previous Conservative government balked at the move, which led the Ontario Liberals to head down the path of their own provincial pension plan. Quebec also has its own provincial pension plan.

7. National Bank posts big Q2 loss on energy loan woes

[June 1, 2016] National Bank has reported net income of $210 million for the second quarter of 2016, down from $404 million in the same quarter of 2015. The huge drop was "essentially […] a result of a sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector," the bank says in a release. Diluted earnings per share stood at $0.52 in the second quarter of 2016 compared to $1.13 in the second quarter of 2015.

Excluding the sectoral provision of $183 million, net of income taxes, and excluding other specified items, the 2016 second-quarter net income totalled $420 million, up 2% from $411 million in the second quarter of 2015, and the 2016 second-quarter diluted earnings per share stood at $1.14, relatively stable compared to $1.15 in the second quarter of 2015.

For the first six months of fiscal 2016, the Bank's net income totalled $471 million versus $819 million in the same period of 2015, and its first-half diluted earnings per share stood at $1.19 versus $2.29 in the same period of 2015. Excluding the sectoral provision and specified items, the Bank's first-half net income totalled $847 million, up 3% from $821 million in the same period of 2015, and its first-half diluted earnings per share stood at $2.31, essentially unchanged from $2.30 in the same period of 2015.

The bank raised its quarterly dividend by 2% to 55 cents per share.

8. Scotiabank Q2 profit falls 12% due to restructuring

[May 31, 2016] Scotiabank saw its second-quarter profit fall to $1.58 billion as it took a restructuring charge and set aside more money for bad loans.

The profit was down nearly 12% compared to $1.80 billion of net income during the same period last year.

The earnings amounted to $1.23 per share, down from $1.42 per share a year ago.

After adjusting for a $278-million restructuring charge, which Scotiabank announced earlier this month, the bank's second-quarter profit rose four per cent to $1.86 billion, or $1.46 per share. Meanwhile, provisions for credit losses rose to $752 million during the quarter, up from $448 million during the same period last year.

The higher provisions for credit losses were due to the effect of weak energy prices on two of Scotiabank's divisions.

Scotiabank's president and CEO Brian Porter says loan losses in the energy sector are expected to decline next quarter.

"Customer behaviours and preferences continue to evolve, and Scotiabank is driving a digital transformation across all customer touch points in order to deliver a consistently excellent customer experience," he says. "The bank's investments to reduce structural costs, including this quarter's restructuring charge, will contribute to the digital transformation of the bank. Combined, these efforts should result in notable improvements in our productivity."

9. Housing starts growth will slow, going into 2017: CMHC

[May 30, 2016] During Q1 2016, the Canada Mortgage and Housing Corporation provided mortgage loan insurance for more than 83,000 units across the country, according to the organization's first quarter financial results.

The CMHC also released supplemental data on the its mortgage loan insurance, securitization and covered bonds business activities—during the quarter, CMHC generated $313 million in net income from these activities.

When it comes to the economy, the CMHC's earnings report says the corporation expects the growth of housing starts to slow through the rest of 2016 and in 2017. However, it also notes, "Real [GDP] is forecast to increase between 0.7% and 2.1% in 2016 and between 1.2% and 2.8% in 2017, compared to observed growth of 1.2% in 2015."

Meanwhile, "The overall Canadian unemployment rate is forecast to be in the range of 6.9% to 7.6% in 2016 and within a range of 6.4% to 7.8% in 2017, compared to 6.9% in 2015.

Additional report highlights

- Total insurance-in-force was $520 billion as at March 31, 2016, a $6 billion decrease from year-end 2015.
- The average insured loan amount for transactional homeowner mortgages in the quarter was $242,367.
- Homebuyers with CMHC-insured mortgages have an average credit score of 747 for transactional homeowner loans and an average gross debt service (GDS) ratio of 25.8% for the three-months ended March 31, 2016.
- The overall arrears rate of CMHC's portfolio is, as of March 31, 2016, standing at 0.34%. And nationally, CMHC's arrears rate has remained

relatively stable, although there has been a small increase in arrears in Alberta and Saskatchewan.

- New securities guaranteed for the first quarter were $21.8 billion, comprised of $12.6 billion for market NHA MBS and $9.2 billion for CMB. CMHC's total guarantees-in-force were $429 billion as at the end of the first quarter 2016.

Subsequent to quarter's end, Fort McMurray was affected by wildfires. CMHC says it has provided lenders with options to support CMHC-insured homeowners touched by these unfortunate events. But, says CMHC, claim losses aren't expected to be significant.

Have a nice and fruitful week!