Weekly Updates Issue # 568

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1. Weekly Markets Changes

[June 10, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,037.54 -189.2 -1.33%	2,096.07 -3.06 -0.15%	17,865.34 +58.28 +0.33%	4,894.55 -47.97 -0.97%	$0.7824 +0.92¢ +1.19%	$1,276.30 +29.80 +2.39%	$48.88 -0.02 -0.04%

2. Expect 1.4% real GDP growth in 2016: RBC

[June 10, 2016] As the Canadian economy contends with softer than expected exports, weak business investment and effects of the Alberta wildfires, real GDP growth in 2016 is forecast to be 1.4%, according to the latest RBC Economics Outlook report.

A decline of 1.0% (annualized) in the second quarter will pose a setback, although the contraction is expected to be brief. RBC Economics anticipates that a recovery in oil production and rebuilding in fire-ravaged northern Alberta, along with a probable rise in exports, will boost growth in the second half of the year. Third-quarter real GDP growth is forecast at 4.0%, slowing to 2.1% in the fourth quarter.

"This erratic roller coaster of economic activity means the Canadian economy is headed for another year of moderate growth," said Craig Wright, senior vice-president and chief economist at RBC. "Canadian consumers are propelling the domestic economy, with auto and home sales at record or near-record levels, and at this point their debt loads appear to be manageable," Wright said.

The oil-producing provinces of Alberta, Saskatchewan and Newfoundland and Labrador are still feeling the pinch of reduced business and consumer spending.

"It's no surprise that energy companies continue to cut back, but a recent Statistics Canada survey on capital expenditures showed that companies

outside the energy industry also plan to invest less this year, and that's cause for concern," said Wright.
Given the near-term volatility in the Canadian economy, the Bank of Canada will likely keep the overnight rate at 0.5% for the rest of 2016. RBC Economics forecasts the Canadian economy will expand by 2.0% next year as higher oil prices spur an increase in business investment.

Canadian dollar emulates jump in oil price

Oil prices brushed the $50/barrel level in late May and early June, thanks to falling U.S. production combined with temporary production outages in Canada and some emerging economies.
The Canadian dollar mirrored the second-quarter jump in oil prices, rallying more than eight U.S. cents from its January low of 68 U.S. cents. RBC Economics anticipates that oil prices will continue to rise in 2017 and the Bank of Canada will be in position to increase the overnight rate, both positive factors for the currency. The Canadian dollar is forecast to end 2017 at 80 U.S. cents.

Provincial divergence

Ongoing adjustments to lower energy oil prices will continue to result in a marked divergence in provincial growth rates in 2016 with a trio of oil-producing provinces (Alberta, Saskatchewan, Newfoundland and Labrador) contracting further and a trio of oil-consuming provinces (British Columbia, Ontario and Manitoba) seeing material growth. RBC Economics in fact raised its 2016 GDP growth forecasts for Ontario and B.C. On the other hand, it lowered its forecasts for Alberta and Saskatchewan in light of persistent weakness in capital spending in the energy sector, and in the case of Alberta, due to the significant disruptions caused by the wildfires.

Outside of Canada

U.S. economy bounces back

U.S. economic data pointed to a sharp upswing in April, with U.S. home sales running at the fastest pace since late 2007 and exports growing at the fastest pace in six months. U.S. consumers have the firepower to spend, backed by stronger wage increases and tighter labour market conditions.
"The U.S. economy is rebounding from a couple of weak quarters while the weakening in the pace of employment growth is expected to prove short-lived setting up for market participants to become more confident of a Federal Reserve interest rate hike," Wright said.

Global outlook remains patchy

The global economy is forecast to grow by 3.1% this year. Low energy prices and interest rates should enable most of the advanced economies to accelerate in 2016 while emerging market economies will see more subdued economic activity. In China, the changing composition in the drivers of growth resulted in a pullback in Chinese demand for imports that is acting as a headwind for other emerging economies that export to China.

3. GM adding 700 jobs in Ontario

[June 10, 2016] General Motors will add at least 700 engineering, software development and urban mobility jobs at three sites in Canada.

The expansion will take place at a technical centre in Oshawa, Ontario, a new Urban Mobility Center in Toronto and a new Software Development Center in Markham, Ontario.

The company made the announcement Friday along with Prime Minister Justin Trudeau and other officials.

The new employees will focus on autonomous vehicle software and controls development, safety, infotainment and connected vehicles. GM says hiring already has started.

Trudeau says the investments will create good-paying jobs and help grow Canada's middle class.

GM also says it will sink $10 million into a Canadian cold-weather testing facility to double the length of its test track.

4. How does Canada's public pension system measure up globally?

[June 10, 2016] With the Canada Pension Plan on many people's minds, how does Canada's public pension system compare to those of other countries? In light of the debate over the CPP and old-age security, Benefits Canada takes a look at how Canada's system stacks up against other countries around the world.

The Mercer Melbourne Global Pension Index ranks Canada's retirement income system seventh out of 25 countries. Another global report, published in December 2015 by the Organisation for Economic Co-operation and Development, reviews and analyses the pension measures enacted or legislated in OECD member countries between September 2013 and September 2015.

It's difficult to draw comparisons as many countries on the list — such as Australia, Britain, China, Denmark, France and Iceland — have mandatory employer-provided pensions. "Our problem is lack of workplace pension plan coverage in the private sector, which we are the process of addressing. We just haven't quite figured out how yet," says Keith Ambachtsheer, president of KPA Advisory Services Ltd.

For that reason, the comparison below will focus solely on the public pension systems. In Canada, that covers the Canada Pension Plan, old-age security and the guaranteed income supplement for low-income pensioners, all three of which have recently changed – or will soon potentially change – due to legislation. Finance ministers meet this month to discuss CPP reform; the GIS benefit top-up increases by up to $947 as of July 1; and the Liberal government has confirmed it will restore OAS age to 65.

“In restoring the OAS eligibility age to 65, we are probably doing the right thing for the wrong reason,” says Malcolm Hamilton, a pension consultant and senior fellow at C.D. Howe Institute. “There was no economic justification for changing it from 65 to 67 in the first place.”

The good news about the CPP is it has the potential to reach everybody, says Ottawa-based pension consultant Bob Baldwin. “Virtually all of the employed and self-employed participate in the program, and you’ve got a reasonably efficient administrative apparatus that is already in place. That’s the good news.”

Before diving into 12 individual countries, including Canada, here are a few facts to consider:

- Across OECD countries, the average retirement age will increase to 65.5 by 2060 from 64 in 2014 on the basis of legislation as of 2015.
- Employees stay the longest in the labour market in Iceland, Japan, Korea and Mexico. In Belgium and France, men retire the earliest, while it’s women who do so in Poland and Slovenia.
- Future net-replacement rates from mandatory pensions for a full-career, average-wage worker are an average of 63 per cent in OECD countries. They range from 27 per cent in Mexico to 111 per cent in Turkey.

So, how does Canada measure up against other industrialized countries?

CANADA

How does it work? Canada’s public pension system offers a flat-rate benefit that can be topped up with an income-tested benefit (the guaranteed income supplement) and earnings-related public schemes (the Canada Pension Plan and the Quebec Pension Plan).

Age of eligibility: Under the former Conservative government, the age of eligibility for the basic OAS pension was to gradually increase to age 67, starting in April 2023, but Prime Minister Justin Trudeau’s first federal budget confirmed it would restore it to 65. For the Canada Pension Plan, the normal eligibility age is 65, but people can take an early pension from age 60 or a late one up to age 70.

Benefit calculation: Based on April to June 2016 monthly rates, the maximum annual OAS pension benefit for an individual is **$6,846.24**. The maximum annual GIS benefit is currently **$9,283.20** (the amount will increase on July 1 to **$10,230.20**). So a single senior with no income outside of OAS and GIS benefits (such as CPP) would receive a combined **$16,129.44** under the current amounts.

The maximum CPP payment amount for 2016 is **$13,110**. According to Finance Canada, it's possible for an individual with the maximum CPP benefit to qualify for GIS payments as well. A senior could receive OAS, GIS and CPP benefits, but it's not possible to receive the maximum of each of them since higher CPP payments directly reduce GIS amounts.

AUSTRALIA

How does it work? Australia's public retirement system involves a means-tested age pension funded through general taxation.

Age of eligibility: The pension is payable from age 65. From July 1, 2017, the pension age will increase by six months every two years until it reaches 67 by July 1, 2023.

Benefit calculation: In March 2014, the maximum single rate of pension was equal to an annual entitlement of 21,570 Australian dollars (currently equal to $20,316.63*).

BRITAIN

How does it work? Before April 6, 2016, Britain's public pension system had two tiers: a flat-rate basic pension and an earnings-related one. The new state pension introduces a flat-rate pension based only on national insurance contributions.

Age of eligibility: The state pension age is currently 65 for men and 63 for women. The pension age for women is gradually rising to 65 by November 2018. The government has also legislated increases in the state pension age to 66 by October 2020 and to 67 between 2026 and 2028.

Benefit calculation: The full rate for the new state pension is 155.65 pounds per week, which works out to about 8,000 pounds a year ($14,585.51). The additional earnings-related pension, which can reach almost 200 pounds a week and depends on national insurance contributions, is still available for people who reached the state pension age before April 6, 2016.

CHINA

How does it work? China has a basic public pension.

Age of eligibility: The normal pension age is 60 for all men, 50 for blue-collar women and 55 for white-collar women. The government has said it will begin to gradually increase the normal pension age in 2017.

Benefit calculation: The basic pension pays one per cent of the average of the indexed individual wage and the province-wide average earnings for each year of coverage, subject to a minimum of 15 years of contributions. The program includes indexing according to a mix of wages and prices, which has been about 10 per cent in recent years.
(This summary is from the OECD report and was not updated by sources in China.)

DENMARK

How does it work? Denmark's public retirement system consists of a basic scheme and a means-tested supplementary pension benefit.
Age of eligibility: The normal pension age is currently 65 for men and 67 for women. The government will gradually increase it to 67 for all individuals between 2019 to 2022.
Benefit calculation: The full basic pension amount is 6,063 krone per month or 72,756 krone ($14,054.44) per year.

5. Suncor Energy to raise $2.5B in share issue

[June 9, 2016] Suncor Energy says it plans to raise $2.5 billion in a bought deal share offering to pay for an increased stake in the Syncrude joint venture.
The Calgary-based company said the money would help reduce its debt and go towards paying for the $937 million acquisition of Murphy Oil's 5% stake in the joint venture that Suncor announced in late April.
Buying the stake took Suncor's share in the Syncrude oil sands operation to a majority 53.74%. In March, Suncor completed the $6.6 billion takeover of Canadian Oil Sands, which boosted its share in Syncrude from 12 to 48.74%.
Suncor said the reduced debt because of the new financing would give it more flexibility in making more acquisitions in the future.
The company says it will sell 71.5 million shares at a price of $35 a share in the deal made through a syndicate of underwriters led by TD Securities Inc., CIBC Capital Markets and J.P. Morgan Securities Canada Inc.
The underwriters have an over-allotment option to buy an additional 10.7 million shares, which if fully exercised would bring gross proceeds of the deal to $2.9 billion. The deal is expected to close on June 22.

6. Canada a testing ground for new ideas about deficits

[June 8, 2016] These days, Bank of Canada governor Stephen Poloz talks about Keynes almost as much as Twitter talks about Trump. If not a champion for Justin Trudeau's deficit-spending plan, Poloz has emerged as important defender of the intellectual soundness of the young prime minister's big economic idea. None of these things came out of his mouth while the guy who hired him was around, as ex-PM Stephen Harper had no time for Keynes and deficits. Poloz said little about Harper's obsession with a balanced budget, which in retrospect speaks volumes. Monetary policy and fiscal policy were out of sync, and there apparently was nothing the central bank governor felt he could say about it. As the central bank would tell you if you asked, that's not its job.

Conservative central bankers such as Poloz stay clear of subjects outside their remits because they don't want to give politicians an excuse to resume telling central banks how to manage inflation. Poloz and others talk about their independence as being "sacrosanct." They believe that without distance from government, the public would question their ability to keep their promises to meet their inflation targets. And then the credibility that central banks have worked so hard to build since the double-digit interest rates of the 1980s would unravel.

That's probably true. But it is also true that we have come a long way since Paul Volcker, the iconic former chairman of the U.S. Federal Reserve, induced a recession to break the back of the high inflation that plagued economies through the 1970s. Is it still reasonable to assume that monetary policy should simply react to fiscal policy, even if the choices of politicians make the inflation and financial stability goals of central banks more difficult to achieve? For a couple of decades, most central bankers thought that all they had to do to engineer a stable economy was hit their inflation targets. The collapse of global financial system in 2008 wrecked that fantasy. Every central bank on the planet now is rethinking how it should do its job. One of the things they might have to do is redefine their relationships with politicians.

Poloz delivered a lecture at the Canadian Economics Association's annual conference in Ottawa on June 4 that raised important questions about the relationship between monetary and fiscal policy. He used the Bank of Canada's main forecasting model—the one that prompted the central bank's surprise interest-rate cut in January 2015—to go back in time and muse about how things might have turned out if the monetary and fiscal mix had been different. One of the periods Poloz chose was 2011 to 2015. Instead of a rush to balance the budget, he assumed the government aimed to cover all its expenses with the exception of interest payments, or a "structural balance." He also assumed the same level of economic output as was actually achieved through those years.

The model produced results that should resonate with those who worry that ultralow interest rates have pushed Canada to the verge of a financial crisis. The benchmark interest rate would be 2.5% now instead of 0.5%, and household debt would be lower by an amount equal to 5% of GDP, according to Poloz's calculations.

7. Underweight real estate? That's going to change

[June 7, 2016] Real estate will be established as a separate sector under the Global Industry Classification Standard (GICS), as of August 31, 2016. Right now, real estate stocks and REITs are part of the financial sector.

"The creation of [this] 11th GICS sector won't herald an instant change in the pricing, volatility and performance of real estate stocks, but it will expose to all generalist investors their own relative weight to REITs," says Chip McKinley, senior vice-president and portfolio manager with Cohen & Steers in New York, and manager of the Renaissance Global Real Estate Fund.

This is important because most investors are significantly underweight REITs, he adds. "The magnitude of [this] underweight, to put it into context, has been estimated at $100 billion."

However, "This hasn't shown up in portfolios because real estate has been [included in] the financial sector. Now, whether clients are overweight or underweight REITs will have to be explained."

And, as the sector draws more attention, "This will lead to some migration of capital into the sector as [investors] reduce or eliminate underweight positions," says McKinley. "But this will happen over time."

One benefit of this shift, he notes, is investors who wish to buy or sell the financial sector and who do so through ETFs, will no longer have to include REITs in that activity. "That may lower the correlation of REITs to financials and, perhaps, may lower volatility. That would be beneficial for REIT risk premiums."

One thing to keep in mind is, along with real estate stocks, only equity REITs that own physical property will be included in the new GICS sector. Mortgage REITs will still be part of the financial sector.

Have a nice and fruitful week!