Weekly Updates Issue # 583

1. Weekly Markets Changes
2. Canadian inflation unexpectedly weak
3. Ontario real estate associations don’t want foreign buyer tax
4. GTA high-rise home sales on pace for record
5. Scrap the capital gains tax, says Bernier
6. Vancouver empty homes tax to include Airbnb properties
7. Canadians may have to work ‘a little longer than planned’
8. CRA sets Q4 interest rates
9. China debt-to-GDP gap hits 30.1%

1. Weekly Markets Changes

[September 23, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,697.93 +247.2 +1.71%	2,164.69 +25.53 +1.19%	18,261.45 +137.7 +0.76%	5,305.75 +61.18 +1.17%	$0.7594 +0.24¢ +0.32%	$1,341.10 +27.90 +2.12%	$44.59 +0.79 +1.80%

2. Canadian inflation unexpectedly weak

[September 23, 2016] The country’s annual inflation rate was an unexpectedly low 1.1% in August as lower fuel prices dragged it to the lower reaches of the Bank of Canada’s target range.

Statistics Canada’s latest reading of the consumer price index was weaker than the 1.3% year-over-year increase in July, as the number neared the fringe of the central bank’s ideal range of one to 3%.

Economists had expected inflation to ring in at 1.4% in August, according to Reuters.

Statistics Canada said prices rose in most major categories compared with a year earlier—with the cost of electricity, air transportation and passenger vehicles contributing the biggest upward pushes to the overall inflation rate.

A closer look at last month’s numbers revealed Canadians paid 14.5% more for apples compared with a year earlier, 9.3% more for fresh or frozen fish and 5.3% more for cigarettes. But increases like those were offset by lower prices for items like gasoline, which dropped 11.5%, fuel oil, which fell 11.8% and natural gas, which slid 9.9%.

The Bank of Canada’s core inflation rate, which omits some volatile items like gasoline, was 1.8% last month after hitting 2.1% in July.

Statistics Canada also released fresh retail trade numbers Friday that showed total sales slipped 0.1% in July, compared with the previous month. Total retail sales in July were just over $44.1 billion.

The July decline was registered the same month that the federal Liberal government distributed cheques to families under its revamped child benefit plan. Revised figures showed that month-over-month retail sales were essentially flat in May and June after rising 0.8% in April.

However, the agency said retail sales increased 0.2% in July when gas stations were excluded. After removing price changes, it found sales were up 0.3%.

The report said gas station sales saw their first drop in four months with a three% decline in July. The data also showed that sales fell 1.4% at furniture and home furnishings stores, while motor vehicle and parts dealers saw a 0.2% decrease—their fourth decrease in five months.

On the other hand, Statistics Canada found that sales at clothing and clothing accessories stores rose 1.6% in July, while building materials and garden equipment dealers saw an increase of 1.5%.

Across Canada, the numbers showed that retail sales fell in six provinces in July. The 6.9% decline in New Brunswick and the 6.2% drop in Newfoundland and Labrador in July coincided with increases in harmonized sales tax in both regions.

By the numbers

While Canada's national inflation rate was 1.1% in August, the following list shows what happened in the provinces and territories (previous month in brackets).

- Newfoundland and Labrador: 3% (3.4%)
- Prince Edward Island: 0.4% (0.6%)
- Nova Scotia: 0.9% (0.8%)
- New Brunswick: 2.2% (2.5%)
- Quebec: 0.1% (0.2%)
- Ontario: 1.5% (1.5%)
- Manitoba: 1.1% (1.5%)
- Saskatchewan: 0.7% (1.1%)
- Alberta: 0.7% (0.7%)
- British Columbia: 2% (2.1%)
- Whitehorse, Yukon: 0.3% (0.8%)
- Yellowknife, N.W.T.: 0.4% (0.8%)

3. Ontario real estate associations don’t want foreign buyer tax

[September 23, 2016] Two Ontario real estate associations have voiced opposition against the province following in Vancouver’s footsteps by implementing a tax on foreign homebuyers. They say that this kind of “knee-jerk reaction” could have negative implications for the economy.

In letters penned to the provincial and municipal governments last month, the Toronto Real Estate Board and the Ontario Real Estate Association argue that instituting a tax on foreign homebuyers would do little to address affordability issues in Toronto’s housing market.

Instead, the associations say it could cause house prices to soar in regions surrounding Toronto, thus pushing prices in Toronto even higher, the groups argue.

In Metro Vancouver, home sales dropped 26% following the August 2 introduction of the 15% tax on foreign buyers.

The Real Estate Board of Greater Vancouver said there were 2,489 homes sold in Metro Vancouver in August, down from 3,362 a year ago.

Some critics have voiced concerns that the Vancouver tax could cause investment to shift to Toronto, further stoking the flames of the city’s already red-hot housing market.

4. GTA high-rise home sales on pace for record

[September 22, 2016] Sales of new high-rise homes in the GTA are on pace for a record year, the Building Industry and Land Development Association (BILD) said Thursday.

As of August 31, 17,949 new high-rise homes had been sold in the GTA, a record for this point in the year. While August is typically a slower sales month, sales this year were unprecedented with 1,880 high-rise units sold according to Altus Group, BILD’s official source for new home market intelligence.

August was also a record-setting month for low-rise homes with the lowest available supply and the highest prices ever.

“Our industry is building to government intensification policy and we are building at least as many high-rise homes as low-rise homes,” said BILD president and CEO Bryan Tuckey. “The supply of low-rise homes – especially single-family detached homes – has plummeted in the years since the Growth Plan was introduced, but demand for those types of homes has not diminished. As a result, prices have increased dramatically.”

The average price of a new low-rise home, which includes single-family detached as well as semi-detached homes and townhomes, was a record $931,506 in August. That's a 16% increase from a year ago and up considerably from the $393,398 average of June 2006, when the Growth Plan was introduced.

As of August 31, there were just 1,379 new low-rise homes available to purchase across the GTA in builders' inventory, a record low. This is less than a tenth of the 16,560 that were available for purchase on June 30, 2006.

Last month, the average price of new single-family detached homes in the GTA was $1,166,005. In June 2006, a new single detached home was $442,420.

"Demand and prices of high-rise homes are also starting to climb as more people are priced out of the low-rise market," Tuckey said.

The average price of new high-rise homes in the GTA in August was a record $480,914. This is a 7% increase from August 2015.

High-rise supply was also down in August, with 14,600 units available for purchase in builder inventories. The decline was mainly in homes in the pre-construction stage due to limited new projects introduced in August, typically a slow month for new launches.

5. Scrap the capital gains tax, says Bernier

[September 21, 2016] Canada needs to scrap the capital gains tax and slash corporate taxes as a way to enhance economic growth, Conservative leadership hopeful Maxime Bernier says.

In a speech to a business audience on Tuesday, the Quebec MP outlined what he called an ambitious plan to unleash Canada's productive forces even as he thumped familiar Conservative tropes.

"Prosperity does not come from government spending but rather from entrepreneurs' investing," Bernier told receptive members of the Canadian Club. "More spending on the scale offered by the Liberal government is not going to stimulate the economy and bring us prosperity, it will act as a sedative for the economy."

Bernier said his proposal to axe the tax might sound radical, but he pointed out the levy did not exist before the Liberal government of Pierre Trudeau introduced the measure in 1972. Abolishing it, he said, would encourage people to save and invest more and lower the cost of capital for startups.

Generally speaking, when an asset or property is sold, 50% of any profit is subject to tax. As a result, investors are discouraged from selling assets and investing in productive new ones because of a reluctance to trigger the gains tax, Bernier said.

While such a measure would cost the treasury about $3 billion a year in foregone revenue, Bernier said the economic benefits would “vastly exceed” the losses.

“The capital gains tax is a tax on investment,” said the bilingual Bernier, who spoke only in English. “The more you tax something, the less of it you will get.”

The former cabinet minister under ex-prime minister Stephen Harper also said he would slash corporate income taxes by one-third as a way to encourage business investments.

The Harper government cut the rate to 15% from 22% but that wasn’t enough, he said, even though the country’s combined federal and provincial rate is in the middle when compared with other developed countries.

“I propose to bring down the federal rate to 10%,” Bernier said.

Some economists are predicting anemic growth of 1.3% this year, a barrier to improvements in Canada’s standard of living, he said.

Bernier has previously announced other proposals, including one to scrap supply management — long considered a Conservative sacred cow. It’s time, he said, to stop taking billions of dollars out of the private sector only to distribute the money through subsidies he said amount to corporate welfare.

In an interview after his speech, Bernier fudged when it came to social questions such as abortion — an issue of special interest to social conservatives — although he recently denounced an idea from rival candidate Kelly Leitch to screen would-be immigrants for “Canadian values.”

Any MP is free to table a bill on abortion and, if it was up to him, he would allow a free vote in the Commons, Bernier told The Canadian Press. However, he refused to say where he stands on limiting a woman’s right to terminate her pregnancy.

“Personally, I will see,” he said. “I don’t want to personally have a position on that.”

Instead, he said, he wanted to focus the debate on economic concerns with his tax ideas.

Bernier warned what might happen if interest rates were to rise in light of record high debt levels carried by Canadians. Artificially low rates have created a bubble in various sectors of the kind that led to the crash in 2007, he said.

6. Vancouver empty homes tax to include Airbnb properties

[September 21, 2016] Vancouver's proposed empty homes tax would include secondary properties being booked on the vacation rental website Airbnb, with the maximum fine for people who evade the levy set at $10,000.

New details of the tax emerged on Tuesday, when council voted to push ahead with public consultations. Mayor Gregor Robertson stressed the aim was to free up supply in the city's crunched rental housing market.

"Ultimately, the goal is to get thousands of units back into rental housing at a time when it's almost impossible to find a rental home," Robertson told council.

The province granted Vancouver the authority to create the tax in July, months after a city-commissioned report found that about 10,800 homes were sitting empty, most of them condos.

Staff have been speaking with experts and researching other jurisdictions' taxes and presented a report Tuesday with their suggested approach. The levy would be the first of its kind in Canada.

The report proposes that the tax be administered similarly to the British Columbia Home Owner Grant. A parcel of residential property that serves as a principal residence for an owner, long-term tenant or a friend or family member would not be taxed.

That means that secondary properties — such as investment condos — that are sitting empty or being rented out for short-term stays using sites like Airbnb would be subject to the tax.

Tsur Somerville, a University of British Columbia business professor, said it made sense to apply the empty homes tax to properties being used for short-term rentals, even though they're not actually empty.

"In a city where accommodation is really, really scarce, the first priority should be housing people who live and work here," he said in an interview.

The tax would not apply to people renting out their primary residences on Airbnb, or to basement suites, rooms or laneway homes that are either sitting empty or rented for short-term stays.

Airbnb said in a statement it's committed to working with government to establish fair, sensible rules, including around taxation.

The city is also working on separate regulations for short-term rentals, with a report to council expected next month.

Public consultation on the empty homes tax will begin this fall, with a proposed bylaw introduced to council in November. The tax would be in place for the 2017 year, with the first payments in 2018.

There are many questions left to be settled through public talks, including whether secondary residences that are vacant only for part of the year should be exempt. The tax rate is also still being considered, with a current proposal of between 0.5% and 2% of assessed value.

Penalties are also still being debated. The maximum fine the city can impose under its charter is $10,000, but it will consider a combination of the fine plus a higher tax rate for people who fail to self-declare or fraudulently declare, said Kathleen Llewellyn-Thomas, general manager of community services.

Robertson said the city has asked the province many times to increase the maximum fine.

The council vote was split 7-3, with councillors from the centre-right Non-Partisan Association opposed. Coun. George Affleck called the tax a "bureaucratic nightmare" and said the city should instead encourage the building of more townhomes and rowhomes.

The mayor dismissed the councillors' concerns as "fear-mongering." Residents will be asked to declare the status of their properties as part of the regular property tax process, with enforcement through random and targeted audits and response to complaints, Robertson said.

"I'd ask Coun. Affleck if he thinks the Home Owners Grant is a bureaucratic nightmare, or income tax is a bureaucratic nightmare," he said.

Vancouver's rental vacancy rate of 0.6% is the lowest of any major city in Canada and its rents are the most expensive, housing planner Matthew Bourke said. If just 2,000 units became available for rent, the vacancy rate would lift to a healthy 3.5%, Bourke said.

Tony Gioventu, executive director of the Condominium Home Owners Association of B.C., said condos built since 2010 do not have restrictions on rentals. Many of the vacant units are thought to be in new buildings in upscale neighbourhoods like Coal Harbour, he said.

But if those condos were rented out, they wouldn't be "affordable housing," he pointed out.

"They'd probably be rented out for $3,000 a month."

7. Canadians may have to work 'a little longer than planned'

[September 20, 2016] The BoC's governor says today's era of stubbornly low interest rates means it's time to revisit retirement planning and temper business investment expectations.

In prepared remarks of a speech Tuesday in Quebec City, Stephen Poloz laid out recommendations on how to adapt to low interest rates that he expects will linger for a long time.

Among the biggest impacted by this low-growth world are retirees.

“One group that has certainly been affected by lower for longer is savers, particularly seniors who planned to finance their retirement with interest income generated by a life of working hard to build savings. I have heard from many Canadians who are rightly worried about their ability to live off their savings and who are seeking a return to higher interest rates,” Poloz said.

He understands these concerns, he added, noting that demographic and economic changes, along with the low interest rates, “have upended the calculations that many Canadians made in planning for retirement. That is not their fault.”

That means savers need to adjust their plans and plans for retirement, the central bank governor said.

“The difficult reality is that savers must adjust their plans. That may mean some combination of putting aside more funds, working a little longer than planned or changing the mix of investments. There are no easy answers, particularly for some who have already retired,” Poloz said.

The bank’s benchmark interest rate has remained at a low level of 0.5% for more than a year and it’s not expected to start climbing any time soon.

Poloz urged businesses to invest more to help the economy, saying the current climate means they must lower their expectations when it comes to rates of return on investments. The main cause of weak business investment has been the high level of uncertainty, he added.

The central banker said governments should cobble together a mix of policies to boost the country’s economic output — even if each opportunity on its own offers only a slight improvement.

“In the current and prospective environment, 4% will probably turn out to be a pretty good return,” Poloz said.

He said policy-makers must continue to pursue new trade opportunities at home and abroad, invest more on infrastructure and tweak tax and immigration policies to help promote the growth of new firms.

“In a lower-for-longer world, these are opportunities we simply cannot afford to miss,” Poloz said. “With a projection that Canada’s economic potential is likely to grow by only around 1.5%, which is not very inspiring, we need to take every decimal point of potential growth more seriously than we have in the past.”

At a news conference, Poloz outlined the everyday costs of living with higher inflation. CIBC economist Royce Mendes says in a note this suggests the

central banker would "prefer using his expanded toolkit of negative rates and large-scale asset purchases to combat the next slowdown, rather than run a higher inflation rate through the cycle, as that would see consumers and businesses incur the costs of this insurance even when the economy was healthy."
The BoC is evaluating a new inflation target and "while the official decision on the inflation renewal agreement has yet to be announced, the Governor's comments today place even less likelihood on a change," Mendes says.

8. CRA sets Q4 interest rates

[September 20, 2016] The CRA has set the prescribed annual interest rates for amounts owing in Q4.
The only change from the last quarter was the rate for the interest rate for corporate taxpayers' pertinent loans or indebtedness, which will be 4.49%, CRA says.
The rates will cover the period from October 1 to December 31, 2016.
CRA outlined the following interest rates:

- 5% on overdue taxes, Canada Pension Plan contributions, and employment insurance premiums;
- 1% on corporate taxpayer overpayments;
- 3% on non-corporate taxpayer overpayments; and
- 1% to calculate taxable benefits for employees and shareholders from interest-free and low-interest loans.

See the [full list of Q4 rates here.]

9. China debt-to-GDP gap hits 30.1%

[September 19, 2016] China's large debt is growing and posing a risk to the global economy, according to data from the Bank for International Settlements (BIS).
BIS measures the credit-to-GDP gap, defined as the difference between the credit-to-GDP ratio (corporate and household debt) "and its long-run trend."
The BIS says the measure is "a useful early warning indicator of financial crises," and that, as of March, China's gap had grown to 30.1%, three times higher than the safe level of 10%.
By comparison, Canada's credit-to-GDP gap is 12.1%, and the U.S. difference is -9.9%.
But China's debt pales in comparison to that of some other large economies. BIS estimates China's total credit outstanding at 255% of GDP. That's lower

than that of the euro area or the U.K. The aggregate for all advanced economies is 279%.

Economists worry about the rate of China’s debt accumulation because efficient capital investment becomes difficult in the short term. But many analysts say China’s low level of foreign currency debt and its government-controlled banking system make a crisis less likely.

Have a nice and fruitful week!