Weekly Updates Issue # 585

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1. Weekly Markets Changes

[October 7, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,566.26 -159.6 -1.08%	2,153.74 -14.54 -0.67%	18,240.49 -67.66 -0.37%	5,292.41 -19.60 -0.37%	$0.7522 -0.96¢ -1.26%	$1,258.60 -60.20 -4.56%	$49.55 +1.50 +3.12%

2. Is the oil price shock behind us?

[October 7, 2016] Energy sector businesses may finally have something to look forward to: in the Bank of Canada's latest Business Outlook Survey, firms across the country indicate they're now seeing "a gradual bottoming out of the negative effects of the oil price shock."

After two years of hardships, says the survey, resource-related firms are more confident about future growth. It notes, "Given the relatively stable commodity prices in recent months, businesses now cautiously believe that sales will no longer fall or will increase modestly."

Futher, "The outlook for exports remains supportive, as foreign sales are expected to gain momentum over the coming 12 months. […] Export perspectives continue to be more positive than views about domestic conditions."

Overall, both investment and employment intentions for all businesses have improved, with cuts tapering off in the resource sectors specifically, says the survey, which adds, "Plans to increase investment are more widespread among service-oriented firms and often involve smaller-scale expenditures on information technology. [Meanwhile], capacity pressures are roughly unchanged; against a backdrop of still substantial slack, indicators of labour shortages [have] moved up."

The main downside for business is the slowing U.S. economy and the potential effects of the presidential election. The survey says, "The United States remains the main driver of positive prospects for exports, although businesses tend to expect U.S. growth to be slow overall. This view is often related to the climate of uncertainty around the outcome of the presidential elections in November."

In a research note, CIBC's Avery Shenfeld, says, "The BoC survey was a mixed bag, leaving the impression that the worst is over, but the best is not yet to come. […] But on the key question of capital spending, while the headline shows an improvement, the text notes its mostly coming from sectors that don't actually do big ticket cap-ex, with factory capital spending plans remaining 'weak.'"

Shenfeld notes "labour market indicators on hiring and slack are a bit better, but on inflation, firms expect their price gains to further decelerate, which will feed into the Bank of Canada's recent concerns about downside risks to their inflation targets."

The BoC has also released its Q3 Senior Loan Officer Survey, which finds business lending conditions were largely unchanged in the quarter. Non-price lending conditions tightened slightly, but that as "concentrated among corporate borrowers from the oil and gas sector. Price conditions for corporate borrowers were unchanged," says the SLOS.

3. Canada gains 67,200 jobs, mostly part-time and self-employed

[October 7, 2016] The country's labour force beat expectations last month by gaining a healthy 67,200 net new jobs, with most of the increase concentrated in part-time and self-employed work, Statistics Canada said Friday.

Despite the surge, the agency's latest jobs survey said the national unemployment rate didn't budge; it remained 7% for the second straight month as more people entered the workforce.

Of the new jobs, 44,100 of them were considered part-time work, while 50,100 were self-employed positions–some of which may have been unpaid.

The more-desirable categories of full-time work saw a boost of 23,000 jobs, while paid employee positions rose last month by 17,000, the report said.

The numbers also showed a huge boost in employment last month for Canadians aged 55 years and older, as 56,400 people in that demographic found work, including 37,900 additional positions for women.

A consensus of economists had projected the country would add 10,000 positions in September and that the jobless rate would stay at seven per cent, according to Thomson Reuters.
Quebec saw the biggest increase last month, with 38,300 new jobs, while Ontario gained 16,200 positions, Alberta added 13,300 and New Brunswick gained 4,400. Employment in British Columbia slipped by 600 positions, but on a year-over-year basis it still led all provinces with the fastest growth rate of 2.6%.
Compared to a year earlier, Canada overall had 138,800 more jobs last month for an increase or 0.8%– including 88,500 part-time positions.
In September, the country's services sector added 55,500 new jobs, with much of the increase in public administration and educational services positions. The goods-producing industries gained 11,600 jobs with construction and manufacturing work providing the biggest boosts.
Private-sector work rose by 17,900 jobs last month, while public-sector positions fell by 800, the survey said.

4. Feds post narrow $1-billion deficit in 2015-16

[October 7, 2016] The federal government posted a razor-thin $1-billion deficit in 2015-16, a period in which both the Liberals and Conservatives had turns managing the public books.
The shortfall, released in a package of year-end numbers Friday, was a bit smaller than the $5.4-billion deficit projected by the Trudeau government in its March budget.
It would have been bigger if not for the Conservatives' sale of GM shares, and a surge in personal tax revenue linked to the Liberals' tax hike on the rich.
But the final deficit figure is sure to rankle the Tories, who have long argued they left government finances on track for a surplus before they were defeated in last fall's election.
The Conservative government ran a $1.9-billion surplus in 2014-15 and had projected a $1.4-billion surplus for 2015-16.
The number released Friday is poised to trigger a fresh round of political sparring over which party did a better job overseeing the federal treasury.
"Basically, it's the final chapter of Stephen Harper's economic record," said Daniel Lauzon, a spokesman for Finance Minister Bill Morneau. "It shows that they had an economic approach–and they campaigned on it hard a year ago–that they were going to cut their way to a surplus […] So, they made cuts, they cut government services."

Lauzon also noted that Harper-led governments ran a string of shortfalls during its decade in power.

The Tories posted six straight budgetary deficits, between 2008-09 and 2013-14–a span that included the global financial crisis and the Great Recession of 2008-09.

MP Lisa Raitt, the Tories' finance critic, has maintained her party left the Liberals on solid fiscal footing. She has said that position helped generate government revenues after the election because of the "low-tax environment" that was left behind.

Each party held power for several months in fiscal 2015-16, a year also marked by economic disappointment, which was mostly due to the feeble global economy and low oil prices.

On Friday, the Finance Department's 2015-16 annual financial report said that, compared with the year before, revenues were up $13.1 billion, program expenses increased $17 billion and debt-servicing costs were down $1 billion.

The numbers show the 2015-16 deficit would have been larger had it not been for a $2.1-billion gain from the Tories' one-time sale of Ottawa's remaining shares in General Motors and a $9.2-billion increase in personal income tax revenues.

The extra cash generated from personal income taxes, which was 6.7% higher than 2014-15, largely reflected a boost in tax-planning efforts by high-earning individuals, the report said. A push to declare more earnings in 2015 came in response to Liberal measures to change tax brackets in 2016 in order to impose a higher rate on top earners, it added.

Corporate tax revenues, up $2 billion or 5.1% compared to 2014-15, were also higher than expected, the report said.

On the other hand, the document also noted that the economy's performance was significantly weaker in 2015-16 than anticipated in the Conservatives' 2015 budget.

The report said Canada's nominal gross domestic product, viewed by Finance as the broadest indicator of the tax base, only expanded 0.5% in 2015–its slowest pace of growth since 1981 outside of the 2008-09 recession. The 2015 budget had predicted nominal GDP to expand that year by 1.8%.

In 2015-16, the country's debt-to-GDP ratio–also known as the debt burden–was 31.1%, up slightly from 31% the previous year.

In May, the Finance Department's preliminary estimates projected a $2-billion deficit for 2015-16, before year-end adjustments.

At the time, Morneau acknowledged that Liberal moves in fiscal 2015-16 contributed to the deficit. But he added: "When we take out the measures that we've put in, we're still in a deficit position. So, it's quite clear that we were starting off with a deficit."

The Liberals' election campaign platform promised annual deficits of no more than $10 billion over the next couple of years to allow them to spend billions on infrastructure projects as a way to deliver a boost to the struggling economy.

But the Liberals later blamed even weaker conditions for a revised forecast in the March budget of five straight annual deficits totalling more than $110 billion, beginning with a shortfall of $29.4 billion in 2016-17. Deficit projections over the coming years include annual risk adjustments of about $6 billion, in case economic conditions deteriorate.

In the coming weeks, the Liberals will release their fall fiscal and economic update. With the still-sluggish economy, Morneau has hinted at least some of that $6 billion cushion might be needed.

"In the last budget, we made growth projections and we took a level of prudence," Morneau said recently. "Right now, I can say that we made the right decision because it's the case that the growth level is a little lower than forecast."

5. What the BoC thinks of Morneau's new housing measures

[October 6, 2016] The BoC says the Trudeau government's measures to cool hot housing markets in Vancouver and Toronto will help reduce risks to the financial system.

"We are mindful that low interest rates can lead to a buildup in financial vulnerabilities," Carolyn Wilkins, BoC senior deputy governor, said in a speech at the Université du Québec à Trois-Rivières on Thursday.

"As part of our financial stability mandate, we are monitoring very closely the high level of household indebtedness and housing sector activity. We think that, over time, the measures announced by the federal government on Monday will help mitigate risks to the financial system posed by household imbalances," she said.

Finance Minister Bill Morneau on Monday said the federal government will bring in a more rigorous mortgage-rate stress test for all insured borrowers, effectively shutting more people out of the market for mortgages. The government will also apply the tax rules so that only people who were living in their home as a principal residence before the home was sold are eligible to claim the principal residence exemption for capital gains.

Rising home values in Toronto and Vancouver comes as the Canadian economy is undergoing complex adjustments following the drop in oil prices over the past two years, and amid an aging population and modest productivity growth.
"The adjustments are clearly under way," Wilkins said. "There has been progress but also a few setbacks."
Wilkins discussed how BoC of Canada policymakers analyze the economic situation as they set policy to achieve the bank's 2% inflation target. She said governing council members are following three economic adjustments ahead of the October 19 policy rate announcement and monetary policy report release: stabilization in the energy sector, sustained pickup in non-commodity exports and sustained growth in the rest of the economy.
"Progress has been made with respect to the adjustments I have just described, but there is still material slack in the economy," she says. "Governing council looks forward to providing an update on our outlook, as well as an interest rate announcement, in a couple of weeks."

6. B.C. leads in economic growth; Alberta in recession

[October 6, 2016] B.C. is on track to lead Canada's other provinces in economic growth in 2016 and 2017, according to a report released Thursday by BMO Financial Group.
It estimates B.C.'s economy will grow by 3% this year — more than twice the national growth of 1.2%.
But BMO says neighbouring Alberta is in recession, with its economy expected to shrink by another 2.3% this year, following a decline of 4% in 2015.
The banking group says the downturn in Alberta's energy sector has spilled into other parts of the economy, and the provincial unemployment rate is above 8% for the first time since the early 1990s.
"The fallout from lower oil prices has Alberta's economy still grappling with recession," BMO senior economist Robert Kavcic writes in the 26-page report from the Canadian banking group.
"By next year, the economy should return to growth, but remain historically subdued at just above 2%, assuming a gradual upward grind in oil prices."
Newfoundland and Labrador is also expected to see its economy shrink this year — by 2% — but Saskatchewan will eke out a small gain of half a per cent following last year's decline.

The report says Ontario, Manitoba and Quebec are expected to have growth above the national average, while the three Maritime provinces will come in below the average.
“Ontario’s economy is one of Canada’s growth leaders, expected to outperform the national average for a third straight year in 2016. This is a noteworthy change after a decade of under-performance through 2013,” Kavic writes.
Ontario’s real gross domestic product is estimated to grow at 2.6% this year and 2.3% in 2017, trailing only B.C. in both years.
B.C.’s economy is expected to grow a more subdued 2.5% in 2017 — above BMO’s estimate of national growth of 2.0% next year.
None of the provincial economies is projected to shrink next year, with Alberta matching Ontario with growth of 2.3% and Newfoundland and Labrador eking out a 0.7% increase in its real GDP.

7. Toronto-area housing prices, sales volume soar in September

[October 5, 2016] Housing sales in the Toronto area continued to soar last month, with the average price rising 20.4% from September last year to $755,755, the Toronto Real Estate Board reported Wednesday.
The price increases came as the number of transactions in the Greater Toronto Area rose 21.5%, a stark contrast to a big drop in the number of transactions last month in Vancouver’s residential real estate market.
The real estate board said Wednesday there was strong growth in sales transactions for all major home types in the area but a lack of supply limited growth in the City of Toronto itself.
By comparison, figures released Tuesday by Vancouver’s real estate board showed a 32.6% drop in sales transactions compared with September 2015 — prior to a new 15% provincial tax on foreign buyers that came into effect in August.
Vancouver prices continued to rise but some analysts expect a prolonged decline in demand will lower the sky-high cost of housing in Canada’s most expensive real estate market.
There’s also been anecdotal evidence that some foreign buyers have shifted their focus from Vancouver to other cities, including Toronto. On Monday, the federal government unveiled measures to tighten rules for prospective buyers and lenders.
“The Toronto Real Estate Board will be closely monitoring how the recent changes to federal mortgage lending guidelines and capital gains tax

exemption rules impact the housing market in the Greater Toronto Area," Jason Mercer, the board's director of market analysis, said in a statement Wednesday.

"While these changes are pointed at the demand for ownership housing, it is important to note that much of the upward pressure on home prices in the GTA has been based on the declining inventory of homes available for sale."

The real estate board's benchmark price index was up 18% from September 2015, after adjusting to various types of housing.

The average sale price for detached houses in Toronto proper rose to $1.29 million, up 23% from a year earlier. The comparable price for detached houses in surrounding areas was $928,414, up 26.6%.

By contrast, prices for condos in Toronto proper grew only 6.5% to $446,729. Condo prices in other parts of the Greater Toronto Area were up 19.4% to $367,260.

8. Vancouver home sales plunge, but prices still high

[October 4, 2016] Home sales in Metro Vancouver plunged by 32.6% last month compared to the same month last year, the city's real estate board said Tuesday. This is a sign that one of the hottest real estate markets in the world may be rapidly cooling down.

The Real Estate Board of Greater Vancouver said there were 2,253 homes sold last month, a steep drop from the 3,345 home sales recorded in September 2015. Last month was the second month that a 15% tax applied to foreign buyers of property in the city.

"There's uncertainty in the market at the moment, and homebuyers and sellers are having difficulty establishing price," said real estate board president Dan Morrison in a news release.

The marked drop in the number of homes sold last month follows a 26% year-over-year decline in August.

One issue is the composite benchmark price for all residential properties was $931,900—a 28.9% increase compared to the same month last year, but a 0.1% decline compared to August 2016.

Morrison said there is more demand for condominiums and townhomes than detached homes, supporting some analyst predictions that there's still interest among first-time buyers to get into the Vancouver market.

And, concerns have intensified about the city's real estate sector, with some experts predicting it is prone to a sharp correction.

Last week, Swiss bank UBS also released a report that said the city had the greatest risk of a housing bubble when compared to 17 other high-priced large markets including London, New York and Sydney, Australia.
Prior to today's data release, realtors were predicting a steep decline in detached-home sales. They also expected numbers to give further insight into the effects of British Columbia's foreign-buyers tax, which came into effect Aug. 2 after the market was already starting to cool.
That's because Premier Christy Clark has said the aim of the tax on foreign buyers was to cool off Metro Vancouver's overheated housing market.
Also, on Monday, the federal government introduced a pair of new housing measures that could have an impact on Vancouver's market in the months to come.
As of Oct. 17, all insured mortgages will have to undergo stress tests to determine whether borrowers will still be able to make payments if interest rates rise or they lose their jobs.
The federal government also limited to Canadian residents a tax exemption for capital gains made when homeowners sell their primary residences.

9. IMF lowers growth outlook for Canada

[October 4, 2016] The International Monetary Fund has lowered its estimates for Canadian growth in 2016 and 2017, pointing to a weaker U.S. economy than projected earlier this year.
The IMF is now forecasting Canada's gross domestic product will grow by 1.2% this year and 1.9% next year. Both estimates are 0.2 percentage points lower than an IMF outlook issued in July.
Among other things, it says Canada has been negatively affected by unexpected weakness in the United States, the world's largest economy and a major market for Canadian goods and services.
The IMF's revised estimate for the U.S. economy has been lowered by 0.6 percentage points to 1.6%. It's also lowering the 2017 estimate for the United States by 0.3 percentage points to 2.2%.
The Washington-based organization says the global economy faces subdued economic growth in the short and long term. But it has left its estimate for world economic output unchanged at 3.1% this year and 3.4% next year

10. B.C. signs on to mandatory CPP expansion

[October 4, 2016] Today, the B.C. government signed on to a mandatory expansion of the Canada Pension Plan.

This means all nine participating provinces have agreed to move forward with CPP changes. The Government of Canada is advancing legislation to enact the CPP enhancement, which will be introduced in Parliament shortly.

Small business response

On the back of this news, the Canadian Federation of Independent Business has said it's disappointed. It notes in follow-up comments that CPP enhancement will result in added costs for small businesses and their workers. CFIB says that most Canadians don't know how the CPP works or what proposed expansion would mean. For example, when presented with the details about the size of the proposed CPP tax increase, 69% of business owners said they may need to freeze salaries and benefits to accommodate the hike, and more than a third said they may have to eliminate jobs, explains CFIB.

Also, according to an Ipsos poll of more than 2,000 employed or retired Canadians conducted in late August, 39% of Canadians falsely believe the government pays for part of their CPP, and only 26% know it will take approximately 40 years to fully phase in the expanded benefits, says CFIB.

"We appreciate that Canadians support the concept of additional CPP benefits, [but] no one has informed them that there is likely to be a secondary effect on their wages," says CFIB president Dan Kelly. The Ipsos poll reveals Canadian workers overwhelmingly oppose CPP expansion if it results in a cut – or even a freeze – in their wages.

CFIB is concerned that increasing CPP will make it even more difficult for SMEs to continue to grow Canada's economy. So, the organisation is calling on the federal government to reinstate its promise to cut the small business corporate tax rate to 9%. And, CFIB is asking the federal and provincial governments for further actions, including a freeze in the minimum wage and lower payroll taxes like Employment Insurance and workers' compensation premiums.

Have a nice and fruitful week!