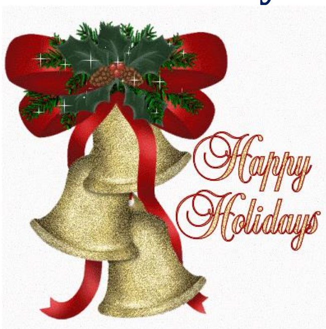
Happy 2017 dear clients and friends, and constant readers of my newsletter!



Weekly Updates Issue # 596

1. Weekly Markets Changes
2. 2016 saw fewer full-time, more part-time jobs added
3. Toronto-area home sales hit record in 2016
4. What bank economists say will happen in 2017
5. Home sales in Vancouver dropped 5.6% last year
6. In U.S., expect mortgage rates, home sales and prices to rise
7. Is China a currency manipulator?
8. Average pay of top CEOs rising: CCPA report

1. Weekly Markets Changes*

[January 6, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,496.05 +243.9 +1.60%	2,276.98 +18.91 +0.84%	19,963.80 +120.4 +0.61%	5,521.06 +83.90 +1.54%	$0.7553 +0.57¢ +0.76%	$1,172.90 +36.10 +3.18%	$53.70 +1.67 +3.21%

**All the above changes in the value of the indexes, currencies and commodities are calculated based on the values as at December 16th 2016, the date of my last newsletter for the year 2016 #595.*

2. 2016 saw fewer full-time, more part-time jobs added

[January 6, 2017] The national labour market saw big gains in 2016 — but unlike recent years, the net job growth was propelled by a surge in the less-desirable category of part-time work.

Statistics Canada’s year-end employment review shows the country added 153,700 net new part-time jobs last year and just 60,400 full-time positions — a number so low it was statistically insignificant.

The 2016 figure represents a stark shift from year-end results in the past two years, when the agency reported gains of 156,000 full-time jobs in 2014 and 147,000 in 2015.

The final number for 2016 would have shown a loss in full-time work had it not been for a December gain of 81,300 new positions in the category — the biggest one-month increase in full-time jobs in almost five years.

"Canada's employment data for December were a stunner, even in a series where surprises are the norm," writes Avery Shenfeld, chief economist at CIBC Capital Markets, in a note. "There were jobs, jobs everywhere, and this time, they were offering a full day's work. Canada's hiring tally for December, with a 54,000 net gain all sourced in an 81,000 rise in full-time positions, looked out of step with the soft pace seen in output measures, but together with today's brighter news on exports, suggests a bit of upside to fourth quarter growth."

The agency's latest labour force survey says that, overall, Canada beat economists' expectations in December by adding 53,700 net jobs, while the unemployment rate crept up to 6.9% from 6.8%.

Statistics Canada also released numbers that showed the country's trade balance with the world in November recorded its first monthly surplus in over two years — cutting the trade deficit nearly in half to $526 million from about $1 billion.

3. Toronto-area home sales hit record in 2016

[January 5, 2017] The GTA's average home price soared to $730,472 last month, up 20% from December 2015, says the Toronto Real Estate Board, which adds strong December sales volume helped make 2016 a record year for realtors in the Greater Toronto Area.

There were 5,338 sales transactions for all types of residential property last month, including condo units and fully detached houses. That was up 8.6% compared with December 2015–despite a tight supply of properties for sale.

The board's MLS house price index, which adjusts for the different types of properties, was up 21% in December.

For the full year, TREB members had 113,133 sales through the MLS system, up 11.8% compared with 2015, which had the previous record high.

"A relatively strong regional economy, low unemployment and very low borrowing costs kept the demand for ownership housing strong in the GTA, as the region's population continued to grow in 2016," TREB president Larry Cerqua said in a statement Thursday.

The board says upward momentum on pricing accelerated as the year progressed and the overall average selling price for the calendar year was $729,922 — up 17.3% compared with 2015.

Another factor affecting prices was a constrained supply of active listings, which hit a 15-year low in December. “Total new listings for 2016 were down by almost four per cent,” said TREB’s director of market analysis, Jason Mercer.”

Mercer added that government rule changes and policy debates have focused on high demand but “what we really need is more policy focus on issues impacting the lack of homes available for sale.”

In October, the federal government made a number of changes aimed at stabilizing the country’s real estate markets, including requiring stress tests for all insured mortgages.

The stress test change was intended to ensure that Canadians don’t take on larger mortgages than they can handle, particularly in markets such as Toronto and Vancouver where affordability is stretched.

On Wednesday, the Real Estate Board of Greater Vancouver reported that home sales in Metro Vancouver, one of the country’s most watched housing markets, fell 5.6% last year.

Meanwhile, the composite benchmark price for all residential properties in Metro Vancouver, as measured by the Multiple Listing Service home price index, tumbled to $897,600 last month. That’s down 17.8% compared to December 2015.

4. What bank economists say will happen in 2017

[January 4, 2017] Investors should approach 2017 with caution, but it’s not all doom and gloom.

Chief economists from the Big 5 banks gave their 2017 outlooks at the Economic Club’s annual forecast breakfast in Toronto, which was moderated by market expert Frances Horodelski. The packed house heard from Avery Shenfeld, CIBC World Markets; Craig Wright, RBC Royal Bank; Derek Burleton, TD Bank Group; Douglas Porter, BMO Financial Group and Jean-Francois Perrault, Scotiabank.

For this year, they predict:

- oil between US$55 and US$58 (take your energy gains now)
- the loonie between US$0.72 and US$0.74, as well as a decoupling between oil prices and the CAD
- mild effects, if any, from fiscal stimulus in the U.S., since that economy is near capacity

- cooler housing markets in Canada, everywhere except Toronto (Porter says only direct intervention can cool Toronto's market)
- slower consumer spending, with max 2% real growth
- no action from the Bank of Canada for the next 18 months

5. Home sales in Vancouver dropped 5.6% last year

[January 4, 2017] Home sales in Metro Vancouver dropped by 5.6% in 2016, the city's real estate board said Wednesday, wrapping up a tumultuous year in one of the country's most watched housing markets.

Meanwhile, the composite benchmark price for all residential properties in Metro Vancouver, as measured by the Multiple Listing Service home price index, hit $897,600 in December. That's a 17.8% increase from the same month the previous year.

"It was an eventful year for real estate in Metro Vancouver," board president Dan Morrison said in a statement. "Escalating prices caused by low supply and strong homebuyer demand brought more attention to the market than ever before."

Residential property sales in the city started the year off strong, sometimes hitting record highs. But partway through the year the market started to cool, with sales and eventually prices declining.

That came as a number of measures were implemented in an effort to address home affordability concerns in Vancouver, including a 15% tax for foreign buyers and a tax on homes left vacant.

"As prices rose in the first half of the year, public debate waged about what was fuelling demand and what should be done to stop it," Morrison said. "This led to multiple government interventions into the market. The long-term effects of these actions won't be fully understood for some time."

There were 39,943 detached, attached and apartment properties sold in the region last year, down from the 42,326 sales recorded in 2015.

Despite the decline in the number of homes sold, 2016 was the third-highest selling year on record, behind only 2015 and 2005.

Last month, residential property sales totalled 1,714, a 39.4% decrease from the 2,827 homes sold in December 2015.

6. In U.S., expect mortgage rates, home sales and prices to rise

[January 4, 2017] Nate Lowenstein has been shopping for a home in Los Angeles, on and off, for more than a year.

But his search has been stymied by a stubbornly low roster of homes on the market and the hurdles that come with it: multiple competing bids and higher prices.

"It's not a great market, from a buyer's perspective," said Lowenstein, a lawyer. "The one good thing is that interest rates were quite low."

As recently as this summer, homebuyers had ultra-low mortgage rates on their side. That's good news for any borrower, especially for those in expensive housing markets like Los Angeles, Boston and Seattle.

But that was then.

Now, mortgage rates remain low by historical standards but they've risen sharply over the past couple of months, pushing the average rate on a 30-year, fixed-rate mortgage to 4.32% this week. That's the highest level since April 2014 and well above the year's average of 3.65%.

Further, economists predict mortgage rates will continue to climb next year– just one of the trends that suggest 2017 could be a more challenging year for homebuyers.

"With higher mortgage rates, you're increasing the cost, [and] challenging the budgets [and] ability to qualify. As a result, likely reducing somewhat the pool of potential buyers," said Jonathan Smoke, chief economist for Realtor.com.

So far, the rate increases have not begun to worry Lowenstein, who is in the market for a house with at least three bedrooms in L.A.'s affluent west side. His budget is between $1.6 million and $1.8 million.

"We're not priced out yet," Lowenstein said. "But if it goes up to 5 per cent or 6 per cent, at some point we would be."

Long-term mortgage rates tend to track the yield on the 10-year U.S. Treasury note. The yield goes down when investors bid up bond prices, as they did following this summer's vote in Britain to exit the European Union. The move sent long-term mortgage rates tumbling as low as 3.41%.

The reverse happened after election day in November, when a sell-off in U.S. bonds drove the yield on the 10-year Treasury note to the highest level in more than two years. Mortgage rates have been inching higher ever since.

But will they continue to do so?

Smoke predicts mortgage rates will reach 4.5% in 2017. Other economists expect rates will remain above 4% but not go beyond 5% next year. That range would mean mortgage rates that would be low compared to the last decade.

Average long-term mortgage rates were above 6% during the height of the last housing boom and they hadn't hit 5% before 2008.

So someone looking to buy a home in the next few months doesn't need to panic, said Svenja Gudell, chief economist at Zillow, a real estate information company. "My advice to buyers would be to not freak out and feel a sense of urgency," she says. "If you aren't able to buy a house at 4.5 per cent, you probably weren't able to buy a house at 4 per cent."

The stakes are a bit higher for buyers in expensive markets, where housing can eat up a much larger share of household income.

But, if mortgage rates continue to climb, there are moves would-be homebuyers can make to better offset some of the higher borrowing costs.

Consider lowering the interest rate by paying a fee to the lender up front, something known as buying down the interest rate. Or go with an adjustable-rate mortgage, which has a low, fixed-interest rate for a few years, typically five or 10, then adjusts to a higher rate.

Another move is to ask the seller to pay the buyer's closing costs. That can free up more cash for buyers to manage the higher borrowing costs.

One upside

Higher mortgage rates could have one silver lining: as some buyers are priced out, sellers may have to be more flexible on prices. Over time, that could help stem home prices.

Low inventory and strong demand helped push prices higher in 2016 at the fastest pace in 10 years, according to an analysis by Zillow. The company predicts that U.S. home prices increase about 3% in 2017, down from a gain of about 6.5% this year.

Declining affordability is one reason the National Association of Realtors predicts U.S. homes sales will rise 2% next year. Compare that to the 15% increase in sales through the first 11 months of 2016.

Even buyers who can weather higher mortgage rates may have to brace for a long home search next year.

The inventory of homes for sale is expected to be tighter in 2017 than it was this year. While it varies by market, nationally, fewer than 1.9 million homes were on the market in November, down 9% from a year earlier, according to the NAR.

Homebuilders are not building enough homes to make up for the shortage, citing a lack of ready-to-build land, labour shortages and rising building materials costs.

Homebuyers can also expect to face more competition in 2017 as millennials continue to transition from renting to homeownership, particularly in more affordable markets in the Midwest and South.

First-time buyers accounted for roughly 32% of home purchases through the first 11 months of 2016, up from 30% in the same period a year earlier, according to the NAR.

Affordability remains a hurdle for many first-time buyers, but qualifying for financing may get a bit more accessible in 2017.

Fannie Mae and Freddie Mac will increase the limit of the mortgages they will buy from lenders next year to $424,100 from $417,000. In more expensive markets, the mortgage giants will accept loans as high as $636,150, up from $625,500.
Banks may also have an incentive to loosen lending standards if rising mortgage rates continue to dampen demand for mortgage refinancing.

7. Is China a currency manipulator?

[January 3, 2017] President-elect Donald Trump has vowed to name China a currency manipulator on his first day in the White House.
But there's a problem: that's not true anymore. China, the world's second-biggest economy behind the United States, hasn't been pushing down its currency to benefit Chinese exporters in years. And even if China were a currency manipulator, the law requires the U.S. spend a year negotiating a solution before it can retaliate.
Trump spent much of the campaign blaming China for America's economic woes. The U.S-China trade relationship is lopsided; China sells a lot more to the United States than it buys. The resulting trade deficit in goods amounted to a staggering $289 billion through the first 10 months of 2016.
But for the past couple of years, China has been intervening in markets to prop up its currency, the yuan, not push it lower.
It also went a step further on Thursday, watering down the significance of the dollar and adding 11 additional currencies in a foreign-exchange basket, according to a document released by the China Foreign Exchange Trading System.

Currency and the trade gap

When China's yuan falls against the U.S. dollar, Chinese products become cheaper in the U.S. market and American products become more costly in China.
So the U.S. Treasury Department monitors China for signs it is manipulating the yuan lower. Treasury has guidelines for putting countries on its currency blacklist. They must, for example, have spent the equivalent of 2% of their economic output over a year buying foreign currencies in an attempt to drive those currencies up and their own currencies down.
Treasury hasn't declared China a currency manipulator since 1994.

If the U.S. declared China a currency manipulator…

At least initially, nothing much would happen. That's because if Treasury designates China a currency manipulator under a 2015 law, it is supposed to spend a year trying to resolve the problem through negotiations.

Should those talks fail, the U.S. can take a number of small steps in retaliation, including stopping the U.S. Overseas Private Investment Corp., a government development agency, from financing any programs in China. Trouble is, the United States already suspended OPIC operations in China years ago–to punish Beijing in the aftermath of the 1989 crackdown in Tiananmen Square. So naming China a currency manipulator is mostly "just a jaw-boning exercise," says Amanda DeBusk, chair of the international trade department at the law firm of Hughes Hubbard & Reed and a former Commerce Department official. "There's no immediate consequence."

Background

For years, China did manipulate its currency to gain an advantage over global competitors. It bought foreign currencies, the U.S. dollar in particular, to push them higher against the yuan. As it did, it accumulated vast foreign currency reserves–nearly $4 trillion worth by mid-2014.

But now the Chinese economy is slowing, and Chinese companies and individuals have begun to invest more heavily outside the country. As their money leaves China, it puts downward pressure on the yuan.

The yuan has dropped nearly 7% against the dollar so far this year. The Chinese government has responded by draining its foreign exchange reserves to buy yuan, hoping to slow the currency's fall. China's reserves have dropped by $279 billion this year to $3.05 trillion.

If Beijing stepped back and let market forces determine the yuan's level, it likely would fall even faster, giving Chinese exporters even more of a competitive edge.

So Beijing seems to be doing the opposite of what Trump claims. In fact, Cornell University economist Eswar Prasad earlier this month called Trump's plans to name China a currency manipulator "unmoored from reality."

"The whole discussion is ironic," said David Dollar, senior fellow at the Brookings Institution and a former official at the World Bank and U.S. Treasury Department. "It's out of date."

8. Average pay of top CEOs rising: CCPA report

[January 3, 2017] Before noon today, Canada's highest-paid CEOs will have earned more than the average working person's income for all of 2017.

That's the conclusion of the Canadian Centre for Policy Alternatives, an Ottawa-based think-tank that has tracked CEO compensation in this country for a decade.

It says this year's elite group of chief executive officers will earn the average, full-time Canadian wage by 11:47 a.m. on Jan. 3, which is the second working day of 2017.

Last year, it would have taken about half an hour longer–until 12:18 p.m. on the second working day of 2016.

Hugh Mackenzie, a Toronto-based independent economist who wrote the Policy Alternatives report, says the clock analogy is a powerful way to illustrate a widening gap between what top executives get paid and what average Canadian workers earn.

"There's […] been an explosion in the compensation of senior executives in Canada and the United States. And that serves as a very potent symbol, I think, of the growth of income inequality," Mackenzie said in an interview.

This year's report, based on information released by Canadian publicly traded companies in 2016, estimates the average compensation of the Top 100 chief executives was $9.5 million in 2015, 193 times the average annual industrial wage.

That's up from $8.96 million in 2014, 184 times the average annual industrial wage that year.

Mackenzie says the problem lies with the way CEOs earn this money, often with stock grants and stock options that can lead executives to make decisions that reward them in the short term rather than the company or public at large.

He suggests Ottawa should level the playing field by ending a tax break for proceeds from stock options

"The proceeds of stock options in Canada are taxed at half the rate of ordinary income," Mackenzie says. "The [Trudeau] government actually promised to get rid of that but then backed down in the face of opposition from the business community."

He adds, "One of the things that I'm going to be watching with some interest is what the government does in its next budget with respect to that campaign commitment."

Mackenzie says the trend to higher CEO compensation has been pretty consistent over the years, regardless of the broader economic downturns or shareholder attempts to get more say on executive pay. But he admits there always seems to be at least one or two individual CEOs each year who are far ahead of the others, possibly distorting the overall averages in the Top 100.

Most of the year-over-year increase in the Policy Options report was due to just one person: Michael Pearson, formerly CEO of Valeant Pharmaceuticals, who vaulted to number one with $182.9 million of compensation in 2015 from number 15 at just under $11.35 million in 2014.

Pearson's rise was due mostly to $179.4 million of share compensation in 2015–a year when Laval, Que.-based Valeant was at times Canada's most valuable company with a stock above $300 per share for a two-month stretch in the summer.

Since then, Valeant has lost more than 90% of its market value following a series of problems, including U.S. investigations into price hikes for some of its drugs. These problems emerged before Pearson departed in early 2016.

Have a nice and fruitful week!