Weekly Updates Issue # 601

1. Weekly Markets Changes

[February 10, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,729.12 +252.7 +1.63%	2,316.10 +18.68 +0.81%	20,269.37 +197.9 +0.99%	5,734.13 +67.36 +1.19%	$0.7642 +0.38¢ +0.50%	$1,234.70 +13.10 +1.07%	$53.85 0.00 0.00%

2. Canada's unemployment rate dips to 6.8%

[February 10, 2017] Canada's labour market unexpectedly added 48,300 jobs last month, thanks to surges in part-time and private-sector work.

Statistics Canada's employment survey for January shows an increase of 32,400 part-time positions and a gain of 15,800 jobs in the more-desirable category of full-time work.

The report also found that the number of private-sector jobs rose 32,400 between December and January, compared with an increase of 7,700 public-sector positions.

The unemployment rate fell to 6.8% from 6.9% in December.

"The surprisingly strong trend in employment towards the end of 2016 kept on rolling into the New Year; the 48K rise in jobs was well above the -10,000 expected by the consensus, and leaves the 6-month average at a hot 40,000," says Andrew Grantham, senior economist at CIBC Capital Markets, in a research note.

He adds, "That's well above the pace of employment growth that we would expect with GDP appearing to be tracking between 1.5% and 2% at present. Again, a lot of the jobs were part-time (up 32,000), however full time positions added 16,000."

He predicts "the continued strength" in the labour market will make it harder for the Bank of Canada to sell markets on the idea that a rate cut is still on the table.

Statistics Canada says the vast majority of the new jobs–42,600 positions–were created in the services sector.
A consensus of economists had projected the job numbers to stay unchanged last month and for the unemployment rate to hold at 6.9%, according to Thomson Reuters.
The country's job market has seen gains in five out of the last six monthly reports.
Still, Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, is cautious. In a report, he says, "One is concern on the productivity side of the picture and what that might mean for the durability of future job gains […] From an output per body productivity perspective, either a huge jump in output growth lies waiting in the wings, or employers will eventually shift toward asking why they're hiring so many people if they aren't producing more."
He adds, "From an output per hour worked perspective, however, the implications are less disconcerting on the productivity front but more of a warning sign on output growth to the extent to which total hours worked contributes to GDP growth. Time will tell."
Other concerns he points to are "are being hired at slowing wage growth and working fewer hours in aggregate" and "markets should be careful about pushing the BoC too far with the resulting dollar strength," in reaction to the jobs report.

Jobs rates last month, by province

Here are the jobless rates last month by province and percentage (previous month in brackets):

- Newfoundland and Labrador, 13.8 (15.1)
- Prince Edward Island, 9.8 (10.5)
- Nova Scotia, 7.7 (8.3)
- New Brunswick, 8.9 (9.3)
- Quebec, 6.2 (6.5)
- Ontario, 6.4 (6.4)
- Manitoba, 6.1 (6.3)
- Saskatchewan, 6.4 (6.6)
- Alberta, 8.8 (8.5)
- British Columbia, 5.6 (5.8)

3. Former OTPP head tapped to set up infrastructure bank

[February 10, 2017] The former head of one of the country's largest pension funds is being tapped to help build the new federal infrastructure bank.

The Liberals are naming Jim Leech as a special adviser to help design the proposed arm's-length lending machine that could leverage billions in public money to turn it into new highways, bridges and transit projects.

The Liberals plan to infuse the bank with $35 billion in funding to financially backstop projects. The details of how it will work to be outlined in this year's federal budget.

The government says Leech will guide the bank's implementation team and help recruit board members.

The former head of the Ontario Teachers' Pension Plan has experience investing pension money in profit-generating infrastructure projects.

The Liberals hope that large pension funds like the teachers' plan will invest in the bank, which will use federal funds to attract private-sector dollars for major projects and possibly generate $4 to $5 in private funding for every $1 of federal money.

4. Canadians should use TFSAs to invest in small business: MEI

[February 9, 2017] Small businesses with fewer than 100 employees account for a whopping 70% of all jobs in the private sector, says Youri Chassin, research director at the Montreal Economic Institute (MEI), in a report that cites government research.

As such, he suggests modifying TFSA rules to allow Canadian investors to invest in small business, instead of restricting them to listed firms. The result would be a win-win, he argues: investors get more choice, and small business gets funding. Further, Canadians would potentially have the option of investing in promising projects in their own communities, with attractive tax-free earnings.

As it stands, small businesses have difficulty getting bank loans, and they pay higher interest rates on the loans they do get. As a result, more than 84% of the heads of start-up enterprises rely on personal financing, namely their own funds or personal loans. Relatively few of them (17.3%) receive financing from friends or relatives.

With nearly 12 million Canadians having TFSAs, the MEI argues these accounts are an untapped source of business investment. In total, TFSAs add up to $151.6 billion, or about $13,000 on average per contributor.

Qualifying TFSAs for small business investment

All that's required is a simple modification of article 204 of the Income Tax Act, "qualified investments," in order to include shares of small businesses, suggests Chassin. TFSA investments would then enjoy the same regulatory protections as ordinary investments not made through TFSAs.
Further, there's no need to measure the fair market value of the assets for tax purposes, since the purchase and sale prices of a small business share has no fiscal impact for a TFSA, which has tax-free returns.
In exceptional cases where such a calculation is necessary, Chassin suggests using the same guidelines applied to a family business transfer.
In such a case, "the market value of the company is not determined by financial transactions on the stock market," says Chassin. "But this in no way prevents equity investments. The rules established in situations in which companies are transferred to a member of the next generation could serve as a default method."
It's a relatively easy way to boost business growth, which is a current focus of the federal government, as laid out in the recent report of the economic advisory council.
If the change proved successful, qualified investments for RRSPs could be similarly modified. Certainly, the potential modification to TFSAs can be compared to a previous success in Quebec.
In 1979, the Quebec government set up the Stock Savings Plan, which led to the creation of several of today's large Quebec businesses, notes Chassin. Similarly, "opening up TFSAs to investments in small businesses not listed on a stock exchange could constitute a minor revolution in the development of a culture of savings in support of entrepreneurship."

5. Is Canadian business confidence on shaky ground?

[February 9, 2017] The Ontario economy grew 2.6% on average between 2000 and 2007, reveals an economic report from the Ontario Chamber of Commerce (OCC). Although that level of growth might sound good in today's global environment, it's cause for concern.
That's because wealth from the production of goods and services dropped 12% in that time period, reveals the report. And, since the 2008 financial crisis, production has fallen another 12%. In fact, much business prosperity today comes from the financial activities of asset and liability management, not from business activity.
The root of the problem is an economic environment of increasing costs for production, regulation and housing; this has resulted in weak market and labour force activity. Ontario businesses operate in a risk-averse environment

in which they're disinclined to grow production by investing or hiring, says the report.

While 43% of OCC members expect to increase revenue in the next 12 months, 35% expect revenue to stay the same, and 19% expect revenue to decrease. In particular, businesses are challenged to find qualified workers and to pay rising electricity costs.

To change the province's course, the OCC says it will prioritize workforce development and energy sector initiatives, as well as focus on infrastructure and healthcare.

Such priorities echo those released Monday in a report by the federal government's economic advisory council in an effort to boost Canadian growth.

Potential new headwind: U.S. corporate tax

A new problem may be on the horizon that could further shake business confidence in Canada.

A potential headwind for Canadian businesses is proposed U.S. tax reform, which could delay capital spending decisions. Under the proposed reform, U.S. companies would pay a 20% corporate tax on imported goods and services.

"Canadian companies exporting to the U.S., having already paid Canadian corporate income tax on their export profits, would in effect be hit again as a U.S. corporate tax would be paid by firms or consumers buying their products," explains Avery Shenfeld, chief economist at CIBC World Market, in an economic report.

With one-fifth of Canadian GDP linked to U.S.-bound exports, the effect would be significant.

The tax proposal is reminiscent of the Smoot-Hawley Tariff enacted in 1930, which saw world trade come to a halt as other countries — led by Canada — lashed back with a tariff on U.S. exporters. The halt was a factor in a deepening Great Depression, says Shenfeld.

"We're assuming that Trump will avoid the same fate," he says, adding that the U.S. president has called the new proposal "too complicated."

6. Last year's U.S. trade deficit highest since 2012

[February 7, 2017] The U.S. trade deficit narrowed slightly in December, but the improvement wasn't enough to keep the deficit for the entire year from rising to the highest level since 2012.

The deficit in December fell 3.2% to $44.2 billion, the Commerce Department reported Tuesday. A gain in exports of commercial aircraft, heavy machinery and autos offset a rise in imports. For the whole year, the deficit rose 0.4% to $502.3 billion, the highest annual imbalance since 2012.

To date, Trump has pledged to impose penalty tariffs on countries such as China and Mexico to force them to drop what he contends are unfair trade practices that have cost millions of American jobs.

Since taking office on January 20, 2017, Trump has pulled the country out of a 12-nation Pacific trade deal negotiated by former President Barack Obama. He has given notice that he also wants to renegotiate a two-decade-old free trade agreement with Mexico and Canada.

Further, Trump has also gotten into a dispute with the president of Mexico over who will pay for a border wall between the two countries. The Trump administration has suggested it might use a 20% border tax on goods from Mexico to pay for the wall.

Region-specific stats

For 2016, America's deficit with China actually declined slightly, dropping 5.5% to $347 billion after hitting an all-time high of $367.2 billion in 2015. Even with the improvement last year, the deficit with China is the largest with any country.

The deficit with Mexico rose 4.2% in $63.2 billion in 2016, the largest imbalance with that country since 2011.

Trump has contended that both China and Mexico are using unfair trade practices such as currency manipulation to boost their sales to the United States. Private economists contend that broader factors, such as lower wages in both China and Mexico, play a bigger role in determining the trade deficits.

U.S. exporters have struggled for the past two years with a rising value of the dollar, which has made U.S. goods less competitive in global markets while making foreign goods cheaper for U.S. consumers. American manufacturers have also struggled with economic weakness in many key overseas markets.

The $502.3 billion deficit last year was up from a 2015 trade gap of $500.4 billion. For 2016, exports fell by 2.2% after a decline of 4.8% in 2015 as. Imports were down 1.8% last year, reflecting in part the drop in global oil prices.

For 2016, the widening trade deficit shaved 0.1 percentage point from overall growth, down from a bigger 0.6 percentage point reduction in growth in 2015. The economy slowed to growth of just 1.6% last year.

Analysts are hoping that growth will rebound to around 2.5% in 2017 and even more in 2018, fueled by Trump's stimulus program of tax cuts, deregulation and increased spending on infrastructure. Trump pledged in the campaign to boost economic growth to 4% or better.

A look at Canada

Statistics Canada says the country posted its second consecutive monthly trade surplus in December, noting Canada's merchandise trade balance with the world posted a surplus of $923 million for the final month of 2016.
The result for November was also revised to show a surplus of $1 billion compared with an initial reading of a surplus of $526 million.
Economists, on average, had expected surplus of $350 million for December, according to Thomson Reuters.
Still, the surplus won't have a major impact, says Avery Shenfeld, managing director and chief economist of CIBC Capital Markets, says in a research note. He predicts, "[…] The feed through to December real GDP from these data will be on the soft side. The data are a plus for the [loonie], given the implications for the nominal trade balance, but [are] not quite as good news for growth."
Exports in December gained 0.8% to a record $46.4 billion in December due to higher energy product prices. Meanwhile, imports increased 1% to $45.5 billion in December, due in large part to imports of aircraft and industrial machinery.
In volume terms, exports fell 1.4% in December, while import volumes gained 0.4%.

7. Chinese-made jet ready for takeoff in 2017

[February 6, 2017] After years of delays, China's first large homemade passenger jetliner will take to the air for its maiden flight in the first half of this year, state media reported Monday.
State-owned aircraft maker Commercial Aircraft Corp. of China Ltd., or Comac, based in Shanghai, has nearly completed work on the 175-passenger C919, the ruling Communist Party Newspaper People's Daily reported.
The C919 was originally due to fly in 2015, but has been beset by delays blamed on manufacturing problems. It is now scheduled to enter service in 2019, aimed at competing with the Airbus A320 and Boeing 737, along with the Russian Irkut MC-21.
Airbus and Boeing say the market for new aircraft will be worth more than US$5 trillion over the next 20 years. Industry experts say China faces a tough slog capturing a significant share of that market, even with government support. Comac has 517 orders for the C919.
Company officials couldn't immediately be reached.
The C919 is part of China's efforts to develop a homegrown aviation industry in one of the world's biggest and fastest-growing air travel markets. China currently relies heavily on foreign-made aircraft.

Last June, the ARJ21-700, China's first homemade regional jet, made its debut flight carrying 70 passengers. The jet is one of a series of initiatives launched by the party to transform China from the world's low-cost factory into a creator of profitable technology in aviation, clean energy and other fields.
The ARJ21, also made by Comac, is a rival to aircraft made by Bombardier Inc. of Canada and Brazil's Embraer SA.

8. Hungry for growth? A look at fast-casual restaurants

[February 6, 2017] Freshii Inc.'s initial public offering tapped into the rapidly growing fast-casual restaurant sector, an area expected to see more startups acquired and further IPOs over the next couple of years.
The IPO raised more than expected for Freshii, as its initial plan to sell shares for $8.50 to $10 each was revised up to $11.50 per share on higher demand. The company's stock price has continued to climb since listing on January 31, reaching $14.60 on Monday morning.
Fast-casual restaurants, a subset of the quick-service segment, are positioned as alternatives to fast food. Driven by demand from millennials, the fast casual sector markets healthier and more sustainable menus. That means replacing fried and previously frozen foods with fresh vegetables, customization and fresh preparation.

Fastest-growing traffic

Fast-casual chains to watch
Via Cibo Italian Street Food. This Canadian startup comes by way of food-loving entrepreneur Alex Rechichi and his parters, Mark Rechichi and Sean Black. Rechichi previously led the growth of Mucho Burrito and Extreme Pita, which MTY Group acquired in 2013 for $45 million. (MTY owns Thai Express and several other quick- service chains.)
Hero Certified Burgers and South St. Burger. While they do not exactly sell fresh vegetables, these burger joints fall into the fast- casual segment. Southern Ontario chain Hero Burger offers grass-fed, antibiotic-free, Canadian beef burgers with a slice of "real cheese" and gluten-free buns. South St. Burger, with locations across the country, is also positioned as offering a healthier, alternative, Angus beef burger.
Panera Bread. This U.S. fast casual chain, offering sandwiches, bowls and baked goods, is growing and expanding in Canada. "I would expect them to go public probably in the next 24 months," analyst Robert Carter says.
Smoke's Poutinerie. This Ontario-founded chain seeks the global domination of poutine, according to its website, offering the Quebec dish with hand-cut

fries and cheese curds. With locations in the U.S., it's expanding outside North America and aiming for more than 1,000 restaurants by 2020. "We don't try to pretend we're a health craze. French fries are the base of my product. People still want to indulge when midnight cravings hit," Ryan Smolkin, founder, told Canadian Restaurant News in 2013.

Regional burrito chains have seen successful expansions, like Burrito Jax, on the East Coast, and Burrito Boyz in and around Toronto. Both chains have seen rising sales and locations, serving custom burritos with gluten-free options.

Robert Carter, food service analyst for NPD in Toronto, says fast casual represents only about 2% of all restaurant traffic in Canada, and about $500 million in annual spending. But the segment's restaurant traffic is rising fastest, with growth of more than 10% in the past year. That's as traffic for the entire sector is flat.

"Consumers are really responding. They like this segment," he says. "In Canada, it's starting to experience the same kind of growth momentum that it has in the U.S."

Carter adds: "A lot of the drivers of that segment are really the positioning similar to what Freshii has capitalized on, that perceived health and wellness [and] higher-quality food. Freshii's done a good job expanding from its core salads to bowls and wraps."

Chipotle Mexican Grill led the fast-casual market's growth in the U.S., rapidly expanding from 13 stores in 1998 to nearly 500 in 2006. The company held an IPO in 2006 and doubled its share price on the first day of trading, from US$22 to US$44. Today, a Chipotle share costs more than US$400.

Freshii is aiming for a similarly fast expansion, with plans to triple its store count by the end of 2019.

Matthew Corrin, Freshii's founder and chief executive, says he has first-move advantage in the fast-casual segment. "We think there's going to be Wendy's and Burger King for every McDonald's, and we're McDonald's. That's the way we view it. We started first and we plan on staying first for a very long time," he says in an emailed statement to Advisor.ca.

Evolving menus

Fast-casual restaurants must keep up with trends that, in recent years, have been shifting frequently, especially for young consumers.

Corrin says Freshii is evolving as the definition of "health" changes with the demands of customers. When the chain launched 12 years ago, the trend was brown rice and spinach. Now it's serving more superfoods like quinoa and kale, he says. Similarly, salad at one time represented a majority of Freshii's sales, and now it's less than 15%.

"Freshii […] looks to global trends that we can make accessible to the masses at an affordable price point. In 2015, it was the sushi burrito. In 2017, we will get on board with the poke craze with our own twist," Corrin says.

Getting into the market

Carter says to watch the Canadian and U.S. markets for more fast-casual IPOs or acquisitions of chains by bigger firms.

"Consolidation is definitely an opportunity in the market," says Carter. "We have some good, small regional players that will look to get some additional financing, and I'd expect some more focus on going public, especially those like a Freshii."

Have a nice and fruitful week!