Weekly Updates Issue # 609

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1. Weekly Markets Changes

[April 7, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,667.13 +119.4 +0.77%	2,355.54 -7.18 -0.30%	20,656.10 -7.12 -0.03%	5,877.81 -33.93 -0.57%	$0.7458 -0.47¢ -0.63%	$1,256.10 +5.50 +0.33%	$52.29 +1.44 +2.83%

2. Canada gains 19,400 jobs; U.S. unemployment rate declines

[April 7, 2017] Canada's labour market pumped out another 19,400 net jobs last month, with the vast majority of the new work being full-time.

However, Statistics Canada's job survey Friday also showed the bulk of those new positions were created in the more precarious category of self-employment, which can include people working for a family business without pay.

The report found that while 95% of the new jobs created last month were full-time, 95% of them were also self-employed positions.

The agency says the country's unemployment rate crept up in March to 6.7% from 6.6% because more people were looking for work.

The increase in the headline jobs number suggests the country's upward trend continued for a fourth consecutive month. But the gains in February and March were low enough that the agency deems them statistically insignificant.

In a note about the news, TD Economics senior economist Brian DePratto says, "Heading into the Bank of Canada's Wednesday policy interest rate decision, the jobs data will likely have only a marginal impact." To try and calm markets, "it's possible that Governor Poloz may point to the still-soft wage data to reinforce his recent dovish tone, but more likely is a continued focus on the sources of growth and the perceived differences in economic slack vis-à-vis the United States," he adds.

CIBC World Markets chief economist Avery Shenfeld highlights Canada's momentum, noting, "Another month, another boat load of jobs for a Canadian economy that is showing plenty of momentum. […] If there was a fly in the ointment, it was that self-employment, rather than hiring, accounted for nearly all of the gains. But, paid employment is still up nearly 290K in the past year."

On a provincial basis, he adds, "Alberta registered a solid gain in jobs in the latest month, although we treat the sub-national moves with caution given the limits of the sample size."

Compared to a year earlier, the categories of full-time and part-time work have each increased 1.5%.

The country lost 2,400 positions in the services sector last month, but added 21,800 factory jobs thanks to the biggest month-to-month surge in manufacturing work since 2002. The manufacturing sector added 24,400 positions, mostly in Ontario and to a lesser degree in Alberta, to climb back up to the same level it was 12 months earlier.

Still, compared to its peak in the early 2000s, the manufacturing sector has about 630,000 fewer jobs, a drop of 27%, Statistics Canada said.

Alberta easily saw the biggest overall job boost among provinces, adding 20,700 full-time jobs last month. At the other end of the spectrum, Quebec shed 17,800 full-time positions.

When it comes to hours worked, chief economist and strategist Stéfane Marion, of National Bank of Canada, points to Alberta's strength. In a research note, he says, "The March employment report showed […] total hours [worked] jumped 1.1% on the month, the biggest monthly increase since Canada emerged from recession in 2009. […] Hours are likely to continue catching-up to jobs in the coming months, even more so now that employment creation in Alberta is resuming […]."

The number of private-sector jobs rose 13,700 between February and March, while public-sector positions dropped by 12,700.

A consensus of economists had expected job gains of 5,000 last month, and for the unemployment rate to increase to 6.7%, according to Thomson Reuters.

U.S. data

The U.S. March jobs report shows the country's unemployment rate declined by 0.2 percentage point to 4.5% in March. Plus, the number of unemployed persons declined by 326,000 to 7.2 million, meaning both measures were down over the year.

The U.S. Labor Department says employment increased in professional and business services and in mining, while retail trade lost jobs.

Meanwhile, the labor force participation rate remained at 63% in March, and the employment population ratio, at 60.1% changed little. The employment-population ratio has edged up over the year, while the labor force participation rate has shown no clear trend.
The U.S. Bureau of Labor Statistics says total non-farm payroll employment edged up by 98,000.
In a note, TD Economics senior economist Fotios Raptis says, "There are some nuggets of good news tucked away in the details of this report: the household survey showed a reduction in all unemployment indicators, suggesting that labor market slack continues to be absorbed; and hourly wages advanced, while average hours remained broadly unchanged, all of which should help support consumer spending in the months ahead."
Still, "this report will is unlikely to change the Federal Reserve's calculus as they consider their next moves to tighten monetary policy," he adds. "98k jobs is likely just above trend employment growth for an economy that is operating near full employment."
Earlier this week, on Thursday, the U.S. Labor Department announced U.S. jobless aid applications fell to 234,000 last week. Josh Boak of The Associated Press reported that it's "a sign [that] the job market appears to be increasingly secure for workers."
The Labor Department says weekly applications for unemployment aid plunged 25,000 to a seasonally adjusted 234,000. The four-week average, a less volatile measure, dipped to 250,000.
Further, over the past year, the number of people collecting benefits tumbled 7.2% to 2.03 million.

3. CFTA expected to boost economy, set open trade mindset

[April 7, 2017] The Canada Free Trade Agreement, a new internal-trade agreement that will remove domestic trade barriers, is expected to add billions of dollars to the economy.
Unveiled in Toronto today, CFTA takes a "negative list" approach, meaning it automatically covers all sectors except when exemptions are listed. In a release, the Canadian Federation of Independent Business says this change is welcome given the "prior agreement on Internal Trade (AIT) required provinces and territories to list all the goods and services which they allowed to be traded. Under the new trade deal, provinces will only list items they want excluded from the deal, which will set 'open trade' as the default position."

Officials have so far struggled to pin a number on the CFTA's potential economic benefits, but Ontario Economic Development Minister Brad Duguid, who was also chair of the negotiations, says the deal is expected to add $25 billion a year to the economy.

What's not in the deal is an agreement to streamline standards for alcohol across Canada. Instead a working group will report back by July 1, 2018.

The deal also lays the groundwork for talks to eventually establish a process to help provinces and territories regulate the trade of recreational pot.

Officials say the deal will put Canadian businesses on equal footing with foreign companies when competing for government procurement contracts across the country.

In its release, the CFIB says the deal is "a major step towards resolving often conflicting rules and regulations across provinces." Laura Jones, executive vice-president at CFIB, says, "CFTA delivers on many of the things we have been seeking for years. […] There is more to do to eliminate some silly, irritating rules but the deal creates an innovative framework that we haven't had before to get outstanding red tape issues resolved."

4. Fed official sees slow tightening of long-term rates

[April 6, 2017] A top U.S. Federal Reserve official says the central bank would likely move in a measured way after it decides to reduce its large bond holdings.

San Francisco Federal Reserve President John Williams said there was a case to be made for moving slowly since reducing the bond holdings would lead to higher longer-term rates even as short-term rates are also being raised.

"As we do both of these, we're going to see a tightening of financial conditions happening in two different ways," Williams told reporters at a conference in Frankfurt, Germany.

He said that was "one of the arguments to go kind of slow" but added that "my own view is that U.S. economy is in a good place" and tightening would not be excessive "as long as we go gradually."

The Fed piled up more than US$4 trillion in financial assets on its balance sheet as a result of the global financial crisis and subsequent Great Recession. Buying bonds was a way of pushing newly printed money into the financial system and the economy, a step known as quantitative easing, or QE. The purchases drove down longer-term rates in an effort to help the economy recover. Now, however, the Fed is moving to withdraw such stimulus because the recovery is well advanced and unemployment has fallen to 4.7%.

The bond holdings can be gradually reduced by letting the bonds mature over a period of years. That tightens monetary policy by withdrawing the stimulus and could lead to higher long-term rates for corporate and government borrowing and mortgages. Minutes from the Fed's latest meeting released Wednesday indicated Fed officials discussed starting that process earlier than many had expected.

Williams, a non-voting member of the open market committee who takes part in Fed discussions, said he was expressing his own views but that "toward the end of this year would be a good time to take this step" and start reducing the holdings.

He added that short-term interest rate benchmarks would be raised to more normal levels before the bond holdings are reduced to a more normal level. He didn't say what that more normal level might be.

5. IIROC's new executor rule effective Oct. 6

[April 6, 2017] IIROC (Investment Industry Regulatory Organization of Canada) has finalized rules that restrict investment firm employees' ability to act as a power of attorney, trustee or executor for clients.

Employees of IIROC-regulated firms will not be able to act as a power of attorney, trustee or executor for clients "unless they are related to the client and, for certain registrants, have the firm's approval," says a release from the the self-regulatory body for investment dealers.

Firms have six months to unwind any existing arrangements. IIROC says the new rule will come into force October 6, 2017.

IIROC says some existing arrangements may be complex and challenging to unwind, and it "will assist firms in these situations on a case-by-case basis."

After consulting on the issue, IIROC previously withdrew initially proposed amendments published in April 2014.

6. GTA home prices jump 33% in a year

[April 5, 2017] Toronto home prices continued their unabated climb last month, the city's real estate board said Wednesday in what could serve as a prelude to the critical spring homebuying season in the country's hottest housing market.

The average selling price for all properties in the Greater Toronto Area jumped from $688,011 to $916,567 over the last year — a rise of 33.2%, the Toronto Real Estate Board (TREB) said.

Demand for housing continues to exceed supply, one of the underlying causes of the soaring price increases, TREB said.

What to do

Politicians, particularly in Ontario, have been under growing pressure to rein in Toronto housing prices that have far outpaced fundamentals such as wage growth. Ontario Finance Minister Charles Sousa has indicated there will be measures in the upcoming budget to address the housing market.

And the federal budget committed to gathering data on all residential property in Canada, including foreign homebuyer activity.

Realtors have told the government not to introduce policies they say would knock the industry off-kilter, such as a tax on foreign buyers, as worries grow that Toronto is on the cusp of a housing price crash like the one it experienced nearly 30 years ago.

In a report on rent control, Benjamin Tal, deputy chief economist at CIBC World Markets, says, “You can’t tax your way to real and sustainable change.” He says more rental units are needed, but not rent control, which results in less incentive for developers to build rental properties and exacerbates price increases. He gives examples of rent control gone bad in New York City and Stockholm.

In a statement, TREB president Larry Cerqua says, “It has been encouraging to see that policy-makers have not implemented any knee-jerk policies regarding the GTA housing market.”

“Policy-makers must remember that it is the interplay between the demand for and supply of listings that influences price growth.”

More sales mean more demand

The number of properties listed on the market was up by 15.2% from the same time last year, but the number of sales rose by 17.7%.

Jason Mercer, TREB’s director of market analysis, said that trend will have to reverse itself in order for the city’s housing market to stabilize.

“A substantial period of months in which listings growth is greater than sales growth will be required to bring the GTA housing market back into balance,” Mercer said.

The average price of detached houses in the Greater Toronto Area was $1.21 million in March, up 33.4% from last year. For the city of Toronto, the average price of detached properties hit $1.56 million, an increase of 32.8% from March 2016.

The MLS home price composite benchmark price for all communities measured by TREB was $772,500, up 28.6% from a year ago.

7. Canada’s trade surplus disappears while U.S. deficit shrinks

[April 4, 2017] Canada posted a trade deficit for February, defying the expectations of economists who had predicted a surplus.

Statistics Canada says the country ran a $972 million trade deficit for the month as exports fell and imports edged higher. Economists had expected a surplus of $500 million, according to Thomson Reuters.

Exports in February declined 2.4% to $45.3 billion after reaching a record high in January, while imports gained 0.6% to $46.3 billion over the same period.

While Canada's trade surplus with the United States increased to $4.5 billion in February, from $4.4 billion in January, the country's trade deficit with countries other than the U.S. increased to $5.4 billion for February, compared with $4 billion in January.

In a research note, TD Economics senior economist James Marple says, "The weakness in exports was broad-based, with eight of eleven segments declining. The rise in imports was less broad, mainly focused in motor vehicles and parts, agriculture and special transactions trade."

He adds, "The decline was mostly a volume story. In inflation-adjusted terms, real exports fell 2.5%, while imports rose 0.3%."

Marple also suggests "potential changes to NAFTA continue to make headlines and will be a point of concern for Canadian policymakers. Still, given the depth of the two-way trading relationship between the two countries and encouraging comments from the U.S Commerce Secretary, we do not expect to see major changes to the agreement between the two countries."

In a report, CIBC's Nick Exarhos says, "And just like that, we're back to a deficit in Canadian trade. […] That's a deterioration from a downwardly revised January, and with a volume decline of 2.5%, we do indeed seem poised for some slippage in output after a remarkably strong January for Canadian GDP."

In a week ahead release, posted prior to these results, Scotiabank says one month of trade data won't influence the BoC. The bank says, "Exports have done nothing over the past year and, so, one print on its own won't change anything at the BoC. […] The BoC has long hoped for a rotation of the sources of growth away from the household sector and toward investments and exports," but a "policy shift" won't happen until "a protracted period of improvement has been registered with confidence it will stick."

Even if there had been a surplus, this suggests there would still be a long way to go before BoC makes a move.

Meanwhile, in the U.S.

The deficit shrank to US$43.6 billion in February, 9.6% smaller than January's deficit of US$48.2 billion, the Commerce Department reported Tuesday.

Exports rose a tiny 0.2% to US$192.9 billion while imports dropped 1.8% to US$236.4 billion, as the flow of Chinese goods tumbled by US$8.6 billion, led by a big drop in cellphone imports.

The politically sensitive trade deficit with China narrowed to US$23 billion, 26.6% below the January total. President Donald Trump, who was sharply critical of Chinese trade practices during last year's presidential campaign, will hold his first meeting with Chinese President Xi Jinping later this week in Florida.

In a tweet last week, Trump said that his meeting at Mar-a-Lago with the Chinese leader would be "a very difficult one in that we can no longer have massive trade deficits and job losses."

During the campaign, Trump attacked China for pursuing unfair trade practices such as manipulating its currency. He said that if China did not reform, his administration would impose punitive tariffs on Chinese imports.

So far, Trump has not followed through on those threats. But his meetings with Xi on Thursday and Friday could prove pivotal in determining the administration's future course in relations with China.

Trump often targeted China and Mexico for attacks on the campaign trail, blaming both nations for the loss of millions of good-paying U.S. factory jobs.

Trump has said he will renegotiate the North American Free Trade Agreement with Mexico and Canada, which Trump called a "disaster" during the campaign.

However, a draft letter that would begin the renegotiation process, which leaked last week, indicated that at least initially, Trump was taking a less combative approach in the renegotiations.

The small rise in exports in February was led by U.S.-made autos and autos parts, which climbed 1.5% to the highest level since July 2014. Exports of petroleum products were up 8.6%. Those gains helped offset declines in exports of commercial airplanes, farm products and industrial engines.

American manufacturers have struggled for more than a year with economic weakness in major export markets and a rising value of the dollar, which makes U.S. goods less competitive on foreign markets. However, economists believe both of those trends may ease in 2017, helping to lift the fortunes of American exporters.

The trade deficit is the difference between exports and imports. A larger deficit reduces overall economic growth because it means the country is

buying more products from foreign producers rather than domestic companies. Last year's deficit was US$500.6 billion.
The deficit with Mexico shot up 46% in February to US$5.8 billion while the deficit with Canada, the other partner in NAFTA, dropped 38.1% to US$2.1 billion.
The deficit with the European Union declined 18.6% to US$9.4 billion, led by a 9.2% drop in the deficit with Germany.

8. BoC survey shows modest investment pickup

[April 3, 2017] The Bank of Canada says it's detecting early signs of a "modest" pickup in corporate investment over the near term, even amid considerable uncertainty surrounding the U.S. economic agenda.
The central bank says the signals of a recovery in business investment are starting to emerge after a two-year period of weakness triggered by the oil-price shock.
The bank is releasing the findings along with poll results that suggest Canadian firms, on balance, are more optimistic about the future than they were in January for areas such as sales growth.
The poll finds 52% of firms expect an acceleration in sales in the next 12 months versus the prior 12-month period, while 31% see a slowdown.
"That's not as good as the last survey," says Avery Shenfeld, director and chief economist at CIBC Capital Markets, in a note on the survey. "But more [firms] are now expecting to put their money into investment spending on machinery and equipment, with 46% seeing an increase (and only 11% seeing less [capital expenditures]) — the best score since the exit from the recession."
This uptick in spending is downplayed by the Bank in the survey, he says.
The survey also shows firms aren't yet seeing capacity pressure, but "that result is heavily tilted toward slack in the Prairies (i.e., the oil-producing region)," says Shenfeld.
The central bank's latest business outlook survey also suggests when it comes to exports many companies have concerns about the impacts of potential Trump policy changes, including increased protectionism and plans to slash U.S. corporate taxes.
On the other hand, the poll finds that some of the firms surveyed between mid-February and early March saw benefits from the U.S. — with the approval of the Keystone XL pipeline and the overall strengthening of the American economy.
The survey also suggests that companies expect their costs to rise over the next year due to higher anticipated commodity prices, new carbon-pricing

regimes in Ontario and Alberta, and the fact that past exchange-rate depreciation has been largely built into prices.

The poll results are being released following encouraging data run in recent months for growth, trade and the job market.

Overall, Shenfeld calls the survey results "decent," though he says the Bank's commentary remains dovish, which is consistent with its view that economic slack remains.

9. Economists differ on timing of potential 2018 rate hikes

[April 3, 2017] Canada's GDP expanded for the third month straight in January, with gains reported in 15 of 20 major industries.

The 0.6% uptick was the best monthly performance in at least five years, excluding last June's post-wildfire pop-back, says Brian DePratto, senior economist at TD, in an economics report.

TD is forecasting 3.4% GDP growth for the first quarter, putting Canada on track for the strongest yearly start since 2013.

Avery Shenfeld, director and chief economist at CIBC Capital Markets, cautions in a weekly economics outlook report that while consumer confidence continues to look healthy, forecasted capital spending by business looks weak. "That could reflect uncertainties on Canada's trade position given upcoming talks over NAFTA, the damage that would be inflicted by a U.S. border adjustment tax and the edge that American companies might get from lighter regulatory costs," he says.

Though TD says Canada's positive economic data will likely feed through the Bank of Canada's forecasts, the monetary policy rate isn't likely to be raised from its current 0.50% level until late next year, considering comments made by the Bank's governor last week.

"The governor pointed out that the past three years have seen several bouts of improving economic data, but none have yet proved persistent," says DePratto. For example, Canada has more economic slack than does the U.S.

"The output gap does not appear likely to close any time soon," he says, referring to how far behind the economy is relative to its potential path, or where it would be in the absence of shocks. A negative output gap tends to be associated with a lack of inflationary pressures.

"While the output gap is inherently unobservable, still-soft underlying inflation, as measured by the Bank of Canada's three core inflation measures, suggests that it remains below zero," says DePratto.

Thus, “the most likely outcome remains a Bank of Canada that holds interest rates at 0.50% well into 2018,” he says.

In an economics report on the Canadian economy, Andrew Grantham, senior economist at CIBC Capital Markets, compares the strong growth within manufacturing, wholesaling and retailing to that seen for the same period last year, which wasn’t sustained. Growth in November 2015 to January 2016 was the result of mild weather that saw some activity pulled forward from the spring. But that will be less of a factor this time around, he says. Also, sector growth is now more broad-based, while last year the auto industry played an outsized role.

Shenfeld says that if the risks, previously mentioned, to Canadian trade don’t bite too hard, Canadian economic data will be good enough “to put the dent from oil’s drop in the rear-view mirror.” He notes that the Bank of Canada cut rates 50 bps in response to crude’s 2014-15 decline. “The calendar for reversing those cuts will be moving up into early 2018 if the trade issue goes well, if not sooner,” he says.

Have a nice and fruitful week!