Weekly Updates Issue # 613

1. Weekly Markets Changes
2. Why Canada's unemployment rate fell to 6.5% in April
3. U.S. unemployment rate dips to lowest level in a decade
4. Buffett cuts stake in IBM, sending stock down
5. Fed leaves rates unchanged but signals further hikes ahead
6. Puerto Rico restructures debt, faces frustrated bondholders
7. Free-trade pact with EU to create only 'modest' gains: PBO
8. GOP to target Dodd-Frank with new legislation
9. Loonie to hit trough in Q3: forecast

1. Weekly Markets Changes

[May 5, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,582.04 -4.09 -0.03%	2,399.29 +15.09 +0.63%	21,006.94 +66.43 +0.32%	6,100.76 +53.15 +0.88%	$0.7325 +0.04¢ +0.05%	$1,228.40 -41.10 -3.24%	$46.47 -2.72 -5.53%

2. Why Canada's unemployment rate fell to 6.5% in April

[May 5, 2017] The unemployment rate fell last month to its lowest level since the start of the 2008-2009 recession.

The downside is wage growth stalled to its weakest in more than two decades, Statistics Canada said Friday. Hourly wages expanded by 0.7% in April, the slowest year-over-year growth since the federal agency started collecting that data in January 1997.

The country's unemployment rate fell to 6.5% last month–0.6 percentage points lower compared to a year earlier–as fewer youth searched for work. This drop in youth participation helped push the jobless rate down by 0.2 percentage points in April even though overall employment was almost unchanged.

Some analysts said the data will likely continue to give the Bank of Canada some cause for concern on the state of the economy. "The fly in the ointment continues to be weak wage growth," said RBC senior economist Nathan Janzen in a note to clients.

Michael Dolega, a senior economist with TD Economics, said the figures were evidence that the "job machine" as of late has cooled.

"Despite the decline in unemployment, this report is unlikely to encourage the [Bank of Canada] to change its dovish tone on the outlook for the economy and Canadian monetary policy," Dolega said in a research note. "In particular, the soft wage data will underscore the likely cool-off in consumption over the medium-term."

There were job gains of 3,200 last month, though Statistics Canada considers that statistically insignificant.

A consensus of economists had expected the unemployment rate to stay at 6.7%, according to Thomson Reuters.

A closer look at the data showed a loss of 50,500 positions in the more-desirable private-sector category, while the public sector added 35,200 jobs.

There were also 31,200 fewer full-time jobs last month, while the number of part-time positions grew by 34,300.

Compared to a year earlier, the data showed that Canada added 275,700 jobs, 189,600 of which were full-time positions.

The youth unemployment rate slipped 1.1 percentage points to 11.7% last month with help from a 0.5-percentage-point drop in the youth participation rate.

Provincial breakdown

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

- Newfoundland and Labrador 14% (14.9%)
- Prince Edward Island 10.3% (10.1%)
- Nova Scotia 8.3% (8.6%)
- New Brunswick 8.7% (8.4%)
- Quebec 6.6% (6.4%)
- Ontario 5.8% (6.4%)
- Manitoba 5.4% (5.5%)
- Saskatchewan 6.2% (6%)
- Alberta 7.9% (8.4%)
- British Columbia 5.5% (5.4%)

3. U.S. unemployment rate dips to lowest level in a decade

[May 5, 2017] Hiring in the United States rebounded in April as employers added a brisk 211,000 jobs, a reassuring sign that the economy's slump in the first three months of the year will likely prove temporary.

The unemployment rate dipped to 4.4%–its lowest point in a decade–from 4.5% in March, the Labor Department said Friday.

The figures suggest that businesses expect consumer demand to rebound after a lacklustre first quarter, when Americans increased spending at the slowest pace in seven years, and will need more employees.

So far this year, employers have added an average of 185,000 jobs a month, matching last year's solid pace. It shows that so far the job market under President Donald Trump closely resembles the one Barack Obama presided over in 2016.

Average paychecques did grow more slowly in April, increasing 2.5% over the past 12 months, below March's year-over-year gain. It means companies may not yet feel much pressure to raise pay to find or keep the workers they need. Typically, employers feel compelled to pay more as the number of unemployed dwindles. In a strong economy, hourly pay gains tend to average around 3.5%.

"The U.S. job market is in solid shape," said Gus Faucher, chief economist at PNC Financial Services. Monthly job gains at the current pace should eventually help push up wages, Faucher added.

In an encouraging trend, the number of part-time workers who would prefer full-time jobs fell in April to the lowest level in nine years. This is a sign that many employers are meeting rising demand by shifting more part-timers to full-time work–even if they aren't raising hourly pay significantly.

In fact, hiring was strongest last month in lower-paying industries. One such category that includes hotels, restaurants, casinos and amusement parks added 55,000 jobs, the most of any major sector.

Health care, which includes some higher-paying jobs in nursing as well as lower-paid home health care aides, added 37,000 jobs in April. Banking and other financial services added 19,000.

Construction added just 5,000 jobs, after much larger gains earlier this year. Factories hired 6,000, the fewest for that category in five months.

The report adds to evidence that economic growth is rebounding in the current April-June quarter, with some economists forecasting that it could top a 3% annual rate, compared with the first quarter's 0.7% rate.

Last quarter, consumers spent less in part because of low utility bills during an unseasonably warm winter. That's likely to prove a temporary restraint.

And the housing market is reaching new heights as home sales and construction march upward even though a limited number of properties are for sale. Sales of existing homes jumped in March to their highest level in more than a decade.

The retail industry's woes continued last month, with stores adding just 6,000 jobs. That's below their long-run average and comes after retailers slashed a combined 55,000 jobs in February and March.

Traditional chains like Sears and Macy's have been shedding jobs in the face of ferocious competition from Amazon.com and other e-commerce companies. Many traditional retailers are rapidly building up their own online storefronts and expanding their warehousing and logistics divisions. But those functions are less labour-intensive and are unlikely to fully offset the job losses at physical stores.

Factories have mostly recovered over the past six months from nearly two years of struggle. Plummeting oil prices had caused drilling firms to slash orders for steel pipe, machinery and other equipment. And weak growth overseas, plus a strong dollar, depressed exports. But oil and gas prices stabilized last fall. Growth is picking up in Europe and Japan and has stabilized in China. All that has helped lift factory output.

4. Buffett cuts stake in IBM, sending stock down

[May 5, 2017] Warren Buffett says he's sold about a third of the 81 million shares his company holds in IBM, sending the stock down sharply in early trading.

Buffett bought into IBM about six years ago, when its stock was approaching an all-time high. In March 2013, IBM's stock rose to about US$212. It has declined since then.

Buffet said Friday, "I don't value IBM the same way that I did six years ago when I started buying."

According to Forbes.com, IBM faces tough competition from both large and small tech players–both Buffett and Moody's have touched on this point, Forbes adds.

Two days ago, Moody's downgraded IBM's senior unsecured rating. However, the rating agency also "raised its outlook on IBM's debt from negative to stable," says Forbes.com, which notes IBM has argued it's an investment-grade company.

At close on May 4, IBM's common stock was sitting at US$159.05. As of 3:26pm ET on May 5, the stock had dropped to around US$154.87–about where the stock was sitting in early November 2016.

Berkshire Hathaway could still buy IBM shares, says Buffett, who noted the company kicks off its 2017 annual general meeting on May 6.

5. Fed leaves rates unchanged but signals further hikes ahead

[May 3, 2017] The Federal Reserve is leaving interest rates unchanged, while signalling that it expects a resilient U.S. economy and solid job market to justify further rate hikes later this year. The Federal Open Market Committee voted unanimously to maintain the target range for the federal funds rate at 0.75% to 1%.

The Fed's pause comes after it modestly raised its benchmark short-term rate in December and March. Most economists expect it to do so again when it next meets in mid-June.
The statement the Fed issued after its latest policy meeting notes that the economy slowed during the January–March quarter but says it expects that slowdown to be "transitory."
But there was no indication of the timing or number of additional rate hikes to be expected in the remaining seven months of the year, says Lindsey M. Piegza, chief economist at Stifel Fixed Income in Chicago, in a note.
"Of course, no specific mention of June could be interpreted as a lack of commitment among policy-makers to another round hike any time soon," says Piegza. "Against the backdrop of a weaker-than-expected first quarter, the Fed's conviction for a modestly accelerated pace may be under pressure as of late."
Nearly eight years after the Great Recession ended, unemployment is at a low 4.5%. Key sectors of the economy appear sturdy. But consumer spending and factory output have slowed, and inflation remains below the Fed's target rate.

6. Puerto Rico restructures debt, faces frustrated bondholders

[May 3, 2017] Puerto Rico's governor on Wednesday announced an historic restructuring of a portion of the U.S. territory's US$70-billion debt through courts, after negotiations with bondholders failed. The announcement marks the biggest bankruptcy-type process ever for the U.S. municipal bond market.
Gov. Ricardo Rossello said that a federal control board overseeing the island's finances agreed with his request late Tuesday to put certain debts before a court.
"We're going to protect our people," he said hours after the U.S. territory was hit with multiple lawsuits from creditors seeking to recuperate the millions of dollars they invested in bonds issued by Puerto Rico's government, which has declared several defaults amid a 10-year recession.
Rossello said one of the lawsuits sought to claim all revenues generated by the island's Treasury Department for bondholders.
"I'm not going to allow that to happen," he said.
A federal district court judge will now be in charge of determining how Puerto Rico's debt will be restructured. Bondholders cannot challenge Rossello's decision until 120 days from now. Meanwhile, the process to restructure the debt in court will continue, said Elias Sanchez, the governor's representative to the board.

He noted that unlike a regular bankruptcy on the U.S. mainland, a judge cannot unilaterally seize any of Puerto Rico's assets without prior authorization from the federal control board.

It is too early to say what kind of impact a debt restructuring in court will have on the island of 3.4 million people, economist Jose Joaquin Villamil told The Associated Press.

"(It) presents a very big risk for both parties," he said, referring to the government and to bondholders. "We don't know what a federal district court judge is going to decide."

However, he warned that the process will further spook the type of investors that Puerto Rico's economy needs as it prepares to implement several austerity measures.

7. Free-trade pact with EU to create only 'modest' gains: PBO

[May 2, 2017] The parliamentary budget office says, in a new report, that Canada's free-trade pact with Europe will produce only "modest" economic gains.

The PBO estimates the trade deal would have lifted Canada's overall economic output in 2015 by 0.4% or $7.9 billion, if it had been implemented.

Its breakdown shows that, under that scenario, Canadian exports of goods to the EU would have increased $4 billion, while services would have been up $2.2 billion and investment would have grown by $3.1 billion.

This number falls short of previous estimates included in a joint Canada-EU study, which supported the launch of negotiations. That study concluded a trade agreement "could boost Canada's income by $12 billion annually and bilateral trade by 20%."

The PBO predicts some Canadian sectors will likely see slower growth under the agreement: some dairy and agricultural products will be affected, as well as textiles and some machinery and manufactured goods. On the other hand, sectors including transport and motor vehicles, and some metals and wheat, will likely show faster growth.

The report points out that strengthening business ties with the EU will make Canadians a little less dependent on their existing trade partners. It predicts Canada's annual exports to the U.S. could decline by 0.4% or $1.4 billion, while exports to the rest of the world may fall by 0.7% or about $384 million.

8. GOP to target Dodd-Frank with new legislation

[May 2, 2017] In the U.S., the House Financial Services Committee that's led by Texas Rep. Jeb Hensarling is slated to begin work Tuesday on legislation to largely undo the Dodd-Frank law. The law was passed and Democratic President Barack Obama signed off on it after the financial meltdown in 2008. The GOP argues that the law hurts the economy by making it harder for consumers to get credit to buy a new house or a car, and that it makes it hard for entrepreneurs to start or expand a small business. Hensarling has complained that banks are offering fewer credit cards and free checking accounts, while community banks report that compliance with Dodd-Frank's regulatory burdens make it harder to provide more mortgages.

Democratic Party member Sen. Elizabeth Warren, D-Mass., has told the House Financial Services Committee that, in fact, banks of all sizes are posting record profits and access to consumer credit and small business lending is at historically high levels.

She says the move to undo Dodd-Frank "doesn't solve a single real problem with the economy or with our financial system, but it does make some big-time lobbyists happy."

The details

Hensarling's bill would repeal about 40 provisions of Dodd-Frank, targeting the heart of the law's restrictions on banks by offering a trade-off. The goal is for banks to qualify for most of the regulatory relief in the bill so long as they meet a strict basic requirement for building capital to cover unexpected big losses.

Hensarling says the capital requirements will work as an insurance policy against a financial institution going out of business.

Republicans are likely to pass the measure in the House, but face significant obstacles in the Senate where leaders have emphasized their desire to find areas of agreement to enhance economic growth.

Hensarling also goes after the consumer protection agency that Congress established after the financial crisis, called the Consumer Financial Protection Bureau, by reducing its powers and making it easier for the president to remove its director.

Hensarling disputed Democratic Rep. Maxine Waters' assessment that the bill is "dead-on-arrival."

He says, "I do not consider this to be an exercise in futility," he told reporters. "I think it is important to move this bill forward, and I think at the end of the day, […] we will see major portions of the Choice Act enacted into law."

9. Loonie to hit trough in Q3: forecast

[May 1, 2017] The loonie can't seem to catch a break, sinking for a third consecutive month in April. The Canadian dollar currently stands at about $1.36 against the greenback.

Despite strong economic data and a rising GDP, other forces are colluding against the dollar, including recent U.S. import duties on Canadian lumber, the potential for further U.S. protectionist policies, a dovish central bank and soft oil prices.

And the situation could worsen.

For instance, foreign direct investment likely won't improve if U.S. corporations benefit from tax cuts and if Canada-U.S. trade continues to deteriorate, says a report on foreign exchange by National Bank.

Net foreign purchases of Canadian bonds remain strong, however, at $7 billion in February, in line with the monthly average of the last two years.

"But there's no denying the Canadian dollar remains vulnerable to a negative turn in foreign investor sentiment," say report authors Krishen Rangasamy and Stéfane Marion, senior economist and chief economist, respectively, at National Bank.

But not all is bleak for the Canadian dollar. "We expect a more hawkish tone from the Bank of Canada later in the year in response to a second half rebound [in growth] and the need to cool a hot housing market," say Rangasamy and Marion.

They expect core inflation to rise in the second half of 2017, forcing the Bank to ditch its dovish tone. And they see the loonie hitting a trough in Q3, instead of Q2 as they previously forecasted.

U.S. dollar

Meanwhile, the U.S. dollar depreciated for the fourth straight month, largely due to the stronger euro (EURUSD is €1.09), which has been boosted by improving economics data and French first-round election results.

"We still expect the world's reserve currency to bounce back courtesy of a more hawkish Fed," say Rangasamy and Marion, "which is poised to add to last March's rake hike, more so considering upcoming fiscal stimulus from the Trump administration."

However, as global growth improves, other central banks may follow the Fed and start removing accommodation, so a recovery for the U.S. dollar could be shortlived. "We now expect the trade-weighted USD to peak in Q3, instead of the last quarter of the year," say Rangasamy and Marion.

Protectionism remains a concern, however, and U.S. trade policy could cause the U.S. dollar to appreciate sharply if it improves U.S. trade balance and spooks global investors.

Have a nice and fruitful week!

To Unsubscribe Click [Here](#)