Weekly Updates Issue # 615

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1. Weekly Markets Changes

[May 19, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,458.46 -79.42 -0.51%	2,381.73 -9.17 -0.38%	20,804.84 -91.77 -0.44%	6,083.70 -37.53 -0.61%	$0.7399 +1.07¢ +1.47%	$1,255.70 +27.90 +2.27%	$50.53 +2.71 +5.67%

2. CPI at 1.6% for second month amid higher energy prices, lower food costs

[May 19, 2017] The country's annual inflation rate once again rang in at 1.6% last month as higher energy costs offset a seventh consecutive decline in grocery prices, Statistics Canada said Friday.

The agency's consumer price index for April identified higher prices for gasoline and natural gas as the biggest upward drivers in year-over-year inflation.

On the other hand, fresh produce and clothing applied the most downward pressure on the inflation rate.

The annual inflation rate matched Statistics Canada's reading for March but was below a consensus estimate of 1.7%, according to Thomson Reuters data.

Prices at the pump were 15.9% higher last month and the cost of natural gas rose 15.2% more, Statistics Canada said.

Overall food prices were down 1.1% as prices for fresh fruits fell 6.2%, fresh vegetables slipped 5.9% and meat dropped 2.1%.

In addition, the cost of kids' clothing was 6.2% lower and women's clothes cost 2.8% less in April, compared with a year earlier.

Statistics Canada said the inflation rate was higher in three provinces, including Saskatchewan, which easily saw the biggest acceleration after it raised its provincial sales tax in late March.

Saskatchewan’s annual inflation rate sped up to 1.4% last month after rising just 0.6% in March.

Prices rose at a slower pace year-over-year in five provinces, while they were unchanged in two provinces.

Two of the agency’s three measures of core or underlying inflation slowed last month, while the third was unchanged. The indicators are designed to strip away more volatile components of the report, and are closely scrutinized by the Bank of Canada.

CPI-common stayed at 1.3% last month, CPI-median decelerated to 1.6 from 1.7 and CPI-trim slowed to 1.3 from 1.4.

The agency also released its latest retail trade numbers, which showed total sales in March delivered a larger than expected rebound by rising 0.7%. The data followed a month-over-month February contraction of 0.4%.

Total retail trade in March was nearly $48.3 billion thanks to stronger sales at motor vehicle and parts dealers, which was mostly due to an increase in new car purchases, the report said.

Economists had predicted a 0.4% increase in retail trade for March, according to Thomson Reuters.

3. GWL to acquire Financial Horizons Group

[May 19, 2017] Financial Horizons Group, an Ontario-based independent managing general agent (MGA), will soon be owned by Great-West Life.

Financial Horizons Group’s majority shareholder, Genstar Capital, has entered into an agreement for the MGA to be acquired by The Great-West Life Assurance Company, a subsidiary of Great-West Lifeco Inc.

The MGA’s customers are nationwide, with a network of 6,600 active advisors. The organization has 30 branch offices across Canada as well as head offices in Ontario and Quebec. Financial Horizons also owns an MFDA dealer, with $1.2 billion in assets under administration, primarily Quebec-based.

Over the past six years, Financial Horizons had acquired 30 other MGA businesses, and achieved 300% growth. A recent report for Investor Economics ranked Financial Horizons Group as the country’s top MGA by annualized premium equivalent.

President and CEO John H. Hamilton will continue in his current capacity. In release, he notes the MGA will “continue to operate as a stand-alone business in the Great-West Lifeco group of companies. All existing management team members will remain with the company and will continue to execute the growth strategy developed over the past several years.”

Evercore and BMO Capital Markets acted as co-advisors to Financial Horizons Group in the transaction. Genstar Capital is a San Francisco-based private equity firm.

4. Borrowing for retirees is on the rise

[May 18, 2017] At 66, Wayne Hystad is signing on for a new mortgage in a move to consolidate his debt and allow him to keep his Edmonton condominium.

“It means I keep my place and I’ll just have a higher mortgage, which I can handle,” he says. “I can live now.”

But he has a message for other retirees thinking about borrowing money: If you can’t pay for it, don’t buy it.

Hystad, who sank into depression after he separated from his wife in 2009 and she died in 2011, said his mortgage was paid, but he got into trouble with a line of credit and credit cards, racking up thousands in debt.

“Through my depression I did the stupid spending,” he said. “It was my fault. There’s no excuses.”

However, Hystad isn’t alone among seniors who are borrowing more.

According to a report by Equifax, debt excluding mortgages held by those over 65 averaged $15,244 in Q4 last year.

That was below the Canadian average of $22,113 — but those over 65 posted the highest percentage growth compared with Q4 2015 at 6.1%.

Scott Hannah, president of the Credit Counselling Society, says the number of people aged 55 or older seeking help at his organization has grown to 21% of the society’s client base compared with 5% 20 years ago.

“That’s significant and worrisome because unlike people who are working like you and me, many of these people are on fixed incomes,” he says.

Hannah says if a senior is thinking about borrowing they need to ask themselves why are they borrowing — is it for a need or is it for a want?

“We see things like people taking on debt because they need a new roof and I can appreciate that because, if the roof is shot, you’ve got to fix the roof.”

But, he adds, it’s important to consider alternative solutions, depending on your situation.

“Does it make sense to stay, for example, in a home that you can’t afford?” he says.

Larry Moser, a divisional manager at BMO InvestorLine, says it’s important for retirees thinking about borrowing money to understand how they are going to pay it back or if they are going to let their estate repay the money after they die.

He says for retirees looking to borrow, the most obvious way if they own their home is to access that equity.
“A lot of retirees are house rich and cash poor and perhaps that’s the most easily accessible option,” says Moser, adding that if a retiree is looking to borrow money, they should have an exact amount in mind.
“The danger of putting a line of credit against your house is if your intention is to only borrow $200,000, but you put a $500,000 line of credit against your house, you have to have the discipline to tell yourself my intention was to only borrow $200,000.”
Moser notes that in most cases of retirees looking to borrow money, it isn’t because they want to, but rather it’s something they need to do.
As for Hystad, he says he’s back on track and looking forward to saving a little so he can travel.
“And pay cash for something I want.”

5. U.S. household debt tops 2008 peak, but don’t worry, yet

[May 18, 2017] U.S. household debt reached a record high in the first three months of this year, topping the previous peak reached in 2008, when the financial crisis plunged the economy into a deep recession.
That’s because Americans have stepped up borrowing over the past three years. Still, consider that the nature of what Americans owe has changed since the Great Recession: student and auto loans make up a larger proportion of household debt, while mortgages–the epicentre of the financial crisis–and credit card debt remain below pre-recession levels.
Those changes suggest households are still cautious about taking on debt to fuel day-to-day consumption.
The Federal Reserve Bank of New York said Wednesday that household debt, which also includes home equity lines of credit, stood at $12.73 trillion in the first quarter. That’s above the $12.68 trillion outstanding in the fall of 2008, the previous record. The figure isn’t adjusted for inflation or population size.
Even with debt levels back to record heights, analysts note that household borrowing appears more sustainable now than it did nearly a decade ago. Interest rates are lower, and lenders are much more focused on credit-worthy borrowers.
“This record debt level is neither a reason to celebrate nor a cause for alarm,” Donghoon Lee, research officer at the New York Fed said. “The debt and its borrowers look quite different today.”

Measured as a percentage of the overall U.S. economy, household debt is still smaller than in 2008. It is equivalent to 67% of the economy now, compared with 85% nine years ago.

Americans also appear to be better able to handle the loans they've taken out. The percentage of all household debt that is seriously delinquent–meaning payments are 90 days or more overdue–is 3.4%. That's down from the post-recession peak of 8.7% in early 2010.

Just 203,000 Americans declared bankruptcy in the first three months of this year, the lowest in the 18 years that the New York Fed has tracked the data.

Still, there were some areas of concern. Auto loans have ballooned 44% to $1.17 trillion since the last peak in household debt nine years ago. And a greater percentage of those loans have fallen 90 days or more overdue: 3.8% now, up from 3.3% two years ago. Still, that's down from a recent peak of 5.3% in late 2010.

Student loans are also a potential trouble spot: They topped $1.3 trillion in the first quarter, soaring by 120% since 2008. Nearly 11% of that debt is 90 days overdue or more. The Fed estimates that the true figure could be double that amount, because many borrowers are able to defer loan payments while they continue their studies or if they are unemployed.

Danny Shepelow and his girlfriend reflect the new credit profile of many Americans, particularly younger ones. They are both in their early 30s.

The couple rents an apartment in Atlanta and pays off their credit cards every month. They have thought about buying a home but are holding off, despite earning a combined income of about $130,000.

They are also carrying more than $175,000 in student loan debt between them, requiring $1,100 in monthly payments.

Shepelow, who works in digital marketing, says he is skeptical about the value of a home as an investment. The home he grew up in fell sharply in value during the 2008-2009 financial crisis.

"I saw my parents sitting on a house they couldn't sell, and when they did, getting three-fourths what it was worth a year earlier," he said.

Overall, more debt is now held by older and more credit-worthy Americans, which should make defaults less likely. Older households generally have higher incomes and wealth than younger ones.

Americans aged 60 and older hold 22.5% of all loans, up from 16% in 2008, the New York Fed said in a separate presentation in April.

The shift has been particularly dramatic in the case of mortgages, which have become much harder to obtain for Americans with lower credit scores. Loans to "subprime" borrowers, or those with lower credit scores, fueled much of the housing bubble.

Nearly 61% of new mortgages in the first quarter went to borrowers with credit scores of 760 or higher, according to the New York Fed's report. That's up from just 36% in 2008. Only about a third of Americans have a score that high.

Homeownership rates have fallen from a peak of 69% in 2005, during the housing bubble, to 63.6% now. That's kept total mortgage debt below pre-recession levels: There was $8.6 trillion outstanding in the first quarter compared with $9.3 trillion in 2008. Credit card balances are also lower than nine years ago, the Fed said.

6. Will Trudeau succeed in attracting multinational tech investors?

[May 17, 2017] Prime Minister Justin Trudeau is expected to pitch major multinational companies on investing in Canada's technology sector on Wednesday, joining top business leaders inside the closed-door Microsoft CEO Summit in Redmond, Wash.

Trudeau's visit comes as U.S. President Donald Trump's administration poses both challenges and opportunities for Canada's high-tech industry; Trump's America First rhetoric and his plans to slash corporate taxes could mean more investment flows south of the border, but his restrictive approach to immigration could draw talent north, experts say.

Trudeau is the first sitting head of government or state to be invited to address the annual gathering of CEOs, his office said.

"The prime minister's participation in the summit is an important opportunity to encourage innovation, promote investment in the technology sector, and draw global talent to Canada," said press secretary Andree-Lyne Halle in a statement.

"The PM will showcase Canada's skilled, hard-working, creative, and diverse workforce. It is an ideal venue to remind decision makers and investors that Canada is recognized as a world leader in research and development in many areas like artificial intelligence, quantum computing, and 3D programming."

The summit–under the theme "The CEO Agenda: Navigating Change"–will bring together more than 150 executives to Redmond, just outside of Seattle.

Trudeau will meet with investors to discuss what Canada has to offer and hear their perspectives, ideas and advice, Halle said.

The event is closed to media and Microsoft declined to make a representative available for an interview. Trudeau has no media availability other than a photo opportunity prior to a meeting with Washington Gov. Jay Inslee on Thursday.

Werner Antweiler, an associate professor at the University of British Columbia's Sauder School of Business, said the prime minister's main goal at the summit should be to "put Canada on the map."

Trudeau needs to promote Canada's standard of living and ease of immigration, qualities that make the country an attractive place for global talent as well as investment, Antweiler said.

Paul Preston, director of science, technology and innovation policy at the Conference Board of Canada, said in order to attract more global investment, Canada must give incentives to its businesses to spend more on research and development.

"Compared to other developed nations, we spend a lot less," he said. "The more we can continue to attract investment from other places around the world and encourage our businesses to spend on R&D, then we'll start to push the envelope and create more globally competitive ideas and companies."

The summit is an opportunity for Canadian companies to become part of supply chains for the firms involved in the meeting, said John Reid, CEO of the Canadian Advanced Technology Alliance, an industry group.

"Once you sell to a large company, it opens up the doors to other marketplaces," he said.

Namir Anani, CEO of the Information and Communications Technology Council, said attracting international companies to Canada not only creates jobs but creates the ecosystem for future entrepreneurs to connect with local markets.

For example, General Motors added 1,000 jobs in Oshawa to create autonomous cars, allowing an entrepreneur developing an innovative battery system the opportunity to pitch to GM and access international markets, he said.

Benjamin Bergen, executive director of the Council of Canadian Innovators, said his industry group's focus was making sure that domestic companies can scale up and grow in Canada.

"If foreign investment dollars are flowing, let's make sure that our domestic firms are still able to hire talent here in Canada as well and be able to compete with multinationals."

7. Canadian housing in check; U.S. real estate in decline

[May 15, 2017] Worried about a housing bubble potentially affecting Canadian markets? Certainly, the loonie is already feeling associated negative effects.

For example, speculative short positions on the Canadian dollar spiked following the announcement of further regulatory investigation into Home Capital Group, says Brian DePratto, senior economist at TD, in a weekly report. In fact, loonie short positions reached an all-time high last week.

But fears of a U.S.-style housing crisis are overblown, he says, because tightening measures have improved underwriting standards.

Still, he says mounting headwinds are in store for housing. Along with the ongoing impact of cooling measures, he forecasts a gradual rise in borrowing costs and a potential reduction of credit availability from marginal lenders.

“We continue to expect a gradual, orderly deceleration of housing activity,” he says, referring to the latter half of 2017 and into 2018.

First signs of cooling

While home prices in the GTA gained 31.7% year-over-year in April, the region’s home sales transactions cooled after setting a record the previous month, according to new data from the Canadian Real Estate Association (CREA). Nationally, there was a 1.7% decrease in sales over the MLS system last month compared with March. The decline was led by a 6.7% drop in sales in the GTA.

“It’s quite clear that Ontario’s serving of policy changes had a cooling effect late in April through tempered demand and a big increase in listings (perhaps as sellers sensed a looming correction),” says Robert Kavcic, senior economist with BMO Capital Markets, in a research note.

“While that might put peak price growth behind us, the question is how much the market will cool from the unsustainable 30%-plus pace, and how long the adjustment will persist,” he says. “If Vancouver is any guide, the answers appear to be somewhat and not too long, at least while interest rates are pegged at current levels.”

Sales picked up in Greater Vancouver and the nearby Fraser Valley region, with Vancouver gaining 15.6% compared with March, and the Fraser Valley increasing 18.3%.

“Sales in Vancouver are down from record levels in the first half of last year, but the gap has started to close,” says CREA president Andrew Peck in a statement.

The effects of policy and tax changes on the housing market tend to be temporary, and it will ultimately be higher rates that keep market activity in check, says Diana Petramala, an economist at TD Bank, in an industry note

“Our forecast calls for a 120 basis point increase in the 5-year government bond yield by the end of 2018,” she says, “with most of this likely passed into higher mortgage rates.”

U.S. commercial real estate tracks lower

Meanwhile in the U.S., commercial real estate is under threat from poor performance in bricks and mortar retail sales. Though core retail sales showed decent growth of 3 to 3.5%, bricks and mortar sales tracked 2 percentage points lower, says Nick Exarhos, director at CIBC World Markets, in a weekly report. “Slim growth is a reason for shrinking square-footage for retailers,” he says, “and an obvious negative for those who have failed to build up an online presence.”

That means there’s less competition for mall space, which “will remain a headwind to pricing power amongst landlords, a trend we see continuing both north and south of the border,” he says — an early warning for those investing in REITs.

Have a nice and fruitful week!

Happy Victoria Day!