Weekly Updates Issue # 625

1. Weekly Markets Changes
2. Canada's trade deficit nearly triples as U.S. exports strengthen
3. Unemployment rate keeps falling despite slow job growth
4. Toyota and Mazda to build $1.6 billion factory in the U.S.
5. GTA home prices cool again in July
6. Benchmark price for Vancouver home cracks $1 million
7. Why central banks should lose the loose money
8. Where the loonie will land
9. Economic news from Europe and Asia

1. Weekly Markets Changes

[August 4, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,257.97 +129.3 +0.85%	2,476.83 +4.73 +0.19%	22,092.81 +262.5 +1.20%	6,351.56 -23.11 -0.36%	$0.7906 -1.35c -1.68%	$1,264.30 -11.30 -0.89%	$49.52 -0.27 -0.54%

2. Canada's trade deficit nearly triples as U.S. exports strengthen

[August 4, 2017] Canada posted a $3.6-billion trade deficit in June, widening from a $1.4-billion deficit in May. Exports fell 4.3% to $46.5 billion in June, according to a data release by Statistics Canada, which says the "sharp decrease was mainly due to lower exports of unwrought gold and energy products […]."

June's decline follows three consecutive monthly record highs, the agency adds. In May, Canada's imports and exports both reached record highs.

When it comes to imports, the story is slighter brighter. Statistics Canada says, "Imports edged up 0.3% to $50.1 billion, led by an increase in gold bullion." But, even so, sustained growth in total imports slowed in June.

Imports of metal ores and non-metallic minerals rose (by 39.1%, mostly on higher volumes), along with imports of aircraft and other transportation equipment and parts (by 11.7%). But at the same time, says Statistics Canada, "Largely offsetting these gains were lower imports of motor vehicles and parts, down 3.2% to $9.4 billion, with widespread decreases throughout the section. The overall decrease follows five consecutive monthly increases."

In the U.S.

The U.S. trade deficit narrowed in June as exports hit the highest level in two-and-a-half years.

The Commerce Department said Friday that the trade gap slid 5.9% in June to $43.6 billion.

Exports of goods and services rose 1.2% to $194.4 billion, the highest amount since December 2014 on higher foreign demand for American soybeans, computer accessories and other products. Services exports reached a record $65.4 billion.

U.S. exports may be getting a lift from a pickup in global economic growth and a drop in the value of the U.S. dollar against other currencies. A weaker dollar makes American products a better bargain in foreign markets.

Overall imports slipped 0.2% to $238 billion on a drop in demand for cellphones and other household goods.

So far this year, the trade deficit is up 10.7% to $276.6 billion.

The deficit means the United States is buying more goods and services from other countries than it is selling them. A shrinking trade gap boosts U.S. economic growth.

President Donald Trump has vowed to bring down America's trade deficits, saying they are caused by bad trade deals and abusive practices by China and other U.S. trading partners.

The deficit in goods with China rose 3.1% in June to $32.6 billion and is up 6.1% to $170.7 billion so far this year.

The goods deficit with Mexico slid 18.3% in June to $6 billion. The Trump administration is preparing to renegotiate the North American Free Trade Agreement with Mexico and Canada. Trump has complained that NAFTA encourages U.S. manufacturers to move to Mexico to take advantage of cheaper labour.

3. Unemployment rate keeps falling despite slow job growth

[August 4, 2017] The economy added nearly 11,000 jobs in July, the eighth consecutive month of growth, as the unemployment rate fell to its lowest point in nearly nine years, Statistics Canada said Friday.

The pace of job growth slowed, however, with 10,900 net new positions, down from an increase of 45,300 in June. The number of full-time jobs grew by 35,100, offset by the loss of 24,300 part-time jobs.

The unemployment rate declined by 0.2 percentage points to 6.3%, its lowest level since October 2008 as the number of people looking for work dropped.

"After a run of huge gains, nobody is going to complain about the more moderate hiring pace that Canada saw in July, and the attention instead will

focus on yet another drop in the jobless rate," Avery Shenfeld, chief economist of CIBC Capital Markets, said in a note to clients.
"The two tick drop to 6.3% in that measure was mostly a story of weaker labour force participation, although the 11K increase in employment was buttressed by a hefty 35K gain in full-time jobs."
The wholesale and retail trade sector gained 22,000 jobs, information, culture and recreation added 18,000 and manufacturing saw an increase of 14,000. Jobs in educational services dropped 32,000, mainly in Ontario and Alberta.
Regionally, employment in Ontario and Manitoba rose by 26,000 and 4,800, respectively. Alberta lost 14,000 jobs, Newfoundland and Labrador shed 5,300 positions and Prince Edward Island dropped by 1,000.
Compared with a year ago, the number of jobs increased by 388,0000, driven by an increase in 354,000 full-time positions.
The labour force numbers came as Statistics Canada also reported that the country's trade deficit rose to $3.6 billion in June from a shortfall of $1.4 billion the previous month. Exports fell 4.3% to $46.5 billion, while imports climbed 0.3% to $50.1 billion.
"The wider trade deficit might be seen as a slight negative for the (Canadian dollar), but the tight jobless rate will keep chatter alive about an October rate hike," Shenfeld added, referring to speculation that the Bank of Canada could hike its key benchmark interest rate again.
Last month, the central bank raised the rate to 0.75%, the first increase in almost seven years.

4. Toyota and Mazda to build $1.6 billion factory in the U.S.

[August 4, 2017] Toyota and Mazda have announced plans to build a $1.6 billion manufacturing plant in the United States that will create as many as 4,000 jobs.
The Japanese automakers said in a statement Friday that the facility would be operational by 2021, but did not specify where it would be built.
Mazda plans to build new crossover vehicles for the U.S. market at the plant, while Toyota will produce its Corolla model there.
The move is likely to be seen as a win for President Trump, who attacked Toyota earlier this year over its plans to build a new factory in Guanajuato, Mexico. He threatened to slap a "big border tax" on Toyota cars if the plant isn't built in the U.S.

Toyota had intended to build Corollas -- the world's best-selling car -- at the plant in Mexico. On Friday, the Japanese firm said it now plans to produce Tacoma pickup trucks at the plant in Mexico instead of the Corolla.

Trump welcomed the news, describing it on Twitter as a "great investment in American manufacturing."

All Corollas currently sold in the U.S. are made in Ontario, Canada or Mississippi. Toyota also has plants in Indiana, Kentucky and Texas. Mazda has not made cars in the U.S. since a joint partnership with Ford unraveled earlier this decade.

The prospect of a new factory in the U.S. could set off a competition among states over its location. State and local governments are likely to offer subsidies and tax incentives to land the factory, which could produce as many as 300,000 vehicles a year.

Toyota has said it plans to invest $10 billion in the U.S. over the next five years.

Toyota and the much smaller Mazda also announced a new business partnership on Friday -- the latest example of consolidation in the auto industry. Toyota will pay about $450 million for a 5% stake in Mazda as part of the deal, while Mazda will buy a stake of the same value in Toyota.

In addition to the new factory in the U.S., the automakers said they would collaborate on safety and technology for electric vehicles.

Toyota lost its title as the world's top automaker to Volkswagen in 2016 after four consecutive years of dominance. General Motors last won the title in 2011. The traditional industry kings also now face a challenge from a rival alliance anchored by Renault and Nissan.

Toyota president Akio Toyoda made the case Friday that industry consolidation is needed because automakers face increased competition from tech firms including Apple, Amazon and Google that are developing self-driving cars.

"New players from totally new business are challenging us," he said at a press conference. "That's why I feel it has become increasingly important for us automakers to gather new partners without seeing things in confrontational perspectives."

5. GTA home prices cool again in July

[August 3, 2017] Home sales transactions in the Greater Toronto Area tumbled last month as annual price gains slowed to 5%, the city’s real estate board said Thursday, further evidence that provincial measures aimed at cooling one of the hottest housing markets in North America may be working.

The number of transactions fell 40.4% in July compared to the same month last year, driven by fewer sales of detached homes in Toronto and its surrounding areas.
The average selling price of all homes in the GTA was $746,218, up 5% from a year ago.
However, the average price has declined month-over-month since April, falling nearly $175,000. In April, the Ontario government introduced more than a dozen changes — including a 15% tax on foreign buyers — in an effort to stabilize prices that were spiralling out of reach for many homebuyers.
Tim Syrianos, president of the Toronto Real Estate Board, said the decline in activity has less to do with foreign buyers and more to do with potential homebuyers waiting to see how the market plays out.
"Clearly, the year-over-year decline we experienced in July had more to do with psychology, with would-be home buyers on the sidelines waiting to see how market conditions evolve," Syrianos said in a statement.
While the number of listings were up 5.1% from a year ago, the board said housing supply remains an issue.
"Toronto's market will likely follow the Vancouver playbook: a sharp drop in sales and big upward spike in listings, with a moderate cool-down in prices followed by more subdued appreciation compared with the pre-tax mania," said BMO chief economist Douglas Porter in an analyst note.
A year ago, a similar tax was levied against foreign buyers in Vancouver, after which there was a precipitous decline in the number of homes sold.

6. Benchmark price for Vancouver home cracks $1 million

[August 2, 2017] The Real Estate Board of Greater Vancouver says the typical price of a home in Metro Vancouver has surpassed $1 million.
The board says the composite benchmark price for all residential properties in the area is currently $1,019,400, up 8.7% from July 2016.
The benchmark price for detached properties in the area is about $1.612 million; for attached properties, $763,700; and for apartments, $616,600.
While home prices jumped, there were more listings and fewer sales in Metro Vancouver last month.
The board says there were 2,960 residential property sales in the region — down 8.2% from a year ago — and 5,256 properties were newly listed for sale last month. That brought the total number of properties above 9,000 for the first time this year.

Today also marks the one-year anniversary since the province's former Liberal government imposed a 15% foreign buyers tax, aimed at cooling the hot housing market. The new NDP government has said it's reviewing whether the tax and other measures were effective.

7. Why central banks should lose the loose money

[August 2, 2017] Is it time to pull back stimulus?

That's the title of a National Bank report, written by senior economist Krishen Rangasamy, that considers whether central banks should end loose monetary policy.

Rangasamy notes that quantitative easing hasn't had the desired effect on inflation, with the annual core inflation rate averaging 1.6% in Canada and the U.S. and less than 1% in Japan and the Eurozone.

"The failure to hit their inflation targets did not engender humility among central bankers, the latter instead attributing the miss on inflation to temporary factors," he says.

The report makes the case that central banks do a poor job of measuring inflation. For example, central banks forecast the output gap — and hence inflation — using inadequate macroeconomic models that ignore structural changes like technology and automation.

(Fun fact: China ramped up spending on automation over the last few years, culminating in the purchase of a record 90,000 robots in 2016 — more than 30% of global robot shipments that year. "This ability to control costs through automation explains why, to the Fed's chagrin, prices for goods imported from China by the U.S. continue to fall on a year-on-year basis," says Rangasamy.)

Further, inflation is perhaps low because of — not despite — ultra-loose monetary policy, suggests the report. That's because pushing too much liquidity not only fuels asset price bubbles but also allows governments to shirk their responsibilities.

"That explains the lack of fiscal stimulus and a diminished sense of urgency in tackling reforms, which are arguably restraining growth and hence inflation in advanced economies," says Rangasamy. "In Europe, for example, less than 3% of the recommendations put forward by the European Commission last year — such as reforms to tackle labour market rigidities and boost competitiveness — were implemented by targeted governments."

Switching gears

With persistently low inflation and some asset prices arguably in bubble territory, Rangasamy suggests three potential ways forward:

- lower the inflation target rate to reflect structural changes from technology, making it easier to warrant rate hikes;
- keep the 2% inflation target but apply it to a new CPI measure that better captures assets like homes and securities; or
- acknowledge the problem of achieving inflation objectives and seek a second-best solution of preventing asset price bubbles.

Says the report: "But, given how invested central banks are in the current thinking on monetary policy, we seriously doubt there will be any mea culpas."

For instance, the BoC, concerned about asset price bubbles, could follow the Fed's lead by starting to remove monetary stimulus despite inexistent pressures on consumer price inflation, while continuing to express confidence that inflation will eventually return to target.

But, if his interpretation is correct, Rangasamy says a stimulus pullback is warranted, and the onus on generating growth and hence inflation should be placed on fiscal policy.

8. Where the loonie will land

[August 1, 2017] With the loonie recently soaring on the back of the BoC's rate hike, you might be wondering if another hike — expected this fall — will see the loonie reach even loftier heights.

The short answer: don't count on it.

Though the loonie's short-term prospects are good, its performance stems from factors beyond BoC actions, such as rising oil prices.

Also working in the loonie's favour is underwhelming economic data for the U.S., as well as that country's unsure political situation, says Desjardins senior economist Mathieu D'Anjou in an economics report.

"The positioning of investors in favour of the loonie may have peaked," he says. "It is especially difficult to justify the fact that the spread in 2-year yields between Canada and the United States is now practically zero. This assumes that Canadian key rates will, on average, be at least equal to U.S. key rates."

As the Fed gradually raises rates, D'Anjou expects to see a rise in U.S. bond yields and a return to a more positive view of the U.S. dollar.

Although he expects the BoC to raise rates again in the fall, D'Anjou says the central bank might also "signal its unease regarding the rapid rise in the value of the loonie. This should calm investor enthusiasm somewhat and bring the Canadian dollar back to around US$[0.]79 at the end of 2017."

Royce Mendes, director at CIBC World Markets, notes in a weekly economics report that Canada's hot economy has been fuelled by consumer spending, aided in part by the Canada child benefit program, which began in July 2016. Whatever support the program provided has likely been used up, he says, adding that Canada's economic growth is at an unsustainably high level.

"That makes it all the more important for the Bank of Canada to nurture the nascent export recovery and fend off a stronger loonie," he says.

9. Economic news from Europe and Asia

[July 31, 2017] The Eurozone economy is healing nicely but inflation remains weak. And while inflation stagnation seems like good news for consumers in the short run, it's a sign of underlying weakness in wages and companies' pricing power.

That's the take-away from economic reports released Monday that show the unemployment rate in the 19-country currency union fell to its lowest in eight years even while price increases are modest.

The number of people in work rose by 148,000 in June, the Eurostat statistics agency said Monday, bringing the unemployment rate to 9.1%, from 9.2% in May. That echoes reports in recent weeks of rising business activity and confidence across all Eurozone countries — even those, like Greece, that have been hit hardest by financial troubles.

Such improvements have emboldened the European Central Bank to consider when it might signal a phasing out of its bond-buying stimulus program, under which it pumps 60 billion euros ($70 billion) a month into the economy.

ECB President Mario Draghi has said it would likely consider such a move in the fall.

But the missing piece in the Eurozone's recovery is a significant rise in inflation, which the ECB is tasked with getting to just under 2%. While weak inflation can be good for shoppers, it points to fragilities in the economy: wages are not rising quickly enough to spur spending or companies may not be confident enough in consumers to raise their prices.

In July, the annual inflation rate was stuck at 1.3%. And what gains there were were mostly due to energy price increases of 2.2%. Excluding volatile items like energy, food, alcohol and tobacco, prices were up a still-modest 1.2%. The industrial goods sector saw prices rise a mere 0.5%.

Economists say inflation is unlikely to rise substantially as long as there remains slack in the labour market that prevents wages from rising significantly.

“While June’s unemployment data paint a positive picture of the eurozone labour market, July’s (inflation) release confirms that this strength has yet to generate inflationary pressure,” said Jennifer McKeown, chief European economist at Capital Economics in London.

She expects the ECB to start tapering off its bond-buying program next year, but says “interest rate hikes are a pretty distant prospect.”

Japan

Japan’s factory output rose in June, while unemployment fell to 2.8%, as a recovery in global demand helped drive growth.

The Ministry of Economy, Trade and Industry reported Monday that factory production in June rose 4.9% over a year earlier and 1.6% from the month before.

Consumer demand in the world’s third-largest economy picked up in June with the payment of half-yearly bonuses.

Labour conditions were tight, with the number of job offers to applicants at a 43-year high of 1.51. But inflation, which was reported earlier, remained flat.

After many years of excess spare capacity, the slack in the economy has slowly tightened, with inventories falling sharply in June, the METI report said. Factory output is at the highest level it has been in more than three years.

“Incoming data continue to send a positive message on growth, while inflation momentum remains weak,” Masamichi Adachi of JP Morgan said in a commentary.

The relatively upbeat data are a rare piece of good news for Prime Minister Shinzo Abe’s administration as it weathers a dip in public approval ratings amid allegations over cronyism and abuse of influence.

A rebound in exports has helped support the economy despite slow progress toward attaining a 2% inflation target that Abe and the central bank set more than four years ago in hopes of rekindling faster growth.

Core inflation, excluding volatile food prices, rose 0.4% in June, level with May’s consumer price index. But excluding both food and energy costs, it was flat.

China

Chinese factory activity eased in July as export demand weakened and momentum in service industries also waned, according to official surveys out Monday — indicating that the world’s second-largest economy is struggling for traction.

The monthly purchasing managers’ index slipped to 51.4 last month from the prior month’s 51.7, based on a 100-point scale on which numbers above 50 indicate expansion.

It was still the 12th straight month that factories reported expansion, according to the data compiled by the Federation of Logistics & Purchasing posted on China's official statistics website.
The survey found that new export orders dropped by a wider margin than overall new orders.
Zhao Qinghe of the National Bureau of Statistics said other factors that contributed to the slower growth last month include heavy rain and floods in some parts of China and high temperatures in other areas as well as routine equipment maintenance at factories.
China's outsize manufacturing sector employs tens of millions of workers and the index is widely watched as an early indicator of the health of the economy, the world's second biggest. Earlier this month, official figures showed growth held steady at 6.9% in the most recent quarter despite tighter lending controls aimed at taming surging debt levels.
Momentum in China's service industries also slowed, according to the official non-manufacturing PMI, which dipped to 54.5 last month from 54.9 previously.
Taken together, "today's data also hint at a slowdown in the broader economy," said Julian Evans-Pritchard of Capital Economics. "We anticipate further weakness ahead as the crackdown on financial risks weighs on credit expansion and economic growth."

Have a nice and fruitful week!