Weekly Updates Issue # 627

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1. Weekly Markets Changes

[August 18, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,952.33 -81.05 -0.54%	2,425.55 -15.77 -0.65%	21,674.51 -183.8 -0.84%	6,216.53 -40.03 -0.64%	$0.79449 +0.56c +0.71%	$1,283.94 -11.06 -0.85%	$48.79 -0.28 -0.57%

2. Canadian inflation perks up, supported by gas prices

[August 18, 2017] Inflation picked up its pace last month for the first time since January as the annualized rate accelerated to 1.2%, Statistics Canada said Friday.

The latest inflation number increased from its June reading of 1%, which had represented the data point's lowest mark in almost two years. The higher price of gasoline, up 4.6% in July compared to a year earlier, was among the biggest contributors behind the increase.

Upward pressure also came from year-over-year price increases of 9.7% for natural gas, 8.5% for traveller accommodation and 4.1% for homeowner's replacement costs.

Among the downward pressures: the cost of electricity, which the report said saw its biggest drop in 14 years due in large part to legislated price declines in Ontario.

Lower prices for video equipment, furniture and Internet access also weighed on the overall inflation number.

The annual rate saw its first increase since it peaked in January at 2.1%, which was close to the Bank of Canada's ideal target of 2.0%.

Some experts suggested that the central bank might hold off hiking its interest rate because of weak inflation — the bank raised its key rate slightly last month and argued the recent softness was mostly temporary.

Statistics Canada's inflation report on Friday also said two of the central bank's three measures for core inflation, which omit volatile items like gas, saw slight increases in July, while the other one was unchanged.
Those underlying readings, watched closely by the inflation-targeting bank in the lead-up to rate decisions, were 1.3, 1.4 and 1.7%.
While one month is hardly a trend, Brian DePratto, senior economist at TD Economics, says, "Canadian inflation may still be modest, but is showing some signs of moving in the 'right' direction vis-à-vis the Bank of Canada's 2% inflation target. After months of deceleration, tick-ups in energy costs (on a year-on-year basis) helped deliver a small gain in price inflation in July […]."
On the BoC, DePratto notes, "The Bank of Canada has indicated that it will continue to monitor inflation data closely, but given that today's report is more or less in line with their expectations for soft (but rising) inflation in the back half of 2017, no change in Governor Poloz's thinking is likely to result […]."
His call is that "absent a significant economic shock or a significant change in thinking (and communication), it thus remains likely that the Bank of Canada will follow through with another 25bp increase in their overnight policy interest rate this fall."
Derek Holt, vice-president & head of Capital Markets Economics at Scotiabank, holds the same view. He says in a research note, "[…] There is absolutely nothing in this report that challenges the BoC's forecast narrative as inflation is tracking their revised views that backed a hiking bias. At the margin, the data reaffirms our more hawkish bias toward the BoC than the street consensus and market pricing."
Looking at today's data by province, Holt explains, "[…] There were few exceptions to relatively little variation in the year-ago headline inflation rate. BC was up 1.9% y/y and PEI was the other province to post faster price pressures at 1.8% y/y. The weakest pressures are in Quebec (0.9%), Manitoba (0.9%) and Saskatchewan (0.8%). Ontario's prices were up 1.2% y/y and bang in line with the national average."

3. Manufacturing sales fall 1.8% in June: StatsCan

[August 17, 2017] Manufacturing sales fell in June, following three consecutive months of gains, Statistics Canada says.
The federal agency says manufacturing sales slipped 1.8% to $53.9 billion in June.
The drop came due to lower sales in the petroleum and coal product, transportation equipment and chemical industries.

“After several strong months the Canadian manufacturing sector hit a speedbump in June, with sizeable declines in both value and volume terms made only slightly more palatable by the upward revisions to the previous month,” Michael Dolega, TD senior economist, says in a note.
He says GDP is still on track to expand by about 3.7% in Q2, but suggests “that a marked deceleration of growth in Q3 is in the cards.” He adds that U.S. industrial production data released Thursday indicated the country’s manufacturing activity declined of 0.1% in July.
“Still, we expect U.S. economic growth to be generally supportive for Canadian manufacturing activity going forward,” Dolega says. “[T]his support will be somewhat offset by a higher loonie which is unlikely to pare back its recent gains too much in light of expected continued tightening of monetary policy by the Bank of Canada.”
In Canada, sales fell in 15 of 21 industries, representing 72.1% of the manufacturing sector.
Non-durable goods dropped 2.2%, while durable goods slipped 1.5%.
Sales fell 1.0% in constant dollars, indicating a lower volumes of manufactured goods were sold in June.

4. Year-end oil prices revised as demand expectations drop

[August 16, 2017] The latest oil market report from the International Energy Agency (IEA) shows supply stocks are lowering, but compliance with output agreements is a concern.
The compliance rate with OPEC’s output cut fell again in July to a new low of 75% from June’s revised figure of 77%. For non-OPEC countries, the compliance rate in July was 67%.
“Together, the twenty-two countries are producing about [470,000 barrels per day] in excess of their commitment,” says the report.
On the demand side, growth is better than expected, but global demand was revised downward because “changes to historical data” suggest demand was previously overstated.
“New estimates show weaker demand in many emerging countries, including China,” says senior economist Mathieu D’Anjou in a Desjardins note. “The revised outlook now suggests a near-equilibrium market in 2018. In this context, global crude inventories could remain high, limiting upside pressure on prices.”

D'Anjou says the IEA outlook assumes U.S. crude oil production will continue to rise, but the number of oil rigs has stabilized after WTI dropped to less than US$45 per barrel in the spring.
In light of the downward revision for global demand and the U.S. dollar's expected appreciation, Desjardins has slightly lowered its year-end targets to US$52 and US$55 per barrel for 2017 and 2018, respectively. "However, U.S. production will need to be watched closely," says D'Anjou.

5. New CIBC brand to absorb President's Choice Financial

[August 16, 2017] CIBC is launching a new direct banking brand that will absorb some two million customer accounts currently with Loblaw-owned President's Choice Financial.
Toronto-based CIBC has provided the back-end banking services for PC Financial for nearly 20 years, but the companies said Wednesday they are going their separate ways.
The bank says its new Simplii Financial brand will provide no-fee daily banking through online, mobile and telephone channels in much the same way that that PC Financial has offered its roughly two million clients.
Loblaw's President's Choice Financial will continue to offer Mastercard credit card products and the PC Plus loyalty-points program.
The CEO of President's Choice Financial says its customers are most interested in being able to make payments simply and the ability to get free groceries through points.
CIBC is promising a smooth transition for existing PC Financial clients with no changes to account numbers, mortgage terms or automatic payments and deposits.
As part of the bank's agreement with Loblaw, CIBC will wind down PC Financial consumer banking and shift all clients over to the Simplii brand on Nov. 1.
CIBC did not disclose financial terms of the agreement with Loblaw, but said its fourth-quarter results would recognize $100 million in pre-tax fees and charges related to the deal.
CIBC's Simplii will present a challenge to Scotiabank's Tangerine direct banking brand, which it bought for $3.1 billion in 2012 when it was known as ING Direct.
Mike Boluch, executive vice-president of direct banking at CIBC, said the bank plans to invest more in Simplii's offerings over time.

“Our focus in the near term is to make this a seamless transition over for our clients. Over time, we’re going to invest in the offer. We at CIBC have a long history of being known for innovation.”

The new division will provide more options for the full range of client needs, from no-fee online banking to more advice-oriented customer service, Boluch said in an interview before the official announcement.

“We see a wide spectrum of client needs, and we see this as being an important part of that spectrum,” Boluch said. “We’re pretty confident there’s a place for both business models.”

In other banking news, BMO Private Banking now offers Canadian clients free access to more than 40,000 automated teller machines (ATMs) across the United States and Puerto Rico as part of a partnership with Allpoint, an ATM network.

6. Will Canadian home sales keep slipping?

[August 15, 2017] The Canadian Real Estate Association says the national average price for homes sold in July fell compared with a year ago. This is the first year-over-year drop since February 2013.

CREA adds the average price for a home sold last month was $478,696, down 0.3% from July 2016, due to fewer sales in Toronto and Vancouver compared with last year.

But, excluding Greater Vancouver and Greater Toronto, the national average price was $381,297, up from $365,033 a year ago.

The drop in the national average price came as the number of homes sold through Canadian MLS systems fell for the fourth consecutive month, moving down 2.1% in July compared with June. CREA says July sales were down from June in close to two-thirds of all markets, led by the Greater Toronto Area, Calgary, Halifax-Dartmouth and Ottawa.

But will this continue? An August 15 report from Scotiabank Global Economics suggests that even though nationwide home resales fell again in July, “it is possible that the pace of decline is already abating following much bigger declines of over 6% m/m in each of May and June.”

Derek Holt, vice-president & head of Capital Markets Economics, says in the report, “CREA points out an ebbing pace of declines in Toronto and hints at a potential bottoming in the correction following the April rule changes by Ontario.”

He adds, “[…] It’s possible that the magnitude of correction in May and June was amplified by walkaways from sales contracts signed over previous months as Ontario changed the rules of the game mid-contract for recent

buyers, and so that amplified the magnitude of the weakness in those months and if so then the worst may well be over in a new normal for sales volumes." But we'll have to wait and see, especially as interest rates change, he says. "How this balance plays out in the face of competing influences such as projected income gains and rate hikes is yet to be determined."
Zoocasa, a real estate brokerage based in Toronto, shares the following highlights and insights:

- The cooling Toronto housing market continues to be responsible for the majority of the decline in average prices in Canada. Looking back to April 2017, when government cooling measures where introduced, the average price has declined by 19% from the peak of $920,791. However, prices are still up 5.1% year-over-year from an average of $709,825 in July 2016.
- Another factor in the decrease of average Canadian prices is the traditional summer slow down in the real estate market. Sales generally start to pick-up again in early September as the new school year begin.

7. Ontario businesses to take $23-billion hit from reforms: coalition

[August 14, 2017] The Ontario government's plan for major labour reforms would have significant side effects that would put 185,000 jobs at risk, a coalition of business groups said Monday in releasing part of its analysis on the proposed legislation.
The economic analysis commissioned by the Keep Ontario Working Coalition found that Ontario businesses stand to take a $23-billion hit within two years of the implementation of Bill 148, largely due to a minimum wage increase.
The coalition, which includes groups such as the Ontario Chamber of Commerce and the Retail Council of Canada, said the changes proposed in the bill would force employers to find creative ways to cut costs, such as hiring less and increasing automation.
"The changes presented in Bill 148 will have dramatic unintended consequences that include putting close to 200,000 jobs at risk and seeing everyday consumer goods and services increase by thousands of dollars for each and every family in Ontario," said Karl Baldauf, a spokesman for the coalition.
He said the reforms are "too much, too soon," echoing concerns expressed by business groups since the minimum wage increase was announced.
The Canadian Centre for Economic Analysis conducted the study, which examines the impact of six key areas of reform, namely changes to the

minimum wage, equal pay provisions, vacation, scheduling, personal emergency leave and unionization.
The centre said both current and potential new jobs would be at risk in the first two years of the plan. It projects the number of jobs will be 2.4% lower under the proposed legislation.
Small business owners will be more affected, as will women, who are more likely to hold lower-paying jobs, said Paul Smetanin, the organization's president.
The coalition said labour reforms should be introduced more gradually but did not recommend a particular timeline.
It also renewed its calls for the government to conduct an economic analysis of its own.

The details

Key figures of the analysis were made public Monday and more findings are expected to be released in the weeks and months to come, the group said.
The proposed legislation would, among other things, raise the minimum wage to $15 an hour, require equal pay for part-time workers and expand personal emergency leave.
The bill would boost the minimum wage, which is currently set to rise with inflation from $11.40 an hour to $11.60 in October, up to $14 on Jan. 1, 2018, and $15 the following year.
"Making $15 an hour is great, but only if you have a job," Baldauf said.

Government and think tank responses

Ontario's Ministry of Labour said it was reviewing the findings, but noted the study is one among many.
"Many businesses across the province have come out in support of our plan because it helps them attract employees, reduces their labour turnover and encourages employees to become more invested in the business," Labour Minister Kevin Flynn said in a statement.
The government is committed to working with the business community and recognizes it has concerns, the minister said.
"That being said, we will not back down from our plan to bring fairness to Ontarians," he said. "We will remain in the corner of those families who are counting on these supports."
Premier Kathleen Wynne has said she is working on ideas to support Ontario businesses through major labour reforms, but has yet to say exactly what form this relief would take. Economic Development Minister Brad Duguid has also suggested the province was looking at reducing other costs for businesses to help them cope with the labour changes.

The Canadian Centre for Policy Alternatives, a national think tank, said the numbers released Monday represent a worst-case scenario that research suggests is unlikely to pan out.
David Macdonald, the centre's senior economist, said similar predictions have been made in other jurisdictions ahead of minimum-wage hikes, but there has in fact been "little impact on employment."
He also said the analysis doesn't reflect that employees earning more will also spend more, or that businesses will see gains in productivity and save on training costs by better retaining their staff.
"Those pieces balance themselves out," he said.

8. People with disabilities challenged by lower incomes

[August 14, 2017] While people with disabilities accounted for about 20% of Canadians aged 25 to 64 in 2014, they accounted for 41% of the low-income population in the same age group, reveals a StatsCan study. In comparison, the low-income rate among people aged 25 to 64 without disabilities was less than 9%.
At increased risk
The study also found that people with a disability were more likely to live in low-income households if they were unattached individuals (meaning they lived alone or with non-relatives) aged 45 to 64, or lone parents. In fact, more than half of those meeting this description lived in low-income households. And the segment accounted for 23% of the total low-income population but only 3% of the non-low-income population.
Joblessness was also higher for disabled Canadians. In 2014, 41% of people with a disability were jobless, compared with 16% of those aged 25 to 64 without disabilities.
Consequently, people aged 25 to 64 with a disability were more reliant on government transfers as a source of income. They earned an average of $29,300 per year in employment income compared with $52,200 for those without disabilities.
Some, but not all, of that difference was offset by people with a disability receiving an average of $3,100 more in government transfers and paying $5,500 less in taxes than those without disabilities.
For full details, including how disability and low income were measured, read the full StatsCan study.

Have a nice and fruitful week!