Weekly Updates Issue # 660

1. Weekly Markets Changes
2. Gas and air ticket prices help push Canada's inflation rate to 2.3%
3. Canadians spent more in Q1, year over year. Here's where.
4. Volatility, geopolitical tensions and rising debt worrying the IMF
5. Ontario's financial outlook changed to negative: Moody's
6. BoC holds key rate, cites moderate growth
7. IMF forecasts slower Canadian growth relative to U.S.
8. 5 places abroad to retire in style

1. Weekly Markets Changes

[April 20, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,484.32 +210.4 +1.38%	2,670.14 +13.84 +0.52%	24,462.94 +102.8 +0.42%	7,146.13 +82.68 +1.17%	$0.7938 -0.81c -1.02%	$1,336.36 -9.84 -0.73%	$68.06 +0.67 +0.99%

2. Gas and air ticket prices help push Canada's inflation rate to 2.3%

[April 20, 2018] The country's annual inflation rate continued creeping higher last month to hit 2.3%, Statistics Canada said Friday.

The March figure shows the pace of inflation inched a little farther past the midpoint of the central bank's ideal range of between 1 and 3%.

By comparison, inflation was 2.2% in February and 1.7% in January. The March increase was the largest year-over-year move since it hit 2.4% in October 2014, just as the oil-price slump was getting underway.

The upward forces on inflation in March were led by higher costs for gasoline and air transportation, while cheaper prices for video equipment, digital devices and electricity applied downward pressure.

The report also said the average of the Bank of Canada's three measures of core inflation, which are designed to leave out the noise of more-volatile items like gasoline, was 2% last month.

The Bank of Canada scrutinizes inflation data when it considers interest-rate decisions. Its rate hikes can be used as a tool to help prevent inflation from climbing too high.

But the recent readings above 2% are unlikely to have a major impact on upcoming interest-rate decisions because the central bank is now expecting them.

Earlier this week, the central bank said that due to the temporary effects of higher gas prices and minimum wage increases it has raised its inflation projections. The bank is now expecting the measure to average 2.3% this year before settling back down to 2.1% in 2019.

Bank of Canada Governor Stephen Poloz has raised the benchmark interest rate three times since July and is expected to remain on his rate-hiking path with the economy operating close to its capacity.

But Poloz hasn't moved the rate since January, including his most-recent announcement Wednesday. Poloz said that despite the recent improvements, the economy's still unable to continue running at full tilt without the stimulative power of lower rates—for now.

The rising inflation data are "being buoyed by the effects of higher minimum wages in some provinces and by the recent run-up in oil prices, neither of which are signposts of an economy at risk of overheating," said Royce Mendes, senior economist at CIBC Economics, in a research note.

In a separate report Friday, Statistics Canada said retail sales increased 0.4% in February to $49.8 billion, with the biggest increases coming from new car dealers and general merchandise stores.

3. Canadians spent more in Q1, year over year. Here's where.

[April 19, 2018] In January, Canadians boosted their spending by 6.04% over the same month last year, says the MonerisMetrics Quarterly Report by Moneris Solutions Corporation.

That was followed by a year-over-year 3.81% jump in February and 4.8% increase in March, the company says in a release. Overall, the quarter saw a hike of 4.99% over the same period last year.

Canadians spent more in all provinces except for Saskatchewan, which saw spending dip by 0.9%, the report says. B.C, Quebec and Ontario were the top provinces, with spending increases of nearly 6.6%, 6.4% and 5.5%, respectively, while Nova Scotia and New Brunswick were next at 4.7% and nearly 3.4%.

This trend may not continue over the long term, says Angela Brown, president and CEO of Moneris, in a release. "While we will likely continue to see incremental year-over-year growth in 2018, we do anticipate it will slowly start to taper off over the coming quarters."

Still, looking at data from Statistics Canada, both average weekly earnings and retail sales were higher in the month of January than in the same month in 2017—even while the economy dipped 0.1%.

Drivers of spending

- The lead-up to Easter led to a “spending boost to merchants that sell chocolate, sweets and cards.” Drug stores and mass merchandisers posted increases of 9.13% and 11.55%, respectively, in the month of March.
- Bakeries and grocery stores also benefitted from consumers stocking up ahead of the March long weekend, with an 8.13% increase over the same month last year.
- Restaurants also had a strong quarter, with a year-over-year increase of 3.7%. There was a nearly 7.2% spend increase in the fast food category alone.
- Theatrical producers were up 13.8%; accountants and auditors were up 9.9%; health and beauty spas were up nearly 8%; and book stores were up 6.4%.
- Both credit card and debit card usage grew over the same time in 2017, the release says, but “growth was weighted more heavily towards credit cards with an increase of 5.8%. Debit card spending rose only 3.5%.
- Tourists spent more last quarter than they did during the same period in 2017. Spending on U.S. cards maintained the top spot for foreign spend, showing a 16.3% increase over last year’s first quarter, but visitors from China, the U.K. and Mexico also contributed.

4. Volatility, geopolitical tensions and rising debt worrying the IMF

[April 19, 2018] The head of the International Monetary Fund warned Thursday that the healthiest global economy in years is threatened by rising debt levels, volatile financial markets and a simmering trade dispute between the world’s two biggest economies.

IMF Managing Director Christine Lagarde told reporters a U.S.-China trade war “will not be something that will affect only the two countries because the world is so interconnected. It will affect the global economy.”

For now, the IMF expects the global economy to grow 3.9% this year, the fastest since 2011. But Lagarde says “we are seeing more clouds accumulating on the horizon.” She cited trade tensions and rising global debts, which have hit a record $164 trillion. She noted that government debt in advanced economies is at the highest level since World War II.

Lagarde’s comments came at a news conference to open the spring meetings of the 189-nation IMF and its sister lending organization, the World Bank.

The three days of talks will also include discussions among the Group of 20 major economies, which account for more than 80% of global economic output. The United States is being represented by Treasury Secretary Steven Mnuchin and Federal Reserve Chairman Jerome Powell.

The spring meetings are occurring as the global economy enjoys a broad-based rebound—with most regions recording growth—for the first time since the 2008 financial crisis sent the world into a deep recession.

But Lagarde said the expansion was vulnerable. Stock prices are unusually high but have been battered recently over growing concerns about President Donald Trump's aggressive America First trade policies. The turbulence comes as the Federal Reserve ratchets up U.S. interest rates from the record low levels where they had been in the decade after the financial crisis.

While the Fed has been raising rates at a gradual pace, Lagarde expressed concern about the consequences if the Fed had to accelerate the pace of its rate hikes. A rapid succession of rate hikes could push down stock prices and potentially hurt developing countries that have come to rely on foreign investment, she said.

To guard against these risks, Lagarde called for countries to take advantage of the current good times to reduce their debt, giving them room to ramp to combat a downturn.

She called on all countries "to steer clear of all protectionism measures." Lagarde did not directly criticize Trump's hardball trade policies. But she urged countries not to abandon seven decades of international co-operation that she credited with "helping to reduce poverty and deliver more progress for more people than at any time in history."

5. Ontario's financial outlook changed to negative: Moody's

[April 18, 2018] A key ratings agency has downgraded its outlook on Ontario's finances to "negative" from "stable" in light of the Liberal government's plan to run six consecutive multibillion-dollar deficits.

Moody's Investor Services says spending pressure will challenge the province's ability to "sustain balanced fiscal results" over a number of years.

Moody's also says financing requirements on the province's debt—projected to be $325 billion in 2018-2019—will be larger than previously believed, leading to a faster increase in interest expenses.

Premier Kathleen Wynne defended the government's pre-election budget, which will run a $6.7-billion deficit in 2018-2019, saying Moody's change

wasn't a credit downgrade, which would effect borrowing costs for the province.
The opposition Progressive Conservatives criticized the government, saying interest on the province's debt, projected at $12.5 billion this year, is already crowding out services like healthcare, education and infrastructure upgrades.
Moody's maintained Ontario's Aa2 issuer and Aa2 senior unsecured long-term debt ratings despite the change in outlook. Ontario heads to the polls on June 7.

6. BoC holds key rate, cites moderate growth

[April 18, 2018] The Bank of Canada (B0C) today maintained its target rate at 1.25%. The bank rate is correspondingly 1.5% and the deposit rate is 1%.
The bank said higher interest rates will be warranted over time, but some monetary policy accommodation is still needed to keep inflation on target. Further, the bank said it will continue to monitor the evolution of economic capacity and the economy's sensitivity to interest rate movements.
It also reiterated its position that future policy decisions will be data-dependant.

Outlook for inflation and growth

In its monetary policy report, the BoC says temporary factors weighing on inflation have largely dissipated. Inflation is expected to be modestly higher than forecast in the bank's last monetary policy report from January, returning to the central bank's 2% target for the rest of the projection horizon.
The BoC expects Canada's GDP, which was 1.3% annualized in Q1, to rebound in the second quarter, resulting in a 2% average growth in the first half of 2018. Slower Q1 growth reflects weakness in housing (in response to new mortgage guidelines and other policy measures) and lower exports (partly due to transportation bottlenecks).
The central bank acknowledges that capacity constraints in some sectors are weighing on export growth.
"Continued gains in business investment should build additional capacity in those sectors and in the economy more generally," says the bank in a release. "However, both exports and investment are being held back by ongoing competitiveness challenges and uncertainty about trade policies."
Still, over the next three years, the bank projects above-potential growth, with real GDP growth of about 2% in both 2018 and 2019, and 1.8% in 2020.
"This stronger profile for GDP incorporates new provincial and federal fiscal measures announced since January," says the bank. "It also reflects upward

revisions to estimates of potential output growth, which suggest the Canadian economy has made some progress in building capacity."

Further, the bank describes consumption growth as "robust," supported by strong labour growth.

The bank will continue to assess labour market data for signs of remaining slack.

Economic details

The Canadian economy has been operating close to capacity for three consecutive quarters, though output in Q1 was lower than expected, at an estimated -0.75% to 0.25%.

Annual potential output growth is projected to remain at 1.8% over the projection horizon, before increasing to 1.9% in 2021. The BoC notes that some firms face "significant" production constraints, with industrial rate of capacity utilization close to its historical peak.

Business investment is expected to expand modestly, despite trade uncertainty and competitive challenges. The central bank says investment spending will be "particularly robust" for firms in the service and information technology sectors.

The bank expects oil prices to stay near recent levels throughout its projection horizon.

Global growth and risks

Global growth is "solid and broad-based," says the central bank, citing U.S. spending and tax cuts. That growth is expected to ease from about 3.75% in 2018 to about 3.5% in 2020.

The BoC acknowledges potential risks to global expansion from escalating trade tensions between the U.S. and China, and it also cites NAFTA uncertainty. Risks to the central bank's inflation outlook include:

- weaker investment and exports;
- a sharp tightening of global financial conditions;
- stronger GDP growth in the U.S.;
- rising household debt; and
- a decline in house prices.

The central bank has raised rates three times since last summer, most recently in January. The next scheduled date for announcing the benchmark rate is May 30. The next MPR will be published on July 11.

7. IMF forecasts slower Canadian growth relative to U.S.

[April 17, 2018] The International Monetary Fund (IMF) projects moderate economic growth for Canada this year and next.

Its new World Economic Outlook foresees growth in Canada of 2.1% this year and 2% next year.

That represents a slight downgrade from January's outlook of 2.3% forecast for this year. It's noticeably less than the strong 3% growth Canada experienced in 2017.

And it's also less than the U.S. projections: The United States is projected to grow 2.9% this year, up from the 2.7% it had forecast in January and from the 2.3% growth the economy achieved last year. The U.S. economy will enjoy a boost through 2020 from tax cuts President Donald Trump signed into law in December, the IMF predicts.

While the IMF upgraded its economic outlook for the U.S. and foresees a strong year for the global economy as well, its chief economist warns that the prospect of an escalating trade conflict "threatens to undermine confidence and derail global growth prematurely."

The lending agency kept its forecast for worldwide growth this year at 3.9%, which would be its fastest pace since 2011. The world's major regions are expanding in unison for the first time in a decade, aided by low interest rates and a revival in global trade. The IMF expects trade to grow 5.1% this year, which would be the fastest pace since 2011.

The IMF issued the update to its World Economic Outlook on the eve of spring meetings in Washington this week of the 189-nation IMF, the World Bank and the Group of 20 major economies.

Maurice Obstfeld, the IMF's chief economist, warned in prepared remarks that the economic gains the agency foresees face a rising risk from "escalating tensions over trade." Trump, who campaigned on a pledge to protect U.S. industries from what he argues is unfair foreign competition, has slapped tariffs on steel and aluminum imports. He has also proposed imposing tariffs on $50 billion in Chinese imports to punish Beijing for its aggressive attempts to obtain foreign technology.

China has countered by proposing tariffs on $50 billion in U.S. products, including soybeans—a highly valuable export for America's farm belt—and small aircraft. Trump has, in turn, ordered the U.S. trade representative to consider targeting up to an additional $100 billion in Chinese imports.

The prospect of a trade war between the world's two biggest economies has rattled financial markets for weeks. For now, though, the global outlook remains sunny, thanks to low borrowing rates and increasing trade and investment.

The IMF upgraded its forecast for the 19-country eurozone to 2.4%—which would be its best showing since 2007—and up from the 2.2% it predicted three months ago. The eurozone, which emerged only slowly from its 2011-2012 debt crisis, is expected to benefit from continued low rates.

China is projected to grow 6.6% this year, decelerating from 6.9% growth in 2017. The world's second-biggest economy is attempting a transition from super-fast growth based on often-wasteful investment to slower but steadier growth built increasingly on consumer spending.

India is expected to outpace China, registering 7.4% growth this year. Japanese economic growth is forecast to decelerate to 1.2% from 1.7% in 2017. Japan's economy has long been hobbled by an aging workforce and dwindling population.

A recovery in the prices of commodities such as oil, which imploded in 2014-2015, likely will help developing economies this year. Sub-Saharan Africa's economy is expected to grow 3.4% this year, up from 2.8% in 2017. Latin America is forecast to expand 2% this year, up from 1.3% in 2017.

8. 5 places abroad to retire in style

[April 16, 2018] Particularly disappointing spring weather in Canada this year might have retirees dreaming about warmer climates. Coronado, Panama, is one distinct possibility for those considering international destinations.

Coronado once had pristine beaches and not much else. Today the resort town is a haven for Canadian and U.S. retirees, with strip malls, fast-food joints and a lot of people speaking English.

"For all the world, it's like you're in a U.S. beach town," says Kathleen Peddicord, publisher of Live and Invest Overseas, a site and newsletter for people who want to work, invest or retire abroad.

That kind of retirement destination appeals to many who are looking for an established expatriate community where they may not have to learn another language, says Dan Prescher, a senior editor at International Living, another site for people interested in life abroad. Places like Coronado or Boquete in Panama, Puerto Vallarta or Ajijic in Mexico, and Ambergris Caye island in Belize have been welcoming North American retirees for years.

If you're looking for places before they become popular, however, you may need to be even more adventurous than the typical expat. Infrastructure that you take for granted—such as high-speed internet, paved roads or easy access to quality healthcare—may not be abundantly available. When people retire abroad and then boomerang back home, unrealistic expectations are often the culprit, Prescher says.

"They leave with the expectation that the rest of the world is just like home but at half the cost," Prescher says. "Nothing could be further from the truth."

The rewards of seeking out less-known destinations, though, can be considerable. Living costs can be lower, and you may enjoy a more authentic experience of the country before your fellow compatriots rush in.

Here are five destinations that Peddicord and Prescher picked as the next hot retirement destinations abroad, where couples can live comfortably on less than US$2,000 a month:

1. Arequipa, Peru. Low living costs combined with good infrastructure make Peru one of International Living's top 10 places to retire for 2018. Arequipa offers big-city amenities—it's the country's second largest, with more than 800,000 people—and a "spring-like" moderate climate year-round. It's also a UNESCO World Heritage site, singled out by the United Nations organization for its historic core filled with colonial architecture. A potential downside: its 7,661-foot elevation, which could be a problem for those who don't handle altitudes well.

2. Cascais, Portugal. Portugal is one of Europe's most affordable places to live, combining modern amenities with an Old World vibe, Prescher says. Cascais, a coastal resort town about 20 miles west of Lisbon, is a former royal retreat complete with a 15th-century fortress turned palace, a busy marina, spotless streets and a moderate year-round climate. A potential downside: some expats complain about the slow-moving bureaucracy for establishing residency.

3. Cayo, Belize. Belize is popular with U.S. expats for good reasons: English is the official language, and the country exempts qualified retirees from many taxes, Peddicord says. Away from the more crowded Caribbean coastline, the inland Cayo district offers rainforests, lovely rivers and fertile soil for gardeners. Infrastructure is not great in Cayo, Peddicord says: expect unpaved roads and fickle electricity. It's a good fit for those looking for a simpler, back-to-basics lifestyle, she says. A potential downside: healthcare "is not a strong suit," so many expats cross the border to Mexico for high-quality medical care.

4. Las Terrenas, Dominican Republic. French settlers on Dominican Republic's northeast peninsula give Las Terrenas a European flair, complete with French bakeries and residents who greet each other with kisses on both cheeks, Peddicord says. A new international airport nearby offers easy travel, good for quick trips back to the states or provinces. A potential downside: healthcare in many areas isn't great, although a new hospital in Las Terrenas points to an improved quality of local treatment.

5. Phnom Penh, Cambodia. Retirees looking for big-city living at budget prices should check out Cambodia's capital city, Prescher says. A booming economy and rising tourist trade mean plenty of options for eating, drinking and socializing. At the same time, Phnom Penh offers some of the lowest living costs of all the expat-friendly options, so that even modest retirement incomes can buy a life of relative luxury, Prescher says. Cambodians tend to be extremely welcoming and friendly, with many speaking English as their second language. A potential downside: flight times to North America are typically 20 hours or more, making this not a great option for those who want to make frequent trips home.

Have a nice and fruitful week!