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1. Weekly Markets Changes

[July 27, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,393.95 -41.51 -0.25%	2,818.82 +16.99 +0.61%	25,451.06 +392.94 +1.57%	7,737.42 -82.78 -1.06%	\$0.7656 +0.47c +0.62%	\$1,224.22 -5.31 -0.43%	\$68.69 +0.43 +0.63%

2. U.S. economy surges to 4.1% growth rate in Q2

[July 27, 2018] The U.S. economy surged in the April-June quarter, growing at an annual rate of 4.1%. That's the fastest pace since 2014, driven by consumers who began spending their tax cuts and exporters who sought to get their products delivered ahead of retaliatory tariffs.

The Commerce Department reports that the gross domestic product, the country's total output of goods and services, posted its best showing since a 4.9% gain in the third quarter of 2014.

President Donald Trump predicts growth will accelerate under his economic policies. But private forecasters cautioned that the April-June pace is unsustainable because it stems from temporary factors. The rest of the year is likely to see good, but slower growth of around 3%.

In emailed commentary, CIBC chief economist Avery Shenfeld provides further insight on why the current pace won't last.

For example, healthy exports drained inventories, so final sales (GDP excluding inventories) registered a 5.1% advance in Q2, he wrote. Further, consumer spending has see-sawed since Q4, he says, with strong post-hurricane spending that quarter, subsequent weak spending in Q1 and now a bounce back.

"Overall, these are definitely big numbers, but not unexpectedly so," he says, referring to today's numbers. He adds that the data shouldn't much alter views

on the Fed or the second half outlook, saying, “Inventories will be rebuilt in Q3, but exports will likely be softer.”

3. Housing sector faces instability for eighth straight quarter: CMHC

[July 26, 2018] The Canada Mortgage and Housing Corporation says the country’s housing sector is facing a high degree of vulnerability to market instability for the eighth straight quarter.

The Crown corporation attributes the vulnerability to overvaluation and price acceleration in Toronto, Vancouver, Victoria, and Hamilton.

It rated Edmonton, Calgary, Saskatoon, Regina as having moderate levels of vulnerability and Winnipeg, Montreal and Halifax among those with low risks.

CMHC says it is seeing signs of moderate overheating in Vancouver although price growth has been slowing over the last two quarters and detached properties in some areas are seeing declining prices.

In Toronto, CMHC says sales continued to trend lower in the first quarter of 2018, well below the threshold for overheating.

CMHC’s quarterly report uses overheating, acceleration of home prices, overvaluations and overbuilding to assess the country’s real estate markets.

4. Put CPP hikes on hold, says CFIB

[July 25, 2018] Starting in 2019, the Canada Pension Plan (CPP) will be gradually enhanced, with higher contributions resulting in higher benefits.

Faced with increased CPP contributions, small business owners in Ontario are asking the newly elected Ontario government to put the plan on hold or cancel it.

In total, 84% of Ontario business owners want the government to delay CPP expansion, with 52% wanting a review of other options, and 32% wanting the government to withdraw its support, finds a survey from the Canadian Federation of Independent Business (CFIB).

Since CPP changes require the support of two-thirds of the provinces representing two-thirds of the population, Ontario has an effective veto as Canada’s largest province, CFIB argues in a release.

“Many Ontario small businesses are struggling with the legacy of high costs imposed by past decisions,” says Plamen Petkov, CFIB’s vice-president for Ontario, in the release. “Massive hikes in the costs of energy, the minimum wage and new labour rules will have negative effects for many years, and small firms simply cannot afford to pay even higher payroll taxes.”

A CFIB study finds that the CPP changes will initially mean 64,000 fewer jobs, a loss 4.5 times greater than the federal government's projection.

The federation says there are less harmful ways to improve retirement savings for employees, including pooled registered pension plans (PRPPs), and it says it's ready to work with the Ontario government to review options.

About the CFIB poll: Results were pulled from a survey that received 2,065 responses from business owners located in Ontario. The responses are statistically accurate within +/- 2.2 percentage points, 19 times out of 20. Survey results were collected between July 18 and 20, 2018.

5. Canadians have buyer's remorse when trying to keep up with friends: survey

[July 24, 2018] A majority of Canadians wonder how their friends can afford their lifestyles, says a survey by Edward Jones.

Among those aged 18 to 34, 71% would like to understand how the people they know finance their purchases, says the investment firm in a release. The figure was 66% for those aged 35 to 44.

Being influenced by their friends' purchases to spend beyond their budgets can lead to buyer's remorse, the release said, and 93% of those surveyed said they feel buyer's remorse and have regrettable spending habits.

"Understanding how you spend money is important when considering your short and long-term goals," says Roger Ramchatesingh, director of solutions consulting at Edward Jones, in the release. "For example, if you know you enjoy spending money spontaneously, build this into your monthly budget. When it is unplanned for, it can add up over time and hurt other long-term goals such as retirement or the purchase of a home."

The survey said people are more likely to regret tangible purchases (83%) than experiential ones (71%).

Less than half of those surveyed (44%) follow a financial strategy. Among 18- to 34-year-olds, 75% think their finances should be in order but only 38% follow a financial strategy.

Methodology: A survey of 1,565 Canadians was completed online between May 23 to 26, 2017 using Leger's online panel, LegerWeb. A probability sample of the same size would yield a margin of error of +/-2.5%, 19 times out of 20.

6. Western provinces lead gain in May wholesale sales

[July 23, 2018] Statistics Canada says wholesale sales rose 1.2% to \$63.7 billion in May.

The gains were helped by higher sales of lumber, millwork, hardware and other building supplies. The farm product subsector also rebounded after a decline in April.

But the motor vehicle and supplies subsector fell for the second month in a row, and for the fifth time in six months.

Statistics Canada says wholesale sales were up in eight provinces in May, accounting for 49% of total wholesale sales.

“Higher sales in the western provinces led the gains,” the agency says in a release, adding that, “In dollar terms, Alberta contributed the most to the increase, more than offsetting the decline reported in Ontario.”

In both Saskatchewan and B.C., sales rose for the third consecutive month (up 9.8%, to \$2.3 billion, and 1.9%, to \$6.7 billion, respectively).

Ontario posted its “second consecutive monthly decline in May, down 0.9% to \$32.1 billion,” the Statistics Canada release says. A chart that breaks down wholesale sales for the month, by province and territory, shows New Brunswick, Yukon and Nunavut also saw declines (of -1.4%, -8.3% and -36.2%, respectively, compared to April).

Royce Mendes, director and senior economist at CIBC, said in a Monday research note that the data is “another positive surprise.”

“The trifecta of retail, manufacturing and wholesale trade all showing strength will push May GDP even higher than the already healthy estimates heading into today’s number,” he predicts.

Gross domestic product figures for May will be released July 31.

7. U.S. tax reform affecting Canada’s competitiveness, growth: OECD

[July 23, 2018] The Organization for Economic Co-operation and Development says Canada must review its tax policies to remain competitive with the United States.

In a report, the Paris-based group says U.S. tax reform has enhanced the attractiveness of investing there at the expense of investing in Canada.

It says U.S. tax cuts have also reinforced the “negative effects” of uncertainty surrounding Canada’s competitiveness as it attempts to renegotiate the North American Free Trade Agreement with Mexico and the U.S.

Ottawa has come under pressure from corporate Canada to respond to a move late last year by President Donald Trump to dramatically chop the U.S. corporate tax rate.

In April, RBC president and CEO Dave McKay said a significant investment exodus to the U.S. is underway, especially in the energy and clean-technology sectors, which could be followed by a loss of skilled workers.

The OECD says annual economic growth in Canada is expected to ease from 3% in 2017 to around 2% in 2018-19 as private consumption and government spending slow.

“The government should review the tax system to ensure that it remains efficient—raising sufficient revenues to fund public spending without imposing effective costs on the economy—equitable and supports the competitiveness of the Canadian economy,” the OECD said in its report.

It says business investment has picked up but remains weaker than before commodity prices began falling in 2014, in part because upstream oil and gas investment is being held up by pipeline capacity constraints and regulatory barriers to expansion, resulting in curtailed exports.

8. Brussels-London tensions putting Brexit deal at risk

[July 23, 2018] Britain’s top diplomat warned Monday that the country could crash out of the European Union next year, without an agreement on future relations with Brussels, because of the hard line taken by EU negotiators.

Foreign Secretary Jeremy Hunt told reporters in Berlin after meeting German counterpart Heiko Maas that “there is now a very real risk of a Brexit no deal by accident.”

“This is because I think that many people in the EU are thinking they just have to wait long enough and Britain will blink,” he said. “And that’s not going to happen.”

Big differences remain between Brussels and London over the terms of a new trade setup and the issue of how to regulate the U.K.’s only land border with the EU, between the U.K.’s Northern Ireland and the Irish Republic.

A substantial number of lawmakers in British Prime Minister Theresa May’s Conservative Party party favour a complete break with the EU—a so-called “hard” Brexit—rather than the “soft” option proposed by May, which calls for a “common rule book” with European nations that would govern trade in goods.

Hunt, on his first bilateral visit since coming to office, said “Germany is not just one of Britain’s best friends in Europe but one of our best friends in the world.”

He insisted that the trip to Berlin “is not about a charm offensive.” Still, London appears to want to win over the leaders of Europe’s biggest economy to put pressure on EU negotiators to avoid a messy split.

“Without a real change of approach from the EU negotiators we do now face a real risk of no deal by accident. And that will be incredibly challenging economically,” said Hunt.

“Britain will find that challenging but in the end we will find a way not just to survive but to thrive economically,” he said. “But my real concern is that it will change British public attitudes to Europe for a generation.”

Maas said his country “doesn’t want a disorderly Brexit. We want a deal.” But he acknowledged that on the Irish border issue, at least, “further talks will be necessary to reach practical solutions.”

Maas declined to comment on the threat from Britain’s lead negotiator on Brexit that London might not pay its 39 billion pound (US\$51 billion) divorce bill if no trade agreement with the EU is reached.

The EU parliament as well as national parliaments of EU nations and Britain need to ratify a deal before the U.K. leaves this coming March.

Have a nice and fruitful week!

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