Weekly Updates Issue # 606

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1. Weekly Markets Changes

[March 17, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,490.49 -16.19 -0.10%	2,378.25 +5.65 +0.24%	20,914.62 +11.64 +0.06%	5,901.00 +39.27 +0.67%	$0.7491 +0.67¢ +0.90%	$1,228.90 +24.40 +2.03%	$48.72 +0.33 +0.68%

2. Toronto homes prove too pricey for top 1%

[March 15, 2017] How ridiculous are Toronto home prices?

So ridiculous that even the top 1% of earners are now priced out of the market. Don't believe it? Douglas Porter, chief economist at BMO Capital Markets, may convert you.

Home prices in Toronto rose almost 24% year-over-year in February (using data from the MLS home price index). But Porter's estimates boost that increase to 40% in the past two years when adjusted for inflation. That's because price inflation and wages in Toronto are barely above 2% increases.

To illustrate the absurd situation faced by Toronto homebuyers, he offers the example of a hypothetical professional couple looking to buy a home in the city in a forthcoming economic note.

The couple has saved $100,000 for a down payment. With a baby on the way, one spouse will stay home while the other continues to earn $225,000 a year. That income puts them in the top 1% of Canadian income earners — and at the highest marginal tax rate of 53.53%.

The analysis

Any home more than $500,000 requires mortgage insurance, because above that price point, their down payment becomes less than 20%, observes Porter. Subsequently, they'll have to qualify for a mortgage at the posted five-year rate of 4.84%. Further, any house more than $1 million is off limits because it won't qualify for insurance, per CMHC requirements.

Taking the above into account, as well as such things as a 25-year amortization period, property taxes and heating costs, Porter calculates that the maximum home price they qualify for is about $987, 000.

And that's not enough, considering the average price of a detached home in Toronto is now $1.57 million.

Would accepting a longer commute help? Nope — the average price of detached homes in the surrounding regions is $1.11 million.

The only option: a semi-detached home in the suburbs, which averages $700,000. However, those types of homes aren't common, says Porter.

Policymakers to the rescue?

Clamping down on insurance eligibility hasn't worked to cool the market in Toronto, he says. He thinks a tax on non-resident buyers, shown to be effective in Vancouver, is a good starting point.

"The Ontario Real Estate Association frets about the possibility that a foreign student won't be able to afford a house with the tax," says Porter. "But we wonder why they are not equally concerned about [a high-earning couple's] inability to buy a home under current circumstances. It will be incredibly tough to attract talented folks […] if they will struggle to buy a home and yet still pay taxes of over 50%."

3. Mutual funds, not homes, increase Canadians' net worth

[March 15, 2017] Home sales hit their highest level since April 2016, gaining 5.2% in February compared to January, reveals statistics from the Canadian Real Estate Association.

The national average price for a home sold in February was $519,521, up 3.5% from a year ago.

Excluding Greater Toronto and Vancouver, the national average price was $369,728.

But though many Canadians consider their homes their greatest assets, they can thank mutual funds for an increase in their net worth — at least in the last quarter.

Overall, net worth rose 1% for the last quarter of 2016, reveals StatsCan in its fourth quarter balance sheet and financial flow accounts. Per capita, household net worth was $281,300.

The leading contributor of rising net worth was a 1.2% increase in financial assets, as "the value of equity funds and investment fund shares, particularly mutual funds, benefited from stronger domestic and foreign securities markets," says StatsCan.

Canadians borrow more, but not so much for mortgages

StatsCan data also shows Canadians borrowed more for mortgages last quarter, but less so than you might think, considering housing prices.

For instance, mortgage borrowing represented $18.9 billion last quarter, an increase of $1.2 billion over the third quarter.

That's practically peanuts compared to the increase in consumer credit and non-mortgage loans. Those loans represented $9.5 million in borrowing — an $8.5-billion increase from the previous quarter.

Overall, households borrowed $28.4 billion in the fourth quarter, up substantially from the $18.7 billion borrowed in the previous quarter.

The relatively small increase in mortgage borrowing means the share of mortgage liabilities to total credit market debt is unchanged at 65.5%. (Total credit market debt comprises consumer debt and both mortgage and non-mortgage loans.)

And the household debt service ratio edged down slightly to 14.0% in the fourth quarter from 14.1% in the third quarter. (The ratio measures principal plus interest as a proportion of household disposable income.)

But these indicators could change with any increase in interest rates.

"The historically low interest rate environment prevailing since 2008 has allowed the household sector the opportunity to increase mortgage principal payments," says StatsCan. "At the end of the fourth quarter, household mortgage payments were split almost evenly between the interest and principal portions."

4. Tellers are not advisors, big banks clarify

[March 15, 2017] Some of the country's biggest banks have clarified what they require for employees who use the word "advisor" in their titles.

TD Bank, for instance, says it does not use the term "front-line advisor" for bank tellers. CBC News, in stories last week about aggressive, unethical sales tactics, had reported TD tellers were using the title. The bank says it is reviewing all concerns raised by the reports, acknowledging that "TD is in the trust business. We know we must earn our customers' trust before we earn their business."

At the same time, the Canadian Securities Administrators is reviewing ways to curtail use of the advisor title as part of its proposal for a higher regulatory standard to act in the best interests of clients.

Advisor.ca reached out to Canada's largest six banks for their minimum criteria under which employees can use "advisor" in their title. (RBC declined to comment and Scotiabank and BMO didn't respond.)

TD

Those at TD using the title "financial advisor" must have at least a mutual fund licence from MFDA, says bank spokesperson Jeff Meerman.

"Once in that job, an individual must also obtain a Certificate in Financial Services Advice, through CSI [Canadian Securities Institute], within the first six months," he says. "To clarify, our tellers have the official title 'Customer Service Representatives.'"

Investment advisors, Meerman adds, must be at minimum IIROC-registered.

"A typical career path for someone in a branch might be Customer Service Representative (CSR), Financial Services Representative (FSR) and then Financial Advisor (FA)," he says.

CIBC

Customer service representatives "are not advisors," CIBC spokesperson Susan Kirwin clarified.

These customer reps "help clients with their day-to-day banking transactions, and […] should a CSR recognize a better service for our client, they refer [the client] to a qualified representative," Kirwin says.

All CIBC financial advisors are registered with IIROC, MFDA or Quebec's AMF, she says.

IIROC registrants must complete the Canadian Securities Course (CSC), the CSI's Conduct and Practices Handbook and Wealth Management Essentials Course, plus a 90-day training program. MFDA registrants must also complete additional courses and training.

Financial and retirement planning experts who support advisors must at least hold the CFP designation, CIBC says.

CIBC also uses the advisor title for investment advisors at CIBC Wood Gundy.

National Bank

At National Bank Financial, bank reps can be called a "personal banking advisor" if they have a college diploma and three years' experience, or a bachelor's degree and six months' experience, plus at least a mutual fund representative licence (they must become certified within three months of hiring), says Marie-Pierre Jodoin, bank spokesperson.

5. Investor rights firm files class action against TD in wake of CBC reports

[March 14, 2017] A U.S. investor rights firm has filed a class-action lawsuit on behalf of TD Bank's U.S. shareholders, alleging that TD made "false and/or misleading statements" about how the bank grew its assets.

The allegations come in the wake of a CBC News article released last week that reported TD employees said they were under "'incredible pressure' to squeeze profits from customers by signing them up for products and services they don't need."

A follow-up report released Friday suggests the problem, as reported by CBC News, could be wider spread:

Hundreds of current and former TD Bank Group employees wrote to Go Public describing a pressure cooker environment they say is "poisoned," "stress inducing," "insane" and has "zero focus on ethics."

Some employees admitted they broke the law, claiming they were desperate to earn points towards sales goals they have to reach every three months or risk being fired.

Update, March 15: Another CBC follow-up includes anonymous concerns from current and former employees of all Big 5 banks.

TSX-listed TD shares fell more than 5% on Friday but recovered 1.45% on Monday.

In a statement issued Sunday, TD Bank CEO Bharat Masrani said he doesn't believe the reports are an accurate portrayal of the bank's workplace, but he takes the concerns the story raises seriously.

"TD is in the trust business," Masrani said in the statement. "We know we must earn our customers' trust before we earn their business."

Also on Sunday, Rosen Law Firm, an investor rights firm based in New York, filed a class-action lawsuit in the U.S. District Court of New Jersey on behalf of purchasers of TD's NYSE-listed shares from December 3, 2015 through March 9, 2017, seeking recovery of investor losses. The lawsuit names Masrani and the bank's two CFOs during the class period.

No class has yet been certified.

Among other things, the lawsuit alleges that TD failed to disclose that its "wealth asset growth and increased fee-based revenue was spurred by a performance management system that led to its employees breaking the law at their customer's expense in order to meet sales targets" and that "[TD Bank] lied to customers as to the risk of TD Bank's products."

Further, "When the true details entered the market, the lawsuit claims that investors suffered damages," Rosen Law Firm says in a release.

The allegations have not been proven in court.

A TD spokesperson tells Advisor.ca that the bank cannot comment on any litigation.

OBSI comments

The head of Canada’s main financial services ombudsman says allegations about aggressive sales tactics by TD Bank employees raise “serious concerns” and the watchdog will be keeping an eye out to see if similar issues persist in the broader industry.

“We’ll certainly be monitoring our complaint volumes and monitoring the situation,” Sarah Bradley, the head of the Ombudsman for Banking Services and Investments, said in an interview with The Canadian Press Monday.

Bradley is urging consumers who have encountered such issues to file a complaint with their financial institution.

“Financial institutions have 90 days to deal with it, but if they’re still unsatisfied then that’s where OBSI comes in,” Bradley said. “We’re here to help them resolve those disputes.”

OBSI is an impartial arbitrator that serves as an alternative to expensive legal battles by resolving disputes between banks or investment firms and their clients.

TD Bank left the organization in 2011 in favour for another arbitrator called ADR Chambers Banking Ombuds Office, following in the footsteps of Royal Bank, which did so several years earlier.

ADR Chambers declined to comment on the matter, saying that the investigations it conducts are confidential.

In an email to The Canadian Press, the Financial Consumer Agency of Canada said that it’s “concerned about and is investigating allegations about financial institutions signing consumers up for products or services without providing all the required information, particularly about fees related to the products.”

6. Expect oil industry losses until Q4: Conference Board of Canada

[March 13, 2017] The Conference Board of Canada says the oil industry will continue to lose money for much of this year despite stronger financial conditions and the promise of new pipeline capacity.

Economist Carlos Murillo says the sector has narrowed losses since hitting rock bottom with an $11-billion overall loss in the first quarter of 2016, but it won’t post positive numbers until the fourth quarter of this year.

He says he expects the industry to recover to match its 2010 profit of around $13 billion by 2021.

The board says in a report released Monday that capital investment this year is expected to fall to $22 billion from $27 billion last year as big construction projects in the Alberta oilsands and offshore Newfoundland are completed.

The peak investment level was $62 billion in 2014.
The board says benchmark light crude will average US$55 per barrel this year and rise to US$71 by 2021.
Murillo predicts Canadian industry costs will jump by an average of 13% per year between 2017 and 2021, in part because of pipeline transportation constraints that could force more producers to switch to crude-by-rail options.
"The way we kind of look at it is, because the losses have been so large over the last couple of years, it takes a bit of time to get up there to the point that you actually are starting to make money again," said Murillo.
"Of course, improving revenues will help, but there are already cost pressures."

7. Potential growing pains for Canada's economy

[March 13, 2017] Canadian GDP is expected to grow by 2% in 2017, followed by a slightly firmer 2.1% in 2018, reveals an economics outlook report by RBC.
Ontario is expected to lead the way for the first time since 2000, with a growth rate of 2.5%. Two of Canada's oil-producing provinces, Alberta and Saskatchewan, will swing back to positive growth in 2017 after two years of economic contraction.
Growth in 2017 will be supported by federal infrastructure spending — expected to add almost half a percentage point to GDP — and better performance by Canadian exports. The latter are projected to accelerate slightly following a subpar performance in 2016.
But for now, "don't think that the desired rotation away from the consumer and housing toward non-energy manufacturing is underway," says Nick Exarhos, director of CIBC World Markets, commenting on Canadian equities in an economics outlook report. "We still see [those areas] having constructive fundamentals for equity investors in the medium term."
While a pickup in U.S. business investment and modest U.S. export growth are likely to bolster Canadian exports in 2017, the RBC report warns that "the threat of protectionist [trade] policies has the potential to hurt Canada's small, open economy."
Another potential economic downer: a slowdown in real estate activity, as lack of affordability and legislative changes cool overheated urban housing markets.

Interest rates pressure

And, moving into 2018, consumer spending could be further challenged as rates rise, effectively increasing debt-service costs for consumers. However, any increase in rates is expected to be implemented at a grinding pace.

"The Bank of Canada will be more patient than the Fed in returning to higher rates," says Avery Shenfeld, chief economist at CIBC World Markets, in CIBC's outlook report. That's because of risks from U.S. trade policy and also because Canada's labour market is slack compared to that south of the border.

"Canada is running a lap behind in the race to full employment," he says, citing an hourly wage rate of 2% (from Canada's payrolls survey) and an unemployment rate of 5.4% (seasonally adjusted by CIBC). Those figures are 2.8% and 4.7%, respectively, for the U.S., indicating a tighter U.S. labour market.

Further, "Canada's greater weight in the energy sector and lack of momentum in manufacturing meant that 2015–16 saw a retreat in high-productivity, high-paid sectors," says Shenfeld. "An energy sector engineer working a full week as a waiter doesn't constitute full employment."

In contrast, stronger-than-expected U.S. economic data will likely prompt the Fed to increase its policy rate by 25 basis points this month, and a further 50 basis points later in 2017. The Bank of Canada is expected to start tightening in 2018, which will stabilize the interest rate differential next year.

As such, RBC forecasts the Canadian dollar will end 2017 lower, at 72.5 U.S. cents, after trading around 76 U.S. cents in the first two months of the year. The Canadian dollar is projected to reverse most of this depreciation in 2018, rising to 75.2 U.S. cents by the end of 2018.

Have a nice and fruitful week!