Weekly Updates Issue # 548

1. Weekly Markets Changes

[January 22, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,389.58 +316.1 +2.62%	1,906.90 +26.57 +1.41%	16,093.51 +105.4 +0.66%	4,591.18 +102.8 +2.29%	$0.7084 +0.27¢ +0.38%	$1,098.20 +9.60 +0.88%	$32.25 +2.55 +8.59%

2. Canada-EU trade deal could be in place in a year

[January 22, 2016] The massive free trade pact between Canada and the European Union will, for the most part, be a done deal in one year even if it is not fully ratified, says Europe's top envoy.

Marie-Anne Coninsx, the EU ambassador to Canada, said the final text of the comprehensive deal on goods and services, known as CETA, will be presented to the European Parliament by mid-2016.

"The most important stage in order to start implementation will be the agreement of the European Parliament, the consent of the European Parliament," Coninsx said in an interview.

"If the parliament says yes, at that moment, the agreement can start its provisional implementation."

Provisional implementation means that the vast majority of the sweeping deal on goods and services will apply to all areas that are the "exclusive competence of the European Union, which means more than 90%," she said.

Asked when she saw that happening, Coninsx replied: "entry into force, early 2017."

That doesn't in any way diminish the role of the EU's 28 member states in debating and ratifying the deal, said Coninsx, who called it "the most ambitious trade agreement ever concluded by the EU."

But the diplomat's remarks are among the clearest to date on addressing what is seen by some as an impediment towards bringing the deal in for a long-awaited landing: an unhappy European country with an axe to grind torpedoing the deal in the final stages. Negotiations for the deal started in 2009.

It may also assuage Canada's Liberal government, which must now finalize a deal that the previous Conservative government saw as the jewel in its economic crown.

Both parties are currently engaged in a legal 'scrub' of the consolidated text and translating it into French and the 21 other official EU treaty languages. We will then begin the process of approving the agreement in Canada and the EU.

Federal officials who briefed Prime Minister Justin Trudeau last fall painted a more downbeat picture, suggesting it could take until 2018 to finalize the deal.

"In the EU, endorsement for the CETA will involve various approval steps within EU institutions, through which the governments of each 28 member states exert varying degrees of influence, before an agreement can be signed," says a memo prepared for Trudeau, obtained by The Canadian Press under the Access to Information Act.

"Implementation is likely to require ratification by all 28 member states, a process that is expected to take at least two years after EU institutions approve the agreement."

Coninsx also dismissed any suggestion that the investor-state dispute resolution process, or ISDS, would be an impediment to reaching the deal.

Groups such as the Council of Canadians are in Europe campaigning to fuel opposition to the deal.

"It's mainly led by many people who are anti-U.S., anti-globalization," she said.

Coninsx said CETA has a built-in "modern mechanism" to deal with ISDS, and said that while there "might be some fine tuning for CETA in it, but no re-opening of the agreement."

The so-called legal scrubbing, and the final translation of the text into the EU's more than 20 official languages as well Canada's two, is being done at a robust pace, with lots of teleconferencing between Brussels and Ottawa, she added.

"We have not been dragging our feet. Canadians neither."

3. Infrastructure cash will come after federal budget

[January 22, 2016] Money for infrastructure projects meant to stimulate the economy, which will likely focus on repairs and maintenance in the first phase of funding, will start flowing soon — but not before the budget is passed, the infrastructure minister said Thursday.

Amarjeet Sohi told the Toronto Region Board of Trade an initial two-year phase of spending will "lay the foundation" for the Liberal government's 10-year infrastructure strategy.

The current economic situation makes the need for those investments "urgent," Sohi said after his speech, but added there is a process the government needs to go through.

"Once the budget is finalized and passed … then we will start getting money out to the communities as quickly as possible," he said.

Sohi said his goal is to ensure investments can be made in the next construction season.

The original Liberal plan was to divide $60 billion among public transit, green projects, and social infrastructure like affordable housing over 10 years, with just $17.4 billion earmarked to flow during the party's first mandate.

Insiders have told The Canadian Press the Liberals are "actively" considering speeding up delivery of the new infrastructure spending.

Sohi said he wants to heavily invest in repairs and deferred maintenance for the first two years of infrastructure spending, as those projects could be done quickly and help boost the economy this year.

"It's not a shiny thing to invest in, water, wastewater and repairing the infrastructure, but that is critical to the quality of life," he said. "Just imagine for a minute if your water, wastewater system fails. It's a direct impact on health. It's a direct impact on the health of the communities and a huge burden on the economy, so this is something that is needed."

Sohi also said there is a need to spend money committed by the previous government.

"(They) allocated $1 billion for Alberta's infrastructure in 2014, but unfortunately very little of that money has actually been invested into Alberta's economy," he said. "I think we have an opportunity to look at our existing funding and get that money out into Alberta, as well as economies throughout the country. This is money that has been allocated but has not been delivered."

Alberta's infrastructure minister has said it's too early to say which projects in the province would be at the top of the list.

Sohi wouldn't say how the new infrastructure money will be allocated, saying the criteria is being developed in consultation with municipalities, provinces and indigenous communities.

"We need to be nimble enough to adjust our programs to ensure we are investing throughout the country," he said. "We're going to leave the decisions to the local communities to make."

The Federation of Canadian Municipalities praised the minister's "collaborative" approach.

"Repairing and upgrading affordable housing, public transit, water systems, and other municipal infrastructure is crucial to our quality of life and to the Canadian economy," said president Raymond Louie.

Conservative infrastructure critic Dianne Watts said while it's important to invest in communities, but it's also important to do it "responsibly and with a clear cut plan."

"Any plan to invest and create growth cannot be achieved without responsible deficit management," Watts said in a release.

"So far I haven't seen a plan from the Liberal government that shows how big their deficit is going to be, what benchmarks they will use to measure if these investments are actually contributing to growing the economy, and what programs will be cut or what taxes will be raised in order to pay for it all."

4. Cost of fresh produce helps push annual inflation up by 1.6%

[January 22, 2016] Fuelled by climbing prices for fresh fruits and vegetables, Canada's annual inflation rate accelerated last month to 1.6%, Statistics Canada said Friday.

The December inflation reading in the agency's latest consumer price index followed a 1.4% year-over-year increase in November.

The country's inflation rate was released as the economy deals with the effects of the steep slide in commodity and oil prices, which have also dragged down Canada's exchange rate.

On top of higher produce prices, Canadians were also paying considerably more for home and mortgage insurance, automobiles and electricity compared to a year earlier, the report said.

Prices for fresh fruit were up 13.2% compared to a year earlier, while fresh vegetables rose 13.3%. The price of lettuce, for example, surged by 21.8.%. Overall, consumers spent 3.7% more on food last month than the previous year.

The agency said lower prices for gasoline, natural gas and fuel oil applied downward pressure on inflation. Gasoline prices were down 4.8% compared to December 2014, while natural gas decreased 12.9% and fuel oil dropped by 16.8%.
The report said consumer prices increased in every province last month compared to the year before, with British Columbia seeing the largest gain.
The core inflation rate, which excludes some volatile items such as gasoline, was up 1.9% last month, slipping below the 2% mark for the first time since July 2014. The core rate is followed closely by the Bank of Canada.
Statistics Canada also released its year-end review for 2015, which showed the country's annual average increase in inflation was 1.1%.
Core inflation had an annual average increase of 2.2% last year, reaching its highest level in a year-end review since 2003.
Statistics Canada also released data Friday for retail sales in November.
They were up 1.7% compared to the previous month as Black Friday promotions and a boost in sales at new car dealerships helped push the total figure up to $44.3 billion.

5. $55 oil could happen as early as next year

[January 22, 2016] Canada's beleaguered oil and gas industry might finally catch a break later this year, said panelists at the CFA Society Calgary's 39th annual forecast dinner, which took place Thursday.
"We see meaningful upside in oil," says Ed Devlin, PIMCO managing director and head of Canadian portfolio management, predicting the price of oil will rise to US$55 by January 2017.
He's equally optimistic when it comes to the overall markets, and does not expect the current downturn to persist. "While markets might go a bit lower, we think these dips are opportunities to buy assets," Devlin says.
"As long-term investors, we think this current market volatility and downturn has given us some good opportunities to buy assets. We're not at a point where the Fed, or any other central bank, is going to pull away the punch bowl any time soon. This will present opportunities for patient investors to make some money."
A self-described "bond geek," Devlin's one big buy for 2016 is a 3.25%-coupon bond issued by Brazilian state-run oil company Petrobras, which matures in March 2017 and yields 12.25%. "Brazil is on the radar screen, but it's not for the faint of heart," he says.
Panelist Jeffrey Goldenberg, managing director and director of portfolio strategy with Goldman Sachs' Investment Management Division, is more

cautious. He says the current financial market volatility will be here “a fair bit longer,” although he points to a number of hopeful signs.
Led by employment growth, the U.S. will continue to be reasonably strong, as will Europe, says Goldenberg, who describes Europe as “an interesting value opportunity.”
“The European Central Bank will continue to be accommodative, with interest rates remaining low.”
Goldenberg, who expects that global inflation will remain low, thinks the U.S. will see approximately 2% GDP growth this year. “The S&P 500 will end the year modestly higher, anywhere from 2,025 to 2,100.” Interest rates will also move slightly higher, he predicts, with the Fed raising rates by 25 basis points two to four times in 2016. The U.S. dollar will continue to be strong relative to the euro and Chinese renminbi.
For Canada, Goldenberg expects modest economic growth overall. “Further, all commodities are in oversupply, and are especially challenged by China’s transition from an investment-led to a consumption-led economy.”
But he says the loonie has bottomed.
“The Canadian dollar has seen the worst, relative to the U.S. dollar, and should find a bottom over the course of the next six months as energy prices begin to improve,” says Goldenberg, who also expects energy prices to be higher by year’s end — anywhere from US$40 to US$50 per barrel. “That would be the commodity that has the best outlook over the shortest period of time,” he notes.
As for investments, says Goldenberg, “A moderate portfolio is likely to hopefully deliver returns in the low single digits. We expect stocks to do better than bonds over the coming year. Investors should have ample liquidity to take advantage of potential opportunities that develop over the year.”
The third panelist, Sproglit CEO Todd Buchholz, is a former White House director of economic policy. He notes the world economy was led for years by natural resources. “With commodities collapsing, that baton has to be passed to another segment of the economy. Consumers have to pick up the baton, and the retail sector has to start driving the world economy,” he says.
“For 2016, investors should recognize that falling commodity prices, while creating great pain for Alberta and other parts of Canada, do provide upside for other segments of the economy. […] It’s a good thing Canada is part of NAFTA, because the U.S. and Mexico form one of the few regions in the world that’s enjoying decent growth.”
Buchholz says that as long as inflation stays low, interest rates can also remain low. “And as long as interest rates stay low, advanced economies

will be able to crawl their way out of the financial ruins of December 2015 and January 2016."

6. RBC selling auto, home insurance unit to Aviva

[January 21, 2016] Royal Bank of Canada is selling RBC General Insurance and moving some of its employees to Aviva Canada.

The bank will receive about $582 million from the sale of the home and auto insurance business and RBC estimates it will realize a $200-million after-tax net gain from the deal, which will close sometime between July and September.

Aviva Canada will also provide a full suite of property and casualty insurance to RBC customers, including home and auto, under a 15-year strategic agreement with the bank. Policyholders won't be affected at this time.

About 575 RBC employees will move to Aviva and others supporting the sales process will remain with the bank.

Those that are moving to Aviva are responsible for claims, underwriting, product development, information technology and related functions.

"This partnership is a fantastic addition to Aviva Canada, diversifying our distribution alongside our highly-valued 1,500 independent brokers," Aviva Canada chief executive Greg Somerville said in a joint statement.

The head of RBC Insurance said the deal will allow the bank to focus on and invest in areas with the greatest potential for growth, including life, health and wealth insurance.

"RBC Insurance is one of the fastest growing direct-to-consumer home and auto insurance providers in Canada and this partnership will allow us to maintain our deep client relationships, while offering a full suite of property and casualty insurance products," said Neil Skelding, the president and CEO of RBC Insurance.

7. Poloz makes right call for fixed-income markets

[January 20, 2016] Traders looked for buying opportunities in corporate bonds, and outside Canada, as the Bank of Canada held its fire amid lower growth forecasts and a reorienting economy.

The Bank kept its benchmark interest rate at 0.5% and signaled a wait-and-see approach to a Canadian economy adjusting to a low loonie and oil prices.

“They were not hinting toward any more rate cuts later in the spring. They will be waiting for the fiscal stimulus in the federal budget,” said Stéphanie Lessard, vice-president of money markets at CIBC Asset Management.

She adds the decision not to cut was good for fixed-income markets. “It’s really hard to give a good return to your investors [in fixed-income markets] when your rates are close to zero.”

While Canadian government bond rates are low, there are good investments to be made in high-quality corporate bonds outside the energy sector, she said.

Chhad Aul, portfolio manager for Sun Life Global Investments, said in an interview before the BoC announcement that, cut or no cut, Canadian investors would be looking abroad.

“The Canadian economy is going to need some time to really recompose itself from an over-reliance on investment in the oil patch and trying to bring manufacturing, trying to bring exports, back online. It’s going to take a considerable amount of time,” Aul said. “When it comes to an investment perspective, it’s going to be important to maintain your global diversification and make sure that you’re looking for opportunities outside of Canada.”

Aul said a 25 basis point cut today would have had limited effect, given that one of the goals of last year’s monetary easing was to pull down the loonie in support of exports and manufacturing. Driving the dollar down further now could negatively impact consumer spending, he said.

Benjamin Tal, deputy chief economist for CIBC World Markets, said too many investors were opting to hold their money as cash. “I think the eurozone will be a surprisingly interesting place,” he said, suggesting high-quality equities with exposure to gold and bonds.

Yesterday, traders were more or less evenly split on whether the Bank would cut.

The BoC, which cut its benchmark rate to 0.25% amid the 2009 crisis, said the economy is evolving broadly as expected. It calls for global growth to trend upward this year with the U.S. economy on track and a slowing China on a “more sustainable growth path.”

The Bank said it considered the complex forces arising from low oil prices: Canada is earning less income from the rest of the world, the resource sector is shrinking and the Canadian dollar is depreciating, all while the non-resource sector expands.

“That is a lot of structural change,” said BoC Governor Stephen Poloz. “One implication is that it may take up to three years for the full economic impact to be felt, and even longer for all the of the structural adjustments to take place.”

The BoC forecast flat annualized growth for Q4 2015, a downward revision of its previous prediction of 1.5%. It also lowered its 2016 growth forecast from 2.0% to 1.4%; and for 2017 from 2.5% to 2.4%.
Tom O'Gorman, director of fixed income for Franklin Bissett Investment Management, said the Bank appears to feel there's enough stimulus in the system, for now. "They're in a wait-and-see mode depending on the price of oil, the data and the government for the fiscal stimulus," he said.
Given market volatility, he says corporate bonds remain a good option. "I could go on and on about bonds—where the benchmark interest rate, the bank interest rate, is very low but the yield you can get on corporate bonds is considerably higher," he said.
The Bank said it expects the economy to use up its excess capacity around the end of 2017, moving back a previous prediction of mid-2017; and added it has not yet factored in any impacts of the federal government's plans for fiscal stimulus.
The BoC assumes oil prices will remain "near their recent levels," noting prices for benchmark West Texas Intermediate have averaged US$36 per barrel since early December. It acknowledged there remain near-term downside risks to its oil assumptions, given possible inventory increases and warmer weather.
Stock markets were having a rough go even before the BoC's announcement. Canadian stocks, the loonie and oil took a further beating Wednesday, with the S&P/TSX composite index dropping more than 3% at one point during the day.

8. What you need to know about the market correction

[January 20, 2016] The stock market is cyclical. It builds up, peaks, then falls – and then the process starts over again.
Right now, we're in the falling part of the cycle, and all three major equity markets (the NASDAQ, S&P500 and Dow Jones) are in what's called a correction, defined as a 10% drop from a recent peak. Stock market corrections have historically happened every 18 months. The last time we had a correction was August 2015, but that was the first in nearly four years, an unusually long gap.
Corrections happen because investors have been too optimistic about a certain stock or group of stocks, and they keep buying, pushing prices up. As that happens, an investment's price becomes disproportionately high compared to its actual worth. Some people realize this, and get out before their fellow investors. When other investors see that, they become highly

sensitive and if they hear the slightest bad news, they'll leave the market, too. That causes prices to fall, or correct.

Why is a correction happening again?

Chinese stock markets have been extremely volatile in recent months, rising to record highs and then plummeting on worries about policy changes, slowing economic growth and a weaker yuan. While North American investors aren't exposed to those stock markets directly, China is a global powerhouse, so weakness there concerns investors everywhere.

Those concerns have had an outsized effect on prices of oil and other commodities because China is such a big consumer. Couple that with too much oil on the markets, which means oil at its lowest price in 12 years, and you've got a recipe for investor panic.

Here are 4 things that help make sense of the current market turmoil.

Our top dogs are cautiously optimistic.

Our country's top economist, Bank of Canada governor Stephen Poloz, has said he anticipated this mess. Why does that matter?

The Bank of Canada is responsible for two things: monitoring Canada's economic climate and setting the country's interest rates, which it does eight times per year (including today). These decisions impact the value of the loonie and the country's debt levels since they affect how much it costs to borrow money.

Today, the bank said it expected rough markets in Canada and low oil prices, but its analysis shows that global growth will improve this year.

And, provided you don't work in the oil or resource sectors, you will likely keep your job, says Poloz. As a result, you and your fellow Canadians will continue to spend money, buoying our economy.

Plus, you may remember Prime Minister Justin Trudeau promised to kickstart our economy by building and improving public infrastructure, such as roads and bridges. Poloz predicts that action will help boost Canada's markets.

Still, it's time for Canada to change…

PM Trudeau wants Canada to leave its resource-dependent economy behind. "My predecessor wanted you to know Canada for its resources. I want you to know Canadians for our resourcefulness," he told world leaders at the World Economic Forum in Davos, Switzerland, today.

But pivoting will be difficult.

A fifth of our economy is reliant on oil and other natural resources. They directly contributed 15% of Canada's GDP, and 900,000 jobs in 2014, says Statistics Canada. The sector added another 5% to GDP and 900,000 jobs through indirect impact, as workers use their wages to buy homes, cars, go out for dinner, and send money home to unemployed relatives in other provinces.

Bank of Canada governor Poloz says the drop in oil prices over the past year or so has taken $50 billion out of the country's national income, or $1,500 per person.

And it's not just low oil prices punishing the economy. Prices for other commodities are at rock-bottom, too. Canada is the world's top potash producer, and Potash Corp. has had to lay off hundreds of well-paid workers because it can't afford to keep its all facilities open during low prices.

That's why Trudeau and other political leaders want our economy to diversify. The training programs, business incentives and other work needed to get that done, however, will take years.

How does the Bank of Canada make interest rate decisions?

To gauge the economy's health, the Bank considers indicators such as employment data, GDP growth and how key commodities are faring. And, over the last 12 months, the Bank's biggest concerns have been dipping oil prices and slow global growth. As a result, it's cut interest rates twice, which has led to our current overnight rate of 0.5%, which is at a historic low.

…especially because this could get worse

There are signs that America — Canada's largest trading partner — is faltering. The U.S. economy has been expanding for 79 months, when the average is 58.4.

Some economic observers say the U.S. stock market is behaving similarly to how it did at the beginning of the financial crisis. Also troubling are signs that America's manufacturing output has been falling. And last fall, experts said they didn't think America's economy would grow as much as expected in the final months of the year. In fact, at least one analyst thinks the country is already in a recession.

In Europe, things aren't looking great either. The rate of inflation is much lower than policymakers want – coming in at 0.2% in December 2015, instead of a healthy 2%. That points to less consumer demand in another of Canada's largest trading partners.

Fortunately, all this bad news means opportunity.

As mentioned earlier, we're in the falling part of the stock market cycle. It's scary to see prices dropping, but don't panic – if you don't need your invested money now, there's no reason to pull it out. That's because you'd be selling at a time when your investments are low. Worse, once you feel comfortable enough to get back in, things will likely have recovered, and you'll be buying high.

Selling now would go against the fundamental adage of making money: buy low, sell high.

Instead, think of current market turmoil as an opportunity. If you're not retiring for another 25 years, that means you have 25 years to make up today's losses, ride out more bumps and earn returns. That also means that you'll have a chance to buy good, stable companies while their prices are low compared to their true values. Many investors find that automating their investments (e.g., having them deducted on bi-weekly paycheques) can take the emotion out of the decision.

9. PotashCorp shutters N.B. mine

[January 20, 2016] The New Brunswick economy suffered a sudden shock Tuesday when the Potash Corporation of Saskatchewan shut down its Picadilly, N.B. mine for an indefinite period, eliminating up to 430 high-paying jobs.

Citing weak global markets for the fertilizer, the Saskatoon-based company said it had to cut expenses by shifting its focus to lower-cost operations in Saskatchewan.

"This is a very difficult day for our employees and our company," PotashCorp CEO Jochen Tilk said in a statement, referring to the mine near Sussex, N.B. "We understand the significant impact to our people in New Brunswick and the surrounding communities."

The move is expected to save the company up to $50 million in 2016, although these savings will be offset by $35 million in one-time severance costs.

The company is the world's largest supplier of potash, which is used mainly as a fertilizer. It also produces large amounts of nitrogen and phosphates, also used as crop nutrients.

The closure amounts to a major setback for a province trying to turn its economy around.

Sussex Mayor Marc Thorne said the shutdown of the area's largest direct employer came as a shock to the town of 4,300.

"Those who have grown up here and gone to the mine for employment have been able to live a very comfortable lifestyle and raise families … (so) we're going to be looking at a significant loss," he said in an interview.

"There will be no aspect of our community and region that won't feel the effects of this closure."

The mayor said the company had invested almost $2 billion over six years getting the mine ready for full production, but equipment problems and challenges digging caverns for tailings led to delays.

“We never expected, despite the delays and bad news, none of us anticipated full closure of the mine,” he said.

However, the mayor said company officials told him the delays did not prompt the closure. Instead, it was lack of demand from the mine’s principal market in Brazil.

As well, operating costs for the new mine were expected to be roughly three times higher than in Saskatchewan because of the depth of the potash deposits, he said.

Still, Thorne said he expects the mine to reopen.

“I can assure you that PotashCorp didn’t invest $2 billion … just to walk away.”

About 35 employees will be kept on to maintain the idled facility and another 100 will remain in place during a four-month transition. Should the company decide to resume operations, it would take about a year to get it running again.

The province’s mines minister, Donald Arseneault, said the company contributed $18 million in royalties to the province last year, and it also purchased up to 40 megawatts of electricity from the Crown-owned utility NB Power.

“These are very high-paying jobs,” he said. “When you lose over 400 of them, it does have an impact on the province’s revenues … It’s a tough day.”

He said the provincial government has already deployed a post-secondary training team to help the residents of Sussex.

Dominic LeBlanc, federal Liberal House leader and senior cabinet minister from New Brunswick, admitted it will be tough for people in the Sussex area to find new jobs.

“The New Brunswick economy is in a particularly tough spot,” he said at the conclusion of a federal cabinet retreat in Saint Andrews, N.B.

“We shouldn’t underestimate the personal disruption and worry that this will represent for these hundreds of families. The Sussex economy largely depended on this global leader.”

Federal Natural Resources Minister Jim Carr, who is from Manitoba, said people from the West are well acquainted with what southern New Brunswick is going through.

Slumping commodity prices are to blame for the elimination of tens-of-thousands of jobs in energy-rich Alberta, Saskatchewan and Newfoundland and Labrador.

"As a government, we are committed to broadening in the long term our capacity to create jobs in the energy sector … and New Brunswick is a very important part of that strategy," he said. "We in Western Canada understand the personal consequence of layoffs in this sector."

PotashCorp has been struggling to cope with weak markets for years. Cuts made in 2013 took out 3.5 million tonnes in potash production.

When the company reported a drop in quarterly profits and sales in October, it also announced it would permanently close its older Penobsquis mine in New Brunswick, cutting 140 contract jobs.

The mine, adjacent to the Picadilly operation, was supposed to close in 2016 but the shutdown was moved up to November 2015.

At the time, PotashCorp said the Penobsquis closure would allow the company to ramp up production at Picadilly, a lower-cost operation.

For the three months ended Sept. 30, PotashCorp said its net income dropped to US$282 million or 34 cents per share, down from US$317 million or 38 cents per share in the third quarter of 2014.

Revenue from sales of potash, nitrogen and phosphates and related fertilizer products or services fell to US$1.53 billion from US$1.64 billion.

On Tuesday, the company said more than 100 positions will be available for New Brunswick employees at its Saskatchewan operations, with funds being made available for relocation.

As well, a $5-million community fund will help former employees get skills training and provide support to local businesses and charitable organizations.

10. BoC maintains rate at 0.5%

[January 20, 2016] The Bank of Canada is maintaining its target for the overnight rate at 0.5%. The Bank Rate is correspondingly 0.75% and the deposit rate is 0.25%.

In its announcement today, the Bank says global economic conditions are broadly what it anticipated in October's Monetary Policy Report.

"China continues its transition to a more sustainable growth path and the expansion in the United States is on track, despite temporary weakness in the fourth quarter of 2015," says the BoC. "The U.S. Federal Reserve has begun to gradually withdraw its exceptional monetary stimulus." It also expects global growth to "trend upwards" starting this year.

"Governor Poloz is willing to wait to see what the Finance Minister provides as a bolster to the economy before pulling the trigger on any more monetary easing," writes Nick Exarhos of CIBC Economics in a note to analysts.
While the bank says that "financial vulnerabilities continue to edge higher," it says that's expected. Exharhos says that overall, the tone of the BoC's rate decision comments is "fairly optimistic."
Inflation in Canada is evolving broadly as expected, the BoC says. Total CPI inflation remains near the bottom of its target range as the disinflationary effects of economic slack and low consumer energy prices are only partially offset by the inflationary impact of the lower Canadian dollar on the prices of imported goods. As all of these factors dissipate, the BoC expects inflation will rise to about 2% by early 2017. Measures of core inflation should remain close to 2%.
Prices for oil and other commodities have declined further and this represents a setback for the Canadian economy. GDP growth likely stalled in the fourth quarter of 2015, pulled down by temporary softness in the U.S. economy, weaker business investment and several other temporary factors. The Bank now expects the economy's return to above-potential growth to be delayed until the second quarter of 2016. The protracted process of reorientation towards non-resource activity is underway, helped by stronger U.S. demand, the lower Canadian dollar, and accommodative monetary and financial conditions. National employment remains resilient despite job losses in the resource sector and household spending continues to expand.
The Bank projects Canada's economy will grow by about 1.5% in 2016 and 2.5% in 2017. The complex nature of the ongoing structural adjustment makes the outlook for demand and potential output highly uncertain. The Bank's current base case projection shows the output gap closing later than was anticipated in October, around the end of 2017. However, the Bank has not yet incorporated the positive impact of fiscal measures expected in the next federal budget.
The next rate announcement will be March 9, and the next full economic outlook update is April 13.

11. Debt ratios climb higher for Canadians

[January 19, 2016] The federal budget watchdog says in the coming years increasingly indebted households are poised to become the most financially vulnerable Canadians in decades.

The parliamentary budget office says indebtedness continues to edge higher in Canada — which has seen the largest increase in household debt relative to income of any G7 country since 2000.
The office released a report predicting the ratio of debt payments — including principal and interest payments — relative to disposable income will creep upwards over the next five years as interest rates rise.
The report projects that by the end of 2020, this ratio will increase to 15.9% of disposable income from its late 2015 level of 14.1%.
The office says this increase would mean households would be even more vulnerable to negative shocks to their income or to interest rates, which could also have a negative effect on financial institutions.
The budget office says the ratio's highest level over the past 25 years was 14.9% — a mark reached in late 2007.
The BoC has pointed to the potential hazards linked to high household debt, particularly if the country were hit by a severe recession or a prolonged period of increasing unemployment.
But the central bank has argued that the likelihood of household debt levels becoming a serious problem remains low and the situation is likely to improve once the economy starts to recover.
The bank has said there's been little evidence of significant increases in delinquency rates.

Have a nice and fruitful week!