Weekly Updates Issue # 550

1. Weekly Markets Changes
2. Canadian unemployment ticks up
3. U.S. unemployment dips to 4.9%, lowest since 2008
4. Opportunities for Canada in China's new economy: IIAC
5. Trudeau to fast-track $700M to Alberta
6. The story behind China's weakening currency
7. Toronto-area home market still going strong
8. EI reforms would help labour market: report
9. Canadians still confused about TFSA
10. Foreign buyers to boost GTA's high-end real estate sales

1. Weekly Markets Changes

[February 5, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,763.99 -58.14 -0.45%	1,880.05 -60.19 -3.10%	16,204.97 -261.3 -1.59%	4,363.14 -250.8 -5.44%	$0.7184 +0.28¢ +0.39%	$1,174.10 +56.00 +5.01%	$31.00 -2.74 -8.12%

2. Canadian unemployment ticks up

[February 5, 2016] Canada's employment level was virtually unchanged last month as a net gain in Ontario jobs was offset by losses in Alberta, Manitoba and Newfoundland and Labrador.

Statistics Canada's latest labour force survey says the national unemployment rate still crept up to 7.2% from 7.1%, as more people entered the job market.

It says there were 5,700 fewer jobs recorded but the number was within the survey's margin of error and not statistically significant.

The report found a nationwide net increase in the services industry only partially made up for a drop in employment in the goods-producing sector.

The survey says the oil-producing provinces of Alberta and Newfoundland were among the hardest hit as their job losses climbed amid the severe oil-price slump.

The agency says Alberta suffered a net decline of 21,900 full-time positions in January, with the bulk of the decrease concentrated in agriculture and manufacturing. The drop was offset in part by an increase in part-time work.

The report says Newfoundland showed a net decrease of 2,400 jobs last month — knocking employment down 3.1% compared to the year before.

The agency says Ontario was the only province to show significant growth last month as it added 19,800 net positions, including 16,300 full-time jobs.

Compared to a year earlier, Ontario showed a net gain of 100,200 jobs, an increase of 1.5%.

3. U.S. unemployment dips to 4.9%, lowest since 2008

[February 5, 2016] U.S. employers added 151,000 jobs in January, a deceleration from recent months as companies shed education, transportation and temporary workers but hired others in manufacturing, retail and food services.

The unemployment rate dipped to 4.9%, its lowest level since early 2008.

The report Friday from the Labor Department shows that employers are still hiring steadily, though at a slower pace. The January figures follow seasonally adjusted job growth of 262,000 in December and 280,000 in November.

The broader hiring slowdown reflects an increasingly muddled picture for the U.S. economy. Global financial pressures and a volatile stock market have curtailed growth. But January's jobs report appears to have further clouded the economic outlook as it showed that consumers are faring better despite steep declines in several industries.

Consumers appear to be resilient, even as sectors of the economy seemingly insulated from the slowdown in China, downturn in Brazil and fragility in Europe slipped.

The number of people working or searching for jobs increased last month, while the number of unemployed slipped from 7.9 million to 7.8 million — causing the unemployment rate to decline.

Average wages jumped 2.5% over the past year to $25.39 an hour, evidence that the past years of job growth are helping to generate larger pay raises. The income growth meshes with retailers hiring a seasonally adjusted 57,700 workers. Restaurants and bars added 48,800 jobs in a sign of robust consumer demand.

With low gas prices leaving more money in consumers' wallets and borrowing costs low, most economists expect Americans to spend at a decent pace this year and bolster economic growth.

Manufacturers hired a solid 29,000 workers last month, even though other indicators show factory activity weakening as the rising value of the dollar and the sluggish economies of major trade have squeezed exports of U.S. goods. The Institute for Supply Management's manufacturing index has been below 50 for four months, signalling contraction. Orders for factory goods plunged in 2015 — the first annual drop since 2009, when the economy was just emerging from recession.

The health care sector added last month a solid 44,000.

But other sectors of the economy hit a speed bump in January.
Education services — an area sheltered from the global economy — let go of 38,500 workers after steady gains in prior months.
The transportation and warehousing sector downsized by 20,300, likely letting go of seasonal workers after the holiday shopping rush ended. The U.S. Postal Service also parted with 6,000 jobs.
Yet the most notable decline was in temporary workers, whose ranks fell by 25,200 in January. The decrease could indicate that companies are wary that the economy can continue its 6.5 expansion at its previous pace. Corporate profits are declining and goods are piling up on warehouse shelves.
Those trends have elevated concern that a U.S. recession may loom in the next year or two.
Most analysts say that while the economy may slow this year compared with 2015, an outright recession remains unlikely. Economists at Bank of America Merrill Lynch have put the odds of a recession within the next 12 months at 20%. While still low, that estimate is up from 15% last year.

4. Opportunities for Canada in China's new economy: IIAC

[February 4, 2016] All eyes are on China. Is it time to hit the panic button, or are doom-and-gloom headlines overblown? Ian Russell, president and CEO of the Investment Industry Association of Canada (IIAC), helps answer these questions in his latest industry letter.
Russell was in Hong Kong for the 2016 Asian Financial Forum (AFF), held January 18-19. Here are his key takeaways:

- The most pressing concern was the extent of economic slowdown in the country and whether domestic consumption can gradually replace the traditional growth engines of investment and exports.
- Consumption only accounts for 36% of China's GDP, compared to more than 60% of GDP in most industrialized countries.
- The consensus among the participants at the AFF was for the Chinese economy to grow in the 6% to 7% range in 2016. The economy is of such scale and scope that momentum will inevitably continue, and policy-makers will muddle their way through the tough patches. The country is likely to avoid a so-called "hard landing."

Russell notes investors appear less convinced of a soft landing than pundits, "influenced by the collapse in the Chinese stock market and the dithered response of Mainland policy-makers."
Implications for Canada

The expansion of China's service sector and the growth of the middle class present opportunities for Canada, says Russell.

"Canada has demonstrated comparative advantage in areas like agricultural products, foodstuffs, bio-technology, pharmaceuticals, health care, clean tech, environmental services, and financial services such as insurance and wealth management. Growing demand for these products and services in China will provide a needed catalyst for continued expansion of Canadian businesses that specialize in these areas."

The financial industry's main challenge is to find ways to satisfy the offshore investment needs of Chinese institutions. "Diversified managed fund products specialized in high-yield investments in Canadian high-tech, bio-tech and clean-tech companies, health care, and infrastructure could fit the Chinese investment criteria," says Russell.

"These funds would need relationships with Hong Kong financial institutions for access and distribution to Chinese investors. The large Canadian banks and insurance companies will continue to build out their existing wealth management and insurance businesses directly into China through joint ventures, or projected through the Hong Kong platform."

5. Trudeau to fast-track $700M to Alberta

[February 4, 2016] Alberta Premier Rachel Notley and Prime Minister Justin Trudeau emerged from a meeting Wednesday with a formal commitment to fast-track $700 million in previously committed federal infrastructure money to the struggling province.

"The federal government is committed to fast-track infrastructure investments for Alberta, and indeed all provinces and territories," Trudeau told reporters in the rotunda of the legislature after the meeting.

"This will help promote jobs and growth where they are needed most."

Notley, standing beside Trudeau, said talks are continuing on where the money should go and how to get it flowing.

"Today we were able to confirm that the federal government will start pushing it out the door as soon as we are ready to go. We really are talking a matter of weeks to months," said Notley.

Her government ramped up infrastructure spending in its last budget to catch up on a backlog of projects and help keep the economy moving in difficult times.

Alberta's bedrock petroleum industry is losing billions of dollars a year as the benchmark price for oil has fallen by two thirds since the middle of 2014.

The plunge has led to almost 20,000 job losses in 2015, the highest such figure in three decades.
Notley's team will spend $34 billion over the next five years on a range of infrastructure projects, including roads and bridges, 200 new and upgraded schools, a new cancer care centre in Calgary and upgrades to two hospitals in Edmonton.
The spending will come with a heavy price tag if oil stays low. Alberta is on track to run a $6.1-billion deficit this year and will rack up almost $48 billion in debt by the end of the decade.
The federal government has been saying it wants to expedite $13.1 billion in existing national infrastructure cash allocated in 2014-15 by the previous Conservative government, but never spent.
Of that sum, $704 million is earmarked for Alberta.
Before Wednesday, there had been no formal announcement on the fate of those dollars.
Federal Infrastructure Minister Amarjeet Sohi was with Trudeau in Edmonton.
Sohi couldn't confirm all $700 million would flow.
"It depends on the list and what goes on there and the number of projects," he said.
Notley said she also pushed Trudeau to make changes to Employment Insurance that will broaden access for laid-off energy workers.
"I asked the prime minister to consider ways to ensure employment rules make access to EI easier for Albertans and to consider the length the benefit is available," Notley told reporters.
Trudeau didn't make any commitments around EI, but noted that his party campaigned on easing access to the program in times of need.
It was a rare meeting between a prime minister and an Alberta premier under the legislature dome. The last such meeting was in 2005 with then-prime minister Paul Martin and Ralph Klein, according to Notley's office.
After meeting with Notley in Edmonton, Trudeau heads to Calgary on Thursday to meet with leaders in the energy industry.
The province's oil sector is looking for strong signals that Trudeau is serious about helping deliver its commodity to the coasts where it can be shipped to foreign markets.
A key plank in that plan is Energy East, a controversial pipeline that has drawn the ire of many along its route through Eastern Canada.
Trudeau has faced pressure from some, including Saskatchewan Premier Brad Wall, to advocate for the project rather than playing peacemaker between the different sides.

Trudeau said Wednesday he wants to let the approval process play out through the National Energy Board.
“We agreed that we must get Alberta’s resources to market in responsible, sustainable ways,” Trudeau said.
“This agreement is based on our shared goal of ensuring that there is proper market access for our energy projects.”

6. The story behind China’s weakening currency

[February 4, 2016] Downward pressure on China’s currency is due to interest rates, which are rising in the United States and falling in China.
Thanks to this scenario, China’s currency and exchange rate will be affected, and we may see further weakness in the renminbi, says Kenrick Leung, director of investments at Amundi Asset Management in Hong Kong, and manager of the Renaissance China Plus Fund.
But, China’s recent currency fluctuation has also been market-driven, he adds.
“I don’t buy into the camp that believes China is trying to devalue its currency to be more export-competitive. If you look at the end of last year, it was quite important for the [People’s Bank of China] to show that there was flexibility in the currency and to let market dictate the pricing of the currency, along with other commodities and products.”
Meanwhile, the PBOC was also focused on making sure the yuan was included in the International Monetary Fund’s Special Drawing Rights basket, alongside the U.S. dollar, euro and yen. The IMF includes a currency only if it adheres to certain market-based criteria. Leung says, “That’s one of the goals [the PBOC] has accomplished.”
The devaluing of the renminbi isn’t a major issue, he adds, since “most believe the [currency] is overvalued and that it needs to be devalued. But I think it’s much more complicated than that.”
Leung explains that “the capital account of China has been a one-way bet for the last few years. Over the last decade or so, it [built] $4 trillion of reserve quickly. And over the last year or so, we’ve seen the reserve number come down steadily. We can [debate] about how much reserve China actually needs, but [that] has everything to do with the fact that we will see slower rates of growth in China.”
As a result, he adds, “People are a little bit warier of how safe their money is. So there’s outflow of money out of China. But the PBOC is very savvy. We may get weakness in the renminbi, but it will be 4% or 5% per year, and that’s inevitable if you’re lowering your interest rates at a time when there’s capital outflow.”

Overall, says Leung, the PBOC is committed to releasing economic stress and maintaining a certain amount of liquidity in the system.

Investment opportunities

Leung foresees opportunity in the Chinese market as a result of volatility, which will be caused by China's weakening growth and currency. Such volatility could trigger a capital market sell-down and bargains will be available.

But, "It's not about looking at beneficiaries of renminbi weakness," he says. "It's more about looking at beneficiaries of a market sell-down, where valuations [could be] extremely attractive in some equity spaces."

Since global markets are weak, he notes, a 3% move in the renminbi won't significantly boost China's exports. "Individually, there are a lot of companies hurt by the renminbi being weaker. They are taking foreign-exchange losses."

What a weak currency will do is change the perception that the renminbi will always rise and that, as a result, it's acceptable for China to have foreign debt, says Leung. "It's no longer a one-way [appreciation] bet, which is what the game has always been. Companies have been raising off-shore debt [since] debt servicing gets easier as the renminbi strengthens. That's no longer the case."

7. Toronto-area home market still going strong

[February 3, 2016] Housing sales in the Toronto area continued to post strong growth in January, with the number of deals up 8.2% from the same month last year.

The Toronto Real Estate Board also says prices were up by 11.2%, as measured by a benchmark price index.

The average selling price within the region was $631,092 last month, with the City of Toronto's average at $636,728 and surrounding areas averaging $627,871.

Toronto and parts of southern Ontario were among the hottest in Canada last year, surpassed only by the Vancouver area and the Lower Mainland region of British Columbia.

"It is clear that the handoff from 2015 to 2016 was a strong one," TREB president Mark McLean said in a statement.

8. EI reforms would help labour market: report

[February 2, 2016] The C.D. Howe Institute says reforms to employment insurance and moves to develop a more highly skilled workforce can help Canada's labour market adjust to weakened economic conditions.

The Toronto-based think-tank says the federal government should make changes to EI because the program only covers about half of unemployed Canadians.

The document's author, Craig Alexander, argues that Ottawa should replace its regionally based criteria for EI with eligibility and benefits rules that are uniform across the country.

Alexander also says Canada must focus on creating a more highly skilled workforce as a way to increase productivity. He says such positions made up virtually all net job creation between 1999 and 2012.

The former chief economist at TD Bank says the labour force is facing a number of challenges, including globalization, an aging population and technological changes — all factors that have been compounded by the steep slide in commodity prices.

Meanwhile, the report notes that in recent years, Canada has seen a shift toward more precarious types of employment such as temporary, self-employed and part-time jobs.

The new Liberal government has promised reforms to the EI program, including reducing the waiting time for benefits to one week, from two.

9. Canadians still confused about TFSA

[February 2, 2016] While 55% of Canadians have a TFSA and average annual contributions remain high, there is still confusion over how they work, what can be contained in them and the maximum contribution amounts, according to a BMO report.

The report reveals that two-thirds of Canadians indicate they have some knowledge of TFSAs (67%) and 17% say they are very knowledgeable. Yet only 3% of respondents were able to correctly answer eight basic true or false questions about the TFSA.

Here are some additional findings.

- 24% correctly identified the maximum annual TFSA contribution limit of $5,500, which is a slight increase in awareness compared to the last two years (22% in 2014, and 19% in 2013);
- 56% were aware that the annual contribution rate is not linked to their income; and
- 23% know there is a monthly penalty for over-contribution.

Further, keeping track is important because 10% of TFSA holders contributed over their limit this past year. And 85% believe their financial advisor should be tracking contributions for them.

Here are some tips to avoid TFSA confusion.

- The 2016 TFSA contribution limit is $5,500.
- To open a TFSA, you must be 18 years of age or older.
- The penalty for over-contribution is 1% of the highest excess amount within a given month, and will be charged for each month that the excess amount remains in the account.
- TFSAs can hold both cash and investments, including GICs, stocks and mutual funds.

10. Foreign buyers to boost GTA's high-end real estate sales

[February 1, 2016] Demand for luxury properties priced at more than $5 million increased in 2015, says luxury realtor Barry Cohen. As a result, home sales climbed 108% to 77 units in 2015, up from 37 in 2014, he adds.

Overall, says Cohen, "2015 was a banner year for real estate activity across the board. And, nowhere was that more evident than in the upper end." Also, he notes, "Tight market conditions prevailed throughout much of the year, with fewer ultra high-end listings coming to market […] Pent-up demand is expected to carry over into 2016."

The vast majority of GTA luxury sales occurred in the Bridle Path-Sunnybrook area, which reported 43% of last year's high-end sales. Following that, 16% of such sales occurred in Forest Hill South. Meanwhile, listings were scarce in upscale neighbourhoods in close proximity to the downtown core.

"Given that this segment of the market is typically the first to soften in volatile economic times, it's surprising that the strength of the high-end has continued," says Cohen. It seems "recent turbulence in the stock market has prompted renewed interest in other tangible real estate assets, such as second homes and development properties."

Also, the strength of the U.S. dollar is expected to bolster demand for luxury real estate in the GTA in 2016, as international purchasers take advantage of the currency exchange. Location and education are the primary drivers for such, says Cohen, who notes Toronto is considered a safe haven for investment.

For the most part, purchasers in 2015 were local entrepreneurs, business executives and professionals, but foreign investors also factored into the mix," says Cohen. "Buyers from Mainland China, in particular, should play an even greater role in the top end of the GTA's luxury market in the next six to 12 months."

Have a nice and fruitful week!