Weekly Updates Issue # 552

1. Weekly Markets Changes

[February 19, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
12,813.40 +432.2 +3.49%	1,917.78 +53.00 +2.84%	16,391.99 +418.2 +2.62%	4,504.43 +166.9 +3.85%	$0.7264 +0.43¢ +0.56%	$1,226.60 -11.90 -0.96%	$31.96 +2.94 +10.1%

2. U.S. Fed official to deliver plan to splinter big banks

[February 19, 2016] In a speech this week, the new president of the Federal Reserve Bank of Minneapolis, Neel Kashkari, stressed that big banks in the U.S. need to be broken up.

In his first speech as leader of the Minneapolis central bank, he stated, "In the last six years my colleagues across the Federal Reserve system have worked diligently […] and are fully utilizing the available tools under the Dodd-Frank Act to address the problem of too-big-to-fail banks. While significant progress has been made to strengthen our financial system, I believe […] the biggest banks continue to pose a significant, ongoing risk to our economy."

As a result, he adds, "Now is the right time for Congress to consider going further than Dodd-Frank with bold, transformational solutions to solve this problem."

Kashkari went on to announce that the Federal Reserve Bank of Minneapolis plans to develop an actionable plan by the end of year to break up banks.

But, he conceded, "Ultimately, Congress must decide whether such a transformational restructuring of our financial system is justified."

Industry reaction

As it turns out, Kashkari isn't alone in worrying about the state of the financial system. Reuters reports that some top bankers agree they'd be better off if institutions were smaller and simpler. In exclusive interviews, six senior bankers told Reuters they're "struggling with the costs and restrictions they face as a result of new regulations, as well as a weak global economy and troubled financial markets."

But, executives wouldn't want "authorities to force them to split up or downsize," explains Reuters, since the major restructuring of banks would be tough and would have to include consideration of how post-recession regulations have been applied.

3. Fruits and veggies push inflation higher

[February 19, 2016] Canada's annual inflation rate hit 2% last month as prices for fresh fruits and vegetables continued their surge, the federal statistics agency said Friday.

Statistics Canada's January year-over-year inflation number was up from 1.6% in December.

The agency's latest consumer price index found the overall cost of food was up four per cent last month compared to a year earlier — with fresh vegetable prices up 18.2% and fruits up 12.9%.

A closer look at the data shows that lettuce prices last month were 17.9% higher than the year before, apples were up 16.6% and tomatoes up 11.9%.

The annual inflation rate climbed in every province last month at a time when the weaker Canadian dollar was contributing to higher costs for imported goods. The effects of the steep decline in oil prices have played a big part in pushing down the exchange rate.

Year-over-year prices moved upwards in every category of the index except for clothing and footwear, which saw a decrease of 0.3% compared to January 2015.

Lower prices in January for items such as natural gas, fuel oil and telephone services kept downward pressure on the inflation reading, the agency said.

Natural gas was down 18.6%, fuel oil down 15% and telephone services 2.5%.

The overall January inflation rate also hit the Bank of Canada's ideal target of 2%.

The central bank watches the inflation rate very closely whenever it makes decisions on whether to move its benchmark interest rate. Its next policy meeting is scheduled for early next month.

The core inflation rate, which excludes some volatile items such as gasoline, had been 1.9% in December.
Statistics Canada also released its most-recent retail sales data, which showed a drop of 2.2% to $43.2 billion in December compared to the previous month.
The last time retail sales saw a month-over-month drop of that size was April 2010 when it fell by 2.3%, the agency said.
Retail sales fell in almost every sub sector, with motor vehicle and parts dealers seeing the biggest decrease in dollar terms, the report said. Retail sales decreased in every province except for Prince Edward Island, where they ticked up 0.1%.
By comparison, retail sales increased 1.7% in November and 0.1% in October.

4. Wynne says wine coming to grocery stores by this fall

[February 18, 2016] Ontario has announced plans to allow the sale of wine in up to 300 grocery stores, starting with about 70 supermarkets by this fall.
Premier Kathleen Wynne says of those initial 70 licences for grocery stores, half will be restricted to selling only Ontario VQA wines for the first three years, while the rest can sell Canadian and international wines as well.
Wynne visited a Toronto supermarket this morning to announce that up to 150 grocery stores will eventually get new licences to sell wine.
And she said another 150 existing wine stores now located just outside a grocery store checkout will be permitted to move inside the store and share the checkout.
The expansion of wine sales follows last year's decision by the Liberal government to allow some grocery stores to sell six packs of beer and to let the LCBO sell 12-packs in addition to the six-packs it had been retailing.
Wynne also announced that cider can be sold in any grocery store that sells beer, and that the program allowing Vintners Quality Alliance wines to be sold at farmers' markets will expand to include fruit wines and craft cider.
Ed Clark, the former TD Bank executive who is now the premier's special adviser on government assets, said the government will announce a new minimum price for wine in next week's provincial budget.
And he said small producers of spirits will be allowed to sell directly to bars and restaurants, and will get a greater commission. Currently when they sell their own product at their distillery they get a commission of 13%.
On the wine sales, Clark recommends Ontario allocate further tranches of grocery store licenses at three year intervals to get up to the total of 150,

saying that would allow producers to keep up with the increased production demand.
"Change inevitably works much better when it's done incrementally," he said, warning that a "Big Bang" approach often leads to higher prices.
The changes will help both foreign and domestic wine producers, added Clark.
"Ontario takes its trade obligations extremely seriously," he said.
Clark last year advised the government against privatizing the Liquor Control Board of Ontario, and after updating the beer regulations said that wine was more difficult to tackle because of international trade agreements such as NAFTA.
Ontario now has more than 240 wineries, with VQA sales in the province totalling $288 million in 2014-15, a 66% increase in five years.

5. CPPIB invests US$555M in Florida retirement properties

[February 18, 2016] The CPP Investment Board and a partner are jointly buying six seniors housing properties in Florida for US$555 million.
The Toronto-based retirement fund manager will own 45% of a new joint venture that will buy the Aston Gardens properties, which have a total of 1,930 rental units in low-rise buildings in several communities throughout Florida.
The other 55% of the joint venture will be owned by Welltower Inc. of Toledo, Ohio, which operates a real estate investment trust with 1,400 properties in the United States, Canada and the United Kingdom.
Discovery Senior Living will continue to operate the properties and have a 2.5% ownership stake in the portfolio, which will be owned 97.5% by the joint venture partners.
Two of the Aston Gardens properties are in Sun City Center and the other four are in Naples, Parkland, Tampa and Venice, Fla.
The CPPIB manages investments on behalf of the Canada Pension Plan, which is funded by employee and employer contributions. As of Dec. 31, it had $282.6 billion of assets under management.

6. CPP to be expanded within the year

[February 17, 2016] The Canada Pension Plan will be enhanced in 2016, says federal Finance Minister Bill Morneau.
"Our goal is to work together with all provinces and territories to get to a Canada pension plan enhancement, and our aim is to do that in a

collaborative way this calendar year," he told the House of Commons Feb. 16.
"We are working diligently with provinces and territories across this country in order to improve the Canada pension plan, to enhance it so that Canadians can retire in dignity," he added.
He says the government has also been working with Ontario to co-ordinate pension enhancements as that province gears up to start its own plan.
A study released by left-leaning Broadbent Institute says half of all Canadians aged 55 to 64 without a private pension have only enough savings to survive for about a year.
During the 2015 federal election in which the Liberals came to power, the party promised to work with the provinces to expand CCP, and to create a lifelong pension for injured veterans.

7. ORPP delayed by 1 year

[February 16, 2016] Ontario finance minister Charles Sousa announced today the province would be delaying the ORPP by one year. Large corporations will still have to register with the ORPP as of January 1, 2017, but won't have to start remitting premiums until January 1, 2018.
The Association of Canadian Pension Management is welcoming the announcement, with CEO Bryan Hocking, calling it a "wise" move.
"I think they've had enough input from a number of different organizations and companies that are all saying the same thing at this point," he notes, referring to a growing number of calls in recent weeks to delay the ORPP by one year.
Sousa also announced the province had reached an agreement with the federal government on administrative support for the ORPP. The province says the federal government has agreed to facilitate plan registration and data-sharing arrangements and will work with Ontario on issues, such as collecting employer and employee contributions.

8. Ontario budget will be introduced Feb. 25

[February 16, 2016] Ontario's Liberal government will introduce the 2016 provincial budget on February 25, two months earlier than last year's fiscal plan was announced.
Finance Minister Charles Sousa told the Empire Club of Canada that the government consulted widely on the budget and says it will reflect the priorities of Ontarians.

The opposition parties say introducing the budget so soon after consultations ended makes it look as though the Liberals were not really listening and wrote the document before all the public comments were received.
Premier Kathleen Wynne says the budget will focus on jobs and the economy.
It is also expected to include details on limited wine sales in grocery stores, and firm up the Liberal's plan to eliminate the $7.5 billion deficit in just two years.
Sousa also announced a one-year delay in the start of payroll deductions for the new Ontario Retirement Pension Plan, pushing the date back to January 1, 2018.

9. Home sales surge despite concerns about Toronto, Vancouver

[February 16, 2016] Surging sales in the piping hot real estate markets of Toronto and Vancouver last month prompted one of Canada's big banks to express concerns Tuesday that the cities may be at risk of a home price correction.
The Canadian Real Estate Association reports Tuesday that sales of existing homes rose by 8% in January compared to a year ago, while the national average home price soared 17%.
But it was the sales figures for Vancouver and Toronto that drew considerable notice from economists.
The average sale price in greater Vancouver rose 32.3% year-over-year to nearly $1.1 million, while in greater Toronto it climbed 14.2% to $631,092.
The Multiple Listing Service benchmark price — a figure that CREA says is more representative of the market — rose to $775,300 in great Vancouver, an increase of roughly 21% compared to January 2015. In greater Toronto, the benchmark price climbed roughly 11% year-over-year to $578,400.
TD economist Diana Petramala says some of the strength in the Toronto and Vancouver markets may have been bolstered by buyers looking to get into the market before new mortgage down payment rules took effect Monday.
New federal regulations require larger down payments on homes that cost between $500,000 and $1 million.
"While we continue to believe that things just can't any hotter, markets in B.C. and Ontario continue to prove us wrong," Petramala says in a note to clients.
Petramala adds although foreign investment and immigration are likely to provide support to the Toronto and Vancouver markets in the months ahead,

she's concerned about whether sky-high home prices in those regions are sustainable over the long term.

"Every month of double-digit home price growth raises the risk of a deeper home price correction down the road," Petramala says.

A correction is defined as a drop in value of at least 10%.

The price gains in Vancouver and Toronto fuelled a rise in Canada's national average home price in January to $470,297, CREA says. When excluding Ontario and British Columbia, however, the average sale price actually edged lower by 0.3% from a year ago to $286,911.

Regional differences stemming from the impact of the oil price shock are likely to continue throughout this year, says BMO economist Robert Kavcic.

"Those markets exposed to oil prices are correcting. The uber-tight big-two cities are benefiting from lower interest rates than we otherwise would have seen had oil prices not fallen, while everyone else is scattered in between."

On a month-to-month, seasonally adjusted basis, CREA says national home sales rose 0.5% in January, compared to December of last year.

Meanwhile, the number of new listings on MLS declined by 4.9% in January compared to December.

"Tighter mortgage regulations that take effect in February may shrink the pool of prospective homebuyers who qualify for mortgage financing and cause national sales activity to ease in the months ahead," CREA chief economist Gregory Klump says in a statement.

10. Many Canadians unable to pay bills

[February 16, 2016] Nearly half of Canadians surveyed last month are within $200 per month of being unable to pay for their bills and make their debt payments, finds a poll by MNP.

The survey also found about one-quarter of the 1,582 people who responded to the poll were already unable to cover their bills and debt payments.

Further, 31% say any increase in interest rates could move them towards bankruptcy.

Ipsos Reid conducted the poll about a week after the Parliamentary Budget Office issued a report on January 19 that said Canada has seen the largest increase in household debt relative to income of any G7 country since 2000.

The survey also followed the BoC's decision to keep a key lending rate at a historically low level of 0.5%, as the central bank lowered economic growth estimates for 2015 and 2016.

Have a nice and fruitful week!