Weekly Updates Issue # 569

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1. Weekly Markets Changes

[June 17, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,901.77 -135.8 -0.97%	2,071.22 -24.85 -1.19%	17,675.16 -190.2 -1.06%	4,800.34 -94.21 -1.92%	$0.7757 -0.67¢ -0.86%	$1,301.60 +25.30 +1.98%	$48.26 -0.62 -1.27%

2. Inflation at 1.5% amid low fuel prices

[June 17, 2016] Canada's inflation rate was 1.5% in May, as a drop in fuel prices from a year earlier provided an offset to increases in other consumer goods, Statistics Canada says Friday.

The federal agency's May inflation reading followed a 1.7% year-over-year increase in April.

Higher prices for purchases such as electricity, passenger vehicles and home insurance were offset by cheaper gasoline, fuel oil and natural gas.

Gasoline prices were down 7.1% last month compared with May 2015 and, excluding gasoline, last month's inflation rate was 1.9% — almost equal to the Bank of Canada's ideal target of 2%.

Food prices saw their smallest year-over-year gain last month since March 2014. The increase in prices of fresh vegetables and fruits saw considerable deceleration.

The price tag on apples, however, climbed 17.8% last month compared to the year before. Over the same period, alcohol and tobacco products were up 3.2%.

The annual core inflation rate, which excludes some volatile items such as pump prices and some food, was 2.1% last month after a 2.2% reading in April.

Inflation was lower in eight provinces in May compared to the previous month. Only Manitoba saw a higher rate while Alberta's inflation rate was unchanged.

3. Would Brexit inspire other anti-EU countries?

[June 17, 2016] As Britain prepares to vote on whether to leave the European Union, goodwill between Europe and the island nation is fraying. That's because Britain's anti-Europe streak has never run so deep. And the continent, especially France, is making it clear that political commitment is not a one-way street.

Polls indicate Thursday's vote is too close to call, especially in the wake of the slaying of U.K. lawmaker Jo Cox. While the "leave" camp seemed to be gaining strength in recent days, the tragic killing appears to have snuffed out that momentum as campaigning is put on hold.

At the Arc de Triomphe in Paris, close to France's tomb of the Unknown Soldier, France's Laurence Coin felt ambivalent. "They are completely legitimate as an EU member," she said. "But they need to say it loud and clear, or leave."

Coin, 54, no longer sees the lofty ideals of co-operation dominating the EU as London has in recent years increasingly sought to:

- pay less into EU coffers;
- reclaim more decision-making powers;
- and criticize decisions made in Brussels.

"It looks like they only want to have the good part of the union, but don't want to share the cost," she says.

Among EU countries, France seems to have the strongest views on the unity of Europe and Britain's role in it. A Pew Research Center survey on the possibility of a British exit from the bloc, or Brexit, found that in France, 32% of people think it would be good for Britain to leave—that's the highest among ten EU nations surveyed.

This result comes despite the fact that many continental nations appreciate Britain for its military clout, diplomatic prowess and powerful and open economy. EU countries like the Netherlands and Sweden have also embraced Britain's free-market approach.

So, as much as most in Europe still think it would be bad for the EU to see Britain go, many also want the country to be a more active and enthusiastic member of the EU, rather than just standing on the sidelines, criticizing the bloc's methods and actions.

Paul De Grauwe, a Belgian professor at the London School of Economics, says that despite the advantages to have Britain stay in, it might actually be politically costlier to keep a recalcitrant nation in line since the drive in London to take powers from the EU will remain.

"Even if they stay, that strategy will remain and even become more intense. So, who needs partners like this?" said De Grauwe in an interview. "In that sense, it is better to see them go. Let's stay friends but don't take decisions for us anymore."

Political scientist Dominique Moisi, a special adviser at the French Institute of International Relations, said some backers of more EU unity are actually looking for the British to leave. "They think we could do more without them… that we are going to be able to reinvent Europe."

French President Francois Hollande, who is fervently in favour of European unity, has openly called on Britain to stay. Two weeks ago, he said that since the opening in 1994 of the Channel Tunnel, a symbolic link between the cliffs of Britain and France, "we [have been] united as we've never been before, and I hope the British will remember that when the time comes."

Yet he isn't going out of his way to help Prime Minister David Cameron, the leader of the "remain" campaign. Hollande, a welfare state Socialist, is ideologically distant from Cameron's free market views.

Last month, Hollande and German Chancellor Angela Merkel commemorated together the centenary of the Battle of Verdun, the longest of World War I. The leaders of the erstwhile enemies praised their countries' friendship, risen from the ashes of two world wars and strengthened through EU co-operation.

In contrast, Hollande let it be known well before the referendum that he doesn't plan to attend the July 1st events in Thiepval, which Cameron and the royal family will attend.

A British exit from the EU, however, would bear risks for the bloc's project of ever-closer union.

The EU has been mired in crisis for almost a decade, as it has struggled to cope with financial turmoil and the arrival en-masse of refugees and migrants, for example. A British exit would be seen as a sign of failure for the bloc and could encourage other states to reconsider their membership.

All that would play into the hands of anti-EU political movements and parties. Among the most powerful and vocal is France's far-right National Front, led by Marine Le Pen.

She supports a Brexit "with all my strength and all my heart." She also believes it could be a model for other countries seeking to leave the EU and

a tipping point in history. “[It] will prove that it is possible to live outside the European Union,” she said recently.
Moisi argues that such anti-Europeans think “it’s the beginning of a populist wave that is going to continue with [Donald] Trump and end with Marine Le Pen” sitting in the Elysee Palace after next year’s French presidential elections.

4. Canada’s public pension spending lower than in other rich countries

[June 17, 2016] Canada’s spending on public pensions is dramatically lower than in many other rich countries — even though private-sector pension coverage has deteriorated, say internal Finance Department documents.
The information was part of a briefing book prepared last fall for incoming Finance Minister Bill Morneau and obtained by The Canadian Press. It said that between 1991 and 2013, private-sector pension coverage fell from 31% to 24%.
But at the same time, the document suggests the federal government is not picking up the slack.
Canada spends “significantly” less on publicly funded pension support — through programs such as the CPP/Quebec Pension Plan, Old Age Security and the Guaranteed Income Supplement — than other OECD countries, the briefing states.
A chart in the briefing binder projected Canada to rank No. 17 out of 20 countries in 2015 for public pension spending as a percentage of gross domestic product, with just over 5%. It said the average OECD spending was projected to be 9.5% of GDP.
The document also highlighted concerns that younger Canadians aren’t saving enough for their eventual retirement.
And while the number of private-sector pensions rebounded after the mid-2000s for young adults, there was a shift away from the more-desirable defined-benefit plans, said the heavily redacted note obtained under the Access to Information Act.
Between 1991 and 2013, defined-benefit coverage dropped to 11% from 26%, the document said. Meanwhile, a chart in the briefing binder showed that the percentage of defined-contribution plans had gradually increased.
The adequacy of pension plans will be front and centre for Morneau next week when he meets with his provincial and territorial counterparts to discuss the possible enhancement of the Canadian Pension Plan.

During those talks in Vancouver, Morneau will push the federal Liberals' quest to persuade enough provinces and territories to reform the CPP. A change would require support from seven of the 10 provinces representing two-thirds of the country's population.
Any boost to CPP would be part of a long-term plan to address concerns about future generations of retirees rather than providing help for today's seniors.
In fact, Morneau's briefing document also included data showing that Canada's retirement income system has been effective in reducing poverty among seniors.
It cited Statistics Canada data that found the share of seniors living in low-income families plummeted from about 29% in 1976 to 5.2% in 2011. Older Canadians fared better than the overall population, which had a low-income rate of 9%.
The briefing also said seniors' poverty was concentrated among single people living in large urban areas, such as Toronto, Montreal and Vancouver.
Canada's seniors' poverty rate was also lower than many industrialized countries, the note said. The document included a chart that showed Canada was ranked No. 3 in 2013 among 14 OECD countries in terms for its seniors' poverty rates — the average was 12.8%.
Of course, not all Canadian seniors have left the workforce.
The document pointed to the labour-force participation rate of Canadians aged 55 to 74, which rose from about 30% in 1995 to over 47% in 2014. The OECD average in 2014 was 41%.
The briefing note also said that the country's aging population underscored a need to increase job-market participation among older workers because the decline of working-age Canadians "will put downward pressure on economic growth going forward."

5. Poloz delivers cautiously optimistic economic update

[June 16, 2016] Bank of Canada governor Stephen Poloz says the country's economy is finally making progress after hobbling through the effects of the slow U.S. recovery, feeble exports and a stubborn commodity-price slump.
In a speech Wednesday, Poloz said while the economic situation remained complicated and uncertain, he was confident Canada was emerging from its stretch of slow growth.
"Continued patience is required, but we have the right to be optimistic," Poloz told the Yukon Chamber of Commerce in Whitehorse.

Poloz pointed to signs that Canada is benefiting from a stronger U.S. economy, a robust level of household spending and a rebound in many non-energy export categories.

For example, he noted that recent numbers have shown improvements in the export of items such as packaging materials, furniture and pharmaceutical products. He added that tourism has also seen a boost in Canada, which has seen its currency depreciate.

In a question and answer period following the speech, Poloz said some exporters in touch with the central bank have indicated they are starting to disappoint clients because they're struggling to keep up with growing demand.

"That's the turning point where they may invest in more equipment, expand by 10% or what have you, hire a few more people and then they grow their business," Poloz said after fielding a question on whether companies are taking on enough risk.

"That's the phase of the expansion that we're watching for and we know they're close to being ready."

But the encouraging evidence doesn't erase the fact the economy still has tough times ahead, he said.

For one, Poloz said the national economy took an unexpected hit from the huge wildfire that swept through Alberta. It forced 90,000 people to flee Fort McMurray and the shutdowns of crucial oil-production facilities.

He predicted the impact of the wildfires to shave between one and 1.25 percentage points from annualized second quarter growth, which could produce a slight contraction. However, Poloz added that the dip likely means the third quarter will show bigger-than-expected growth, which is measured by real gross domestic product.

"This suggests to us that GDP growth will be very choppy in the near term, in the second and the third quarters," he said.

The Bank of Canada will update its projections next month in its monetary policy report _ a package of forecasts that Poloz suggested could shift once again depending on the outcome of the upcoming referendum on whether Britain will leave the European Union.

The federal Liberals have warned that a vote by the United Kingdom in favour of leaving the EU — the so-called Brexit — would be a negative for the Canadian economy.

Poloz also noted that the central bank continues to monitor the potential financial stability risks caused by strong household spending, particularly in the soaring real-estate markets of Vancouver and Toronto. He said while it remains a concern, the bank predicts the level of risk to fade as the economy rebuilds.

In his speech, Poloz underlined the resource sector's ongoing "painful and complex" adjustment to low oil prices. He also noted that the non-resource economy is still "moving unevenly toward full recovery" following the trauma caused by the 2008-09 financial crisis.

"Two steps forward, one step backward," Poloz said. "There's a resilience and flexibility among Canadians that gives me confidence that we will get through these adjustments and our economy will return to natural, self-sustaining growth."

6. Banks increase fees even as profits rise

[June 15, 2016] Several of Canada's biggest banks are upping the fees that they charge customers even as they continue to rake in hefty profits, and experts say Canadians are likely too complacent to do much about it.

TD Bank boosted a number of the fees associated with its personal deposit accounts starting March 1, including increasing the cost of using a non-TD ATM to $2 from $1.50.

The lender also introduced a $75 fee to transfer a tax-free savings account to another institution.

"We recognize that any changes can be challenging for customers and only after careful review do we increase our prices," said TD spokeswoman Daria Hill.

"We're transparent about communicating these changes to our customers and we encourage customers to come and talk to us. There are ways for customers to avoid or minimize the impact of these changes, and we can help guide them to the options that best suit their needs."

Meanwhile, CIBC has since boosted the minimum balance needed to avoid paying a monthly fee for its Everyday Chequing Account to $2,000 from $1,000 and raised the fee for each transaction over 12 to $1.25, from $1.

CIBC spokeswoman Caroline Van Hasselt said that although the bank did increase some fees this year, it also revamped its CIBC Smart Account to charge customers less during months when they bank less and to cap fees during more active months.

"This helps to ensure that you're always in the right account because it automatically adjusts to your needs," Van Hasselt said in a statement.

Meanwhile, Scotiabank and the Bank of Montreal are increasing some of fees associated with their credit cards.

The changes come as the banks face pressures from low oil prices, slowing loan growth and rock-bottom interest rates.
Despite those headwinds, Canada's five biggest banks — TD, CIBC, Scotiabank, BMO and Royal Bank — earned a combined $8.12 billion of profit in their fiscal second quarters.
That's up from $8.07 billion in the same period last year.
Ken Whitehurst, executive director of the Consumers Council of Canada, says it's normal for banks — and other businesses — to raise fees they charge consumers even as they operate at a profit.
"The banks have costs to cover and expectations from the marketplace about what their return on capital should be," says Whitehurst.
"They're always going to be looking to increase margins as much as the market will bear. That's what all businesses do."
Neil Gross, executive director of investor rights group FAIR Canada, says for the most part Canadian consumers are too complacent in terms of tolerating fees from companies such as banks, rather than switching to lower-cost options such as credit unions or some of the emerging financial technology startups.
"The large banks are just betting that the average consumer will just take it and will have too much inertia to move their accounts to some other alternative," Gross said.
"We definitely need to be noisier and more willing to move to the innovators who do respond, or even the more established banks … Consumers should be prepared to reward those who are competitive."
Jackie Rosen of RateSupermarket.ca, a website that allows consumers to compare banking fees and other rates, says the key is to do as much research as possible on the various products available.
"You always have to compare who's offering what and see what's best for you," says Rosen. "It's always best to shop around."

7. Yield on 10-year German bond falls below zero for first time

[June 14, 2016] The yield on Germany's 10-year government bond fell below zero for the first time on Tuesday, a symbolic milestone that highlights the huge influence on markets of central bank stimulus policies, as well as investors' growing concerns about the global economy.
The yield on the bond, a traditional safe haven for investors, fell as low as minus 0.032% early Tuesday, according to financial information provider FactSet. The yield drop as the bond's price rises.

The German 10-year yield had come close to zero recently, but never before dipped into negative territory.
Government bond yields indicate the rate at which the government would be able to borrow. A negative right indicates investors would be willing to pay the German government to lend it money.
Bonds have been in demand for a number of reasons. Above all, the European Central Bank's ultra-loose monetary policy has seen it cut its key interest rate to zero and buy hundreds of billions of bonds as part of its stimulus programs. Low rates in theory should encourage people to borrow and invest more.
Diminishing expectations of an interest rate hike by the U.S. Federal Reserve have also contributed to the trend, as have concerns over a possible British exit from the European Union and the health of the global economy. Investors often turn to top-rated government bonds, such as those of the U.S. and Germany, when concerned about the stability of markets.

8. Canadian household debt remains at record levels

[June 14, 2016] The amount Canadians owe compared with how much they earn edged down in the first quarter, but remained near a record level as mortgage debt continued to pile up.
Statistics Canada says Tuesday that the ratio of household credit market debt to disposable income was 165.3% for the first three months of 2016, as both income and debt grew at nearly the same rate.
That means households owed roughly $1.65 in credit card, mortgage and other loan debt for every dollar they earned after taxes and other fees paid to government. The ratio was down a hair from 165.4% in the fourth quarter of last year.
Bank of Montreal senior economist Benjamin Reitzes says the dip in the ratio of debt to income was the smallest first-quarter drop in seven years and predicted it would rise again in the second quarter. "Home sales pick up a lot in the second quarter and so you get a lot more mortgage debt . . . in the second quarter and that pushes up that ratio that much more."
The Bank of Canada warned last week that home prices in Vancouver and Toronto have outpaced local economic fundamentals and are rising at an unsustainable pace. The comments by the central bank joined a chorus of other voices that have already raised concerns about the Canadian housing market.

TD Bank economist Diana Petramala notes that mortgage borrowing is starting to accelerate and the risk that rapidly rising home prices will encourage a deeper accumulation of debt through 2016 is rising.

"The fear of missing out, referred to as 'FOMO,' is a developing trend amongst first-time homebuyers who may choose to jump into the market despite the high prices rather than risking being priced out in the future," Petramala wrote in a note to clients. "This could leave them with too much debt, particularly in Toronto and Vancouver housing markets where homes are increasingly expensive."

The flip side of rising home prices is rising net worth due to higher home values. Statistics Canada says household net worth rose 1.2% in the first quarter to $9.633 trillion, boosted by gains in the value of real estate.

Reitzes adds asset growth is strong and noted that Canadian households have $5.92 in assets for every dollar of debt.

"Overall it suggests that households are in OK shape. It is not necessarily as dire as the headline (number) would suggest. There are vulnerabilities there … but as long as you don't get a meaningful negative shock to the economy, households are in decent shape overall."

9. Increases to GIS top-up benefit coming July 1

[June 13, 2016] The Liberal government's proposed increase to the guaranteed income supplement top-up benefit (by up to $947 annually for the most vulnerable single seniors) comes into effect July 1, 2016.

The measure, which was introduced in the federal budget in March, is aimed at supporting seniors who rely almost exclusively on old-age security and GIS benefits, and who therefore may be at risk of experiencing financial difficulties, according to the budget.

"This enhancement more than doubles the current maximum guaranteed income supplement top-up benefit and represents a 10% increase in the total maximum guaranteed income supplement benefits available to the lowest-income single seniors," said the budget document.

Further, it added, "This measure represents an investment of over $670 million per year and will improve the financial security of about 900,000 single seniors across Canada."

Single seniors with annual income (other than OAS and GIS benefits) of about $4,600 or less will receive the full increase of $947 from July, according to the budget. Above this income threshold, the amount of the increased benefit will gradually decline and will be completely phased out at an income level of about $8,400.

Have a nice and fruitful week!