Weekly Updates Issue # 581

1. Weekly Markets Changes

[September 9, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,540.00 -255.7 -1.73%	2,127.81 -52.17 -2.39%	18,085.45 -406.5 -2.20%	5,125.91 -124.0 -2.36%	$0.7662 -0.33¢ -0.43%	$1,331.80 +3.00 +0.23%	$45.71 +1.51 +3.42%

2. Job market bounces back in August

[September 9, 2016] The Canadian job market rebounded in August, gaining back much of the ground lost in July.

Statistics Canada said Friday the economy created 26,200 net new jobs in the month compared with a loss of 31,200 in the previous month.

However, even with the increase in the number of jobs, the unemployment rate crept up to 7.0% compared with 6.9% in July as more people entered the labour force and started looking for work.

Economists had expected a gain a 15,000 jobs and the unemployment rate to hold steady at 6.9%, according to Thomson Reuters.

The jobs numbers have been volatile in recent months.

The overall increase in the number of jobs in August was due to a gain of 52,200 full-time jobs, nearly offsetting a loss of 71,400 full-time positions in July. The number of part-time jobs in August fell by 26,000 compared with a gain of 40,200 the previous month.

The number of jobs rose in Quebec by 22,000 in August as its unemployment rate edged up to 7.1% from 7.0%, while Newfoundland and Labrador gained 4,000 jobs in the month as its unemployment rate moved down to 12.3% from 12.8%. New Brunswick lost 3,000 jobs, with its unemployment rate dropping to 9.4% from 9.7%.

Statistics Canada said there was little change in the other provinces, but noted that Ontario saw an increase in its unemployment rate to 6.7% from 6.4% in July as more people sought work.

The number of public sector employees jumped 57,000 in August, while the number of private sector jobs increased 8,300. The number of self-employed workers slipped by 39,100.

The jobs report follows the Bank of Canada's decision earlier this week to keep its key interest rate target on hold at 0.5% where it has been for more than a year.

In making its decision, the central bank raised concern about the strength of the Canadian economic recovery, noting that a drop in exports earlier this year was larger and more broad-based than expected.

However, the Bank of Canada says it still expects a "substantial rebound" in the economy in the second half of the year.

3. A look at proposed changes to CPP

[September 9, 2016] The federal and provincial governments have a tentative agreement to expand the Canada Pension Plan, which would increase payments to retirees and raise premiums. Here are some details of the plan:

- Changes would be phased in starting in 2019 and the full enhancement of benefits would be available after about 40 years of contributions.
- The income replacement rate will be increased to one-third, from one-quarter of eligible insured earnings, meaning the maximum CPP benefit will be about $17,478 instead of about $13,000.
- The upper limit on insured earnings will be raised to $82,700.
- The contribution rates for employees and employers would go up by 1% each.
- An average worker earning about $55,000 will pay an additional $7 a month in 2019, increasing to $34 a month by 2023.
- The working income tax benefit will be increased to offset the cost of higher contributions to help low-income workers.
- Employees would get a tax deduction for contributions to the enhanced portion of CPP.

4. Toronto area average home prices hit record in August

[September 8, 2016] Home sales in the Greater Toronto Area hit a record last month as fewer homeowners put their properties up for sale, the city's real estate board said Wednesday.

The Toronto Real Estate Board said its members had 9,813 sales in August, a 23.5% increase from the same month last year, though there were two more working days this year.

Still, even adjusting for an equal number of days, last month's sales volume in the GTA was up about 13% from August 2015.

Jason Mercer, the director of market analysis at TREB, says dwindling inventory has been one of the main reasons why prices for single-family homes have been soaring in Toronto over the past year.

"If you're looking to purchase a single or a semi or a townhome, it's really difficult in a lot of neighbourhoods to find a home that meets your needs," said Mercer. "Whenever you have a situation like that, you're going to have strong upward pressure on prices."

The average price for homes sold, regardless of type of property, was $710,410, an increase of 17.7%. Detached homes in the city of Toronto proper cost on average $1.2 million, up 18.3%.

The data comes amid concerns that Vancouver's new 15% tax on foreign buyers could send investors to Toronto, driving up prices in a market that's already scorching.

But experts say it's too soon to tell whether Vancouver's tax, which was introduced on Aug. 2, is having any impact on Toronto's real estate market.

"I think it's definitely too soon to jump to a conclusion because we don't have the numbers on what foreign ownership is like," said Shawn Zigelstein, a Toronto-based realtor with Royal LePage Your Community Realty.

Zigelstein says three or four months' worth of sales figures and data on the rate of foreign ownership are needed before the impact of the new tax can be discerned.

Ontario Premier Kathleen Wynne and Toronto Mayor John Tory both emphasized the importance of taking a wait-and-see approach before intervening in Toronto's real estate market.

"Either me or the provincial government could step up and do something to try and earn political points by having people think we've done something to increase affordability of housing in Toronto," Tory said during a news conference Wednesday. "I just want to make sure that anything we do is actually going to have a real, positive impact that isn't going to be about show business and politics. People want real solutions, not solutions that make them feel better for 20 minutes."

The real estate market is "very complicated," he added.

"I think anybody who thinks they have an easy answer is fooling the public and fooling themselves."

Wynne said the provincial government is working with the city and the federal government to address eroding affordability as part of a national housing strategy. But, she added, it's still early days.
"I would be very cautious in terms of moving forward on any changes or interventions into that market," Wynne said.
"It's a different market than British Columbia's in the GTA. So we're looking at it, we're working with the city and the federal government, but there have been no decisions made."
In Vancouver, sales dropped 26% in August — the first month following the introduction of the tax — compared to a year ago, although prices continued to rise. The benchmark price for all residential properties in Vancouver climbed 31.4% from a year ago to $933,100.

5. Housing starts down 6%

[September 8, 2016] Canada Mortgage and Housing Corp. says the pace of housing construction slowed in August, mostly because of a decline in multi-unit projects.
The seasonally adjusted rate of housing starts last month was 182,703 units, down 6% from 194,663 units in July.
CMHC says the six-month trend — which smoothes out month-to-month variations — slipped by about 3% to 195,640 units started in August from 201,379 units started in July.
The bulk of the decline was due to a drop in multiple-unit dwellings in urban areas, which fell by 7.3% month-over-month to 111,378 units in August, on a seasonally adjusted basis.
There was a smaller decline in urban single-detached houses in August, which fell by 3.7% month-over-month to 56,501 units, seasonally adjusted.
CMHC says most of Canada's regions saw a decline in urban housing starts last month. Only Quebec showed an increase.
The agency officially released the monthly statistics on Thursday afternoon — ahead of schedule — due to a technical malfunction that published some of the information prematurely late Wednesday. The release was originally scheduled for Friday morning.

6. Working Canadians living paycheque to paycheque

[September 7, 2016] Odds are, some of your clients are living paycheque to paycheque.

A new poll suggests that about half of working Canadians would be hard-pressed to meet their financial obligations if their paycheque was delayed for a week.

The survey released Wednesday by the Canadian Payroll Association found that 48% of respondents said they rely on each payday to cover their bills, with 40% admitting they spend an amount equal to all or more of their net pay each week.

A quarter of those polled also said they wouldn't be able to scrounge up $2,000 if an emergency situation happened within the next month.

The CPA said the survey highlights the growing number of Canadians who are living paycheque to paycheque, and unable to put away savings due to mounting debt and a weak economy.

Half of those polled said they are able to save 5% or less from their earnings, with 39% saying they're "overwhelmed" by their debt.

The most common type of debt cited by respondents was a mortgage (26%), followed by credit-card debt (18%), car loans (17%) and a line of credit (16%).

Of those surveyed, 11% believe they'll never be debt-free, with 22% specifying that their credit-card balance is the most difficult debt for them to pay down.

"A significant percentage of working Canadians carry debt, have a gloomy view of their local economy and are fearful of rising interest rates, inflation and costs of living," said Patrick Culhane, CPA president and chief executive, in a release.

More than a third of those surveyed said they don't expect the economy to ever improve in the town or city they reside in.

Half of the survey respondents expect to need a nest egg of at least $1 million, with two-thirds saying they won't be able to retire until they're at least 60 years old.

Even with finances being at the forefront for many working Canadians, only 28% of those polled said a higher salary is their top priority compared with 48% who said they value a better work-life balance and healthy work environment more.

The 40-question survey was conducted online by Framework Partners between June 27 and Aug. 5. There was a total of 5,629 employees who responded from a number of sectors including forestry, manufacturing, government, oil and retail.

The polling industry's professional body, the Marketing Research and Intelligence Association, says online surveys cannot be assigned a margin of error because they do not randomly sample the population.

7. Bank of Canada raises concerns about economy, holds rate

[September 7, 2016] The Bank of Canada held its key interest rate target steady at 0.5% on Wednesday but raised concerns after the export sector disappointed earlier this year.

"While the strength in exports during July was encouraging, the ground lost over previous months raises the possibility that the profile for economic activity will be somewhat lower than anticipated," the central bank said in its rate announcement.

The Canadian economy contracted at an annual pace of 1.6% in the second quarter, faster than the 1% pace that had been forecast by the Bank of Canada in its July monetary policy report.

The pullback came due to the Alberta wildfires in May and a drop in exports that was larger and more broad-based than expected, the bank said.

However, the economy grew in June and the latest trade figures from Statistics Canada showed gains by exports in July.

"While Canada's economy shrank in the second quarter, the bank still projects a substantial rebound in the second half of the year," the Bank of Canada said.

The third quarter is expected to show growth as production from the oilsands resumes after temporary shutdowns because of the wildfires and work begins on rebuilding damaged portions of Fort McMurray, Alta., and surrounding areas.

"We agree with the Bank's assessment that the economy is headed for a sharp recovery in the third quarter and expect to see further confirmation in the July data that will be reported before the Bank's next meeting on October 19," write RBC Capital Markets economists in a analyst note on the BoC's decision today.

"Our forecast assumes that the recovery in oil production in June will be mirrored with a similar-sized increase in July," the RBC economists state. "Further, we expect this will support another rise in manufacturing activity and, as evidenced in the July trade report, a rebound in the volume of energy exports. More important will be what happens to non-energy exports as even though they rose in July sales abroad remained below year ago levels."

The federal government's new Canada child benefit program is also forecast to help consumer spending, while infrastructure spending by Ottawa is expected to lend a boost in the second half of the year.

In its July monetary policy report, the Bank of Canada forecast economic growth to bounce back in the third quarter to an annual pace of 3.5% before slowing to a 2.8% pace for the last three months of the year.

The bank didn't update the monetary policy report on Wednesday but said inflation was "roughly" in line with its expectations, with total inflation below the two per cent target and measures of core inflation around 2%.

The central bank also noted that there are "preliminary signs of a possible moderation in the Vancouver housing market." However, it said that "financial vulnerabilities" remain elevated and continue to rise.

Bank of Canada governor Stephen Poloz has warned that soaring house prices in the hot markets of Vancouver and Toronto have been climbing at an unsustainable clip as prices have outpaced local economic fundamentals.

The Toronto Real Estate Board reported Wednesday that its members set a record for August sales last month and that the average price for homes sold in the Greater Toronto area was $710,410 — up 17.7% from August 2015.

Last week, the Real Estate Board of Greater Vancouver said the number of sales transactions was down 26% in August compared with a year earlier, but its benchmark composite price for properties was up 31.4% to $933,100.

Because of the high levels of household debt, don't expect to a rate cut in coming months, even though the economic news has been mixed, says Avery Shenfeld of CIBC Economics, who adds, "while the Bank still sees an improving trend for the economy ahead, its warnings on risks to the pace of growth and inflation could put a bit of downward pressure on short term interest rates and the Canadian dollar today."

8. B.C.'s real estate tax was a political gamble. Will it pay off?

[September 6, 2016] Public outcry over British Columbia's sizzling real estate market pushed the province's Liberal government to introduce a foreign-buyers' tax last month.

But uncertainty around the policy leaves little room for political manoeuvring before next year's election and as the impact of the tax is better understood, experts say.

Max Cameron, a political scientist at the University of British Columbia, says the prospect of housing affordability turning into an election issue is "undoubtedly" what motivated the Liberals to step in with the tax.

"Their gamble is that it's better to look like you're doing something than to appear indifferent or tone deaf to the issue," Cameron says. "This is a government that is very single-minded about its electoral calculations. That's what drives its policy making."

On Aug. 2, the provincial government began levying a 15% tax on all non-Canadians purchasing property in Metro Vancouver. It justified the surprise move as a bid to boost affordability for citizens looking to enter the housing market.

Cameron says the B.C. Liberals' strategy appears aimed at depriving the Opposition New Democrats of fodder to accuse them on the campaign trail of inaction on housing.

"The big fear on the part of the Liberals, to be blunt, is [NDP housing critic] David Eby filling town halls with angry residents saying, 'I can't afford to live in this place anymore and I'm moving out,' and the NDP capitalizing on that and carrying it forward as a central part of their campaign," he says.

At the same time, the B.C. Liberals and its free-enterprise coalition cannot be seen as anti-market, thereby alienating its pro-business, anti-tax base, says Jamie Lawson, a political scientist at the University of Victoria.

"It's actually quite a delicate thing they have to do and there aren't too many directions that a government with their commitments can go to provide really aggressive solutions."

The government's goal is to give Canadians "access to workable real estate purchases," says Advanced Education Minister Andrew Wilkinson on behalf of Finance Minister Mike de Jong, who was unavailable for comment.

"It's hard to find anyone who would say the market wasn't overheated in the Lower Mainland in the first half of 2016," Wilkinson says. He adds that it would be premature to comment on the policy's long-term impact or whether the government might consider eventually tweaking the tax.

Hamish Telford, a political scientist at the University of the Fraser Valley, says the Liberals' brand as the party of laissez-faire made it difficult for them to intervene in the marketplace.

The conundrum the Liberals face now is that the tax will either be too effective or not effective enough, he says.

"The risk here is that they cool off the housing market too much and they get trapped in a situation where, on the one hand, Liberal voters are losing equity, but (on the other hand) housing doesn't become affordable enough for those who already can't get into the market," says Telford.

"One hopes that the 15% tax was calculated carefully enough that it would cool but not crash the market."

The Real Estate Board of Greater Vancouver released data Friday showing that home sales tumbled by 26% in August compared to the same period last year. Despite the drop in sales, the board reported the composite benchmark price for all residential properties in Metro Vancouver had jumped more than 30% since August 2015, to about $933,000.

Have a nice and fruitful week!