Weekly Updates Issue # 590

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1. Weekly Markets Changes

[November 11, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,555.41 +46.16 +0.32%	2,164.45 +79.27 +3.80%	18,847.66 +959.38 +5.36%	5,237.11 +200.7 +3.99%	$0.7417* -0.43¢ -0.58%	$1,227.40 -77.80 -5.96%	$43.12 -1.01 -2.29%

** The close CAD/USD is for Thursday, November 10, 2016 (source Bank of Canada)*

2. What's an advisor worth to clients? - 290% more in assets!

[November 11, 2016] A study on the value of financial advice conducted by the Centre for Interuniversity Research and Analysis of Organizations analyzes survey responses from more than 1,500 Canadian households, some with and some without advisors.

Significantly, those with advisors had chosen those advisors themselves, as opposed to having been solicited by the advisors. This key feature of the study removes the criticism that households with advice are wealthier because advisors target wealthy households.

The study's key findings:

Households with an advisor for 15 years or more accumulated 290% more assets — almost four times as much — than equivalent non-advised households.

Clients who dropped their advisors between 2010 and 2014 lost a significant percentage of their asset values (34.2%), while clients who kept their advisors saw asset values grow (by 26%).

According to the study, those impressive results are courtesy of the gamma-factor effect: advisors impose discipline on households' financial behaviour, and those households have higher savings rates.

The gamma factor is significant, because previous insight on the value of advice has focused on the ability of advisors to generate alpha for clients.

Indeed, the alpha focus is evident in, for example, CSA's proposed targeted reforms and regulatory best interest standard. In that proposal, regulators state one of their five investor protection concerns is that "clients are not getting the value or returns they could reasonably expect from investing."

Regardless of the validity of that concern, which is made in the context of suitability, this research underscores a key element for successful investor outcomes: access to advisors. In a press release, IFIC urges that preserving that access should inform policy.

3. December Fed hike still a "strong" possibility

[November 11, 2016] In a speech this morning, Fed vice-chairman Stanley Fischer "made comments today suggesting that the FOMC continues to be on the path of hiking rates in December," says director Nick Exarhos in CIBC Capital Markets commentary.

He adds, "[Fischer] highlighted that the Fed is 'reasonably close' to achieving its dual mandates relating to both inflation and employment. As a result, he suggests that the case for tightening policy remains 'quite strong.' And though potential volatility could have been a fear before the November 8 [election] decision, Fischer characterizes financial conditions as still having improved," compared to the beginning of the year.

In fact, Fischer seems optimistic about Trump's economic plans. Says Exarhos, "the vice-chair mentions fiscal policy could ease the burden placed on monetary policy. That last statement could imply more tightening over the next few years than the market expects if President-elect Trump is able to execute some of his planned stimulus."

CME Group's current FedWatch reading also points to a possible rate hike in December. As of 12:20 pm on November 11, there was a 76.3% chance of the Fed raising rates at its next meeting, versus a 71.5% chance yesterday.

Monetary policy and global events

During his speech, Fischer spoke about how U.S. monetary policy affects the global economy. He noted, "Given the importance of the United States in international trade and in the global financial system, the monetary policy actions of the Federal Reserve influence the global economy through a wide range of trade and financial channels."

But, he also touches on how U.S. monetary policy can easily be influenced by global events. Fischer points to the strong links between "domestic and foreign financial intermediaries–[think of] banks, the nonbank financial sector and insurers, among others […].” During the 2011-2012 sovereign debt crisis, for example, the Fed tightened U.S. financial conditions to protect its economy.

Fischer notes that foreign developments can also influence U.S. output and inflation. He highlights that “about one-eighth of the goods and services produced in the United States are exported, [so] a sizable component of U.S. aggregate demand depends on foreign consumption and investment decisions.”

4. Wynne to give small boost to first-time homebuyers

[November 10, 2016] Ontario Premier Kathleen Wynne says her government’s plan to help first-time home buyers will involve a “small change,” not a radical shift in the way the housing market works in the province.

The provincial Liberal government will announce the strategy in Monday’s fall economic statement, but Wynne is downplaying expectations of broader action to address soaring home prices in the Greater Toronto Area.

There were a record 9,768 properties sold in the Greater Toronto Area last month — up 11.5% year-over-year — while prices jumped 21% in the same period to an average of $762,975.

Wynne says first-time buyers have a real challenge saving a big enough down payment to get into the market, so the government will make “some small adjustments” to help them out.

She says the province doesn’t have all the data it would need to make larger changes, and insists Ontario will not follow British Columbia’s lead to impose a 15% tax on foreign buyers in Vancouver.

Home sales in Vancouver began to dip before the tax was introduced in August, but those declines have accelerated since, plunging nearly 39% last month compared with October 2015.

The Ontario Real Estate Association has asked the government to exempt first-time buyers from the land transfer tax to help them get into the market.

5. Canadians pile up non-mortgage debt, says report

[November 10, 2016] Canadians continued to pile up non-mortgage debt compared with a year ago, but delinquency rates remained low, according to credit monitoring agency TransUnion.

Average consumer non-mortgage debt balances rose to $21,686 at the end of the third quarter, up from $21,195 in the same quarter last year.

The increase came as non-mortgage debt levels rose 3.57% to $17,969 in Quebec and 2.64% to $21,620 in Ontario.

However, while borrowing increased, serious national delinquency rates stood at 2.70%, up from 2.62% a year ago.

The change came as delinquency rates rose 13.39% to 3.13% in Alberta, and 11.92% to 3.46% in Saskatchewan.

TransUnion forecast average debt levels to continue to rise over the next two years, but delinquency rates to move lower.

"The recent government outlook of weak economic conditions may have led some consumers to believe low interest rates will be here for a long time, which could result in pushing balances even higher due to low expected borrowing costs," said Jason Wang, TransUnion's director of research and analysis in Canada.

"With the latest data in hand, we think it's especially important for lenders to continue monitoring and stress testing their portfolios to ensure they can maintain stable performance when interest rates do eventually rise."

TransUnion raised concerns earlier this year that up to one million Canadian borrowers may have problems if interest rates rise by one full percentage point.

Canadians have piled on debt in recent years as interest rates have remained well below historical averages.

The Bank of Canada's overnight interest rate target has been set at 0.5% since it was cut twice last year.

The rate is a key variable for the big banks when setting their prime rates and the rates for borrowing, like variable rate mortgages and lines of credit.

6. Shift in demand results in 2,000+ layoffs at GM plants

[November 10, 2016] Shifting demand from cars to trucks and SUVs is forcing General Motors to lay off more than 2,000 workers indefinitely at two assembly plants in Ohio and Michigan starting in January.

The company said Wednesday it will suspend the third shifts at factories in Lordstown, Ohio, and in Lansing, Michigan, because of the market change, which is growing and shows no sign of abating.

About 1,250 workers will be furloughed at the Lordstown plant, which makes the Chevrolet Cruze compact car, starting Jan. 23. Another 840 will be idled at the Lansing Grand River factory, which makes the Chevrolet Camaro muscle car and the Cadillac ATS and CTS luxury cars, when their shifts end Jan. 16.

“It’s supply and demand, and right now the demand is not there for what we have,” says Glenn Johnson, president of a United Auto Workers union local at the Lordstown plant east of Cleveland.

Last month, 61.6% of U.S. new vehicle sales were trucks and SUVs, according to Autodata Corp. That’s a record that is likely to be broken, said Jeff Schuster, senior vice-president for forecasting at the consulting firm LMC Automotive.

Because of the shift, it’s likely the GM layoffs won’t be the last at auto factories that build only cars in the slowing compact, subcompact and midsize segments, Schuster says. “It’s not inevitable, but the likelihood is certainly higher,” he says.

Americans have been moving away from cars toward trucks and SUVs for several years now as gas prices have dropped to near US$2 per gallon, and the larger vehicles have become more efficient. Baby boomers and young people are attracted to smaller SUVs because of their cargo-carrying ability, high seating position and visibility.

Sales of the Ohio-manufactured Cruze are down nearly 20% this year, even though a new version is only in its second year of production. Of the vehicles made in Lansing, ATS and CTS sales each are down about 17% this year, while Camaro sales are off 9%.

GM doesn’t know when the workers will be called back, says spokesman Tom Wickham. “Looking ahead at 2017, we know that the car market continues to soften, and the crossover (SUV) and full-size truck market continues to grow,” he says. Laid-off workers will get supplemental pay and state unemployment benefits that will amount to most of their wages for a year.

General Motors Co. also announced Wednesday that it would invest more than $900 million at a Toledo, Ohio, transmission plant, the Lansing Grand River factory and a casting plant in Bedford, Indiana, to prepare for undisclosed new vehicles. The investment will preserve jobs but not create new ones.

The GM layoffs are not the first this year for the U.S. auto industry, which has experienced healthy year-over-year growth since 2009. But sales are starting to slow from the record of 17.5 million set last year.

Last month, GM’s crosstown rival Ford Motor Co. said it would temporarily idle four North American assembly plants to better align production with demand. Ford has scheduled one-week closures for plants in Kansas City, Missouri, and Hermosillo and Cuatitlan, Mexico. Those plants make the F-150 pickup truck, the Fusion sedan and the Fiesta subcompact. It also scheduled two weeks of down time for its Louisville, Kentucky plant, which makes small SUVs.

Lordstown's Johnson says the layoffs aren't the fault of the Cruze, which can get 40 miles per gallon on the highway and recently was named the most reliable compact car by Consumer Reports magazine.
"This isn't just a GM issue," he said. "The whole small car industry is suffering with the shift."

7. Trump's OPEC snub a potential win for Canadian crude

[November 10, 2016] Donald Trump's hostility toward trade with OPEC oil producers and interest in U.S. energy security could boost demand for Canadian oil as he assumes the president's office, says the head of a Calgary commodity trading firm.
Canada provided about 43% of the nine million barrels per day of oil imported by the United States last year, versus about 36% by OPEC, says Tim Pickering, founder and chief investment officer of Auspice Capital.
"Trump has talked about the end of energy imports from hostile OPEC nations," Pickering said.
"If it were to occur that they reduce the import of oil from Middle Eastern nations, for example, that could be bullish for oil and that could be bullish for Canada, in my opinion."
In his America First Energy Plan, Trump says the U.S. should "become, and stay, totally independent of any need to import energy from the OPEC cartel or any nations hostile to our interests."
Calgary oilpatch observers said any increase in Canadian oil exports will require more pipeline capacity, which makes Trump's promise to reopen the approval process for the Keystone XL oil pipeline a potential win.
But Trump's insistence that the U.S. be given a greater financial benefit from the pipeline could still derail the project.
"On the specifics of KXL, he has said he would approve that forthwith, provided they get some kind of uptick," said Bob Skinner, executive fellow with the School of Public Policy at the University of Calgary.
"To ask for 30%, or whatever he's asking for, is basically saying there will be no pipeline."
Jeff Gaulin, vice-president of communications with the Canadian Association of Petroleum Producers, says export pipelines from Western Canada are running at near their capacity of four million barrels of oil per day.
Oil production is expected to grow by at least 850,000 additional daily barrels between now and 2021 from oilsands projects under construction, then jump by an estimated 750,000 bpd by 2030, he said.

During the election campaign, Trump said he was open to allowing oil and gas companies to drill more wells on U.S. federal lands, potentially creating more competition for Canadian energy exports.
But Jackie Forrest, vice-president of research at private energy investment firm ARC Financial in Calgary, said she doubts the move would have much impact in the short term on American domestic oil output.
"How fast that actually would result in new production? My gut feel is it could be at the end of his four-year term before you would see any investment that would result in new drilling," she said.
Skinner said the fact the U.S. is "swimming" in shale oil and gas makes it unlikely that new and unexplored areas would attract a lot of investment.

8. Scotland wants to block Brexit trigger

[November 8, 2016] The Scottish government said Tuesday that it will ask Britain's Supreme Court to block Prime Minister Theresa May from triggering European Union exit talks without consulting the Scottish Parliament first — another potential blow to May's hopes of a quickie divorce from the bloc.
The prime minister has said she plans to trigger two years of exit talks by invoking Article 50 of the EU treaty before the end of March.
But last week the High Court complicated that plan, ruling in response to a legal challenge that lawmakers in Britain's Parliament must first get a vote.
The government is asking the Supreme Court to overturn the judgment. The court said Tuesday that it will hear the case Dec. 5-8. In a reflection of the constitutional importance of the case — which hinges on the balance of power between Parliament and the executive — all 11 Supreme Court judges will hear the appeal.
Scottish First Minister Nicola Sturgeon said Scotland would also seek to intervene in the legal action, because "the consent of the Scottish Parliament should be sought before Article 50 is triggered."
She said Scotland's top legal official, Lord Advocate Frank Mulholland, would make a formal application to the top court.
Britons voted by 52% to 48% on June 23 to leave the EU, but voters in Scotland strongly backed staying in.
Sturgeon, who heads the pro-independence Scottish National Party, has said she may seek a mandate for independence if Scotland is forced out of the bloc, and its single market of 500 million people.
Sturgeon noted that May has said British people "had voted with, in her words, 'emphatic clarity' when they voted by a margin of 4 points to leave the EU.

“The margin for ‘remain’ in Scotland was 24 points: a far more emphatic and clear result,” she said.
The British government has told other European leaders that the increasingly complicated legal situation won’t delay its plan to trigger Article 50 by March 31.
But the Supreme Court says it will likely not rule until early 2017, and if the government loses it will have little choice but to allow Parliament to debate the subject.

9. Pace of housing starts slips on big drop in B.C.

[November 8, 2016] Canada Mortgage and Housing Corp. says the pace of housing starts slowed in most regions of the country in October, with an especially big drop in British Columbia.
The agency says the seasonally adjusted annual rate fell to 192,928 units in October, down from 219,363 units in September.
The drop came as the seasonally adjusted annual rate of urban starts fell 12.1% in October to 176,131 units. Rural starts were estimated at a seasonally adjusted annual rate of 16,797 units.
Multiple-unit urban starts dropped 15.3% to 115,402 units for the month, while single-detached urban starts slipped 5.4% to 60,729 units.
CMHC says the pace of urban housing starts picked up in Ontario last month but there were declines in Quebec, the Prairies, Atlantic Canada as well as British Columbia
The annual pace of urban starts in B.C. fell to 25,517 in October compared with 46,294 in September.
Bank of Montreal senior economist Robert Kavcic said British Columbia was the big story.
“We’ll see if this level of activity, particularly in Vancouver where starts fell to the lowest since 2011, holds in the months ahead in response to softening demand conditions,” Kavcic wrote in a note to clients.
The drop in home starts in Vancouver comes as real estate sales in the region have also fallen sharply in recent months.
In August, the B.C. government implemented a 15% tax on foreigners buying homes in Metro Vancouver, while the federal government moved last month to tighten rules for mortgage lenders and foreign buyers in an effort to stabilize hot housing markets such as Toronto and Vancouver.
The national six-month moving average of the monthly seasonally adjusted annual rate stood at 199,920 units in October compared with 199,262 in September.

“The current trend in new building, in addition to projects currently under construction, suggests that residential investment isn’t likely to be an imminent drag on the Canadian outlook, even if its contributions to growth should be more muted given already elevated levels of activity,” says CIBC Capital Markets economist Nick Exharhos.

The housing starts data came as Statistics Canada reported municipalities issued $6.9 billion worth of building permits in September, down 7% from August.

The decrease was due in large part to a drop in plans for construction for non-residential buildings.

The value of non-residential building permits fell 22.3% to $2.2 billion in September as all three non-residential components — commercial, institutional and industrial — moved lower.

The value of permits in the residential sector gained 2.6% to total $4.6 billion in September, boosted by multi-family dwellings.

Have a nice and fruitful week!