Weekly Updates Issue # 642

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1. Weekly Markets Changes

[December 1, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,038.97 -69.12 -0.43%	2,642.22 +39.80 +1.53%	24,231.59 +673.6 +2.86%	6,847.59 -41.57 -0.60%	$0.7856 -0.13c -0.17%	$1,280.62 -11.79 -0.91%	$58.36 -0.61 -1.03%

2. Unemployment rate drops to 5.9% as economy grows

[December 1, 2017] A wave of job creation last month knocked the unemployment rate down to 5.9%. This is its lowest level in nearly a decade. Statistics Canada said Friday that the economy churned out another 79,500 net new jobs in November and drove the jobless rate down 0.4 percentage points from 6.3% the month before.

The federal statistical agency also released fresh figures Friday for growth– they showed that the economy expanded at an annual pace of 1.7% in the third quarter.

But the strong November jobs numbers stood out. The last time the unemployment rate was 5.9% was February 2008 at the start of the global financial crisis.

Economists had expected an increase of 10,000 jobs and the unemployment rate to come in at 6.2%, according to Thomson Reuters.

The increase also marked Canada's 12th straight month of positive job creation as the country posted its best 12-month performance in 10 years. The last 12-month streak of positive job creation ended in March 2007.

The report said employment rose 2.1% in the 12 months leading up to November as the economy added 390,000 net jobs, with all the gains driven by full-time work.

The labour market added 441,400 full-time positions year-over-year for an increase of 3% and its strongest 12-month period of full-time job creation in 18 years.

The numbers show that Canada gained 29,600 full-time jobs and 49,900 part-time positions in November. The growth was concentrated in the private sector, which added 72,400 jobs last month, compared with an increase of 10,600 positions in the public sector.

The report also found a gain of 83,000 employee jobs, compared with a drop in 3,500 self-employed positions, which is a category that includes people who work in a family business without pay.

The number of factory jobs rose last month by 37,400 while the services sector added 42,100 positions.

The November survey also found that, compared with the year before, average hourly wages grew 2.8% for the biggest increase since April 2016. Wage growth has climbed since it bottomed out in April 2017 at 0.7%, which marked its lowest level on record.

Statistics Canada also released its latest data Friday for quarterly economic growth.

The economy expanded at an annualized rate of 1.7% in the third quarter of 2017 as weaker exports applied downward pressure on growth.

Economists had expected growth in the third quarter to come in at an annualized rate of 1.6%, according to Thomson Reuters.

The report said the increase in real gross domestic product was driven by a 1% expansion in household spending.

Exports, however, fell on a quarter-over-quarter basis of 2.7%, which included a 3.4% decline in goods exports that followed three quarters of growth.

Statistics Canada also made a downward revision to Canada’s real GDP number for the second quarter–dropping it down to an annualized pace of 4.3% compared with its initial reading of 4.5%.

The third-quarter number was a little weaker than the Bank of Canada’s October forecast, which predicted real GDP to ring in at 1.8%. The bank is projecting real GDP to expand by 2.5% in the fourth quarter.

The latest real GDP figure follows four consecutive quarters of stronger growth: 4.3%, 2.2%, 3.7% and 4.3%.

The third-quarter report also said investment in residential structures fell for a second-straight quarter–the first time since early 2013 that the category saw a decrease in two straight quarters.

The data found the compensation of employees increased 1.3% in nominal terms for its strongest quarterly growth in three years.

3. OPEC, allies extend oil output cuts until end of 2018

[December 1, 2017] The OPEC cartel and a group of allied oil-producing nations agreed Thursday to extend crude output cuts until the end of next year, continuing a policy that led to a significant rise in the price of oil over the past year.

At the same time, the 24-nation alliance led by OPEC member Saudi Arabia and Russia gave notice that it stands ready to revisit the move if price increases bring U.S. shale operators—who suspended operations while crude was cheap—rushing back into the market.

“We are going to be agile, depending on how events unfold,” Saudi Arabian oil minister Khalid Al-Falih told reporters. Announcing the extension decision after a day of meetings, he declared, “it’s been a great day.”

The success of the reduced output strategy has been reflected by crude’s rise. Benchmark oil prices are now close to $60 a barrel, depending on the grades, up almost 20% from a year ago. On Thursday, the U.S. contract was trading at $57.08 a barrel, down 22 cents on the day.

That partly reflects a rise in global economic growth since last year. But it also has been attributed to the OPEC-led decision to limit production, renewing the cartel’s reputation as a major player in controlling the oil market.

After decades of being a dominant force in determining supplies and prices, OPEC’s role as a key regulator started fading in recent years, as U.S. shale producers started pumping up their output. That led to oversupply and a steep fall in prices from over $100 to below $40 a barrel by last year, leading to the decision to join key non-OPEC nations and jointly pump less crude.

But the strategy of continued cuts to drive up prices may not be sustainable over the longer run, and OPEC may yet see its influence wane again. With prices now at two-year highs, U.S. producers who mothballed operations when oil was cheap are coming back into the market in force.

U.S. oil producers need relatively higher market prices to break even than, say, Saudi Arabia. So the recent rise is encouraging more to start pumping again.

U .S. crude oil production already has grown by 15% since last year to nearly 10 million barrels per day, just behind Russia and Saudi Arabia. The International Energy Agency expects the United States to become the biggest net exporter by the end of the 2020s.

The extra crude is welcome for now, with the global economy booming. But at some point, the balance could again tip from relatively tight supplies to an oversupply, resulting in price drops.

Jan Edelmann, an analyst at Germany's HSH Nordbank, said not only the United States, but Brazil, China and other nations "could have increased incentive at the present price environment to increase their (oil) output."

While the prices of $100 a barrel last seen a little over three years ago appear gone, Saudi Arabia's Al-Falih was mindful to address the perception those rates evoked: that OPEC is interested only in cashing in on pricey crude.

"We are not looking to gouge the market with higher prices," he said, arguing that crude's value had to recover from previous lows to "create a market that is conducive to investment" and OPEC members drilling for more oil.

The extension agreement represented a rare consensus between OPEC kingpin Saudi Arabia and Iran. Jockeying for Middle East dominance between the two countries has led to disarray in the past. The tensions have spiked in recent months, with the geopolitical struggle potentially exacerbating different positions on oil.

The Saudis came to the OPEC meetings favouring continued cuts, but Iran wants greater market share as it claws its way back from the more than a decade of economic sanctions that were lifted as part of its 2015 nuclear deal with six world powers.

Russian Energy Minister Alexander Novak, whose country is a key Iran backer, made a comment that could upset Tehran and endanger the tenuous Saudi-Iran balancing act at future OPEC meetings.

Novak said the relationship between Moscow and Riyadh "is developing faster than ever" on oil issues, as well as on other projects.

4. Time to expand Home Buyers' Plan, say CREA and TREB

[December 1, 2017] Has one of your clients ever wanted to tap into their RRSP to help their adult child buy a home? Well, the Canadian Real Estate Association says doing so should be encouraged via expansion of the Home Buyers' Plan (HBP).

Extending the HBP to allow for "intergenerational RRSP loans" would ease the financial burden that many young Canadians face when trying to purchase a home for the first time, wrote CREA in its 2018 pre-budget submission to the House of Commons Standing Committee on Finance.

Under the current plan, first-time buyers can withdraw up to $25,000 from their RRSPs to contribute to the purchase of a home. The tax-free loan must generally be repaid within 15 years.

CREA also wants the maximum withdrawal limit for RRSPs to be bumped up by $10,000.

Allowing parents access to the plan would help many first-time buyers enter the market and ease their financial obligations, says CREA. The organization adds that recent and rapid home price increases have resulted in many parents already gifting down payment money to children.

In fact, according to a Canada Mortgage and Housing Corp. online survey of 3,002 mortgage consumers completed in March, nearly one in five first-time homebuyers have received help from a family member with a down payment.

One reason it's tough for first-time buyers is home prices continue to creep up. The national average price for a home sold in October was $505,937, up 5% from a year ago, according to figures from CREA earlier this month.

In October, the benchmark price of a property in Greater Vancouver hit $1,042,300, up 12.4% from the previous year, according to figures from the Real Estate Board of Greater Vancouver. Meanwhile, in the Greater Toronto Area that month the average property price was $780,104, up 2.3% from the previous October, according to figures from the Toronto Real Estate Board.

CREA is calling for both parents of a child to be eligible to loan funds from their RRSPs to anyone they had previously claimed as dependents on their income tax return.

In addition to expanding the HBP to include parents, CREA suggests the government extend it to homeowners who relocate for work, decide to accommodate an elderly family member or suffer the loss of a spouse or a marital breakdown.

The Toronto Real Estate Board is also lobbying for expansion and modernization of the HBP.

TREB says the HBP "effectively amounts to a zero-interest self-loan" because it allows Canadians to borrow from their own savings. As such, "A formalized mechanism which allows for the transfer of RRSP funds from parents to their children would help not only increase the available down payment and reduce the amount borrowed, but also limit risk to the lender," TREB said in a statement.

Too much risk?

Allowing intergenerational RRSP loans and expanding the HBP may seem like an interesting solution, but is it the right call? It may help more first-time buyers enter the housing market—and it would make it easier for parents to gift down payment money—but the question remains of whether or not Canadians should be taking on debt and additional financial obligations they can't afford.

A recent Bank of Canada report says healthy job creation, tightening housing policies and higher mortgages rates are helping ease the pressure of climbing household debt and housing prices, but the economy is still vulnerable to the latter two forces.

Also, while CREA's proposal is not unreasonable, there's no obvious answer to whether or not people should be able to dip into retirement savings in a tax-free way to fund a property down payment, said Thomas Davidoff, a professor at the University of British Columbia's Sauder School of Business.

He's concerned the plan could be a risk for people who are under-saving for retirement, and that it would be utilized more by wealthier families, amounting to a transfer from less-wealthy families to better-off ones.

It would also likely push up housing prices, he says. "Part of what you do when you subsidize housing in any way is push up the price," he said, "which just helps property owners rather than buyers."

The biggest thing the federal government should be considering when it comes to their approach to real estate and taxation is how to add tax burden to real estate, he said, not subtract it. The government could, for example, limit how much of a principal residence's capital gains are tax exempt when it is sold.

5. Canada slips in world prosperity ranking

[November 30, 2017] Canada's prosperity ranking for 2017 has slipped to its lowest level in 11 years, according to an annual index that measures several factors including wealth and well-being.

Canada now ranks No. 8 in Legatum Institute Prosperity Index, three spots below last year and the lowest level since 2007.

That's in part due to Canadians viewing banking services as being increasingly unaffordable, and people feeling less convinced that working hard will get them ahead.

Norway leads the survey while the United States fell one spot to 18th. Yemen was last in 149th spot.

Overall, the index shows prosperity has been growing around the world and sits at the highest level since the index was first published in 2007. Still, the gap between the most- and least-prosperous countries has widened over the last five years, with the 30 least-prosperous countries suffering a decade-long decline.

Western Europe has marginally overtaken North America for the first time as the continent's score fell more than any region of the world.

One factor is declining civic engagement in Canada and the U.S., with people less likely to donate money to charity or volunteering less frequently. The index also indicates Canadians are less open to offering informal financial

help, and fewer Canadians say they have relatives or friends they can count on in hard times.
Canada’s business environment slipped to fourth best. While Canada appears to have weathered the economic storm stemming from the 2008 financial crash better than the U.S., Canada’s measure for economic quality has weakened since 2012.
Further, Canadians feel the government is doing less to counter monopolies. For the first time in 10 years, the U.S. has overtaken Canada on this measure. Nonetheless, Canada remains No. 2 in personal freedom in terms of societal tolerance of other ethnicities and immigrants, while the U.S. sits in 28th position. Canada ranks No. 13 in education and 24th in health along with safety and security.
Legatum says Canada has struggled substantially with health issues over the last decade. It pointed to a nationwide fall in vaccination rates that resulted in rising incidents of preventable diseases. Canada also reported more health problems in general.
Canada’s natural environment score improved through the increased protection of land, particularly through improved air quality.

6. Amid bitcoin buzz, BoC considers its own digital currency

[November 30, 2017] The Bank of Canada is considering the merits of establishing a digital currency as interest in cryptocurrencies like bitcoin reaches a fevered pitch.
In a research paper released by the central bank Thursday, report authors Walter Engert and Ben Fung said there are merits to creating a central bank digital currency as society starts to move away from cash, and the bank’s potential to reap profits off issuing that cash could be threatened.
The report said a central bank digital currency (CBDC) could become a cheaper alternative to debit and credit cards and other forms of payment, making it easier for competition to emerge in the retail and large-value payment sectors.
“With no transaction fees charged by the central bank, the benchmark CBDC would probably be less expensive for merchants than cash and credit cards.”
Some of the benefits overlap with those of bitcoin, ether and the myriad of other digital currencies based on cryptography that have emerged, though one of the central benefits of bitcoin and the like is that it is decentralized and not controlled by any bank.

The value of bitcoin, the most well-known cryptocurrency, has skyrocketed this year, rising from about US$1,000 per coin at the start of the year to crest at over US$11,000 per coin this week.

The interest has led to many new entrants into the sector and a few stumbles in the rush to get in on the rising valuations.

Toronto-based blockchain investor NextBlock Global said in early November that it had suspended its initial public offering after allegations that it made misleading statements in its marketing materials.

The report Thursday said given the complexity and uncertainty around introducing a central bank digital currency, central banks should proceed cautiously and incrementally.

In March the bank released a report that said the decentralized technology that supports the digital currencies didn't yet match the net benefits of the existing centralized system for clearing transactions, and that the added complexity of the proposed system could lead to added complexity and operational risk.

The report, however, noted that cost-savings are potentially sector-wide, and that developers continue to advance the system.

7. Small business sentiment improves in November

[November 30, 2017] Small business optimism improved in November, and for the second month in a row, led by increased confidence in Ontario, Alberta, P.E.I. and Newfoundland and Labrador.

The latest Business Barometer from the Canadian Federation of Independent Business (CFIB) showed a gain of two points, up to 59.3 out of 100.

"After a summer of discontent, it looks like we're seeing a turnaround in confidence," said Ted Mallett, the CFIB's chief economist, in a release. "While we're still very far off from the confidence levels we saw earlier in the year, there are some positive signs heading into the final month of the calendar year. In particular, there are improvements in both wage and capital spending plans."

In Quebec (65.4), businesses remain the most optimistic in the country, despite a slight drop in confidence. That province is followed by British Columbia (60.8) and Nova Scotia (59.9).

Increased confidence in Ontario (58.3), Alberta (56.2), Prince Edward Island (55.8) and Newfoundland and Labrador (49.0) offset the decreased sentiment in Manitoba (55.3), Saskatchewan (52.3) and New Brunswick (51.4).

Confidence increased in the natural resource and agriculture sectors, while professional services and retail saw declines. Across all sectors, businesses are most concerned about rising taxes, and energy and wage costs, Mallett said in the release.

Survey methodology: *The survey was based on 698 responses to a controlled-access web survey from a stratified random sample of CFIB members. On a scale between 0 and 100, an index above 50 means owners expecting their businesses' performance to be stronger in the next year outnumber those expecting weaker performance. An index level of between 65 and 70 indicates an economy growing at its potential, the CFIB says.*

8. Rental vacancies decline, CMHC report says

[November 28, 2017] The national rental vacancy rate declined in October for the first time in two years, bringing the number down to its 10-year average, the CMHC said Tuesday.

The average vacancy rate for purpose-built rental apartment units across Canadian centres with a population of 10,000 or more decreased from 3.7% in October 2016 to 3% in October 2017, the CMHC said in its rental market survey.

The decline reflects a recovery in rental demand in Canada's oil-producing provinces, it said.

Here are some of the report's findings:

- The average monthly rent for a two-bedroom, purpose-built rental apartment across Canada's centres is $989.
- The largest rent increases are in British Columbia and Ontario: Kelowna (8.6%), Victoria (8.1%), Vancouver (6.2%), Belleville (5.9%), Oshawa (5.2%), Hamilton (5.1%), Barrie (4.6%) and Toronto.
- Average monthly rents for two-bedroom apartments in new and existing buildings are highest in Vancouver ($1,552), Toronto ($1,404) and Calgary ($1,247).
- Rent decreases occurred in Saskatchewan and Alberta, including Saskatoon and Edmonton (both at -1.3%) and Calgary (-1.0%).
- Lowest rents are in Trois-Rivières ($594), Saguenay ($605) and Sherbrooke ($631).
- The average rental condominium vacancy rate declined from 1.9% in October 2016 to 1.6% in October 2017.
- Rental condominium vacancy rates ranged from a low of 0.2% in Victoria, to a high of 6.9% in Edmonton.
- The highest average two-bedroom rental condominium rent was in Toronto ($2,301), followed by Vancouver ($1,874) and Ottawa ($1,566). The lowest rents were recorded in London ($996), Québec ($1,052) and Gatineau ($1,061).

“Nationally, increased demand for purpose-built rental apartment units outpaced growth in supply, leading to a decline in the vacancy rate and a reversal of the trend we’ve seen over the last two years,” says Gustavo Durango, senior market analyst at CMHC. “Demand for purpose-built rental apartments can be attributed to historically high levels of positive net international migration, improving employment conditions for younger households and the on-going aging of the population.”

9. Canadians want to end provincial trade barriers: survey

[November 28, 2017] Canadians are unequivocal: 89% think they should be allowed to bring any legally purchased product from one province to another, according to an Ipsos poll commissioned by the MEI, the Canadian Constitution Foundation (CCF), and the Atlantic Institute for Market Studies (AIMS).

The survey was carried out in the context of the Comeau case, which will be heard Dec. 6 and Dec. 7 by the Supreme Court. The court will decide if Canadians have the right to transport legally purchased goods, including alcohol, from one province to another. If the court rules that they do have this right, provincial alcohol monopolies will face some competition, and many provincial trade barriers could disappear.

Retiree Gerard Comeau from Tracadie, N.B. was stopped five years ago because he brought home bottles of alcohol purchased in Quebec, in violation of an outdated provincial law. Fined by the police, he fought back and won his case. The provincial government appealed, and the case is now before the Supreme Court.

A study published in the Canadian Journal of Economics estimates that internal trade liberalization could add $50 billion to $130 billion to Canada’s overall GDP, the MEI release said. Using a mid-range estimate of $100 billion, these economic gains represent more than $2,700 per Canadian.

Here are some additional poll results:

- 78% of Canadians say they should be allowed to bring any amount of beer or wine they buy in one province into another province; 8% of Canadians disagree.
- 84% think they should be allowed to order wine directly from a winery located in another province.
- Very few think that provincial governments should be allowed to impose restrictions against goods from other provinces to protect their own industries (16%), or to collect more revenues (12%).

About the survey: *A sample of 1,103 Canadians were surveyed between Oct 26. and Nov 1.*

10. BoC sees some improvement in debt, housing market

[November 28, 2017] The BoC is flagging the steady climb of household debt and still-hot housing markets as the financial system's top vulnerabilities—but it's also seeing some early signs of improvement.

In a report Tuesday, the bank says there's some evidence Canada's exposure to these persistent trouble spots has begun to ease, thanks to healthy job creation, tightening housing policies and higher mortgages rates.

The assessment is part of the bank's semi-annual review, which explores key vulnerabilities and risks surrounding the stability of the financial system. It describes vulnerabilities as pre-existing conditions that could amplify or propagate economic shocks.

"Overall risks to the Canadian financial system remain elevated. Some preliminary signs of improvement, however, are emerging," the bank says in its latest financial system review. "Better economic conditions and several new policy measures support prospects for additional progress."

The report says indebtedness, especially the number of highly indebted households, remains high. Household debt relative to income has reached historically lofty levels and continues to grow, the bank says.

But it notes there's already some green shoots that suggest stricter lending rules have started to reduce the country's exposure to hefty debt loads.

The report points to mortgage insurance policy changes, which included a stress test, introduced by the federal government a year ago.

Future outlook

The bank predicts further easing is likely on the way due to higher interest rates and another new stress test to be introduced in the new year, this time aimed at low-ratio mortgages that don't require insurance.

In January, OSFI will implement new lending guidelines that will require borrowers who do not require mortgage insurance to show they would still be able to make their payments if interest rates were to rise.

The BoC has raised its benchmark rate twice since July and experts predict it's likely to continue along a gradual hiking path.

The combination of these factors is also expected to reduce household imbalances by applying downward pressure on prices in major real-estate markets like Vancouver and Toronto.

Still, the bank's report carefully noted that it's uncertain exactly how borrowers and lenders will react to the incoming OSFI measures.

"Our financial system continues to be resilient, and is being bolstered by stronger growth and job creation—but we need to continue to watch financial vulnerabilities closely," Bank of Canada governor Stephen Poloz says Tuesday in a statement.

In the report, the bank once again listed cyber threats as another key vulnerability for Canada.

Poloz has said a cyberattack against the financial system is a scenario that likely troubles him the most. In a recent interview, he said he was unsure how severe the fallout from such an event could be and he struggled to picture what it might look like.

"Cyberattacks do not respect borders: they can originate from outside Canada and be transmitted across the global network that financial institutions rely on to operate their businesses," the report said.

The bank adds it has been working with industry, international organizations and federal and provincial authorities to improve collaboration and policy-making to ensure rapid response and recovery from a cyber event. An example could include a loss of connectivity or corruption of data within the payments system.

The report also assessed how the biggest risks facing Canada have evolved since its last update in June.

It says the chances of a severe nationwide recession or a drop in global growth triggered by a significant financial disruption in an emerging market, like China, remained elevated. However, the bank added that the chances of these scenarios playing out were decreasing.

Have a nice and fruitful week!