Weekly Updates Issue # 643

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1. Weekly Markets Changes

[December 8, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,096.07 +57.10 +0.36%	2,651.50 +9.28 +0.35%	24,329.16 +97.57 +0.40%	6,840.08 -7.51 -0.11%	$0.7776 -0.80c -1.02%	$1,248.49 -32.13 -2.51%	$57.36 -1.00 -1.71%

2. Why housing starts picked up in November

[December 8, 2017] The Canada Mortgage and Housing Corp. says the pace of housing starts picked up in November, pushing the six-month trend to the highest level in nearly a decade.

The Ottawa-based Crown corporation says construction of multiple-unit projects in Toronto has been a driving force behind the trend.

In November, the seasonally adjusted annualized rate of housing starts across Canada was 252,184 units—up from 222,695 units in October.

Multiple-unit urban starts accounted for 175,016 units, up 16.9%, while single-detached urban starts were up 7.5% to 60,396 units and rural starts were estimated at 16,772.

CMHC's six-month housing starts trend rose to 226,270 units in November, from 216,642 units in October.

In a research note, CIBC Capital Markets chief economist Avery Shenfeld says the news isn't as much of a surprise as some might think. "Home sales have slowed, but with builders focused on condos that are started well after most of the units have been bought, it's going to be a while before quieter sales offices mean fewer cranes on the horizon. Multiples starts were up 17% from October, with singles up 6%."

Another reason for the surprise, he adds, could be the "seasonally mild weather in much of the country, with Ontario starts up 66% from the prior month, but less-weather-affected permits had already been running fairly strong."

Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, is cautious on Ontario for now. "I would remain cautious toward the multiples surge in Ontario," he says in a Dec. 8 report. "Given project lags, the numbers we're seeing reflect decisions that pre-date rent control changes in April that many feel will sharply diminish investor appetite for such units (and already is with lagged effects on construction)."

3. U.S. unemployment rate steady at 4.1%

[December 8, 2017] U.S. employers added a robust 228,000 jobs in November, a sign of the job market's enduring strength in its ninth year of economic recovery.

The unemployment rate remained at a 17-year low of 4.1%, the Labor Department reported.

Friday's jobs report made clear that the U.S. economy is on firm footing and is likely benefiting from more resilient global growth, with all major economies across the world expanding in tandem for the first time in a decade.

Over the past six months, U.S. economic growth has exceeded an annual rate of 3%, the first time that's happened since 2014. Consumer confidence has reached its highest level since 2000.

"The November report is confirmation that the U.S. economy remains in solid shape at the end of 2017," said Gus Faucher, chief economist at PNC Financial Services.

In many cases, in fact, employers say they're struggling to find enough qualified workers to hire. Still, solid hiring and a low unemployment rate have yet to accelerate wages, which rose 2.5% in November compared with a year earlier. The last time unemployment was this low, average wages were growing at a 4% annual rate.

Last month, job growth was widespread and particularly strong in manufacturing, which added 31,000 jobs, and in construction, which added 24,000. The construction job gains might have reflected, in part, renovation and repair work in such hurricane-ravaged states as Texas and Florida.

In November, retailers added nearly 19,000 jobs, a sign that physical stores are hiring for the holiday shopping season even in the face of brutal competition from e-commerce companies. Transportation and warehousing companies, which are benefiting from the e-commerce boom, added 10,500.

Hiring has slowed slightly since last year, which is typical when unemployment falls to low levels. Employers have added an average of

174,000 a month this year, a bit below last year's monthly average of 187,000.
In large part because of the job market's resilience, the Federal Reserve is widely expected to raise interest rates for the third time this year when it meets next week.

Rising confidence among consumers is translating into major purchases. Americans are buying more homes and cars. Auto sales rose 1.3% in November compared with a year earlier, to 1.4 million, according to Autodata Corp.

In October, newly built homes sold at their fastest pace in a decade, and existing homes sold at their quickest rate since June.

Businesses are spending more, too: Orders for such long-lasting items as industrial machinery, computers and oil-drilling equipment rose for the third straight month in October.

Though wages have yet to pick up, Ian Shepherdson, chief economist at Pantheon Macroeconomics, said he thinks a continued decline in unemployment will lead to higher pay. U.S. metro areas with unemployment rates of 3.5% or lower are reporting annual wage growth of roughly 4%, Shepherdson said in an email.

Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, is also keeping an eye on wages. In a research note, he says, "A softer-than-expected pick-up in wage growth is what should get the attention," even as "U.S. job growth including downward revisions modestly exceeded expectations."

Wages improved over October, he adds, but "many, including me, expected a faster pick-up. In fact, after going on a convincing upward trend from mid-2015 to early this year, wage growth has slightly trended lower around a noisy range this year."

In part, Holt attributes the fall of seasonally unadjusted wages in November, versus "the five-year average for a month of November that is now +0.2%."

4. Canadians' net worth, mortgage debt rise

[December 7, 2017] Canadians' net worth is increasing.

In 2016 the median net worth of Canadian families was $295,100, up 14.7% from 2012 ($257,200), reveals StatsCan's survey of financial security. (Canadian families include families of two or more persons, as well as unattached individuals.)

Unsurprisingly, the survey finds that Canadians' largest asset and largest debt is housing, accounting for more than a third of total assets.

Private pensions were the second-largest asset category at about 29% of assets, up from about 18% in 2012.

Other real estate, such as cottages and timeshares, represented 10% of total assets.

B.C. families reported the highest median net worth in 2016 ($429,400), and N.B. reported the lowest ($158,400.)

Mortgage and debt details

About 62% of Canadian families reported a principal residence as an asset, with about 57% of these families holding a mortgage on that residence. The average mortgage interest rate on principal residences was 2.94%.

Overall in 2016, about 38% of Canadian families held a mortgage. The median mortgage value was $190,000, an increase of 20% from 2012 and twice that of 1999.

About three-quarters of mortgages held by Canadian families were fixed rate, while about one-fifth were variable rate.

And, amid concerns about rising consumer debt and mortgages, almost 30% of Canadian families were debt-free in 2016.

"The share was highest among senior-led families, where 58% were debt-free," says the survey. "However, this was down from 1999 when 72.6% of senior-led families were debt-free."

That could be because more senior-led families are carrying mortgages into their retirement years.

In 2016 about 14% of families led by a person aged 65 and older held a mortgage, compared with about 8% in 1999.

5. BoC holds overnight rate target, with hint of future hikes

[December 6, 2017] The Bank of Canada chose to stand pat on Wednesday—but it also offered fresh, yet cautious, warnings to Canadians that rate increases may be on the way.

The central bank has now left the overnight rate target locked at 1% for two straight policy announcements, after the strengthening economy prompted it to raise it twice in the summer.

In announcing today's decision, the central bank pointed to several recent positives that could support higher rates in the coming months. Those included encouraging job and wage growth, sturdy business investment, and the resilience of consumer spending despite higher borrowing costs and Canadians' heavy debt loads.

On top of that, there's increasing evidence in the economic data that the benefits from government infrastructure investments have begun to work their way through the economy, the central bank said.

On the other hand, the central bank noted exports have slipped more than expected in recent months after a powerful start to the year, although it continues to predict trade growth to pick up due to rising foreign demand.

The BoC also said international outlook continues to face considerable uncertainty mostly because of geopolitical- and trade-related factors. "While higher interest rates will likely be required over time, [the central bank's] governing council will continue to be cautious," the central bank said in a statement Wednesday that accompanied its decision.

It will be "guided by incoming data in assessing the economy's sensitivity to interest rates, the evolution of economic capacity and the dynamics of both wage growth and inflation."

The central bank said inflation, a key factor in its rate decisions, has been slightly higher than anticipated and could stay that way in the short term because of temporary factors like stronger gasoline prices. Core inflation, which measures underlying inflation by omitting volatile items like gas, has continued to inch upwards.

Governor Stephen Poloz raised rates in July and September in response to an impressive economic run that began in late 2016. The hikes took back the two rate cuts he introduced in 2015 to help cushion, and stimulate, the economy from the collapse in oil prices.

From here, the central bank must assess how to proceed with the interest rates while taking into consideration that Canadian households have amassed high levels of debt and the presence of still-hot housing markets in areas like Toronto and Vancouver.

Last month, the BoC flagged the steady climb of household debt and these real estate markets as the financial system's top vulnerabilities.

The central bank's statement Wednesday said recent economic indicators have been in line with its October forecast, which projected a moderation following the country's exceptional growth in the first half of 2017.

The document contained a few differences compared with the statement that accompanied its last rate announcement in October.

This time, the central bank once again noted the unknowns over the future of trade policy, however, it did not specifically mention the ongoing renegotiation of the North American Free Trade Agreement.

In a research note, CIBC Capital Markets chief economist Avery Shenfeld said the expected announcement didn't come with a "clarion call" on when the overnight rate target would rise again.

"Further rate hikes are still coming, but even if they move ahead of our April target, that needn't mean that we'll see more than 50 basis points in total next year, given the central bank's emphasis on being cautious on that front," he wrote.

Economists will watch the upcoming numbers on October GDP and December employment in order to forecast when the next hike comes, Shenfeld said.

6. Canada's trade deficit declines more than expected

[December 5, 2017] Canada's merchandise trade deficit narrowed more than expected to $1.5 billion in October, as exports improved for the first time since May.

Statistics Canada says Tuesday that exports increased 2.7% as imports fell 1.6% for the month, shrinking the country's trade deficit compared with the $3.4-billion shortfall in September.

Economists had expected a deficit of $2.7 billion for October, according to Thomson Reuters.

"Some of that drop in imports was due to transitory factors in the auto sector, but the breadth of the import decline and what the details say about business investment suggest that much of the weakness reflected a weakening pull effect by the domestic economy on imports," notes Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, in a release.

TD Bank economist Dina Ignjatovic notes that the recovery in export volumes in October fully erased declines in August and September and provides a stronger handoff for the fourth quarter.

"Looking ahead, exports should manage to gain some traction, supported by a healthy U.S. economy and a Canadian dollar hovering around the 80 US cent mark," says Ignjatovic. "Moreover, the strike at an auto assembly plant that weighed on exports through the first half of the month should lead to higher motor vehicle exports going forward."

The BoC is scheduled to make its next interest rate announcement on Wednesday. The central bank is expected to keep its key rate target on hold at one per cent after raising it by a quarter of a percentage point twice earlier this year.

Ignjatovic wrote that the trade report, combined with last week's Statistics Canada report that said 79,500 jobs were added in November, will be looked favourably upon by the BoC. "With most other areas of the economy evolving as expected by the bank, higher interest rates are not far off."

Exports totalled $44.5 billion in October, as gains were made in nine of 11 sectors. Prices were up 1.5 per cent and volumes increased 1.2%.

Exports of basic and industrial chemical, plastic and rubber products gained 12.4%, while metal and non-metallic mineral products increased 4.5%.

Meanwhile, imports fell to $45.9 billion in October, mainly due to a drop in motor vehicles and parts which fell 8.1%. Import volumes fell 3.9%, while prices rose 2.4%.

Statistics Canada says passenger cars and light trucks were down 8.8% in October, while work stoppages and planned shutdowns in the automotive industry led to a sharp decrease in the demand for automotive components.

U.S. trade deficit up

Record imports lifted the U.S. trade deficit to $48.7 billion in October, the highest since January.

The Commerce Department says Tuesday that the trade gap rose 8.6% in October from $44.9 billion in September. Imports hit a record $244.6 billion in October, and exports were unchanged at $195.9 billion.

A trade deficit means that the U.S. is buying more goods and services from other countries than it is selling them. A rising trade gap reduces U.S. economic growth.

So far this year, the U.S. is running a trade deficit of $462.9 billion, up 11.9% from January through October 2016. U.S. exports are up 5.3% this year; a weaker dollar has made U.S. goods less expensive overseas. Imports are up 6.5% the first 10 months of 2017.

The politically sensitive trade deficit in goods with China rose 1.7% to $35.2 billion from September to October and is up 7% this year to $309 billion.

In October, the U.S. ran a surplus of $20.3 billion with the rest of the world in services such as banking in tourism. But that was overwhelmed by a $69.1 billion deficit in the trade of goods.

Crude oil imports were up $1.5 billion in October. Imports of drilling and oilfield equipment climbed by $304 million, and imports of cellphones rose by $303 million.

7. Mortgage changes make it tougher for first-time buyers: industry group

[December 5, 2017] Recent government policy changes have made it harder for Canadians, specifically first-time buyers, to purchase a home, finds a report by Mortgage Professionals Canada.

In fact, homeownership in Canada is at 67.8%, down from 69% in 2011, notes the report. And ownership rates fell sharply for the youngest age groups (first-time buyers)—by more than 4%.

"The homeownership rate in Canada has fallen, as young middle-class Canadians have found it increasingly difficult to make first-time purchases," says Will Dunning, chief economist for the association and author of the report. "With the recent further tightening of mortgage rules, ownership challenges have been intensified, and the ownership rate is very likely to fall further."

The report adds this trend is likely to continue as a result of the upcoming implementation of new B-20 underwriting guidelines.

"The market is already slowing under the weight of increased interest rates, and policies aimed at suppressing the market further might be adding to economic risks," says Dunning.

Here are some more highlights from the report:

- 6% to 7.5% of all potential buyers, insured and uninsured, will be unable to purchase a home as a result of the stress tests.
- By the next federal election, 200,000 Canadian families will have failed the new uninsured stress test.
- In 2018 housing activity in Canada may fall by 12% to 15% compared to 2016, which could dampen economic growth.
- Over the past 12 years, mortgage credit growth has averaged 7.3% per year. The growth rate has slowed to a current 5.9% and projected to be 5.5% for 2018.

Not all is gloomy

Despite rising housing prices and government intervention, the majority of Canadians view real estate in Canada as a good long-term investment, according to the report. Further, the majority of Canadians view mortgage debt as good debt.

"During the past decade, some commentators have taken a negative outlook of the housing market," says Paul Taylor, president and CEO of Mortgage Professionals Canada. "Yet, Canadians have consistently shown confidence in residential real estate. These surveys have told us repeatedly that Canadians are happy with the real estate decisions they have made."

The report also makes clear that Canadians are motivated to repay their mortgages. Each year, approximately one-third take actions that will shorten their amortization periods. Significantly, mortgage arrears have remained very low in Canada, and have fallen further to just 0.24%.

"The data clearly shows that the best policy to protect the mortgage market is to protect the jobs of Canadians, because history shows us that as long as they have jobs, they will meet their obligations," states Taylor.

The report also says that Canadians have a lot of equity in their homes and are well positioned should a housing decline occur.

8. Essential tax numbers: updated for 2018

[December 4, 2017]

Working people

- Maximum RRSP contribution: The maximum contribution for 2017 is $26,010; for 2018, $26,230.
- TFSA limit: The annual limit for 2017 is $5,500, for a total of $52,000 in room available in 2017 for someone who has never contributed and has been eligible for the TFSA since its introduction in 2009. In 2018, the annual limit is $5,500, for a total of $57,500 for someone who has been eligible since 2009. The annual TFSA limit will be indexed to inflation in future years.
- Maximum pensionable earnings: For 2017, the maximum pensionable earnings are $55,300 ($55,900 in 2018), and the basic exemption amount is $3,500 for 2017 and 2018.
- Maximum EI insurable earnings: The maximum annual insurance earnings (federal) for 2017 is $51,300; for 2018, $51,700.
- Lifetime capital gains exemption: The lifetime capital gains exemption is $835,716 for 2017 and $848,252 in 2018.
- Low-interest loans: The current family loan rate is 1%.
- Home buyers' amount: Did you buy a home? You may be able to claim up to $5,000 of the purchase cost, and get a non-refundable tax credit of up to $750.
- Medical expenses threshold: For the 2017 tax year, the maximum is 3% of net income or $2,268, whichever is less. For 2018, the max is 3% or $2,302, whichever is less.
- Donation tax credits: After March 20, 2013, the first-time donor super credit is 25% for up to $1,000 in donations, for one tax year between 2013 and 2017.
- Basic personal amount: For 2017, it's $11,635, line 300. For 2018, it's $11,809.

Older people

- Age amount: You can claim this amount if you were 65 years of age or older on December 31 of the taxation year and have income less than

$84,597 in 2017 (the 2018 threshold is not yet available). The maximum amount you can claim in 2017 is $7,225, and in 2018 is $7,333.

- Pension income amount: You may be able to claim up to $2,000 if you reported eligible pension, superannuation or annuity payments.
- OAS recovery threshold: If your net world income exceeds $74,788 for 2017 and $75,910 for 2018, you may have to repay part of or the entire OAS pension.

People with children

- Family caregiver amount: If you have a dependant who's physically or mentally impaired, you may be able to claim up to an additional $2,121 in calculating certain non-refundable tax credits.
- Disability amount: The amount for 2017 is $8,113 (non-refundable credit; $8,235 in 2018), with a supplement up to $4,733 for those under 18 (the amount is reduced if child care expenses are claimed; $4,804 in 2018). Canadians claiming the disability tax credit (DTC) can file their T1 return online regardless of whether or not their Form T2201, Disability Tax Credit Certificate has been submitted to CRA for that tax year.
- Child disability benefit: The child disability benefit is a tax-free benefit of up to $2,730 (for the period of July 2016 to June 2018) for families who care for a child under age 18 with a severe and prolonged impairment in physical or mental functions.
- Canada Child Benefit: This non-taxable benefit is effective as of July 1, 2016. The maximum CCB benefit is $6,400 per child under age six and up to $5,400 per child aged six through 17. In the 2017 Fall Economic Update, the government pledged to index the benefit beginning in 2018.
- Universal child care benefit (UCCB): This benefit was replaced with the Canada Child Benefit as of July 1, 2016. However, Canadian residents can still apply for previous years if they meet certain conditions, including living with the child and being primarily responsible for the child's care and upbringing.
- Child care expense deduction limits: As of 2017, the maximum amounts that can be claimed are $8,000 for children under age seven, $5,000 for children aged seven through 16, and $11,000 for children who are eligible for the disability tax credit.
- Children's fitness tax credit: This credit is being phased out, and will be gone as of 2017. If your children played baseball, soccer, or

participated in some other program of physical activity, you may be able to claim up to $500 in 2016 ($0 in 2017), per child, of the cost of these programs. Until 2017 you can claim an additional $500 for each eligible child who qualifies for the disability amount and for whom you've paid at least $100 in registration or membership fees for an eligible program. As of 2015, this is a refundable credit.

- Children's arts tax credit: This credit is being phased out, and will be gone as of 2017. If your children participated in a program of artistic, cultural, recreational, or developmental activity such as tutoring, you may be able to claim up to $250 of the fees paid, per child, on these programs in 2016 ($0 in 2017). Until 2017 you can claim an additional $500 for each eligible child who qualifies for the disability amount and for whom you've paid at least $100 in registration or membership fees for an eligible program.

Have a nice and fruitful week!

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