Weekly Updates Issue # 651

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1. Weekly Markets Changes

[February 16, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,452.64 +418.1 +2.78%	2,732.22 +112.7 +4.30%	25,219.38 +1,028.5 +4.25%	7,239.47 +365.0 +5.31%	$0.7974 -1.42c -1.75%	$1,346.95 +30.3 +2.30%	$61.68 +2.48 +4.19%

2. Ontario Tory candidates united against minimum wage hike, carbon tax

[February 16, 2018] A Progressive Conservative government in Ontario would not implement a planned minimum wage increase next year, no matter who ends up winning the race to lead the party through the spring election.

In an hour-long debate Thursday, the four candidates vying for the top Tory post were united in their opposition to a key Liberal government promise to raise the minimum wage to $15 an hour in 2019.

The forum was the first chance for former Tory legislator Christine Elliott, lawyer Caroline Mulroney, former city councillor Doug Ford, and parental rights advocate Tanya Granic Allen to present themselves as the best choice to replace former leader Patrick Brown, who resigned last month amid sexual misconduct allegations.

The candidates provided few concrete details on their plans for the province but were clear about their intention to scrap the wage hike, saying the Liberal plan would hurt the province's economy, particularly small businesses, which have complained about the January increase from $11.60 to $14 per hour.

Ford, the brother of notorious late Toronto mayor Rob Ford, called the wage hike a "tax grab" for Premier Kathleen Wynne's Liberals and said he would instead eliminate provincial income tax for those making minimum wage.

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Ford, the brother of notorious late Toronto mayor Rob Ford, called the wage hike a "tax grab" for Premier Kathleen Wynne's Liberals and said he would instead eliminate provincial income tax for those making minimum wage.

"That will benefit the companies, it will benefit the person leaving their office or their factory at the end of the day," he said.

Mulroney, daughter of former prime minister Brian Mulroney, said she would increase the minimum wage by 25 cents over four years, while Elliott also said she would phase in a hike gradually.

"The minimum wage law is a classic example of the way the Liberals have been governing this province, making decisions that help them in the short term—in this case their electoral chances—and hurt the rest of us in the long term," Caroline Mulroney said. "Small businesses are suffering. It was too much too soon."

Wynne responded to the criticism of the wage hike in a video posted on Twitter prior to her town hall event in Windsor, Ont., saying raising the minimum wage to $15 an hour will make the strong Ontario economy even stronger.

"We know Conservatives say over and over again that it's too much, it's too fast and today they made it clear that a Conservative government would deny that raise," Wynne said in the video.

"But we know that when they say not now, what they're really saying is not ever, because they want to put wealthy business owners ahead of working people. That's not okay."

What about the carbon tax?

While all four candidates said they opposed a carbon tax to replace the Liberals' current cap and trade, none of them offered specifics on how they planned to make up for the estimated $4 billion from the tax that was to fund a 22% income tax cut and other key election promises in the party's platform. Instead, all four suggested savings could be found by cutting waste from the Liberal provincial budget.

"In a $141 billion-dollar budget, do you think we can find 2% or 2% [in savings]?" Ford said.

Mulroney said she would deliver her own fully costed plan if she's elected leader. "This government needs to learn to do more with less," she said.

Elliott, who recently served as the province's health ombudsman, pitched herself as the experienced candidate best positioned to win the spring election.

"I know Kathleen Wynne. I've debated against her before," she said, noting later that with an election in less than 100 days, the party could not afford a "leader-in-training."

Granic Allen, an outspoken critic of the Liberals' updated sex-education curriculum, pulled no punches during the debate, attacking Brown as a "corrupt leader" who alienated grassroots members with social conservative views and "left the party in tatters."

Brown's abrupt resignation in late January threw the Progressive Conservatives into turmoil, prompting a hastily called leadership race that will see a new leader in place by March 10. Brown has vehemently denied the allegations and has vowed to clear his name.

Genevieve Tellier, a political science professor at the University of Ottawa, said Thursday's debate didn't bring any major revelations but confirmed that the candidates appear split into two camps.

Elliott and Mulroney have positioned themselves as more moderate, centrist options, and seem to be addressing voters across the province, while Ford and Granic Allen, who lean more to the right, appeal to grassroots members, she said.

The candidates stopped short of making any detailed policy commitments, noting they would wait for further consultations on key issues, making it difficult to know where they stand, Tellier said.

"They're cautious, they really don't know where to go, what to target," she said. "They are all unclear."

In the next, and last debate, set for the end of the month, "they will have to come up with some more precise policy actions that they want to take," she said.

3. Manufacturing sales slip from November’s record high: StatsCan

[February 16, 2018] Statistics Canada says the country’s manufacturing sales in December were $55.5 billion, down 0.3% from the record-high level set in the previous month.

The petroleum and coal product industry had the biggest month-over-month decline, dropping 4.1% to $5.7 billion in December, after five consecutive increases.

Food industry sales dropped 2.6% to $8.5 billion after the strongest November in years.

Statistics Canada says the food industry’s decline in December was most pronounced in the meat product industry and the dairy product industry.

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Overall, manufacturing sales were down in 11 of 21 industries in December.

Volumes edged down 0.1% after adjusting for price changes.

Sales were down in seven provinces including Quebec, which saw a 1.1% decline to $13.2 billion. Ontario’s manufacturing sales were up 1.2% to $25.7 billion, while Alberta sales rose 1.2% to $6.2 billion.

Still, the Bank of Canada should be encouraged by this data, says Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, in a Feb. 16 report.

“I would think that on net the BoC will be encouraged by the magnitude of the rebound in the manufacturing sector over the fourth quarter relative to the soft patch in Q3,” he writes.

“Both short-term market rates and [the] CAD were little affected by the release […],” he adds.

Holt is calling for 0.18% month-over-month GDP growth in December, “pending next week’s retail/wholesale reports, and given other readings like how hours worked were up solidly in December […] while housing starts were down 14% m/m,” he says in the report.

4. Rate hikes, mortgage rules lead to home sales decline: CREA

[February 15, 2018] Canadian home sales fell 14.5% between December and January, marking the lowest sales level in three years as the housing market was hit last month by a double whammy of tighter mortgage rules and lending rate hikes.

Data released by the Canadian Real Estate Association Thursday suggested that January activity was down in 75% of all local markets and virtually all major urban areas, especially in Ontario's hot spot in the Greater Golden Horseshoe. The decline was less significant on an annual basis, with sales falling 2.4%.

Sales climbed to a record monthly high in December, according to CREA's figures, ahead of the stress test that requires all potential buyers qualifying for a mortgage show they can manage interest rate increases.

"The decline in January sales provides clear evidence that the strength in activity late last year reflected a pull-forward of transactions, as rational homebuyers hurried to purchase before mortgage rules changed in 2018," said Gregory Klump, the association's chief economist.

The federal banking regulator introduced tougher rules for uninsured mortgages beginning Jan. 1 that require a stress test for borrowers with a more than 20% down payment. They now have to prove they can service a mortgage at a qualifying rate of the greater of: the contractual mortgage rate plus two percentage points, or the five-year benchmark rate published by the Bank of Canada.

The monthly decline "is largely payback" for buyers rushing to sign deals in the last three months of the year, ahead of the new rules, said Robert Kavcic, senior economist at BMO Capital Markets, in a note.

The January market also dampened due to the Bank of Canada's decision to raise interest rates to 1.25%, up from 1%. It was the bank's third increase since last summer, following hikes in July and September.

The central bank's interest rate increase impacts variable-rate mortgage holders, but those who opt for fixed mortgages also saw a rise in the five-year fixed rate—amid rising bond yields and a stronger economy.

CREA noted that January home sales are on par with the 10-year monthly average, and that a large decline in new listings prevented the market balance from shifting in favour of homebuyers. The average price of a home rose by 2.3%, when compared with last year, at just over $481,500.

The national sales-to-new listings ratio was 63.6% in January. A ratio reading above 60% generally indicates a sellers' market.

The number of newly-listed homes was at the lowest level since spring 2009. About 85% of all markets had fewer listings. The Greater Toronto Area led the decline, with large percentage drops also in British Columbia’s Lower Mainland, Vancouver Island and the Okanagan region, as well as parts of Ontario.

“Interestingly, new listings plunged,” Kavcic said, highlighting a 21.6% drop in listings from December 2017 to January 2018 that he said allowed the market balance to tighten up at the national level.

The highly anticipated report confirmed expectations for how the market would react to the new mortgage rules, Michael Dolega, a senior economist with TD Economics, wrote in a note. He expects some near-term volatility to continue as buyers and sellers absorb the fall out from the new rules and rising rates. But, Dolega said “some stabilization” should occur by the middle of the year.

“Thereafter we expect activity to remain weighed down by rising interest rates, but with markets largely in balanced territory prices should remain well supported,” he said.

The new mortgage rules created uncertainty and confusion for homebuyers, said CREA President Andrew Peck in a statement.

“At the same time, the changes do nothing to address government concerns about home prices that stem from an ongoing supply shortage in major markets like Vancouver and Toronto. Unless these supply shortages are addressed, concerns will persist.”

5. Are mortgage rules leading customers away from big banks?

[February 15, 2018] Home Capital Group Inc. believes early results from this year suggest that more mortgage business might migrate its way following the federal banking regulator’s introduction of tougher rules for uninsured mortgages at the beginning of the year—even though it, too, is required to abide by the requirements.

Preliminary indicators also suggest the credit quality of Home Capital mortgage originations is improving after the new rules were introduced Jan. 1. It’s difficult, however, to precisely quantify the impact, chief executive Yousry Bissada said on a conference call Thursday to discuss its fourth-quarter earnings.

“We have observed that some of our customers have been impacted by the stress test, and have therefore qualified for smaller loans than they would have last year,” he added.

The new rules for federally regulated lenders introduce a stress test for borrowers with a more than 20% down payment to prove that they can service mortgage at a qualifying rate of the greater of: the contractual mortgage rate plus two percentage points, or the five-year benchmark rate published by the Bank of Canada.

Home Capital Group Inc. says that results from the quarter ended Dec. 31 were about 40% less than it earned in the same quarter last year, before it was hit with allegations it misled investors, but Bissada said he believes the company is turning a corner.

He said the credit quality improvement seen so far this year could be an indication that business previously booked at the Big Six banks is migrating to Home Capital for mortgage solutions—but he did not elaborate on why, given Home Capital is subject to the new rules.

The company has previously said it is concerned about the impact of the recent revisions to mortgage underwriting guidelines for federally regulated institutions.

“The company has identified a number of strategies to mitigate the impact of stress testing and co-lending changes while maintaining overall credit quality,” the company said in its 2017 and fourth-quarter report.

“However, management will require more time to fully assess how the market responds to the changes and what the net impact will be on the company’s addressable market and product suite offering.”

Home Capital Group Inc. reported a net income of $30.6 million in its most recent quarter, compared to a net income of $50.7 million in the same quarter last year. Revenue dropped in the quarter to $109.5 million, from $144.6 million in the similar quarter a year ago, but ahead of Thomson Reuters estimates of $86.5 million.

It’s been a tumultuous year for the Toronto-based mortgage lender after allegations it was misleading shareholders prompted a run on deposits by customers last April.

By June the company agreed to pay $29.5 million to settle a class-action lawsuit and a matter before the Ontario Securities Commission concerning the allegations.

Last fall the company was still facing elevated expenses because of the scrutiny, as it cut 65 jobs and sold off segments of its business amid the departure of several executives.

More recently, separate lawsuits by a short seller and West Face Capital Inc. were launched against Home Capital and three former executives, both alleging the lender’s public disclosure was inaccurate and misleading.

6. 4 in 10 Canadians have made withdrawals from RRSPs: survey

[February 15, 2018] Canadians are dipping into retirement savings to fund short-term expenses, BMO Financial Group finds in its eighth annual RRSP study.

According to the study, the first part of which was released earlier this month, 40% of Canadians have made a withdrawal from their RRSPs. Those who have done so have withdrawn an average of $20,952—an increase of $3,739 compared to last year's average of $17,213.

The reasons for withdrawing from RRSPs include:

- purchasing a home (27%),
- paying for living expenses (23%),
- funding emergencies (21%) and
- paying off debt (20%).

Robert Armstrong, vice-president of multi-asset solutions at BMO Global Asset Management, warned in a release about the tax consequences associated with withdrawing from RRSPs. It's best to make premature RRSP withdrawals only for the purpose of buying a new home or paying for continuing education, as these withdrawals may qualify for the Home Buyers' Plan or the Lifelong Learning Plan, he said.

Canadians are better savers than investors, the study finds. More than one-third aren't planning to contribute to their RRSPs this year, but more than half (59%) are putting money into their savings accounts once a month or more and keeping it as cash; 41% are putting money into an investment plan (such as a TFSA or RRSP).

Canadians not putting money into investment plans say they lack funds (44%), are paying off debt (25%) or are spending money on other things (21%).

7. U.S. considers duties on Canadian pipeline material

[February 13, 2018] It's the latest incoming trade salvo from the United States - the U.S. is considering punitive duties on pipeline material from a half-dozen countries including Canada.

The duties being sought for large-diameter welded pipe from Canada are more than 50%. Canada supplies about US$66 million of pipe annually to the U.S. for use in oil and gas pipelines.

The allegation from U.S. private industry is that foreign competitors from Canada, China, India, Greece, Korea and Turkey use unfairly dumped product.

The U.S. Department of Commerce is now weighing the case and could make final determinations on anti-dumping and countervailing duties in July and September. That’s if the U.S. International Trade Commission finds in March that the case has enough merit to proceed.

The process is similar to one used against Canadian softwood lumber, newsprint and Bombardier planes. Massive duties against Bombardier were later knocked down by the International Trade Commission, which disagreed with the Department of Commerce duties.

Commerce Secretary Wilbur Ross is celebrating the increase in trade actions this year: in a press release, Ross saluted the 81% increase in trade cases initiated this year.

Canada has responded with a legal shot of its own: it is targeting the entire U.S. system for imposing duties, in a case at the WTO that has infuriated the U.S. and could have major global implications.

There was one bit of comforting trade news Tuesday: the White House played down President Donald Trump’s threat of a so-called reciprocal tax on trade, characterizing it as an offhand remark with no imminent policy plan attached to it.

8. Experts urge Morneau to proceed with caution in 2018 budget

[February 13, 2018] With so much uncertainty surrounding trade and competitiveness, private-sector economists will press Finance Minister Bill Morneau to keep his fiscal powder dry when they gather later this week for a pre-budget meeting.

Morneau is scheduled to sit down Friday in Toronto with leading economists at a roundtable that typically includes about a dozen experts from commercial banks, think tanks and trade associations.

Finance ministers routinely call on outside economists for input and forecasts as part of the budget-writing process. Their projections are averaged to create a fiscal foundation for the budget, which could come as early as this month.

Some economists say that late-2017 improvements in the economy will likely give Morneau more fiscal elbow room in the budget, compared to his October update. Others are less optimistic about the changes in recent months and expect the government to find itself in a similar budgetary position.

But regardless of the fiscal footing, there’s agreement that the government should proceed with caution. They want Ottawa to make sure it is ready for the still-unknown impacts of the drawn-out renegotiation of the North American Free Trade Agreement and the U.S. move to slash corporate taxes.

"Those are definitely the big two—there's no question about it—and the kind of chill that that could potentially put on the business investment climate in Canada," says BMO chief economist Doug Porter, whose colleague will attend the Morneau meeting in his place. "That's a tough twosome to deal with."

Additional details

Last month, the BoC highlighted the widening negative impacts of NAFTA's uncertain future. The bank not only made a point of emphasizing the potential effects on trade, but also the potential damage on business investment caused by uncertainty itself.

The central bank estimated trade uncertainty would lower investment by 2% by the end of 2019. It said new foreign direct investment into Canada had tumbled since mid-2016—a possible consequence of the unknowns around trade.

The bank also warned that lower corporate taxes in the U.S. could encourage firms to redirect some of their business investments south of the border.

Business associations fear the U.S. tax changes could end up inflicting more damage on the Canadian economy than the possible termination of NAFTA.

Morneau's office has responded to the concerns by arguing that Canada has advantages such as an educated workforce and still boasts a competitive tax rate among G7 countries, even after the U.S. reforms. Ottawa is carefully assessing the U.S. tax changes and will take time to fully understand their potential impacts, his office said in a recent statement.

Scotiabank chief economist Jean-Francois Perrault said he doesn't think the corporate tax changes in the U.S. will have a major impact on Canada—but he admits they could.

Perrault, who will attend Friday's meeting with Morneau, recommends the government hold off on any big spending plans just in case it needs to respond with tax measures of its own to keep Canada competitive.

"It would be very prudent for the government to wait until we see if, in fact, there is evidence that what's happening down south in the U.S. is having a detrimental effect on Canadian business," Perrault says.

Heading into the budget, he thinks the solid economy has given Morneau more fiscal space than he had in the fall.

In October, Morneau's fall fiscal statement predicted a deficit of $18.4 billion in 2017 to 2018 and a $15.6-billion shortfall in 2018 to 2019.

Perrault, a former assistant deputy minister under Morneau, says he now expects Ottawa to be on track for deficits of $16.8 billion in 2017 to 2018 and $14.8 billion in 2018 to 2019.

Porter doesn't think there have been major changes in the government's budgetary outlook since the fall because 2017's surprising strength was largely due to temporary factors. This year, the economy, while still looking relatively healthy, should be a little bit cooler, he adds.

Craig Alexander, chief economist for The Conference Board of Canada, predicts the deficit to be about $4 billion smaller in 2017 to 2018.

"But going forward, they're not going to have a lot of extra money in the kitty for new initiatives if they want to keep debt-to-GDP ratio on a downward path," he said.

Following the 2015 election, the Liberal government abandoned pledges to run annual deficits of no more than $10 billion and to balance the books in four years. Instead, it is focused on reducing the net debt-to-GDP ratio—also known as the debt burden—each year.

Alexander would like to see Morneau produce a plan to balance the books, while Perrault is less concerned about it as long as Ottawa keeps lowering the debt-to-GDP.

Porter would also like to see an effort to eliminate the deficit because Canada is entering a late stage in the economic cycle—but it's not his top priority.

"I'm concerned about our tax competitiveness first and foremost, and that's actually where I'd like to see the government concentrate efforts."

9. New lease agreements to residential landlords in Ontario

[February 13, 2018] On April 30, it will become mandatory for most residential landlords in Ontario to use a 13-page standardized lease agreement. It was recently unveiled by the provincial government in hopes of protecting tenants from being tricked by lengthy agreements rife with illegal clauses and language that's hard to understand and often winds up in litigation.

Advocacy Centre for Tenants Ontario lawyer Dania Majid breaks down the basics of the new lease agreement.

Why has the province introduced it?

Before the new agreement, a lease would look drastically different from one landlord to another. There was a huge range of what was included and excluded. Even with corporate or professional landlords, their leases contained several illegal clauses that tenants were signing in these long, legalese-type documents. The hope was that by creating a standard form lease that excluded all of these illegal clauses and harmonized what a big landlord and a small landlord would put in front of a tenant, it would be simpler, clearer to read, easier to understand, and both parties would know what the rent was and what was being offered or included in that rent.

Right now most major cities, including Toronto, have low vacancy rates, extremely high rent and an affordable housing crisis. The agreement is trying to level a very unbalanced playing field for tenants and landlords, and close a gap in negotiating power between the two parties.

What's new in this standardized form?

There is a section at the end of the new lease that allows a landlord to attach a document with additional terms not already in the lease. The standard form lease is comprehensive enough, so a landlord should not need to add any terms. But what we might see creep in — which is what the government was trying to get rid of — is things like regulating guests and how many you can have and how long they can stay, and clauses around maintenance like requiring a tenant to do work around the premise like mowing the lawn, shovelling the driveway and undertaking minor repairs inside the unit.

Other things that could slip in there are issues around privacy and when the landlord can have access to the unit, penalty fees, additional processing fees or application fees. A tenant shouldn't be paying damage deposits, more than one month's rent in advance, interest on arrears or penalties on missed rental payments, and they shouldn't be expected to waive their liability or their landlord's liability for maintenance and repair issues.

What enhanced rights do tenants have?

There is a provision that if a tenant requests a copy of their lease and doesn't get it within 21 days, they can withhold one month's rent. If the landlord doesn't produce it after that month, the tenant wouldn't be required to repay it. It is a small enforcement method built into the agreement to ensure tenants get a copy of their leases and know what they sign. If they never get a copy of their lease, they get 60 days' notice to terminate the tenancy early.

What kinds of properties does the lease apply to?

This will apply to residential tenant properties, but not care homes, mobile home parks, land lease communities and most social housing. There might be some exclusions under co-operative housing as well.

Do my existing tenants need to sign this new lease?

All old leases remain valid. The only thing that remains to be void is any illegal clause that might have been contained in them.

Have a nice and fruitful week!