Weekly Updates Issue # 658

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1. Weekly Markets Changes

[April 6, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,207.41 -159.9 -1.04%	2,604.47 -36.40 -1.38%	23,932.76 -170.4 -0.71%	7,063.45 -148.3 -2.10%	$0.7835 +0.79c +1.02%	$1,333.03 +7.56 +0.57%	$62.06 -2.88 -4.43%

2. Why the future is bright for Canadian exporters: EDC report

[April 6, 2018] When looking at current economic calls and headlines for Canada, it's tough to come up with a clear forecast. Confusion around global issues such as NAFTA negotiations and U.S.-China tensions are one reason, while domestic hiccups related to BoC policy and the high indebtedness of Canadians are another.

But, even as pessimists have called for possible recessions and corrections, there's some good news, says Export Development Canada (EDC) in its latest biannual global outlook report. In a Thursday release, EDC said, "Exports will rise 4% this year and 5% in 2019, leveraging higher growth in traditional markets and diversifying further into the emerging world."

It also calls for "increased investment and growth in key markets around the globe that will translate into opportunities for Canadian exporters."

One reason for the export credit agency's optimism is it expects corporations around the globe to invest in their workforces, facilities and technologies. Why? Industry reaching full capacity can be "a precursor to increased investment" rather than to a recession, the release says.

For Canada, ECD does concede that "rising interest rates coupled with high household debt will put the brakes on consumer spending," but it expects that

will be offset by "growth in government spending, net exports and business investments."
For both 2018 and 2019, EDC forecasts "modest growth" of around 2% for Canada.
In its fall 2017 export forecast, EDC was similarly optimistic. At that time, it said, "2017 was a remarkable year for Canadian exporters," adding that export growth would taper off but remain positive at 4% for this year.

What about NAFTA?

Despite tensions around the trade deal, EDC says its economists "do not see a major impact on either the U.S. or Canadian economies at this point." It adds, "All parties are working hard to come to a resolution that satisfies each country."
Mexico may have a tougher time, however, due to political uncertainty and tight fiscal and monetary policies. As such, EDC has "downgraded its growth forecast for Mexico slightly, predicting growth of 2.2% in 2018, before jumping to 2.7% in 2019."

Other global highlights from EDC

- The U.S. economy is expected to rise by more than 3%, both this year and next. Increased protectionism and a possible trade war are key risk factors but pent-up demand and new tax legislation could jolt domestic demand.
- The revival of the Eurozone and the potential for business investment will see economies in the region collectively rise by 2.5% this year and 2.1% in 2019.
- While tension between China and the U.S. could impact economic performance, China is expected to average 6.5% growth this year and 6.4% next year.
- India's outlook continues to be one of the brightest, with 7.5% growth in 2018 and an increase to 7.6% in 2019. Hikes in public salaries, combined with a 2018 budget focused on boosting the consumer, will support strong GDP growth, says EDC.

3. Surge in full-time jobs holds Canada's unemployment rate steady

[April 6, 2018] The economy delivered 32,300 net new jobs last month as Canada generated a rush of full-time work that helped keep the national unemployment rate at its record low.
Statistics Canada said Friday the jobless rate stayed at 5.8% in March for a second-consecutive month—and for the third time since December—to match

its lowest mark since the agency started measuring the indicator in 1976. The only other time the rate slipped to this level was 2007.

The March gains were driven by a surge in full-time work. The labour-market survey showed the workforce added 68,300 full-time positions, while the number of part-time jobs decreased by 35,900.

However, the data also reveal that 19,600 of the new employee positions were created in the public sector. By comparison, the number of private-sector workers declined by 7,000.

Average hourly wage growth, which has been under close scrutiny by the Bank of Canada ahead of interest-rate decisions, strengthened in March to 3.3%, up from 3.1% the previous month.

The central bank, which will make its next rate announcement later this month, has repeatedly highlighted wage growth as a key indicator. Wage growth has been moving upward since it bottomed out at 0.5% in April 2017.

Expert analysis

"On its face, today's report is something of a mixed bag," says Brian DePratto, senior economist at TD, in a Friday report.

While the number of jobs added exceeded expectations for the month, he adds, "All of the gains were in full-time employment, [while] the bulk of the net change was in self-employment. Moreover, hours worked—a helpful measure of overall economic activity—turned in a soft performance."

As a result, he's cautious on making calls based on this report. Instead, writes DePratto, "Trends are much more informative, and they remain fairly solid. On a [six-]month moving average basis, both headline (22.2k) and full-time (36.9k) job gains remain in healthy territory, while part-time employment continues to trend lower."

For the Bank of Canada's April 18 announcement, he doesn't think this report "will do much to move the needle in terms of bringing rate hikes forward."

Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, takes a similar view. In his Friday report, he predicts the central bank will likely want to see "clearer" wage trends, and he also points to the fact that "hours worked were flat in Q1 at +0.2% q/q at a seasonally adjusted and annualized rate."

This is material news, he says, "because GDP equals hours worked times labour productivity defined as output per hour worked. If hours went nowhere, then staying on the plus side for GDP growth rests upon productivity. That, in turn, means emphasizing activity readings that are tracking soft Q1 growth […]."

So far, he adds, growth is "quite a lot softer than the BoC forecast for Q1 coming into the year."

Provincial breakdown

Central Canada saw the biggest job gains in March as the two largest provinces—Ontario and Quebec—each added more than 10,000 net new positions.

Quebec gained 16,000 net new jobs, including 28,600 full-time positions, while Ontario added 10,600 net new jobs, including 16,300 full-time positions.

For Ontario, however, the gain only represented a 0.1% increase compared to the previous month. Quebec saw growth of 0.4%.

By percentage, Saskatchewan and Alberta each saw solid monthly growth. Saskatchewan's labour force expanded 0.7%, while Alberta's grew 0.4%.

The youth unemployment rate dipped last month to 10.9%, down from 11.1% in February, following a net gain of 17,700 new jobs.

By industry, goods-producing sectors added 21,700 positions, mostly in construction. Services sectors created 10,600 jobs, with the bulk of the increase coming from new positions in public administration.

Compared with 12 months earlier, the national workforce grew 1.6% following the creation of 296,200 jobs—with the entire increase fuelled by 335,200 new full-time positions.

But the latest numbers still suggest there are signs that Canada's red-hot labour market could be starting to cool down, as widely expected.

Statistics Canada said employment declined by about 40,000 jobs over the first three months of 2018 for a decline of 0.2%.

4. Canada's trade deficit grew to $2.7 billion in February

[April 5, 2018] Canada ran a merchandise trade deficit of $2.7 billion in February compared with a deficit of $1.9 billion in January, reported Statistics Canada on Thursday.

Economists had expected a deficit of $2 billion, according to Thomson Reuters.

The increased deficit came as imports rose 1.9% to $48.6 billion, boosted by imports of energy products.

Exports increased 0.4% to $45.9 billion, due to higher exports of passenger cars and light trucks.

Despite the rebound in export volumes, the trade deficit remains disappointing given the strong U.S. economy and weak Canadian dollar, said Royce Mendes, senior economist at CIBC Economics, in an email note to clients.

Regionally, Canada's trade surplus with the United States narrowed to $2.6 billion in February compared with $2.9 billion in January, as imports from the U.S. grew 3.3%. Exports to the U.S. increased 1.9%.
Canada's trade deficit with countries other than the United States increased to $5.3 billion in February from $4.9 billion in January.
However, Mendes added in his email that this data should be positive for fixed income. "It plays into our forecast for a patient Bank of Canada, and bearish for the Canadian dollar," he wrote.

5. China lists $50B of U.S. goods it might hit with 25% tariff

[April 4, 2018] China on Wednesday issued a US$50-billion list of U.S. goods including soybeans and small aircraft for possible tariff hikes in an escalating technology dispute with Washington that companies worry could set back the global economic recovery. (All figures are in U.S. dollars.)
The country's tax agency gave no date for the 25% increase to take effect and said that will depend on what President Donald Trump does about U.S. plans to raise duties on a similar amount of Chinese goods.
Beijing's list of 106 products included the biggest U.S. exports to China, reflecting its intense sensitivity to the dispute over American complaints that it pressures foreign companies to hand over technology.
The clash reflects the tension between Trump's promises to narrow a U.S. trade deficit with China that stood at $375.2 billion last year and the ruling Communist Party's development ambitions. Regulators use access to China's vast market as leverage to press foreign automakers and other companies to help create or improve industries and technology.
A list the U.S. issued Tuesday of products subject to tariff hikes included aerospace, telecoms and machinery, striking at high-tech industries seen by China's leaders as the key to its economic future.
China said it would immediately challenge the U.S. move in the World Trade Organization.
"It must be said, we have been forced into taking this action," a deputy commerce minister, Wang Shouwen, said at a news conference. "Our action is restrained."
A deputy finance minister, Zhu Guangyao, appealed to Washington to "work in a constructive manner" and avoid hurting both countries.
Zhu warned against expecting Beijing to back down.
"Pressure from the outside will only urge and encourage the Chinese people to work even harder," said Zhu at the news conference.

Companies and economists have expressed concern improved global economic activity might sputter if other governments are prompted to raise their own import barriers.

The dispute "may compel countries to pick sides," said Weiliang Chang of Mizuho Bank in a report.

"U.S. companies at this point would like to see robust communication between the U.S. government and the Chinese government and serious negotiation on both sides, hopefully to avoid a trade war," said the chairman of the American Chamber of Commerce in China, William Zarit.

"I can only hope that we solve our differences as soon as possible to avoid damage to the U.S. economy, Chinese economy and to U.S. companies."

U.S. criticism of China

American companies have long chafed under Chinese regulations that require them to operate through local partners and share technology with potential competitors in exchange for market access. Business groups say companies feel increasingly unwelcome in China's state-dominated economy and are being squeezed out of promising industries.

Chinese policies "coerce American companies into transferring their technology" to Chinese enterprises, said a United States Trade Representative (USTR) statement.

Foreign companies are increasingly alarmed by initiatives such as Beijing's long-range industry development plan, dubbed "Made in China 2025," which calls for creating global leaders in electric cars, robots and other fields. Companies complain that might block access to those industries.

Wang, the commerce official, defended "Made in China 2025." He said it was "transparent, open and non-discriminatory," and foreign companies could participate.

Wang said the plan, which sets specific targets for domestic brands' share of some markets, should be seen as a guide rather than mandatory.

A report released Tuesday by the USTR also cited complaints Beijing uses cyber spying to steal foreign business secrets. It was unclear whether the latest tariff hike was a direct response to that.

Tariff details

The Chinese list Wednesday included soybeans, the biggest U.S. export to China, and aircraft up to 45 tons in weight. That excludes high-end Boeing Co. jetliners such as the 747 and 777, leaving Beijing high-profile targets for possible future conflicts.

Also on the list were American beef, whisky, passenger vehicles and industrial chemicals.

Zhu, the deputy finance minister, expressed thanks to American soybean farmers who he said had lobbied the Trump administration to “safeguard hard-won economic relations between the United States and China.”

To minimize the cost to China, regulators picked products for which replacements are available, such as soybeans from Australia or Brazil, said Tu Xinquan, director of WTO studies at the University of International Business and Economics in Beijing.

“China has made meticulous efforts in deciding the list of the products to make sure the impact on China’s economy is controllable,” said Tu.

“If the U.S. decides to increase intensity, China will surely follow suit,” said Tu. “In the event of all-out trade war, both may lose all sense of reason, but I do hope it will never happen.”

The Global Times newspaper, published by the ruling party and known for its nationalistic tone, suggested further retaliatory action might target service industries in which the United States runs a trade surplus. Regulators have wide discretion to withhold licenses or take other action to disrupt logistics and other service businesses.

“What China needs to do now is to make the United States pay the same price” so Americans “understand anew the Chinese-U.S. strength relationship,” the newspaper said.

In a separate dispute, Beijing raised tariffs Monday on a $3-billion list of U.S. goods including pork, apples and steel pipe in response to increased duties on imports of steel and aluminum that took effect March 23.

The United States buys little Chinese steel or aluminum, but analysts said Beijing would feel compelled to react, partly as a “warning shot” ahead of the technology dispute.

U.S.-China tensions

In another warning move, Chinese regulators launched an anti-dumping investigation of U.S. sorghum last month as rhetoric between Beijing and Washington heated up.

China has accused Trump of damaging the global system of trade regulation by taking action under U.S. law instead of the through the WTO.

Previously, Trump approved higher import duties on Chinese-made washing machines and solar modules to offset what Washington said were improper subsidies.

The technology investigation was launched under a little-used Cold War era law, Section 301 of the U.S. Trade Act of 1974.

However, as part of its response, the USTR also lodged a WTO case last month challenging Chinese policies it said unfairly limit foreign companies’ control over their technology.

U.S. authorities say Beijing denies foreign companies the right to block use of technology by a Chinese entity once a licensing period ends. And they say it imposes contract terms that are less favourable than for local technology.

6. Vancouver's year-over-year home sales drop, but prices stay high

[April 4, 2018] Metro Vancouver home sales over the first quarter of this year were the lowest in five years, but statistics from the Real Estate Board of Greater Vancouver show home prices remain high.

The composite benchmark price for all residential properties in Metro Vancouver is $1,084,000, a 16.1% increase over March 2017 and a 1.1% increase since February of this year.

The board says home sales across the region in March tumbled 29.7% compared with March 2017, and are 23% below the 10-year March sales average.

Just over 2,500 homes changed hands last month, a drop of more than 1,000 compared with a year ago, although the board notes the March 2018 sales climbed 14% compared with February.

Listings of detached, attached and apartment properties also fell year over year, skidding 6.6% in March compared with March 2017, marking the region's lowest total of first-quarter new listings since 2013.

Real estate board data show the number of sales compared to the number of active listings soared to 61.6% for condominiums in March, while the rate was 39.9% for townhomes—far above the 20% rate the board says tends to push prices upward.

Phil Moore, real estate board president, says even with lower sales, prices will remain high as long as the selection of properties is slim.

"Last month was the quietest March for new home listings since 2009 and the total inventory—particularly in the condo and townhome segments—of homes for sale remains well below historical norms," he says in a news release.

"High prices, new tax announcements, rising interest rates and stricter mortgage requirements are among the factors affecting homebuyer and seller activity today," Moore adds.

The benchmark price for detached properties was $1,608,500 last month, up 7.4% from March 2017 and less than 0.5% over February 2018, as sales-to-active listings nudged the mark where the board says downward pressure on prices could occur.

With sales outstripping supply for condos and townhomes, the real estate board says the benchmark price for a condo was $693,500 in March, a 26.2% leap from March 2017 and a 1.6% bump compared with February 2018.
Benchmark prices for townhomes across Metro Vancouver reached $835,300 last month, a 2% increase over February and a hike of 17.7% from March 2017.

7. March home sales in GTA drop 39.5% compared to March 2017. Prices dip.

[April 4, 2018] Canada's largest real estate board says home sales in the Greater Toronto Area were down 39.5% year over year in March.
The Toronto Real Estate Board says GTA realtors reported 7,228 residential transactions during the month compared to a record 11,954 sales in March 2017.
New listings totalled 14,866, representing a 12.4% drop from March 2017.
The average price of a home in the GTA was $784,558 last month, down from an average of $915,126 in the same month last year, which represents a **huge drop by 14.27%.**
In Toronto alone, the board says the average home sold for $817,642 compared to $897,856 a year ago – **a decrease by 8.93%.**
TREB president Tim Syrianos says higher borrowing costs and other factors have prompted some buyers to put purchasing on hold but he predicts home sales will be up relative to 2017 in the second half of this year.
"Right now, when we are comparing home prices, we are comparing two starkly different periods of time," says Jason Mercer, TREB's director of market analysis.
Mercer says there was less than a month of inventory last year versus two and three months this year.
"It makes sense that we haven't seen prices climb back to last year's peak. However, in the second half of the year, expect to see the annual rate of price growth improve compared to Q1, as sales increase relative to the below-average level of listings," said Mercer.

8. Midlife 'wealth shock' may lead to death: study

[April 3, 2018] Middle-aged Americans who experienced a sudden, large economic blow were more likely to die during the following years than those who didn't. The heightened danger of death after a devastating loss, which researchers called a "wealth shock," crossed socio-economic lines, affecting people no matter how much money they had to start.

The analysis of nearly 9,000 people's experiences underscores well-known connections between money and well-being, with prior studies linking lower incomes and rising income inequality with more chronic disease and shorter life expectancy.

"This is really a story about everybody," said lead researcher Lindsay Pool of Northwestern University's medical school. Stress, delays in healthcare, substance abuse and suicides may contribute, she said. "Policymakers should pay attention."

The details

Overall, wealth shock was tied with a 50% greater risk of dying, although the study couldn't prove a cause-and-effect connection. The study was published Tuesday in the Journal of the American Medical Association.

Researchers analyzed two decades of data from the Health and Retirement Study, which checks in every other year with a group of people in their 50s and 60s and keeps track of who dies.

About one in four people in the study had a wealth shock, which researchers defined as a loss of 75% or more in net worth over two years. The average loss was about US$100,000.

That could include a drop in the value of investments or realized losses like a home foreclosure. Some shocks happened during the Great Recession of 2007-2009. Others happened before or after. No matter what was going on in the greater U.S. economy, a wealth shock still increased the chance of dying.

Women were more likely than men to have a wealth shock. Once they did, their increased chance of dying was about the same as the increase for men.

Researchers adjusted for marital changes, unemployment and health status. They still saw the connection between financial crisis and death.

The effect was more marked if the person lost a home as part of the wealth shock, and it was more pronounced for people with fewer assets.

The findings suggest a wealth shock is as dangerous as a new diagnosis of heart disease, wrote Dr. Alan Garber of Harvard University in an accompanying editorial, noting that doctors need to recognize how money hardships may affect their patients.

Protecting savings affects mortality?

The findings come at a time when U.S. life expectancy has dropped for two straight years.

"We should be doing everything we can to prevent people from experiencing wealth shocks," said Dr. Steven Woolf, director of the Virginia Commonwealth University Center on Society and Health, who was not involved in the study.

What exactly to do, however, may take more research, said Katherine Baicker, dean of the Harris School of Public Policy at University of Chicago, who also was not involved in the study.
“We don’t yet know whether policies that aim to protect people’s savings will have a direct effect on mortality or not,” Baicker said. “But that’s not the only reason to try to protect people’s savings.”
Dear clients,
I am extremely happy and proud to say that by recommending to you exclusively and only fully guaranteed investments I am improving your longevity!

9. China raises tariffs on U.S. pork, fruit in trade dispute

[April 2, 2018] China raised import duties on a US$3 billion list of U.S. pork, apples and other products Monday in an escalating dispute with Washington over trade and industrial policy. (All figures are in U.S. dollars.)
The government of President Xi Jinping said it was responding to a U.S. tariff hike on steel and aluminum. But that is just one facet of sprawling tensions with Washington, Europe and Japan over a state-led economic model they complain hampers market access, protects Chinese companies and subsidizes exports in violation of Beijing’s free-trade commitments.
Already, companies are looking ahead to a bigger fight over U.S. President Donald Trump’s approval of higher duties on up to $50 billion of Chinese goods in response to complaints that Beijing steals or pressures foreign companies to hand over technology.
Forecasters say the impact of Monday’s move should be limited, but investors worry the global recovery might be set back if other governments respond by raising import barriers.
On Monday, the main stock market indexes in Tokyo and Shanghai ended the day down.
The tariffs “signal a most unwelcome development, which is that countries are becoming protectionist,” said economist Taimur Baig of DBS Group. But in commercial terms, they are “not very substantial” compared with China’s $150 billion in annual imports of U.S. goods, he said.
Monday’s tariff increase will hit American farm states, many of which voted for Trump in 2016.
Beijing is imposing a 25% tariff on U.S. pork and aluminum scrap and 15% on sparkling wine, steel pipe used by oil and gas companies, and an array of fruits and nuts including apples, walnuts and grapes.

American farm exports to China in 2017 totalled nearly $20 billion, including $1.1 billion of pork products.

There was no indication whether Beijing might exempt Chinese-owned American suppliers such as Smithfield Foods, the biggest U.S. pork producer, which is ramping up exports to China.

The U.S. tariff hike "has seriously damaged our interests," the Finance Ministry said in a statement.

"Our country advocates and supports the multilateral trading system," it said. China's tariff increase "is a proper measure adopted by our country using World Trade Organization rules to protect our interests," the statement said.

The U.S.-China struggle

White House spokeswoman Sarah Huckabee Sanders said Monday on the television show "Fox and Friends" that Trump was "going to fight back and he's going to push back."

Deputy Press Secretary Lindsay Walters said China's "subsidization and continued overcapacity" were the root cause of low steel prices that have hurt U.S. producers.

"Instead of targeting fairly traded U.S. exports, China needs to stop its unfair trading practices which are harming U.S. national security and distorting global markets," Walters said.

The United States buys little Chinese steel and aluminum, but analysts said Beijing was certain to retaliate, partly to show its toughness ahead of possible bigger disputes.

Chinese officials have said Beijing is willing to negotiate, but in a confrontation will "fight to the end."

"China has already prepared for the worst," said Liu Yuanchun, executive dean of the National Academy of Development Strategy at Renmin University in Beijing. "The two sides, therefore, should sit down and negotiate."

The dispute reflects the clash between Trump's promise to narrow the U.S. trade surplus with China—a record $375.2 billion last year—and Beijing's ambitious plans to develop Chinese industry and technology.

Last July, U.S. Treasury Secretary Steven Mnuchin complained the Chinese government's dominant role in China's economy was to blame for its yawning trade surplus.

State-owned companies dominate Chinese industries including oil and gas, telecoms, banking, coal mining, utilities and airlines. They benefit from monopolies and low-cost access to energy, land and bank loans.

The ruling Communist Party promised in 2013 to give market forces the "decisive role" in allocating resources. But at the same time, Xi has affirmed

plans to build up state industries the party says are the central pillar of the economy.
“The thing that is going to be more challenging for Beijing is if the U.S., European Union and Japan get together and start taking measures on state-owned enterprises,” said Baig. “That for me would be an escalation, whereas product-by-product back and forth, amounting to a few billion dollars here or there, is not a major substantive concern.”
Foreign governments also accuse Beijing of violating free trade by requiring automakers and other foreign companies to work through state-owned Chinese partners. That requires them to give technology to potential competitors.
Last month, a U.S. official cited as “hugely problematic” Beijing’s sweeping plan to create Chinese competitors in electric cars, robots, advanced manufacturing and other fields over the next decade. Business groups complain that strategy, dubbed “Made in China 2025,” will limit or outright block access to those industries.
The country’s top economic official, Premier Li Keqiang, promised at a news conference on March 20 there will be “no mandatory requirement for technology transfers.” However, Chinese officials already deny foreign companies are required to hand over technology, leaving it unclear how policy might change.
Trump ordered U.S. trade officials on March 22 to bring a WTO case challenging Chinese technology licensing. It proposed 25% tariffs on Chinese products including aerospace, communications technology and machinery, and said Washington will step up restrictions on Chinese investment in key U.S. technology sectors.
Beijing has yet to say how it might respond.
Trump administration officials have identified as potential targets 1,300 product lines worth about $48 billion. That list will be open to a 30-day comment period for businesses.
The volleys of threats are “a process of game-playing to test each other’s bottom lines,” said Tu Xinquan, a trade expert at the University of International Business and Economics in Beijing.
“We are curious about what the U.S. side really wants,” said Tu, “and wonder whether the United States can tolerate the consequences.”

Have a nice and fruitful week!