Weekly Updates Issue # 667

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1. Weekly Markets Changes

[June 8, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,202.69 +159.15 +0.99%	2,779.03 +44.41 +1.62%	25,316.53 +681.32 +2.77%	7,645.51 +91.18 +1.21%	$0.7715 +0.01c +0.01%	$1,298.16 +4.76 +0.37%	$65.74 -0.07 -0.11%

2. Why economy lost 7,500 jobs in May

[June 8, 2018] The economy lost 7,500 jobs in May as a drop in full-time employment was only partially offset by an increase in part-time jobs, Statistics Canada said Friday.

The agency reported the dip as the unemployment rate held steady at 5.8% for the fourth consecutive month.

Economists had expected an increase of 17,500 jobs, according to Thomson Reuters Eikon.

"The May employment report was a bit of a stinker, but stepping back shows a labour market that is pretty tight, with some upward wage pressure," Bank of Montreal senior economist Robert Kavcic wrote in a brief note.

Average hourly wages, a key indicator watched by the Bank of Canada, increased 3.9% compared with a year ago, the monthly reading's largest annual increase since April 2009.

"Add in some other strong indicators this week, and the Bank of Canada should be on track to raise rates next month barring more fallout on the trade front," Kavcic wrote.

The overall drop in the number of jobs came as full-time jobs fell by 31,000, offset in part by a gain of 23,600 part-time positions.

The loss of jobs came as the healthcare and social assistance sector lost 24,000 jobs, while the manufacturing sector lost 18,000. Employment in construction fell by 13,000.

Sectors gaining jobs included the accommodation and food services sector, which added 18,000 jobs, helped by growth in British Columbia. The professional, scientific and technical services sector added 17,000, and transportation and warehousing added 12,000.

Regionally, Prince Edward Island added 800 jobs for the month, while employment in B.C. fell by 12,000 for the month.

In Quebec, a drop in full-time work was offset by a gain in part-time, to leave the province little changed for the month. Statistics Canada says there was virtually no change in the number of people working in Ontario.

On a year-over-year basis, overall employment was up by 238,000 jobs or 1.3%, due to gains in full-time work.

3. Canada’s rate of housing starts dipped last month: CMHC

[June 8, 2018] Canada Mortgage and Housing Corp. says the pace of new housing construction slowed in May, largely because of a 16.4% decline in multi-unit projects in urban areas after several months of above-average activity.

The federal agency says the seasonally adjusted rate of housing starts for all of Canada was 195,613 units in May, down from 216,775 units in April.

May’s decline pushed down the six-month average to 216,362 units on a seasonally adjusted basis from a six-month average of 225,481 units in April.

The primary reason for the month-over-month decline was that fewer condos, townhomes and other multi-unit projects started up in some urban areas in May.

The seasonally adjusted rate of multiple urban starts fell 16.4% to 119,811 units in May, while single-detached urban starts increased by 2% to 58,390 units.

Rural starts were estimated at a seasonally adjusted annual rate of 17,412 units.

4. After Ontario election, ‘significant’ uncertainty remains: Scotiabank report

[June 8, 2018] Doug Ford rode a populist wave to power in Ontario on Thursday, capturing a Progressive Conservative majority by harnessing

voters' economic anxiety and anger with a scandal-plagued Liberal government.
The Tory leader's election promises were in stark contrast to the other left-leaning major parties and included income tax cuts, scrapping the Liberals' updated sex-ed curriculum and strongly opposing a carbon tax.
Ford also rolled out several pledges designed with populist appeal in mind, from cutting gas prices by 10 cents a litre to introducing buck-a-beer to cutting hydro bills.
"A new day has dawned in Ontario—a day of opportunity, a day of prosperity and a day of growth," he told a crowd chanting his name.
In a Thursday report released this morning, Scotiabank says, "The majority result for the Conservatives reduces some of [the election's] uncertainty and points to a smaller public sector role than the NDP and Liberals proposed."
The report discusses some of the party's big-ticket promises, including "a $2.25-billion middle-class income tax cut," which would involve the Torys dropping "Ontario's general corporate income tax rate from 11.5% to 10.5%, with a similar decrease for its 10% manufacturing/processing rate and a lower small business tax."
Further, "A populist approach is mirrored in a number of measures, such as removing income tax for minimum wage workers," the report says.
This fall, Scotiabank expects a budget that "will likely represent a first step toward a fuller rollout of the new administration's plans in its Budget next spring for FY20."
Also, over the next couple of years, Ontario will be responding alongside other provinces "to major federal policy initiatives such as national pharmacare. U.S. trade actions and negotiations are presently top of mind, but in the wings are other issues such as Ontario's mid-term competitiveness," the bank says.
Still, overall, "Uncertainty still remains significant for Ontario."
For its part, CIBC said in a report last night that what is clear is "[…] Ontarians have clearly voted for change. The Liberal party, after holding power for 15 years, has seen its seat count fall to third place, setting the NDP up to play the role of official opposition."
However, the bank notes "[…] we don't know all of the details regarding the balance of spending and revenue and what the implications are for Ontario's deficit and debt load."
The report says, "While the PC election platform offered a broad glimpse into what the new government will likely prioritize in the coming years, details on the implementation, cost and funding of several campaign promises remain unknown. There's no statutory timeline for the new government to table a

budget or fiscal update, but there were some tangible promises made during the campaign."

Election details

The Liberals lost official party status in a stunning collapse after leading the province for the past 15 years and capturing a majority government just four years ago. Premier Kathleen Wynne, who narrowly hung on to her seat, resigned as Liberal leader, and all but seven Liberal ridings fell.

The NDP under Andrea Horwath will form the Official Opposition, marking a turnaround for a party consistently stuck in third place since Bob Rae's New Democratic government was defeated in 1995.

Green Party Leader Mike Schreiner captured the party's first-ever seat in Ontario.

The Progressive Conservatives won 76 ridings, while the NDP got 40.

Ford is a newcomer to provincial politics, having only captured the party leadership three months ago. He beat out establishment favourite Christine Elliott after former leader Patrick Brown stepped down over sexual misconduct allegations that he denies.

"My friends, together in 88 short days we achieved the impossible," Ford said. "We united our party and united our province and this is your victory."

Under Ford, the Progressive Conservatives recaptured the province they have not led since 2003, overcoming the failings of the past three elections that saw them unable to defeat the Liberals.

But Ford's campaign certainly wasn't immune to controversy. He dismissed allegations that he was involved in selling bogus Progressive Conservative party memberships, a candidate was dropped following accusations he was involved in an alleged theft of customer data at a toll highway operator, and Ford was frequently accused of failing to be transparent by dodging calls to release a fully costed platform.

With about one week left in the campaign, the party published a list of promises and their price tags, but didn't indicate how they would pay for them, what size of deficits they would run or for exactly how long.

Then in the waning days of the election, Ford family drama—that laid mostly dormant in the public sphere since the death of his brother, former Toronto mayor Rob Ford—burst onto the scene with a lawsuit from Rob Ford's widow alleging Doug Ford mishandled his brother's estate and destroyed the value of the family business.

Ontario hasn't had a premier like Ford before, said Western University associate political science professor Cristine de Clercy.

"[He's] someone who is new to the provincial arena, who isn't totally familiar with the ways of the legislature," she said. "I also think it's worth remembering during the leadership contest not many members of the caucus backed him. Unlike other leaders who often sweep into office with their party caucus behind him, he didn't."

Ford, who has positioned himself as a champion of "the little guy" and has been compared to U.S. President Donald Trump, is a wealthy businessman.

He's the second son of Diane and Doug Ford Sr., a provincial politician for one term in the late 1990s. He has spoken about his family on the campaign trail and launched his bid for the Tory leadership from his mother's basement in west Toronto.

He was first thrust into the national spotlight because of his defences of his scandal-plagued brother, whose admission of using crack cocaine made international headlines. He grabbed his brother's former city council seat when Rob Ford was mayor, and stepped in as a Toronto mayoral candidate when cancer forced his brother to give up on running for a second term.

The crowd of Tory supporters at the Toronto Congress Centre erupted into cheers as a Progressive Conservative majority was called. People waved party signs and embraced while they waited for Ford to arrive. Each time Wynne's image came up onto the screen, the crowd booed. The crowd booed again when news came that Horwath won her Hamilton riding.

Prime Minister Justin Trudeau called Ford to congratulate him and said he looks forward to working with him.

Voter turnout was up significantly, to 58% from about 51% in the 2014 election.

Nearly every Liberal cabinet minister was defeated, including Yasir Naqvi, Charles Sousa, Glenn Thibeault, Steven Del Duca, Kevin Flynn, Eleanor McMahon and Chris Ballard. Jim Bradley, who had held the riding of St. Catharines for the Liberals for 41 years, was also defeated.

A Liberal defeat was predicted by Wynne herself just days before the vote, as she admitted her party had such low support it would not form government again. She inherited a government already rife with billion-dollar scandals, but under her leadership more fuel was added to the fire, such as rising hydro bills and questionable government spending.

The Liberals came to power in 2003 under Dalton McGuinty, and when he stepped down in 2013, Wynne took the reins. She led the party to a majority in 2014, despite the party already being bogged down by scandals at eHealth Ontario, air ambulance service Ornge and a price tag of up to $1.1 billion to cancel two gas plants.

But her popularity soon began to dip, and reached well below 20% in 2016 and 2017, in large part due to anger over rising hydro prices. She also faced criticism over her partial privatization of Hydro One and her decision to plunge the province's books back into the red after finally getting them to balance in 2017-18.

5. Household debt and housing remain key risks for financial system

[June 7, 2018] Canada's housing market and high consumer indebtedness remain the top vulnerabilities for the financial system, but both have shown signs of easing, according to the Bank of Canada.

The central bank said in a report released Thursday that worries about the amount Canadians owe have begun to pull back, but because of the sheer size of the debt, it will remain a concern for some time.

"The two main vulnerabilities we have been watching closely are showing continued signs of easing, which is encouraging," Bank of Canada governor Stephen Poloz said in a statement.

"Combined, the impact of higher interest rates and the changes to the mortgage guidelines have reduced credit growth and improved the quality of new lending."

The assessment came in the Bank of Canada's latest financial system review, which assesses key vulnerabilities that could amplify or propagate economic shocks.

Mortgage lending rules have been tightening in recent years with the application of stress tests on borrowers. New rules implemented at the start of this year introduced a test for borrowers who do not require mortgage insurance and had not previously been subject to stress testing. The housing market has been noticeably cooling since the beginning of this year.

The central bank said it will monitor the extent to which borrowers who want a larger loan than they qualify for under the new federal guidelines seek out alternative lenders, such as credit unions and private lenders, who are not always subject to the federal rules.

In assessing the housing market risk, the report noted that housing price growth has slowed, led by a drop in the Greater Toronto Area. However, it said the condominium markets in Toronto and Vancouver remain strong with some evidence of speculative activity.

Risk to GDP

The central bank estimates that the new mortgage rules will subtract about 0.2% from GDP by the end of 2019. It also provides evidence that household indebtedness and housing market imbalances have weighed on "GDP at risk" since 2016—even while macroeconomic performance has improved.

"By constraining vulnerabilities, financial sector policy may improve GDP at risk," says the report. "For example, recent policy actions are expected to slow the accumulation of household debt and dampen house price growth."

Referring to the central bank's comments, Royce Mendes, director and senior economist at CIBC, says, "That still leaves the [central] bank on course to tighten policy, but interest rate hikes will come at a gradual pace and settle at lower levels than in prior cycles."

The large stock of outstanding debt makes each rate hike "all the more powerful," he says, adding that he still expects a July hike.

In addition to household debt and the housing market, the report also identified cyberattacks as a key area of concern.

"Even as defensive capacity improves across the financial system, some attacks will inevitability succeed," the report said. "Having strong recovery plans can help to quickly restore financial system functioning and prevent a loss in confidence."

Financial system review to become annual report

The Bank of Canada also announced Thursday that it will no longer publish its financial system review report twice a year.

The report will become an annual review published in June and a member of the bank's governing council will make a speech in the fall to update its assessment of the vulnerabilities and risks to the financial system.

It will also create a new financial system hub on its website that will publish research and analysis throughout the year.

The Bank of Canada's quarterly monetary policy report will also include a more in-depth discussion of the relevant issues as warranted.

The central bank has raised its key interest rate three times since last summer, moves that have prompted the big Canadian banks to raise their prime rates, which are used to set the rates charged for variable-rate mortgages and other floating-rate loans. The cost of new fixed-rate mortgages have also climbed in recent months as bond yields have risen.

6. Canada's trade deficit narrows to $1.9B in April

[June 6, 2018] As a result of rising exports and declining imports, Canada's merchandise trade deficit with the world narrowed to $1.9 billion in April from $3.9 billion in March, reports StatsCan. The deficit was lower than economists had expected.

Canada's exports rose 1.6% to a record $48.6 billion in April. Imports were down 2.5% to $50.5 billion, after reaching a record high in March. In real (or volume) terms, exports rose 1.2% and imports fell 2.4%.

The positive exports reading was the sixth increase over the past seven months. “Higher exports of metal and non-metallic mineral products, consumer goods and energy products were partially offset by lower exports of aircraft and other transportation equipment and parts,” says StatsCan. Total exports rose 3.1% year over year.

Exports of unwrought precious metals and precious metal alloys led the increase for metals in April, up 25.3% to $1.6 billion.

Exports of consumer goods, up 5.4% to $6.2 billion in April, included increases in exports of pharmaceutical and medicinal products, mostly to the U.S. Exports of energy products rose 2.3%, the eighth monthly increase in nine months.

Imports exhibited declines in eight of 11 sections, including autos and auto parts. “Following two months of strong increases, imports of motor vehicles and parts decreased 5.8% to $9.7 billion in April,” says StatsCan. Passenger cars and light trucks were down 8.9%, returning to more typical levels following higher than usual import levels for light trucks in March.

Imports of consumer goods also contributed to the overall decrease, down 4.9% to $10.5 billion in April.

Import declines were partially offset by higher imports of energy products, up 8.5% to $3.4 billion. “Temporary shutdowns in Canadian refineries in April led to higher imports of motor gasoline and diesel fuel to meet domestic demand,” says StatsCan.

Comparisons with U.S.

After five monthly contractions, Canada’s merchandise trade surplus with the United States widened to $3.6 billion in April from a $2-billion surplus in March.

So far this year, the U.S. has a trade deficit that’s up 11.5% from a year ago despite President Donald Trump’s vow to reduce the gap through new tariffs on imports and renegotiated trade deals. However, record U.S. exports shaved the U.S. trade deficit in April for the second straight month.

The U.S. Commerce Department said Wednesday that the trade deficit dropped to US$46.2 billion in April, down from US$47.2 billion in March and the lowest since September. Exports rose to a record US$211.2 billion; imports dipped to US$257.4 billion.

7. Canada’s job vacancy rate stays at 3% in Q1 2018: CFIB

[June 5, 2018] Canada's job vacancy rate remained at 3% in the first quarter of this year, says a report from the Canadian Federation of Independent Business (CFIB).

The Q1 "Help Wanted" report found about 407,000 private sector jobs were unfilled for at least four months. The observed job vacancy rate—the proportion of unfilled jobs relative to all available jobs in the private sector—stayed the same as in Q4 2017 and rose from 2.6% in the same quarter last year.

"Small businesses are feeling the pressure of prolonged job vacancies, especially in British Columbia and Quebec, where the record high vacancy rates are still on the rise," said Ted Mallett, chief economist at CFIB, in a release. "Affected businesses are responding with wage increases, or adjustments to their product lines or capital spending in some cases."

Statistics Canada reported that the country's unemployment rate for April was 5.8%, a record low for the third month in a row.

The vacancy rates across Canada changed as follows, the CFIB report says:

- rose to 3.8% in British Columbia and 3.7% in Quebec, the two provinces with the tightest labour markets;
- small increase to 3.2% in Ontario and 2.7% in Manitoba;
- unchanged in New Brunswick (2.7%), Alberta (2.4%) and Nova Scotia (2.4%); and
- decreased slightly in Saskatchewan (2.1%), Newfoundland and Labrador (1.8%) and Prince Edward Island (1.1%).

Rises in vacancy rates for seven sectors was offset by a steady decline in vacancies in six sectors. The personal services sector had the largest rise of 4.8% in the vacancy rate. The vacancy rate in the construction sector stayed high at 3.6%.

The vacancy rates put upward pressure on wages. Employers with at least one vacancy expect to increase average wages across their organization by 3.1% while businesses without any vacancies plan to raise wages by an average of 2.4%, says the report.

8. A look at Ontario's debt as election day nears

[June 5, 2018] Ontario's governing Liberals have faced harsh criticism in recent years over the province's ballooning debt. The government's spring budget, which projected deficits over the next six years that would in turn inflate the debt level, prompted opponents to decry the Liberals as fiscally irresponsible.

Premier Kathleen Wynne has defended her party's spending plan as "prudent," but what's the real story?

Some economic and credit experts weigh in:

What is Ontario's debt?

The Liberal government's spring budget projected the province's net debt, the cumulative amount of money owed, at $325 billion—or more than $22,500 per Ontarian—for 2018-2019. The debt is forecast to grow to $360.1 billion by 2020-2021. Over that time, the Liberals projected six years of deficits, which is the gap that exists when money flowing out exceeds money coming in. This year's deficit is projected at $6.7 billion, although the Financial Accountability Office expects the figure to be closer to $12 billion. The office also expects government spending to push Ontario's debt to a projected $400 billion by 2021.

To whom does Ontario owe this money?

Michael Yake, vice-president and senior credit analyst at rating agency Moody's Canada, said Ontario—like many other governments—is indebted to multiple entities, including domestic and foreign investors, pension funds, and other governments.

How do you quantify a province's debt?

There are different ways of doing so. The government measures the ratio of debt to gross domestic product (GDP). It calculated the 2018-19 ratio at 37.6%, shy of a 39.3% peak reached in 2014-15. Moody's, whose ratings of businesses and governments are widely seen as a key marker of fiscal performance, prefers to use the ratio of net debt to revenue, putting the ratio at 233% for 2017-18, meaning debt levels were more than twice as high as income levels. Yake said that figure is rising to 237% in 2019-20, assuming the Liberal budget is executed is planned.

Ontario's credit rating

Yake said Ontario's credit rating of AA2, which it's held since April 2012, is the third-highest of 21 possible rankings. The likelihood of that score changing was recently lowered to negative when the debt-to-revenue ratio showed signs of rising again. Yake said the province's debt burden could put "downward pressure" on its credit rating, adding Moody's could make the downgrade if the debt ratio creeps back over the 240% mark and interest rates consume more than 9% of revenue.

Why the negative outlook?

As debt levels rise, Yake said the province will have to pay an increasing amount of interest on the debt. In fact, he said interest payments, projected to consume 8.8% of the 2018-19 budget, are the fourth highest expenditure behind healthcare, education and the children's and social sector. Interest payments accounted for 8.6% of revenue in 2016-17 and 8.3% in 2017-18.

How is Ontario stacking up against other Canadian provinces?

Yake said Ontario currently has the highest debt burden of the jurisdictions Moody's evaluates, which includes all provinces and territories except the Yukon. However, Ontario does not have the lowest credit rating. That distinction goes to Newfoundland and Labrador—currently rated at an AA3 with a negative outlook. While Ontario is the only AA2-rated province with a negative outlook, five others hold the same rating—Nova Scotia, Prince Edward Island, New Brunswick, Quebec and Manitoba. Alberta, the Northwest Territories and Nunavut are all rated at AA1, while Saskatchewan and British Columbia currently enjoy the agency's top AAA rating.

Is this picture as dire as it sounds?

Both Yake and former Bank of Canada governor David Dodge say Ontario's financial picture involves more than just debt level and is a far cry from the disastrous scenario some critics describe. Yake emphasizes that the province's credit rating is still considered very strong, noting that Ontario's cash reserves are also plentiful. Dodge said Ontario has thus far taken a "sensible" approach to structuring its borrowing, locking in most of its loans at rock-bottom interest rates. The province, he said, is therefore relatively protected from the gradual interest rate increases projected for the coming months. Both Yake and Dodge, moreover, say that Ontario is currently enjoying the benefits of a strong economy that, while unlikely to sustain the rapid growth experienced in recent years, is still expected to make gains.

So does that mean the government critics have it all wrong?

No. Dodge questioned the soundness of Ontario's fiscal strategy, saying that while there are some circumstances in which it makes sense to take on a higher debt burden, Ontario's current situation does not qualify. He said borrowing makes sense if the money is being put toward areas that could generate revenue down the road, citing infrastructure as an example of an investment that would ultimately boost productivity and bolster the GDP. In this case, however, he said most of the province's budget is going towards healthcare and other programs that, while important, won't yield future income streams. The situation mirrors a similar scenario that played out at the federal level under the regime of Progressive Conservative prime minister Brian Mulroney, he said.

Will a regime change fix everything?

It's never that simple. Yake said some of the main factors weighing on Ontario's economy are entirely out of government hands, citing ongoing uncertainty around the North American Free Trade Agreement. Nonetheless, whatever party takes power will find itself having to take action on some fronts. Tax reform legislation in the U.S. has limited Ontario's once-considerable competitive edge for business, he said, adding that the incoming government will have to ensure the province can stay in the game. Ongoing "affordability challenges" on issues ranging from housing to hydro may also limit the government's ability to raise taxes. At the same time, however, demographics dictate that spending on key government services such as healthcare will likely have to increase to keep pace, he said. Revenue growth is expected to slow, spending pressure is expected to rise, and that is going to lead to a greater probability that there will be deficits no matter who forms government, he said.

9. GTA home sales down 22% in May, but prices remain strong

[June 4, 2018] The Toronto Real Estate Board says May home sales in the Greater Toronto Area were down 22.2% compared with the same month last year.

The board said Monday that while the number of sales was down year-over-year to 7,834 units, the annual rate of decline was less than reported in February, March and April, when sales were down by more than 30%.

On a month-over-month basis, seasonally adjusted May sales were basically flat compared with April as they slipped 0.4% lower.

The average selling price for all home types combined was down by 6.6% to $805,320.

But on a seasonally adjusted basis, the average selling price was up 1.1% compared to the previous month of April.

Jason Mercer, the board's director of market analysis, said market conditions are becoming tighter in the GTA, and this will provide support for home prices through the second half of 2018 and into 2019.

"There are emerging indicators pointing toward increased competition between buyers, which generally leads to stronger price growth," Mercer said in a statement.

"In the City of Toronto, for example, average selling prices were at or above average listing prices for all major home types in May."

Observers believe last April may have been the peak of the Toronto-area market before the Ontario government brought in a package of measures to cool the market.

Have a nice and fruitful week!

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