Weekly Updates Issue # 672

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1. Weekly Markets Changes

[July 13, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,561.12 +189.34 +1.16%	2,801.31 +41.49 +1.50%	25,019.41 +562.9 +2.30%	7,825.98 +137.6 +1.79%	$0.7631 +0.37c +0.49%	$1,244.32 -11.16 -0.89%	$71.01 -2.91 -3.94%

2. Exporters more confident, despite impact of NAFTA talks: EDC

[July 13, 2018] A growing number of Canadian exporters were saying the NAFTA talks were having a negative impact on their operations even before the trade dispute with the United States escalated in recent weeks.

A survey done for Export Development Canada found 28% of the 1,000 exporters asked said the NAFTA talks had a negative impact on their Canadian operations. That was up from 23% in an earlier survey.

However, the bi-annual survey found overall trade confidence increased to 76.5% from 73.5% in the previous questionnaire.

The survey was done from April 18 to May 11, before the United States ended an exemption for Canada on the global steel and aluminium tariffs it had put in place in March.

Since the tariffs went into place on Canadian metal exports at the end of May, Canada has imposed retaliatory tariffs on steel and aluminium coming from the U.S. as well as a wide range of consumer goods, while the U.S. has threatened additional tariffs on the auto sector.

Additional findings

Despite the impact of trade talks, the poll finds more than half of exporters surveyed (61%) believe domestic sales will increase, up from 41% at the end of 2017, and even more (73%) say export sales will rise, up from 56%.

Further, the EDC says more companies are looking to hire in the next six months (50%, up from 37%) even though one-third concede skilled labour is hard to find (33%, up from 30%).
Only 21% of those surveyed say the world economy will improve, though that is up from 19%.
The top reasons for the boost in exporters' confidence are new customers, increased activity and growth trends in emerging economies and the U.S.

3. Effects for people as interest rates rise

[July 12, 2018] The Bank of Canada's latest interest rate hike means higher borrowing costs for consumers with variable-rate mortgages, loans or lines of credit. But it's also good news for savers and future homeowners.
The central bank's decision to increase its benchmark interest rate to 1.5% on Wednesday prompted all of Canada's Big Six banks to raise their prime rates a quarter of a percentage point to 3.70%, effective today— and thereby passing the rate increase along to their clients.
Those with variable-rate mortgages will now face higher interest payments, a concern for many Canadian households already saddled with hefty debt loads, said Samantha Brookes, CEO of Mortgages of Canada. "Increasing rates just really limit how much they have available to them on a monthly basis," she said.
Though the increase in banks' prime rates raises the cost of borrowing for people with variable-rate loans, people with money socked away in savings accounts and guaranteed investment certificates will benefit, said Scott Hannah, president and chief executive of Credit Counselling Society.
"It helps seniors who depend on interest income to help fund their retirement expenses," he said. "And the rate hikes are keeping Canadians focused on the need to curb their appetite for debt and pay down the debt they have."
Higher interest rates, along with stricter mortgage rules, have also helped cool down the country's real estate markets, helping future homeowners, Hannah said. It's unwelcome news, however, for those looking to renew mortgages this year, he added.
Overall, the impact of the latest rate hike will be modest for consumers, said Meny Grauman, an analyst with Cormark Securities Inc. The rate hike is in reaction to a healthy Canadian economy, which is beneficial, he added.
Rates are slowly on the way up, but remain relatively low historically, Grauman added. "On balance, it's still probably a positive for the average household, for the average business."

Interest rates and credit cards

Though banks' prime rates don't directly affect credit card rates, people with credit card debt should be aware of the cards' often crippling rates. It's an important point, since many Canadians carry consumer debt.

Credit agency TransUnion said earlier this month that average non-mortgage debt stood at $29,312 per Canadian, including an average credit card balance of $4,154—a sum carried by about half of Canadians who fail to pay their cards off in full each month. Equifax Canada reports that average non-mortgage debt has risen 2.9% in the last year. (Equifax's figure for average non-mortgage debt is lower, at $22,775.)

For people drowning in maxed-out credit cards or otherwise attempting to juggle debt, consolidation loans are potentially attractive because they provide a single lower rate of interest.

However, Hannah recommends waiting until people establish a track record of sticking with their budgets, which could take months or years. Too many people get a consolidated loan only to dip into credit cards before it's paid off, due to an emergency or perceived need, so the track record is important, said Hannah.

"It takes a while if you've never done it before, to use a budget. You're going to make mistakes," he added.

Establishing a proven budget and payment plan could also make it easier to get that consolidated loan once the groundwork has been laid.

Once ready for a consolidated loan, people should be wary of online loans from less established lenders. While these appear to offer a seemingly cheaper interest rate, people should carefully review the terms, said Hannah. Actual rates can be much higher than those advertised, and can carry hefty penalties for things like late payments.

Another way to cut interest payments is transferring balances to a low-interest credit card, but doing so often triggers a balance transfer charge.

Further, the approach relies on credit cards, which Hannah says people need to give up altogether until they get out of debt.

4. BoC raises key rate, says existing tariffs to have modest impact

[July 11, 2018] The Bank of Canada raised its benchmark interest rate Wednesday in an economy that it predicts will remain resilient even as it faces a bigger bite from deepening trade tensions.

The rate hike was the central bank's first interest rate move in six months and lifted the trend-setting rate to 1.5%, up from 1.25%. It was the bank's fourth rate increase over the last 12 months.

The decision, a move that will likely prompt Canada's big banks to raise their prime rates, arrived in the middle of a trade dispute between Canada and the United States that's expected to hurt both economies.

The bank took the step even as it predicts larger impacts from the widening trade uncertainty, particularly after the United States imposed steel and aluminum tariffs on Canada and after Ottawa's retaliatory measures. The tariff fight, the bank estimated, will shave nearly 0.7% from Canada's economic growth by the end of 2020.

However, the bank expects the negative blow of the trade policies recently put in place to be largely offset by the positives for Canada from higher oil prices and the stronger U.S. economy.

"Although there will be difficult adjustments for some industries and their workers, the effect of these measures on Canadian growth and inflation is expected to be modest," the bank said in a statement.

But in addition to steel and aluminum tariffs, Canada is facing a significant trade-related unknown that many believe would inflict far more damage on the economy: U.S. duties on the automotive sector.

U.S. tariffs on the auto sector's integrated cross-border supply chains would have "large impacts on investment and employment," the Bank of Canada warned Wednesday in its accompanying monetary policy report.

The bank, however, didn't quantify the possible effects of auto tariffs on Wednesday. Governor Stephen Poloz has signalled in the past that he's focused on data he can measure rather than the impacts of trade policies that have yet to materialize.

Canadian businesses must also contend with the uncertainty surrounding the difficult renegotiation of the North American Free Trade Agreement, for which talks have stalled.

The Bank of Canada also has its eye on how widening global trade disputes, including an intensifying battle between the U.S. and China, will affect the world's economy. It warns that "escalating trade tensions pose considerable risks to the outlook" at the global level.

Growth projections stay steady

Despite trade concerns, the bank expects real gross domestic product to grow 2.2% in 2019, up a tick from its April call of 2.1%, and by 1.9% in 2020, compared with its previous prediction of 1.8%. The economy's growth projection for this year remains at 2%, the bank said.

Looking ahead, the bank predicts Canadian growth will continue to see bigger contributions from exports and business investment, which were both stronger than expected in the first three months of the year.

At the same time, household spending will represent a smaller and smaller share of overall growth due to the dampening effects of higher interest rates and stricter mortgage rules, it said.
As part of its global outlook, the bank cited such things as diverging monetary policies from global central banks and higher bond yields—a reflection of actual and expected monetary policy changes. It also noted that the positive outlook for the U.S. economy has contributed to an appreciating U.S. dollar, as well as to portfolio outflows from emerging-market economies—a development that exacerbates country-specific vulnerabilities. The bank also noted volatility in equities because of trade concerns.
Despite such changes, "global financial conditions are supportive of economic activity" overall, said the bank in the monetary policy report. The bank expects the global economy to grow by about 3.75% in 2018 and 3.5% in 2019, in line with April's monetary policy report.

Monetary policy analysis

Leading up to the announcement Wednesday, Poloz was widely expected to raise the interest rate following a run of healthy economic numbers, including the Bank of Canada's own survey on business sentiment, tightened job markets and growth in wages.
Moving forward, the bank said it expects higher interest rates will be necessary over time to keep inflation near its target; however, it intends to continue along a gradual, data-dependent approach.
The country's inflation rate is expected to rise to 2.5%—above the 2% mid-point of the bank's target range—due to temporary factors such as higher gasoline prices before settling back down to 2% in the second half of 2019.
In emailed commentary, CIBC chief economist Avery Shenfeld said today's growth forecasts were "nothing much new," and were in line with the central bank's upgraded view on the economy's non-inflationary potential.
"Overall, with the statement retaining the call for gradually higher interest rates ahead, guided by upcoming data, there isn't anything surprising to us in the message," wrote Shenfeld.
As for market effects, today's announcement could take the loonie and short-term bond yields "a touch higher," he added.
The next scheduled date for announcing the benchmark rate is Sept. 5, 2018.

5. Banks raise prime rates after BoC announcement

[July 11, 2018] BMO, CIBC, HSBC, National Bank, RBC, TD, Scotiabank and Desjardins have all raised their prime lending rates after the Bank of Canada increased its benchmark rate Wednesday morning.

Their prime rates will increase by a quarter of a percentage point to 3.70% from 3.45%, effective July 12.
The rate hike will raise clients' cost of borrowing for loans linked to prime, such as variable-rate mortgages and credit lines.
The latest monetary policy report, accompanying the central bank's rate hike, notes that about one-quarter of outstanding mortgages have variable rates, and that clients with these mortgages will feel the impact of higher rates when they renew their mortgages.
The central bank also discusses the impact of rising rates on clients with five-year, fixed-rate mortgages, up for renewal in 2019 and 2020. Using certain assumptions, the report shows that these clients' mortgage debt-service ratios will be negatively affected by higher rates.
Such effects are part of the Bank of Canada's projections. Says the report: "Estimates of the impact of higher interest rates are in line with interest rate sensitivities embedded in the [central] bank's macroeconomic projections for household disposable income and consumption."

6. Canadians underestimate retirement costs: study

[July 11, 2018] Canadians aren't saving as much for retirement as their global peers and are underestimating the costs of retirement, says a report from Schroders.
The Global Investor Study surveyed 22,000 people from 30 countries to ask about financial expectations for retirement and how the expectations compare to what retirees are experiencing.
The study found that Canadians are saving an average of 11.9% of their incomes for retirement, which is less than the savings rate in the Americas (average of 13.9%) and globally (average of 12.2%), a Schroders release says.
Highlights from the Canadian part of the survey include:

- On average, Canadians who aren't retired think they should be saving 13.6% of their annual incomes for retirement. While non-retirees expect to spend 42% of their retirement incomes on basic living expenses, Schroders says Canadian retirees actually spend 59% of their retirement incomes on living expenses;
- 88% of retirees say their retirement income is sufficient; 12% of retirees say they don't have enough income to live comfortably;
- Canadians aged 55 and over think they will need 71% of their current annual income to live comfortably in retirement. The survey found, on average, retirees actually receive 61% of their final salary annually in retirement; and

- Canadians are investing more in retirement than planned. Those not yet retired expect to allocate 8% of their total investments and savings for retirement to investments once they retire, while that figure is 20% for actual retirees.

When it comes to level of investment knowledge and savings, the survey found:

- those with a beginner/rudimentary level of knowledge say they are saving 10% of their annual income for retirement and feel they need to be saving 14% to live comfortably;
- those with an intermediate level of knowledge say they are saving 12% of their annual income for retirement and feel they need to be saving 14% to live comfortably; and
- those with an advanced level of knowledge say they are saving 13% of their annual income for retirement and feel they need to be saving 13% to live comfortably.

Canadians surveyed say their top three sources of information about investments are:

- personal research from third party sources;
- financial advisor; and
- pension provider/company.

7. Expect rising home prices in second half of 2018: Royal LePage

[July 10, 2018] Home prices in Canada are expected to rise significantly in the second half of 2018 after appreciation slowed at the start of this year, a report from Royal LePage says.

Compared to the second quarter of 2018, the aggregate price of a home in Canada will rise by 1.9% in Q3 and by 4.5% in Q4, the Royal LePage House Price Survey and Market Survey Forecast said.

That will bring the forecasted aggregate home price to $709,297 in the fourth quarter, up from $678,675 in Q2.

The forecast comes after a slowdown in home price appreciation in Q2, mainly because of a “softness” in the GTA where prices have dropped year over year, said Royal LePage in a release.

The real estate firm says its original 2018 forecast expected a slowdown in the market because of the new mortgage stress test rules.

“The market has begun to absorb and adjust to the new realities; we expect an uptick in sales volumes and prices during the second half of 2018,” said Phil Soper, president and CEO of Royal LePage, in the release.

"The fundamentals have not changed. The economy is strong and unemployment is very low. We face shortages in our major cities, with many more people looking for homes than the market has available for purchase or rent."

The report found that Greater Montreal and suburban Vancouver had some of the highest home prices increases year over year in Q2. Aggregate (weighted average of median prices of all housing types) home prices rose by 5.9% in Greater Montreal, surpassing the national average for the first time in seven years. Cities in Ontario's Golden Horseshoe also had significant price increases as buyers looked for homes in more affordable areas.

The price of a home rose 2% year over year in Q2, the report says, compared with a 6.2% year-over-year increase in Q1.

The year-over-year rise in Q2 home prices is as follows according to housing type:

- median price of a two-storey home rose 0.8% to $720,504;
- median price of a bungalow increased 1.8% to $512,979; and
- price of condos rose 8.1% to $435,421.

Royal LePage is forecasting the following aggregate home price increases:

- in the GTA, the price is expected to rise 2.1% in Q3 to $838,984 and rise 5.6% to $867,826 in Q4;
- in Greater Montreal, the price is forecasted to rise to 1.8% in Q3 to $398,220 and 2.8% to $402,345; and
- in Greater Vancouver, the price is expected to rise to 1.5% in Q3 to $1,289,120 and 3.6% to $1,315,314.

June housing starts

The Canada Mortgage and Housing Corp. says the annual pace of new home building increased in June, boosted by a jump in multi-unit projects.

The federal housing agency says the seasonally adjusted annual rate of housing starts increased to 248,138 units in June, up from 193,902 in May.

The increase came as the seasonally adjusted annual rate of urban starts climbed 29.9% in June to 228,844.

Multiple urban starts increased 46.4% to 172,845, while single-detached urban starts fell 3.5% to 55,999 units.

Rural starts were estimated at a seasonally adjusted annual rate of 19,294 units.

The six-month moving average of the monthly seasonally adjusted annual rates was 222,041 in June, up from 216,701 in May.

The housing starts data "reinforces the case for tightening monetary policy when the BoC is expected to raise its overnight lending rate by 25bps to 1.5%

tomorrow…," said Derek Holt, vice-president of capital market economics at Scotiabank Economics, in a report.
In a separate report, Statistics Canada said Tuesday the value of permits issued by Canadian municipalities increased 4.7% to $8.2 billion in May.
The value of residential permits increased 7.7% to $5.5 billion, the second-highest value on record, following the $5.7 billion worth of permits issued in October 2016.
Meanwhile, the value of non-residential building permits fell 0.7% in May to $2.7 billion.

8. What might cause trade tensions to ease

[July 9, 2018] There's no doubt that the U.S. trade agenda and current global trade war is "complicating the economic outlook" for Canada, says Luc de la Durantaye, head of asset allocation and currency management at CIBC Asset Management.
If you pull back and think about how we got here, he says, it's worth considering that "reducing the U.S. trade deficit and protecting U.S. intellectual property are valid objectives, particularly against China."
However, due to "the way the U.S. will pursue these two objectives and the intensity at which they will [do so], the reaction of the trade partners is still very uncertain at this stage."
On July 1, Canada introduced retaliatory tariffs on $16.6 billion of American exports.
On Friday, tensions between China and the U.S. rose as both countries imposed tariffs on billions of dollars of each other's goods. The U.S. has imposed duties on US$34 billion of imports from China (and the total of targeted Chinese goods could potentially reach US$550 billion in the coming weeks). Chinese officials continued to reject accusations that they steal or force the sharing of technology.
Based on the U.S.-China dispute, forecasters were calling for reduction of global growth of as much as 0.5 percentage points in the next year.
De la Durantaye, who manages the Renaissance Optimal Inflation Opportunities Portfolio, expects trade tensions across the globe to grow over the summer months. "The U.S. will want to show determination to change the trade relationship it has with its trading partners. It will also want to gain political support ahead of the [fall] mid-term election," he says.
However, if mounting trade tensions have "a very detrimental impact on the U.S. economy and on financial markets," says de la Durantaye, the tables could turn. Along with the U.S. administration, the Chinese, European and

Canadian governments "will be very responsive to that, and will go back to the negotiating table," he predicts.
While there is more potential for turbulence as the U.S. changes its trade relationships, he adds, "they will not do it at the expense of the global economic expansion. At the end of the day, if we go back into a recession, that might hurt their chances at the [mid-term] election."

Canada, U.S. growth expectations

In a July 4 report, CIBC forecasts U.S. GDP growth will drop from 4.1% in Q2 to 2.1% in Q4. For 2019, the country's real GDP is expected to expand by between 1.3% and 1.7% over the four quarters.
For Canada, the bank expects real GDP growth of 2.4% in Q2 versus 1.9% in Q4. Next year, across the four quarters, it forecasts GDP growth won't exceed 1.6%.
A separate CIBC report, also released July 4, says an "all-out trade war" across North America became a certainty when Canadian autos and parts were hit "with heavy U.S. tariffs," and when Ottawa struck back.
The report says Canadian economic uncertainty in the Trump era is worse than expected following his 2016 election, and that retaliatory tariffs could have blowback effects on employment and factories.
As such, the bank suggests the Bank of Canada should take a cautious approach in the coming months—its next rate decision will be released July 11, and a hike is widely expected—while the feds should provide "support for firms and workers adversely affected by tariffs" during trade negotiations.

Have a nice and fruitful week!

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