Weekly Updates Issue # 685

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1. Weekly Markets Changes

[October 12, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,414.29 -531.9 -3.34%	2,767.13 -118.4 -4.10%	25,339.99 -1,107.1 -4.19%	7,496.90 -291.55 -3.74%	$0.7730 -0.56c -0.72%	$1,217.05 +13.42 +1.12%	$71.51 -2.83 -3.81%

2. 31% of Canadians can’t cover the basics: BDO Canada

[October 12, 2018] Three in 10 (31%) Canadians don’t have enough money to cover their basic needs, a BDO Canada report says, leading them to fill the breach with debt. More than half of those surveyed (52%) have just enough to cover their living costs.

The majority of those surveyed (74%) have debt, most commonly in the form of credit cards and mortgages. Among those with debt, the average non-mortgage debt load is $19,977.

Compared with the average indebted Canadian, heavier debt is most common among women (52%), millennials (49%) and gen Xers (57%), the report says.

Lack of retirement savings

Of those surveyed, 65% said they have little or no retirement savings. Among indebted Canadians, that proportion rises to 70%, and among millennials, it’s 47%.

Among those who haven’t retired yet, 75% of those surveyed said they will need to work longer than their parents did before they can retire.

Other highlights of the study include:

43% of women find it challenging to afford transportation costs;

33% of millennials and 29% of gen Xers struggle to feed their families; and

42% of Canadians with children find it difficult to cover utilities.

3. Vancouver and Calgary show downtrend in home prices: National Bank

[October 12, 2018] Vancouver and Calgary showed a downtrend in home prices consistent with a weakness in sales reported by real estate boards in those regions, according to the September Teranet-National Bank House Price Index.

The index showed home prices rose in five cities for the month: Winnipeg, Montreal, Victoria, Hamilton and Ottawa-Gatineau, while they fell in Toronto, Calgary, Halifax and Quebec City.

Prices were stable in Vancouver and Edmonton.

Year over year, the index rose 2.1%. The largest annual increases were in Vancouver, Victoria, Ottawa-Gatineau, Montreal and Halifax. Conversely, the largest declines were in Edmonton, Toronto and Calgary over the previous year.

“Seasonally adjusted indices extended a string of solid increases over the last few months in Montreal and Ottawa-Gatineau,” said Marc Pinsonneault, senior economist at National Bank, in the report. “Again, this is consistent with the performance of the home resale market.”

4. Stocks couldn't rise forever. Here's what's going on

[October 12, 2018] Neither the stock market nor President Donald Trump are pleased with the Federal Reserve right now.

The fear among both camps is that the Fed is ending the era of easy money too quickly. Rising rates sent stocks spiraling lower this week, prompting Trump to say the Fed has "gone crazy" and is "out of control." Stocks bounced back on Friday, but still suffered their worst week since March.

All along there was a risk that Washington's debt-fueled tax cuts and spending splurge would backfire by overheating the economy. That kind of help is typically reserved for times of war or recession, not prosperity.

"We're in the boom. And all the earmarks of a bust are developing," said Mark Zandi, chief economist of Moody's Analytics.

Trump has cast blame for the market turmoil on the US central bank. "The Fed is going loco and there's no reason for them to do it," Trump told Fox News.

The stock market skyrocketed after Congress enacted massive corporate tax cuts late last year. The tax cuts immediately juiced corporate earnings, the main driver of stock prices. Even better for Wall Street, companies used their tax savings to buy back record amounts of their own stock.

Little attention was paid to another likely outcome: higher interest rates and a more aggressive Federal Reserve.

One way to think of it is that Trump's tax cuts were equivalent to pouring gasoline on the economy. Now, he's blasting the firefighters at the Federal Reserve who are attempting to prevent runaway inflation by raising interest rates.

"The economy is red-hot and threatens to fry. The Fed is desperately trying to cool things off before it goes up in flames," said Zandi.

Kristina Hooper, global market strategist at Invesco, said the Federal Reserve has taken a thoughtful and prudent approach to the accelerating economy.

"Everyone knows the Fed isn't acting crazy. There is no going loco for the Fed," said Hooper.

The Fed's rate hikes are also designed to give it room to provide support for the economy whenever the next downturn arrives. That's especially crucial because Washington's soaring deficit could make it harder to borrow to fight a recession.

"The Fed doesn't have the luxury of moving much slower. It needs dry powder for the next crisis," said Hooper.

Economics 101

Treasury yields spiked in recent weeks, reflecting a range of factors: faster economic growth, Fed rate hikes and the federal government's surging budget deficit from the tax cuts.

"If anyone picked up an economic textbook, they would have known this was coming. It's pretty obvious," said Zandi.

The higher rate environment is a sudden shift for an economy and stock market that grew accustomed to unbelievably low rates over the past decade. Easy money meant ultra-cheap borrowing costs for households and businesses. Extremely low bond returns also forced investors to gamble on stocks.

"Interest rates are the most important ingredient in economic activity. And for almost 10 years, money has been free," said Wasif Latif, head of global multi assets at USAA.

That trend is now reversing. Mortgage rates have climbed above 5% to the highest level since February 2011.

Tariffs are inflationary

The picture has been further clouded by Trump's trade crackdown. Tariffs have begun to lift raw materials prices. A growing number of major US companies have complained about the trouble caused by Trump's tariffs on China -- and retaliatory tariffs by Beijing.

In other words, the trade war threatens to exacerbate the inflationary pressures the Fed is already grappling with.
"Many of Trump's economic prescriptions invite inflation -- so obviously the Fed has to take away the monetary punch bowl," Greg Valliere, chief global strategist at Horizon Investments, wrote to clients on Thursday.
Yet the tit-for-tat tariffs could also slow growth, forcing the Fed to shift course. The IMF downgraded its 2019 growth forecast for both the United States and China.

Is a recession coming soon?

The good news is that while inflation has come back to life, it's not yet at the point that would cause the Fed to slam the brakes on the economy.
Investors cheered a new report released on Thursday showing that consumer prices increased by a cooler-than-expected 2.3% in September. That's hardly runaway inflation territory. And wage growth actually decelerated a bit in September.
"The risk of late-cycle fiscal stimulus leading to rampant inflation, and causing the Fed to rapidly raise rates, is not playing out just yet," said Jeff Mills, co-chief investment strategist at PNC Financial Services.
The Trump administration has responded to the market turmoil by emphasizing the strength of the economy but downplaying the risk of a boom-bust situation.
"We are in an economic boom most folks thought was impossible," Larry Kudlow, Trump's top economic adviser, told CNBC on Thursday. "I don't see an end to it...I don't think this is anything resembling a sugar high."
But is the stock market signaling an end to the recovery from the Great Recession?
Zandi doesn't think so. He pointed to continued aid the economy is receiving from tax cuts and government spending.
"Gasoline is still being poured on the economy," Zandi said. "The real day of reckoning will come early next decade, around 2020."

5. What’s in store for Canada’s economy

[October 11, 2018] Canada’s economy is on the brink. Since the country is in the late stages of the business cycle—key indicators are the record-long bull run in U.S. equities alongside North America’s low unemployment rates and rising interest rates—recent strong growth could either moderate going into 2019 or lead to inflationary pressure.
Deloitte Economic Advisory, in a new report, is betting on slower growth for 2019. This will be due to “weaker consumer spending and the impact of a

slowing global economy, with U.S. protectionism still posing a key international risk," it says.

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The group of economists, consultants and analysts also expects "economic growth will slow to a more moderate and sustainable rate of expansion" by 2020, potentially dropping to 1.4%.

The new trade deal between the U.S., Canada and Mexico won't help much. While it reduces possible risks, the experts forecast that America's tariffs will continue to have "a negative, though limited, impact on global economic growth. However, if the tariffs are significantly expanded and other countries retaliate, the result could materially weaken the global economy—and this would feed through to Canada."

The coming slowdown will follow strong 3% expansion in 2017, the report says, though last year also saw deceleration in the final quarters.

"This created a soft handoff heading into 2018, and economic growth was modest in the first quarter [of 2018]," it adds. The second quarter of this year saw some improvement, but the report notes that "consumers and real estate have been fuelling much of Canada's gains" since the last recession.

Now that consumers are struggling with debt and housing has become unaffordable in major cities, the picture isn't as rosy.

"Consumer spending should grow at a pace slightly below 2%, and new home construction is expected to soften in response to higher interest rates and weaker buyer demand," the report says.

As well, businesses operating at high levels of capacity are likely to be cautious when it comes to investment. "This reflects business uncertainty related to U.S. protectionism, but also concerns about competitiveness. Investment in non-residential structures as well as machinery and equipment should increase, although not at a strong pace," the report adds.

Moderation is also on tap for domestic exports, it says, "partly reflecting the loss of market share in many of Canada's major export markets," alongside waning U.S. demand.

A separate study from the Fraser Institute also highlights weak capital investment within Canada, which can weigh on economic expansion.
“The growth rate of overall capital expenditures in Canada slowed substantially from 2005 to 2017 compared to earlier periods. Furthermore, from 2015 to 2017, the growth rate was lower than in virtually any other period since 1970,” that study says.
Canada ranked well among developed countries between 2000 and 2010, the study notes, but “from 2010 to 2015, Canada’s investment growth rate dropped substantially below that of the United States and several other developed countries.”
As a result, “the future competitiveness and productivity performance of Canada’s business sector” is uncertain. The Fraser Institute study suggests that “improvements to the environment for business investment in Canada should be a priority for the federal and provincial governments.”

6. What a drop in September housing starts means

[October 9, 2018] The annual pace of Canadian housing starts fell to its lowest level in nearly two years in September.
Canada Mortgage and Housing Corp. says the seasonally adjusted annual rate came in at 188,683 units last month, down from 198,843 in August.
Thomson Reuters Eikon says economists had expected an annual rate of 210,000 for September.
September marks the third straight monthly decline.
The slowdown in the pace of housing starts comes amid rising interest rates from the Bank of Canada and more restrictive mortgage rules.
“The September housing starts report fits with the relative calm and return to normality in sales, market balance and price growth that we are seeing across most of the country this year, in particular Toronto, following speculative excesses in Southern Ontario earlier last year and a moderate correction in response to policy measures earlier this year,” wrote Sal Guatieri, a senior economist with BMO Capital Markets, in a note.
“Demand continues to be supported by the fastest population growth in 27 years and new millennial-led households. A calmer housing market is just what the doctor ordered, and won’t discourage the Bank of Canada from raising rates on Oct. 24.”
CMHC says the pace of urban starts fell by 5.9% to 175,653 units. The slowdown was dragged down by an 8.9% drop to 122,656 units in urban multiple-unit projects such as condos, apartments and townhouses. Single-detached urban starts increased by 2% to 52,997.

Rural starts were estimated at a seasonally adjusted annual rate of 13,030 units, while the six-month moving average of the monthly seasonally adjusted annual rates was 207,768 for September, down from 213,966 in August.
British Columbia led the declines with a drop of 43.3% due to stiffer mortgage rules and growing lack of affordability, particularly in the Greater Vancouver area. Alberta also saw a drop of 34.8%, amid a weakening in the oil-producing economies.
Meanwhile, Ontario housing starts increased 21.3%, led by Toronto condos, and Quebec was up 15.4%.

Have a nice and fruitful week!

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