Weekly Updates Issue # 690

1. Weekly Markets Changes
2. Manufacturing sales up 0.2% in September
3. Ontario won't go along with federal passive income rules
4. Canadian home sales and prices dropped last month
5. The outlook for Canadian natural gas
6. Britain, EU reach draft Brexit agreement
7. Canada hopes to secure free trade deal with China

1. Weekly Markets Changes

[November 16, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,155.50 -118.9 -0.78%	2,736.27 -44.74 -1.61%	25,413.22 -576.08 -2.22%	7,247.87 -159.03 -2.15%	$0.7602 +0.30c +0.40%	$1,223.36 +13.71 +1.13%	$56.46 -3.23 -5.37%

2. Manufacturing sales up 0.2% in September

[November 16, 2018] Canadian manufacturing sales edged up 0.2% in September to $58.5 billion, led by gains in the transportation equipment industry, StatsCan said Friday.

Economists had expected an increase of 0.3% for September, according to Thomson Reuters Eikon. The growth compared with a drop of 0.5% in August.

September's growth was "largely a product of a rebound in motor vehicle production following some atypical shutdowns in August," said Royce Mendes, director and senior economist at CIBC Capital Markets, in Friday commentary.

In addition, after taking into account an increase in prices, sales volumes in September were down 0.1%, said Stephen Brown, senior Canada economist at Capital Economics.

Despite signs of weakness in August and September, he said, growth in July "means that the manufacturing sector had a good third quarter.

"September's rise in manufacturing sales capped off a strong quarter, but sales fell in volumes terms and the breakdown was hardly encouraging," Brown wrote in a report.

He noted the outlook seemed softer.

"Although unfilled orders rose 0.4% in September, new orders declined by 0.3%. The inventories-to-sales ratio remains fairly elevated, suggesting that firms may eventually use those inventories up rather than increasing production," he said.

Manufacturing sales in September were up in eight of the 21 industries tracked, boosted by a ramp up in production following auto assembly plant shutdowns in July and August that helped the transportation equipment sector increase 3.1%.

Sales in the chemical sector gained 1.4%, while the petroleum and coal product sector rose 0.9%.

Meanwhile, sales in the machinery industry fell 6.2%, while wood product sales dropped 2.9%.

Manufacturing sales in September were up in six provinces, led by Ontario and Newfoundland and Labrador.

Ontario's rose 0.6% in September to $26.7 billion, while Newfoundland and Labrador's climbed 21.0% to $648 million.

New Brunswick and Manitoba posted the largest sales decreases in dollar terms in September, at -9.3% to $1.5 billion and -8.8% to $1.6 billion, respectively.

3. Ontario won't go along with federal passive income rules

[November 15, 2018] The Ontario Conservative government says it won't implement the controversial federal passive income rules for small business owners.

The government's first fall economic statement, which covers the 2018-2019 year, says that the province will not parallel the federal government's plan to gradually eliminate access to the small business deduction (SBD) for Canadian-controlled private corporations that earn passive income.

This reverses the position of the previous administration, which said in the March 2018 Ontario budget that it would parallel the federal government's measure for the purposes of the Ontario SBD. That move would have increased taxes on Ontario small businesses by about $160 million annually by 2020–21.

The Ford government estimates that not paralleling the federal rules will save "up to $40,000 per year for about 7,900 of Ontario's small businesses."

After the 2018 tax year, the federal SBD limit will be reduced by $5 for every $1 of investment income above the $50,000 threshold. The limit will be reduced to zero at $150,000 of investment income.

Ontario's fall economic statement provides no additional detail on the impact of its proposal to reject the federal approach.

More to come for financial advisors

The fall economic statement also promises better regulatory oversight of financial planners and advisors, but provides little detail.

"In Ontario today, there is no consistent regulatory oversight of financial planners and advisors," says the statement. As a result, "Families risk receiving financial planning and advisory services from individuals who may not be appropriately qualified to help them save for the future."

The Ford administration says in the statement that it will "review measures" that will help families know "they are dealing with someone who has received appropriate training and is subject to regulatory oversight."

The previous government's 2018 budget only used the term "financial planners," and not "advisors." Further, the budget mentioned specific actions, including "developing a framework to regulate financial planners in Ontario."

The goal was to "close the gap that currently allows financial planners to perform their work without regulatory oversight or specified proficiency requirements."

Part of the framework would have included restrictions on the use of financial planning-related titles, and a March 2018 consultation paper offered more details.

As such language does not appear in the fall economic statement, it's unclear whether the previous government's work and consultations, which began in 2015, will continue.

The release of the fall statement follows the Conservative government's September move to speak out against the Canadian Securities Administrator's (CSA's) plan to ban deferred sales charges and limit the use of trailing commissions. At that time, the administration said the CSA's proposals would work against families by discontinuing a payment option that helps them save.

In late October, Minister of Finance Victor Fedeli's office told Advisor.ca, "The government is committed to supporting consumer protection and making life better for people across Ontario. We will have more to say on this in the future."

Other details in the fall statement

The fiscal update also promises to eliminate income tax for those earning less than $30,000 a year. The government says the tax cut offsets its decision to scrap a planned increase of the province's minimum wage that was set to take effect next year.

Critics, however, have said raising the minimum wage to $15 an hour as the Liberals had planned would give low-income workers more money than the income tax cut would save. An independent financial analysis came to a similar conclusion.

The tax cut is expected to cost the province $495 million in lost revenue, the document says.

The Ford government is also nixing 2018 Ontario budget proposals to adjust the rates, brackets, surtax and credits for Ontario's income tax. The new administration estimates this will prevent a personal tax increase of about $200, on average, for approximately 1.8 million people.

The Ontario administration also says it has cut the province's deficit by $500 million, bringing the figure down to $14.5 billion in its first few months in office.

"The fiscal hole is deep," Fedeli said in presenting the document to the legislature on Thursday afternoon. "The road ahead is not an easy one and will require difficult decisions. Everyone across the province will be required to make sacrifices, without exception."

The government said it has made progress on cutting the deficit by finding $3.2 billion in efficiencies in operations, including a hiring freeze across the public service.

The belt-tightening measures laid out also include rolling the positions of three independent officers—the environmental commissioner, the child and youth advocate and the French language services commissioner—into the offices of the auditor general or the provincial ombudsman.

Government staff could not say what will happen to those working in the eliminated offices, but Premier Doug Ford has consistently promised that no jobs would be lost as a result of his cost-cutting.

Plans for a French-language university have also been cancelled, though the government could not immediately say how much money the move would save.

Though it is spending less, the government said it is also taking in $2.7 billion less in revenue in the fiscal year, including $1.5 billion attributed to the cancellation of cap and trade.

More than $300,000 in lost revenue is attributed to cancelling planned tax increases, including one that would have raised taxes for small businesses, the document says.

The Tories had said the previous Liberal government left a $15 billion deficit, a figure disputed by critics, who said it includes spending promised by the Liberals but cancelled by the current regime.

While the document mentions returning the province's budget to balance, it does not spell out how long it will take to achieve that goal.

"Our path forward is clear, and that is why it is important to maintain our resolve to pursue fiscal discipline and ultimately restore our books to balance," Fedeli said.

4. Canadian home sales and prices dropped last month

[November 15, 2018] Canadian home sales fell in October, as the number of transactions dropped in more than half of all local markets—led by dips in Montreal, Edmonton and the Hamilton-Burlington, Ont., area.

The Canadian Real Estate Association says national home sales through its MLS system dropped 1.6% last month compared with September. The number of new listings also dipped in October, by 1.1%, led by declines in the Greater Toronto Area, Calgary and Victoria.

Compared with October 2017, sales last month were down 3.7% as lower sales in the Vancouver region and the B.C. Fraser Valley more than offset gains in the Greater Toronto Area and Montreal.

The drop came as the average price for a home sold last month fell 1.5% from October last year, to $496,800.

Excluding the Greater Toronto Area and the Greater Vancouver area, two of the country's most expensive markets, the average price of a home sold was just under $383,000.

As of the end of October, the number of months of inventory on a national basis was 5.3. This measure shows the balance between the sales and the supply of listings, and it represents how long it would take to liquidate current inventories at the current rate of sales activity, says CREA in a release.

That inventory level remains in line with the long-term national average, CREA adds, but not all provinces are well-balanced. The number of months of inventory is higher in the Prairie provinces and in Newfoundland & Labrador, and lower in Ontario and Prince Edward Island.

More on home prices

For the month of October, National Bank's Teranet–National Bank Composite National House Price Index slipped 0.4%.

In a report, the bank says only Montreal recorded a price increase (+0.2%) for the month out of the 11 areas it measures. The other cities are Victoria (-0.1%), Toronto (-0.2%), Winnipeg (-0.2%), Calgary (-0.3%), Ottawa-Gatineau (-0.4%), Hamilton (-0.5%), Edmonton (-0.7%), Vancouver (-0.8%), Quebec City (-1.0%) and Halifax (-1.0%).

Yet, on a year-over-year basis, the index rose 2.8%, with gains in eight areas ranging between 1.9% (Toronto) and 5.2% (Victoria). Prices in Edmonton, Quebec City and Calgary fell by 0.5%, 0.6% and 1.4%, respectively.

The bank suggests looking at each city individually, given "the market is far from being homogeneous." While Vancouver prices, on a seasonally adjusted basis, haven't risen for five straight months and the city is experiencing weakness across various types of real estate, the picture is more mixed for Toronto, where condo prices remain "on an upward trend."

One factor to consider going forward, the report says, is interest rates. As those rise, "we don't see much upside for home prices," the report says.

The Bank of Canada's latest rate increase—and third for 2018—came in October, when it hiked its overnight target rate to 1.75%. It cited a solid global outlook and more balanced growth in Canada.

5. The outlook for Canadian natural gas

[November 14, 2018] The combination of disrupted production, increasing demand and low inventory will lead to strong natural gas prices this winter, says CIBC Asset Management's Brian See.

Various events are contributing to falling production levels, said See, vice-president of equities, energy, during a late-October interview.

One is the recent explosion of an Enbridge-owned natural gas pipeline in B.C. Repairs were forecast to be completed this month, but the pipeline will only run at 80% of normal operating capacity, according to reports.

In the meantime, affected companies include Calgary-based natural gas producer Painted Pony Energy Ltd., which said in early November that its production in the fourth quarter will drop 20% due to reduced shipping capacity.

FortisBC has also warned about the shortage of natural gas this winter. The natural gas transmission company is looking to the spot market to import compressed and liquified natural gas, The Canadian Press reported earlier this month.

At the same time, See expects increasing demand—particularly in Alberta—from the oilsands and other industries. Alberta's demand for natural gas was an estimated 52.3% of the province's production in 2017, mainly because of demand from the oilsands and electricity generation sectors, the Alberta Energy Regulator reported in July. That demand is expected to grow annually by 2% on average over the next 10 years, it added.

A third factor, which could exacerbate the fact that demand is already increasing even as production falls, is the all-time low inventory levels of natural gas, said See, who co-manages the CIBC Energy Fund. This "under-appreciated" reality, he added, means there's only a small amount of stored natural gas available for the winter heating season.

Overall, See expects the combination of these factors "will lead to robust and strong prices into the winter season," with the potential for spikes like the one last week in the U.S. and Canada following early cold weather and rallying futures markets.

"Of course, that's highly dependent on weather as well because weather drives a lot of natural gas heating demand," he said.

Over the next few years, however, there could be price challenges. While production growth is falling, See said, it's "still fairly robust in certain cases," and natural gas supply will constantly come onto the market as a by-product from the production of other fuels.

"While we see some demand on the horizon here in terms of industrial and oilsands growth, the overall demand is fairly slow in relation to the production that's growing," he said.

LNG projects

Investors can't consider the long-term outlook for natural gas without looking at the development of liquid natural gas (LNG) projects such as the LNG terminal in Kitimat, B.C., See said.

LNG Canada, the $40-billion LNG export terminal that's backed by a consortium of oil and gas companies led by Royal Dutch Shell, received final approval in early October. After years of delays, the B.C. government has forecast that the terminal could add $22 billion in revenue to the province's economy over 40 years.

The project is significant because it's going to transport approximately 1.8 billion cubic feet per day from Western Canada to growing markets in Asia, specifically China, Japan and South Korea, See said. This will create "pretty strong" demand in relation to the overall 14 bcf per day Canadian gas market.

The B.C. labour market will also see some upside, See said. The project, which includes a pipeline from Dawson Creek, B.C. to the coastal terminal in Kitimat, is expected to cost $40 billion.

The benefits for gas demand and the broader Western Canadian economy will be longer-term, See said, likely around 2022 or 2023 as the project will take years to build.

Another company, Woodfibre LNG, plans to start building a $1.6-billion LNG project north of Vancouver in the first quarter 2019, and start shipping natural gas by 2023.

Portfolio exposure

For the near term, See said he has "some gas exposure in the portfolio because we are constructive on the winter gas trade." One of the companies he named was Calgary-based oil and gas producer Arc Resources.

"We find [the] valuation is extremely attractive: the company has high-quality assets, an extremely strong balance sheet and very able management to

continue to produce gas assets at an economic rate of return," See said. He added the company is in a good position for any long-term LNG opportunities.
Arc Resources reported a profit of $45.1 million for the third quarter. The company also announced a record quarterly production for natural gas, and completed two infrastructure projects including the expansion of a gas processing plant.
However, See is still cautious on gas overall. "Our gas weight is underweight relative to market expectations because of the longer-term structural issues," he said.

6. Britain, EU reach draft Brexit agreement

[November 13, 2018] After months of stalled talks, false starts and setbacks, negotiators from Britain and the European Union struck a proposed divorce deal Tuesday to provide for the U.K.'s smooth exit from the bloc.
But the agreement faces major political hurdles starting Wednesday, when British Prime Minister Theresa May will try to win the approval of her divided Cabinet for a deal many ministers view with skepticism.
The British government confirmed that the negotiating teams had reached a draft agreement and the Cabinet would hold a special meeting Wednesday afternoon to consider the proposal. Its support isn't guaranteed: May is under pressure from pro-Brexit ministers not to make further concessions to the EU on the key issue of the Irish border.
A spokesman for chief EU negotiator Michel Barnier urged caution, saying a deal wasn't yet finalized and the bloc would "take stock" Wednesday.
Ambassadors from the 27 other EU countries are also due to hold a meeting in Brussels on Wednesday.
Britain wants to seal a deal this fall, so that Parliament has time to vote on it before the U.K. leaves the bloc on March 29. The European Parliament also has to approve any agreement, as do all 28 EU nations.
Officials have said for weeks that agreement on divorce terms and a framework for future U.K.-EU relations was 95% complete, and for several days negotiators have been meeting late into the night in Brussels in a bid to close the remaining gaps.
The main obstacle has long been how to ensure there are no customs posts or other checks along the border between the U.K.'s Northern Ireland and EU member Ireland after Brexit. Britain and the EU agree that there must be barriers that could disrupt businesses and residents on either side of the border and undermine Northern Ireland's hard-won peace process—but they have differed on how to achieve that.

Irish national broadcaster RTE said the draft agreement involves a common customs arrangement for the U.K. and the EU, to eliminate the need for border checks, with special provisions for Northern Ireland and a review mechanism to oversee its functioning.
A sticking point in talks has been Britain's insistence that any such customs arrangement must be temporary. The EU says that in order to guarantee an open border, it can't have a time limit.
The pound rallied on news of a deal, rising 1.5% against the dollar to $1.3038.
But May faces pressure from pro-Brexit Cabinet members and lawmakers not to agree to an arrangement that binds Britain to EU trade rules indefinitely.
Former Foreign Secretary Boris Johnson, a staunch Brexiteer, said the deal was unacceptable and Cabinet ministers should "chuck it out."
May also faces growing opposition from pro-EU lawmakers, who say her proposed Brexit deal is worse than the status quo and the British public should get a new vote on whether to leave or to stay.
If there is no agreement soon, U.K. businesses will have to start implementing contingency plans for a "no-deal" Brexit—steps that could include cutting jobs, stockpiling goods and relocating production and services outside Britain.
Even with such measures in place, the British government says leaving the EU without a deal could cause major economic disruption, with gridlock at ports and disruption to supplies of foods, goods and medicines.
On Tuesday, the European Commission published a sheaf of notices outlining changes in a host of areas in the event of a no-deal Brexit. They point to major disruption for people and businesses: U.K. truckers' licenses won't be valid in the EU, British airlines will no longer enjoy traffic rights, and even British mineral water will cease to be recognized as such by the EU.
The EU said Tuesday it was proposing visa-free travel for U.K. citizens on short trips, even if there is no deal—but only if Britain reciprocates.
Meanwhile, official figures suggest Brexit is already having an impact on the British workforce.
The Office for National Statistics said the number of EU citizens working in the country—2.25 million—was down 132,000 in the three months to September from the year before. That's the largest annual fall since comparable records began in 1997.
Most of the fall is due to fewer workers from eight eastern European countries that joined the EU in 2004.
Jonathan Portes, professor of economics at King's College London, said the prospect of Brexit "has clearly made the U.K. a much less attractive place for Europeans to live and work."

7. Canada hopes to secure free trade deal with China

[November 12, 2018] Canada is still hoping to secure a comprehensive trade deal with China despite suggestions last week it was instead aiming for sector-by-sector agreements.

Speaking in Beijing today after bilateral economic meetings, International Trade Minister Jim Carr said China is interested in a wide range of Canadian products across many different sectors.

But Carr says while Canada is in talks with China on a number of fronts, he insists efforts to promote deals involving individual sectors would not preclude the opportunity for a wide-ranging trade agreement between the two countries.

Carr says China's interest in so many Canadian products could ultimately lead to a comprehensive trade agreement.

Last week, Treasury Board President Scott Brison told the Globe and Mail the best way to move forward more quickly with China on trade is to focus on opportunities for immediate gains through a sector-by-sector approach in areas such as food and agriculture.

A number of federal and provincial officials have been in China over the last week talking trade—discussions that come after Canada's efforts last year to formally start free trade talks with China stalled amid diverging views on gender, labour and Indigenous rights.

Have a nice and fruitful week!