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1. Weekly Markets Changes

[November 30, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,197.82	2,760.17	25,538.46	7,330.54	\$0.7518	\$1,220.52	\$50.93
+187.1 +1.25%	+127.61 +4.85%	+1,252.5 +5.16%	+391.6 +5.64%	-0.42c -0.56%	-2.53 -0.21%	+0.51 +1.01%

2. Pace of growth slows in third quarter: Statistics Canada

[November 30, 2018] The pace of economic growth in Canada slowed in the third quarter as business investment spending moved lower and the growth in household spending slowed, Statistics Canada said Friday.

The Canadian economy grew at an annualized pace of 2.0% in the third quarter compared with 2.9% in the second quarter, matching the expectations of economists, according to Thomson Reuters Eikon.

The overall move came as spending on non-residential investment in buildings and engineering structures fell 1.3%, as investment in the oil and gas sector slowed. Machinery and equipment investment by businesses fell 2.5%.

Meanwhile, the growth in household spending slowed to 0.3% in the quarter, compared with 0.6% in the second quarter. The drop came as spending on durable goods fell 0.7%, with spending on vehicle purchases falling 1.6%.

Total residential investment also fell 1.5% as spending on new home construction fell 4.7%, the largest decrease since the second quarter of 2009. Renovation spending fell 2.0%, while ownership transfer costs rose 7.1%.

The quarter ended on a weak note as real gross domestic product edged down 0.1% in September. Statistics Canada noted it was the first move lower after seven consecutive months of growth.

The agency attributed September's dip to lower output across all goods-producing industries, which slipped 0.7%. Services industries edged up 0.2%. In its fall monetary policy report, the Bank of Canada had forecast growth at an annual rate of 1.8% in the third quarter.

The Bank of Canada raised its key interest rate target in October to 1.75%, its highest level in about a decade.

Economists generally do not expect the central bank to change the rate at a scheduled announcement next week, but expectations are for another rate increase in January.

CIBC Capital Markets chief economist Avery Shenfeld called the quarter "mediocre" with some "troubling details" on business investment and the September decline.

"These aren't the sort of numbers that back a rate hike in December, and we'll need to see much better results for October, and at least a hint of good news on oil, to support our call for a January hike," he said in a research note. "Risks are growing towards pushing that next hike further into 2019."

3. CMHC's Q3 profit and revenue down from a year ago

[November 30, 2018] The Canada Mortgage and Housing Corporation (CMHC) saw its third-quarter profit drop compared with a year ago, as the housing market showed signs of cooling.

The country's largest mortgage insurer says it earned \$387 million for the three months ended Sept. 30, down from \$467 million in the same period a year earlier.

Revenue totalled \$1.05 billion in the third quarter, compared with \$1.26 billion last year.

CMHC offers mortgage default insurance for homebuyers as well as loans for multi-unit residential projects and portfolios of loans secured by residential properties.

It anticipates tighter mortgage rules, rising interest rates and a slowing economy to reduce demand for housing and continue to impact its near-term earnings.

The agency says for the first three quarters of 2018, the average CMHC-insured homebuyer bought a home for nearly \$276,000 with down payment of 7.7%.

Nearly all CMHC-insured homebuyers chose a 25-year amortization period. Thirty-one percent opted for a variable-rate mortgage over a fixed-rate loan.

4. Future rate hikes not on "pre-set policy path": Powell

[November 30, 2018] Federal Reserve Chairman Jerome Powell says he's pleased with the state of the U.S. economy but cautions that some forms of corporate debt have reached risky levels. At the same time, Powell says the financial system and markets appear far sturdier than they did before the 2008 crisis.

Powell said in a speech Wednesday to the Economic Club of New York that the Fed is monitoring potential vulnerabilities in the banking system to ensure its continued stability.

"We see no major asset class," Powell said, "where valuations appear far in excess of standard benchmarks."

Powell stressed that future interest rate hikes aren't on a "preset policy path," which may suggest that the Fed would consider a pause in its rate hikes next year to assess the impact of its credit tightening.

Some of Powell's previous observations and similar remarks from other Fed officials have raised hopes in financial markets that the central bank may be close to slowing its rate increases, which have gradually raised borrowing costs for consumers and businesses. Any such slowdown—or pause—in its rate hikes would be welcome news for a stock market that has been battered by fears that the Fed's continued credit tightening could end the long bull market.

In an appearance earlier this month, Powell cited strong annual economic growth above 3% and unemployment at a near five-decade low of 3.7%. Those trends, he said, were coinciding with inflation remaining "right on target" at the Fed's goal of 2% annual price increases.

But Powell also noted a number of looming risks, including the slowdown in global growth and the fading economic benefits of the tax cuts and government spending boost that took effect this year as well as the cumulative effect of the Fed's own rate hikes. Many economists also worry about potential economic damage caused by President Donald Trump's trade conflicts with China and other nations.

For his part, Trump has sought repeatedly to shift blame for any economic troubles to the Fed and its rate increases. In an interview Tuesday with the Washington Post, the president complained bluntly and at length about Powell, who was Trump's hand-picked choice to lead the Fed.

Trump argued that the Fed's policies were damaging the economy and pointed to the recent stock market declines and General Motors' announcement Monday that it would cut up to 14,000 workers in North America and put five plants up for possible closure.

After keeping rates at a record low near zero for seven years, the Fed three years ago began gradually raising rates, including three hikes this year. Those

increases have raised its benchmark rate to a still-historically-low range of 2% to 2.25%.

Higher interest rates tend to slow economic growth over time as well as pressure stock prices. For those reasons, this year's hikes have made the Fed the target of unusual public attacks from Trump—criticism that has accelerated with the past month's sharp declines in the stock market. Trump has complained that the Fed is threatening to undo the economic stimulus being provided by the tax cuts and that its rate hikes are unnecessary because inflation has remained relatively low.

In its most recent projections, the Fed forecast that it would raise rates in December for the fourth time this year, followed by three more hikes in 2019. Analysts think a rate hike next month is all but certain, possibly in part because they think the Fed doesn't want to appear to be bowing to pressure from Trump. But some economists say three rate increases for next year are beginning to look less certain.

Other Fed watchers still expect at least one or two rate increases in 2019 before the central bank pauses to observe how the economy is performing.

In a speech Tuesday, Vice Chairman Richard Clarida suggested that the Fed would continue to strive to be "data dependent" by using the latest readings on the economy "with a healthy dose of judgment and humility" to determine its interest-rate policy.

5. Dow surges 600 points after Fed hints rate hikes will slow

[November 27, 2018] Federal Reserve chairman Jerome Powell gave investors reason to cheer on Wednesday when he suggested that the Fed may slow down its interest rate hikes.

The Dow surged on the news, finishing the day with a gain of 618 points, or 2.5%. It was the fifth-biggest point jump for the Dow ever. The S&P 500 and Nasdaq each rose more than 2% as well.

Powell reassured investors that the Fed wouldn't risk killing off economic growth by continuing to aggressively raise rates next year.

"Our gradual pace of raising interest rates has been an exercise in balancing risks," Powell said during a speech at the Economic Club of New York. "We know that moving too fast would risk shortening the expansion. We also know that moving too slowly -- keeping interest rates too low for too long -- could risk other distortions in the form of higher inflation."

Powell noted that rates remain relatively low and that they are just below what many economists consider "neutral for the economy -- that is, neither speeding up nor slowing down growth."

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Investors seemed to interpret Powell's comments as a sign that the Fed, which is widely expected to raise rates again at a meeting next month, may now only hike rates once or maybe twice at most in 2019 as opposed to earlier forecasts of three or four hikes.

The Dow's most cyclical stocks were among the biggest gainers. Shares of Boeing, Caterpillar, Microsoft and Apple helped lead the rally.

In fact, only one Dow stock, Verizon, ended the day lower Wednesday.

Matthew Cheslock, a trader at Virtu Financial, told CNNMoney editor-at-large Richard Quest on "Markets Now" Wednesday that investors interpreted Powell's comments as meaning that we are "closer to normal rates. I think that was what really sparked the market to go higher."

Cheslock added that some of Powell's remarks about the market not being in a bubble were reassuring as well.

Powell's comments may assuage concerns about the Fed possibly going too far with rate increases, a criticism leveled by President Donald Trump.

But Tobias Levkovich, Citigroup chief US equity strategist, told Quest that the market may be overreacting.

"I'm not dancing or partying right at the moment," he said, adding that the Fed has talked about gradual rate hikes "for a very long time." "Maybe [the markets] were just worried it would be worse," Levkovich said.

To that end, Trump, who chose Powell to replace former Fed chief Janet Yellen, has often bashed him and the Fed on Twitter and in interviews for the rate hikes.

In fact, Trump attacked Powell again in a Washington Post interview Tuesday, saying he was "not even a little bit happy" with Powell and that the Fed was making a mistake with so many rate hikes.

Trump even added that sometimes decisions he makes with his "gut" matter more than what other people's brains tell him.

Whether or not investors were using their guts or brains when deciding to jump back into stocks Wednesday remains to be seen. But it's clear that the bulls were back in charge on Wednesday.

6. Loonie outlook after the oil downturn

[November 27, 2018] Despite the recent oil downturn, the loonie didn't lose as much ground as might have been expected.

“Western Canada Select (WCS) oil price and the two-year interest rate spread with the U.S.—both major drivers of the Canadian dollar—are now at January 2016 levels,” says a National Bank currency report. “So why is the loonie not collapsing this time around?”

USDCAD is trading near \$1.32, about 10 cents below levels of early 2016. Despite ongoing headwinds for Canada’s economy, the economic outlook is arguably more positive than two years ago, says the bank.

“The trade sector is benefiting from a booming economy stateside, while domestic demand is also holding firm thanks in part to investment spending, keeping real GDP on track for a second consecutive year of above-potential growth,” says the report.

It adds that speculative net short positions on the loonie are a fraction of what they were in January 2016.

Some economic elements suggest the currency should be stronger than it is, says Desjardins in an F/X forecast.

For example, the central bank is no longer talking about a gradual approach to rate hikes, says the report, and U.S. protectionist threats have eased.

However, investors’ current aversion to risk puts the U.S. dollar at an advantage as the safe-haven currency, says Desjardins, and the Fed’s pace of rate hikes will likely be faster than Canada’s, which would be a headwind for the loonie relative the dollar. Another factor: “Oil could still surprise us by going up or down,” says Desjardins.

Desjardins expects current market pessimism to fade in the coming weeks, which would help the loonie gain back some of its lost ground this quarter, as would the official signing of the new trade agreement.

7. The real risks to Canada’s housing market

[November 26, 2018] With increasing levels of household debt and home prices that remain high in some regions, Canadians might harbour fears of a U.S.-style housing crash. But trends point to a relatively resilient Canadian housing market, finds research from CPA Canada. The research report also identifies a shadow side to such resilience.

On the plus side, credit quality in Canada is relatively high, with no prevalence of the subprime mortgages that plagued the U.S.

Canadian Mortgage and Housing Corporation data on insured mortgages indicate that the share of borrowers with high credit quality has risen to an average of 88% as of the third quarter of 2017 from 65% between 2002 and 2008.

Further, the share of borrowers with lower credit quality has fallen dramatically, particularly for those with the lowest credit scores, whose share fell to nearly 0% last year from 4% in 2002.

Also in Canada's favour relative to the U.S. is a stricter regulatory regime and a higher concentration of mortgage activity among fewer financial institutions—and the way those institutions use securitized mortgages, says the report.

For example, more than 40% of securitized mortgages in Canada are retained by the financial institutions themselves for regulatory purposes. Thus, the incentive for the institutions to originate low credit-quality mortgages is lessened.

Still, housing risk exists, says the report, such as the increasing proportion of mortgages at non-banks. For example, these less-regulated lenders might not conduct the same level of due diligence on borrowers relative to the banks, it says.

Also, some Canadians have rising debt-to-income ratios, with nearly one-quarter of new borrowers holding debt exceeding 450% of their incomes—a particular concern in an environment of rising rates.

Overall, systemic risks appear well-contained, the report concludes, and the banking system is better capitalized than before the financial crisis. As a result of Canada's relatively healthy financial system, the current level of home prices might be justified and significant downward pricing pressure could be unlikely.

Therein might lie the real threat, says the report: perhaps homes will never be affordable for those already priced out of the market.

8. Commercial real estate investment to be robust in 2019: report

[November 26, 2018] Demand for Canadian commercial real estate is expected to remain “robust” next year, says Morguard Corporation's 2019 economic outlook report.

Over the last 18 months, investors placed capital into the market with confidence, resulting in record-high transaction volume, says the report. During the first six months of 2018, a total of \$26.8 billion in transaction closing volume was reported, following a record annual high of \$43.1 billion in 2017, it says.

“Debt and equity funds continued to flow freely into Canada's commercial investment property market over the recent past, indicating the ongoing resilience of the current phase of the cycle,” says the report.

The Greater Toronto Area was the most active region over the 18-month period, with \$15.7 billion in property sales completed in 2017, followed by a further \$9.6 billion in the first half of 2018. The Greater Vancouver Area and Greater Montreal Area were also highly active during the same period, with \$17.4 billion and \$8.2 billion in transaction volume recorded, respectively.

The report says rental market conditions will continue to gradually strengthen, in part because of tight market conditions and a solid economic growth outlook.

Further, leasing market fundamentals are expected to stabilize following a period of rising vacancy levels after the closure of Sears stores across Canada. On the downside, Edmonton and Calgary are expected to exhibit effects from the recent oil downturn, but their respective industrial and office markets should strengthen by the second half of 2019, says the report.

Overall, “the generally positive leasing market performance forecast for the near term will attract investors to the asset class,” says the report. “For the most part, private and public groups will continue to exhibit high levels of confidence in the Canadian market at prevailing yield.”

As a result, the firm expects transaction closing volume will continue to peak, assuming product availability.

Have a nice and fruitful week!

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