Weekly Updates Issue # 701

1. Weekly Markets Changes

[February 15, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,838.24 +204.91 +1.31%	2,775.60 +67.72 +2.50%	25,883.25 +776.9 +3.09%	7,472.41 +174.2 +2.39%	$0.7538 +0.02c +0.26%	$1,322.49 +5.88 +0.45%	$55.59 +2.87 +5.44%

2. U.S. industrial output tumbles in January

[February 15, 2019] U.S. industrial production fell 0.6% in January, stemming in large part from an 8.8% plunge in the making of motor vehicles and auto parts.

Economists had forecasted a 0.1% increase.

The Federal Reserve said Friday that the manufacturing component of the index dropped 0.9% last month, reversing a 0.8% gain in December. Over the past 12 months, factory production has increased just 2.9%. Manufacturing of wood products, computers, electrical equipment, apparel and chemicals also fell in January.

The decline suggests a clear cooling at U.S. factories that could prompt a slower pace of growth this year compared to 2018. While job growth has been solid, other sectors of the economy are showing signs for caution. Consumers appeared to retreat in December as the Commerce Department reported that retail sales fell 1.2% from the previous month.

The size of the drop in industrial production may weigh on the U.S. dollar and see bond yields edge down slightly, said Andrew Grantham, senior economist at CIBC Capital Markets, in emailed commentary.

In contrast to today's data, the Institute for Supply Management, an association of purchasing managers, said its manufacturing index improved to

56.6 in January, after dipping to 54.3 in December. Anything above 50 signals growth in manufacturing.
In the Fed's industrial production report, utility output rose 0.4% as the winter caused more natural gas usage. Mining edged up 0.1%.
Compared to a year ago, overall industrial production is up 3.8%.

3. January home sales weakest since 2015: CREA

[February 15, 2019] Housing data released today show weaker sales and declining prices in some regions.
The Canadian Real Estate Association (CREA) says last month was the weakest January for residential sales since 2015, with the number of transactions (not seasonally adjusted) down 4% nationally from last year.
The association says about 23,968 properties were sold through the Multiple Listing Service in January, down from 24,977 a year earlier.
Homebuyers are still adjusting to tighter mortgage rules introduced last year, said CREA president Barb Sukkau, in CREA's report, and she noted that the impact varies by location, housing type and price segment.
The MLS house price index, which adjusts for differing property types, was up 0.8% year over year, the smallest increase since June 2018.
In the Greater Vancouver area, the price index was down about 4.5% year over year, but up 4.2% in Victoria and up 9.3% from a year ago elsewhere on Vancouver Island.
The index for the Greater Toronto Area was up 2.7% and up 6.3% for the Greater Montreal area, but down in Regina (−3.8%), Saskatoon (−2%), Calgary (−3.9%) and Edmonton (−2.9%).
The national average price for all types of residential properties sold in January was $455,000, down 5.5% from the same month in 2018—the biggest year-over-year decline for a month since May 2018, CREA says.
Still, more than half of all local markets are in balanced territory, CREA says. That means a close comparison can be made between the sales-to-new-listings ratio and the long-term average—currently 56.7% and 53.5%.

4. Manufacturing sales drop 1.3% in December

[February 14, 2019] Manufacturing sales fell 1.3% to $56.4 billion in December as sales of petroleum and coal products fell, Statistics Canada reported today.
The agency says the drop for the final month of 2018 was the third consecutive month to see a decline.

Economists had expected an increase of 0.2%, according to Thomson Reuters Eikon.
The drop means GDP forecasts for the fourth quarter will now track below 1%, said Royce Mendes, senior economist at CIBC Capital Markets, in emailed commentary. "Soft GDP prints to close out last year and begin this one will keep the Bank of Canada on the sidelines for at least the next few months," he said.
Statistics Canada says sales were down in 12 of 21 industries tracked, representing 72.7% of manufacturing sales.
Sales in the petroleum and coal product industry fell 10.4% to $5.2 billion, with a decrease in volume accounting for about half the decline.
In volume terms, overall manufacturing sales were down 1.2% in December.

5. Canadian CEOs expect global growth to decline or stagnate

[February 13, 2019] Canadian CEOs increasingly "look inward" for growth opportunities as their optimism about growth prospects abroad declines, finds a survey of chief executives by PricewaterhouseCoopers LLP (PwC).
According to PwC's global CEO survey, 62% of Canadian CEOs (versus 57% globally) say global economic growth will decline or stay the same over the next year. And only 60% of Canadian CEOs, compared to 88% in 2018, see the U.S. as the most important market for growth. Instead, they're looking further afield, expressing more uncertainty and uncovering growth in different ways.
For example, most Canadian CEOs (88% versus 77% globally) will consider introducing operational efficiencies, finds the survey, as well as focus on organic growth (84% versus 71% globally). More than half (59% versus 37% globally) will focus on new mergers and acquistions activity.
Like their Canadian counterparts, CEOs globally are less interested in the U.S., as well as China, as a key growth prospect. Interest in the U.S. dropped to 27% from 46% year over year, and interest in China dropped to 24% from 33%.
The shift away from the U.S. and China creates "a golden opportunity for Canadian businesses and governments to collaborate" to enhance Canada's attractiveness for investment, says Nicolas Marcoux, CEO and senior partner, PwC Canada, in a statement.
Such collaboration hasn't been a reality for many Canadian CEOs. The survey finds that most of them rely on a strong pipeline from educational institutions to close a skills gap (41% of Canadian CEOs), something PwC says is risky.

“As business leaders, we simply can’t sit on the sidelines and wait for our business schools, colleges and universities to deliver graduates with the in-demand skills of the future,” Marcoux says in the statement. “Closing the talent gap to make sure we have the skill sets needed to create value will be critical to Canada’s success.”

In particular, closing skills gaps in the areas of data analytics and artificial intelligence will create a competitive advantage, PwC says.

6. Canadian home prices drop 0.1% in January

[February 13, 2019] Last month, home price indexes in Vancouver, Calgary and Edmonton, in particular, continued their downward trends (−0.3%, −0.5% and −0.8%, respectively), finds the Teranet–National Bank House Price Index. For Canada as a whole, the monthly price index dropped 0.1%, the fifth consecutive month without an increase.

It was also the fifth consecutive month without an increase in Edmonton, the sixth in Vancouver and the seventh in Calgary. Home prices have been trending downward in three of the past four years in the Albertan cities, while Vancouver is showing no growth for the first time in six years.

However, Vancouver’s housing market appears to be stabilizing after a few months of weakness, at least in part thanks to jobs.

“Solid labour markets in Greater Vancouver, where a near-record 72K jobs were added in the last six months, argue for a more stable listings-to-sales ratio and limited price deflation,” the report says.

An RBC housing report released last week noted that macroprudential measures adopted by the B.C. and municipal governments, in combination with higher interest rates and the mortgage stress test countrywide, kept many buyers out of play in Vancouver last year.

Into 2019, Vancouver’s demand-supply conditions “clearly favour buyers at this point, and prices are coming down more visibly,” the RBC report says. The bank doesn’t expect that to change soon, based on current market conditions—and that’s not necessarily a bad thing for the overall economy.

Lower prices in markets like Vancouver and Toronto help “alleviate severe affordability issues that currently represent a major source of vulnerability,” the report says. The bank’s bottom line is that the risk of a housing collapse is remote in both those cities given the strength of their economies.

For Canada as a whole, the monthly Teranet–National Bank price indexes in Victoria and Hamilton were flat, while monthly index increases were exhibited by Toronto, Quebec City, Montreal, Halifax and Winnipeg.

Year over year, the index rose 2.2% in January, while declining in Calgary and Edmonton and flatlining in Vancouver. The biggest year-over-year index increases were seen in Ottawa-Gatineau, Victoria and Hamilton.

7. Eurozone recession talk mounts as industry slumps

[February 13, 2019] Slumping industrial output across the 19-country eurozone is stoking talk of a possible recession this year, even before any additional damage from Brexit.

Official figures on Wednesday showed that industrial output in the eurozone was 4.2% lower in December than the year before, increasing concerns about the economy just at a time when the bloc is facing the prospect of Britain crashing out of the European Union without a deal.

The annual rate of decline in industrial production was the worst since November 2009 and has ratcheted up expectations that eurozone economic growth in the fourth quarter may be revised down from an already paltry quarterly rate of 0.2%.

Compared with the previous month, output was down 0.9% in December against expectations for a 0.4% fall. The fall was not confined to one sector or one country—it was broad-based.

"The downturn will serve to keep worries about a possible eurozone recession alive," said Andrew Kenningham, chief European economist at Capital Economics. "The risk of an outright recession has clearly risen."

The outlook for the eurozone has turned gloomier in recent months. As well as growing worries over the global economy due to trade tensions between the United States and key trading partners, including Europe, and new emissions standards for cars, the eurozone has to deal with the fear that Britain could crash out of the EU without a deal. Though that would hit Britain's economy harder, the eurozone would also be affected by the return of tariffs and other barriers on the flow of goods with one of its biggest trading partners.

In a study published Wednesday, research group Oxford Economics said consumer-facing industries that rely heavily on trade with the U.K., such as the German automotive sector, are "particularly vulnerable" to the prospect of Britain crashing out of the EU without a deal and without a transition to new arrangements.

"Hardest hit would be small, open economies such as Ireland, and high-tariff consumer goods industries such as the automotive, textiles & clothing, and food & beverages sectors," said Stephen Foreman, senior economist at the consultancy.

A disorderly Brexit, he said, would shave 0.3 percentage points off eurozone manufacturing by the end of 2020 compared with the baseline predictions. But those industries at the front-line would "face considerable strain" and a more pronounced downturn.

8. Global market cap fell last year as volatility surged

[February 12, 2019] Global equity trading was up last year, but market capitalization fell as volatility surged, according to new data from the World Federation of Exchanges (WFE).

The global industry trade group for stock exchanges and clearing houses published a report today, which shows that equity trading volume rose by 11.5% last year and that value traded increased by 15.4%. Yet, the global domestic market cap declined by 14.9% to US$74.4 trillion, which is the first decline for the metric since 2014.

The return to volatility set the tone last year, "with stock markets across the world reflecting the ongoing uncertainties of the global geopolitical landscape right through to the end of 2018," said Nandini Sukumar, CEO of the WFE.

The report indicates that volatility arrived "against the backdrop of a global economic slowdown, geopolitical and trade tensions, concerns about tightening monetary policy and increased scrutiny of the technology sector."

The decline in market cap was led by the Asia-Pacific region, down 23.8%. The Europe, Middle East and Africa (EMEA) region dropped by 23.8%, whereas the Americas declined by just 6.3%.

The Americas led the increase in trading activity, with trading volume up by 19.4% in the region, and the value traded up by 30.4%. Asia saw a 7.9% increase in trading volume, and a 3.6% decline in value. The EMEA region reported a 10% increase in volume and an 11.1% rise in value.

Amid the return of volatility, new listings activity worldwide dropped by 14.5%, the WFE reports, with initial public offerings dropping 12.2%. The total number of listed companies also slipped by 0.3% during the year, it says.

The WFE also reports that both the volume and value of trading in exchange-traded funds (ETFs) increased in 2018, with the number of trades rising by 45.8% and the value of trades increasing by 33.4% compared with the previous year. Exchange-traded derivatives volume increased by 19.3%—unsurprisingly, given the current environment.

"In the face of increased global risk, combined with an environment of monetary policy uncertainty and high volatility in both equity and currency markets, it is not surprising to see more investors using derivatives for hedging risk, resulting in strong volumes of equity, currency and interest rate derivatives, all of which were higher in 2018 than in 2017," Sukumar said.

9. Scammers took $22.5M from lovestruck victims last year, says RCMP

[February 12, 2019] "Romance scams," in which fraudsters lure victims into online relationships and ask for money under false pretenses, surpassed all other types of fraud in Canada last year, resulting in losses of more than $22.5 million from 760 victims, according to the Royal Canadian Mounted Police (RCMP).

"As Valentine's Day fast approaches, the RCMP is asking Canadians to be cautious when searching for that special someone online," the police force says in a statement. "Scammers are capitalizing on the vulnerability of those looking for love or companionship to extract significant amounts of money from their victims."

If browsing an online dating site or app, the RCMP says, Canadians should protect themselves by being wary of people who claim to live in their area but who are "currently overseas" for work, people who continuously cancel or refuse video chats or in-person meetings, or anyone they've never met professing their love.

"Scammers may also ask for help covering the cost of an emergency situation, such as a sick family member. Protect yourself by never, under any circumstances, sending money for any reason," the RCMP says.

If a person has been a victim of this type of fraud, the RCMP says the person should file a report with a local police detachment as well as the Canadian Anti-Fraud Centre.

Have a nice and fruitful week!

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