# Weekly Updates Issue # 705

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## 1. Weekly Markets Changes

**[March 15, 2019]**

| S&P TSX | S&P 500 | Dow Jones | NASDAQ | CAD/USD | Gold | WTI Crude |
|---|---|---|---|---|---|---|
| 16,140.35 +144.14 +0.9% | 2,822.48 +79.41 +2.89% | 25,848.87 +398.6 +1.57% | 7,688.53 +280.4 +3.78% | $0.7495 +0.45c +0.60% | $1,302.40 +4.10 +0.32% | $58.52 +2.45 +4.38% |

## 2. RBC cuts Canadian 2019 growth forecast to 1.5%

**[March 15, 2019]** Canada will see slower economic growth in 2019, due to an energy-led downturn and slowing global economy, RBC Economics said in a forecast published Friday.

RBC has downgraded its 2019 Canadian growth forecast to 1.5% from 1.7%, citing the energy sector's weakness as well as slower housing and consumer spending. After a slow end to 2018, the report forecasts the economy to recover "somewhat" as the year proceeds.

It predicts the downturn in the energy sector to be short-lived and doesn't expect a "dramatic pullback" in investment like when prices fell in 2015 and 2016. The forecast assumes that oil will hold at about current levels in 2019 and "grind higher in 2020," Craig Wright, senior-vice president and chief economist, said in a statement.

RBC is predicting lower levels of consumer spending as households get used to higher interest rates. But as the unemployment rate holds stable at a more-than 40-year low, RBC expects rapid wage gains as companies face labour shortages.

"A resumption of trend-like growth combined with accelerating wage growth and persistent capacity constraints will begin to exert upward pressure on prices heading into 2020," the report says. "Against this backdrop, the Bank of Canada is likely to move the policy rate closer to its neutral level with a rate hike expected in the fourth quarter of 2019 and a final increase in 2020."

British Columbia shows "few signs" of a slowdown despite a drop in housing prices, as the start of construction on a $40 billion LNG project bolsters the province's economy. Growth in B.C. is expected to be about 2.5%, RBC said, the highest across Canada.

Newfoundland and Labrador is also expected to exceed other provinces' growth at about 2.3% this year.

Globally, RBC expects growth of about 3.5%, considering a likely slowdown in China and Brexit uncertainty still looming over world markets. Economic growth in the U.S. should support Canada's exports to that country, the report said.

## 3. Manulife's Gori made almost $13 million in fiscal 2018

**[March 15, 2019]** Manulife Financial Corp. CEO Roy Gori received almost $13 million in total compensation last year, a slight increase from his 2017 pay, putting his earnings near the top bank executives'.

Gori took the top job at Manulife in October 2017. His $13 million compensation last year compares to $12.8 million in 2017, when he spent most of the year as president and CEO of Manulife Asia, according to the firm's 2019 management information circular.

Gori's total 2018 compensation is behind Toronto-Dominion Bank's Bharat Masrani ($15.3 million), Royal Bank of Canada's David McKay ($14.5 million), and Bank of Nova Scotia's Brian Porter ($13.3 million) but ahead of other Big Six CEOs.

He made US$9.4 million in total direct compensation last year, including a US$3.1 million annual incentive—140% of his target. His direct compensation was roughly the same in 2017. For this year, Gori's target direct compensation is US$8.9 million.

Here's how Manulife's other named executives were compensated last year.

- Chief investment officer Warren Thomson made $7.3 million, up from $7.2 million the previous year.
- John Hancock president and CEO Marianne Harrison saw her total compensation decline by about $50,000 last year to $5.9 million, though her direct compensation increased slightly.
- Chief financial officer Phil Witherington made $4.6 million last year. He took the CFO job in January 2018 after an interim role as president and CEO of Manulife Asia.

- Anil Wadhwani, who became president and CEO of Manulife Asia in November 2017, made $5.1 million last year.

At Manulife's annual general meeting on May 2, shareholders will vote on a resolution to accept the firm's approach to executive compensation. It's an advisory vote, so the results aren't binding.

No shareholder proposals are being considered at the meeting.

Five of the firm's 12 (42%) nominated independent directors this year are women.

## 4. Central bank says rising global debt is holding back growth

**[March 15, 2019]** The Bank of Canada's senior deputy governor says an explosion of global debt over the last decade is a top concern that she argues is holding back economic growth and creating vulnerabilities in the world's financial system.

The global financial system is in better shape than it was in 2007 before the financial crisis, but unknowns such as ongoing U.S.-China trade tensions could knock things off course, Carolyn Wilkins said in a speech Thursday in Vancouver.

Wilkins also warned that high debt loads usually become an "amplifying factor" when it comes to an economic downturn.

The U.S.-China trade war and expanding global geopolitical unrest have been key worries for the Bank of Canada, she noted.

"The global development that concerns me the most, though, is rising debt," Wilkins said in her speech at an event hosted by the University of British Columbia's economics department and CFA Society Vancouver.

"Whether you're a homeowner or a business person, you know first hand that high leverage can leave you in a vulnerable financial position. It's no different for economies.

"The world has learned this lesson the hard way on many occasions in my lifetime."

She said the combined global debt owed by governments, businesses and households now amounts to US$240 trillion, which is US$100 trillion higher than just before the financial crisis and more than three times the world's gross domestic product.

Government debt, she added, has "skyrocketed" over the past 10 years, while corporate borrowing has "exploded" and now displays some risky qualities.

But some debt can be a good thing, she said.

For instance, Wilkins said limited accumulation of public-sector debt can help stimulate economic growth, depending on how it's used, and companies can borrow as a way to invest in expanding their capacity.

Debt levels around the world piled higher largely because of the long stretch of extremely low borrowing rates that was necessary to help global growth build fresh momentum, she said.

"The downturn would have been even deeper and more painful without these decisive policy responses," Wilkins said.

"What strikes me, though, is how much overall leverage has grown globally, even as the financial sector has repaired its books."

Canada's high household debt, which is now more than 178% of disposable income, is the central bank's top domestic financial vulnerability, she said.

"The good news for Canadian businesses and households is that the financial system — globally and here at home — is safer than it was a decade ago thanks to much stronger safeguards," she said.

Wilkins added it's important for policy-makers around the world to continue efforts to conduct stress tests on different parts of the financial system, and, when necessary, put in safeguards.

## 5. Home sales, average prices down in February: CREA

**[March 15, 2019]** The Canadian Real Estate Association says home sales in February fell compared with a year ago and the average selling price also moved lower.

The association says sales last month were down 4.4% compared with February of 2018.

On a month-over-month basis, national home sales in February were down 9.1% compared with January.

The national average price for homes sold in February was $468,350, down 5.2% from the same month in 2018.

Excluding the Greater Vancouver and the Greater Toronto Area, two of the country's most active and expensive markets, the national average price was just under $371,000.

In its updated outlook for the year, the association says it expects home sales in Canada to pull back by 1.6 per cent to 450,400 in 2019, a change that would mark the weakest annual sales since 2010. Sales in 2020 are forecast to gain two per cent to 459,400.

## 6. Household debt grew faster than income in Q4

**[March 14, 2019]** The amount Canadians owe relative to their income ticked higher in the fourth quarter of last year as the growth in debt slightly outpaced income growth, Statistics Canada said Thursday.
The agency reported that seasonally adjusted household credit market debt, as a proportion of disposable income, increased to 178.5% in the fourth quarter. That compared with a revised reading of 178.3% in the third quarter.
That means there was roughly $1.79 in credit market debt for every dollar of household disposable income in the fourth quarter.
Josh Nye, senior economist at Royal Bank, said the figures highlight the challenge consumers face.
“It will take a long period of household incomes outpacing credit growth to deliver meaningful improvement in the debt-to-income ratio,” Nye wrote in a report.
“We’re not seeing that yet.”
Nye noted the debt service ratio increased for a fifth consecutive quarter and matched a record high.
The household debt service ratio (DSR), the total obligated payments of principal and interest on credit market debt as a proportion of household disposable income, increased to 14.9% in the quarter compared with revised reading of 14.7% in the third quarter.
“While we expect the BoC won’t be raising rates again until later this year, the DSR is still likely to edge higher in the coming quarters as homeowners renew fixed rate loans at higher interest rates,” Nye wrote.
Helping fuel the rise in the two key debt ratios was an increase in borrowing in the fourth quarter.
On a seasonally adjusted basis, Statistics Canada said households borrowed $21.2 billion in the fourth quarter as mortgage loan demand rose $2.3 billion to $12.3 billion.
However, despite the increase in the fourth quarter, on an annual basis, household credit market borrowing fell 19.5% to $84.6 billion in 2018, the lowest level of borrowing since 2014.
Credit market debt, which includes consumer credit and mortgage and non-mortgage loans, totalled nearly $2.21 trillion in the fourth quarter.
Mortgage debt reached nearly $1.44 trillion, while consumer credit and non-mortgage loans combined to total $769.4 billion.
Earlier this month, Equifax Canada reported that consumer delinquencies climbed higher in the fourth quarter of 2018 and the credit monitoring company warned that rising delinquency rates are likely to become the norm this year.

It said the 90-day mortgage delinquency rate rose by 1.5% from the fourth quarter of 2017 to 0.18% at the end of last year.

The comparable non-mortgage rate was up 0.4% to 1.07%.

A survey released Wednesday from the Financial Planning Standards Council (FPSC) and Credit Canada found many Canadians are precariously indebted. One in five said they would need to liquidate assets this year to pay off debt, and two-thirds anticipated taking on more debt.

## 7. Debt service costs continue to rise for Canadian households

**[March 14, 2019]** Given their high debt loads and rising interest rates, Canadian households are increasingly susceptible to an economic slump—a prospect that also poses an increasing risk to the big banks, warns Moody's Investors Service in a new report.

According to the rating agency, even as consumer debt levels appear stable and unemployment remains very low, Canadian households are seeing their debt service costs rise due to higher interest rates. Moody's reported that the proportion of disposable income that is being eaten up by debt repayment reached 14.5% in the fourth quarter of 2018, which is up from 13.7% five years ago.

"A number of provincial and federal policy initiatives have helped to temper growth in housing prices and to curb residential mortgage loan growth, but interest rates continue to drive mortgage payments higher," said Jason Mercer, vice-president at Moody's.

As a result, the firm said the risks to banks are rising too. For instance, Mercer said, "the proportion of uninsured mortgages continues to rise, shifting the risk of mortgage default to the banks from the government."

Moody's also noted that average auto loan terms have increased to almost six years. "While loan asset quality remains strong, with delinquency rates below the 24-month average, longer loan terms increase consumers' negative equity, reducing the amount of collateral a bank can collect at default," it said.

Similarly, credit card loan quality remains strong, Moody's reported. "However, any increase in unemployment leading to a rise in defaults would equate to higher losses for banks given the unsecured nature of the loans," the rating agency noted.

## 8. How the Liberals could apply fiscal room in 2019 budget

**[March 14, 2019]** The improved economy is expected to give the Trudeau government more fiscal room than anticipated in next week's pre-election budget—but a wobbly economic finish to 2018 means conditions could look much different as the October vote approaches.

An abrupt deceleration in economic growth over the final three months of 2018 has dimmed the outlook for this year. Last week, the Bank of Canada predicted a weaker economic performance through the first half of 2019, compared to its previous forecast of just a short slump.

Still, the economy posted solid numbers for much of last year and employment has remained particularly strong. Some experts predict it's been enough of a boost to give the Liberal government billions more in fiscal wiggle room.

With extra money, hints of tougher times ahead and an election just months away, the government is expected to use up all that space based on the argument the economy will need stimulative investments.

Scotiabank chief economist Jean-Francois Perrault said larger-than-expected government revenues last year mean Ottawa could have as much as $5 billion more than it had predicted in its November update to dedicate to new pre-election spending, or even tax cuts.

"It's this really fascinating mix of political challenges with some uncertainty on the economic side," said Perrault, a former assistant deputy minister under Finance Minister Bill Morneau.

"The Trudeau government is clearly in more difficulty now [politically] than it was six months ago. They're probably going to be looking for something on the budgetary side that will increase their chances of being elected."

CIBC chief economist Avery Shenfeld also sees the Liberals in a stronger fiscal starting position, but with economic headwinds in the forecast.

"There's good news and bad news, in a sense, for the fiscal path," said Shenfeld, who also noted the effects of an approaching election on budget decisions.

"I'm expecting cheques to go out somewhere. Remember that in the last election the party that won was the one party not promising to balance the budget… The recent sluggishness of the economy is just one more reason to expect a budget that sends out some goodies."

Morneau has said his fourth budget will focus on helping workers get the skills they need and on ensuring seniors feel optimistic about their futures. The government, he added, is looking for ways to make homes more affordable for millennials, while keeping the housing market stable.

The Liberals also intend to use the budget to lay out how they will achieve their two main goals on pharmacare: keeping costs down and ensuring better coverage for everyone.

The budget will also update the country on the state of the federal books, which could prove to be an important ballot-box concern for many voters.

The Liberals' fiscal record has faced regular criticism from the Opposition and some economists. In particular, the Conservatives have targeted the Liberals over their decisions to ditch their 2015 election vow to run only modest annual shortfalls and to eliminate the deficit by 2019.

Instead, the Liberals have posted deficits of more than $18 billion in each of the last two years, with no timeline to achieving balance.

In November's update, the government projected annual deficits of $18.1 billion in 2018-19, $19.6 billion in 2019-20 and $18.1 billion in 2020-21.

Morneau has shifted his focus to reducing the net-debt-to-GDP ratio—a way of describing how burdensome debt is, relative to the national economy—each year.

TD senior economist Brian DePratto recalls how in past budgets the Liberals have enjoyed "growth dividends" because the economy had outperformed expectations. The extra fiscal room enabled them to use up the space without affecting the debt-to-GDP anchor.

This time, however, things are different because the overall economic picture has "clearly degraded," he said.

"It's a little bit of a funny one because there's a lot of these different currents playing out at once that differ a bit from what we've seen in different years," DePratto said.

"There's also the challenge of, well, if we're going into a slower-growth period where the risks are mounting, perhaps there's more impetus for spending regardless of anything else."

## 9. Survey finds 20% of Canadians will need to liquidate assets to pay off debt

**[March 13, 2019]** Many Canadians are precariously indebted and living on the financial edge, a survey by Financial Planning Standards Council (FPSC) and Credit Canada found. One in five respondents said they'd have to liquidate assets this year to deal with their debt. And almost half of Canadians "are within $200 of not being able to pay their bills."

According to the survey, two-thirds of Canadians with debt anticipated taking on more in 2019, including new (or increased) credit card balances (23%), increased lines of credit (15%), car loans (13%) or mortgage debt (12%).

People under 55 were more likely to be looking at new forms of debt (67%), while half of people over 55 were considering it.
Men were more likely than women to be in a position in which they need to liquidate assets to pay down debt (24% versus 14% of women), as were people with children under 18.

## Have a nice and fruitful week!

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