Weekly Updates Issue # 710

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1. Weekly Markets Changes

[April 18, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,612.81 +132.28 +0.80%	2,905.03 -2.38 -0.08%	26,559.54 +147.24 +0.56%	7,998.06 +13.90 +0.17%	$0.7473 -0.29c -0.39%	$1,275.75 -14.68 -1.14%	$64.00 +0.11 +0.17%

2. Canada added 13K jobs in March: ADP

[April 18, 2019] A new report from payroll processor ADP Canada says the country added 13,200 jobs from February to March.

The manufacturing sector added the most jobs (9,300), followed by education and healthcare (2,700) and professional/business services (2,100). The construction and leisure and hospitality sectors both added 1,200 jobs.

Other sectors lost jobs, with the largest losses coming from the information industry (–1,500), followed by finance/real estate (–1,400), natural resources and mining (–1,100), and trade/transportation and utilities (–700).

ADP's employment reports measure the change in nonfarm payroll employment each month on a seasonally adjusted basis, based on ADP payroll data.

3. Why interest rate cuts aren't on tap for Canada

[April 18, 2019] Canada has been close to recession twice in recent years—yet managed to escape. Today, as recession potentially looms again, Canada could likewise escape, but don't count on the central bank to lower interest rates as a way to keep economic momentum going.

A CIBC report published on Friday discussed how Canada might avoid recession, with CIBC chief economist Avery Shenfeld recalling the circumstances surrounding two recent recession near-misses.

First, in 2015, Canada had two consecutive quarters of falling real GDP—but no recession—after oil-sector capital spending dropped. The situation didn't count as a recession because there was no increase in the jobless rate, the report said.

The second near-recession was in the second half of last year, as global growth slowed, home sales slumped and a bottleneck depressed heavy oil prices. While that situation resulted in an almost zero growth rate in the fourth quarter of 2018, growth continues to be positive, thanks to such things as a pause on rate hikes and an improved outlook for Chinese growth, the report said.

Looking forward, CIBC forecasts that recession risk lies in wait in 2020, as positive effects from U.S. fiscal policy fade.

Historical economic analysis shows that countries that reach full employment rarely stay there for an extended period before recession hits, said the report. Considering that Canada has been close to, if not at, full employment for a sustained period, to escape recession's clutches would require that the country have its longest run near full employment since the 1960s, it said.

Even if Canada managed to maintain full employment by continuing the current expansion through rate cuts and household debt, that course of action would build up financial risks, and recession would likely be worse once it eventually occurred.

Despite recession risk, the report cites reasons why Canada might still "muddle through 2020 with sluggish but still positive growth." Those include a continued pause on central bank rate hikes and a weaker loonie, which will help boost exports.

If global growth were to take a turn for the worse, domestic stimulus would be required, not a reliance on ultra-low interest rates and ever-expanding household debt, the report said.

"Someone has to borrow and spend when tough times come," Shenfeld said in the report. "But putting the debt on the nation's books rather than on those of individual households could be the safer approach." Canada's debt service costs are well contained, he added.

Far from a potential rate cut, one of the big banks forecasts a hike this year.

After positive inflation readings were released earlier this week, Derek Holt, vice-president and head of capital markets economics at Scotiabank, said in a report that "core inflation is proving stickier than expected."

With Scotiabank forecasting an economic rebound this year, Holt said, "We still think the [central bank] is not done with its hike cycle, and our current view is a hike by year-end."

4. Millennials wealthier than Gen X was, but carry more debt

[April 18, 2019] Millennials are wealthier and better paid than Generation X was at the same stage in their lives, but there's a wider gap between rich and poor millennials, according to a new study from Statistics Canada.

In a paper released on Friday, StatsCan found that millennials (born between 1982 and 1991) have higher incomes and greater wealth than young Gen Xers of a comparable age (born from 1965 to 1971) had at the same stage of their lives.

For instance, the study found that household incomes for millennials in 2016 averaged $66,500, compared with $51,000 for Gen X in 1999 (measured in 2016 constant dollars).

Similarly, the study also found that millennials had higher median net worth (total household assets minus total debts). StatsCan reports that millennials' median net worth reached $70,600 compared with $42,800 for Gen X.

Yet, this higher net worth is accompanied by more debt, StatsCan said. "Although millennials were better off than young Gen Xers in terms of assets or median wealth, they were relatively more indebted, as they carried considerably more mortgage debt," it said.

For instance, StatsCan reported that the debt to after-tax income ratio for millennials was 216%, compared with 125% for Gen X at the same point in their lives.

Additionally, the study found much bigger disparities in wealth within the millennial generation.

It reported that net worth for the bottom 25% of millennials was $9,500 compared to $253,900 for the top 25%. For Gen X, the bottom 25% had net worth of $6,200, versus $126,900 for the top 25%.

StatsCan also reported that the top 10% of millennials control over half (55%) of their generation's total wealth.

"Millennials who invested in the housing market were considerably better off than those who did not," StatsCan said, adding that millennials with a university education also have stronger finances than those who just went to high school.

"Economic well-being also varied across the country, as millennials living in Vancouver and Toronto had higher net worth," StatsCan said.

5. Canadian retail sales rise 0.8% in February

[April 18, 2019] Statistics Canada says retail sales rose 0.8% in February to $50.6 billion, the first increase since October.

Economists had expected an increase of 0.4%, according to Thomson Reuters Eikon.

Sales were up in five of 11 subsectors, representing 73% of retail trade.

Retail sales at general merchandise stores, which include department stores, warehouse clubs as well as home and auto supplies stores, rose 3.8%, while sales at new car dealers helped motor vehicle and parts dealers' sales climb 1.4%.

Sales at building material and garden equipment and supplies dealers were down 1.6% after posting gains in December and January.

However, overall retail sales in volume terms were up only 0.2%—a "mediocre" result, said CIBC chief economist Avery Shenfeld in emailed commentary. While today's data were better than expected and will help offset weaker manufacturing activity for February GDP, they weren't "all that strong a signal for consumer activity," he said.

CIBC expects GDP to be below 1.5% in the first quarter, making for two consecutive quarters where growth has undershot potential—and for a continued pause on rate hikes when the central bank makes its next announcement on April 24.

"The possible opening of an output gap will leave the Bank of Canada communicating a stand-pat outlook for monetary policy next week," said Royce Mendes, CIBC director and senior economist, in a report.

U.S. retail sales soared 1.6% in March

Meanwhile, U.S. retail sales surged in March at the fastest pace since late 2017, as spending on autos, gasoline, furniture and clothing jumped.

The Commerce Department said Thursday that sales increased a seasonally adjusted 1.6% from February, the strongest increase since September 2017.

The gains mark a sharp rebound from a lacklustre period of sales dating back to December. It's a sign that the healthy job market has likely made consumers more eager to spend in ways that boost overall economic growth.

"For the first time in months, markets were finally presented with an upbeat report on U.S. retail sales," said Jennifer Lee, a senior economist with BMO Capital Markets. "Americans hit the malls with a vengeance."

Sales at gas stations climbed 3.5% in March, while spending at auto dealers jumped 3.1%. Clothiers reported a 2% gain and furniture stores enjoyed a 1.7% bump.

Out of 13 retail categories, only one—sporting goods, hobby, musical instrument and book stores—reported a sales decline.
Spending at department stores was unchanged in March. Purchases in the sector that includes online businesses enjoyed a 1.2% increase. Restaurants saw their sales improve 0.8%.
Excluding autos and gas, retail sales increased by a still solid 0.9%. The ramp up suggests that consumers feel confident enough about their finances to maintain their spending, overcoming fears after retail sales in December plunged 1.6%, partially recovered in January and declined again in February.
During the past year, retail spending has grown 3.6%.
"The fundamentals for consumer spending are solid," said James Marple, senior economist at TD Bank. "While the pace of gains is unlikely to match the stimulus-fueled pace of the past year, they will put a solid foundation under economic growth that is likely to average around the 2% mark over the remainder of 2019."

6. Inflation rises 1.9% on higher prices for vegetables, mortgage costs

[April 17, 2019] Canada's annual inflation was up last month as price pressures strengthened for fresh vegetables, mortgage interest costs and auto insurance.
Statistics Canada said Wednesday that the country's consumer price index increased 1.9% in March, in line with economists' expectations. It was higher than its readings of 1.5% for February and 1.4% in January, when the inflation number was at a 15-month low point.
The agency's core inflation readings, which are considered better measures of price pressures, rose 2% in March—up from 1.9% in February. The core readings omit more volatile items like gasoline and are closely watched by the Bank of Canada.
The firmer inflation picture brings both gauges closer to the central bank's ideal 2% target, and comes as the economy works through a soft patch brought on by the drop in crude oil prices at the end of last year.
Compared with a year earlier, Statistics Canada said consumers paid 15.7% more in March for fresh vegetables, 8.1% more on mortgage borrowing costs and 5.6% more for car insurance.
Year-over-year gas prices dropped 4.4% last month, internet costs dropped 9.2% and travel tours moved down 6.4%.
Higher pump prices were a major driver of inflation last year before lower gas prices weighed on the measure in recent months.

In March, however, the downward pressure from cheaper gas eased off as global oil prices climbed, Statistics Canada said. In a report, Matthieu Arseneau, deputy chief economist at National Bank, said gas prices "surged" 11.6% in the month, "a pace above the historical norm for March."

In a research note, RBC senior economist Josh Nye said the strengthening in headline inflation was largely an energy story, "as the decline in gasoline prices late last year (driven by lower global oil prices) continues to be reversed."

Inflation accelerated in every province last month, with Alberta, New Brunswick and Prince Edward Island registering the strongest price growth.

The economy abruptly decelerated in the final three months of 2018. Bank of Canada governor Stephen Poloz has predicted the weakness to be temporary and for the economy to strengthen in the second half of 2019.

The central bank, which has hiked its key interest rate five times since mid-2017, will make a policy announcement next Wednesday. It's widely expected to leave the benchmark unchanged.

Today's data indicate "limited slack in the Canadian economy and no need for rate cuts by the Bank of Canada," Arseneau said.

In a separate report Wednesday, StatsCan said Canada's February trade deficit was $2.9 billion, narrowing the gap from a revised shortfall of $3.1 billion in January.

Exports were down 1.3% in February, while imports declined 1.6%.

Statistics Canada's revision for January showed a smaller deficit—by more than $1 billion—compared to its initial estimate of $4.2 billion.

The combined trade deficit for February, January and December, which reported a shortfall of $4.8 billion, was $10.8 billion—the country's biggest three-month deficit on record.

7. StatsCan reports foreign-born residents sent $5.2 billion home in 2017

[April 17, 2019] Canadian residents sent more than $5 billion to relatives abroad in 2017, according to a new study of international money transfers from Statistics Canada.

The study, released on Wednesday, found that 37% of people who were born in developing countries but are now living in Canada sent a combined $5.2 billion back home in 2017. Those remittances averaged $2,855.

These transfers generally face high transaction costs, with the average transfer fee eating up 6% of the amount being sent. StatsCan noted that, under the

United Nations' Sustainable Development Goals (SDGs), developed countries have committed to reduce these costs to less than 3%.
Over half (56%) of residents who send money home use money transfer stores. Ten percent delivered money in person, 9% used in-person banking and 5% opted for online banking to send money, StatsCan reported.
The top destination for these transfers was the Philippines, accounting for $1.2 billion, followed by India ($794 million), China ($292 million) and Pakistan ($236 million).
Additionally, $390 million was sent to the U.S., the study noted. Indeed, StatsCan found that 15% of these transfers ($761 million) went to developed countries.
The study also found that most of these transfers (59%) were intended to pay basic living expenses (food, housing and utilities). The other top uses are for medical expenses, or gifts.

8. Foreign investment in Canadian securities declined in February: StatsCan

[April 16, 2019] After a big jump in January, foreign investment in Canadian securities came back to earth in February, according to the latest data from Statistics Canada.
StatsCan reported that foreign investors acquired $12.0 billion worth of Canadian securities in February, down from $28.6 billion in January.
At the same time, Canadian investment in foreign securities increased to $5.3 billion during the month, resulting in a net inflow of funds of $6.7 billion for February.
In terms of foreign investor activity, equities edged out bonds, with foreign investment in Canadian stocks totalling $6.6 billion in February, and bond buying coming in at $6.5 billion.
StatsCan reported that offshore equity investors mainly targeted companies in the energy and mining sectors.
As for the increase in Canadian investor buying of foreign securities, StatsCan reported that the increase, following three months of net selling, was driven by acquisitions in the U.S. corporate bond segment.
Canadian investors only acquired about $278 million worth of foreign equities in February, StatsCan reported. And, for the fourth straight month, Canadians divested their holdings of U.S. shares, it notes.

9. Housing equity drives growth of immigrant families' wealth: StatsCan

[April 16, 2019] Immigrant families are growing their wealth at around the same rate as Canadian families, but they are much more reliant on real estate than financial assets to power that growth, according to new research from Statistics Canada.

StatsCan's study found that household wealth increased similarly for both immigrant families and Canadian-born families between 1999 and 2016.

The average wealth of immigrant families (defined as households whose major income earner is aged 45 to 64 and arrived in Canada at least 20 years earlier) increased by $435,000 over the period, rising from $625,000 to $1.06 million.

For Canadian-born families, average wealth grew by $460,000 over the same period, growing from $519,000 to $979,000.

Yet, the composition of this growth is notably different for the two groups. For immigrant families, housing equity contributed 69% of the growth in average wealth, whereas it accounted for just 39% of the growth for Canadian-born families.

The growth in wealth for Canadian-born families is much more reliant on rising pension assets. For this group, 33% of their wealth growth came from increases in the value of registered pension plan (RPP) assets, compared with just 17% for immigrant families.

"While the increases in home prices observed since the late 1990s drove much of the growth in housing equity, the lower rates of return on financial assets after 1999 were a key factor underlying the growth in the net present value of RPP assets," StatsCan said.

This greater reliance on real estate is reflected in the fact that immigrant families also had higher debt-to-income ratios than Canadian-born families, the study notes.

It reports that immigrant families had a debt-to-income ratio of 2.17 in 2016, compared with 1.32 for Canadian-born families.

"Most of the difference was due to the larger mortgages carried by immigrant families," StatsCan said.

Notwithstanding these fundamental differences, the study also found that immigrant families and Canadian-born families appear to manage their finances in similar ways.

"Specifically, the study finds no evidence that immigrant families use payday loans, withdraw money from registered retirement savings plans or pay off only part of their monthly credit card balances to a greater extent than Canadian-born families of similar age do," it said.

10. Canadian business sentiment drops from high levels: BoC survey

[April 15, 2019] Canadian business sentiment has fallen from elevated levels, as companies point to uncertainty around global trade, the housing sector and the energy industry, according to a new Bank of Canada survey.

The central bank's measure for business sentiment dropped from its near-record heights last year into negative territory for the first time since the third quarter of 2016.

"The business outlook survey indicator declined from a strongly positive level in the winter survey and is now slightly negative, suggesting a softening in business sentiment," said the Bank of Canada's analysis of the results, released Monday.

"Responses to several [business outlook survey] questions moved below their historical averages."

The previous survey of around 100 senior managers delivered a more-upbeat reading based on a November poll taken as oil prices started to decline. The survey released Monday was conducted between late February and early March.

The latest report comes after Canada saw an abrupt economic deceleration in the final three months of 2018 as oil prices tumbled.

Bank of Canada governor Stephen Poloz has said the economy needs a longer stimulative boost from low interest rates to help it overcome domestic and global challenges. Poloz has predicted the country's recent economic weakness to only be temporary.

The survey's findings suggest companies' expectations for sales remained positive, though they were softer than a few months earlier due to less optimism about future demand.

The Bank of Canada said the results "point to a moderation from previously high levels of domestic and foreign demand for firms in most regions."

The pace of sales growth has "moderated slightly" over the previous 12 months following a solid year, the bank said. Moderation reflected decelerating demand for companies in the housing and energy sectors, it said.

Looking ahead, firms were more upbeat, saying they expected the rate of sales to be "marginally faster" over the coming year. The rosier outlook was widespread among companies in the services sector, especially those in central Canada who were in information technology and transportation.

Outside of the energy-dependent Prairies, investment and hiring intentions remained resilient—particularly in the services sector.

The survey also suggested previous concerns about labour shortages had eased, although firms still said it was more challenging to find workers than it was 12 months earlier.

On inflation, firms' expectations have declined since the last outlook, though expectations are still concentrated in the central bank's 1% to 3% range.

In emailed commentary, CIBC chief economist Avery Shenfeld said the Bank of Canada's upcoming monetary policy report, to be released next week, will likely translate the survey's outlook for easing price pressure into "a modest opening up in the output gap, giving the [central] bank license to keep rates on hold this year."

The survey also found that, for most firms, terms and conditions to obtain financing were unchanged over the last three months, though some firms cited better terms and conditions.

Have a nice long weekend and a fruitful week!

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