Weekly Updates Issue # 713

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1. Weekly Markets Changes

[May 10, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,297.55 -196.9 -1.19%	2,881.40 -64.24 -2.18%	25,942.37 -562.58 -2.12%	7,916.94 -247.06 -3.03%	$0.7453 +0.06c +0.08%	$1,286.05 +6.94 +0.54%	$61.66 -0.28 -0.45%

2. CRA boosts small business support

[May 10, 2019] The Canada Revenue Agency (CRA) is expanding its liaison officer service to small corporations, Minister of National Revenue Diane Lebouthillier announced Friday.

The service uses an education-based approach to help small businesses meet their tax obligations by providing them with free in-person support and guidance. Previously, only unincorporated businesses and self-employed individuals could ask for the service.

“The expansion will open the door for small corporations to book free in-person visits and group seminars with one of over 130 liaison officers across the country,” the CRA said in a release.

Since the launch of the service in 2014, more than 35,500 small businesses have benefitted from access to liaison office services, the CRA said.

This step toward improving services for small businesses is one of the CRA’s priorities identified in Budget 2019.

“With the expansion of the Liaison Officer service, the CRA will now be able to help even more small businesses comply with their tax obligations,” Lebouthillier said in a statement.

3. Trump just raised tariffs on Chinese goods. Here's what that means

[May 10, 2019] President Donald Trump just made thousands of items coming in from China more expensive -- including baseball caps, bikes and handbags.

Most of the imports hit by the new 25% tariff rate are industrial or intermediate goods that are used as component parts in products manufactured in the United States. But about a quarter of the items on the list are consumer goods, including luggage, backpacks, baseball gloves, bamboo furniture and chandeliers. It also hits sailboats, motorboats, canoes and -- weirdly -- parking meters.

The Trump administration has so far strategically shielded most consumer electronics, like iPhones, and other everyday goods from the tariffs so the tariffs might be less painful to American shoppers -- though that may change if Trump can't strike a deal with Beijing.

On Friday, US Trade Representative Robert Lighthizer said in a statement that he had begun the process of adding tariffs to "essentially all remaining imports from China" -- goods worth another $300 billion.

Here's how the tariff works.

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A tariff is a tax

The tariff acts like a tax on the business importing a given good. Importers must pay the 25% duty once their products reach the United States. The money is paid on delivery and goes to the US Treasury.

The Trump administration imposed the 10% tariff on $200 billion of goods in September, following an earlier round of tariffs on $50 billion of Chinese goods that went into effect over the summer. The tariff rate on the earlier round was always set at 25%.

So, as of Friday, the United States has a 25% tariff in place on $250 billion of Chinese goods.

The new, higher tariff rate will be applied to goods shipped Friday or after, excluding those that may have already been on the water this week but hadn't arrived in the United States yet. That gives some reprieve to US importers, who were given just five days' notice about the tariff hike.

Who pays?

In some cases, Chinese manufacturers may decide to absorb some of the cost of the tariff in order to stay competitive in the US market.

Although Trump repeatedly argues that China is paying the tariffs directly into the US government's coffers, a number of recent research reports have

found that American companies and consumers are taking on most of the burden of the existing tariffs. One paper shows that the tariffs were costing domestic companies and consumers $3 billion a month by the end of 2018.
It's up to vendors and retailers to decide whether to absorb the added cost, or pass some of it along to the consumer.

Does this benefit the US?

Trump campaigned on reviving US manufacturing, and has said repeatedly that he wants production to move back to the US -- including Friday morning, when he tweeted, "Build your products in the United States and there are NO TARIFFS!"
But in fact, many US business owners say that domestic factories can't meet their production needs. Instead they are exploring moving part of their supply chains to factories outside of China.
Overall, the manufacturing sector has rebounded moderately under Trump -- but hiring has slowed again after being on a tear in the second half of of last year.

What happens next?

The threat to escalate tariffs wasn't new. The President first sought to do so on January 1 if negotiations didn't progress, and then pushed the deadline to March 1. But when the second date came and went, it appeared trade tensions were easing up and businesses adjusted to the new normal.
Talks wrapped without a deal on Friday, and it's not clear what the next step will be. Beijing has pledged to take "necessary countermeasures" to the tariff increase that went into effect over night, but did not offer specifics on how it would respond. China put tariffs on American agricultural products in response to previous Trump tariffs, and stopped buying US soybeans for about six months.
But Trump has left his second tariff threat hanging, and it's unclear when he will finalize adding new levies on the remaining Chinese goods he has yet to tax. The move would hit most consumer electronics, toys, and shoes that come from China -- but a formal federal review process would have to take place before new tariffs take effect.

4. Canada’s jobless rate drops in April

[May 10, 2019] Canada’s labour market delivered a surprise Friday with its biggest one-month employment surge since 1976, when the government started collecting comparable data.
The country added 106,500 net jobs in April, the bulk of which were full time, Statistics Canada said in its latest labour force survey.

The unexpected increase helped drop the unemployment rate to 5.7% last month, down from 5.8% in March.

The labour market has seen strong numbers since mid-2016 and has remained a bright spot for an economy that has struggled in other areas. Economic growth, for instance, almost stalled over the winter.

Economists had expected a gain of 10,000 jobs for the month and the unemployment rate to remain at 5.8%, according to Thomson Reuters Eikon.

Employment grew 0.6% with the April increase, which was the highest proportional monthly expansion since 1994 when it reached 0.7%.

A closer look at the April numbers reveals the overall gain was driven by the creation of 73,000 full-time jobs and 83,800 positions in the private sector.

Compared with a year earlier, Canada added 426,400 jobs for a proportional increase of 2.3%. The labour market has created an average of 36,000 jobs per month over the past year.

Year-over-year average hourly wage growth for all employees in April was 2.5%, up from a reading of 2.4% in March. Wage growth is a key indicator monitored by the Bank of Canada ahead of its interest-rate decisions.

The gains were spread across many industries, with both the services and factory sectors seeing employment increases. Employment rose by 32,400 in the category of wholesale and retail trade positions, while the construction sector added 29,200 jobs.

A rush of 66,400 part-time positions for workers aged 15 to 24 years old helped lower the youth unemployment rate last month to 10.3%, down from 10.7%, the survey said.

By region, Ontario, Quebec, Alberta and Prince Edward Island all saw net job gains last month.

The April increase put Canada back on the job-creation path following a one-month interruption in March.

Overall employment dropped by 7,200 net jobs in March, the first monthly decrease after six consecutive months of rising employment between September and February.

5. North American banks face hurdles distributing insurance

[May 9, 2019] Long-standing barriers to banks selling insurance have prevented the “bancassurance model” from taking off in North America like it has in Europe, and increasingly, Asia, Toronto-based DBRS Ltd. said Thursday.

In a new report, the credit rating agency finds that this distribution model enabling banks to sell insurance products is "strongly embedded in Europe", and is growing in Asian markets, too, as both banks and insurance companies seek to diversify their revenues and expand distribution.
"The bancassurance distribution model is very attractive because it allows banks to diversify their revenue stream, which decreases their dependence on net interest income, particularly during times of interest rate compression," DBRS says in a news release.
At the same time, insurance companies enjoy growing sales without major distribution costs, it says.
"Both sides of a typical bancassurance partnership can profit from diluting their fixed costs over a larger revenue base, which potentially improves profitability," says DBRS, and bancassurance has outperformed other insurance distribution channels when it comes to selling life insurance in recent years.
Between 2011 and 2017, bancassurance sales of life insurance enjoyed a compound annual growth rate (CAGR) of 6%, compared with 3.7% for other channels, with bancassurance growing faster than other channels, "as more insurers seek to expand their distribution strategy.".
Over the same period, the bancassurance channel's share of global premiums written (including both life and non-life insurance) grew from 15.0 % in 2011 to 16.5% in 2017, DBRS reports.
Despite the model's growing popularity in Europe and Asia, DBRS finds that "regulatory intervention and market dynamics have constrained the expansion of bancassurance in North America."
In Canada, there have long been regulatory barriers preventing banks from selling most insurance and banking products in the same location (except in Québec), DBRS notes.
In the U.S., despite legislative reforms to eliminate barriers against bank holding companies owning other financial institutions and selling insurance in their branches, the bancassurance distribution model still isn't as popular there as it is in the rest of the world.

6. One-fifth of young boomers have zero retirement savings

[May 8, 2019] A new survey finds that slightly more than one-fifth of pre-retirement, young baby boomers in Canada (aged 55 to 64) have saved nothing for retirement.

According to Franklin Templeton Investments Corp.'s 2019 Retirement Income Strategies and Expectations (RISE) survey, 21% of Canadians in this demographic have zero retirement savings. The study also found that 46% of young boomers would consider postponing retirement, and 15% expect to work until the end of their life.

But, according to the survey, things don't always go according to plan: 54% of young boomers retired earlier than expected, compared to 32% of older boomers (aged 65 to 73). Of those who retired earlier than planned, 34% of young boomers did so due to circumstances beyond their control, while only 20% of older boomers reported the same.

"In 2009, when equity markets started to recover, many young boomers were moving up the career ladder; whereas older boomers were approaching retirement at the top of their earning years," Duane Green, president and CEO of Franklin Templeton Canada, said in a statement.

"A decade later, after a long bull market run, young and older boomers are in different life situations once again," Green continued. "We see many older boomers benefiting from the transfer of wealth from their parents, yet the young boomers have had a challenging experience balancing more expensive lives — due to caring for elderly parents and still having financially dependent children — all while saving for that increasingly elusive retirement."

Indeed, the survey found that 24% of young boomers in pre-retirement are caring for a dependent family member, which has caused them to save less money, cut back on personal spending and withdraw from their personal savings. More than half (52%) of Canadians approaching retirement in the next five years are concerned about outliving their retirement assets.

Franklin Templeton also found that 47% of young boomers work with a financial advisor, and that 96% of them are saving for retirement (compared to 59% for young boomers who don't use an advisor). Seventy-seven percent of young boomers who work with an advisor are confident their retirement strategy will generate income to last 30 years or more, while only 45% of those who don't have an advisor feel the same.

Other notable findings from the survey include: 21% of Canadians planning to retire in the next five years still have children living at home, and 31% are still paying a mortgage.

7. Economic optimism declines among Canadian accountants: survey

[May 7, 2019] Accountants are feeling less optimistic about Canada's economy, according to a survey from the Chartered Professional Accountants of Canada (CPA Canada).

The CPA Canada Business Monitor Q1 2019 report found that only 22% of professional accountants surveyed in the first quarter of 2019 felt optimistic about the economy over the next 12 months—down from 26% at the end of Q4 2018.

However, pessimism about the economy was also down, with only 31% of accountants expressing a negative outlook (down from 35% in Q4 2018). A plurality of respondents took a "wait and see" approach to Canada's economic prospects, with 47% having a neutral outlook.

The biggest challenges to the Canadian economy reported by accountants were uncertainty (22%, up from 15% in Q4 2018), protectionism in the U.S. (17%) and the U.S. economy (9%).

"Economic growth has slowed significantly over the course of the last year and uncertainty in the global political landscape clearly continues to weigh on sentiment," Joy Thomas, president and CEO of CPA Canada, said in a statement.

Close to half (49%) of survey respondents were optimistic about the prospects for their businesses over the next 12 months. Almost two-thirds (62%) predicted increased revenues, 55% predicted increased profits and 42% expected to increase their number of employees.

8. Poloz calls for more options in mortgage products

[May 6, 2019] Bank of Canada governor Stephen Poloz says it's time for fresh ideas when it comes to Canadians' mortgage options.

Poloz said in a speech Monday that changes could include encouraging loan terms longer than five years, the creation of a market for private mortgage-based securities and the launch of shared-equity mortgages for first-time home buyers.

More innovation would help boost flexibility for borrowers, lenders and investors, while also lowering risks in the financial system, Poloz said.

"To be clear, the system is not broken—it has served Canadians and financial institutions well," he said in his speech to the Canadian Credit Union Association and Winnipeg Chamber of Commerce.

"But we should not stop looking for improvements and I invite all of you to join this effort."

Poloz is making the recommendations as he monitors three key housing-market stories—the oil-slump-driven slowdown in Alberta and

Saskatchewan, the steep drop in resale activity in Toronto and Vancouver following the introduction of stricter mortgage guidelines, and steady growth in many other parts of Canada.

Looking ahead, he said the overall Canadian housing sector should return to growth later in 2019 as the Vancouver and Toronto markets stabilize.

"The fundamentals of the Canadian housing market remain solid, and growth will resume once the effects of reduced expectations for house price inflation and the new mortgage guidelines have been absorbed," he said.

In its spring budget, the federal government announced it would create shared-equity mortgages as a way to provide interest-free loans to help first-time home buyers add to their down payments. The plan, if implemented, would also encourage a lift in housing supply, Poloz said.

The government is expected to lay out more details on the proposal later this year.

Poloz said the plan would help make the financial system safer because mortgage risks would be shared between the borrower and the lender.

In another example, he suggested there should be more work to promote the merits of fixed-rate loans longer than five years. Only 2% of all fixed-rate mortgages issued in 2018 had durations longer than five years, he added.

For borrowers, longer terms would mean they would have to deal with fewer renewals, reducing the risk that they will face higher interest rates. Policy-makers would also benefit from the increased stability related to fewer renewals.

He said there's some momentum in Canada towards the creation of a private market for mortgage-backed securities. Poloz said it would provide a more-flexible source of longer-term funding for uninsured mortgages, which are becoming more popular.

They would have to be designed carefully, he said, because mortgage-backed securities were central to the "sub-prime debacle" ahead of the financial crisis more than a decade ago.

Overall, he said there are many possibilities.

"Of course, there are many other possible variations on mortgage design, so many that it makes me wonder why so little has happened in our mortgage market in my lifetime."

9. BoC unlikely to shift monetary policy before federal election: report

[May 6, 2019] Given that it's a federal election year, the Bank of Canada will likely be reluctant to shift monetary policy ahead of the vote this fall, says National Bank Financial (NBF).

In a new research note, NBF said that while central banks are explicitly not political institutions, the conventional thinking is that the Bank of Canada would prefer to avoid making any notable shifts in its approach to monetary policy in advance of an election.

Indeed, NBF reported that in the past seven federal elections, the central bank "pushed itself to the sidelines at least one month prior to the vote."

The only exception to that was during the financial crisis in 2008, when it had to act, cutting rates four days before an election.

"So while it wouldn't be totally unheard of for the Bank to tweak policy in/around the election, the bar presumably is pretty high," NBF said.

"We might need even faster rates of growth and core inflation than our slightly-above consensus forecast entails or, conversely, a more dramatic comedown than that eyed in the [Monetary Policy Report] to spark an overt reaction from the central bank before the year is out."

Have a fruitful week!

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