Weekly Updates Issue # 720

1. Weekly Markets Changes

[June 28, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,382.20 -143.23 -0.87%	2,941.76 -8.70 -0.29%	26,599.96 -119.17 -0.47%	8,006.25 -25.46 -0.32%	$0.7641 +0.72c +0.95%	$1,409.55 +9.92 +0.71%	$58.47 +1.04 +1.81%

2. Business sentiment in Canada improves: BoC

[June 28, 2019] Business sentiment in Canada has picked up to show a slight improvement after falling earlier this year, according to a new survey by the Bank of Canada.

The central bank said Friday that its summer business outlook survey, which measures corporate expectations, bounced back after falling into negative territory at the start the year.

"The business outlook survey indicator edged up to its historical average consistent with a slight improvement in business sentiment," the Bank of Canada said in its latest quarterly survey of senior management at roughly 100 firms.

The business outlook survey, which was done in May and early June, found that following some softness in past sales, businesses expected an increase in sales growth over the coming year backed by domestic and foreign demand.

"Sales optimism is concentrated in Central Canada and includes positive expectations for housing activity. Nevertheless, firms anticipate weakness in sales tied to the Western Canadian oil industry to persist," the report said.

The Canadian economy hit a weak spot late last year as oil prices fell and the country posted its weakest back-to-back quarters of growth since 2015.

The central bank's spring business outlook survey indicator dropped into negative territory in the wake of that weakness, however recent data has shown an improving economy.
Last month, Carolyn Wilkins, the central bank's senior deputy governor, said growth was accelerating in the second quarter and should pick up the pace throughout the rest of 2019.
Statistics Canada reported Friday real gross domestic product grew 0.3% in April to kick off the second quarter.
The result was down from a showing of 0.5% in March, but more than the 0.1% economists had expected, according to Thomson Reuters Eikon.
The Bank of Canada's business outlook survey noted Friday that intentions to increase investment spending and to hire are positive in most regions and sectors.
Reports of labour shortages increased from a low level last quarter, but the bank noted thy were not widespread.
"Firms often reported shortages of skilled or specialized labour," the report said. "Nearly half of all respondents judged labour shortages to be unchanged compared with 12 months ago, with some indicating that hiring has been difficult for more than a year."

3. Real GDP up 0.3% in April

[June 28, 2019] The Canadian economy grew more than expected in April, helped by the oil and gas sector.
Statistics Canada says real gross domestic product grew 0.3% in April, following a 0.5% increase in March.
Economists had expected growth of 0.1% for April, according to Thomson Reuters Eikon.
The mining, quarrying and oil and gas extraction sector gained 4.5%, boosted by a 5.5% rise in oil and gas extraction.
Oilsands extraction increased 11.0%, while oil and gas extraction, excluding oilsands, was up 0.5%.
The manufacturing sector pulled back 0.8%, in April, the largest monthly contraction since August 2017.
Other sectors that struggled included finance, which contracted by 0.23% month-over-month, and retail, which contracted 0.09%real GDP grew 0.3% in April—although a report from Scotiabank noted "relatively poor growth outside of the oil patch might be expected following a very strong March."

In another report, Royce Mendes, senior economist with CIBC, noted that the faster-than-expected growth in April only made up for recent sluggishness, bringing the year-over-year growth to a "tepid" 1.5%.

"Still, the brief period of strength combined with on-target core inflation readings will leave the Bank of Canada able to continue justifying its on-hold stance, despite renewed easing-biases from other major central banks," Mendes wrote.

4. Home ownership becoming more affordable in Canada—with exceptions

[June 27, 2019] Rising household income and targeted policy have made housing more affordable in Canada for the second straight quarter, a report from RBC Economics says, though home ownership remains an "impossible obstacle" in certain markets.

RBC's national aggregate affordability measure, which represents the share of household income required to cover home-ownership costs, declined by 0.3 percentage points to 51.4% in the first quarter of 2019. It's the first time since 2013 that the measure has declined in consecutive quarters, indicating that affordability is improving.

With interest rates on hold and a solid outlook for household income backed by strong employment numbers, RBC expects housing to become more affordable in the near term. However, the report said improvement will be incremental due to a rebound in Toronto's housing market.

"There's a high proportion of ownership-capable families in Canada's most affordable markets—Saint John, St. John's, Regina, Quebec City and Halifax," said RBC senior economist Robert Hogue in a release.

"However, only one in eight families earns the income necessary to manage ownership costs in the Vancouver area, and one in five families in both the Toronto area and Victoria."

RBC's measure for Toronto remained near historical highs in the first quarter, with 66% of household income required to cover ownership costs. Housing prices rose modestly again in Toronto to start the year.

In Vancouver, the affordability measure eased for the third straight quarter but is still at 82%.

"Policy-engineered market downturns have succeeded at reversing some of the earlier massive affordability losses in Vancouver and stabilizing the situation in Toronto—though neither market is close to levels that ordinary Canadian households can afford," the report said.

Montreal's measure was unchanged from the previous quarter at 44.3%, remaining near a decade high.

In nine of the 14 markets RBC tracks, a majority or near-majority of families would be able to cover home-ownership costs. Downturns in Western Canada and the Atlantic provinces contributed to the aggregate decline, the report said.

Toronto, Montreal and Ottawa (41.1%) were the only markets whose affordability measure didn't decline.

Here are the home affordability measures for the other markets RBC examined:

- Victoria: 58.6%
- Calgary: 39.7%
- Edmonton: 34.3%
- Saskatoon: 33.2%
- Regina: 29.4%
- Winnipeg: 31.1%
- Saint John: 25.9%
- Halifax: 31.7%
- St. John's: 27.4%

5. What the debt-to-asset ratio reveals about financial distress

[June 26, 2019] An elevated debt-to-asset ratio is a better indicator of possible financial distress than a high debt-to-income ratio, finds new research from Statistics Canada.

In a new study, based on data from the 2016 Survey of Financial Security (SFS), the national statistical agency concluded that while the debt-to-income ratio has been rising notably in Canada over the past few years, a better indicator of financial distress for Canadian households is the debt-to-asset ratio, which, "measures a family's resilience to financial shocks."

"Families with a higher debt-to-asset ratio are more likely to report having experienced a variety of financial problems, like skipping or delaying payments, or using payday loans," the study found.

Specifically, StatsCan reported that, among households with a debt-to-asset ratio that exceeds 0.5 — indicating that the value of their debt represents more than more 50% of the value of their assets — 16% missed a non-mortgage payment (such as a credit card, or household bill, payment) in the previous year.

Whereas, for households with a debt-to-asset ratio of less than 0.25, only 7% missed a bill payment.
Households with higher debt-to-asset ratios were also much more likely to miss a mortgage payment, the study found.
It noted that 7% of households with a debt-to-asset ratio of more than 0.5 missed a mortgage payment, compared with just 2% of households with a ratio under 0.25.
StatsCan said the relationship between households with a higher debt-to-income ratio and financial distress is less clear.
Other factors that are correlated with financial distress, it reported, include household income level, home ownership and family composition.
For instance, StatsCan found that single-parent families are "three times more likely to use payday loans than couples with no children," and that these households are also more likely to miss a mortgage payment.

6. What a shift in the Fed's monetary policy framework could mean

[June 26, 2019] Market watchers obsessing over an impending rate cut from the Fed might be overlooking another policy decision that could impact markets, according to a new report from Manulife Investment Management.
In the macroeconomic update portion of the firm's biannual Global Intelligence report, Frances Donald, chief economist and head of macroeconomic strategy with Manulife Investment Management, commented on anticipated cuts to the U.S. key interest rate.
While markets are expecting the Fed to cut rates almost three times over the next 18 months beginning in September, Donald wrote that Manulife is expecting the Fed to cut rates twice over that time span, with the first cut likely coming in the fourth quarter.
But she also said the current fixation on impending rate cuts ignores another potential Fed decision that could be of greater consequence to investors.
"Markets will no doubt obsess about when the Fed will cut rates, but I think that risks missing a more important development that's currently taking place and could have important longer-term implications for investors," she wrote. "Recent communications from the Fed suggest it might be shifting its monetary policy framework."
Donald noted that the rate of inflation in the U.S., which has consistently fallen below the target rate of 2% in recent years, has led to the Fed becoming "increasingly focused on allowing a prolonged and persistent inflationary

overshoot that will bring average inflation higher and closer to its 2% mandate."

While Manulife doesn't expect the Fed to drastically change its monetary policy framework this year, Donald said that even an informal move toward getting inflation above 2% "would represent a significant and structural dovish pivot on its part, signaling its intention to stoke inflationary pressures more aggressively than at any time in the past 10 years."

Such a move, Donald observed, could indicate that an overheating economy by itself would no longer be sufficient reason for the Fed to hike rates if inflation is below 2%.

"More important, if the Fed were indeed successful at nudging inflation expectations higher, we could expect the U.S. yield curve to steepen, as the front end will likely remain anchored as the longer end rises," she added. "For now, however, we'll wait for the outcome of the Fed's policy review."

7. Canada must focus on financial stability: IMF

[June 25, 2019] Amid a range of downside risks, Canadian policymakers should continue to focus on shoring up financial stability, says the International Monetary Fund (IMF) in its latest report on Canada.

The IMF's new executive board report noted that real GDP growth is expected to slow to 1.5% in 2019, before picking up again in 2020.

Looking further out, the report saw potential growth of just 1.7% due to weak productivity, Canada's aging population and poor external competitiveness.

The report also indicated that downside risks remain, including external risks such as ongoing trade tensions, tightening global financial conditions and a global economic slowdown. Domestic threats include a housing market crash, a spike in unemployment and a drop in consumption.

"Against this backdrop, Canada should persevere with policies that preserve financial stability and focus efforts on supporting long-term growth," the report said.

So far, policy efforts to curb risks in the housing market and address concerns with high household debt levels have helped reduce financial sector vulnerabilities, it noted.

Looking ahead, it will be important to "rebuild policy buffers, preserve financial stability, and boost productivity and competitiveness," the IMF added.

In terms of financial stability, the report said the existing systemic risk oversight arrangements should be modernized to address gaps that could

emerge as oversight responsibilities are spread over multiple levels of government and across the various parts of the financial industry.
"While progress has been made since the 2008 global financial crisis to enhance financial surveillance and regulatory cooperation, important gaps remain in the current architecture," it said, adding that "the financial sector has been evolving rapidly in recent years in terms of new exposures and instruments, and complex interconnectedness."
Among other things, it said that "Canada-wide crisis preparedness should be further strengthened" by measures including system-wide contingency planning and stress testing.

8. Mutual fund sales rebounded in May, but still lag behind ETFs

[June 24, 2019] Mutual funds returned to positive sales territory in May, but continue to lag exchange-traded fund (ETF) sales, according to the latest data from the Investment Funds Institute of Canada (IFIC).
The industry trade group reported that mutual funds generated $719 million in positive net sales during May, reversing the $1 billion in net outflows experienced in April.
Long-term funds only produced $300 million in monthly net sales, while money markets contributed $419 million.
Equity funds still had almost $2 billion in net redemptions in May, representing a modest improvement from $2.15 billion in April.
Balanced funds also had $236 million in monthly net redemptions, compared with $922 million in the previous month.
Yet, bond funds produced $1.84 billion in positive net sales during the month, up from $1.46 billion in April. Specialty fund sales ticked up from $673 million to $700 million.
While mutual fund sales improved in May, they were still far behind ETFs, which generated $4.0 billion in monthly net sales, IFIC reported.
This is up notably from $2.4 billion in April, and ETF sales of $1.1 billion in May 2018.
Equity ETFs led the improvement in ETF sales, jumping sharply from $782 million in April to $2.4 billion in May.
Notwithstanding the sales improvement among both mutual funds and ETFs, assets under management declined on both sides of the industry.
Mutual fund assets dropped by 2.0%, $31.4 billion, to $1.53 trillion in May, and ETF assets declined by 0.5% to $177.8 billion during the month, IFIC reported.

Happy  Day!

Have a nice and fruitful week!

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