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1. Weekly Markets Changes

[July 26, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,531.04 +45.10 +0.27%	3,025.86 +49.25 +1.65%	27,192.45 +38.25 +0.14%	8,330.21 +183.72 +2.25%	$0.7586 -0.65c -0.85%	$1,432.20 +6.83 +0.48%	$56.20 +0.57 +1.02%

2. U.S. economy slows to 2.1% growth

[July 26, 2019] The U.S. economy slowed sharply in the April-June quarter even as consumers stepped up their spending.

The gross domestic product, the economy's total output of goods and services, grew at a 2.1% annual rate last quarter, down from a 3.1% gain in the first quarter, the Commerce Department estimated Friday.

But consumer spending, which accounts for 70% of economic activity, accelerated to growth at a sizzling 4.3% rate after a lacklustre 1.1% annual gain in the January-March quarter. The resurgent strength in household spending was offset by a widening of the trade deficit and slower business inventory rebuilding. Those two factors combined pared annual GDP last quarter by 1.5 percentage points.

Economists also noted that business capital investment, which has been strong for the past two years, fell at a 0.6% annual rate in the April-June quarter, the first decline in three years. That weakness likely reflects, at least in part, a reluctance by businesses to commit to new projects because of uncertainty surrounding President Donald Trump's confidence-shaking trade war with China.

Indeed, most analysts think the U.S. economy could slow through the rest of the year, reflecting both global economic weakness and the trade war between the world's two largest economies.

That is one key reason why the Federal Reserve is widely expected to cut interest rates next week for the first time in more decade and to signal that it may further ease credit in the months ahead.

On Friday, besides issuing its first of three estimates of growth in the April-June quarter, the government reported that the economy grew more slowly in 2018 than it had previously estimated. As part of its annual revisions to GDP, the government downgraded its estimate for 2018 growth from 3% to 2.5%. President Donald Trump had frequently boasted of the 3% growth figure as evidence that his policies have invigorated the economy.

For the January-March quarter, a narrower trade deficit and a surge in business restocking had contributed 1.3 percentage points to the 3.1% annual gain. But economists had cautioned that this strength was likely to be temporary.

For the second half of this year, economists say they think GDP will grow at a modest annual rate of 2% or slightly lower, leading to growth for the full year of around 2.5%. That would be down from 2018 growth of 2.9%, which had been the best showing since a similar rise in 2015.

That would be a disappointment to the Trump administration, which is forecasting that Trump's economic policies of tax cuts, deregulation and tougher trade enforcement will lift the U.S. economy to sustained gains in coming years of 3% or better. Trump often cites the economy's performance at his campaign rallies, saying his policies have lifted the economy out of a decade-long slowdown he blames on the wrongheaded policies pursued by the Obama administration.

While economists see the tax cut Trump pushed through Congress in late 2017 as a key factor boosting growth last year, they expect the impact of those cuts will fade this year. Most think it would leave the economy growing close to the annual average of 2.3% that has prevailed since this expansion began in June 2009.

The recovery this month became the longest in U.S. history, one month longer than the 10-year expansion of the 1990s.

The 2.3% average annual growth rate is the weakest for any recovery in the post-World War II period, a fact that Trump repeatedly noted during his 2016 campaign, blaming that weakness on failed policies of Barack Obama.

Private economists, however, argue that the slowdown reflected the severity of the 2007-2009 recession, the worst since the Great Depression of the 1930s as well as long-term trends such as the retirements of the baby boomers and slowing productivity.

Mark Zandi, chief economist at Moody's Analytics, says he is looking for annual GDP growth this year of 2.5%, down from 2.9% last year, slowing even further to 1.7% in 2020.

"The benefits of the 2017 tax cuts are largely played out," Zandi says. "I think going forward that recession risks are high especially if something major goes off the rails such as a resurgence of the trade war or a bad exit by Britain from the European Union."

3. Canadians not as wealthy as they thought they'd be: Poll

[July 26,2019] A large portion of Canadians are not doing as well financially as they once hoped, according to a recent study.

A new Ipsos survey finds 48% of Canadians with a household income of $100,000 or more aren't as wealthy as they thought they'd be at this stage of their lives.

But, in spite of their perceived shortfall, members of that same group are still largely confident they'll retire in comfort, with 73% saying they believe they'll hit their financial targets before retirement — even though they know precious little about wealth management.

"This optimism seems to be at odds with their confidence when it comes to aspects of wealth-management topics," said Toronto-based RBC Wealth Management, which sponsored the survey, in a release.

The research found that 78% of respondents who aren't as wealthy as they'd hoped to be agreed that it's hard to know what financial information to trust. Seventy-six per cent of that group said it's difficult to stay on top of developments in financial markets and 71% said they weren't sure how to use strategies to minimize their taxes.

These respondents also largely agreed that it would be challenging to ensure they don't outlive their assets during retirement (70%), and 66% didn't fully understand the use of a financial plan.

"Things like tax strategies, insurance and retirement planning play a key role in building wealth today but I'm not surprised that so many respondents find them challenging," Howard Kabot, vice-president of financial planning with RBC Wealth Management Services, said in the release.

The survey found that three quarters of all respondents — not just those who aren't as wealthy as they thought they'd be — "said they value the expertise of a financial expert."

4. Gov't runs $1.4B budgetary deficit in April, May

[July 26,2019] A new preliminary estimate says the federal government posted a budgetary deficit of $1.4 billion through the first two months of the current fiscal year.

The Finance Department’s numbers show the combined shortfall for April and May 2019 came after government spending and public debt charges expanded at a pace about three times higher than revenues.

The report says expenses during those two months jumped up 13.5% — or $6.3 billion — compared to a year earlier, mostly due to increases in direct program spending and transfers to other levels of government.

The department’s latest fiscal monitor says over that period public debt charges rose 13.3%, or $600 million.

Government revenues only provided a partial offset, compared to a year earlier, by increasing 4.2% — or $2.3 billion — mostly because of higher tax revenues.

The report says the government ran a $2.1-billion deficit in April and a $700-million surplus in May.

The combined deficit compares to a $3.2-billion surplus over the same period in 2018.

The Liberal government’s spring budget forecasted a shortfall of $19.8 billion for the 2019-20 fiscal year.

5. Canada’s May wage gains highest in 15 months

[July 25, 2019] Canadians’ average weekly earnings rose in May at the fastest pace in 15 months, according to data released Thursday by Statistics Canada.

Average weekly earnings of non-farm payroll employees were $1,031 in May, a 3.4% year-over-year increase and the highest growth rate since February 2018. Wages were up 1.1% from April.

In addition to the earnings increase, the number of non-farm payroll employees increased in May by 32,600 from April.

In a research note, Scotiabank Economics vice-president Derek Holt said the wage growth translates to a real wage gain of about 1% using May CPI.

“Wage growth is ripping in the Great White North, by comparison to other major industrialized nations,” he said.

As other central banks struggle with low inflation and signal rate cuts, the Bank of Canada held its overnight rate earlier this month, noting a global economic slowdown even as the Canadian economy rebounds. The bank said consumption is supported by a strong job market and rising wages.

Holt said May’s wage growth likely won’t change the central bank’s rate path.

“It’s rather inconceivable the BoC would get too hawkishly agitated by this as the rest of the world’s central banks turn increasingly dovish,” he said.

6. America comes first in revamped NAFTA, report says

[July 25, 2019] The negatives in the new North American trade agreement outweigh the positives for all three countries, a report from the C.D. Howe Institute says, but the hit to the U.S. economy will be the smallest.

The trade deal that emerged from NAFTA renegotiations will result in lower real GDP and welfare for Canada, the U.S. and Mexico, with Mexico faring worst, according to the report released Thursday.

Canada's real GDP will shrink by 0.4% and its economic welfare will fall by more than $10 billion (all figures in U.S. dollars), the report said, compared to a 0.79% drop in Mexico's GDP and a $14.9-billion plunge in economic welfare.

U.S. GDP will take a 0.10% hit, with a $17.4 billion drop in economic welfare.

The deal expands U.S. access to Canada's dairy and chicken markets, raises the threshold for tax- and duty-free entry of low-value goods imported into Canada and Mexico, and eases some barriers for services trade, the report said.

However, it raises intellectual property protection—which benefits the U.S. at Canada's expense—and introduces more stringent rules of origin for products to qualify for duty-free access.

"These new rules achieve the immediate objectives of the Trump administration to shift industrial activity – especially in the automotive sector – into the United States, but by increasing trade diversion, they impact negatively on economic welfare and efficiency," the report said.

The new trade agreement is better than no deal at all, though only "marginally." Without a deal, Canada's real GDP would have shrunk by 0.49% and economic welfare would have dropped by $13.9 billion, according to the report.

From a negotiation standpoint, Canada and Mexico "did not roll over, but pushed as hard as the traffic could bear."

The two countries will have to adapt to "heightened uncertainty" when it comes to U.S. market access whether the deal is ratified or not, the report said.

7. ECB signals rate cut could be coming

[July 25, 2019] The European Central Bank joined the U.S Federal Reserve in making clear that more stimulus could be coming soon to support an economy weakening in the face of global trade tensions.

The ECB's rate-setting board left its key interest benchmarks unchanged at a policy meeting Thursday but said it could cut them as its next move. It also said it was telling staff to study ways to restart its bond-buying stimulus program in coming weeks.

Several analysts said the statements meant the ECB, which sets interest rate benchmarks for the 19 countries that use the euro, could deliver a stimulus package at its next meeting Sept. 12.

President Mario Draghi stressed repeatedly at his news conference that the bank was “determined to act.”

“We say, we don’t like the current inflation,” he said. “No question of accepting the inflation we are seeing today.”

Inflation in the eurozone is at an annual 1.3%, short of the ECB’s goal of just under 2% that is considered healthiest for the economy, even after years of low interest rates and massive amounts of monetary stimulus.

And global economic growth is being dragged down by events like the U.S.-China trade war that have spurred other central banks, including the Fed, to also move toward providing more stimulus.

Officials at the Fed have signalled that they could cut their interest rate benchmark from a range of 2.25-2.5% at their July 30-31 meeting. Central banks in South Korea, Indonesia and South Africa have already cut rates in recent days.

The U.S. and China have imposed import taxes on hundreds of billions of dollars-worth of traded goods. U.S. President Donald Trump has warned that more tariffs could be coming if he cannot reach a trade deal with China to reduce the U.S. trade deficit. Trump has also threatened to put tariffs on Europe’s big automotive industry.

Meanwhile, Britain’s exit from the European Union on Oct. 31 could result in tariffs on trade if the country does not reach a withdrawal deal with the rest of the bloc.

These combined uncertainties have mainly hurt the manufacturing sector in Europe, particularly in export-focused countries like Germany, where the labour market is otherwise strong.

The European Central Bank’s key move on Thursday was to change the wording of its policy statement by saying that rates will remain at current record lows “or lower” through the middle of 2020. Adding “or lower” emphasized that the next move could be down.

The monetary authority for the 19 countries that use the euro meanwhile began looking into a possible new round of bond purchases, which inject newly created money into the economy in the hope of stimulating economic activity and raising inflation.

The central bank halted a 2.6 trillion-euro bond-buying program only at the end of last year, saying inflation was headed sustainably toward its goal. The inflation figure is important because the ECB is tasked above all with keeping price increases steady. Price and growth indicators have weakened in recent months, however. Persistently low inflation can be a sign of economic weakness and can make it harder for indebted governments and consumers to reduce their debt burden.

It remains an open question how much more stimulus the ECB would get from a rate cut or bond purchases since rates are already low and the 2.6 billion euros in added stimulus has not been withdrawn from the financial system. Almost four years of bond purchases left the ECB still struggling to consistently reach the inflation target.

Draghi said that the past bond purchases have created millions of jobs but that wage gains were taking longer than expected to translate to higher consumer prices.

Central policies have a wide-ranging impact on companies, governments and individuals. A return to more stimulus means cheaper borrowing for companies and governments, which can support business activity and take pressure off government budgets. It can mean paltry returns, however, for savers while boosting stock prices, at least in the short turn, by pushing people out of lower-yielding, safer investments into riskier ones.

8. U.S. home sales down 1.7% in June

[July 23, 2019] U.S. home sales tumbled 1.7% in June, with rising prices and a scarce supply locking out many Americans from ownership.

The National Association of Realtors said Tuesday that homes were sold last month at a seasonally adjusted annualized rate of 5.27 million units. Sales have shriveled 2.2% over the past 12 months, despite such positive trends as a robust job market and falling mortgage rates.

But home prices have been climbing faster than incomes for the past seven years. This persistent gap has left many renters unable to afford ownership and prevented existing owners from upgrading to pricier properties. There has also been a supply shortage: Sales listings were flat over the past year at 1.93 million units.

“Sales have struggled to achieve meaningful, consistent growth this year, despite friendly market conditions,” said Matthew Speakman, an economist at the real estate company Zillow. “Meager inventory levels, especially in the entry-level segment, and still-rising prices continue to limit the selection of homes available to more budget-conscious buyers.”

The median sales price climbed 4.3% from a year ago to $285,700, outpacing wage growth that has averaged roughly 3%.

In June, sales fell in the South and West. But increases in home-buying in the Northeast and Midwest were insufficient to offset the decline.

There has been a persistent lack of homes on the market priced below $250,000, a level close to the median national price. But over the past year in the more expensive Northeast and West markets, sales of homes priced at more than $750,000 have fallen — a sign that home values are too high relative to people's incomes.
There was an increase in the proportion of first-time buyers in June to 35%, up from 32% in May. But home ownership rates for Americans today between the ages of 25 to 34 are lower than preceding generations, according to Census Bureau data.
Homes that are listed are selling quickly — with a contract being signed in just 27 days.

9. Equifax exposed 150 million Americans' personal data. Now it will pay up to $700 million

[July 22, 2019] Credit reporting agency Equifax has reached a deal to pay up to $700 million to state and federal regulators to settle probes stemming from a data breach that exposed the personal information of nearly 150 million people. It will be the largest settlement ever paid for a data breach.
The Federal Trade Commission announced Monday that Equifax will pay at least $300 million and as much as $425 million to compensate affected people with credit monitoring services. That money will go into a fund that will also reimburse people who purchased credit- or identity-monitoring services because of the 2017 data breach. The amount of the settlement could change depending on the number of claims still to be filed by consumers.
Equifax will also pay $275 million in civil penalties and other compensation to 48 states, Washington, Puerto Rico and the Consumer Financial Protection Bureau.
The deal also requires more changes to how Equifax handles private user data. For example, the company will have to adjust its information security protocols, including annual assessments of security risks and receiving the board's certification attesting that the company has complied with the FTC's order.
The FTC alleges Equifax violated the agency's prohibition against unfair and deceptive practices. The FTC said Equifax failed to properly safeguard peoples' personal information despite claiming in its privacy policy that it implemented "reasonable physical, technical and procedural safeguards" to protect their data.
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"Companies that profit from personal information have an extra responsibility to protect and secure that data," said FTC Chairman Joe Simons in a statement. "Equifax failed to take basic steps that may have prevented the breach."

The hack, the largest in US history, exposed sensitive information, including names, Social Security numbers, drivers' license numbers and addresses.

Equifax did not respond to CNN Business' request for comment.

Equifax first disclosed the hack in September 2017, three months after the company discovered the breach.

Hackers leveraged a security flaw in a tool designed to build web applications to steal customer data. Equifax admitted it was aware of the security flaw a full two months before the company says hackers first accessed its data.

The data breach prompted the resignation of CEO Richard Smith and investigations by federal regulators, multiple states attorneys general and the company faces several civil lawsuits.

Have a nice and fruitful week!