Market Update

19 August 2016

In America, the Leading Economic Index (LEI) rose 0.4% in July, amid recent improvements in manufacturing and construction. Economists expected the leading indicators index to rise 0.3 % in July, after rising 0.3 % in June, according to a Thomson Reuters consensus estimate. The American LEI picked up again in July, suggesting moderate economic growth should continue through the end of 2016. A closely followed barometer of economic health, the LEI has 10 components including manufacturer's new orders, stock prices, and average weekly initial claims for unemployment insurance.

The number of Americans filing for unemployment benefits fell more than expected last week, reinforcing views of labor market strength that could encourage the Federal Reserve to raise interest rates soon. Initial claims for state unemployment benefits dropped 4,000 to a seasonally adjusted 262,000 for the week ended Aug. 13, the Labor Department said on Thursday. Claims for the prior week were unrevised. Economists polled by Reuters had forecast initial claims slipping to 265,000 in the latest week. Claims have now been below 300,000, a threshold associated with a strong labor market, for 76 straight weeks. That is the longest such stretch since 1973, when the labor market was much smaller. The labor market is now viewed as either at or near full employment, suggesting limited scope for more declines in claims. Labor market buoyancy, marked by robust hiring in the last two months and diminishing slack, could prompt the Fed to raise interest rates

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despite low inflation and sluggish economic growth in the first half of the year. New York Fed President William Dudley, an influential policymaker at the American Central Bank, said on Tuesday it was "possible" to hike rates at the Fed's Sept. 20th and 21st policy meeting. However, minutes from the July 26th and 27th meeting, which were released on Wednesday, showed Fed policymakers were divided on the urgency of a rate hike amid concerns about benign inflation. The Fed raised its benchmark overnight interest rate in December for the first time in nearly a decade.

A Labor Department analyst said there were no special factors influencing last week's claims data and only the Vermont data had been estimated. The four-week moving average of claims, considered a better measure of labor market trends as it irons out week-to-week volatility, rose 2,500 to 265,250 last week. The claims data covered the survey week for the August nonfarm payrolls report. The four-week moving average of claims increased 7,750 between the July and August survey periods, suggesting another month of strong job gains. The economy created 255,000 jobs in July, adding to the 292,000 positions gained in June.

Britain is still reeling from June 23rds decision. The pound sterling will continue to see weakness and may plunge further as uncertainty around Brexit and the magnitude of monetary policy easing required by the Bank of England (BOE). Sterling has seen a lot of volatility in the last two months ever since the United Kingdom voted to leave the European Union. While the initial moves were dramatic, plunging from the highs of $1.50 to a 31-year low of $1.32, the currency continues to remain under pressure to move lower from the current levels of $1.29. The British pound is down nearly 12% since the start of the year. Hard evidence of the economic slowdown continues to build, monetary policy is eased further and investment flows into the United Kingdom are dampened by uncertainty over the policy future, sterling is expected to slip towards 1.25 against the green back dollar and hit par with the Euro dollar.

While Chinese reforms have advanced across an impressively wide domain, they have lagged in critical areas especially on stateowned enterprise reform and tackling excessive corporate debt. As a result, vulnerabilities are still raising putting China on a dangerous trajectory. China is preparing to host a gathering of the G20, the world's 20 most powerful global economies, and Prime Minister Justin Trudeau is expected to visit the country later this month in advance of the summit. The upcoming G20 meeting is critical for China as it wishes to show case that all has been right sized in China and all is good to go.

Here in Canada, delinquency rates, while still low, have increased dramatically from last year in the oil-producing provinces of Alberta, Saskatchewan and Newfoundland and Labrador, according to a new report from Equifax Canada. The report adds to the growing body of evidence that the thousands of layoffs in the oil patch are making it harder for some consumers to pay their debts. The delinquency rate which is the percentage of people who have a debt repayment overdue by at least 90 days soared by 40.3% in Alberta, 22.7% in Saskatchewan and 19.4% in Newfoundland and Labrador, the credit reporting agency found. Nationally, the delinquency rate edged up by 4.1 per cent from a year earlier. Statistics Canada noted in a report issued Thursday that the number of employment insurance beneficiaries in Alberta has risen 48% in the last year which correlates closely to the above reported delinquency rates.

Foreign investment in Canadian equities totalled a net $9.02 billion in June, while May’s purchases were revised slightly lower to $13.99 billion from the initially reported $14.73 billion. The inflow of investment was due to a $13.41 billion purchase of Canadian stocks. The bulk of this was due to the issuance of new Canadian shares to foreign portfolio investors as a result of cross-border mergers and acquisitions. Foreign investors also purchased $2.6 billion of Canadian shares on the secondary market, despite Canada’s main stock index being little changed.

Canada’s West Coast is in the international spotlight again as Vancouver has been ranked third most “livable city” in a new global survey of 140 cities. Vancouver, Toronto and Calgary ranked third, fourth and fifth, respectively, in the 2016 “livability” ranking report conducted by the Economist Group's Intelligence Unit. The survey, published this week, provides scores for "lifestyle challenges" in 140 cities worldwide. It looks at factors such as a city's stability, healthcare, culture and environment, education and infrastructure. The rankings looked at specific indicators such as petty crime, civil unrest, sporting availability, public and private school availability and good quality housing and quality of telecommunications. The ratings ranged from "acceptable" to "intolerable" and were given a score between 1 and 100. The report also noted that livability had "deteriorated" in 29 of the 140 cities surveyed over the last year. The most striking declines in liveability scores were in Damascus, Syria and Kyiv, Ukraine, where ongoing civil wars have led to increased security concerns. The overall decline was largely attributed to growing fears over terrorism. Ten cities in Western Europe experienced a decrease in livability following the "violent acts of terrorism" in cities such as Paris and Brussels. Compounding the overall decline was civil unrest in many American cities and heightened tensions in Eastern Europe and Asia.

The above mentioned report is valuable in noting the growing desire for international residents to have a second home in Canada. Additionally, as the world looks to be more of a frantic state place to live, Canadian cities will grow in desirability.

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