

Partaker Wealth Management  
of RBC Dominion Securities



Wealth Management  
Dominion Securities

# E-WEDNESDAY

March 14, 2018

“

Resolve not to be poor: whatever you have,  
spend less.

”

Samuel Johnson



# Money

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"Key To Wealth? Provide More VALUE Than Anyone else!" u n k n o w n

## **Amid economic uncertainty, Morneau plays it safe with the 2018 budget**

Finance Minister Bill Morneau had one message about the Canadian economy last week when he introduced the 2018 federal budget: Everything is fantastic. Since 2015, nearly 600,000 jobs have been created, unemployment is at 40-year lows, and Canada boasts the fastest-growing economy in the G7. Yet the budget contained only modest new spending measures. Rather than showering Canadians with new wealth, the Liberals are playing it safe. And there's good reason for caution.

The Canadian economy doesn't exactly need a shot in the arm right now. It boomed through much of 2017 and, despite some recent weakness in employment numbers and retail sales, GDP is still projected to grow three per cent in 2017, according to government estimates, which are in line with private-sector forecasts. Although growth will slow to 2.2 per cent this year and 1.6 per cent the next, the situation is far from dire. Adding more stimulus risks fuelling inflation, potentially pushing the Bank of Canada to hike interest rates, TD Bank economists wrote in a report recently. The central bank has already done so twice in 2017 and is cautious about further tightening that might imperil indebted households.

Still, the economic situation presents a challenge: How do you support growth when unemployment is already at record lows? Part of Morneau's answer is to try to increase the labour force participation rate, specifically among women. (Women account for 61 per cent of the work force, compared to 70 per cent for men.) Such measures are potentially significant to the economy in the long-term, and may not require a lot of money to achieve. Among other measures, the budget introduced a new parental leave policy that encourages both parents to take some time off, so childcare doesn't fall disproportionately on women, who then face challenges when re-entering the workforce.

The budget trumpets the McKinsey Global Institute's estimate that increasing women's participation rate and reducing the gender wage gap could add \$150-billion to Canada's economy by 2026. It's a noble and enticing goal, but today's budget takes only a few small steps toward achieving it. "There aren't enough policies in this budget to meaningfully influence the labour force participation rate yet," says Frances Donald, senior economist with Manulife Asset Management. There is, for example, no significant new spending on affordable childcare, especially in cities where daycare is becoming a luxury, such as Toronto. "That's the most significant step this budget could have taken to move the dial on female labour force participation," she says.



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Rather than spending, some have argued that now is the time to start reducing the deficit, given the way the economy is growing. "I personally would like to see a path to balanced budgets," says Craig Alexander, chief economist at the Conference Board of Canada. The federal government doesn't share his sense of urgency. The budget projects a deficit of \$18.1 billion in 2018-19, down significantly from last year's estimate, which anticipated a \$27.4-billion deficit. The Liberals have stronger-than-expected economic growth to thank for that. Even so, the budget foresees deficits across the entire forecast period to 2022-23.

The Liberals' favoured metric remains the debt-to-GDP ratio, which it is committed to reducing from 30.1 per cent in 2018-19 to 28.4 per cent by 2022-23. As much as fiscal hawks cringe about government debt, the country's fiscal situation is in good shape by historical and international standards. Canada's net debt-to-GDP ratio is the lowest among G7 countries and less than half the average in the club of major economies.

That still leaves the country some leeway to deal with a host of economic uncertainties. "The budget alludes to how murky the outlook is," Donald says. "Keeping powder dry for downside risks may be the ultimate strategy for this budget."

Starting at home, the country's banking regulator implemented a new mortgage stress test in January, which is designed to cool an overheated housing market. Real estate and consumer spending have been driving an outsized portion of Canada's economic growth, and it remains to be seen how exactly the market will respond to tightening measures. The Bank of Canada is also closely monitoring the impact of two interest rate hikes on highly levered households.

The U.S. is the source of even bigger uncertainties. Indeed, U.S. President Donald Trump looms large over the budget. Negotiations over the North American Free Trade Agreement grind on with no clear resolution in sight, and Trump's comments on trade are as erratic as ever. Preparing for the termination of NAFTA is a tall order in a single budget.

"This budget responds to NAFTA about as much as the government could respond to NAFTA," says Alexander. Program spending is modest, and the Liberals also built a \$3-billion risk adjustment into its fiscal forecasts to account for economic uncertainties. "It's hard to judge what size contingency you should have, but \$3 billion is a perfectly reasonable number," Alexander says. He also points out that the NAFTA termination process is a lengthy one, so the fiscal impact won't be felt until much later.

Likewise, some private sector economists called on Morneau to respond to a drastic cut in U.S. corporate taxes. "This does pose a challenge," Alexander says. "Canada has gone from a tax advantage to a disadvantage." In recent days, Morneau rejected the notion of a rash response, and indeed, the budget only notes the Department of Finance "will conduct detailed analysis of the U.S. federal tax reforms to assess any potential impacts on Canada."



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Even though the budget doesn't contain huge new spending, it still may prove to be a notable turning point. Back in the 1990s, the federal government paid interest as high as 6.5 per cent on its debt, before getting its finances in order. Since then, the cost has steadily fallen—but that's starting to reverse, as global interest rates rise. In 2017-18, the government spent a record low 1.1 per cent of GDP to service debt. By 2022-23, the feds will be doling out 1.3 per cent. The increase is small, but the longer term trend nevertheless points to more expensive debt.

The more Canada spends to service debt, the more difficult it becomes to boost spending without racking up deficits. It's a change the government will have to brace for. "Canada likely has another year or two before the cost of debt becomes an impediment to taking on more debt," Donald says. But that's a challenge for a future budget.

## **Canadian dollar dips below 77 cents US on trade worries**

The Canadian dollar dipped below 77 cents US on Monday, its lowest level since last July as fears of a trade war cast a gloomy shadow on the Canadian economy's prospects.

The loonie got as low as 76.92 US in mid-afternoon trading before regaining some lost ground to climb back above the 77-cent mark. The currency began February above 81 cents US, but has steadily slid lower as protectionist trade talk has begun to overshadow ongoing negotiations between Canada, the U.S. and Mexico to update the 1994 North American Free Trade Agreement.

U.S. President Donald Trump has threatened to tear up the agreement unless a better version can be created, and that prospect has sparked concerns for Canada's economy, which is heavily dependent on exports to the U.S.

Canada provides more than one-sixth of all the steel that the U.S. imports and almost half the aluminum, and threats that those two commodities would be subject to a tariff have depressed the value of the country's currency.

The tariff talk "is doing no service to the loonie" BMO economist Robert Kavcic said early Monday.

Through the end of 2017, the loonie had rallied partly because economists were expecting a number of rate hikes from the Bank of Canada this year. But those expectations are now a little lower, following a few sobering economic data points, including January's employment report that showed the economy lost almost 100,000 jobs during the month.

Then on Friday, Statistics Canada revealed that the economy only expanded at a 1.7 per cent pace in the last three months of the year — well below its prior pace.

The Bank of Canada will meet on Wednesday and announce its latest decision on interest rates, and trading in currency swap contracts imply there's only a 12 per cent chance of a



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hike. In January, the odds were almost twice that. So some of the loonie's recent slump is related to expectations that were too high to begin with.

"We'll see how much longer these levels can hold," Kavcic said of the loonie's position when it was hovering just above 77 cents.

The loonie is weakening against a number of currencies, including the Mexican peso and the Japanese yen, but its decline looks even starker because it's coming at a time when the U.S. dollar is surging in its own right.

Trump's tough talk on trade sent the U.S. dollar higher, and it has now passed a number of key technical benchmarks. "This suggests a medium-term upswing in the USD is developing," Scotiabank's foreign exchange team said.

## Leisure

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"What is this life so full of care, we don't have time to stand and stare." W . H .  
D a v i e s

### **St. Patrick's Day @ The Calgary Farmers Market**

Saturday, March 17th, 2018

11am-2pm

Skip on down to the market for a toe-tapping good time on St. Patrick's Day!  
Enjoy live entertainment on the main stage and guess how many coins fill the pot of gold to win \$100 in Market Bucks!

Performance Times:

11am: Celtic Folktale

12pm: Ian Gott Irish Dance Academy

1pm: Bow Valley Fiddlers

### **Natalie MacMaster with Orchestra**

Mar 16, 2018 to Mar 17, 2018

Natalie MacMaster has grown to be one of Canada's most notable music talents. She's been nominated for multiple Juno Awards and one Grammy Award over the years, and won the Juno Award for Best Instrumental Album in 2000. Now, the fiddler brings her impressive talent to Calgary's Jack Singer Concert Hall for two nights this March.



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## Whiskey Tasting at Atco Blue Flame Kitchen

Saturday, March 17

Cost: \$50

While this event isn't explicitly for St. Patrick's Day, Ireland is a country that's known for its whiskey so it makes sense to drink the popular spirit on March 17. This evening session at Atco Blue Flame Kitchen highlights four whiskey styles from around the world. You'll learn about each whiskey style and try food pairings with them.

Contact: Atco Blue Flame Kitchen, 403-245-7630,

## Wit

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"Why should you never iron a 4-leaf clover? You don't want to press your luck."

Daryl Stout



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# Food

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"I have made a lot of mistakes falling in love, and regretted most of them, but never the potatoes that went with them." N o r a E p h r o n

## **Shamrocks & Shenanigans**

Saturday, March 17th, 2018 Venue: Heritage Park

Slap on your best Leprechaun outfit and celebrate St. Patrick's Day in style! Mix and mingle while enjoying a culinary experience that celebrates the best of the Emerald Isle. Explore an array of Big Rock's finest brews from craft to classic, and dance the night away to Calgary's premiere Celtic band, Cabot's Crossing. Slainté!

Tickets include food, a flight of beer, one drink ticket, and live music.

\$64.95 per person. 15% discount for groups of 8 or more

Contact: (403) 268-8500

## **All Things Irish Festival**

Saturday, Mar 17, 2018

7:00 PM to 9:00 PM Venue: Willow Park Wines & Spirits Main Store

Happy St Patrick's Day! Spend the evening celebrating the luck and spirit of the Irish at our special festival highlighting an incredible collection of beers, whiskies and even a liqueur or two. Our kitchen team will be working their magic and creating a truly classic Irish dishes so that you can get in the true spirit of the day and feel as lucky as a leprechaun!

\$40.00

Contact: Mike Shaddock 403-296-1640, [mike@willowpark.net](mailto:mike@willowpark.net)

## **CELEBRATE ST PATRICK'S DAY WITH THE ICS**

March 17, 2018

4:30 pm to Midnight Venue: Irish Cultural Society

Come join us for a fun filled day of  
Celtic Music, Irish Dancers and Canadian Food  
All Welcome

Cash Bar

\$5 members \$10 Non-members



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Contact: 403-288-8641

# Tax

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"If your biggest tax deduction was bail money, you might be a redneck." J e f f  
F o x w o r t h y

## **The Canada Revenue Agency is launching the 2018 tax filing season**

News Release

From Canada Revenue Agency

The Canada Revenue Agency (CRA) is continuously working to improve its services to make it easier for Canadians to file their tax returns and access the credits and benefits to which they are entitled.

Today, the Honourable Diane LeBouthillier, Minister of National Revenue, announced that the 2018 tax filing season will officially open on February 26, 2018. Next Monday, the CRA will begin processing income tax and benefit returns filed by Canadians in the way that is most convenient to them.

The majority of Canadians choose to file their returns online. We are making improvements for those who file online with programs such as Auto-fill My Return and NETFILE. For those who want to file themselves, the CRA has a list of certified tax software, some of which is free, that could make tax filing simpler.

The CRA is also processing returns faster. An enhanced service, Express Notice of Assessment (NOA), is available in certified tax software and allows Canadians registered for My Account and online mail to receive and print their NOA right after filing.

This year, the CRA has improved services for paper filers. In fact, approximately two million paper filers have already received their Income Tax and Benefit Guide and forms directly by mail rather than picking them up at Canada Post, Caisse populaire Desjardins, or Service Canada locations.

As previously announced on January 8, 2018, the CRA is also launching the File My Return (FMR) service. Over 950,000 eligible individuals with low income or a fixed income that is unchanged year-to-year have been invited to file their income tax and benefit returns simply by answering a series of short questions on a dedicated phone line, beginning February 26.



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This service will allow all the deductions, benefits and credits to which an individual is entitled, without the need for any calculations or paper forms to fill out.

As Canadians get busy filing their taxes, the CRA reminds everyone to be cautious of fraudulent communications. The CRA warns all taxpayers to beware of phone calls or emails that claim to be from the CRA but are not. They may be phishing scams, or other fraudulent scams that could result in identity and financial theft.

## Quotes

"With the opening of this year's tax-filing season, I want to remind Canadians that filing an income tax and benefit return is the key to accessing benefits and credits like the Canada child benefit that I know can be an important source of support for many families. Doing your taxes is now easier, faster and more secure than ever before."

The Honourable Diane LeBouthillier, Minister of National Revenue

## Quick Facts

- Last year, nearly 90% of the 25 million returns Canadians filed were completed online.
- Starting February 26, 2018, Canadians can start filing their income tax and benefit returns online.
- March 1, 2018, is the deadline for contributing to a Registered Retired Savings Plan.
- Canadians should have received most of the tax slips, such as T4s, and receipts needed to file a tax return by March.
- Most Canadians income tax and benefit returns are due on April 30, 2018.
- Self-employed individuals have until June 15, 2018 to file their return.
- From February 26 to April 30, 2018, the CRA will be offering extended evening and weekend hours for Individual Tax Enquiries. Over 3,000 telephone agents will be available Monday to Friday (except holidays) from 9 am to 9 pm (local time) weekdays, and from 9 am to 5 pm (local time) on Saturdays (except Easter weekend) to serve as many people as possible. Our automated service will remain available 24 hours a day, 7 days a week.
- New this year, individuals can obtain both their account balance and the amount of the last payment made to the CRA through the use of an automated, self-serve Interactive Voice Response system without needing to speak to an agent.
- Express NOA allows those using certified tax software as well as tax preparers to print a notice of assessment right after filing.
- Canadians can now make in-person payments at any Canada Post outlet using cash or debit card.



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