

Partaker Wealth Management
of RBC Dominion Securities



Wealth Management
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E-WEDNESDAY

May 9, 2018

“

Wealth flows from energy and ideas.

”

William Feather



Money

“Learn how money has been made and lost in this world before you commit your own money.” Robert Breault

How Donald Trump is making Stephen Poloz's life more difficult

U.S. President Donald Trump is creating headaches for a lot of foreign officials these days, Stephen Poloz included. The Bank of Canada governor could find his job even trickier in the next year, as the U.S. increases interest rates at a faster clip. The question for Poloz is whether to follow suit, and risk reining growth in too much, or hang back, which could result in downward pressure on the loonie. Either way, it could be challenging.

Both countries' economies are growing but under Trump, the U.S. slashed corporate taxes and passed a US\$1.3-trillion spending bill, which will juice the economy and make higher interest rates a given. The U.S. Federal Reserve already hiked once this year, and Canada has stood still.

Canada doesn't have the same fires stoking its economy. GDP growth is slowing, oil prices haven't recovered, and the housing market is no longer providing the lift it once did. Markets were anticipating two more rate hikes this year, but the odds are now skewing toward just one. “We happen to think the Bank of Canada may not manage to pull off quite as many as the Fed,” says Eric Lascelles, chief economist at RBC Global Asset Management.

When monetary policy diverges in the two countries (even slightly) Canada feels the effects. Start with bond yields. “The number one predictor of a Canadian 10-year bond yield is not the Bank of Canada,” says Lascelles, “it's the U.S. 10-year bond yield.” U.S. government bonds serve as a benchmark against which other bonds are priced—especially the Canadian variety, given the close ties between the two economies. Sure enough, the yield on a Canadian 10-year bond has risen in tandem with its U.S. counterpart since the start of the year, even as Poloz has signaled caution ahead. (Bond yields move inversely with bond prices, and rising yields tend to signal expectations of higher growth and inflation ahead and, therefore, higher interest rates.)

Rising bond yields put direct pressure on mortgages and other loans. And given Canada's record-high debt burden, that's no trivial matter. Household debt stands at 170.4 per cent of income. Last year, the Bank of Canada estimated that 31 per cent of residential mortgages with the Big Six bank lenders are up for renewal in the next one to three years. Those borrowers will likely face higher monthly payments upon renewal. According to Ben Rabidoux, president of North Cove Advisors, that



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hasn't happened on a sustained basis since the 1990s. Up until now, monthly payments have been falling.

So how much more can borrowers expect to pay? In 2013, the average rate on a five-year fixed mortgage was 2.99 per cent. If the Bank of Canada hikes two more times this year, some households could be renewing at a rate 75 basis points higher than what they previously paid, according to Rob McLister, CEO of IntelliMortgage Inc. in Toronto. On a \$300,000 mortgage with a 25-year amortization, that works out to an additional \$97 per month. McLister says that most households should be able to refinance to lower their payments, however. "Remember, the majority of folks who've paid a mortgage for five years have whittled down their balance and amassed equity," he says.

Still, it's a point of concern for the Bank of Canada, especially after raising its benchmark rate three times since May 2017. The country's banking regulator also implemented a more rigorous mortgage stress test that went into effect in January, slowing real estate activity. The central bank is closely monitoring how consumers and the broader economy are reacting to these substantial changes. If there's additional pressure on rates as a result of the U.S. Fed, that's just one more reason Poloz may want to hold fire.

But just how much can the actions of the Fed influence rates in Canada? Beata Caranci, chief economist at TD Bank, doubts another rate hike in the U.S. would have much of an impact on bond yields in Canada. "We're talking about 10 basis points, so a relatively small change," she says.

Beyond rates, the Canadian dollar is affected, as well. Rate hikes in the U.S. cause the greenback to appreciate against the loonie, which currently stands at around US77 cents. More tightening down south would exacerbate that trend, unless Canada keeps pace on rate hikes, which is unlikely. That may actually work in Canada's favour, for now. The country's export sector has been underperforming, a longstanding concern of Poloz. "The export side has not been as strong as one would think, especially with a U.S. economy doing well," Caranci says.

While the uncertainty around NAFTA negotiations is likely keeping trade subdued, a lower dollar makes Canadian goods cheaper, potentially leading to greater exports and stoking a recovery in that part of the economy. There is a further complication, though. A lower dollar also boosts inflation, as imported goods become more expensive. The latest inflation data from Statistics Canada last week already came in slightly stronger than expected.

Still, these are the classic monetary policy issues that Poloz should be comfortable grappling with. What may end up to be far more difficult is trying to deal with the many unknowns around trade, tariffs and protectionism, all stemming from the whims of a capricious U.S. President. That's something no central bank model can predict.



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The death of the small car? Automakers pivot toward trucks and SUVs

Auto sales figures for April confirmed a trend that's been years in the making: consumers are losing interest in small cars, and so are some of the companies that make them.

Ford made headlines last week when the iconic automaker said it would stop making and selling virtually all types of cars in North America by 2022, and instead focus on light trucks, vans and sport utility vehicles. Eventually, the muscle car Mustang will be the only Ford car that Canadian consumers will be able to buy new.

The move isn't an example of the company trying to push customers in a new direction. Rather, it was a response to decisions consumers are already making. "We are focusing our efforts on vehicles customers prefer," the company told CBC News in a statement.

The numbers illustrating those preferences are eye-popping.

In 1990, car companies sold more than two cars for every truck, van or SUV they moved off the lot. Over the next 20 years that gap narrowed, but sedans and coupes were still the preferred vehicle type even up to the 2008 financial crisis.

Then in 2010, something changed.

Canadians bought more than 850,000 larger vehicles that year, compared to just over 700,000 cars, according to data on new car sales from automotive consultant Dennis DesRosiers. That year marked the first time the car's primacy had been challenged. And each year since, the gap has widened. Last year, Canadians bought two trucks for every car sold in the country.

"I don't think it's the death of the car," automotive journalist Petrina Gentile said in an interview with CBC News, "but I think you will see a lot less choices when it comes to cars and hatchbacks."

"And you'll certainly see an explosion of SUVs and trucks coming to the marketplace."

Ford isn't the only company moving in this direction — it's not even first.

Fiat Chrysler Automobiles announced all the way back in 2016 that it would kill off car models like the Dodge Dart and Chrysler 200, switching production lines to make SUVs and trucks instead.

"These vehicles are cars that weren't making money," Gentile said, which is why FCA shifted gears to where the sales were.

Monthly sales numbers since then show the gamble paid off. FCA Canada announced Wednesday that sales for the Pacifica minivan increased by 16 per cent last month. The Dodge Caravan was up by a little more, while the even larger Durango saw sales spike by more than 50 per cent. Overall, however, Chrysler's total sales in Canada fell by 16 per cent, as sales of just about every small vehicle they make were lower.



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GM still sells a suite of smaller vehicles in Canada, but it, too, is pivoting toward biggest trucks and SUVs. Sales of the Chevrolet Traverse SUV have doubled in the past year, GM said Tuesday, and those of the Colorado truck are up by almost a third.

The move away from smaller cars isn't just a North American phenomenon. Scotiabank economist Carlos Gomes follows the automotive sector, and said until recently many analysts weren't even tracking larger vehicle sales in China. But that's no longer the case, as SUV and truck sales are growing exponentially there, too.

"It had been a North American development," Gomes said in an interview, "but it's now a global phenomenon."

And it's all happening against the backdrop of higher gas prices worldwide. Sales of larger vehicles may have gotten a shot in the arm after the oil price plunge that started in 2014 pushed pump prices down to multi year lows. But with oil nearing \$70 US a barrel again, gas prices are moving higher in Canada, and will likely stay up for a while.

Motorists in Vancouver this week were filling up for the eye-watering price of \$1.60 a liter, the highest level in 20 years. Experts say even higher pump prices are possible in the near future.

One might imagine that expensive gas like that would spur sales of smaller, lighter cars, but Gomes said that isn't necessarily the case. Pump prices are always a factor in purchasing decisions, but the reality is that large cars today are far more fuel efficient than many people think they are.

"A decade and a half ago when you had massive gas guzzling SUVs and oil prices spiked, that was the death of the SUV," he said. "But that's not happening this time."

Associate professor Jonn Axsen at Simon Fraser University, who studies consumer behavior with regards to transportation, said on the whole gas prices don't impact people's purchasing decisions very much. "People who have the option, they might take the bus a few times or make their next vehicle purchase a little more efficient, but it doesn't really make a huge difference," he said in an interview this week.

Axsen thinks gasoline prices would need to hit \$4 or \$5 a liter before it made a real impact in vehicle purchasing decisions.

Gentile, the automotive journalist, said a higher gas price is just one of the additional costs that come with larger vehicles.

One of the reasons car companies are moving toward bigger vehicles is because they're more profitable to make and sell. So drivers may be willing to pay \$80 or \$100 per fill-up for the comfort and convenience, but they are also paying more for the vehicles in the first place.

But there's a cost for the car companies, too. By handing over the keys to small, out-of-favour cars to rivals, U.S. automakers are vulnerable if consumer tastes change.



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Leisure

“Enjoy the little things in life, for one day you may look back and realize they were the big things.” U n k n o w n

Mother-Daughter Fashion Show at the CORE

The CORE is hosting an exclusive Mother-Daughter Fashion Show on the third level of the CORE in the Style & Beauty Bar. The H/W School of Ballet will be wearing assorted spring fashions for both mothers and daughters. Following the show enjoy Caffè Trieste's Jazz Band next door and Mother's Day fun in Holt Renfrew.

When: Saturday May 13th at 1:30pm-4:00pm (the show begins at 2 pm)

Website: <http://www.coreshopping.ca/>

CALAWAY PARK GRAND OPENING WEEKEND

Purchase your 2018 Season Pass for just \$47.95 plus GST per pass until May 22nd, 2018! You save 58%! Available online until May 22nd, 2018 or at your local Calgary Co-op from April 15th, 2018 to May 22nd, 2018.

When: Saturday, May 19th at 10am - 7pm

Website: <https://www.calawaypark.com>

HERITAGE PARK HISTORICAL VILLAGE OPENING WEEKEND

Celebrate the long weekend by stepping back in time. Calgary's Heritage Park Historical Village's 54th summer season begins on Saturday, May 19, 2018.

When: Saturday, May 19th, Sunday, May 20th and Monday, May 21 opens at 10am

Website: <https://www.heritagepark.ca/plan-your-visit/event-calendar/opening-weekend.htm>



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Wit

“My bed is a magical place where I suddenly remember everything I forgot to do.” A n o n y m o u s



Food

“Fish, to taste right, must swim three times – in water, in butter and in wine.”
P o l i s h P r o v e r b

Mother's Day Luncheon at Atco Blue Flame Kitchen

Moms are invited to an elegant lunch menu that will feature lighter dishes handcrafted by our culinary team to highlight the flavours of spring.

Date: May 13, 2018 12:00 p.m. OR 2:30 – 4:00 p.m

For more information: <http://www.atcoblueflamekitchen.com/>

The Perfect Day For Mom at Aspen Crossing

HANGING BASKET SALE



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Peruse the stunning Aspen Crossing garden centre for premium plants and enjoy 2 for 1 Hanging Baskets!!!! Open from 9:00 am to 6:00 pm, Saturday and Sunday.

DINING

After shopping take a break and indulge in the delicious Mother's Day Brunch Buffet in our 1887 dining car restaurant.

Date: May 12th and 13th, Sittings from 9:00 am to 3:00 pm

For more Information: www.aspencrossing.com/mothers-day

Mother's Day Brunch at Heritage Park

Brunch on the Mezzanine, Gasoline Alley Museum

Show your mother how much you care by treating her to a fabulous Mother's Day Brunch at Heritage Park's Gasoline Alley Museum.

Enjoy a delicious brunch on the mezzanine of Gasoline Alley Museum, which overlooks the grand showroom of the museum. After brunch, enjoy a leisurely stroll down memory lane as you explore Gasoline Alley's world-class collection of beautifully restored vintage vehicles and oil and gas memorabilia.

Date: May 13th, 10am to 3pm

For more Information: <https://www.heritagepark.ca/plan-your-visit/event.../mothers-day-brunch.html>

Tax

"I'm spending a year dead for tax reasons." D o u g l a s A d a m s

Service improvements are benefiting millions of Canadians this tax season

<https://www.canada.ca/en/revenue-agency.html>

The Canada Revenue Agency (CRA) is committed to improving its services to help Canadians file their income tax and benefit return and receive the benefits and credits they are entitled to in a timely and efficient manner.

As the 2018 tax-filing season draws to a close, the Honourable Diane Lebouthillier, Minister of National Revenue, today visited the CRA's tax services office in Sudbury, Ontario, where she met with public servants processing some of the millions of income tax and benefit returns the CRA receives each year.



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The general deadline to file an income tax and benefit return for this tax-filing season is April 30, 2018. With only a few days left, nearly 20 million returns have been filed, over 90% of them electronically. In the coming days, the CRA expects approximately another 5 million returns to be filed. This is the busiest period of the tax year.

This tax-filing season, the CRA has announced a number of new and improved services online, over the phone, or on paper. For example, Auto-fill my return helps electronic filers by filling in parts of their return with information the CRA has on file. It has been used over 8.5 million times so far. Another new innovation for this year, Express NOA, allows filers to view and print their Notices of Assessments seconds after filing, and has already been used by hundreds of thousands of filers. File my Return, the CRA's new service that lets eligible Canadians file returns over the phone, has been used to file nearly 50,000 returns. Additionally, approximately two million Canadians who filed by paper last year were mailed their tax guide and forms. This new service meant that Canadians who file by paper, especially those with reduced mobility, that live far from service locations, or are without internet access, did not have to visit a Canada Post, Service Canada, or Caisse populaire Desjardins outlet to get their tax package.

As is the case every year, some taxpayers need to adjust their returns after filing. Last year, the CRA received approximately two million requests from taxpayers to adjust their return. New this year, individuals can refile their changes electronically using the same tax software they used to file in the first place. Taxpayers can also access Change my return online to request an adjustment.

As this tax-filing season draws to a close, the CRA reminds Canadians to remain vigilant against tax scams and fraud. The CRA will never send an email with a link that asks you to divulge personal or financial information, ask for personal information of any kind by email or text message, request payment by prepaid credit cards, send an email in English or French only, or leave personal information on an answering machine or voice mailbox. If you get a call saying you owe money to the CRA, call us at 1-800-959-8281 or check My Account to be sure.

Quotes

"The improvements to the CRA's services benefit millions of Canadians as this tax-filing season comes to a close. I would like to remind everyone that it's important to file your tax return so you can get the credits and benefits you may be entitled to, such as the Canada child benefit. Whether you file online or on paper, it's never been easier to file. Our government is continuing to invest in client-focused service improvements so that the CRA can respond to the expectations of Canadians. "

-The Honourable Diane LeBouthillier, Minister of National Revenue

Quick facts



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- 11.2 million refunds have been issued, with 73% of them being issued by direct deposit. The average refund is \$1,662. Canadians who file electronically and are signed up for direct deposit can get their refund in as little as 8 business days, versus up to 8 weeks for paper returns.
- New registrations for My Account, which gives Canadians access to the CRA's full suite of online self-service options, have increased by 28% this filing season.
- Approximately 50,000 individuals have signed up for Account alerts this filing season. This service helps protect Canadians by keeping tabs on their information and letting them know when certain changes were made to their file in My Account.
- Approximately 700,000 Canadians have registered for online mail this year, the fast, easy and secure way to manage your tax correspondence with the CRA.
- Over 600,000 returns have been filed through the Community Volunteer Income Tax Program, a program through which volunteers help Canadians with modest income and simple tax situations file their returns for free.
- The CRA has certified 28 different tax preparation software products for use when filing a 2017 return. A list of certified tax software packages, some of which are free, is available online.
- Canadians who prefer to use tax preparers or other professionals can choose from over 63,000 certified electronic filers registered with the CRA.
- There are many ways you can make a payment to the CRA, including the CRA's My Payment service. If you owe money to the CRA but you can't pay the full amount now, the CRA can work with you to set up a payment arrangement.
- Adjustments submitted electronically through ReFILE or Change My Return are usually processed within an average of two weeks. Adjustment requests submitted on paper are usually processed within an average of 8 weeks. These service standards apply to routine adjustments only, as more complex requests will take longer.

Note: All figures are valid as of April 27, 2018.

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