Canadian Households Hanging In

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Canadian consumer insolvencies stayed near a record low in June (the data start in 2007), ticking up only a touch from the prior month. This is just another example of how the current recession and economic backdrop are nothing like we have ever seen. Indeed, even with the jobless rate surging into double-digits, bankruptcies and proposals have plunged to extraordinarily low levels.

No doubt the CERB and mortgage deferrals are playing a role here. The real test will come as those two programs begin to roll off in the months ahead. It’s hard to believe insolvencies will stay this low, but we’ll take it for now.

Source: Innovation, Science and Economic Development Canada
Perhaps more impressive than the drop in Canadian consumer insolvencies is the still-low level among businesses (as of June). Bankruptcies and proposals rose in May and June, but remain below pre-COVID levels. Perhaps there’s still a wave coming as many small businesses remain very constrained by the rules to keep the virus from spreading.

Note that StatsCan reported earlier this week that the number of firms closing in April surged from year-ago levels. However, those figures don’t represent an exit or bankruptcy as firms can reopen within one year. The ability of small business to weather the pandemic and stay afloat will be a big factor in how quickly the economy and employment recover.
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On the back of strong Vancouver numbers yesterday, Toronto home sales were reported up a smokin’ 29.5% y/y in July, or almost 50% from the prior month, seasonally adjusted.

Clearly there is pent-up demand being unleashed after the market was effectively locked down through the spring and early-summer, which is ordinarily prime buying season. Note that new listings were up just under 25% y/y ... so sales are back because there are (some) things to buy again.

Importantly for prices (and this is true in Vancouver too) ... it looks as though the wave of new listings is being fully absorbed very quickly. The benchmark Toronto price was up 10% y/y in July, with strong month-over-month momentum.
More Signs U.S. Recovery Still on Track

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There is considerable, and understandable, angst about the sustainability of the U.S. economic recovery. The summer flare-up in virus cases, which appears to be ebbing, simply amped up the concerns. While there have been mixed signals recently, we would point to two important weekly measures which provide some comfort.

First, **initial jobless claims** fell hard in the latest week after seemingly stalling earlier in July. On an unadjusted basis, they fell below one million.

Second, **gasoline production** rose to its best level since early March, or just before prices crashed. It’s now back to within 9% of pre-crisis levels, after tumbling more than 40% at the depths.

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Natural gas prices have risen this week to their highest level of 2020, joining some of their more high-profile commodity cousins. The nearby contract pushed to almost US$2.20, before a slight retreat today, while 3-month prices are near $2.70.

Unlike other commodities, natgas has not been primarily driven by the pandemic this year. Instead, it started 2020 on a downdraft amid a mild North American winter. It then managed to stage a rebound in April, even as oil prices were hitting rock bottom. Steady demand by utilities supported prices through the shutdown even as other commodities were flagging. And now, prices are being supported by oil production curtailments (which has, in turn, curtailed related gas production).

To be sure, caution is warranted; current prices are in line with our 2021 target.
The Turkish lira is back in the headlines as it fell to a record low of 7.3 against the U.S. dollar. This should not come as a surprise as Turkey has been effectively in the midst of a balance of payments crisis for a few years. The crisis can be attributed to the Erdoğan Administration’s on-going pro-growth drive, which exacerbates economic imbalances (e.g., current account deficit and inflation), and a low stock of foreign exchange reserves.

This leaves the Turkish authorities with a limited number of viable options to pursue if the lira continues to depreciate: (1) capital controls on non-resident capital flows; (2) an IMF bailout; (3) U.S. dollar swap lines from other central banks; or, (4) a hike in domestic interest rates.

While it’s admittedly difficult to predict what plan of action Turkey could pursue given how unpredictable President Erdoğan has proven to be, the first two options are likely non-negotiable, which leaves the authorities with the last two options. If current U.S. dollar swap lines cannot be expanded, then the Turkish central bank would have little choice but to tighten monetary policy, as it was forced to do in 2018, when the lira was also under severe pressure.