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Macro Market Insights

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No Discernible Themes

A week ago Friday, the US jobless rate fall to a 49-year low. Eleven years into the economic cycle the US labour markets continues to have legs. The takeaway was that with no change in wage growth month over month we are still yet to see and signs of rampant wage growth; therefore, the US labour market has further room to the upside. Additionally, Friday's inflation data in the US was even weaker than expected. Vice Chair of the Federal Reserve Richard Clarida had to reiterate Chair Jay Powell's view that the Federal Reserve see's this drawdown in inflation as temporary and reinforces the view that higher rates may be on hold, but a rate cut is not in the cards.

In Canada, it looks to be a similar story. The jobs numbers on Friday were gangbusters. It was the largest monthly gain for jobs in 43 years. The labour market added 106,500 jobs. A simple back-of-the-envelope calculation comparing growth in the Canadian labour force to the United States would be the equivalent to their economy adding approximately 9 hundred thousand jobs in the month.

It raises two questions. One, what's taking place in the Canadian labour market to account for the massive monthly surges in private sector hiring? The average monthly job gains over the last 12 months have been double the 40-year average. Second, why does there seem to be inconsistencies between strength in Western Economies labour markets (US, Canada, Europe) as another period of near disinflation and increased policy uncertainty from Central Banks is witnessed?

One attempt at answering the first question certainly speaks to the inconsistency in the Labour Force Survey (LFS) in Canada. One of the easiest comments to make on an anomalous monthly reading is 'one month doesn't make a trend.' For the past couple years though, there has also been major discrepancies between the labour force survey and the more reliable, but less in the headlines, Payroll survey.

Canadian job growth was back around one percent in December (according to the LFS); in April, the labour force survey moved inline with the Payroll survey to show job growth above 2 percent. As monthly job data in Canada is certainly a catalyst for Canadian dollar volatility month in and month out, the ½ cent move in the dollar Friday pared back some of those gains at the close as it merely confirmed already known growth of the Canadian labour market.

The second question is more difficult. In both Canada and the United States its steady and muted levels of inflation right around 2%. And back into the headlines this past week, despite the deterioration in global trade that was supposed to be inflationary for the Canadian and US economies. The now much publicized false statement from President Trump last week was that the increased tariffs on Chinese exports will be paid for by the Chinese economy. That's not the case as they are typically paid for by the importing business and passed on to the end consumer, but despite the breakdown in talks, the ripple effect seems indistinguishable.

Despite resilient job growth in the US and Canada and a robust stock market year to date that is currently seeing a bit of a pullback, there is still an underlying theme of caution. With heightened levels of uncertainty over whatever the policy topic of the week is, be it trade, pipelines, or any other economic story, it seems difficult to distinguish a discernible theme for the US and Canada. In terms of diversification, long term vs. short term strategies, our thought is this is a great moment to reflect on how and where to be invested.