

ECONOMIC NEWS

Trump's victory does not make North America's economies any less decoupled

COMMENTS

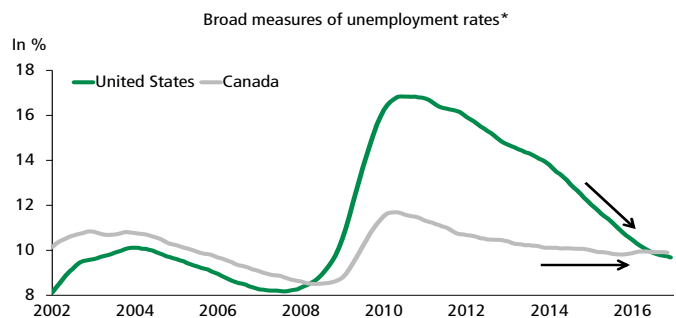
The Trump optimism has easily won over Canadian investors. The stock market is at a new high, interest rates are rising, and even the Canadian dollar was on a firm appreciating trajectory right until last week. Canadian investors seem to assume that economic cycles are at the same juncture in both countries. Yet the experience of 2015 was the first sign of a new paradigm. Hit by the oil price shock, Canada underwent two consecutive quarters of contraction in GDP. Over the past half century, there have never been two successive quarters of contraction in Canada, without an U.S. recession.

Labour markets provide further clear signs of divergence. Both countries publish broad measures of the unemployment rate. These measures add to the unemployed, individuals who are underemployed, for example, those who work part-time because of a lack of full-time opportunities, or those who have stopped looking for work by discouragement. This measure gradually declined in the United States after the crisis, and a little more rapidly in the last three years. Job creation has picked up, which has resulted in a further reduction of the so-called marginalized workforce. In Canada, the measure had risen much less than in the United States during the crisis, but after maintaining a slight downward trend, it has stagnated since last year.

Another example is the sharp slowdown in average hourly wage growth in Canada this year. At an annual rate of 1.4% as of November, wage growth barely offsets inflation. This means that real hourly wages are stagnating in Canada, a situation that makes it difficult for the Bank of Canada (BoC) to increase the cost of credit. By contrast, in the United States, wages have been on a more stable trajectory. They rose at an annual rate of 2.4% in November, 0.7 percentage points above inflation.

GRAPH

The U.S. labour market has tightened more rapidly than Canada's



* 12-month moving averages of the non-seasonally-adjusted, broad unemployment rates.
Sources: Datastream and Desjardins, Economic Studies

IMPLICATIONS

Divergence is not a myth. A number of headwinds will cause excess capacity to take longer to be reabsorbed in Canada than in the United States. There is little reason to believe that the BoC will tighten its monetary policy in 2017, as the markets are discounting.

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