September 27, 2018

Canadian Wages, US Durables Weaker Than Headline, US Trade Deficit Biggest Since 2008

Before turning to US macro updates and ahead of BoC Governor Poloz's speech tonight, note the updated Canadian wage growth figures from the SEPH/payrolls survey. Wages are rising by 3% y/y, up from a recent trough of 2.4% in April. Wage growth has fully recovered from the swoon after commodity prices tanked in 2014–15. On a smoothed basis, we've been getting 3% y/y gains since late last year. Some of that is a base effect bounce that will begin to shake out when we get the August and September figures after which we will then get cleaner readings. Wage figures will remain volatile, but the point remains that Canada is getting wage gains that are at least in line with broader price pressures not least of which as slack in the job market has largely eroded. This wage measure is the dominant direct or indirect input to the BoC's preferred wage common metric.

A wave of US macro reports puts most of the emphasis upon the biggest US trade deficit figures since 2008 and weaker durable goods orders than the headline jump suggests. Before turning to durables, here's a quick recap:

- **Initial jobless claims increased** by 12k last week entirely due to Flo's effects upon the Carolinas which counsels looking through the rise and concluding that claims adjusted for this effect remain very low.

- **Inventory accumulation accelerated last month**. Wholesale (+0.8% m/m) and retail (+0.7% m/m) inventories both climbed sharply for the second consecutive month. **Perhaps advance stockpiling in anticipation of tariff hikes was going on. That may suggest that inventories could be a drag into Q4 and with that the overshoot on US GDP growth may wane into year end.** It may also suggest that the effects of tariffs will take time to evaluate once the lagged effects work through supply chains. That leans against assertions that the US economy is not feeling the effects of tariffs as communicated yesterday by President Trump and Chair Powell.

- GDP was left unrevised at 4.2% q/q SAAR in Q2. There were only minor changes to the composition of the growth print.

- **The advance trade deficit in goods widened to US$75.8 billion.** That's roughly tied with the widest trade deficit since February which in turn was the widest since 2008. Exports fell 1.6% m/m in August and imports were up 0.7% m/m in dollar terms. Exports have fallen for three consecutive months while imports have trended higher. Across export categories, the softness in August was mainly driven by industrial supplies, autos, food and beverage. This widening is consistent with the lagging influences of dollar strength. I've long argued that the US trade deficit is going to keep deteriorating on a trend basis. Trumponomics isn't helping. By boosting domestic growth through fiscal stimulus that drives USD strength, the external side of the US economy is being made less competitive. There are other effects on the dollar, but widening trade deficits are likely to continue well past the mid-terms on the path to 2020.

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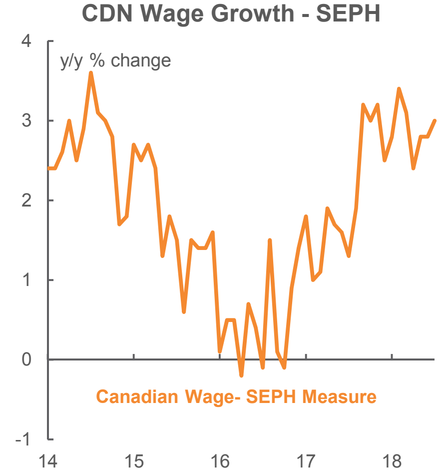
CDN Wage Growth - SEPH



Sources: Scotiabank Economics, Bloomberg.

Trump Might Preside Over Record Trade Deficits

Source: Scotiabank Economics, Federal Reserve, Bloomberg.

US Durables Are Weaker Than The Headline

United States, durable goods orders/ex-transportation, m/m %, August:

Actual: 4.5 / 0.1

Consensus: 2.0 / 0.4

Scotia: 2.0 / 0.5

Prior: -1.2 / 0.2 (revised from -1.7 / 0.1)

- The upside surprise to durable goods orders was all due to the aircraft component. The rest of the underlying details were soft notwithstanding an upward revision.
- Aircraft orders were up by 69.1% m/m after a 29% drop the prior month and this is generally consistent with the quadrupling of Boeing's order book last month. Defense orders were up 44.4% m/m. Orders for vehicles and parts fell 1% m/m after a large prior gain.
- Ex-defense and ex-air, orders fell 0.5% m/m. In addition to the drop in vehicles and parts, computers/electronics also fell by 0.5%. Machinery orders were up by only 0.1%. Orders for fabricated metals were flat, primary metals jumped 0.9% and electrical equipment surged by 0.6%. Despite the weakness in August, the trend in core durable goods orders remains quite strong; the upward momentum started off the trough in 2016 and the prime driver over this period has been capacity constraints and an improved tone for energy cap-ex. About two-thirds of the seasonally adjusted rise in core durable goods orders occurred before the Tax Cuts and Jobs Act.
- For Q3 GDP purposes, it's shipments that matter instead of the order book. Headline shipments were up 0.8%, ex-transportation shipments were up 0.2% and ex-transportation and ex-defense orders climbed by 0.7%. Again, we need to strip the lumpy and volatile aircraft figures out of the picture; shipments ex-planes were only up 0.1%.
- Next up is pending home sales for August at 10amET.

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