Your weekly market update

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Market Update

05 May 2017

New applications for jobless benefits fell more than expected last week and the number of Americans on unemployment rolls hit a 17-year low, pointing to a tightening labor market that could encourage the Federal Reserve to raise interest rates next month.

The Labor Department said on Thursday that initial claims for state unemployment benefits dropped 19,000 to a seasonally adjusted 238,000 for the week ending April 29. The decline unwound most of the prior two weeks' increases in applications. Economists say claims were distorted in recent weeks by the Easter holidays and spring breaks, which occur at different dates every year, making it difficult to strip the seasonal fluctuations from the data.

Claims have now been below 300,000, a threshold associated with a healthy labor market, for 113 straight weeks. That is the longest such stretch since 1970, when the labor market was smaller. The labor market is close to full employment, with the unemployment rate at a near 10-year low of 4.5 percent. The Federal Reserve on Wednesday kept its benchmark overnight interest rate unchanged and said it expected labor market conditions would "strengthen somewhat further." Officials at the U.S. central bank also viewed the pedestrian 0.7% annualized economic growth pace in the first quarter as likely "transitory" and expected economic activity to expand at a "moderate" pace. Unit labour costs are rising with a marked increase of 3.0% in the first quarter of 2017 after increasing 1.3% in the last quarter of 2016. The bellwether in the above data is that corporate America is not seeing profit margins

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Not a client, SUBSCRIBE HERE for a complimentary 30-day access to our news service expand but shrink. A lack of capital spending to drive profit margins is the culprit. As we have discussed at length, the present administration must materialize fiscal stimulus spending policies or risk a recession as rising interest rates will continue to be head winds for economic growth. Just as rising labour unit costs erode corporate profit, so does rising borrowing costs, which also directly eats into profit margins.

The Gross Domestic Product (GDP) in European Union expanded 1.90% in the first quarter of 2017 over the same quarter of the previous year. GDP Annual Growth Rate in European Union averaged 1.71% from 1996 until 2017, reaching an all time high of 4.60% in the second quarter of 2000 and a record low of -5.40% in the first quarter of 2009. As you can see from the economic data above has had anemic growth. Political change brings about economic headwinds. As Brexit moves forward, so does the fear that the EU will not survive as leadership changes may bring about protectionism and tariffs. Scotland has made clear, that it will leave the United Kingdom favouring the EU. Germany's federal election in late summer, could see Angela Merkel lose power in favour of a populist government. France is in the final throws of deciding who will govern the republic. A Marine Le Pen victory would see a shift to a strong nationalist movement and the potential exit for France from the EU. Will the Union survive past the summer of 2017.

Oil prices hit a new 5 month low at $47.66 a barrel (WTI). The desired effect by OPEC to cut supply in order to dwindle global inventories therefore driving market prices higher has failed. As Saudia Arabia cut production, Iran leveraged the opportunity to grow market share in Europe, Africa and Asia. It is also important to note, the American oil has been penetrating into vital Asian markets. Forecasts expect oil to hit a low of between $40 and $42.50. Add into the mix, the ever increasing fuel efficiency of cars and the mandate increase in the number of electric and hybrid cars to be sold. A direct drive of that is generous government cash backs programs to entice car buyers to transition to hybrid and electric vehicles.

Copper prices dropped by 3.49%. How is this relevant to economic growth in China? Emerging economies consume large supplies of copper as it is a key component metal in developing nations. China is the largest consumer of copper in the world. A build up in copper inventories point to decline needs of the metal which is a bellwether to trending economic growth. Forecast into all of this, America slapping tariffs on Chinese made goods and you could easily see China enter into Kondratieff wave of decades long recessions very similar to Japan after the 1990. A tariff war with America would be devastating for China and not as damaging to America. China's number one part place is America. The early wave of prosperity brought to China by joining the WTO has come to an end.

Financial news wires are a buzz as to how Canada has managed to resist economic slow down. The main drive for all of this is the rise of entrepreneurship kick of in the early 1990's. The second drivers is that Canada has had an active fiscal stimulus policies in place regardless of which party leads our fine nation. Other nations in the developed and developing world have heavily relied on quantitative easing to survive after the great global recession of 2008-2009. Lastly, the surge in foreign investment in Canada over the last 18 months has compliment fiscal stimulus policy by acting as jet fuel.

However, all good things have a cost. The influx of foreign capital in part driven by geopolitical tension around the world and a heavily discounted Canadian dollar make buying Canadian assets cheap compared to other developed nations.

The Ontario government attempts last month to remove speculation house flipping and taxing foreign buyers by 15%, which we will see play out in real estate prices shortly. So far, April home sales are down 3.2% and listings have gone up by 33.6%. If the inventory supply continues to grow to healthy levels than buyers have choice and prices will soften. However, the above data could be just a knee jerk reaction to the announced changes by the province by those looking to lock in all time high real estate prices.

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