# Trudeau Punches Back



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**The Federal Reserve has penciled in two more interest rate hikes with most analysts expecting three in total for 2018.** Whether we see 2 or 3 interest rate hikes, it is important how fast wage inflation takes off, with expectations that it will take off and stoke overall inflation higher. For the period ending April, over the last 12 months American wages have increased 2.6%. However, when unemployment rates are at all time lows, wages tend to rise between 3.5% to 4.5% yearly. Another comparable to look at is whether the percentage of workers that failed to receive yearly pay increase is higher than the height of the last two economic expansions. Right now 14.3% of all workers did not see pay increase yearly. At the height of the economic expansion the figure per contract was below 11%. For economists to feel that wage inflation will rise over 3% next year, the percentage of those not receiving yearly wage increase must fall below 12.5%. Such a steep decline in such a short period or time would be unprecedented. The underly data is quite clear that the share of workers not getting wage increases looks to be rising not falling.

President Trump is hitting the campaign trail and keeping his investment in the midterm elections in hopes of retaining control of congress in the Fall. Nearly every President has lost congressional seats in modern history. The top priority for the White House administration is to hold the Republican majority in the Senate, which is critical for preserving the agenda and making judicial appointments for the remainder of the President's Trump first term. A double down will come during November elections as Republican candidates face tough Democratic opponents. If the current administration fails to be effective in holding the House and Senate, Trump will succumb to the lame duck syndrome that many past presidents have been afflicted with.

President Trump just can't seem to catch a break. If not North Korea, Iran or Stormy how about adding Rose Anne Barr into the mix? Let's look at the real concerns that are tariffs and retaliatory behaviour by Allies. As the President is slap happy with critical Allies, the EU is more than likely to follow Canada's approach as President Trump lit the fuse for a trade war battle. June 1st is the date of trade exemptions to expire and will lapse due to failed negotiations. If the bad apple in the free trade agreements is China, then go after the Chinese leadership with full force. Don't take it out on the nations that uphold the values of democracy for more than a century long with you. If you wish to kill the equities market then retaliatory tariffs reignite trade war fears. North America and the EU represent the two world's largest trading zones in the world with the highest discretionary spending per capita also.

The EU is in such a mess — headwinds are everywhere for the old continent. Italian banks look to crumble along with the Italian political leadership. Brexit is unresolved with no sensible end in sight. Tariffs on Germany's most prized industry, auto manufactures, is now within rifle sights of President Trump. Political opposition in Italy are crying foul play by Mario Draghi, the head of the ECB, who is intervening improperly in domestic politics. Events in Rome have definitely slowed the draw down in quantitative easing. Speculation is running wild that Italy wishes to remove itself from the EU which would create a mass exodus of capital from Italian banks already in poor shape. What would the chairman of the ECB do? Well, it would ramp up the Euro dollar printing press.

Oil prices and the fear mongers that desire to see prices climb over a $100 a barrel just received a reality check. American crude futures fell from $72 a barrel to $67 a barrel shedding 7.6%. Crude oil supplies have drawn down due to a cut in imported oil by 528,000 barrels per day. American oil output increased by 215,000 barrels per day to 10.47 million barrels in March. Oil rig counts rose for America to +13 from May 18th till May 25th. While international rig counts was up by only six. Year over year change saw America with +151 rigs ending May 26th, 2017 with International community +22 rigs. Energy producers in America are pushing hard to grab market share and are heavily reinvesting back into expansion as prices stay above $60 a barrel.

Asia is heating up again as India has accelerated to the fastest pace in 2 years pulling ahead of rival China in the race to be the world's fastest growing economy at 7.7% in the last 3 months. America's plan for tariffs will take a bite out of China's economic engine and allow India to push hard with economic growth. India's tiger economy has not drawn the ire of President Trump.

Canada's economy stumbled in the first quarter of this year due to weak consumer spending and cooling housing markets. GDP came in at 1.3% annualized at the slowest level in 2 years. It has been the third consecutive quarter that the economy grew at less than 2%.

Residential investments dropped by 7.2%, while household consumption came in at a tepid 1.1% growth rate (the slowest in three years). Non residential investing surged nearly 11% annualized.

The difficulties in building an East to West infrastructure pipeline for oil and gas came to a head as Kinder Morgan sold the Trans Mountain pipeline to the Canadian government. The Federal government has the power to force the deal forward which it will now, as this is an asset of the government. The deal will see $4.5 billion invested into the Trans Mountain pipeline.

Lastly, the Bank of Canada has decided to leave interest rates unchanged as Canada's economy does not look so rosy. Along with the fact that our Prime Minister landed this first counter punch by way of a tariff retaliation. A rise in lending rates would send our Loonie higher and potential push the economy into a recessionary spiral.



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