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Expert Commentary

Paul Ashworth, Chief US Economist at Capital Economics, on US economy

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Paul Ashworth
Chief US Economist
Capital Economics
Canada

The latest NFP report as well as the JOLTS report have provided further evidence of the strength of the US labour market. In your opinion, is data strong enough to expect a rate hike from the Federal Reserve at its September meeting?

I do not think this data is strong enough to see a hike as soon as next month. The employment growth has obviously accelerated again in the last couple of months; however, while that is encouraging, we still have some sides of slack in the labour market. While the unemployment rate has come down and is below 5%, still an elevated proportion of people are working part-time over the preferred full-time employment. Moreover, while the employment figures are very important, what we have recently learnt is that the GDP growth in the US economy has been weaker and data over the last year showed the economy expanded by just a little bit more than 1%. Therefore, I think that in that kind of environment, the Federal Reserve will certainly want to wait longer than September, so we believe they will probably raise rates in December.

US GDP rose at a 1.2% annualized pace in the Q2, whereas markets expected a 2.5% increase. In your point of view, will the third estimate of the Q2 GDP come in higher or not? Why?

To my mind, it will not. Initially, economists thought the Q2 GDP growth would be very strong, in fact at one point we thought it would be as strong as almost 3%. The reason for that was that the monthly consumption figures and retail sales figures were very strong but it was not until almost the date it was released we found out that there was some offsetting weakness in inventories and also in international trade. In fact, since the first estimate of 1.2% we had more data on construction spending and also some revisions to the trade data, which suggest that actually the GDP growth was probably below 1% in the Q2, maybe about 0.8% on an annualized basis. So, over the last twelve months that means that the US economy expanded by only about 1% too.

What factors will influence the performance of the Greenback through the rest of the year? What performance do you expect to see from it?

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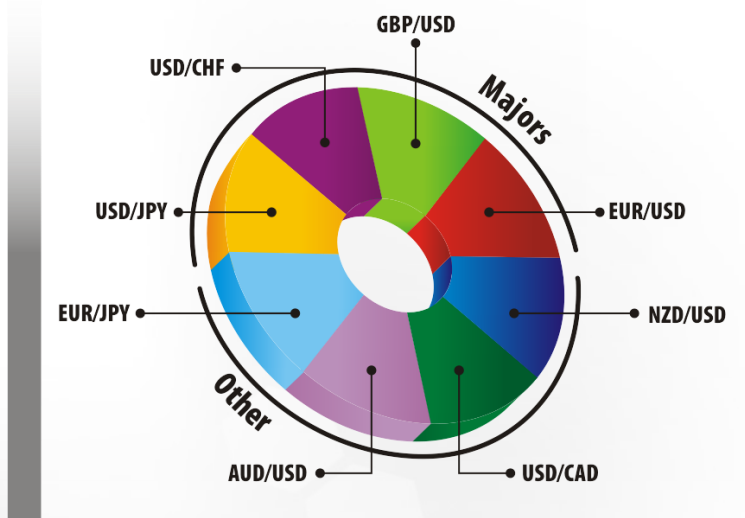
***Paul Ashworth
Chief US Economist
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In general, the US Dollar has obviously strengthened considerably in the second half of 2014 and in the first half of 2015, but more recently it has actually been trading broadly sideways since early 2016, and I think it will continue to do that.

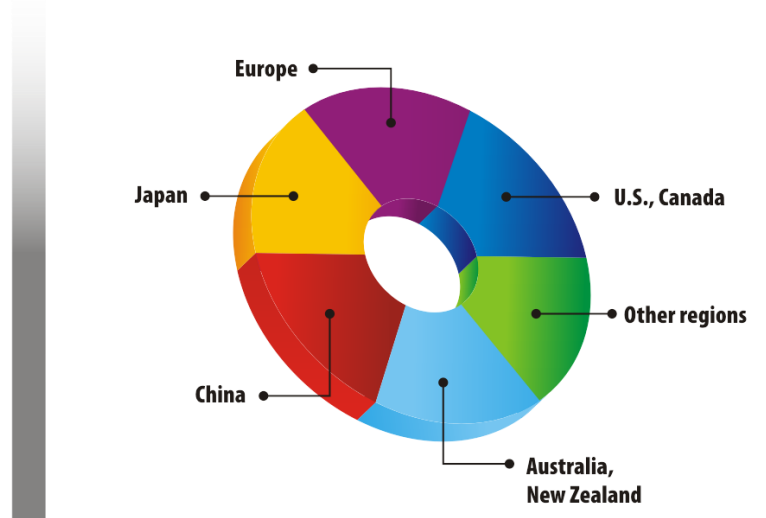
As I mentioned, we do not expect the Federal Reserve to do anything more than raising interest rates one time this year; so, for us that suggests that we will see the Dollar moving sideways, particularly, against the Canadian Dollar, which has obviously weakened a little bit in recent weeks, just matching the decline again in crude oil prices. As for the Euro, we do expect it to weaken a little bit against the US Dollar, more driven by prospects of further policy loosening in the Euro zone from the ECB rather than any timing of monetary policy in the US, though I think it is going to be a fairly small move. As concerns the Japanese Yen, which has obviously strengthened substantially against the US Dollar recently, we expect it to probably give back some of those gains over the rest of this year.

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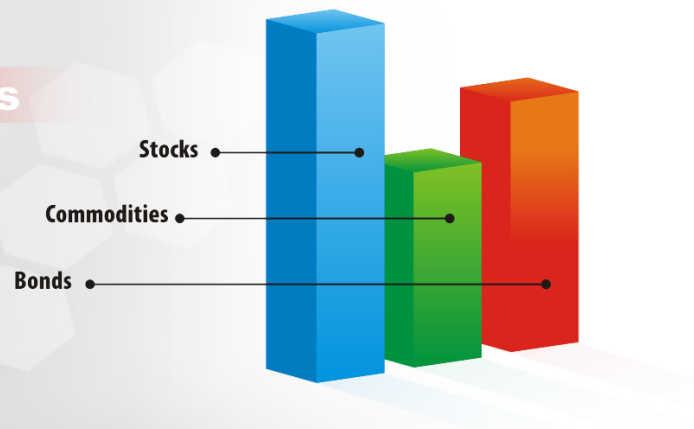
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