Labour's Day, But Not Its Year

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In this summer like no other, it makes perfect sense that the final week before Labour Day would be anything but dull. In financial markets, the S&P 500 charged to yet further record highs before the high-flying tech sector found a major air pocket late in the week. Commodity prices took a big breather, with oil sagging below US$40 on some slippage in supply discipline, and previously hot gold, lumber and copper all cooling. But the biggest news was on the economic front as the initial wave of August data began to roll in, and mostly on the positive side of the ledger. Yet, even with ongoing high-side surprises for the economy, bond yields still took another trip lower, partly reversing last week's Jackson Hole backup.

Looking at the raft of August economic results, **the big picture is that even in the face of a summer flare-up in virus cases, the U.S. economy managed to soldier on reasonably well.** Payrolls were largely as advertised at up 1.37 million, bolstered heavily by census hiring of 238,000. **But the eye-popping result was the 1.8 ppt plunge in the jobless rate to 8.4%, driven by a massive 3.8 million gain in the household survey.** While the latter may seem a tad suspect, some of the outsized gain represents catch-up after deeper initial job losses versus the payroll report. The level of employment in both surveys is now a bit more than 7% below February. Another way to look at it is that the U.S. jobless rate is now 4.9 percentage points above February's pre-pandemic level, versus a very similar 4.6 ppt rise in Canada (to 10.2%).

Beyond the jobs data, there were encouraging signs from the ISM reports, which showed further advances in manufacturing (to 56.0) and still-solid levels in services (56.9). These lofty survey levels no doubt overstate the strength of the economy, as they simply ask whether things are getting better or worse on a variety of indicators, and it's pretty tough to get worse than spring-time conditions. Still, the new orders component of the factory survey spiked to its highest level since 2004, and it is an excellent leading indicator of the official durable goods figure. Looking past just the surveys, **new vehicle sales came in much better than expected at 15.2 million units last month.** While still down more than 10% from a year ago, the recovery has so far been much faster than many expected. For example, in the prior cycle, it took roughly four years to get auto sales back to these levels from similar depths; this time it took four *months*. The overall economy may not be able to carve out a perfect V-shaped recovery, but parts of it certainly have pulled that trick.

Canada also printed a series of generally supportive results, albeit with still lots of work to do. After months of wildly volatile employment reports, the August result was pretty much in line with consensus, without the jobless rate shock seen stateside. Headline jobs rose by almost 246,000, bringing the four-month recovery to 1.9 million jobs, but leaving them still down 1.1 million from the February high. Another way to look at it: Canadian employment is now 5.7% below the pre-pandemic level, compared

with a 7.2% shortfall in the U.S. household survey (the LFS is a household tally too). Auto sales stayed at decent levels last month, with the 8.9% y/y sag a bit milder than in the U.S., although coming off deeper drops in the spring. That's been a theme for much of the data; **Canada saw a deeper drop during the shutdowns** (GDP fell at a combined 25% annual rate in the first two quarters, versus a 19% drop in the U.S.), **but is now seeing a more vigorous snapback.**

And nowhere is that snapback more obvious than in the Canadian housing sector. True, the U.S. is also posting some very impressive rebounds in sales and starts. But **no one expected the Canadian increases**. Home sales were even hotter in August, with a variety of cities knocking down record activity and posting double-digit price gains. Toronto's average price surge of 20% y/y is admittedly flattered by a shift to higher-priced detached homes, but still…who was calling for such frothy activity a few short months ago? In fact, one agency, which shall remain nameless, was looking for a decline in prices of a roughly similar magnitude in the spring. We suspect policymakers will grin and bear the housing market heat, accepting growth where they can find it in these challenging times.

Finally, both Canada and the U.S. produced **Q2 productivity** reports this week, and here the plot thickens. On the surface, the big U.S. gain of 10.1% annualized seems very impressive. That left output per hour up 2.8% y/y in the non-farm business sector, as hours worked fell 13.6% and output dropped a milder 11.2% y/y. This moderate uptick in productivity is partly due to a more intensive use of tech, but also a deeper drop in the hours worked among lower-wage industries (e.g., hospitality).

But there was nothing moderate about Canada's productivity figures; StatsCan estimates that output per hour in the business sector has rocketed 14.9% y/y, or roughly three times faster than any previous gain. The huge difference with the U.S. data is mostly due to an estimated 27.3% y/y plunge in reported hours worked. Simply put, at least one of the two countries has it wrong; **there is no way that Canadian productivity has surged almost 15% in the past year when U.S. productivity was up less than 3%.** Most likely, the truth lies somewhere in between, and both measures are likely to see some serious revisions in the years ahead. Yes, there may have been a modest narrowing in the productivity gap in recent months, but we highly doubt it was slammed shut.

As the summer draws to a close and we are now within less than two months of the U.S. elections, there are still no signs of any impending deal in Washington on a new stimulus bill. While the details are important, **a key stumbling block appears to simply be a fundamental difference on the size** of the measures. Initially, Democrats were looking at $3 trillion of new spending, while Republicans were closer to $1 trillion. There has been a clear willingness to move closer to $2 trillion, but a deal still seems a long way off at this point.

We will simply note the **enormity of these numbers**. For example, European markets temporarily celebrated a big fiscal package this week from France, which was equivalent to 100 billion euros (or about US$118 billion), and represents about 4% of GDP for that nation. Even new measures at the low end of U.S. negotiations would be equivalent to nearly 5% of GDP, a huge tally. At the start of the year—oh, so long ago

—many were decrying the fact that the U.S. budget deficit had just moved above $1 trillion on a 12-month rolling basis. Now such sums are nearly dismissed as inadequate. Seasons change, rapidly.

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