

Is Canada benefitting from “Trumpconomics”?

How is it that the Canadian economy continues to add jobs at a rapid clip despite all the Cassandra’s predicting imminent collapse.” Could it be that Trump has been good for Canada?

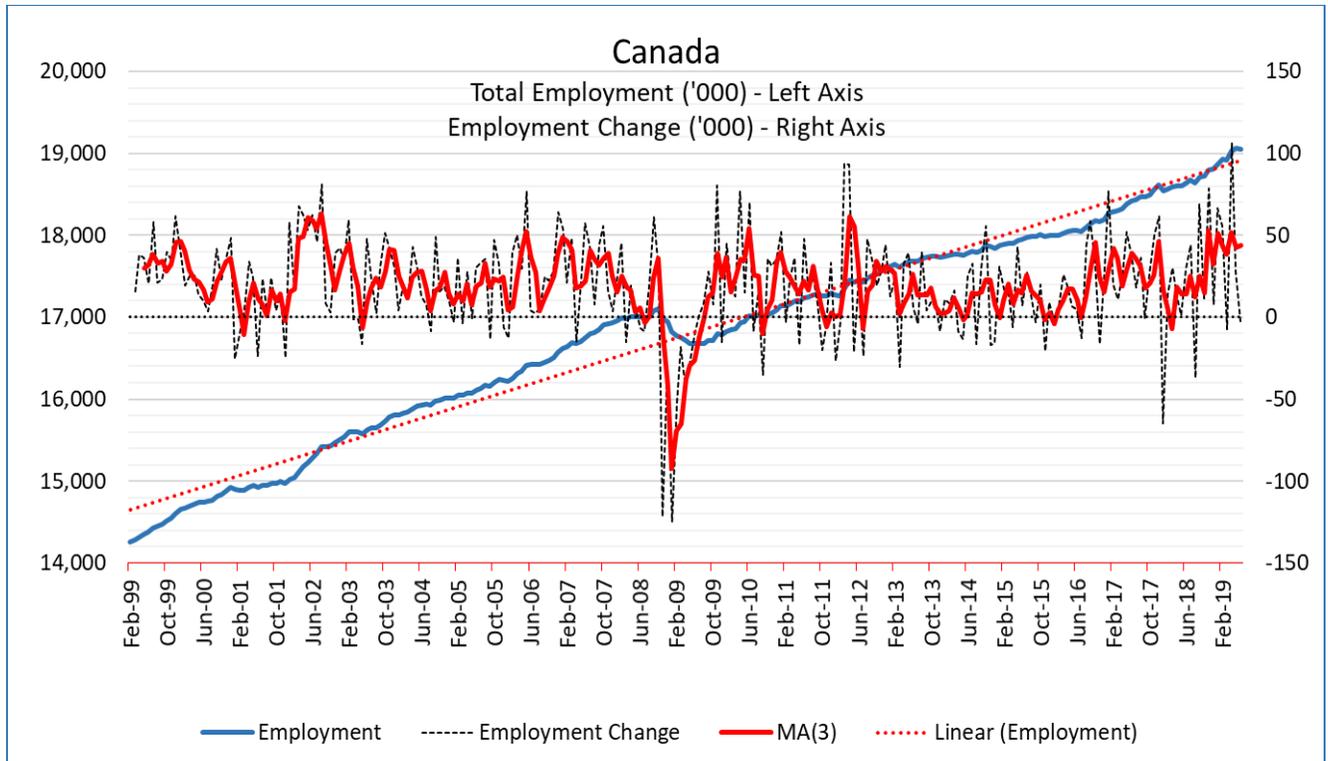


Figure 1: Employment Growth and Change for Canada 1999 – 2019

Source: Statistics Canada. Table 14-10-0355-01 Employment by industry, monthly, seasonally adjusted and unadjusted, and trend-cycle, last 5 months (x 1,000)

Let’s get some data. This graph shows 20 years of total employment (blue line) where the recession years (2008 - 2010) how as a large reduction of almost a million jobs. The dashed line shows change in employment from month to month and the red line is a three-month moving average to smooth things out. This figure supports several observations

1. If you imagine extending a trend from Feb 1999 to June 2008 out to May 2019, it is easy to see that the recession caused an enduring reduction in employment. In fact, had the trend of 1999 – 2008 continued and the Great Recession had never occurred, the Canadian economy would have had a total employment of 20.2 million in June 2019, rather than 19.1 million. The crash of 2008 produced an employment deficit of 1.2 million jobs that continues.

2. Between February 2010 and February 2016, the pace of recovery was slower than the job growth before the recession. The growth is above the linear trend before 2008 and equal or less than the trend after.
3. Since August 2016, the rate of jobs recovery in the Canadian economy has increased, matching or even exceeding the pre-recession growth. The last year has seen particularly high job growth in Canada as shown by the increase in the moving average (red line).
4. The most recent jobs survey reported a loss of 2,200 jobs. Is that something to worry about?

The Labour Force Survey conducted with 54,000 Canadians every month generates the data in Figure 1. An extract of these data appears below.

	Employment ('000)	Change in Employment ('000)	MA(3) ('000)
18-Jun	18,633.50	29.80	
Jul-18	18,677.40	43.90	14.17
Aug-18	18,640.20	-37.20	24.90
Sep-18	18,709.30	69.10	12.17
Oct-18	18,720.90	11.60	25.27
Nov-18	18,799.30	78.40	14.50
Dec-18	18,807.10	7.80	53.03
Jan-19	18,873.90	66.80	32.60
Feb-19	18,929.70	55.80	51.00
Mar-19	18,922.50	-7.20	43.47
Apr-19	19,029.10	106.60	38.47
May-19	19,056.80	27.70	51.73
Jun-19	19,054.60	-2.20	42.37

The monthly variability variation occurs for three reasons:

- Survey error due to sampling;
- Random shocks such as natural disasters or economic dislocations such as terminations in the oil patch when prices collapsed; and,
- Normal entry and exit of workers moving between jobs.

Month-to-month variation always gets the pundits going, especially when swings are large.

Pessimists view the most recent loss of 2200 jobs in June 2018 as a harbinger of doom to come, while optimists see this as a statistical blip. Looking at the data historically, it is hard to become alarmed since the moving average remains positive largely on the strength of the large gain in April 2019. It takes three months of sustained positive or sustained negative changes in employment to change the course of the moving average, which in June 2019 still has the effect of the very large increase in April (106,000 new jobs).

Indeed, over the past 24 months, we have seen three periods of job loss in August 2018, March 2019 and now in June 2019, for a total of 46,600 jobs lost. At the same time the remaining 21 months all had job gains for a total 433,900 jobs to a net of plus 387,900 over the two years. So, the most recent loss of 2,200 requires a little perspective...please.

The interesting point story is that despite China's canola and pork embargo, stalled energy investment, Trump's June 2018 steel tariffs (that he recently rescinded), and NAFTA approval stagnation, the economy continues to boom. Why is this?

International trade data offer a clue. Figure 2 showing the recent history of exports, underscores the dependency Canadian businesses have on the US economy. Many pundits call for increased diversification in our trade, but proximity is very hard to ignore when you are in business. It is true that the share of exports (and imports) with the United States has steadily fallen from 84% in 2000 to 73% in

2019, with the China and rest of the world (ROW) increasing. But, sales of goods and services to the US remain important determinants of GNP. In 2019, exports comprised 31% of GDP, and this feeds right to the labour market.

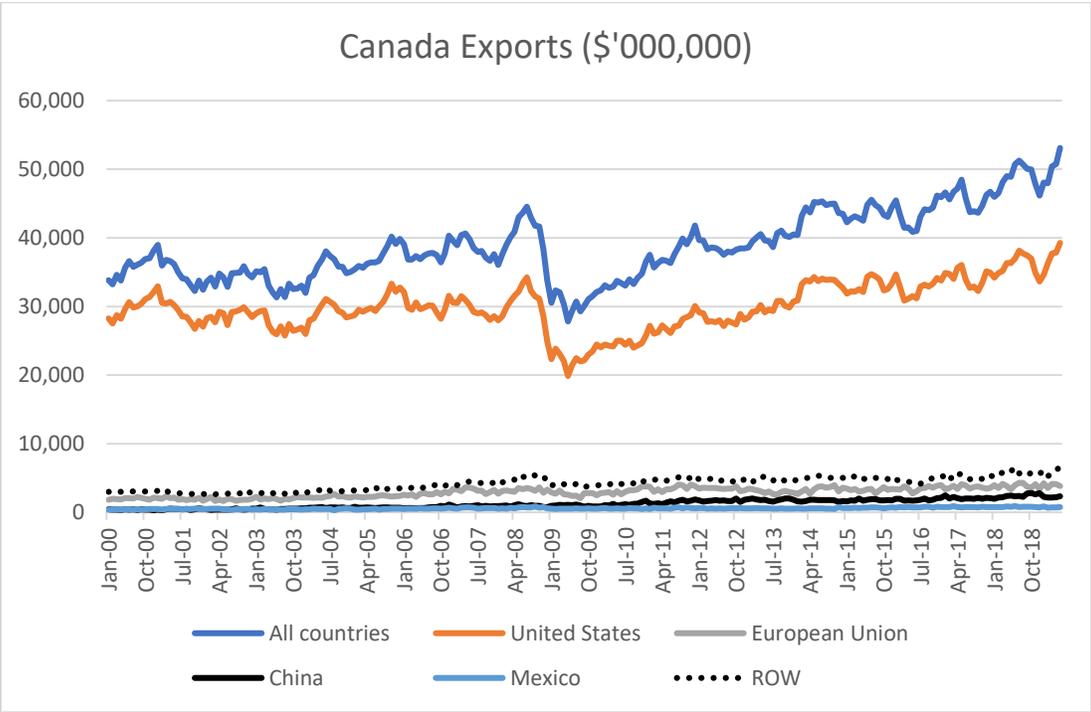


Figure 2: Canada's exports

Source: Statistics Canada. Table 12-10-0011-01 International merchandise trade for all countries and by Principal Trading Partners, monthly (x 1,000,000)

Now, to the key question. Can Canada's recent strong job creation performance be attributed to Trump's economic "policies", assuming one can characterize peripatetic tweets as policy? When I repeat Figure 1, but use U.S. data, Figure 3 shows that the American economy has experienced sustained job growth since the recovery in 2010. The chart looks a little different because the scale of the U.S. economy is about 10 times that of Canada.

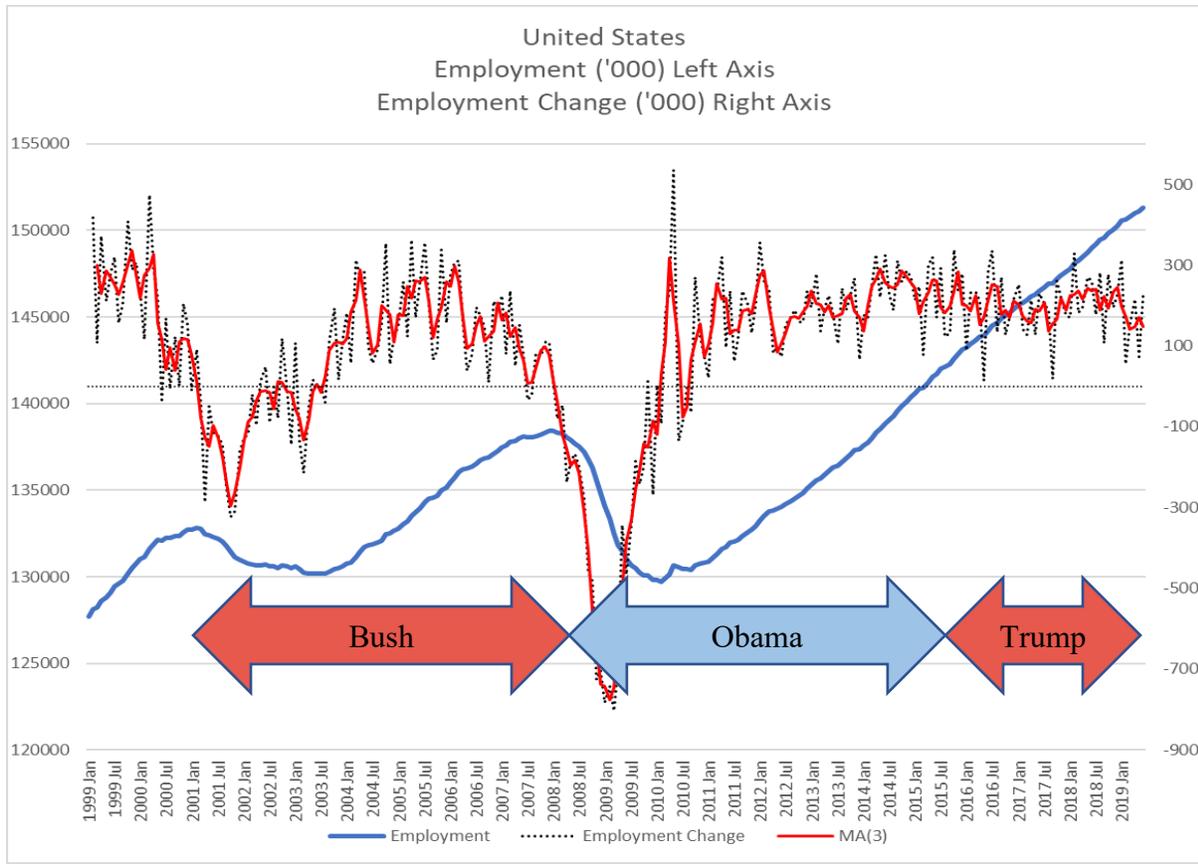


Figure 3: Employment Growth and Change for the United States 1999 – 2019

Source: U.S. Bureau of Labor Statistics, Employed and Office of Employment and Unemployment Statistics : SMS480000000000000001

The main point is that since emerging from the Great Recession in January 2010, U.S. employment has shown uninterrupted growth, never once contracting. Employment change and the moving average (MA(3)) all remain positive, dipping close to zero on two occasions, but never crossing into negative territory.

Further, no evidence exists that supports the claim that Trump’s policies, tax cuts and deregulation have accelerated growth over the Obama era policy of quantitative easing (low interest rates). It was not so much what President Obama did for economic policy... his administration just continued the policies initiated by President Bush and other world leaders to halt the death dive of the world. Specifically, quantitative easing (low interest rates), infusion of federal cash to insure deposits, bank bailouts floated all boats. Whether government needed to bailout the car companies remains debatable.

Trump’s economic policies comprising reduction in regulations, reduced taxes (for the well-off) , and a tariff war may have contributed something to job growth, but this does not come through in increased job growth. In fact, the U.S. economy has thrived, possibly in spite of these shocks. However, it would take more sophisticated and subtle analyses than offered here to tease out any net effect of Trumpconomics on the American economy and therefore the Canadian economy..

Current Canadian job growth is probably due to the many independent decisions made by business across Canada, deciding to expand, and in some cases, weather the tariff headwinds created by Trump, and sell goods and services into the American economy and to other countries. We can anticipate this underappreciated asset to continue supporting the Canadian economy. Indeed, economic growth persists in spite and not because of politicians. Slowly we are weaning ourselves off the dependence on the US economy, which is a good thing in the long-run.

Now for a caveat ... this would not be economic analysis unless I offered myself an escape hatch should the next few months see job losses. All the factors I mentioned above – China's actions against Canadian agriculture, the tariff wars, non approval of NAFTA (II), and stalled energy development all weigh on the economy. If the US economy touches the brakes, we can expect a domino effect on the world and Canadian economies. Then the simple projections I used here will look very naïve.

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