When Will Banks Stop Increasing Interest Rates?

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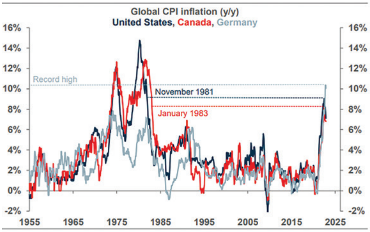
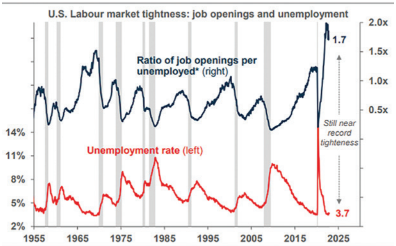


CIO Office (data via Refinitiv).

Let's begin by identifying the reason central banks have been aggressively increasing interest rates – ***inflation.*** As shown in the chart on the right, global inflation measures are near all-time highs. You will also notice that inflation appears to have peaked in Canada and the US while recently reaching a record high in Germany.

What will it take for central banks to lower interest rates? If you listen closely to the US Federal Reserve, their largest concern is wage inflation (~70% of the economy is tied to the service industry). Inflation won't get back to their 2% target without slack being created in the labor market – we need to see substantial layoffs before central banks in Canada and the US start to lower rates. How many layoffs will be required to create this slack in the labor market and get inflation under control? According to the chart on the left, we have a long way to go – the labor market in the US is currently the tightest in over 60 years. The Canadian labor market is in a similar position – very low unemployment rate coupled with high demand for labor. This ratio of job openings to unemployed workers (currently at 1.7 as shown in the chart on the left) is a statistic that the US Federal Reserve wants to see significantly lower before they stop raising interest rates.



CIO Office (data via Refinitiv, Barnichon (2010)). *Job openings data before 2001 is based on the Help-Wanted index published by the Conference Board and the methodology outlined in Barnichon (2010).

Please call one of our advisors to discuss interest rates and their impact on your portfolio.

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