

When Will Banks Stop Increasing Interest Rates?

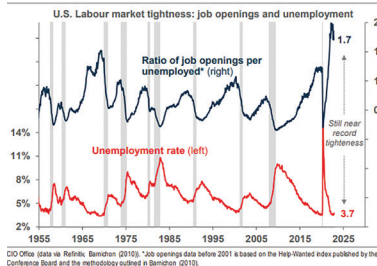
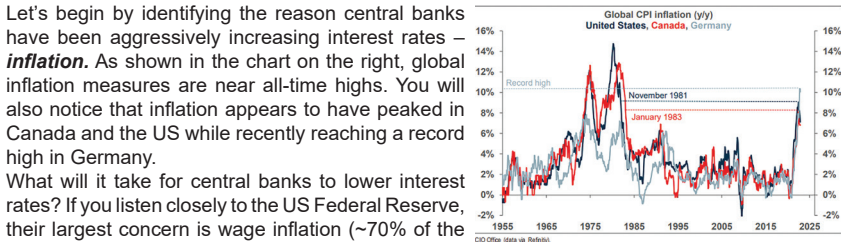
This article is sponsored by National Bank Financial – Wealth Management

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.



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



**NATIONAL BANK
FINANCIAL**
WEALTH MANAGEMENT

Blaine Kunz, B.Mgt, CIM®
Senior Wealth Advisor
Portfolio Manager
403-488-4681
blaine.kunz@nbc.ca

Eric Van Enk, BComm, BA (Econ), CFA
Wealth Advisor
Associate Portfolio Manager
403-488-4685
eric.vanenk@nbc.ca

National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). We have prepared this report to the best of our judgment and professional experience to give you my thoughts on various financial aspects and considerations. The opinions expressed represent solely my informed opinions and may not reflect the views of NBF. The particulars contained herein were obtained from sources we believe to be reliable but are not guaranteed by us and may be incomplete.