Forward Guidance: RBC Economics’ Weekly Preview
For the week of June 10, 2019

Light Canadian data week and trade tensions should leave focus on US industrial sector

A light Canadian economic data calendar over the next week should leave attention focused on external trade risks. Key to that will be whether the US follows through with planned 5% across-the-board tariffs on imports from Mexico on Monday, adding to new tariffs on imports from China last month. That would mark another blow for the US manufacturing sector which, we have noted before, has borne the brunt of US import tariffs to date and already posted declines in three of the first four months of 2019. In that respect, the May US industrial production report is perhaps the most consequential economic release on the docket for this week. Early indicators are not particularly positive. A softer-than-expected May employment gain included a 0.1% dip in manufacturing hours worked by production workers – yes, a small dip, but the fourth straight monthly decline.

The US and Canadian manufacturing sectors are incredibly closely integrated. There may be some opportunities for temporary reallocation of supply chains away from US-Mexico trade to US-Canada trade in the event the US follows through on their Mexico tariff threats. But anything that is bad for the US industrial sector – and added tariffs would definitely qualify – would almost certainly also be bad for Canada on net.

Yet it’s also important to remember that not all the economic data out of the US has been bad. The 90% of the economy that is not the industrial sector still has been doing okay. The ISM non-manufacturing output released over the last week is still consistent with solid expansion, not contraction. Even that softer-than-expected 75k gain in US employment in May looked a bit better under the hood. The unemployment rate held close to multi-decade lows and the broader ‘U6’ underemployment rate (which includes sources of ‘hidden unemployment’ like discouraged workers) declined to a new cycle-low. Wage growth ticked lower but is still running 3% or higher. And we have seen trade risks ebb and flow before – and typically with little notice. There is still time for the Trump administration to pull back from the brink ahead of G20 meetings at the end of this month – or to be pulled back by resistance from Congress. A pickup in motor vehicle sales in May is a good sign that retail sales picked up in May, consistent with a still decent looking consumer spending backdrop.

In Canada, the recent economic data has been downright strong. A 0.5% bounce-back in GDP in March bodes well for a return to growth in the 2% range in Q2 after disappointing growth over the prior two quarters. The 28k gain in employment in May was the 8th in the last 9 months for what is normally a volatile measure with job gains totalling 417k over that period. We expect housing starts – out on Monday – to slow but hold at an above-200k rate with activity continuing to recover from a big weather-related drop in February. Thursday will provide the latest update on the state of household balance sheets. Household net wealth probably bounced back alongside a recovery in equity markets in Q1 but we expect the closely-watched debt-to-disposable-income measure to hold steady at elevated levels.

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

©Registered trademark of Royal Bank of Canada.
©Royal Bank of Canada.