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**JON ERLICHMAN, BNN BLOOMBERG:**

I want to get some more insight and analysis on all of this. Tiffany Wilding covers both the Canadian and U.S. economies as a Managing Director and Economist at PIMCO. Tiffany, it's great to see you. I got to start with Canada's economy and your reaction to the Canadian jobs report.

**TIFFANY WILDING, PIMCO:**

This definitely complicates matters for the Bank of Canada, I think. On the one hand, you're definitely seeing growth in the Canadian economy cool. You mentioned the surge in immigration. If you look on a per capita basis, consumption is actually down in Canada. It's already contracting and that's obviously because you have had more pass-through of higher market interest rates on to debt service costs, and that is weighing on the consumer. But the problem on the other hand is just that wages and some of the stickier measures of inflation that the Bank of Canada really pays attention to, they're just moving sideways. They're not really moderating. And of course a continuation of a hot labor market doesn't really help that. So, we think here, although the Bank of Canada probably is close to being done, it's certainly possible for them to get in one more rate hike in October.

**ERLICHMAN:**

So with the possibility of another rate hike in October, how do you look at the jobs market as an economic data point in general? Because I think the one thing that I hear from those who are concerned about more interest rate hikes is that it tends to be a lagging indicator. If the Bank is trying to address issues today, but also trying to navigate where the economy lands through all of this, is there a danger that a jobs report from last month, resulting in another interest rate hike from the Bank of Canada later this month, ultimately puts the economy in a trickier spot in six months' time?

**WILDING:**

Certainly you have to think about how the current data moves your forecast. And of course with the jobs report, the headline numbers are notably volatile. So you do have to smooth through things here, and I do think there was some extra volatility in this report just as a result of school restarting. A lot of the gains were public sector jobs and in particular teachers. And just when school starts, that can cause some funky things in the data. So you're absolutely right that you have to smooth through things. But even taking the jobs data aside, you do have to take into account that wages are looking incredibly sticky. And the problem here that the Bank of Canada has to deal with is just that the price level adjustment, so how much prices have increased on aggregate in the Canadian economy, has been quite a bit, and wages just haven't increased by as much. So if you have a tight labor market, and this is exactly what we're seeing in the United States as well, it just results in people bargaining for that ketchup. They don't want their real wages to have contracted since the pandemic and they're trying to make up for that. And that just means wages can be stickier for longer. That's what central banks want to be careful about. You don't want inflation expectations to get embedded at higher levels in the central bank target. And so you have to be a little bit careful here.

**ERLICHMAN:**

You don't have to look far, right? Whether it's pilots here in Canada, whether it's now health care workers in the United States, whether it's striking auto workers in the U.S. right now, whether it's what's happening in Hollywood, we see those examples everywhere in North America. As a North American economist, you do have sort of a unique vantage point of studying Canada's economy but also focusing on what's happening in the U.S. As much as we talk about our story within the markets, the majority of investors this morning are watching the hotter than expected U.S. jobs report and trying to figure out what that means for Fed policy. By comparison, what was your take on the U.S. report?

**WILDING:**

There's no doubt that the U.S. report was strong. Now we have some of the same dynamics in the U.S. that were happening that I just mentioned in the Canadian report. You had government workers that were incredibly strong. A lot of that had to do with state and local education workers. So again, this weirdness around when school started can kind of boost things. But even if you look past that, if you look at diffusion indexes, for example, the labor market looks incredibly resilient in the United States. Even if you look at the unemployment rate, it stayed the same. You’re at 3.8. So we're just not seeing a lot of evidence of loosening, at least in the payroll numbers. That is potentially an issue for the Central Bank. We need to get some weakening in the labor market in our view in order to make sure wage inflation is more consistent with the Central Bank's target.

**ERLICHMAN:**

The bond market worries have been very much focused on recently. The fact that you've seen yields on government debt steadily moving higher, so investors selling bonds. And if we don't know when interest rates have peaked, can you blame investors for selling fixed income and subsequently pushing up these yields? But I guess there is this other story out there about the consequences of having higher yields. The idea that that will further increase borrowing costs, for example, for a lot of businesses. And because we're going through such a unique rate hike period, given the magnitude of the move and the amount of time, people get very worried about things breaking within the economy, and you just don't know where that's going to happen. What are your biggest concerns right now as an economist? What are you going to be watching most closely?

**WILDING:**

I think you hit the nail on the head with your summary there in terms of the risks around the outlook. On the one hand, things just look much more resilient than anybody expected, given the amount of policy tightening that we've seen across the developed markets. Usually central banks aren't coordinated, but they are correlated. And across the developed markets, you've seen a very correlated move higher in central bank policy rates. That is definitely tightening financial conditions. The latest move higher across the developed markets in longer term bond yields is basically helping central banks doing their job for them. It's further tightened financial conditions. We are seeing the effects of that when you look at lending data. So in the eurozone, for example, credit flows are actually contracting. They're stagnant in the United States and similarly in Canada. So these things are working. Debt service ratios are also increasing. So you do have on the one hand the fact that monetary policy, if you look under the surface, appears to be working, But on the other hand, headline GDP and wage inflation just continues to look very resilient at these levels. So it's really balancing the risks here. Monetary policy is all about balancing the risks. And again, it's a tricky job for these central bankers. And I think how they're managing it right now is to say, hey, we think we're probably close to the top of our rate hiking cycle. But nevertheless, we're going to be on hold for quite some time to just make sure inflation comes back down.

**ERLICHMAN:**

All right. Great perspective, Tiffany. We appreciate the time as always. Good to have you back with us. Tiffany Wilding is a Managing Director and North American Economist with PIMCO.