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# ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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## THE UNITED STATES ECONOMY AND GLOBAL ENERGY PRICES

Given the recent deceleration in COVID-19 cases and the pickup in activity indicators, we believe that the United States (US) Federal Reserve (Fed) will follow through with their planned taper announcement at the upcoming policy meeting in November. This marks the slow but sure shift away from loose monetary policy towards something that resembles a historic 'normality'; even though we are still unsure how exactly normal will look in this new world. The recent shocking payrolls report, that showed that only 194 000 jobs were created, was probably just a blip, especially if one considers the health of the US economy, recent reports, as well as the fact that analysts were expecting something closer to 500 000.

Despite fewer jobs being created, the jobless rate fell from 5.2% to 4.8%, etching ever closer to the 3% range that is considered full employment. The recent fall was aided by individuals exiting the labour force, a trend that has persisted since the pandemic took hold and easy money made individuals grow reluctant to take up unsatisfying jobs, like working at McDonald's, and the like. We are also noticing that the labour market is tightening up after average hourly earnings rose 0.6% in September, up from the 0.4% increase in August. How exactly this will impact long-term inflation is yet to be seen. But one thing is sure, wage inflation is not transitory.

Another inflation concern is the persisting nature of high energy prices. Crude oil prices surged towards $84 per barrel, reaching seven-year highs, despite a recent announcement from OPEC+ (the Organization of the Petroleum Exporting Countries and Russia) to add more than 400 000 barrels to the daily global output. Strong global demand and tight supplies have caused prices to continue upwards during the last couple of months. Usually when oil prices reach these levels, shale producers in the US jump in to help drive prices down. But a reluctant labour force, cautious drilling companies, and bad weather in shale gas counties have all decreased supply. Bad weather in China, however, has reduced the supply of coal, increasing their demand for alternative energy sources.

Another factor that has supported higher oil prices was the record high gas prices reported in Europe during the last couple of weeks. Last week, gas prices reached nearly double that of the price of oil, causing some consumers to substitute away from gas. Gas prices have been driven higher by the rapid reopening of economies and the expected demand surge ahead of the upcoming winter in the Northern Hemisphere.

It should be noted that most analysts have been cautioning about volatile energy prices for quite some time, implying that what we are seeing now is only a temporary spike passing through. However, if short-term spikes persist for too long, they become long-term shifts, but I doubt that we are there yet. For now, all we can do is buckle down and get through it. With the US dollar remaining strong and oil prices reaching recent highs, we do expect fuel prices to etch ever upwards in the months to come.



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