

Economy at a Glance

Prepared by Alex Carrick, ConstructConnect® Chief Economist

Stock markets speed along, oblivious to blind spots (Part I)

U.S. economy stumbling blocks

A year and a half into the coronavirus health crisis, the economies of the U.S. and Canada have been running into some stumbling blocks. In the U.S., GDP growth in Q1 and Q2 of this year, at +6.3% and +6.5% respectively (quarter to quarter annualized), were looking pretty good, and not far out of line with the +7.0% forecast figure for the full year adopted by many analysts. But the third quarter has not been looking as sparky.

Shortages of components and labour have cut into production across a wide swath. With some major auto-makers, motor vehicle assembly lines have temporarily ceased operations because computer chips have not been arriving from China as contracted.

With major retailers, imported consumer goods are not making it to the interior of the country because of tie-ups at the ports. There's a logjam of container ships off the coast of California.

The cost of shipping goods from overseas has risen dramatically. When firms turn to the air as an alternative means of moving cargo, they're finding there hasn't yet been a sufficient increase in capacity.

General price inflation has climbed to +5.0% year over year. Wages have also been catching fire. They're within sight of +5.0% year over year, both hourly and weekly.



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But the biggest negative has been the resurgent coronavirus, with the Delta variant causing a fourth wave and a level of infections in August reminiscent of previous peak months. One consequence has been a blow to consumer confidence. The University of Michigan's 'Sentiment Index' has fallen to 70.3 from 81.2 in the prior month. The current reading is lower than it was a year ago (70.3 versus 74.1).

Canadian economy suffers Q2 GDP setback

The Canadian economy has been more prescient in reflecting the inhibiting influences presently underway. After a GDP climb of +5.6% in Q1, Canada's economy shrank by -1.1% in Q2.

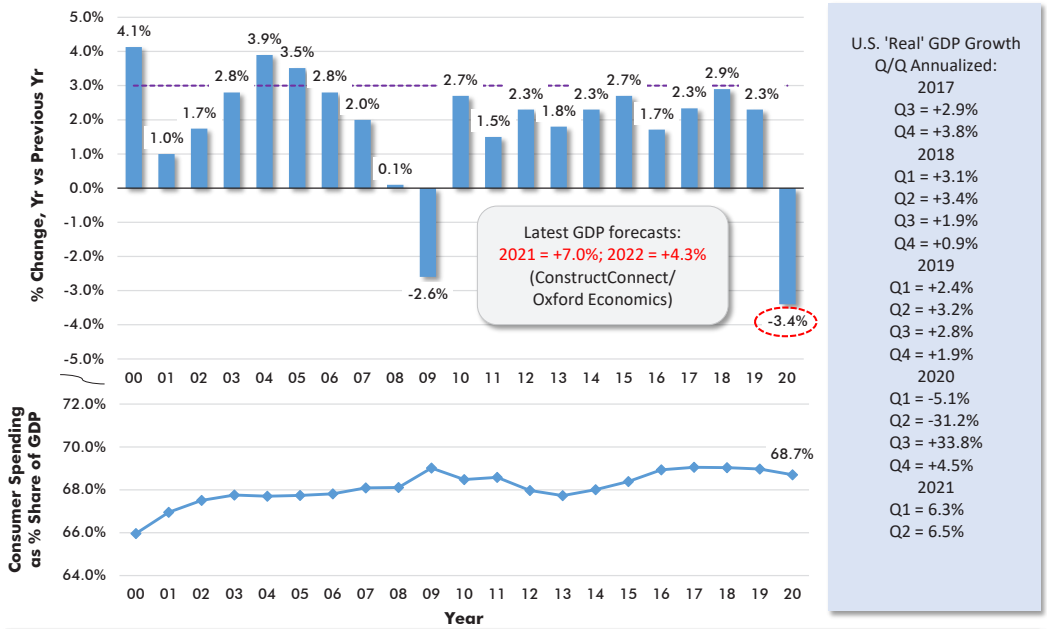
Again, a largely unexpected upsurge in C-19 has been the culprit, leading to re-imposition of some restrictions, or the exercise of more caution in re-opening drives.

To be continued in *Economy at a Glance*, Vol. 17, Issue 135.

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Graph 1: U.S. 'Real' GDP Growth, Y/Y & Q/Q

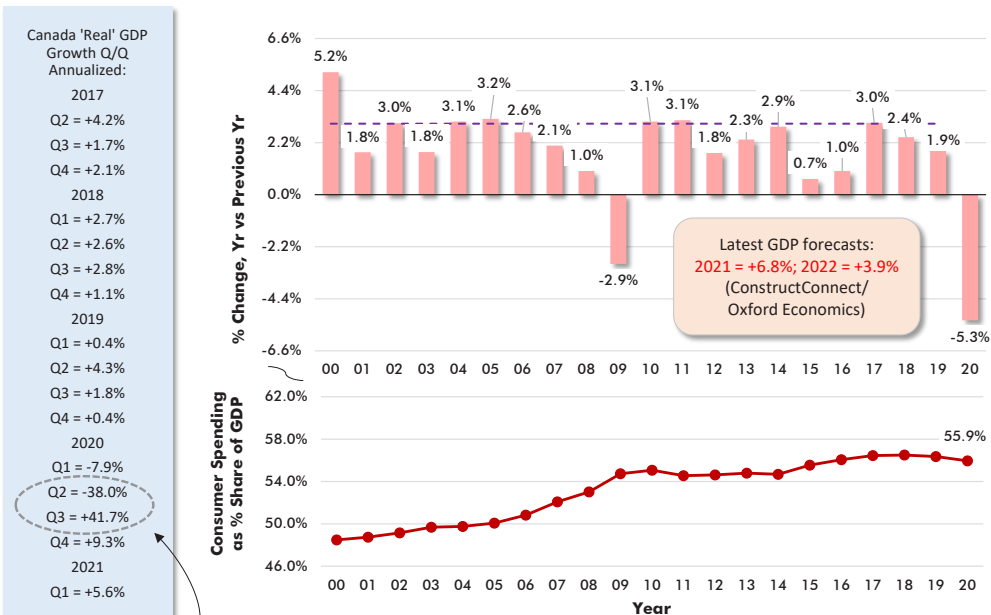


Shaded blue box numbers are Q/Q annualized (i.e., essentially multiplied by 4). The -3.4% annual decline in 2020 was the steepest since 1946 (-11.6%) when weaponry production was winding down after WWII. In 1932, during the Great Depression, GDP fell -12.9%.

'Real' is after adjustment for inflation.

Data source: Bureau of Economic Analysis (BEA)/Chart: ConstructConnect — CanaData.

Graph 2: Canada 'Real' GDP Growth, Y/Y & Q/Q



These outsized percentages are somewhat misleading because they are the quarter to quarter changes annualized (i.e., essentially Q/Q multiplied by four). The official figure for full year 2020 was -5.3%.

Data source: Statistics Canada Table 36-10-0140-01/Chart: ConstructConnect — CanaData.

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Stock markets speed along, oblivious to blind spots (Part 2)

Continued from *Economy at a Glance*, Vol. 17, Issue 134.

The stock markets pay no heed

As Table 1 points out, however, the stock markets are having none of it. They're discounting the questionable news and staying onboard with what they believe will hold true.

The four North American indices showcased in Table 1 all set new record highs in August. The long-term histories (from January 1991 onwards) of the index values for the DJI, S&P 500, NASDAQ and TSX appear in Graphs 7 through 10 online: <https://bit.ly/3AFfeQd>.

A fifth North American index, the Russell 2000 (for firms with smaller capitalizations), has just turned in the biggest year-over-year increase among stock market indices worldwide, +45.6% (see Graph 3 and Table 2).

The runner-up to the Russell 2000 for y/y climb in August was the iShares 100 Frontier Pre-emerging Economies' index, +33.8%.

STOXX Europe managed a y/y gain (+28.9%) that was almost a match for NASDAQ (+29.6%) and the S&P 500 (+29.2%).

As for performances over a shorter time frame, the Shanghai Composite index was the leader at +4.3% month to month. China's GDP growth this year is expected to be around +8%.

China's Q1 2021 GDP increase was +18.3% (not annualized, but rather compared with Q1 2020). 2021's Q2 (vs 2020's Q2) GDP



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result wasn't quite as strong, but it was still noteworthy, +7.9%. In Q1 2020, China's GDP shrank by -6.8%, but the entire year still came in at +2.3%, the only increase among major nations.

With an eye to emulating the success of NASDAQ, Beijing is planning on setting up a new index for SMEs, small and medium-sized enterprises with a need for venture capital.

Finally, as a point of interest, the Toronto Stock Exchange, which has struggled to make significant headway over the past many years, beat (although just barely) the Dow Jones Industrials index on a y/y basis as of August's closings. The TSX was +24.6% y/y to the DJI's +24.4%.

The TSX is being given new life by the improved prospects for commodities markets. For the construction sector, higher demand and prices for raw materials will translate to more onsite activity. Historically, many of the projects reaching 'mega' status have been resource-extraction projects.

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Table 1: Stock exchanges – performances of key indices – August 31, 2021

INDEX	52-week		Year ago (Aug 31, 2020)	Month ago (Jul 30, 2021)	Latest month-end closing prices (Aug 31, 2021)	Per cent change, latest versus:			
	low	high				52-week low	52-week high	Year ago	Month ago
Dow Jones Industrials NYSE (^dji)	Oct 30 20 26,144	Aug 16 21 35,631	28,430	34,935	35,361	35.3%	-0.8%	24.4%	1.2%
S & P 500 NYSE (^gspc)	Sep 24 20 3,209	Aug 30 21 4,537	3,500	4,395	4,523	40.9%	-0.3%	29.2%	2.9%
NASDAQ (^ixic)	Sep 24 20 10,520	Aug 30 21 15,288	11,775	14,673	15,259	45.0%	-0.2%	29.6%	4.0%
S&P/TSX Composite TSX (^gsptse)	Oct 30 20 15,419	Aug 31 21 20,704	16,514	20,288	20,583	33.5%	-0.6%	24.6%	1.5%

In August, the remarkable string of successes achieved by the major stock market indices featured above continued with all four of them – i.e., the DJI, S&P 500, NASDAQ and TSX – establishing **new record highs**.

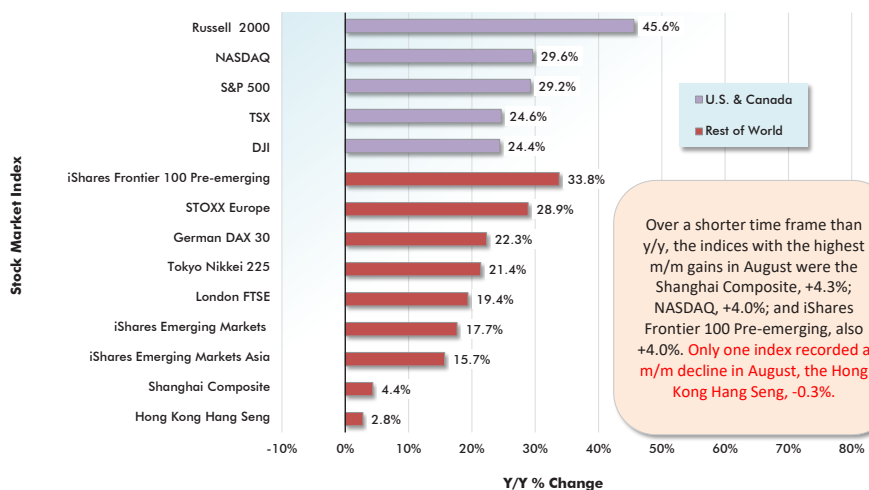
On a y/y basis, **NASDAQ & the S&P 500 were tied for biggest increase**, just short of +30%. The DJI & TSX were also tied, but at a bit less than +25%.

Data Sources: New York Stock Exchange (NYSE), Standard and Poor's (S & P), National Association of Securities Dealers Automated Quotations (NASDAQ), Toronto Stock Exchange (TSE) and Reuters/Table: ConstructConnect — CanaData.

Graph 3: Stock Market Performances: U.S. & Canada vs Rest of World Year over Year as of Month-end Closings, August 31, 2021

iShares is a web site that specializes in "exchange traded funds", or ETFs, managed by BlackRock Investments LLC.

Data Source: 'finance.yahoo.com'.
Chart: ConstructConnect — CanaData.



Over a shorter time frame than y/y, the indices with the highest m/m gains in August were the Shanghai Composite, +4.3%; NASDAQ, +4.0%; and iShares Frontier 100 Pre-emerging, also +4.0%. **Only one index recorded a m/m decline in August, the Hong Kong Hang Seng, -0.3%.**

Table 2: Key Domestic & International Stock Market Indices – August 31, 2021

"Ticker symbols" are in brackets. MSCI (formerly Morgan Stanley Capital International) is a leading provider of investment decision support tools, with indices as one specialty. "iShares" is a web site that specializes in "exchange traded funds", or ETFs, managed by BlackRock Investments LLC.

Data Source: 'finance.yahoo.com'.
Table: ConstructConnect — CanaData.

Stock Index:	Month-end Closing Value Aug 31, 2021	Month/ Month	Year/ Year
Dow Jones Industrials (^DJI)	35,361.00	1.2%	24.4%
S&P 500 (^GSPC)	4,523.00	2.9%	29.2%
NASDAQ (^IXIC)	15,259.00	4.0%	29.6%
Russell 2000 (^RUT)	2,274.00	2.2%	45.6%
Toronto Composite (^GSP TSE)	20,583.00	1.5%	24.6%
London FTSE 100 (^FTSE)	7,120.00	1.3%	19.4%
German DAX 30 (^GDAXI)	15,835.00	1.9%	22.3%
STOXX Europe (EXSA.DE)	46.90	2.4%	28.9%
Tokyo Nikkei 225 (^N225)	28,090.00	3.0%	21.4%
Shanghai Composite Index (000001.SS)	3,544.00	4.3%	4.4%
Hong Kong Hang Seng (^HSI)	25,879.00	-0.3%	2.8%
iShares MSCI Emerging Markets Asia Index (EEMA)	87.67	2.1%	15.7%
iShares MSCI Emerging Markets Index (EEM)	52.41	1.6%	17.7%
iShares MSCI Frontier 100 ETF for pre-emerging markets (FM)	34.17	4.0%	33.8%