Weekly Market Watch

This week’s chart highlights one of the key financial questions for 2024 — has inflation bottomed out and if so, can we expect it to remain so? And if so, toward the 2% target of the Bank of Canada and the U.S. Federal Reserve?

In the supply chain, the real representative of U.S. inflation (headline CPI) while the price representation of the NFIB Survey of U.S. small businesses, is, typically, the net per cent of small businesses which indicate prices increased. We observe the surveys of NFIB and the University of Michigan are complimenting each other suggesting the potential for inflation to remain subdued. On Friday, Feb. 2, the most influential U.S. jobs report, the December NFIB Payroll report was published and surprisingly higher than economists' expectations.

The U.S. added 335,000 jobs in January compared to expectations of adding 180,000. Not only was January’s number revised substantially upward, December’s Nonfarm Payroll number was revised substantially upward to 335,000 jobs from 216,000 originally. Bottom line — it will be difficult for inflation to reach the 2% central bank target if the jobs market remains tight and businesses continue to increase prices.

Why should you care? If inflation reaccelerates this year, the Bank of Canada and the U.S. Federal Reserve may need to reduce interest rates prior to the primary role of central banks is to maintain inflation near their target level of 2%.

Financial markets are currently discounting several interesting rate cuts in 2024. If inflation fails to materialize, I would expect substantial upward interest rate impacts to the economy and asset prices.

Eric Van Firk is a Financial adviser & associate portfolio manager with National Bank Financial in Medicine Hat. He is a graduate of the University of Calgary, as well as a CFA charter holder with 20 years of financial markets experience in New York, Toronto and Calgary. He can be reached at evanfirk@nbc.ca.