December 7, 2018

Canadian Jobs Restore Balance To One-Sided BoC Bets

Canada, Net Change in Employment SA (m/m 000s) / UR (%), November:
Actual: 94.1 / 5.6
Scotia: 10 / 5.8
Consensus: 10 / 5.8
Prior: Unrevised from 11.2 / 5.8

- **What this very strong report does is to restore some balance to a one way directional bet within consensus and markets of late.** 94,100 jobs created in a single month makes for the biggest single month of job growth on record dating back to the revised Labour Force Survey that began in 1976. It was getting too easy for market participants to hit sell on CAD and pile on the front-end. The jobs report - and most of its underlying details—serves as a reminder that the BoC is still data dependent and that there are both downside *and* upside risks to developments. The report is notoriously volatile and has had issues in the past so let's not over react, but it is hard for market participants to deny that it is constructive to the macroeconomic picture including knock on effects on consumer spending and housing markets—and the Bank of Canada rate outlook.

- CAD appreciated by over a full penny versus the USD following the reports (and the downside miss to US jobs) and the Canada two year yield jumped by about 5bps.

- **That said, there remains a solid case for skipping a BoC hike in Q1 while nevertheless retaining a hike path thereafter that is only delayed.** Alberta's production cuts and the impact they will have on the economy all lay ahead in Q1 when they become effective in January. Figures like exports, manufacturing shipments and GDP are still going to be negatively hit. Global oil benchmarks are only up by just over $2 in reaction to the 1.2 mbpd OPEC+ cut that was announced around the same time as the jobs figures. Trade tensions remain. Estimates of spare capacity will probably be revised upward in the January MPR in the wake of downward revisions to past years' GDP levels. **Nevertheless, what the jobs figures do is to keep alive expectations for a rising rate path that is only interrupted by these factors, not fundamentally abandoned as doves within consensus and markets were going way too far and as positioning changes swung markets too far in one direction.**

- **Hours worked were up by an impressive 0.9% m/m for the strongest seasonally adjusted gain since last December. That translates into 1.6% q/q SAAR growth in hours worked during Q4** assuming a flat December to focus upon the effects of what we know. Since real GDP is hours worked times labour productivity (defined as output per hour worked), this is constructive to GDP tracking all else equal and with much of the rest of the Q4 data still ahead. **Tag this with the upside in Canadian exports during October that came out basically as Governor Poloz was speaking and we have a pair of releases that remind market participants that the economy is not dead in the water. Indeed, it is very much alive.**

- **Wage growth decelerated to 1.5% y/y** (1.9% prior, peak of 3.9% in May). This is not the BoC's preferred wage metric and it gets a trivial weighting in

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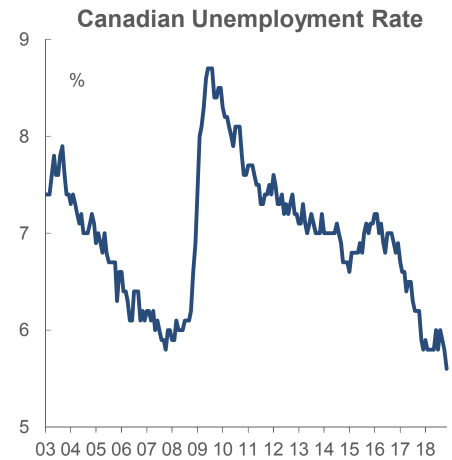
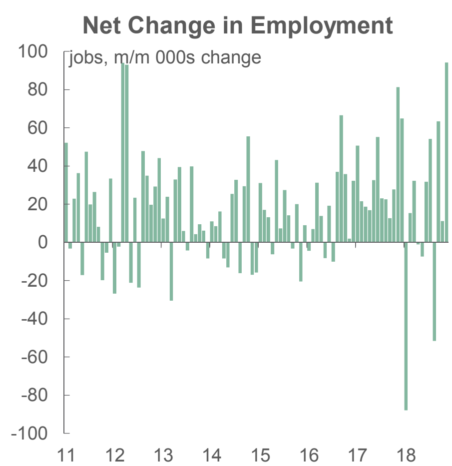


Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Statistics Canada.

the wage common composite. Nevertheless, it is a piece of evidence that dents some of the tone to the report and that the BoC may point to if buttressed by further evidence in their preferred but lagging wage common metric. That said, there is also a solid argument for looking through the deceleration in wage growth; labour market conditions are tightening even further and it's likely that an investment acceleration will be forthcoming that could be positive to productivity growth and hence possibly real wages.

- **The unemployment rate fell two-tenths given the magnitude of the job gain but it would have fallen further if not for a large gain in the size of the labour force (+77k).** That labour force rise drove the participation rate up by two-tenths to 65.4% against what was otherwise a downward year-long trend. More people looking for work and coming off the sidelines is a positive sign for the labour market and for addressing job vacancies.
- **Most of the jobs created were payroll jobs** (+86,900) as self-employment was up by just 7,200.
- **Breadth was decent by industry and province. Jobs were up in 13 of 16 sectors and six of ten provinces including all four of the biggest ones.**
- **By sector, goods producing industries added 26,900 jobs but services added 67,200 and did most of the heavy lifting.** Within goods, a **15k rise in construction jobs** is very welcome alongside milder gains in agriculture, natural resources, utilities and manufacturing. Within services, the biggest gains were in the professional/scientific/technical category (+26k), health care and social assistance (18,700), and business/building services (+14,600). There were mild declines in education, info/culture/rec and finance/insurance/real estate.
- **By province, Quebec added 26k jobs, Ontario added 20k jobs, Alberta added 24k jobs and BC added 16k.** The other provinces were generally little changed.
- **On Alberta, the unemployment rate fell by a full percentage point to 6.3%.** It is 2.7 points lower than the 9% peak in late 2016. While cuts lay ahead in Q1, the job market is going into those reductions on fairly healthy terms. 38,500 jobs have been created in Alberta this year so far and 112k jobs have been created since employment bottom in June 2016. As for then versus now, let's remind ourselves of the differences in the oil sector challenges that I've emphasized in other writings and point to the still collapsing discount on Canadian oil that is just US$18.50 now which is a massive improvement from the peak—US$50 discount set in October. Did Alberta over-react? That question needs to be posed for purposes of testing macroeconomic risks, commitment to maintaining its announced cut schedule and for BoC purposes.