January 4, 2019

Canadian Jobs Streak Is Alive

Canada, Net Change in Employment SA (m/m 000s) / UR (%), December
Actual: 9.3 / 5.6
Scotia: 10 / 5.6
Consensus: 10 / 5.7
Prior: Unrevised from 94.1 / 5.6

- The streak is alive. Every time a massive job gain of over 50k has occurred since the inception of the modern LFS in 1976, the next month has always followed up with another rise; this time is no different with another 9,300 jobs created after the prior record-breaking gain of 94,100 jobs. **Canadian job gains are nothing short of breath taking of late.** 178,000 jobs have been created in the Canadian economy in just four months. If this were the US, that would be equivalent to just shy of 2 million jobs over the same period. That buys a LOT of insurance against housing downsides that I think stabilize; off a weak starting point now, job figures like this could well support the Spring market.
- **Quality was soft on the overall composition of the December numbers, but this too has to be put in the context of the trends.**
- Full time jobs were down 19k with part time jobs up 28k. The prior month saw FT jobs up 90k so slight moderation is not at all unreasonable. Over the past four months, about 90k full-time and 90k part-time jobs have been created.
- Self-employed drove the gains (+46.4k) while payroll jobs fell in Canada but the payroll figures are wickedly volatile over recent months: -37k, +87k, -10.6k, +98.2k, -68.7k. **Over the past four months, however, 175,000 private payroll jobs have been created, 37k public sector payroll jobs lost and there have been 40k more self-employed jobs.**
- The UR in Canada was flat at 5.6% because the job gains was met by an identical increase in the size of the labour force and a flat participation rate at 65.4%
- **Hours worked were flat (-0.05% m/m) but the prior month saw a whopping gain of 0.9% m/m** which is very positive for November GDP. Recall that GDP is hours worked times productivity. As long as activity readings don't crater, the nearly 1% rise in hours worked begets a very solid underlying tracking of GDP growth in November.
- **GDP growth is tracking at 0.2% m/m in November after we got 0.3% in October.** Overall, GDP growth is tracking just shy of 2% in Q4 using the tracking for monthly GDP figures.
- **And upon sorting through the CDN wage figures, they're mixed but probably of little relevance.** They are of little use because the LFS measure of wages has a trivial weight attached to it in the BoC's preferred wage common metric that puts a much higher weight upon wages derived from the SEPH report and the two other wage measures that themselves are partly spun off from the SEPH/payrolls measure. They are mixed because while the y/y LFS wage growth measure for permanent employees was unchanged at 1.5% y/y and has been cut in half from the peak in July, the month ago seasonally adjusted wage figure was up 0.3% m/m for the strongest gain

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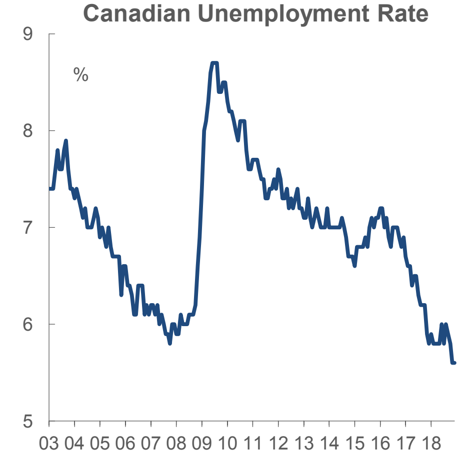
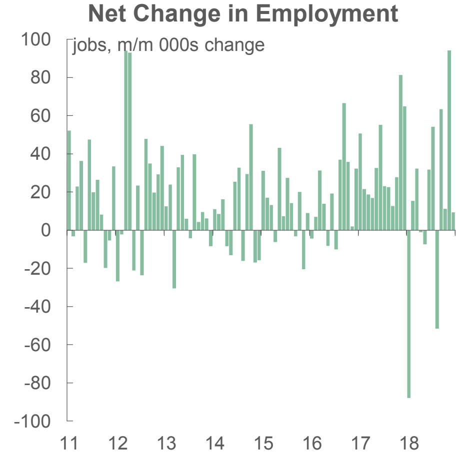
Canadian Unemployment Rate



Sources: Scotiabank Economics, Statistics Canada.

Net Change in Employment



Sources: Scotiabank Economics, Statistics Canada.

since May. The year-over-year rate is influenced by many factors including rebasing minimum wage hike influences. The month-ago figure is less dirtied by such considerations and considerably stronger. It's also worth flagging the temp workers wage figure: 4.2% y/y for the strongest since April. For some industries, the first solution to hiring needs is the temp route and the fact that wage pressures are rising there may be a canary in the coal mine sort of effect.

- **So what about the BoC?** I still think they pause next week, but keep guiding a need to move toward neutral on a mildly hawkish bias, and in support of 2-3 hikes this year. Like the Fed, the front ends are underpricing rate risk. But the jobs data is backward looking whereas the BoC will be focused upon forward looking risks into Q1 that give it breathing room. Alberta's 8% production cuts that took effect this week being one of them, albeit reined in by the partial exemptions granted earlier this week. That's still going to hit January and Q1 data for manufacturing, trade and GDP. The BoC also has to incorporate more dovish GDP revisions stretching back years in time that will lead to modestly higher estimates of near-term slack.