Canadian Jobs Beat Yet Again, Support Case For Hikes

Canada, Net Change in Employment SA (m/m 000s) / UR (%), January:
Actual: 66.8 / 5.8
Scotia: 15 / 5.6
Consensus: 5 / 5.7
Prior: Unrevised from 9.3 / 5.6

- Headline and most details blew away expectations for Canadian labour markets to ring in the new year. The main takeaway from this report is that it reinforces our forecast bias that Canada is going through a transitory soft patch in GDP terms while underlying momentum remains strong. That leans in favour of our argument that the market is underpricing BoC hikes but we still have to get through H1 checks against that story that position rate hike risk as more concentrated around mid-year onward.
- Markets indeed reacted by driving CAD about one-third of a cent stronger to the USD and the 2 year GoC yield up 4bps at first before settling down now to about half that 2s reaction. Canada's front-end is underperforming the modest rally stateside because of the jobs print.
- Geopolitical risks with March timelines (tariffs, Brexit, US shutdown, US debt ceiling) are part of the story for a near-term pause that interrupts but doesn't abandon hikes. A soft patch in Canadian GDP growth over Q4–Q1 is the other part in that it is creating a little more near-term slack before a rebound is expected to start in Q2. Canada is paying the price for the adjustment to B20, postponed investment during NAFTA negotiations, and volatile oil markets but these weights on activity should gradually improve over 2019. To have very strong job growth running in the background to it all buys a lot of insurance against housing and consumer risks.
- Before turning to the monthly details, consider the explosive trends. Over the past year, Canada has grown 327,000 new jobs. Since an inflection point in mid-2016 once the economy was adjusting to the much more serious and longer lived commodity shock in 2014–15, Canada has grown about 900,000 jobs—75% of which have been full-time. Consensus has done terribly at forecasting such job growth. As the chart demonstrates, the cumulative forecast monthly job changes since the start of 2016 have undershot actual employment gains by over 550,000 jobs. That's right, **consensus has missed over 60% of the cumulative job gains produced in the Canadian economy over the past three years!** No wonder why so many are perennially bearish toward the economy and relatively less bearish or more bullish on rates: consensus simply sucks at forecasting jobs and has been ignoring this fact for years! That may well be among the best examples of confirmation bias that one will find anywhere these days.
- Full-time jobs were up 31k with part-time up 36k during January. That's ok, but not great in terms of the FT vs PT split, but we're splitting hairs with that argument given the magnitudes of the gains.
- All of the monthly gain was in payroll jobs (+127,400) with the private sector leading the way (+111.5k). Self-employed positions fell by 60,700. This is usually taken as supportive of quality.

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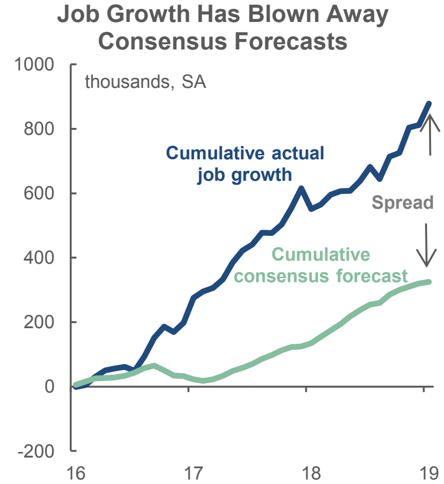
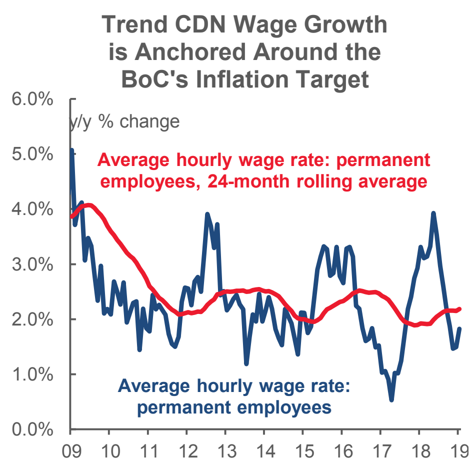


Sources: Scotiabank Economics, Bloomberg.



Sources: Scotiabank Economics, Statistics Canada.

- All of the gain was in service industries as goods producing sectors shed jobs. Within the drop in goods sector employment (-32k), there wasn't one single driver to point to. Losses were modest across manufacturing, agriculture/forestry/fishing, natural resources, construction and utilities. All of these sectors posted declines of about 4–8k on the month so there were no major movements, just cumulative changes.
- The breakdown of the 99k rise in services employment showed decent breadth. Wholesale/retail jobs were up 34k, transportation/warehousing up 15k, prof/sci/tech up 28.5k, and public admin was up 21k. Accomodation and food services employment was down 15k. Overall, you can poke holes in the sector details, but there is enough breadth to pass a smell test.
- Wage growth also accelerated by three-tenths to 1.8% y/y. That's not the BoC's preferred wage common composite measure, so it merits caution, but the base effect and minimum wage distortions to the upside and then downside may be maturing. The way to look at wage growth remains to smooth it on a two year rolling basis to iron out the commodity-induced and minimum wage induced volatility; that moving average remains north of 2% y/y at 2.2% (see chart).
- On a regional basis, while jobs were primarily driven by Ontario (two-thirds) there were modest gains elsewhere with the only two decliners being Alberta and Sask. I think the BoC uses that to reinforce the argument that while it's painful for energy producing regions, other parts of the country are benefiting from CAD weakness, softish commodities, decent US growth etc.
- The largest dent to the numbers is that hours worked fell 0.3% m/m. I have difficulty reconciling that with the large employment gain including full-time workers, but it's not impossible that the strong job growth and softness in hours worked across the already-employed occurred. More bodies are working fewer hours overall. That might just be a reflection of the fact that Canada is going through a transitory soft patch to broad growth but with employers beefing up at capacity constraints and looking through the near-term softness to growth. Regardless the hours worked dip is negative for January GDP but not surprisingly so given Alberta's production cuts that will weigh upon a number of indicators like manufacturing shipments, exports and monthly GDP with growth set to improve in February as the production cuts are already being scaled back by about one-quarter of the original amount so far.
- In terms of GDP, I'm getting 1.1% q/q SAAR for Q4 now. That uses the monthly GDP accounts from an income/production side. Expenditure based numbers are in a similar soft patch. To repeat, the reasons for this soft patch are probably: a) lagging effects of B20 on the uninsured book that should stabilize over 2019, b) domestic oil drop that has since stabilized, c) postponed investment due to NAFTA uncertainty but this should be bright spot in 2019 on the release of pent-up demand for cap goods, October's mini-budget that brought in huge write-offs and capacity constraints. Q2 is likely to start the rebound from all of this after Q4/Q1 softness.