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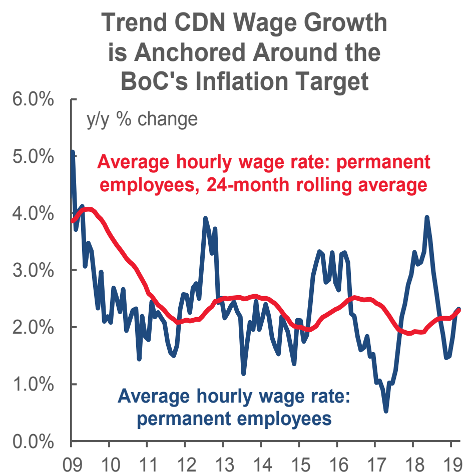
Canadian Job Dip Is A Minor Flesh Wound The BoC Will Ignore

CONTACTS

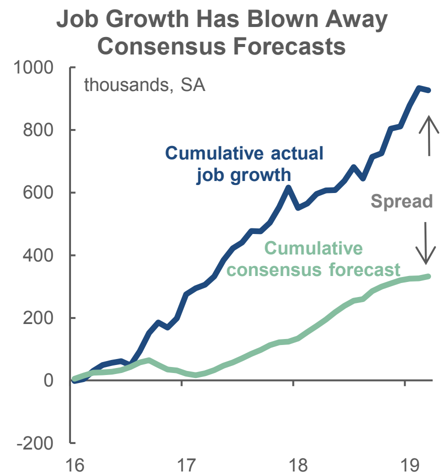
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Canada, Net Change in Employment SA (m/m 000s) / UR (%), March:
Actual: -7.2 / 5.8
Scotia: 20 / 5.7
Consensus: 6.0 / 5.8
Prior: Unrevised from 55.9 / 5.8

- **The Bank of Canada should be agnostic toward the slight decline in Canadian employment that follows a string of massive gains.** While a dip defied the historical odds when strong gains over the two prior months adding to over 100k are almost always followed by another gain, the decline is inconsequential in the grand scheme of things and masked other encouraging evidence such as a large gain in hours worked that is a strong early start to tracking March GDP growth. **That, in turn, fans the BoC's argument and our own that the economy was going through a transitory soft patch. In turn, that pushes back on rate cut pricing in markets for later in the year.** CAD is little changed in the aftermath of the numbers and was slightly depreciating before their release while the Canada two year yield dipped by about 1bp after the release for overall minor market effects.
- In fact, while the 90% confidence interval of +/- 43.5k on a particular month estimated change in jobs would still leave one confident there were gains over the prior two months to start 2019, the 90% confidence interval around the March print supports anything between a 50k drop and a 36k rise. **Statistically, that should leave one in a position of uncertainty toward whatever truly happened last month and monitoring the trend instead.**
- The details reinforce the mild headline softness. They include a drop in payroll employment (-13,100), a decline in full-time jobs (-6,400) and the fact that all the jobs lost were in the private sector.
- **By sector, jobs were up in 8 of 17 industries.** The losses were in services (-8,800) while goods sectors were flat (+1,600). Within goods, the biggest mover wasn't really big at all as manufacturing added 4,500 jobs and other goods sectors were little changed. Within services, the biggest declines were in health care (-20k), accommodation/food services (-13,400) and business support services (-14,300). The biggest increases were in finance/insurance (+13,300) and public administration (+9,600) that has been doing rather well so far this year (+45k year-to-date).
- **The unemployment rate was unchanged because the minor loss of jobs was offset by a similar decline in the size of the labour force (-11,300).**
- **Wage growth ticked higher.** Wages for permanent employees edged slightly higher to 2.3% y/y which is the highest since last August. Canadian wage growth is wickedly volatile especially over the period in which commodity prices have been volatile since 2014 such that smoothing the wage growth trend has a role to play. The accompanying chart shows that smoothing through the oscillations still depicts wage growth as just above 2% where it has been for years despite the wild up and down swings at times. This is not the wage measure the BoC focused upon versus its lagging wage composite measure that only attaches a minor weighting to what the Labour Force Survey indicates, but the LFS measure has a timeliness advantage to it.



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Bloomberg.

- **The implications to GDP tracking from the CDN jobs report are bullish for March GDP but bearish for Q1 GDP.**
- **Hours worked were up by a seasonally adjusted 1% m/m after declining for three months in a row.** When I spin that through my monthly GDP regression model, I get about **0.2% average GDP growth in Feb and March** but February and especially March still have a lot of missing indicators that make estimating growth over these months a very preliminary exercise.
- **For the quarter, however, hours worked were down by 0.9% q/q at a seasonally adjusted and annualized rate**
- Since GDP is an identity defined as hours worked times labour productivity and the latter is defined as inflation-adjusted output per hour worked, it would take a large gain in activity readings to offset the implications of the drop in hours worked in terms of how this all translates into tracking quarterly expenditure-based GDP growth.
- There is a modest gain being tracked in activity readings for the quarter on net and that included the 0.3% m/m rise in January GDP despite the dip in hours worked that month. It's early for February and March readings but the baked-in contribution from hours worked is negative and we need sustained momentum in the activity readings over Feb/March to drive expectations for present tracking of about 1% annualized Q1 GDP growth.
- As for the jobs trend, **it remains the case that job growth has seriously overshot expectations for years.** See the updated chart below. Since the acceleration in trend job growth began in 2016, consensus has under-predicted job gains by a cumulative 595,000 jobs. If anyone wishes to put a negative spin on 7,200 jobs lost this latest month, they are playing to the same confirmation bias that has seriously underestimated strength in Canadian employment markets over a fairly lengthy period of time. When you’ve been surprised to such a great extent to the upside for so long, being reserved toward a minor flesh wound on the latest print is probably the best course of action.

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