

Why The C\$ Got Canadian Jobs All Wrong

- The C\$ depreciated partly on nonfarm...
- ...but totally blew the interpretation of a strong Canadian jobs report...
- ...as payroll employment was up sharply...
- ...so was wage growth...
- ...while hours worked exploded...
- ...and a 3-handled Q2 GDP growth print is well within reach

Canada, Net Change in Employment SA (m/m 000s) / UR (%), June:

Actual: -2.2 / 5.5

Scotia: 0 / 5.5

Consensus: 10 / 5.5

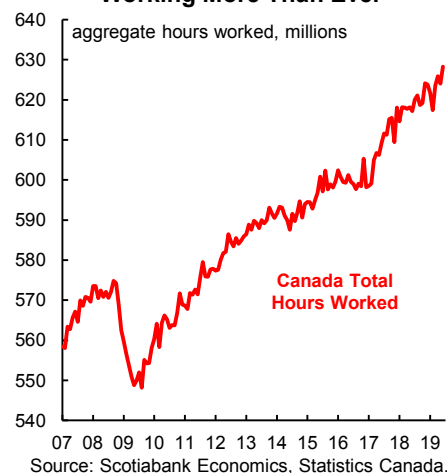
Prior: Unrevised from 27.7 / 5.4

- This is a strong report overall that the Bank of Canada will welcome as fitting the rebound narrative. Fade the headline number for reasons given below. In fact, while the C\$ depreciated by about three-quarters of a US cent in part because of the stronger than expected US nonfarm payrolls report, **I think currency markets totally missed the partly offsetting narrative that this is a very strong report including by way of what it signals for Q2 GDP growth.**
- Total employment was little changed (-2,200) but that was because of a sharp drop in the volatile self-employed category. **Self-employed jobs fell by 41,400** after a 61,500 increase the prior month. Boom to bust for the self-employed? That's unlikely in my view. This is a household survey with a small sample size and it relies upon accurate self disclosure from month to month. Self-employed jobs are a valuable part of the economy, but a notoriously volatile category.
- Instead, focus upon the fact that **payroll employment was up by 39,200** and split between the private (23,000) and public sectors (16,200).
- **Wage growth accelerated to 3.6% y/y** for a full point jump compared to the prior month. This measure can also be volatile and is not the measure the BoC focuses upon. Within the wage common metric, the Labour Force Survey's measure of wage growth has a trivial weighting. The advantage, however, is that **LFS wages lead the other sources by a couple of months** at present and so the fuller wage picture for June the way the BoC looks at it will have to wait until next month.
- **Hours worked were up strongly. A gain of 0.7% m/m was registered for the second biggest increase so far this year. Hours worked remain on a strong recent upward trend as shown in the accompanying chart.**
- **In fact, hours worked were up by 3.4% q/q at a seasonally adjusted and annualized rate in Q2.** That's a huge rebound from the 0.9% annualized decline in Q1 over Q4.

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Working More Than Ever



- The rise in hours worked pumps up GDP expectations given GDP is an identity that relates to hours worked times labour productivity. Since we know hours worked, we can make inferences toward GDP especially as activity measures are rebounding. **There is very little data available for May or June, but preliminary tracking suggests monthly GDP gains of 0.2% m/m in each month. If so, then 3-handled GDP growth for the overall quarter is well within reach at this point.**
- **The Bank of Canada will welcome the overall tone of the report that is neutral/hawkish at the margin** as it fits the rebound narrative in Q2. Any twists in the BoC narrative are pending whether Q2 momentum carries into Q3 and external risks.
- **By sector, all of the job growth was in services (+30,600).** Goods producing industries saw jobs drop by 32,800 with a 15k drop in manufacturing jobs leading the way down but aided by a 7,400 decline in construction jobs and a 7,800 drop in employment within the natural resources sector. Within services, six of eleven subsectors were up and led by a 22k rise in hiring within the health care and social assistance sector and a 13,400 increase in hiring within the education sector. There were about 13,000 more jobs in transportation and warehousing and 12,500 more jobs in the information/culture/recreation sector.
- **By province, the standout performer was Alberta that created 10,400 more jobs.** Again, recall that the provincial tallies are distorted by the drop in self-employed. All other provinces were little changed in terms of total employment including self-employed.
- The unemployment rate was up by one-tenth to 5.5% because the labour force increased by more (30,500) than the little changed jobs tally (-2,200). More people seeking employment is not a bad sign especially when coupled with the rise in payroll employment.

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