Canadian Jobs Report Fans BoC Easing Bets

- Job losses were fairly widespread
- Hours worked fell and suggest GDP will stall if not contract in Q3
- Wage pressures mounted…
- ...led by youths, women, non-unionized workers and three main sectors
- Divergent wage gains…
- ...will likely come to favour lower readings through a soft productivity trend
- OIS contracts are underpricing BoC cut risk over the coming 3 meetings

Canada, Net Change in Employment SA (m/m 000s) / UR (%), July:
Actual: -24.2 / 5.7
Scotia: 25 / 5.4
Consensus: 15 / 5.5
Prior: Unrevised from -2.2 / 5.5

One never wishes to over-react to one single data point, but at the margin this is a poor round of job market readings that fits a broader set of concerns within an overall cooling narrative accompanied by increased downside risks. Canada's job market has disappointed for two months through the escalation of trade tensions that have since only continued to escalate further while bloated inventories lurk as a production-employment cycle risk in the background. **Hiring confidence is being drained.**

The July report offers a set of readings that incrementally reinforce the market pressure upon the BoC to ease. The broad set of labour market readings cautiously plays to the narrative that the economy will face renewed weakening into Q3 after what may well have been a transitory rebound in Q2. The fly in the ointment is that one measure of wage growth is super-accelerating, but in my view that should be faded in favour of emphasizing the other details.

Hours worked fell by 0.65% m/m in July which reverses the prior month's gain.

However, what's key is that hours worked are tracking a 1.2% annualized drop in Q3 based upon the Q2 hand-off and July's reading while assuming flat August and September hours worked in order to focus upon the effects of what we know so far. See chart 1. The figures have been wickedly volatile, so **one way of perhaps looking at them is to average the annualized growth in hours worked that is being tracked over the first three quarters of 2019.** That figure is a scant 0.4% and that speaks to a soft year to date for overall GDP growth.

How so? Recall that GDP is an identity expressed as hours worked times labour productivity. If hours worked are falling, as they seem to be so far, then GDP must be falling unless there is an offsetting acceleration of labour productivity. For signs of the latter, one would look to higher frequency activity readings. A jobs decline is one signal. More will arrive the week after next probably in the form of weak manufacturing and retail reports that I'll write about in the two-week version of the global week ahead later today.

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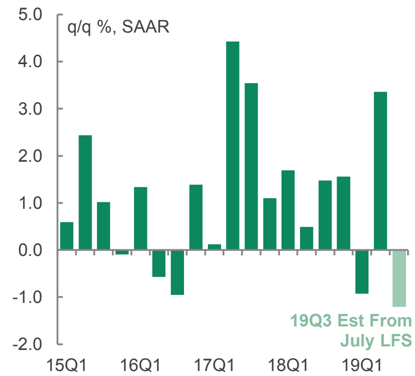
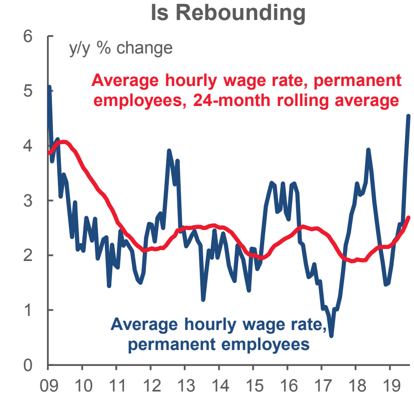
Canadian Total Hours Worked



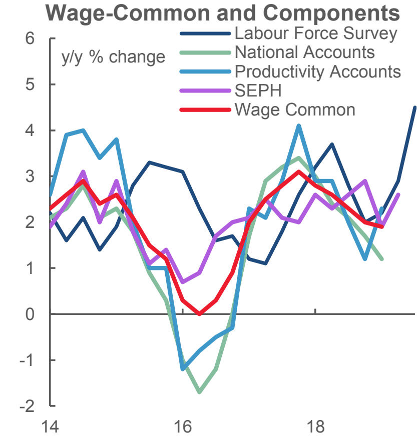
Sources: Scotiabank Economics, StatsCan.

Canadian Wage Growth Is Rebounding



Sources: Scotiabank Economics, Statistics Canada.

Wage-Common and Components

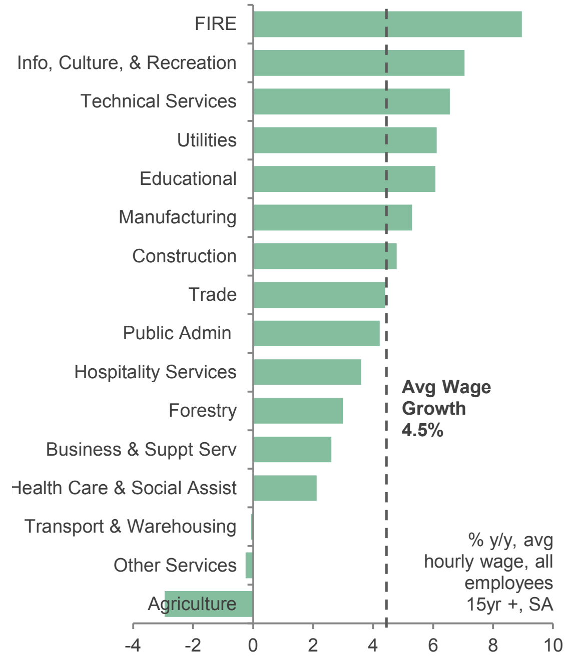


Sources: Scotiabank Economics, Bank of Canada.

Wage growth for permanent employees is super-accelerating, at least by the measures in this household survey (chart 2). At 4.5% y/y, wages are rising at the fastest pace since January 2009. I'm sure you've noticed…. But to help out, what exactly is pulling up the average? Youths aged 15–24 are getting 6.6% y/y pay hikes. Women are getting 5.7% y/y wage increases (males 3.4%). Non-unionized employees are getting 5.0% y/y pay increases (with a union 3.4%). By sector, manufacturing and utilities are paying 7.0% y/y more probably mostly through utilities. Arts/recreation/culture/sport industries are paying 7.1% more. Business, finance and admin jobs are getting 6% pay hikes.

The acceleration in wage growth to 4.5% y/y gets a tiny weight in the BoC's preferred wage common metric that is running around half that pace but lagging the timeliness of the LFS data. Chart 3 shows how divergent the trends have been across various measures of wage growth and to repeat, the one that is shooting upward is not the BoC's preferred measure.

Further, this is not an economy that is posting productivity growth to merit such wage gains. Productivity growth is an anchor over time for inflation-adjusted wages that are rising by about 2.5% according to today's updated wage metric and perhaps more after the next inflation report that should fall by quite a bit. Over time, I would expect wage growth to soften more in line with trend productivity growth. This point along with the prior one about divergent wage readings are major reasons to fade the wage inflation signal.



Sources: Scotiabank Economics, StatsCan LFS.

Payroll employment fell by 52k and self-employed jobs offset some of that with a 28k rise. Payroll jobs are usually treated as 'harder' data by economists versus reliance upon self-disclosure in self-employed jobs.

Full-time jobs fell by 11.6k and part-time jobs fell by 12.6k for a nearly even split.

By industry, goods sector employment was flat (+2.1k) as a jump in construction jobs (25k) was offset by firings in manufacturing, resources, agriculture and utilities. Service sector jobs were down 26k mostly through wholesale/retail (-20.6k), transportation/warehousing (-14.8k) and 'other' services (-10.6k)

By province, the job losses were focused upon Ontario (-10.7k), Alberta (-14.3k) and BC (-4.8k). Quebec was up (+16.6k),

The unemployment rate increased to 5.7% from 5.5% because of the jobs decline and the fact that the labour force was flat.

The overall takeaway is that if the economy lands back in hot soup again in Q3, then the BoC will have every reason to ease. Progress toward closing spare capacity will have had just one cooperative quarter—Q2—after no growth in Q4 and Q1 and into renewed weakening in Q3. Transitory drivers of the Q2 rebound included over-production into inventories, unusually timed auto plant shutdowns and restarts, the reversal of prior mandated cuts to oil production, idiosyncratic drivers of the trade figures and weather distortions. I cannot see Governor Poloz's next statement and the Governing Council member tasked with delivering the next day's progress report rejecting market pricing across the whole curve by repeating arguments like how rates could go up as trade continues to worsen. If they do, then markets probably won't take very receptively to this line of messaging right before the Federal election in October with the writ due to be dropped next month. At this point, from a market rates standpoint, I find OIS contracts to be underpricing cut risk over *each* of the coming three meetings as we debate our house view on the administered policy rate.

What may further inform this view will be a round of inflation and activity readings that are due out the week after next. I'll write about those in the Global Week Ahead later today.