Canadian Jobs Reinforce BoC's Neutral Stance

- Job growth blew away consensus expectations
- The drivers were marked by solid breadth
- Wage growth slipped a touch…
- …but the BoC's preferred gauge is under upward trend pressure
- Canada has heaped on over 300,000 new jobs this year, and counting
- Hours worked point to solid July GDP, soft Q3 GDP
- The overall readings support a BoC hold, for now

Canada, Net Change in Employment SA (m/m 000s) / UR (%), August:
Actual: 81.1 / 5.7
Scotia: 20 / 5.7
Consensus: 20 / 3.7
Prior: Unrevised from -24.2 / 5.7

Granted it's a random number generator, but job growth came in at four times the consensus guesstimate for this household survey last month. Wage growth eased somewhat but is not the BoC's preferred measure. A disaggregation of wage growth is provided below.

The main takeaway should be that obviously job growth rebounded strongly and averted a third monthly decline such that the trend story of robust hiring generally holds true. So far this year, Canada has created 304,400 jobs that, using the standard eleven to one factor, proportionately blows the US job market out of the water. If this average pace keeps up over the remaining months, Canada is on track to create about 450,000 new jobs this year.

CAD rallied post-jobs versus the dollar with the extra assist from the market reaction to the soft US nonfarm job gain that ignored firmer than expected wage growth. The Canada 2 year yield initially increased by about 2bps before reversing that and pushing about 3bps lower than just before the release perhaps in sympathy toward the 2 year Treasury reaction to US jobs.

The underlying details behind the job gain are robust:

- It was all in payroll employment (+92.2k) as self-employed jobs fell 11.2k;
- It was all in the private sector that was up 94.3k, while public sector jobs were little changed (-2.1k).
- There was a good split between full-time (+23.8k) and part-time (+57.2k) jobs;
- Sector breadth was solid. Goods producing industries added 7.8k jobs, with services adding 73.3k. Within goods, the rise was driven by manufacturing (+8k) and agriculture (+3k). Within services, 9 of 11 subsectors added jobs led by finance/insurance/real estate (+22.4k), educational services (+20.5k), professional/scientific/technical services (+16.8k), and wholesale/retail trade (+14.8k).
- Canadian hours worked were up 0.7% m/m in July which is bullish for July GDP, given GDP takes hours worked times labour productivity. A solid rise in

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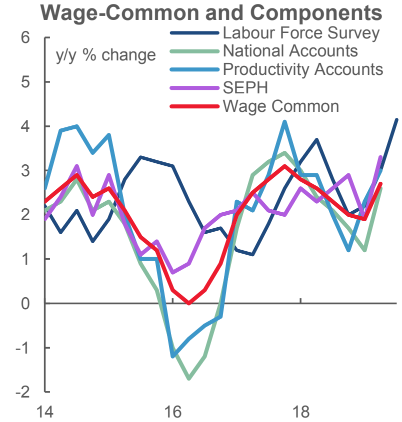
Bank of Canada Wage-Common

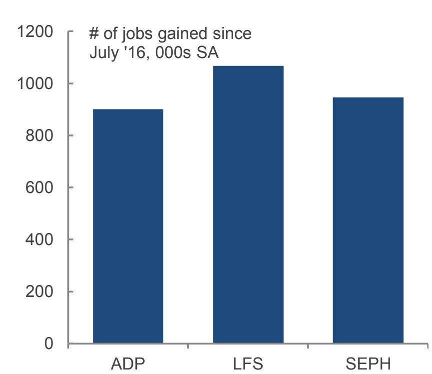
Sources: Scotiabank Economics, Bank of Canada.

Wage-Common and Components



Sources: Scotiabank Economics, Bank of Canada.

Canadian Job Growth



Sources: Scotiabank Economics, StatsCan, ADP Research Institute.

monthly GDP may be in the cards pending a suite of July data that still lies ahead such that we have precious little to go by so far when it comes to July GDP expectations.

- There were 42k more employed youths in the 15 –24 category, but there was still a 39k rise in jobs for the 25+ age group.

There were, however, two flies in the ointment.

- **Wage growth in Canada slowed** (3.8% y/y, 4.5% prior), but this measure gets little weighting in the BoC's preferred wage common composite. A decomposition of the Labour Force Survey's wages measure is offered below. Before that, charts 1 and 2 depict the BoC's preferred wage metric (wage common) and its underlying components all up to Q2 except for taking the July –August average for LFS wages while the other sources lag behind. Recent monthly wage measures have accelerated further. The acceleration up to Q2 in wage common was modest and I'm not sure anyone should be over-reacting to the higher frequency wage measures.
- For Q3 overall, we're only tracking a 0.5% q/q seasonally adjusted annualized hours worked increase. Given GDP is an identity expressed as hours worked times labour productivity, **tepid quarterly growth in hours worked is soft guidance for overall GDP growth in Q3**. At the margin, this supports our contention that GDP growth will sharply retrench from the unsustainable pace in Q2.

So who's getting such wage gains that the lagging payrolls survey says are even greater?

- by industry, the strongest gains are in art/culture/rec/sport (7.1% y/y), management occupations (5.4%), business finance and admin (5.2%),, sciences (3.7% y/y) etc. There was pretty solid industry breadth overall.
- by age, youths' wages are ripping with the 15 –24 category getting 5.6% y/y pay hikes versus 3.5% y/y for the 25 and over category;
- by gender, women are getting 4.4% y/y, men are at 3.1%;
- unions are getting 2.9%, lower than non-union workers at 4.0%;
- temp employees are only getting 2% y/y more pay.

The thing about the believability thing when it comes to Canadian jobs, which I'm often sympathetic toward across the individual monthly readings, is that while the spot estimates are volatile, the trends since the acceleration in job growth after mid-2016 have been very similar across the three measures (LFS, SEPH, ADP). Please see chart 3. They've all been saying job growth is strong. They are all arrived at through separate estimation methods and sources. I haven't heard a good argument for why all three gauges might be so strong over time from the crowd that is always inclined to discount the Labour Force Survey's reported job changes.

So why is job growth so strong across multiple trend measures? Some plausible explanations are as follows. With the exception of the first one, the rest question the durability of the gains.

- Businesses are more upbeat than markets, looking through risks, heaping on hiring near capacity constraints.
- Some businesses are over-producing and it's going into inventories, which implies they are also over-hiring and adding too many inputs.
- Productivity is being sacrificed and profits/margins will pay the price especially in a downturn. There is little comfort from present company margins if they lag sources of pressure. Lots of workers driving lower growth in hours worked and getting accelerating wages may be creating imbalances at the expense of corporate finances and productivity over the duration of the cycle.
- The ratio of capital to labour as inputs is going down. Businesses are throwing more workers at capacity constraints perhaps because they're hesitant to invest at least for now and until they have further clarity toward future trade policy risks.