Canada's Job Surge Deserves A Second Look

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- Job growth exceeded expectations again
- Headline quality was soft
- Gains were heavily skewed by industry, region and job class
- Hours worked bode poorly for GDP
- Wage growth popped higher…
- …but is it sustainable?
- BoC faces more dominant forward-looking risks

Canada, net change in employment SA (mm 000s) / UR (%), September:
Actual: 54 / 5.5
Scotia: 20 / 5.7
Consensus: 7.5 / 5.7
Prior: 81.1 / 5.7

A strong headline gain is welcome but has weaker underlying details behind it. The gains were skewed to self-employment and Ontario's health and education sectors and particularly in Toronto. More employed folks worked fewer hours last month and growth in this key metric fully stalled in Q3. Simply put, thank Ontario's health and education sector for the headline job gain as contributions to job growth elsewhere were on the tepid side. While wage growth increased again, the absence of productivity gains while working fewer hours is hardly cause for cheerleading the durability of the wage gains and the impact upon employer costs. In my view, this overall report changes nothing about the risks facing the outlook for Bank of Canada policy.

The C$ appreciated by about a penny to 1.32 on a USDCAD basis and the two-year Canada yield jumped by about 4bps after the release. Wonderful. An appreciating C$ is just what exporters need in today's world. I'm a bit surprised that no one in the markets is doing a double take beneath the headline but maybe position covering is exaggerating the swing if traders thought it was a slam dunk to see a headline drop after the prior month's huge gain.

The market temptation is often to over-react in one way or the other to a single employment report, but at the margin this doesn't really change anything in isolation of the rest of the picture. Even if not for the weaker underlying details that are explored below, the prime concerns relate to forward looking risks not well captured in labour force readings that themselves reflect a composite of contemporaneous and lagging readings. Please see our forecast write-ups that were released yesterday for further elaboration upon these forward looking risks including the article that focused upon the BoC and Fed forecasts (here).

Hours worked fell by 0.3% m/m which reverses half of the 0.66% rise in August that itself reversed the identical drop the prior month. That kind of a drop does not bode well for September GDP as a partial unwind of the August contribution that offered a positive reading on August GDP. Hours worked have been wickedly volatile since April and marked by a series of oscillating ups and downs.

Smoothing through the monthly noise reveals that hours worked were flat in Q3 after a surge in Q2. Hours were up by only 0.2% q/q in seasonally adjusted and annualized terms after a 3.4% rise in Q2. Since GDP is hours worked times labour productivity, **this does not bode well for Q3 GDP growth tracking.** In fact, it leans toward the interpretation that Q2 GDP growth of 3.7% was a transitory and distorted flash in the pan as the only solid quarter for growth in the past four quarters and one that masked weakness in final domestic demand.

Payroll jobs were up by 11,600 while self-employed jobs were up by 42,100. Self-employed jobs are a vital and valued part of the Canadian economy, but this component relies upon self-disclosure of employment conditions and hence the quality of the data is often in doubt.

Within payroll jobs, **the public sector added 32,600 jobs and the private sector lost 21,000 jobs.**

By industry, it was all services (+49,400) as goods producing industries were little changed (+4,300).

Within services, two sectors were responsible for the vast bulk of the gain. They were health care and social assistance (+30k) as well as accommodation and food services (+23k). Education added about 10k while there were small gains in other categories and one large drop in information/culture/recreation that shed 36,700 jobs. The gain in the public sector was due to the health and education components as public administration jobs were little changed (+2.4k).

Within goods sectors, construction added 9,800 jobs and manufacturing was little changed (+1,700). Utilities and agriculture were flat and natural resources shed a small 7,000 jobs.

By province, Ontario added 41,100 jobs (mostly full-time) and Quebec added 13,600 jobs (all full-time). Alberta managed to eke out 4,900 new jobs. BC lost 8,400 jobs and other provinces were little changed.

Within Ontario, the large gain was mostly in services (+31k) as goods sectors added 10k. Stand-out contributions came from education (+19k), health care (14k) and construction (12k).

By census metropolitan area, **this was mostly a Toronto-driven report as jobs there were up by 34k.** Montreal added 14k. Vancouver lost 16k. All other regions combined saw a job gain of 22k.

Full time jobs were up by 70,000 while part-time employment fell by 16,300. It's somewhat amazing that the job growth was so skewed toward full-time employment and yet total hours worked fell which must signal that the rest of the already employed portion of the workforce worked less.

The unemployment rate fell by two-tenths partly because of the job gain but also because the participation rate fell by 0.1 points as the labour force expanded by only 6,800.

By age, jobs were up by 68,500 for people aged 25+ as youths lost 14,800 jobs.

By gender, women gained 41,700 jobs and male employment was up by 26,900. For the year-to-date, however, men have gained 195k jobs and women are up by 54k.

Wage growth climbed to 4.3% y/y from 3.8% the prior month. The gain was slightly more driven by permanent employees (+4.25% y/y) than temps (+3.5%). Nevertheless, this wage measure gets a trivial weighting in the BoC's preferred wage common metric. Wage common lags the Labour Force Survey's measure of wage growth because it is comprised of more heavily weighted components that are available quarterly or that arrive with the lagging payrolls survey. As at Q2, wage common was rising by 2.7% y/y and hence only a little above inflation. Wage growth is indeed accelerating but in the absence of productivity gains, the durability of the wage growth above the pace of inflation is either not sustainable or it squeezes business margins and public sector finances.

Kudos to StatsCan for beefing up its release that includes a slew of easily accessible tables with far more detail available to anyone interested (here).