Canadian Jobs Say Cut To The BoC

- Canada's job market is turning downward…
- ...with the second straight disappointment
- Details were weak across the board
- Okun's Law suggests the earlier jobs overshoot is unwinding
- Quebec's power outage might have contributed…
- ...but nowhere near enough to dismiss overall softness
- Why wage growth is likely to cool into 2020
- CAD fell and Canadian short-rates outperformed the US
- For the BoC, this is evidence that risks are hitting the consumer sector
- Governor Poloz is officially stepping down…
- ...and a search for his successor has been launched

Canada, net change in employment SA (mm 000s) / UR (%), November:
Actual: -71.2 / 5.9
Scotia: 0.0 / 5.6
Consensus: 10 / 5.5
Prior: -1.8 / 5.5

- Job growth disappointed for the second month in a row. At the margin, this is more convincing evidence that the job market has lost momentum. Overall details were weak across the board. The report reinforces our call for the Bank of Canada to cut rates in Q1.
- Markets reacted swiftly. The Canadian dollar is the weakest of the major crosses to the USD in part due to the soft Canadian jobs report and in part due to the strong US payrolls report. CAD depreciated by about three quarters of a cent after both reports.
- Our guidance that Canada's front-end was more attractive relative to the US front-end was generously rewarded as Canada's two year bond yield rallied by 3bps as the US two year yield climbed by about 4bps. Markets moved back toward pricing about one-in-three odds of a BoC rate cut by March after lowering the probability following Wednesday's Bank of Canada statement.
- What may magnify the jobs risk going forward is a combination of two factors. First, there was the debate all year about how job growth could be so strong against the backdrop of very weak trend GDP growth dating back to the final quarter of last year. Well now the chickens might be coming home to roost. Enter Okun's "law" which isn't really so much a law as a statistical observation (chart 1). Job growth may be in the early stages of mean reverting to prior softness in GDP growth. This could be a powerful effect going forward in that a) job growth could mean revert to restore the connection with prior weakness in GDP growth, and b) continued weak GDP growth could reinforce a soft jobs environment.

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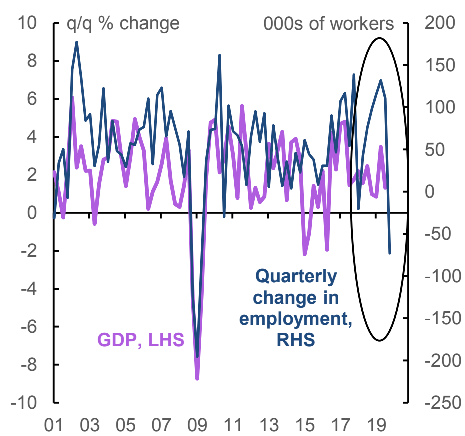
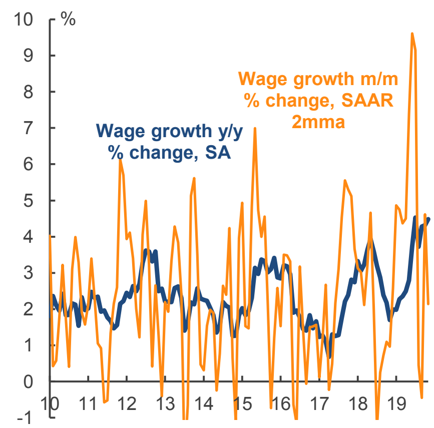
Canada's Okun's Law



Sources: Scotiabank Economics, Statistics Canada.

Canadian Wage Growth



Sources: Scotiabank Economics, Statistics

- Observe on the chart that the last time we saw quarterly tracking for job growth as weak as this quarter, the country had slipped into the 2009 recession. We are not forecasting recession. But the case for insurance cuts has clearly gone up.
- Full-time jobs fell by 38,400 and part-time jobs were down by 32,800.
- Payroll jobs bore the brunt of the adjustment and fell by 52,500. Self-employed jobs fell by 18,700 for the third strong decline in four months.
- Private sector jobs fell by 50,200 with public sector jobs down by 2,300.
- By sector, the breadth of the weakness was high. Goods producing industries shed 26,600 jobs led by a 27,500 drop in manufacturing jobs with an assist of -6,500 resource sector jobs. Construction sector jobs were up by 4,800 and little change in agricultural or utilities sector employment.
- Within services, the 44,400 drop was driven by a few main contributors. Take out the 24,900 drop in public administration jobs that was mostly a transitory loss of the prior month's election related hiring. But then consider an 11,000 drop in jobs within the accommodation and food services sector, 8,300 fewer information/culture/recreation jobs, 5,600 fewer jobs in transportation and warehousing and 3,300 fewer retail and wholesale sector jobs. Also consider that the only moderately bright spot was a 7,700 rise in jobs within the business/building and other support services category.
- Hours worked fell by 0.3% m/m. They've been quite weak for three months now including a small rise of 0.1% m/m in October and a 0.3% drop in September. Hours worked are tracing a 0.1% annualized dip in Q4, so essentially flat, after a nearly equally flat up-tick of 0.2% in Q3. Recall that GDP is an identity expressed as hours worked times labour productivity; ergo, stalled growth in hours worked is a reinforcing negative signal for GDP growth. In fact, hours worked suggests the economy has fully stalled out.
- The unemployment rate increased from 5.5% to 5.9% for the highest reading since August of last year. That happened not only because of the job loss but also because the labour force was flat with no new entrants seeking employment as an additionally negative signal.
- By province, Quebec dropped 45,100 jobs and each of BC and Alberta shed an identical 18,200 jobs. Jobs were up in Ontario by 15,400. Employment was little changed elsewhere.
- The Quebec job loss was fairly widespread across sectors and might have been partly driven by the power outage at the start of November that followed a wind storm. On Friday November 1st, about one million Quebeckers were without power. Restoration efforts quickly restored power to most people by the Monday or Tuesday thereafter. Nevertheless, it might have taken some time to get back to normal afterward. Also consider that hiring activity between reference periods over the back half of October would not have been affected, and it's curious that construction sector jobs in Quebec were up if the power outage theory is legit. Overall, this point is worth a caution on the Quebec number but I don't think it's a reason to dismiss the overall weakness of the jobs report partly because of the Quebec arguments just given and also because of weakness in western Canada.
- By age, the 15–24 youth category lost 6,700 jobs as the bulk of the jobs lost were across older workers and split between men aged 25+ (-36,900) and women (-27,600).
- The measure of wage growth in this report is not the one used by the Bank of Canada. Nevertheless, wage growth for permanent workers (which used to be the BoC's preferred gauge) increased a tick to 4.4% y/y. A lot of this is avbout year-ago base effects coming off of the bottom in wage growth late last year. The month-ago seasonally adjusted wage figures are tracking at about half the annual pace over the past couple of months. As the year-ago base effect shifts into 2020, it will drag wage growth lower in year-ago terms. This counsels caution toward getting carried away with four-handled wage growth as 2020 is likely to see the downward slope of the multi-year oscillating pattern return. See chart 2.
- Separately, Governor Poloz announced he is stepping down as Governor at the end of his term next June (here). The BoC guides that his successor will be announced by Spring which technically starts on March 19th. Most of the speculation surrounding a possible successor is focused upon a contest between Senior Deputy Governor Carolyn Wilkins who would be the first female head of the central bank and Jean Boivin who would be the first francophone head of the central bank and offers a background at the Department of Finance, Bank of Canada and private sector experience.