

Canada Creates Jobs In A Growth Vacuum

- Job growth beat expectations
- Full-time jobs drove the gain
- Markets responded slightly hawkishly
- Still, only 4k jobs have been created in the past 4 months
- Hours worked remain soft...
- ...indicating continued weakness in GDP growth
- Wage growth picked up
- Trend job growth continues to be out of line with weak GDP growth...
- ...which merits continued caution toward future hiring patterns
- Subsequent reports will be monitored for potential virus effects

Canada, net change in employment SA (mm 000s) / UR (%), January:

Actual: 34.5 / 5.5

Scotia: 10 / 5.7

Consensus: 17.5 / 5.7

Prior: 27.3 / 5.6

The overall tone of the report was better than expected. Job growth accelerated, although this occurred in the context of little to no growth in the economy and it's unclear whether that signals a rebound in future growth or a continued overshoot in the job growth trend that faces downside risk. Highlights are shown in the first table.

The C\$ initially strengthened to the USD after the release but subsequently reversed most of that likely on broad USD strength. The two-year yield is a bit of a cleaner play on the Canadian data; it spiked higher by about 2.5bps right after the release and a volatile pattern since then leaves it roughly flat post-data and slightly lower on the day. Canada 2s are nevertheless underperforming the stronger rally in US 2s by about 2bps on the day so far.

To have confidence in the underlying trend, we continue to need more jobs market evidence. Only 4,200 jobs have been created in the past four months including the large decline in November. It's unclear how much of November's weakness was due to transitory shocks (e.g. rail and auto strikes etc) and how much the rebound since has been driven by transitory rebound effects.

There was ok but not great breadth by sector (chart 2), with goods producing industries adding 49.1k workers while the services sector dropped 14,500 jobs. Within goods, we saw a gain of 20,500 in manufacturing, 15,800 in construction and 11.5k in agriculture.

Within services, the decline was driven by health care and social assistance (-16k) and 'other' services (-7.6k). Seven out of 11 service sector categories dropped jobs and only small gains were registered in wholesale and retail trade (+7.9k) as well as transportation and warehousing (6.1k).

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

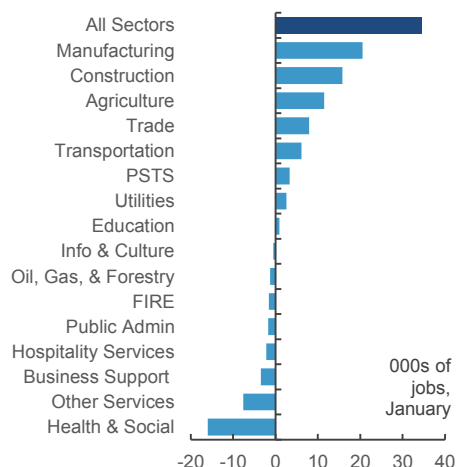
Scotiabank Economics

derek.holt@scotiabank.com

Canadian Jobs Breakdown	
Province	m/m
Quebec	+19.1k
Ontario	+15.9k
Manitoba	+6.5k
New Brunswick	+4.6k
British Columbia	+3.4k
Nova Scotia	+1.7k
Saskatchewan	+1.2k
Newfoundland	+0.8k
Prince Edward Island	+0.3k
Alberta	-18.8k
Employment Type	m/m
Full Time	35.7k
Part Time	1.2k
Public Sector	21.3k
Private Sector	5.0k
Self Employed	8.3k

Sources: Scotiabank Economics, StatsCan.

Monthly Canadian Labour Force Survey Job Creation by Sector



Sources: Scotiabank Economics, Statistics Canada.

The private sector was soft overall across the country. Total payroll positions increased by 26,300 mostly due to a 21,300 gain in public sector payroll jobs. Private sector payroll employees increased by just 5k. Self-employed positions were up by 8,300.

Within the public sector, most of the gain occurred in Quebec (+15,600). Public sector jobs also increased in BC (+6.8k) and Alberta (+4.5k). They were roughly flat in other provinces.

By province, Quebec led the way with 19,100 jobs created, all full-time and as previously noted mostly in the public sector. Ontario was in second place and added 15.9k jobs with a slant to full-time jobs. Manitoba was up 6.5k and New Brunswick added 4.6k. Alberta dropped 18,900 jobs (mostly part-time). All other provinces were little changed.

Full time jobs were up by 35.7k and part-time jobs were little changed (-1.2k).

Wage growth accelerated again to 4.4% y/y. That said, the month-ago annualized rate of wage gains is tracking considerably below this but still solid (chart 3). How the sector breakdown of wage growth in year-over-year terms changed this month is shown in chart 4.

Hours worked slipped by 0.1% m/m. In other words, there may have been more workers hired on net in January, but the overall existing workforce worked slightly fewer hours. This puts tracking for January GDP growth immediately behind the eight ball.

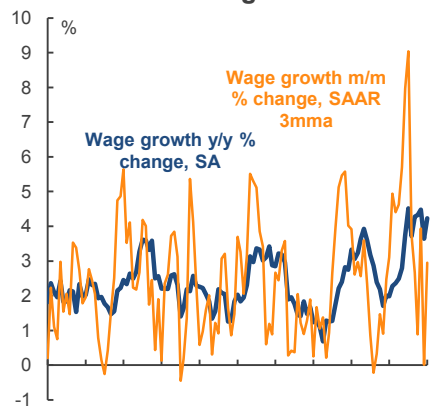
In fact, hours worked have been weak for an extended period. They were flat in December, down 0.2% m/m in November, up by 0.1% the month before and down 0.3% before that. What it all translates into is chart 5. Hours worked are tracking a 0.6% q/q decline in 2020Q1 at a seasonally adjusted and annualized rate based upon what we have by way of Q4 and just January while assuming the rest of the quarter comes in flat in order to focus upon the effects of what is known so far. There has been no growth in hours worked over 2019H1 and into 2020Q1.

This weakness in hours worked matters because GDP is hours worked times labour productivity where the latter is defined as output per hour worked. A drop in hours worked suggests January GDP and Q1 GDP face downside risk but we need a considerable amount of data yet for December and January in order to be able to tell whether the activity readings are strong enough to offset this or weak enough to reinforce the negative effects on GDP.

Enter the final chart, #6. Job growth trends continue to overshoot GDP growth. Usually over time this rights itself and hiring rides more in sync with GDP growth. Mean reversion of this pattern remains feasible and hence applying caution toward the hiring trend continues to have merit.

It remains to be seen what if any impact the shock to China's and world growth presented by the coronavirus may have particularly upon resource producing regions. Today's survey reference period largely preceded most of the acceleration of concerns.

Canadian Wage Growth



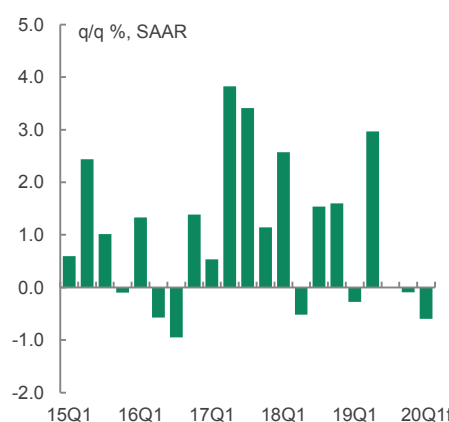
Sources: Scotiabank Economics, Statistics

Average Hourly Wage Growth By Sector



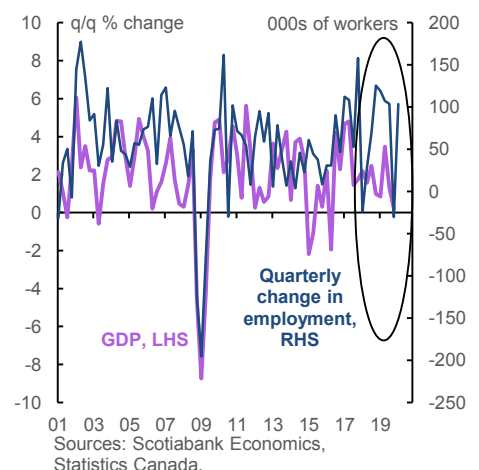
Sources: Scotiabank Economics, StatsCan LFS.

Total Hours Worked



Sources: Scotiabank Economics, StatsCan.

Canada's Okun's Law



Sources: Scotiabank Economics, Statistics Canada.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.