

Canada's Job Market Goes Back To School — For Now

- Job growth smashed expectations last month...
- ...as mothers returned to work with the kids back in school...
- ...and reopening effects were concentrated upon youths
- Details were robust
- Why the next report faces much greater uncertainty

Canada jobs m/m change (000s) / UR (%), SA, September:

Actual: 378.2 / 9.0

Scotia: 100 / 10

Consensus: 150 / 9.8

Prior: 245.8 / 10.2

Canada's job growth smashed expectations in September and the underlying details were broadly supportive of an overall positive tone. After I review the underlying details and progress, I'll come back to the two dominant drivers behind why the numbers were much stronger than estimated and the connection to why I think this may be the last of the great jobs reports as October faces rising downside risk.

I think this durability question mark may be why the market reaction was very muted. The Canadian dollar shot upward by about half a cent to the US post-jobs, but this is on a day of general USD weakness and CAD is at best matching gains by others (e.g. euro, sterling) or actually underperforming the gains being registered by many others against the greenback. The rates complex was little affected by the numbers but yields on GoC bonds are slightly lower on the day in rough tandem with the US.

Please see table 1 that provides highlights.

As chart 1 shows, over three-quarters of jobs lost to date have been recouped. Canada is now down a net 720k jobs compared to the peak in February before the pandemic struck and has recouped 2¼ million jobs that were lost.

The unemployment rate fell by 1.2 percentage points to 9.0% from 10.2% because the 378k job gain offset an extra 164k that re-entered the labour force. As chart 2 depicts, the labour force participation rate is edging closer to where it was pre-pandemic. It increased by another 0.4 points to 65% of the population who are either employed or actively looking for work. That is only ½% lower than where the participation rate stood in February before the pandemic shutdowns.

Almost all of the gain was in full-time jobs (+334k) as part-time jobs were up by 44.2k.

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Canadian Jobs Break Down

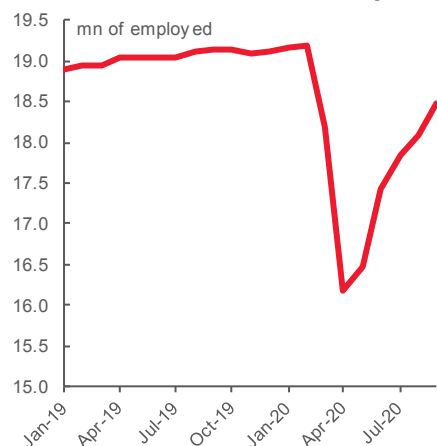
Province	m/m
Ontario	+167.6k
Quebec	+76.7k
British Columbia	+54.8k
Alberta	+38.2k
Manitoba	+15.1k
Nova Scotia	+12.0k
Saskatchewan	+8.7k
Newfoundland & Labrador	+3.7k
New Brunswick	+2.2k
Prince Edward Island	-0.8k

Employment Type	m/m
Full Time	+334.0k
Part Time	+44.2k
Public Sector	+143.6k
Private Sector	+259.8k
Self Employed	-25.1k

Sources: Scotiabank Economics, Statistics Canada.

Chart 1

Canada's Job Recovery



Sources: Scotiabank Economics, Statistics Canada.

Payroll jobs (+403k) drove the gain as self-employed positions slipped by 25k. Private sector payroll positions were up by 260k and public sector payroll spots were up by 144k.

By industry, services led with a gain of 303k while goods producing sectors were up 75k. Chart 3 shows the breakdown by sector. Breadth was high as fourteen of sixteen broad sectors registered gains. Only agriculture and wholesale/retail posted trivial declines.

There was no negative effect on the Canadian education sector as was evidenced in US nonfarm payrolls. The education sector saw a gain of 68k last month.

By province, gains were led by Ontario (+168k) and Quebec (+77k) with BC (+55k) and Alberta (+38k) also posting solid increases. All provinces posted gains except for a tiny loss in PEI. I think Ontario's large gain reflected its lagging reopening plans particularly in the country's biggest city of Toronto compared to elsewhere.

Hours worked were up by 1.9% m/m in September which is still strong but the slowest expansion yet. Still, that was enough to drive overall hours worked up by +88% q/q at a seasonally adjusted and annualized rate in Q3. A further 9.0% annualized gain in hours worked is baked into Q4 based solely upon the way Q3 ended and the Q3 average (chart 4). So, since GDP is an identity expressed as hours worked times labour productivity with the latter being real GDP over hours worked, for the massive gain in hours worked to translate into a much lower pace of gain in GDP would have required growth in activity readings to be much lower in Q3 to offset the hours worked gain. That could well have been the case especially after taking into account inventory and import leakage effects on GDP in the quarter.

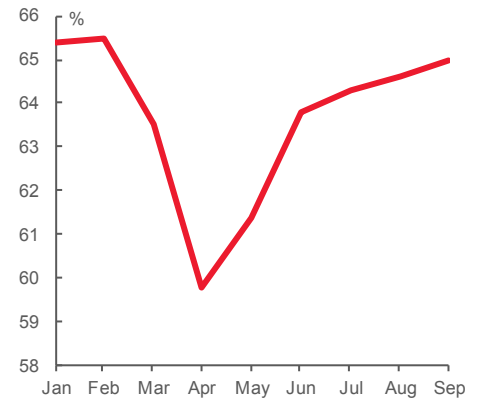
So now with the headline details out of the way, what really drove it?

Back-to-school effects on mothers and concentrated reopening effects on youth employment drove this gain in that order. Jobs for women 25–54 were up by 134k to lead the pack and the employment index for mothers in this bracket climbed to being on par with fathers for the first time in the pandemic. **The report showcases the importance of school re-openings for economic livelihoods.**

A major uncertainty had been whether this back to school effect would have occurred in September or been more spread out into October as mothers may have required more time to return to work once the kids were in school. **With the mothers-fathers gap now shut, this suggests it all happened in September so don't look for a repeat of this effect in October.** September's upside poses downside into October.

Youth employment (aged 15–24, both genders) was up by 127k last month. This was the second most powerful driver of the report. **Youth gains likely reflected the fact that reopening effects would be more concentrated in high contact sectors upon youths, like restaurants, bars and other service sectors.**

Chart 2 Canada's Labour Force Participation Rate



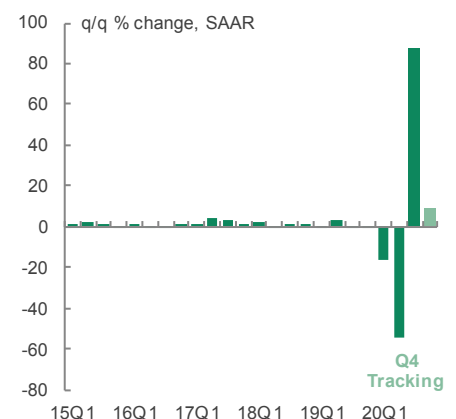
Sources: Scotiabank Economics, Statistics Canada.

Chart 3 September Changes in Canadian Employment Levels by Sector



Sources: Scotiabank Economics, Statistics Canada.

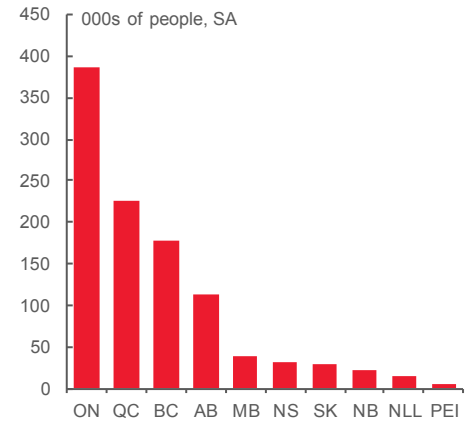
Chart 4 Total Hours Worked



Sources: Scotiabank Economics, StatsCan.

So overall, this could be the last great jobs report because the mothers and youth effects are unlikely to repeat. Going forward, there is unlikely to be an additional back to school effect in October because it all seemed to have happened in September. Further, given restrictions that Quebec, Ontario and others have introduced or are about to reintroduce (e.g. Ontario today), the youths category could be particularly vulnerable going forward. The final chart depicts the most vulnerable category of employment to increased restrictions. Over one million Canadians work in the accommodation and food services sector and almost 40% of those work in Ontario.

Chart 5 September Employment Levels in Accommodation & Food Services



Sources: Scotiabank Economics, Statistics Canada.

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