Canadian Jobs Showcase Why The Bank of Canada Should Tighten Before The Fed

- **Canada is on track for a full jobs recovery by summer…**
- **...well ahead of the US on the 'inclusive' recovery angle…**
- **...which supports BoC tightening before the Fed**
- **Broad details were solid**
- **A setback in April is likely, but vaccines and renewed easing of restrictions could drive a powerful rebound**
- **Hours worked point to further resilience in GDP growth**
- **The biggest cities once again played a small role**

Canadian jobs m/m 000s // UR %, SA, March:
Actual: 303.1 / 7.5
Scotia: 100 / 7.9
Consensus: 100 / 8.0
Prior: 259.2 / 8.2

Canada is on track for a full recovery in employment by this summer and hence far ahead of the United States. This carries significant implications for relative central bank and fiscal policy actions between the two countries.

Chart 1 vividly illustrates this point for some of the Canada haters out there. Employment now stands at 98.5% of pre-pandemic levels. The US is at roughly 95% in terms of both the nonfarm payrolls measure and the US household survey that is more closely aligned in nature to the Canadian household survey. Chart 2 depicts the jobs trend in Canada in actual numbers. The accompanying table breaks down some of the highlights for March's job gain. Chart 3 also shows that the labour force participation rate has also almost fully recovered and is just 0.3% shy of February 2020 and up 5.2 points from last April. Chart 4 shows where the modest cumulative jobs shortfall resides by sector.

With a consensus-smashing 303k jobs (re)created in March, Canadian employment is now down by 'only' 296k compared to pre-pandemic levels which recoups the overwhelming majority of the 3 million jobs that were lost at the worst point last April. By comparison, US nonfarm payrolls are still down by 8.4 million and the US household survey is down by 7.9 million. Given a roughly nine-to-one population difference, the considerably worse US performance relative to Canada doesn't come close to being explained away by relative market size.

How is this happening? From reading the daily doom feeds in the press and elsewhere one would be forgiven for thinking that Canada must be way behind the US. Not! Let's some facts do the talking over the political rants. Canada's

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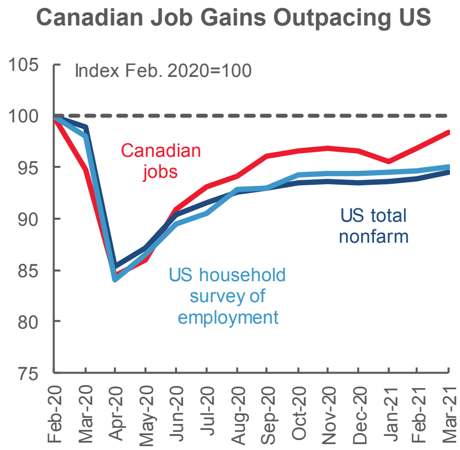
Chart 1



Sources: Scotiabank Economics, Stastics Canada, BLS.

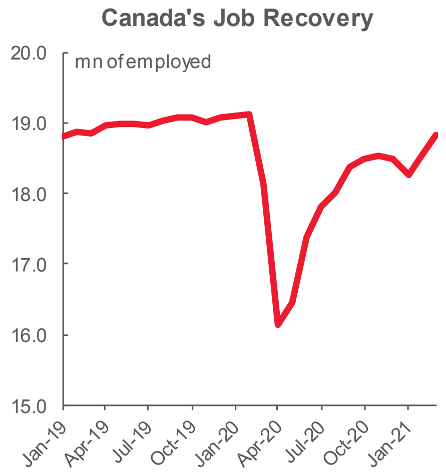
Canadian Jobs Break Down

Province	**m/m**
Ontario	+182.3k
Alberta	+37.1k
British Columbia	+35.0k
Quebec	+25.9k
Newfoundland & Labrador	+13.4k
Manitoba	+6.3k
Nova Scotia	+1.6k
Prince Edward Island	+1.3k
New Brunswick	+0.4k
Saskatchewan	0.0k
Employment Type	**m/m**
Full Time	+175.4k
Part Time	+127.8k
Public Sector	+45.5k
Private Sector	+201.3k
Self Employed	+56.4k

Sources: Scotiabank Economics, Statistics Canada.

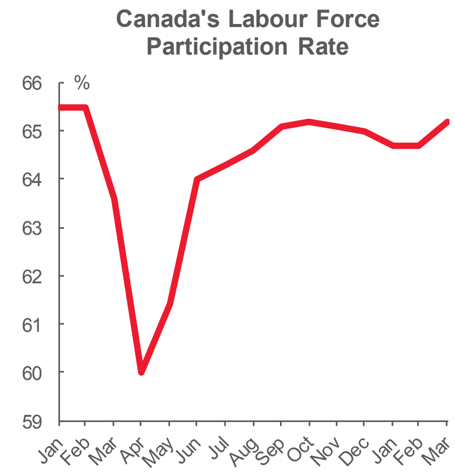
cumulative covid-19 case count sits at about 1 million versus 31 million in the US and the relative population difference would only explain a nine-to-one differential, not 31-to-1. Canada's public policy mixture in addressing the virus has been different and more oriented toward containment measures for various reasons, like multiple drivers behind lagging vaccine underperformance but also relatively greater conformance to the restrictions in Canada than the US. Further, even with vastly lower cases, Canada applied materially more stimulus relative to GDP than the US did in 2020. Going forward, Canada is likely 3–6 months behind the US vaccine curve and incremental fiscal stimulus while the upswing of a commodity cycle and imported effects of US stimulus offer benefits. Throughout this relative policy mixture of stimulus and containment, Canada's economy and job market have been proven to be resilient. You and I might be obsessed by tracking the numbers, but mainstreet probably understands this better than anyone which might help to explain things like why so many homes are being purchases.

Chart 2



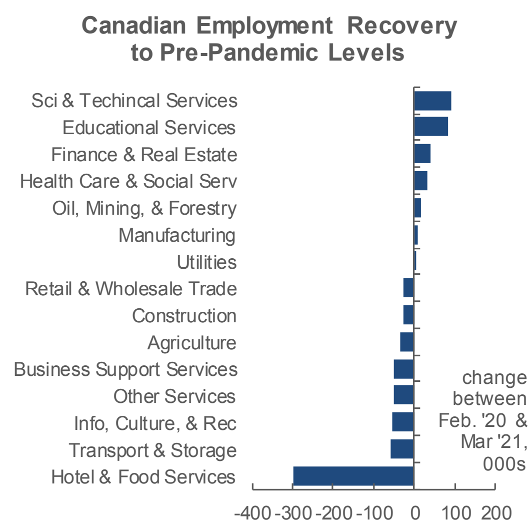
Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

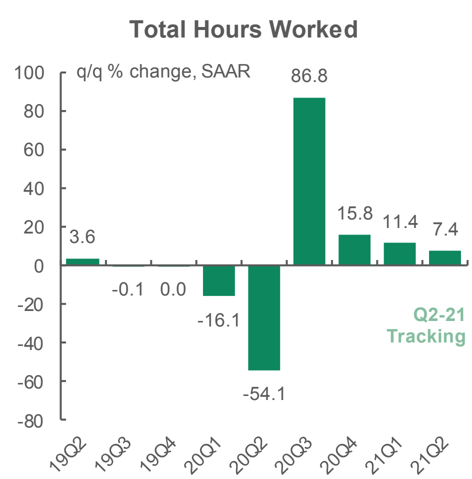


Sources: Scotiabank Economics, Statistics Canada.

In terms of the housing connection and the debate over macroprudential policy measures, it's worth observing that **one would worry more about the strength we are seeing in sales and home prices if it wasn't backed by such strong job gains.** Ditto for the credit cycle in terms of the ability to carry debt. In just this past quarter the country gained about 400,000 jobs. The other 18½ million folks with jobs at the end of last year were no doubt driving housing and partly because of stockpiled savings and monthly cash flow that improved with less being spent on pandemic-stricken activities, but job growth also helped.

Hours worked offer three important revelations. First, the 2% m/m rise in March hours worked is a positive sign for GDP growth that month given GDP is an identity defined as hours worked times labour productivity. Second, hours worked were up by over 11% in Q1 compared to Q4 at an annualized rate, so that likely adds additional upside to GDP growth expectations last quarter that could land over 6%. Third, the gain in hours worked during March 'bakes in' another annualized gain in hours worked of over 7% in Q2 even before we start to get any Q2 data (chart 5)!

Chart 5



Sources: Scotiabank Economics, StatsCan.

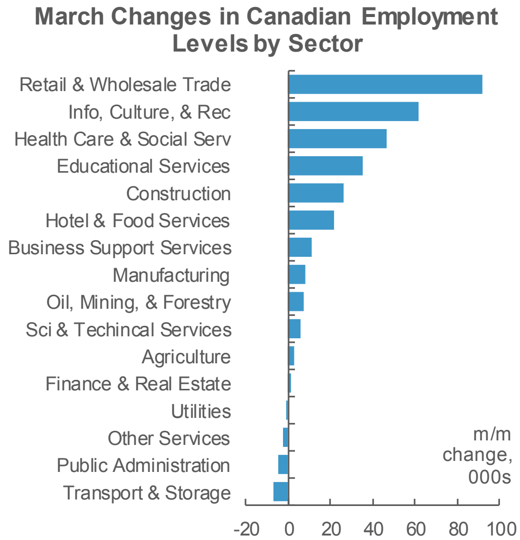
It's worth expanding on this last point. April's hours worked will very likely take a step back due to re-imposed restrictions, but the way the first quarter transitioned to the second quarter may combine with a more robust way in which Canada exits Q2 on hours worked and jobs if restrictions ease again before the end of Q2. That could mean that April will be sandwiched between more positive entry and exit dynamics over the quarter that could maintain strong GDP growth and hence resilience.

The overall tone of the report was resoundingly positive across other details:

- Full-time jobs accounted for about 58% of the overall gain with 175k full-time positions and 128k part-time jobs created.

- Most of the rise was in payroll jobs that were up by about 247k with self-employed jobs up 56k. That's not at all to knock self-employed jobs, but the data quality is often perceived as softer than payroll jobs.
- 82% of the payroll employment gain was in the private sector (+201k) with public sector payroll jobs up by 45.5k.
- by sector (Chart 6), services led the way with 260k jobs created and goods sectors added 43k. Within goods, the gain was skewed toward construction jobs (+25.7k) with manufacturing up 8k. Within services, the gain was spread across five sectors which indicates solid breadth.
- by province, Ontario led the way with a gain of 182k followed by Alberta (+37k), BC (+35k), Quebec (+26k) and Newfoundland and Labrador (+13k).
- Most of the gain was outside of the largest cities. In fact, 205k of the 303k rise in employment last month occurred outside of the three largest census metropolitan areas. Toronto employment was up by just 64k, Montreal was flat (+1.5k) and Vancouver added 32k jobs. I'm surprised by this because I had thought a gain in Toronto as it eased restrictions later than other regions was going to be the main if not only driver of this report. In turn, it's encouraging to see that there was such widespread strength.

Chart 6



Sources: Scotiabank Economics, Statistics Canada.

The relative policy influences on Canada compared to the US should be viewed as requiring less overall stimulus from combined monetary and fiscal policy. If Canada is nearing full employment much sooner than the US and faces closure of spare capacity later this year, then monetary policy guidance needs a significant reset into the April MPR meeting compared to guidance to date that has still tended to lean in favour of a multi-year hold. We're not out of this yet, but the length of time during which overall conditions have proven to be much more resilient than feared on everything from jobs to GDP to housing markets could merit some confidence-building cheerleading while reining in risks attached to a protracted policy overshoot.