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GLOBAL ECONOMICS

SCOTIA FLASH

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Why the BoC Will Fade the Drop in Canadian Jobs

- **Canada lost jobs in June…**
- **…but a rise in payrolls counts for more than the 'soft' quality driver**
- **Wage growth accelerated again**
- **Hours worked picked up**
- **The labour force shrank which drove the UR lower**
- **All of which are reasons for the BoC to look past the headline**

CDN jobs / UR, m/m 000s // %, SA, June:
Actual: -43.2 / 4.9
Scotia: 20 / 5.1
Consensus: 22.5 / 5.1
Prior: 39.8 / 5.1

The Bank of Canada is very likely to ignore a surprise loss of 43k jobs in June. Their fixation is upon their inflation mandate with inflation running at about four times their 2% target. They likely realize that they'll have to break a few tea cups along the path toward engineering cooler inflation through a combination of monetary tightening with a possible eventual assist from supply chains. Furthermore, the underlying details of the jobs report were more hawkish than the distorted headline figure would suggest. All of which says hike 75 next week and walk onto the next one toward a 3% policy rate by the end of summer and likely materially higher than that thereafter.

Canada's two-year yield soared by about 5bps in the aftermath partly because of the indirect effects of strong US job growth but perhaps also due to a fuller reading of the details offered below and communicated in real-time to our clients and traders. USDCAD reacted by, well, doing nothing really. It initially depreciated by less than half a penny on the weak Canadian versus strong US jobs numbers, but that got pulled in to leave CAD ever so slightly firmer as of sending this note.

Chart 1 shows highlights of the results. The job loss was concentrated in central Canada which if you know anything about Canada doesn't enjoy the same benefits from high commodity prices as other regions, but even all other provinces were roughly flat.

First, the 43k drop in employment was driven by a 59k drop in self-employed which is the softest of soft and self-revealed data. Private payroll employment was up by about 17k and public sector payroll employment was flat.

Second, almost all of the hit came through part-time workers (-39k) as full-time workers were essentially unchanged (-4k).

Third, part of the softness was likely because of difficulty getting workers. As evidence of this, consider that the labour force shrank by about 98k which drove the labour force participation rate lower (chart 2). Some of this may be because of the resurgence of COVID cases of late and some may be a reticence to rejoin higher contact workplaces, tussle with nosers, anti-maskers and angry mobs of short-tempered hooligans etc. You can't hire folks if they're unwilling to count themselves in the workforce and this has been a challenge for several months now. There was no growth in the labour force in April, it was up only 12k in May and now it just tanked. That's why the unemployment rate fell despite the smaller amount of lost jobs.

Fourth, wage growth is once again moving powerfully higher (chart 3). It accelerated to 10.6% m/m at a seasonally adjusted and annualized rate for permanent employees (as

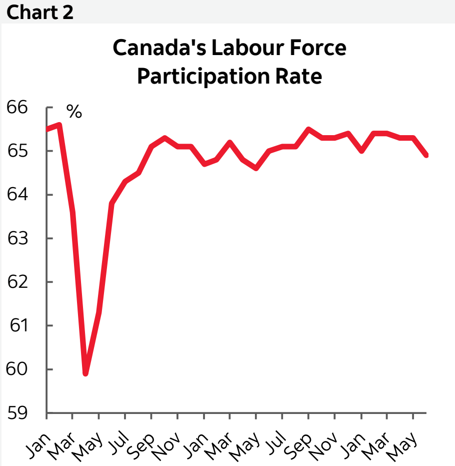
Chart 1

Canadian Jobs Break Down

Province	m/m
Quebec	-27.0k
Ontario	-24.7k
Newfoundland & Labrador	-4.3k
New Brunswick	-0.7k
Saskatchewan	-0.3k
Nova Scotia	+0.1k
Prince Edward Island	+1.6k
Alberta	+2.0k
Manitoba	+4.0k
British Columbia	+6.1k
Employment Type	**m/m**
Full Time	-4.0k
Part Time	-39.1k
Public Sector	-0.6k
Private Sector	+16.6k
Self Employed	-59.2k

Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

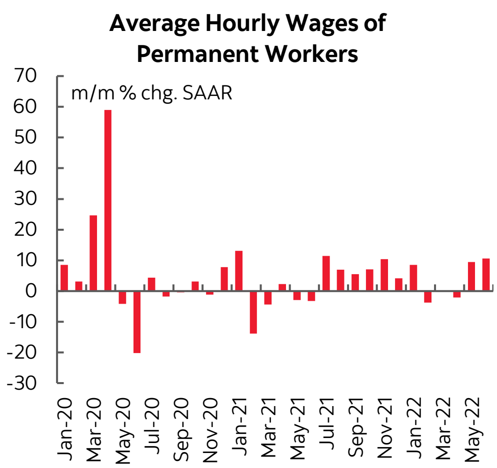
opposed to temp) during June. That follows a 9.4% annualized month-over-month rise the prior month. The result puts Canadian wages back on a firmly upward trend after hitting a soft patch over February to April prior to which wage growth was very strong over the July to January period. Difficulty finding workers is raising their pricing power. Mid-cycle wage gains offered to some workers no doubt contributed.

Fourth, jobs took a distorted hit, but hours worked soared. There was a 16% m/m annualized rise in hours worked during June. This followed two months of steep declines. The result is that the first quarter saw hours worked rise by 4.4% q/q at a seasonally adjusted and annualized rate (SAAR) and Q2 was up by 1.1%. The way Q2 ended bakes in a 3% gain in hours worked into Q3 before we get any Q3 data. Chart 4.

As for other details, chart 5 shows the breakdown of the change in jobs by sector. The retail and wholesale sectors took the biggest hit to employment. Service sector jobs were down by 76k while goods sector jobs were up 33k and led by construction (23k) and manufacturing (26k). Within services, it was the high contact retail/wholesale and health care categories that suffered the most.

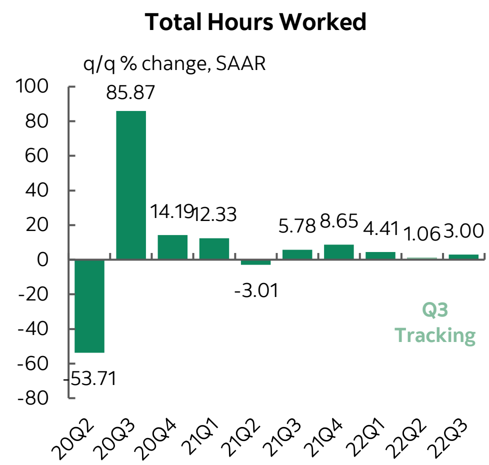
On net, Canada is still 453k jobs above pre-pandemic levels. Given tumbling labour productivity throughout the pandemic and soaring unit labour costs, I maintain that this cumulative job recovery should be viewed with appropriate caution going forward.

Chart 3



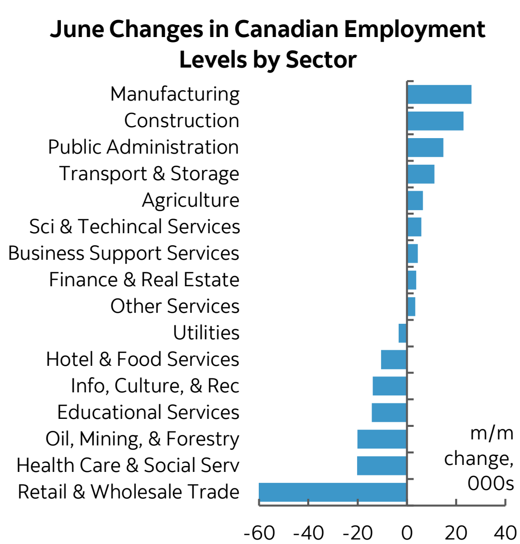
Sources: Scotiabank Economics, Statistics Canada

Chart 4



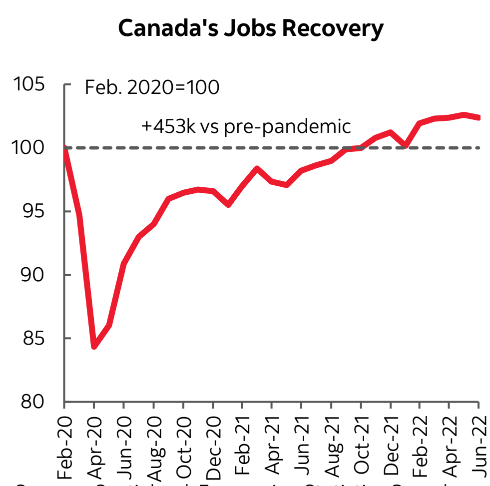
Sources: Scotiabank Economics, Statistics Canada.

Chart 5



Sources: Scotiabank Economics, Statistics Canada.

Chart 6



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