

Contributors

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Chart 1

Canadian Jobs Break Down	
Province	m/m
British Columbia	+32.9k
Alberta	+10.8k
Manitoba	+6.9k
Nova Scotia	+4.3k
New Brunswick	+2.9k
Newfoundland & Labrador	+0.5k
Quebec	+0.2k
Saskatchewan	-2.2k
Prince Edward Island	-3.8k
Ontario	-31.5k
Employment Type	m/m
Full Time	+5.7k
Part Time	+15.4k
Public Sector	+34.6k
Private Sector	+8.8k
Self Employed	-22.3k

Sources: Scotiabank Economics, Statistics Canada.

Canada's Job Market Remains Super-Tight

- Canada regained some jobs...
- ...but fade it because of education sector distortions
- Multiple measures continue to point to a still very tight job market...
- ...supporting wage gains in excess of productivity...
-adding to inflationary pressures...
- ...and keeping the BoC on a tightening path

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

Actual: 21.1 / 5.2
 Scotia: 30 / 5.2
 Consensus: 20 / 5.4
 Prior: -39.7 / 5.4

Canada's job 'gain' of 21k in September should be faded for the same reason as the advice to fade the prior month's job 'loss' of 40k. On net what we're left with is a picture net of distortions that points to a loss of momentum in Canada's job market, but not one that's material enough to matter a whole lot.

In fact, the offset is that the labour pool is also shrinking, the unemployment rate is falling even further below estimates of full employment equilibrium conditions, hours worked have stalled out and labour productivity remains abysmal. All told, the consequence is that the overall labour market is very tight and maintaining pressure upon inflation.

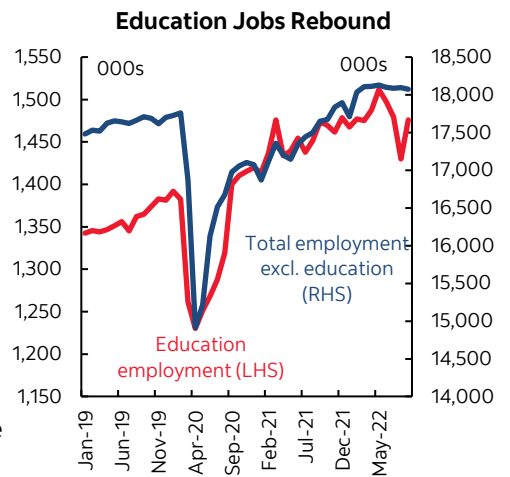
Please see chart 1 for a summary take of some of the details behind the change in employment last month.

EDUCATION SECTOR REBOUNDS

Teachers are messing up the data. Not deliberately of course, but the flap over overlapping contract disputes across much of the country's education sector—and especially in Ontario—has been wreaking havoc with the picture of what's really going on in the labour market. Just as the 50k drop in education sector jobs during August was a head fake, September's gain of 46k was a head fake in the other direction. I simply don't trust the data and the reliability of the responses through contract disputes and into the start of the new school year.

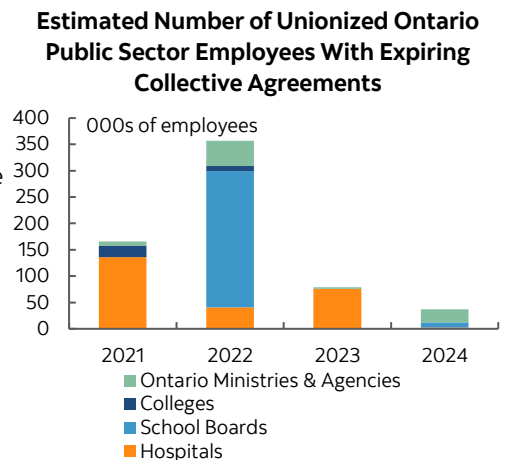
Removing education from the total jobs tally leaves behind a gain of 10k in August and a loss of 25k in September. On net, that leaves behind a recently soft labour market even net of the sector's issues, but hardly an imploding one. As chart 2 shows, however, total employment is little changed at high levels for some time after excluding the wonky

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, FAO.

education sector's issues. Chart 3 is a reminder of how important the mess over public sector contracts has become in the province of Ontario. And it's not over yet as tensions remain high with camps far apart from one another.

TREND WAGE GROWTH REMAINS HOT...

Wage growth decelerated to 2.6% m/m at a seasonally adjusted and annualized rate. That follows four months of gains in the 8½–11% range (chart 4). This is just one month of cooler wage growth after a string of four powerful gains and the three-month moving average gain is still 6.7% m/m SAAR. We need more data to see if mean reversion is kicking in or not.

Now was that prior four month super-acceleration just a rebound effect from omicron restrictions? Maybe, but then how come we saw explosive wage gains over the July 2021 to January 2022 period when there were also restrictions that kept the stringency index very elevated?

Another way of looking at wage growth is to consider year-over-year measures that cut through the waves. Chart 5 shows high breadth to wage gains across sectors despite varying impacts of covid restrictions.

...WHILE PRODUCTIVITY STINKS...

Further, productivity stinks as it typically does in Canada coming out of shocks like the GFC and pandemic when it's worse than in the US, only this time it's especially bad (chart 6). Really bad, in fact. If folks are getting paid more to produce less per hour worked over time which is the

Canadian reality, then the one-two punch reinforces the inflationary implications. Real wage gains need to be driven by productivity gains over time and absent this support the consequence of m/m SAAR wage strength and poor productivity is inflationary. I should have also noted that Governor Macklem did not mention productivity in his speech yesterday as he is perhaps frustrated by the fact that his earlier hopes for an improving trend have yet to come to fruition.

....AND THE LABOUR POOL KEEPS SHRINKING...

Also note that the labour force participation rate fell again to 64.7% which is only one-tick lower than the prior month as 20k workers left the pool of available labour. The part rate has been trending lower since last September's 65.5% reading as about 60,000 workers left the labour pool (chart 7). Less availability of labour to hire results in the continued tightening of the labour force even as trend job growth cools.

As a consequence, the unemployment rate remains very low especially by Canadian standards. At 5.2%, the UR fell two-tenths in September on the combination of job growth and a smaller pool of available labour. The UR has been hovering around either side of 5% for the past eight months.

Chart 4

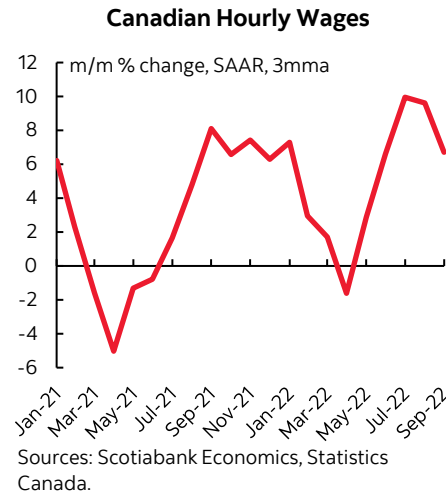


Chart 5

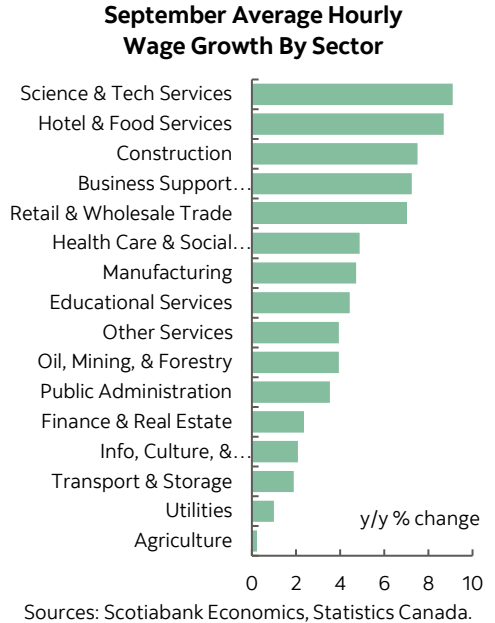


Chart 6

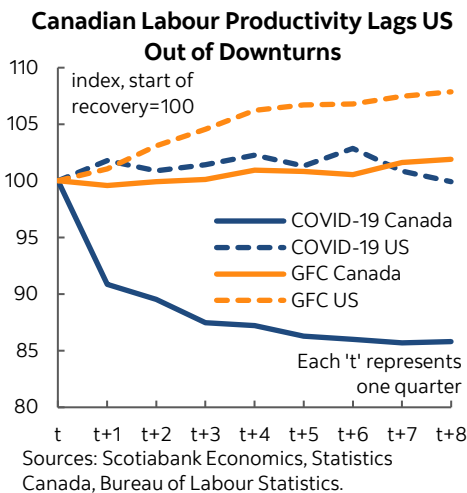
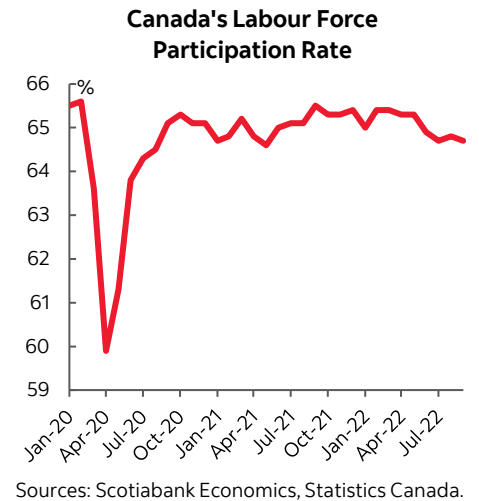


Chart 7



...WHICH KEEPS CANADA'S UNEMPLOYMENT RATE WELL BELOW EQUILIBRIUM

Chart 8 brings all of this together in a Canada-US comparison. Canada's official unemployment rate of 5.2% is below attempts at estimating the equilibrium unemployment rate that would define labour market conditions that are not inflationary—the so-called non-accelerating inflation rate of unemployment, or NAIRU. It is below this rate by more than is the case in the US and it's important to bear in mind the need to make adjustments to Canada's unemployment rate in order to compare it to US measurement practices. Relative to the US, Canada has a less restrictive definition of what constitutes looking for work and so the labour force has a higher measurement bias relative to the US. Statcan produces alternative measures of the unemployment rate that adjust for this and the US-comparable rate is now 3.8% in Canada (here). That's on par with the US unemployment rate of 3.5%, but the spread beneath the NAIRU is bigger in Canada and hence there is a tighter labour market north of the border where the structural rate of unemployment is usually deemed to be higher even if estimates of exactly how much higher are uncertain.

...WHILE CANADA HAS MAXED OUT ON HOURS WORKED

Hours worked were down 0.6% m/m in September which follows a flat reading in August and a drop of 0.5% in June. The overall quarter saw the number of hours worked in aggregate across the whole economy decline somewhat.

That doesn't quite show up in quarterly figures because of the way in which the math transitioned from Q2 to Q3. Hours worked are tracking flat in Q3 after a 1.1% increase in Q2. Based solely upon the hand-off effect of what happened last month while imposing no judgement on monthly hours over Q4 we have a drop of 1.6% q/q SAAR baked into Q4.

As chart 9 shows, hours worked have been losing momentum since the super-surge over Q3 and Q4 last year. That prior pace wasn't sustainable in the recovery phase, but the lost momentum that seems to be in play from Q2-Q4 is disconcerting on two counts.

One is that it points to softening momentum in the economy since GDP is an identity defined as hours worked times labour productivity. Neither of those would appear to be Canada's strong suit at the moment, but labour productivity might be a bit better supported by weaker hours and pockets of strength like exports and services.

Two is that weaker growth in hours worked is another variable that points to a tight labour market that may have reached capacity. Then again, there's always a big part of me that distrusts the data as I still chuckle whenever I'm told that officially I only work 37.5 hours per week, bwah-ha-ha!! Perhaps they got the first two numbers reversed.

OTHER DETAILS

Chart 10 shows the soft breadth to September's 21k gain in total employment.

Chart 11 shows that Canada is still well above pre-pandemic employment levels even with recent slackening. This last point reinforces the notion that the labour market remains tight.

Chart 8

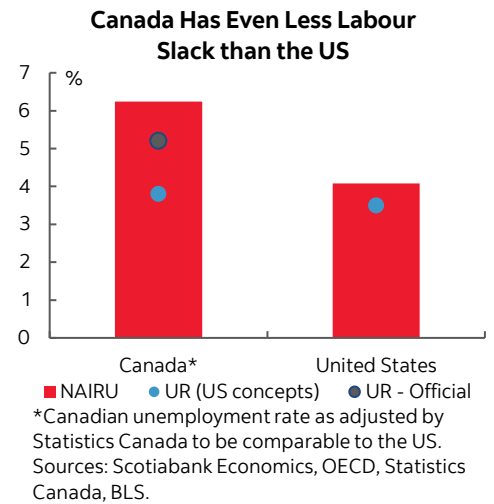


Chart 9

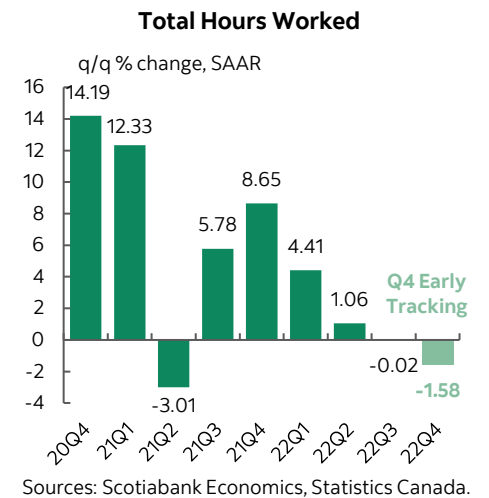
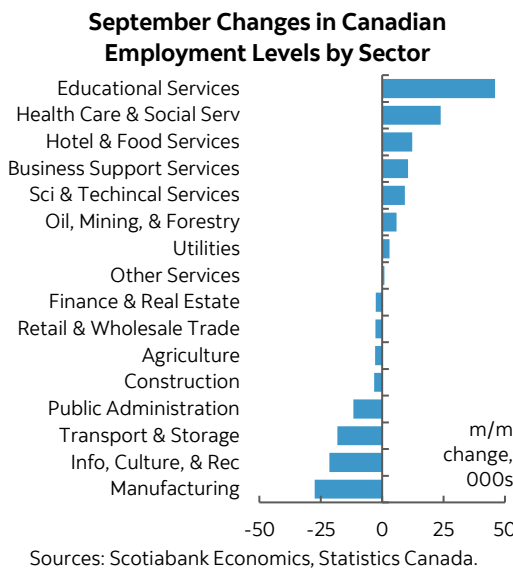


Chart 11



Chart 10



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