Scotiabank

GLOBAL ECONOMICS

SCOTIA FLASH

May 10, 2024

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Chart 1

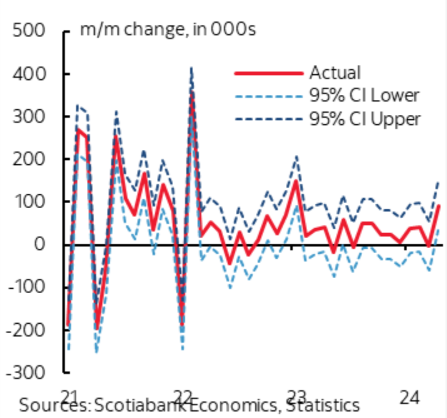
Canadian Jobs Break Down

Province	**m/m**
Ontario	+25.0k
British Columbia	+23.4k
Quebec	+19.2k
Alberta	+10.6k
New Brunswick	+7.8k
Manitoba	+2.9k
Saskatchewan	+1.1k
Prince Edward Island	+0.7k
Newfoundland & Labrador	+0.4k
Nova Scotia	-0.9k
Employment Type	**m/m**
Full Time	+40.1k
Part Time	+50.3k
Public Sector	+25.5k
Private Sector	+50.4k
Self Employed	+14.5k

Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Confidence Bands Around Canadian Job Growth



Sources: Scotiabank Economics, Statistics Canada.

Canada's Job Market Needs No Help from the BoC

- **Canada's job market was on fire last month**
- **Think it's sampling error? Think again, and don't cherry-pick that argument**
- **Details were strong**
- **Hours worked point to strong GDP tracking, upside risk to the BoC's Q2 GDP forecast**
- **Wage growth cooled, trend remains too warm…**
- **…while wage settlements also cool but remain too warm**
- **BoC cut pricing for the June meeting was reduced to just 10bps…**
- **…although we still need to see Cdn CPI and GDP, plus external factors…**
- **…but economic momentum is adding to inflation risk**

Canadian employment m/m 000s // UR %, SA, April:
Actual: 90.4 / 6.1
Scotia: 25 / 6.1
Consensus: 20 / 6.2
Prior: -2.2 / 6.1

It's time to go bear hunting this weekend folks, figuratively speaking. I maintain that consensus is too bearish on Canada's economy and too bullish on rates with an underpriced curve relative to the US. Jobs offer the latest piece of evidence. Details point to strong underlying momentum in GDP growth that adds to inflation risk with a mild offset being mixed data on wages.

June BoC cut pricing is about 4+bps lower post-data so far and indicating less than 50–50 odds of a quarter point cut on June 5th. Only about 10bps is now priced for June and markets are pricing only about 50bps of cuts for the year as a whole. CPI the week after next and GDP later this month plus external factors like next week's US CPI will further inform pricing.

What Happened?

90,400 jobs were created last month with some details shown in chart 1.

We cannot dismiss such a gain as just white noise or sampling error. Folks who do so do it in cherry-picking fashion as I heard few saying not to worry about the prior month's soft reading because it's just statistical random noise when the upper half of that noise band might have indicated a gain. The 95% confidence interval around the change in employment in a given month is estimated by Statcan to be about +/-57k. Therefore, at a reported 90k pace last month, there would have been a material job gain during April of between 33k and 147k in 95 times out of 100 in repeated labour force survey sampling. I'm unaware of any argument that would lend confidence to expressing skepticism in the tails. So respect the data. Chart 2 shows the confidence bands over time.

Strong Details

There was roughly an even split between full-time (+40k) and part-time (+50k) jobs.

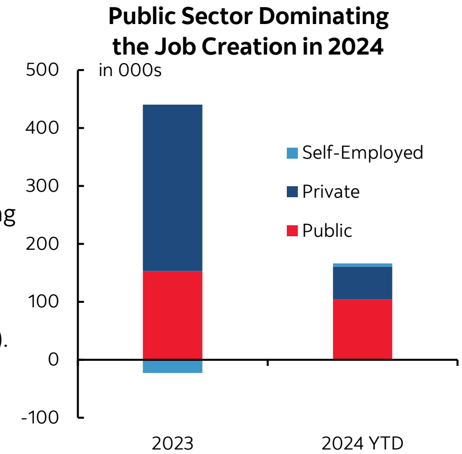
The private sector led the way. Private sector payrolls were up by 50k, public sector payrolls gained 26k and self-employed positions were up by 14.5k. About 70% of the 1 million gain in employment since the end of 2021 was in the private sector (691k) with about 295k more public sector payrolls and 12k in self-employed. So far this year, however, public sector employment is still leading (+104k) with private sector payrolls up 57k and self-employed up by just 6k (chart 3).

Youth employment did rebound as argued with a gain of +39k jobs in the <25 category (chart 4). I still don't trust Statistics Canada's seasonal adjustments and their ability to adequately control for the shifting timing of Spring breaks relative to the Labour Force Survey reference week for March.

Employment also grew for the 25+ age category (+51k).

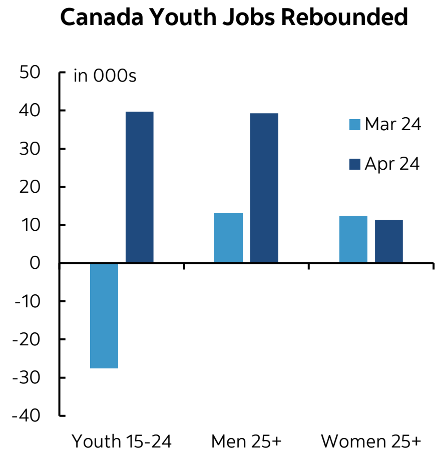
By industry, the job gain was all in services (+100.7k) with goods down 10.4k (chart 5). Within goods, there was an 11k drop in construction employment and a 5k decline in each of the agricultural and utilities sectors. An 8k rise in resource sector jobs was partially offsetting.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

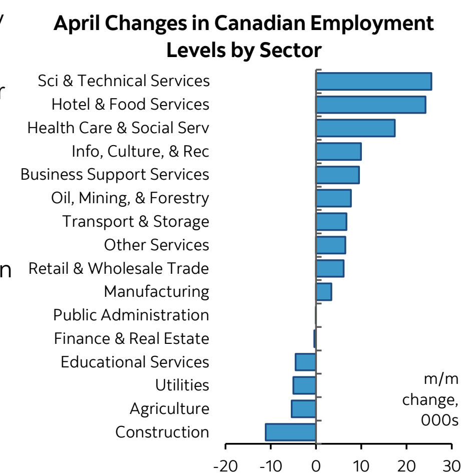
Chart 4



Sources: Scotiabank Economics, Statistics

Within services there was decent breadth. The professional/scientific/technical category was up by 26k, accommodation and food services were up 24k, health care and social assistance climbed by 17k, business/building and other support services gained 9.5k and there were smaller gains in other sectors. The only services sector to lose a slightly notable number of jobs was education (-5k).

Chart 5



Sources: Scotiabank Economics, Statistics Canada.

Wage Growth Cooled, the Trend is Still Warm

Wage growth slowed to 1.3% m/m SAAR (chart 6). The three-month moving average now sits at 3.4% m/m SAAR (chart 7) and so the smoothed profile continues to be above the BoC's 2% inflation target especially upon considering terrible labour productivity.

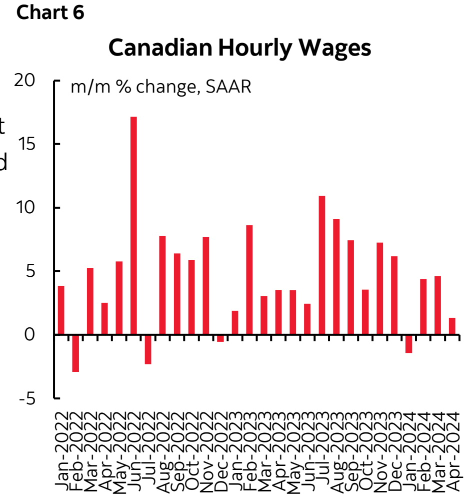
Hours Worked Point to Strong GDP

Hours worked soared by 0.8% m/m. That's a very strong support for April GDP since GDP is an identity defined as hours worked in aggregate times labour productivity.

What's more is that hours worked were up by 2.9% q/q SAAR in Q1 and are very tentatively tracking a 2.7% gain in Q2 (chart 8). Since GDP is hours worked in aggregate times labour productiivity, we can say that the rebound in Q1 GDP has momentum into Q2 at least from an hours standpoint. Productivity will be informed by incoming activity readings.

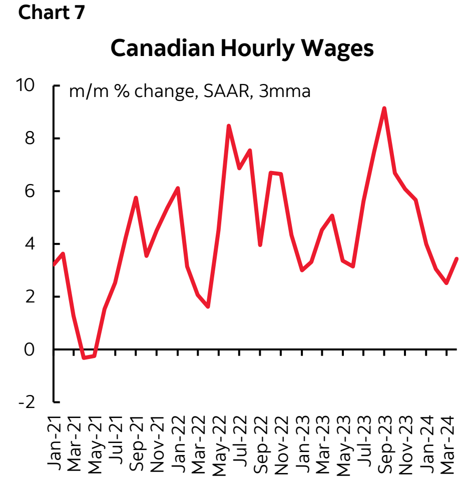
So with cautions, at the margin this is further evidence that the BoC's narrative coming into the year that H1 would be the worst period for growth is wayyyy off. Q4 GDP beat the BoC's expectations by a percentage point, Q1 is tracking at least 2 ppts above the BoC's January forecast before they revised it higher but with high ongoing uncertainty including on inventory effects, and now we have VERY tentative evidence that Q2 is doing likewise with upside risk to the BoC's April MPR forecast of 1.5% q/q SAAR GDP growth in Q2.

Chart 6



Sources: Scotiabank Economics, Statistics Canada.

Chart 7



Sources: Scotiabank Economics, Statistics Canada, Haver.

If we get another upside surprise to GDP relative to the BoC's expectations then it would seriously dent their enthusiasm that the economy is creating disinflationary slack and thus lend less confidence to their view that Canada is on a sustainable move toward 2% inflation.

Unemployment and the Immigration Experiment

The unemployment rate was stable at 6.1% as jobs created were offset by another 108k who entered the labour force. That labour force expansion reflected the fact that population was up by another 112k m/m which is the second highest monthly population gain on record.

Canada's trend pace of job creation is not keeping up with labour force expansion through immigration. Yet. 377k jobs have been created y/y as the labour force has expanded by 633k and population has risen by 1.08 million. I find the percapinistas who bemoan this fact are overly premature in concluding that the immigration experiment has been a total bust. It takes time to integrate new arrivals into the Canadian workforce and they don't achieve success overnight in an economy with longstanding difficulties when it comes to successfully integrated immigrants. This is not a one-year experiment, it's a multi-year one with the outcome still an open question.

Addressing the Percapinistas

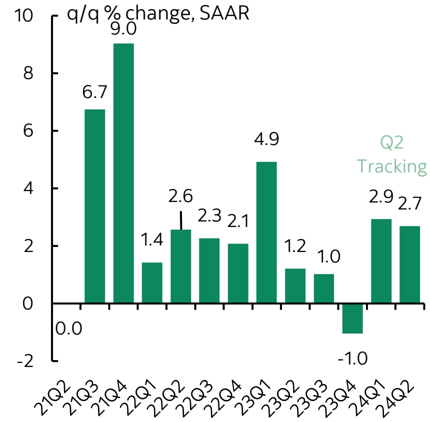
I'm also still of the view that the same holds true against the whiners who complain about per capita activity readings. Per capita GDP, per capita retail sales and other per capita measures should, at a minimum, not take total population and should take out temporary/nonpermanent residents. The rationale for doing so is that temps are comprised of temporary foreign workers who send paycheques home and spend their money back home upon returning, plus asylum seekers who face immediate challenges to integrate into the economy, plus international students with relatively low spending propensities. My point is that you can't judge per capita GDP and other activity readings without a) controlling for the composition of the population surge, and b) taking into consideration that this is a multi-year experiment that cannot be judged in just 1–2 years. As Canada integrates new arrivals and if Ottawa is successful in driving down the temp category in line with their target, then these per capita numbers may well rebound and perhaps quite strongly. If so, then the folks who take total population in the denominator of per capita measures might be left explaining how come they were so negative when the per capita numbers are already rebounding.

Big Gains in the Bigger Provinces

By province, Quebec employment was up 19k, Ontario 25k, Alberta +11k, BC +23k. The rest of the crumbs were scattered across the remaining provinces.

Chart 8

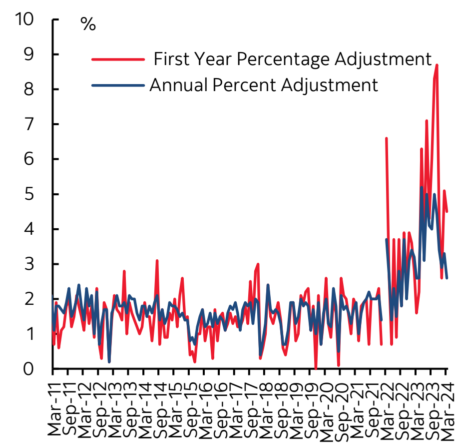
Canada Total Hours Worked



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

Soaring Canadian Wage Settlements



Sources: Scotiabank Economics, Statistics Canada.

Canada's Job Market is Not Slowing

In terms of momentum, Canada has now created 166k jobs in the first four months of the year which tracks at a half million at an annualized rate. That's similar to last year's 584k jobs created. This is not a slowing job market. Canada has now created 1 million jobs since the end of 2021.

Collective Bargaining Wage Gains Will Show Up in Future

Canada just updated three months of collective bargaining wage settlements data all at once. That's very welcome since the way Ottawa was releasing the figures before now was marked by a severe and erratic lag. The bottom line is that the trend in monthly settlements for expired collective bargaining agreements is slowing but continues to rise at a pace above the BoC's 2% inflation target and well above productivity (chart 9). First year agreement wage increases in January through March were 2.6%, 5.1% and 4.5% respectively. Average annual wage increases over the 3–4 year average contract periods of the settlements so far this year from January through March were 2.9%, 3.3% and 2.6%.

These collective bargaining wage figures obviously have yet to show up in LFS wages and will with a lag as the pay adjusts to the agreements over coming years. The settlements are below some of the screaming gains that were being posted last Summer and Fall, but are still pressuring inflation risk especially relative to poor productivity.