

Contributors

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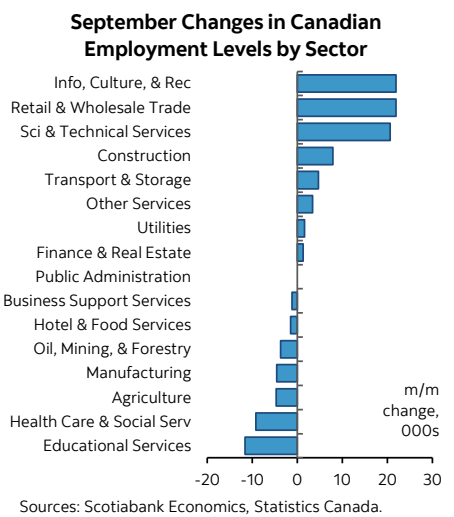
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Chart 1

Canadian Jobs Break Down	
Province	m/m
Ontario	+43.2k
Quebec	+21.7k
Manitoba	+5.1k
Nova Scotia	+3.0k
Saskatchewan	+2.3k
Prince Edward Island	+0.6k
Newfoundland & Labrador	+0.4k
New Brunswick	-4.1k
Alberta	-7.6k
British Columbia	-18.0k
Employment Type	m/m
Full Time	+112.0k
Part Time	-65.3k
Public Sector	-23.6k
Private Sector	+61.2k
Self Employed	+8.9k

Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Markets Remain on the 25-or-50 Fence from the BoC After Strong Jobs, Still Elevated Inflation Expectations

- Markets remain on the fence between 25 and 50 for the BoC's next decision
- Canada gained 47k jobs with decent, but not perfect details...
- ...that initially pared BoC bets
- Markets raised BoC cut pricing post-BoC surveys...
- ...that indicate progress, but still too high inflation expectations...
- ...and they are weak gauges anyway

Canadian jobs, m/m 000s / UR %, September:

Actual: 46.7 / 6.5
 Scotia: 10 / 6.8
 Consensus: 27 / 6.7
 Prior: 22.1 / 6.6

Rate cuts bets were initially pared after Statistics Canada reported strong job growth, but, crazy as it may be, markets swung the other way with selective interpretations of what the BoC's weak consumer and business surveys indicated.

The jobs details were a bit mixed, but mostly constructive. Canada's job market remains on strong foundations. Residual risks to Boc pricing included Governor Macklem's dovish bias and perhaps what happens with next week's core CPI readings that I'll preview in my Global Week Ahead. 50 isn't impossible, but I still just don't see the emergency that merits such a move.

Markets reacted to jobs by driving Canadian bond yields higher relative to the US, but not by much. About 5bps was shaved off pricing for the BoC's next rate decision on October 23rd but then returned to pricing about 37bps of a cut which is on the fence between 25 and 50.

DETAILS — GENERALLY ROBUST, BUT NOT PERFECT

Canada created 47k jobs last month. All of them were created in Ontario (43k) and Quebec (22k) with the only material decline in British Columbia just ahead of next Saturday's election (chart 1).

Chart 3

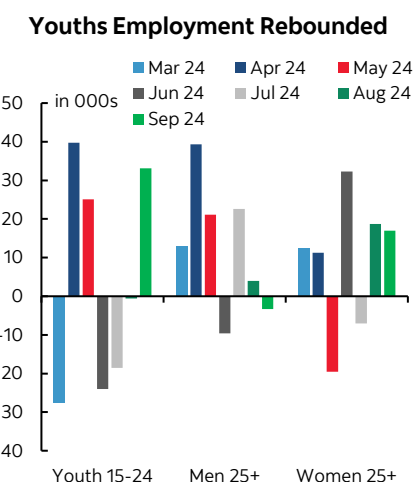
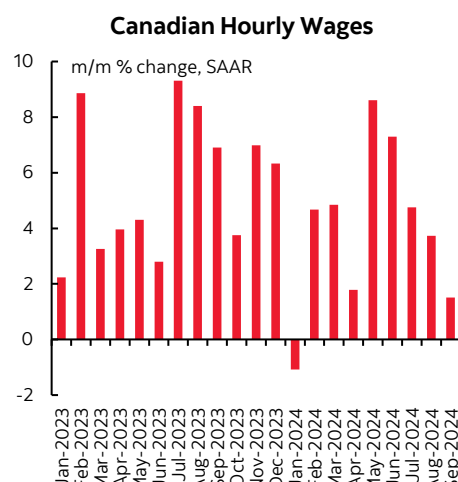


Chart 4



All of the job growth was in full-time jobs (+112k) as part-time jobs fell 65k. That's a plus for job stability and incomes.

All of the gain was in the private sector this time. Private sector payrolls were up 61k with public sector payrolls down 24k and self-employed jobs were up 9k.

The goods sector lost -3.6k with little variation across its subsectors. Services led the way with about 50k extra jobs mostly in wholesale/retail, professional/scientific/technical, and info/culture/recreation. See chart 2.

Youth employment was surprisingly strong (+33k) despite last month's changes to international students flagged in my weekly (chart 3). I'm surprised that the changes to international students had no effect and, in stark contrast, occurred in the same month that youth jobs rebounded. Maybe next month? Tightening temps (students, temp foreign workers and asylum seekers) will dampen things over time. Just not this month!

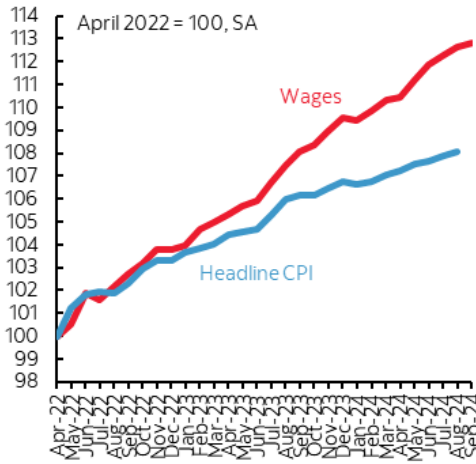
The 25+ age bracket gained 14k jobs entirely among females.

One dent to the readings is that wage growth slowed to 1.5% m/m at a seasonally adjusted and annualized rate (SAAR). Chart 4 shows a steadily decelerating path, The 3-month moving average stands at 3.3% m/m SAAR which remains above the BoC's 2% inflation target and so does the y/y rate of 4.5%. Canadians are making real wage gains (chart 5) despite tumbling labour productivity (chart 6). That combination remains a source of inflation risk.

Furthermore, Canada continues to reset wages higher in collective bargaining negotiations (chart 7). The gains being booked in contracts with a life of 3-4 years will continue to migrate through the actual wage data in a labour force with tripled (about 30%) the unionization rate of the US.

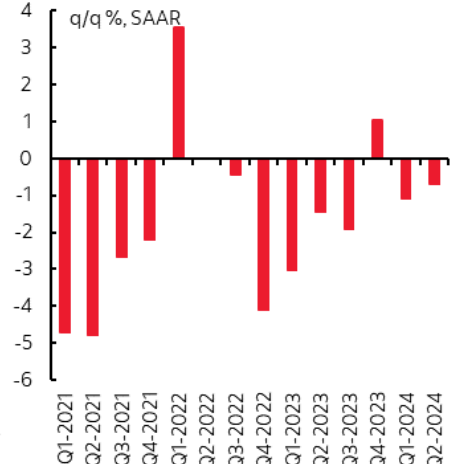
Another dent to the overall reading is that hours worked fell -0.4% m/m SA. More employed bodies worked slightly fewer hours last month. Chart 8 shows quarterly tracking of hours worked with Q3 up 2.1% q/q SAAR. That's a good sign for GDP — all else equal—since GDP is an identity expressed as hours worked in aggregate times labour productivity. The latter is hardly Canada's shining star and so GDP growth is very likely to be weaker than hours.

Chart 5
Wages Outpacing Inflation in Canada



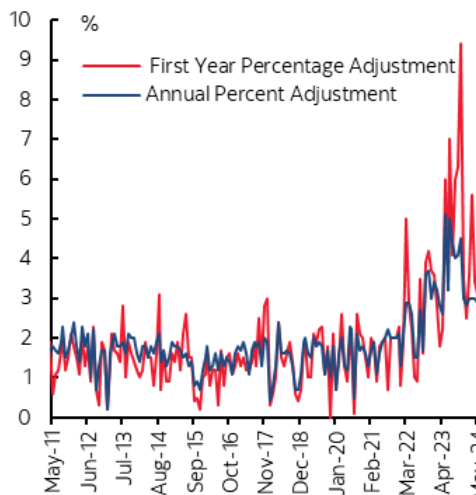
Sources: Scotiabank Economics, Statistics Canada.

Chart 6
Canadian Labour Productivity Growth



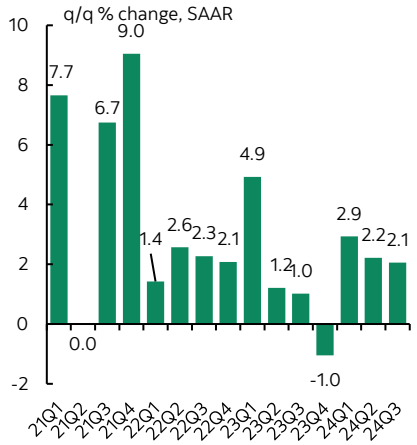
Sources: Scotiabank Economics, Statistics Canada.

Chart 7
Canadian Wage Settlements



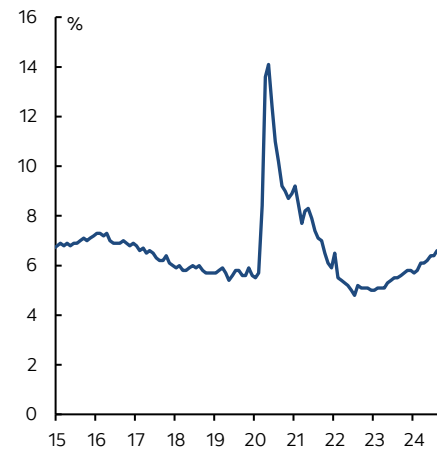
Sources: Scotiabank Economics, Statistics Canada.

Chart 8
Canada Total Hours Worked



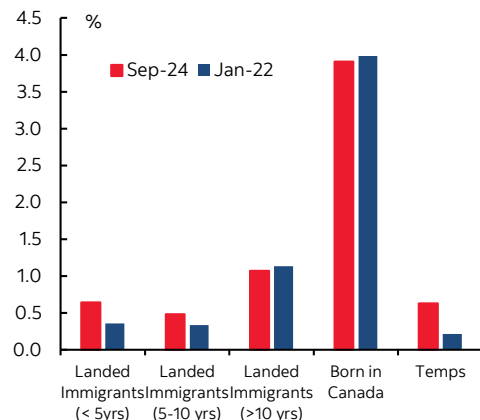
Sources: Scotiabank Economics, Statistics

Chart 9
Canada's Unemployment Rate



Source: Scotiabank Economics, Statistics Canada.

Chart 10
Weighted Contributions to the Canadian Unemployment Rate



Sources: Scotiabank Economics, Statistics Canada.

The unemployment rate fell a tenth to 6.5% because job growth of 47k outpaced labour force expansion that was up 16k (chart 9). It remains the case that temps explain most of the run-up in Canada's unemployment rate over the past 2-3 years (chart 10). This will be addressed by changes to immigration policy that are now moving through the system.

NAIRU equilibrium estimates of the UR are higher in Canada than the US and always have been. Canada's UR is basically at full employment (chart 11). And be careful toward measurement differences when comparing URs in Canada and the US. Canada has a more relaxed definition of what counts as job searching that inflates the LF relative to the US, and Canada starts counting the LF at a younger age than the US.

Canada doesn't have the same magnitude of an issue with seasonal adjustments as the US labour readings, but it's still there. Chart 12 shows that the pandemic era has some of the highest SA factors for like months of September on record. Chart 13 shows what actual seasonally adjusted job growth would have been like last month at varying SA factors and it's probably still likely that jobs would have been gained last month under most reasonable SA factors.

BOC'S SURVEYS REGISTERED MILD PROGRESS ON STILL ELEVATED INFLATION EXPECTATIONS

The BoC's surveys registered mild improvement in inflation expectations but they still remain elevated (charts 14-16). Consumers lowered their expectations, but still think inflation will be toward or above the upper limit of the BoC's 1-3% inflation target range over all horizons. Businesses think that inflation will be around 2½% over all horizons which remains in the upper half of the BoC's 1-3% target range.

Governor Macklem will cite progress in inflation expectations but I would still expect him to say that these surveys are indicating that inflation expectations remain too high.

Chart 11

Labour Market Remains Tight in US and Canada

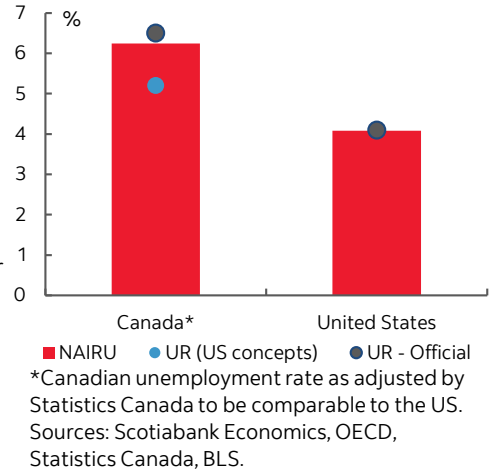


Chart 12

Comparing Canada LFS SA Factor for All Months of September

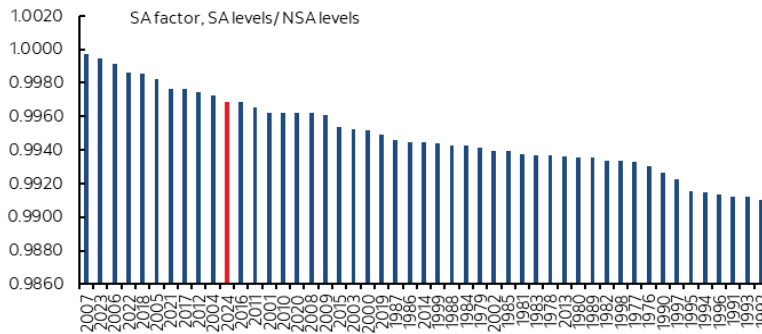


Chart 13

CA Labour Force Survey Scenarios

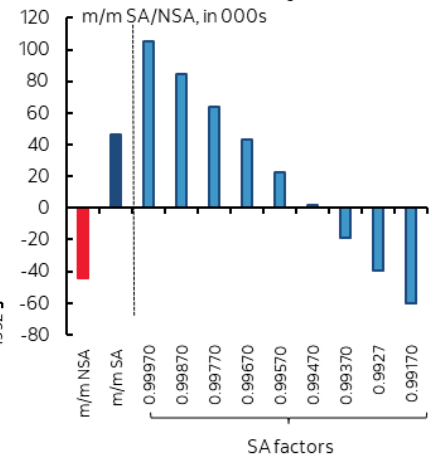


Chart 14

Canadian Consumers Inflation Expectations

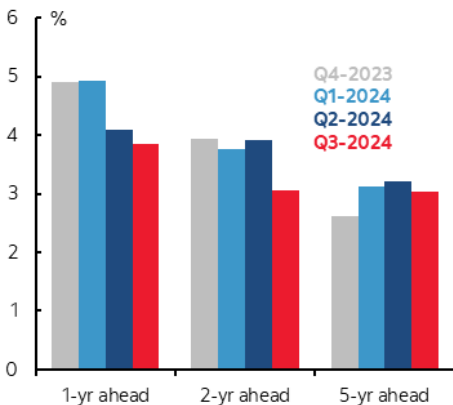


Chart 15

Canadian Businesses' Inflation Expectations

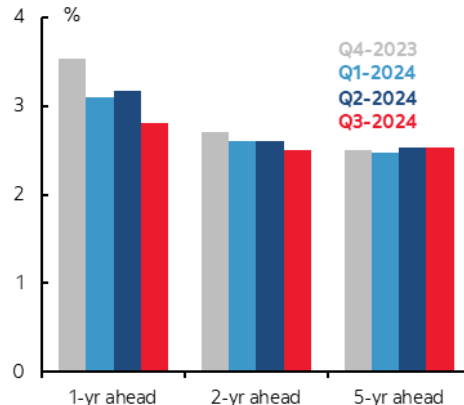
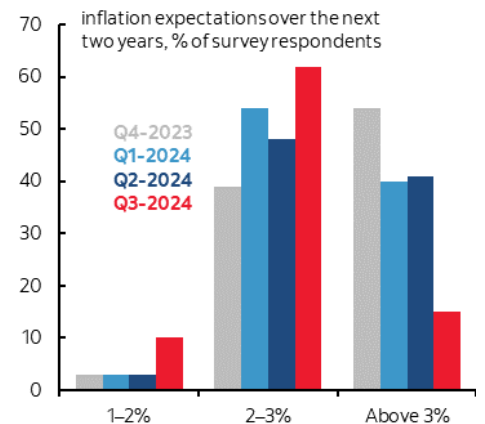


Chart 16

Canadian Businesses Inflation Expectations



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