

Economics

THE WEEK AHEAD

May 16-20, 2022

Where have all the workers gone?

by Benjamin Tal benjamin.tal@cibc.com

Finally, the Canadian labour market feels a bit more normal. The 15k jobs created in April were in line with the pre-Covid pace of hiring. The level of employment is more or less where it would have been if Covid hadn't happened. Ditto for the unemployment rate, the participation rate, and many other labour market variables that only economists get excited about. But, as usual, the headline numbers mask plenty of interesting stuff. Behind the scenes, Covid has triggered a transformation of historic proportions in the composition of the Canadian labour market.

CIBC Economics has developed and closely follows two measures of employment quality. The first is the weighted share of high-paying, full-time employment in total employment across more than 100 sub-occupation groups. The other is a more direct measure of compensation that utilizes unpublished Statistics Canada tabulations aimed at measuring employment level by income brackets.

The charts below illustrate the trajectories of both measures. The dramatic improvement in "employment quality" during the pandemic was hardly a surprise. In fact, it was not really an improvement since most of the jobs lost were low-paying ones. If you have fewer low-paying jobs in the system, by definition the quality of the remaining pool will improve. But as the job market returned to normal, one would have expected the two measures to go back to their pre-pandemic levels. That hasn't happened. As of March 2022, the number of jobs that paid less than \$30 an hour were down by close to 3% since the beginning of the pandemic, while jobs that paid above that rate have risen by more than 8%. Similarly, the share of high-paying jobs in our occupation-based measure has increased notably. Furthermore, self-employment, one of the first casualties of Covid, is still 7% below its pre-pandemic level.

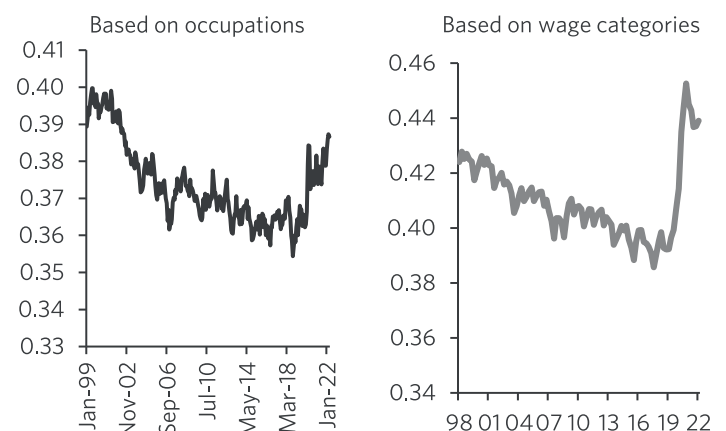
The stickiness of the share of low-paying jobs is surely not due to a lack of demand. Just walk around and count all of the help-wanted signs you see.

What's happening here? It's tempting to assume that the trauma of Covid has led many people to reevaluate their lives,

including their attachment to the labour market. Tempting, but probably wrong. A careful examination of participation rates by age group doesn't reveal such a trend. The participation rate of Canadians aged 15-19 is currently above the rate suggested by the trendline established before Covid. As for the 20-24 age group, that rate is exactly where it should be given its pre-Covid trend line. And given that those young Canadians dominate the low-wage/service-oriented job space, it's not really a lack of willingness to work. In fact, with the exception of the 60 and over age group, the participation rates of all other age groups are at or above where they should be given the trend observed pre-Covid.

So? Maybe, only maybe (and we are speculating here), Covid has created a situation in which previously overqualified workers (university graduates serving coffee) are being welcomed into higher-paying jobs and have better access to them by working virtually. This claim needs to be confirmed by careful research, and we are on the case. Stay tuned.

Chart: Share of high-paying jobs



Source: Statistics Canada, CIBC

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority
 SAAR = Seasonally Adjusted Annual Rate
 Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 16	8:15 AM	HOUSING STARTS SAAR	(Apr)	(M)	240K	-	246.2K
Monday, May 16	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Mar)	(M)	1.7%	2.0%	4.2%
Monday, May 16	8:30 AM	WHOLESALE TRADE M/M	(Mar)	(M)	-0.3%	0.0%	-0.4%
Monday, May 16	9:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	-	-5.4%
Tuesday, May 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Mar)	(M)	-	-	\$7.44B
Wednesday, May 18	8:30 AM	CPI M/M	(Apr)	(H)	0.3%	-	1.4%
Wednesday, May 18	8:30 AM	CPI Y/Y	(Apr)	(H)	6.5%	-	6.7%
Wednesday, May 18	8:30 AM	CPI Core- Common Y/Y%	(Apr)	(M)	-	-	2.8%
Wednesday, May 18	8:30 AM	CPI Core- Median Y/Y%	(Apr)	(M)	-	-	3.8%
Wednesday, May 18	8:30 AM	CPI Core- Trim Y/Y%	(Apr)	(M)	-	-	4.7%
Thursday, May 19	-	AUCTION: 2-YR CANADAS \$4.5B	-	-	-	-	-
Thursday, May 19	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Apr)	(M)	-	-	4.0%
Thursday, May 19	8:30 AM	RAW MATERIALS M/M	(Apr)	(M)	-	-	11.8%
Friday, May 20	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority
 SAAR = Seasonally Adjusted Annual Rate
 Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 16	8:30 AM	NEW YORK FED (EMPIRE)	(May)	(M)	-	15.0	24.6
Monday, May 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Mar)	(L)	-	-	\$141.7B
Monday, May 16	8:55 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, May 17	-	AUCTION: 1-YR TREASURIES \$34B	-	-	-	-	-
Tuesday, May 17	8:30 AM	RETAIL SALES M/M	(Apr)	(H)	1.1%	0.9%	0.7%
Tuesday, May 17	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Apr)	(H)	0.2%	0.3%	1.4%
Tuesday, May 17	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Apr)	(H)	0.4%	0.6%	0.7%
Tuesday, May 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Apr)	(H)	0.5%	0.4%	0.9%
Tuesday, May 17	9:15 AM	CAPACITY UTILIZATION	(Apr)	(M)	78.8%	78.5%	78.3%
Tuesday, May 17	10:00 AM	BUSINESS INVENTORIES M/M	(Mar)	(L)	-	1.9%	1.50%
Tuesday, May 17	10:00 AM	NAHB HOUSING INDEX	(May)	(L)	-	75	77
Tuesday, May 17	8:00 AM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Tuesday, May 17	9:15 AM	Speaker: Patrick Harker (President, Philadelphia) (Non-Voter)	-	-	-	-	-
Tuesday, May 17	2:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, May 17	2:30 PM	Speaker: Loretta Mester (President, Cleveland) (Voter)	-	-	-	-	-
Tuesday, May 17	6:45 PM	Speaker: Charles L. Evans (President, Chicago) (Non-Voter)	-	-	-	-	-
Wednesday, May 18	-	20-YR AUCTION: \$17B	-	-	-	-	-
Wednesday, May 18	7:00 AM	MBA-APPLICATIONS	(May 13)	(L)	-	-	2.0%
Wednesday, May 18	8:30 AM	HOUSING STARTS SAAR	(Apr)	(M)	1740K	1766K	1793K
Wednesday, May 18	8:30 AM	BUILDING PERMITS SAAR	(Apr)	(H)	1780K	1815K	1870K
Wednesday, May 18	4:00 PM	Speaker: Patrick Harker (President, Philadelphia) (Non-Voter)	-	-	-	-	-
Thursday, May 19	-	AUCTION: 10-YR TIPS \$14B	-	-	-	-	-
Thursday, May 19	8:30 AM	INITIAL CLAIMS	(May 14)	(M)	-	200K	203K
Thursday, May 19	8:30 AM	CONTINUING CLAIMS	(May 7)	(L)	-	-	1343K
Thursday, May 19	8:30 AM	PHILADELPHIA FED	(May)	(M)	-	16.1	17.6
Thursday, May 19	10:00 AM	EXISTING HOME SALES SAAR	(Apr)	(M)	-	\$5.65M	\$5.77M
Thursday, May 19	10:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	-2.1%	-2.7%
Thursday, May 19	10:00 AM	LEADING INDICATORS M/M	(Apr)	(M)	-	0.0%	0.3%
Friday, May 20	-	-	-	-	-	-	-

Week Ahead's market call

by Andrew Grantham

In the **US**, retail sales should show a modest advance in volumes due to unit auto sales and renewed improvement in restaurants, but the modest increase expected for the control group would represent little growth in inflation-adjusted terms. Housing data will likely show a further easing in resales as the impact of higher interest rates starts to bite, and it's possible that permit applications could also show higher rates are starting to have an impact on building intentions as well.

In **Canada**, the main event is April CPI, which we still expect to show a slight deceleration relative to the prior month, although we admit that our conviction in that call is somewhat lower following the US figures. One difference that could help the Canadian data relative to the US print is that airline fares, which showed a big increase stateside, are input differently and are currently weighted lower in Canada. The most interesting data release could, however, be existing home sales for April, which will show just how quickly that previously overheated sector of the economy is cooling due to higher interest rates.

Week Ahead's key Canadian number: Consumer price index—April

(Wednesday, 8:30 am)

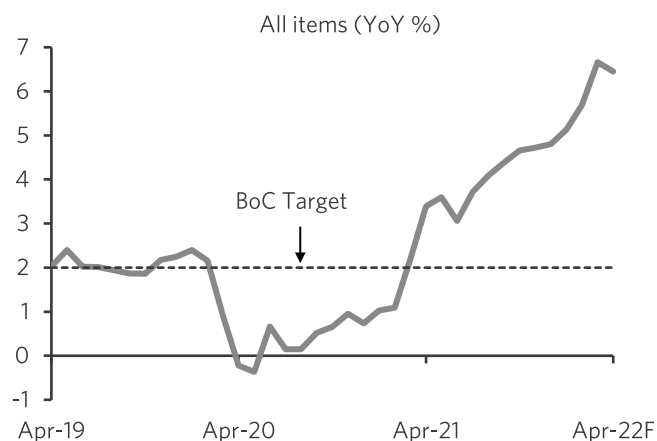
Andrew Grantham andrew.grantham@cibc.com

Consumer price index (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.3	-	1.4
CPI (y/y)	6.5	-	6.7

Households may have seen a slight reprieve from ever accelerating inflationary pressures in April, although emphasis is on the word slight. A marginally lower average pump price compared to the prior month should have helped partly offset further gains in food and imported goods prices emanating from the war in Ukraine and renewed supply chain issues. Inflationary pressures linked to reopening services, such as hotels, restaurants and air fares, likely accelerated but not to the same extent as seen in the US, where labour shortages in such industries have been even more pronounced.

In sum, a 0.3% gain in headline CPI would leave prices up by 6.5% compared to a year ago. While that would be a slight deceleration compared to March, it is of course still well above the central bank's target range.

Chart: Canadian consumer price index (YoY %)



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Further food and energy price inflation, the potential re-escalation of supply chain pressures, and price increases linked to rebounding service industries, will likely keep headline inflation in the 6½% range through to the end of Q2. However, a softening in house prices due to increased interest rates will start to impact some components of owned accommodation costs more forcefully later in the year and, along with hopefully some relief in gasoline and food prices, should see inflation decelerate more noticeably in the second half of the year and into 2023.

Week Ahead's key US number: Retail sales—April

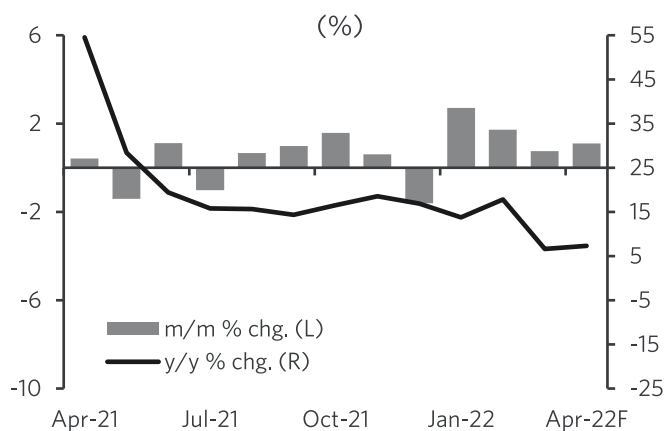
(Tuesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Retail sales (m/m %)	CIBC	Mkt	Prior
Retail sales	1.1	0.9	0.7
- ex auto	0.2	0.3	1.4
- control group	0.4	0.6	0.7

Higher unit sales of vehicles in the US in April will boost total retail sales, more than offsetting the drop in prices at the pump. Combined with an improvement in restaurant traffic, total retailing likely advanced by a respectable 1.1% on the month. However, sales likely won't look as rosy in other categories as the squeeze on consumer spending power from higher prices likely resulted in a more modest 0.4% advance in the control group of sales (ex. autos, gasoline, restaurants, and building materials), which implies only slight growth in volume terms. That would still leave sales well above where the pre-pandemic trendline would have put them in both nominal and real terms.

Chart: US retail sales (%)



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — With the savings rate dropping below pre-pandemic norms in the first quarter, consumers are likely to pare back demand for goods in favor of services, and in line with the erosion in real earnings amidst higher prices.

Market impact — We are slightly more pessimistic than the consensus on the control group which could see bond yields and the USD ease off.

Other US Releases: Industrial production—April

(Tuesday, 9:15 am)

Hours worked for production workers in manufacturing continued to rise in April despite the looming supply chain disruptions resulting from the lockdowns in China. Oil rig counts also continued to increase, but given the jump in mining production seen in March, and the easing in oil prices in April, output growth in the mining sector likely slowed, in line with the drop in hours worked. Overall, total industrial production likely slowed to 0.5% in April.

Housing starts—April

(Wednesday, 8:30 am)

Home purchase intentions and mortgage applications dropped off in April as mortgage rates reached levels not seen in over a decade. Along with the falling trend in home sales and builder confidence, housing starts likely eased off to a 1740K pace in April. That's still well above the pre-pandemic pace of building, supported by an undersupply of homes in the previous decade, as well as an existing overhang of building permits.

Contacts:

Avery Shenfeld
[416 594-7356](tel:4165947356)
avery.shenfeld@cibc.com

Benjamin Tal
[416 956-3698](tel:4169563698)
benjamin.tal@cibc.com

Andrew Grantham
[416 956-3219](tel:4169563219)
andrew.grantham@cibc.com

Karyne Charbonneau
[613 552-1341](tel:6135521341)
karyne.charbonneau@cibc.com

Katherine Judge
[416 956-6527](tel:4169566527)
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

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