Economics

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Is this a "Take this job and shove it moment?"

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With the jobless rate falling in both the US and Canada, just how much room there is for a further hiring boom is now a salient question for both the GDP forecast and inflation outlook. Of late, there's a sense that going through the pandemic has left some permanent marks on labour in both countries, making people less willing to work, less eager to fill certain kinds of jobs, and requiring higher wages to bring them on board. Wages are, of course, a hot topic these days, given the heat we've seen in US and Canadian inflation of late (Tables 1 and 2), even if, as we expect, much of that spike in CPI relates to temporary (if not so short-lived) supply chain issues.

Is this a Johnny Paycheck moment, in which workers are saying "take this job and shove it," and if so, what will that mean for the macro outlook? Thus far, that seems more apparent in the US than in Canada, and if the reasons for that persist, it implies that the American labour market is tighter, and more inflationary, than it looks either in absolute terms, or relative to Canada. That in turn underpins our view that, contrary to what the market is currently pricing in, the Fed will keep pace with the Bank of Canada on rate hikes in 2022 and slightly outgun the latter in 2023 (Tables 3 and 4).

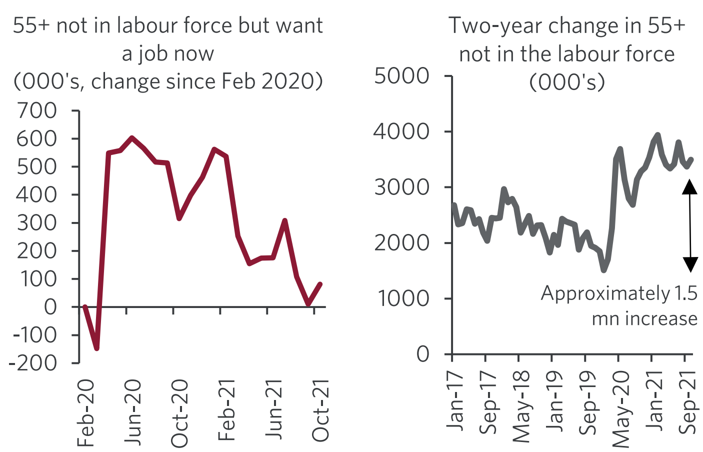
Retiring early?

One trend we're hearing a lot about is that older workers are deciding to pack it in early, by increasingly choosing to retire at younger ages. And we're also hearing that younger workers are also somehow feeling enabled to take a pass on going to work again. If so, that would represent a lasting drag on worker availability, and a tightening in labour supply. But what do the facts say?

Among Americans over 55, a falling share of those who are counted as "out of the workforce" are indicating that they would want a job if one were available (Chart 1 left). That's a marked shift from what the data were telling us at the start of the year. The roughly 1.5 million excess increase in persons 55+ and not in the labour force (Chart 1, right) is therefore looking increasingly more permanent.

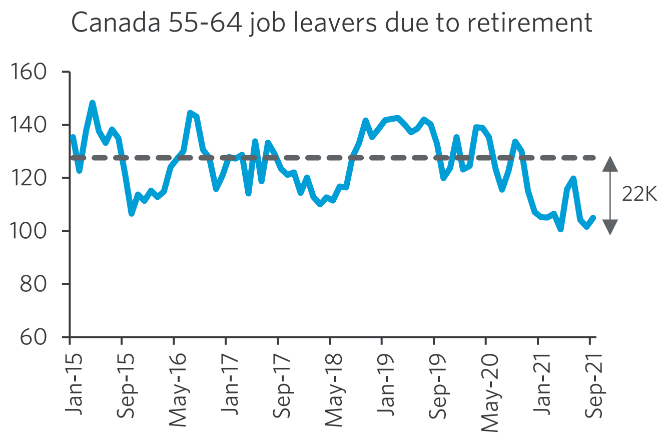
But looking back over the prior cycle's trend suggests this isn't as much of a take this job and shove it moment as it appears. The share of Americans in each cohort over 65 (ie. the 65-69 year old group, the 70-74 and the 75+) in retirement had been steadily dropping since 2000, perhaps a function of the declining share of the workforce covered by defined benefit pensions, as well as improving health and longevity. The recent pick-up in retirements really only reverses a very small part of the pre-pandemic trend to later retirement, and might be capturing the addition to financial cushions from the combination of generous stimulus cheques, reduced spending during the pandemic, and healthy asset market returns.

Chart 1: Fewer older Americans out of labour force say they want a job (L), Meaning excess retirements likely to persist (R)



Source: BLS, CIBC

Chart 2: Fewer 55-64 year old Canadians leaving jobs due to retirement



Source: Statistics Canada, CIBC

The Canadian data, on the other hand, show no evidence of a rush to early retirement. Indeed, the number of Canadians in the 55-64 cohort who have left work due to retirement has actually declined of late (Chart 2). That might reflect the difference in Covid-19 infection rates, which have been lower north of the border, making in-person work appear to be less of a risk. Or it could be that the higher level of household debt in Canada has more people feeling the need to continue to work until their normal retirement date, either for themselves or as a way of being able to support their homebuying children.

Dropping out in their prime?

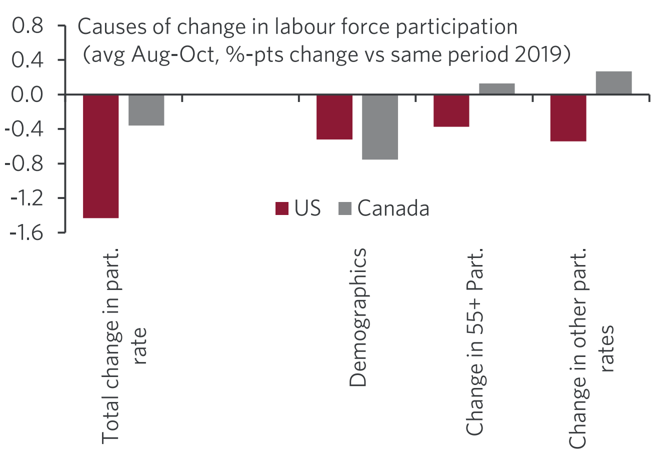
But ageing demographics and different trends in retirements aren't the only source of divergence between US and Canadian labour force participation rates. Indeed, divergences in participation rates in other age groups have been a bigger factor (Chart 3). Canada and the US have somewhat differing definitions, with only the former including 15 year olds, and only the latter requiring respondents to say they applied for a job in the survey period to be considered to be seeking employment. So we focus more on changes over time within each country, rather than the precise level for the participation rate.

Canada has had a stronger trend in prime-age (25-54) labour force participation over the last few decades, helped by a rising share for female participation rates, which in turn could reflect social differences and the greater public support for childcare. But the gap has widened even more notably in the post-pandemic period. The gap in behavior across the border doesn't appear to be strongly tied to those merely claiming to look for work because they are receiving Canadian jobless benefits, as actual employment rates are also stronger north of the border.

Some explanations of the gap in under-55 labour force participation would lean towards it being temporary. Canada provided more of its overall pandemic-related business support through generous wage subsidies, which incented employers to keep workers on the job even when their overall output was minimal. So it's worth keeping an eye on upcoming employment reports now that eligibility for these wage supports has been dramatically narrowed.

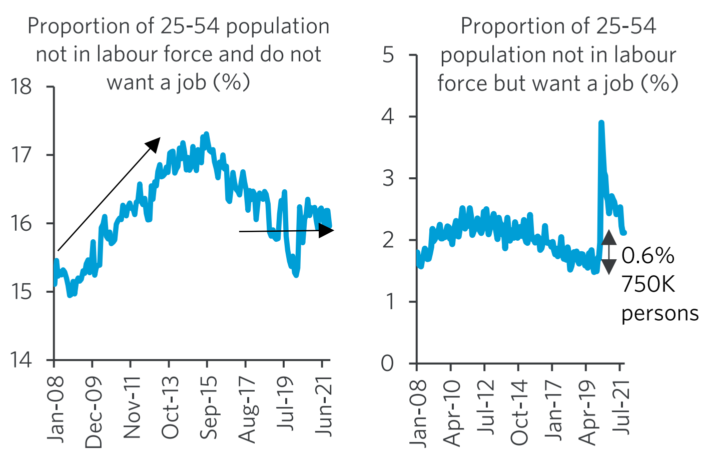
Moreover, on the US side of the ledger, the drop in participation by those under 55 doesn't appear to be as permanent as it is for retirees, nor as it was for prime-aged workers after the financial crisis. For one, the share of those not working who say they don't actually want a job, at about 16%, isn't any higher than it was before the pandemic (Chart 4, left). In contrast, there are still some 750K more 25-54 year-olds relative to pre-pandemic levels who say that they do want a job (Chart 4, right). During and after the 2008/09 recession, there was a huge increase in prime-aged Americans not looking for work and who said they didn't want a job.

Chart 3: Participation rates in the US and Canada have also diverged due to prime-aged workers dropping out stateside



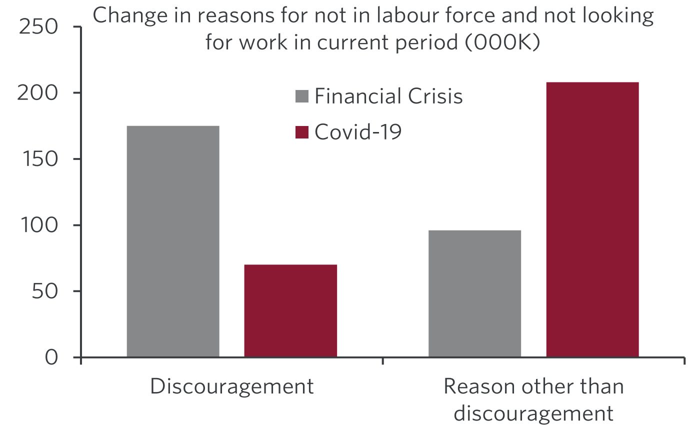
Source: BLS, Statistics Canada, CIBC

Chart 4: Proportion of prime-aged workers who don't want a job hasn't risen (L); Plenty not looking now do still want a job (R)



Source: BLS, CIBC

Chart 5: US prime-aged workers not dropping out due to discouragement but other reasons



Source: BLS, CIBC

This time around respondents not employed and currently not looking are citing "other reasons" (Chart 5), which likely relates to difficulties obtaining child care, or fear of getting sick, while the pandemic still lingers, rather than discouragement over job prospects. So, they might not be saying "shove it" to the idea of working again, but just saying "no thanks" to opportunities while impediments other than job availability are still being resolved.

Take this particular job and shove it?

Beyond a greater share of Americans opting not to work or look for a job relative to Canadians, there appear to be more saying "shove it" to their existing job in favour of a different opportunity. The US has seen a marked increase in the quit rate (the number of people leaving a job on their own volition as a share of employment) relative to the pre-pandemic average. In contrast, a related Canadian indicator, the share of people who left a job voluntarily for another position, looks similar to its pre-pandemic level. (Chart 6).

Such voluntary job departures are typically seen as a signpost of a tight labour market, one that encourages workers who are disenchanted to look for a better opportunity elsewhere in the knowledge that such offers exist. So the fact that such activity has picked up more south of the border relative to the pre-pandemic trend is yet another hint that American labour markets are tighter than they look.

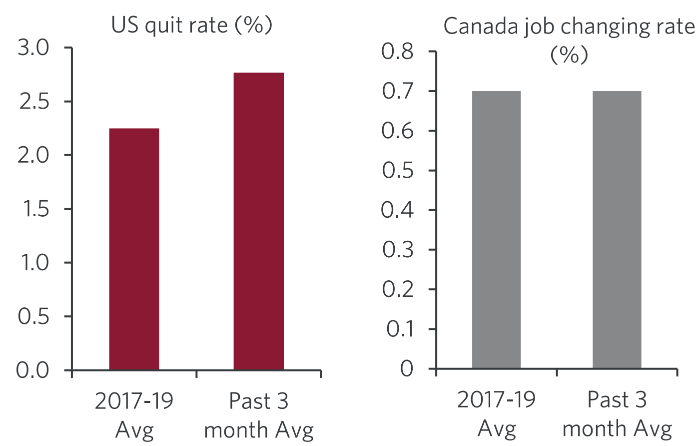
Jobs going begging and wage inflation

Both countries have seen employers increasingly raise the issue of labour shortages in response to surveys about business conditions. Sometimes, a shortage is really just an indicator that employers are underestimating prevailing wage rates and thereby failing to fill positions. In other cases, it represents a true supply-demand imbalance in the job market for certain types of skills.

It's difficult to judge just how unprecedented the current situation is by looking at official job vacancy data due to their relatively short histories. But the long-running small business survey from the US National Federation of Independent Business shows clearly that we're in uncharted territory. While employers in the NFIB sample typically report trouble filling jobs during periods in which a lot more of them are in fact hiring, a much higher share of respondents are now seeing difficulties filling positions than in similar periods in past cycles (Chart 7).

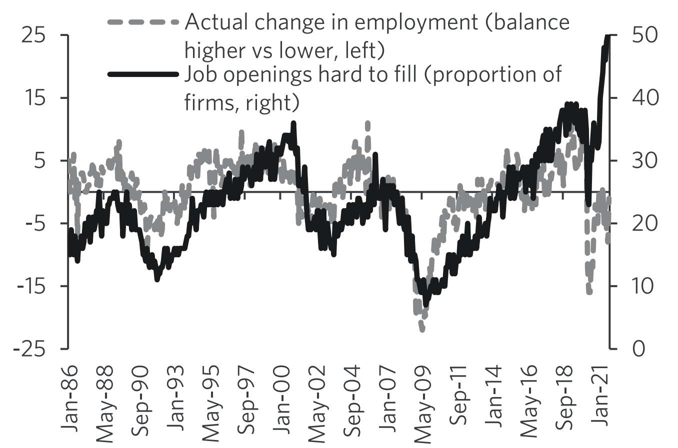
Despite their shorter history, the official job vacancy data can give us a sense of how tight labour markets are currently by looking at the ratio of openings to the number of people unemployed. In both countries this ratio is now lower than it was before the pandemic, suggesting tighter labour markets

Chart 6: Greater proportion quitting jobs in the US (L); No more leaving for other positions in Canada (R)



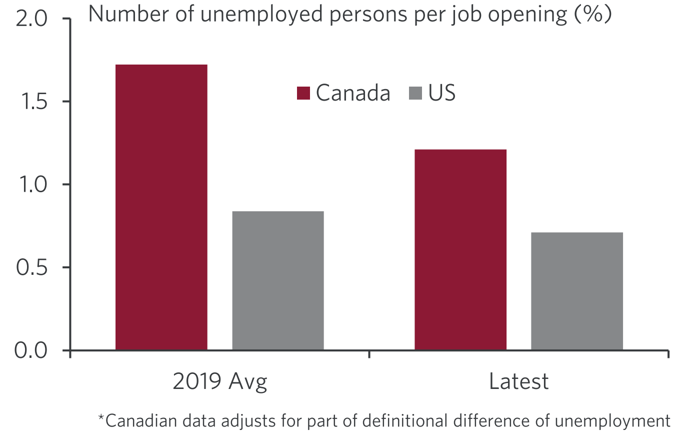
Source: BLS, Statistics Canada

Chart 7: NFIB survey shows lack of labour is atypical for this stage of a recovery



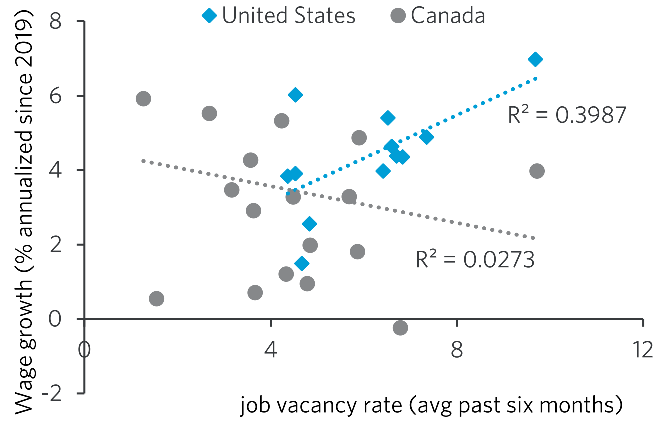
Source: NFIB, Bloomberg, CIBC

Chart 8: Number of unemployed per job opening suggest labour markets tighter than pre-pandemic



Source: BLS, Statistics Canada, CIBC

Chart 9: Clear correlation between vacancies and wage growth in the US, not so in Canada



Source: Statistics Canada, CIBC

despite a not-yet-complete recovery in unemployment rates (Chart 8). That supports the notion that workers are saying "shove it" to some jobs, while still participating and looking for other opportunities.

The absolute level of these ratios in the US and Canada cannot be accurately compared due to the aforementioned difference in how hard someone has to look for a job to be considered either "unemployed" or "not in the labour force". However, it should be noted that, even if all of the prime-aged persons who have dropped out of the US labour force were added to the unemployment total, this ratio stateside would still be lower than that in Canada and no higher than its own pre-pandemic average.

The tightness of the US labour market, relative to Canada's and relative to its own history, is also showing up in wage growth. While headline hourly earnings figures don't paint a clear picture at the moment due to large shifts in employment within and between sectors, examining trends in hourly earnings by sector over the past two years shows a clear positive correlation with job vacancies stateside (Chart 9). US sectors with higher job vacancies are indeed starting to pay up to fill them. However, that isn't the case yet in Canada, where the correlation between vacancies and wage growth is essentially zero. That may reflect the fact that Canada has only one sector (hospitality and leisure) with a vacancy rate well above 6%, and its generally at levels higher than that where we see the tendency for greater vacancies to engender faster wage growth in the US.

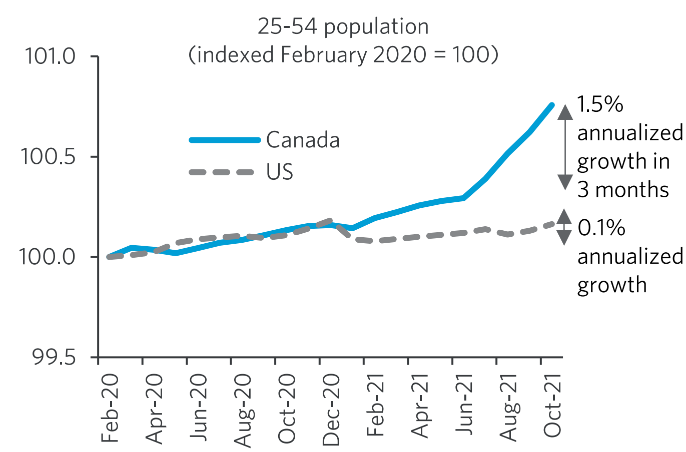
Much needed relief

So, other than paying ever higher wage rates, what could bring relief to the labour market and see some of these job vacancies being filled? Immigration-fueled population growth will be a big factor for Canada, given the targets set by the Federal government, and is in fact something that is already showing up in the labour market data. Over the past three months, prime-aged population growth as measured in the labour force survey has risen at an annualized rate of around 1½%. That's in stark contrast to the situation stateside, where the trend has remained anemic, as the new administration has fallen behind in its immigration plan (Chart 10).

The surge in Canadian prime-aged population should help fill some of the job vacancies that are showing up, with new immigrants potentially less likely to say "shove it" to work in sectors where shortages are most acute. That will be particularly important if those older Canadians who have delayed retirement since the pandemic start to drop out of the labour force in greater numbers again as travel and other post-retirement leisure activities recommence. The acceleration in prime-aged population growth also raises the bar for how much employment growth will be needed to keep the jobless rate moving lower.

For the US, the lack of meaningful population growth will mean that policymakers and employers are left hoping that relief

Chart 10: Immigration is accelerating population growth in Canada relative to US



Source: Statistics Canada, BLS, CIBC

comes in the form of workers returning to the labour market. The expiry of expanded unemployment benefits, running down of some savings built up during the pandemic, (hopefully) lower Covid-19 case numbers and increases in wages should help draw prime-aged workers back to some of the jobs that are being shunned currently. However, the increasing permanency of lower participation within older age groups means that any rebound in labour force numbers will be incomplete.

That has potentially crucial implications for inflationary pressures, and by extension central bank policy, over the coming years. In both the US and Canada, the annual pace of inflation within services industries (which tends to be more domestically driven) isn't much higher than where it stood prior to the pandemic. The excess inflation relative to both pre-pandemic norms and the 2% target is being driven largely by the good side, with supply chain disruptions joining forces with escalating food and energy costs.

That trend will start to change, with inflation in services becoming an increasingly large driver of movements in the overall basket. Labour costs are a large determinant of pricing within many service industries. As a result, a tighter US labour market, driving continued stronger wage growth, will also likely lead to higher service sector inflation. For Canada, less scarring in terms of workforce participation, combined with relief in the form of stronger immigration-driven population growth, should keep wages and overall inflation in the service sector more muted. While the Bank of Canada currently sounds more hawkish than its American counterpart and will likely be the first to hike rates, we see the Fed overtaking it in the total dose of rate hikes by the end of 2023.

Table 1: Canada forecast detail (real % change, SAAR, unless otherwise noted)

Variable	21Q1A	21Q2A	21Q3F	21Q4F	22Q1F	22Q2F	22Q3F	22Q4F	2021F	2022F	2023F
Real GDP Growth (AR)	5.5	-1.1	3.0	3.7	4.0	6.9	4.7	2.8	4.8	4.0	2.8
Real Final Domestic Demand (AR)	6.5	0.7	3.4	2.4	3.3	6.3	4.3	3.2	5.3	3.7	3.3
Household Consumption (AR)	2.6	0.2	5.7	2.7	3.5	8.7	5.0	3.7	4.0	4.6	4.2
All Items CPI Inflation (Y/Y)	1.4	3.3	4.1	4.8	4.4	3.0	2.1	1.4	3.4	2.7	2.0
Unemployment Rate (%)	8.4	8.0	7.1	6.7	6.5	6.0	5.8	5.5	7.6	6.0	5.6

Table 2: US forecast detail (real % change, SAAR, unless otherwise noted)

Variable	21Q1A	21Q2A	21Q3A	21Q4F	22Q1F	22Q2F	22Q3F	22Q4F	2021F	2022F	2023F
Real GDP Growth (AR)	6.3	6.7	2.0	3.5	4.2	5.5	4.9	3.4	5.4	4.2	3.3
Real Final Sales (AR)	9.1	8.1	-0.1	2.5	3.3	5.4	4.5	2.8	5.4	3.5	3.0
All Items CPI Inflation (Y/Y)	1.9	4.8	5.3	6.3	6.0	4.0	2.7	1.9	4.6	3.6	2.2
Core CPI Inflation (Y/Y)	1.4	3.7	4.1	4.7	5.2	3.6	2.6	2.1	3.5	3.4	2.4
Unemployment Rate (%)	6.2	5.9	5.1	4.6	4.4	3.8	3.5	3.5	5.4	3.8	3.7

Table 3: Canadian interest rates (end of period)

Variable	2021 17-Nov	2021 Dec	2022 Mar	2022 Jun	2022 Sep	2022 Dec	2023 Mar	*2023 Jun*	*2023 Sep*	*2023 Dec*
Overnight target rate	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.25	1.50
98-Day Treasury Bills	0.14	0.15	0.20	0.25	0.50	0.70	0.95	1.20	1.20	1.45
2-Year Government Bond	1.01	1.00	0.90	1.15	1.20	1.35	1.50	1.70	1.80	2.00
10-Year Government Bond	1.74	1.70	1.75	1.95	1.90	2.00	2.15	2.20	2.25	2.40
30-Year Government Bond	2.09	2.00	2.15	2.25	2.30	2.30	2.40	2.45	2.40	2.45
Canada - US T-Bill Spread	0.09	0.06	0.11	0.10	0.10	0.05	0.05	0.05	-0.15	-0.15
Canada - US 10-Year Bond Spread	0.11	0.00	-0.05	-0.05	0.00	-0.10	0.00	0.00	-0.10	0.00
Canada Yield Curve (10-year — 2-year)	0.72	0.70	0.85	0.80	0.70	0.65	0.65	0.50	0.45	0.40

Table 4: US Interest rates (end of period)

Variable	2021 17-Nov	2021 Dec	2022 Mar	2022 Jun	2022 Sep	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec
Federal funds rate	0.125	0.125	0.125	0.125	0.375	0.625	0.875	1.125	1.375	1.625
91-Day Treasury Bills	0.04	0.10	0.10	0.15	0.40	0.65	0.90	1.15	1.35	1.60
2-Year Government Note	0.52	0.50	0.65	0.80	1.00	1.40	1.65	1.80	2.00	2.10
10-Year Government Note	1.62	1.70	1.80	2.00	1.90	2.10	2.15	2.20	2.35	2.40
30-Year Government Bond	2.03	2.00	2.10	2.25	2.35	2.40	2.45	2.50	2.60	2.65
US Yield curve (10-year — 2-year)	1.11	1.20	1.15	1.20	0.90	0.70	0.50	0.40	0.35	0.30

Table 5: Foreign exchange rates

Exchange rate	2021 17-Nov	2021 Dec	2022 Mar	2022 Jun	2022 Sep	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec
CAD-USD	0.79	0.81	0.78	0.78	0.77	0.77	0.76	0.76	0.76	0.76
USD-CAD	1.26	1.24	1.28	1.29	1.30	1.30	1.31	1.31	1.32	1.32
USD-JPY	115	114	115	116	115	114	113	112	111	110
EUR-USD	1.13	1.14	1.13	1.11	1.10	1.10	1.11	1.12	1.13	1.15
GBP-USD	1.35	1.33	1.33	1.31	1.31	1.32	1.34	1.34	1.35	1.36
AUD-USD	0.74	0.73	0.74	0.74	0.75	0.75	0.76	0.77	0.78	0.79
USD-CNY	6.38	6.35	6.30	6.25	6.20	6.15	6.05	6.00	5.95	5.90
USD-BRL	5.51	5.60	5.70	5.70	6.00	5.70	5.90	5.70	5.50	5.30
USD-MXN	20.7	20.5	20.3	20.0	20.0	20.5	21.0	21.5	21.3	21.5

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