

Economics

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Canadian employment (Dec): Year-end fireworks

by **Andrew Grantham** andrew.grantham@cibc.com

Labour force survey (monthly change, thousands, unless otherwise noted)	Aug	Sep	Oct	Nov	Dec
Employment	-39.7	21.1	108.3	10.1	104.0
• Full-time	-77.2	5.7	119.3	50.7	84.5
• Part-time	37.5	15.4	-11.0	-40.6	19.5
• Paid workers	-32.0	43.4	91.8	-0.2	93.1
• Private	-4.4	8.8	73.8	24.7	111.5
• Public	-27.6	34.6	18.0	-24.9	-18.4
• Self-employed	-7.7	-22.3	16.5	10.4	10.8
Participation rate (%)	64.8	64.7	64.9	64.8	65.0
Unemployment rate (%)	5.4	5.2	5.2	5.1	5.0
Avg. hourly earnings, perm. workers (y/y %)	5.6%	5.2%	5.5%	5.4%	5.2%
Actual hours worked by industry (m/m %)	0.0%	-0.6%	0.7%	0.1%	0.1%

Source: Statistics Canada

- Last year ended with some fireworks in the Canadian labour market, with a sharp 104K increase in employment blowing well past consensus expectations for a paltry 5K gain. While the strength in employment was not mirrored in actual working hours due to increased staff absenteeism, the jobs gain and tick down in the unemployment rate to 5.0% sees us changing our call for the Bank of Canada to expect a further 25bp hike at its January meeting.
- The composition of job gains during December was also strong, with most positions coming in the full time (+84.5K) and paid employee (+115K) categories. By sector, a 35K gain in construction appears at odds with the slowing in GDP within that category, although mild weaker and staff absenteeism due to illness could have factored into that apparent increase in staffing needs. Transportation & warehousing, info & culture and professional & scientific also posted increases in the 20-30K range. The largest decline in employment came in health care (-17K) which is at odds with staffing requirements and vacancy rates in that sector.
- Throughout 2022, monthly swings in employment were often mirrored by changes in the labour force, with this trend potentially reflecting difficulties with seasonal adjustment following the business closures and reopenings of the pandemic years. This was partly true in December as well, with the size of the labour force rising by 91K and the participation rate climbing two ticks to 65.0%. However, even with this labour force growth, the gain in employment was strong enough to see the unemployment rate fall to 5.0%, from 5.1% in the prior month. That's close to the record low of 4.9% hit earlier in 2022, and would be a cause of concern for the Bank of Canada that is looking for signs of a loosening in labour market conditions to be more confident that inflation is coming back down towards its 2% target. Wage growth remained firm at 5.2% in December, although that represented a slight deceleration relative to the prior month.
- The big gain in employment was, however, once again not reflected in working hours, which rose only 0.1% relative to the prior month. That divergence is at least partly the result of a further increase in staff absenteeism due to illness which, at 8.1% in the reference week, was up from 6.8% in November and compares to a pre-pandemic average of

6.9% for the month of December. The strength in hiring could therefore be a reflection of companies needing more staff in order to obtain the same level of supply that they were able to achieve before the pandemic struck. Relative to February 2020, aggregate hours worked have risen by only 1.7%, whereas employment is 3.3% higher.

Implications & actions

Re: Economic forecast — The Canadian labour market remains much stronger than expected and (so far) apparently resilient to rapidly rising interest rates. While strong hiring at least partly reflects companies needing to compensate for increased staff absenteeism, the tick down in the unemployment rate close to its record low sees us now forecasting a final 25bp hike from the Bank of Canada at its meeting later this month.

Re: Markets — Bond yields jumped immediately after the release, but retraced much of that move after investors also digested a somewhat softer-than-expected US payrolls report. The Canadian dollar strengthened after the release as the expected difference in interest rate peaks between the US and Canada narrowed.

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