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Canadian employment (Feb): Less drama, still solid momentum

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Labour force survey (monthly change, thousands, unless otherwise noted)	Oct	Nov	Dec	Jan	Feb
Employment	68.3	26.7	69.2	150.0	21.8
• Full-time	21.0	90.8	70.9	121.1	31.1
• Part-time	47.3	-64.1	-1.7	28.9	-9.3
• Paid workers	62.4	-0.7	69.4	146.2	30.6
• Private	58.6	0.8	99.2	114.7	38.5
• Public	3.8	-1.5	-29.8	31.5	-7.9
• Self-employed	6.0	27.3	-0.1	3.7	-8.9
Participation rate (%)	65.4	65.3	65.4	65.7	65.7
Unemployment rate (%)	5.2	5.1	5.0	5.0	5.0
Avg. hourly earnings, perm. workers (y/y %)	5.2%	5.4%	4.7%	4.5%	5.4%
Actual hours worked by industry (m/m %)	0.5%	0.0%	-0.1%	0.8%	0.6%

Source: Statistics Canada

- It wasn't as dramatic as the prior month's surge, but a slightly above-consensus 22K gain in employment during February (consensus +10K) is another sign that the Canadian economy has more momentum to start 2023 than had initially been expected. With the unemployment rate also remaining at a historically-low 5.0%, and wage growth accelerating by more than anticipated, there's plenty of reason for the Bank of Canada to leave the door open to future rate hikes. However, we still think that the economy will cool enough later in the year to prevent policymakers from needing to walk through that door.
- Job gains were concentrated in full time positions, with part-time down slightly. By sector, employment gains were led by health, public admin and other services. While employment within the other services category has now risen by roughly 45K over the past few months, it remains lower than it was pre-pandemic.
- Increases in some areas were partly offset by declines in other sectors, including business, building & support services and finance. Through the monthly volatility inherent within the labour force survey, the six-month average of employment growth is currently a very healthy 58K, although that has been broadly matched by growth within the labour force (+52K) over that same period.
- Hours worked rose by a solid 0.6% in February, which is a positive indicator for monthly GDP, and outstripped the percentage increase in employment. Throughout much of the second half of last year, hours worked lagged the growth rate in employment due to sickness-related absenteeism. That now appears to be fading, which should be a positive not just from a growth point of view but also an inflation point of view, as supply will also improve.
- With the participation rate unchanged, employment growth was strong enough to keep the unemployment rate steady at 5.0%, against consensus expectations for a slight tick up. Wage growth accelerated to 5.4%, from 4.5% in the prior month, although this is partly due to a weaker year-ago comparison when low-wage service workers were rehired in February 2022 following January's shutdowns, and because of that the acceleration was mostly anticipated by the consensus (5.1% y/y).

Implications & actions

Re: Economic forecast — Although employment growth wasn't as dramatic this month as it has been in the recent past, the underlying trend remains stronger than what would normally be justified by the pace of GDP. Because of that, we still expect to see some softer employment figures and a gradual rise in the unemployment rate throughout the balance of this year, particularly as economic activity slows further with the lagged impact of past interest rate hikes. However, for now the still historically low unemployment rate and strong wage growth will keep the Bank of Canada leaning towards future rate hikes, although we still don't think the data will be strong enough for policymakers to actually move again.

Re: Markets — With the Canadian figures printing close to consensus expectations, markets focussed largely on the US figures, which showed an easing of inflationary pressure despite another solid rise in payrolls employment. Because of that, the Canadian dollar gained ground against its US counterpart, but bond yields fell.