

Economics

ECONOMIC FLASH!

economics.cibccm.com

February 9, 2023

Canadian employment (Jan): Tightening slightly

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

Labour force survey (monthly change, thousands, unless otherwise noted)	Sep	Oct	Nov	Dec	Jan
Employment	50.7	23.9	24.4	6.8	37.3
• Full-time	4.4	24.9	33.5	-7.5	-11.6
• Part-time	46.4	-1.1	-9.1	14.4	48.9
• Paid workers	30.5	26.1	49.5	17.8	55.0
• Private	0.4	5.6	41.3	9.0	7.4
• Public	30.1	20.5	8.2	8.8	47.6
• Self-employed	20.3	-2.2	-25.1	-11.1	-17.7
Participation rate (%)	65.6	65.6	65.6	65.5	65.3
Unemployment rate (%)	5.6	5.7	5.8	5.8	5.7
Avg. hourly earnings, perm. workers (y/y %)	5.3%	5.0%	5.0%	5.7%	5.3%
Actual hours worked by industry (m/m %)	-0.2%	0.0%	-0.5%	0.3%	0.6%

Source: Statistics Canada

- Latest data suggested that Canadian labour market conditions tightened slightly in January, due to a slightly better than expected increase in employment but also a further decline in labour force participation. Although labour market conditions remain looser than they were a year ago, today's data certainly won't speed up the path to a first interest rate cut from the Bank of Canada. We continue to see a first move in June, and now expect interest rates to end the year at 3.75%, 25bp higher than our previous forecast.
- The 37K increase in employment was better than the 15K expected by the consensus, although the composition of job gains were not as positive. Growth was tilted towards part time (+49K) rather than full time positions (-12K), while the public sector remained a primary driver of the increase in employees. The number of private sector employees rose by only 7K, and has increased by only 1.6% on a year-over-year basis. That is in contrast to a 4.2% rise in public sector payrolls. By sector, job gains were led by retail and finance in January, with those partly offset by a further decline in accommodation & food services. Overall hours worked rose by a robust 0.6% in January, albeit only 1.6% year-over-year due to the weakness seen last fall.
- Population growth once again set a new record, rising by 125K on the month (+0.4%). That was stronger than the increase in employment, resulting in a further decline in the employment ratio which is now the lowest since January 2022 (during the short-lived Omicron-related shutdown of some industries). However, a two-tick reduction in participation meant that the increase in employment was strong enough to see a decline in the jobless rate to 5.7%, in contrast to consensus expectations for an increase to 5.9%. That was the first monthly decline in the unemployment rate since December 2022.
- While a downtrend in participation is expected in an aging population, in recent months we have also seen declines within age groups. Particularly noticeable has been the reduction in labour force participation among younger Canadians (aged 15-24) which has fallen to 62.7%, compared to 65.7% a year ago. That could be a result of the increase in international students, as Statistics Canada noted that over the past year the number of people not in the

labour force because they were studying rose by 172K (10%) and accounted for more than 16% of the population not in the labour force. While the 15-24 population currently accounts for just over 14% of the overall Canadian population, it has accounted for 27% of the population growth seen over the past year.

- Wage growth for permanent employees slowed to 5.3%, from 5.7%, which was in line with expectations but still above levels that policymakers will be comfortable with, while hours worked increased by a robust 0.6% on the month.

Implications & actions

Re: Economic forecast — The unemployment rate isn't rising as quickly as previously expected given the generally sluggish trend in GDP, although a stabilisation or rebound in participation, combined with only modest employment growth, could still take the jobless rate above 6% by mid-year. That said, today's data confirm that the Bank won't be in a rush to cut interest rates, and we maintain our expectation for a first move in June. Given indications from today's data and previously released GDP figures that the Canadian economy is in somewhat better shape than previously expected, we now forecast 25bp fewer cuts by the end of the year (finishing at 3.75% rather than 3.50%).

Re: Markets — The Canadian dollar initially strengthened on the better than expected headline employment and unemployment rate news, but retraced much of that as investors noticed some of the details (for example the composition of job gains) were not as strong as the headlines.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC