

## Economics

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## Canadian employment: not really the slightly bad news we were hoping for

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Labour force survey (monthly change, thousands, unless otherwise noted)	February	March	April	May	June
Employment	336.6	72.5	15.3	39.8	-43.2
• Full-time	121.5	92.7	-31.6	135.4	-4.0
• Part-time	215.1	-20.3	47.1	-95.8	-39.1
• Paid workers	355.2	41.5	16.4	13.6	16.0
• Private	347.4	39.0	21.6	-94.5	16.6
• Public	7.9	2.3	-5.2	108.2	-0.6
• Self-employed	-18.6	31.1	-1.0	26.1	-59.2
Participation rate (%)	65.4	65.4	65.3	65.3	64.9
Unemployment rate (%)	5.5	5.3	5.2	5.1	4.9
Avg. hourly earnings, perm. workers (y/y %)	3.34%	3.74%	3.41%	4.45%	5.58%
Actual hours worked by industry (m/m %)	3.55%	1.27%	-1.92%	-0.31%	1.26%

Source: Statistics Canada

- At a time in which modestly bad news would be good news, Canada's June jobs data weren't really bad enough to generate a sigh of relief for those concerned about an inflationary overheating. The 43,000 jobs decline was certainly a break from a run of hefty hiring since February, but other signposts, from brisk year-on-year wage gains, a climb in hours worked, and a new low in the unemployment rate, should be enough to have the Bank of Canada hiking rates by an outsized 75 basis points next week.
- The drop in employment looks like a shocker on the surface, but not for those of us who are well aware of the volatility in this survey-based data. Moreover, other than a drop in resource employment, job declines were centred on self-employment and service sector workers, where output per hour is lower. Since the fall in employment was in part time work, we still saw a healthy 1.3% rise in total hours worked. As a result, one can't jump to the conclusion that economic output will be weak in June based on the drop in total employment.
- The Bank of Canada's concerns over labour market tightness won't be eased given that the unemployment rate dropped two ticks to a new cycle low of 4.9%. That reflected a drop in labour force participation, as fewer of those not working were actively seeking jobs. Moreover, the rise in those not looking was not associated with an increase in discouraged job seekers, and was broadly based across demographic categories. Looking at prime age workers (25-54), workforce participation has dropped by 0.4%-points since hitting an all-time high back in March, suggesting that level might not have been sustainable. One possibility is that the "return to office" trend has some opting to drop out of the workforce (including those now needing childcare), but we would expect that high living costs, and the expansion of low-cost childcare, are going to stand in the way of an extended downtrend in the participation rate of those not nearing retirement.

- Wage growth for permanent employees built on the acceleration seen in May, leaving pay rates up 5.6% for that class of employees over the prior year although that was partly attributable to a drop in earnings in June 2021 that helps boost the 12-month change. For comparison, wages were generally rising at a 2% to 3 1/2% pace in the prior business cycle. The labour force survey measure is considered to be much less accurate than other wage indicators like those from the payrolls report (SEPH) or the compensation figures in the quarterly National Accounts, but the upsurge is consistent with other signposts of increasing wage inflation in Q2. Even so, wages are still trailing prices, and thereby putting some shackles on consumer spending power.

## Implications & actions

**Re: Economic forecast** — Economic growth in the second quarter should still be in the 4% range, and even with the drop in employment, other signposts in today's data are consistent with the need to tighten monetary policy further. We're sticking to our call for a 75 basis point rate hike next week, with the overnight rate peaking at 3% this year.

**Re: Markets** — Canada's employment report coincided with a stronger than expected set of data on US labour market, with the combination sending bond yields higher and putting pressure on equity markets hoping for some moderation in inflation pressures.

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