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June 10, 2022

Canadian employment (May) adds more pressure on BoC

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Labour force survey (monthly change, thousands, unless otherwise noted)	Jan	Feb	Mar	Apr	May
Employment	-200.1	336.6	72.5	15.3	39.8
• Full-time	-82.7	121.5	92.7	-31.6	135.4
• Part-time	-117.4	215.1	-20.3	47.1	-95.8
• Paid workers	-213.4	355.3	41.3	16.4	13.7
• Private	-205.9	347.4	39.0	21.6	-94.5
• Public	-7.5	7.9	2.3	-5.2	108.2
• Self-employed	13.2	-18.6	31.1	-1.0	26.1
Participation rate (%)	65.0	65.4	65.4	65.3	65.3
Unemployment rate (%)	6.5	5.5	5.3	5.2	5.1
Avg. hourly earnings, perm. workers (y/y %)	2.4%	3.3%	3.7%	3.4%	4.5%
Actual hours worked by industry (m/m %)	-2.2%	3.6%	1.3%	-1.9%	-0.3%

Source: Statistics Canada

- A further solid rise in employment, decline in the jobless rate and sharp acceleration in wage growth in May places more pressure on the Bank of Canada to continue raising interest rates aggressively. Employment rose by 40K, modestly ahead of the 27.5K expected by the consensus, which was enough to drive the unemployment rate down to a fresh record low of 5.1%. With wage growth now also accelerating, the Bank of Canada will feel increased pressure to continue raising interest rates to, and maybe now above, the mid-point of its neutral bound (2-3%).
- The composition of job gains was mixed rather than uniformly strong. While all of hiring came in full time (135K) positions, the increase in paid employment (+14K) was fairly modest and skewed entirely to public sector (+108K) rather than private sector positions. While self employment rose in May, that area is still well below pre-pandemic levels. Even though employment gains were skewed towards full time positions this month, aggregate working hours were actually lower again (-0.3%). Statistics Canada stated that 6.2% of employees were off work sick during the survey period, with that figure remaining above the 5.5% average that was typically seen before the pandemic struck.
- By industry sector, job gains were led by services, including accommodation & food and wholesale & retail, but employment was down in goods producing areas due to a drop in manufacturing. The drop in manufacturing could be a signal that companies are having to start (at least temporarily) letting people go due to delays in production thanks to supply chain issues. In another sign of just how quickly real estate is slowing due to higher interest rates, employment in the sector (not seasonally adjusted) has fallen by 47K, or just over 3%, from its peak in January.
- With the participation rate unchanged in May, the unemployment rate fell one tick to another record low of 5.1%. Statistics Canada stated that four provinces recorded unemployment rates that were at or close to historic lows: British Columbia (4.5%), New Brunswick (7.1%), Prince Edward Island (7.8%), and Newfoundland and Labrador (10.0%). The largest gain in employment by province was Alberta (+28K), which took the unemployment rate down to 5.3%. While that's well below the level seen prior to the pandemic hitting in 2020, it is still above the jobless rate that was typically seen prior to the oil price crash of 2014.

- Nationally, wage growth for permanent employees accelerated sharply to 4.5% y/y (consensus 3.8%, prior 3.4%), although that was partly attributable to a weak month for average earnings from a year ago (when low wage services were rehiring after lockdown measures were lifted) dropping out of the year-over-year calculation. Moreover, even with the acceleration this month, wage growth is still well below the pace of inflation meaning that households incomes are still being squeezed.

Implications & actions

Re: Economic forecast — Continued solid momentum in the economy, combined with signals that inflationary pressures may be worsening rather than easing, means that the Bank of Canada could well raise interest rates a little higher than we had previously expected. We now see a peak of 2.75% (previously 2.5%) before the end of the year, although we still expect that growth and inflation will slow enough later in the year to prevent the Bank from having to take rates above the 3% upper bound of its neutral range.

Re: Markets — Bond yields rose after today's employment data which, combined with a strong US CPI print, were seen as increasing the odds that interest rates would have to approach or exceed 3% to bring inflation back to target.

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