The employment count may have only recouped half of the ground lost in the prior month, but the strong mix of job gains (all paid, private sector) and reduction in unemployment rate (to 5.6% from 5.9%) will keep the Bank of Canada on the sidelines for now. However, given the sluggish pace of economic growth seen towards the end of last year, leaving employment growth still outpacing GDP, we see scope for some softer job gains in the coming months which will keep our forecast for an interest rate cut alive.

Employment rose by 35K in December, recouping around half of the 71K decline seen in the prior month. By most metrics, the “quality” of the job gains during the month was decent, with full-time and paid, private sector work accounting for all of the increase. The only minor quibble would be in the sector breakdown, where the jobs gains were concentrated in construction (+17K) and accommodation & food services (+25K). Both of these areas will likely have a strong seasonal component during this time of the year, and as such there could be scope for a reversal in the months ahead. Despite coming off the back of two very weak months, manufacturing employment was only up 3.5K in December and is down by 40K compared with a year ago.

As we warn each month, these figures can be very volatile on a month-to-month basis and our research has shown that this volatility has actually increased quite a bit over the past two years (even after
accounting for the higher population). Because of that, it’s always best to view these figures as three or even six-month averages. Looking at the six-month average shows that 2019 was a year of two halves for the Canadian labour market. After posting average employment gains of 41K in the first half of the year, that drops to 12K for the second half.

- Because of strong population growth, an average employment gain of just over 10K a month would unlikely be enough over the longer term to keep the unemployment rate steady. While that jobless rate fell three-ticks to 5.6% in December, that remains off the lows seen last year and the pull-back was driven partly by a reduction in labour force participation which could rebound again in the coming months.

- Elsewhere in the report, hours worked continued to track at a weaker trend than the headline employment numbers, despite what should have been a beneficial leaning of jobs towards full-time. Hours worked were little changed on both the month and on an a year-over-year basis. Yearly growth in average earnings was shown to have decelerated (to 3.8% from 4.4%), however this was expected given a strong reading dropping out of the calculation from a year ago.

**Implications & Actions**

**Re: Economic Forecast**— The partial rebound in employment means that the Canadian economic alarm bells have quietened down. However, given the still not great trend in jobs and GDP growth towards the end of the last year, it’s also too early to sound the all clear. Given that GDP growth is running below potential, we suspect that the underlying trend in job growth could remain fairly muted, which would see the unemployment rate creep higher towards 6% and the Bank of Canada responding with an interest rate cut in April.

**Re: Markets**— The Canadian dollar strengthened and yields rose as investors reduced the odds of a near-term cut from the Bank of Canada.