

Canadian Jobs—Minimum Wages, Maximum Effects?

Employment change / UR, m/m 000s SA / %, January:

Actual: -88k / 5.9

Scotia: +10k / 5.7

Consensus: +10k / 5.8

Prior: 64.8 / 5.8 (previously revised down from 78.6 / 5.7)

- This is a weak report across the headline and most details except wage growth that the BoC is likely to look through (see below), but it doesn't change much by way of the broad directions of the labour force. The concentration of the job loss in Ontario and the focus upon lost part-time jobs in that province will no doubt feed debate on whether large minimum wage hikes took a toll on employment but proving causality may remain contentious. It's possible the BoC dismisses most of this report as a transitory adjustment to higher minimum wages. Markets are largely shaking off the report. The C\$ initially sold off in the wake of the headlines but has since moved toward being little changed. The Canada two year yield is down only 1–2bps post data.
- Wage growth accelerated to 3.3% y/y using what used to be the BoC's preferred measure for permanent employees. The BoC is likely to look through this print for two reasons. One is that the acceleration from 2.9% y/y the prior month likely reflects the transitory effects of sharply higher minimum wages introduced by Ontario at the start of the new year. There could be more of this effect to come as recognition by respondents to this household survey broadens following the January reference period which is the week including the 15th in any given month, but it should generally shake out of the wage figures once the year-ago rate is re-based next January. Second is that the BoC has recently adopted the wage common measure which is a blend of four wage metrics drawn from: the Labour Force Survey; the Survey of Employment, Payrolls and Hours; quarterly national accounts; and quarterly productivity accounts. In my opinion, the wage common measure understates true wage pressure by directly and indirectly overweighting the lower SEPH wage figure. The wages from the two quarterly sources are drawn from T4 filings when they become available and in the six quarter lagged period when T4 data isn't available they rely heavily upon SEPH wages. The result in my opinion is an artificially low weight placed upon the wage measure for permanent employees. The SEPH survey also excludes unincorporated businesses which are a big part of Canada's job market.
- Canada has still created 513,000 jobs since July 2016 after which job growth began to super accelerate. Over the past three months, Canadian jobs are still up by 58,000 jobs for an average three month gain that smooths for volatility equalling a respectable 19,300.
- Tempted to spin on a dime toward being bearish on Canada in the wake of this jobs print? I wouldn't. It's still the case that a longstanding bearish bias by consensus has seriously underestimated cumulative job growth as elaborated upon in this past week's Global Week Ahead. Out of 513,000 jobs created starting after job growth accelerated following July 2016, consensus has forecast only 91k for a net miss of 422,000 jobs.

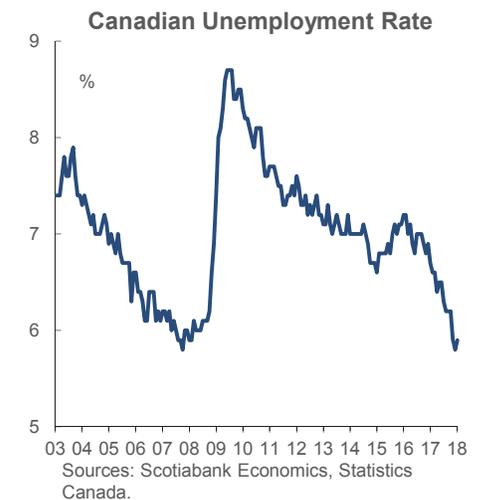
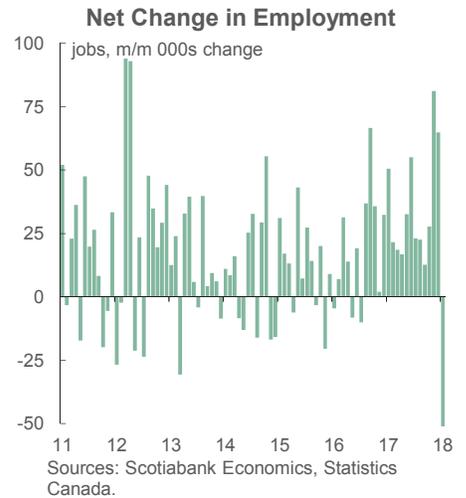
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- Part-time jobs fell by 137,000 after rising by about 86k over the prior two months. Given the enormity of the part-time job gains over the prior two months, one probably shouldn't get carried away with the possible minimum wage effects on this category in January since it's also possible that part-time employment gains were brought forward. Full-time jobs rose by 49k in January.
- The net implication is that hours worked fell by 0.6% m/m which takes back half of the prior month's rise. On net, hours worked are tracking flat in Q1 over Q4 at a seasonally adjusted and annualized rate.
- The unemployment rate climbed to 5.9% despite a drop in the size of the labour force (-73,700) as the headline decline in employment was somewhat larger than the decline in the pool of people available and seeking work.
- Service industries took the brunt of the decline (-71,900) but goods-producing sectors also dropped 16k jobs.
- Within services, the declines were widespread with only three exceptions including business, building and other support, inform/culture/rec and 'other' services. Within goods, construction was the biggest decline (-14,900) while natural resources shed 5,900 jobs and other sectors were little changed.
- The private sector shed 70,700 jobs and the public sector shed 41,200 jobs for a total hit on payroll jobs of 112,000. Self-employed jobs were up by 23,900.
- By province, the biggest source of decline was Ontario that lost about 51,000 jobs. Recall that Ontario introduced a big minimum wage hike entering the new year. Quebec lost 17,400 jobs. Other provinces were little changed on balance.
- I will recommence regular publishing on Monday.

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