

The BoC Is Falling Behind Exploding Wage & Price Pressures

Canada, Employment change / UR / wages, m/m 000s SA / % / y/y %, May:

Actual: -7.5 / 5.8 / 3.9

Scotia: 30 / 5.7 / na

Consensus: 23.5 / 5.8 / 3.2

Prior: -1.1 / 5.8 / 3.3

- Fade the headline jobs print that itself raises questions and instead put more emphasis upon wage growth.** Canada is clocking the fastest wage gains in six years and the latest acceleration is not due to minimum wage changes. The C\$ is roughly flat versus the USD in the aftermath and the GoC 2 year yield moved up one basis point for little market reaction. I believe the market reaction should be more hawkish.
- Jobs fell by 7,500, but excluding the self-employed category they have been up for four straight months. A lot of self-employed jobs are extremely valuable in the economy, but it is possible that strength in payroll employment and wage gains is pulling the self-declared self-employment category of workers back into the workforce. Ex-self, jobs were up 8,100 in May, 14,500 in April, 12,500 in March and 58,700 in February which claws employment ex-self-employed almost back to being flat after January's large decline.
- Wage growth accelerated to 3.9% y/y for permanent employees which used to be the BoC's preferred measure (see first chart).** That's the fastest wage growth since July 2012. This is not the BoC's preferred measure but we await the lagging SEPH survey for the main ingredient to the BoC's wage common metric and note in the chart that the two measures have generally been accelerating together. Strip inflation of 2.2% y/y out of that and real wages are rising by 1.7 percentage points. How many other industrialized nations are getting that kind of real wage growth? That's rhetorical obviously. The second chart below compares Canadian and US wage growth and demonstrates how Canada is now sharply outpacing US wage gains. Finally, Canadian workers are getting wage gains that are outstripping the rising cost of living. This is hawkish at the margin as it reinforces wage and price pressures in the Canadian economy.
- By province, the acceleration in wages was not driven by Quebec's minimum wage hike last month.** In fact, total wage growth decelerated in Quebec to 1.9% y/y from 2.7% the prior month. Instead, wage growth accelerated in key provinces including Ontario (+4.7% y/y, 4.3% prior) and Alberta (+4.4% y/y, 2.6% prior) and BC (+6.9% y/y, 5.6% prior). None of those other provinces changed minimum wages last month.
- A further break down by province involves looking at the wages of full-time versus part-time workers. Wages of full-time workers across Canada accelerated by 3.5% y/y (2.9% prior) and part-time wages climbed 5% y/y (4.7% prior). I'll now focus on full-time wages that are relatively less affected by min wage changes. They were up 4.2% y/y in Ontario, 3.3% in Alberta, 7.3% in BC and 1.1% in Quebec. All of these registered accelerations except Quebec. The table at the bottom of this note breaks down year-ago wage growth for permanent employees by province and shows how regionally diversified the gains have been. Also consider the updated chart below.

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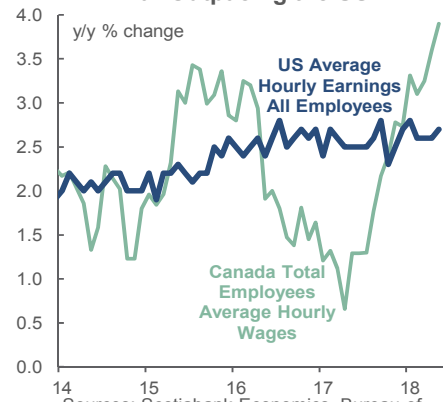
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Chart 1 Canadian Wage Growth



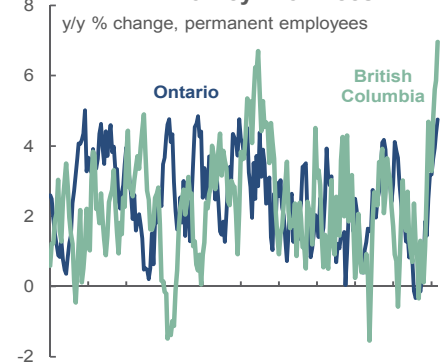
* Weighted hourly earnings of salaried and hourly employees. Sources: Scotiabank Economics, Statistics Canada.

Chart 2 Canadian Wage Gains are Far Outpacing the US



Sources: Scotiabank Economics, Bureau of Labor Statistics, Statistics Canada.

Chart 3 Explosive Wage Gains in Two Key Provinces



Sources: Scotiabank Economics, Statistics Canada.

- To shed further light on what happened involves looking at sector data. **Wages in the natural resources sectors were up 7.9% y/y.** Wow. Talk about trickle-down economics from the improvement in Canada's terms of trade with the rest of the world largely owing to higher commodity prices. There may be pipeline constraints on investment at least until more pipelines become operational around 2020-2021, but stronger cash flow is motivating stronger income growth and this is consistent with what I've been saying for a while now that gloom over pipeline bottlenecks is excessive relative to prospects for higher pay to grease the wheels in the resource oriented regional economies. Remember, the opposite effect is why Poloz cut in January 2015...
- Across other sectors, wages were up 5% y/y across manufacturers and utilities, 3.1% in finance and business/admin, 5.2% in education/law/social, 4.5% in art/culture/recreation, 5.5% in sales/service occupations, 4.9% in the natural/applied sciences professions and 4.1% in management occupations.
- As a further breakdown, permanent employees' wages were up 3.9% while temporary employees wages were up 3.2%. Non-unionized jobs got 4.5% wage growth whereas unionized jobs were up 3.3% so don't blame unions here. Women's wages were up 4.1%, men's were up 3.7% for little relative difference.
- Youth wages (affected by min wages) are up 7% which might help explain weakness in youth employment this year as another distortion in the numbers. Employment ex-youths fell 9,500 in May and so youths didn't explain this month's softness, but youth employment has dragged down headline jobs over the prior three months.
- Back to the break-down of the job loss, the details were quite broadly weak.
 - Private sector jobs were down 4,800 while public sector jobs were up 12,900.
 - Full-time jobs fell 31k while part-time jobs were up 23.6k.
 - Payroll jobs were up (due to public sector) while the self-employed category fell 15,600 which is usually treated as softer data.
 - Hours worked have been flat in aggregate for the past three months.
 - People exited the workforce in May as the participation rate slipped by one-tenth so that explains a flat unemployment rate at 5.8%. If wage growth is maintained at these or higher rates, then one would expect more people to beat the pavement in search of this embarrassment of riches.
 - Eight out of 16 sectors posted job gains so breadth was ok.

y/y % change in wages of permanent employees by province

	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Jan-17	1.03	4.67	2.23	3.48	4.25	2.07	0.75	1.03	0.44	0.20	0.69
Feb-17	1.06	4.64	3.26	4.78	5.03	2.68	-0.15	0.87	1.54	0.20	2.37
Mar-17	0.90	5.27	0.83	5.35	5.55	2.47	-0.33	3.80	0.95	0.10	1.27
Apr-17	0.53	3.08	1.42	4.06	4.56	1.36	-0.18	3.47	0.73	-0.68	0.89
May-17	1.02	3.02	1.97	3.56	3.33	3.29	0.18	3.13	0.69	0.43	-0.34
Jun-17	1.02	5.20	3.37	0.89	3.09	3.07	-0.15	2.65	-0.26	0.66	1.30
Jul-17	1.24	2.55	1.87	1.94	1.50	3.72	0.22	1.81	-0.40	1.11	1.03
Aug-17	1.69	2.38	3.32	1.55	-0.65	3.53	0.55	2.52	0.00	4.12	0.11
Sep-17	2.18	-0.24	3.49	3.15	-0.47	3.45	1.85	2.65	-0.36	3.14	1.14
Oct-17	2.41	0.08	3.99	1.70	-1.19	3.86	1.44	2.35	0.58	3.94	2.81
Nov-17	2.74	-0.63	3.96	1.73	1.29	2.55	2.49	2.44	0.43	3.33	4.69
Dec-17	2.93	-0.20	6.67	2.94	0.48	2.79	3.18	1.84	0.32	2.78	3.85
Jan-18	3.31	0.47	4.81	2.90	2.51	4.06	3.19	0.94	2.61	3.28	3.28
Feb-18	3.11	1.63	4.06	1.73	2.72	1.74	3.63	1.92	2.21	3.07	4.77
Mar-18	3.14	1.23	3.87	1.57	2.41	1.86	3.95	0.08	1.30	2.31	5.60
Apr-18	3.32	2.48	3.51	2.60	2.07	1.74	4.35	0.81	1.84	2.38	5.86
May-18	3.93	3.48	2.97	3.14	2.35	1.61	4.75	1.98	1.37	4.06	6.96

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