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Article

Canada employment preview: Wages in focus - again

After some dismal wage growth readings, the key question is when signs of tightness in the jobs market will translate into faster pay rises

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In November's employment report, due to be released on Friday, we're hoping to see an uptick in wage growth.

In particular, the focus is on the average hourly wages of permanent workers, and here the recent data has been disappointing. Here, growth has slipped from around 4% in May to 1.9% in October. This is at odds with the Bank of Canada's (BoC) October Business Outlook Survey, where firms reported capacity constraints, particularly labour shortages, as a major problem preventing them meeting greater-than-expected demand. In our opinion, it's only a matter of time before this translates into greater upward wage pressures as firms bid to retain/attract workers.

The not-so-hawkish Bank of Canada

This expectation was largely supported by what the Bank of Canada (BoC) had to say yesterday at their December policy meeting. Although the overall tone was slightly more subdued compared to October (influenced heavily by the sharp fall in oil prices) the central bank remained upbeat on business investment. The outlook here still heavily relies on what happens with the United States-Mexico-Canada-Agreement, which still has to be passed by the US Congress. But assuming some of the Canadian-specific trade uncertainty fades as we move into 2019, then business confidence should remain supported and this should gradually help put extra pressure on wages.

Two, or maybe even three, hikes likely in 2019

If wage pressures do indeed build, then it seems likely that the Bank of Canada will continue hiking in 2019. The central bank is keen to get the policy rate back to neutral, which by the BoC's estimates is between 2.5%-3.5%, assuming at-target inflation. For now we are looking for hikes in the first and third quarters of 2019, and aren't ruling out a third either – although this is contingent on the recent wage growth woes fading.

For more details, click here for four reasons the Bank of Canada will keep hiking next year

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