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Canada jobs slowdown boosts case for BoC rate cuts

Weakening private sector employment at a time of heightened trade tensions and falling commodity prices is not a great story for Canada. The likelihood of rate cuts is increasing

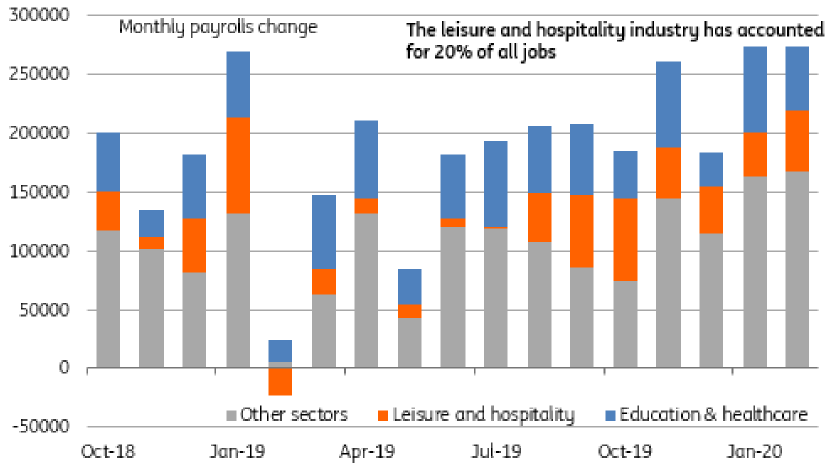
Source: Shutterstock

Great wage number, but job creation goes into reverse

The July Canadian jobs report is a really mixed bag with employment falling for the second month in a row (-24,200), the unemployment rate rising to 5.7%, yet wage growth surges to its fastest rates since 2009.

In terms of jobs, unfortunately, it is a big miss with the market looking for a 15,000 rise. There were falls in both full time (-12,600) and part-time (-11,600) jobs and this has dragged the 6-month moving average to +26,000, which is the weakest it has been since October. We didn't have a lot to go on in the build-up to today's report, but the business surveys have been ok. The IVEY PMI has recently performed well with employment surging to a 12-month high in July so there is something of a contradiction here, especially when you consider the jobs report has private sector corporate employment falling 69,300!

Employment is softening

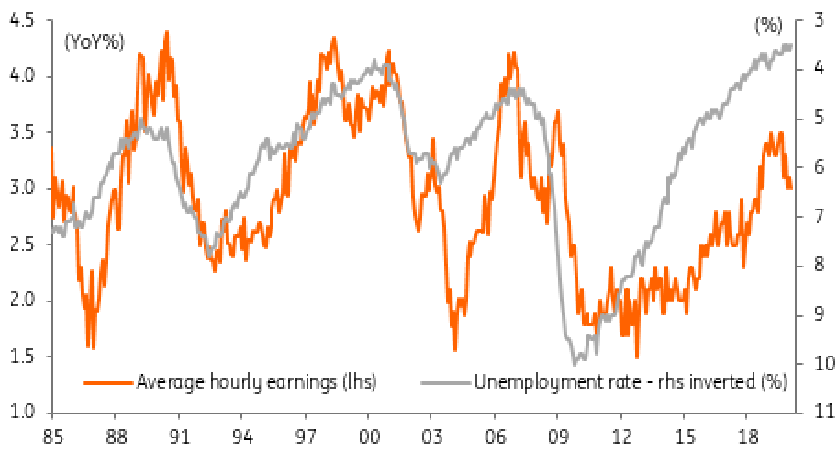


Source: Bloomberg, ING

Tight jobs market boosts pay

The unemployment rate was also worse than predicted at 5.7% versus expectations it would hold at 5.5%. This is the second consecutive rise although we have to acknowledge it is coming off a four decade low of 5.4% seen in May. Given that fact we are not overly concerned, especially given the wage numbers are fantastically strong. Pay of permanent workers rose 4.5%YoY, which is the fastest rate since 2009. This suggests that the competition for workers in a tight jobs market is starting to really drive up pay, which is great news for consumer confidence and spending over the next few months.

Wages surge as unemployment stays low



Source: Bloomberg, ING

Risks of modest BoC rate cut is rising

As the central bank recognises, Canada has been bouncing back from a period of weakness when it was battered by commodity price falls and trade tensions with the US. Nonetheless, the jobs figures are a little concerning. Given the latest ratcheting up of trade tensions, which Canada is heavily exposed to, and the plunge in commodity prices (oil in particular) it looks as though we could get a renewed softening in Canadian growth through 4Q19 and 1Q20.

> *While fairly low at this point in time, the chances of the BoC following other countries in cutting interest rates is growing*

While fairly low at this point in time, the chances of the BoC following other countries in cutting interest rates is growing. However, low unemployment, rising wages and inflation close to target means there is less scope for major policy easing relative to competitors, which is CAD supportive. The market is looking for a 25bp rate cut in around 6M and if trade tensions persist we could well see Canada pull the trigger in December. As Charles Evans at the Chicago Fed suggested yesterday when other central banks are easing it makes you think maybe you should too – food for thought for the BoC.

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