Canada: Mixed messages suggest BoC to stay put

There are confusing messages in the Canadian June jobs report, but the economy on the whole looks in decent shape so it supports our "no change" Bank of Canada interest rate call next week

Source: pexels

Employment down, but not for long

The Canadian jobs report has a tendency to throw up surprises and the June report doesn't disappoint.

Employment fell by 2,200 rather than rise by 9,900 as was expected, but the huge surprise is the apparent surge in wage growth – jumping from 2.6%YoY to 3.6%YoY! That is the fastest wage growth rate in over 12 months and on the face of it should be very supportive for consumer sentiment and spending in coming months.

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Employment growth can be very choppy, as can be seen in economists' forecasts for today's jobs number which ranged from -45,000 all the way up to +35,000. Both part-time and full-time employment swing around a lot, especially this time of year due to student summer jobs, so the fact the consensus was wrong by only 12,000 or so isn't terrible. Moreover, hours worked picked-up sharply to a 1.8%YoY increase so there is clearly plenty of things for workers to be doing.

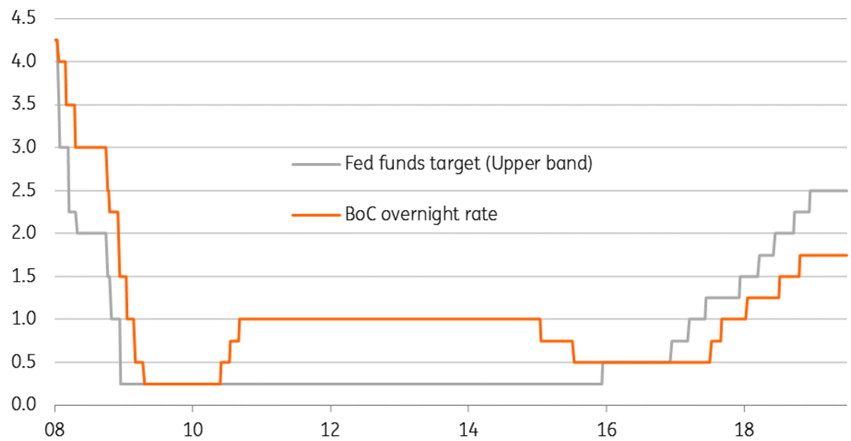
In any case, 2Q19 business surveys have improved after softness in 4Q18 and 1Q19, while the pick-up in oil prices is good news for the energy sector and related industries. We expect to see employment rise again next month.

Wages surge!

The wage story is a bit more difficult to explain. Unemployment picked up to 5.5% but remains only fractionally above the all-time (series goes back to 1976) low of 5.4%.

This implies there is strong competition for skilled workers and wage pressures could therefore persist. With inflation having surprised on the upside on all the key measures last month, sharply higher wage growth should easily convince the Bank of Canada to leave the overnight rate left unchanged at 1.75% next week.

Bank of Canada versus Federal Reserve policy interest rates (%)



Source: Macrobond, ING

Bank of Canada to stay on hold

Looking ahead, we have to remember that the Bank of Canada didn't hike interest rates as aggressively as the Federal Reserve over the past couple of years, hence why BoC officials continue to talk of monetary policy "accommodation". Therefore, while the Fed stands ready to offer support to the US economy, there appears less need for Canada to do so.

Trade tensions do remain an issue for Canada, but given our view that the US and China agree to a trade deal later this year, it leads us to conclude the most likely path for monetary policy is that the Bank of Canada keeps the overnight rate unchanged at 1.75% throughout the next 18 months.

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