Canada October jobs report: Good, at least on face value

The Canadian unemployment rate moved down to 5.8% in October, and this time with good full-time figures. But the story of slowing wage growth is only going to prove to be a headache for the Bank of Canada's 2019 tightening path

Deja Vu?

The unemployment rate in October came in better-than-expected falling back down to 5.8%, with bulk gains in full-time work (+173,000). But again, hidden within the report are some softer figures. The average wages for permanent workers decelerated for the fifth month in a row down to 1.9% YoY, so wage growth woes yet again dampen the unemployment rate.

The total number of employed people came in at 206,000. And the largest contributions came from the business, building and other support services sector which by 22,000 in October (bringing year-over-year gains to 43,000). This data is aligned with our 2019 outlook that business investment is going to take a leading role in driving Canadian growth.

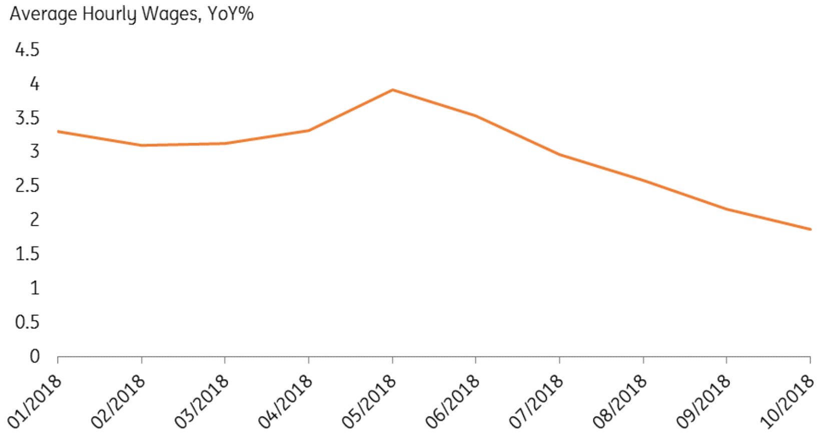
Wage growth takes the shine off things - again

Another monthly slowdown in wage growth has taken the shine off a near four-decade low unemployment rate.

Income gains are still being made, but the longer this slowdown continues, the greater the headache for the central bank and their planned 2019 tightening path. And this isn't the only problem weighing on the BoC.

Canada's hottest housing markets (namely Vancouver and Toronto) aren't seeing a moderation in house prices like other regions, leaving the risk of a sharp price decline a possibility, and the so-called 'elephant in the room' - namely Canada's persistently large household debt/income ratio, will definitely not be overlooked either.

Average hourly wages have been declining since June



Source: Macrobond

But full-time employment soars on the back of good business confidence

An increase in full-time employment didn't surprise.

With Nafta insecurities lifted on the back of the United-States-Mexico-Canada-Agreement (USMCA), trade worries have eased – somewhat. The US-China trade spat is still very much a global risk and likely to delay business decisions. That said, Canadian firms are upbeat for now and extending hiring plans - well aware of limited spare capacity.

We are confident that the labour market will tighten further and add some upward impetus to wage growth. This will come from businesses investing to relieve capacity pressures and boost productivity, as well as being helped by Canada's increased population, which stems from an international migration effect.

> We currently predict the central bank to hike in 1Q19 and 3Q19, and aren't ruling out a third if downside risks – such as the relative slackness in the labour market, subsides.

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