

Article | 8 March 2019

Canada's labour market: Resistant to the turbulence

Job creation and upward trending wages in February reinforce the fact that the economy has underlying strength. But the Bank of Canada is happy to prolong its pause to see how certain risks play out over the coming months



Source: Shutterstock

February's employment report reinforces our view that – despite the global risk environment, the labour market remains robust. The year started with healthy job gains in both full and part-time positions (+67,000) and this momentum has carried on into February, where 56,000 positions were created. However, the unemployment rate has since drifted upwards from its four-decade low of 5.6% – now at 5.8%, but we aren't majorly concerned. This should be taken positively as it is because more people are entering the labour market.

Wage growth worries have eased further

Another month, another sense that labour market strength is gaining momentum. Wage growth for full-time workers finally picked up to 1.8%YoY in January, and (as-we-anticipated) the upward trend continued in February as it accelerated to 2.3%.

Article | 8 March 2019

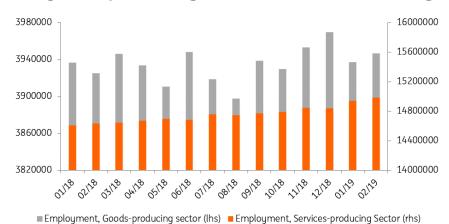
We expected January's upside relief to be more than a one-off. The Bank of Canada's (BoC) most recent Business Outlook Survey suggested firms are implementing higher wages in order to attract workers due to frequent reports of labour-related production constraints. This points towards the possibility of further wage upside in the coming months.

The energy sector is now performing below-par, but is it hurting the labour market?

February's employment report was reassuring. Job creation was broad based across both full and part-time positions, reinforcing our view that - underneath the increased uncertainty in both the domestic and global economic backdrop, there is a positive story. The employment report supports the idea that labour-related capacity constraints are pushing firms to expand their workforces and hire permanently. This is also an indication that high levels of demand (particularly from the US) is expected to persist in the near-term.

The rise in employment was largely due to gains in the services-producing industry, specifically in professional, scientific and technical services; the number of workers here grew for the third time in four months. Employment in the goods-producing industry has suffered more recently, though we saw a slight increase in February (+9,500).

The goods-producing sector has been suffering



Source: Macrobond

Is this a sign that the deteriorating outlook for the energy sector is taking its toll on the labour market? Possibly. The local government in Alberta enforced mandatory oil production cuts – which started on 1 January, and having to reduce output has likely weighed on the hiring decisions of crude producers. So far, the labour market overall has shown resilience, but it could only be a matter of time until overall employment figures are suppressed.

The Bank of Canada are happy to sit back and see how things play out

Nonetheless, job creation and upward trending wages bode well for decent levels of domestic demand this year. However, a relatively strong labour market hasn't always translated into better household activity - this is what we are seeing at the moment. Both the housing market and

Article | 8 March 2019

overall spending suffered in the fourth-quarter of 2018.

if risks don't materialise we think the central bank will want to make a move later this year

The timing of the BoC's next rate hike depends on three key factors – namely household spending, oil markets and US and China trade developments. For now, the central bank are happy to sit back and see how these three risks play out over the coming months. If they don't materialise we think the central bank will want to make a move later this year. We have roughly pencilled this to arrive in the third quarter, though this is also contingent on how the Federal Reserve acts over the next few months.

See here why the Bank of Canada are firmly in wait-and-see mode

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Article | 8 March 2019