

Canada: Confounding the doubters

A really strong jobs market suggests there is still plenty of life in the Canadian economy, despite recent disappointment on the activity front. This diminishes the prospect of near-term rate cuts, but “insurance” action is still likely from the Bank of Canada

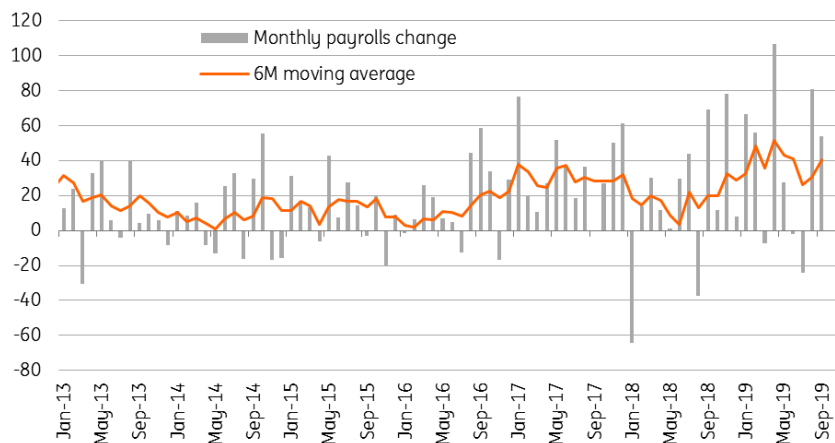


Source: shutterstock

A resilient jobs market

Given the uncertainty over trade and worries about global growth, the Canadian jobs market is proving to be more resilient than we had thought. After a subdued three months for employment growth between May and July, it bounced back sharply in August (81,100) with another 53,700 jobs created last month. As such the six-month moving average for job creation is moving higher again with full time jobs leading the charge, rising 70,000 in September. Year-to-date employment growth is at 358,100, the best figure for the first nine months of a year since 2002.

Canada monthly employment change

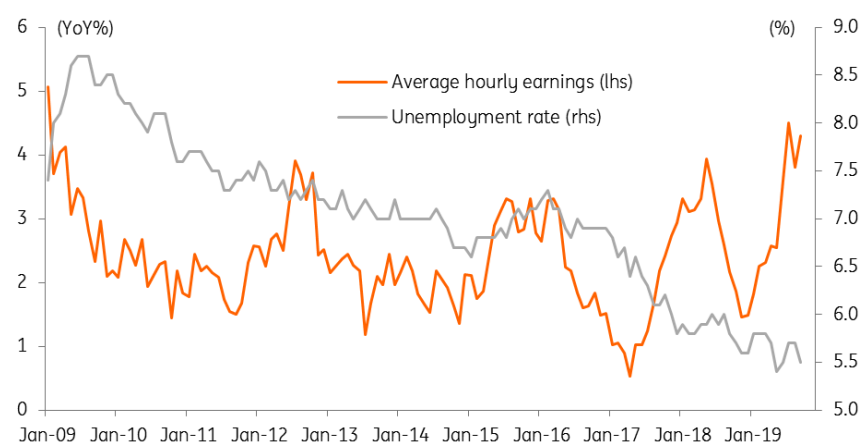


Source: Bloomberg, ING

This outcome was well ahead of even the most optimistic forecast (the consensus was for a 7,500 gain overall), but there are caveats. It was entirely a public sector story (30,000 for healthcare, for example) for September. Private sector employment fell 21,000 with particular weakness in the goods producing sectors. This tallies with recent softness in some of the activity data and perhaps hints at weaker overall employment growth in coming months.

Nonetheless, with the unemployment rate dropping to 5.5%, which means there is a very small pool from which to find new employees and this is translating into robust wage growth. Wages are currently rising 4.3% year-on-year, which could be supportive for both consumer confidence and spending, at least in the near term.

Wage growth and unemployment confirm the strength



Source: Bloomberg, ING

Where the US goes, Canada typically follows

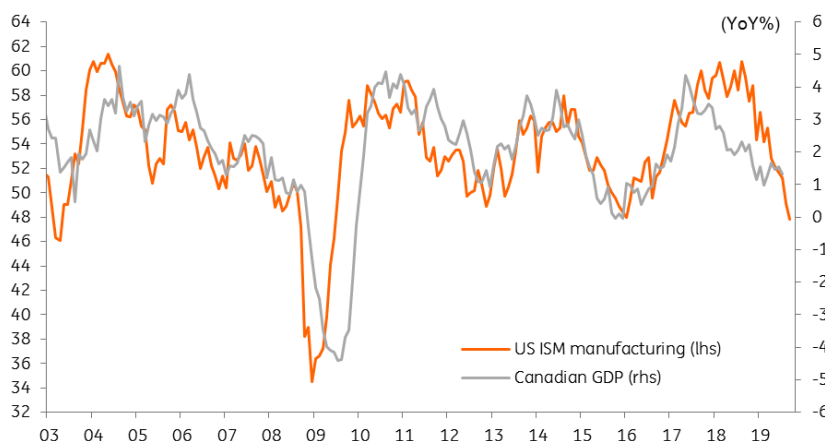
For now, Canada looks to be in a relatively good position versus other major economies. Nonetheless, we question how long this can continue given global growth is weak and central banks elsewhere are gradually easing monetary policy. This could result in upward pressure on the

Canadian dollar given its positive yield and hurt its international competitiveness.

We suspect that the Bank of Canada will end up following and cut interest rates fairly soon. After all, the domestic indicators on activity have become more “mixed” with July GDP showing unchanged activity and the IVEY purchasing managers’ index swinging sharply into negative territory.

Moreover, the ISM index from the US is looking particularly foreboding as where this index goes the Canadian economy tends to quickly follow. After all, the Canadian economy is relatively open with trade accounting for more than 30% of economic activity versus little more than 10% for the US. Canada is also more dependent on commodities for a significant proportion of its output with mineral extraction and agriculture representing more than 10% of the economy. Recent price moves in energy don’t suggest a pick-up in investment in this sector is likely in the near term.

US ISM manufacturing index versus Canadian GDP (YoY%)



Source: Macrobond

25 basis point cut still in the offing

For now the market is pricing just one rate cut over the next twelve months and we agree with that prognosis given the Bank of Canada didn’t raise interest rates as aggressively as the Federal Reserve over the past couple of years. However, we think the BoC rate cut will come sooner than September 2020 as futures contracts imply given the growth concerns, although our December 2019 prediction is looking a little shaky after today’s jobs numbers.

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 <http://www.ing.com>.