

Canada jobs: upward momentum

Canada's January jobs report shows renewed hiring, very strong wage growth and lower unemployment. All of which cast doubt on our argument for a Bank of Canada rate cut



Source: Shutterstock

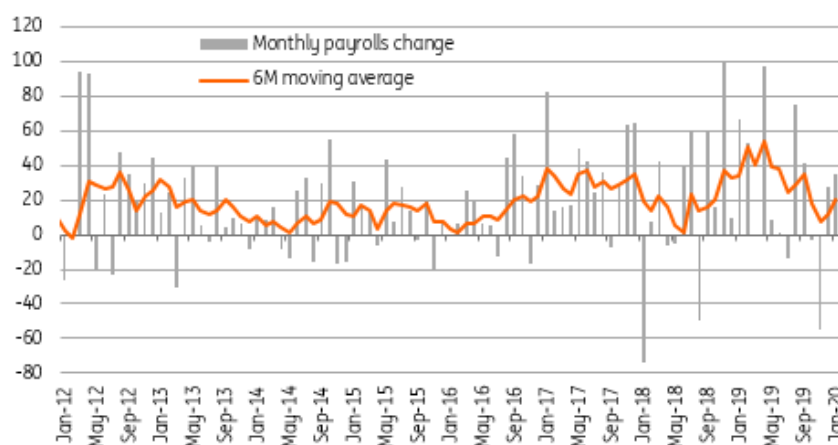
Canada's jobs report, much like that of the US, has provided more positive news. Employment rose 34,500 versus expectations of a 17,500 increase, although admittedly there were some minor downward revisions to the history. As the chart below shows there seems to be renewed upward momentum after a disappointing performance through 2H19.

It may well be that easing global trade tensions have given manufacturers the confidence to go out and hire new workers - manufacturing employment was up 20,500 (the biggest monthly gain since November 2017). Construction also performed strongly, which was presumably helped by better-than-usual weather allowing building work to continue less impeded. Service sector employment was poor, falling 14,500.

That said there is an oddity in the data given that private sector employment rose only 5,000 while public sector saw gains of 21,300. This seems somewhat strange given the industry breakdown of

job creation.

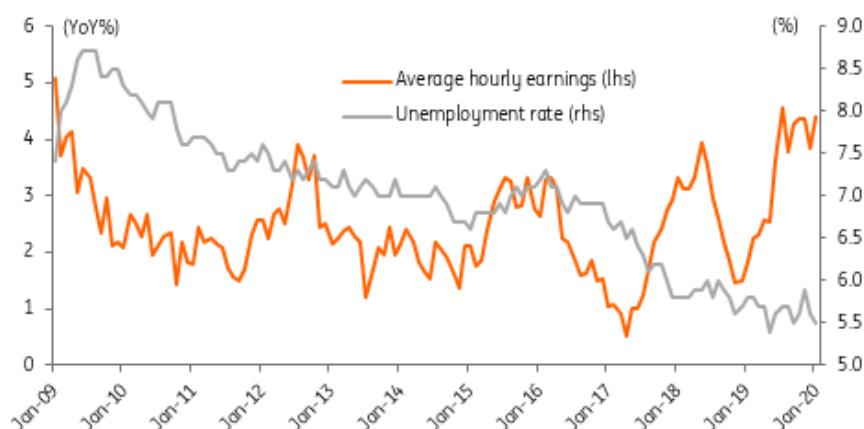
Canada jobs show improving momentum



Source: Bloomberg, ING

There was also good news in the form of a further decline in the unemployment rate to 5.5% while wage growth is incredibly strong at 4.4% year on year. This is clearly going to be supportive for consumer sentiment and suggests household spending will remain a key source of growth in the economy. It also means that our conviction regarding our 25bp rate cut call for 1H20 is less strong. That said, the activity data hasn't been that great and inflation is benign while coronavirus fears linger in the background. The market continues to price a rate cut by November.

Strong wages and low unemployment underpin consumer sector



Source: Bloomberg, ING

Author

James Knightley

Chief International Economist

james.knightley@ing.com

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