



Economic Flash!

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Canadian Employment Report: Reality Check

M/M chg, 000s	Jan	Feb	Mar	Apr	May
Employment	-129.0	-82.6	-61.3	35.9	-41.8
Full-time	-113.9	-110.9	-79.5	39.4	-58.7
Part-time	-15.1	28.3	18.2	-3.6	17.0
Paid workers	-143.2	-54.6	-66.5	-1.1	-9.8
Private	-101.2	-30.4	-67.8	-10.4	-36.5
Public	-42.0	-24.2	1.3	9.3	26.7
Self-employed	14.2	-28.0	5.2	37.0	-32.0
Part. Rate (%)	67.4	67.4	67.3	67.4	67.5
Unemp. Rate (%)	7.2	7.7	8.0	8.0	8.4
Avg. Hourly Earnings, perm. workers (y/y %)	4.7	3.9	4.1	4.3	3.2

- While optimism is good, it doesn't pay the bills. Jobs do, and there were a lot fewer of those in May with the downsized auto sector wreaking havoc through Canada's already weak labour market, and providing markets with a reality check. The 42,000 net loss of jobs in May was near consensus expectations, but the unexpected rise in the participation rate meant that the unemployment rate soared to an 11-year high of 8.4%. While the worst is now behind us, the economy is still fragile. We expect labour market weakness to continue in the coming months, with the unemployment rate continuing to creep up, albeit at a slower pace.
- Given the wide statistical bands around the survey numbers, a more accurate picture of the labour market is obtained by looking at a longer stretch of time. Since November, Canada has seen a net loss of 363,000 jobs, with the vast majority in the private sector and in full-time positions. The global recession and the housing slowdown have weighed heavily on manufacturing (-186K) and construction (-110K) respectively.
- For evidence of a turn in the economy, we look at the business sector, and the latter has now shed jobs for the seventh consecutive month. **It's difficult to see an improvement on that score in the next few months, especially in the manufacturing sector, with the US recession, auto sector restructuring and the strong loonie, providing a lethal combination for employment in that sector.** Other cyclical industries like construction and resources were also trimming payrolls in May. The services sector added jobs for the second month running, but the sector still has 41,000 fewer positions than in October.
- Given the slack in the labour market, the year-on-year wage rate growth has now dropped to a two-year low at merely 3.2%, although that series can be choppy.
- Not surprisingly, given the announcements of layoffs and plant closures in the auto sector, **Ontario took the brunt of the hit with the 60,000 purge in jobs taking the province's unemployment rate to a**

15-year high of 9.4%. Newfoundland and Labrador was the only other province shedding jobs in May, while all other provinces saw some small net additions of jobs in the month.

Implications & Actions

Re: Economic Forecast — Until there is clear evidence of a pickup in demand and an increase in corporate profits, employers are unlikely to take risks by adding significantly to headcount. For now, expect more pink slips to be handed out, especially in a downsized manufacturing sector.

Re: Markets — The higher-than-expected unemployment rate supported a brief rally in the bond market but that quickly fizzled out. Currency markets were unmoved by the report.

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