

Watching Canada's jobs clock: 547k jobs to go

By Taylor Schleich / Alpa Atha

While the COVID-19 delta variant is stoking investor anxiety, things are looking up in Canada. Case counts remain on the decline, vaccinations are progressing rapidly, economies are more fully reopening and as today's Labour Force Survey shows, sidelined Canadians are being reintegrated into the labour market. Recall, Bank of Canada Governor Tiff Macklem has been providing us with something of a magic jobs number that would represent "a full recovery". A couple months ago, this was 700 thousand jobs but after May's modest employment decline, that rose to "three quarters of a million", according to Macklem. Importantly, these needed job gains include both the shortfall from pre-COVID levels as well as jobs that *would've* been added absent a global pandemic-led recession. But after turning the clock back in May, we're moving forward again—with June's impressive print, the new magic number is... 547 thousand. Here's how our updated jobs clock looks:

Measure	Canada	Ont	Que	BC	Alta	Man	Sask	NS	NB	N&L	PEI
Jobs gap (thousands)	546.9	285.1	96.7	19.3	78.1	19.4	16.5	14.0	9.0	4.3	5.2
% of "potential" employment	2.8%	3.8%	2.2%	0.7%	3.4%	2.9%	2.9%	3.0%	2.4%	1.9%	6.3%

Source: NBF, StatCan | Note: Jobs gap = Shortfall from "potential". "Potential" = Feb-20 emp. + current pop * Feb-20 emp. rate. Provi #s may not sum to Canada due to rounding.

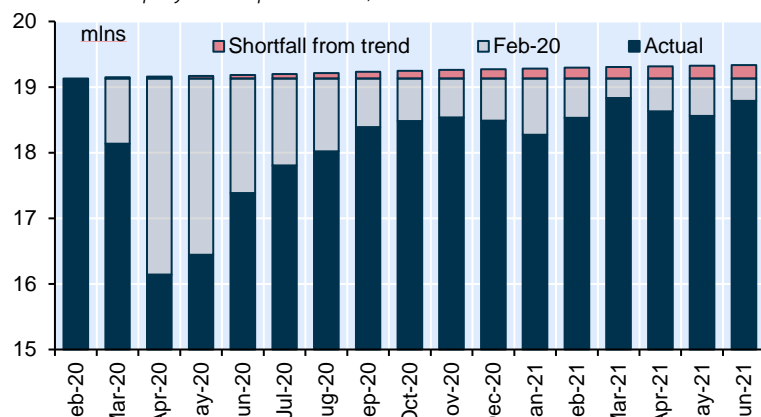
As noted in our May jobs clock update, there's clearly a strong correlation between public health restrictions and the size of the jobs deficit. In May, fresh restrictions in Nova Scotia and the ongoing lockdown in Ontario meant non-trivial job losses while the rest of the country was largely unchanged. With restrictions easing in early June, it was unsurprisingly Ontario and Nova Scotia among the standouts (Quebec and BC too). Ontario remains with one of the larger job deficits but with restrictions continuing to ease, there's scope for another big time print in July. From a municipal perspective, it's no surprise that Toronto has the largest employment gap, which also implies further upside in the coming months.

The regional angle is just one way the BoC will be dissecting this data. As policymakers have been quick to point out, the damage in labour markets has not been equally distributed by gender, age or socioeconomic status. This has even been formally incorporated into BoC rate statements: "*low wage workers, youth and women continu[e] to bear the brunt of job losses*". On this front, June's data was disproportionately positive for these most affected Canadians. Youth and female employment bounced back, though they both still lag the broader labour market. Meanwhile, "low-paying" sectors (a somewhat subjective classification, Chart 2) remain in deep hole despite significant progress in June. Indeed, a number of these jobs are in COVID-sensitive parts of the economy so, like relatively harder-hit regions, there is upside ahead.

As we look towards next week's BoC policy meeting, this solid report all but assures another QE taper. And even after this consensus-beating report, the Bank is likely to remain optimistic for a continued robust jobs recovery. Case in point: Monday's Business Outlook Survey, which showed the strongest balance of opinion on hiring intentions on record (Chart 4). When it comes to the policy rate, we'd remind you of the current forward guidance which predicates a rate hike on slack absorption, expected in the second half of 2022. We don't see that as likely to change next week with growth evolving roughly in line with expectations. But should we get a upside surprise later in the year, there is scope for output gap closure to be brought forward. That alone won't necessarily portend rate hikes though. If we experience a slowdown in the absorption of the 547k jobs gap remaining, the Bank will have an 'out' to keep rates at the ELB. We're expecting to learn more from the BoC on its assessment of labour market slack in next week's MPR, as was alluded to in Tim Lane's June speech. At this point though, it appears that, unlike in the US where employment has been evidently slower to recover, there looks to be fewer impediments to a full labour market recovery in Canada. While our base case outlook still incorporates an initial rate move in July 2022 (i.e. in the forward guidance window), upside surprises (combined with a less flexible mandate) could put the Bank in the position to move earlier than current guidance implies. Market pricing is certainly running with this idea. We'll see if Macklem & the BoC are keen on tempering these expectations on Wednesday. Stay tuned.

Chart 1: Canada's jobs gap throughout the pandemic

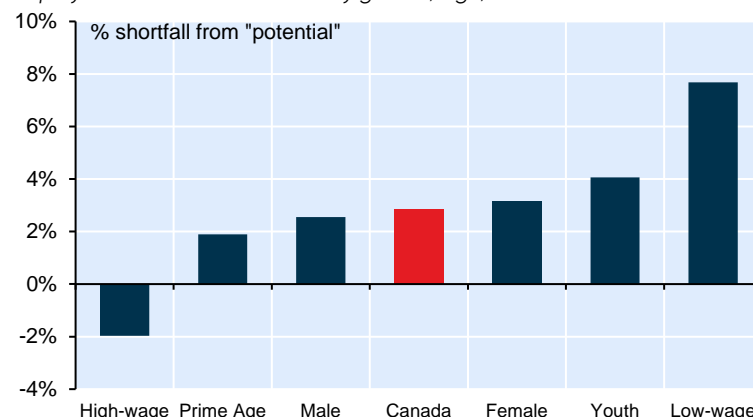
Canadian employment + pre-COVID/trend shortfall



Source: NBF, StatCan | Note: Pre-COVID trend = current population * Feb-20 employment rate. For a more complete analysis of Canada's jobs report refer to our [Economic News](#)

Chart 2: COVID jobs hit has not been equally borne

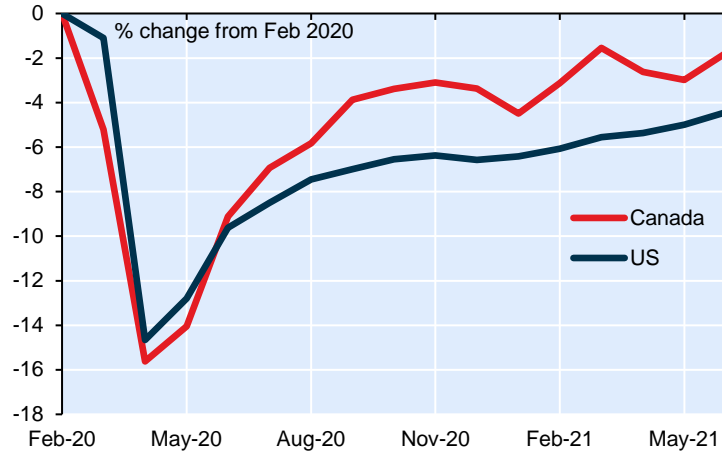
Employment shortfall from trend by gender/age/sector



Source: NBF, StatCan | Note: Low-wage = Ag. + Manu. + Wholesale/Ret. + Transportation + Biz/Building supp.+ Info/Culture/Rec.+ Accom./Food + Other. High-wage = all others. Potential calculated as Feb-20 employment rate * current population

Chart 3: Canadian jobs recovery leads the US

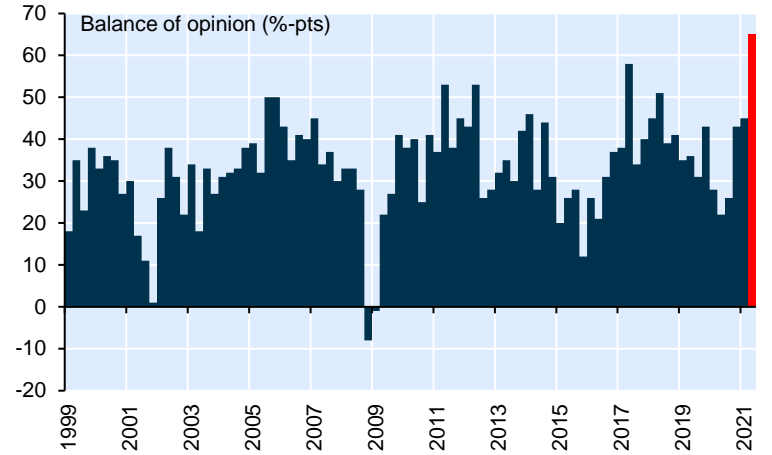
Canada/US employment relative to February 2020 by month



Source: NBF, StatCan, BLS | Note: This chart does not reflect lost "potential" employment.

Chart 4: Canadian business ready to hire

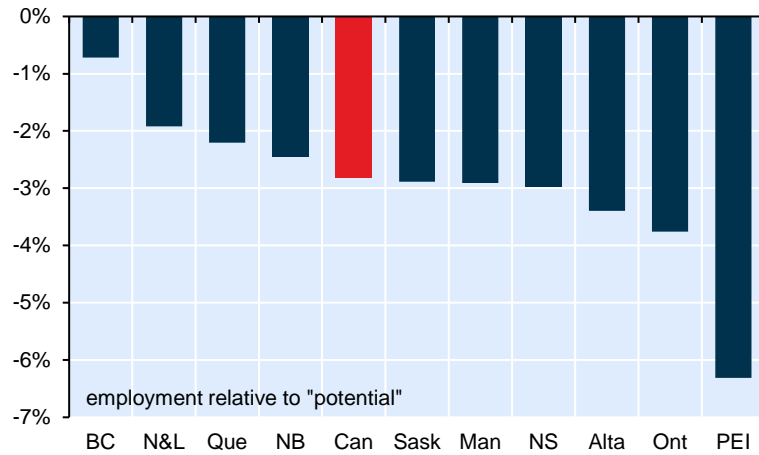
Balance of opinion on hiring intentions: Summer 2021 Business Outlook Survey



Source: NBF, BoC | Notes: Survey question is "over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the pas 12 months?"

Chart 5: The provincial perspective on jobs deficits

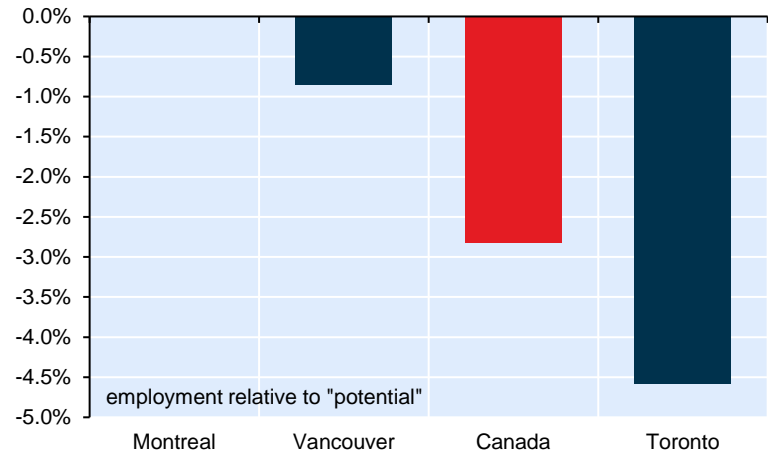
Employment relative to "potential" by province



Source: NBF, StatCan | Note: Potential employment = current population * Feb-20 employment rate.

Chart 6: The municipal perspective on jobs deficits

Employment relative to "potential" by major municipality



Source: NBF, StatCan | Note: Potential employment = current population * Feb-20 employment rate.

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