Hot Charts
Economics and Strategy

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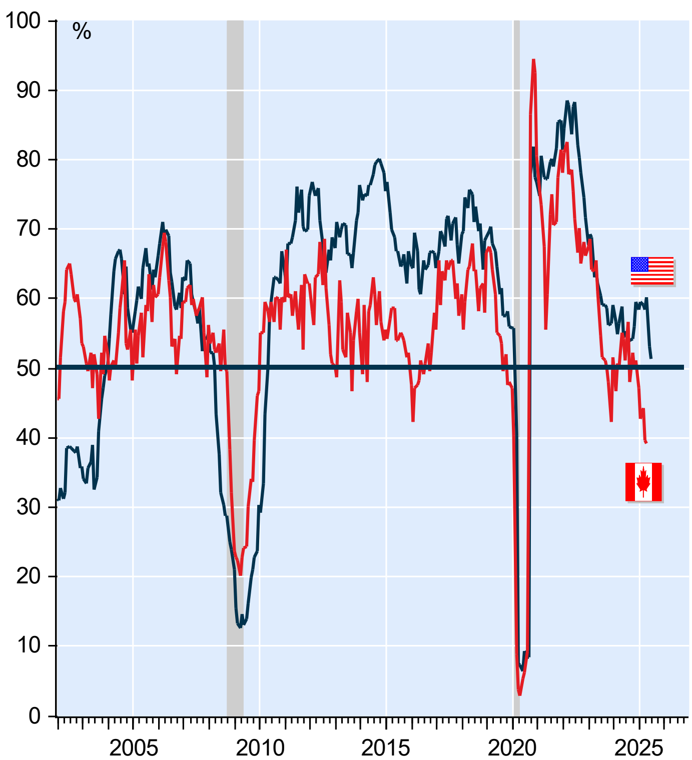
Canada Watch

By Matthieu Arseneau

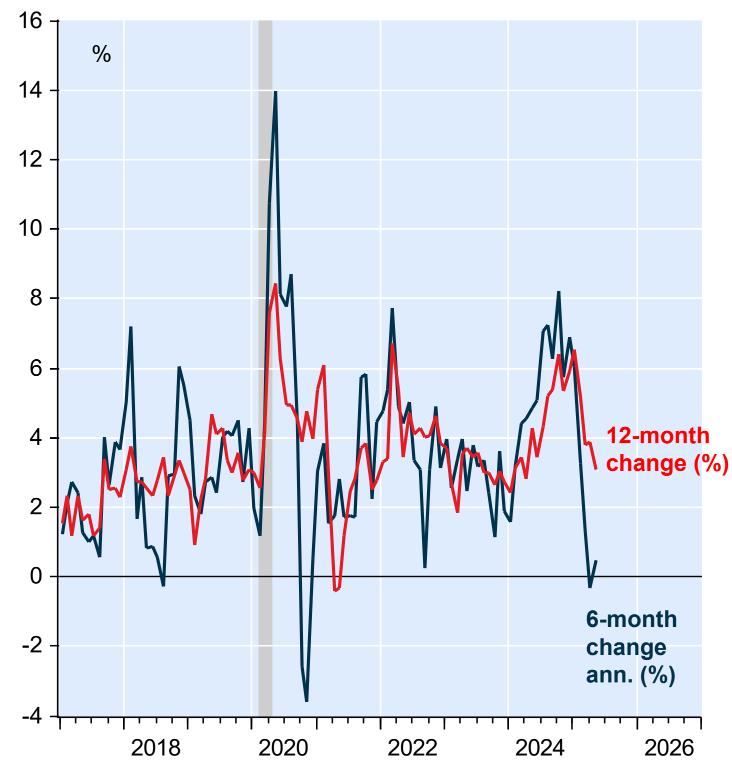
This week, the Bank of Canada decided to keep its policy rate unchanged, a decision that we respect given the recent unexpected strength of core inflation. While the central bank acknowledges that several labour market indicators point to growing slack, it continues to play down the severity of the weakness. It states that, according to the Labour Force Survey data, job losses remain limited to trade-sensitive sectors. We have been warning our readers for some time now that this survey overestimates actual changes in population and therefore employment for methodological reasons (**link**). In a note yesterday, we demonstrated how the other employment survey (SEPH, conducted among businesses) indicates a much weaker labour market (**link**). We believe this survey provides a more accurate assessment of employment trends in the current context and points to widespread weakness in the private sector. Only 39% of the 251 sectors in Canada reported an increase in employment over the past six months (see left-hand chart). As today's Hot Chart shows, this deterioration in the labour market is resulting in a significant slowdown in wages in Canada. The annual change in private sector hourly wages is now only 3.1%, due to an annualized rate of just 0.5% over the last six months. Combined with a relatively strong dollar, this allows us to be optimistic about a moderation in inflationary pressures. We continue to anticipate a 50-basis-point interest rate cut by the end of the year.

Canada: Sharp moderation in wages as private job market weakened

% of sectors in the private sector showing an increase in jobs over the last 6 months



Average hourly earnings according to the SEPH, private sector



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