WEEKLY COMMENTARY

Pressures Are Easing Slightly in the Canadian Labour Market, but Wages Remain an Issue

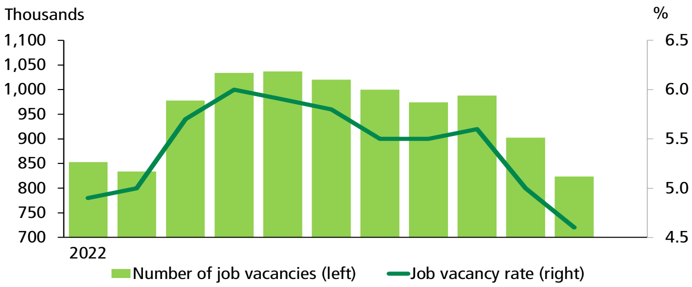
By Hélène Bégin, Principal Economist

Now that Canada's annual inflation rate has fallen to 6.3% in December from June's 8.1% peak, the thorny issue of wage growth may get more attention. Wage gains will need to slow to bring inflation back down to the Bank of Canada's (BoC) target. The next few months will be crucial to cooling off the overheated labour market.

At first glance, the Canadian labour market still appears tight. Unemployment stood at 5% in December, just above the 4.9% all-time low. And job creation remains strong, with more than 100,000 positions added last month. Going by those indicators, you wouldn't think wage pressures are about to ease anytime soon.

But if you look more broadly, you'll find some encouraging signs. The first is job vacancies, which have fallen from their recent peak (graph 1). While businesses are still struggling to find staff, the drop in job openings is an early indicator that the overheated labour market may be about to cool.

GRAPH 1
Job Vacancies Have Begun to Decline in Canada



Sources: Statistics Canada and Desjardins Economic Studies

Meanwhile, financial troubles are starting to mount for some businesses. These include soaring interest rates and cost-push inflation fuelled in part by rapid wage growth.

Business insolvencies are also trending higher, though they remain well below pre-pandemic levels. For a growing number of businesses, that means it's not a great time to hire.

According to the Canadian Federation of Independent Business's January Business Barometer, about 15% of SMEs plan to cut their workforce, up from a few months ago. That's the second sign the labour market may be losing steam.

The third sign is hours worked. Nationwide, the number of hours worked by all employees has stopped growing. It has even begun to fall in some provinces, including Quebec. Hours worked aren't a foolproof indicator, but they tend to show where employment is headed.

We could therefore see employment plateau or even drop off slightly in the coming quarters. Given December's blockbuster jobs report, that likely means more mixed results ahead.
Our forecast scenario sees economic activity starting to contract in the first quarter of this year. If the economy dips into a recession as expected, the labour market should hold up pretty well. Canada's unemployment rate could edge up 2 percentage points, less than in previous recessions (graph 2 on page 2), and top out near 7% by the end of 2023. Unlike in previous cycles, structural labour shortages due to changing demographics will make all the difference.

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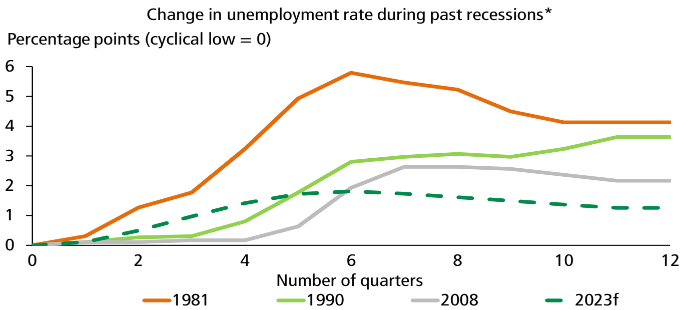
GRAPH 2
Canada's Unemployment Rate Is Expected to Edge Up Briefly



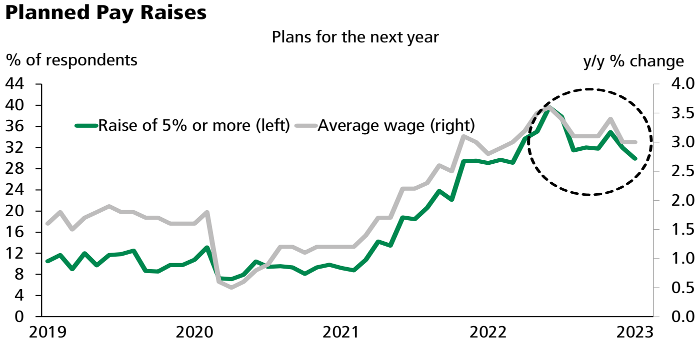
* Excluding the pandemic; f: forecast.
Sources: Statistics Canada and Desjardins Economic Studies

Will Wage Pressures Let Up?

If the labour market softens as expected, will wage growth slow? In 2022, wage gains were driven by the tight labour market and high inflation, which prompted pay raises.

According to the Labour Force Survey, annual wage growth peaked at around 5.5% nationwide a few months ago and has been hovering there ever since. And business surveys suggest that pay increases will be smaller in the coming months (graph 3) due to expectations for lower inflation and slightly higher labour supply.

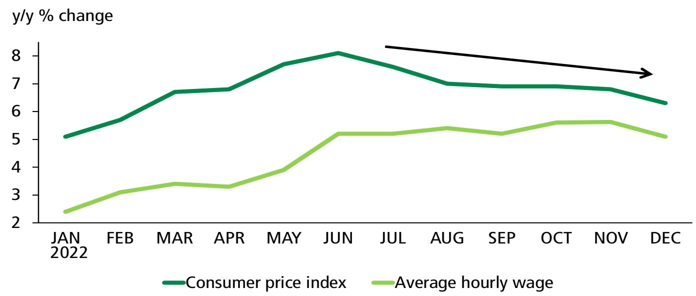
GRAPH 3
Small and Medium-Sized Businesses Are Scaling Back Their Planned Pay Raises



Sources: Canadian Federation of Independent Business and Desjardins Economic Studies

Public sector employees haven't seen their pay go up because they have collective agreements, but they'll be sure to negotiate a raise when their contracts are up. Inflation averaged 6.5% nationwide last year, so they have some catching up to do. Inflation has been slowing since last summer, however, and will likely come in at around 3.5% this year. Public sector wage increases will need to reflect that.

GRAPH 4
Lower Inflation Should Start Showing Up Soon in the National Wage Growth Data



Sources: Statistics Canada and Desjardins Economic Studies

When it comes to public and private sector wage growth, the landscape is shifting. Inflation is coming down (graph 4) and the economy is expected to contract, easing the labour shortage. Keep an eye on those two metrics.

Even if inflation eases, wage growth will need to slow. That's the BoC's plan, anyway. To bring core inflation back down near its 2% target by the end of 2024, all potential sources of inflation—including wages—will need to be contained. The BoC knows this, but can't do much about it.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

UNITED STATES

TUESDAY, January 31 - 9:00

November	**y/y**
Consensus	6.8%
Desjardins	6.3%
October	**8.6%**

S&P/Case-Shiller index of existing home prices (November) – Existing home prices fell in four successive months—from July to October—by a total of 3.8% on the back of rising mortgage rates and the widespread contraction in housing sector activity. However, October's decline of 0.5% was smaller than the average monthly dip of 1.1% over the three previous months. We're forecasting a 0.9% drop in November. We also think year-over-year price growth will slow sharply from 8.6% to 6.3%.

TUESDAY, January 31 - 10:00

January	**Index**
Consensus	109.0
Desjardins	108.0
December	**108.3**

Conference Board consumer confidence index (January) – After declining in October and November, consumer sentiment as measured by the Conference Board rose in December. The index gained 6.9 points, pushing it to its highest level since April 2022. We think it'll remain relatively stable in January. Other indexes came in rather mixed, with the University of Michigan consumer sentiment index rising again and the TIPP index falling. The solid start to the year for the main stock indexes and low level of unemployment claims are also noteworthy. On the flip side, gasoline prices have increased in recent weeks. All things considered, we expect the Conference Board index to reach 108.0.

WEDNESDAY, February 1 - 10:00

January	**Index**
Consensus	48.0
Desjardins	46.3
December	**48.4**

ISM Manufacturing index (January) – The ISM Manufacturing index has been below 50 since November. We expect it to fall further in January. The regional manufacturing indexes published so far for this month have generally been negative. As such, the ISM Manufacturing PMI could drop more than two points, to 46.3.

WEDNESDAY, February 1 - 14:00

February	
Consensus	4.75%
Desjardins	4.75%
December 14	**4.50%**

Federal Reserve meeting (February) – Federal Reserve officials can't declare victory just yet. Inflation remains high and the labour market is still tight. We expect rate hikes to continue, albeit at a potentially slower pace. After a number of 75 bps hikes, the Fed opted for a 50 bps increase at its December meeting. This time around, we're predicting a smaller 25 bps hike, which would bring the upper end of the target range for the federal funds rate to 4.75%.

FRIDAY, February 3 - 8:30

January	
Consensus	190,000
Desjardins	185,000
December	**223,000**

Job creation according to the establishment survey (January) – Job creation is slowing in the United States but remains fairly strong. Once again, hiring numbers exceeded consensus expectations in December. We think hiring continued to slow in the first month of 2023. That said, we're still not anticipating a sharp drop in employment, as this would be inconsistent with the recent low levels of unemployment claims. We project that 185,000 jobs were added in January. Keep in mind that January's print will include the annual review of the establishment survey results, which can change things. We expect the unemployment rate to stay put at 3.5%.

FRIDAY, February 3 - 10:00

January	**Index**
Consensus	50.5
Desjardins	49.8
December	**49.6**

ISM Services index (January) – The ISM Services index dropped below 50 for the first time since the early days of the pandemic—and before that, since 2009. Aside from a blip in March 2003 when the war in Iraq broke out, an ISM Services PMI below 50 is generally a fairly reliable sign of recession in the United States. We expect the ISM Services PMI to rise slightly to 49.8 in January—thus remaining in contraction territory—as suggested by the improvement in certain household confidence indexes and regional non-manufacturing indicators.

CANADA

TUESDAY, January 31 - 8:30	
November	**m/m**
Consensus	n/d
Desjardins	0.1%
October	**0.1%**

Real GDP by industry (November) – Real GDP by industry is expected to have advanced by 0.1% in November, in line with the flash estimate published by Statistics Canada. This growth is likely to be driven by gains in services-producing sectors, with an uptick in retail and wholesale trade volumes partially offset by weaker real sales at restaurants and more mixed activity in other services sectors. In contrast, goods-producing sectors are expected to have been a drag in November, as still-elevated activity in oil and gas extraction has come off recent peaks and real construction investment also fell in the month. At the same time, manufacturing shipment volumes posted a modest gain in November. Looking ahead to December, Statistics Canada's flash estimate is also expected to come in at +0.1%, as anticipated further weakness in the goods sector is likely to be more than offset by stronger services sector activity.

OVERSEAS

MONDAY, January 30 - 20:30	
January	**Index**
Consensus	50.1
December	**47.0**

China: ISM Manufacturing PMI (January) – The turmoil caused by China's zero-COVID policy and the battering the public health situation took once it was lifted impacted Chinese economic indicators in December. The ISM Manufacturing and Non-Manufacturing PMIs plummeted in the last month of 2022, but other indicators held up better than expected. January's prints will give us an initial idea of the strength of the Chinese economy in early 2023.

TUESDAY, January 31 - 5:00	
Q4 2022	**q/q**
Consensus	-0.1%
Q3 2022	**0.3%**

Eurozone: Real GDP (fourth quarter, preliminary) – The eurozone economy grew again in the third quarter of 2022. However, the non-annualized pace of real GDP growth slowed sharply, from 0.9% in the spring to 0.3% over the summer. We think this trend is likely to continue in the fourth quarter. Several indicators are even pointing to a possible net decline in real GDP, which would be the first step toward declaring a recession in the eurozone.

WEDNESDAY, February 1 - 5:00	
January	**y/y**
Consensus	9.0%
December	**9.2%**

Eurozone: Consumer Price Index (January, preliminary) – After peaking at 10.6% in October, eurozone inflation fell to 10.1% in November, then 9.2% in December. It may drop again in January as energy prices have continued to decline, thanks in particular to the milder than normal temperatures.

THURSDAY, February 2 - 7:00	
February	
Consensus	4.00%
December 15	**3.50%**

United Kingdom: Bank of England meeting (December) – Monetary tightening in the United Kingdom clearly isn't over. The main question is how big future hikes will be. Inflation fell in December but remains above 10%. The labour market still doesn't seem to be too affected by previous rate hikes. That said, employment is often a lagging indicator of the economic situation. Other data are pointing more clearly to a contraction in economic activity. We believe the Bank of England could settle for a 25 bps increase in February, while emphasizing that the economic slowdown should lead to more disinflationary pressure in the coming months. However, a majority of forecasters expect another 50 bps increase.

THURSDAY, February 2 -8:15	
December	
Consensus	3.00%
December 15	**2.50%**

Eurozone: European Central Bank meeting (December) – The message in December was clear. Monetary tightening isn't over and further 50 bps hikes are to be anticipated at upcoming meetings. The slightly quicker decline in headline inflation isn't likely to change that. Inflation is still high, at over 9%. Furthermore, if we exclude food and energy, price growth hasn't yet slowed. We should also keep in mind that the European Central Bank started its monetary tightening later, so it has some catching up to do with other central banks. As such, we expect the deposit facility rate and the rate on the main refinancing operations to rise to 2.50% and 3.00%, respectively.

Economic Indicators

Week of January 30 to February 3, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 30	---	---				
TUESDAY 31	8:30	Employment cost index (q/q)	Q4	1.1%	1.1%	1.2%
	9:00	S&P/Case-Shiller home price index (y/y)	Nov.	6.8%	6.3%	8.6%
	9:45	Chicago PMI index	Jan.	45.3	45.0	44.9
	10:00	Consumer confidence	Jan.	109.0	108.0	108.3
WEDNESDAY 1	10:00	Construction spending (m/m)	Dec.	0.0%	0.0%	0.2%
	10:00	ISM manufacturing index	Jan.	48.0	46.3	48.4
	14:00	Federal Reserve meeting	Feb.	4.75%	4.75%	4.50%
	14:30	Speech of Federal Reserve Chair J. Powell				
	---	Total vehicle sales (ann. rate)	Jan.	14,400,000	15,750,000	13,310,000
THURSDAY 2	8:30	Initial unemployment claims	Jan. 23-27	200,000	200,000	186,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q4	2.5%	2.3%	0.8%
	8:30	Unit labor costs – preliminary (ann. rate)	Q4	1.5%	0.9%	2.4%
	8:30	Factory orders (m/m)	Dec.	2.3%	2.5%	-1.8%
FRIDAY 3	8:30	Change in nonfarm payrolls	Jan.	190,000	185,000	223,000
	8:30	Unemployment rate	Jan.	3.6%	3.5%	3.5%
	8:30	Average hourly earnings (m/m)	Jan.	0.3%	0.3%	0.3%
	8:30	Weekly worked hours	Jan.	34.3	34.3	34.3
	10:00	ISM services index	Jan.	50.5	49.8	49.6
CANADA						
MONDAY 30	---	---				
TUESDAY 31	8:30	Real GDP by industry (m/m)	Nov.	n/a	0.1%	0.1%
WEDNESDAY 1	---	---				
THURSDAY 2	8:30	Building permits (m/m)	Dec.	n/a	-3.9%	14.1%
FRIDAY 3	---	---				

Note: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 5 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of January 30 to February 3, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
MONDAY 30							
Eurozone	5:00	Consumer confidence – final	Jan.	-20.9		-20.9	
Eurozone	5:00	Economic confidence	Jan.	n/a		95.8	
Japan	18:30	Unemployment rate	Dec.	2.5%		2.5%	
Japan	18:50	Retail sales	Dec.	n/a	3.1%	-1.1%	2.6%
Japan	18:50	Industrial production – preliminary	Dec.	0.8%	n/a	0.2%	-0.9%
China	20:30	PMI manufacturing index	Jan.	50.1		47.0	
China	20:30	PMI non-manufacturing index	Jan.	52.0		41.6	
TUESDAY 31							
France	1:30	Personal consumption expenditures	Dec.	n/a	5.2%	0.5%	-5.2%
France	1:30	Real GDP – preliminary	Q4	n/a	1.0%	0.2%	1.0%
France	2:45	Consumer price index – preliminary	Dec.	n/a	n/a	-0.1%	5.9%
Germany	4:00	Real GDP – preliminary	Q4	0.0%	1.3%	0.4%	1.3%
Italy	5:00	Real GDP – preliminary	Q4	-0.2%	1.6%	0.5%	2.6%
Eurozone	5:00	Real GDP – preliminary	Q4	-0.1%	1.7%	0.3%	2.3%
Germany	8:00	Consumer price index – preliminary	Jan.	n/a	9.4%	-0.8%	8.6%
WEDNESDAY 1							
Italy	3:45	PMI manufacturing index	Jan.	49.5		48.5	
France	3:50	PMI manufacturing index – final	Jan.	50.8		50.8	
Germany	3:55	PMI manufacturing index – final	Jan.	47.0		47.0	
Eurozone	4:00	PMI manufacturing index – final	Jan.	48.8		48.8	
United Kingdom	4:30	PMI manufacturing index – final	Jan.	46.7		46.7	
Eurozone	5:00	Unemployment rate	Dec.	6.5%		6.5%	
Italy	5:00	Consumer price index – preliminary	Jan.	n/a	10.1%	0.3%	11.6%
Eurozone	5:00	Consumer price index – preliminary	Jan.	n/a	9.0%	-0.4%	9.2%
THURSDAY 2							
Germany	2:00	Retail sales	Dec.	n/a	-2.6%	1.1%	14.5%
France	2:45	Industrial production	Dec.	n/a	0.2%	2.0%	0.7%
United Kingdom	7:00	Bank of England meeting	Feb.	4.00%		3.50%	
Eurozone	8:15	European Central Bank meeting	Feb.	3.00%		2.50%	
FRIDAY 3							
Italy	3:45	PMI composite index	Jan.	n/a		49.6	
Italy	3:45	PMI services index	Jan.	50.9		49.9	
France	3:50	PMI composite index – final	Jan.	49.0		49.0	
France	3:50	PMI services index – final	Jan.	49.2		49.2	
Germany	3:55	PMI composite index – final	Jan.	49.7		49.7	
Germany	3:55	PMI services index – final	Jan.	50.4		50.4	
Eurozone	4:00	PMI composite index – final	Jan.	50.2		50.2	
Eurozone	4:00	PMI services index – final	Jan.	50.7		50.7	
United Kingdom	4:30	PMI composite index – final	Jan.	47.8		47.8	
United Kingdom	4:30	PMI services index – final	Jan.	48.0		48.0	

NOTE: In contrast to the situation in Canada and the United States, disclosure of overseas economic fi gures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 5 hours).