ECONOMIC NEWS

Canada: Labour Market Again Defies the Gravity of Higher Rates

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HIGHLIGHTS

- In yet another solid month, net total Canadian employment rose by 35k in March, roughly split between full-time and part-time positions.
- However, gains were concentrated in transportation and warehousing (+41k), business, building, and other support services (+31k), and finance and insurance (+19k). Those increases were eroded by losses in construction, natural resources and a broad group of other sectors.
- The unemployment rate again held steady at 5.0%—still near all-time lows—while the participation rate edged lower to 65.6%.
- Total hours worked climbed by 0.4% in March to sit 1.6% above year-earlier levels. That built on jumps of 0.8% and 0.6% in the prior two months.
- Advances in hourly wages—important for the Bank of Canada in its assessment of wages' inflationary impacts—edged lower to 5.3% y/y.
- Ontario (+21k) and Alberta (+14k) accounted for the vast majority of hiring, while other provinces were mostly flat. Quebec's unemployment rate edged up to 4.2%, but that rate remains close to the lowest ever recorded in the province.

COMMENTS

Another month, another strong labour market print in Canada. There is increasing evidence that sharply higher rates are biting and weakness is increasing in the global economy, but momentum in full-time hiring, hours worked, and wage growth persisted in Canada in March. That said, the job gains in March were highly concentrated in a small number of sectors, so it's best not to read too much into the print.

IMPLICATIONS

The strong data print suggests that early-year economic momentum continued into March. As a result of the stronger-than-anticipated result, our tracking of Canada's Q1 2023 GDP growth now stands at nearly 3% (q/q annualized). That remains considerably stronger than the 0.5% penciled in by the Bank of Canada for the first three months of 2023 in its last Monetary Policy Report.

Nonetheless, we still think the Bank is most likely to continue to hold rates steady at next week's meeting as it waits for the delayed effects of already completed hikes to arrive. But the robustness of today's employment and wage gains are clearly inconsistent with the 2% inflation target. After today's report, we suspect that policymakers will keep the door open for more hikes down the road.

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