Canada: Strong Job Creation and a Lower Unemployment Rate

HIGHLIGHTS

▶ The Canadian labour market saw 54,100 jobs created in July, growth that solidly outstripped expectations.

▶ Combined with the 31,800 jobs gained in June, the hike in employment in July translated into an increase in the six-month moving average (which provides a better indication of where employment is headed). The six-month moving average climbed back to 20,800.

▶ The public sector stood out with an increase of 49,600 jobs in July. Significant gains were reported, in particular, in educational services (+36,500) as well as in healthcare and social assistance (+30,700).

▶ The private sector created only 5,200 jobs.

▶ The unemployment rate decreased from 6.0% to 5.8%, once again reaching its historic low (since 1976).

▶ The annual change for the average hourly wage fell to 3.2%, compared with 3.6% in June. The pace of growth remains nevertheless extremely high from a historical standpoint.

COMMITS

After a difficult April and May, the strong job creation recorded in June and July can be seen as a catching up that allowed the labour market to resume its trajectory. As a result, the average monthly change in employment since April has now reached 19,300 jobs, a figure similar to the average for the six previous months.

The employment trend is once again in line with the economic growth noted recently throughout the country. According to our most recent forecasts, the second quarter is expected to show a hike in real GDP of nearly 3.0% (annualized), which will bring the annual change to around 2.0%. Historically, this kind of economic growth is joined by an increase of approximately 20,000 jobs per month. This should be enough to cause the unemployment rate to dip below its historic level of 5.8%.

IMPLICATIONS

Given the expected drop in the unemployment rate and labour shortages, upside pressures on wages may continue during the coming months. With the risk of inflation that this poses, and given the positive economic news, the Bank of Canada is expected to be open to raise key interest rates once again as early as October.

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