

Canada Watch

Wage growth finally heading in the right direction

Key takeaways

- Net change in employment was 40.7k in Feb, with +70.6k full-time jobs. Unemployment rose to 5.8%, wage growth fell to 4.9%.
- The BoC will like the drop in wage growth and rise in unemployment. We expect a BoC cut in June. Risk is for a later cut.
- On rates, we expect CA 2y to rally vs. the US if BoC signals faster cuts. On FX, CAD weakened vs. G10 FX after Fed jobs data.

Full-time employment drove job creation

Net change in employment was above expectations at 40.7k (E. 20k, BofA 25k) (Exhibit 1, Exhibit 2). The print was driven by an increase of +70.6k full-time jobs but was partially offset by a loss of -29.9k part-time jobs. By class of worker, public sector jobs and self-employed increased +18.8k and +38.3k, while private sector jobs decreased -16.4k. The employment rate fell for the fifth month in a row, which is now at 61.5% from 61.6% a month ago, as population growth (0.3%) outpaced employment growth (0.2%) (Exhibit 3, Exhibit 4). We continue to see the impact of immigration on labor.

Services sector continues its relative strength

The services sector gained 46.9k jobs, with accommodation and food services leading the growth (+26.2k) followed by professional, scientific, and technical services (+17.9k). These were partly offset by educational services, which lost -17.0k jobs. On the other hand, the goods sector lost -6.3k jobs, mostly driven by manufacturing (-13.9k) and offset by construction (+10.5k), which shed jobs in the past two months (Exhibit 5, Exhibit 6). While building permits rebounded in January (+13.5% mom), we would need to see further job creation in construction to tell if the industry is recovering.

Wage growth is now below 5.0% yoy

The unemployment rate increased to 5.8% (E. 5.8, BofA 5.8%) from 5.7% a month ago. Unemployment has hovered around the 5.7% to 5.8% range since October last year (Exhibit 7). The participation rate remained stable at 65.3% (Exhibit 8) after falling for the past two months. Permanent employees' wage growth decelerated to 4.9% yoy (E. 5.1%) from 5.3% a month ago. This print puts wage growth in the desired 4-5% range by the BoC (Exhibit 9). We expect the unemployment rate to keep increasing in the following months given that [the economy is growing below potential](#).

BoC: Wage growth easing will help lower inflation

The labor report for February was mixed: job creation was strong and was mainly driven by full-time jobs, but unemployment increased, and wage growth eased significantly. The report shows that the labor market seems to be slowly getting less tight. The BoC will like the fall in wage growth, given that wages, along with core inflation stickiness, were cited as one of the main obstacles to inflation reduction (and thus, to rate cuts). This is in line with our view that the [BoC will cut later in the year](#) (first cut in June). The main risk to our call is that the BoC decides to wait a bit more and cuts in July.

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E.: Bloomberg consensus estimate

BoC: Bank of Canada

StatCan: Statistics Canada

yoy: year-over-year

sa: seasonally adjusted

nsa: not-seasonally adjusted

Rates: Market still underpricing cuts

The mixed employment data drove the rally in CA rates. The move was led by the front-end of the curve and increased the spread between CA and US 2y rates to 44bp, still below this year's peak of 52bp. We expect the spread to increase further as the cutting cycles come into clearer focus. Market pricing appears to interpret the data as consistent with a soft landing. BoC OIS is now pricing in roughly 5bps more of cuts in 2024, for a total of ~85bps. The market has ~18bps priced in for June, or about a 72% probability of a June start to the cutting cycle. We see room for front-end CA rates to outperform the US if the BoC signals it can cut faster. If BoC starts in June and guides towards 25bp per meeting, we would expect CA 2y rate to rally vs the US. We forecast 5 BoC cuts in 2024 vs 3 for the Fed.

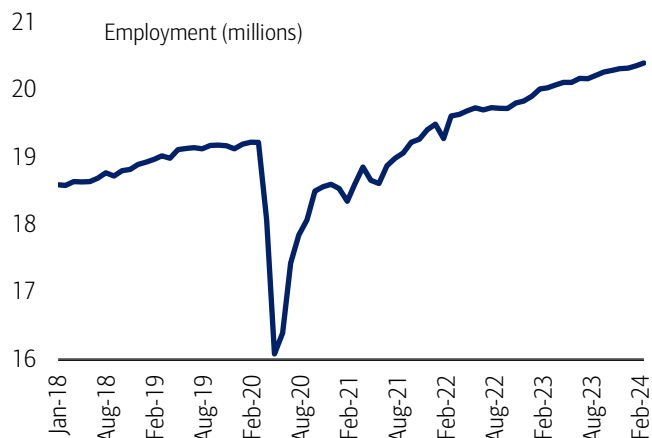
CAD: Weaker on the crosses

CAD has generally underperformed vs G10 FX following the Feb jobs data, shedding some of the recent gains post-BoC (Exhibit 10). The JPYCAD has gained the most amid an ongoing unwind of the JPY-funded carry trades into March BoJ. Other high-beta FX currencies have gained with GBPCAD, NZDCAD and AUDCAD outperforming, consistent with our latest bullish quant signal for GBPCAD ([FX Quant Insight, 4-Mar-2024](#)).

Although CAD has broadly underperformed on the crosses because Canadian wages showed disinflation, USDCAD did not move much because USD had simultaneously weakened on the release of negative US payrolls revisions. We look for USDCAD to stay rangebound around 1.35 into month-end, given offsetting data, while we continue to expect more material CAD appreciation to take place in H2 '24.

Exhibit 1: Level of employment

Employment surprised to the upside with 40.7k jobs added in February

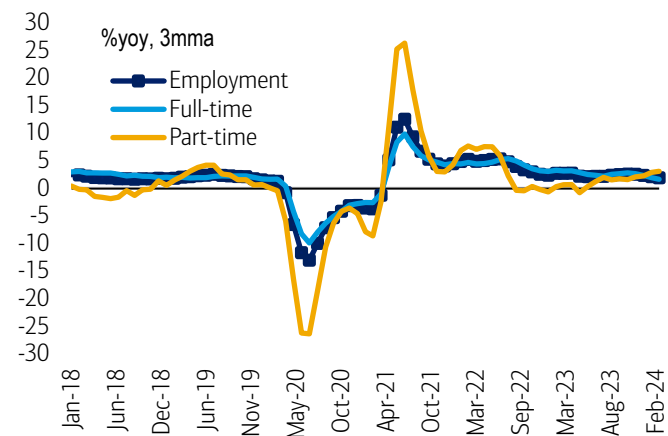


Source: BofA Global Research, Stat Canada

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Exhibit 2: Employment growth (%yoy)

Full time jobs led the growth in February

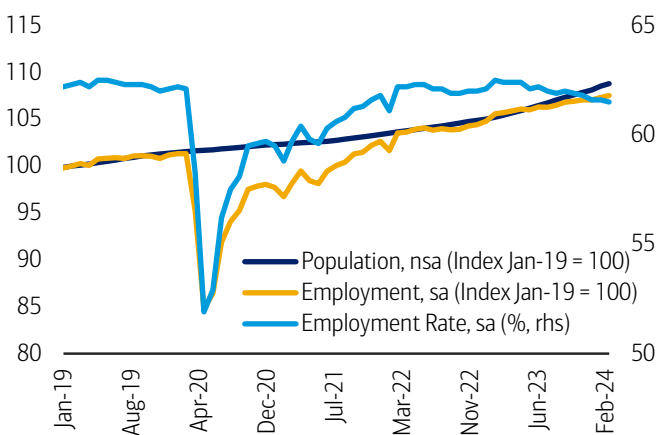


Source: BofA Global Research, Stat Canada

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Exhibit 3: Population & employment growth, and employment rate

Employment rate fell further, propelled by the boom in population growth

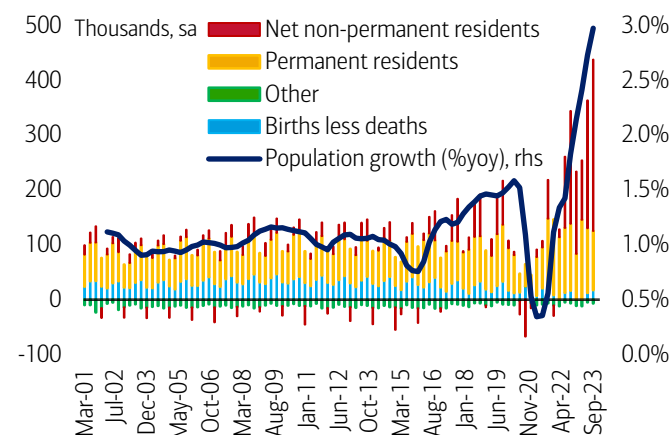


Source: BofA Global Research, Stat Canada

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Exhibit 4: Contributions to population growth

Since 2021, Canada has experienced an immigration boom

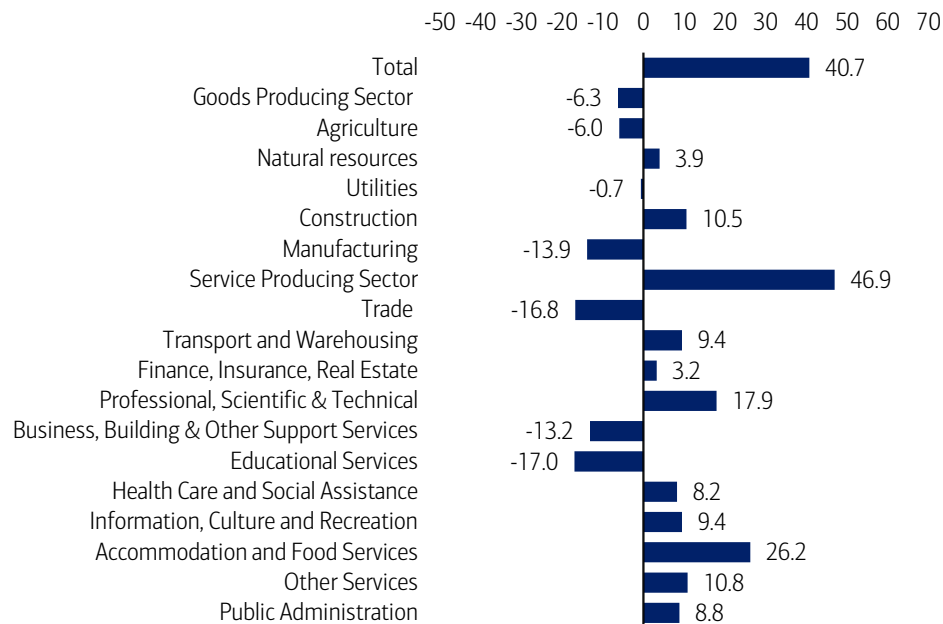


Source: BofA Global Research, Stat Canada

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Exhibit 5: Employment growth by industry

Most of all services subsectors grew, while most of the goods subsectors fell



Source: BofA Global Research, Stat Canada

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Exhibit 6: Employment growth heatmap

The goods sector has fallen for three straight months, while the services sector keeps with strength

Component	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
Total	40.7	37.3	6.8	24.4	23.9	50.7	51.0	-4.9	57.5	1.0	38.1	41.5	17.9
Goods Producing Sector	-6.3	-23.0	-32.9	36.5	7.8	-7.7	6.7	-36.7	-0.7	28.7	6.0	-20.4	7.2
Agriculture	-6.0	-5.8	-12.8	-3.9	3.0	-0.4	-8.6	8.5	-5.3	2.5	-2.1	-3.0	-1.3
Natural resources	3.9	-1.5	2.2	-1.8	2.9	-1.4	3.7	0.2	2.9	1.5	2.4	-8.7	3.7
Utilities	-0.7	-3.0	4.6	2.1	-1.3	-1.3	-1.6	0.6	-1.2	3.8	-2.9	0.3	5.6
Construction	10.5	-6.6	-15.1	18.6	17.3	-9.6	32.6	-48.3	-8.7	0.0	5.6	-6.5	-6.5
Manufacturing	-13.9	-6.2	-11.8	21.5	-14.2	5.3	-19.6	2.3	11.6	21.0	2.9	-2.5	5.8
Service Producing Sector	46.9	60.4	39.6	-12.0	16.1	58.3	44.5	31.8	58.1	-27.8	32.2	61.9	10.8
Trade	-16.8	31.3	-15.9	-24.3	-17.3	-9.8	3.3	-0.1	35.7	-19.2	20.2	-0.6	-4.5
Transport and Warehousing	9.4	19.9	-8.9	6.9	3.8	17.6	13.1	-11.7	12.5	-8.9	17.4	32.6	6.3
Finance, Insurance, Real Estate	3.2	28.1	5.7	-14.8	-8.5	-15.5	-17.4	13.1	7.4	-1.3	-8.7	16.8	-7.2
Professional, Scientific & Technical	17.9	-16.5	36.2	2.7	4.1	9.7	42.2	-4.0	-1.9	-8.3	-3.9	6.5	-4.5
Business, Building & Other Support Services	-13.2	16.0	-11.5	4.7	-2.4	2.1	6.5	1.8	-5.2	-22.2	-17.7	30.6	-8.5
Educational Services	-17.0	27.7	1.2	-1.2	3.4	33.7	-15.6	18.3	-12.4	5.6	12.6	2.2	-6.5
Health Care and Social Assistance	8.2	-13.4	16.9	12.0	10.6	1.8	6.1	24.3	16.7	-2.0	3.0	-8.9	12.4
Information, Culture and Recreation	9.4	-12.8	-1.6	3.5	18.0	-7.8	2.0	-12.8	6.5	0.1	14.9	2.0	-6.3
Accommodation and Food Services	26.2	-30.3	-0.9	-2.4	-5.0	9.5	-1.7	5.8	-1.8	16.5	-3.5	-8.9	10.5
Other Services	10.8	-5.6	11.1	1.3	2.7	3.9	15.8	7.9	-4.1	10.9	-2.1	-8.8	7.2
Public Administration	8.8	15.9	7.3	-0.3	6.7	13.1	-9.9	-10.7	4.6	1.3	-0.2	-1.8	12.0

Source: BofA Global Research, Stat Canada, Haver

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Exhibit 7: Unemployment rate

Unemployment rate rose to 5.8% in February, up from 5.7% a month ago

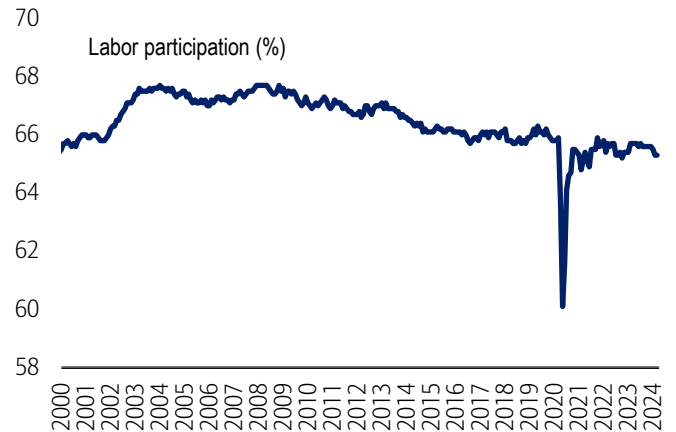


Source: BofA Global Research, Stat Canada

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Exhibit 8: Participation rate (sa, %)

The participation rate remained unchanged at 65.3% in February

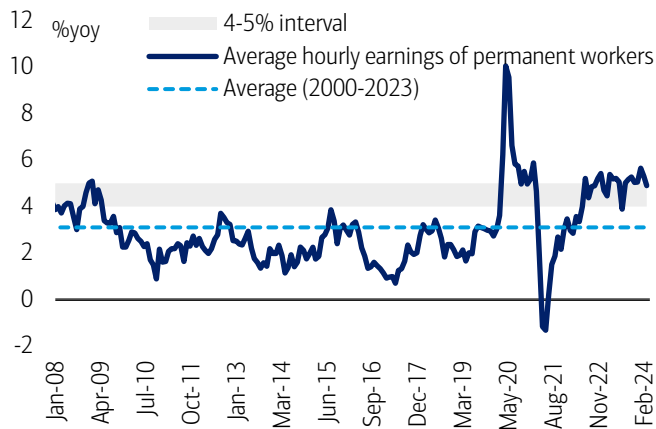


Source: BofA Global Research, Stat Canada

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Exhibit 9: Average hourly earnings of permanent workers

Wage growth fell to 4.9% and now is within the 4.0-5.0% interval

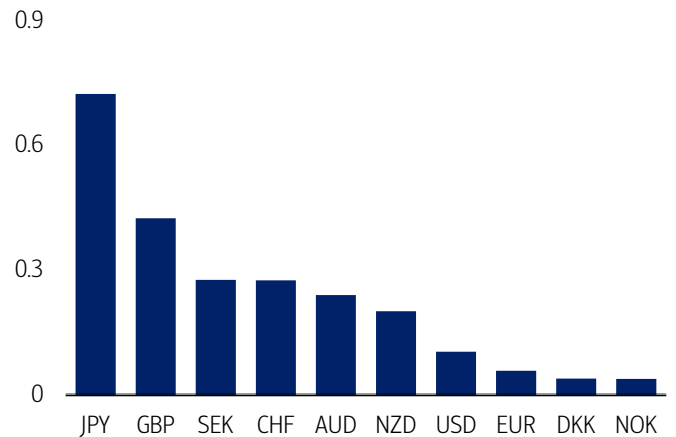


Source: BofA Global Research, Stat Canada

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Exhibit 10: CAD has underperformed G10 currencies after jobs data

1d spot returns of foreign currency vs CAD



Source: BofA Global Research, Bloomberg

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