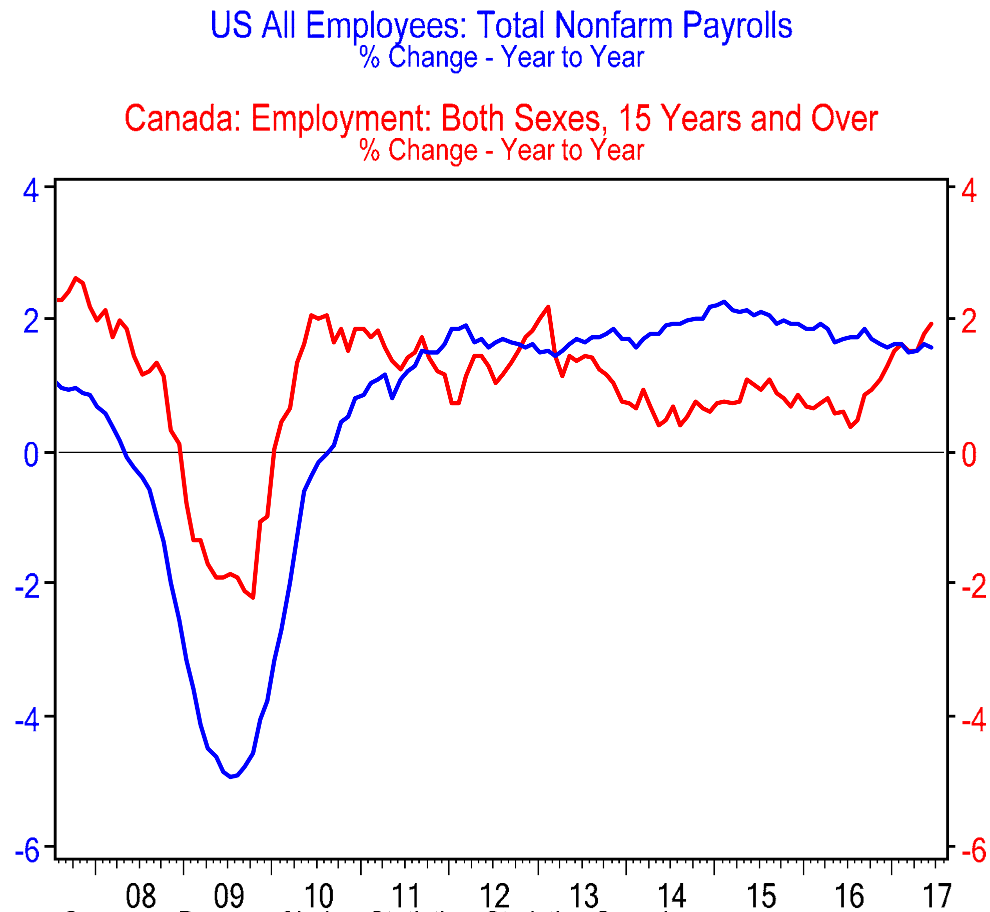
Job Growth: Two Trends Converge

Douglas Porter, CFA, Chief Economist
douglas.porter@bmo.com • 416-359-4887

The crackling June employment gain in Canada lifted the annual growth rate to a hearty 1.9% y/y. That's not far from the recovery peak of 2.2%, and a big upswing from the modest annual gains of less than 1% in each of the past three years (all dragged down by the oil collapse). It also lifted the pace of job growth above the U.S. for one of the few times since 2011. Part of the reason Canadian job growth trailed for years was that the U.S. was climbing out of a much bigger recession hole. Even though Canada's employment/population ratio is still higher, it appears that the period of job-growth catch-up is now over.

From the U.S. perspective, note that even with the sturdy gain in June payrolls, underlying growth is still gradually ebbing. However, we don't see that as a big concern; there just aren't as many available workers as in recent years, and the slowdown is very gradual. For example, the private sector has added 2.1 million jobs in the past 12 months, compared with 2.2 million in the previous 12 months.



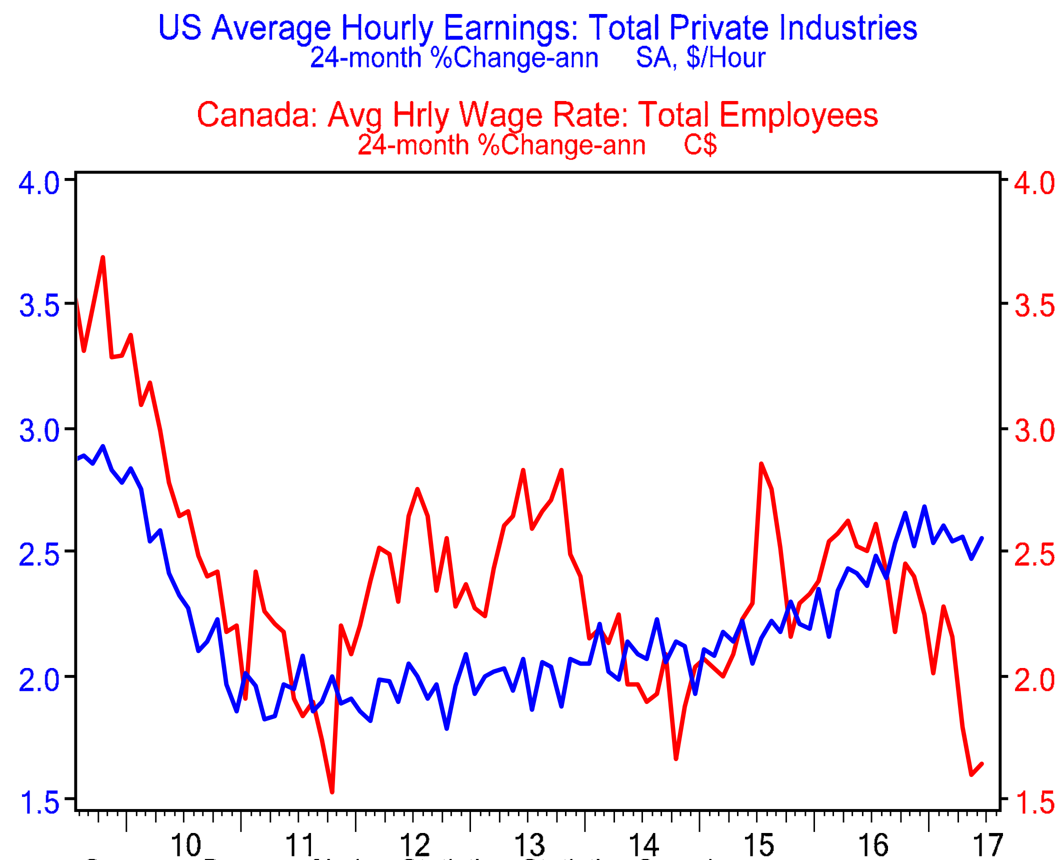
Sources: Bureau of Labor Statistics, Statistics Canada

Where the Weak Wages Wander

Douglas Porter, CFA, Chief Economist
douglas.porter@bmo.com • 416-359-4887

The U.S. June jobs report made few ripples in markets as the robust payroll result was largely offset by an uptick in the measures of slack (most notably the unemployment rate), but also because of yet another sluggish wage reading. Average hourly earnings are up "only" 2.5% y/y, and the prior month was revised a tick lower than that. But we would point out that this pace is still a bit above inflation (no mean feat these days), and the underlying trend is still grinding higher. For instance, the attached chart looks at the 2-year change (expressed at annualized rates), which takes out some of the wonkiness in monthly readings. It's pretty clear that the trend in U.S. wages has moved up from a sub-2% pace in the early years of the recovery to around 2.5% now. Not a huge move, but still significant.

On the other hand, Canadian 2-year wage trends have collapsed to barely above 1.5%, after being above the U.S. pace for most of the recovery. This is a much bigger concern/issue than the modest cooling in U.S. wages in the past few months (which could just be a statistical quirk).

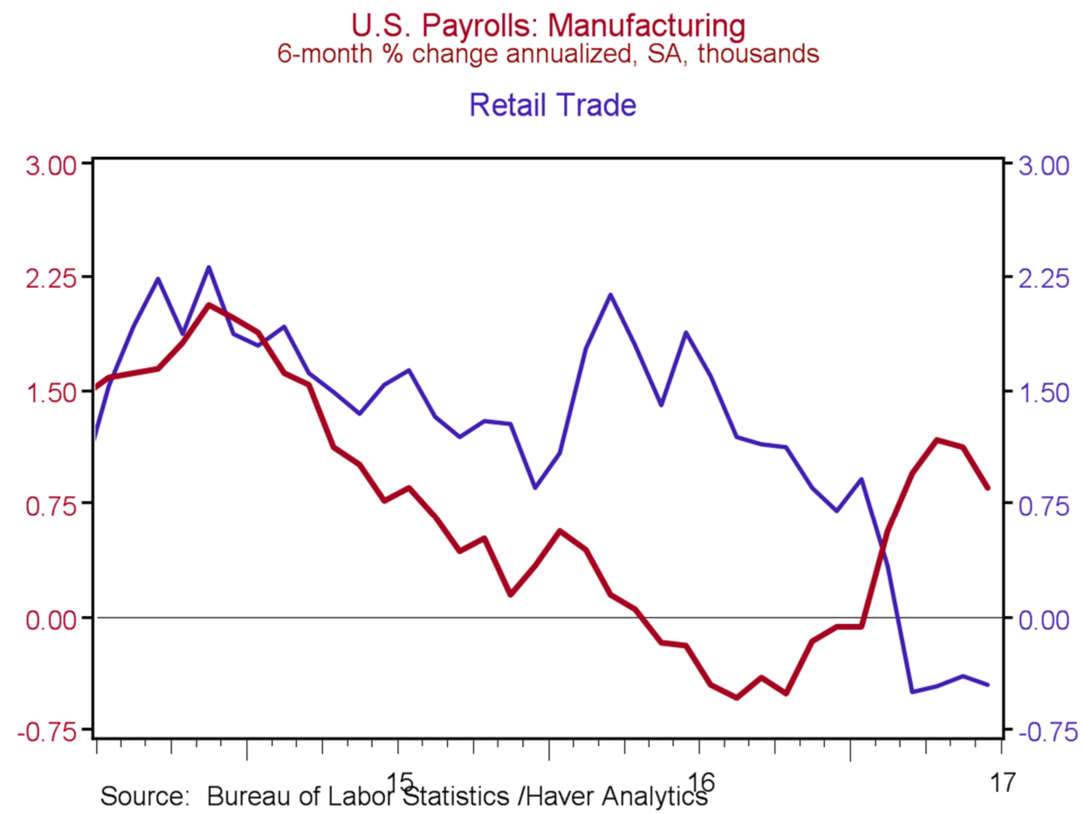


Sources: Bureau of Labor Statistics, Statistics Canada

U.S. Jobs: Factories Firing, Retail Reeling

Sal Guatieri, Senior Economist
sal.guatieri@bmo.com • 416-359-5295

The relative stability in U.S. job growth in the past year reflects: 1) solid performances in most industries, including construction, finance, professional and business services, education and health care, and 2) a recovering manufacturing sector (due to the steadier dollar and firmer global demand) countering layoffs in the retail space (due to aggressive online competition). To the extent that the latter was aggravated by a recent wave of chain-store closings (Sears, Kmart, J.C. Penney, Macy's, Radio Shack), some relative stability here could flag improved payrolls growth ahead.



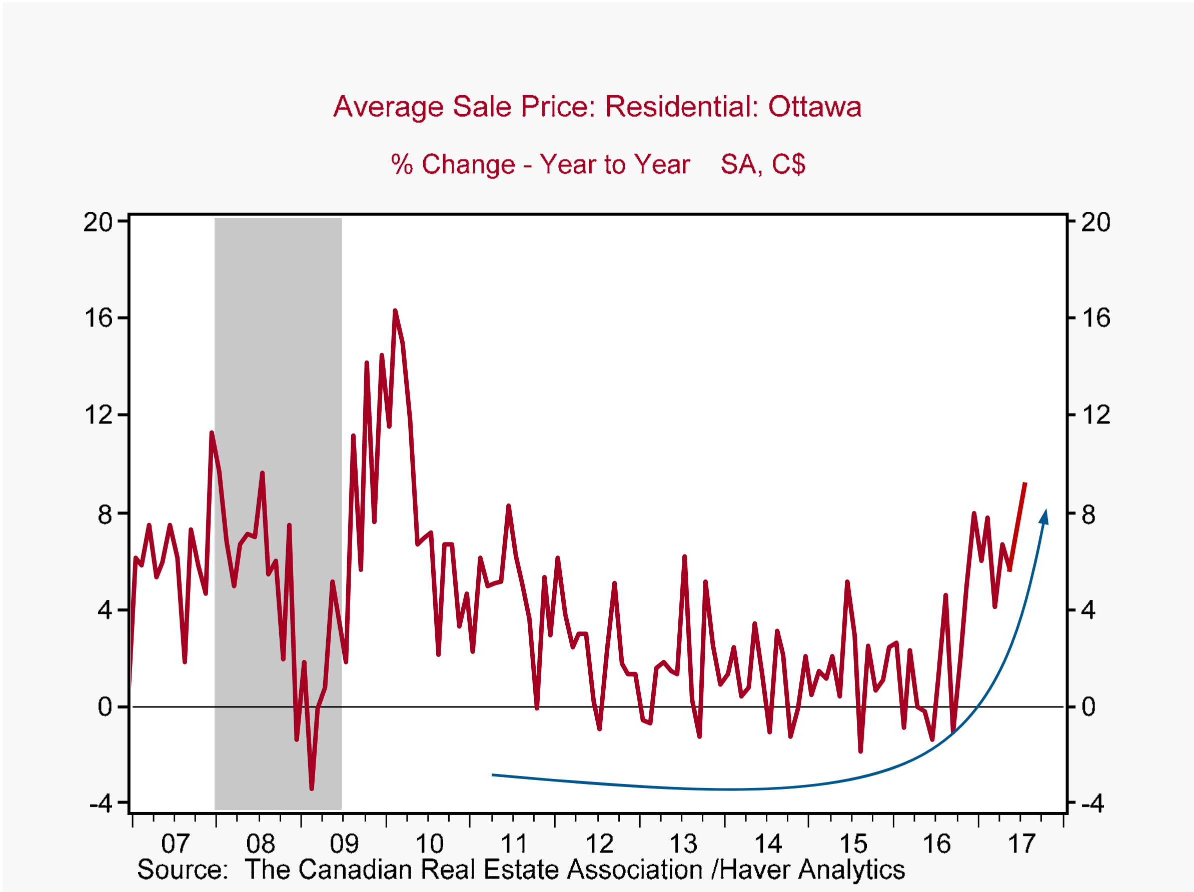
Ottawa Housing Train is Leaving the Station

Robert Kavcic, Senior Economist
robert.kavcic@bmo.com • 416-359-8329

For a while now, we've been ending many of our housing-related publications/presentations with something along the lines of: Watch Ottawa…that market is about to break out. Probably since, oh you know, about the time when the Federal government's promise of a temporary $10 bln deficit became more like $28 bln forever. Unfortunately for contrarian investors, the city is also now *"Canada's best place to live"*, according to MoneySense.

Ottawa is unique in that, unlike it's counterparts in Vancouver and Toronto, the market has been stagnating for about five years even as mortgage rates have plunged to record lows (this was partly due to fiscal restraint under the prior government). Now, housing demand has done a U-turn and is rising quickly. On the supply side, there is still ample condo inventory after a recent building boom, but detached homes are quite scarce.

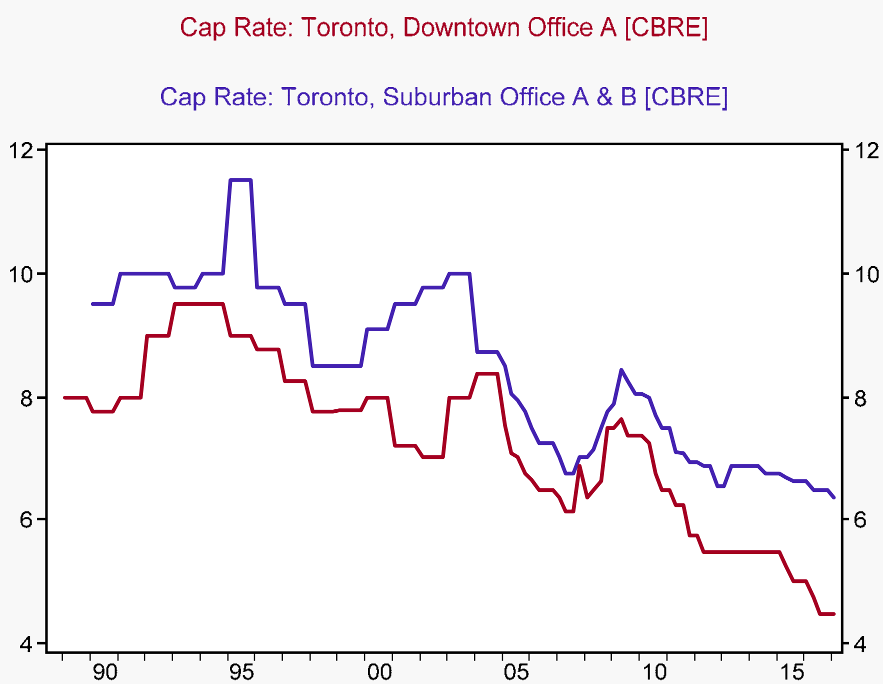
As such, prices have begun to break out in a noticeable way, with the average up almost 9% y/y in June. More on the way…



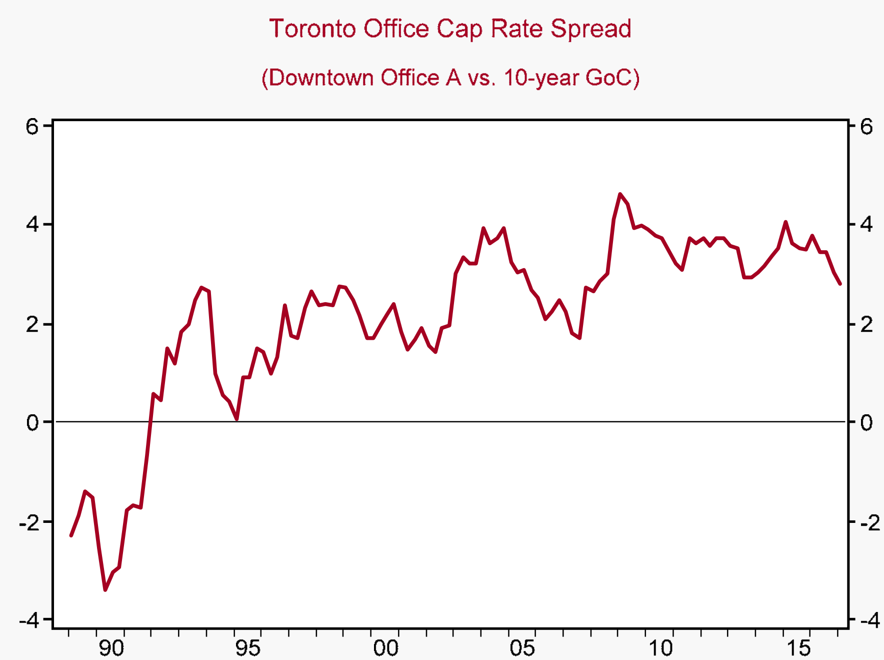
GTA's Other Real Estate Market Heating Up (as Expected)

Robert Kavcic, Senior Economist
robert.kavcic@bmo.com • 416-359-8329

There was media attention on Toronto's tightening office market, no big surprise given strong employment trends and the ongoing shift away from rural/manufacturing/export based industries into higher-tech and more service-oriented jobs. Note that cap rates in the office segment continue to compress, reflecting these improving fundamentals—rates for both prime downtown office space and suburban space hit record lows in Q1, according to CBRE's survey. Relative to GoC yields, however, cap rates remain quite juicy by historical standards, with a similar picture across much of the commercial market. Spreads in the apartment space are tightest, with average cap rates dipping to 4% according to the survey (and probably a bit lower in practice, depending on the quality)—this is still far from late-80s type of froth, but a reflection of the excessive strength in housing.



Source: CBRE Inc. /Haver Analytics



Source: Haver Analytics

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