

Cdn. Employment Report — July

Back to School Comes Early

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Canadian employment posted its biggest increase of 2018 with a 54,100 advance in July, well above expectations and well above the average monthly gain of roughly 20,000 in the past year. With only a modest rise in the broader labour force, this helped chop the **unemployment rate** back down by 2 ticks to 5.8%, matching the four-decade low that it had been bouncing around earlier this year. While extremely impressive on the surface, this gift horse is much **less robust in the details**. First, all of the gains were in **part-time jobs** (up a massive 82,000), the **public sector** accounted for almost all of the increase (+49,600), **wages** cooled (3.2% y/y for average hourly wages from 3.6% y/y), and much of the strength appears related to ongoing issues dealing with the seasonal adjustment in the **education** category (up 36,500). Other than that, the play was pretty good, with **total hours worked** up a solid 0.5% m/m and the job gains reasonably well distributed by sector.



Overall: **Our grading** of this report comes in at a **decent 59.5**

By sector: The big story, as it so often is in the summer with Canadian job tallies, is in **education**, where a reported 36,500 rise accounted for two-thirds of the total job gain. This factoid alone should cast some doubt on the underlying strength of today's report; there have been many instances in the past where big initial moves in education employment have been swiftly reversed in ensuing months (although admittedly most have been initial losses followed by whopping gains later on). Aside from that, all of the strength was in services, with health care (+30,700), info., culture & recreation (+12,100) and "other services" (+10,900) all flashing big gains. On the downside, almost all the goods-producing categories were in the red, with big drops in manufacturing (-18,400) and construction (-12,300). The pullback in factory jobs is in stark contrast to the recent run of strength in U.S. manufacturing --- while the latter has just posted its biggest 12-month rise since 1984 at +2.6% y/y, **Canadian manufacturing** is now down 1.4% y/y. Not good.

By region: **Ontario** was the runaway winner in July, with a hefty 60,600 surge. The service sector jumped 82,800, by far its largest monthly gain ever, with education leading the way with a 24,200 spurt (its second fastest increase ever). While we are dealing with superlatives, Ontario's public sector employment has reportedly seen a 9.5% spike in the past year, the second largest increase in more than 40 years of records. The new government will no doubt be taking a long look at that surge. Elsewhere, only B.C. saw much

Employment						
Canada (change in thousands)				(average change)		
	Jul	Jun	May	3-mo.	12-mo.	
Total	54.1	31.8	-7.5	26.1	20.5	
(month/month % change)	0.3	0.2	0.0	1.7 ¹	1.3 ²	
Full-Time	-28.0	9.1	-31.0	-16.6	17.5	
Part-Time	82.0	22.7	23.6	42.8	3.0	
Goods Producing	-36.5	46.6	-29.0	-6.3	2.4	
Manufacturing	-18.4	11.3	-18.3	-8.5	-2.0	
Construction	-12.3	27.2	-13.0	0.6	2.9	
Service Producing	90.5	-14.7	21.5	32.4	18.1	
Trade	7.1	-14.0	3.1	-1.3	-3.3	
Unemployment Rate (%)	5.8	6.0	5.8	5.8 ³	6.3 ⁴	
Avg. Hourly Wages (y/y % chng)	3.2	3.6	3.9	3.6 ³	1.3 ⁴	

¹ (3-mo. % change : a.r.) ² (y/y % change) ³ (3 mo. ago) ⁴ (12 mo. ago)

strength (at +11,200), while five other provinces actually recorded moderate job losses last month. On jobless rates, the big mover again was Ontario, where the unemployment rate plunged 5 ticks to 5.4%, taking it below Quebec's 5.6% and leaving it with the second lowest in the country (above only B.C. at 5.0%).

Bottom Line: Today's job report is a classic case of "nice headlines, shame about the details". While we would still give the overall result a passing grade, it's tough to get overly enthusiastic given 1) the highly suspect spike in education jobs, 2) the weakness in manufacturing, 3) the concentration of the gains in Ontario, and 4) the cooling in wages. Still, the labour market remains robust and there is easily enough here to convince the Bank of Canada to maintain its gradual tightening campaign --- there's just not enough to get it to accelerate the schedule.

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