

Canadian May employment report. More jobs and better jobs.

Net employment up 25K, full time jobs jump by 67K positions.

Canada's employment report for the month of May shows the economy generating an additional 25K positions, comfortably ahead of the market median looking for 15K and our own forecast looking for 10K. Its a nicely built cake with a thick layer of full time jobs +67K offset by a decline in part time employment -42.5K. In keeping with the theme of economic recovery, the churn in part time for full time jobs is indicative of the improved job prospects that comes with economic recovery.

Those part time jobs that were taken in lieu of more suitable employment are giving way to more suitable full time jobs. So too may it be the case that part time jobs have evolved into full time positions as companies respond to increased economic activity. So too can the shift from self employment (-28.0K) on over to more formal employment (+52.8K) be seen in this light of economic recovery and its ability to pull workers back into the labor force fold.

The unemployment rate at 8.1% although unchanged from the previous month is back of the high of 8.7% from August 2009 but well ahead of the lows in the area of 6% that prevailed in the run up to financial contagion and onset of economic recession. A 0.1ppt rise in the participation rate to 67.3 combined with the natural growth in the labor force (combined effects caused the labor force to grow by nearly 33K workers) fully offset the net gain in employment.

Pity the youth. Statcan says that 54K more students aged 20 to 24 were employed in May 2010 vs the previous year. Anecdotally, its summer time and student jobs are wanting. In the current report, youth employment fell by 1.3K jobs. Instead, jobs growth in May was led by women over the age of 55. Statcan indicates that the bulk of the jobs growth since the recovery in employment began in earnest in July of 2009 had come in the men aged 55K and older category. Its an aging population. Alberta and Ontario primary beneficiaries in May but in percentage terms Newfoundland takes the prize (its a seasonal economy).

What's the chief take away for the market. The fact that the Canadian economy was able to continue adding jobs onto April's jobs juggernaut when the economy tacked on nearly 109K jobs. On its own, that wouldn't have been a half bad number for the US economy with a labor force 10 times the size of Canada's. Statcan points out that since July of 2009, the economy has churned out 310K jobs (a third of which arrived just last month). Over the same period the labour force grew by 240K. So indeed the Canadian economy is making some headway in terms of sopping up excess labor but there is still considerable wood to be chopped through when considering that the labor force continued to growth throughout the down turn. Recall that during the worst of the recession, between July 2008 and July 2009, the labor force grew by 174K people. There is still considerable excess capacity sloshing about.

Average hourly wages rose 2.4%, ahead of April's 2.0% but in keeping with recent trends.

Job mix is interesting in May. Overall in May, goods producing jobs fell by nearly 8K positions while service sector jobs grew by a little over 32K. Some shedding of what looks like Olympic related jobs with the accommodation and food services, information, culture and recreation bearing the burnt of jobs losses in May (combined, 47K jobs lost in those two categories).

Given that the weight of the economic recession fell on the goods producing sector, at its worst (peak Sept/08 to trough Aug/09) the goods producing sectors had shed 392K jobs. By contrast services, well services beyond the margins really didn't see much in the way of downsizing despite a significant run up in employment numbers prior to recession. To wit, year over year, service sector jobs are up 241K while goods producing positions are up a comparably paltry 43.3K. The changing face of the Canadian economy. Since the 1970's there has been an evolution in the shape of the economy, one that like most of the developed world's economies (save Japan and Germany) have been downsizing goods industries and moving towards service/knowledge based economies.

Just as the BoC views everything through its inflation prism, so too does the market tend to view everything through the prism of the employment report. In the case of today, for the market, the BoC decision to raise rates on Tuesday would be justified by the May picture on employment. It is a corrupted view relying so heavily on a lagging indicator but it does seem to be the market tendency none-the-less.

Disclosure appendix

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