LAURENTIAN BANK

October 6, 2023

Sébastien Lavoie,
Chief Economist
LavoieS@vmbl.ca
514 350-2931

Salim Kharoubi Zanzana,
Economist
ZazanaSK@lb-securities.ca
437 219-3304

North American Job Markets — September: Job Growth Accelerates

U.S. Nonfarm Payrolls — September: U.S. labour market dynamics remain too strong, conditions too tight.

In respect to short-term dynamics, nonfarm job creation accelerated for a second consecutive month to reach 332K, a figure like what we saw a year ago when the U.S. Federal Reserve was in the mood of jumbo hikes. After 12-18 months since the tightening cycle began, the U.S. Federal Reserve is still facing difficulties in reducing the robust activity in services sectors. These added 234K jobs in September alone relative to August. The health care sector, less sensitive to the business and interest rate cycles, continues to add more than usual workers. At the same time, employment in the cyclical leisure and hospitality sector rose 96K month-over-month, another sign that U.S. consumers remain resilient.

The low 3.8% unemployment rate is the simplest way to describe tight conditions, in part due to higher-than-usual baby boomers retiring post-pandemic. Researchers at the Federal Reserve of St. Louis estimated the excess retirees relative to trend to be 2.4M between 2000 and last Spring, contributing to keep unemployment low. This structural shift has also contributed to keeping the participation rate below pre-pandemic levels, at 62.8%. Overall, most of the rebalancing in job market conditions has been gentle as Fed Chair Powell noted during his last press conference. Namely, job postings fell significantly (-800K y-o-y despite the uptick in August to 9.6M) while unemployment only edged up from 3.5% a year ago.

The U.S. Federal Reserve may not have the choice but to hike one more time in early November even if average hourly earnings came in at 0.2% m-o-m for a second consecutive month instead of 0.3%. Despite this silver lining, we remain cautious before calling the end of overshooting 0.3% monthly increases in wages, which translate into 4%+ year-over-year figures. Indeed, human resources departments of companies recently surveyed by Payscale and Mercer intend to offer wage base increases of 3.5% and 3.8%, respectively, in 2024. Furthermore, US President Joe Biden offered a 5.2% increase to federal employees in 2024, the largest jump in four decades. Also, Ford workers will see a pay raise of 10%, which should spillover to the rest of the manufacturing sector according to research from the U.S. Economic Policy Institute. Altogether, higher-than-expected wage inflation recently led us to revise up our U.S. and Canadian 2024 CPI inflation outlook by a few percentage points, now closer to 2.5% than 2%.

Canadian Labour Force Survey – September: The uptrend in employment accelerated with a very solid 64K net gain during the month of September. Unemployment stayed at 5.0% since new entrants keep labour force growth in the fast lane. An employment rebound occurred in specific sectors. First, employment in educational services soared by 66K month-over-month as teachers returned to work, more than reversing the 44K decline of August. Second, the rebound in merchandise trade activity following disruptions caused by the B.C. ports strike contributed to the increase in transportation and warehousing employment (+19K month-over-month). Also, manufacturing employment advanced by 9K, reversing almost one-third of the observed decrease in August.

Part of these sectoral rebounds have contributed to the 48K net gain in part-time positions, reversing the cumulative 50K decline in this segment since June. This larger-than-usual contribution from part-time employment led to a tiny 0.2% month-over-month reduction in total hours worked. Another disappointment relates to the absence of net job gains in the private sector for a third consecutive month, while public sector employment (+37K) and self-employment (+26K) led the way in September. Altogether, these soft spots lead us to retain our call that the Bank of Canada will not hike further even if wage inflation is running hot. Indeed, average hourly wages re-accelerated in September by a hefty 1.6% month-over-month and to 5% on a year-over-year basis, led by unionized workers partially catching-up with the non-unionized cohort where wage growth has been faster. This sign of overheating will disappoint the Bank of Canada. Recent HR surveys and new contract negotiations also point to wage increases close to 4% in 2024.

On a provincial basis, tight global oil conditions have contributed to keeping Alberta's job creation in the very fast lane. BC remains an underperformer in respect to labour market conditions even if the province registered its best monthly net gain in a year. Employment in Quebec recovered almost all the small losses it registered in the previous two months. Ontario's short-term dynamic is different: employment almost stalled during the last two months after adding plenty of workers earlier this year.

Sébastien Lavoie | Chief Economist
514 213-4571| LavoieS@vmbl.ca

Salim Kharoubi Zanzana | Economist
437 219-3304 | ZanzanaSK@vmbl.ca