LAURENTIAN BANK

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Canadian and U.S. Labour Markets – 2022 Year-End Review and 2023 Outlook

The year 2022 ended on a bright note for Canadian and American workers. Short-term economic momentum is too strong to call for the end of efforts from North American central banks trying to restore price control. We estimate the peak impact of the monetary tightening cycle to occur in 23Q2 and Q3. Combined with the emergence of softening in a few segments of labour markets, we predict an acceleration in the deterioration of job market conditions.

Canada Labour Force Survey – The remarkable December monthly gain of 104K in total employment, a 0.5% jump, was led by a rebound in youth employment (+65K) mostly located in Ontario (+42K), both recovering after softness during the Fall. The concentration of job creation in lower-paid industries such as food & accommodation contributed to ease the year-over-year pace in average hourly earnings to 5.2% in December, similar to where it stood mid-year prior to the brief peak of 5.6% registered during the Oct-Nov. period. Total hours worked were unchanged during the month despite the surge in full-time employment (+85K) as job gains occurred in a few services industries where people work fewer hours per week than on average (35hrs) while employment fell in the natural resource sector where people work 46 hours per week. As for 2023, the Canadian Federation of Independent Businesses (CFIB) gives a glimpse of hope for easing in job conditions as companies plan to increase wages by 2.9% in the next year according to the latest December survey, lower than the 3.6% peak registered mid-2022. A smaller % share of companies (20%) looks to hire during the next 3-4 months than before while companies looking to cut staff has not increased at this stage. Given our expectations that the deepest real GDP contraction will occur in 23Q2 and Q3, layoffs will unfortunately gain ground as the year unfolds although the large 900K job postings buffer will facilitate the transition of newly unemployed to a different occupation. Altogether, we forecast Canadian unemployment to increase mildly from the December low mark of 5.0%, surpassing 6% at the latest during 2023H2. In summary, the solid momentum in employment and wage growth will contribute to delay the impeding recession to 23Q2 and will force the data dependent BoC to continue its tightening journey with at least a 25bps hike on January 25th. Risks are tilted toward a 50bps move given stickiness in CPI inflation and labour market resiliency, if not a combination of 25-25 incremental steps at the late January and mid-March meetings.

U.S. NFP - Trends and levels are two different things. Using a 3-month moving average, monthly changes in NFP have been trending down from 637k in December 2021 to 247k last month. For the Federal Reserve, the December 2022 gain of 223k remains too strong given its attempt to cool the economy. This 223k figure represents an increase of 0.15% in NFP while the average monthly increase during the 2010's business cycle expansion stood at 0.13%. Private service-providing sectors added 180k jobs last month, one area of concern for the Federal Reserve trying to cool down CPI inflation services ex. shelter. The same story goes for U.S. wage inflation measured by the year-over-year % change in average hourly earnings: while the 3-month moving average declined from last May (5.5%) to 4.7%, it runs hot relative to the 2010's average of 2.4%. In addition, revisions of seasonally adjusted household survey data did not provide any significative change in unemployment rate figures reported in 2022. At 3.5% last month, down by a sizeable 0.2pp from November, unemployment is back to the lows of 2022 and to the pre-pandemic figure recorded in February 2020. As for 2023, the slow cooling in labour market conditions is poised to accelerate. The November Job Openings & Labor Turnover report showed the continuation of openings, quits and hires trending down. Hires and quits lead the business cycle and tend to be inversely correlated with layoffs, the latter being associated with business cycle weakness. Also, according to the December NFP report, jobs were lost for the fifth consecutive month in the temporary help services industry. Historically, this downtrend is a precursor of recessions. We foresee layoffs & discharges to go up during 2023 as the recession starts to unfold in 23Q2. All in all, considering the softening momentum in US labour market conditions, lags in monetary policy, and the risk of CPI inflation overshooting, we see the U.S. Federal Reserve going further in restrictive territory with a 50bps hike in early February and 25bps hike mid-March.

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