LAURENTIAN BANK SECURITIES

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North American Job Reports – November

North American job markets, the ultimate stronghold for the moment in a very challenging economic environment, have been softening in terms of momentum, fitting with the consensus that the end of the business cycle is coming. In level terms, job market conditions remain very solid because there are not enough major cracks at this stage, something that should change in 2023.

Canadian LFS – The BoC mentioned in its October *Monetary Policy Report (MPR)* that strong labour market indicates substantial excess demand in the Canadian economy. This statement remains extremely valid today. As the BoC already highlighted, the pace of job creation has been softening. It reached a low gear in November: 10K net addition relative to the previous month. Only 4K jobs have been added per month, on average, during the last six months. One big problem is that wage inflation has failed to soften: average hourly earnings of all employees, a very good tracker of core CPI inflation, accelerated by 0.1pp to 5.6% in November. The doves may point out that the short-term strengthening in wages has been driven by temporary employees rather than permanent ones this month. Regardless, wage inflation is materially too high. Furthermore, less than a month ago, Governor Macklem said "*we can afford to cool the economy without causing the surge in unemployment that we experienced in previous recessions*". It turns out unemployment sits near a 40-year low of 5.1%, down 0.1pp versus October, another element favouring a 50bps BoC hike next week instead of a smaller 25bps increase.

Earlier this week, the 2022Q3 Canadian real GDP report logically showed high interest rates bite sooner individuals and companies than job market conditions. Households continued to reducing spending and companies turned off modestly the tap on business investment. The headline real GDP positive growth figure of 2.9% q-o-q annualized was distorted by an unusually strong, temporary rebound in natural resource exports. Canadian real GDP momentum is approaching the stagnation point as we will soon flip the page to 2023 but a deeper contraction will be necessary to bring down CPI inflation sufficiently.

Fading momentum in demand and labour market conditions will contribute to cool off CPI inflation but there has been a lack of progress towards this goalpost since the BoC October decision. First, October CPI inflation sticking to 6.9% failed to moderate and core measures accelerated. Second, renewed COVID cases in China will exert global supply chain pressures, one risk highlighted in the October *MPR*. Thus, if we imagine for one moment the ongoing internal BoC constructive debate between a 25bps or 50bps hike next week, we wouldn't be surprised if the option of waiting to next January at least before reducing the pace of tightening to 25bps prevails.

US Job Report - A strong employment report, in contrast to the softer ADP, ISM and JOLTS reports earlier this week. ADP reported softening median wage growth for job switchers notably, JOLTS showed a slower pace of hiring and ISM indicated a soft contraction in manufacturing activity. Payroll employment increased 263K in November, above the

200k consensus, not materially different than job creation of previous months (September: 269K, October: 284K) but lower than the pace of job creation observed last spring and last summer. Private service-providing sectors added 184K jobs, while interest rates sensitive goods sectors saw a modest 37K increase. The manufacturing sector showed modest positive job creation marking a stark difference with the massive 100K job loss reported last Wednesday in the ADP report. Unemployment rate is unchanged at 3.7%, too low relative to a NY Fed study estimating the non-inflationary unemployment level near 6%. Thus, for the time being, wage inflation remains too high for FOMC officials. Following a revised 0.5% monthly gain in October from 0.4%, average hourly earnings increased 0.6% month-over-month in November. Accordingly, average hourly earnings stood at 5.1% year-over-year, in line with the 2022 average. All in all, despite the above consensus NFP figure today, there has been a gradual softening of US job creation during the year and it wouldn't surprise us that the future NFP reports will be more in line with the more abrupt negative trend noticed in the alternative ADP and JOLTS job reports.

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