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

May 5, 2023

North American Job Reports – April:

Lack of Rebalancing in Labour Market Conditions Central Banks Are Hoping For

United States – The pace of layoffs has softly increased this Spring because the decline in earnings per share reported by S&P500 companies is modest rather than moderate. At the same time, more companies able to fill positions that have been vacant for a very long period. Accordingly, U.S. firms hire more relative to the end of previous business cycles, contributing to bring down job postings. These dynamics ultimately delay a broad deterioration in the level of employment, unemployment and wage inflation. According to the April nonfarm payrolls numbers released earlier today, the pace of monthly job creation stayed solid at 253K, the second highest figure in 5 months. For Fed Chair Powell looking to abate CPI inflation, there are two big disappointments in today's report. First, unemployment dipped by 0.1pp to 3.4%, at the low end of the tight 3.4%-3.7% range observed during most of last year. Second, the cooling of wage inflation took a pause in April: average hourly earnings stood at 4.4% year-over-year in April, up from 4.2% last month and not down sufficiently relative to a year ago (5.8%).

Next week, markets will pay attention to the May 8th release of the Fed Senior Loan Officer Survey conducted after U.S. banking stress began mid-March. Fed Chair Powell had the chance to look at the survey results for last Wednesday's policy decision, a 25-basis points policy rate hike to 5.25%. He mentioned during his press conference that "*U.S. small and medium-sized banks have tightened conditions*". This shift in the credit cycle could be the equivalent of 25bps or 50bps in Fed tightening, or more as the bearish bond market predicts a rapid pivot. The degree of conviction for the need of further hikes has diminished within the FOMC, but high inflation prevails as echoed by tight labour market conditions. Thus, a very long pause with a Fed funds policy rate at 5.25% could be lasting until the winter of 2024 if the mild recession scenario unfolds.

Canada – Similar to Fed Chair Powell, BoC Governor Macklem made it clear during his speech on Thursday that the overnight rate target may stay at 4.50% for a long period. Overly elevated inflation expectations from consumers and the intention of too many companies looking to increase price north of 3% are among top concerns. The other key missing ingredient to restore price control is a rebalancing of labour market conditions including a moderation in wage growth. This is not what came out of the April Labour Force Survey report released this morning. Solid immigration continues to fuel job creation, particularly favouring Ontario where slightly more than half of the 247K jobs added so far this year in Canada took place. Ontario's unemployment rate dipped further to 4.9%, below BC where job losses in the forestry industry contributed to bring the jobless rate significantly up lately to 5.0%. In Quebec, both employment and the pool of available workers have not expanded as fast lately, with unemployment staying very low at 4.1%. Overall, 41K jobs have been added in April nationwide, bringing gains so far this year to almost a quarter of a million.

Also, wage inflation stays in the fast lane. In addition to firms increasing salaries at a solid clip, the minimum wage rose briskly in Manitoba, NL, NS, NB in April, contributing to keep average hourly earnings in the fast lane at the national level (+0.8% month-over-month, 5.2% year-over-year). This storyline won't change in the near term. The largest increase in Quebec's minimum wage of $1 per hour became effective at the beginning of the month. Also, federal public sector employees ratified a new 4-year contract with an annual average base wage increase north of 3%. Overall, this solid LFS report supports the hiking bias within this period of policy rate pause without forcing the BoC to hike immediately at the next June 7th meeting due to the uncertainty related to the magnitude and persistence of possible credit tightening from U.S. banks on its customers and indirect implications for the Canadian economy, particularly exports.

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