

## Market View – Central banking between a rock and hard place

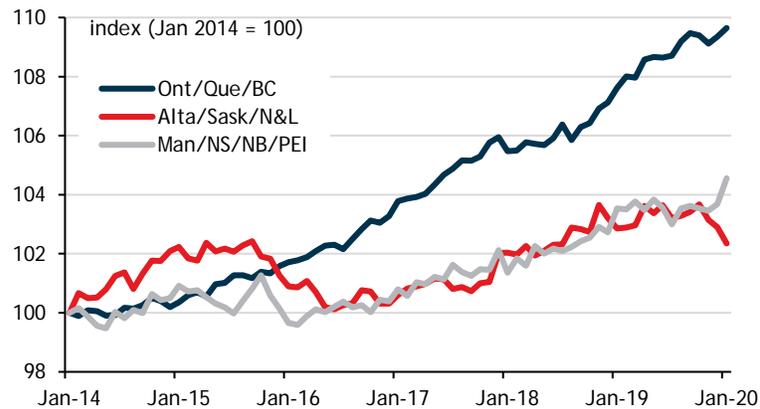
By Taylor Schleich / Warren Lovely

The Canadian jobs market got off to a hot start in 2020, adding 35k net new jobs (all of which were full-time), erasing one tick from the unemployment rate and driving already steamy wage growth even higher. These numbers, of course, are for the entire nation. Under the hood, a substantial bifurcation (or is it trifurcation?) is evident, as the oil-levered provinces<sup>11</sup> lag the three most populous provinces<sup>2</sup> (where labour absorption has been particularly impressive) (Charts 1, 2). While this story is nothing new—dating back to 2014–15, when oil crashed lower—it does seem to have grown more aggravated recently. Just look at current readings for Y/Y wage growth (Chart 3): 4.5–6.5% annual increases in Ontario, Québec and BC stand in stark contrast with the paltry 0.5–1.5% gains eked out by Alberta, Saskatchewan and Newfoundland & Labrador. Given the direct and indirect importance of labour markets in revenue generation for provincial governments (Chart 4), the lack of momentum in some areas are worth monitoring. So too are ties to the housing market, where regional trends continue to tell fundamentally different stories. If anything, a more recent oil price slump (tied to coronavirus fears), and the attendant drop in the C\$ and interest rates, might just accentuate regional differences as opposed to erasing them.

With the market screaming for interest rate cuts and some parts of the country clearly struggling, the job for the Bank of Canada isn't getting any easier. The current situation highlights the difficulty of setting blanket monetary policy for an economically/geographically/politically diverse set of regional jurisdictions. If it were logistically possible, the ideal policy prescription would likely entail rate cuts for the parts of Prairies and, based on inflation/wage pressures in recent months, rate hikes for the three largest provinces (where labour markets look to be beyond full-employment). But with the Bank stuck between a rock and a hard place, we judge its best course of action (barring a worsening of in the virus outbreak) is to continue to keep overnight on hold, providing a still stimulative rate for the lagging economies without further overheating the overachievers. (See our [latest Fixed Income Monitor](#) for additional details).

### Chart 1: Regional employment growing apart

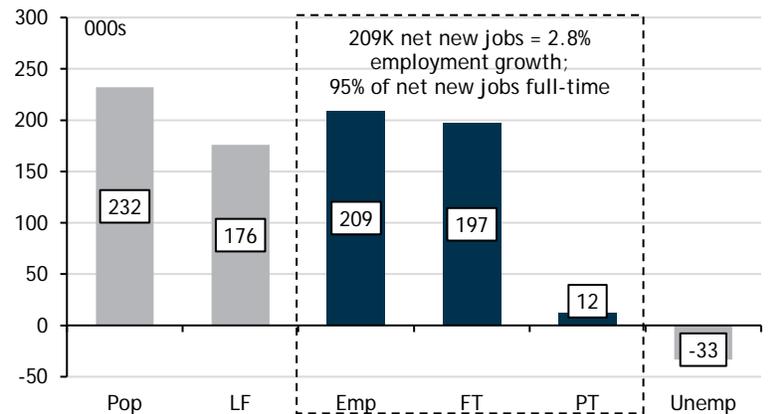
Indexed employment by provincial grouping since 2014



Source: NBF, StatCan

### Chart 2: A snapshot of labour absorption

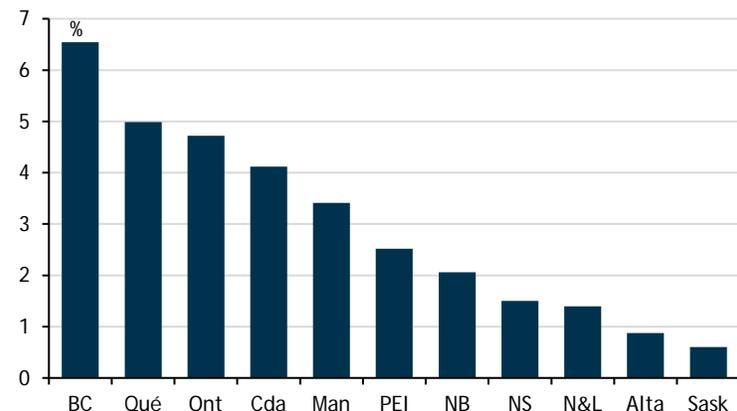
Y/Y change in Ontario labour market indicators: Jan 2020 vs. Jan 2019



Source: NBF, Statcan

### Chart 3: Wage pressures hardly uniform

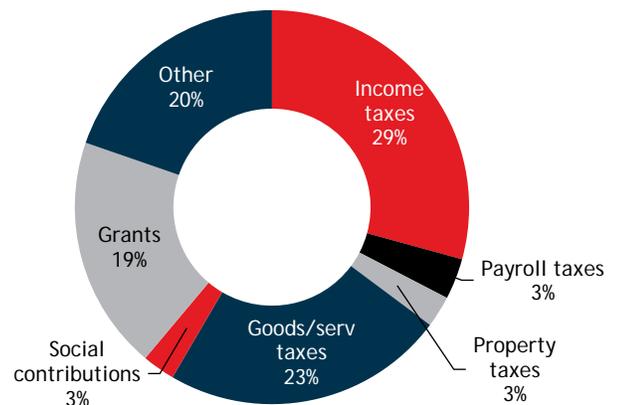
Y/Y wage growth by province (3M moving average): Jan 2020



Source: NBF, StatCan

### Chart 4: Personal income taxes key revenue source

Provincial/territorial government revenue by source



Source: NBF, StatCan | Based on Government Financial Statistics, 4 qtrs thru 2019:Q3

<sup>1,2</sup> Oil-levered provinces refer to Alberta, Saskatchewan and Newfoundland and Labrador. Three most populous provinces are BC, Ontario and Québec.



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