

Searching for slack in North American labour markets

By Taylor Schleich

Talk about a disappointing jobs day. Who would've thought that a -207k print in Canada would look relatively better than a 266k reading in the U.S.? That's the reality after the U.S.'s biggest downside miss from consensus on record, in addition to significant negative revisions to March. Suddenly, the patient approach to policy that Fed Chair Powell has been preaching doesn't look so out of touch from reality. To be sure, economists weren't wrong to expect a strong bounceback. Nearly all soft data indicators are signalling significant labour shortages. We don't doubt the validity of these measures but its clear some of the structural factors Powell alluded to last month are stronger than the market had thought (e.g. generous unemployment benefits, skill mismatches, geographical factors, virus fears and school closures keeping parents at home). (It's also worth noting the weak report could've been partly due to timing of the survey period which ended in mid April). While we don't think that keeping the QE pace intact will help correct what appears to be more of a supply-side issue, today's numbers likely give the Fed some comfort in its ultra-dovish stance and all but puts to bed the idea that we could get talk of an *eventual* taper at June's meeting.

For the Fed, they've made clear the key to an eventual taper will be making "substantial further progress" towards its policy goals—guidance that was introduced at the December meeting. Since the introduction of this language, just how much progress has been made? Not much. Relative to the November jobs report (the last available when the forward guidance was introduced), we've seen a strong bounceback in highly-educated and youth employment. Elsewhere, progress has been limited and, in some cases, non-existent (Chart 3). Over the last 5 reports, just 1.5 million jobs have been added, improving November's 6.4% employment deficit by just 1%-pt. Among low-wage workers, using high school educated and part-time employment as a proxy, employment is *lower* than it was five months ago. Gains among visible minorities have outpaced white Americans over this time but a non-trivial gap remains intact here. Overall, it's clear the Fed's "substantial further progress" criteria has not been met. And if structural factors continue to prevent labour market absorption, it might be a while before they feel comfortable declaring victory on this front. For some perspective, it would take 31 months at April's pace to just return to February 2020 levels. To be clear, we do expect a pick-up later in the spring and summer but pacing/timing may be slower than previously thought. Additionally, pre-COVID employment levels may not be the best guidepost. After all, absent the pandemic, a growing working age population means that employment likely would've continued increasing over the past 14 months. Based on population growth and assuming pre-COVID participation and unemployment rates remained constant, you can add another million-plus jobs to the 'potential' U.S. employment deficit.

When it comes to Canada, central bank policy is governed solely by price stability, although Governor Macklem and the Governing Council have noted that they'll be incorporating broader estimates of slack, including within labour markets, in their policy decisions. With many parts of the country still locked down, labour market slack remains relatively more difficult to assess. One thing that does seem evident though is that slack here is more modest than in the U.S.: Canada's employment deficit stands at 2.6% compared to 5.4% stateside. While April numbers weren't pretty, they were largely expected given COVID-related restrictions. And as we saw following second wave shutdowns earlier in the year, the labour market is likely to bounce back quickly when restrictions are lifted. Indeed, the biggest pre-COVID employment deficit remains in Ontario where lockdowns are most strict. Employment out East, a relatively less impacted part of country, is only off by less than 1%. And on a sectoral basis, almost 90% of Canada's jobs shortfall is in the leisure and hospitality sectors (i.e. the most COVID-sensitive sectors). In the U.S., that share isn't even half. It follows then that, upon reopening, the Canadian employment gap should be absorbed at a faster clip.

What does it all mean for central bank policy? For the Fed, policy is more credibly able to remain ultra-loose given the (a) slower jobs recovery and (b) its flexible average inflation targeting framework. For the BoC, while it will look more broadly in its assessment of slack, Canada's relatively tighter labour market and more rigid policy framework leaves the Bank with less flexibility to hold the policy rate at the effective lower bound. We don't want to overreact to a single jobs report, and thus, today's data doesn't change our expectations for initial central bank rate hike timing (BoC: Q4 2022, Fed: Q1: 2023). However, its worth highlighting the risks to our forecast may be asymmetrically skewed. That is, a BoC hike earlier than Q4:2022 may be more likely than later, and a Fed hike later than Q1:2023 may be more likely than earlier.

Chart 1: Canada's labour market recovery still leads

Canada/US employment relative to February 2020 levels

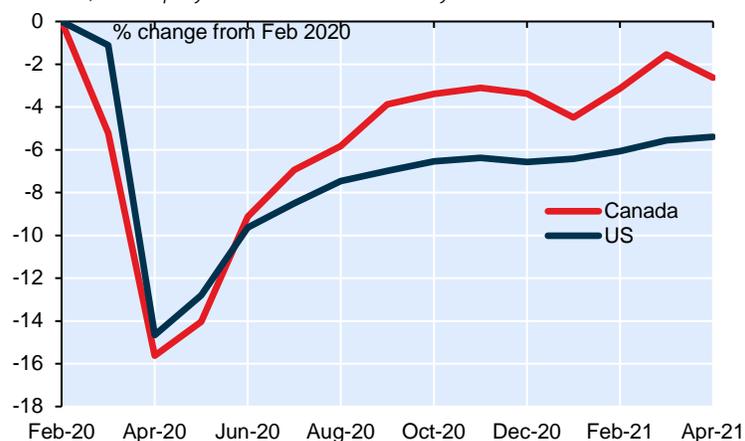
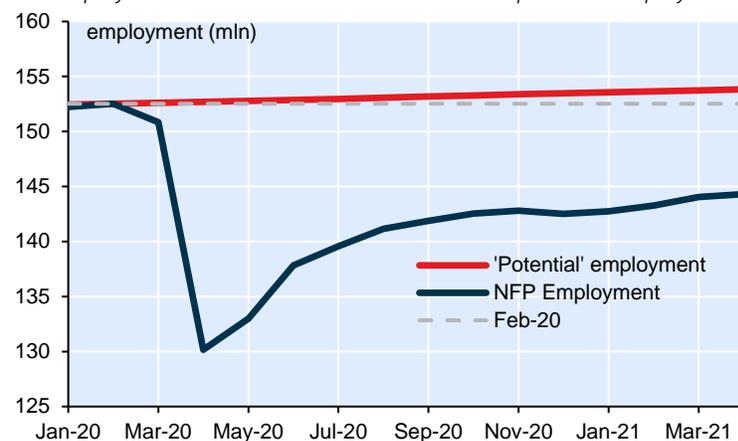


Chart 2: Pre-COVID levels may underestimate slack

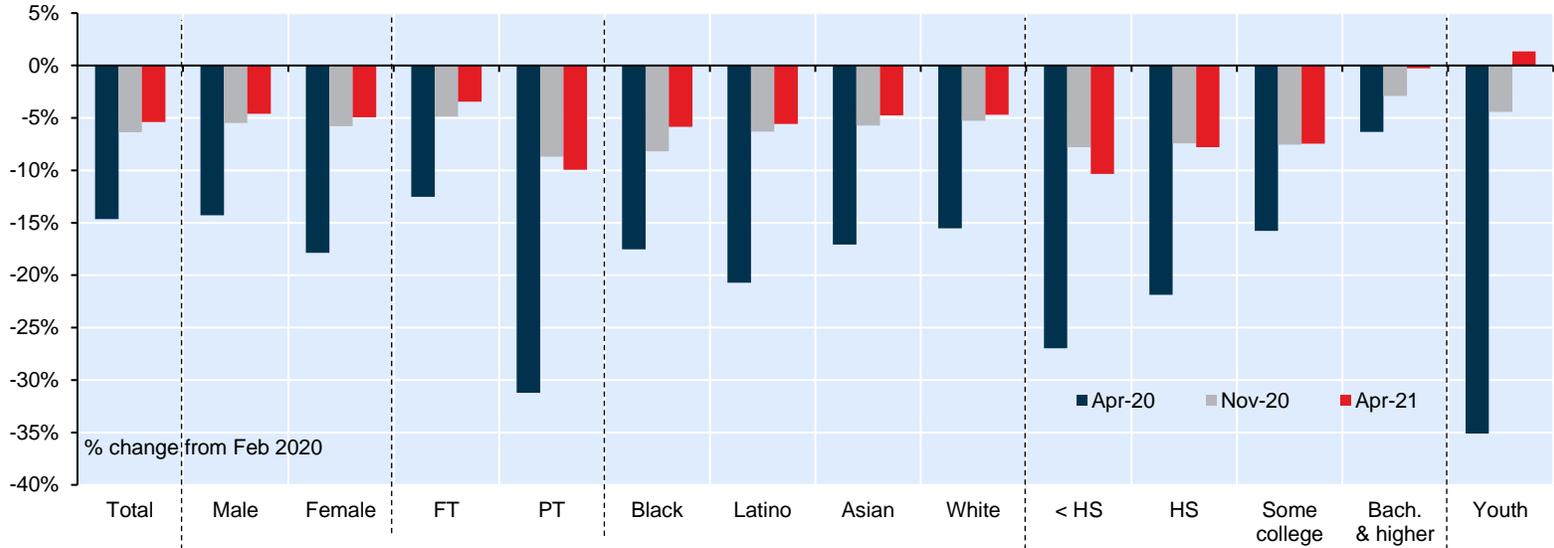
NFP employment relative to Feb-20 and estimated 'potential' employment



Note: For a more complete analysis of Canada's jobs report refer to our [Economic News](#)

Chart 3: Where have we seen "substantial further progress"?

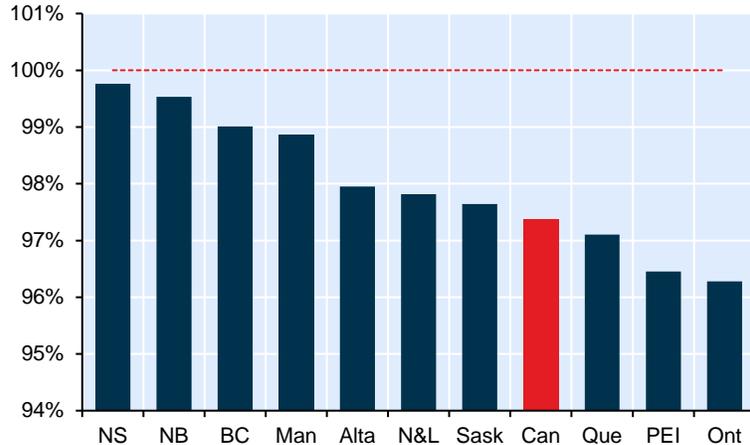
US employment shortfall relative to February 2020 by gender, part-time/full-time status, race and education



Source: NBF, BLS, all data other than "Total" taken from household survey. "Total" based on non-farm payroll report

Chart 4: Stricter lockdown measures ≈ greater slack

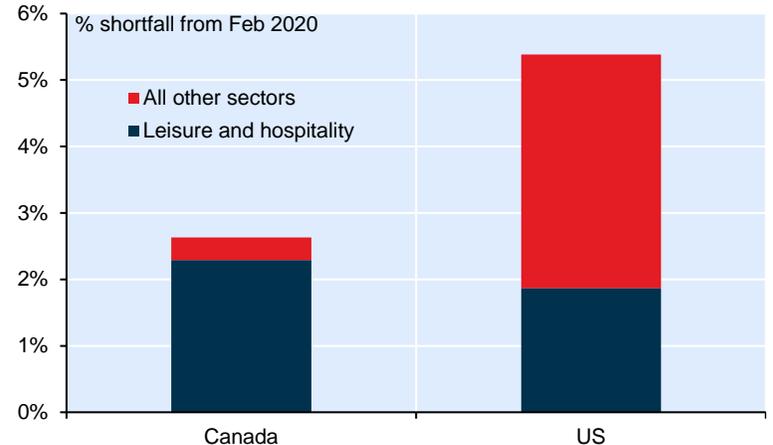
April 2021 employment relative to pre-COVID peak employment by province



Source: NBF, StatCan

Chart 5: Relatively more COVID-sensitive slack in Canada

Shortfall in employment relative to Feb-2020: Leisure/hospitality vs. all others



Source: NBF, StatCnn, BLS | Note: Leisure and hospitality includes the following NAICS subsectors: Accommodation and food services and information, culture and recreation

Table: Canada-US labour market recovery scorecard

Key indicators of labour market performance since COVID-19 crisis began (continued on following page)

| Employment (000s) | | | Full-time employment (000s) | | | Female employment (000s) | | | Youth employment (000s) | | |
|-------------------|---------|--------|-----------------------------|---------|--------|--------------------------|--------|--------|-------------------------|-------|--------|
| Indicator | US | Canada | Indicator | US | Canada | Indicator | US | Canada | Indicator | US | Canada |
| February | 152,523 | 19,130 | February | 130,679 | 15,556 | February | 74,865 | 9,083 | February | 5,326 | 873 |
| Low | 130,161 | 16,142 | Low | 114,325 | 13,607 | Low | 61,478 | 7,558 | Low | 3,457 | 520 |
| Latest | 144,308 | 18,627 | Latest | 126,161 | 15,267 | Latest | 71,159 | 8,758 | Latest | 5,398 | 783 |
| Jobs lost | 22,362 | 2,989 | Jobs lost | 16,354 | 1,949 | Jobs lost | 13,387 | 1,524 | Jobs lost | 1,869 | 353 |
| Jobs recovered | 14,147 | 2,486 | Jobs recovered | 11,836 | 1,660 | Jobs recovered | 9,681 | 1,200 | Jobs recovered | 1,941 | 263 |
| % recovery | 63% | 83% | % recovery | 72% | 85% | % recovery | 72% | 79% | % recovery | 104% | 75% |
| % chg. from Feb | -5.4% | -2.6% | % chg. from Feb | -3.5% | -1.9% | % chg. from Feb | -5.0% | -3.6% | % chg. from Feb | 1.4% | -10.3% |
| Advantage | 🇨🇦 | | Advantage | 🇨🇦 | | Advantage | 🇨🇦 | | Advantage | 🇺🇸 | |



| Unemployment rate (%) | | | Employment rate (%) | | | Participation rate (%) | | | Labour force (000s) | | |
|-----------------------|------|--------|---------------------|------|--------|------------------------|------|--------|---------------------|---------|--------|
| Indicator | US | Canada | Indicator | US | Canada | Indicator | US | Canada | Indicator | US | Canada |
| February | 3.5 | 5.7 | February | 61.1 | 61.8 | February | 63.3 | 65.5 | February | 164,448 | 20,276 |
| Peak UE rate | 14.8 | 13.7 | Low emp rate | 51.3 | 52.1 | Low part rate | 60.2 | 60.0 | Low | 156,478 | 18,585 |
| Latest | 6.1 | 8.1 | Latest | 57.9 | 59.6 | Latest | 61.7 | 64.9 | Latest | 160,988 | 20,268 |
| UR hit | 11.3 | 8.0 | ER hit | 9.8 | 9.7 | PR hit | 3.1 | 5.5 | LF drop | 7,970 | 1,691 |
| UR recovery | 8.7 | 5.6 | ER recovery | 6.6 | 7.5 | PR recovery | 1.5 | 4.9 | LF recovered | 4,510 | 1,682 |
| % recovery | 77% | 70% | % recovery | 67% | 77% | % recovery | 48% | 89% | % recovery | 57% | 99% |
| %-pt chg. from Feb | 2.6 | 2.4 | %-pt chg. from Feb | -3.2 | -2.2 | %-pt chg. from Feb | -1.6 | -0.6 | % chg. from Feb | -2.1% | 0.0% |
| Advantage | ? | | Advantage | | | Advantage | | | Advantage | | |

Source: NBF, StatCan, BLS, Bloomberg | Notes: In some cases, there are differences in data definitions between countries making comparisons not equal in the strictest sense. Labour force statistics in Canada use ages 15+, while US uses 16+. For youth employment, Canada figure represents ages 15-19 while US figure represents ages 16-19.



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