Week in review

**CANADA: Employment** fell in April. According to the Labour Force Survey, 207K jobs were lost in the month. This was worse than expected – the median forecast by economists was calling for a 150K pullback. April job losses translated into a sharp increase in the unemployment rate from 7.5% to 8.1% despite the decline in the participation rate from 65.2% to 64.9%.

Job losses in April were attributable to both the private (-204K) and the public sector (-13K), while the self-employed sector recorded gains (+10K). Employment in the goods sector dropped -12K with losses for construction (-13K), and agriculture (-4K) more than offsetting gains in resources (+5K). Services-producing industries, for their part, lost 195K jobs on sharp drops in trade (-89K), accommodation/food services (-59K), educational services (-36K), information/culture/recreation (-26K), other services (-9K), business/building/other support services (-7.8K) and health care (-7.3K). Full-time employment was down 129K while the ranks of part timers declined 78K. On a 12-months basis, the growth of hourly earnings dropped from 2.0% in March to -1.6% in April. On a regional basis, employment declined in all the four largest provinces, with Ontario (-153K) and B.C. (-43K) seeing the largest drawbacks. Alberta (-13K) and Quebec (-13K) were not saved from the losses.

With a third wave of new COVID cases, Canada also witnessed a third wave of weakness in the labour market with a sizable employment decline in April. That said, most of these losses (-184K) can be attributed to the industries that have been the most negatively hit by public health measures since the start of the pandemic. In all the other sectors combined, only 24k jobs were lost during the month and the level of employment remains above pre-pandemic peak. It is worth noting that the education sector (-36K) was responsible for all the job losses in non-COVID sectors in April as some schools moved to distance learning and the closing of schools in Ontario because of the delayed March break. While significant restrictions are still in place in May, we expect a gradual easing in the coming weeks with the advance of vaccination, meaning that employment could rebound strongly during the summer months. In other words, we continue to think that the recent soft patch in the Canadian labour market should turn out to be transient as strong economic growth in the coming quarters will continue to support hiring. Recall that the

The merchandise trade balance went from a surplus of C$1.42 billion in February (initially estimated at C$1.04 billion) to a deficit of C$1.14 billion in March. Analysts were expecting a C$0.55-billion surplus. Nominal exports edged up 0.3% in the month, while nominal imports surged 5.5%. On the exports side, strong gains for metal ores/non-metallic minerals (+33.0%), motor vehicles/parts (+10.2%) and forestry products (+4.0%) were only partially offset by drops for aircraft/transportation equipment (-23.8%) and consumer goods (-5.3%). All 11 import categories saw increases in the month, something that had not occurred since November 2017. Statistics Canada reported strong increases for energy products (+54.7%, the largest monthly gain on record), metal ores/non-metallic minerals (+13.5%), motor vehicles/parts (+4.6%), and forestry products (+6.8%). The energy surplus shrank from a seven-year high of C$8.5 billion to C$6.9 billion. The non-energy deficit, for its part, widened from C$7.1 billion to C$8.0 billion. The trade surplus with the United States narrowed from a decade-high of C$7.3 billion to C$4.3 billion. In real terms, exports slipped 0.3% while imports sprang 7.0%.

The merchandise trade balance swung back into deficit territory in March thanks to imports, which expanded at their fastest pace in eight months on a strong gain for energy products. These bounced back sharply as production at Texas refineries recovered following weather-related outages in February. Despite the monthly gain, energy imports remained 25.0% below their pre-pandemic peak (2020M01). Imports of motor vehicles and parts also strengthened after shortages of semi-conductor chips forced many auto assembly plants in North America to reduce or stop production in February. Total exports, meanwhile, advanced for the sixth time in seven months, rising 5.9% above their pre-crisis level. For the same reasons mentioned above, exports of motor vehicles and parts erased almost all of the losses suffered in February. Meanwhile, shipments in the energy
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products category fell in March on strong pullbacks for natural gas (-46.7%) and electricity (-24.7%). (Recall that prices in these categories had surged in February as a result of the cold snap that hit the Central United States.) The terms of trade continued to improve in the month and now sit at their highest level since February 2014. Regarding quarterly data, trade in goods likely added a few tenths to Q1 GDP growth as real exports (+1.6% q/q) expanded at a slightly faster clip than real imports did (+1.1%). A strong expansion in import volumes in the machinery equipment category (+2.9% q/q) bodes well for investment spending in Q1 2021.

The value of building permits issued in the country rose 5.7% in March to $10.9 billion. Residential permits climbed 15.9% on the back of a 24.5% jump in the multi-family category to $4.3 billion and a 7.6% increase in the single-family category to $3.8 billion. However, commercial permits decreased 14.6% to $1.5 billion and institutional permits fell 33.5% to $732.1 million. Industrial permits were the only ones in the non-residential sector to register an increase: They rose 16.4% to $650.5 million. Activity in the residential sector was booming in March.

Mortgage interest rates have begun rising and now stand 35 basis points above the all-time low reached in February. Rates are now one-third of the way to their pre-pandemic level. Higher mortgage rates will certainly impact the purchasing power of many households after housing affordability in Canada deteriorated considerably in the first quarter of 2021. However, this negative turn applied only to the non-condo segment. Condo affordability remained unaffected as income increases were sufficient to offset smaller price hikes compared with the single-family sector. However, this state of affairs is not likely to last long.

In April, the Markit Manufacturing PMI came in a touch softer than in the previous month, sagging 1.3 points to 57.2. This was nonetheless the third-strongest monthly reading since the survey’s inception in October 2010. Capacity pressures were building up and firms were facing cost pressures. However, according to the report, higher expenses were being passed on to clients.

UNITED STATES: Nonfarm payrolls rose just 266K in April, a lot less than the +1,000K print expected by consensus. The negative surprise was compounded by a 78K downward revision to the prior month’s results. The private sector added 218K jobs. Employment in the goods sector fell 16K as a decline for manufacturing (-18K) was only partially offset by a small gain for mining/logging (+2K). Employment in the construction segment was flat. Services-producing industries, meanwhile, expanded payrolls by 234K thanks in large part to a 331K jump in the leisure/hospitality category. Alternatively, there were retreats observed for professional/business services (-79K), transportation/warehousing (-74K) and retail trade (-15K). Employment in the public sector advanced 44K as state/local administrations added 39K jobs. Average hourly earnings rose just 0.3% on a 12-month basis, down from 4.2% the prior month.

Released at the same time, the household survey (similar in methodology to Canada’s LFS) reported a 328K job gain in April. Despite this increase, the unemployment rate ticked up to 6.1%, as the participation rate rose from 61.5% to 61.7%. Full-time employment surged 358K, while part time positions fell 54K.
Non-farm-payrolls came in a lot weaker than expected in April. As COVID-19 caseloads continued to ease and several states gradually reopened their economies, several analysts (us included) had expected a blockbuster print in the month. There were indeed gains recorded in some of the sectors most affected by social distancing measures, notably leisure/hospitality. Without the latter category, however, payrolls were down month on month. Weak hiring apparently did not result from lack of demand for workers on the part of businesses; the latest JOLTS survey showed job openings standing at a 25-month high. Rather, it seems businesses are having problems finding suitable candidates at the moment. Indeed, according to a recent survey compiled by the National Federation of Independent Businesses, 42% of small businesses had difficulty in filling one or more vacant positions in April, a record high. This may seem surprising at a time when payrolls remain roughly 8 million below their pre-crisis level. In fact, several reasons can explain this phenomenon. The first is lack of skill transferability. For the most part, the people who had yet to return to work after losing their job during the pandemic used to be employed in the sectors hardest hit by social distancing measures. Their skill sets might not fit the industries that have fully recovered from the crisis and where demand for workers is highest at the moment. In sectors where wages are relatively low, the generous unemployment handouts provided by Washington might also be acting as a disincentive to return to work. If this is the case, “artificial” labour shortages could persist until enhancements to unemployment insurance are phased out (i.e. in September). In the meantime, employers might be forced to raise wages in an effort to lure workers back onto the job market. Anecdotal evidence suggests this is already happening in some low paid sectors (restaurants, retail, etc.).

U.S: Labour market recovery still has a long way to go

In March, construction spending rose 0.2% to US$1,513.1 billion, which is 5.0% above the February 2020 level. Residential spending increased 1.7% m/m to a seasonally adjusted annual rate of US$725.2 billion. Spending on new single-family homes rose 2.0% m/m and 26.7% y/y. Spending on new multi-family homes dipped 0.3% m/m. Private non-residential activity fell 0.9% m/m to US$444.0 billion. Public expenditures declined 1.5% to US$343.9 billion.

The ISM Manufacturing PMI fell four percentage points in April to 60.7. This was still well above the index’s long-term average of 53.1 for the past 61 years, which suggested that the manufacturing sector was still expanding strongly. Given the well-documented supply chain problems and shortages of microchips, processors, and plastic and rubber products, it came as no surprise to see the Production Index drop from 68.1 in March to 62.5 in April. The Prices Paid Index rose four percentage points to 89.6 in April. This was well above its median print (62) for the past 61 years. It is worth noting that the index has topped the 89.6 mark only 2% of the time (on 14 occasions) over that horizon. The Employment Index fell 4.5 points to 55.1 in April but held above the 50.6 threshold for a fifth straight month. (This level is usually consistent with an increase in the Bureau of Labor Statistics data on manufacturing employment.) The Supplier Deliveries Index slid 1.6 points to 75.0, but this was still its third-highest reading since 1980. The New Orders Index fell 3.7 points to 64.3 in April from 68.0 in March, which was still a solid pace.

Like the Manufacturing PMI, the Services Index reflected a sector affected by transportation bottlenecks and other supply chain problems rather than softer demand. The Supply Delivery Index rose 5.1 points in April to 66.1, its fourth-highest reading on record,
indicating longer delivery delays. This development rippled through business activity and translated into a 6.7 points drop in the Business Activity Index to 62.7 in the month. Prices paid in the services sector, too, were on the rise, as indicated by the 76.8 print (+2.8 points) for the corresponding sub-index. The New Orders Index remained comfortably above its average (57.9) for the past 11 years, though it did drop to 63.2 in April from 67.2 in March. Employment slipped 1.6 points to 58.8 in the month. In this context, the headline Services Index edged down from 63.7 in March to 62.7 in April.

In March, the goods and services trade deficit amounted to US$74.4 billion, up US$3.9 billion from a revised US$70.5 billion in February. Trading activity picked up in the month despite continued transportation bottlenecks and port congestion. Imports of goods rose US$15.3 billion (+6.98%) to US$234.4 billion. All six of the broad import categories recorded significant increases in the month. Among these, capital goods rose 5.6% (boosted by a 26.1% increase in semiconductors), consumer goods 7.4%, industrial supplies 7.9%, and automotive vehicles 7.3%. Goods exports grew US$11.7 billion (+8.9%) to US$142.9 in March. These exports topped their pre-pandemic levels in the month. The increase in the goods and services deficit reflected a US$3.6–billion increase in the goods deficit to US$91.6 billion and a $0.3–billion decrease in the services surplus to $17.1 billion.

Initial jobless claims fell 92K to 498K in the week ending May 1. The previous week’s level was revised up from 535K to 590K. The advance number for seasonally adjusted insured unemployment (i.e., continued claims) increased 37K to 3,690K in the week ending April 24. Data on claims for benefits under all programs, including those introduced since the start of the health crisis (i.e., Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation), are available only after a longer lag. In the week ending April 17, continued claims for UI benefits across all programs fell 405K to 16.2 million.

In the Eurozone, the volume of retail trade rose 2.7% in March after growing 4.2% the previous month. Sales were up 4.2% for non-food products and 1.0% for food, drinks and tobacco, but were down 2.9% for automotive fuels. According to Eurostat, relative to 12 months earlier, the calendar–adjusted volume of retail trade in the Eurozone increased 12.0%.
What we’ll be watching next week

IN THE U.S., the main event will be the publication of April’s CPI report. The economic recovery gathered speed during the month and supply issues continued to exert upward pressure on prices. In this context, we expect the core index to have gained 0.3% for the second month in a row. As a result, the annual core inflation rate could move up from 1.6% to a 14-month high of 2.2%. Headline prices, meanwhile, could have risen 0.2% m/m despite a slight decline in seasonally-adjusted gasoline prices. This gain, combined with a strongly positive base effect, should allow the annual rate to rise from 2.6% to 3.6%, the highest figure recorded since September 2011. In other news, the recovery in industrial production should have continued in April, helped by expansions for utilities and mining. Manufacturing output may also have increased, but at a more tepid pace given record-long lead times, wide-scale shortages of basic materials, rising commodities prices and difficulties in transporting products. We are calling for a 1.4% monthly gain for industrial production. Still in April, retail sales should have continued to advance, as some high-contact segments (e.g. eating/drinking establishments, clothing) likely benefited from the loosening of social distancing rules in several states. Headline outlays may have increased 1.7% m/m, thanks in part to yet another progression in auto sales. Ex-auto retail sales may also have expanded, albeit at a slightly weaker pace. We’ll also keep an eye on the release of April’s NFIB Small Business Optimism Index and March’s Job Openings and Labor Turnover Survey (JOLTS). Several Fed officials are scheduled to give speeches, notably Charles Evans (Monday), John Williams (Tuesday), Lael Brainard (Tuesday), Mary Daly (Tuesday), Richard Clarida (Wednesday), James Bullard (Thursday) and Robert Kaplan (Friday).

IN CANADA, the week will feature the release of March’s manufacturing sales. The latter could have edged up 0.2% m/m judging from previously-released data on factory goods exports. An update on the state of the housing market in April will also be available with the publication of CREA’s home sales. March’s data on wholesale trade sales will also be published. On the central bank trail, Bank of Canada Governor Tiff Macklem will deliver a speech on Thursday. The BoC will release the results of its latest Senior Loan Officer Survey the following day.

ELSEWHERE IN THE WORLD, a relatively quiet week will nonetheless feature the release of March’s industrial production in the eurozone and April’s Consumer Price Index in China.
# Weekly Economic Watch

## Economics and Strategy

### Economic Calendar – Canada & U.S

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<thead>
<tr>
<th>Time</th>
<th>Country</th>
<th>Release</th>
<th>Period</th>
<th>Previous</th>
<th>Consensus Estimate</th>
<th>NBF Estimate</th>
<th>Company</th>
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<td>Occidental Petroleum Corp</td>
<td>At-mkt</td>
<td>Q1 21</td>
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**Monday May 10**

- **8:00** US NFIB Small Business Optimism
  - Apr: 98.2
  - 101.0

**Tuesday May 11**

- **7:00** US MBA Mortgage Applications
  - May-07: -0.90%
  - 0.20%

- **8:30** US CPI MoM
  - Apr: 0.60%
  - 0.20%

- **8:30** US CPI Ex Food and Energy MoM
  - Apr: 0.30%
  - 0.30%

- **8:30** US CPI YoY
  - Apr: 2.60%
  - 3.60%

- **8:30** US CPI Ex Food and Energy YoY
  - Apr: 1.60%
  - 2.30%

**Wednesday May 12**

- **8:30** US PPI Final Demand MoM
  - Apr: 1.00%
  - 0.30%

- **12:00** Us Initial Jobless Claims
  - May-06: 496k
  - 400k

- **8:30** US PPI Ex Food and Energy MoM
  - Apr: 0.70%
  - 0.40%

- **8:30** US PPI Ex Food and Energy YoY
  - Apr: 3.10%
  - 3.80%

**Thursday May 13**

- **8:30** US Retail Sales Advance MoM
  - Apr: 9.80%
  - 1.10%
  - 1.70%

- **8:30** CA Manufacturing Sales MoM
  - Mar: -5.00%
  - 0.20%

- **8:30** US Retail Sales Ex Auto MoM
  - Apr: 8.40%
  - 0.80%
  - 1.30%

- **8:30** CA Wholesale Trade Sales MoM
  - Mar: -0.70%
  - 0.0%

- **8:30** CA Existing Home Sales MoM
  - Apr: 5.20%
  - 0.0%

- **9:15** US Industrial Production MoM
  - Apr: 1.40%
  - 1.30%
  - 1.40%

- **9:15** US Capacity Utilization
  - Apr: 74.40%
  - 75.30%

- **5:00** US U. of Mich. Sentiment
  - May P: 88.3
  - 90.0

**Friday May 14**

- **8:30** US SNC-Lavalin Group Inc
  - 0.0%
  - 0.32

- **8:30** CA Canam Group Inc
  - 0.0%
  - 0.03

- **8:30** US Westshore Terminals Investment
  - 0.0%
  - 0.01

*Source: Bloomberg*
North American Stock Indices

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<th>Region</th>
<th>Index</th>
<th>Total return performances (in C$ / in local currency)</th>
<th>10-year Hi / Low</th>
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<td>3458.5 (6 May 2021) / 10655.3 (3 Oct 2011)</td>
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<td>13632.8 (26 Apr 2021) / 2335.8 (3 Oct 2011)</td>
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<td>World</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Euro Stoxx</td>
<td>3999.4</td>
<td>-0.8% / 0.5% / 0.4% / 1.5% / 5.7% / 10.5% / 7.5% / 14.0% / 39.4% / 44.7% / 9.8% / 9.9%</td>
<td>4033.0 (16 Apr 2021) / 1995.0 (12 Sep 2011)</td>
</tr>
<tr>
<td>FTSE100</td>
<td>7076.2</td>
<td>0.5% / 1.8% / 1.3% / 4.1% / 6.8% / 10.5% / 8.0% / 11.1% / 21.3% / 25.2% / 5.0% / 7.1%</td>
<td>7877.5 (22 May 2018) / 4944.4 (4 Oct 2011)</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>3458.5</td>
<td>0.6% / 1.5% / 0.5% / 3.4% / 6.4% / 11.5% / 8.6% / 13.5% / 28.6% / 49.1% / 15.6% / 17.0%</td>
<td>3458.5 (6 May 2021) / 10655.3 (3 Oct 2011)</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>13632.8</td>
<td>-4.0% / -3.2% / -3.3% / -0.5% / -6.0% / -1.5% / 1.4% / 6.0%</td>
<td>13632.8 (26 Apr 2021) / 2335.8 (3 Oct 2011)</td>
</tr>
</tbody>
</table>
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