

Another unsurprising LFS surprise

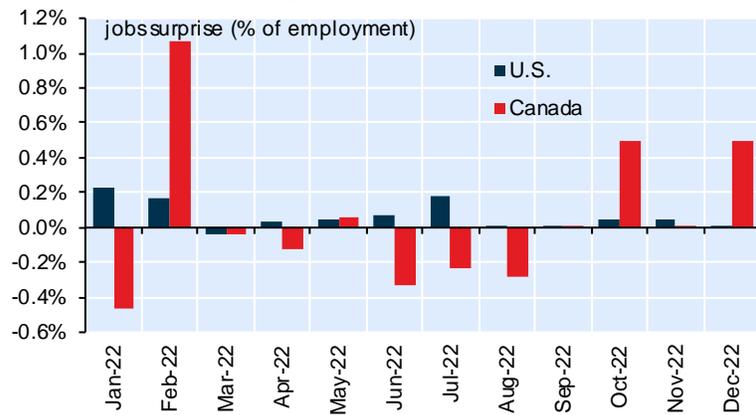
By Taylor Schleich

It was a massive miss on Canadian jobs data this morning, with employment gains topping consensus by nearly 100 thousand. How far back do you have to go to find a miss of that size? Just two months when October employment beat forecasts by a similar margin. Yes, it's been a tough year forecasting the labour market, and not just in Canada. U.S. employment has exceeded consensus (versus initial releases) in nine straight months and for 11 of the 12 2022 reports. However, the size of U.S. surprises pales in comparison to what's been observed in Canada (Chart 1). That's not to put blame on Canadian forecasters. Unlike in the U.S., these haven't been unidirectional misses (there were equal number of upside and downside surprises in 2022). The underlying data, as our readers are surely aware, remains unusually noisy. Some of the persistent volatility can be attributed to lingering effects of COVID and related disruptions, but volatility in U.S. employment changes is now close to what might be considered 'normal'. In Canada, where data were always choppy, we're still far removed from par-for-the-course noise (Chart 2).

Unsurprisingly, forecasting difficulties have meant volatility in central bank expectations and interest rates. The dates on which the October and December jobs reports were released saw 2-year Canadas underperform by more than 10 bps (Chart 3). Collectively, these two days explain two-thirds of GoC underperformance since early November. While today's moves are consistent with our view for 2023 that GoCs will underperform USTs significantly, we know that it won't be a smooth ride there. When ~~random number generator~~ Labour Force Survey noise cuts the other way (as it inevitably will), we could see (temporary) bouts of outperformance as we did earlier in 2022. For the Bank of Canada, their job just became even more difficult, particularly given a strictly data dependent stance. But the data we have is the data we have. Taken together with the hotter-than-expected November CPI report, the Bank might feel the pressure to hike later this month despite, [as our colleagues noted this morning](#), there being a strong case for caution/patience. There will be a couple more chances to turn this ship around (a new BOS on Jan 16th and December CPI on Jan 17th), but the bar to stay on the sidelines just got higher today.

Chart 1: It's not easy forecasting Canada/US labour markets

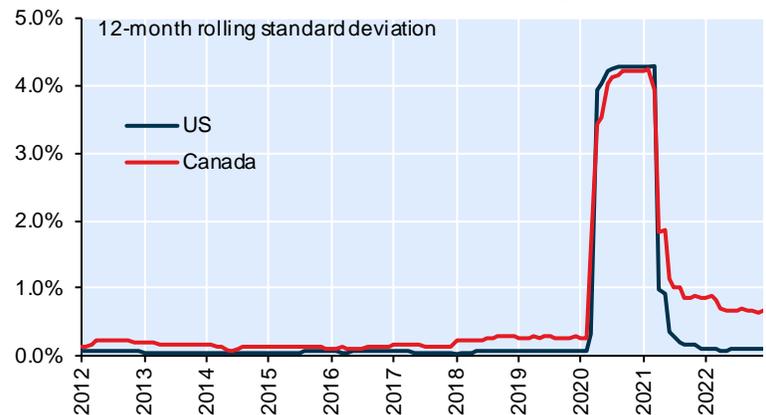
Difference in employment chng. and consensus forecast (% of total employment)



Source: NBF, Bloomberg | Note: Initially released (i.e., unrevised) figures used for U.S.

Chart 2: LFS noise still far from 'normal'

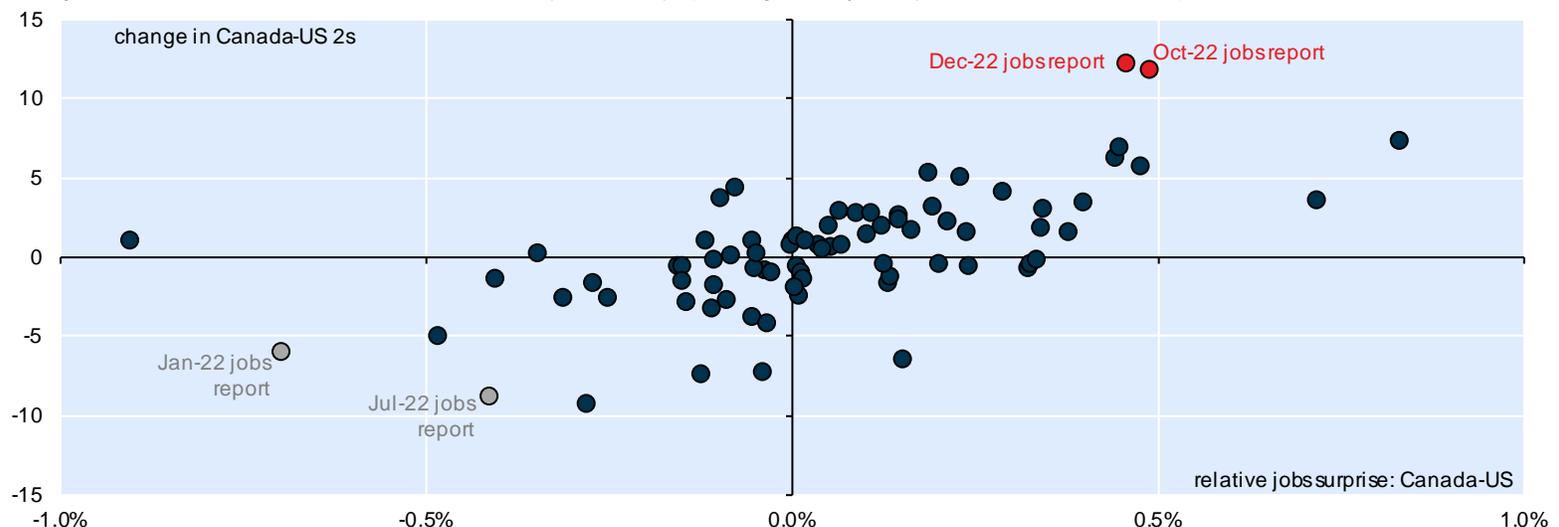
12m rolling standard deviation in m/m employment changes: Canada vs. US



Source: NBF, Bloomberg

Chart 3: Much of the GoC underperformance in the past three months came on jobs report release dates

Change in Canada-US 2Y differential versus relative surprises in employment gains on jobs report release dates: Last 10 years



Source: NBF, Bloomberg | Note: Excludes months on which labour market data were released on different dates. Axis truncated to exclude April-May 2020 data. Jobs surprise = miss versus consensus as a share of total employment; relative jobs surprise is difference between Canada and US jobs surprises.

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