

WEEKLY COMMENTARY

Is the Labour Market at a Crossroads?

By Jimmy Jean, Vice-President, Chief Economist and Strategist

It seems like ages since COVID infections were the most influential variable shaping the economic outlook. Monetary policy is now in the driver's seat, and central bankers are acknowledging that it will be difficult to bring down inflation if wage pressures remain this elevated. But in the US, the August jobs report offered some encouraging signs, with the labour force growing by a net 786,000 workers during the month. The *Beige Book* for August released this week similarly noted some improvement in labour availability and retention.

What hasn't changed is that the job market remains—to use a housing expression—a seller's market. Corporations are now making full-time offers to college students well before they graduate, and those offers tend to be more generous than in the past. Signing bonuses and more flexible hours have almost become the norm. Our business contacts have been telling us candidates are increasingly picky on remote working arrangements. Requiring them to show up in a downtown office just a few days a week can now be a dealbreaker. Even the Bank of Canada seems to be adapting to the times, allowing its next Deputy Governor to work not just remotely, but part-time as well.

But the Governor still works full-time, and he's trying to figure out how to stop the madness. He did try moral suasion this summer, essentially asking small business owners to hold the line and resist the temptation to build current inflation into future compensation contracts. This advice didn't sit well with unions, not least because average wage growth still isn't keeping up with inflation.

But Macklem may have been on to something—that labour scarcity is leading to acute mispricing, heightening the risk of correction. Such a scenario could be triggered by expectations for housing to correct and consumer spending to weaken in the quarters ahead, dampening GDP growth and business

profitability. Typically when this happens, businesses pull job postings and cut hours, hoping for a soft patch.

But as a recovery remains elusive, inventory builds and cash flows dry up, layoffs tend to follow soon thereafter. We aren't there yet, although August saw the first increase in permanent job losers in the US since February 2021, and there have been some noteworthy downsizings in the tech, automotive, finance and retail sectors lately. For now, the hard evidence on layoffs remains mixed overall. But given the signs of cracks, we'll have to keep a close eye on the upcoming data. This is also true in Canada, where a surprise 0.5 percentage point rebound in the unemployment rate was recorded in August. Outside of pandemic lockdowns, such a strong increase has typically coincided with a recession in Canada.

As the debate around the future path of the Beveridge curve rages on, Fed officials have taken the view that moderating demand could reduce job vacancies while preventing an increase in unemployment. This scenario is not inconceivable, but history shows it tends to be rare. Currently, the US job openings rate is 0.4 percentage points below its March 2022 peak, and since 1951, every time it has fallen more than 0.5 percentage points from its peak, a spike in the unemployment rate (and therefore a recession) has followed (graph on page 2).

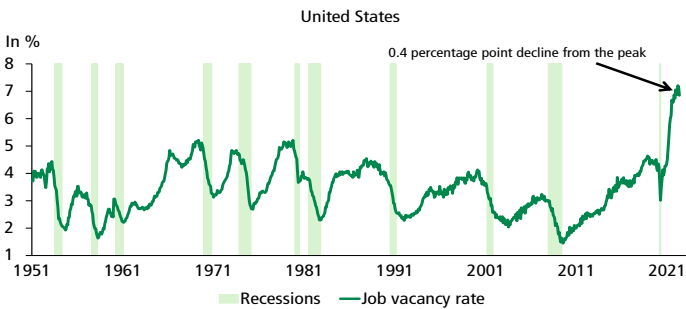
The key will be how quickly the economy weakens. If demand plummets, businesses struggling financially won't improve their prospects by just removing job postings. In the case of a more gradual slowdown, however, we could see companies on a better footing take advantage of the situation to hire workers laid off by more fragile businesses. This would limit the impact on unemployment. What remains true, however, is that the more businesses base worker pay on labour scarcity rather than value added, the more likely they are to face financial trouble when demand starts to wane.

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GRAPH

When the job vacancy rate falls from its peak, a recession usually follows shortly thereafter



Sources: Bureau of Labor Statistics, A. Domash (2022), R. Barnichon (2010) and Desjardins, Economic Studies

Businesses that think turbocharged demand and strong pricing power are here to stay are in for a rude awakening when central banks eventually break those dynamics. In our view, the businesses that will struggle the most a) are still saddled with pandemic debt, b) are vulnerable to cutbacks in consumer discretionary spending, c) would be hurt by the housing correction, d) have seen significant increases in labour costs, or e) all of the above. Macklem's recommendation may have drawn the ire of unions. But it wasn't necessarily bad advice.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

TUESDAY September 13 - 8:30

August	m/m
Consensus	-0.1%
Desjardins	0.0%
July	0.0%

THURSDAY September 15 - 8:30

August	m/m
Consensus	0.0%
Desjardins	0.5%
July	0.0%

THURSDAY September 15 - 9:15

August	m/m
Consensus	0.1%
Desjardins	-0.2%
July	0.6%

FRIDAY September 16 - 10:00

September	
Consensus	60.0
Desjardins	60.0
August	58.2

UNITED STATES

Consumer price index (August) – Headline inflation has begun to ease in the US, largely due to a drop in energy prices. August data is expected to show that the year-over-year change in the consumer price index (CPI) is retreating further from June’s peak of 9.1%. August saw a 13.4% month-over-month decrease in national average gas prices, another significant negative contribution from energy prices. But food prices will likely keep soaring, approaching the 1% average gain of the previous six months. Food and gas excluded, core CPI is expected to be up 0.4% for August, slightly higher than July’s 0.3% increase but below the average of 0.6% for the previous four months. We could see a surprise drop stemming from a decrease in the cost of some goods, such as used vehicles. Overall, the month-over-month change in the all-items index is expected to come in at 0%, the same as July. The year-over-year change should fall from 8.5% to 8.2%, with core inflation expected to edge up from 5.9% to 6.1%.

Retail sales (August) – Retail sales growth appeared to stall at 0.0% in July, but it was hiding a 0.7% gain in sales excluding vehicles and gasoline. We expect to see strong growth in total sales in August, even with another negative contribution from gasoline station receipts. Despite a drop in the number of new vehicles sold, we anticipate moderate growth in the automotive sector. Preliminary data from card transactions points to a 0.8% rise in sales excluding vehicles and gasoline. All in all, retail sales are expected to be up 0.5%.

Industrial production (August) – After two months of almost no change in May and June, industrial production picked up in July, posting a 0.5% gain. It’s not likely to last, however, as production is expected to have fallen this past month. Hours worked in August point to a slowdown in the automotive sector and no change in the other manufacturing sectors, for a projected 0.1% decline in manufacturing output. After three months of relatively strong gains, the mining sector could see a reversal of fortunes, and zero growth is expected in the energy production sector. Overall, we anticipate a 0.2% decline in industrial production.

University of Michigan consumer sentiment index (September – preliminary) – After tumbling 35.5 points from its summer 2021 cyclical peak, the consumer sentiment index recorded two consecutive increases in July and August, a first since March and April 2021. Even so, it remains quite low at 58.2. Another increase is expected in September, with a robust labour market (including falling unemployment claims) and a drop in gasoline prices further boosting consumer sentiment. However, it will likely be tempered by this past month’s new rise in mortgage rates and drop in the main stock indexes. We expect to see the University of Michigan index climb to 60.0.

WEDNESDAY September 14 - 8:30

July	m/m
Consensus	-1.0%
Desjardins	-0.6%
June	-0.8%

THURSDAY September 15 - 9:00

August	m/m
Consensus	-4.2%
Desjardins	2.3%
July	-5.3%

FRIDAY September 16 - 8:15

August	ann. rate
Consensus	265,000
Desjardins	268,000
July	275,300

FRIDAY September 16 - 8:30

July	m/m
Consensus	-0.3%
Desjardins	-0.2%
June	0.1%

MONDAY September 12 - 2:00

July	m/m
Consensus	0.3%
June	-0.6%

THURSDAY September 15 - 22:00

August	y/y
Consensus	3.2%
July	2.7%

CANADA

Manufacturing sales (July) – Manufacturing sales are expected to fall for the third consecutive month in July, likely contracting 0.6% m/m following drops of 0.8% and 1.1% in May and June, respectively. This is more optimistic than the -0.9% flash estimate from Statistics Canada. The story should be one of falling prices more than offsetting a modest advance in manufacturing volumes. On the price side, the recent decline in commodity prices and stabilization in the Canadian dollar probably sent the monthly sale price of manufacturing goods lower. Meanwhile volumes are expected to have advanced on a modest improvement in auto production, strong imports of manufacturing inputs, higher export volumes and trend gains in manufacturing employment.

Existing home sales (August) – After 5 consecutive monthly declines, existing home sales are expected to eke out a modest advance of 2.3% m/m in August. This estimate is based on published numbers from local real estate boards, where available. Most notably, the Toronto Regional Real Estate Board estimates that total residential transactions increased by 11.1% on a seasonally-adjusted basis in August relative to July. Other regional real estate boards are more mixed in their assessments, albeit generally more positive than we have seen in the past few months.

Housing starts (August) – After three months above 270K, housing starts are expected to fall from 275K to 268K in August. Sales of existing homes, especially single-family residences, continue to drop, and building permits have recently begun to decline. All of this comes against the backdrop of rising interest rates, which have weighed on housing market activity generally but have yet to show up in housing starts. With the Bank of Canada having dealt Canadian households a 100bps rate increase in July, housing starts could begin to come down from their elevated levels in August.

Wholesale trade (July) – Wholesale trade is expected to contract by 0.2% in July, with wholesale prices likely falling and more than offsetting a modest gain in wholesale volumes. While a negative print, this is still better than the -0.6% early indicator from Statistics Canada. The anticipated advance in wholesale trade volumes reflects an improvement in employment and imports destined for the wholesale market.


OVERSEAS


United Kingdom: Monthly GDP (July) – After several quarters of strong growth, UK real GDP saw a 0.1% (non-annualized) decline this spring. According to monthly GDP data, the worst of the quarter's losses were in April (-0.3%) and June (-0.6%). July's figures will give us a peek at how well the UK economy is faring in the third quarter as it grapples with a number of challenges, including surging energy prices. One positive sign: a 0.3% rise in retail sales in July. August's consumer price index report, due to be released on Wednesday, September 14, should also prove interesting. UK inflation exceeded 10% in July.

China: Retail sales (August) – China's economy still isn't out of the woods. Although things aren't as dire as they were this past spring amid widespread lockdowns, there's still a lack of a real acceleration in economic activity. July's month-over-month change in retail sales was a disappointing 2.7%, and industrial production a similarly weak 3.8%. Between languishing PMI readings, a housing market in crisis and new local lockdowns (although less severe than in the spring), we likely won't see any big improvements in the very short term.

Economic Indicators

Week of September 12 to 16, 2022

Date	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY I2	---	---				
TUESDAY I3	8:30	Consumer price index				
		Total (m/m)	Aug.	-0.1%	0.0%	0.0%
		Excluding food and energy (m/m)	Aug.	0.3%	0.4%	0.3%
		Total (y/y)	Aug.	8.1%	8.2%	8.5%
		Excluding food and energy (m/m)	Aug.	6.1%	6.1%	5.9%
	14:00	Federal budget (US\$B)	Aug.	n/a	n/a	-211.1
WEDNESDAY I4	8:30	Producer price index				
		Total (m/m)	Aug.	-0.1%	-0.6%	-0.5%
		Excluding food and energy (m/m)	Aug.	0.3%	0.3%	0.2%
THURSDAY I5	8:30	Initial unemployment claims	Sept. 5-9	226,000	227,000	222,000
	8:30	Philadelphia Fed index	Sept.	3.1	-2.0	6.2
	8:30	Empire manufacturing index	Sept.	-10.0	-5.0	-31.3
	8:30	Export prices (m/m)	Aug.	-1.1%	-0.5%	-3.3%
	8:30	Import prices (m/m)	Aug.	-1.2%	-0.1%	-1.4%
	8:30	Retail sales				
		Total (m/m)	Aug.	0.0%	0.5%	0.0%
		Excluding automobiles (m/m)	Aug.	0.1%	0.1%	0.4%
	9:15	Industrial production (m/m)	Aug.	0.1%	-0.2%	0.6%
	9:15	Production capacity utilization rates	Aug.	80.3%	80.1%	80.3%
	10:00	Business inventories (m/m)	July	0.6%	0.6%	1.4%
FRIDAY I6	10:00	Michigan's consumer sentiment index – preliminary	Sept.	60.0%	60.0%	58.2
	16:00	Net foreign security purchases (US\$B)	July	n/a	n/a	121.8
CANADA						
MONDAY I2	8:30	National balance sheet	Q2			
TUESDAY I3	---	---				
WEDNESDAY I4	8:30	Manufacturing sales (m/m)	July	-1.0%	-0.6%	-0.8%
THURSDAY I5	9:00	Existing home sales	Aug.	-4.2%	2.3%	-5.3%
FRIDAY I6	8:15	Housing starts (ann. rate)	Aug.	265,000	268,000	275,300
	8:30	International transactions in securities (\$B)	July	n/a	n/a	-17.54
	8:30	Wholesale sales (m/m)	July	-0.3%	-0.2%	0.1%

Note: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of September 12 to 16, 2022

Country	Time	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 12								
Germany	---	Current account (€B)	July	n/a		16.2		
United Kingdom	2:00	Trade balance (€M)	July	-11,300		-11,387		
United Kingdom	2:00	Construction	July	0.5%	5.7%	-1.4%	4.1%	
United Kingdom	2:00	Index of services	July	0.4%		-0.5%		
United Kingdom	2:00	Monthly GDP	July	0.3%		-0.6%		
United Kingdom	2:00	Industrial production	July	0.3%	1.9%	-0.9%	2.4%	
Italy	4:00	Industrial production	July	0.0%	-0.6%	-2.1%	-1.2%	
Japan	19:50	Producer price index	Aug.	0.3%	8.9%	0.4%	8.6%	
TUESDAY 13								
United Kingdom	2:00	ILO unemployment rate	July	3.8%		3.8%		
Germany	2:00	Consumer price index – final	Aug.	0.3%	7.9%	0.3%	7.9%	
Germany	5:00	ZEW survey – Current situation	Sept.	-52.2		-47.6		
Germany	5:00	ZEW survey – Expectations	Sept.	-60.0		-55.3		
WEDNESDAY 14								
Japan	0:30	Industrial production – final	July	n/a	n/a	1.0%	-1.8%	
United Kingdom	2:00	Consumer price index	Aug.	0.6%	10.2%	0.6%	10.1%	
United Kingdom	2:00	Producer price index	Aug.	0.9%	17.5%	1.6%	17.1%	
Euro zone	5:00	Industrial production	July	-1.0%	0.1%	0.7%	2.4%	
Japan	19:50	Trade balance (¥B)	Aug.	-2,085		-2,133		
THURSDAY 15								
Japan	0:30	Tertiary industry activity index	July	-0.1%		-0.2%		
France	2:45	Consumer price index – final	Aug.	0.4%	5.8%	0.4%	5.8%	
Euro zone	5:00	Trade balance (€B)	July	-32.5		-30.8		
China	22:00	Industrial production	Aug.		3.8%		3.8%	
China	22:00	Retail sales	Aug.		3.2%		2.7%	
FRIDAY 16								
United Kingdom	2:00	Retail sales	Aug.	-0.5%	-3.7%	0.3%	-3.4%	
Italy	4:00	Trade balance (€M)	July	n/a		-2,166		
Euro zone	5:00	Consumer price index – final	Aug.	0.5%	9.1%	0.5%	9.1%	
Russia	6:30	Bank of Russia meeting	Sept.	7.50%		8.00%		

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).