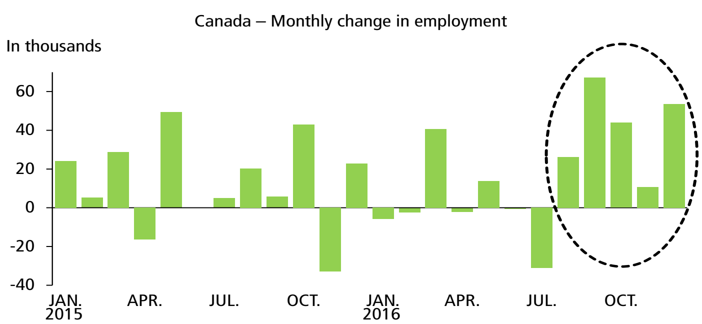
ECONOMIC VIEWPOINT

Strong Canadian job creation: fact or fiction?

The labour market made substantial gains at the end of 2016, creating 201,700 jobs in the last five months of the year. However, besides being very concentrated in terms of sectors and regions, the acceleration was proceeded by lacklustre employment growth early in 2016. Everything therefore suggests that the recent spike is more catching up than a real improvement in the labour market. That being said, employment growth now seems to be back at a level compatible with economic growth, thereby opening the door to an ongoing uptrend in employment for the months to come, although at a more sustainable pace.

Canada's labour market saw very strong job creation in the last five months of 2016. Since August, 201,700 jobs have been created here, corresponding to an average monthly gain of 40,300 jobs (graph 1). Even though the Labour Force Survey data is highly volatile, it is still astonishing to note that such strong job growth persisted for at least five months. What is really going on with the lively growth in employment? Is it real, or is it an ephemeral illusion?

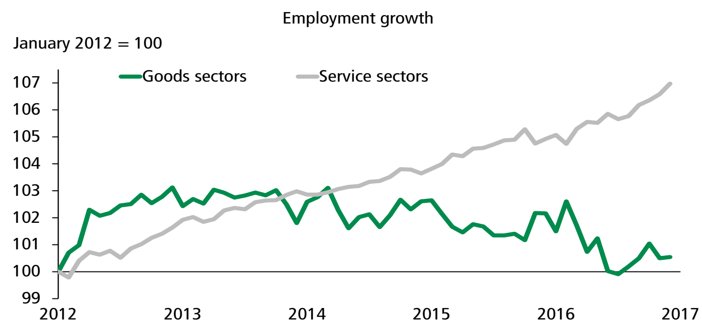
GRAPH 1
Job growth has accelerated since the end of summer 2016



Sources: Statistics Canada and Desjardins, Economic Studies

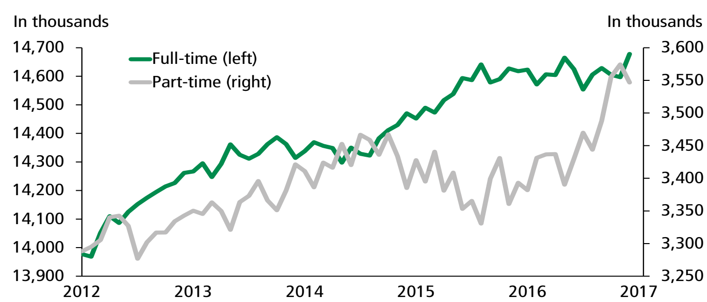
The first thing of note about the recent employment growth is that it is far from generalized across Canada, whether in terms of sectors or regions. This prompts some immediate reservations about the recent months' results. Nearly 90% of the jobs created in the last five months of 2016 were created in the service sector (graph 2). Among others, public administration stands out, adding 52,000 jobs since August. Trade (+31,400 jobs), education (+25,900 jobs) and culture and recreation (+22,800 jobs) are also showing strong job creation. It is, however, disappointing to see that the bulk of these new jobs are part time (graph 3).

GRAPH 2
Jobs are being created in services



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 3
Much stronger growth by part-time employment in Canada



Sources: Statistics Canada and Desjardins, Economics Studies

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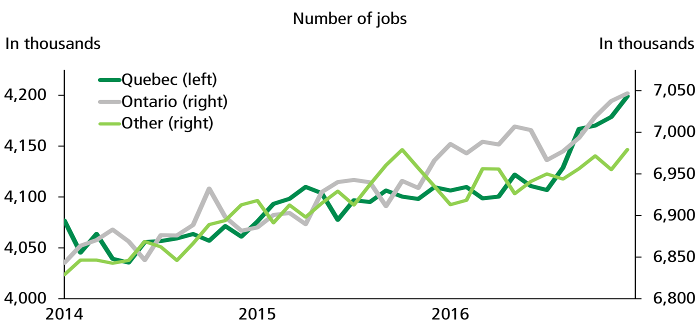
Moreover, the recent gains in employment have primarily happened in Quebec and Ontario (graph 4). Since August, Quebec has gained a total of 92,300 jobs, accounting for nearly 45% of all jobs created during this period in Canada. This proportion is well above the Quebec labour force's relative weight in Canada, which was 23% at the end of 2016. This means that, in just five months, Quebec boasted better job creation than the total recorded for the previous 47 months. Although Ontario's job gains for the last five months of 2016 come in slightly below Quebec's, the province still added 80,100 jobs; this is also a lot for this short a period.

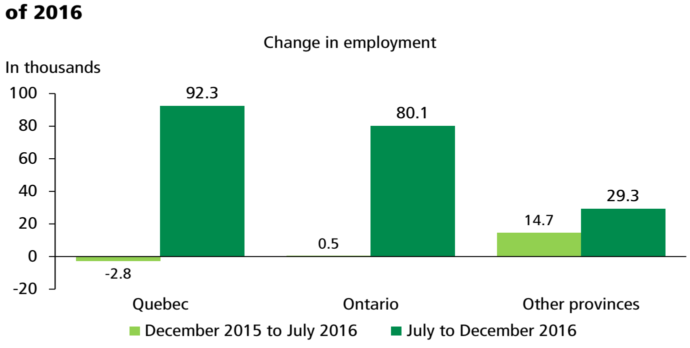
GRAPH 4
Quebec and Ontario lead in terms of recent job gains



Sources: Statistics Canada and Desjardins, Economic Studies

Nevertheless, we have to put these results into perspective. In the first seven months of 2016, Quebec's labour market barely budged, losing a net 2,800 jobs (graph 5). The same is true for Ontario: it created a total of just 500 jobs in the first seven months of 2016. Employment growth in the other provinces was generally more balanced over the year, with 14,700 jobs added in the first seven months of 2016, followed by a rise of 29,300 between August and December. We have seen blips like these in the past, and they are frequently associated with high volatility in the results of the Labor Force Survey.

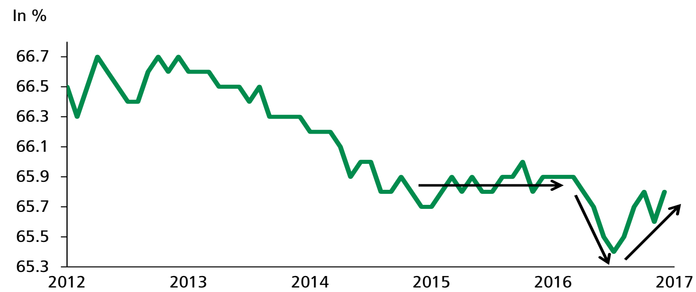
GRAPH 5
Employment growth was very modest in the early months of 2016



Sources: Statistics Canada and Desjardins, Economic Studies

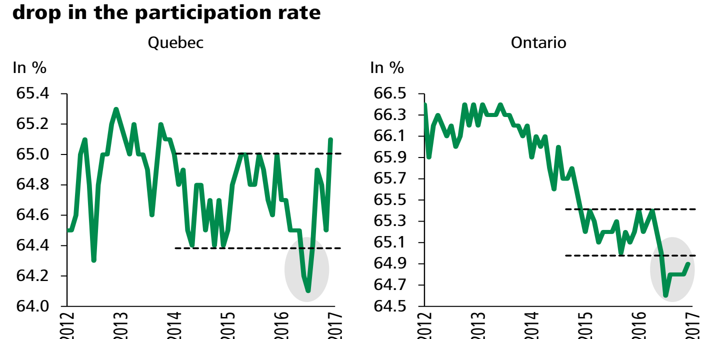
The astounding results for employment seen in recent months have also been reflected in growth by the participation rate.[1] Relatively stable throughout 2015, the participation rate plunged at the start of 2016, going exceptionally low in the summer of 2016 (graph 6). Unsurprisingly, Quebec and Ontario were at the forefront in this slowdown (graph 7). With employment's comeback in the last five months of 2016, the participation rate shot up, returning close to where it was at the end of 2015. It is hard to pinpoint an economic reason for such a temporary dip in the participation rate. This tends to confirm the theory about blips that can essentially be chalked up to the highly volatile results.

GRAPH 6
The participation rate showed temporary weakness in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 7
Quebec and Ontario were especially hard hit by the temporary drop in the participation rate



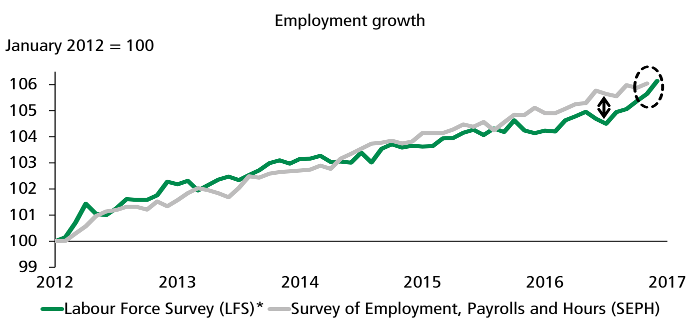
Sources: Statistics Canada and Desjardins, Economic Studies

[1] The participation rate corresponds to the total number of individuals who are active in the labour market (workers and unemployed) as a percentage of the total population.

What does the other survey say?

Under these circumstances, it may also be useful to compare the results of the Labour Force Survey (LFS) with the results for the Survey of Employment, Payrolls and Hours (SEPH). On a comparable basis, removing self-employed workers from the LFS, the two surveys usually show similar trends. However, since the end of 2015, employment as measured by the LFS has advanced much more slowly than employment as measured by the SEPH (graph 8). The employment surge recorded by the LFS as of August 2016 has, however, helped close the gap between the two measures, putting them at very similar levels at the end of 2016. Once again, this seems to confirm the theory about major volatility in the LFS's results in recent months.

GRAPH 8
The gap between the two surveys is closing

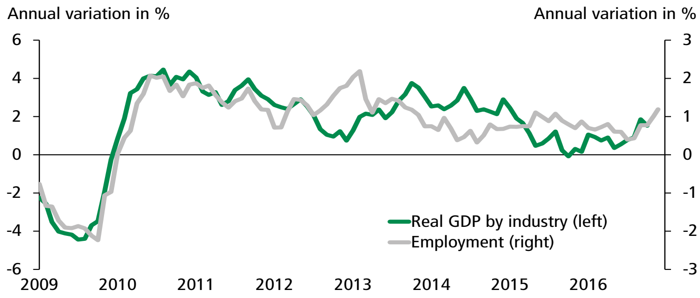


* Excluding self-employed workers.
Sources: Statistics Canada and Desjardins, Economic Studies

Essentially playing catch-up rather than improving

We must conclude that many signs point to heavy volatility in the results. This means that the lively employment growth the LFS recorded in the final months of 2016 attests to some catching up following the anaemic job growth recorded in early 2016. This statement can be corroborated by comparing economic growth with employment growth. Annual growth by real GDP and employment is highly correlated historically, in tandem with the labour productivity. However, a gap emerged between the two measures as of 2015, suggesting that job growth then was a little too fast in relation to economic growth (graph 9). Weak employment growth in early 2016 narrowed this gap and took employment growth back to a pace that was more consistent with economic growth.

GRAPH 9
Economic growth and employment growth are once more in sync



Sources: Statistics Canada and Desjardins, Economic Studies

The better synchronization between employment and economic growth is important, as it lessens the likelihood of seeing the labour market perform poorly in the months to come, despite the outstanding results recorded at the end of 2016. That being said, we cannot expect job creation to remain as lively in the months to come. According to our projections, annual real GDP growth could still pick up a little in the coming months, closing in on 2%. This projection is compatible with job creation of about 15,000 a month on average.

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