



# WEEKLY COMMENTARY

## Wage Growth in Quebec: Good for Households, Bad for Business

By H el ene B egin, Principal Economist

Canada’s job market tanked early in the pandemic only to overheat soon thereafter. The national unemployment rate hit a record low of 4.9% this summer—and it’s even lower in some provinces. For months now, Quebec’s jobless rate has been hovering around 4%, close to April’s 3.9% low.

Other indicators point to a tight labour market as well. The first is the job vacancy rate, which hit 5.9% in June nationwide. That works out to over 1,000,000 unfilled positions, with more than a quarter of those vacancies in Quebec. Based on the province’s population, that means it has more than its share of Canada’s job openings. Its 6.7% job vacancy rate is the highest on record and is well above the national average.

Second is the unemployment-to-job vacancy ratio. There are currently fewer job seekers than job openings in Quebec. In June, there were 6 job seekers for every 10 job openings. That’s a ratio of 0.6, the lowest of any Canadian province. Meanwhile the national ratio reached a record low of 1.0.

Third is wage growth. Nationwide, annual average hourly wage growth jumped from about 2.5% early this year to more than 5% this summer. Wages grew even faster in Quebec, from 3.1% in January to 8.1% in July.

Quebec is seeing strong wage growth in part because it has a bigger labour shortage than Canada overall. It has a lower jobless rate, a high job vacancy rate and not enough available workers to fill the open positions, all of which are putting more upward pressure on wages.

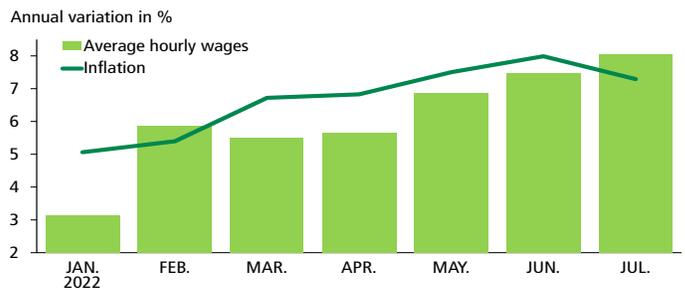
Although wages are rising in almost every sector, they’re increasing faster in Quebec and this growth rate varies by industry. Over the past few months, annual hourly wage growth has hovered around 10% in a number of Quebec industries. Forestry and mining, construction, wholesale and retail trade,

and healthcare have seen the biggest increases. Wages are rising much faster in these industries in Quebec than in Canada as a whole. On the flip side, Quebec wages are growing slower in public administration, utilities, and accommodation and food services.

Faster wage gains in most industries are further evidence that the job market is more overheated in Quebec than in Canada overall. But worker shortages aren’t the only thing pushing wages higher everywhere. Inflation has been soaring over the last year and a half and is expected to remain high over the coming months. As a result, employees are demanding higher wages.

In July, annual hourly wage growth hit 8.1% in Quebec and peaked around 5% nationwide. Inflation in Quebec tracks the national rate and has been in the 7.5% to 8.0% range for a few months now (graph 1). But because Quebec’s labour market is so tight, wages have been growing faster there. This has helped to offset some of the purchasing power losses inflicted by high inflation.

**GRAPH 1**  
Quebec wage growth continues, even outpacing July’s inflation



Sources: Statistics Canada and Desjardins, Economic Studies

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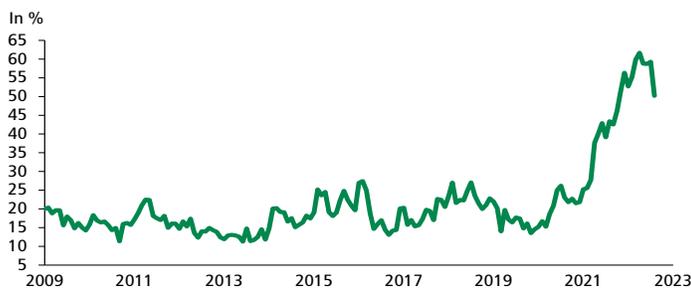
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This complicates things for businesses, however. They're contending with high inflation that's driving up production and labour costs. According to a survey by the Canadian Federation of Independent Business (CFIB), about 65% of businesses say wage costs are a major challenge, the highest figure in the survey's history.

Businesses have already begun passing on higher costs to consumers, and we could see more of this in the near future. According to the CFIB, compared to 2020, an increasing portion of SMEs now expect to raise their prices at least 5% in the next year (graph 2).

**GRAPH 2**  
**Portion of Canadian SMEs that plan raise to their prices at least 5% in the next year**



Sources: Canadian Federation of Independent Business and Desjardins, Economic Studies

This is huge. Even if inflation continues to come down slowly over the coming months, the labour shortage will continue to put upward pressure on wages. And businesses will have a harder and harder time absorbing this cost increase. We could therefore see more businesses pass on the cost of higher wages to consumers, keeping inflationary pressures high.

But the economy is poised to slow dramatically both in Quebec and nationwide, sending the unemployment rate higher next year. This could keep things from spiralling out of control—at least temporarily. However, demographic trends are causing the labour shortage to become a more structural issue and we'll likely see wage pressures resurface in the next expansion cycle.

# 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 August 30 - 9:00

<b>June</b>	<b>y/y</b>
Consensus	19.0%
Desjardins	19.4%
<b>May</b>	<b>20.5%</b>

## TUESDAY August 30 - 10:00

<b>August</b>	
Consensus	97.4
Desjardins	98.5
<b>July</b>	<b>95.7</b>

## THURSDAY September 1 - 10:00

<b>August</b>	
Consensus	52.0
Desjardins	51.3
<b>July</b>	<b>52.8</b>

## FRIDAY September 2 - 8:30

<b>August</b>	
Consensus	300,000
Desjardins	275,000
<b>July</b>	<b>528,000</b>

## TUESDAY August 30 - 8:30

<b>Q2 2022</b>	<b>\$B</b>
Consensus	n/a
Desjardins	6.80
<b>Q1 2022</b>	<b>5.03</b>

## UNITED STATES

**S&P/Case-Shiller index of existing home prices (June)** – US home price growth remains strong, with the S&P/Case-Shiller index posting a monthly gain of 1.3% in May. However, price trends should begin to reflect the housing market slowdown we've been seeing hints of since spring. As a result, we expect to see slower month-on-month growth in the S&P/Case-Shiller index. A 0.9% rise is projected for June, which would bring the year-over-year change down from 20.5% to 19.4%.

**Conference Board consumer confidence index (August)** – Although US consumer confidence has been taking a beating in recent months, we expect to see a modest improvement in the Conference Board index in August. Positive factors include lower gas prices and a rise in the main stock indexes. We've even seen some cracks in Washington's political deadlock. Other confidence indexes also showed increases for August. The Conference Board index is projected to rise from 95.7 to 98.5.

**Manufacturing PMI (August)** – July saw the manufacturing Purchasing Managers Index (PMI) fall from 53.0 to 52.8. While only a slight decline, it's part of a larger downward trend from a peak of 61.6 in May 2021. July's reading is the lowest since June 2020. Based on the regional manufacturing index data published to date, it's expected to edge closer to the 50 mark in August.

**Job creation according to the establishment survey (August)** – July was a blockbuster month for job creation with 528,000 new jobs added—more than double consensus expectations. It also marks a change of pace from the bad news plaguing the US economy. We do, however, expect to see a more modest gain in August. PMI employment components have been declining in recent months, but we've seen a recent stabilization in unemployment claims, which rose between May and July. We expect another 275,000 jobs to be added in August and the unemployment rate to hold steady at 3.5%.

## CANADA

**Current account balance (Q2)** – We expect the current account to be in surplus again in Q2, moving further into the black with a \$6.8 billion print. That would be an improvement on the strong Q1 number and the largest surplus since before the global financial crisis. An exceptionally strong goods trade balance—anchored by higher export prices via surging commodity prices—should drive the result. But in all likelihood, a deteriorating services trade balance and lower net investment income will partly offset outsized advances in the goods sector.

**WEDNESDAY August 31 - 8:30**

<b>Q2 2022</b>	<b>ann. rate</b>
Consensus	4.4%
Desjardins	4.4%
<b>Q1 2022</b>	<b>3.1%</b>

**Real GDP (Q2)** – According to our projections, real GDP grew at an annualized pace of just over 4.4% (q/q, saar) in the second quarter. We estimate that consumption, business investment and inventories propelled the Q2 advance, offsetting weakness from the nascent correction in the Canadian housing market and a drag from net exports. Outlays on services were likely behind much of this expansion, with Q2 growth getting a sustained boost when January’s coronavirus lockdowns were lifted. Moreover, investment in non-residential structures appears to have been bolstered by strong commodity prices, as demonstrated by sharply higher rig counts in the booming resource sector. Investment in machinery and equipment also continued apace, as strong demand and a tight labour market fuelled renewed capital investment. In the external sector, surging real imports well outpaced the increase in exports and domestic demand, which supports our view that inventory accumulation accelerated in the second quarter. For June real GDP, we expect a print in line with Statistics Canada’s previously published flash estimate of +0.1%. For the July flash estimate, look for a modest dip of around 0.1%.

**THURSDAY September 1 - 8:30**

<b>July</b>	<b>m/m</b>
Consensus	-0.8%
Desjardins	0.1%
<b>June</b>	<b>-1.5%</b>

**Building permits (July)** – Our forecasts call for the value of building permits to advance by 0.1% in July following a 1.5% contraction in June. This reflects sustained demand for residential building permits, as housing starts and renovation activity remain elevated despite the downturn in the existing home market. By contrast, non-residential building permits are well off their peak.

**FRIDAY September 2 - 8:30**

<b>Q2 2022</b>	<b>q/q</b>
Consensus	n/a
Desjardins	3.3%
<b>Q1 2022</b>	<b>-0.5%</b>

**Labour productivity (Q2)** – Labour productivity likely improved in the second quarter, hitting +3.3% (q/q, saar) as the pace of gains in hours worked slowed while the economy posted a solid advance. This is quite a turnaround for labour productivity, which contracted in each of the prior seven quarters as increases in hours worked consistently outpaced gains in real GDP. Meanwhile, as wages accelerated in Q2 and hours worked are declining, we’re forecasting a deceleration in total compensation growth. Consequently, we expect unit labour costs to be roughly flat in Q2 after rising sharply to begin the year.

**OVERSEAS**
**TUESDAY August 30 - 21:30**

<b>August</b>	
Consensus	49.3
<b>July</b>	<b>49.0</b>

**China: Manufacturing PMI Index (August)** – After hitting a low of 47.4 in April due to the strict lockdowns at the time, China’s manufacturing PMI slowly regained some ground over the following two months to stand at 50.2 in June. But it dipped back down to 49.0 in July, suggesting that the Chinese manufacturing sector isn’t out of the woods yet. We should know more after seeing August’s PMI.

**WEDNESDAY August 31 - 5:00**

<b>August</b>	<b>y/y</b>
Consensus	9.0%
<b>July</b>	<b>8.9%</b>

**Eurozone: Consumer Price Index (August, preliminary)** – Eurozone inflation has continued to pick up speed over the past few months. Energy prices remain a big driver, with annual variation coming in at nearly 40%. Not to be outdone, core inflation also rose to 4.0% in July. We expect to see very strong price fluctuations continue over the coming months.

# Economic Indicators

## Week of August 29 to September 2, 2022

Date	Time	Indicator	Period	Consensus		Previous data
<b>UNITED STATES</b>						
<b>MONDAY 29</b>	14:15	Speech of a Federal Reserve Governor, L. Brainard				
<b>TUESDAY 30</b>	8:00	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
	9:00	S&P/Case-Shiller home price index (y/y)	June	19.0%	19.40%	20.50%
	10:00	Consumer confidence	Aug.	97.4	98.5	95.7
	11:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
<b>WEDNESDAY 31</b>	8:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
	9:45	Chicago PMI index	Aug.	52.8	52.0	52.1
	18:00	Speech of the Federal Reserve Bank of Dallas President, L. Logan				
	18:30	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
<b>THURSDAY 1</b>	8:30	Initial unemployment claims	Aug. 22-26	250,000	248,000	243,000
	8:30	Nonfarm productivity – final (ann. rate)	Q2	-4.5%	-4.0%	-4.6%
	8:30	Unit labor costs – final (ann. rate)	Q2	10.8%	10.1%	10.8%
	10:00	Construction spending (m/m)	July	-0.1%	-0.7%	-1.1%
	10:00	ISM manufacturing index	Aug.	52.0	51.3	52.8
	15:30	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
	---	Total vehicle sales (ann. rate)	Aug.	13,550,000	13,300,000	13,350,000
<b>FRIDAY 2</b>	8:30	Change in nonfarm payrolls	Aug.	300,000	275,000	528,000
	8:30	Unemployment rate	Aug.	3.5%	3.5%	3.5%
	8:30	Weekly worked hours	Aug.	34.6	34.6	34.6
	8:30	Average hourly earnings (m/m)	Aug.	0.4%	0.3%	0.5%
	10:00	Factory orders (m/m)	July	0.2%	0.6%	2.0%
<b>CANADA</b>						
<b>MONDAY 29</b>	---	---				
<b>TUESDAY 30</b>	8:30	Current account balance (\$B)	Q2	n/a	6.80	5.03
<b>WEDNESDAY 31</b>	8:30	Real GDP by industry (m/m)	June	0.2%	0.1%	0.0%
	8:30	Real GDP (ann. rate)	Q2	4.4%	4.4%	3.1%
<b>THURSDAY 1</b>	8:30	Building permits (m/m)	July	-0.8%	0.1%	-1.5%
<b>FRIDAY 2</b>	8:30	Labour productivity (q/q)	Q2	n/a	3.3%	-0.5%

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 August 29 to September 2, 2022

Country	Time	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 29</b>								
Japan	1:00	Leading indicator – final	June	n/a		100.6		
Japan	1:00	Coincident indicator – final	June	n/a		99.0		
<b>TUESDAY 30</b>								
Euro zone	5:00	Consumer confidence – final	Aug.	n/a		-24.9		
Euro zone	5:00	Industrial confidence	Aug.	2.4		3.5		
Euro zone	5:00	Services confidence	Aug.	8.7		10.7		
Euro zone	5:00	Economic confidence	Aug.	98.0		99.0		
Germany	8:00	Consumer price index – preliminary	Aug.	0.3%	7.8%	0.9%	7.5%	
Japan	19:50	Industrial production – preliminary	July	-0.5%	-2.4%	9.2%	-2.8%	
Japan	19:50	Retail sales	July	0.3%	1.9%	-1.4%	1.5%	
China	21:30	PMI manufacturing index	Aug.	49.3		49.0		
China	21:30	PMI non-manufacturing index	Aug.	52.2		53.8		
<b>WEDNESDAY 31</b>								
Japan	1:00	Consumer confidence	Aug.	29.3		30.2		
Japan	1:00	Housing starts	July		-3.5%		-2.2%	
France	2:45	Personal consumption expenditures	July	-0.2%	-3.8%	0.2%	-4.4%	
France	2:45	Consumer price index – preliminary	Aug.	0.5%	6.2%	0.3%	6.1%	
France	2:45	Real GDP – final	Q2	0.5%	4.2%	0.5%	4.2%	
Euro zone	5:00	Consumer price index – preliminary	Aug.	0.4%	9.0%	0.1%	8.9%	
Italy	5:00	Consumer price index – preliminary	Aug.	0.5%	8.1%	0.4%	7.9%	
Japan	20:30	PMI manufacturing index – final	Aug.	n/a		51.0		
<b>THURSDAY 1</b>								
Japan	1:00	Vehicle sales	Aug.		n/a		-13.4%	
United Kingdom	2:00	Nationwide house prices	Aug.	0.1%	8.9%	0.1%	11.0%	
Germany	2:00	Retail sales	July	-0.1%	-6.5%	-1.6%	-9.8%	
Italy	3:45	PMI manufacturing index	Aug.	48.1		48.5		
France	3:50	PMI manufacturing index – final	Aug.	49.0		49.0		
Germany	3:55	PMI manufacturing index – final	Aug.	49.8		49.8		
Euro zone	4:00	PMI manufacturing index – final	Aug.	49.7		49.7		
Italy	4:00	Unemployment rate	July	8.1%		8.1%		
United Kingdom	4:30	PMI manufacturing index – final	Aug.	46.0		46.0		
Euro zone	5:00	Unemployment rate	July	6.6%		6.6%		
Italy	5:00	Real GDP – final	Q2	1.0%	4.6%	1.0%	4.6%	
<b>FRIDAY 2</b>								
Germany	2:00	Trade balance (€B)	July	4.6		6.4		
Euro zone	5:00	Producer price index	July	2.5%	35.8%	1.1%	35.8%	

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).