

# Canada: A failing grade for the (July) employment report?

Yes, no, maybe.

**Right off the top, lets deal with the easy stuff. Yes the Canadian economy shed nearly -10K jobs in July. A negative is rarely a positive except in economics. So too did the unemployment rate back up to 8.0% from 7.9%. And of course had the participation rate not declined by a 1/10ppt the rate would have touched 8.1%. All the makings of a failing grade and not really a great start to the third quarter of the year it would seem.**

Yet when we plunge into the report what we find is that the bulk of the job losses fell out of the educational services category which dropped by -65.3K positions. In the venerable words of Alice Cooper, "no more pencils, no more books, no more teacher's dirty looks, school's out for summer".

Are we overly concerned that in July educational services drops a significant load of jobs at the start of summer vacation? No not really. There is the very reasonable expectation that we get these jobs back in September. Outside of the educational services category, the jobs picture brightens significantly beyond the picture painted by the headline which at -9.3K is off the market median of 12.5K and back of our own forecast for 5.0K.

Categorically, the largest jobs losses were found in the educational services and as indicated we are inclined to view this as a seasonal event (even though Statcan seasonally adjusts) as the school year winds up. More pressing however, is the job losses we see coming out of the FIRE's (financials, insurance real estate) sector which shed nearly 30K positions. An event that corresponds with a well documented decline in the Canadian real estate sector. Private real estate sector data on existing home sales reflected a -8.2% m/m decline in activity in June. Why is this important outside of the fact that economists are lumped into the hard hit financial services category? The FIREs sector accounts for 21% of GDP. It is the single largest category. Recall that a robust real estate market in 2009 helped Canada skate through what was a wrenching economic recession for many of the developed world economies. Slackening activity in the real estate market and the precipitous loss in jobs point to a potentially real impact on GDP. And as the real estate sector continues to slacken as most are forecasting, we could reasonably expect to see job losses continuing to weigh on this sector and drag on economic growth.

On the upside, the big winner in June was found in the goods producing sector where manufacturing employment jumped by 28.5K positions at a time when one would have expected to have seen seasonal related job losses as the auto sector winds down for summer retooling. Overall, the hard hit goods producing sector, which bore the brunt of the economic recession, saw employment rise by 42K positions. By contrast, the service sector which has been piling on jobs at a rabid clip (adding 242K in the second quarter alone), dropped -51.3K positions.

Now for the tricky stuff. The rather incomprehensible stuff.

Front and centre, the July employment report contained a seismic shift from full time employment -139K into part time jobs +129.7K. One would have expected to see quite the opposite as those forced into unsuitable part time jobs due to economic recession would under auspices of economic recovery have been able to move into more suitable full time employment. One explanation may be demographic. In the report Statcan refers to a growing participation in the work force of those 55 years and older which have over the past 12 months experienced the fastest rate of employment growth. The tendency in the 55 and older

category may be to prefer part time employment to full time work. And of course, in a word, it's summertime. It's a bang up summer and after all who wants to work a full day.

But there are more troubling aspects associated with this flux between part time and full time employment. The optimism that greeted Canadian employers at the outset of the first quarter of 2010 was in the second quarter of 2010 replaced by worrying events in Europe. Canada seemed to power through the European credit crisis in Q2/10 with an aggressive spate of jobs growth of historic proportions, content in the view that the US economic recovery was still in tact. By July, the picture of economic optimism had been replaced by uncertainty and an uneven growth profile for the US. Is it this concern for that resonates in this report? That encouraged a scaling back in full time work?

To early to say at this juncture. The old adage that one report does not a trend make. And what are 10K jobs lost against the backdrop of the 227K positions that have been created in the second quarter alone? But a minor tremor in the force. Yet against the backdrop of the uneven nature of the US economic recovery, it raises the concern that the July employment report is the tip of an HR knife.

For now, we are content to look at the -65K jobs in the educational sector and chalk that up to seasonal factors. Outside of these losses, we are left with an impressive jobs report, albeit one pulled around by some seasonality. Yet, it is a report that when we slide up against the broader backdrop of the US economic recovery, it presents us with some niggling aspects that tickle the senses our crusty economist within.

# Disclosure appendix

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**HSBC Securities (Canada) Inc.**  
70 York Street, 8th Floor  
Toronto, Ontario M5J 1S9, Canada  
Telephone +1 416 868 7523  
Fax +1 416 364 2543  
Website: [www.research.hsbc.com](http://www.research.hsbc.com)

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