Canada: Return of the jobs generating juggernaut.

April employment up 109K, unemployment down 0.1ppt to 8.1%

They're back. Jobs that is. Averitable employment gusher. Albeit employers seemed a little discriminating in their largesse in April, with services lavishing opportunity on the labor force while goods producing jobs go wanting. Overall, service sector employment capture the bulk of the growth, generating just less than 107K positions. Goods sectors, 2.1K (unrounded as every job seemed to matter for that cateogory). Still, in the current environment, may be we should just take the good and not ask a lot of questions.

Yet it is hard not to ask a lot of questions. True, if one is going to see significant upside, this is the time in the economic cycle when one would expect to be seeing it.

But how did we all get it so wrong. Canada's April employment report reflected some rather significant upside to the jobs picture with a net 109K positions created in April. This well ahead of the median at 25K and our own more pessimistic 10K that was largely predicated on unwinding a good slug of those transitory jobs that would have been connected with the Olympics. The overall magnitude of the jobs gain was sufficient enough to not only drive the unemployment rate lower by 0.1ppt to 8.1%, but also offset the impact of a 0.2ppt rise in the participation rate. Broadly speaking, had the labor force grown by its natural rate of ~22K workers and not been swelled by the 92K workers who rejoined the economy in April, Canada's unemployment rate would have blown well through the 8% mark to 7.8%.

Self employed accounted for only 2K of the jobs created. Nearly all new positions were in the private sector with part time employment up 65K and full time up 44K. Average hourly earnings continues to trend lower, growing at just 2.0% - not really inflationary given that the BoC targets and inflation rate of just 2.0%.

Surprises abound. Not the least of which is that the services sector rose by 107K jobs. Goods producing industries were standing still in April, generating a little over 2K jobs as a big jump in construction jobs (+24.4K) was offset by a large decline in manufacturing (-20.6k). Trade, business support and "other services" drove the bulk of the 107K jobs that came out of the service sector. In that sense, we would be more understanding of the headline had the jobs growth hit the categories one would have expected to be the primary beneficiaries of economic recovery.

Recall that the bulk of the jobs destruction generated by economic recession was carried by the goods sector. At its peak, between September 2008 and August 2009, the goods sector had shed a whopping 392K positions. By contrast, employment in the services sector over the same period actually increased by a marginal amount. And in that, we harbor some scepticism as to the orders of magnitude with regards to jobs growth and the actual economic situation. We would have preferred to have seen more of a broader application of jobs growth rather than the somewhat chunky nature of this report. Under the auspices of economic recovery, one is often inclined to think that rising waters raise all boats. Instead, we have jobs growth that is not necessarily in the wrong categories, but not exactly concentrated where we would have expected to have seen it. And of course this is a household survey which often raises some unexpected quirks regardless of the fact that the data is back checked.

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In that the goods sector led the economy down the path to recession, it is a little disappointing that the goods sector failed to really participate in the jobs recovery. Sure, construction jobs were abundant, although given that rates are largely expected to be heading higher and activity in the household sector broadly expected to moderate significantly in the second half of 2010 tempers a little of our enthusiasm.

Historically, this is the largest percentage gain in jobs in 8 years. In a market starved for goods news, indeed this provides some welcome comfort food. Although monetary policy is never set on a single set of data, the market interest in employment numbers as the means by which the economic picture is boiled down into a seemingly single set of digits, is expected to encourage market capital to once again price towards a rate hike out of the BoC at the June 1 meeting. A view that had been severely challenged by markets lurching from greed to fear.

HSBC is forecasting a 25bp rate hike at the June 1 meeting. Economic recovery is very much at the fore for Canada, an economy not nearly so severely hit by recession as some of the other developed economies. As enthusiastic as we are about the economic recovery story and today's jobs numbers, the crusty economist in us would suggest that the headline jobs growth none-the-less may perhaps be a slight exaggeration of the actual economic realities that confront Canada. As a small open economy, Canada's economic realities are apart a parcel of the broader global economic landscape with particular deference to the tone and tenor emanating out of the US.

Economic recovery is the theme for Canada and it is in this context that the number will be interpreted as largely it should be. Yet there should be some inclination when attempting to "price" this report in the context of the market and economic recovery that while fantastically strong, there is reason to temper some of the optimism that may be associated with a jobs gain that is numerically the largest ever recorded since 1976. Yes, the report is surprising on many fronts, some good but some perhaps not quite so good.

Disclosure appendix

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2 All market data included in this report are dated as at close 07 May 2010, unless otherwise indicated in the report.

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