

Canadian net jobs up 43K, unemployment down 0.1ppt to 8.3%.

Jobs growth yes, but reservations persist.

The Canadian economy generated 43K jobs in January, driving the unemployment rate down from 8.4% to 8.3%. The participation rate remained unchanged. A much better outcome than the median of expectations at 15K and much better than our own forecast looking for a decline of -15K.

Our view to a net decline in jobs had been predicated on a settling out of sizeable jobs gains in a number of categories in previous reports that seemed excessive. Still, despite the upside surprise, the underlying employment profile remains less than inspiring with nearly all of the jobs growth landing in the part time category. Goods producing sectors continue to shed jobs, dropping -23K.

As has been the case throughout much of the recession, the goods producing sector has borne the brunt of the economic downturn. Since January of 2007, the goods producing sector is down 324K jobs. Service sector employment was up 66K. By contrast, since January 2007, the service sector added 596K positions.

For the January jobs report, it becomes clear that not all jobs are created equal. The nature of the jobs growth (part time), youth (+29K) and the categorical increases (trade and accommodation/food services 37.5K) tend to detract from the quality of the jobs and their respective contributions to GDP. So too the rather significant jump in business, building and support services (+34.4K) seem outsized given that it represents a 6.6% increase in total employment in the sector - in just one month. Of course this does offset a rather sizeable decline that occurred in the previous month.

Other issues that have yet to be resolved include the rather large run up in temporary jobs in December in the health services category which were associated with the national H1N1 vaccination program. The rollout of a national vaccination program contributed to the creation of an outsized 35K jobs for healthcare in the December jobs report, positions which are expected to be wound down in the very near future as the extension of the program into workplace vaccinations comes to a close.

For the goods producing sector, the picture was rather bleak. The only bright spot to be found in the natural resources sector which added 5.7K positions. Although stories out of the energy patch speak to a difficulty of rehiring those that have been earlier downsized. Outside of resources, agriculture dropped a little over 10K position, utilities down -2.2K (mild winter conditions), construction flat (-0.4K) and manufacturing down (-15.7K).

Net, net, while the jobs report speaks to an employment renaissance, recall that this time last year the economy was on the cusp of shedding over a quarter million jobs over the course of that first quarter in 2009, it none the less is not likely to feel like recovery for many, for some considerable period of time to come. Business investment in North America is tentative. Public sector demand has yet to hand off the economic football to private sector demand. For Canada, the BoC is suggesting that this will be accomplished by Q1/11.

From a growth standpoint, the economic recovery is expected to be incremental in nature rather than the typical post recession boom of previous recession. Longer term growth prospects remain challenged by the fiscal austerity that looms as governments

move from fiscal largess to wrestling with burgeoning budgetary deficits. And while Canada's debt to GDP numbers are the envy of the G7, as a small open economy, Canada has significant exposure to externalities. Which is to say, our economy is a by product of the global economic condition. Particularly that condition as it exists in the US.

Despite what is ostensibly a changed jobs picture - from the jobs destruction that characterized the final quarter of 2008 and the first half of 2009 on over to jobs creation in the second half of 2009 - the economic recovery, while on track, remains hampered by the shifting of private sector leverage in the developed world on over to the public sector, aging demographics and a global economy that largely over built itself during the heady days that preceded financial crisis and economic recession.

For those in the goods producing categories, the 15.7K jobs lost in manufacturing, continues to speak to the sawed toothed nature of the economic recovery. While markets tend to focus on the employment reports, and there is certain good news element here (just not as good as the headline suggests), against the broader economic backdrop that persist, the reality is a little colder and somewhat starker.

Recovery yes, but incremental economic recovery only.

Disclosure appendix

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