A Tale of Two (Very Different) Job Recoveries

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As U.S. firms dip their toes in the hiring pool, Canadian firms are diving in head first, spurring the fastest job growth in 23 years. Compared with Americans, job prospects for Canadian workers are the best in three decades. The stark differences in labour markets will affect the outlook for the economy, interest rates and the loonie.

Compared with the previous two recessions, the recent slump in Canadian employment was much shorter and shallower and the recovery faster *(Chart 1)*.[1] Of the 417,400 net jobs lost in the recent downturn, 97% (or 403,000) have already returned. Assuming moderate growth in July, employment will have regained all of its losses within one year, about half as long as in the previous two recoveries. The 2.4% increase in employment in the past 11 months is not exceptional, as stronger growth has occurred one-sixth of the time in the past 15 years. What is stunning, however, is the recent acceleration. The 5.5% annualized gain in the past 3 months is the fastest since 1987 and three-times the normal rate in the past 15 years. In addition, the outlook remains bright, as many firms intend to boost hiring in the year ahead according to the latest Business Outlook Survey.

CHART 1

A LESS PAINFUL SLUMP...

Canada (100 = peak employment entering recession)

Employment

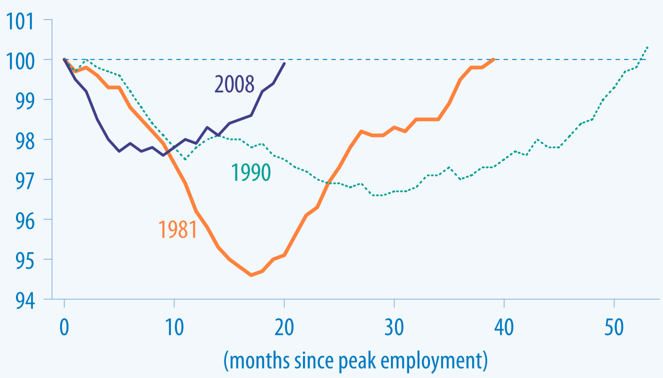
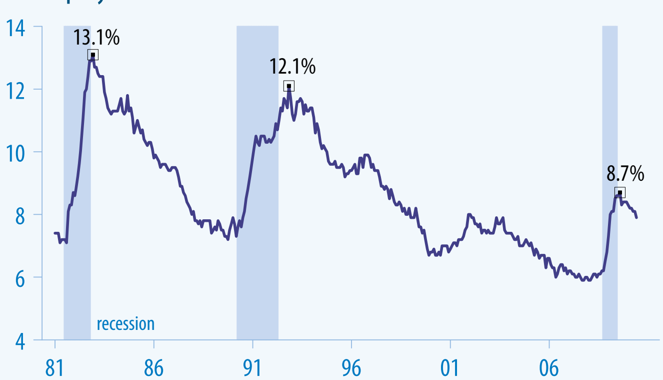


CHART 2

...AND LESS TERRIBLE JOB PROSPECTS

Canada (percent : s.a.)

Unemployment Rate



In the recent downturn, Canada's jobless rate rose half as much as in the previous two recessions (on average) and peaked around four ppts lower *(Chart 2)*. It has retraced one-third of its 2.8-ppts increase, and (at 7.9%) is now close to the average of the past 45 years.

A number of Canadian sectors have already regained their job losses (e.g., professional, scientific and technical services; health care and social assistance; wholesale and retail trade; and education), while several others have made big strides (e.g., construction, resources and business services). Only manufacturing, which accounted for half of the total job losses, continues to bleed workers due to the high dollar and weak U.S. demand. Because Canada's banking system and housing market were less affected by the credit crisis, financial services and construction held up much better and recovered more quickly than in the U.S.

[1] It's worth noting that Canada's "other" jobs survey, which canvases firms instead of households, shows a somewhat steeper decline in jobs of 2.7% (versus 2.4%) and a slower recovery (at least to April 2010) than the timelier household survey. The true job trend is probably in the middle, though the differences are not substantive.

CHART 3

CANADIANS FINDING JOBS MUCH FASTER THAN AMERICANS

(weeks : s.a.)

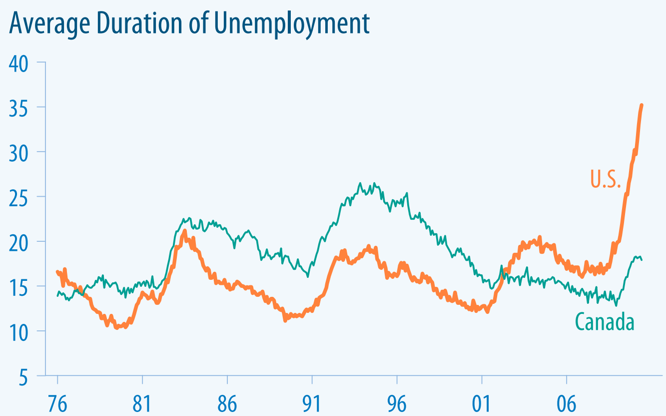


TABLE 1

SHORTER AND SHALLOWER

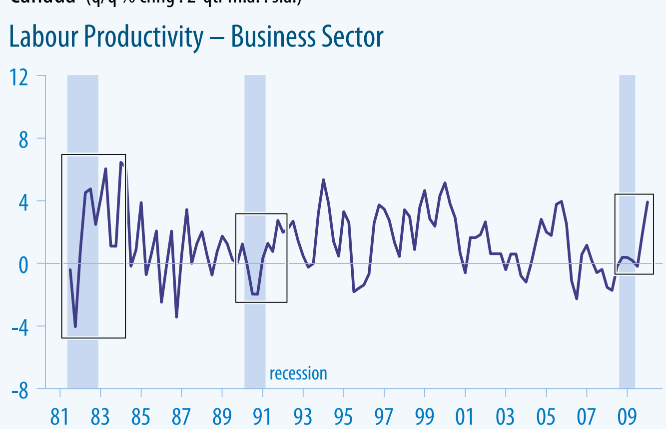
Real GDP

	Percent Contraction	Number of Quarters	Period
Canada	**3.3**	**3**	**2008Q4 – 2009Q2**
	3.4	4	1990Q2 – 1991Q1
	4.9	6	1981Q3 – 1982Q4
United States	3.7	6	2008Q1 – 2009Q2

CHART 4

ONE AREA WHERE RECOVERY HAS BEEN SLOW

Canada (q/q % chng : 2-qtr m.a. : s.a.)



Employment has rebounded sharply in most provinces. In fact, Quebec, Manitoba, Saskatchewan and PEI have set new highs, while Ontario and Nova Scotia are within striking distance. Alberta and B.C. have lagged, but are rapidly gaining ground on strength in resources.

Unemployed Canadians should be glad they don't live in the U.S. The U.S. private-paid nonfarm sector has regained just one-sixth of its 7.5% decline in net employment (or 8.5 million workers, the worst slump since at least 1948), while Canada has recovered nearly three-quarters of its 4.3% loss. Among this group of workers, Canada's private sector is on track to fully recover its job losses by year's end, while the U.S. could take until mid-2013 based on expected average growth of about 200,000 jobs per month in the next three years. But even that won't much help the millions of new and returning labour force members find work, keeping the U.S. unemployment rate above 7% through 2013.

On an equivalent U.S. basis, Canada's unemployment rate is only 6.8% versus 9.5% south of the border. Except for late last year, the gap has never been wider in the past 34 years. Moreover, Canada's "all-in" unemployment rate (which considers discouraged workers who have left the labour force and part-time workers who want full-time work) is almost 6 ppts below the U.S. rate of 16.5%. Nearly half of the unemployed in the U.S. have not worked in over six months, a proportion that is roughly double that of the previous four peaks. The average duration of unemployment in the U.S. is about double that in Canada, the widest spread on record *(Chart 3)*.

Canada's shorter and somewhat milder recession explains, in part, why employment hasn't fallen as much this time as in the previous two downturns or as much as in the U.S. (*Table 1*). Less well understood is the role of labour productivity in driving recent job trends. While labour productivity normally slows in the early stages of a recession (because layoffs often lag the drop-off in sales), Canadian productivity was somewhat slower to bounce back this time than in previous downturns, possibly because firms were inclined to hoard workers who were in short supply before the recession started (*Chart 4*). The cross-border difference is more puzzling, as U.S. productivity has grown at the fastest rate in nearly half a century (6.1% y/y to Q1). American small businesses, in particular, have been reluctant to hire owing to a lack of confidence in the economic outlook and difficulties obtaining credit.

By shoring up confidence and income, strong job growth should help sustain Canada's economic recovery. Conversely, weak employment growth in the U.S. will restrain American household spending, which is still hampered by tight credit standards. High U.S. joblessness has strained state budgets, resulting in tax hikes and service reductions, while prolonged joblessness risks eroding worker skills and productivity (a concern of Chairman Bernanke). Canada could return to full employment by late 2011 (with the unemployment rate easing towards 7%), while the U.S. could be awash in surplus labour until 2015, implying greater inflation risk in Canada than in the U.S. Accordingly, the Bank of Canada will likely continue to tighten policy, while the Fed could be on hold for another year and may even need to revive its unconventional policy easing, suggesting Canadian bonds will underperform Treasuries in the near term. Short-term rates could be 1½ ppts higher in Canada than in the U.S. before the Fed squeezes the tightening trigger, which will likely push the Canadian dollar to parity next year, once worries about European sovereign debt and global economic growth subside.

The Bottom Line: Canada's stunning jobs recovery is bullish for the economy and Canadian dollar, though bearish for bonds. Meantime, the lack of a meaningful recovery in jobs south of the border implies downside risks to the U.S. economy and greenback, while supporting Treasuries.