



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

LFS Employment – December: Ending 2017 with a Bang

This morning's release of the LFS employment report surpassed market expectations once more. Let us start with general observations showing the significant improvement in labour market conditions:

- Total employment soared by 79K in December and 80K in November, the third best 2-month performance since data became available in the 1970s.
- Total employment soared by 423K during the last 12 months, the best performance since 2003.
- The employment rate of 62% stands at its highest level in the current business cycle.
- The participation rate has been flat during the last 12 months. Thus, Canada's unemployment rate fell at its fastest pace since 2000, reaching a 4-decade low of 5.7% in December.

Given the global growth momentum, job gains are registered across several cyclical industries. The manufacturing sector is particularly roaring back, registering its strongest 12-month job gain since the early 2000s decade (+86K). Compared to a year ago, job creation stayed above trend in households and business-related sectors such as wholesale/retail trade (+79K), construction (+51K), transportation (+53K) and finance/insurance (+53K).

Regionally, Quebec's labour market performance is astonishing. Total employment rose strongly for a third consecutive month in December (+27K), led by full-time positions in the services sectors. The province's unemployment rate dropped like a stone from 6.1% in October to a new record low of 4.9% in December (see chart). Quebec's employment rate stands at a record high 61.6%, up substantially from a year ago.

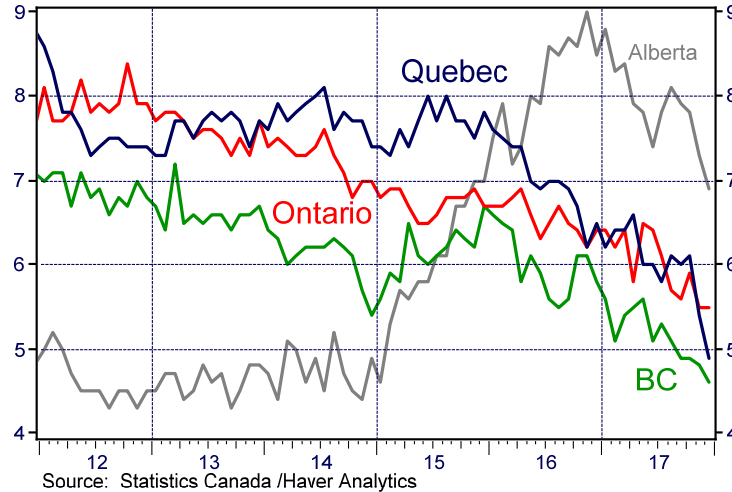
The momentum is also encouraging in Western Canada. In BC, the only province with an unemployment rate lower (than Quebec's at 4.6%), employment increased for a second consecutive month in December (+6K). With WTI crude oil prices rising above US\$60 per barrel, it is not surprising to see Alberta's unemployment rate falling below the 7% mark (6.9% in December) for the first time in two years (see chart). Employment in Alberta soared by 26K in December, the strongest month-to-month gain in five years. As we saw during most of 2017, employment generally rebounded in industries where layoffs occurred during the 2014-15 oil price shock, namely natural resources, manufacturing, transportation and real estate. Finally, job creation took a breather in Ontario during the month of December (+2K) and the unemployment rate remained at a 18-year low of 5.5%. Employment in the 15-24 age group fell by 10K after increasing more-than-usual during the previous five months. Thus, this decline appears to be a normal setback, rather than reflecting a general move by companies to cut staff ahead of minimum wage increase (from \$11.60 to \$14 per hour in January 2018).

Bottom Line: This LFS report clearly points to a tighter labour market. The pace of growth in average hourly earnings (AHE) remained robust for a second consecutive month at 2.7% year-over-year, increasing the case for a BoC policy hike in the early stages of 2018. This being said, two months do not make a trend. Since this measure of wage inflation tends to be volatile (see chart), a more sustainable increase will be required to facilitate further removal of monetary stimulus by the BoC. Thus, a 25bps policy rate hike on January 17th is not a done deal. For the January 17th decision, BoC officials will also take into consideration the new edition of the *Business Outlook Survey* to be released on Monday. Finally, in addition to NAFTA uncertainty, another reason for leaning in favour of a March hike is that the Trump administration may engage in restrictive trade measures against China by the end of the month. Altogether, we maintain our current call of a 25bps policy rate hike at the March 7th meeting, acknowledging the risk of seeing the BoC hiking more than once during the entire year.

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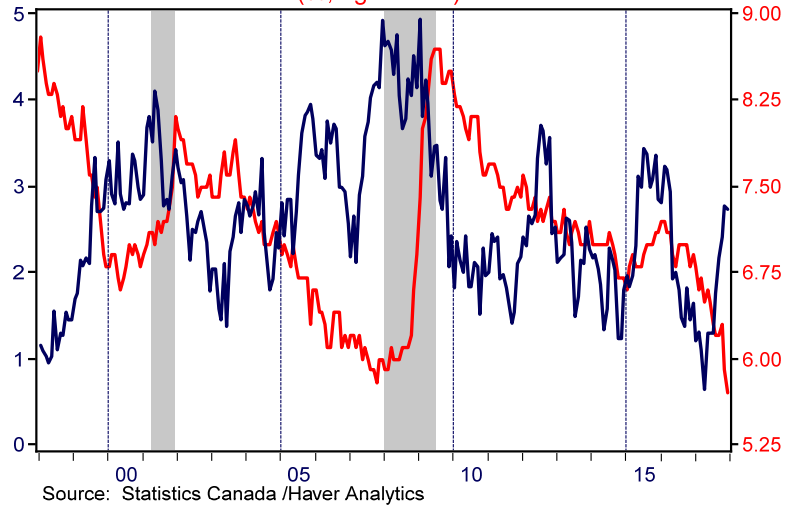


Unemployment Rates



Canada: Avg Hourly Wage Rate (year-over-year % change, left scale)

Canada: Unemployment Rate (%, right scale)



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