Canadian wage growth slowing even as hiring booms

By David Parkinson
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Another month, another Canadian jobs report to baffle and frustrate economists.

Statistics Canada's labour force survey, released Friday, showed that the Canadian economy added an eye-popping, expectations-shattering 93,000 jobs in November – the biggest single month of hiring since Statscan started collecting comparable data in 1976. The unemployment rate fell to 5.6 per cent, also a record in more than four decades of data.

And when you look under the hood, the details are similarly strong: 89,000 of those jobs were full time, and 79,000 were in the private sector. Twelve of 16 industry sectors posted gains.

There was only one obvious weakness, but it's a big one: wages.

Average hourly earnings were up a thin 1.7 per cent year-over-year after their sixth consecutive monthly decline. In a half-year in which the country has added more than 200,000 jobs, and unemployment has shrunk lower than it has been in more than four decades, wage growth has slowed to less than half of the pace seen in the spring.

This isn't exactly something new for economists, who have been puzzled for a while now by the lack of wage traction throughout much of Canada's postrecession economic recovery. But no one had expected the problem to be getting worse, not better, as the unemployment rate shrank to historical lows; this is supposed to be indicative of a tight labour market, in which companies in need of employees should be raising wages in order to secure increasingly scarce available workers.

Searching for answers, economists have theorized about the impact of technology and automation, of global competition and cheaper offshore labour, about the gig economy and perilous employment – suggesting that any or all of these factors could be holding back wage increases.

But there's one factor that warrants our attention, yet has received surprisingly little coverage: population growth.

Statscan's latest quarterly estimates show that the country's population grew 1.4 per cent year-over-year – the fastest since 1991. Figures in the November jobs report show that Canada's labour force (the supply of all available workers, employed and unemployed) has grown by 175,000 in the past six months – the same period in which wage growth has faded. In the six months before that, the labour force didn't grow at all – and year-over-year wage growth accelerated to nearly 4 per cent from 2.8 per cent.

This is as compelling an explanation as any for why employment could have healthy growth without adding a lot of wage pressure. Supply has been growing almost as fast as demand.

Where is all this fresh labour coming from? The data suggest it's not a case of Canadians who had for whatever reason left the work force returning from the sidelines. The participation rate – which measures all people working and looking for work as a percentage of the total working-age population – has held more or less steady throughout this six-month labour force boom.

The answer, then, must lie in an acceleration of immigration. Canada's intake of new immigrants is on pace for about 330,000 this year, up from 286,000 last year. About 60 per cent of those newcomers are entering under the country's economic immigration stream, which focuses on skills in demand in the Canadian labour market. The increase is going a long way to keeping the market well stocked with fresh labour.

The key point to all of this is that a growing labour force allows employment, and the economy, to continue to grow without fuelling wage inflation. Which is pretty crucial for the Bank of Canada as it assesses how much and how quickly it needs to raise interest rates to prevent the economy from overheating, and keep inflation in check. The central bank just this week suggested that the economy might have more room to expand before it bumps up against full capacity and triggers inflation; the growing labour force supply is certainly one source for the kind of additional breathing room the central bank is talking about.

The financial markets are going to have to wrap their heads around this, and soon. The markets raised their bet on a January rate increase in light of Friday's jobs report, viewing the huge jump in hiring as evidence of strong economic activity. It certainly is a strong signal, but the wage pressures will tell a more convincing story for the central bank. As the bank increasingly focuses on how much room the economy still has to expand, the labour force is quite clearly bringing new capacity to the table.