# Job creation is strong, but wage growth disappoints. What that means to the Bank of Canada

By Kevin Carmichael
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The industry in which to find a job in Canada in 2018 was health. More than 74,000 people went to work at hospitals, homecare agencies and the like, representing almost half the total number of jobs created last year, according to Statistics Canada's latest monthly survey of the labour market.

Demographics anticipated the demand: Since 2015, there have been more seniors aged 65 and older than boys and girls aged 15 and younger. Anecdotal evidence of understaffed clinics and overworked mental-health counsellors is overwhelming. And yet the supply of such workers appears to be adequate. Annual increases in average hourly wages barely changed from September through the end of 2018, dragging down the average monthly change for the year to a mere 1.3 per cent. Employers, whether it be institutions, clinics or oldsters seeking nurses to help them at home, are feeling no pressure to offer higher wages to get the help they need.

The trend is similar in other industries, if not quite as depressing. Overall, average hourly wages increased two per cent in December from a year earlier, lifting the five-month trend to about 2.2 per cent. So, after several years of good-to-great aggregate employment growth, wages are only keeping pace with inflation. That's as odd as it is disappointing.

Before this year, the jobless rate rarely fell below six per cent. Now it's the ceiling. The unemployment rate was 5.6 per cent in November and December, the lowest in data that dates to 1976, and it has brushed six per cent only twice since November 2017.

With hiring at levels that economists associate with full employment, you'd expect stronger upward pressure on salaries. But for whatever reason, that's not happening. The mystery should be enough to persuade the Bank of Canada to take an extended pause on its slow march to higher interest rates. The central bank's main concern at the moment is staying ahead of inflation, and prices appear to be contained. Steady hiring will keep the economy moving forward, but until more of us get decent raises, there is little reason to fear a sharp increase in demand.

"While many measures would suggest that we have a tight labour market, the signal from wages says otherwise," Brian DePratto, an economist at Toronto-Dominion Bank, wrote in a research note Jan. 4. "Without this precondition, it is difficult to see much in the way of fundamental upward pressure on Canadian inflation."

The December hiring data represent that last major variable that could influence the Bank of Canada's thinking ahead of its next interest-rate announcement on Jan. 9.

Few, if anyone, expected Governor Stephen Poloz and his lieutenants on the Governing Council to raise the benchmark rate next week. But there was a debate over how long they might wait, and how many times they might lift borrowing costs in 2019.

Economists at Bank of Nova Scotia think three increases are possible, which would put the overnight target at 2.5 per cent within 12 months. Aubrey Basdeo of BlackRock Inc. told me in an interview before Christmas that economic conditions likely will allow only one increase this year, and maybe none at all.

Canada's near-term prospects depend on business investment and exports because

evidence suggests that record levels of debt finally has slowed household spending.

Both investment and exports showed signs of life in 2018, but the year didn't end well. Oil prices dropped much more than the central bank was expecting, and the loss of wealth will curb corporate spending plans. President Donald Trump's trade war with China has thrown financial markets into disarray and is disrupting global commerce. The future is too uncertain at the moment for higher interest rates.

"With the muted inflation readings that we've seen, we will be patient as we watch to see how the economy evolves," Jerome Powell, the chairman of the U.S. Federal Reserve, said Jan. 4 at an event in Atlanta.

Powell signalled a pause in his own campaign to raise interest rates even as a new report showed the U.S. economy created more than 300,000 jobs in December. Expect something similar from Poloz, even though StatCan figures show the Canadian economy added some 100,000 positions in November and December, a large total for Canada.

The job gains of the past few years should keep the Canadian economy out of the ditch, and they provide a counterweight to the threat that all that debt could lead to financial crisis. But the economy isn't as strong as it appears on the surface. The youth participation rate, an indicator that Poloz has said he watches closely, dropped 1.9 percentage points over 2018 to 55.3 per cent, according to StatCan. That suggests employers don't yet feel pressured to hire marginal workers with relatively little experience.

Sluggish wage growth also implies slack in the labour market. The Bank of Canada thinks hourly pay should be growing around three per cent given the strength of economic growth in recent years. Salaries appeared to be heading in that direction, then decelerated over the second half of 2018. Until that trend reverses, the central bank has a good reason to leave interest rates alone.