Strong jobs growth unlikely to sway BoC on rates

By Julie Gordon
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The Bank of Canada looks set to leave interest rates unchanged next month despite bumper jobs numbers in January that far exceeded market expectations and highlighted the strength of the Canadian economy, analysts said.

Statistics Canada reported on Friday that employers added 66,800 jobs in January, far more than the gain of 8,000 that analysts forecast in a Reuters poll, while the unemployment rate ticked up to 5.8 per cent as more people sought work.

It was the second month of outsized gains in the past three, although economists said mediocre wage growth and the dismal oil and gas sector would hold back any action by the central bank the next time it decides on interest rates on March 6.

“That provides reason for the Bank of Canada to keep any tightening at a gradual pace,” said Paul Ferley, assistant chief economist at the Royal Bank of Canada.

The Canadian dollar strengthened to $1.3243 to the U.S. dollar, or 75.51 U.S. cents, after the data was released.

The economy shed 32,300 goods sector positions, mostly in agriculture and construction. Those losses were offset by the addition of 99,200 services sector jobs in January, mostly in wholesale and retail trade, as well as professional, scientific and technical services.

“I think it does underscore that for all the doom and gloom in the market, the Canadian economy is not in a terrible place in quite a few sectors,” said Andrew Kelvin, senior rates strategist at TD Securities. “Outside the energy economy, things are pretty robust.”

Part-time job gains outpaced full-time, 36,000 versus 30,900, and youth between the ages of 15 to 24 led employment growth, accounting for a whopping 79 per cent of total job gains and virtually all the part-time gains.

But analysts warned the 52,800 job bump among youth may simply be catch-up after losses in previous months, noting the unemployment rate for youth was little changed at 11.2 per cent as more looked for work.

“It might catch your eye that you have this massive print in youth employment, but the actual story is that youth employment over the last year is just flat; it was reversing some of the losses we’ve seen recently,” said Royce Mendes, senior economist at CIBC World Markets.

Still, the January bounce for 15- to 24-year-olds is likely to be noted by Bank of Canada Governor Stephen Poloz, who has long lamented the low participation rate for youth.

The jobs data is one of the last major indicators ahead of the March 6 rate decision. The central bank stayed on the sidelines last month after five hikes since July, 2017, and most analysts expect no action.

Mr. Poloz said on Dec. 17 that the pace of tightening could be interrupted or sped up depending on the economic circumstances.

The average year-over-year wage growth of permanent employees, which is closely watched by the central bank, was 1.8 per cent in January, up slightly from 1.5 per cent in December.