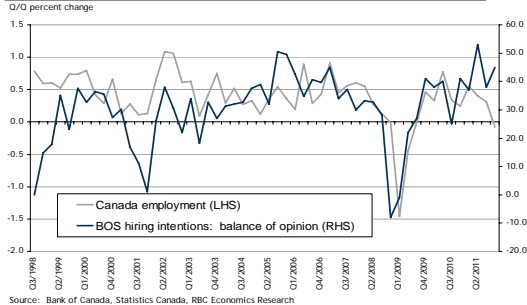


CURRENT ANALYSIS

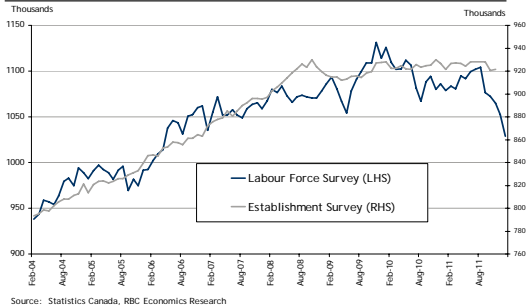
February 6, 2012

Canadian Labour Market—Reason for Caution but also Reason to Discount Some Recent Weakness

BoC Business Outlook Survey: Balance of Opinion on Employment



Canada Employment in Finance, Insurance, and Real Estate



Canadian employment growth has slowed notably in recent months following solid job growth of 163,900 over the first half of 2011 that implied an average monthly gain of 27,300. Since then, employment growth has slowed sharply with just 28,400 jobs created from June 2011 to January 2012 in total, marking a negligible average monthly gain of 4,000 over the period. The moderation in job growth is particularly worrying given ongoing concern about the impact that fallout from the European debt crisis could have on the Canadian economy; however, we continue to suspect that weakness in labour markets in recent months may be overstated by the relatively volatile labour force statistics. Below are a number of factors that suggest that the outlook for Canadian labour markets might not be as bad as recent sub-par employment gains in recent months suggest.

1) **Businesses continue to express an intent to boost hiring**

The Bank of Canada’s *Business Outlook Survey* (BOS) showed little sign that Canadian businesses are actively looking to cut employment. The fourth quarter of 2011 edition of the survey showed that 54% of Canadian businesses expect to increase employment levels over the next 12 months, with only 9% expecting to cut staff. The resulting balance of opinion of 45 (the percentage planning to hire versus the percentage planning to cut staff) represented an improvement relative to its third quarter reading of 38 and remains consistent with a relatively solid fundamental backdrop for labour markets.

2) **Weakness in the finance, insurance, and real estate sector may be overstating overall employment weakness**

As of January 2012, employment in the finance, insurance, and real estate sector has declined by 75,100 since August 2011 marking the largest 5-month drop in the measure since at least 1976. This appears out of line with other indicators that have shown a relatively solid improvement in real-estate activity over this period as well as the, albeit still modest, pace of improvement in the overall economy. Moreover, the scale of the deterioration in employment in this sector has, to this point, yet to be confirmed by the historically more-stable establishment survey data, although this data does lag the more regularly quoted labour force statistics by close to two months.

**Paul Ferley**  
 Assistant Chief Economist  
 (416) 974 7231  
 paul.ferley@rbc.com

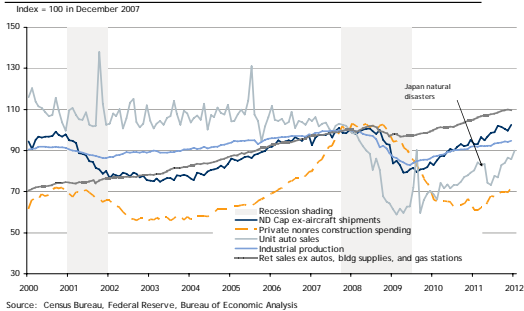
**Nathan Janzen**  
 Economist  
 (416) 974 0579  
 nathan.janzen@rbc.com

Canada and U.S. Employment Growth



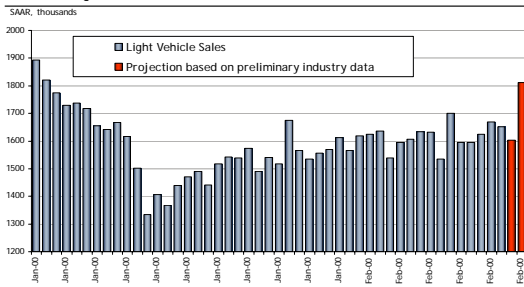
Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics Research

Data continues to show few signs of an impending U.S. slowdown



Source: Census Bureau, Federal Reserve, Bureau of Economic Analysis

Canadian Light Vehicle Sales



Source: Statistics Canada, RBC Economics

**3) Indications of improving external demand imply stronger Canadian employment growth in the months ahead.**

Given that roughly 30% of Canadian GDP is exported, and almost three quarters of that total goes to the U.S., the evolution of the U.S. economy has direct and significant implications for domestic Canadian production and the outlook for employment. In contrast to the deterioration in Canada, labour markets in the U.S. have shown notable improvement in recent months after employment growth slowed over the summer of 2011, including a solid 243,000 increase in jobs in January. Since at least 1967, there has never been a period of year-over-year declines in Canadian employment without corresponding declines in the U.S. Provided that, as we expect, underlying conditions in U.S. labour markets continue to improve, this bodes well for Canadian hiring to pick up as well.

**4) Weakness in labour markets appears at odds with indicators of consumer spending.**

Despite the slowing in employment growth, Canadian retail sales have been relatively strong in recent months. The volume of retail sales rose 0.5% in both November and October following a 0.6% gain in September, consistent with consumer spending as a whole growing at a better-than 3% rate in the fourth quarter as a whole. Moreover, Statistics Canada data suggests that auto sales remained at solid levels through the end of 2011 and preliminary industry data suggest that sales in January jumped to their highest rate since January 2008. These indications of stronger growth in consumer spending are inconsistent with the deterioration in labour markets in recent months.

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

©Registered trademark of Royal Bank of Canada.  
©Royal Bank of Canada.

