

Is the economy's job creation juggernaut nearing an end?

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By Julian Beltrame, The Canadian Press

OTTAWA - Canada's amazing job creation streak is in jeopardy this week with the release of two market-moving surveys expected to signal a new period of diminishing expectations for workers and businesses alike.

After creating over 350,000 jobs last year and starting off 2008 on a tear, the economy's job creating juggernaut is expected to grind to a halt when the June numbers come out on Friday and could show the first shrinkage since December's 19,000 blip.

The Bank of Canada business outlook survey on Monday is also widely seen turning sour, or more so than last April's, with firms telling the central bank they are ratcheting down both their investments and hiring intentions.

To economists who have long wondered at the economy's ability to churn out jobs in the face of harder times, the correction - if it comes - won't be so much a surprise.

The shock has been that Canada has created 132,000 jobs in the first five months of this year despite the economy contracting 0.3 per cent in the first quarter. In a similar period, the United States, with a one per cent gross domestic product growth in the first quarter, actually lost 438,000 jobs in the first six months.

"It's been surprising our jobs record has held up as much as it has given what the U.S. has gone through," said Avery Shenfeld, a senior economist with CIBC World Markets. "Canada's employment has performed better than U.S. employment even though Canadian GDP growth has not."

Shenfeld is forecasting an essentially flat 5,000 jobs gain in June - a far cry from the 30,000 monthly averages of the past several years.

Douglas Porter of BMO Capital Markets added that business and consumer confidence has been hit hard by booming fuel prices and some of the factory layoff announcements of the past few months will begin showing up in the June number.

"Watch for signs that the economy has abruptly buckled under the weight of soaring oil prices, such as a steep drop in the outlook for sales, capital spending or employment, and a steep rise in input and output prices," predicted Porter.

One thing is clear, said Royal Bank economist Paul Ferley, healthy double-digit jobs growth month after month is a thing of the past in Canada, likely for the rest of the year.

"You can't rule out a month or two of declines in employment," he said.

"Over the second half of the year, we are anticipating that Canadian GDP growth will start to improve a bit and with that we may see some modest gains in employment, but nothing dramatic and not like the past couple of years."

Most economists see the unemployment rate, which had sunk to a 33-year low of 5.8 per cent as late as February, rising to 6.2 per cent in Friday's report, and possibly ending the year in the 6.5 per cent range.

Economists have been hard pressed to explain why employment kept moving forward long after the economy started showing signs of trouble.

The most widely held explanation, said Ferley, is that with commodity prices rising, the natural resources sector invested heavily in expansion that has yet to yield additional production, hence the lag with GDP. Another is that firms often hold on to employees longer than conditions warrant.

Still, the mood among businesses is expected to be sour in the Bank of Canada's summer outlook, which will be released Monday, Porter said.

April's survey detected the first signs of diminishing expectations when for the first time since 2001, more firms their sales declining rather than growing going forward.

And although credit conditions have improved slightly since, economic conditions have worsened, including news that the economy actually retreated during the winter months. Meanwhile, oil prices began heading toward \$150 a barrel, dealing another blow to central Canada, where most firms and workers are located.