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What to think of the Canadian job market?

The Canadian job market is not easy to read! After reaching a seven-year high in March (which we had some reserves about, but a high nonetheless), it fell suddenly in April, catching everyone off-guard. The market was anticipating the addition of 14,000 new jobs in the country, but instead it lost 29,000 (which adds up to 43,000 less than expected!). Last month, we noted the weakness in private-sector job creation as well as in full-time jobs; the same concerns persist this month, as full-time jobs fell sharply. Is this a passing phenomenon, or is the Canadian job market unwell? It is hard to say at the moment, but the contrast with the U.S. job market, which is clearly picking up the pace, leaves us to believe the Canadian economy is genuinely losing momentum. There are, however, several positive factors that could still reverse the situation. For example, the effects of the weaker loonie are starting to be felt on external trade, and could enable the Canadian economy to benefit from the anticipated acceleration of the U.S. economy in the second half of the year.

Canada: A return to job losses

- The Canadian job market continues on its yoyo course. The country shed 29,000 jobs in April, including 31,000 full-time positions (part-time jobs were up 2,000). A troubling fact: all these jobs were in the private sector, which has now lost a total of 3,000 jobs since the start of 2014. The province of Quebec has been the primary source of employment weakness since the start of the year, losing a total of 30,000 jobs in 2014 (see graph).
- The effects of the decline in the Canadian dollar continue to be felt. The current account deficit narrowed to 12.4 billion dollars, its lowest since the end of 2011. The net trade of goods was positive for the first time since 2011, while the services and investment components were still negative. One will recall that the Canadian current account has been negative since 2008, following a decade of surpluses.

United States: Warmer weather brings renewed activity

- The first revision of U.S. GDP growth for the first quarter was without any unpleasant surprises, dropping to an annual rate of -1.0%. Personal consumption was slightly better than expected, up 3.1%, but inventories subtracted no less than 1.6% from growth. We can therefore see a positive backdrop to this latest revision since the decline in inventory should lead to a rise in production in the next quarter as demand for restocking is felt.
- Very good news on the U.S. job market: there were no less than 288,000 new jobs created in April, the highest number since January 2012. The positive revisions to figures from the previous months added to this result, pushing the total number of new jobs to more than 300,000. The unemployment rate is now at 6.7%, its lowest level since September 2008.
- Inflation continues to improve, even returning to the 2% target set by the U.S. Federal Reserve. The core index, which excludes the more volatile components, is also climbing and is now at 1.8%. Significant inflationary pressures can be seen in the service sectors as well as in rentals.
- The real estate market has stabilized, both for new home sales and sales of existing homes. The inventory of existing homes on the market has increased — a positive signal, given that the poor choice available to buyers has been a factor that has regularly made headlines to explain the timidity of demand among first-time buyers.

Europe: Unease persists

- Although several indicators confirm a degree of acceleration in the euro zone, GDP growth in the first quarter of 2014 was very weak, at just 0.2%. The unemployment rate also remains near record highs at 11.8%. Anticipation for the June meeting of the European Central Bank (ECB) is high, where it is expected that new expansionist measures will be announced, including a negative interest rate on bank deposits with the central bank. This would make the ECB the first major central bank in the world to attempt negative interest rates.

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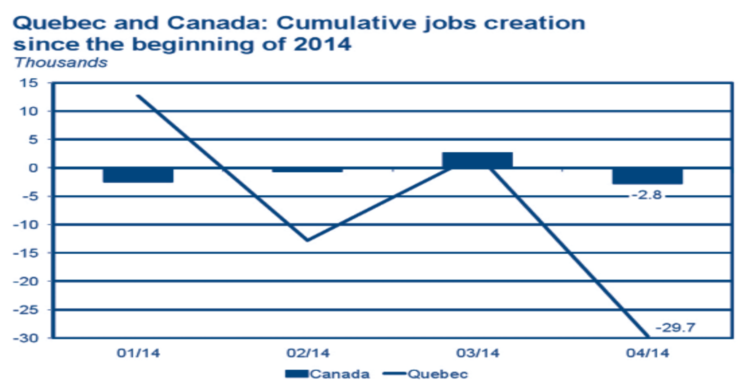
Economic and Financial Statistics

	As at 2014-05-31[1]	As at 2013-12-31
Canada - Unemployment rate	6.9%	6.9%
Canada - CPI (year/year variation)	2.0%	0.9%
Canada - GDP (year/year variation)	2.1%	2.7%
U.S. - Unemployment rate	6.3%	7.0%
U.S. - CPI (year/year variation)	2.0%	1.2%
U.S. - GDP (year/year variation)	2.0%	2.0%
2-year Canada Bonds	1.05%	1.14%
10-year Canada Bonds	2.25%	2.78%
Oil (West Texas) ($US)	103.5	99.2
Gold ($US)	1,244.7	1,207.9
CRB Commodities Index ($US)	305.5	280.2
Exchange rate $CA/$US	1.0843	1.0623

Source: IAIM

Jobs



Source: IAIM

[1] Most recent data available at such date

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Reference indexes[1] - Returns as at May 31, 2014

	Simple returns[2]			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
FTSE TMX Canada 91 Day T-Bill Index	0.1	0.2	0.4	1.0	1.0	0.8	2.0
FTSE TMX Canada Short Term Bond Index	0.4	0.6	1.7	2.6	2.8	3.2	4.1
FTSE TMX Canada Universe Bond Index	1.2	1.5	4.6	2.9	4.7	5.4	5.5
S&P/TSX Capped Income Trusts (Total Return)	1.3	4.0	8.2	5.2	9.8	19.4	13.5
SB - World Government Bonds (Can. $)	(0.5)	(0.5)	6.4	10.8	5.3	3.3	2.4
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	0.0	3.6	8.0	18.7	5.1	8.8	8.8
S&P/TSX Completion Index	(0.7)	3.2	9.8	19.7	4.7	15.4	8.6
S&P/TSX Composite Index	(0.2)	3.5	8.5	19.0	5.0	10.2	8.5
S&P/TSX Capped Composite Index	(0.2)	3.5	8.5	19.0	5.0	10.2	8.5
S&P/TSX SmallCap Index	(1.7)	2.4	10.3	21.6	(1.6)	12.3	4.2
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	1.5	2.0	7.2	26.6	19.6	18.2	5.3
S&P 500 (Can. $) (Reuters)	1.3	2.0	7.3	26.5	19.6	18.2	5.3
MSCI - World (Can. $)	1.1	1.2	6.6	24.9	14.9	14.3	4.9
MSCI - EAFE (Can. $)	0.8	0.5	6.0	24.1	11.5	11.2	4.7
MSCI - EAFE (Can. $) (Reuters)	0.5	0.5	6.1	24.0	11.5	11.2	4.6
MSCI - Europe (Can. $)	0.3	0.8	8.3	30.1	12.9	13.1	5.9
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	2.7	1.8	3.7	13.5	8.3	9.5	5.0
MSCI - Emerging Markets (Can. $)	2.7	5.1	5.8	10.0	2.4	8.5	9.5
MSCI - World Health Care (Can. $)	1.0	(1.9)	9.6	28.5	20.5	16.6	4.6
NASDAQ 100 (Can. $)	3.5	(0.8)	6.3	31.7	20.9	20.9	7.3
S&P/TSX Capped REIT Index	1.2	4.7	8.9	2.3	8.4	19.6	11.6

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at May 31, 2014: 1.0867	(0.8)	(1.9)	2.2	5.1	3.9	(0.2)	(2.3)
EXCHANGE RATE (US $ / Can. $) As at May 31, 2014: 0.9202	0.8	1.9	(2.1)	(4.9)	(3.8)	0.2	2.3

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World: Good first quarter in Japan, but…

- First-quarter growth in Japan (the world's third largest economy) exceeded expectations at 5.9%, as demand spiked in anticipation of the sales tax hike in April. The considerable acceleration of the Japanese economy bodes well for its ability to make it through the second quarter, which is likely to be challenging.
- After a sharp increase in retail sales in March, there was a sudden drop in April, as expected. Retail sales were down 13.7% in April, following a jump of 6.4% in March. A comparison with the Canadian experience in 1991, when sales jumped 3.5% before plummeting more than 15%, suggests that the sales tax increase had the impact anticipated but that we can now expect a slower growth rate for the coming months.

Financial markets

- The run of consecutive positive months stopped at eight for the Canadian stock market, as the S&P/TSX Composite Index fell -0.2%. The total return for the year to date is 8.5%.
- It was a positive month for the S&P 500 index, which was up 2.3% (1.5% in Canadian dollars) in May. The return for the year to date is now 5.0% in local currency, but the weakness of the loonie inflates this return to 7.2% for Canadian investors.
- World indices MSCI - EAFE and MSCI - World posted gains of 2.4% and 2.2% respectively (+0.8% and +1.1% in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets index, delivered a very positive return of 2.9% (or 2.7% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, posted a second consecutive gain, with a return of 1.2%.

1 Indexes presented in this document are total return index.
2 The rates for the period are non-annualized.