

Loonie enjoys employment gains to extend rally

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As many of you know, as an analyst we sometimes get things wrong. Last month, I wrote about how Canada's economic recovery was beginning to slow and how August's employment gains would post the last big reading of the recovery. I'm pleasantly surprised to report that the last projection was actually wrong.

“ In September, Canada's economy added 378,200 jobs compared with 245,800 in August, bringing the unemployment rate down from 10.2% to 9.0%.

I wasn't alone in being wrong, however, as the official print more than doubled the median expectation supplied by economists to Bloomberg (150k). The report gave the loonie an additional tailwind to rally to a one-month high before North American markets head off for the Thanksgiving weekend.

The bulk of the employment increase came in full-time work, where 334,000 jobs were added (88.3% of the overall employment gain). The largest contributors to the positive surprise were educational services, where 68,000 jobs were added - likely aided by the re-opening of schools - and accommodation and food services, where 72,000 jobs were added. In the goods sector, gains were concentrated in the manufacturing industry which added 68,000 jobs, while information, culture and recreation employment rose by 56,000.

Much of the gains were a by-product of loosening containment policies in Canada as the survey was conducted between the 13th and 19th of September. However, this isn't to last.

Containment policies in Quebec, and likely Ontario in the coming days, have been tightened as the level of new cases reported daily rise above the 750 mark. In Quebec, major cities such as Montreal and Quebec City are now subject to a 28-day lockdown, where private gatherings are prohibited and restaurants, bars, cinemas, theatres and museums are being forced to close. Speculation is rife that Premier Dodge may announce similar measures in Ontario given the latest rise in case counts, which doesn't bode well for October's labour market report - especially as both Quebec and Ontario posted the largest employment gains in September.

For now, the loonie is trading with blinkers on and only has eyes for the positive beat in September's data. This is arguably due to the national rise in Covid cases being isolated predominantly to Quebec and Ontario, while the effects of tightening lockdown measures have been dulled somewhat by the latest fiscal measures that patched the holes in Canada's social security net. It must be noted that this dynamic may not be sustained, especially if the domestic outbreak proves to be more severe than currently witnessed, or if the additional measures fail to control the outbreak in the limited time frame.

USDCAD trades back near one-month low as loonie rallies due to employment beat



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