

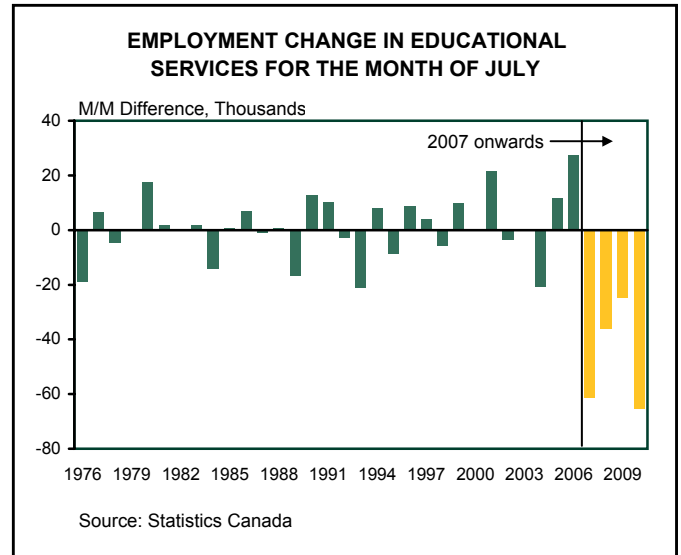


THE EDUCATIONAL SERVICES CONUNDRUM

Today, Statistics Canada released the latest data for the Canadian labour market which indicated that the economy shed 9,300 net jobs in July. The overall report was disappointing given losses across a broad number of sectors; however, there are two very important points that should be highlighted. First, the pace of job growth on a trend basis has been, and still is, blisteringly hot; on a 3-month moving average the economy is still creating more than 36,000 net jobs. Second, the headline figure was overwhelmingly driven by weakness in a single sector: educational services, which shed more than 65,000 net jobs on the month. This was the largest monthly decline in employment in this sector on current record, which goes back to 1976.

In normal circumstances, we would take this as significant weakness in the education sector. However, since 2007, education appears to be systematically recording enormous declines in employment each July. Now, as is common knowledge, school systems across the country shed an enormous number of temporary and contract jobs in the summer vacation months and, data-wise, educational services experiences one of the strongest seasonal patterns of any sector in Canada.

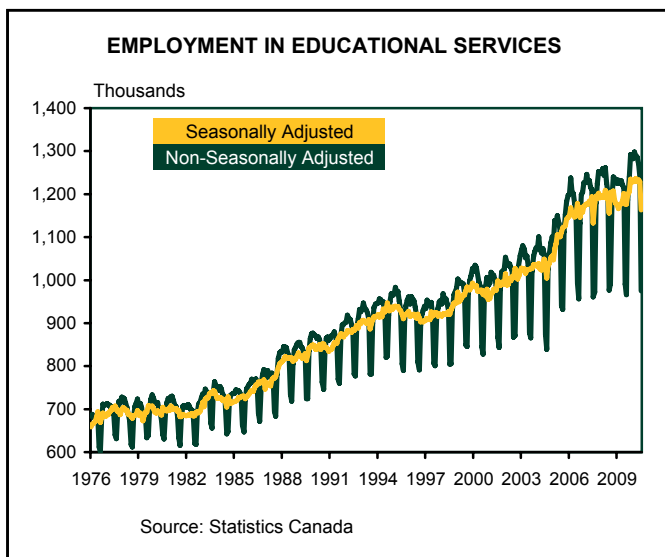
However, Statistics Canada goes to great lengths to adjust for this seasonality by applying various statistical techniques to this raw data that is collected from around the country so that analysts can make inferences on trends rather than month-to-month volatility. Hence, we should not

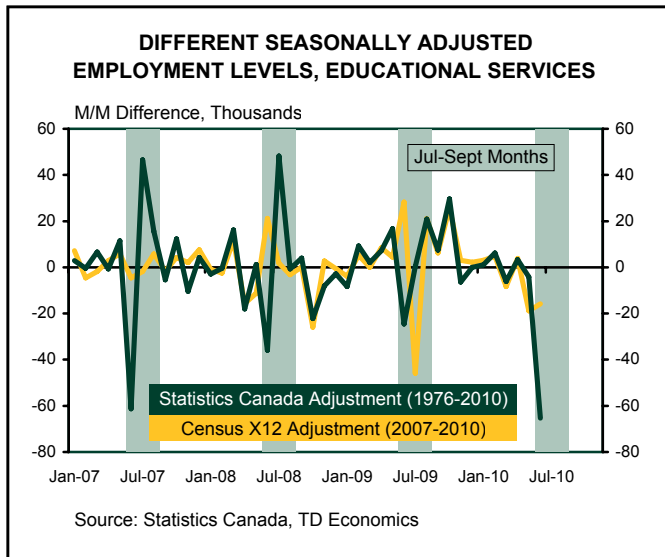


be seeing such large outliers unless there is true weakness in the sector and a 65,000 net job loss just seems unrealistically weak.

So is there something going on behind the data that is causing job losses in July to be increasingly severe? Really, this has only been going on for a few years. Each July since 2007, the sector has, on a seasonally adjusted basis, consistently lost an average of almost 47,000 net jobs and then recovers that in the subsequent months of August and September. Average job growth in those two months combined has been about 44,000 net jobs since 2007, and a simple graph showing the seasonally-adjusted data released by Statistics Canada since 2007 yet exhibits a seasonal pattern, specifically in the months in question.

This is likely being caused by some kind of structural change in the data that occurs in 2007, like educational reform or increased usage of temporary or contract workers, such that the same seasonal adjustment factor being applied to the entire time series is less relevant for these years specifically. By implementing a standard seasonal adjustment technique, called the Census X12 filter, only on the years spanning 2007 to 2010, it is clear that much of the seasonality can be removed and the wild swings in employment during the months of July, August, and September are calmed. Of course, this is an over-simplification of the seasonal adjustment process and should not be considered





what job losses “should have been”. What it does show is that the seasonal adjustment, itself, needs to be adjusted for this structural break in the data.

This has two major implications. First, today’s employment report may have overstated the true level of labour market weakness in July. Certainly, the unsustainable pace of 50,000 new jobs per month that has characterized the first half of 2010 was expected to moderate. However, expectations of sustained, moderate real GDP growth in the range of 2-3% on a quarterly basis should support an average pace of job creation in the range of 15,000 to 20,000 on a trend basis. Second, it is very likely that we will see a rebound in job growth in August and September, specifically in the educational services sector, reflecting some payback from today’s 65,000 job exodus.

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