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Special Report

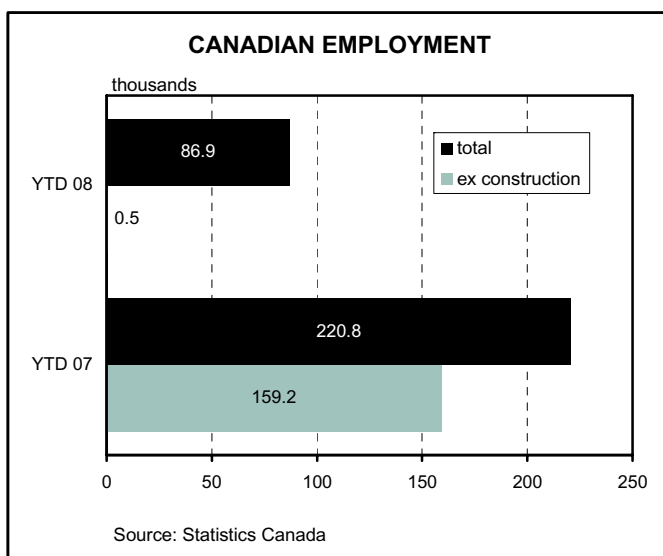
October 7, 2008

THE ANATOMY OF THE CANADIAN JOB MARKET

While Americans are losing jobs hand-over-fist, Canada has knocked out 87,000 new jobs in the first eight months of 2008. Sound impressive? It isn't. This is well off the near-quarter million jobs created at this time in 2007, as well as the historical average of 156,000 registered during these months. And, as the international headwinds continue to blow alongside softening domestic demand, we believe momentum in job creation will hit a wall. Over the next nine months (Q4-2008 to Q2-2009), we anticipate a paltry 30,000 jobs will be created in the Canadian economy – one-third the number tracked so far this year. Some industries look particularly ripe for employers to cut back on hiring intentions. So far in 2008, three industries have dominated the gains in the job market: construction, food/accommodation and professional/scientific services. None look to have staying power.

Three industries make our watch list

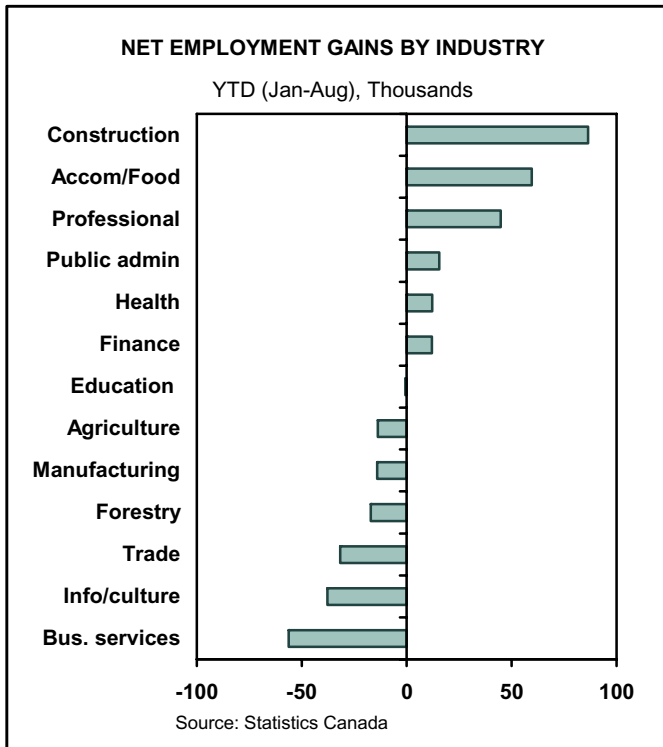
The contribution to Canada's job market from the con-



HIGHLIGHTS

- **Kudos to Canada for knocking out 87,000 new jobs in the first eight months of the year...**
- **...but if construction is excluded from the tally, Canada is left with a mere 500 new jobs.**
- **3 industries have been driving job growth this year -- construction, food/accommodation, professional/scientific -- and none appear to have staying power.**
- **Weaker labour market cycle in Canada does not equal American-style job losses.**
- **Part of slower job momentum is due to Alberta coming off the boil.**

struction sector has been so great, that if construction jobs are excluded from the 2008 job-tally, Canada is left with a mere 500 new jobs. Being from an Italian family, I have that many people show up for family dinner on Sunday. Perhaps a slight exaggeration, but the point I'm making is that the belly of the labour market is significantly softer than the headline numbers suggest. Can construction jobs continue to drive job growth? Not likely. It seems inevitable that construction jobs will start to reflect a market of declining home starts and softened renovation activity. After a six-year boom, the peak in construction and housing activity is in the rear-view mirror. Housing starts were already 13% off the peak seen in the first quarter, and we anticipate another 15% decline from here over the next four quarters. Meanwhile, renovation activity is also losing momentum. Renovations are closely linked to the resale market, where sales are backsliding and expected to come in nearly 20% lower in 2008 compared to last year. There is typically a lag between sales and renovation ac-



tivity, so jobs in the housing sector will absorb a double whammy of reduced housing construction and renovation activity. It's probably safe to say the construction sector won't continue to pump up Canada's job tally as we roll into 2009.

The accommodation/food industry has added an impressive 60,000 positions in 2008, but future hiring intentions in this industry will face strong headwinds. Domestic demand already geared down in the first half of the year and we expect more of the same until mid-2009. This, in combination with the uncertain economic environment and the already-soft job market, should make Canadians less inclined to splurge in areas of discretionary spending...like eating out and travel. Meanwhile, we believe the global economy will be in a mild recession next year, so Canada is unlikely to see droves of vacationers visiting from abroad. For more on the economic outlook, see TD Economics *Quarterly Economic Forecast* published September 25th.

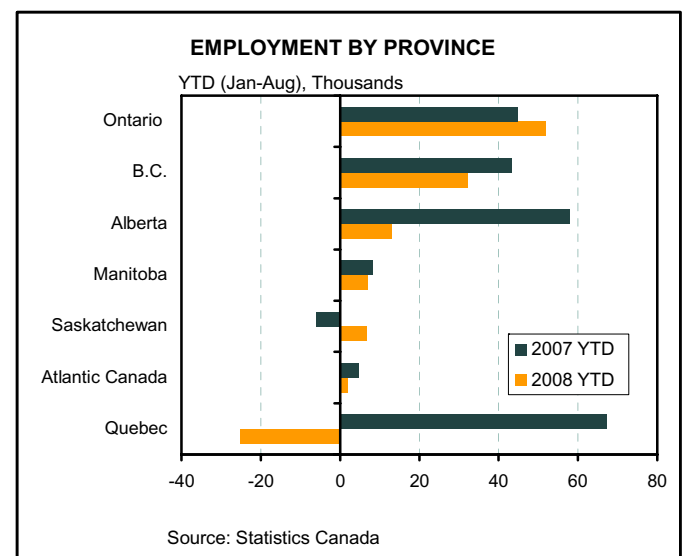
The professional/scientific industry also makes the list of big job-gainers this year. This industry tacked on about 45,000 new workers, which is nearly the same pace as this time in 2007. Unfortunately, momentum has already petered out, as those gains are attributed to strong hiring activity in the first two months of this year. The industry has shed workers in four of the past six months, which on net has left jobs marginally in the negative column over that

period. Outside of the job gains that have taken place in construction, accommodation and professional services, the news looks grim. The list of industries that have cut workers this year is long and includes information and culture, business services, trade, education, forestry, agriculture and manufacturing.

National employment losing bench strength from Alberta

While the prospect of a weaker Canadian job market may seem alarming, there are two key points to bear in mind. First, the unemployment rate is low at 6.1%; little changed from 2007 and much lower than levels seen prior to that year. With our anticipated weaker job performance over the next 3 quarters, the unemployment rate will peak at 6.7%, which is still lower than the unemployment rates seen over the three-decade period from 1975-2005. Even if we are a little off in our estimation of how high the unemployment rate could rise, the labour market is starting from a relatively tight position, so the unemployment rate is unlikely to press much above the 7% mark. The historical average is 7.8%.

Second, the soft job performance this year has a specific regional component related to Alberta. That province had been boosting Canada's employment numbers in recent years, such as adding an outsized 58,000 new jobs in the first eight months of 2007 compared to just 13,000 over the same period this year. This is a natural transition for an economy that was overheated and disproportionately contributing to job growth in the country, to an economy that is now cooling to a more sustainable pace of 2-3%. In



fact, the unemployment rate in Alberta continues to hold at an ultra-low 3.5%, which is fairly unchanged from 2007, suggesting that part of the more subdued hiring by firms this year may be related to a small supply of available labour. Excluding Alberta from the tally, a number of provinces are actually adding slightly more workers this year compared to last year, including Ontario, P.E.I., Saskatchewan and Newfoundland & Labrador. Lastly, the number of new jobs in British Columbia and Manitoba is not far off the tallies registered at this time last year.

It may be surprising to learn that Ontario is among the provinces experiencing more hiring this year over last year given its high exposure to the beleaguered manufacturing industry. That industry shaved about 24,000 jobs off the tally so far this year, and yet the province was still able to ring in 52,000 new jobs. Ontario has had considerable job strength in the three industries that made our watch list: construction (+40,000), accommodation/food (+44,000) and professional/scientific (+30,700). So, this strength probably won't last. But, at least in regards to the professional/scientific industry, job momentum in recent months has bucked the national trend and has been holding in reasonably well.

However, as we roll through the year, the Ontario job market faces some of the weakest near-term prospects within the country. Real GDP growth in Ontario is expected to barely advance in 2008 and 2009, placing it last amongst its peers. The lagging nature of employment in reflecting economic conditions leaves significant downside risks to the job market, especially since the manufacturing sector is expected to continue to bleed jobs and this will disproportionately hit the province. (For a detailed discussion on Ontario see TD Economics report "*Time for a Vision of Ontario's Economy*", September 29th.)

After broad-based strength in 2007, Quebec is the one province that is clearly suffering this year, with payrolls shrinking by just over 25,000 positions in the first eight months. Job losses have been spread among various service industries. Contrary to conventional wisdom, Quebec has added 11,500 jobs in manufacturing and another 6,800 in construction. While the former may have been boosted by the aerospace industry, it's hard to believe that either of these two areas will be able to withstand the economic

EMPLOYMENT						
Annual average per cent change						
	98-07	2006	2007	2008F	2009F	2010F
CANADA	2.1	1.9	2.3	1.5	0.3	1.0
N. & L.	1.5	0.7	0.7	1.7	0.2	1.4
P.E.I.	1.7	0.5	1.2	1.3	-0.1	0.8
N.S.	1.6	-0.3	1.3	1.0	0.3	0.9
N.B.	1.6	1.4	2.1	0.9	0.2	1.2
Québec	2.0	1.3	2.3	0.7	-0.1	0.6
Ontario	2.2	1.5	1.5	1.4	-0.4	0.8
Manitoba	1.3	1.2	1.6	1.5	0.7	0.7
Sask.	0.7	1.7	2.1	1.5	0.9	1.2
Alberta	3.0	4.8	4.7	2.6	1.5	1.8
B.C.	2.0	3.0	3.2	2.4	1.4	1.9

F: Forecast by TD Economics as at Oct. 2008
Source: Statistics Canada / Haver Analytics

slowdown gripping the nation and the global economy. In fact, over the summer months of June-August, the pace of manufacturing hiring in the province was showing early signs of tapering off. (A *Provincial Forecast Update* will be released by mid-October).

Final word

Going forward, we believe job hiring in Alberta will remain muted and therefore won't provide the lift to aggregate Canadian employment figures as it did in the past. Meanwhile because changes in the labour market lag the economy, hiring activity in most provinces will increasingly reflect the softer domestic economy, uncertain global economic climate and weak export demand, particularly Ontario and Quebec. Already the pace of job hiring has slowed considerably for most provinces in the past few months. As we head into 2009, don't be surprised if you see the odd negative print on a monthly employment report. At this stage in the economic cycle, it is only reasonable to expect a weakened Canadian job market over the next 6-12 months. However, unlike our neighbors to the south, domestic demand conditions are softening, not retrenching. And, bear in mind that the Canadian job market is starting from a relatively tight position, as opposed to the 760,000 job losses that have been racked up in the United States this year alongside an unemployment rate that is already a half-a-percentage point above its long-term average.

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