



## Employment remains high in B.C.

The number of people employed in British Columbia remained more or less unchanged in November, according to Statistics Canada's latest household survey of the labour market. An estimated 2.09 million people were employed in November, up by an insignificant 1,200 (+0.1%) from October.

A rather sharp drop in the unemployment rate to 6.4% from 6.9% in October was entirely due to a smaller labour force, since employment was little changed. The labour force, seasonally adjusted, shrank by about 11,000 persons, roughly the same decline as in the number of unemployed. Sample variability probably accounts for this one-month anomaly and the unemployment rate is expected to bounce back to its recent trend level of around 7%.

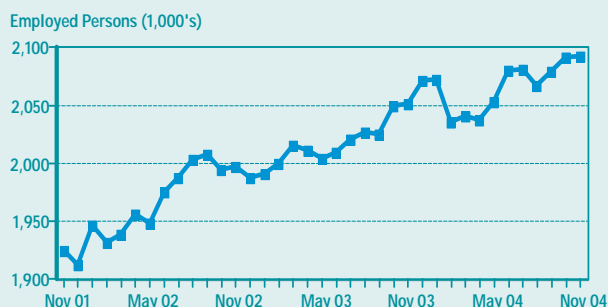
The Labour Force Survey (LFS) indicates full-time jobs decreased sharply in November, with corresponding gains in part-time work. Higher employment in professional, technical and scientific services offset lower employment in information, recreation and cultural services. November's LFS suggests there was no significant change in the distribution of jobs among public-sector employers, private-sector employers and the self-employed.

The LFS for November suggests that employment increased in the Thompson-Okanagan, Kootenay, Cariboo and North Coast regions of B.C. Gains in these areas offset declines in the Mainland-Southwest and Vancouver Island regions.

Regional unemployment rates in November were lowest in the Thompson-Okanagan, Kootenay, Cariboo and Greater Victoria areas, at 5% to 6% of the labour force. Unemployment rates ranged from 6% to 7% in the Mainland-Southwest, metropolitan

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B.C. Employment (Seasonally Adjusted)



Source: Statistics Canada.

Vancouver and Vancouver Island areas. The highest regional unemployment rate was 9.3% in the North Coast-Nechako area.

Nationally, employment increased slightly in November, by an insignificant 4,600 workers. Full-time work declined while part-time jobs increased. Job growth was concentrated in finance, insurance, real estate and educational services. Gains in these industries were largely offset by lower employment in manufacturing and business support services. The number of self-employed workers edged up in November. The national unemployment rate increased to 7.3% in November as the labour force grew by more than employment.

Job growth in B.C. through 2005 is likely to remain positive, but will slow down somewhat. Credit Union Central forecasts annual average employment will rise by 2.4% this year and a further 2.1% in 2005, following a gain of 2.5% (50,000 workers) in 2003. B.C.'s unemployment rate is forecast to average about 7.5% this year and 7.4% in 2005, following last year's rate of 8.1%.

### Bank of Canada not expected to raise interest rates

The weak November employment report for Canada cinches the rate-setting decision at the Bank of Canada's next rate-setting meeting on December 7. In addition to near-zero job growth overall, the loss of nearly 18,000 jobs in the largely export-driven manufacturing sector sent a clear signal that the surging dollar and slowing global economic growth are having negative impact on the Canadian economy. A weak U.S. jobs report for November is the most recent sign of dimming global growth prospects.

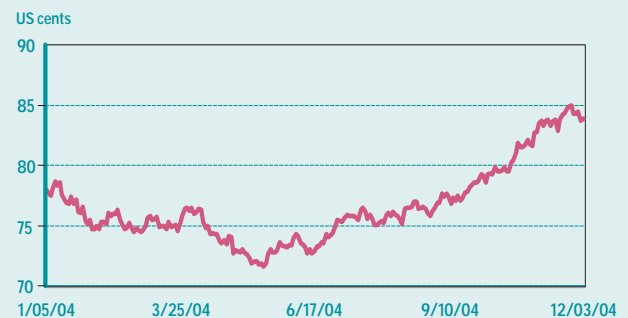
Another sign pointing to no rate increase is October's mere 1.4% increase in the Bank's core CPI measure, although the Bank is forecasting a 1.5% average for the fourth quarter, which means the October result was not too far off its expectations. The Bank will only adjust its forecast and view of pending rate decisions if inflation or the economy consistently performs differently than expected.

Not long ago the market was assigning a 100% probability to a rate hike on December 7. The shift in expectations has been swift and dramatic, as has the surge in the U.S.-Canada exchange rate, which hit 85 U.S. cents on November 26, up from just under 80 U.S. cents on October 19, the date of the Bank's last rate-setting meeting. This is the main reason for the market's downshift in rate expectations and for the Bank's re-assessment of inflation and economic growth in Canada. In his most recent speech, the Bank's Governor closed with a clear message of the risks to its forecast due to exchange rate developments.

What will be the Bank's next move after its no-change decision on December 7? It will likely stay in a holding pattern for a few more months, barring any dramatic developments.

### Dollar surges higher

U.S.-Canada Exchange Rate, Daily



Source: Bank of Canada.

The dollar's negative impact on exports is clear, especially when global demand growth is slowing and some commodity prices are easing, but there is also an impact on inflation. The higher dollar means Canadian purchases of U.S. goods and services are less expensive. Since about 20% of the basket of goods in the CPI is of U.S. origin, the inflation rate should decline. The pass-through of lower cost U.S. goods to consumers will depend on market conditions for those goods, but certainly some, if not all, of the pass-through effect will occur. With the Bank's 2% target for the core inflation rate, a cut in rates might be necessary to achieve its objective.

