Housing Market Digest

Canada, October 2024

Uncertainty About the Employment Situation

The earliest economic data we see is about the employment situation, from Statistics Canada's Labour Force Survey. The data is released on the first or second Friday of the following month.

I also believe that this is the most important economic data, since our personal employment situations have so much influence on a lot of our decision-making. It is also important in decisions made by businesses and governments, including the Bank of Canada decisions about interest rates.

The first paragraph of the StatsCan reports is usually something like this: "Employment rose by 47,000 in September while the employment rate declined 0.1 percentage points to 60.7%. The unemployment rate fell 0.1 percentage points to 6.5%".

Most of the time, most of us believe the data. But, sometimes we should be skeptical: Statistics Canada is producing estimates. It does not possess god-given truth.

The methodology used for this data is essentially:

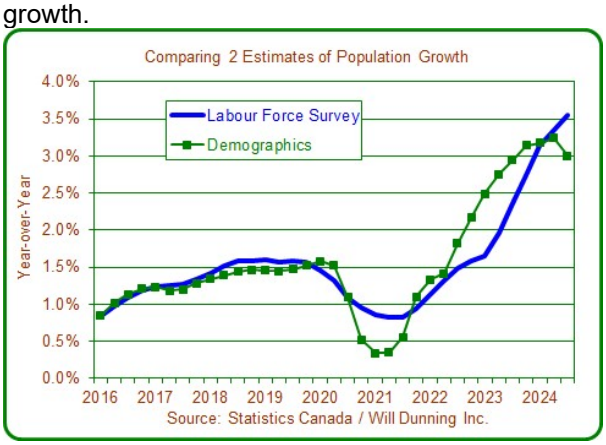
- A sample survey is used to gather information on the employment situations of Canadians.
- From the survey responses, StatsCan calculates percentages (the per cent of adults who satisfy definitions of being in the labour force, being employed, and being unemployed).
- Those estimates are applied to data on the population, to calculate how many people are in the labour force, employed, or unemployed.

This methodology creates opportunities for two kinds of errors that have the potential to significantly affect the accuracy of the estimates:

- Sampling errors (if the percentages that are estimated differ from the "true" situation).
- Weighting errors (if the actual size of the population is different from what is assumed. In addition, weighting errors might result when the composition of the population by age groups, sex, location, etc. is different than is assumed.)

I often express doubts related to sampling errors, about the reliability of the month-to-month estimates of changes (and I have a bit more to say about this later). For today, I'm more interested in weighting errors, because I see a risk that during the coming year StatsCan's assumptions about population growth will be too high, resulting in large over-estimates of employment growth. This has the potential to distort decision-making by the federal and provincial governments (especially the interest rate decisions of the Bank of Canada).

When it creates the estimates from the Labour Force Survey, StatsCan doesn't actually know how large the population is on the effective dates. So, it has to make assumptions. Another group within StatsCan (which does demographic research) has estimates, although these are a bit out of date (the most recent estimates were released in late September and have an effective date of July 1). The LFS group creates its assumptions based on the history of the demographics data. The issue is that when there is a change in the rate of population growth as measured by the demographic group, the LFS group is slow to incorporate the changes (it uses moving averages, which smooths the data, but this makes it slow to reflect actual changes). In consequence, during the last 4 years, there have been some periods with too high or too low assumptions about population growth, and therefore incorrect estimates of employment growth.



Statistics Canada has another survey of employment (Survey of Employment, Payrolls and Hours, or "SEPH"). Due to its methodology, it should be more accurate than the LFS. But, it comes out much later (at present, we have SEPH data for July, while the LFS data is for September). Consequently, the SEPH data gets much less attention. Also, it counts only people who are employed by companies, and misses people who are self-employed (these people are included in the LFS). This chart indicates that the LFS under-estimated job growth (for employees) during 2022 (there was a growing gap), but over-estimated it during 2023 (it showed faster growth than SEPH and the gap was closing). During 2024, the two surveys have produced similar

estimates of growth (the gap didn't change by much). This data ends in July.

In the chart on the first page, the demographics data hints that a turning point might be developing for population growth (the last datapoint is for July 1). The implication is that in the very recent past, the LFS might have over-estimated employment growth.

Looking forward, the rate of population growth might slow quite quickly, due to the changing federal policy on temporary permits for non-permanent residents (especially for students). The assumptions made in the LFS are unlikely to keep up with that deceleration, and therefore employment growth might be significantly over-estimated during the coming year.

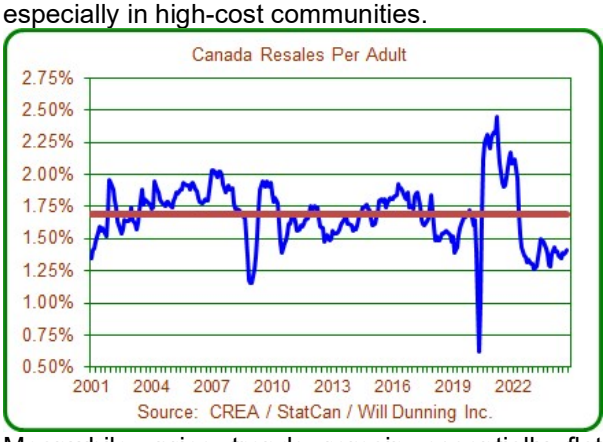
For September, the LFS assumed that the population increased by 110,000 (in just 1 month!), and employment rose by an estimated 47,000. Actual population growth might have been much less. If it was, say, 50,000, then employment might have actually increased by about 10,000.

The next data release for the demographics group's estimates of population will be in late December or even January, with an effective date of September 1. In the interim, I see an intriguing hint in some data on rents, which shows that rents have fallen in some places, especially communities that are likely to have seen a lot of in-movement by foreign students. The deceleration of population growth might be developing rapidly.
https://rentals.ca/national-rent-report

About the "sampling error" issue. I had a useful exchange with a subject-matter person at the LFS group. My concern is that if people who enter the LFS sample have different characteristics than the people who leave, that could distort the estimates. The response was that they test for that effect every month, as part of the validation process. But, I can't recall ever seeing any discussion of the results of that analysis, and I have never noticed any commentary that says estimates have been adjusted based on that analysis. I believe that StatsCan should generate experimental data that uses "constant samples". This would remove the effects of sample rotation. The experimental data should be published for discussion purposes. I suspect that a constant sample methodology would produce more accurate estimates.

Resale Markets

Since the spring, mortgage interest rates (both 5-year fixed rate and variable rate) have fallen by three-quarters of a point, which should be enough to affect sales activity. Yet, the data has barely moved (there was a only small rise in September). Nationally, sales are still 17% below the long-term population-adjusted average. In short, affordability is still dreadful, weighing heavily on home sales, especially in high-cost communities.



Meanwhile, price trends remain essentially flat (CREA's price index has shown very little change during the past 6 months.)

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