



## Omicron restrictions knock employment back in January

To no surprise, Canadian economic activity was knocked back in January with the spread of the Omicron variant and associated public health measures. Labour Force Survey (LFS) employment fell by 200.1k persons (1.0 per cent) in January but came in much weaker than consensus forecasts for a loss of about 120k. This was the single month decline since January of last year. Canada's unemployment rate bumped 0.5 percentage points higher to 6.5 per cent, marking the first increase in nine months and highest level since October.

While magnitude of loss was higher than expected, underlying themes were not surprising given restrictions on sectors with greater face-to-face interactions. These included closing of restaurant dining, events, delayed return to schools, gym closures and other varying measures across the country. Job losses were driven entirely by services- producing sectors. Accommodations/foodservices employment accounted for more than half the decline, with 112.9k (11.1 per cent) fewer persons working relative to December. Meanwhile, information/culture/recreation employment fell 48.4k persons (6.2 per cent) as events paused, while pause in back to office also hit sectors in building management. There were a few bright spots with construction up 22.6k jobs or 1.5 per cent. Losses were concentrated among part- time workers (-117.4k, 3.3 per cent) with full- time employment down 82.7k persons or 0.5 per cent. Total hours worked fell 2.2 per cent, pointing to reduction of hours.

Varying health measures across the country contributed to mixed readings among provinces. Deepest among losses were Ontario (-145.7k or 1.9 per cent) and Quebec (63k or 1.4 per cent), reflecting more stringent public health measures. Newfoundland and Labrador (-1.8 per cent) and PEI (-3.5 per cent) also record significant declines but had little impact on the national performance. Most other provinces recorded insignificant gains and losses in monthly employment.

Unemployment rates rose in Ontario, Quebec and most of the maritime provinces. Ontario's unemployment rate jumped 1.2 percentage points to 7.3 per cent. The highest rate was in Newfoundland and Labrador at 12.8 per cent. Western Canadian provinces recorded declines, with the lowest rates observed in B.C. and Manitoba at 5.1 per cent.

Other highlights in the report included increased absenteeism during the month due to illness as COVID spread at a rapid pace. 10 per cent of employees reported absence for part of all of the January reference week, which was 1/3 higher than the average January reading from 2017-2019. Average wages rose 2.4 per cent year-over-year, suggesting moderate growth in incomes despite stronger inflationary pressure. This could pick up through 2022 amidst company salary adjustment periods.

While the latest LFS readings were discouraging and signal deterioration in the economy for Q1, this was expected and similar to prior waves. Provinces have gradually lifted restrictions and a strong rebound is likely in coming months. The latest report is unlikely to sway the Bank of Canada from hiking in early March.

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