Why the Record-Low 4.9% Unemployment Rate Isn't Good News

Description

Statistics Canada reported a record-low 4.9% unemployment rate in June 2022, notwithstanding the first monthly loss of jobs (43,000) since the start of this year. The decline in jobless numbers last month was due to fewer people looking for work, and not because of additions to the labour force.

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Wage growth was also faster in June as average hourly wages rose 5.2% year over year to $31.24. Fabian Lange, an economics professor at McGill University, said wages need to keep up with inflation to attract workers, as businesses continue to struggle with hiring.

For economists, bankers, and strategists, the drop in the unemployment rate shows a tight labour market. Surging inflation, rising interest rates, and now the uncertainty in the workforce will add more volatility to the investment landscape. Investors should start shifting to low-volatility stocks for capital protection.

Easing economic momentum

The results of a recent study by the Canadian Centre for Policy Alternatives points to an inevitable recession due to rapidly increasing interest rates. It could cause will cause significant collateral damage to over 800,000 job losses. Avery Shenfeld, the chief economist at **CIBC**, said, the jobs decline won't prevent a potential 0.75% increase in interest rates tomorrow.

For **TD's** economist, Rishi Sondhi, the low unemployment rate signals a softening of Canada's economic momentum. The bank predicts that growth will ease in the second half of 2022. Doug Porter, the chief economist at **BMO** Capital Markets, said Canada has the tightest job market in generations. Nathan Janzen of **RBC** Economics said labor supply issues outweigh the slowing hiring demand.

Low-volatility investments

With BoC's policy rate on track to hit 3.25% before year-end, Canadians should brace for a recession. The need to earn more to cope with inflation has never been more important than today. **Fortis** (TSX:FTS

)(NYSE:FTS) and **TELUS** (TSX:T)(NYSE:TU) don't pay the highest dividends, but the payouts should be rock steady in an economic downturn.

Fortis in the utility sector has raised its dividends for 48 consecutive years. If you invest today, the share price is $56.69 (-0.46% year to date), while the dividend yield is 3.53%. The $28.48 billion electric and gas company derive revenues from highly regulated assets, and, therefore, cash flows are predictable.

With its new $20 billion capital plan (2022 to 2026), management expects to see a significant increase in its rate base. Fortis plans to increase dividends by an average of 6% annually through 2025. In the last two decades, the total return is 947.19% (12.45% CAGR).

TELUS, the second-largest telco in the country, is a buy-and-hold income stock. The $39.75 billion telecommunications company provides essential products and services to businesses and customers in Canada. At $28.79 per share (-1.33% year to date), the dividend offer is 4.7%.

Management announced recently at $11 billion investment in Quebec to support the growth of the province's digital economy. TELUS also expects to create 7,000 new jobs between 2022 and 2026. More jobs should be available, as the company plans to invest $70 billion across Canada by 2026.

Ideal for long-term investors

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Lauren Goodwin, a portfolio strategist at New York Life Investments, said the central bank will continue raising interest rates because it has no choice. Nonetheless, she added that long-term investors can benefit from the present volatile investing environment.

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