

Economics

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September 6, 2024

Canadian employment (Aug): Not a big enough rebound

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Labour force survey (monthly change, thousands, unless otherwise noted)	Apr	May	Jun	Jul	Aug
Employment	90.4	26.7	-1.4	-2.8	22.1
• Full-time	40.1	-35.6	-3.4	61.6	-43.6
• Part-time	50.3	62.4	1.9	-64.4	65.7
• Paid workers	75.9	10.1	-9.2	-1.1	29.6
• Private	50.4	17.6	5.4	-41.9	38.2
• Public	25.5	-7.5	-14.6	40.8	-8.6
• Self-employed	14.5	16.6	7.7	-1.6	-7.4
Participation rate (%)	65.4	65.4	65.3	65.0	65.1
Unemployment rate (%)	6.1	6.2	6.4	6.4	6.6
Avg. hourly earnings, perm. workers (y/y %)	4.8%	5.2%	5.6%	5.2%	4.9%
Actual hours worked by industry (m/m %)	0.8%	0.0%	-0.4%	1.0%	-0.1%

Source: Statistics Canada

- Canadian employment rebounded slightly following two soft months, but it wasn't big enough to keep up with the pace of labour force growth and the jobless rate rose more than anticipated. Indeed, at 6.6%, the unemployment rate is almost two percent higher than the 2022 low (4.8%) and nearly 1% higher than 2019's pre-pandemic average. Because of this, we think the Bank should be considering a faster pace of cuts to get interest rates to less restrictive levels. But that hasn't been their style thus far, so until we hear some hints of a rethink, or see further weakness in the data, we'll stick to our forecast for consecutive 25bp reductions.
- The 22K increase in employment was close to the consensus forecast (+25K) but was driven mainly by part-time work (+65K) as full time positions fell. Likely because of that, aggregate hours worked actually dropped slightly on the month, which doesn't bode well for a rebound in GDP growth in August following a sluggish start to the summer. By sector, the largest gains were seen in less cyclical areas of the economy such as education and health. The largest declines were seen in areas more sensitive to consumer demand, including other services and accommodation & food services.
- The gain in jobs fell well short of the rise in the labour force, which increased by 83K thanks to strong population growth and a one-tick rebound in the participation rate. Because of this the jobless rate continued to climb higher, with the 6.6% reading slightly worse than the consensus expectation (6.5%). There were also indications that the climb in joblessness was also becoming more broad-based, and not quite as focused on newcomers into the country and recent graduates. The 6% unemployment rate for persons born in Canada, and 6.1% for immigrants in the country 10 years or longer, compared to rates of 5.4% and 5.5% respectively a year ago. Meanwhile the seasonally adjusted prime aged (25-54) unemployment rate across the economy as a whole rose to 5.4%, from 5.1% in the prior month.
- Hourly wages for permanent employees rose 4.9% year-over-year, which was a deceleration relative to the prior month but still elevated. However, other measures of wages, including within the productivity data earlier in the week, have shown clearly signs of deceleration so this shouldn't be a concern for policymakers.

Implications & actions

Re: Economic forecast — The sharper than anticipated rise in unemployment during August, combined with evidence that the breadth of joblessness is increasing, suggests that the unemployment rate could peak higher than we were previously anticipating. The closer we get to 7%, the more pressure the Bank of Canada will feel to accelerate the pace of interest rate cuts. We have one more jobs report to come before the October decision, and for now we are sticking to our previous forecast for consecutive 25bp cuts at the remaining meetings this year.

Re: Markets — Bond yields were down on the day, partly on the rise in Canadian jobless rate and partly on weakness in US payrolls as well. With the Canadian employment data weaker on balance than the US release, the Canadian dollar depreciated against the greenback.

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