

Economics

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January 9th, 2026

Canadian employment (Dec): Back to reality?

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Labour force survey (monthly change, thousands, unless otherwise noted)	Aug	Sep	Oct	Nov	Dec
Employment	-65.5	60.4	66.6	53.6	8.2
• Full-time	-6.0	106.1	-18.5	-9.4	50.2
• Part-time	-59.7	-45.6	85.1	63.0	-42.0
• Paid workers	-23.0	52.6	69.0	68.5	0.8
• Private	-7.5	21.9	73.2	52.2	-0.5
• Public	-15.5	30.7	-4.2	16.3	1.3
• Self-employed	-42.6	7.9	-2.5	-14.7	7.3
Participation rate (%)	65.1	65.2	65.3	65.1	65.4
Unemployment rate (%)	7.1	7.1	6.9	6.5	6.8
Avg. hourly earnings, perm. workers (y/y %)	3.6%	3.6%	4.0%	4.0%	3.7%
Actual hours worked by industry (m/m %)	0.1%	-0.2%	-0.2%	0.4%	-0.3%

Source: Statistics Canada

- As workers came back into the labour force during December, they were met with the reality that job prospects are still fairly limited. While employment growth continued during the month, that was not enough to keep pace with a sharp jump in the size of the labour force, driven by higher participation. The result was a rise in the unemployment rate to 6.8%, offsetting roughly half of the improvement seen since September's peak. We previously noted that the earlier decline in unemployment was flattered by weaker participation, and the current jobless rate is probably a better reflection of actual slack within the labour market. Because of that, we continue to see no need for the Bank of Canada to hike rates this year.
- Employment rose by 8K, which was better than the consensus expectation for a marginal decline. The composition of job growth was somewhat mixed. Full-time work (+50K) offset a decline in part-time (-42K). However, private paid employment was broadly flat, with the aggregate increase driven by self employment. Hours worked actually fell by 0.3% on the month.
- By sector, health care once again led the way, with the 21K increase following an even larger surge in November. This was the one sector where job vacancies remained above their pre-pandemic levels, and these last two LFS figures suggest that some of these vacancies are getting filled. The continued increase in health care, couple with more modest gains in other sectors, offset declines in areas such as accommodation & food services and professional services.
- The size of the labour force increased by 81K in December, which easily offset the decline seen in the previous month. While population growth was only 10K (weakest since late 2020), there was an improvement in the participation rate to 65.4%, from 65.1% in the previous month and the highest since June. While labour force participation should generally decline in an aging population, we had previously noted that prior declines went beyond what demographic trends alone could explain. Today's increase has narrowed that gap, but not totally closed it. As such, we don't anticipate a renewed decline in participation and see today's unemployment rate as a more accurate

representation of actual slack within the economy. The employment-to-population ratio for prime aged (25-54) has shown little improvement and remains well below levels seen in 2022/23.

- Wage growth for permanent employees eased to 3.7%, from 4.0% in the prior month and a tick below consensus forecasts.

Implications & actions

Re: Economic forecast — Overall, today's data demonstrate that the sharp move lower in unemployment during the preceding month was partly flattered by a decline in labour force participation. With more people once again looking for work, today's unemployment rate suggests that there's still plenty of room for non-inflationary growth before the Bank of Canada will need to think about interest rate hikes. We continue to see no change in the Bank's overnight rate this year.

Re: Markets — There was limited reaction in financial markets to today's somewhat mixed data release.

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