Economics

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Canadian employment (Aug): Far from rolling over

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Labour force survey (monthly change, thousands, unless otherwise noted)	Apr	May	Jun	Jul	Aug
Employment	41.4	-17.3	59.9	-6.4	39.9
• Full-time	-6.2	-32.7	109.6	1.7	32.2
• Part-time	47.6	15.5	-49.8	-8.1	7.8
• Paid workers	22.5	22.2	78.9	-0.4	-9.5
• Private	9.2	12.5	82.5	-17.5	-22.7
• Public	13.3	9.7	-3.6	17.1	13.2
• Self-employed	19.1	-39.6	-19.1	-5.9	49.5
Participation rate (%)	65.6	65.5	65.7	65.6	65.5
Unemployment rate (%)	5.0	5.2	5.4	5.5	5.5
Avg. hourly earnings, perm. workers (y/y %)	5.2%	5.1%	3.9%	5.0%	5.2%
Actual hours worked by industry (m/m %)	0.2%	-0.4%	0.1%	0.1%	0.5%

Source: Statistics Canada

- The Canadian labour market has cooled relative to the start of the year, but a stronger than expected rebound in August employment shows that it is far from rolling over. Indeed, the 40K increase in jobs was double the consensus expectation, and was driven mainly by well paid full-time positions. With the unemployment rate holding steady at 5.5% and wage inflation coming in hotter than expected, today's release will raise concerns at the Bank of Canada that the labour market may not yet have loosened sufficiently to achieve its 2% inflation target.
- Looking at the underlying trend in employment, it remains clear that the labour market has cooled relative to the start of the year. The 6-month average employment gain of 25K is down from a peak of 62K in March, and is cooler than the average pace of population (+84K a month) and labour force (+44K) growth over that same time period. Indeed, the unemployment rate in August only held steady at 5.5% because of a slight dip in labour force participation, as even the above-consensus employment gain fell short of the rapid growth in the population.
- With estimates of the output gap having been revised heavily over recent years as policymakers have struggled to calculate the impact of supply shocks, the unemployment rate has become an even more important gauge of slack in the economy. At its current rate, unemployment is still modestly below levels which brought wage growth consistent with a 2% inflation target pre-pandemic. That was evident by the still strong wage inflation in today's report, with an acceleration to 5.2% y/y for permanent employees, from 5.0% in the prior month, coming in contrast to consensus expectations for a slight deceleration.
- August's increase in employment was led by increases in the professional & scientific (+52K) and construction (+34K) sectors. The headline gain in jobs could have been even better were it not for a 44K decline in education, which could be the result of seasonal adjustment issues during summer months. However, some of the other details within the employment breakdown were not as strong as the headline figure, with private paid employment falling for a second consecutive month but overshadowed by a surge in self employment.

- Statistics Canada also noted other statistics that suggest the labour market is still cooling, despite the fairly strong headline figure. The proportion of people remaining unemployed between one month and the next has risen compared to a year ago (57.8% vs 53.4% in August 2022). Meanwhile the job changing rate, at 0.4% in August, remains well below the pandemic peak (0.8%) and pre-2019 average (0.7%), suggesting that there are fewer opportunities available to switch jobs.
- The 0.5% increase in hours worked, however, is a good indicator for August GDP and suggests that activity may have rebounded after being negatively impacted by strikes and wildfires in previous months.

Implications & actions

Re: Economic forecast — The strong rebound in employment and hours worked in August suggests that the chatter of an imminent Canadian recession in some circles following last week's GDP data was probably premature. Indeed, a still low unemployment rate and strong wage growth suggests that, in the near term at least, further interest rate hikes rather than cuts are more likely. However, we still think that the Bank is done with interest rate hikes at this stage, with the unemployment rate likely to move higher in the coming months and approach levels which should slow wage growth and overall inflationary pressures in the future.

Re: Markets — Bond yields rose and the Canadian dollar appreciated on the back of today's stronger-than-expected data.