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Canadian employment (Jan): Tightening slightly

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Labour force survey (monthly change, thousands, unless otherwise noted)	Sep	Oct	Nov	Dec	Jan
Employment	50.7	23.9	24.4	6.8	37.3
• Full-time	4.4	24.9	33.5	-7.5	-11.6
• Part-time	46.4	-1.1	-9.1	14.4	48.9
• Paid workers	30.5	26.1	49.5	17.8	55.0
• Private	0.4	5.6	41.3	9.0	7.4
• Public	30.1	20.5	8.2	8.8	47.6
• Self-employed	20.3	-2.2	-25.1	-11.1	-17.7
Participation rate (%)	65.6	65.6	65.6	65.5	65.3
Unemployment rate (%)	5.6	5.7	5.8	5.8	5.7
Avg. hourly earnings, perm. workers (y/y %)	5.3%	5.0%	5.0%	5.7%	5.3%
Actual hours worked by industry (m/m %)	-0.2%	0.0%	-0.5%	0.3%	0.6%

Source: Statistics Canada

- Latest data suggested that Canadian labour market conditions tightened slightly in January, due to a slightly better than expected increase in employment but also a further decline in labour force participation. Although labour market conditions remain looser than they were a year ago, today's data certainly won't speed up the path to a first interest rate cut from the Bank of Canada. We continue to see a first move in June, and now expect interest rates to end the year at 3.75%, 25bp higher than our previous forecast.
- The 37K increase in employment was better than the 15K expected by the consensus, although the composition of job gains were not as positive. Growth was tilted towards part time (+49K) rather than full time positions (-12K), while the public sector remained a primary driver of the increase in employees. The number of private sector employees rose by only 7K, and has increased by only 1.6% on a year-over-year basis. That is in contrast to a 4.2% rise in public sector payrolls. By sector, job gains were led by retail and finance in January, with those partly offset by a further decline in accommodation & food services. Overall hours worked rose by a robust 0.6% in January, albeit only 1.6% year-over-year due to the weakness seen last fall.
- Population growth once again set a new record, rising by 125K on the month (+0.4%). That was stronger than the increase in employment, resulting in a further decline in the employment ratio which is now the lowest since January 2022 (during the short-lived Omicron-related shutdown of some industries). However, a two-tick reduction in participation meant that the increase in employment was strong enough to see a decline in the jobless rate to 5.7%, in contrast to consensus expectations for an increase to 5.9%. That was the first monthly decline in the unemployment rate since December 2022.
- While a downtrend in participation is expected in an aging population, in recent months we have also seen declines within age groups. Particularly noticeable has been the reduction in labour force participation among younger Canadians (aged 15-24) which has fallen to 62.7%, compared to 65.7% a year ago. That could be a result of the increase in international students, as Statistics Canada noted that over the past year the number of people not in the

labour force because they were studying rose by 172K (10%) and accounted for more than 16% of the population not in the labour force. While the 15-24 population currently accounts for just over 14% of the overall Canadian population, it has accounted for 27% of the population growth seen over the past year.

- Wage growth for permanent employees slowed to 5.3%, from 5.7%, which was in line with expectations but still above levels that policymakers will be comfortable with, while hours worked increased by a robust 0.6% on the month.

Implications & actions

Re: Economic forecast — The unemployment rate isn't rising as quickly as previously expected given the generally sluggish trend in GDP, although a stabilisation or rebound in participation, combined with only modest employment growth, could still take the jobless rate above 6% by mid-year. That said, today's data confirm that the Bank won't be in a rush to cut interest rates, and we maintain our expectation for a first move in June. Given indications from today's data and previously released GDP figures that the Canadian economy is in somewhat better shape than previously expected, we now forecast 25bp fewer cuts by the end of the year (finishing at 3.75% rather than 3.50%).

Re: Markets — The Canadian dollar initially strengthened on the better than expected headline employment and unemployment rate news, but retraced much of that as investors noticed some of the details (for example the composition of job gains) were not as strong as the headlines.