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Canadian employment (July): Coming back down to earth

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Labour force survey (monthly change, thousands, unless otherwise noted)	Mar	Apr	May	Jun	Jul
Employment	-32.6	7.4	8.8	83.1	-40.8
• Full-time	-62.0	31.5	57.7	13.5	-51.0
• Part-time	29.5	-24.2	-48.8	69.5	10.3
• Paid workers	-50.6	-3.9	39.3	70.0	-35.0
• Private	-47.8	-26.8	60.6	46.6	-39.0
• Public	-2.8	22.9	-21.3	23.4	4.0
• Self-employed	18.0	11.2	-30.4	13.1	-5.8
Participation rate (%)	65.2	65.3	65.3	65.4	65.2
Unemployment rate (%)	6.7	6.9	7.0	6.9	6.9
Avg. hourly earnings, perm. workers (y/y %)	3.5%	3.5%	3.5%	3.2%	3.5%
Actual hours worked by industry (m/m %)	0.4%	0.4%	0.0%	0.5%	-0.2%

Source: Statistics Canada

- The Canadian labour market came back down to earth with a bump in July, as a 41K decline in jobs (consensus +10K) offset roughly half of the surprise gain seen in the prior month. Through the monthly volatility, the 3 and 6-month changes in employment (17K and 5K respectively) signal a labour market that continues to add jobs, albeit not quickly enough to keep up with population growth. The only reason the unemployment rate didn't increase this month was because of a decline in labour market participation to its lowest since March. The reduction in the employment-population ratio will likely get the most attention at the Bank of Canada, and is supportive of a September interest rate cut, albeit admittedly with a lot more data to be released between now and the time of that meeting.
- As well as the headline decline, job quality also appeared weak, as all of the decline was driven by full-time work (-51K), which contributed to a 0.2% decline in total hours worked. Private sector paid employment was also soft (-39K) and has now seen no change over the past 6 months. By age, young people (15-24) continued to face a tough labour market and saw a decline in seasonally adjusted employment over the month.
- The youth unemployment rate rose to 14.6%, from 14.2% in the prior two months, and excluding the pandemic years is the highest since 2010. Prime-aged (25-54) unemployment held steady at 5.8% in July, a couple of ticks below its recent peak of 6% but still around 1% higher than levels seen in 2019 immediately before the pandemic. The overall jobless rate held steady at 6.9%, although this was mainly because of a two-tick reduction in labour force participation.
- Accounting for that, the employment-population ratio fell to 60.7, from 60.9 and the lowest since 2021. The reduction in the size of the labour force during July reflected declines in youth and prime-aged workers, rather than people over 55. While an aging population will lead to lower aggregate participation and employment rates over time, that doesn't appear to have been a big contributing factor to July's drop.
- The sector breakdown of employment showed declines were strongest in information & recreation, construction, business & support services and health care. Strangely, two of the most trade sensitive sectors of the economy,

transportation & warehousing and manufacturing, actually saw job gains. However, manufacturing employment is still down by almost 40K over the past six months, while July's increase in transportation & warehousing brought the job count back to where it stood in January.

Implications & actions

Re: Economic forecast — There's still more than a month to go until the Bank of Canada's next interest rate decision, and therefore a lot more data to be released between now and then, including another employment report, two inflation releases and quarterly GDP. However, today's weaker than expected employment figure is nevertheless supportive for our call of a 25bp interest rate reduction at that September meeting.

Re: Markets — Canadian bond yields and the Canadian dollar fell following today's release.

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