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Canadian employment (Aug): The summer slump continues

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Labour force survey (monthly change, thousands, unless otherwise noted)	Apr	May	Jun	Jul	Aug
Employment	7.4	8.8	83.1	-40.8	-65.5
• Full-time	31.5	57.7	13.5	-51.0	-6.0
• Part-time	-24.2	-48.8	69.5	10.3	-59.7
• Paid workers	-3.9	39.3	70.0	-35.0	-23.0
• Private	-26.8	60.6	46.6	-39.0	-7.5
• Public	22.9	-21.3	23.4	4.0	-15.5
• Self-employed	11.2	-30.4	13.1	-5.8	-42.6
Participation rate (%)	65.3	65.3	65.4	65.2	65.1
Unemployment rate (%)	6.9	7.0	6.9	6.9	7.1
Avg. hourly earnings, perm. workers (y/y %)	3.5%	3.5%	3.2%	3.5%	3.6%
Actual hours worked by industry (m/m %)	0.4%	0.0%	0.5%	-0.2%	0.1%

Source: Statistics Canada

- This summer's slump in the Canadian labour market continued in August, with a 66K decline in employment coming off the back of a 41K drop in the prior month. Even though some of the underlying detail wasn't quite as bad as the headline number, a larger-than-expected increase in the unemployment rate shows that slack is continuing to open up in the Canadian economy and that the BoC should restart interest rate cuts at its next meeting.
- By sector, trade exposed areas such as transportation & warehousing (-23K) and manufacturing (-19K) saw big drops, but they weren't solely responsible for the overall reduction, with business & technical services and education also seeing marked reductions in positions. The decline in manufacturing jobs took headcount in that sector to its lowest since January 2023, while the drop in transportation & warehousing broadly offset a surprise increase seen in the prior month.
- Some of the underlying detail wasn't quite as bad as the headline figure or the prior month's data, with August's decline in jobs largely driven by part-time positions (-60K) rather than full time, and by self employment (-43K) rather than paid employment (-23K). Hours worked edged up by 0.1%, following a 0.2% decline in the prior month. However, this detail doesn't change the fact that this was overall a very weak employment report that shows a further build up of slack within the economy.
- Indeed, the slump in employment saw the jobless rate increase to 7.1%, from 6.9%, despite a further slight downtick in participation. Unlike prior months where the continued struggles of young workers (15-24) weighed on the headline figures, this month most of the weakness was focussed on the prime-aged (25-54) segment. Employment for that age group fell by 93K (the biggest monthly decline since January 2021) and the unemployment rate (6.1% from 5.8%) was also the highest since 2021. Ignoring the pandemic years, the prime-aged unemployment rate is the highest since mid-2016.
- Hourly wage growth for permanent employees surprisingly accelerated (to 3.6% from 3.5%), but that could be due to compositional factors as clearly there is slack building up in the labour market.

Implications & actions

Re: Economic forecast — The weakening of the Canadian labour market in recent months hasn't solely been driven by sectors most sensitive to US tariffs, suggesting that the Bank of Canada needs to recommence interest rate cuts to stimulate demand and hiring within the economy more broadly. We continue to forecast a September cut and a further reduction in Q4, which should help the labour market stabilise towards year-end and bring a gradual recovery in 2026, assuming no further dramatic changes in US trade policy.

Re: Markets — The weaker than expected employment report saw financial markets pricing in a greater probability of a September interest rate cut, resulting in a decline in bond yields. However, the C$ was little changed against its US counterpart, as US payrolls figures also printed well below consensus expectations.

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