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Canadian employment (Sep): Weakness under the hood

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Labour force survey (monthly change, thousands, unless otherwise noted)	May	Jun	Jul	Aug	Sep
Employment	-17.3	59.9	-6.4	39.9	63.8
• Full-time	-32.7	109.6	1.7	32.2	15.8
• Part-time	15.5	-49.8	-8.1	7.8	47.9
• Paid workers	22.2	78.9	-0.4	-9.5	37.7
• Private	12.5	82.5	-17.5	-22.7	1.1
• Public	9.7	-3.6	17.1	13.2	36.6
• Self-employed	-39.6	-19.1	-5.9	49.5	26.1
Participation rate (%)	65.5	65.7	65.6	65.5	65.6
Unemployment rate (%)	5.2	5.4	5.5	5.5	5.5
Avg. hourly earnings, perm. workers (y/y %)	5.1%	3.9%	5.0%	5.2%	5.3%
Actual hours worked by industry (m/m %)	-0.4%	0.1%	0.1%	0.5%	-0.2%

Source: Statistics Canada

- September's headline employment gain may have blown past consensus expectations, but weakness under the hood should limit its implications for the Bank of Canada as we head towards its next rate decision. We continue to expect no change in interest rates, with falling job vacancies and a stall in economic activity evidence that the economy is now responding to prior rate increases.
- The 64K increase in the employment during September was more than three times the consensus expectation (+20K), and broadly matched the pace of labour force growth to keep the unemployment rate steady at 5.5%. However, the gain in jobs was not exactly broad based, and instead largely driven by a 66K advance in education which can be volatile at this time of year. Apart of that outsized move, increases in other areas such as transportation & warehousing were broadly offset by declines in other, including finance, real estate & leasing.
- There were other signs of softness within the composition too. Overall employment was tilted more towards part time (+48K) than full time (+16K) in September. Private sector paid employment increased by a mere 1K, after having declined for two consecutive months previously. The public sector added more jobs, and self employment rose for a second consecutive month, although the job tally for that class of worker remains well below where it stood prior to the pandemic.
- Hours worked were also on the soft side in September, falling by 0.2% which was in contrast to the 0.3% gain in headline employment. Hours worked fell sharply in the information, culture & recreation sector, although the job tally was also down in that area.
- Wage growth remained stronger than policymakers would like to see, and for permanent employees ticked up slightly to 5.3% y/y relative to consensus forecasts for a 5.1% rate. However, that still reflects some of the previous tightness in the labour market as well as wage adjustments following last year's surge in inflation. With the unemployment rate off last year's lows and expected to rise further as job vacancies continue to fall, wage inflation could ease fairly

quickly next year. Indeed, this is already happening in accommodation & food services, where job vacancies and wage growth peaked higher than other areas in 2022, but are now cooling quickly.

Implications & actions

Re: Economic forecast — While the headline increase in employment was a surprise, the weaker detail and decline in hours worked point to a still sluggish economy to end Q3. With GDP having basically stalled in Q2 and Q3, and without a clear indication that it was accelerating again heading towards the final quarter, we still see the Bank of Canada remaining on hold despite the stronger-than-anticipated inflation readings recently.

Re: Markets — Canadian bond yields jumped on the better than expected headline employment figure, but partly retraced that move as investors observed some of the weaker underlying detail. Even though the US payroll figures also easily surpassed consensus expectations, the Canadian dollar managed to strengthen versus the greenback.