

Economics

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Canadian employment (Oct): Slowly softening

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Labour force survey (monthly change, thousands, unless otherwise noted)	Jun	Jul	Aug	Sep	Oct
Employment	59.9	-6.4	39.9	63.8	17.5
• Full-time	109.6	1.7	32.2	15.8	-3.3
• Part-time	-49.8	-8.1	7.8	47.9	20.8
• Paid workers	78.9	-0.4	-9.5	37.7	19.1
• Private	82.5	-17.5	-22.7	1.1	0.2
• Public	-3.6	17.1	13.2	36.6	18.9
• Self-employed	-19.1	-5.9	49.5	26.1	-1.7
Participation rate (%)	65.7	65.6	65.5	65.6	65.6
Unemployment rate (%)	5.4	5.5	5.5	5.5	5.7
Avg. hourly earnings, perm. workers (y/y %)	3.9%	5.0%	5.2%	5.3%	5.0%
Actual hours worked by industry (m/m %)	0.1%	0.1%	0.5%	-0.2%	0.0%

Source: Statistics Canada

- The labour market in Canada appears to be slowly softening in line with the weaker trend in economic activity. While employment continues to increase on aggregate, it is falling short of the rapid pace of population and labour force growth, which brought a two-tick rise in the unemployment rate in October. Meanwhile, increases in employment appear to be of lower quality (more part-time and less full time), resulting in little change in overall working hours. These trends should help ease wage growth and wider inflationary pressures ahead, meaning no need for further interest rate hikes and creating room for the Bank of Canada to start reducing rates in Q2 next year.
- The 17.5K gain in jobs during October compared to a consensus expectation of +25K, and a few years ago would have been considered a very respectable number. However, given today's fast growing population (+85K) and workforce (+58K), the increase in jobs is fairly slow and resulted in a two-tick rise in the unemployment rate from 5.5% to 5.7% (consensus 5.6%). That's up from a low of 4.9% in March and April of 2022, and is now back in line with the average unemployment rate seen in 2019 before the pandemic struck. The participation rate held steady in October compared to the prior month, at 65.6%.
- Employment growth was recorded in construction and information & recreation, but declines were registered in wholesale & retail and manufacturing. By province, employment growth was the largest in Alberta, while Quebec saw the biggest decline.
- The overall quality of jobs created was not the best, with full time positions falling (-3K), and as such all of the growth was driven by part time (+21K). Private paid employment (no change) was lackluster again, and has been flat for two months following declines in the two months prior to that.
- Wage growth for permanent employees decelerated to 5.0% y/y, which was slightly weaker than expected but still too high for the Bank of Canada's liking. Note that this wage measure was trending around 3% during the second half of 2019 - just prior to the pandemic and when the unemployment rate was roughly in line with today's level. So even

though there's likely further pass through from to come from last year's inflation spike to upcoming wage negotiations, if the unemployment rate rises further from here wage inflation should eventually start to move lower.

Implications & actions

Re: Economic forecast — We suspect that given the weak trend in economic activity currently and its implications for labour demand, job growth will continue to lag that of the overall population for the remainder of this year and into 2024, which will see the unemployment rate rise further and peak between 6-6.5%. That should help to ease wage and overall inflationary pressures, allowing for interest rate cuts to start in Q2 next year which will help the labour market to start recovering again in the second half of 2024.

Re: Markets — The combination of softer than expected Canadian and US employment reports saw bond yields fall, as investors reduced bets on further rate hikes and pulled forward expectations for cuts. With the US data perceived to be weaker than those in Canada, the loonie appreciated relative to the greenback.

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