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Canadian employment (May): Cracks begin to show

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Labour force survey (monthly change, thousands, unless otherwise noted)	Jan	Feb	Mar	Apr	May
Employment	150.0	21.8	34.7	41.4	-17.3
• Full-time	121.1	31.1	18.8	-6.2	-32.7
• Part-time	28.9	-9.3	15.9	47.6	15.5
• Paid workers	146.2	30.6	38.0	22.5	22.2
• Private	114.7	38.5	34.8	9.2	12.5
• Public	31.5	-7.9	3.2	13.3	9.7
• Self-employed	3.7	-8.9	-3.3	19.1	-39.6
Participation rate (%)	65.7	65.7	65.6	65.6	65.5
Unemployment rate (%)	5.0	5.0	5.0	5.0	5.2
Avg. hourly earnings, perm. workers (y/y %)	4.5%	5.4%	5.2%	5.2%	5.1%
Actual hours worked by industry (m/m %)	0.8%	0.6%	0.4%	0.2%	-0.4%

Source: Statistics Canada

- Some cracks appeared within the Canadian labour market in May, but these may not yet be wide enough to convince the Bank of Canada that inflation is about to meaningfully cool off. Employment fell by 17K (consensus +21K), which led to a two-tick increase in the unemployment rate to 5.2%, despite a slight reduction in participation. However, with much of the weakness in employment driven by the youth category, which can be volatile at this time of year, and with wage growth continuing to run strong, policymakers may still need to see further signs of softening ahead to prevent a follow-up interest rate hike.
- Full-time employment drove the decline in the overall job count, with part-time actually up slightly. By class of worker, all of the decline in the jobs count came within self employed, with both private and public paid employment up modestly compared with the prior month. By age, all of the decline in employment came within the 15-24 category, which can often display volatility leading up to the start of summer due to the timing of holidays and how readily available summer jobs are. Employment within the prime working age (25-54) group actually saw the strongest increase in employment since January.
- By industry, the decline in employment was driven by a number of service sectors, most notably business & support (-31K), professional & scientific (-13K) and whole & retail trade (-13K). Goods sectors saw an overall increase in employment of 23K, on the back of broad-based gains by industry.
- Even though a decline in the participation rate meant that the labour force expanded at its slowest monthly pace (+17K) since last November, the unemployment rate rose by two-ticks to 5.2%. That is the highest since October, although as per the decline in employment the tick up in jobless rate was almost exclusively driven by the 15-24 year-old category. The unemployment rate for prime-aged workers held steady at 4.3%.
- Total hours worked fell by 0.4% in May, representing a larger percentage decline than the change in employment (-0.1%). The number of people working part time involuntarily (which the Bank of Canada is looking at as a sign that demand for staff is easing) continued to edge up, but remains lower than its pre-pandemic level. Despite the

weakness in employment and working hours, average hourly earnings still rose by 5.1% year-over-year, although this was no higher than the consensus expectation.

Implications & actions

Re: Economic forecast — The weaker-than-expected headline figure may have been exaggerated by youth employment, which can be volatile at this time of year. As such, we still forecast one more 25bp hike from the Bank of Canada by the September meeting. However, with past interest rate hikes continuing to cool demand within the economy, months of either weak job growth or modest declines will likely become more common in the second half of the year, seeing the unemployment rate move up further and helping to cool wage inflation.

Re: Markets — Bond yields and the Canadian dollar weakened on the news that employment fell in May. However, the moves were fairly small in comparison to the gains seen after the Bank of Canada decision on Wednesday, and markets are still fully pricing in one more 25bp interest rate hike by September.