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Canadian employment (Aug): A partial reversal

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Labour force survey (monthly change, thousands, unless otherwise noted)	Apr	May	Jun	Jul	Aug
Employment	-17.7	87.8	18.2	75.1	**-41.7**
• Full-time	-46.7	154.0	0.6	38.6	**-35.9**
• Part-time	29.0	-66.2	17.5	36.6	**-5.8**
• Paid workers	-12.1	76.7	1.1	30.9	**-42.8**
• Private	-2.6	56.3	31.6	57.9	**-22.8**
• Public	-9.5	20.4	-30.5	-27.0	**-20.0**
• Self-employed	-5.7	11.2	17.0	44.4	**1.1**
Participation rate (%)	65.0	65.0	65.0	65.1	**65.0**
Unemployment rate (%)	6.9	6.6	6.5	6.4	**6.4**
Avg. hourly earnings, perm. workers (y/y %)	4.8%	3.2%	3.7%	3.0%	**2.0%**
Actual hours worked by industry (m/m %)	0.0%	0.6%	0.2%	0.6%	**0.6%**

Source: Statistics Canada

- The Canadian labour market cooled down in August, giving back more than half of the jobs gained during an extremely hot July. While three and six-month average job gains still hover around a respectable +20K a month, the latest reading tallies with other evidence (exports, monthly GDP) that the economy is cooling off again in Q3 following a strong second quarter. Given that trend, as well as heightened uncertainty resulting from new US tariffs, we continue to forecast that the Bank of Canada will remain on hold for now.
- The -42K job print was well below market expectations for a 15K gain, and offset more than half of the surprise 75K increase recorded in the prior month. Job losses came mainly in full time positions (-36K), while the decline in paid employment (-43K) was split roughly 50/50 between private and public sector positions. Youth employment fell (-19K), after having seen gains earlier in the summer. The summer job market for young people was, however, still better than in the prior year with the unemployment rate for returning students 1.3%-pts lower than in 2025.
- By sector, business, building & support saw the largest drop in employment (-20K), although smaller declines were reasonably widespread among other sectors. Even with trade uncertainty increasing, manufacturing was the only sector to record a statistically significant increase in employment during August. Hours worked were even stronger in the manufacturing sector (+1.6%), and could be evidence of efforts by some companies to front run US tariffs. Aggregate working hours across the economy as a whole rose 0.6%, despite the decline in headcount.
- Looking through the monthly volatility, the 3, 6 and 12 month averages for employment growth were all hovering around 20K in August, which is slightly above the pace of population growth and consistent with the gradual improvement in the unemployment rate that we have seen. For August, the jobless rate held at 6.4%, as a reduction in participation saw the labour force shrink modestly.
- Wage inflation for permanent employees cooled much more than expected to 2.0%, from 3.0% in the prior month (consensus 2.9%), with overall wage data pointing to weakness in mining, oil & gas, manufacturing and other services. However, the weakness could be partly compositional, and it's unlikely that the Bank of Canada's preferred

LFS-micro measure (which uses a more detailed breakdown to adjust for compositional factors) will show the same degree of weakness.

Implications & actions

Re: Economic forecast — While new US tariffs only apply to a small subset of Canadian exports, they are hitting more labour-intensive sectors compared with tariffs that were already in place. Because of that, and because heightened uncertainty could also impact hiring decisions in other sectors, it is likely that the general downward trend in unemployment since April stalls or partially reverses in the months ahead. Continued slack in the labour market should continue to limit the pass through from energy prices into other areas of inflation, enabling the Bank of Canada to remain on hold this year and into the start of 2027.

Re: Markets — Markets had been pricing in an earlier start to BoC hikes following the hawkish tone of Wednesday's statement and press conference, but today's weaker than expected data saw these pushed back again and bond yields decline. With weak Canadian data contrasting to a stronger US payrolls print, the Canadian dollar weakened against the greenback.