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Canadian employment (Mar): Cracks are widening

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Labour force survey (monthly change, thousands, unless otherwise noted)	Nov	Dec	Jan	Feb	Mar
Employment	24.4	6.8	37.3	40.7	-2.2
• Full-time	33.5	-7.5	-11.6	70.6	-0.7
• Part-time	-9.1	14.4	48.9	-29.9	-1.6
• Paid workers	49.5	17.8	55.0	2.4	27.1
• Private	41.3	9.0	7.4	-16.4	15.2
• Public	8.2	8.8	47.6	18.8	11.9
• Self-employed	-25.1	-11.1	-17.7	38.3	-29.3
Participation rate (%)	65.6	65.5	65.3	65.3	65.3
Unemployment rate (%)	5.8	5.8	5.7	5.8	6.1
Avg. hourly earnings, perm. workers (y/y %)	5.0%	5.7%	5.3%	4.9%	5.0%
Actual hours worked by industry (m/m %)	-0.5%	0.3%	0.6%	0.3%	-0.3%

Source: Statistics Canada

- The cracks that had been slowly emerging within the Canadian labour market suddenly got much wider in March. While the decline in headline employment wasn't large, it came in contrast to a further big increase in the population, and as a result the unemployment rate rose by three ticks to 6.1%. While markets had been pushing back expectations for a first Bank of Canada interest rate cut following strong GDP data to start the year, today's labour force release should see them pulling those expectations forward again closer in line to our expectation for a first move in June.
- By sector, weakness in headline employment reflected declines in accommodation & food services and retail & wholesale, suggesting that the sluggishness in consumer spending is impacting hiring plans. Offsetting those declines, health care saw the largest increase on the month.
- By worker class, weakness was driven by self employment, with the decline in that category offsetting roughly three quarters of the increase seen in the prior month. In contrast, a 15K increase in private paid employment represented a rebound from a similarly sized decline in February. Through the monthly volatility, the year-over-year growth rate private paid employment has eased to 1.1%, from more than 3% in mid-2023.
- There was a further large increase in the base population in March (+91K), and with an unchanged participation rate the size of the labour force increased by 58K. That meant that, even though the decline in employment wasn't large in light of the usual volatility in these data, it was enough to see the unemployment rate rise to 6.1%, from 5.8%. Excluding the pandemic years, that is the highest jobless rate since November 2017 and it is now comfortably above the pre-pandemic (2019) average of 5.7%. The proportion of unemployed who have been out of work for longer than 27 weeks continued to edge higher, to 18.4% from a recent low of 13.2% in mid-2023.
- The loosening in labour market conditions isn't brining a slowdown in wage growth yet, and the year-over-year growth rate of average earnings for permanent employees actually ticked up slightly to 5.0%, from 4.9%. However, that was expected by the consensus forecast, and could have been driven by the fact that job losses were concentrated in

sectors (accommodation & food services, retail) that tend to pay lower wages which would then raise the average of the overall group.

- In line with the weakness in headline employment, hours worked were also soft in March, dropping by 0.3%. While it isn't always the case, hours worked data have correlated quite well with monthly GDP recently. So these figures suggest that the strong start to the year for monthly GDP may have faded by March.

Implications & actions

Re: Economic forecast — With GDP expected to weaken in Q2 following the surprisingly strong start to the year, we would expect to see further softening in the labour market with the unemployment rate peaking close to 6.5%. However, interest rate cuts starting in June should bring a reacceleration in growth, which will help to stabilise the labour market in the second half of the year and into 2025.

Re: Markets — The large contrast between better than expected US payrolls data and weaker Canadian figures saw the Canadian dollar weaken to levels no seen since last November. Canadian bond yields also edged lower.

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