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Canadian employment (Jul): Still not loose enough?

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Labour force survey (monthly change, thousands, unless otherwise noted)	Mar	Apr	May	Jun	Jul
Employment	34.7	41.4	-17.3	59.9	-6.4
• Full-time	18.8	-6.2	-32.7	109.6	1.7
• Part-time	15.9	47.6	15.5	-49.8	-8.1
• Paid workers	38.0	22.5	22.2	78.9	-0.4
• Private	34.8	9.2	12.5	82.5	-17.5
• Public	3.2	13.3	9.7	-3.6	17.1
• Self-employed	-3.3	19.1	-39.6	-19.1	-5.9
Participation rate (%)	65.6	65.6	65.5	65.7	65.6
Unemployment rate (%)	5.0	5.0	5.2	5.4	5.5
Avg. hourly earnings, perm. workers (y/y %)	5.2%	5.2%	5.1%	3.9%	5.0%
Actual hours worked by industry (m/m %)	0.4%	0.2%	-0.4%	0.1%	0.1%

Source: Statistics Canada

- There were further signs of loosening within the Canadian labour market in July, with a slight dip in employment contributing to another uptick in the unemployment rate. However, a reacceleration in wage growth may lead the Bank of Canada to believe that labour market conditions haven't loosened enough yet to sustainably bring inflation back to its 2% target.
- The 6K decline in employment was well below the 25K increase expected by the consensus, and was driven by drops in private employment and part-time work. By sector, construction saw by far the largest drop on the month (-45K), with public administration and info, culture & recreation also seeing declines. Employment within the construction industry has been broadly declining after a peak in January, and the latest drop takes it to its lowest level since March 2022. Partly offsetting those declines, sectors such as health and education saw increases in employment.
- While the job count was down slightly in July, hours worked managed to eke out a 0.1% increase. That was helped by a 3.9% surge in manufacturing (despite a relatively flat job count), which could reflect different patterns in retooling shutdowns this year or an easing of previous supply chain issues resulting in greater working hours.
- Underpinning the labour market, today's data showed a continued surge in the population, with an increase of more than 80K for the fourth time in the past five months. The sharp rise in the population meant that, despite a downtick in labour force participation, the unemployment rate continued to move higher. The 5.5% jobless rate is now the highest since the Omicron-driven shutdowns of January 2022.
- However, despite the weaker jobs tally and slight rise in the unemployment rate, wage growth reaccelerated to 5% year-over-year, after having briefly fallen below 4% in June. While the wage figure from these labour force figures can be very volatile on a month-to-month basis, the July print was well above consensus expectations and will be a concern for the Bank of Canada as it tries to judge how much the labour market needs to loosen to sustainably bring inflation back to its 2% target.

Implications & actions

Re: Economic forecast — The reacceleration in wages and still low unemployment rate mean that today's data are unlikely to convince the Bank of Canada that the labour market has loosened enough yet to sustainably achieve its 2% CPI target, despite the weaker headline jobs count. Because of that we are, for now, retaining our forecast for one more interest rate hike, although some good news on the inflation front in two weeks time could be enough to prevent that.

Re: Markets — Bond yields fell following today's weaker-than-anticipated employment data, although that move also reflected softer data in the US as well which meant the Canadian dollar was little changed against its US counterpart.

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