

Economics

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February 24, 2026

Is today really so different? Hunting for structural change in the Canadian labour market

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Governor Macklem’s recent speech suggests that the Bank of Canada is sticking to its script that recent weak economic growth is largely a reflection of structural shifts in the Canadian economy linked to US tariffs and demographic change. Policymakers are concerned that misdiagnosing economic weakness as cyclical rather than structural, and changing monetary policy accordingly, would spur inflationary pressure.

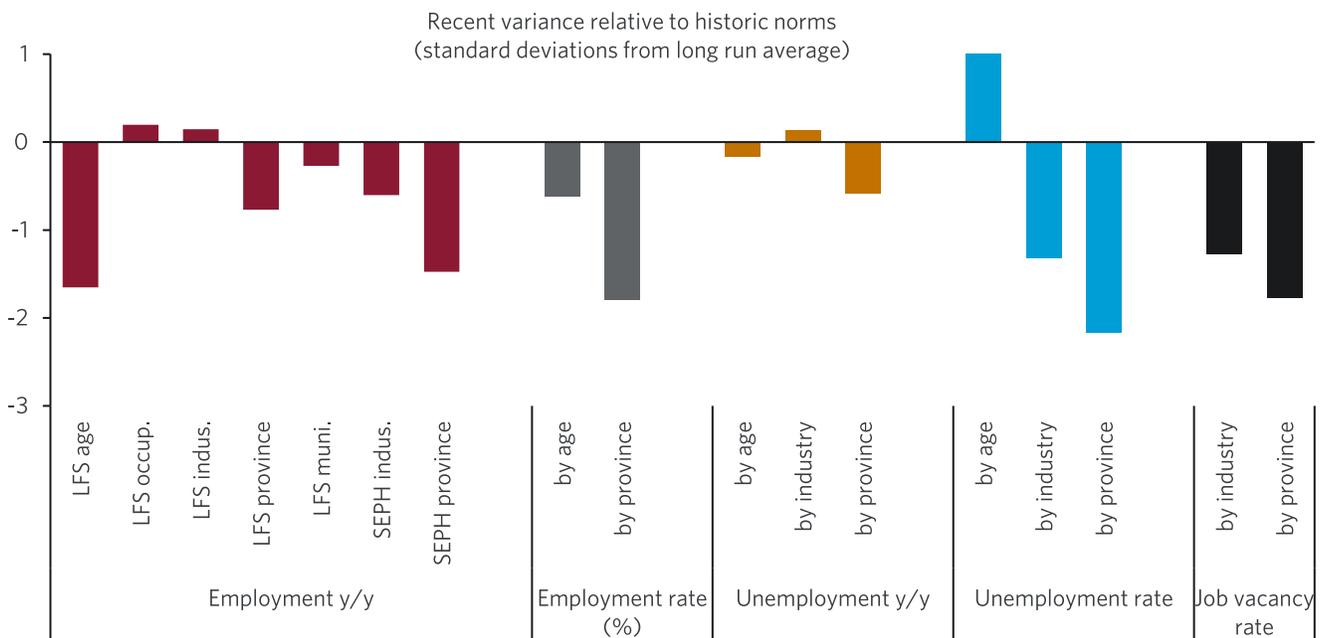
To help diagnose what is structural and what is cyclical, Macklem’s speech noted that the labour market could offer important clues. If trends in variables such as unemployment, employment and vacancies were “unusually different” across sectors, occupations or demographics, then that could be a signpost of structural change. So, are we actually seeing such divergent trends?

Not much to see yet

To help answer this question, we examined the current variance in labour market indicators relative to their average over the past 25 years. For series that weren’t available for that whole period, the entire history was used. For all long-run averages and standard deviations, the pandemic years of 2020 and 2021 were excluded, as those years would inflate the longer-term averages, particularly for variances between sectors as many experienced shutdowns during that period.

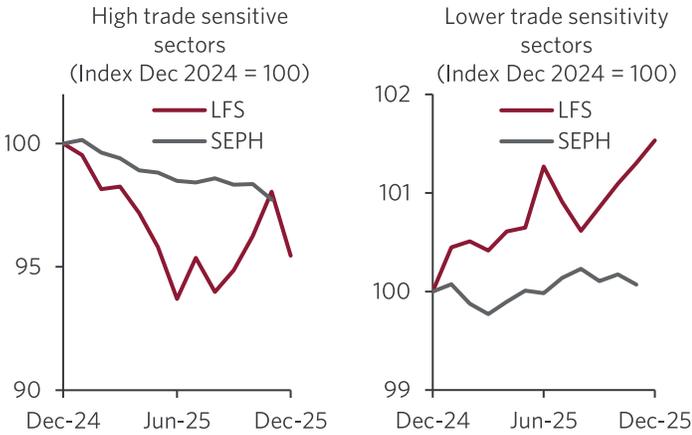
At the moment, there doesn’t appear to be strong evidence that trends in the labour market are showing greater divergence than normal (Chart 1), and actually, many are currently below historic averages.

Chart 1: Only limited evidence of greater-than-normal variance across labour market indicators



Source: Statistics Canada, CIBC

Chart 2: Both LFS and SEPH agree on weakness in trade sensitive sectors (L), but not on trends in rest of the economy (R)



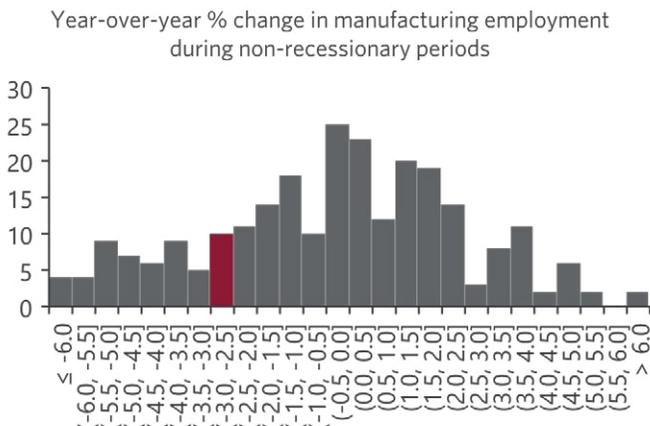
Source: Statistics Canada, CIBC

True, employment growth by industry and occupation, as well as unemployment by industry, are all showing slightly more variance than normal in the monthly Labour Force Survey (LFS). And admittedly this is partly a reflection of weak employment trends for trade sensitive sectors, and as such is a signpost of the structural change they are enduring.

However, it's also interesting to note that the variance of employment between sectors in the payrolls survey (SEPH) is actually below its long-run average. Even though that survey is also picking up weakness in trade sensitive sectors (Chart 2, left), as we have noted before it is also highlighting much weaker employment growth across the rest of the economy (Chart 2, right).

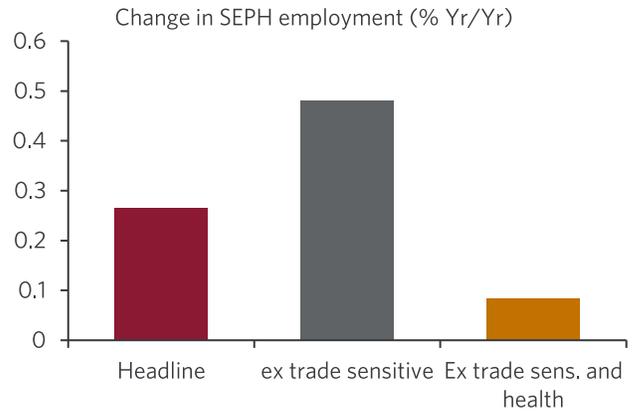
That weaker trend in less trade sensitive sectors means that there is less overall variance between sectors within this survey. We have previously expressed concern that the LFS employment count may have been overestimating population and employment growth, particularly in the first half of last year, and view the SEPH figures as potentially more accurate.

Chart 3: Latest decline in manufacturing employment not outside typical range for non-recessionary periods



Source: Statistics Canada, CIBC

Chart 4: Negative impact of trade sensitive sectors not as large as positive impact from healthcare hiring



Source: Statistics Canada, CIBC

The lack of greater than normal variance within the SEPH data then raises the question of just what is normal— particularly for trade sensitive industries such as manufacturing? The uncomfortable reality here is that manufacturing employment has been struggling through structural changes (related to technological advancement, the emergence of global low-cost producers, the loss of auto capacity to Mexico and others) for decades. While the current year-over-year decline in manufacturing employment is clearly worse than average, it is not outside of trends that we have seen before during non-recessionary periods (Chart 3).

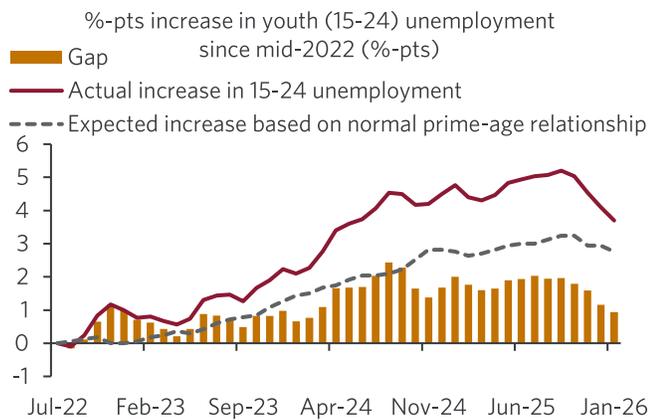
It's also important to note that, although the focus appears to be on trying to find structural shifts that are negatively impacting the economy, greater-than-normal variance between sectors can also result from one or two industries showing unusually positive trends.

At the moment, elevated job vacancies and employment growth in the health care sector, resulting from the needs of an aging population and to fix shortcomings highlighted by the pandemic, are actually having a larger positive impact on job growth than the negative impact from trade sensitive sectors (Chart 4).

No fun being young

Where there is the greatest evidence of unusually large variability isn't actually between sectors or occupations, but rather divergences in unemployment rates by age group (Chart 1 again). That largely reflects the struggles of young people finding work and the fact that, as we wrote about last year, the jobless rate for 15-24 year olds has risen by even more than it typically would have during a period of cyclical weakness. That could possibly be linked to another structural disruptor, AI, although in this instance we should see positives for productivity and broader economic growth in the longer term.

Chart 5: Youth unemployment rate remains elevated despite recent improvement



Source: Statistics Canada, CIBC

However, elevated youth unemployment was also at least partly caused by the surge in population among that age group. Referring back to Chart 1 shows some evidence of this. While divergences in unemployment rates by age are greater than normal, the same hasn't been true recently for employment growth. This suggests supply, rather than demand, side forces are at play.

Moreover, there has been some evidence in recent months that the easing in labour force growth has resulted in a somewhat easier job market for young people. While the jobless rate for young people is still higher than its typical historic relationship with other labour market indicators would imply, that gap has narrowed since mid-2025 (Chart 5). Although the scale of the recent improvement could partly represent statistical noise, for now it appears that elevated unemployment rates for young people mainly reflect the cyclical weakness in the economy, and potentially the impact that AI has had in limiting entry-level jobs in certain service industries.

Hunting for structural change

It is clear that the Canadian economy is going through an important period of adjustment, and that tariffs imposed by President Trump and the rolling out of AI pose threats to labour market dynamics. It's also true that these structural changes will likely build over time, with the full impact unlikely to be visible for quite some time.

However, at the moment there seems to be only minimal evidence that these changes are resulting in greater than normal variance within labour market indicators. That suggests that the current weakness in Canadian economic growth shouldn't be fully chalked up to supply shifts, and that there's still underlying cyclical weakness. If that persists, the Bank of Canada may be forced into further interest rate cuts, although for now we continue to forecast no change in the overnight rate through 2026.

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