

Economics

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Canadian employment (May): The gradual weakening continues

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Labour force survey (monthly change, thousands, unless otherwise noted)	Jan	Feb	Mar	Apr	May
Employment	76.0	1.1	-32.6	7.4	8.8
• Full-time	35.2	-19.7	-62.0	31.5	57.7
• Part-time	40.9	20.8	29.5	-24.2	-48.8
• Paid workers	48.8	17.8	-50.6	-3.9	39.3
• Private	57.2	10.2	-47.8	-26.8	60.6
• Public	-8.4	7.6	-2.8	22.9	-21.3
• Self-employed	27.4	-16.8	18.0	11.2	-30.4
Participation rate (%)	65.5	65.3	65.2	65.3	65.3
Unemployment rate (%)	6.6	6.6	6.7	6.9	7.0
Avg. hourly earnings, perm. workers (y/y %)	3.7%	4.0%	3.5%	3.5%	3.5%
Actual hours worked by industry (m/m %)	0.9%	-1.3%	0.4%	0.4%	0.0%

Source: Statistics Canada

- The Canadian labour market continues to weaken, albeit for now only gradually. While employment managed to register a modest and unexpected increase in May (+9K vs -10K consensus), that was still below the pace of labour force growth and as a result the unemployment rate ticked up to 7.0% as anticipated. Trade sensitive areas such as manufacturing and transportation & warehousing unsurprisingly showed weakness, but for now that is being offset by job growth in other areas. Still, we expect that the loosening in labour market conditions, particularly if it continues in the June data, should see a return to interest rate cuts by the Bank of Canada at the July meeting.
- The 9K gain in employment during May fell short of the monthly increase in the labour force (+35K) and the base population (37K). The increase in population was the slowest since July 2021 and the percentage increase (1.3% annualized) is now close to what has been signalled by the quarterly population count for a while already. Even though employment was stronger than expected in the current month, the 3 and 6-month averages (-5K and +25K respectively) still point to a fairly stagnant labour market.
- Employment fell as expected in trade-sensitive areas such as manufacturing and transportation & warehousing. The job count in manufacturing has now reversed increases seen earlier in the year, and was the lowest since April 2023. A decline in public administration jobs (-32K) reflected the unwinding of temporary positions in the prior month linked to the Federal election.
- Job growth outside of trade sensitive areas was slightly stronger than anticipated, mainly driven by a 43K gain in wholesaling & retailing. However, such momentum will be difficult to maintain, particularly given the recent closure of a large retailer which should show up in the June job count.
- While the mix of jobs appeared positive (+58K full time, and +61K private employees), that didn't result in any pick up in hours worked which were flat on the month and up only 0.9% y/y. Average earnings for permanent workers were up 3.5% y/y, which was modestly above expectations but well below prior peaks and unchanged from the previous month.

Implications & actions

Re: Economic forecast — Today's data suggest that while the economy isn't yet contracting, it also isn't living up to its long-run potential resulting in a continued drift higher in the unemployment rate. We expect that the gradual rise in joblessness will continue into the second half of the year, with positive developments regarding US tariffs and some further interest rate cuts from the Bank of Canada required to help stabilise conditions before year-end and bring a reduction in the unemployment rate again in 2026.

Re: Markets — Bond yields were higher following today's data, as investors slightly lowered the probability of a July rate cut from the Bank of Canada.

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