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Canadian employment: Will the real labour market please stand up

by **Andrew Grantham** andrew.grantham@cibc.com

Labour force survey (monthly change, thousands, unless otherwise noted)	Mar	Apr	May	Jun	Jul
Employment	72.5	15.3	39.8	-43.2	-30.6
• Full-time	92.7	-31.6	135.4	-4.0	-13.1
• Part-time	-20.3	47.1	-95.8	-39.1	-17.5
• Paid workers	41.3	16.4	13.7	16.0	-64.8
• Private	39.0	21.6	-94.5	16.6	-13.8
• Public	2.3	-5.2	108.2	-0.6	-51.0
• Self-employed	31.1	-1.0	26.1	-59.2	34.2
Participation rate (%)	65.4	65.3	65.3	64.9	64.7
Unemployment rate (%)	5.3	5.2	5.1	4.9	4.9
Avg. hourly earnings, perm. workers (y/y %)	3.7%	3.4%	4.5%	5.6%	5.4%
Actual hours worked by industry (m/m %)	1.3%	-1.9%	-0.3%	1.3%	-0.5%

Source: Statistics Canada

- Employment fell for the second successive month in July, in what would typically be a sign of a slowing economy and potential easing of future inflationary pressure. However, at the same time labour market participation has fallen, the unemployment rate remains at a historic low and wage growth is still well above its pre-pandemic norms. Those trends would add to inflationary concerns. We suspect that for now the Bank of Canada will focus mainly on the record low unemployment rate, and deliver a further non-standard interest rate hike at its next meeting.
- The jobs tally fell (-31K) for a second consecutive month in July, although with labour force participation also declining the jobless rate held steady at a historic low of 4.9%. The drop in employment was roughly evenly distributed between part-time and full-time, and was driven in large part by a decline in public sector paid employment. Self-employment rose on the month, although not by enough to offset the big decline seen in June.
- By sector, job losses were strangely concentrated in services, including wholesale & retail, education and health. With some of those sectors reporting high vacancy rates still, labour supply rather than demand appears to be the main issue. The overall participation rate fell by a further two ticks to 64.7% in July, after seeing a near half-percent decline in the prior month. However, while the decline in the prior month was driven partly by a pick-up in retirements among the 55+ group as travel restrictions continued to ease, the drop in participation during July mainly reflected a fall in the prime-aged (25-54) category. While that could be a reflection of a slowing economy, it could also have been caused by changing seasonal patterns during and after the pandemic-related shutdowns. After all, even following this month's decline to 87.9%, the prime aged participation rate remains above its pre-pandemic level (87.3%).
- Aggregate hours worked fell by 0.5%, and have now declined in three of the past four months. While Statistics Canada stated that worker absenteeism due to illness was 0.6% above pre-pandemic norms, it was unchanged relative to the prior month and well below the peak seen in January during the initial Omicron wave.
- Despite the historic low unemployment rate, wage growth unexpectedly decelerated to 5.4% year-over-year, from 5.6% in the prior month and against consensus expectations for an acceleration to 5.9%. However, we always caution

that the LFS wage series is extremely volatile month-to-month. Moreover, even though wage growth didn't accelerate further, it remained above pre-pandemic norms and the range generally consistent with a 2% inflation target.

Implications & actions

Re: Economic forecast — While today's figures muddied the waters further for policymakers, the Bank of Canada will likely focus on the historic low unemployment rate and still strong wage growth to justify another non-standard rate hike at its next meeting. Evidence that the economy is slowing due to weakening demand, rather than supply constraints, will bring a pause in this rate hike cycle following the next hike.

Re: Markets —Even though the Canadian employment data failed to live up to expectations, a blockbuster gain in US payrolls (dispelling some of the concerns regarding a US recession) meant that bond yields in Canada jumped higher after the release. The Canadian dollar weakened against its US counterpart.