

## Economics

## THE WEEK AHEAD

May 6 - 10, 2024

## Is the Canadian labour market already weaker than it appears?

by Andrew Grantham [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

We're not going to pretend to know where the random number generator that is next week's Canadian Labour Force Survey will land. It makes sense to us that any rebound in employment will fall short of labour force growth, seeing the unemployment rate edge up again. However, following a big increase in the jobless rate last month, a partial reversal of that move also wouldn't be a huge surprise. No matter what next week's data show, there are a number of reasons to believe that the Canadian labour market is already weaker than it appears at first sight.

One of the most commonly cited is the role of the public sector in driving job growth, partially disguising weakness in private sector hiring. Since we first discussed this in last June's Economic Insights, the reliance on public sector hiring has only increased, driving more than 60% of job growth over the past year. If government roles had simply grown in line with the population, and the affected workers had not found employment elsewhere, the unemployment rate would be 0.6%-pts higher than it already is.

However, even with the strength in public sector hiring, the labour market may still already be weaker than it appears. The jobless rate in Canada for people unemployed for one month or less has always tracked higher than in the US. That's partly because our criteria for people to be considered looking for work rather than not in the labour force isn't as strict, but also partly because we typically have a higher proportion of seasonal jobs which result in more short-term unemployment.

That final point is changing, however. As desk jobs that can be carried out year-round grow as a share of the total, instances of short-term unemployment have been trending lower. While the overall jobless rate is now above where it stood in 2019, that has happened despite the fact that the short-term unemployment rate is still 0.3%-pts below that pre-pandemic level, largely because of structural rather than cyclical factors. Focusing solely on the proportion of the labour force unemployed longer than one month, the level of joblessness appears more concerning relative to where it stood in 2019.

Finally, we also have to consider the potential undercounting of the group of workers that have seen their job prospects

deteriorate most over the past year — non-permanent residents. Quarterly population estimates suggest that the number of non-permanent residents in Canada has risen by approximately 1.5 million since 2019. In the LFS population estimates, non-landed immigrant numbers have increased by only 600K over the same period. With the unemployment rate for those non-landed immigrants that are counted having risen a lot more than the rest of the population over the past year, it's possible that the jobless rate would actually be higher if a greater proportion of this group were included in the labour market data.

We estimate that the unemployment rate would be 0.2%-pts higher currently. While that is admittedly not a big difference, crucially all of this divergence has opened up over the past 9 months, signalling an even weaker recent trend in the labour market than the headlines suggest.

It's true that a higher rate of long-term joblessness and an increase in unemployment among non-permanent residents is not necessarily just sign of a looser labour market. A skills mis-match, with not enough potential workers qualified to fill elevated job vacancies in health care and construction, is also likely part of the story. However, it is also the case that if non-landed immigrants were fully captured in the labour force survey, that measure of wage growth (which has remained more elevated than others) would be running weaker than advertised.

Why does any of this matter? We have long suspected that the Bank of Canada has internally been using labour market data as a guide for its current assessment of slack in the economy. The April MPR appeared to be proof of this, as the output gap was left unchanged from its January estimate, despite some fairly sizeable upgrades to near-term GDP forecasts. Because of this, understanding some of the idiosyncrasies of the labour market, and how, for example, the headline unemployment rate may not be a perfect guide of slack in the economy, will be important in determining when and how quickly interest rates need to come down.

## Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 6	-	-	-	-	-	-	-
Tuesday, May 7	-	AUCTION: 3-M BILLS \$12.8B, 6-M BILLS \$4.6B, 1-YR BILLS \$4.6B	-	-	-	-	-
Tuesday, May 7	10:00 AM	IVEY PMI	(Apr)	(L)	-	-	57.5
Wednesday, May 8	-	AUCTION: 5-YR CANADAS \$5B	-	-	-	-	-
Thursday, May 9	10:00 AM	Publication: Financial System Review	-	-	-	-	-
Thursday, May 9	10:00 AM	Release: Financial System Survey	-	-	-	-	-
Friday, May 10	8:30 AM	EMPLOYMENT CHANGE	(Apr)	(H)	20.0K	17.5K	-2.2K
Friday, May 10	8:30 AM	UNEMPLOYMENT RATE	(Apr)	(H)	6.2%	6.2%	6.1%
Friday, May 10	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

## Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 6	12:50 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Monday, May 6	1:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, May 6	2:00 PM	Release: Senior Loan Officer Opinion Survey	-	-	-	-	-
Tuesday, May 7	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Tuesday, May 7	3:00 PM	CONSUMER CREDIT	(Mar)	(L)	-	\$15.5B	\$14.1B
Tuesday, May 7	11:30 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Wednesday, May 8	-	AUCTION: 10-YR TREASURIES \$42B	-	-	-	-	-
Wednesday, May 8	7:00 AM	MBA-APPLICATIONS	(May 3)	(L)	-	-	-2.3%
Wednesday, May 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Mar)	(L)	-	-	-0.4%
Wednesday, May 8	11:00 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Wednesday, May 8	11:45 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Wednesday, May 8	1:30 AM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Thursday, May 9	-	AUCTION: 30-YR TREASURIES \$25B	-	-	-	-	-
Thursday, May 9	8:30 AM	INITIAL CLAIMS	(May 4)	(M)	-	213K	208K
Thursday, May 9	8:30 AM	CONTINUING CLAIMS	(Apr 27)	(L)	-	-	1774K
Friday, May 10	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(May P)	(H)	-	77.0	77.2
Friday, May 10	2:00 PM	TREASURY BUDGET	(Apr)	(L)	-	-	-\$236.5B
Friday, May 10	9:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, May 10	12:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Friday, May 10	1:30 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-

## Week Ahead's market call

by Andrew Grantham

In the **US**, investors get a week to digest the latest payrolls figures, with only a handful of Fed speakers and lower tier economic data on tap.

In **Canada**, Friday's employment data may show a modest rebound in hiring in April, but a further rise in the unemployment rate and tick down in wage growth should still provide the Bank of Canada evidence that slack is continuing to open up and support a first interest rate cut at the next meeting in June.

## Week Ahead's key Canadian number: Labour force survey—April

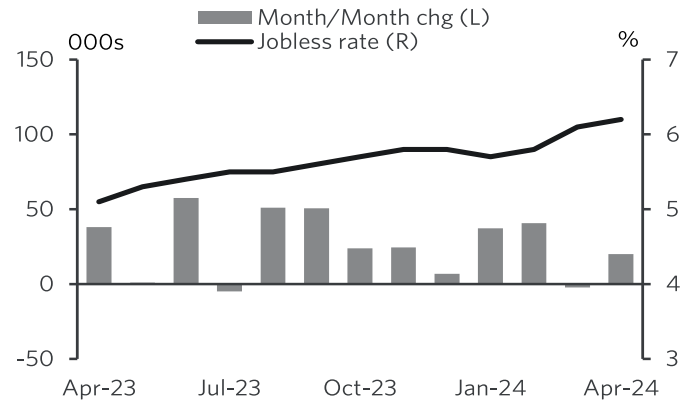
(Friday, 8:30 am)

Andrew Grantham [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Variable	CIBC	Mkt	Prior
Employment (m/m)	20.0K	17.5K	-2.2K
Unemployment rate	6.2%	6.2%	6.1%

Employment growth appears to be slowing, with the 6-month average increase in job count (20K) the slowest since 2022, at the same time population growth has maintained a very brisk pace. Continued weakness in consumer spending has been impacting hiring in areas such as retail and accommodation & food services, offsetting still brisk growth in the public sector headcount. While we forecast a modest rebound in employment in April, it will likely once again fall short of the pace of population growth and see the unemployment rate tick up further to 6.2%.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — While an acceleration in consumer spending as interest rates start to come down in the second half of the year should help stabilize labour demand and the unemployment rate, the jobless rate could still continue to rise for a few more months yet, peaking close to 6.5%.

**There are no major US data releases next week.**

## Contacts:

Avery Shenfeld  
[avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Benjamin Tal  
[benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

Andrew Grantham  
[andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Ali Jaffery  
[ali.jaffery@cibc.com](mailto:ali.jaffery@cibc.com)

Katherine Judge  
[katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

CIBC Capital Markets  
PO Box 500  
161 Bay Street, Brookfield Place  
Toronto, Canada, M5J 2S8  
[Bloomberg @ CIBC](#)

[economics.cibccm.com](http://economics.cibccm.com)

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