Canada: Signs of weakness in the Canadian labour market

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Three consecutive declines in employment are not a frequent occurrence. The last time this happened in Canada was in 2015 when the global economy was feeling the pinch of a slowdown in China that weighed on energy prices (coupled with excess supply on the oil market). We don’t think at this time there is a need to press the panic button since there are some elements which puzzle us about the current episode of job declines. Specifically, the cumulative decline of 82K jobs in the education sector over three months is atypical and a three standard deviation move. This sector alone accounts for 72% of the total job losses over the past three months. Nonetheless there are signs of weakness for the Canadian labour market. Private sector jobs are in a downward trend since April which is consistent with tepid monthly GDP figures in recent months. The August employment report is particularly eyebrow-raising in that the job losses were concentrated in full-time employment and in sectors with above-average wages. The Bank of Canada has committed to another rate hike in October following this week’s rate hike, but this morning’s data reinforces our view that a pause will be warranted thereafter. With a weakening of domestic demand, companies may soon realize that their labor needs are not as high as they believe and stop the bidding war to attract employees which is generating inflation. All told, central banks face a major challenge: calming demand just enough to keep the economy from falling into an outright recession. And this time, the BoC doesn’t have the luxury of time to assess the impact of rate hikes on the economy, which usually occurs over several quarters.

**HIGHLIGHTS:**

- Canadian employment registered a 40K loss in August, marking a third consecutive decline. This loss comes as a surprise as consensus was expecting a 15K increase. Due to August's job loss, the unemployment rate rose to 5.4% from 4.9% with the participation rate increasing 1 tick (64.8%) and population 15+ increasing by 49K, its third largest increase on record. Hours worked were flat in August following a pullback of 0.5% in July.
- The decline in employment stemmed from full-time jobs (-77K) while part-time jobs posted an increase (+38K). The public sector posted another sizable decline (-28K) while the headcounts for self-employed (-8K) and private corporations (-4K) fell more modestly. The services sector posted a deterioration (-26K) in August. Educational services (-50K) posted major losses but other sector also registered drops: transportation/warehousing (-7.7K), business services (-11K). On the flip side, other services (+15K), professional services (+14K) and FIRE (+8K) posted increases in the month.
- Meanwhile, employment in the goods–producing sector (-14K) posted a decline with construction (-28K) and manufacturing (-7K) registering losses.
- Regionally, BC saw the largest pullback (-28K) while Ontario also registered a sizable decline (-19K). Quebec was the top performer (+27K). Employment was barely down in Alberta (-6.5K).

**Canada: Public and private employment trending down**

Public, private & self-employment

**Canada: Perspective on employment variation in August**

Change in employment in August by category

![Graph showing employment variation in August](image-url)
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