

# Canada 'winning' the race to labour market slack

By Taylor Schleich

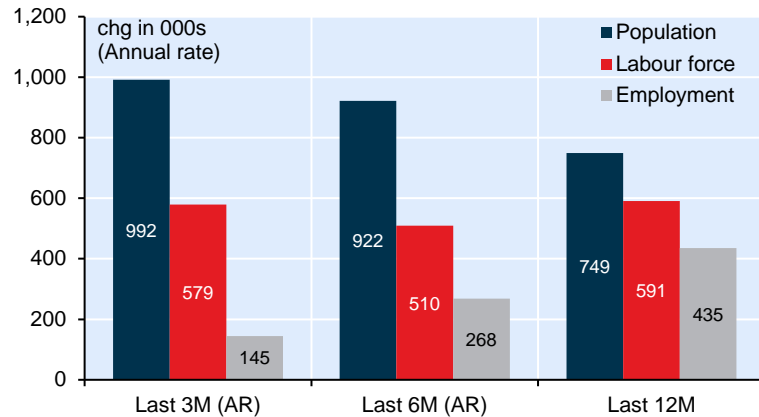
It's not often you see a downside surprise in Canada and U.S. employment in the same month. However, that's just what we were delivered today. And while hiring on both sides of the border is showing signs of slowing, implications for labour market slack are not the same. In the U.S. the unemployment rate fell to 3.5%, back within a tick of the cycle low. In Canada, the jobless rate rose for the third straight month, hitting 5.5%—comfortably above the 4.9% rate registered last summer. Why the discrepancy? See Canada's demographic boom.

The problem for Canada's jobs market can be simply boiled down to supply > demand. BoC rate increases have gradually crimped demand for workers (reported labour shortages and hiring plans have largely normalized as per the latest BOS) but the supply of new workers has remained steady at a historically elevated level. Indeed, over the last 3 or 6 months, Canada's working age population increased by close to a million people (in annualized terms). Evidently, employment hasn't nearly kept pace. Hence, the rising unemployment rate. The U.S. has seen a similar deceleration in hiring but the labour force has grown at a relatively more restrained clip.

What might these dynamics imply for the months ahead? First a word of warning: **The following is not meant to be an official forecast.** We'll leave that job to our esteemed colleagues who offer their views on the Canadian and U.S. economy [here](#). Rather this is meant to be a simple mathematical exercise. What would happen to the unemployment rate if recent hiring/labour force growth persisted? As per Chart 2, labour force/employment dynamics over the past three months, should they continue, would see Canada's jobless rate cross 7% in less than a year. It's worth pointing out that this extreme pace of population growth might not continue in perpetuity... but it also won't fall all that far. Just ask Canada's new immigration minister who stressed [there are no plans to decrease immigration](#). (As an aside, we'd [reiterate](#) that the BoC does not provide unemployment rate projections, despite its importance in the policy setting process. Given these unique dynamics ongoing, it's something we'd like to see in the future). In the U.S., the labour supply tap isn't flowing as quickly, and similar scenario analysis doesn't show as much slack opening up. To be sure, there are signs of weakness emerging in the U.S. labour market, but the onset of more material slack may take longer to come about (or could require additional tightening). To us, that leaves risks to the policy rate skewed relatively higher in the U.S. Moreover, it argues against market pricing for Fed rate cuts coming earlier than at the BoC. Short-term Canadian rates have outperformed on the back of this morning's data, but we think there's room for this to continue in the months ahead.

**Chart 1: Employment can't keep up with labour force growth...**

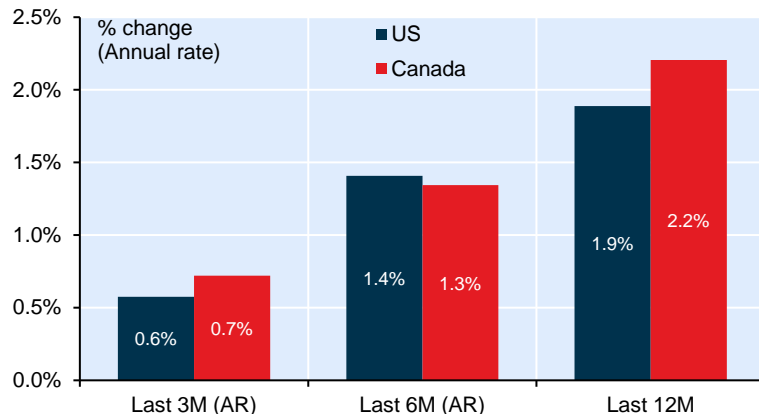
Canada select labour force characteristics: 3-12 month level change



Source: NBF, StatCan | Note: 3M chg multiplied by 4; 6M chg multiplied by 2; as at Jul-23

**Chart 3: Hiring deceleration similar in Canada and the U.S....**

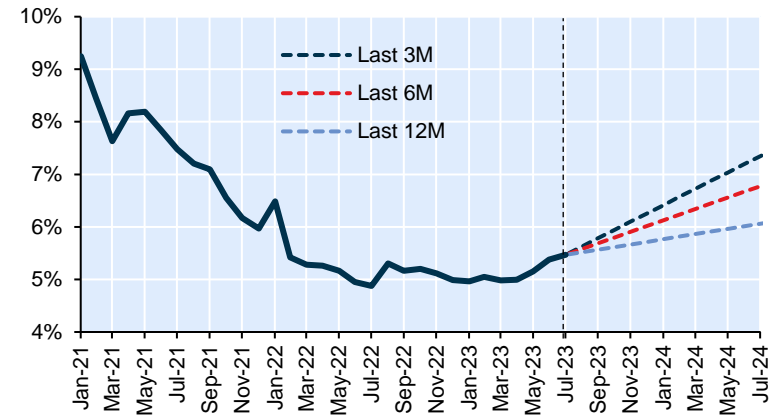
Annualized percent change in employment: Last 3, 6, & 12M – Canada vs. U.S.



Source: NBF, StatCan, BLS | Note: U.S. job growth is based on household survey

**Chart 2: ... which risks sending jobless rate higher, quickly**

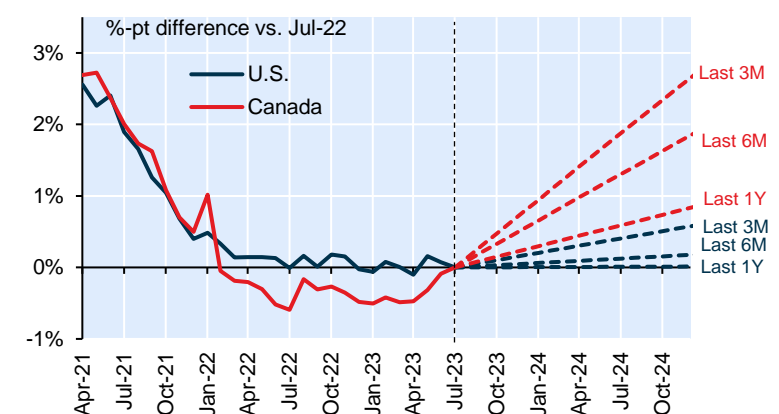
Simulated Cdn jobless rate based on recent job/labour force growth rates



Source: NBF, StatCan

**Chart 4: ...but population dynamics create slack faster in Cda**

Simulated chg. in jobless rate based on recent job/labour force growth rates



Source: NBF, StatCan, BLS



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