

Canada's labour force growth too high to hurdle

By Taylor Schleich

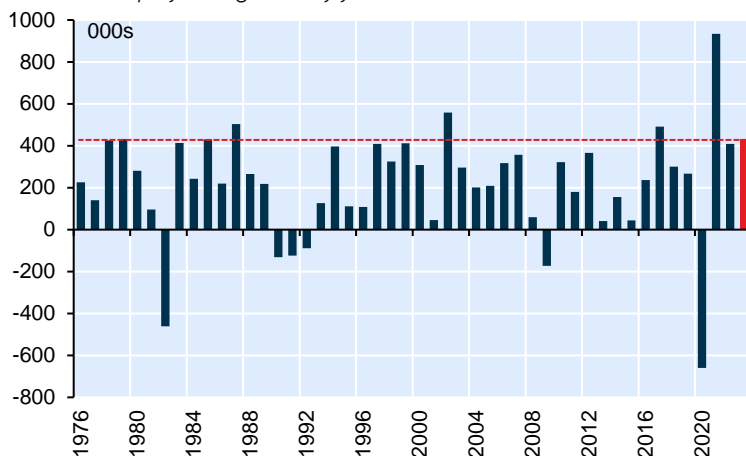
By the narrowest of measures, 2023 was a solid year for the Canadian labour market. Through November, 430 thousand jobs were added which is already good for sixth most in a single year on record. Even in percentage terms, 2.2% employment growth through the first eleven months of 2023 is comfortably above the long-term average (1.6%). Of course, the number of jobs doesn't tell the whole story today. Not when the available pool of workers is growing at a breakneck pace. Canada's labour force expanded by over 600K people and should be closer to 700K after December data is published, far and away the quickest growth ever recorded. Rapid population growth, driven by a liberal (pun intended) immigration policy, is a unique-to-Canada story and one we've been covering regularly (see our latest *Hot Chart* [here](#)).

That brings us to this week's data. Economists have collectively forecasted that 12K net new jobs were added to the Canadian economy in December (NBF is forecasting 10K), which doesn't sound all that bad in the context of an ultra-restrictive monetary policy backdrop. Historically, that would've been an *okay* print, applying little pressure (in either direction) to the unemployment rate. But 12K isn't what it used to be. Today's 'hurdle rate', or the number of jobs that would keep the unemployment rate unchanged, is much, *much* higher. In 2023, the Canadian economy would've needed to add *more than 50K jobs per month* to prevent the jobless rate from increasing.

It's not surprising then that employment has been unable to keep pace (particularly in recent months), driving the unemployment rate up by 0.8%-pts. There's almost certainly more to come as tighter policy [continues transmitting](#) and labour demand/hiring slows further. Given the record labour supply growth, a string of job-losing months isn't even needed for more upward pressure on the unemployment rate. It's true that Canada's population surge has come under greater scrutiny of late which should mean 2024 population growth will slow from 2023. However, a marginal deceleration still creates a significant labour supply expansion. We therefore see the unemployment rate rising to 7% this year, [per our latest Economic Monitor](#), a larger deterioration than most forecasters have penciled in. This occurs *without* a severe economic downturn so the distribution of potential outcomes may be skewed to an even higher jobless rate if elevated global recession risks are realized. When Friday comes around, keep the hurdle rate in mind. More jobs doesn't necessarily mean a soft landing for the labour market.

Chart 1: It looks like a solid year for Canada's labour market...

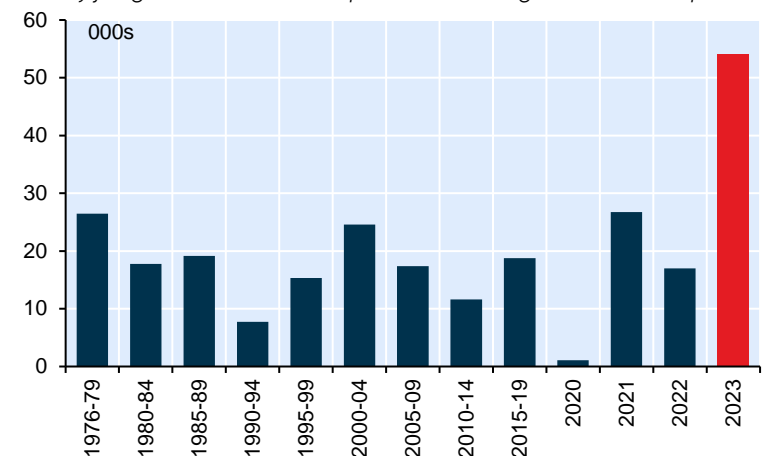
Canadian employment growth by year



Source: NBF, StatCan | Note: 2023 growth to November.

Chart 2: ...but note the surging the 'hurdle rate'

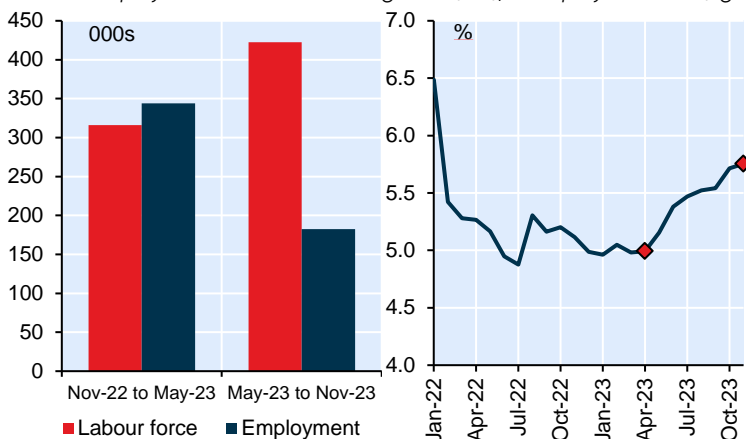
Monthly job growth needed to keep UE rate unchanged from start of period



Source: NBF, StatCan | Note: Analysis based on ex-post change in labour force

Chart 3: Hiring hasn't absorbed new labour market entrants

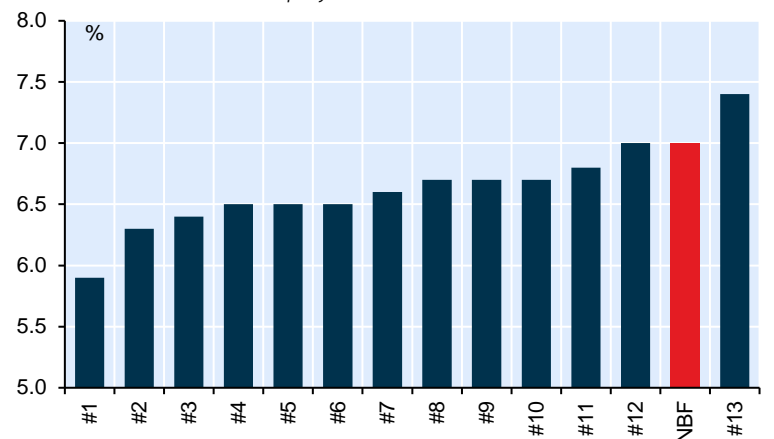
Canada employment and labour force growth (left), unemployment rate (right)



Source: NBF, StatCan

Chart 4: Forecasters may be underestimating jobless rate rise

Forecasts for Canada unemployment rate in Q4:2024



Source: NBF, Bloomberg (Dec-23 Survey) | Note: X-axis "#" refers to non-NBF forecasters



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