ECONOMIC NEWS

Canada: Labour Market Stalls, but Inflationary Drivers Persist

By Marc Desormeaux, Principal Economist

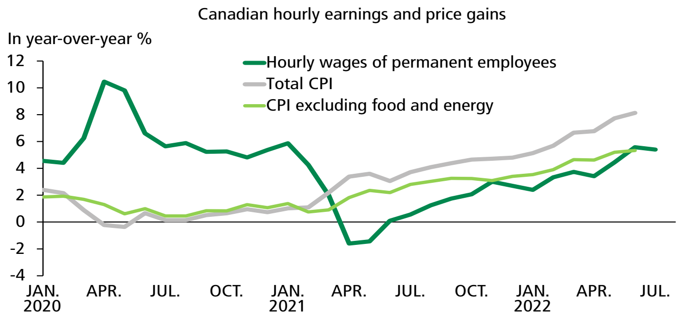
HIGHLIGHTS

- Net total Canadian employment fell by 30.6k jobs in July 2022, for the second consecutive monthly decline.
- That trend was roughly evenly split between part-time (-17.5k) and full-time (-13.1k) employment.
- Job losses were concentrated in the services sector (-53k), particularly in wholesale and retail trade and the public sector. The goods-producing sector gained about 23k net new positions.
- The unemployment rate remained at 4.9%—still among the lowest ever recorded—as the participation rate declined 0.2 ppts to 64.7%. The participation rate is now 0.7 ppts below its March 2022 post-pandemic peak.
- Total hours worked fell by 0.5%, the third decline in four months to sit 1.5% below the March 2022 peak.
- Gains in hourly earnings of permanent employees—monitored by the Bank of Canada in its assessment of wages' impacts on inflation—slowed to 5.4% y/y in July but is still one of the fastest readings ever outside the temporary pandemic-induced boost in spring 2020.
- Half the provinces experienced net total employment losses, with the largest in Ontario (-27.4k), Quebec (-4.5k) and Prince Edward Island (-2.3k).

COMMENTS

Trends witnessed in prior months largely continued in July. Further job losses—this time more concentrated in full-time positions—alongside the drop in hours worked suggest that decades-high inflation, widespread market uncertainty, and rapid interest rate increases are already translating into a softer Canadian expansion. However, hefty though easing wage gains and a still-near-record-low unemployment rate imply a still-healthy labour market with potential for further inflationary pressures ahead.

GRAPH
Wages pacing inflation despite deceleration in July



CPI: Consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

July's data were well below the consensus projections, and as such shaved our call for Q3-2022 real Canadian GDP growth to just below 1% (q/q saar). Decelerating wage gains suggest that some progress has been made in the fight against inflation, but the rate of hourly earnings growth continues to track prices closely. Accordingly, while we think inflation may have peaked and have noted previously that the Canadian economy is historically sensitive to interest rate increases, we believe the Bank of Canada will put more weight on the extremely tight labour market and raise rates by 50 bps at its September meeting.

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