WEEKLY COMMENTARY

Graduating into Uncertainty: A Cruel Summer for Canadian Youth

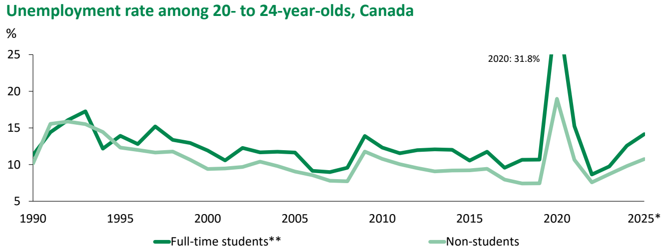
By Sonny Scarfone, Principal Economist

Today's economy is fragile amid the ongoing trade war, the outcome of which remains uncertain at the time of writing. Real gross domestic product (GDP) edged down in April and again in May. Based on the Bank of Canada's latest projections, released this Wednesday, the economy is set to stagnate on a net basis in the second and third quarters of the year. This scenario is in line with our most recent forecasts.

There are growing signs that the labour market is slowing, notwithstanding a surprising report published in June. Employment is mostly concentrated in part-time positions and in sectors less sensitive to economic cycles, which suggests that businesses are taking a wait-and-see stance. While we have yet to see waves of layoffs, employers—many of whom grappled with labour shortages in recent years—seem to be exercising caution before trimming their workforces. This means the issue is sluggish new hires, and it's hitting one segment of the population particularly hard: young people at the beginning of their careers. Many are finding that the road to employment is riddled with obstacles in what has become an increasingly challenging labour market.

The unemployment rate for young people ages 15 to 24 pushed past 14% this summer. This is higher than it was in 2022 and 2023, but similar to the levels seen in the years before the pandemic. A closer analysis of the data shows that the decline has been especially sharp among 20- to 24-year-olds, whose unemployment rate has remained above 11% since last summer. Outside the pandemic, we haven't seen this level over a sustained period since the 2009 recession. Looking closer still, we find that students in this age group are facing even greater challenges. Among those enrolled in a study program last spring, the unemployment rate has climbed to 14%—a level not seen outside the pandemic since 1993, when Canada was still recovering from a prolonged recession (graph 1).

Graph 1
Student Unemployment Is the Highest It's Been Since 1993



* Average for the months of May to August, except for 2025 (May and June); ** Includes students enrolled in the upcoming fall session and those who just graduated.
Statistics Canada and Desjardins Economic Studies

The Scarring Effect

All this is particularly concerning given the well-documented long-term impacts of entering the labour market during periods of limited opportunity. An empirical study conducted in Canada on the scarring effect found that young people who started their careers during a recession had annual wages that were

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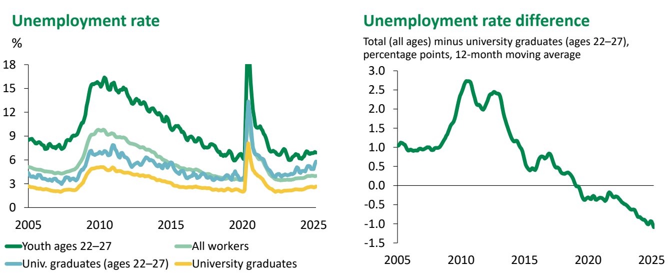
about 9% lower in the first year after graduation. This wage gap halves after 5 years and is eliminated by the 10-year mark. But that decade playing catch-up makes it harder for these workers to accumulate savings and assets, and the chasm widens when you consider the decades of compound interest they might have earned on these unrealized savings.

Several economists have suggested that Generation X's struggle to accumulate assets is partly due to the fact that they faced a less favourable economic environment. This hypothesis was recently cited (along with meager stock market returns in the 2000s) in an article in *The Economist*. This underscores the fact that the effects of labour market entry conditions can be long-lasting, even if they aren't necessarily permanent.

Indicators Point to Structural Changes

Today's challenges may go beyond Canada's economic cycle. In the United States, the unemployment rate for university graduates ages 22 to 27—a group that is still early in their careers but has some experience—is now higher than that of the overall workforce. While similar reversals have been observed in recent years, this is the sharpest recorded since the beginning of the data series. As shown in graph 2, the gap has widened significantly over the last few years, challenging some traditional labour market dynamics.

Graph 2
The Same is Happening in the United States



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Many people are wondering if the increase in unemployment is partially due to recent technological developments, such as the rise of artificial intelligence (AI). Given the pace of change, it's possible that some entry-level roles in certain fields will either disappear or be redefined. However, it's too early to conclude that AI is the main driver. The rise in unemployment among recent graduates is largely due to a slowdown in hiring, as job vacancies return to more typical levels amid ongoing post-pandemic economic uncertainty—including inflation, tighter monetary policy and trade tensions. Young adults trying to enter the workforce are being disproportionately affected. While the impact of AI remains uncertain, its rapid advancement raises important questions about future job prospects in specific professions.

AI: A Risk Worth Watching

Young people today are encountering considerable challenges, and some traditional pathways to employment may need to be rethought. A feature article published this week in *The Wall Street Journal* offered a hopeful perspective: collectively, we're learning to combine human skills and AI more effectively. Since some repetitive tasks could be automated, recent graduates will need to be prepared to jump into more advanced roles that involve refining, interpreting and enhancing machine output. This shift will redefine what's expected of new hires, who will have to be more productive from day one.

This new reality will also bring about a new set of risks, including increased precariousness, job insecurity and more frequent retraining as workers are required to adapt. Governments will play a critical role in supporting the transition—whether through hiring incentives, reskilling programs or other targeted measures. Navigating this transition period will be tricky but important in order to limit the long-term fallout for younger cohorts. Otherwise, they could face stalled career progression, reduced savings potential and lower overall life satisfaction.

Fundamentally, education is about shaping engaged citizens. But given the high costs—and levels of student debt—often associated with post-secondary studies, we may need to revisit our expectations for certain fields based on career prospects.

What to Watch For

UNITED STATES

MONDAY August 4 - 10:00

June	m/m
Consensus	-5.0%
Desjardins	-5.0%
May	**8.2%**

Durable goods orders (June) – Factory orders probably lost some momentum in June after surging 8.2% in May. That rebound had followed a steep 3.9% decline in April, underscoring the persistent volatility in the industrial sector. Although a spike in transportation orders, especially for Boeing aircraft, helped prop up demand for durable goods, recent ISM data suggest new orders may have started to contract. This could mark the beginning of a broader manufacturing slowdown as the impact of economic frontloading dissipates.

TUESDAY August 5 - 8:30

June	US$B
Consensus	-62.0
Desjardins	-72.1
May	**-71.5**

US trade balance (June) – After the US posted hefty deficits exceeding US$130 billion from January to March, a pullback in imports has helped improve the country's trade balance since April. Much of the recent shift has been driven by the White House's trade war, which fuelled a burst of economic activity early in the year, followed by a slowdown that began in April. The advance estimate for second-quarter real GDP supports this narrative, with imports plunging 30.3% between the first and second quarters. Under these conditions, the trade deficit for June probably fell to an estimated US$72.1 billion.

TUESDAY August 5 - 10:00

July	
Consensus	51.4
Desjardins	51.3
June	**50.8**

ISM Services index (July) – The ISM Services index is expected to confirm that the services sector remained stable at 51.3. This would suggest modest growth, without any sharp jumps, in an environment where demand is still struggling. While employment in the sector has shown signs of resilience, businesses are still hesitant to invest or expand their workforce. We expect the index to reflect an economy in transition that is still feeling the impact of restrictive monetary policy, while managing to avoid a broad-based contraction in the services sector.

THURSDAY August 7 - 8:30

Q2	ann. rate
Consensus	2.0%
Desjardins	4.0%
Q1	**-1.5%**

Nonfarm business productivity (Q2) – After a sharp 1.5% decline in the preceding quarter, nonfarm business productivity likely bounced back in the second quarter of 2025. The rebound can be attributed to a modest rise in output as working hours stabilized. The expected improvement in productivity may help ease upward pressure on unit labour costs, which had soared at the beginning of the year. A shift in this direction would likely be welcomed by the Federal Reserve, which is closely monitoring the balance between wage growth and efficiency gains as it works to rein in inflation.

CANADA

TUESDAY August 5 - 8:30

June	G$
Consensus	-5.9
Desjardins	-5.9
May	**-5.9**

International trade (June) – Canada likely ran a similar trade deficit in June as it did in May. This is because exports look to have remained weak, primarily due to modestly lower US motor vehicle imports. Still, we expect stable oil prices and added capacity from the TMX pipeline to have been a tailwind for exports. On the other hand, imports likely fell modestly in the month, with US advanced trade data indicating a moderate drop in US goods exports. While the June trade deficit will reflect persistent economic pressures, uncertainty remains high due to the ongoing threat of US tariffs, which could lead to unpredictable shifts in future trade flows.

FRIDAY August 8 - 8:30

July	
Consensus	25,000
Desjardins	15,000
June	**83,100**

Net change in employment (July) – Hiring in Canada likely mellowed following the spike in June, keeping the unemployment rate unchanged at 6.9%. The Canadian economy probably added 15k new jobs over the month. The composition of employment gains is likely to be more balanced after last month's reading was dominated by part-time jobs. The services sector, which is less exposed to direct tariffs, was the main source of employment growth last month. Most of the recent weakness in the labour market has been concentrated in sectors most exposed to trade with the US. Central bankers will be closely monitoring labour market data for any signs of more broad-based weakness. Additionally, wage growth according to the Labour Force Survey has gradually normalized this year, a trend that likely continued in July.

FRIDAY August 8 - 21:30	
July	**m/m**
Consensus	-0.1%
June	**0.1%**

OVERSEAS

China: Consumer price index (July) – Inflation in China has remained stubbornly low, edging up by only 0.1% year-over-year in June—a sluggish exit from the deflationary spell that started early this year. That slight uptick was driven by targeted consumer stimulus, but deflationary pressures persist, especially on food and industrial product prices. The central government lowered its 2025 inflation target to around 2%, reflecting its determination to stabilize prices while supporting domestic demand. In this environment, policymakers would be wise to maintain an accommodative monetary stance, paired with targeted budgetary measures, to counter the risk of entrenched deflation. Inflation probably remained positive, but subdued, under these conditions.

Economic Indicators

Week of August 4 to 8, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 4	10:00	Factory orders (m/m)	June	-5.0%	-5.0%	8.2%
TUESDAY 5	8:30	Trade balance – goods and services (US$B)	June	-62.0	-72.1	-71.5
	10:00	ISM Services index	July	51.4	51.3	50.8
WEDNESDAY 6	---	---				
THURSDAY 7	8:30	Initial unemployment claims	July 28 to August 1	223,000	223,000	218,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q2	2.0%	4.0%	-1.5%
	8:30	Unit labor costs – preliminary (ann. rate)	Q2	1.5%	1.5%	6.6%
	15:00	Consumer credit (US$B)	June	7.200	3.000	5.102
FRIDAY 8	---	---				
CANADA						
MONDAY 4	---	Markets closed (Civic Holiday, except for Quebec)				
TUESDAY 5	8:30	International trade ($B)	June	-5.9	-5.9	-5.9
WEDNESDAY 6	---	---				
THURSDAY 7	---	---				
FRIDAY 8	8:30	Net change in employment	July	25,000	15,000	83,100
	8:30	Unemployment rate	July	7.0%	6.9%	6.9%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of August 4 to 8, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	July	107.85		114.77	
MONDAY 4							
	---	---					
TUESDAY 5							
France	2:45	Industrial production	June	0.6%	-0.6%	-0.5%	-0.9%
Italy	3:45	Composite PMI	July	51.1		51.1	
Italy	3:45	Services PMI	July	52.1		52.1	
France	3:50	Composite PMI – final	July	49.6		49.6	
France	3:50	Services PMI – final	July	49.7		49.7	
Germany	3:55	Composite PMI – final	July	50.3		50.3	
Germany	3:55	Services PMI – final	July	50.1		50.1	
Eurozone	4:00	Composite PMI – final	July	51.0		51.0	
Eurozone	4:00	Services PMI – final	July	51.2		51.2	
United Kingdom	4:30	Composite PMI – final	July	51.0		51.0	
United Kingdom	4:30	Services PMI – final	July	51.2		51.2	
Eurozone	5:00	Producer price index	June	0.9%	0.6%	-0.6%	0.3%
WEDNESDAY 6							
India	0:30	Reserve Bank of India meeting	August	5.50%		5.50%	
Germany	2:00	Factory orders	June	1.0%	2.1%	-1.4%	5.3%
Italy	4:00	Industrial production	June	-0.1%	n/a	-0.7%	-0.9%
Eurozone	5:00	Retail sales	June	0.3%	2.6%	-0.7%	1.8%
THURSDAY 7							
Japan	1:00	Leading index – preliminary	June	106.1		104.8	
Japan	1:00	Coincident index – preliminary	June	116.6		116.0	
Germany	2:00	Trade balance (€B)	June	18.2		18.4	
Germany	2:00	Industrial production	June	-0.5%	-1.0%	1.2%	1.0%
France	2:45	Trade balance (€M)	June	n/a		-7,766	
France	2:45	Current account (€B)	June	n/a		-3.1	
France	2:45	Wages – preliminary	Q2	n/a		0.7%	
United Kingdom	7:00	Bank of England meeting	August	4.25%		4.25%	
Japan	19:50	Current account (¥B)	June	1,803.7		2,818.1	
FRIDAY 8							
France	1:30	ILO unemployment rate	Q2	7.5%		7.4%	
China	21:30	Consumer price index	July		-0.1%		0.1%
China	21:30	Producer price index	July		-3.2%		-3.6%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).