ECONOMIC NEWS

Canada: Ugly Job Losses Signal Slowdown

By Marc Desormeaux, Principal Economist

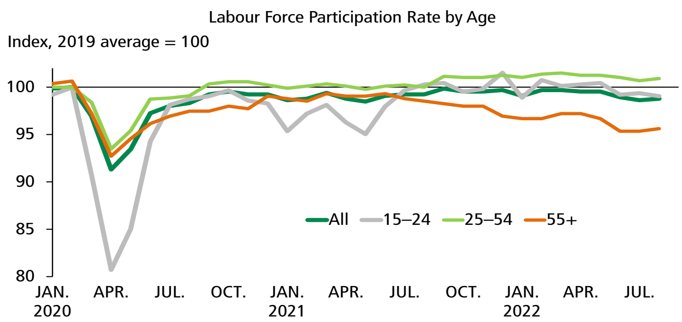
HIGHLIGHTS

- Net total Canadian employment fell by 40k in August 2022—the third consecutive monthly decline.
- Losses were concentrated in full-time positions, which fell by 77k in the month.
- By sector, construction (-28k), and educational services (-49.5k) shed the most positions. Professional, scientific, and technical services (+14k) and other services (+15k) saw the largest gains.
- The unemployment rate rose to 5.4%—still near historical lows but the first increase in seven months. The participation rate inched 0.1 ppts higher to 64.8%—0.6 ppts below the March 2022 post-pandemic peak.
- Total hours worked were unchanged from July but have fallen three times in five months to sit 1.5% below their March 2022 peak.
- Gains in hourly earnings of permanent employees—tracked by the Bank of Canada in its assessment of wages' impacts on inflation—ticked up to 5.6% y/y in August, again one of the fastest readings ever outside the temporary pandemic-induced boost in spring 2020.
- Six provinces experienced net total employment losses, with the largest in BC (-28.1k), Ontario (-19.2k), and Manitoba (-10k), while Quebec created 27.2k jobs. Ontario has seen three consecutive months of job losses.

COMMENTS

More and deeper job losses—increasingly concentrated in full-time positions—combined with continued weakness in labour force participation and hours worked suggest that a Canadian economic slowdown is underway in response to decades-high inflation and rapid interest rate hikes. The increase in unemployment is meaningful as its low rate has been used as a justification for aggressive monetary tightening. Still, wage gains that continue to outpace core inflation imply further inflationary pressures and interest rate increases. Pronounced educational services job losses also stood out but could be subject to revisions in future months.

GRAPH
Canadian Labour Market Participation Still Weak



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

As in July, data were well below the consensus projections. This reinforces our view that real Canadian GDP growth will come in below 1% (q/q saar) in Q3-2022 before turning negative in the first half of 2023. While we think still-hot wage growth and still-low unemployment should push the Bank to Canada to continue to tighten policy, the weakness of today's data likely means the Bank will be debating between the merits of a 25bp or 50bp rate hike in October rather than the more aggressive moves made in recent meetings. Ontario has so far borne the brunt of job losses, in line with our call for a marked slowdown in that province—driven by weakness in the housing market—starting in the second half of 2022.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.