

ECONOMIC RESEARCH AND STRATEGY



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Canadian LFS Job Report – August: Labour Market Showing Cracks

The Canadian job market is showing cracks. According to the August LFS report, total employment pulled back moderately relative to the previous month (-39K). The 3-month moving average decline is the same (-38K).

The deterioration in labour market conditions is not as bad as these numbers suggest. Indeed, the summer break of teachers does not seem appropriately captured in Statistics Canada's seasonally adjusted numbers. Education employment plunged by 5.4% during the last three months, including a significant 50K month-to-month drop in August. Teachers are obviously back in classrooms and will be captured in the September LFS poised to show a rebound in total employment.

Without this noise, we estimate the unemployment rate closer to 5.0%, not 5.4% as the headline figure shows. Granted, private sector employment declined by 94K over 4 months. Most companies have slowed down or hit the break on hiring. Some companies in specific industries such as tech, crypto reduced staff. Self-employment, a better leading indicator of the business cycle than staff on a regular payroll, stagnates.

Given the teachers-related distortion, summer trends at the provincial level also appear worse than they are fundamentally. For instance, total employment in Ontario and BC declined by a large 0.9% and 0.8%, respectively, over the last 3 months. Employment in the commodity-rich provinces of Alberta and Saskatchewan fell more gently. Quebec bucked the trend in August, partially recouping some of the losses observed since last Spring in August. Total employment in Quebec is still down 0.6% relative to five months ago. Unemployment rate figures from coast to coast rose across the board. Quebec's unemployment increased by 0.4pp to a 6-month high of 4.5% as the pool of available workers surged. Ontario's jobless rate figure remains higher at 5.7%. Saskatchewan's potash and canola powerhouse contributes to keep unemployment below 5% (4.8%). Alberta's steep 2021-22 decline in unemployment abruptly ended in August with a 0.6pp jump to 5.4%, in line with the national average figure.

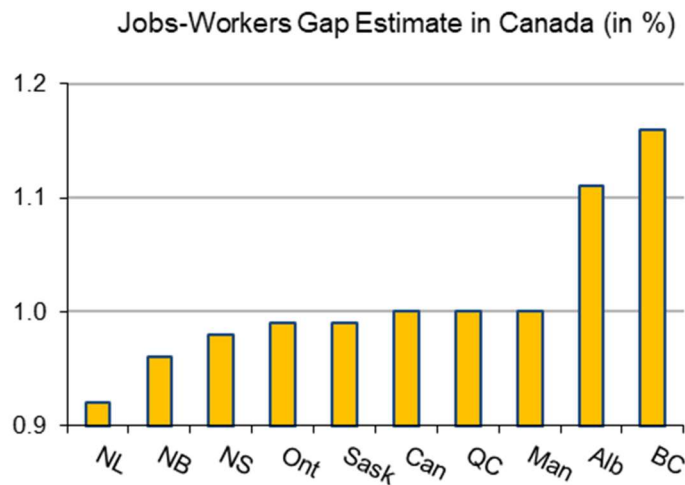
Wage inflation at the national level accelerated to 5.4% year-over-year according to average hourly earnings. The new uptrend in unemployment, a necessary ingredient for US and Canadian central bankers fighting CPI inflation, means the peak could be reached in late 2022 or during the first half of 2023. Put simply, restrictive policy rates from the FOMC and BoC are required to restore a sense of balance in the extremely tight labour market. Congrats to an economist from the central bank of Poland precisely estimating the [US jobs-workers gap](#), the gap between US demand for labour and supply. Demand exceeded supply by 3.4% as of July, close to the 3.6% record of March. This gap likely edged down closer to 3% in August due to pockets of softness observed in the NFP and household surveys released



last week. Our jobs-workers gap estimate for Canada stands at 1.0%, indicating job market conditions are less tight than in the United States, although we acknowledge measurement methodologies differ. We find a mild-to-moderate variation across provinces: excessive labour demand is more severe in BC and Alberta; Quebec stands close to the national average; excess labour demand in Ontario is a notch softer due to the larger pool of labour fueled by immigration.

All in all, momentum is unfriendly but North American labour market conditions remain tight. We arrive at the same conclusion by looking at the [Kansas City Fed labour market indicator \(LMI\)](#). Level of the LMI remains extremely high even if momentum fades toward negative territory. Both LMI and jobs-workers gap measures give the green light for the FOMC to bring on additional jumbo hikes without creating a deep recession. The cushion is thinner in Canada, although markets understand from last Wednesday’s message that the BoC plans to bring the policy rate closer to 4% as well.

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