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U.S. and Canadian Labour Market Reports — U.S. Shining, Canada Faltering

United States — In contrast to Canada, there are no major cracks in the U.S. labour market. The ratio of unemployed persons to job openings has been stable at a low level during the last 10 months in the U.S. March revealed additional resilience. The nonfarm payrolls monthly gain of 303K was led once again by sectors less sensitive to high interest rates (health care: +81K m-o-m, government: +71K m-o-m). Fed Chair Powell acknowledged in recent public interventions the improving engagement of Americans in the job market since the early stages of 2023. U.S. labour force jumped by 469K m-o-m in March, preventing the unemployment rate from falling by more than 0.1pp as it did this month, to 3.8%. Wage inflation continues to progress in the proper, cooling direction. Average hourly earnings of Americans advanced by 0.3% m-o-m to reach 4.1% on a year-over-year basis, compared to 4.3% six months ago and 4.6% a year ago. Additional progress will raise the level of confidence at the Federal Reserve that wage inflation is contained. Overall, this report solidifies the recent leaning of financial markets favoring a first U.S. policy rate cut in July rather than June. In our view, the real test for the U.S. economy is coming this summer as households' excess savings from the pandemic are almost completely depleted. Also, credit cards balances grew at a faster pace than usual during the last four quarters, an unsustainable situation calling for a slowdown of economic momentum, including the job market, during the second half of 2024.

Canada — Job creation has been moderate in recent quarters but consistently failed to match record high population growth. In March, two soft spots stood out. The first one relates to a larger-than-usual decline in youth employment (-28K month-over-month), weighing down employment in the trade and accommodation & food industries. The volatile self-employed category plunged by 29K from the previous month and by a cumulative 47K since last September. Private sector employment remains stagnant, another sign of underperformance for the Canadian economy.

Labour force rose at a solid clip across age groups in March, leading to a stressful 0.3pp monthly jump in the unemployment rate to 6.1%, the highest figure since January 2022. The full 1 percentage point increase in Canada's unemployment rate registered during the last year is twice the unemployment shock observed during the plunge in global oil prices during 2014-16 and about one-third of the unemployment jump registered during the 2008-09 financial crisis.

Since workers are trying to make up for the past deterioration in real wages experienced during 2021-22-23, nominal wage growth is not cooling much despite the higher unemployment. Furthermore, the number of job postings has been cut in half since the peak of mid-2022. In March, the year-over-year pace of average hourly earnings accelerated for the first time in three months, up 0.1pp to 5.1%. According to the 2024Q1 business and consumer surveys released earlier this week by the Bank of Canada, wage growth is expected to remain elevated over the next year. Firms are expecting an average wage increase of 4.1%. Overall, this soft LFS report supports our call for a first policy rate cut of 25 basis points by the Bank of Canada in June. We see the overnight rate target reaching 4.25% by year-end.

Over the medium term, the immigration policy shift from Ottawa relative to non-permanent residents will reduce the pace of growth in both employment and the labour force in 2024-25-26 relative to our previous expectations. LFS key figures are notably subject to weakening this summer as the federal government will limit the utilization of the temporary foreign worker program currently benefiting companies able to offer low wages. Although formal non-permanent resident targets will be announced this Fall, we have decided not to wait and cut our annual population growth assumptions by half.

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