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North American Job Reports in July — Summer Labour Market Conditions Cooling but Still Strong

Canada– After registering a series of positive market surprises earlier this year, the July Labour Force Survey (LFS) came in below market expectations. A mix of diverging forces influenced the Canadian labour market in July, ultimately leading to a quasi-stagnation in total LFS employment: a 6K month-over-month decline out of 20M workers. Fading real GDP momentum during the summer means the Canadian economy cannot provide a job to everyone seeking one anymore. Underpinned by record-high immigration, the pool of the labour force rose at the very fast pace of 45K per month according to the 3-month and 6-month moving averages. This resembles findings revealed by the BoC in its July *Monetary Policy Report (MPR)*: the trend growth rate in monthly employment gains implied by the booming population stands at 50K. Back 10-15 years ago, this trend growth rate was closer to 15K-20K per month in our view. As a result of the new insufficient demand for labour relative to supply, unemployment appears firmly on an uptrend, up for three consecutive months. The unemployment stood at 5.0% last Spring. It reached 5.5% in July, up 0.1pp from the previous month.

This 0.5pp cumulative unemployment increase at the Canadian level should not be interpreted as an event worsening credit risk because it is generally not tied to widespread layoffs. Instead, it mostly reflects a larger number of new entrants unable to find a position on the job market as easily as 3-6 months ago. For instance, in Ontario, the pace of job creation has been slowing during the last 6 months, and unemployment moved up by 0.7pp to 5.6% since the April lows. Alberta's outperformance in full-time positions continues, thanks in part to tight global oil conditions trickling down to vibrant activity in domestic services sectors. Alberta registered employment gains for a third consecutive month in July but the historically high population gains pushed up unemployment to a 6-month high of 6.1%. The situation is less favorable in Quebec and British Columbia. Wildfires unfortunately force to suspend operations in the forestry and mining sectors in Quebec. This may have weighed down on Quebec's employment in the goods sectors, down by an unusual 12K in July. Overall, Quebec underperformed so far this summer with full-time job positions declining by a large, combined 42K in June and July. Quebec's unemployment rate rose as a result by 0.5pp during the same period to 4.5%. In British Columbia, the level of employment sits at the same place since the beginning of the year, in part due to closures in the forestry industry earlier this year. The year-to-date 1.4pp jump in BC's unemployment rate unfortunately stands out from the provincial pack, to 5.4% in July.

Employment stagnation during one single month at the national level does not necessary mark the beginning of the trend. Nonetheless, the positive dynamics of the Canadian labour market are unambiguously not as widespread as before, eroding the often-cited rhetoric of labour market resiliency. For instance, close to half of industries registered employment declines or stagnated during the month of July. Also, the presence of job gains only in the public sector not compensating for losses in the private sector and self-employment is another soft spot. As of note, the biggest surprise in the July LFS report relates to the 44K m-o-m fallout in construction employment, the largest ever besides the Spring of 2020. This setback contrasts with residential homebuilding activity picking up lately, record-high capital spending financed by several provincial governments and the ongoing construction phase of several projects related to natural resources and the climate transition. A rebound appears likely in the coming months.

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Also, July brought a re-acceleration in average hourly earnings to 5.0% y-o-y in July, versus 4.2% in June. This solidifies the BoC citing in its July *MPR* that most measures of wage growth are in the 4% to 5% range. Overall, the mix news contained in the July LFS report should contribute to a pause at the next September policy decision meeting. Further cooling progress in job market conditions will be required to call for a definitive end of the BoC tightening cycle. The bias should remain titled in favour of hiking again.

United States – Without saying it is generalized, a few signs of labour market cooling are showing up this summer. The biggest ray of hope relates to NFP employment rising by only 187K in July and 185K in June, the softest monthly gains in the post-pandemic era. At the same time, the U.S. unemployment rate declined for a second consecutive month by 0.1pp to 3.5%, reversing the 0.3pp upward bump of May that had created brief hopes of a rebalancing toward a non-inflationary unemployment rate. At 3.5%, the U.S. unemployment rate sits close to the lows of 3.4% reached earlier this year. FOMC officials' hope to see more Americans joining the healthy job market is not materializing: the participation rate has stalled at 62.6% since May. Under these circumstances, wage inflation cannot shift down from its stubborn, elevated high-speed gear. Average hourly earnings rose at the brisk pace of 0.4% month-over-month in July, or 4.4% year-over-year.

Earlier this week, other economic releases showed a slow rebalancing in labour market conditions. According to the U.S. Bureau of Labor Statistics, job openings only fell by 0.3% m-o-m to 9.58M during the month of June, far from the 4M-to-6M range observed during most of the 2010s decade. Also, the number of quits, a better tracker of wage growth because people tend to move on their own terms for better-paid jobs, barely edged down 0.2%. Hiring stayed at elevated levels while the low level of layoffs did not increase.

Overall, job market conditions remain too solid for FOMC officials, preventing markets to price in the end of the tightening cycle once and for all. A series of additional NFP figures below 200K for the remaining of 2023H2 will have become reality to satisfy FOMC officials. Two elements point into this direction. First, 2023Q2 earnings of S&P500 companies reported so far are down by about 7% year-over-year, the deepest contraction since the onset of the pandemic in 2020Q2. Accordingly, the pace of hiring should ease, job postings should fall at a faster pace and the number of layoffs should increase. Also, the percentage of small business owners reporting hiring or trying to hire declined lately according to the *National Federation of Independent Businesses* survey.

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