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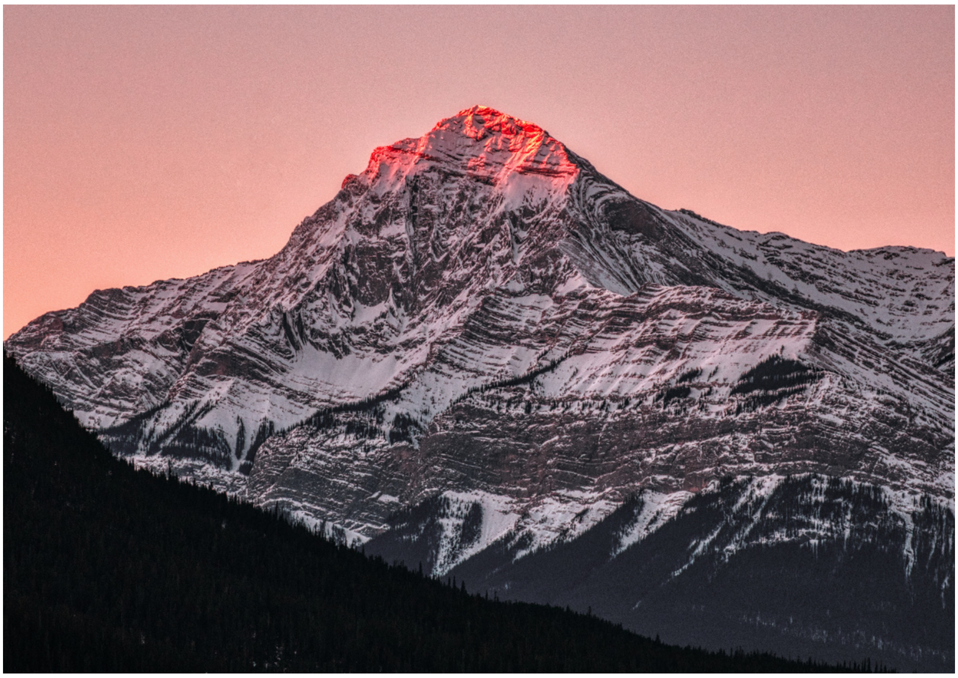
Labour Market Weakens, but not Enough to Prompt the Bank of Canada to Move



After a solid start to 2024, the labor market weakened in March. The unemployment rate rose to 6.1%, its highest level since November 2021, indicating a growing level of slack in the economy.

Rather than the expected gain of 25,000 jobs, the economy shed 2,200 jobs in March. The jump in the unemployment rate - from 5.8% in February - was attributed to historically high population growth that saw an additional 60,000 people looking for work in March, according to Statistics Canada. The employment rate, representing the share of the population working, moved lower to 61.4% from 61.5%, as population growth outpaced employment growth.

Job losses were observed in both full-time (-700) and part-time (-1,600) positions. The decline was primarily in self-employed roles (-29,300), while both the private (+15,200) and public (+11,900) sectors experienced gains. Over the past year, job creation has been stronger in the public sector (+202,100) than the private sector (+141,300).

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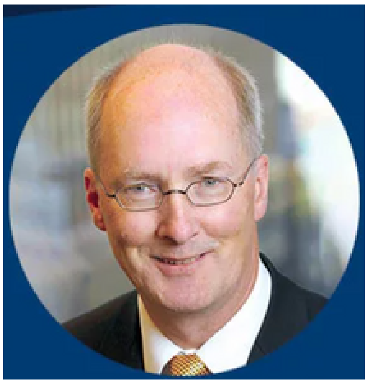
The decline in employment was predominantly in the service sector (-32,000), while the goods-producing sector saw widespread gains (+29,900), except for agriculture (-2,500). Increased employment was seen in construction (15,300), manufacturing (+9,300), and utilities (+4,300).
Several service industries experienced significant job losses, particularly accommodation and food services (-26,600), as well as retail and wholesale trade (-23,100), indicating weak discretionary spending. The rest of the service sector was up marginally, with losses in professional, scientific, and technical (-19.900) and information, culture, and recreation (-10,000) offset by gains in health care (+39,900), finance, insurance, and real estate (+11,000), and education (+9,400).

Wage growth for permanent workers increased to 5.0% year-over-year from 4.9%, exceeding levels supported by productivity growth and catch-up in purchasing power. However, the three-month annualized change in seasonally-adjusted wages eased to 2.4%, signaling a potential slowdown in the coming months. Additionally, various wage measures declined in March, indicating that the accumulated slack in the labor market is beginning to restrict wage growth.

Although wage growth continues to outpace productivity gains, its recent moderation is welcome news for the Bank of Canada. However, the weak employment report for March is unlikely to prompt an earlier-than-expected rate cut. Previous statements from the Bank suggest that inflation, particularly core inflation measures and the breadth of inflationary pressures, will determine the timing of the first move.

We expect the Bank of Canada will wait for core inflation and its momentum to fall sustainably below 3% before considering a rate cut. We expect this will occur around April or May, paving the way for a potential rate cut at the June meeting. In the meantime, it's worth observing whether, despite strong GDP, the Bank of Canada adopts a more dovish tone at this week's policy meeting.

ABOUT THE AUTHOR



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Kevin has had a long career in capital markets, housing finance, and public policy. He has worked as an economist for Alberta Treasury, Saskatchewan Policy Secretariat, the Bank of Canada, and the Department of Finance Canada. His work has included tax policy, economic forecasting, as well as monetary policy and debt management. While at the Bank of Canada, he authored two Bank of Canada Review articles on monetary policy tactics. Kevin has worked on a variety of debt programs from treasury bills to domestic and foreign bond issues, and interest rate swaps. He worked on building and managing the federal real return bond program, the Canada Savings Bond program, and built out the bond buyback program and a synthetic foreign funding program – two programs which are still in use today by the federal government. While at CMHC, Kevin managed the market funding program for social housing, built and managed the Canada Mortgage Bonds program, and expanded the products offered under the NHA MBS program. He has worked for several mortgage insurers including CMHC, Canada Guaranty, Triad Guaranty and Genworth. This work encompassed product development and risk management across housing markets in North America, Europe, Asia, Australia, and New Zealand. More recently he has had senior management roles with residential lenders managing underwriting, risk, product development, capital markets, and strategic planning.