



Economic momentum slides as employment slips

Canada's economy lost more momentum in July in as employment nudged lower to start the second half of the year. However, the headline loss belies some quirkiness in the underlying numbers pointing to both supply and demand factors in play, while conditions remain tight.

Total employment fell by 30.6k persons or 0.2 per cent. While not a significant move, this compared to market expectations for a 20k person increase and, importantly, marked a second consecutive monthly decline. With the latest dip, employment is off May levels by 73.8k persons or 0.4 per cent. Employment for both full-time (-0.1 per cent or 13.1k persons) and part-time (-0.5 per cent or 17.5k persons) fell, pushing total hours worked lower by 0.5 per cent. This further points to a rolling over of the labour market as economic conditions slow.

July's employment losses were concentrated among prime working age and older females which accounted for all the net decline. This included a reduction of 31k or 0.5 per cent for those aged 25 to 54, and 32.9k or 1.7 per cent for those 55 and over. In contrast, employment among males increased during the month. Noteworthy are declines among older females was in large part to increased retirement of those 65 and older. This points to labour supply reductions as more individuals cap off their careers as the pandemic winds down and travel re-opens and points to a more permanent loss of potential employees.

Among industries, public-sector employment fell sharply (-51k or 1.2 per cent), while private sector employment edged lower by 0.1 per cent (-13.8k), and self-employment rose 1.3 per cent (14.3k). The bulk of the public-sector pullback was in education (-18k) and healthcare/social assistance (-22k). Adding to this was sharp decline in wholesale/retail trade (-26.9k). Offsetting growth among other industries were insignificant except for finance/insurance/real estate/rental and leasing (10.8k or 0.8 per cent), although the broad goods-producing sector added 22.6k jobs or 0.6 per cent. Employment declines were observed led by PEI (-2.6 per cent), Ontario (-0.4 per cent), with flat performances elsewhere.

Labour market conditions remained tight. The average unemployment rate was unchanged at a record low of 4.9 per cent as the labour force fell by a similar magnitude with at least some of this permanently due to retirements. The labour force participation rate fell 0.2 points. Moreover, hourly wage growth remained strong at a 5.2 per cent y/y pace with levels consistent with June.

The latest Labour Force data confirms the slowing of economic momentum and is consistent with expectations of weakening growth going forward. However, labour markets remain tight, wage growth elevated and combined with high broad inflation is unlikely to precede a pivot by the Bank of Canada at its next meeting despite economic growth concerns. We expect a 50-basis point hike in September.

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