RBC Economics

Daily Economic Update

August 5, 2022

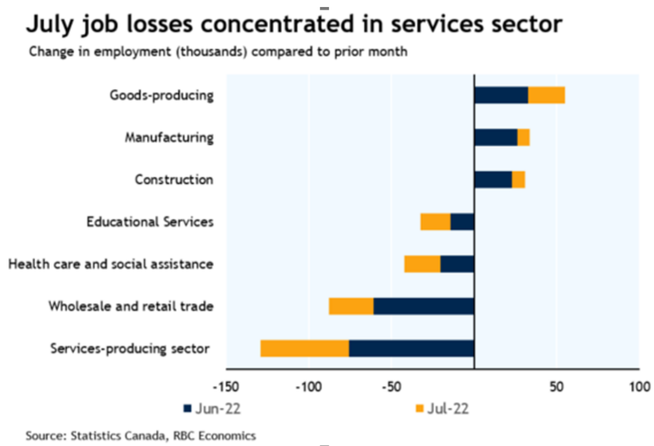
Another month of lower employment in July signals labour market losing steam

- Employment down 31K in July after June slump
- The unemployment rate held steady- at 4.9%- still lowest since at least 1976
- Wages still surging, up 5.2% year-over-year in July
- Labour market remains extremely tight- little room remains for upside movement

Employment was largely unchanged in July, with 31,000 jobs lost, following June's decline. Two consecutive months of lower employment indicates that the Canadian labour market is running up against capacity constraints, with little room for upside movement. Demand for workers is still very high with job postings still 65% above pre-pandemic levels (though the number of job postings continues to fall), and there are few unemployed Canadians available to fill these vacant positions. The unemployment rate remained at a record low 4.9% in July, its lowest level since 1970. Long-term unemployment fell for a third consecutive month. Hours worked fell 0.5% this month, down 1.5% from the March 2022 peak.

Average hourly earnings continued to rise, up 5.2% year-over-year again in July – matching the June gain. This is reflective of higher worker bargaining power in the face of decades-high inflation and labour shortages. Labour shortages continue to be most acute in industries with lower offered hourly wages, most notably in the hospitality sector. Economic activity in travel and hospitality remains elevated as demand holds up. Our own cardholder data shows real-time spending in this sector remains well-above pre-pandemic levels, indicative of an additional need for employees as this sector remains extremely short-staffed. July's job losses were concentrated in other services-sector industries, most notably in wholesale and retail trade, health care and social assistance (another industry that is extremely short-staffed), and educational services. Gains in goods-sector employment offset nearly half of job losses, with most notable job gains in construction and manufacturing.

In the months ahead we will begin to see the economy lose steam. We are already observing jobless claims rising South of the border, as U.S. labour demand begins to cool. Canada will not be far behind. With the Bank of Canada having raised the overnight rate by 225 basis points (to 2.5%) since March, and at least another 75 basis points slated for the fall, inflation pressures will ease. And labour markets are expected to cool. Our forecast calls for the unemployment rate to begin to trend higher in the coming months and into 2023.



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