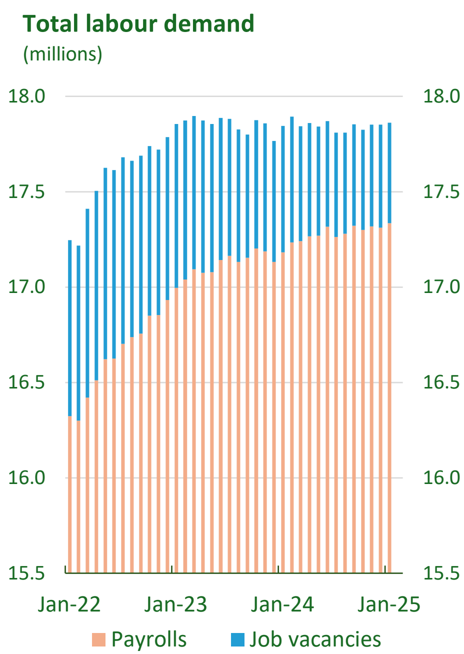
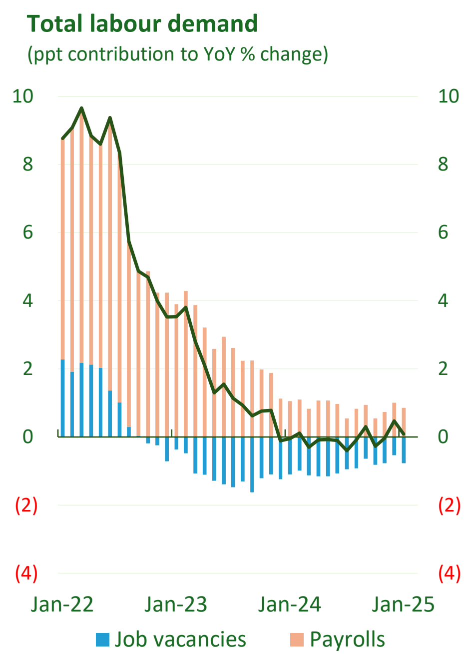
Total labour demand slowing though payroll growth remains positive

1 April 2025



Source: Macrobond, Statistics Canada



Source: Macrobond, Statistics Canada

Total labour demand is equal to payroll employment plus the number of job vacancies. Job vacancies hit a record high of just over 1 million in May 2022. They have since declined by 48% to 526.2K in January 2025. Over that same time frame payrolls have increased by 4.3% to 17.3 million. What is most notable about the first chart is that total labour demand has been effectively flat since early 2023, as the rise in payrolls has been largely offset by the decline in vacancies.

This is reinforced in chart 2, which shows the percentage point contributions of payrolls and job vacancies to the YoY rate of growth of total labour demand. From robust growth of over 8% YoY in early 2022, total labour demand growth has slowed to essentially zero since the start of 2024, with the relative contributions from payroll growth (still positive) and vacancies (negative) offsetting.

Key point: While labour demand has stalled, payroll growth has remained positive.

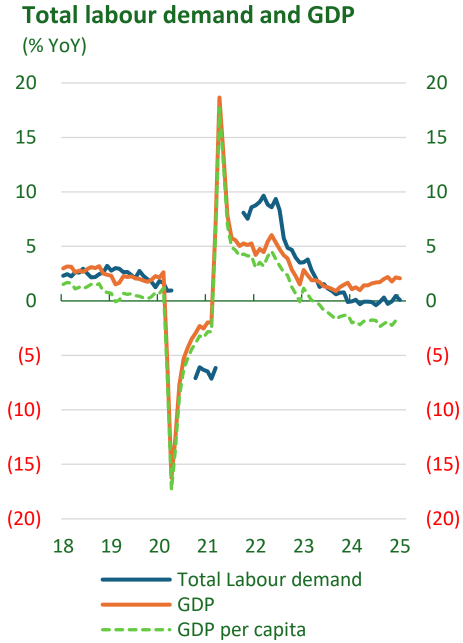
As shown on the next page, the slowdown in labour demand tracked the slowdown in economic growth. Hence, as firms saw demand cool, they added to payrolls at a slower pace while adjusting their estimate of the number of employees they might need in the future to satisfy demand. That is, they reduced the number of vacant positions they had been trying to fill.

Firms did not, in general, resort to layoffs as demand cooled.

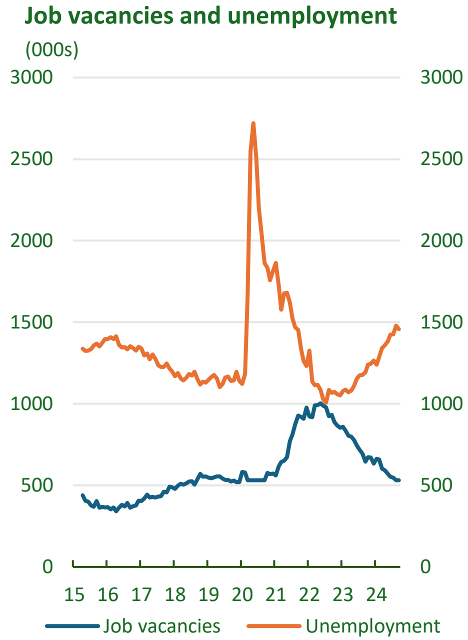
David G Watt, Founder and Principal

Total labour demand tracks GDP growth; Vacancies back to "normal"

1 April 2025



Source: Macrobond, Statistics Canada



Source: Statistics Canada

The left-hand chart reinforces the point that total labour demand tends to track GDP closely.

Time for some context: Coming out of the pandemic, the demand for labour was very strong. Hence, total labour demand was expanding at an annual pace of close to 10%, almost double the pace of economic growth. As shown in the second chart, as labour demand expanded, the number of job vacancies almost doubled from just over 500K to close to 1 million. At the same time, the number of unemployed fell, tumbling toward the 1 million level.

Hence, in early 2022, the number of job vacancies was almost equal to the number of unemployed. This is peak labour market tightness, and much of the slack in the labour market was absorbed, and new entrants to the job market (such as via immigration) were easily absorbed into paid employment. As a result, the unemployment rate fell to 4.8%, its lowest level since the early 1970s.

With inflation far above target and the labour market very tight, the Bank of Canada started to raise interest rates from early March 2022. From 0.25%, the BoC's policy rate peaked at 5% in July 2023. As monetary policy tightened, economic growth slowed, unemployment rose and the number of job vacancies declined.

An important point to reinforce here is that payroll growth remained positive. Hence, even though unemployment increased, it came amid a backdrop of still rising employment.

Brickbats and bouquets: BoC nailed the labour market adjustment

1 April 2025

Let's characterize where we are: From super-charged post-pandemic tightness, there is now a better balance between labour supply and labour demand in the job market. As noted, the slowdown in labour demand growth featured a decline in the level of job vacancies, an increase in unemployment, and ongoing increases in payroll employment. Thus, as the labour force continued to increase, those new entrants faced a greater challenge moving into paid positions. Notably, layoffs remained quite low.

As it happens, this exact scenario had been laid out by the Bank of Canada early in its tightening cycle. As stated by Bank of Canada Governor Tiff Macklem in November 2022:

"*Slower economic growth will likely lead to higher unemployment. We know that job losses have a human cost. But because the labour market is so hot and we have an exceptionally high number of vacant jobs, there is scope to cool the labour market without causing the kind of large surge in unemployment that we have typically experienced in recessions*."

Even more on point was a BoC working paper released on 17 November 2022 by Alexander Lam — Canada's Beveridge curve and the outlook for the labour market. The paper asked the key question — "how much could the unemployment rate increase if labour demand falls back to pre-pandemic levels?"

Key conclusion: "In our base case, a return of job vacancies to normal levels, is associated with an increase in the unemployment of 1.5 percentage points." That base case translated to an unemployment to an unemployment rate of 6.7%.

FYI, at present, with job vacancies back to normal, the unemployment rate has averaged 6.7% since August 2024. Pretty impressive. On this issue it seems the BoC managed to it about right.

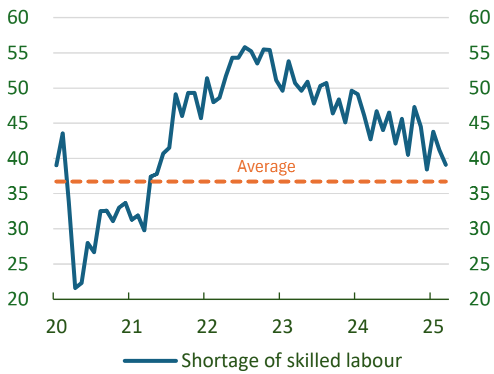
Before we send the bouquets, however, we need to highlight that this only looks back to highlight where we are. And, where we are is seemingly at the peak of the roller coaster just before we crest and begin the nerve-wracking plunge.

Labour market: From where we are to what we need to watch out for

1 April 2025

Small firms skilled labour shortages

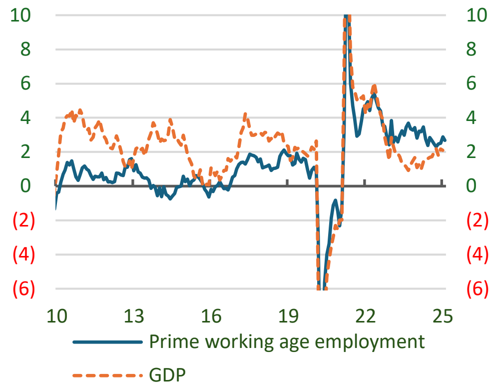
(% of firms)



Source: Macrobond, CFIB

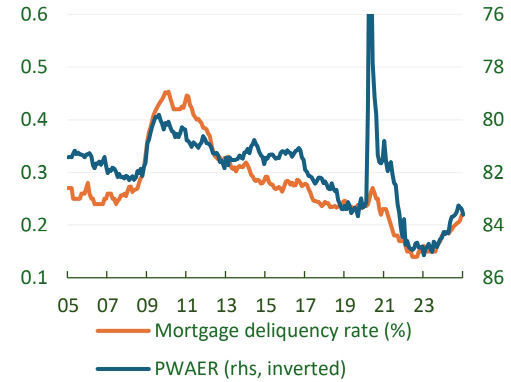
Employment and GDP growth

(% YoY)



Source: Macrobond, Statistics Canada

Mortgage delinquencies and prime working age employment rate (PWAER)



Source: Macrobond, Statistics Canada, CBA

From where we are to what we need to watch for. That hard economic data does not yet reflect the sharp increase in US trade policy uncertainty is only somewhat comforting. The risks are clearly to the downside.

Hence, that payrolls have continued to rise, and layoffs have been relatively low, up until now, does not imply that that will continue. We are on watch for sharper adjustments in the labour market. These charts highlight key trends to watch going forward. First, even as of March 2025, small firms continued to report shortages of skilled labour that are higher than normal. We see this as one of the key factors explaining the ongoing increase in payroll employment, particularly for those in the prime working age category (*PWA: 25 to 54 years and accounting for two-thirds of total employment*). As shown in the next chart, employment growth in the PWA cohort remains around 2.5% YoY, which is above the rate of growth of GDP — this is a historical anomaly.

Even so, the employment rate in the PWA cohort has decreased, a development that maps across to the rising mortgage delinquency rate. The mortgage delinquency rate remains quite low, in part because employment in the PWA category remains strong. Therein lies the risk. Increased trade policy uncertainty leads to weaker aggregate demand → weaker demand for skilled labour → possible layoffs in the PWA category → a further decline in the prime working age employment rate lower → even more upward pressure on the mortgage delinquency rate.

That is the disaster scenario for the economy. With positive job growth, the Canadian economy has muddled through. If the labour market goes into reverse, all bets are off.

David G Watt, Founder and Principal

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