

## Musings: Employment — June 2025

### Not a gold medal, but an impressive result

The basics from the June Labour Force Survey (LFS) report: The job market was solid — not a gold medal performance, but all things considered, a very good result.

Employment rose by 83,000, far surpassing consensus expectations, as the LFS is wont to do. Though most of the job gains were part-time; full-time employment rose too. As well, the bulk of the job gains were in the private sector and hours worked rose 0.5% MoM, while the unemployment rate decreased a tick to 6.9%.

Reflecting the softening of the labour market, wage growth for permanent employees fell to 3.2% YoY (from 3.5%), to its slowest pace of annual growth in almost 3 1/2 years. Still higher than inflation (1.7% YoY), however.

Given the uncertainty from erratic US trade/tariff policy and its increasingly apparent effects on the Canadian economy, an encouraging set of results.

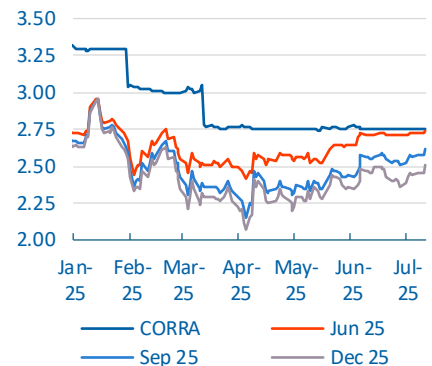
The jobs data led the market to lower the possibility of a near term Bank of Canada rate cut. A rate cut in July was already unlikely, but the probability of such a move has fallen to just over 20%. Market positioning seems priced for only one more 25bp rate cut this fall. In the wake of Trump47's Liberation Day tariff announcement, market pricing leaned toward three more 25bp rate cuts.

### Sand in the gears of a fundamental economic transformation?

Nonetheless, we see a few warning flags waving in the labour market. Those concerns are not, per se, related to recession risks. Instead, we see some factors that could be sand in the gears of PMMC's planned transformation of the Canadian economy. Specifically, the labour market data highlights challenges facing the self-employed (and entrepreneurs) and small business employment growth.

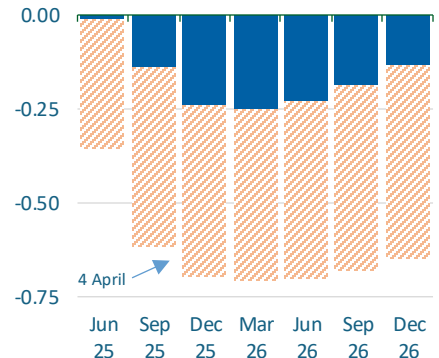
To fundamentally transform the economy, Canada needs a vibrant pool of entrepreneurs and small firms ready to seize the opportunity of increased trade infrastructure to compete in the domestic economy and on the global stage. While there is a need to focus on "big picture" things regarding infrastructure, federal and provincial governments also need to sweat the small stuff.

Bank of Canada CORRA futures  
(implied rates, %)



Source: Macrobond Toronto Stock Exchange

Bank of Canada CORRA futures  
(bp implied futures rate - CORRA)



Source: Macrobond Toronto Stock Exchange

## Trends observed in the LFS

Looking into the LFS data there are three trends we deem of particular interest and worth exploring: the public/private/self employed shares; the share of employment in small firms (<100 employees); and the evolution of prime working age cohort. Here, we look at the first two, the latter deserves its own note.

### Employment shares

Key details:

- 1) self employment's share of total employment has declined to around 13%, near its lowest levels since the early 1980s.
- 2) The public sector's share of total employment is currently (apart from the pandemic) near 30-year highs at 21.6%.
- 3) Private sector employment's share of total employment has lingered between 65% and 66% since the early 00s, typically only dropping below that range during recessions. Currently, the private sector share of total employment is 65.4% — the middle of its 25-year range.

Looking at the trends, it might be tempting to conclude that self-employment's losses were the public sector's gain.

If only it were so simple.

Self employment accounted for between 15% and 16% of total employment from the early 00s until the pandemic. Two arguments can potentially explain the post-pandemic decline; one defensive; one more opportunistic.

Given the coincident surge in the public sector share of employment, the defensive explanation is that the shock of the pandemic pushed self employed individuals toward the safety of public sector employment.

The opportunistic explanation is related to the strong demand for labour as the economy emerged from the pandemic that lifted the number of job vacancies to a level almost equal to the number of unemployed. In such circumstances, some self-employed individuals might have been drawn back into paid employment lured by attractive compensation packages.

In fact, both explanations might have some truth. Since January 2020, self employment has declined by just over 100,000. Meanwhile, public sector employment is up 787,400, while private sector employment has increased by 1.2 million. Hence, the decline in the number of self-employed could have quite easily been absorbed into the public or private sectors.

### Self employed

(% of total employment)



Source: Macrobond, Statistics Canada

### Public sector

(% of total employment)



Source: Macrobond, Statistics Canada

### Private sector

(% of total employment)



Source: Macrobond, Statistics Canada

Set that aside for now, and let's look at another important underlying trend here. In terms of scale, public sector employment has increased by 20.3% since January 2020, while the increase in private sector employment represents an increase of 9.1%. Context is important.

## ***A buyer in a seller's market***

Remember that the surge in public sector employment occurred during a very strong job market with historically high job vacancies. Thus, the public sector hiring spree happened at a time of very strong labour demand — an aggressive buyer in a seller's market, helping exacerbate upward pressure on wage growth.

A sports analogy would be a team going on a free agent signing binge during a period when a lot of teams were looking to add talent. To pundits, this might appear to be an example of poor salary cap management.

In time, it could well lead to a salary dump. That maps into recent news of the Carney government forewarning of public sector job cuts. There is of course more to public sector employment than the federal government, but we have other issues to examine.

## **Small firm employment trends**

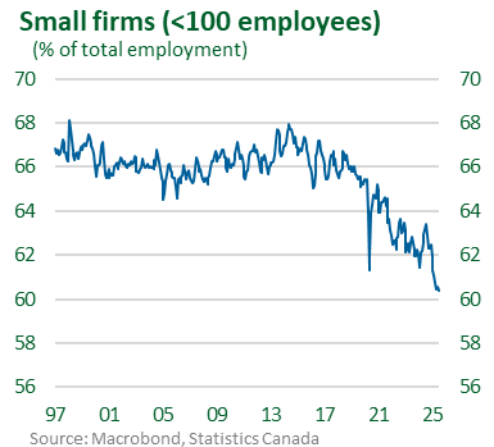
Turning now to employment trends among small firms (< 100 employees). Since the late 90s, small firms tended to account for around two-thirds of paid employment. During the pandemic, that share temporarily fell below 62%. The rebound the coming out of the pandemic, however, was tepid, and small firms now account for just 60.4% of total employment.

The numbers: Since January 2020, employment in small firms is up by 7.6% (801,500), while large firm employment has increased by 33.5% (1.86 million). The public sector hiring surge was certainly a part of this, but as the public sector increase was less than 800,000, there is more to explore. Other large firms were also buyers in the labour market.

Other numbers: Since mid-2024, small firm paid employment has decreased by 306,200, while large firm paid employment is up 639,500. This explains the recent slide in the share of small firms, as a historic key driver of employment growth has faltered.

## **A through line and sweating the small stuff**

The weakness in the self employment and developments in small firm employment should not be dismissed. In fact, we see them as potentially



becoming another challenge facing the Canadian economy, keeping in mind that entrepreneurs are counted among the self employed

In our view, if the self employment and small firm employment trends continue, they become sand in the gears of PMMC's goal of a massive transformation of the Canadian economy. Yes, we desperately need policies from a macro perspective to boost investment in major projects (transportation infrastructure, port capacity etc). We also need policies from a micro perspective to support risk taking entrepreneurs and opportunities for growth by small firms to drive future employment and income trends.

We don't foresee a fundamental transformation of the economy featuring massive bureaucracies, and a labour market dominated by large firms and oligopolies.

The spark of innovation to fundamentally transform the economy might be doused without a vibrant pool of entrepreneurs and small firms ready to take advantage of the increase in trade infrastructure to compete in the domestic economy and on the global stage. Sometimes, you need to sweat the small stuff.

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