

## Canadian labour market doing OK, but there are some concerns

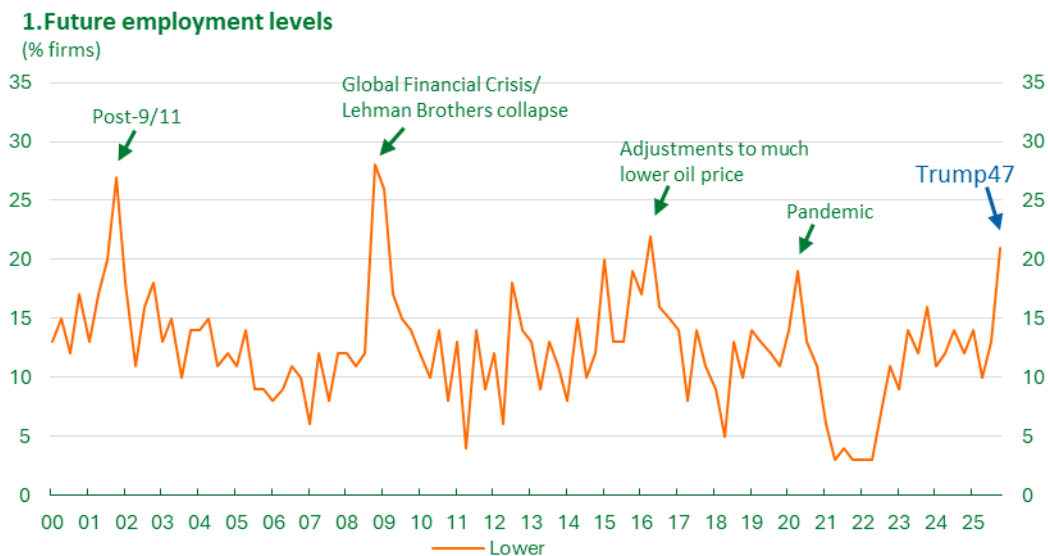
*A spike in the number of firms projecting a lower level of future employment is a warning sign. It's not flashing, but it is something to watch*

The Bank of Canada has basically indicated that inflation concerns have eased. Inflation is expected to remain close to 2% YoY, "with trade-related cost pressures offset by excess supply."

Externally, there are concerns about US trade policies and elevated geopolitical risks, both of which seem linked to volatile pronouncements from the White House.

Domestically, there are concerns over the adjustment to US trade policy uncertainty, with the USMCA/CUSMA review coming fast.

A key focus is the state of the labour market. Chart 1 from the BoC's Q4 2025 Business Outlook Survey (BOS) is disconcerting. It shows a spike in the number of firms that plan to reduce their employment level over the next 12 months. At over 20% of firms, this was the highest reading for this indicator since early 2016.



Source: Bank of Canada, Watt Strategic Economic Advisors

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Of note, this indicator tends to rise quickly during periods of heightened uncertainty: Post-9/11, amid the Global Financial Crisis, notably after the collapse of Lehman Brothers in late 2008, amid fallout from the collapse in oil prices in 2014/15, the pandemic disruption, and Trump47.

These episodes also tended to be associated with elevated recession risks. A firm’s natural response to a spike in uncertainty, is to critically reassess its outlook for sales and employment.

As a result, even if the economy does not fall into recession, employment growth tends to slow. For example, looking the YoY rate of employment growth of the prime working age cohort fell to, or below zero during these episodes (chart 2).

The spike in the number of firms looking a potentially reduce their employment level suggests paying very close attention to employment in coming months particularly if there is evidence that the negative impacts of US trade policies and geopolitical risks spread.

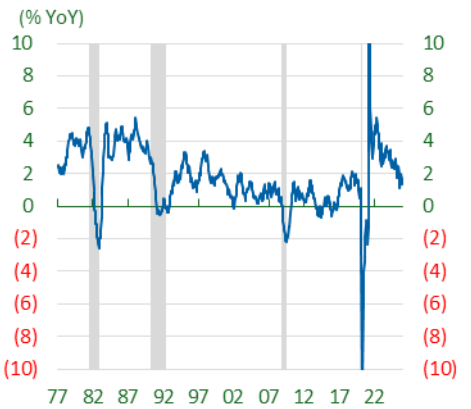
## But ...

The facts on the ground also suggest that the Canadian job market is doing OK right now. Given that the unemployment rate is 6.8% and youth job market remain soft, we aren’t in a super strong job market. However, at 6.8% the unemployment rate is not historically high (chart 3). Thus, while the first chart might spark some recession fears, the unemployment rate is currently at the lower end of its historic range.

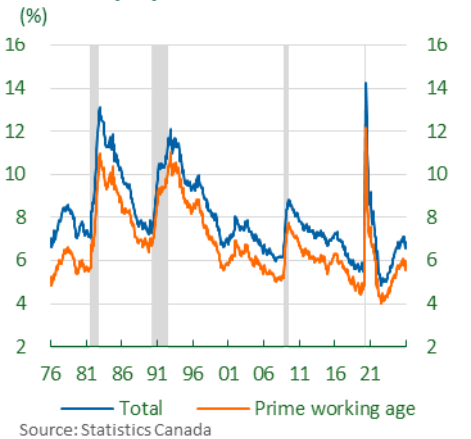
We can take some solace in the fact that the job market (overall) is in pretty good shape. For example, the prime working age employment growth rate is 1.4% YoY. That is not great, but it is comparable to the average growth rate observed between 2001 and 2019 (apart from those periods when recession risks spiked of course).

Persistent positive growth in employment is an important reason why the Canadian economy has been resilient this year, even though the US trade policy shock and the tariffs imposed have clearly weighed heavily on the economy.

## 2. Prime working age employment



## 3. Unemployment rate



## 4. Labour shortages and the intensity of labour shortages



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In addition, the job market looked a bit better toward year end. There was a summer wobble following the initial spike in US trade policy uncertainty, but job market momentum improved later on.

This is reflected in chart 4, which shows that the number of firms reporting labour shortages increased to its highest level since Q1 2024. Granted the level is still rather low, but it does align with an improvement in labour market conditions toward the end of the year.

Chart 4 also shows another indication of a modest improvement in the labour market backdrop with the balance of opinion on the intensity of labour shortages rising. This indicator is derived from a question on whether labour shortages are becoming more intense, less intense, or about the same compared to 12 months ago. The results show a greater number of firms are reporting more intense shortages and fewer firms are reporting less intense shortages. The closing gap is a sign of improvement. Is this an all-clear? Far from it, but it is a measure of good news from the end of last year.

## **PAST resilience is no guarantee of FUTURE resilience**

All things considered, the state of the Canadian job market at the present time is not that bad. But as you hear whenever you make an investment — past performance is no guarantee of future results.

As a result, the Bank of Canada looks around at all the evidence available and concludes that its policy rate is right where it needs to be. Further, the Governing Council is not prepared to suggest the most likely direction of its next move might be.

The market is not as coy, clearly leaning toward rate hikes, but not until late 2026 or 2027. (see, [What will be the Bank of Canada's next move?](#), 29 January 2026).

Even then any moves are merely seen as slight adjustments of the policy rate within the 2.25% to 3.25% neutral range (see, [Quick update with BoC decision due tomorrow \(28 January\)](#), 27 January 2026.)

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