Canadian employment edged lower in June as wages surged

- Employment declined 43k in June on a lack of available workers
- The unemployment rate ticked down to 4.9% on a drop in labour force participation.
- Wage growth accelerating - up to 5.2% year-over-year in June
- Near-term hiring momentum still very strong but expected to slow as the year progresses

The drop in employment was the first decline since January, and the first outside of a significant pandemic lockdown since November 2019. The drop still reflects more labour supply issues than any significant slowing in hiring demand. The unemployment rate fell to 4.9% as labour force participation declined (in part on a tick up in worker retirements.) The number of job openings has still been running almost 70% above pre-pandemic levels. And the number of hours worked rose 1.3% despite the pullback in the jobs count.

Tight labour markets continued to push wages higher with average hourly earnings growth surging to 5.2% year-over-year, up from 3.9% in May. The Bank of Canada’s Q2 Business Outlook Survey showed businesses expecting to increase wages by 5.8%, on average, in the year ahead. Virtually all industries are struggling with labour shortages - including in the travel and hospitality sectors where demand has rebounded strongly as the economic impact of the pandemic eases but where staffing levels are still far short of pre-pandemic levels.

Job markets are still very strong, and are likely to remain that way near-term with job postings still very high. Still, central banks globally are now aggressively hiking interest rates. The jump in wages in July will only add to concerns at the Bank of Canada that high inflation rates won’t ease significantly enough without additional aggressive interest rate hikes. We look for the BoC to hike the overnight rate by 75 basis points next week on the way up to a 3.25% rate before the end of 2022. That will help to cool down inflation pressures, but also means labour markets will soften as the year progresses with unemployment moving more significantly higher next year.