

Key to cuts lies in the labour market

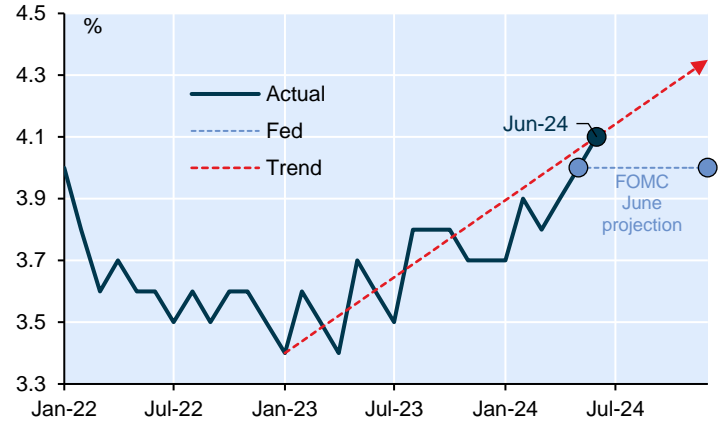
By Taylor Schleich, with assistance from Jackson Atkinson

Friday was not a great day for North American labour markets, both the [Canadian](#) and U.S. economy seeing their jobless rates print above consensus forecasts. With six months of 2024 data to go, the U.S. unemployment rate is *already* above the Fed's year-end projection. As we [discussed earlier](#), it's no wonder there's skepticism of the June dots. Indeed, our confidence in our two-cut outlook only grew post-data.

In Canada, markets are unconvinced the BoC will deliver a follow-on cut in July (though odds did rise Friday). This uncertainty largely reflects uneasiness over May's CPI report, and the potential for another hot print next week. While the latest data wasn't ideal, we don't think it's wise to miss the forest for the trees. Inflation today is much better behaved, while the labour market is gasping for air. Already, the 1.6%-pt increase from the 2022 trough is the largest in the G7 and just off the podium among OECD nations. Left unabated, a 7%+ unemployment rate would be in store this year if recent (worsening) labour market dynamics persist. To be sure, that is our [baseline scenario](#) and has been all year. The U.S. unemployment rate is also on an upward path but not to the same extent, which (still) argues for a faster pace of cuts in Canada this year. While BoC easing could help stem labour market weakness, policy lags mean cuts need to come sooner than later. To us, a July cut should be considered a higher probability outcome, as only a disastrous June CPI report should leave the BoC sidelined.

Chart 1: U.S. jobless rate *already* above median Fed forecast

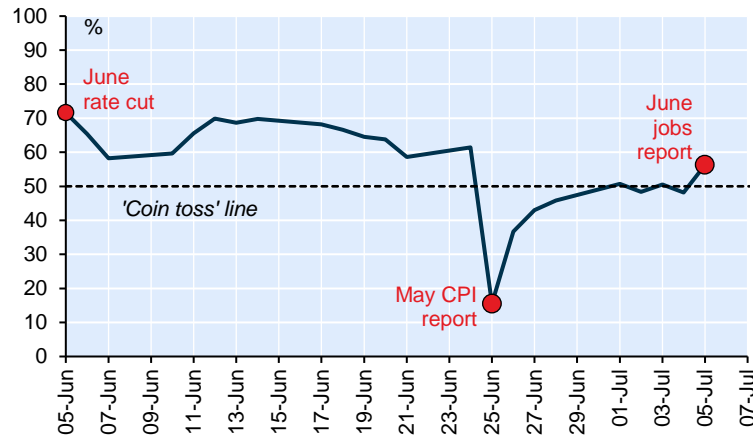
U.S. unemployment rate, trend since Jan-23 and latest FOMC projection



Source: NBF, Bloomberg, FRB

Chart 2: Market unsure of July rate decision outcome

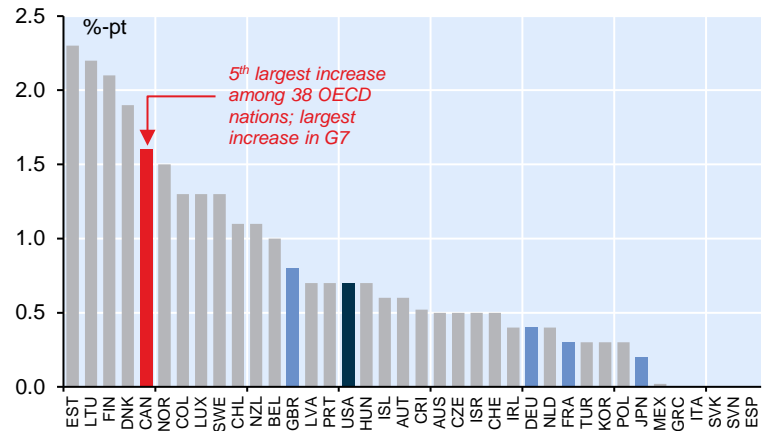
OIS-implied probability of July Bank of Canada rate cut



Source: NBF, BBG | Note: Based on Bloomberg's WIRP function as of 5-Jul

Chart 3: Canada's labour market softening more than peers

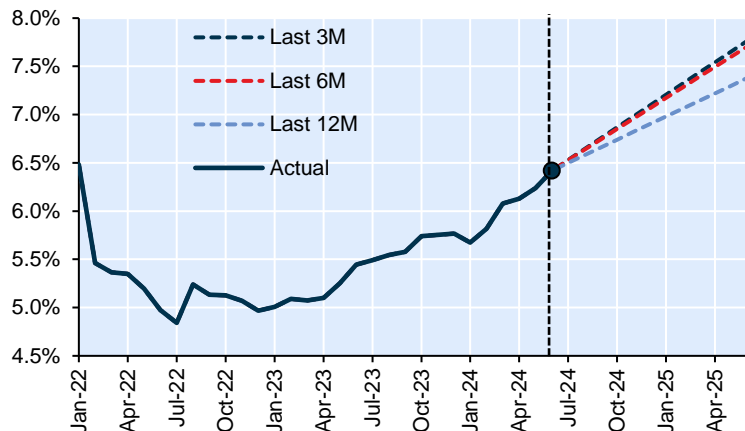
Change in unemployment rate from post-2020 trough among OECD nations



Source: NBF, BBG | Note: Change = Latest – trough. Blue-shaded countries = G7.

Chart 4: Recent trend consistent w/ a 7% jobless rate by Dec.

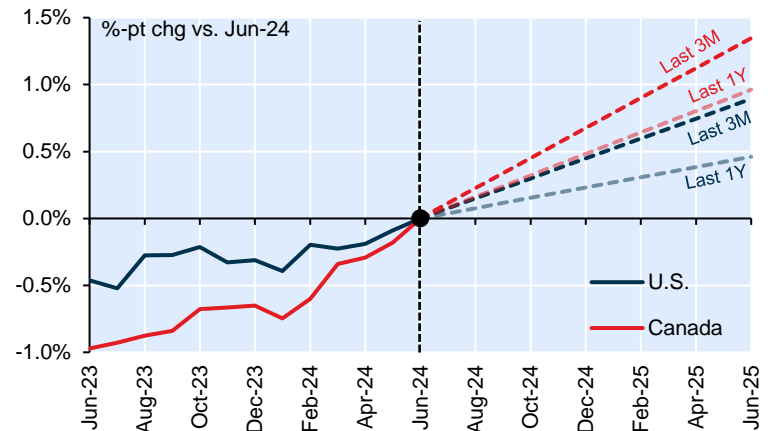
Simulated Cdn jobless rate based on recent job/labour force growth rates



Source: NBF, StatCan

Chart 5: U.S. has been softening... but not like Canada

Simulated chg. in jobless rate based on recent job/labour force growth rates



Source: NBF, BLS, StatCan



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