

Problematic participation strikes again

By Taylor Schleich

Once again, it was a noisy jobs report in Canada last week. Hiring came in below expectations, but the unemployment rate didn't increase as was widely expected. It's a head scratching result at first glance but, as has been the case of late, this can be traced to participation. While Canada's working age population exploded over the past year (+3.6%), the labour force hasn't risen commensurately (+2.3%). That was the case again in October, as the participation rate fell for the fourth time in the last 5 months. This measure is down nearly 1%-pt since early 2023.

The participation rate decline is most acute among Canadian youth, a surging international student population a major contributing factor. Nonetheless, declines aren't contained to this cohort. Participation is down among 'core-aged' (25-54) workers and older Canadians (55+) too. This can't be explained by a structurally aging population either. The U.S., with a faster-aging demographic profile, has seen its participation rate stay largely unchanged over the past year and is down only slightly versus pre-pandemic levels. There's likely a 'discouraged worker' effect at play, which is *not* the sign of a healthy labour market.

To cut through this participation noise, we can look at the *employment* rate, or the employed share of the working age population. The steady

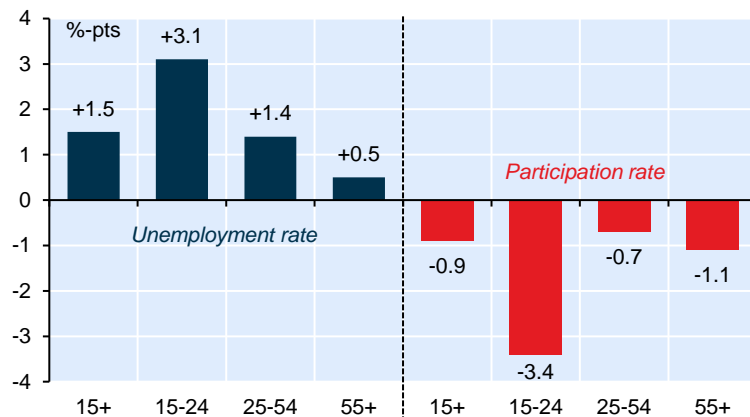
decline here doesn't indicate job market conditions are stabilizing. Again, U.S. comparisons are informative. While edging a touch lower in the U.S. in 2024, the drop is a far cry from what's happening in Canada.

Unfortunately, it's the unemployment rate that tends to be the bellwether indicator of labour market health and this measure being artificially depressed paints a distorted picture. To correct for this, we can estimate what the jobless rate 'should be' if participation was 'normal'. This is a purely theoretical exercise as we can't know what the labour market outcome would be for those who dropped out of or didn't join the labour force. Some may have found work while others wouldn't. Nonetheless, the exercise is informative. To illustrate, if the participation rate was unchanged in October, the jobless rate could've risen to 6.7%. If participation immediately returned to 2023 levels, the unemployment rate could be as high as 7.7%. It's hard to know if or when participation could normalize but assuming it does, the jobless rate is biased higher.

The bottom line is Canada's labour market is soft. And [as we wrote recently](#), labour demand is still depressed so it's unlikely we'll see the above-potential hiring (or GDP growth) that the Bank is seeking. Thus, another 50 bp cut next month remains a very real (i.e., likely) outcome.

Chart 1: Part rate is lower across the age spectrum...

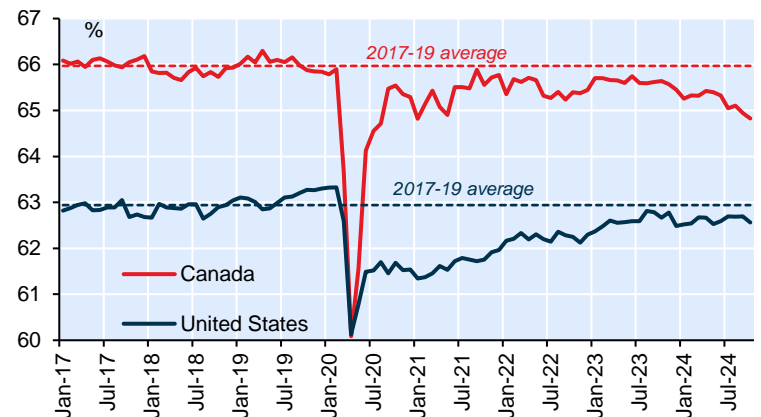
Change in unemployment and participation rate since January 2023



Source: NBC, StatCan

Chart 2: ...which is not a phenomenon underway in the U.S.

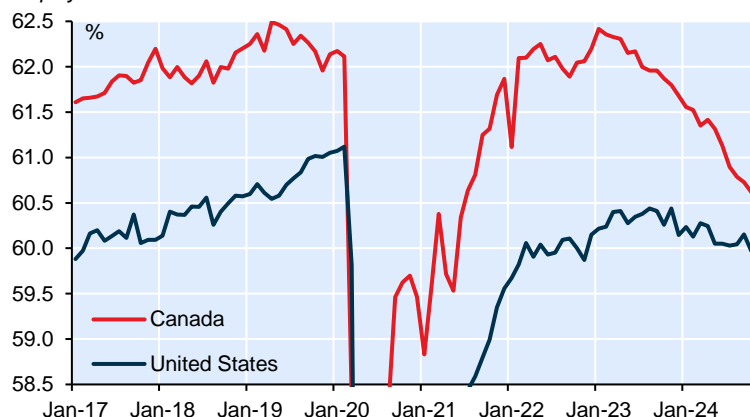
Labour force participation rate: Canada and U.S.



Source: NBC, StatCan, BLS

Chart 3: The employment rate tells the more accurate story

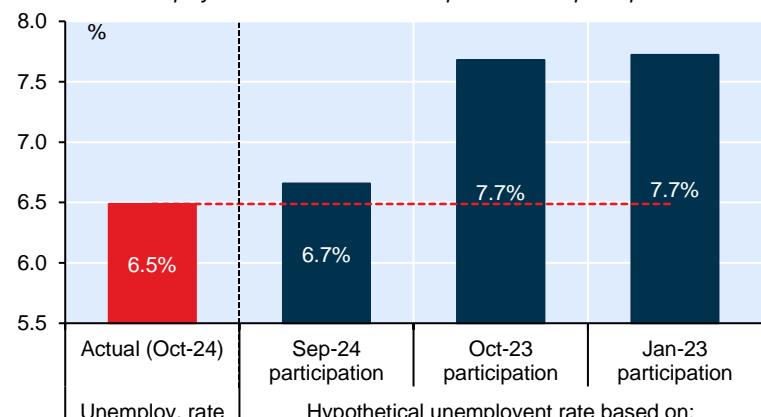
Employment rate: Canada & U.S.



Source: NBC, StatCan, BLS

Chart 4: A more 'normal' part rate = much higher jobless rate

Theoretical unemployment rate for Oct-24 with prior levels of participation



Source: NBC, StatCan | Note: Participation rates adjusted for population aging



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