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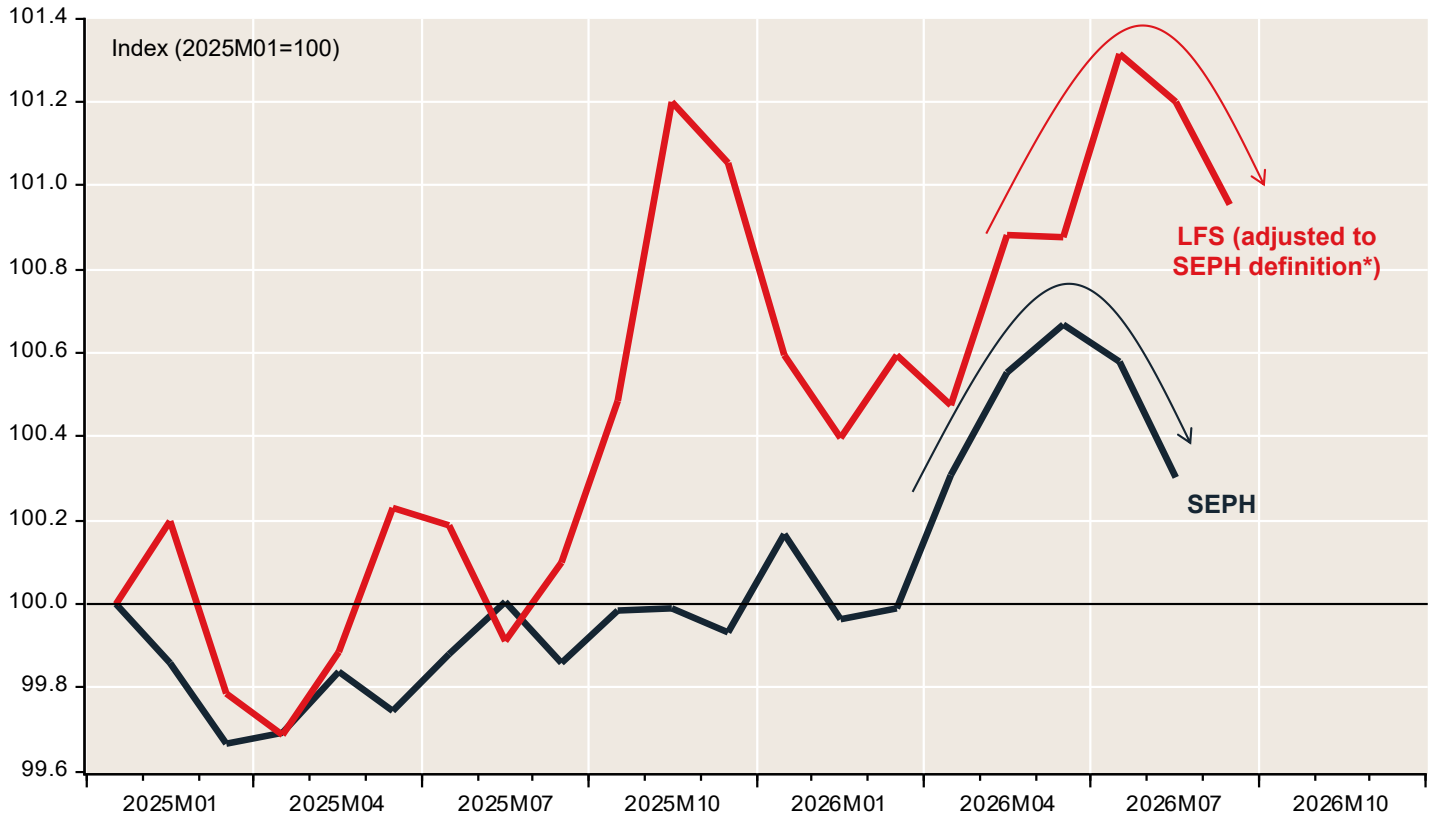
Canada Watch

By Alexandra Ducharme and Matthieu Arseneau

In a Hot Chart published yesterday (**link**), we were questioning whether businesses will be able to pass down higher input costs to their consumers, which would result in higher inflation as forecasted by the Bank of Canada. Businesses' ability to do so depends in part on the health of the labour market that supports household incomes and spending. On this subject, in the Monetary Policy Report released alongside its interest rate decision, the Bank of Canada placed relatively little emphasis on the recent employment declines reported by the Labour Force Survey (LFS). Instead, it noted that payroll data from the Survey of Employment, Payrolls and Hours (SEPH) pointed to firmer public sector employment, the main source of weakness in the LFS recently. The Bank's reluctance to place a lot of emphasis on recent LFS data is understandable. While the survey provides a timely snapshot of Canada's labour market, its monthly estimates are notoriously volatile. SEPH, for its part, is released with a longer lag, but its payroll employment estimates are based on employers' administrative payroll records. Although both surveys have their strengths and limitations, their greatest value comes from comparing their results, after adjusting for differences in definitions. This morning's release of August SEPH data provides an opportunity to revisit this comparison, and the results reinforce the signs of cooling already evident in the LFS. As today's Hot Chart shows, payroll employment has now declined for two consecutive months, with July being downgraded from +26K to -16K, and August showing a drop of 50K, its sharpest in almost three years. This casts further doubt on the strength of the hiring rebound observed in the spring. With both surveys pointing to a loss of momentum, the evidence of a cooling Canadian labour market is becoming increasingly difficult to dismiss, which limits the risk of a strong buildup in inflation.

Canada: The labour market lost steam heading into the fall

Employment according to the SEPH and the LFS



* Excluding agricultural payrolls and self-employed persons, and adding multiple job holders
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