



A tale of three labour markets

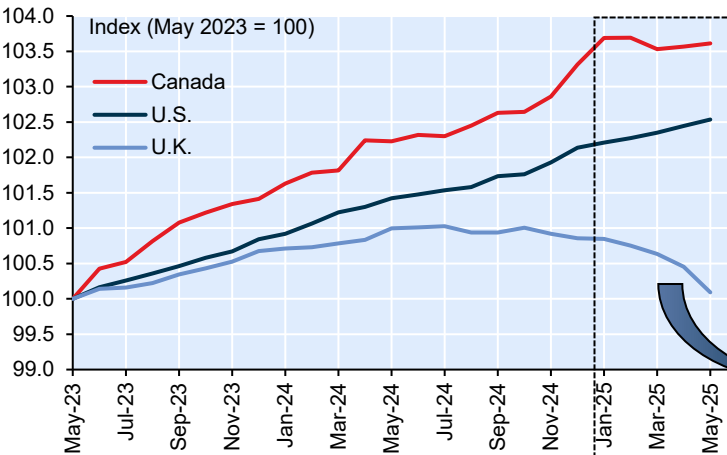
By Taylor Schleich, Warren Lovely & Ethan Currie

It was a disappointing day for the U.K. economy as fresh labour market data revealed the largest drop in employment since 2020 (-109K). To make matters worse, this isn't the first month of job losses for the British labour market. Far from it: May represented the seventh straight month of falling employment (and ninth decline in the last ten months). This leaves the size of the U.K. workforce little changed from two years ago. For context, U.S. employment is up 2.5% over this time, while Canadian job growth exceeds 3.5% (thanks to an earlier population surge).

The U.K.'s labour market struggles have been attributed to Chancellor of the Exchequer Rachel Reeves's tax hike-laden budget but that's not the only issue at play in 2025. Recent struggles have coincided with the U.S. trade upheaval, although the British may be enjoying the *least bad* tariff treatment. Canada did not escape Trump's ire and the related hit to business confidence/growth prospects has resulted in a largely stagnant job market. Meanwhile, the U.S.—the epicentre of global trade disruption—has continued to enjoy a steady pace of hiring.

Chart 1: U.K. workforce unchanged in two years...

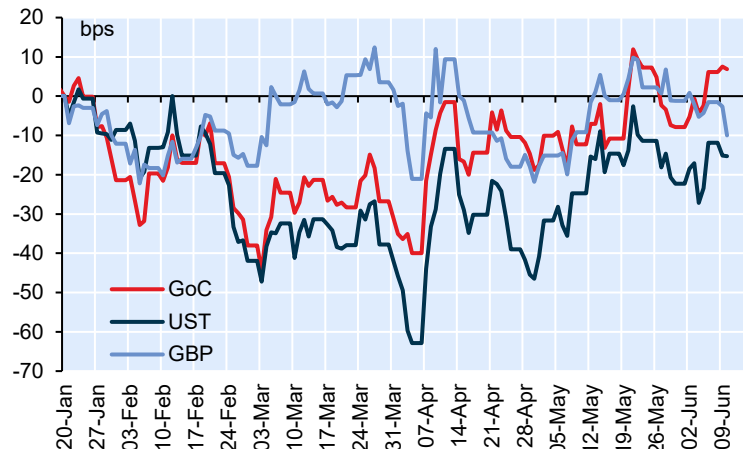
Indexed employment change over the past two years: U.S., Canada, U.K.



Source: NBC, Bloomberg

Chart 3: A lot of noise but yields are little changed in Trump 2.0

10-year bond yields, indexed to Trump inauguration date (20-Jan)



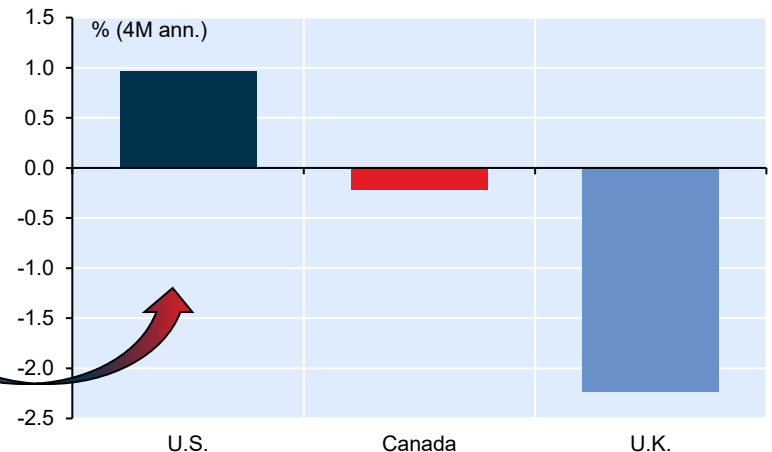
Source: NBC, Bloomberg

What have these various labour market dynamics meant from a borrowing rate perspective? Counterintuitively, it's the U.S. who has seen bond yields decline most over the last few months. Despite putrid labour market performance, gilt yields are barely lower. Thank sticky wage growth and well above target inflation for that. In Canada, where wage growth is better behaved *and* inflation is on target, yields are *up* since 20-Jan as the BoC has resisted further easing at recent meetings.

Once inflation and tariff-related inflation risks pass, we see scope for greater rate relief. That's true in the U.K. where labour market slack has accumulated at a rapid pace recently. It's also true in Canada, where new and pre-existing labour market slack still needs to be addressed in our view. Indeed, of the 38 OECD economies, only three have endured a larger unemployment rate increase (from the post-COVID trough) than Canada. Unfortunately, we fear Canada's labour market will get worse before it gets better which should intensify calls for Bank of Canada support in the months ahead.

Chart 2: ... as post-inauguration data reveals weakness

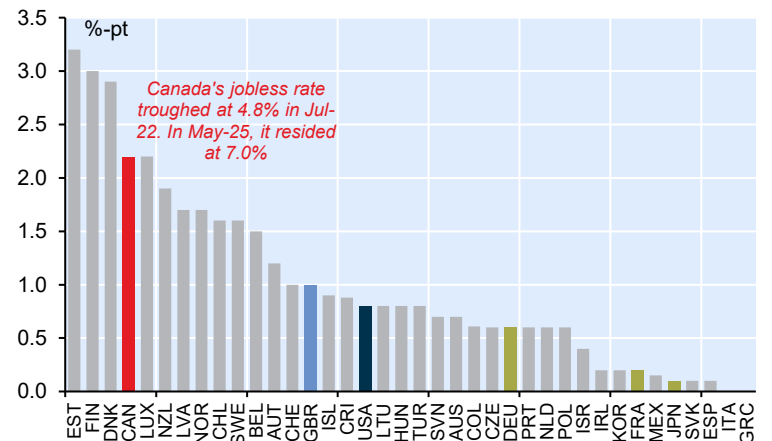
4-month annualized employment change (since Trump inauguration)



Source: NBC, Bloomberg | Note: January-May 2025

Chart 4: Global perspective on post-COVID labour markets

Change in unemployment rate from post-COVID low to current level



Source: NBC, Bloomberg | Note: Green shading indicates other G7 nations



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