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Job vacancies: A guide to the unemployment rate?

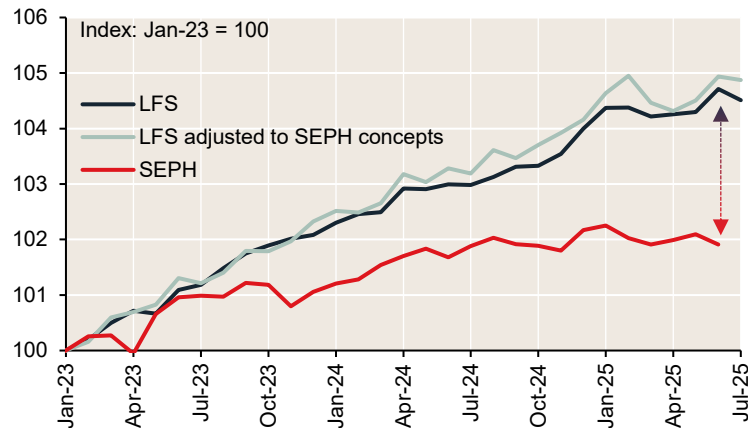
By Taylor Schleich & Noah Black

Canada's less timely and less closely followed jobs report (SEPH) was published this morning, indicating Canada shed 33K jobs in June. That's in contrast to the 83K that were reportedly added in June, per the LFS. Discrepancies between the two reports are nothing new. Over the long run, they follow each other closely but the gap has been particularly pronounced in recent years. Note that the divergence is *not* explained by conceptual survey differences. Rather, [as we discussed earlier](#), we see the LFS overstating population growth which is leading to overstated employment. To us, SEPH more accurately portrays underlying hiring.

The Bank of Canada (and thus, the market) doesn't put much emphasis on labour market developments in the SEPH, which is why the rate reaction this morning was muted. However, SEPH components offer insight into how more closely-followed jobs data will progress. We're referring to job vacancies, a gauge of labour demand, and thus *future* employment. Technically, vacant jobs rose in June, but the increase was modest and the number of open positions is lower than last year. The vacancy *rate* is in line with the 2017 levels, back when the BoC was just beginning to tighten policy from below 1%. In contrast to Canada, the U.S. vacancy rate has been stable around pre-pandemic levels for the past year despite the growing focus downside labour market risks.

Chart 1: The LFS-SEPH gap grew in June

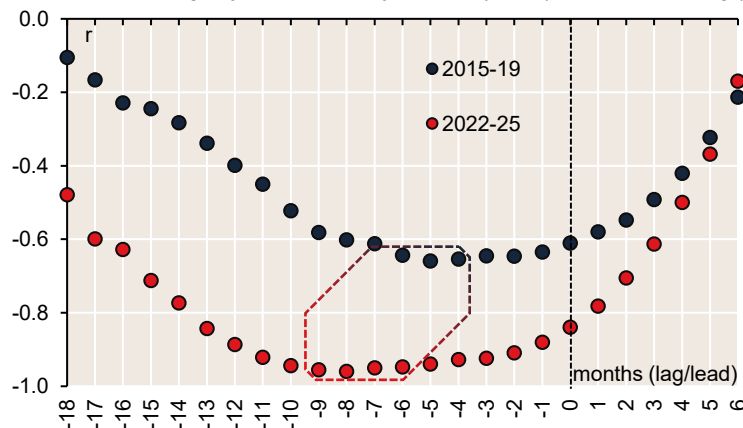
Indexed Canadian employment: SEPH, LFS & LFS adjusted to SEPH concepts



Source: NBC, StatCan

Chart 3: Vacancy rate: a leading indicator of jobless rate?

Correlation: 12M chg. in jobless rate and job vacancy rate (w/ various leads/lags)



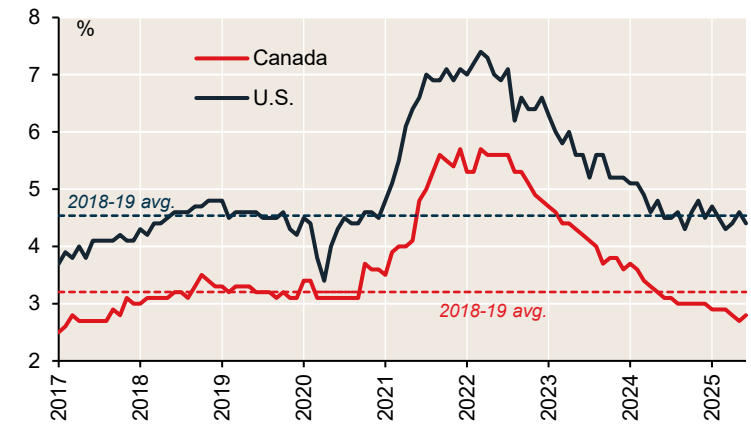
Source: NBC, StatCan | Note: Lag/lead refers to job vacancy rate.

Empirically, changes in Canada's vacancy rate tend to lead changes in the unemployment rate. While historical data is a bit limited (beginning in 2015) and was discontinued briefly in 2020, we find that correlations between changes in the vacancy and jobless rate are strongest with a roughly half-year lag, before COVID or after. Note that we find similar lags when looking at U.S. data in the post-pandemic period. So, Fed officials (and markets) may be growing more anxious about the health of the labour market, but this measure (on its own) implies those worries *may* be a bit overstated. The same can't be said for Canada, where the YTD fall in the vacancy rate implies more labour market slack will accumulate.

As noted earlier, job vacancies did technically increase in June on a month-over-month basis. Could this be the start of rebuilding labour demand? We're not so sure. Alternative and more timely data on job postings (via Indeed) suggest labour demand waned over the course of the summer. Consistent with these findings, our base case outlook for the jobless rate involves a further increase through 2025 and we don't expect an improvement until next year. For the BoC, inflation developments will be the single most important factor in coming decisions. However, if price pressures moderate as we expect, Governing Council's focus can turn to the labour market where greater policy support is needed.

Chart 2: Canada vacancy rate down Y/Y; little changed in U.S.

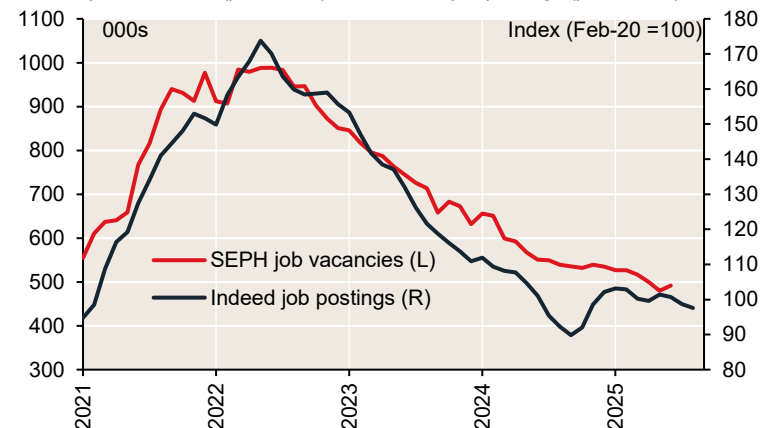
Canada vacancy rate and U.S. job opening rate, with pre-pandemic average



Source: NBC, StatCan, BLS

Chart 4: Labour demand may have fallen further this summer

Level of job vacancies (per SEPH) and index of job postings (per Indeed)



Source: NBC, StatCan, Indeed | Note: Indeed job postings are monthly average of daily levels



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