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Hiring intentions: A look ahead or a look back?

By Taylor Schleich

Hiring intentions in last week's *Business Outlook Survey* (BOS) were downbeat, falling to their lowest level in over a decade. At first glance, this is an alarming sign for a labour market that has operated in excess supply for some time. The BoC directly cited this in its rate statement and MPR as an asterisk on the late-2025 hiring pick-up. But are these survey data really a useful guide for job market conditions? Not necessarily.

For one example, we look to the last time hiring plans were this weak (late 2015). Back then, oil *had* collapsed, joblessness *had* risen, and hiring *had* been soft. Cue the downbeat hiring plans. Ultimately, the survey gave a false signal: a year after it was conducted, employment was up 1.4% and unemployment was lower. The experience in 2001-02—when the hiring outlook was even worse—played out similarly. To be fair, downbeat hiring plans in 2008-09 *did* materialize, but a 1-for-3 record isn't great.

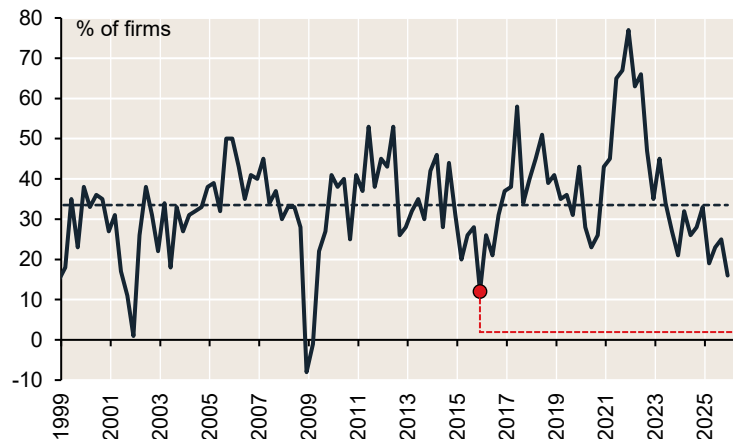
This weak relationship seen in a few examples can be generalized. Over the full history of the BOS, there's little correlation between today's hiring plans and job market conditions *over the next year* (the period for which

the survey question applies). Instead, we find the BOS is most correlated with backward-looking job market performance. In other words, firms may be taking what they've seen recently and projecting that forward. This may be applicable today, as this latest survey was conducted just after a period of weakness. Another consideration when interpreting these data: Canada's population growth has slowed dramatically, so it's natural for businesses to scale back hiring. It doesn't necessarily mean more slack.

To be sure, there's still reason to view recent LFS strength with *some* caution. Besides the BOS, SEPH job growth is weaker, and job vacancies are low (though SEPH has been out of sync with the LFS for a while). Nonetheless, we see the recent reduction in labour market slack as an encouraging sign. And one we assign more weight to than a survey of ~100 firms, especially since soft data *generally* have been less predictive recently. With respect to monetary policy, our assessment of, and outlook for, the labour market is not consistent with further easing. However, rising geopolitical tension represents a major risk and means the degree of confidence in our base case outlook is much lower than usual.

Chart 1: Hiring intentions are the worst in over a decade...

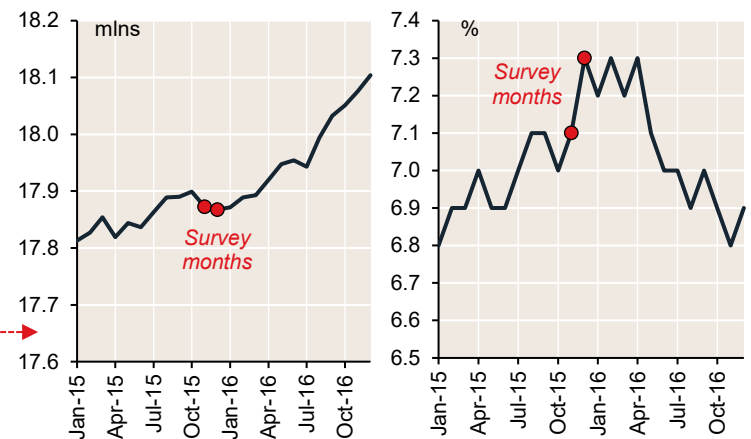
Net hiring intentions over coming 12 months



Source: NBC, BOS

Chart 2: ...in 2015, downbeat hiring plans were a poor signal

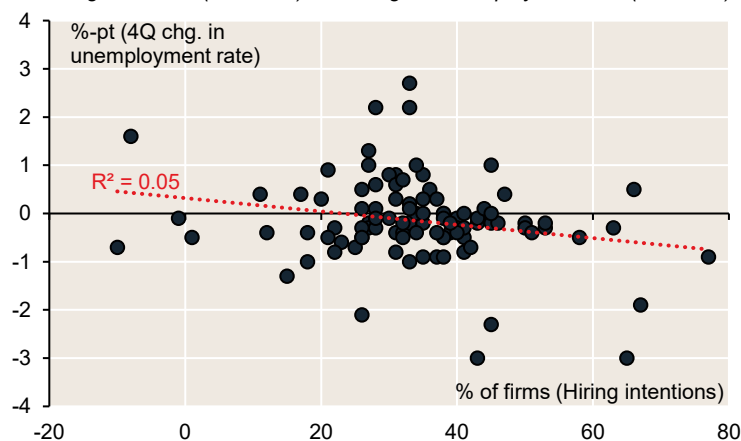
Canadian employment (L) and unemployment rate (R): 2015-16



Source: NBC, StatCan

Chart 3: The BOS a poor indicator of the future job market...

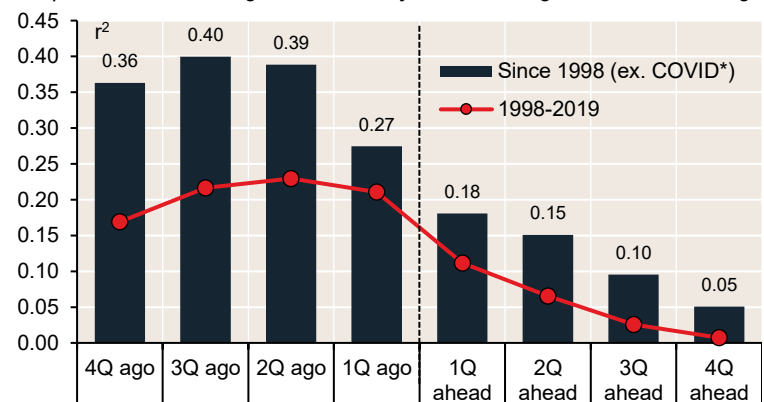
Net hiring intentions (next 12M) vs. change in unemployment rate (next 12M)



Source: NBC, BoC, BBG

Chart 4: ...rather, it indicates how the job market was doing

R-squared between hiring intentions and jobless rate chg. w/ various leads/lags



R-squared between hiring plans and unemployment rate change vs:

Source: NBC, BoC, BBG | Note: E.g., '4Q ago' compares current qtr. hiring intentions with the change in the jobless rate over last 4Q. The '4Q ahead' bar compares current qtr. hiring intentions with jobless rate chg. over next 4Q. *COVID refers to H1:2020.



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