Soft Canadian July jobs boost the case for more rate cuts

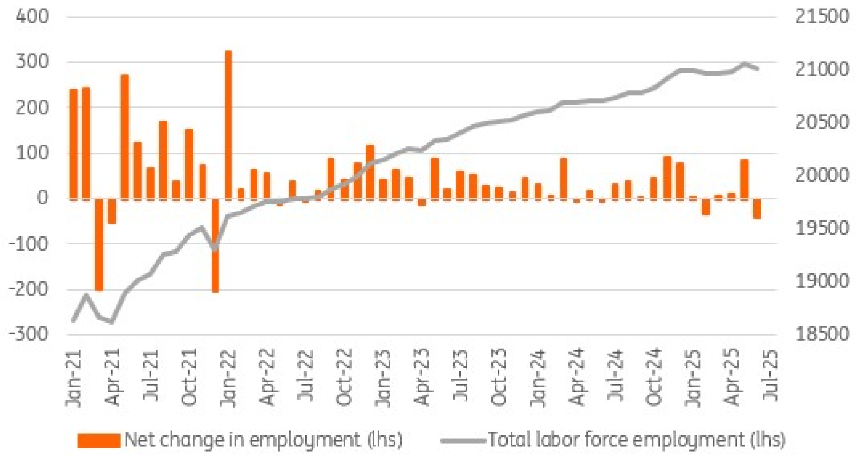
The July jobs report shows a sharp reversal in full-time employment and with tariff headwinds blowing colder the case for more Bank of Canada rate cuts is strong

The July jobs numbers were weak, suggesting the Bank of Canada may cut rates starting in September. Construction site in Calgary, Alberta

Job weakness heightens concerns about second-half growth

July Canadian labour market performance was weaker than anticipated with the largest net job losses since January 2022. Net employment decreased 40.8k versus a 10k gain consensus forecast and June's unexpectedly strong 83.1k rise. The July report demonstrates volatility in the Canadian economy in response to renewed trade tensions and tariff threats. While the unemployment rate held steady at 6.9%, we anticipate that the weakened performance will put pressure on the Bank of Canada to cut rates. The policy rate was held at 2.75% on 30 July; however, Governor Tiff Macklem expressed concern for economic weakness throughout the second half of the year. Given today's numbers, we anticipate the Bank of Canada will begin to cut interest rates again at its meeting on 17 September.

Change in employment (000s)



Source: Macrobond, ING

Labour weakness likely to continue

Business confidence remains subdued; however, in contrast to June, consumer confidence has decreased in the past three weeks in response to heightened trade tensions with the US. Failed negotiations between the countries led to blanket 35% tariffs on non-compliant USMCA Canadian goods exports to the US on 1 August. Those compliant with the United States – Canada – Mexico Agreement (USCMA) are exempt with Prime Minister Mark Carney estimating 85% of trade is tariff free, but the concern is that President Trump has expressed a desire to renegotiate the terms of the trade agreement when it expires on 1 July 2026. In addition, 25% tariffs on autos, and 50% tariffs on steel, aluminum, and semi-refined copper remain in place.

Bloomberg Nanos Consumer Confidence

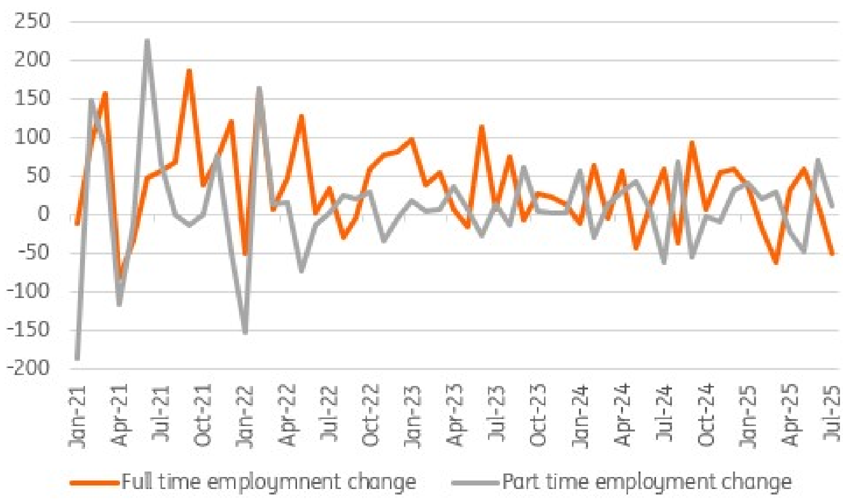
Source: Macrobond, ING

Weakened growth in several sectors

Four sectors contributed to 86.5k of job losses in July. Information, culture, and recreation contributed the most, with a 29.2k loss. Subsequently, construction decreased 21.6k, business, building and other support services decreased 19.2k, and health care and social assistance decreased 16.5k. These losses were offset by increased transportation and warehousing (26.1k), and educational services (22.4k). If consumer confidence continues to falter, the information, culture, and recreation sector will likely continue to weaken.

While the labour market will likely continue to fluctuate in response to trade, underlying full-time employment levels remain concerningly weak. Whereas part-time employment rose by 10.3k, full-time employment fell by 51.0k. In contrast to June, these levels were a decrease from the increases of 69.5k and 13.5k, respectively. Furthermore, of the 1.6 million people unemployed in July, 23.8% had been continuously searching for work for at least 27 weeks, a record figure since February 1998, excluding the pandemic. While the unemployment rate was steady, the participation rate did drop from 65.4% in June to 65.2% in July, suggesting the possibility of increased discouraged workers limiting the amplification of unemployment levels. Moreover, returning students aged 15 to 24 saw the highest unemployment rate for July since 2009 at 17.5%, excluding 2020.

Full time vs part time employment change (000s)



Source: Macrobond, ING

Bank of Canada to start cutting rates

While the jobs report showed clear signs of weakness, Canadian workers have remained surprisingly positive about the jobs outlook. In July, 54.9% of employees aged 25-64 reported being very confident in their employment prospects, with only 4.1% of employees reported not being confident. Of those not confident, 27.5% reported industry layoffs and 12.3% reported tariff-related uncertainty. Nonetheless, the weakened report does reflect the Bank of Canada's expectations of a slowing economy through the year.

Following the policy rate decision, the Bank of Canda maintains three scenarios for tariffs: current, de-escalation, and escalation. Under the current tariff scenario, the Bank of Canada anticipates a modest weakening of the economy in 2025, with rebounds over 2026 and 2027. However, Governor Tiff Macklem has also emphasised that with a weakening economy and downward pressure on inflation, "there may be a need for a reduction in the policy interest rate." We echo this sentiment, anticipating that the Bank of Canada will begin to cut rates at its September meeting, with two cuts before the end of the year.

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