

Intelligence MEMOS



From: Don Drummond and Parisa Mahboubi
To: Labour Force Observers
Date: January 15, 2025
Re: **BEYOND THE UNEMPLOYMENT RATE**

Statistics Canada released its December Labour Force Survey on [Friday](#), updating our understating of the Canadian labour market. Although the year-over-year rise in the unemployment rate suggests a weakening labour market, other indicators, such as employment growth and wage gains, point to underlying strength.

The reality is that Canada has a dynamic and robust labour market characterized by extraordinary labour force growth and steady employment gains.

Last week, we [anticipated](#) that the unemployment rate temporarily reflects challenges in absorbing a rapidly expanding labour force. The December data bears this out: Employment rose by 90,900 jobs from November, an impressive 0.4-percent increase, while the labour force grew by 66,700 people (0.3 percent). This led to a slight decline in the monthly unemployment rate from 6.8 percent to 6.7 percent, a figure that is relatively low by historical standards, despite significant growth in both employment and the labour force. As we predicted, the labour market needed time to adjust to the surge in labour supply, and it's now beginning to do so.

Monthly fluctuations aside, the year-over-year figures provide a clearer perspective. Employment grew by 2.0 percent between December 2023 and December 2024, while the labour force expanded by 3.1 percent, driven by a 3.6-percent increase in the working-age population. This unprecedented growth in labour supply has naturally pushed the unemployment rate up by about one percentage point compared to a year ago, but it also underscores a fundamental truth: The labour market is generating jobs at a remarkable pace, even as it struggles to integrate a historically large number of new entrants.

On top of the big gains in employment, strong wage growth also testifies to the underlying strength of the labour market. Average hourly wages rose 3.8 percent year-over-year in December, outpacing the 1.9 percent inflation rate. Not only is the labour market generating jobs, it's also offering higher-paying opportunities.

The challenge of integrating a rapidly expanding workforce is especially apparent in the labour market for young people (aged 15-24), where the unemployment rate was 14.4 percent. Even so, youth employment rose by 2.7 percent over the past year, while the labour force surged 6.4 percent – making this group the fastest-growing segment of the workforce. The surge was driven by a remarkable 7.5-percent increase in the youth population. The labour market has been creating lots of jobs for young people – 2.7-percent annual growth is good growth – but it hasn't managed to absorb everyone who wants an entry-level job.

In our current situation, relying solely on the unemployment rate as an indicator of how the economy is doing leads to seriously misleading conclusions. The changes in unemployment mainly reflect the extraordinary growth in the labour force, driven by population increases.

That has implications for inflation and monetary policy. In November, with rising unemployment and moderating inflation, the Bank of Canada appeared poised to cut interest rates further, signaling a more gradual pace of cuts to the policy rate moving forward. While inflation remains subdued, robust job and wage growth could sustain demand pressures, making the Bank more likely to pause its rate-cutting cycle. The December numbers suggest that the central bank now faces a more complicated decision-making environment than it did just a month ago.

Our labour market dynamics over the next year or two are likely to be affected by global economic uncertainty and by our own [immigration policies](#), which will be trying to [stabilize](#) population growth. Whether that can actually be done remains to be seen. Canada faces significant challenges in managing immigration, including a large backlog of refugee claims and a surge in claims both from temporary residents with expired permits and from new waves of people fleeing unstable conditions in their home countries. If inflows continue at historically high rates, especially if the newcomers do not meet the requirements of Canadian jobs, the unemployment rate will continue to rise, even if employment continues to grow.

The Bank of Canada's role is not to absorb any and all surges into the labour market in the short term, but to create conditions for sustainable growth. The focus needs to shift from alarmist interpretations of the unemployment rate to strategies that harness Canada's demographic dynamism for lasting economic success.

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