Canada's labour market data firmed again in July

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The Bottom Line:

Canada's labour market showed further signs of improvement in July with a 75k increase in employment building on 106k increases over May and June, and the unemployment rate ticking down to its lowest level (6.4%) in two years.

That still leaves average monthly job growth for 2026 to-date at a historically modest 10k/month after a soft start to the year. But the employment numbers also still look more impressive against a backdrop of slower population growth and elevated worker retirements that are structurally weighing on the size of the available labour force.

The unemployment rate is a better measure of per-worker labour market conditions, and the tick lower in July left the rate down half a percent from a year ago.

The labour market is not yet strong — the unemployment rate is still higher than normal, and wage growth slowed in July. But it has been improving despite still significant U.S. tariff uncertainty and higher energy prices.

Tariff risks remain, but CUSMA continues to backstop duty-free trade for most Canadian exports to the U.S — and broader U.S. global tariff rates have been edging gradually lower rather than higher. Energy prices are still elevated but have eased from higher levels in Q2, and economic growth data has also shown signs of picking up in Q2 after stalling over the winter.

We continue to look for the unemployment rate to edge lower over the second half of the year.

The details:

Employment rose 75k in July, building on 18k and 88k increases in May and June. Those increases follow a much softer start to the year, but still pushed the year-to-date employment growth count into positive territory at 68k.

July employment gains were split between full time (+38.6k) and part-time (+36.6k) increases — year-to-date, though, job growth has entirely come from full time positions (+82k year-to-date.)

On an industry basis manufacturing (+11k) and construction (+16k) led an 11k increase in goods-producing employment, while a 64k jump in services employment was relatively widespread by industry, with the exception of a 15k drop in public administration.

Population (15+) growth continued to surprise on the upside relative to earlier reported estimates from Statistics Canada showing that total population is declining outright with a 15k increase in July.

Still, the the employment growth numbers look better controlling for underlying demographic trends that are weighing heavily on growth in the available labour supply.

Population growth has still slowed sharply due to immigration curbs, and workers continued to retire at an elevated rate as the workforce ages — 26k workers per month retired over the last year as of July.

Those retirements have been the main factor pushing the labour force participation rate lower — the 65.1% rate in July was down 0.1 percentage points from a year ago despite 0.6 and 0.4 ppt increases in the participation rates for 15-24 year-olds and 25-54 year-olds, respectively.

The unemployment rate ticked down to 6.4%. That is the lowest level in 2 years, and further below the 2026 high 6.9% rate in April and 7.1% recent peak in August and September 2025.

The youth (15-24 year-old) unemployment rate was little changed at a still elevated 12.6% in July (12.7% in June), but that was still down almost 2 percentage points from a year ago. The rate for 25-54 year-olds edged down to 5.5% from 5.6%.

Total hours worked jumped another 0.6% in July, adding to 0.2% and 0.6% increases in June and May, respectively, and consistent with economic growth momentum flagged in early GDP estimates for Q2 continuing into Q3.

Wage growth was a softer spot in the data, edging down to 2.8% from 3.3% in June. Slower wage data is not surprising — while unemployment has begun to edge lower, it is still elevated and that is expected to keep wage growth under pressure in the near-term.

Ontario accounted for two-thirds of the employment gain nationwide with a rise of 52k in July, driving its jobless rate to a two-year low of 6.8%. British Columbia (up 18k), Manitoba (5.9k), and Nova Scotia (4.6k) also posted solid employment advances and falling jobless rates, while Quebec's labour market remained subdued and Alberta paused following strong job increases in the past 12 months.

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