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GLOBAL ECONOMICS

SCOTIA FLASH

September 5, 2025

Canadian Jobs Contribute to BoC Forecast Change

- **August's drop and 106k lost jobs in two months is bound to catch the BoC's attention**
- **The seasonally unadjusted plunge in jobs was the biggest ever for an August…**
- **…but dubiously restrained by the highest SA factor on record**
- **Multiple counts of new information drive us to expect 50bps of BoC cuts**
- **Inflation risk has nevertheless not gone away…**
- **…but fresh developments will pivot the BoC toward downside risks to future inflation**
- **Real wage gains above productivity are unlikely to be temporary, slack or not**

Canada jobs m/m 000s // UR %, SA, August:

Actual: -65.5 / 7.1

Scotia: 35 / 6.9

Consensus: 5.0 / 7.0

Prior: -40.8 / 6.9

Ouch. Canada's job market was hit hard in August. The odds that the BoC will resume easing at the September meeting just went up. With materially fresh evidence, our revised call is a 25bps cut on the 17th followed by another in October and then hold. If they're going to ease, then it's totally pointless to do it just once.

66k jobs were lost in August. 106k were lost in the past two months. We can quibble about the drivers and other factors but the BoC is under significantly greater pressure to resume easing.

Chart 1 provides some details. It was mostly driven by a loss of part-time jobs this time (-60k) as full-time jobs were down 6k but after a 51k prior drop in f-t positions.

Most of the loss was in self-employed (-43k) which is more suspect in terms of data quality, but payrolls also fell by 23k led by public sector workers (-16k) as private payrolls fell by about 8k.

By sector, there were some bright spots like construction and leisure related hiring, but they were offset by broadly-based softness elsewhere (chart 2). Government job cuts are coming.

The rub lies in the fact that had it not been for another record high seasonal adjustment factor (chart 3), the decline in employment would have been bigger. Potentially a lot bigger (chart 4). The plunge in seasonally unadjusted

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Chart 1

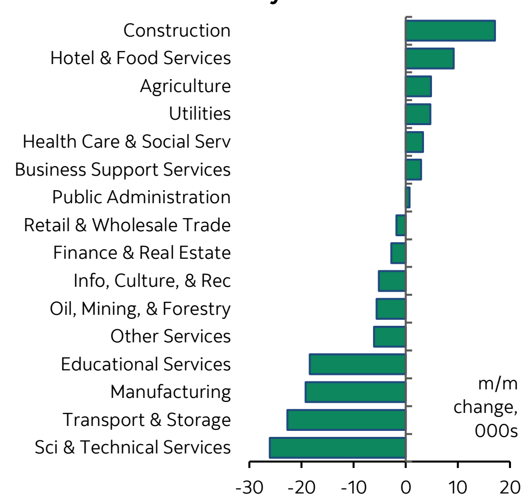
Canadian Jobs Break Down

Province	m/m
Ontario	-26.0k
British Columbia	-15.7k
Alberta	-14.2k
New Brunswick	-6.5k
Manitoba	-5.2k
Newfoundland & Labrador	-3.2k
Saskatchewan	-2.4k
Nova Scotia	-1.3k
Prince Edward Island	+1.1k
Quebec	+7.5k
Employment Type	**m/m**
Full Time	-6.0k
Part Time	-59.7k
Public Sector	-15.5k
Private Sector	-7.5k
Self Employed	-42.6k

Sources: Scotiabank Economics, Statistics Canada.

Chart 2

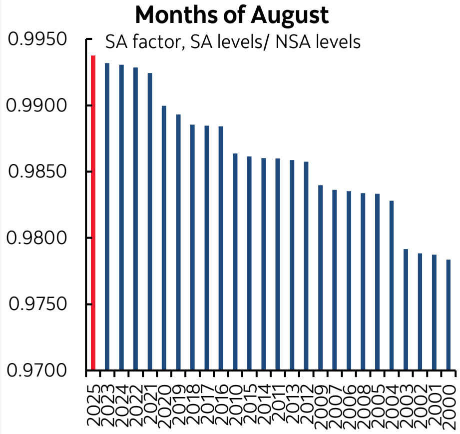
August Changes in Canadian Employment Levels by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 3

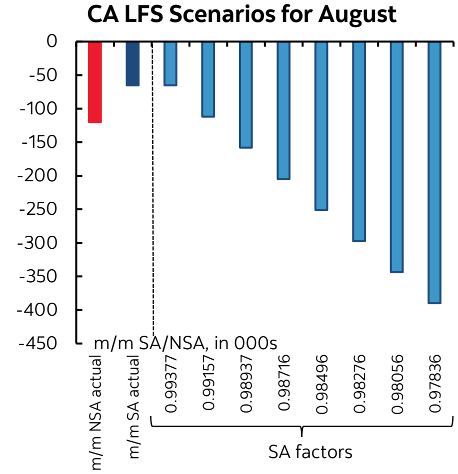
Comparing CA LFS SA Factor for All Months of August



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

CA LFS Scenarios for August



Sources: Scotiabank Economics.

employment was very large—in fact it was the biggest on record back to 1976 when comparing like months of August (chart 5).

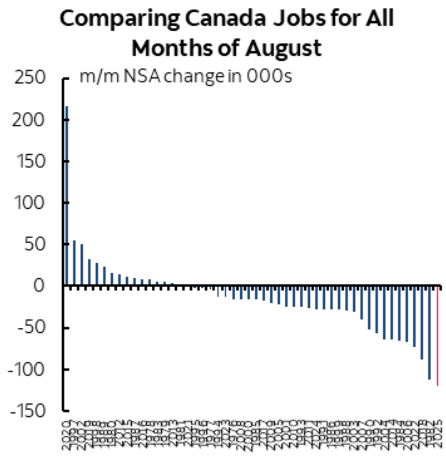
I remain unsure about trusting autopilot SA factor calculations driven by statistical models that have a recency bias. My bias is that seasonality from recent years in the pandemic and afterward may not be as profound now but we're dealing with SA factors that assume they are. That suggests jobs might have been weaker yet if not for SA factor effects.

Hours worked were up only 0.08% m/m SA. They are tracking only a 0.7% q/q SAAR gain in Q3 (chart 6) which is fairly soft as input to GDP defined as hours times labour productivity with the latter hardly being Canada's strong suit.

Wage growth is nevertheless still warm (chart 7). In fact, collective bargaining agreements are pushing contract wages sharply higher as revealed in freshly updated figures (chart 8). Canada, you've got a competitiveness problem here as wages are soaring while productivity is tumbling. The country is not helping itself in the face of trade turmoil by amplifying stagflation risks that are a central banker's worst nightmare.

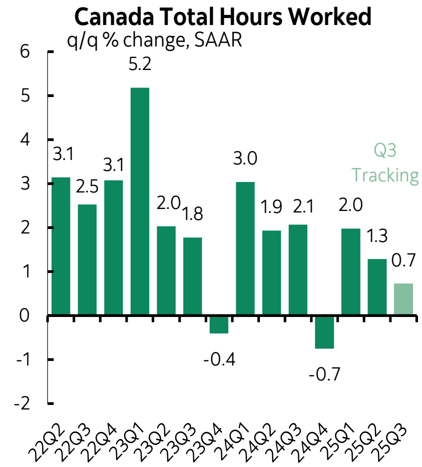
Yet for now, the additional reasoning for the BoC to be easing is based on the following:

Chart 5



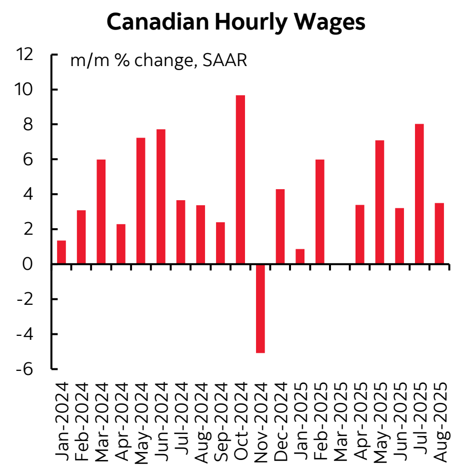
Sources: Scotiabank Economics, Statistics Canada.

Chart 6



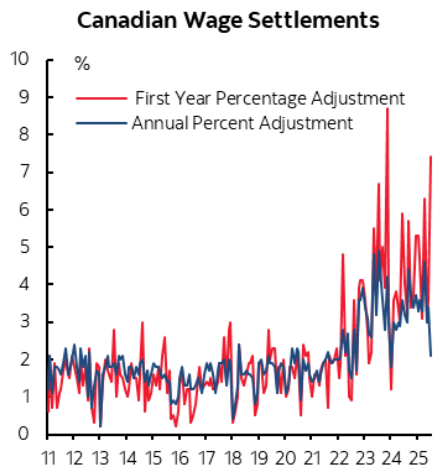
Sources: Scotiabank Economics, Statistics Canada.

Chart 7



Sources: Scotiabank Economics, Statistics Canada.

Chart 8



Sources: Scotiabank Economics, Statistics Canada.

- The BoC previously showed inflation falling back to 2.1% y/y in 2026Q4 and 1.9% in 2027Q4. They would likely be more concerned about downside than upside risks to this in light of fresh domestic and US developments. Insurance easing against the risk of undershooting 2% inflation in future may dominate in the nearer term, final domestic demand be damned.

- Second, developments in the US are material. Up to now, our argument had been that the tariff shock to Canada was small in weighted terms after taking into account high USMCA/CUSMA compliance. Therefore as long as the US economy held it together, Canadian exports could be buoyed as the income pull effect on exports offsets the price effect. That's less clear now as the US job market stumbles and growth risks mount with the Fed in easing mode. Canada is highly trade dependent especially on the US.

- Tariff retaliation is (mostly) gone which lessens risk of import price pass through into Canadian inflation.

- It's also unclear where the balance may lie in the October federal budget. We're told it will apply austerity—likely on operating spending—while ramping up investment spending. Where the net lies, when, and by how much is highly uncertain as it has taken too long to present fiscal plans at a point of high uncertainty. That probably means the BoC can't afford to wait given lags in policy effects.

The combination of factors probably merits additional easing by the BoC but it's not without risks to how the BoC may look at things. One cut wouldn't be worth Macklem getting out of bed to deliver as the effects would be scant and markets would pressure him to keep going. 50bps back to back and then we'll see.

All of which would be a pivot away from inflation risk, for now. The interest sensitives are showing responsiveness to prior easing; witness Q2 consumption growth and final domestic demand plus some housing momentum. Trend core inflation remains too warm in m/m SAAR terms but we'll see the next batch of readings the week after next. Arguments for persistent cost pressures remain sound, such as supply chain turmoil, higher inventory holdings as a buffer, labour market wage and productivity pressures. Easing as an insurance play now could well motivate regrets later—and with that some take back.