

OBSERVATION

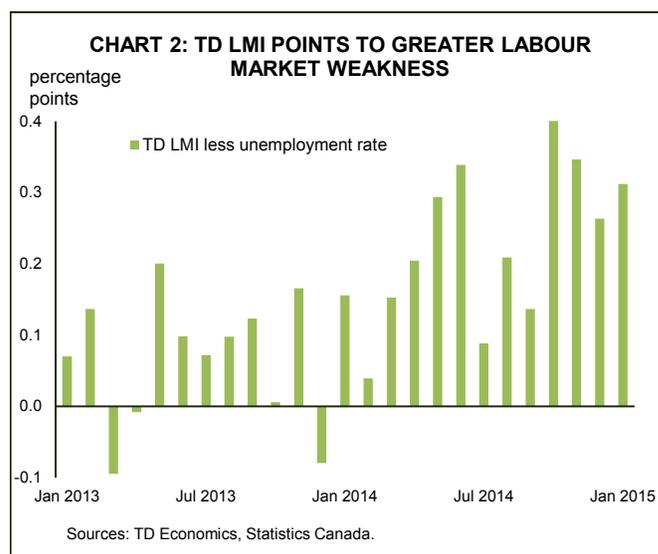
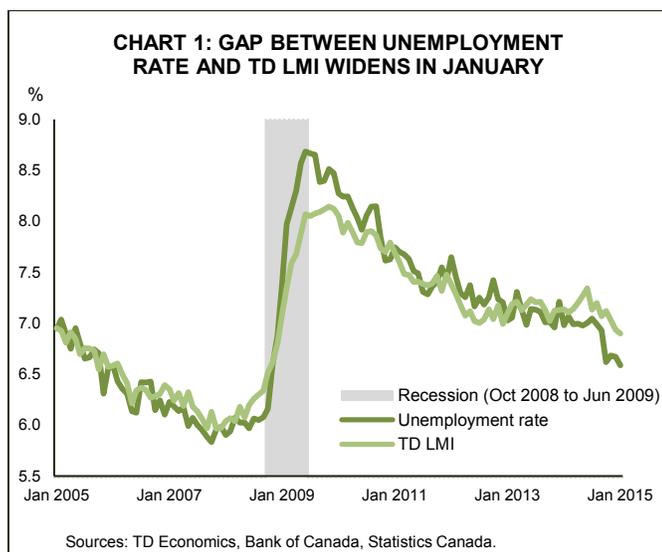
TD Economics



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THE UNEMPLOYMENT RATE CONTINUES TO UNDERSTATE LABOUR MARKET SLACK IN CANADA

- First introduced in October 2014, the TD Labour Market Indicator (LMI) was designed to capture broader trends in labour market health than are indicated by the unemployment rate alone.¹ Since October, a lot has changed. Most notably, Statistics Canada revised its Labour Force Survey (LFS) back to 2001, thereby changing the narrative surrounding the labour market somewhat.²
- The TD LMI has improved substantially over the past half year, along with the improvement in the unemployment rate (Chart 1). Much of the improvement in the TD LMI can be chalked up to a decline in the labour underutilization rate, the long-term unemployed share of total unemployment, and the share of Canadians working part-time for economic reasons as opposed to personal preference.
- While these are positive developments, the gap between the unemployment rate and TD LMI remains elevated (Chart 2). The sustained weakness in the labour force participation rate among Canadians aged 25 to 54 is one cause. Another is the weakness in the year-over-year growth in average weekly hours worked and average hourly wages of employees. Indeed, while many labour market variables have shown improvement, they remain generally weaker than the unemployment rate would suggest.
- The TD LMI reinforces the labour market slack highlighted in the Bank of Canada's January 2015 Monetary Policy Report (MPR).³ While the MPR was published before the LFS revisions, its conclusions regarding the current state of the Canadian labour market remain accurate. As such, we expect the Bank of Canada to maintain its focus on the labour gap. With the price of oil remaining subdued and slack in the labour market persisting, the Bank of Canada is expected to cut the overnight rate by an additional 25 basis points at its March 2015 interest rate announcement.



End Notes

1. http://www.td.com/document/PDF/economics/special/Labour_Market_Indicator.pdf.
2. http://www.td.com/document/PDF/economics/comment/CanadianEmployment_2015Revisions.pdf.
3. <http://www.bankofcanada.ca/wp-content/uploads/2014/07/mpr-2015-01-21.pdf>.

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