ECONOMIC VIEWPOINT

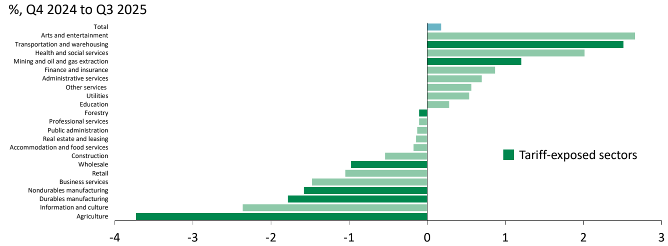
What's Going On in Canada's Labour Market? Foreign Versus Domestic Sources of Weakness

By Randall Bartlett, Deputy Chief Economist

- It has been a tough year for Canada's labour market, with the US trade war topping the list of headwinds. However, the number of employed workers in Canada in September was only slightly lower than at the end of 2024 and was higher than it was 12 months earlier. That begs the question: what's going on in Canada's labour market?
- It is important to first isolate how much of the current labour market weakness can be chalked up to the US trade war. We've estimated that the decline in demand for Canadian exports would typically have reduced employment by about 0.7 percentage points (ppts) so far this year.
- But US tariffs aren't the only contributing factor to Canada's labour market weakness. Fewer newcomer admissions and reduced federal government hiring have also been headwinds, albeit to a much lesser extent than reduced trade flows, at nearly -0.2 ppts and less than -0.1 ppts respectively.
- Despite these headwinds to hiring, relatively steady employment in Canada this year speaks to the resiliency of Canadian households and businesses in the face of numerous obstacles to growth and the uncertainty that lies ahead.

It has been a tough year for Canada's labour market. Since Donald Trump won the US presidential election, trade activity has been driven by the prospect, realization and subsequent ups and downs of US import tariffs. But while some tariff-affected sectors have seen hiring decline due to volatile trade flows, job creation has continued in others (graph 1). And even if trade-sensitive sectors have seen employment come down over the year, the jobs they've shed at times pale in comparison to other, more domestically oriented sectors. That begs the question: what's going on in Canada's labour market?

Graph 1
It's Not Immediately Clear How Much US Tariffs Have Hit Canadian Hiring This Year
Change in employment by sector
%, Q4 2024 to Q3 2025



Note: Agriculture uses data from the Labour Force Survey. All other employment data is taken from the Survey of Employment, Payrolls and Hours.
Statistics Canada Survey of Employment, Payrolls and Hours and Desjardins Economic Studies

Labour Market Casualties of the US Trade War

So, how much of the current labour market weakness can be chalked up to the trade war? To answer this question, we can compare the evolution of Canadian exports since the end of 2024 to the historical relationship between export demand and employment. Unsurprisingly, goods sectors are more vulnerable to the recent export demand shock than services sectors (graph 2 on page 2). Forestry tops the list, with construction, manufacturing and resource extraction not far behind. That said, some services sectors were also impacted by the drop in export demand, either directly through falling demand for the services they provide or indirectly through heightened uncertainty. Using the Survey of Employment, Payrolls and Hours (SEPH), we estimate that the total drag on employment from the trade war should have been about 0.7 percentage points (ppts) so far this year.

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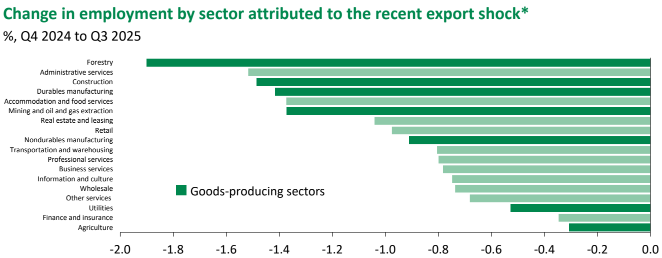
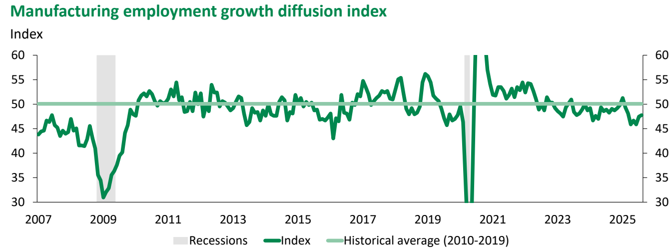
Graph 2
Goods Sectors Have Been More Vulnerable to the Recent Export Shock



Note: Agriculture uses data from the Labour Force Survey. All other employment data is taken from the Survey of Employment, Payrolls and Hours.
*Excludes sectors for which export data was not explanatory, such as education; health and social services; public administration; and arts and recreation.
Statistics Canada Survey of Employment, Payrolls and Hours and Desjardins Economic Studies

Graph 4
Manufacturing Employment Is Weak but Nowhere Near Typical Recession Levels



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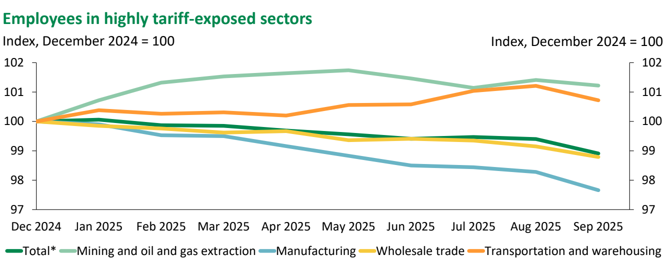
Direct Effects of the US Trade War

Highly trade-exposed sectors of the Canadian economy are painting a mixed picture of the US tariff impact on the Canadian labour market. Early in the year, we identified four sectors that were particularly vulnerable to being impacted by US tariffs. These included manufacturing; wholesale trade; mining and oil and gas extraction; and transportation and warehousing. However, while employment in all these industries was expected to move lower than at the end of 2024, hiring in some has instead gained ground through the trade war as circumstances have evolved (graph 3).

Graph 3
Not All Tariff-Exposed Sectors Have Shed Jobs in 2025



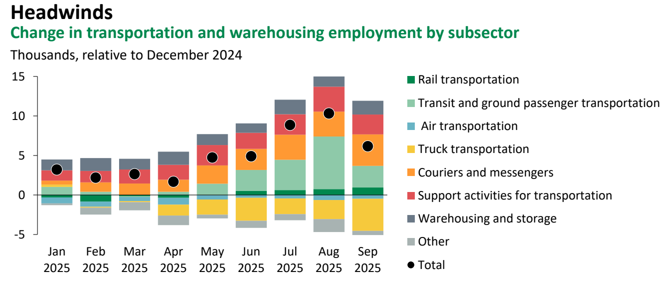
* Total employment in mining and oil and gas extraction, manufacturing, wholesale trade, and transportation and warehousing
Statistics Canada Survey of Employment, Payrolls and Hours, and Desjardins Economic Studies

Since the end of 2024, employment in manufacturing has turned down as anticipated. Lower payroll employment in motor vehicle and parts and metal products manufacturing is certainly part of the story—these goods are still subject to some of the highest tariffs among manufactured products—but it's not the whole story. Employment in more than three-quarters of manufacturing subsectors was lower in September than where it ended last year. However, the breadth of the decline has been relatively contained compared to past economic downturns, suggesting broad-based sectoral weakness but not an outright recession in Canada (graph 4). Much like manufacturing, employment in wholesale trade also displayed broad-based weakness through to September.

In contrast, employment in mining and oil and gas extraction has shown a sustained increase since the start of the year. Hiring in support activities has led this strength, in spite of output taking a turn for the worse after a sharp run up through to May. This is followed by increased employment in mining and quarrying, particularly metal ore mining, likely supported by the strength of gold and other metals prices that were reflected in everything from exports to equity market returns. In contrast, the oil and gas extraction subsector has shed jobs despite record-high production.

Sustained resource production looks to have spilled over to higher employment for transportation and warehousing (graph 5). Pipeline output is up, as is rail transportation. Employment in most other transportation subsectors has gained ground this year as well, with the notable exceptions of air transportation (as Canadians shun US travel for vacations at home) and truck transportation (because of lower trade flows). Not to be forgotten, hiring in warehousing and storage is also up on the year, likely reflecting the stockpiling that preceded US tariffs and Canadian counter tariffs.

Graph 5
Jobs in Transportation and Warehousing Have Advanced Despite Headwinds



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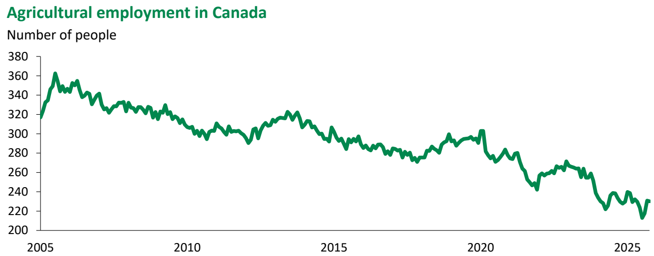
Two sectors that can't be overlooked in the trade dispute with the United States are forestry and agriculture. Forestry jobs have felt the sting of additional quotas and countervailing duties (graph 2 on page 2). This is likely to persist for some time, as the process of enacting these levies predates the Trump administration. Meanwhile, the agriculture sector is up against both the US and China. In part because of combined barriers on Canadian agricultural exports, the sector experienced an acceleration in seasonally adjusted job losses through August of this year (graph 6). However, a tepid rebound in hiring in September and October may be an indication of a modest recovery to end the year. Notably, as hard as employment in agriculture has been hit this year, this moribund hiring pales in comparison to the decline in total hours worked, with one of the worst performances of any sector so far this year.

Graph 6
Trade Spats with the US and China Have Accelerated Agricultural Job Losses

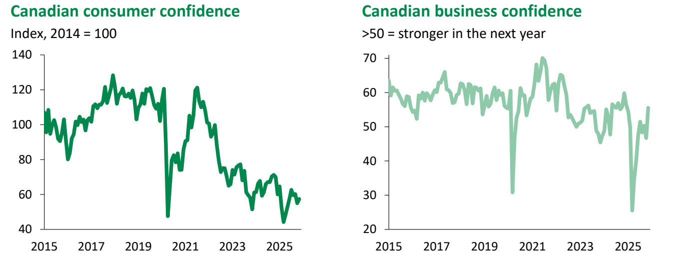


Note: Agricultural employment data is found exclusively in Statistics Canada's Labour Force Survey.
Statistics Canada Labour Force Survey and Desjardins Economic Studies

Indirect Effects of the US Trade War

Beyond the direct effects of the US trade war, there are also the indirect effects of volatile consumer and business confidence resulting from current and uncertain future tariffs (graph 7). No matter the survey you look to, trade policy uncertainty is weighing on spending and investment decisions, and often in similar ways. For instance, business investment has ebbed and flowed along with trade, and is expected to remain sluggish. Retail sales followed a similar tack, with time-limited auto rebates and a rush to get ahead of tariffs leading to sustained strength in household goods purchases in the first half of the year. However, that went into reverse in Q3 2025. And while it's difficult to draw a one-for-one comparison between the deterioration in consumer confidence and retail employment this year, it's almost certainty a contributing factor.

Graph 7
Consumer and Business Confidence Have Bounced Back from Record Lows

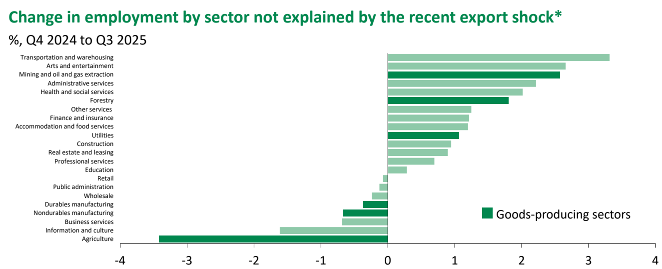


Conference Board of Canada, Canadian Federation of Independent Business and Desjardins Economic Studies

Some Industries Are Victims of Domestic Policy

While the direct and indirect impacts of US tariffs on Canada's labour market are undeniable, there's more to the story. Overall employment weakness predates the trade war and has been particularly pronounced in sectors like agriculture and information and culture (graph 8).

Graph 8
Services Sectors Have Been Less Vulnerable to the Recent Export Shock



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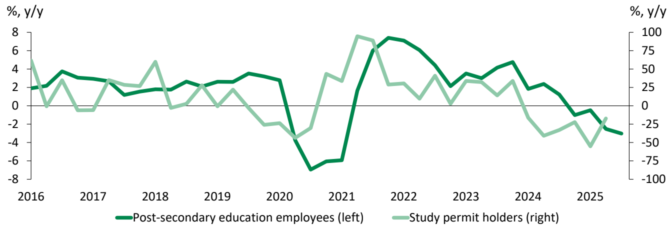
Statistics Canada and Desjardins Economic Studies

Fewer Newcomers Being Welcomed to Canada

While the trade war has clearly weighed on labour demand in Canada, changes in admissions of permanent and non-permanent residents (PRs and NPRs, respectively) have impacted both labour demand and supply as well.

On the labour demand side, the sector that has been most adversely impacted in 2025 because of fewer NPR admissions is education, specifically post-secondary. After peaking around mid-2024, employment in that sector has been steadily declining along with the number of study permit holders (graph 9 on page 4). Other education support services have moved in a similar direction. And while plans to restrict admissions further should exacerbate this headwind to hiring in this sector, employment in elementary and secondary schools has continued apace, more than offsetting this weakness.

Graph 9
Foreign Study Permit Holders Led the Boom and Bust in Higher Education Hiring
Growth in post-secondary education employees versus study permit holders

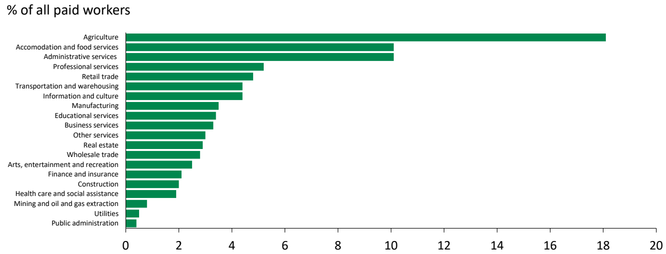


Statistics Canada, Immigration, Refugees and Citizenship Canada, and Desjardins Economic Studies

But the labour supply impact of fewer newcomer admissions appears to have had the more pronounced impact on Canadian employment. According to [Statistics Canada](), foreign workers comprised more than 4% of all paid workers in Canada in 2021, roughly double the share a decade earlier. In 2025, that share has risen to about 6%, with NPRs comprising more than 7% of the total population at last count. At the time of the last census, foreign workers were largely found in agriculture (18.1%); accommodation and foods services (10.1%); and administrative and support, waste management and remediation services (10.1%) (graph 10). Unsurprisingly, agriculture has been particularly adversely affected by the recent changes to NPR admissions, with temporary foreign workers in the agriculture and agri-food sectors falling in 2024 for the first time since 2019, [according to Statistics Canada](). Employment in accommodation and food services has been impacted as well, but to a lesser extent.

Graph 10
Foreign Workers Are Most Prevalent in Agriculture and Hospitality

Foreign workers by industrial sector, 2021

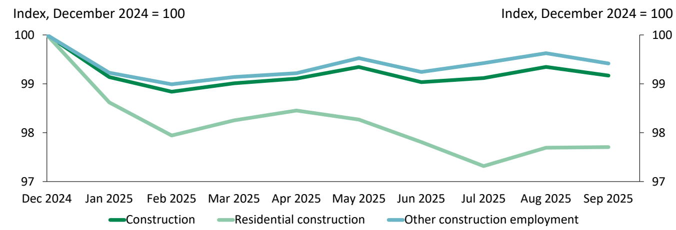


Statistics Canada and Desjardins Economic Studies

Some of the weakness in residential construction can also be attributed to fewer newcomers in Canada (graph 11). For instance, rising policy-induced supply of rental accommodation has come face to face with falling demand as the pace of PRs and NPRs arriving in Canada slows. This has caused market rents to contract on a year-over-year basis and overall rent growth to slow considerably—a phenomenon we [expect]() to continue through next year. Falling demand for rental accommodation has also put downward pressure on Canada's condo market, particularly the investor-driven segment in Canada's largest cities. This has helped to improve affordability across the housing spectrum, if only modestly.

Graph 11
Employment in Residential Construction Has Trended Lower This Year

Employees in construction by subsector



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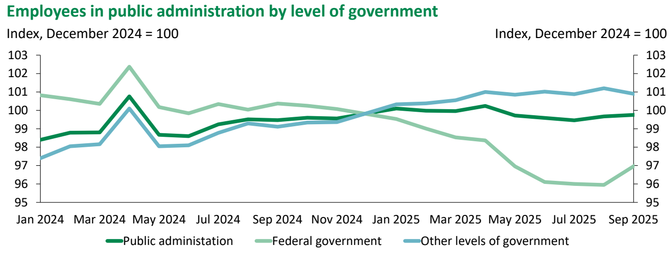
All told, we've estimated the drag on employment from lower newcomer admissions to Canada to be nearly 0.2 ppts so far this year, much less than the drag from the US trade war. Similar to the impact of the export shock on employment, we looked at the historical relationship between employment by sectors and changes in newcomer entrants to Canada, as well as the evolution of the overall level of the population. But unlike the drag from trade, this suggests the weakness induced by fewer newcomers to Canada has been highly concentrated in about 40% of sectors, most notably agriculture and accommodation and food services. At the same time, the still-elevated level of Canada's population continues to be a tailwind to employment in other sectors, like retail trade and health care.

Federal Public Sector Downsizing by Stealth

Finally, there is public administration: essentially, public servants not employed in education, health care and social services. While lower levels of government have continued to add steadily to their payrolls, the federal government has been reducing staff levels since early 2024 (graph 12 on page 5). We've estimated the impact of fewer federal public servants on employment growth so far this year at -0.1 ppts relative to the

December 2024 level. However, this is anticipated to accelerate going forward, with Budget 2025 indicating that the number of public servants is expected to decline by about 40,000 over the next five years, or roughly 2.2% on average annually.

Graph 12
Number of Federal Public Servants Has Been Declining Since Early 2024



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Conclusion

There have been three central forces driving Canadian labour market weakness so far this year: US trade policy, Canadian immigration policy and federal government downsizing. US import tariffs have upended the global trading system and have been a meaningful drag on economic activity in North America and around the world. At the same time, Canadian immigration policy has gone from an unsustainable tailwind to growth to a sustained headwind. And federal government downsizing just adds to the pile. But despite all of this, the Canadian labour market has held up well, down only slightly since the start of the year and higher than it was 12 months earlier. That speaks to the resiliency of Canadian households and businesses in the face of numerous obstacles to growth and the uncertainty that lies ahead.