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Remarks

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Montréal, Quebec

May 26, 2026

Canada's labour market: between cycles and structural change

Introduction

Good morning, everyone. I am very pleased to be here with you in Montréal. I see a lot of familiar faces in the room—colleagues, and former students. Thank you all for being here. It warms my heart.

Today, I'm going to talk about the Canadian labour market—what we're seeing, what certain trends may indicate, and what it all means for monetary policy. And with so many subject-matter experts here, I'm sure we will have a very productive discussion afterwards.

The labour market is at the heart of our economies. It's the main source of income for households, and it's central to their financial decisions. It also has a considerable influence on business decisions and public finances.

As you know, the Canadian economy has seen a lot of upheaval in recent years: the COVID-19 pandemic, a sharp rise in inflation, then a significant rise in interest rates to bring inflation back to our 2% target. A range of geopolitical, technological and demographic forces have also been at work. These include shifts in immigration policies, US tariffs, the reshaping of global trade, the rise of artificial intelligence (AI) and the conflicts in Ukraine and the Middle East.

These forces could have both short- and long-term consequences for the economy. For the Bank of Canada, distinguishing between short-term, or cyclical, fluctuations and transformations that are more permanent, or structural, is essential. That's because the difference affects how we conduct monetary policy. The tools at our disposal help us to respond to short-term economic swings and keep inflation at the 2% target. But their effectiveness is more limited when it comes to dealing with deeper structural change. This is where our analysis of the labour market is especially important: it helps us distinguish between fluctuations and transformations, and better understand where inflation may be headed.

I would like to thank André Binette, Laurence Savoie-Chabot and Olena Kostyshyna for their help in preparing this speech.

I'll begin today with an overview of the Canadian labour market. Then I will explore three major trends that we've been seeing for some time: low turnover, rising long-term unemployment, and the challenges young people are facing.

I'll finish by explaining what it all means for decision-makers, including at the Bank of Canada. By fully understanding the forces shaping the labour market, the Bank is better positioned to make informed decisions and adapt our approaches. The same is true for governments, businesses and households.

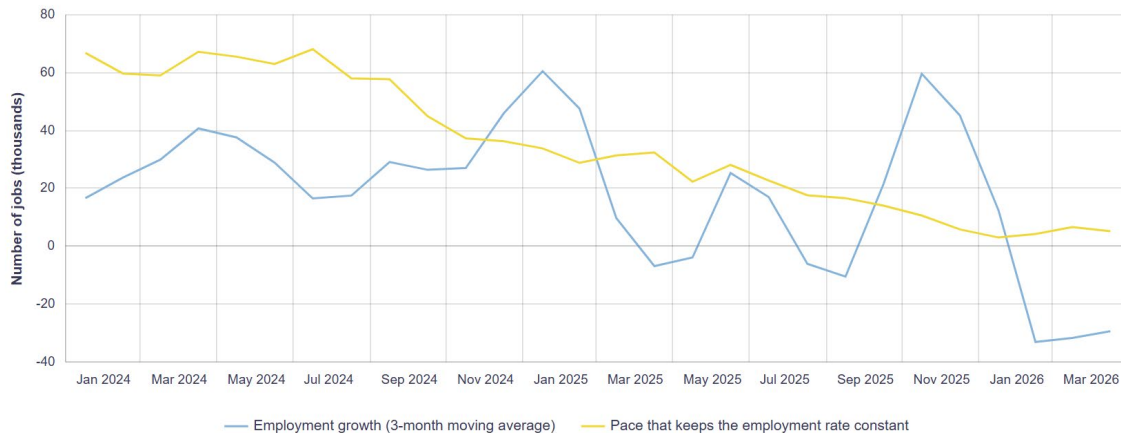
The state of the labour market in Canada

So, how is the Canadian labour market doing? It won't surprise you to hear it has slowed recently, and that current conditions point to mild excess supply.

More specifically, the economy added only about 6,000 jobs a month on average since early 2025, compared with almost 34,000 a month in 2024 (**Chart 1**).

Chart 1: Employment growth has been slower since the start of 2025

Seasonally adjusted, monthly data



Note: Employment growth needed to keep the employment rate constant is calculated by multiplying the net monthly change in the size of the working-age population in the Labour Force Survey by the previous month's employment rate.

Sources: Statistics Canada and Bank of Canada calculations
Last observation: April 2026

The slowdown largely reflects lower growth in the working-age population. The effects of US tariffs are also a factor. As a result, the employment rate has fallen by 0.6 percentage point since January 2025. Meanwhile, the share of people either working or actively looking for work has also fallen. That has helped keep the unemployment rate in a range of about 6½% to 7%.

So that's what the aggregate data tell us. But aggregate data can mask key nuances that help us distinguish temporary swings from deeper, lasting changes. Analyzing more granular data helps us to better spot nuances and details that enrich our understanding of how the labour market is evolving.¹ For example, in addition to traditional data from Statistics Canada, we use their microdata, as well as results from our own surveys of businesses and consumers, and

¹ In fact, since the renewal of our monetary policy framework in 2021, the Bank has worked to bolster our analysis of the labour market. For the most recent update of our benchmarks for assessing a range of indicators, see F. Bounajm and T. Devakos, "[Benchmarks for assessing labour market health: 2025 update](#)," Bank of Canada Staff Analytical Note No. 2025-17 (June 2025).

information from online job boards such as Indeed. Leveraging a broad range of data sources allows for deeper analysis, which is essential when the economy is going through considerable disruption—as is the case today.

So how do the forces that I mentioned earlier interact with the Canadian labour market? And how do they affect job prospects? I would love to give you definitive answers but, as we will see, this is very difficult to do—especially in real time.

First off, it's important to keep in mind that it can be several years before the effects of a structural change fully play out. Moreover, sometimes temporary economic fluctuations and structural transformations can have a similar impact on labour market indicators, especially in the short term. So it often takes time before we can confidently distinguish between them. As well, structural changes, by their nature, can affect sectors and workers very unevenly. That can make it challenging to take the dynamics that we're seeing at the micro level and draw firm conclusions about their macroeconomic implications.

For all these reasons, we need to exercise a great deal of caution and humility when interpreting developments in the labour market.

A labour market in transformation?

Let's dive into our analysis of the labour market to better understand what's happening there. We know that cyclical factors are likely at work, but what about structural factors? Is the slowdown I mentioned a sign that the labour market is fundamentally changing? And could such a transformation affect the ability of workers—and of the economy as a whole—to adapt to future shocks?

To help answer these questions, let's look at each of the three trends I mentioned earlier, starting with low turnover in the labour market.

Turnover in the labour market is low

Over the past few years, the layoff rate in Canada has been low and relatively stable (**Chart 2**). In other words, firms have not become more inclined to lay off workers.

Chart 2: Low job finding and job changing rates, combined with low layoffs, are contributing to low labour market turnover

Three-month moving average, seasonally adjusted, monthly data



Note: The job finding rate is based on transitions from unemployment to employment, while the layoff rate reflects movement from employment to unemployment due to permanent or temporary separations. The job changing rate captures movement between jobs—workers who remain employed from month to month while changing employers.
Sources: Statistics Canada and Bank of Canada calculations
Last observation: April 2026

Yet, over the same period, Canada's unemployment rate has risen, from about 5% in early 2023 to 6.9% last month. How can unemployment have risen without a corresponding increase in layoffs?

The answer is linked to hiring. Since 2022, unemployed workers have found it much harder to find a job, and today that ability is close to its lowest point in 30 years. When it's harder to find a job, the number of unemployed people rises, even with relatively few job losses. Essentially, we're in a low hire–low fire labour market. And people are changing jobs less often. It all creates a sense of inertia.

Low turnover is a sign that the labour market is less dynamic than it used to be. And this is not trivial: when it's more dynamic, it's better able to adapt to change. In a low hire–low fire labour market, there is a risk that the reallocation of workers from less productive sectors to more productive ones slows down. A less mobile labour market slows our adjustment to shocks, holds back innovation and hurts our competitiveness. That, in turn, undermines our productivity, weighing on our income growth and our collective purchasing power.

But how do we explain this decline in dynamism? A number of factors, some cyclical and some structural, could be at play.

On the cyclical side, it's fair to say the sharp rise in interest rates in 2022 and 2023 played a role. Rate hikes were needed to bring inflation back down after the pandemic, at a time when demand was rebounding, and hiring was booming. As economic activity gradually slowed, businesses adjusted by posting fewer job openings and scaling back hiring, rather than laying off workers.²

Another possible and more recent explanation is the high level of uncertainty around US trade policy. In times of great uncertainty, businesses tend to put decisions about hiring, layoffs or restructuring on ice.³ And workers are less likely to change jobs. The situation in the Middle East has added yet another layer of uncertainty these past few months.

On the structural side, population aging may be a factor. In our surveys, some businesses stress that it's very hard to replace experienced workers.⁴ They also report having to spend a lot of time training new hires. With a wave of retirements

² Data suggest that recent developments in the labour market are consistent with previous adjustments along the Beveridge curve, which describes the downward relationship between vacancies and unemployment. This indicates that cyclical factors, such as the response to slower economic activity from higher interest rates, have played an important role. Evidence from the Bank's business surveys in the years since the pandemic also supports a cyclical interpretation.

³ Hiring intentions in the Bank's quarterly *Business Outlook Survey* were subdued over 2025, as respondents cited soft demand and ongoing uncertainty about tariffs. This is consistent with literature on the economic mechanism whereby, when layoffs are costly, greater uncertainty leads instead to weaker hiring. See S. Bentolila and G. Bertola, "[Firing Costs and Labour Demand: How Bad is Eurosclerosis?](#)" *The Review of Economic Studies* 57, No. 3 (1990): 381–402; and N. Bloom, "[The impact of uncertainty shocks](#)," *Econometrica: Journal of the Econometric Society* 77, No. 3 (2009): 623–685. Bloom in particular references the "option value" proposition—a wait-and-see approach by businesses when there is heightened uncertainty, particularly when it comes to decisions that will have long-run consequences, such as investment and hiring.

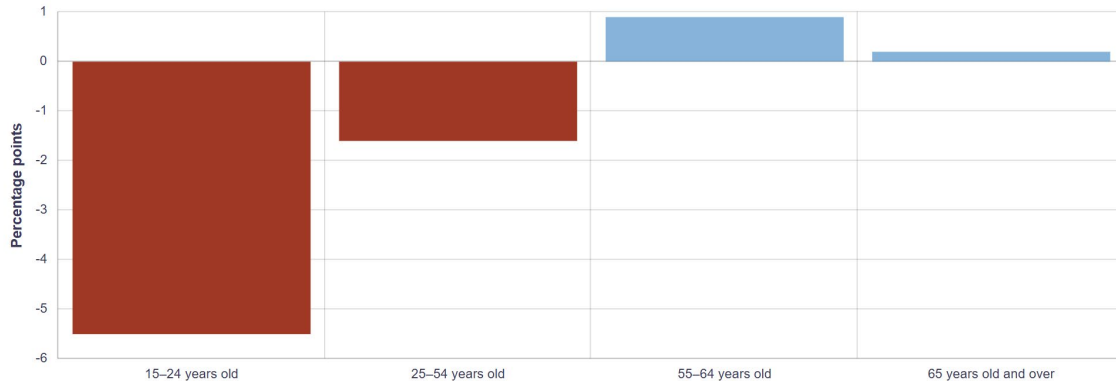
⁴ For example, see Bank of Canada, [Business Outlook Survey—Fourth Quarter of 2023](#), (January 2024).

expected in the years ahead, some businesses are looking to hang on to seasoned and more qualified employees for as long as possible—even when business activity is slowing. At the same time, they’re hiring fewer people who are new to the labour market.

This could help explain the diverging trajectories of employment rates across age groups (**Chart 3**). As this chart shows, since 2022, employment rates have increased slightly for workers aged 55 and over, while clearly falling for others.

Chart 3: Employment rates for older workers have risen slightly

Change in employment rates since December 2022, monthly data



Sources: Statistics Canada and Bank of Canada calculations

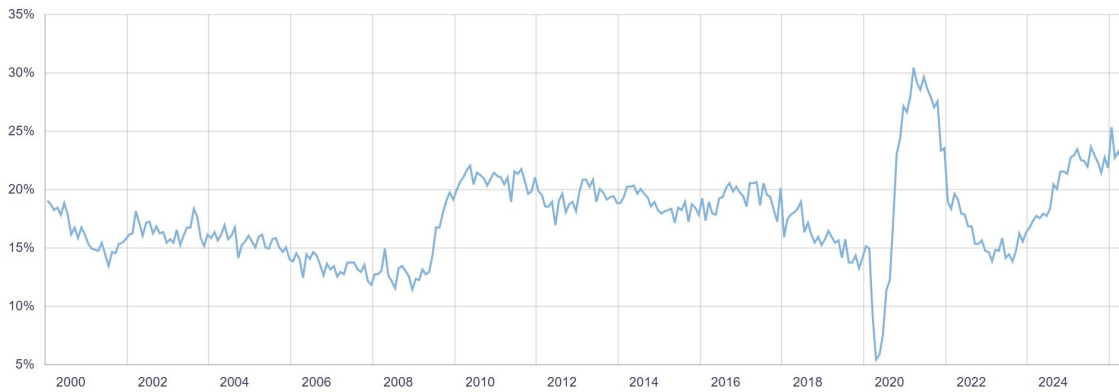
In the coming quarters, we will continue to closely watch a range of indicators to better understand why labour market turnover is so low. For now, we see few differences between sectors when it comes to layoff and job finding rates. Yet, some of the shocks affecting the economy today should be causing more reallocation in the workforce. This limited reallocation could point to difficulties matching workers with employers, and to how hard it can be to upgrade workers’ skills. If so, some groups could face persistent employment challenges.

Long-term unemployment is historically high

This brings me to the second big trend: the rise in long-term unemployment. If you don’t have a job, it’s taking longer to find one. In fact, going back to the early 2000s, the share of unemployed people who have been looking for work for more than six months has never been higher than in the past year, aside from during the pandemic (**Chart 4**).

Chart 4: A higher share of unemployed people have been out of work long term

Percentage of unemployed people out of work for 27 weeks or more, monthly data



Sources: Statistics Canada and Bank of Canada calculations
Last observation: April 2026

This can become a concern if it leads to longer-lasting effects—what economists call hysteresis. Some people may become discouraged, stop looking for work altogether and leave the labour force. The loss of skills and experience from prolonged unemployment can widen the gap between workers’ skills and market needs and hurt future job prospects and earnings.⁵ Employers may also look negatively on applicants who have been out of work for long stretches. At a macro level, a smaller pool of qualified workers limits the economy’s growth potential.

So why is long-term unemployment so high today? From a cyclical perspective, a simple explanation is that some businesses have responded to high uncertainty by slowing hiring instead of laying off workers. The number of job vacancies relative to unemployed workers has also fallen. When hiring slows, it naturally takes longer to find a job, and the average period of unemployment gets longer.

From a structural perspective, a key factor appears to be the gap between the skills and experience workers have and the ones employers want. The data support this interpretation: over the past two years, job postings have required more experience than before, while the share of people who have never worked has grown.^{6, 7} Our surveys tell a similar story. Businesses keep telling us it has become harder to find workers with the right skills and experience. And unemployed workers say their main obstacle is not having the right combination

⁵ For a discussion of how long-term unemployment makes it harder for people to find jobs over time and more likely to drop out of the labour force, see K. Kroft, F. Lange, M. Notowidigdo and M. Tudball, “[Long time out: unemployment and joblessness in Canada and the United States](#),” *Journal of Labor Economics* 37, No. S2 (2019): 355–397. As well, for evidence that longer-term unemployed people are less likely to get a callback for an interview, see K. Kroft, F. Lange and M. Notowidigdo, “[Duration dependence and labour market conditions: evidence from a field experiment](#),” *The Quarterly Journal of Economics* 128, No. 3 (2013): 1123–1167.

⁶ See Chart 6 in T. Macklem, “[Structural change—Canada at a crossroads](#),” (speech to the Empire Club of Canada, Toronto, Ontario, February 5, 2026).

⁷ In fact, a 12-month moving average of non-seasonally adjusted data from Statistics Canada shows that, among the unemployed and people outside the labour force, the share who have never worked increased significantly since pandemic-era lows to exceed 19% by the end of 2025.

of both. This is especially so if they have been unemployed for more than a year. Time should give us a clearer idea. If long-term unemployment falls as economic activity picks up, that will point to a more cyclical phenomenon. But if long-term unemployment stays high and labour-market turnover stays low, or if we start to see bigger gaps in how long it takes people in different groups or sectors to find jobs, then it's probably more structural.

The labour market is particularly challenging for young people

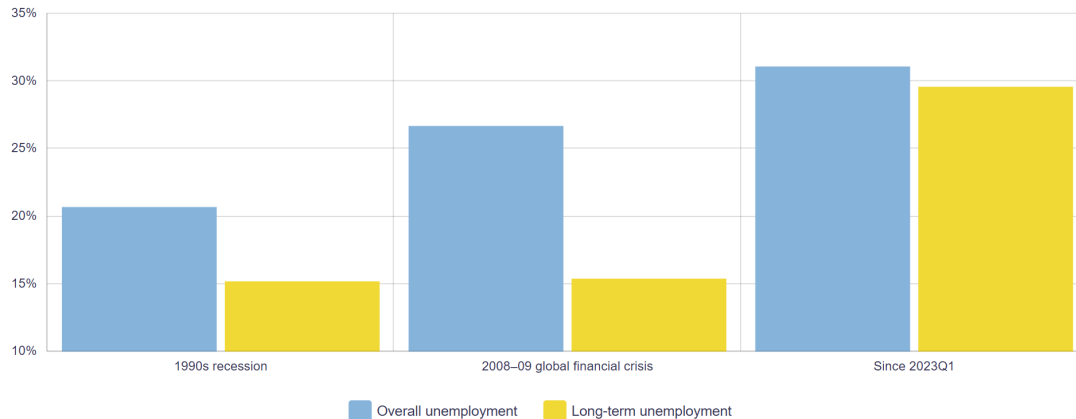
That brings me to the third trend: the tough situation young people are facing in the labour market.

This group has run into significant employment challenges for a few years now. In 2022, the jobless rate for people aged 15 to 24 was 9%, the lowest on record. Nearly four years later, it's above 14%, marking the biggest rise in unemployment among workers of all ages. Teenagers have been affected the most.

Not only are young people overrepresented in the ranks of the unemployed, but they also make up almost a quarter of the long-term unemployed—a share that has more than doubled since 2022. In fact, their contribution to the rise in overall long-term unemployment exceeds what we saw during the recession in the early 1990s and in the global financial crisis of 2008–09 (**Chart 5**). The data also show that the ability to find a job has fallen most sharply for this group.

Chart 5: The increase in long-term unemployment is affecting young people more than it did during the 1990s recession or the 2008–09 global financial crisis

Share of people aged 15 to 24 in the increase in unemployment



Note: For the 1990s recession, the change is calculated from the second quarter of 1990 to the fourth quarter of 1992. For the 2008–09 global financial crisis, the change is calculated from the third quarter of 2008 to the third quarter of 2009. For the period since the first quarter of 2023, the calculation runs through the first quarter of 2026. Long-term unemployment is defined as unemployment lasting 27 weeks or more.

Sources: Statistics Canada and Bank of Canada calculations
Last observation: 2026Q1

So, how do we explain this situation? The cyclical interpretation is simple: young people tend to work in sectors that are sensitive to swings in the economy, such as retail or culture and recreation.⁸ When the economy slows, unemployment

⁸ For more on how labour market conditions often affect younger people disproportionately, see: H. Hoynes, D. Miller and J. Schaller, "[Who suffers during recessions?](#)" *The Journal of Economic Perspectives* 26, No. 3 (2012): 27–48; E. Forsyth, "[Why Don't Firms Hire Young Workers During Recessions?](#)" *The Economic Journal* 132, No. 645 (2022): 1765–1789; and W. Rodgers III and A. Kassens, "[Young Adults and the Softening U.S. Labor Market: A Warning Sign?](#)" St. Louis Fed On the Economy, Federal Reserve Bank of St. Louis (December 2025).

tends to rise more sharply among young people compared with others.

That said, the magnitude of the rise in youth unemployment suggests other factors are at work. One possible factor is demographics. Between 2022 and 2024, there was a large influx of young people from abroad. This intensified competition in Canada for lower-skill and entry-level jobs. Following that period of rapid growth, immigration has been reduced substantially. So we can hope to see an eventual normalization in the youth unemployment rate.

Another structural factor concerns the mismatch between employers' needs and the profiles of workers that I mentioned earlier. Given that the share of jobs requiring little experience is falling, young people could find it increasingly difficult to get into the labour market.

Finally, AI is another plausible structural explanation. Job finding rates have fallen the most in occupations that are most exposed to AI.⁹ It's harder to find work doing tasks that can be easily automated with AI, and these tend to be the entry-level jobs where young people are overrepresented. That said, it would be premature to conclude that AI is the determining factor. For example, the rise in youth unemployment has been more pronounced in Canada than in the United States, where adoption of AI by businesses appears to be higher.¹⁰ This suggests that factors specific to Canada have been more important than a global phenomenon such as AI.

Either way, persistently high youth unemployment matters. It can reduce future earnings, delay the accumulation of experience and knowledge, and lead some young people to give up on joining the labour market.¹¹ Now, if they do this to further their education or training, then it's less of a concern, especially if it's to gain skills that are in high demand. And in recent years, the share of young people who aren't working, in school or in training has been relatively stable. But if it rose by a lot, that would raise concerns about young people's human capital development and their chances of long-term attachment to the labour market.

We will be closely monitoring indicators such as the availability of entry-level positions, trends in occupations that are exposed to AI and the impact of shifts in immigration policy. If young people fare better as the economy recovers, then their recent challenges may be more cyclical. But if demand for less experienced workers remains weak, it would suggest a more structural problem.

⁹ See Chart 5 in T. Macklem, "[Structural change—Canada at a crossroads](#)," (speech to the Empire Club of Canada, Toronto, Ontario, February 5, 2026).

¹⁰ Cross-country comparisons of AI adoption are difficult because there is no globally standardized definition of AI adoption, and existing surveys rely on different concepts and coverage. Nevertheless, across several dimensions related to AI adoption, including enterprise deployment, investment levels, talent concentration, infrastructure readiness and research output, there is some [available evidence](#) indicating that the United States is ahead of Canada.

¹¹ For evidence that graduating in a recession can have a lasting negative impact on earnings and career progression, see P. Oreopoulos, T. von Wachter and A. Heisz, "[The Short- and Long-Term Career Effects of Graduating in a Recession](#)," *American Economic Journal: Applied Economics* 4, No. 1 (2012): 1–29; and L. Kahn, "[The long-term labor market consequences of graduating from college in a bad economy](#)," *Labour Economics* 17, No. 2 (2010): 303–316.

Overall, it's important to remember that these three trends are interconnected. Low turnover in the labour market leads to longer periods of unemployment. And new entrants, especially young people, bear the brunt.

Adapting to (structural) change

Regardless of the uncertainty around the scale and scope of the structural forces shaping our economy, it's important to be thinking now about how to respond and adapt. These forces could have profound impacts on employment in Canada.

For example, given that global trade will likely continue to be reshaped, we need to keep seeking out new trade partners, diversifying our exports and finding ways to make Canadian businesses more competitive. The weakness in employment over the past year has been concentrated in the sectors most exposed to trade with the United States. So we need to make it easier for the affected workers to transition to other sectors, and to upgrade or broaden their skills.

We also need to keep a close eye on the rise of AI. The pace at which it is evolving, and the fact it could automate many tasks, naturally makes people anxious. We can see this in our consumer surveys.¹² Past waves of innovation have ended up creating more jobs than they have eliminated. But they still caused a lot of upheaval, and difficult transitions for many workers.

As my Governing Council colleague Michelle Alexopoulos recently explained in a speech on AI, growing adoption of this technology could lead to a major structural change. However, as she pointed out, much will depend on the scale and speed of adoption, whether AI complements or replaces existing tasks and services, and how effective it is at improving efficiency.¹³ Currently, Canadian businesses don't seem to be adopting AI in a widespread manner. But adoption could pick up. So we need to be thinking about how to reposition the workers whose jobs could be affected, and how to ease their transition.

Among the major structural forces that we face, demographic change will no doubt play an important role in the years ahead. Population aging is a powerful, foreseeable force that brings significant risks—from pressure on public finances, to a possible slowdown in economic dynamism. Population growth through immigration isn't sufficient to offset the effects of aging on participation in the labour force. This underscores the importance of increasing participation across

¹² In our most recent survey of Canadian consumers (Bank of Canada, [Canadian Survey of Consumer Expectations—First Quarter of 2026](#) (April 2026)), concerns about job losses have risen among workers in sectors where more than 20% of employees are in jobs whose tasks may be more replaceable by AI (Bank of Canada, "[Chart 7: Workers in sectors with more jobs whose tasks AI may replace reported higher job loss concerns](#)," *Canadian Survey of Consumer Expectations—First Quarter of 2026* (April 2026)). However, even among workers who are more convinced AI will impact their work, those who currently use it are more likely to expect it to improve their productivity. Whether workers use AI yet or not, they expect it to have a modest negative net impact on their job prospects and hours.

¹³ See M. Alexopoulos, "[AI is knocking: Canada's next productivity story](#)," (speech to the Ottawa Economics Association and the Canadian Association for Business Economics Spring Policy Conference, Ottawa, Ontario, May 13, 2026).

all age groups and of improving our labour productivity.¹⁴

Faced with structural shifts and a more volatile and uncertain environment, we need to rethink our approaches to education and training. This starts by asking ourselves the relevant questions. How can we better prepare young people for the new realities of the labour market? How can we make it easier for people who lose their jobs to re-skill quickly and find new opportunities? What role should educational institutions play, knowing people may have to change careers more often? How can we establish a system of lifelong learning and promote training on the job?

These questions are more important than ever, and we need to think about them—collectively. In the presence of structural change, we all have a role to play in ensuring that Canada remains competitive and able to meet current and future challenges.

What all this means for the Bank

Before I finish, I'd like to come back to why it's so important for the Bank to understand the nature of the shocks and forces our economy is facing and explain what we're doing to gain more clarity and adapt accordingly.

Traditionally, central banks respond to cyclical ups and downs in the economy by raising or lowering the policy interest rate. Our aim in doing so is to influence demand so that inflation remains low and stable. This is at the heart of our work—it's the *raison d'être* of monetary policy.

However, with structural change, our options are more complicated. While monetary policy can, to some extent, help the economy transition during periods of restructuring, it cannot compensate for lower supply caused by factors such as trade friction or population aging. Moreover, if we were to stimulate demand when the issue is more structural, we could create inflationary pressures while also delaying necessary restructuring in the economy.

To make the right decisions, we need to be able to identify the nature of changes in the economy. As I mentioned, one of the main challenges we face in this area is to accurately distinguish structural changes from cyclical fluctuations, particularly in real time.

That's why we are exploring more granular data to better understand what is happening beneath the surface. Our surveys of businesses and consumers, along with our regional analysis and expanded outreach, are incredibly valuable. Together, these help us better understand businesses' attitudes and needs regarding employment, how workers are adapting, and how all that affects jobs, wages and prices. We're also refining a new multi-sector model that will help us better understand the implications of structural change for the Canadian economy, and for the evolution of inflation.

But we need to remain humble and clear-eyed. The big forces affecting the economy will always carry some uncertainty, and the current environment is

¹⁴ See N. Vincent, "[Toward a virtuous circle for productivity](#)," (speech to the Association des économistes québécois and CFA Québec, Québec, Quebec, November 19, 2025).

especially complex. Risk management is therefore essential. We regularly use scenario analysis to help us better understand and anticipate the range of possible outcomes before making a decision. This type of exercise is even more critical in a world where structural changes and shocks are multiplying and accumulating.¹⁵ And, if the situation warrants, we'll make these scenarios public, as we have in the context of both tariffs and the conflict in the Middle East.

Even though we have very little influence over the impact of structural change in the economy, we can ensure that inflation remains low and stable as the labour market adjusts. The Bank also has a responsibility to foster dialogue about the challenges and transformations facing our economy. We must push the boundaries of our analysis and communicate our findings as clearly as possible, so households, businesses and governments can make informed decisions too.

Conclusion

It's time for me to conclude.

I hope I have given you a good overview of our reading of the labour market in Canada. I also hope I've shed some light on how the major trends we've been seeing in recent years are helping us think about the scale and nature of structural change in our economy.

To conduct monetary policy effectively, we need to be able to clearly distinguish between cyclical fluctuations and lasting transformations. Thorough analysis of the labour market can help us see things more clearly.

But the reality is that the more our economy faces shocks accompanied by structural change, the less clear-cut our monetary policy decisions will be. When faced with structural change, even though we can support the economy to some degree during periods of restructuring, we can't choose its final destination. Our goal remains to ensure inflation is low, stable and predictable.

By honouring this commitment, the Bank will help workers, businesses and governments focus on adapting and on finding opportunities in the profound changes that we face.

Thank you.

¹⁵ See S. Kozicki, "[Canada's monetary policy framework in a world of supply-driven trade-offs](#)," (speech to the Norges Bank Monetary Policy Mandate Conference, Oslo, Norway, March 2, 2026).