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Commentary

OCTOBER 2020

# She-cession? Men and women now hurting equally from pandemic job losses

Philip Cross

## Overview

The economy contracted with unprecedented speed and severity during the government-imposed lockdown in March and April. Recovery has been slowed by the difficulty of some services to adapt to new requirements for social distancing, even before the expected return of the second wave of the pandemic. Government deficits hit record highs as poorly-targeted support went to many households that did not need it, pushing the personal savings rate to a record high despite hefty job losses.

As Canada's political leaders have acknowledged, the second wave of the pandemic is now currently underway, as the number of people with the virus increased sharply in late August and into September. Yet, given the current fiscal situation, governments have little room to support a possible surge in business bankruptcies during the second wave. This report concludes that men and women have suffered almost the same job losses this year, contradicting the notion of a "she-cession" with disproportionately large declines for women that are being compounded in the recovery by a lack of day care.

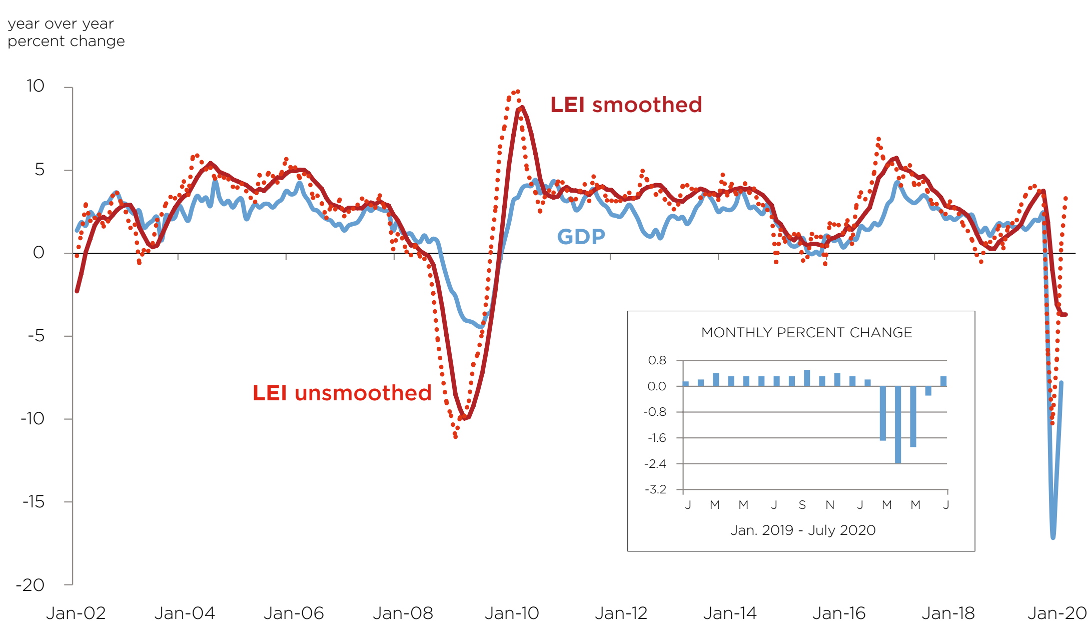
## Introduction

The Canadian economy contracted at an historic pace in the second quarter due to the government ordered closure of most non-essential industries during April and May. After a 2.1 percent drop in the first quarter, real GDP declined by a further 11.5 percent, with all of the drop recorded in March and April. The gradual re-opening of the economy boosted output in May and June, but it remained 8.7 percent below its pre-pandemic level in February.

The Macdonald-Laurier Institute's leading economic indicator (LEI) shows a recovery continuing in the summer after the historic drop in GDP in the second quarter (Chart 1). However, the 0.3 percent upturn in July was very narrowly based, with only three of the 10 components posting gains. Growth was led by financial markets, which have benefited from unprecedented monetary stimulus. Many sectors of the economy are seeing little if any recovery at all, especially services where social distancing is nearly impossible.

The recovery is being hampered by a weak or non-existent upturn in demand for some services. The difficulties of travel-related services are well-known, although the government has not responded with an orchestrated aid pro-

### Chart 1: MLI's Leading Economic Indicator (LEI) and GDP



gram. International travel remains moribund. Trips abroad by Canadians in July were down 94.5 percent from a year-earlier, while travel to Canada was off 96.5 percent (Statistics Canada 2020b). Restaurant sales continue to languish, with receipts in July of $4.6 billion down sharply from their pre-COVID level of $6.3 billion. Also severely affected are industries that depend on large gatherings in one place, such as sporting events, concerts and conventions. Less well-known are the struggles of businesses that depend on employment in downtown office towers. These include office administrators, security staff, janitors, food courts and even dry cleaners. The slump in demand for office space has already been reflected in prices for commercial rents, which fell 3.1 percent in the second quarter after a 0.2 percent dip in the first (Statistics Canada 2020a). Lower rents were evident for offices, retail outlets, and industrial buildings and warehouses.

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## Household incomes surge despite job losses

Household disposable income rose by 10.8 percent in the second quarter, despite a 8.9 percent drop in income earned in the labour market. The much greater increase in government transfers of income to households than their drop in labour income demonstrates that government income support was overly-generous; the excess of income gains from transfers over the loss of earned income can only be because either support payments surpassed what employees would have earned on the job or government transferred income to people not experiencing lower incomes (such as students or the elderly, both of whom received increased transfers across the board without having to justify they had lost income). For example, one study found that 27.4 percent of Canada Emergency Response Benefit (CERB) payments went to people living in households with high incomes (Clemens et al. 2020). With incomes surging and spending down, the personal savings rate jumped from 7.6 percent to 28.2 percent.

A similar failure to target aid only to needy recipients was evident in the Canadian Emergency Wage Subsidy (CEWS) program. This program paid up to 75 percent of the wage costs for businesses hurt by the pandemic. Unlike the CERB, however, the subsidy was paid to employers for all their employees, not just those that may have lost their jobs. By subsidizing the wages of both workers irrespective of whether their job was at risk, Michael Smart (2020) of the University of Toronto estimated that each job saved by CEWS cost the federal government about $300,000 a year.

There were other design flaws with the CEWS. The program was only available to businesses that saw sales slump by 30 percent or more. The CEWS program was modified in September so that the subsidy rose on a sliding scale as revenues declined, no longer cutting off all support when the revenue drop loss eased above 30 percent. However, Smart pointed out that this created a "clawback" of subsidies with an effective tax rate of 48 percent (if sales recovered by $1000, for example, a firm saw a $480 drop in CEWS payments).

Government net borrowing jumped from $72.8 billion to $437.1 billion (at annual rates) in the second quarter. This increase mostly went to households, whose financial surplus rose to $323.3 billion. Despite  record personal savings rate, the net national savings rate was a negative 2.9 percent, its lowest ever. This reflects that government and business dissaving was slightly more than household saving. Canada's net borrowing was reflected in a current account deficit of $8.6 billion in the second quarter, financed by foreign purchases of Canadian debt.

## The Second Wave

Canada's political leaders acknowledged that the second wave of the pandemic was underway, as the number of people with the virus increased sharply in late August and into September. Both the pandemic and the economic response promise to be much different than when the coronavirus first hit Canada late in the winter. The upsurge of cases so far in the second wave has been much more concentrated among younger people under 40 years old, reflecting the return of youths to primary and secondary school classes and greater precautions taken by older people who are more at risk of developing severe symptoms or dying.

The pandemic's economic impact also is likely to be much different this fall than in the spring. A widespread lockdown of non-essential services should not be necessary. Clearly, important sectors of the economy have demonstrated an ability to maintain social distancing between workers or between workers and customers. This is reflected in the rapid recovery of output in industries such as natural resources, construction, manufacturing, finance, real estate, and retail and wholesale trade. As well, almost all the cases of contagion have occurred in social gatherings (such as parties involving family or friends) or in a few select industries such as bars and restaurants. Closing down large segments of the economy would inflict unnecessary damage on the economy while doing little to contain the virus.

The ongoing struggles of several large services industries has left many companies vulnerable to extended weak demand or new restrictions. As a result, the potential exists for a wave of bankruptcies. In the US, St Louis Fed president James Bullard candidly predicted "You will get business failures on a grand scale" (quoted in *The Economist* 2020). These concerns also affect the oil and gas industry, which saw demand fall sharply as a result of lower transportation (notably air travel) as well as sluggish industrial demand (heating demand remains largely unaffected). For example, a survey by the Business Council of Alberta found 26 percent of its members were unsure if they could survive until a vaccine is widely-available (Morgan 2020).

Already several large firms have gone bankrupt, such as Chesapeake Energy, Brooks Brothers, and Hertz, despite strong capital markets (unlike the 2008-2009 financial crisis when capital flows were severely hampered in the US). While new firms will eventually take their place as the pandemic recedes, they will take time to develop and grow in the new environment. The prospect of more bankruptcies is reflected in Canada's six largest banks booking $11 billion of provisions for loan losses (Lee and O'Hara 2020).

## Structural damage to the economy from the pandemic

The Canadian economy was already teetering on the brink of a downturn before the pandemic, a slump that it was ill-positioned to easily survive given the large amount of debt in all sectors of the economy. The pandemic turned what was likely to be a difficult downturn into the worst recession on record dating back to the Great Depression of the 1930s. But its negative impact is not just in the short-term, as the pandemic and the recession both will lower Canada's potential growth over the long-term.

The Bank of Canada estimates that Canada's potential output will fall 4 percent by 2022. Two-thirds of the loss reflects lower business investment. However, labour as well as capital inputs are faltering. Population growth this year will be near zero, as immigration flows have dropped to essentially nothing. Meanwhile, other labour inputs are also being negatively impacted. This reflects a drop in the labour force participation rate, notable for women and youths.

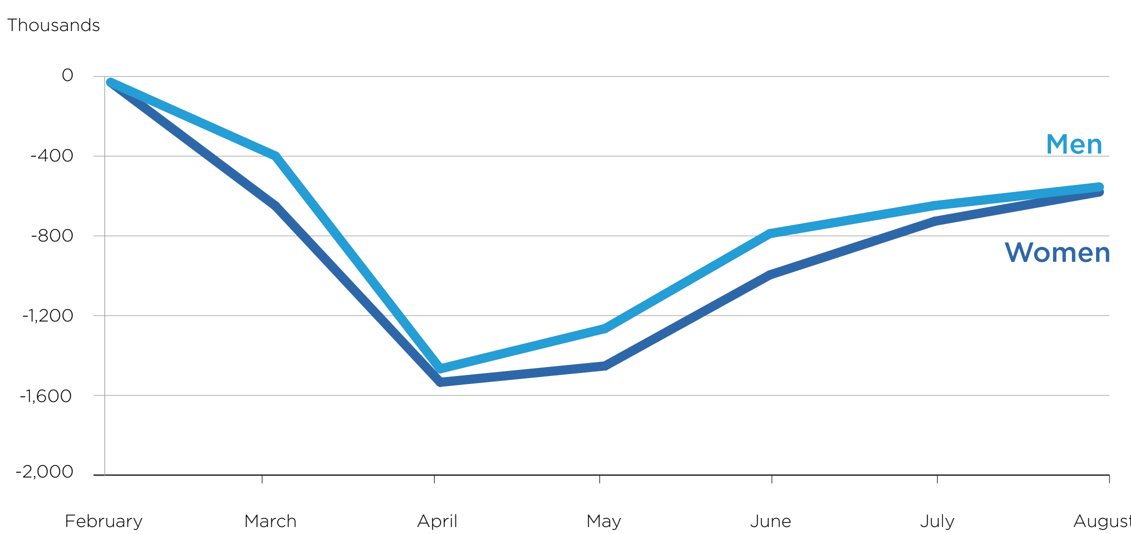
The situation for youths is particularly worrisome, as the percentage of young Canadians aged 15 to 29 years who were not in employment, education, or training (NEET) doubled from 12 percent in February 2020 to a record of 24 percent in April, the highest rate on record going back 20 years (Statistics Canada 2020c). These increase were comparable between men and women and across the provinces. The drop reflected lower employment among youths aged 20 to 29 and more teenagers who reported they were not attending school. The longer young people are not acquiring or improving their human capital, the deeper will be their long-term loss of income.

## The myth of the "she-cession"

Armine Yalnizyan of the Atkinson Foundation has widely-promulgated the idea that the distinctive feature of the 2020 recession is its disproportionate impact on women (Yalnizyan 2020). She maintains that women suffered greater job losses than men, reflecting the pandemic's impact on services industries, creating the first so-called "she-cession" in which women bore the brunt of the downturn. Yalnizyan also has argued that the recovery has been hampered by women unable to return to the labour force because they must care for children. She has called adopting universal day care a "magic bullet" that would speed up the recovery.

A close examination of the facts reveals major holes in all these arguments. To start, the recession affected men and women almost equally. Between February and August 535,000 men and 562,000 women lost their jobs (Chart 2). Women fare slightly worse during the closing of the economy between February and April (losing 1.536 million jobs versus 1.467 million for men) but women also recovered slightly faster between April and August (974,000 versus 932,000 for men).

**Chart 2: Cumulative change in employment by sex, February to August 2020**




*Source: Statistics Canada data Table 14-10-0287-01*

What is exceptional about this recession is not that employment for women fell slightly faster than for men, but the severity of decline for both sexes. At the depth of the Great Financial Crisis in 2009, monthly employment fell by 125,000 in January; at the time, a drop of more than 100,000 in a month was shocking. In 2020 Canada saw a decline of one million jobs in March and two million in April; the latter was nearly 16 times worse than the historic decline posted in January 2009. Twice as many jobs were lost in two months in 2020 than in all the recessions combined since 1976 (employment fell by 3.0 million between February and April 2020 compared with a combined 1.462 million for the recessions starting in 1981, 1990, and 2008). That should be the exclusive focus of analysis, not parsing out statistically insignificant differences between men and women.

Faced with such bleak job prospects and generous government support payments that reduced the urgency to look for work, both men and women withdrew from the labour force. At the depth of the recession in April, the labour force participation rate for men and women had both declined by 5.7 percentage points. As job prospects improved over the summer, the participation rate for men rose slightly faster than for women (5.2 points versus 4.3 points). Overall, the labour force participation rate for men fell 0.4 points from 69.9 percent in February to 69.4 percent in August, while for women it declined 1.4 points from 61.2 percent to 59.8 percent.

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Clearly some of the drop in labour force participation reflected forces that affected both men and women. Even if all of the slightly larger 0.9 percentage point decline in female labour force participation was attributable to a lack of day care, that still accounts for only 86,500 (or 15.4 percent) of the 562,000 women who have not regained their jobs. The far bigger challenge is replacing the labour demand for both men and women that has disappeared for a wide range of services.

Nor can all of the decline for women be attributed to the need to take care of their own children. The decline in labour force participation was evident for women of all ages (as it was for men over 25 years old), including women over 55 years old who almost never have children. Furthermore, declining labour force participation was also seen among women in Quebec, who have access to the low-cost day care that the federal government held up as a model in its Speech from the Throne.

What is keeping women from returning to their jobs is the same lack of demand that is depressing employment for men. Without a better recovery of demand, improved day care will make little difference. Without a job to return to, there is no reason for parents to need day care for their children. There may be good reasons for better day car in Canada, but it is not a "magic bullet" for the recovery.

The parallel trend of jobs for men and women so far in 2020 is not surprising since the fortunes of the industries in which they work has been similar. This is all the more remarkable because men and women mostly work in quite different industries. For example, just over one-half of working women in 2019 were employed in four industries: health care, wholesale and retail trade, education, and accommodation and food. Similarly, slightly less than half of men worked in four industries: wholesale and retail trade, construction, manufacturing, and professional services. Between February and August of 2020, the four industries that employ the most women saw a recovery of 70.3 percent of their job losses; for the four largest employers of men, the recovery rate was 73.0 percent.[1] This shows that the major source of ongoing job loss for women was the same as for men: a catastrophic decline in demand, not a lack of day care.

Whether looked at in the aggregate or through the recovery of the industries that most employ them, there is little to differentiate between the terrible losses that both men and women have suffered this year. To single out one group as having experienced exceptional hardship highlights the pitfalls of identity politics.[2] It also shows how easily they lead to policies that put long-held political goals above the rehabilitation of a stricken economy that faces a second wave of the pandemic – one that may prove fatal to many businesses already struggling to survive without much aid from poorly-designed government support programs.

The 2020 recession was the economic equivalent of a thermo-nuclear device. Just as the modern atomic bomb exceeded the combined power of all conventional bombs dropped in World War Two, the job loss in just one month of 2020 exceeded the combined losses in the last three major recessions. Fostering a recovery from such a devastating loss has to be the focus of policy-makers, not catering to particular segments of the labour force or the electorate. Such fine-tuning is a luxury for after a broad-based recovery is underway and federal finances are again under control.

# About the author

**Philip Cross** is a Munk Senior Fellow at the Macdonald-Laurier Institute. Prior to joining MLI, Mr. Cross spent 36 years at Statistics Canada specializing in macroeconomics. He was appointed Chief Economic Analyst in 2008 and was responsible for ensuring quality and coherency of all major economic statistics. During his career, he also wrote the "Current Economic Conditions" section of the Canadian Economic Observer, which provides Statistics Canada's view of the economy. He is a frequent commentator on the economy and interpreter of Statistics Canada reports for the media and general public. He is also a member of the CD Howe Business Cycle Dating Committee.

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# Endnotes

1 Conducting the same analysis for the top ten industries that employ women and men yields essentially the same results; a recovery rate of 68.3 percent for women and 69.1 percent for men, although the overlap of the same industries employing women and men grows from one for the top four to five among the top 10.

2 There are other pitfalls of identity politics, such as appointing Julie Payette as Governor General without proper vetting or consulting the Advisory Council for such appointments, which would have exposed her as manifestly unqualified for the job.

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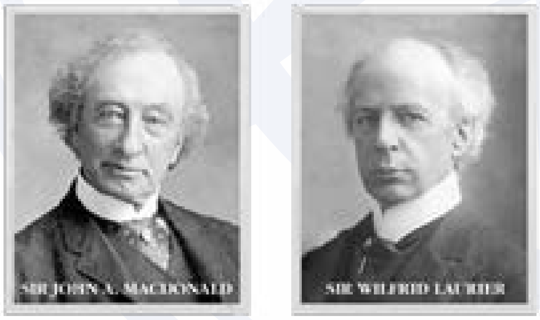


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