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Commentary

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MLI Labour Market Report for Q2, 2019

Central Canada hiring surge fades, youth employment down following minimum wage hikes

Job growth softened over the summer resulting in a slightly higher unemployment rate for Q2

Philip Cross

Overview

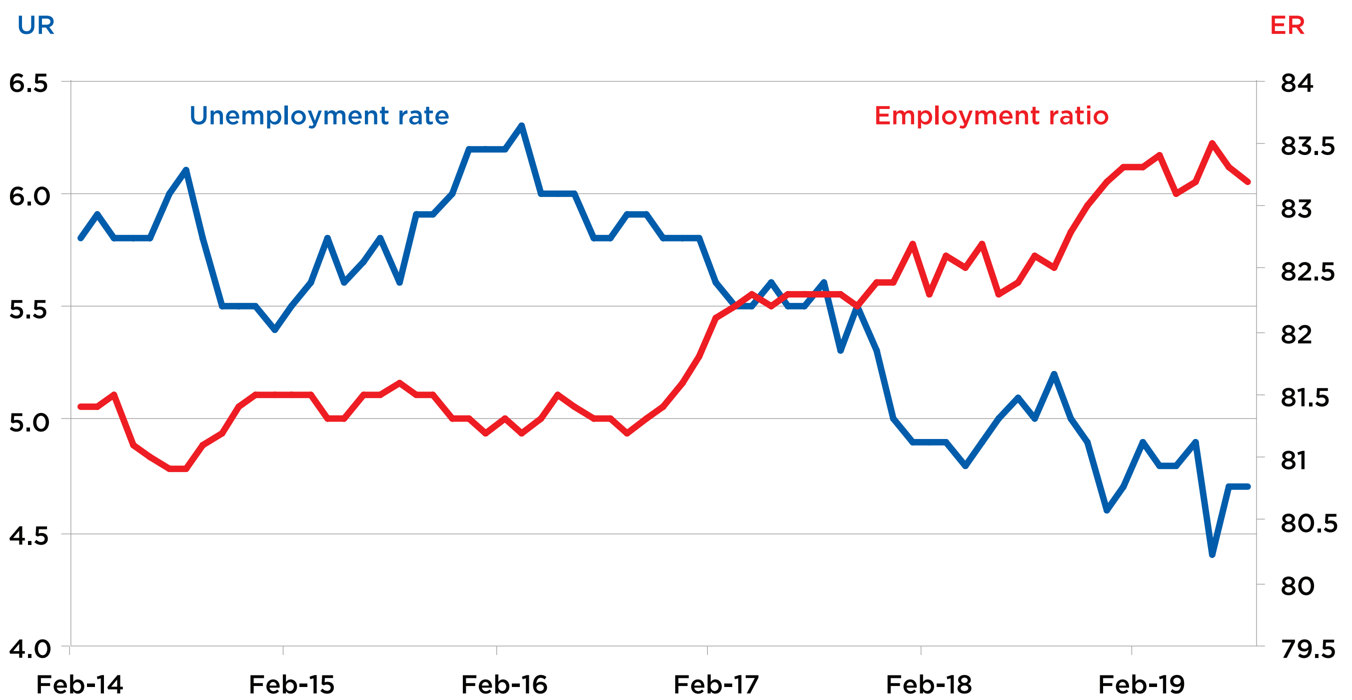
Employment growth in Canada softened over the summer, after a surprisingly robust start to the year in light of the first-quarter stall in incomes and output. Some of the job gains early in the year reflected employers in central Canada stepping up hiring to reduce their reliance on employees working exceptionally long hours, a transitory event now largely completed. Youth employment remains restrained in Ontario and Alberta after sharp hikes to the minimum wage in 2018. More broadly, recent government efforts to directly reduce the incidence of low incomes have not accomplished this goal as much as a period of faster economic growth, which remains the best antidote to low income.

Introduction

Job growth continued at a brisk clip of 0.7 percent in the second quarter, reinforcing the rebound in real GDP after output stalled in the fourth quarter of 2018 and the first quarter of 2019. However, all of the increase in jobs occurred in April, with employment levelling off over the next three months. As a result, the unemployment rate edged up from its historic low of 5.4 percent in May to 5.7 percent in July.

The softening of the labour market has been even more pronounced for prime age people between 25 and 54 years old. The employment rate for this group has levelled off at just over 83 percent since the turn of the year (see chart 1). However, their unemployment rate continued to fall, reflecting a lower participation rate in the labour force.

CHART 1: UNEMPLOYMENT AND EMPLOYMENT, 25-54



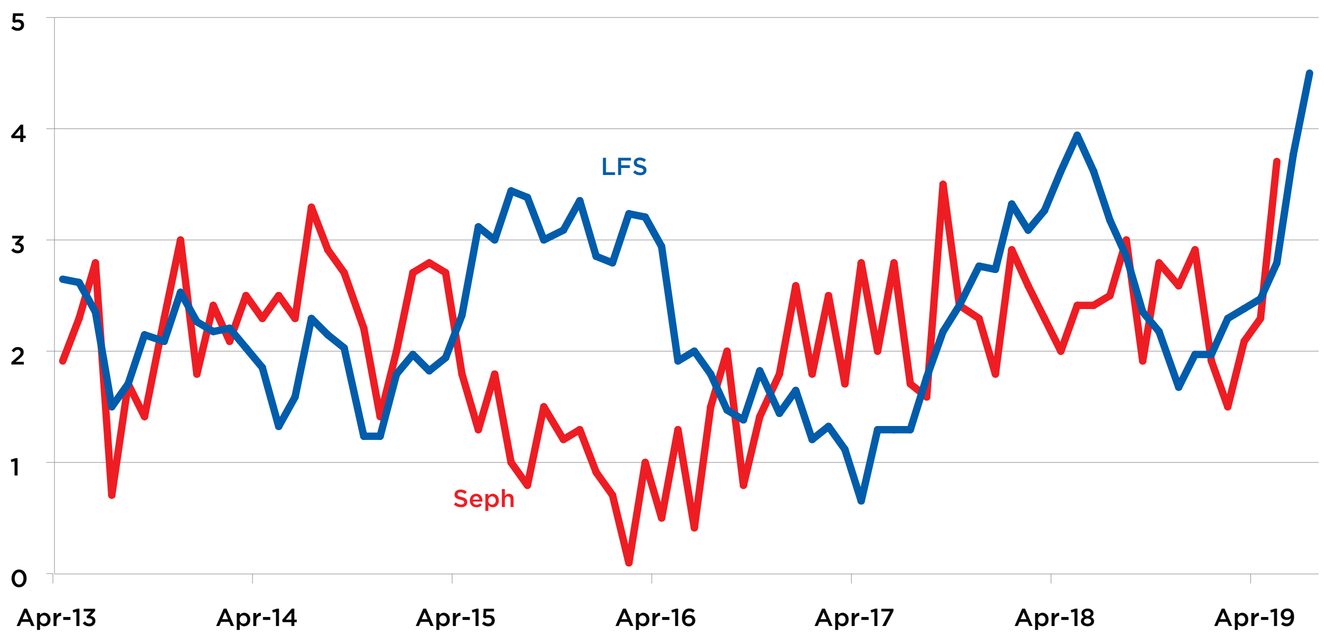
Source: Statistics Canada CANSIM Table 14-10-0287-01

People working long hours declined in central Canada as employers step up hiring

Over the latest 12 months, job growth of 1.9 percent has substantially outstripped the 0.7 percent increase in hours worked in the labour force survey (the more subdued pace of hours worked aligns with the growth in real output, as would be expected). The more precise data on hours from the Survey of Employment, Payrolls and Hours (Seph) show the average workweek turned down from growth of nearly 1.0 percent in early 2019 to a decline of 0.3 percent in the year ending in May 2019.

One explanation for the decline in hours worked over the past year is to be found in the trend of people working long work weeks of 50 hours or more, especially in Ontario and Quebec. In the year before provincial elections for Ontario in June 2018 and for Quebec in September 2018, employers were reluctant to hire more employees. Instead, they extended the workweek of their existing employees, notably those working 50 hours or more. After the defeat of Liberal governments in both provinces by parties more sympathetic to business concerns, employers hired more people which reduced the need for some employees to work long hours. Since their peak in mid-2017, the number of people working long hours has fallen by 13.6 percent in Ontario and 10.3 percent in Quebec (see chart 2).

CHART 2: ANNUAL CHANGE IN AVERAGE HOURLY EARNINGS



Source: Statistics Canada CANSIM Table 14-10-0223-01 and -0320-01

This analysis also implies that the surge in Ontario's job growth since the election of the Ford government will be short-lived as the number of people working long hours returns to more normal levels, implying less need to hire new workers to reduce the burden on those working overtime. Employers in Quebec have not reduced their reliance on a long work week as much as in Ontario, reflecting more intense labour shortages (especially in regions outside of Montreal such as Quebec City, which has the lowest unemployment rate of any city in Canada).

Youth jobs decline after minimum wage hikes

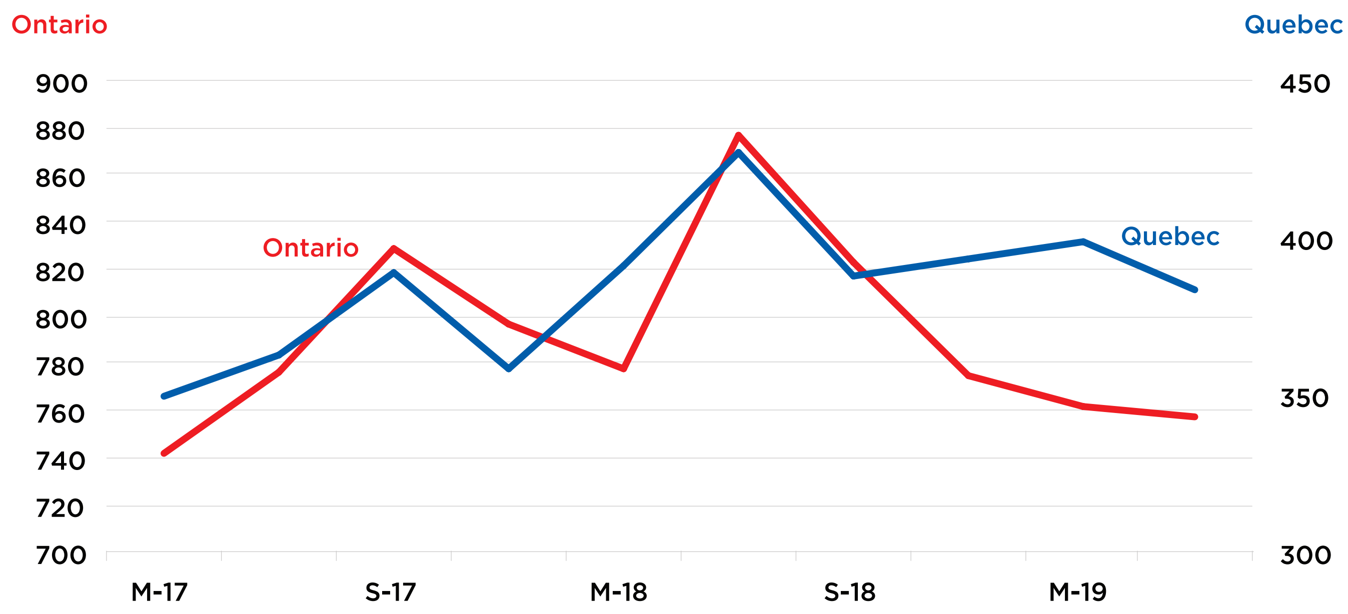
The surge of job growth in Ontario since mid-2018 has largely bypassed youths, whose employment slumped following the sharp hike in the minimum wage to $14 an hour starting January 1 2018. Employment for youths between 15 and 24 years old fell by 8.8 percent in the first five months of 2018.[1] This is another example of the failed attempt by the former government to manage better labour market outcomes in Ontario. Even with a slow recovery since last summer, in July 2019 there were still 2.1 percent fewer jobs for Ontario's youths, whose unemployment rate remains high at 12.9 percent. By comparison, next door in Quebec where the minimum wage is lower at $12 an hour, the youth unemployment rate has fallen to 8.0 percent.

A very similar pattern for lower youth employment occurred in Alberta after it raised its minimum wage to $15 an hour starting in October 2018. Jobs held by youths 15 to 24 years old plunged 12.0 percent over the next two months. By the time the new Kenney government lowered the minimum wage for youths to $13 an hour starting in July 2019, employment among Alberta's young people was still 8.8 percent below its peak before the hike in the minimum wage. In the first month of the new lower minimum wage jobs held by youths jumped 7.0 percent, although monthly movements in the labour force survey should be interpreted with caution.

Is wage growth accelerating?

Some analysts point to an acceleration of average hourly earnings in the labour force survey (LFS) as symptomatic of a tight labour market (chart 3). The year over year increase in the LFS measure of hourly earnings was 4.6 percent in June, well above its 2 percent growth a year ago. There are at least two problems with concluding that wages are accelerating. First, the labour force survey data on wages are highly volatile. As well, the sample for wages in this survey is small because respondents are only asked their wage in the month they enter the survey. After this first month, their wage is assumed to be unchanged for the next five months that respondents remain in the survey before rotating out.

CHART 3: TOTAL EMPLOYED WORKING 50 HOURS AND MORE A WEEK (THOUSANDS)



Source: CANSIM Table: 14-10-0032-01

Second, the trend of wages is more accurately captured in the more comprehensive data from the survey of employment, payrolls and hours (Seph). The Seph data show annual hourly earnings in May 2019 up 3.4 percent from a year earlier compared with 4.6 percent in the LFS data. Even the Seph data has been volatile recently, surging from 1.2 percent growth just four months earlier. This upturn partly reflects a shift in the composition of employment rather than from wage increases within specific industries. In particular, job growth in the past year was driven by a 3.2 percent gain in public sector industries, which pay above average wages. Job growth in the private sector rose only 1.7 percent. Nor does the provincial pattern of earnings growth support the notion that shortages are driving the recent increase. Average weekly earnings in May rose the most in Saskatchewan, BC and the Maritime provinces, where unemployment remains high (except in BC).

Finally, weak consumer spending does not reflect improving wages. Retail sales volume peaked in May 2018 and has been essentially flat over the past year despite more jobs and higher wages. At least some of the wage growth has been offset by higher prices; the price of retail goods sold in Canada rose by 2.1 percent over the year ending in May, led by the higher cost of food.

Low income familes decline more when growth was faster

Governments have also tried measures besides higher minimum wages to boost incomes. One of the signature policies of the federal Liberal government was the introduction of the Canada Child Benefit (CCB) in its first budget. This program totalled just over $20 billion, providing up to $6,400 for children up to six years age and $5,400 from age 6 to 17 in support to familes with less than $30,000 income. Above $30,000, benefits were reduced as income rose. The CCB replaced a myriad of government payments for children that has existed since the Family Allowance program was introduced in 1945. The CCB was skewed to help middle income more than low income families; for example, a single mom with one child received $1,548 more from the CCB, but a family with two children and earning close to $50,000 received almost $5,000 more.[2]

The number of people living in low income did decline after the CCB was introduced, although of course not all of the reduction was due to the CCB alone. Statistics Canada produces several measures of low income. For the purposes of this analysis, we use the Low Income Cut Off (LICO) measure and the Market Based Measure (MBM) because these go back to at least 2006. The after tax LICO defines low income as a family that spends more than 20 percent more on necessities (including food, shelter and clothing) than the average family. The MBM measures the cost of a basket of necessities more broadly defined than the LICO to include items such as transportation and personal care. Rather than get bogged down in the endless arguments about which measure of low income is superior, we present the results for both since their trend is similar.

From 2015 to 2017 period when the CCB was operational, the LICO measure of low income fell 1.4 points from 9.2 percent to 7.8 percent while the MBM declined 2.6 points from 12.1 percent to 9.5 percent (see table 1).

TABLE 1: PERCENTAGE OF PERSONS IN LOW INCOME, 2006-2017

Year	Low income cut off (LICO)	Market basket measure (MBM)
2006	11.5	15.6
2007	10.3	13.9
2008	9.7	12.4
2009	10.1	13.4
2010	9.6	12.3
2011	9.6	12.3
2012	10.0	12.7
2013	9.8	12.1
2014	8.8	11.3
2015	9.2	12.1
2016	8.1	10.6
2017	7.8	9.5

Source: Statistics Canada, Cansim Table 11-10-0136-01

However, both the LICO and MBM fell more between 2006 and 2008. The LICO dropped 3.2 points from 15.6 percent to 12.4 percent, while the MBM declined. This was a period when the major economic initiative of the government was reducing the GST by two percentage points. Together with a buoyant global economy, this fuelled strong GDP growth of 2.5 percent. The point is that the incidence of low income fell more during a period of relatively strong economic growth, without policies such as the CCB explicitly aimed at reducing low incomes. This is an example of the beneficial effect of government policy focusing on boosting economic growth rather than redistributing income.

It could be argued that the $21.9 billion allocated to the CCB in the 2016 budget (it has remained little changed since) still was money well spent. However, the billions spent on the CCB could have been allocated to programs raising economic growth rather than redistributing incomes. For example, this money could have been spent on building pipelines so that Canadian oil received the higher world price of oil, something that would have added $15.6 billion to aggregate incomes in 2018 according to Scotiabank. Judging by the experience of low income during the 2006-2008 period, this might have reduced the incidence of low income by as much if not more than the CCB achieved.

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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.

Endnotes

1 All the employment data come from Statistics Canada Cansim Table 14-10-0287-01.

2 See Department of Finance, *Budget 2016: Growing the Middle Class*, Department of Finance, 60-63.

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