Economics

IN FOCUS

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Canadian labour market dichotomy — deeper than perceived

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Every first Friday of the month, at 8:30 in the morning, Statistics Canada releases its Labour Force Survey. So, at 8:29 am, every economist is sitting in front of his/her terminal with great anticipation. You can cut the tension with a knife. And in 2020, for obvious reasons, the level of anticipation for the monthly job numbers was even greater.

We now have a complete picture of the performance of the job market in 2020. The array of charts in the next page provides a snapshot of the current situation and a reasonable assessment of the shape of the labour market on the eve of a difficult winter.

But the real purpose of this note is the discussion that follows that snapshot. Using special tabulations from Statistics Canada, we are now in a position to more accurately measure and assess the abnormality of the trajectory of the job market since the beginning of the crisis. More specifically, we provide information on job-losses (and gains) by wage level and get a much clearer sense of the dramatic widening in the income gap due to Covid.

December 2020 — A snapshot

Population growth — The Canadian population (aged 15+) rose by 1.35% in 2020, down from just under 1.5% growth in 2019. That represents a reduction in the pace of population growth of just over 30,000. A large part of that slowing is due to reduced international migration inflow which we estimate to have fallen to 185,000 in 2020.

Labour Force — The number of Canadians that are actively in the labour market (as employed and unemployed) is now at roughly the same level it was at before the crisis, while the participation rate is still half a percent below.

Employment — Overall employment has recovered 70% of the jobs lost in March and April of last year. That means that we are still close to 640,000 jobs (3.3%) below the pre-crisis level. In terms of hours worked, we are just over 5% below the rate seen in February 2020. Namely the number of hours fell faster than the number of jobs.

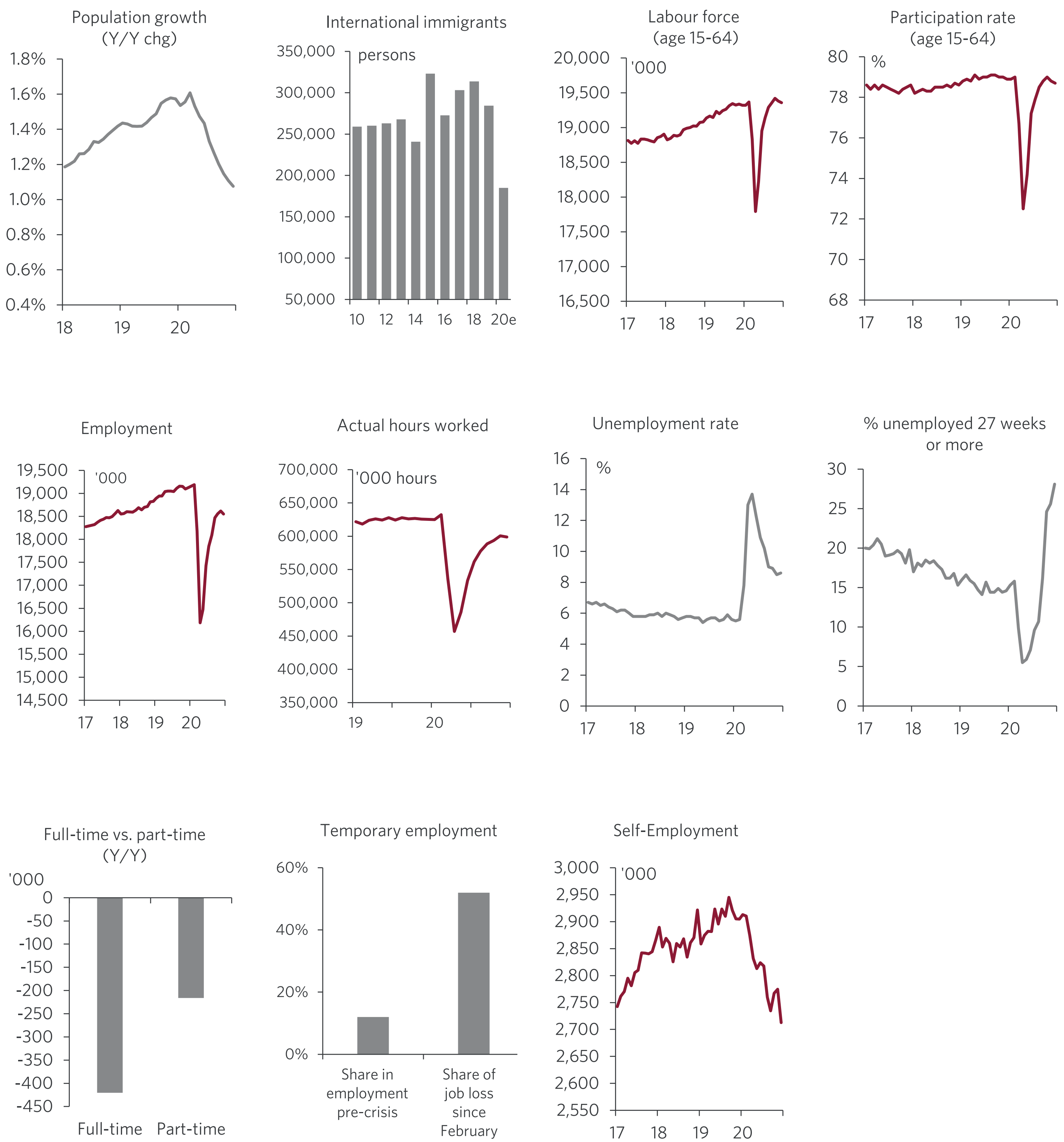
Unemployment — The current official unemployment rate of 8.6% is a full 3 percentage points (or 620,000 people) higher than it was on the eve of the crisis. And the duration of unemployment is rising fast. The share of those that have been unemployed for more than 27 weeks is now approaching 30% of the total number of unemployed. That's double the rate seen before the crisis.

Full-time/Part-time — The decline in full-time employment since the beginning of the crisis accounted for two-thirds of the drop in total employment since February. With full-time employment representing close to 80% of jobs before the crisis, this relatively low contribution to the overall decline reflects a higher proportional loss of jobs amongst part-timers.

Permanent vs. Temporary — Prior to the crisis, temporary employment accounted for 12% of total employment. However no less than 52% of jobs lost since February were temporary positions. Consistent with that, the share of job losses amongst unionized workers accounted for only 15% of the total, half its share in employment.

Self-employment — the number of self-employed has fallen by just under 7% since February. That represents 200,000 jobs or 31% of total jobs lost- more than double the share of self-employment in overall employment. That disproportionate impact is due to the fact that self-employment is the only job category that hasn't experienced a rebound since the spring, with the number of self-employed in December 7% lower than it was in April.

Chart 1: The Canadian labour market as of December 2020



Source: Statistics Canada, CIBC.

There is little doubt that those numbers will get worse in the coming months. We expect overall employment to fall by 2% in the first quarter of the year with the unemployment rate climbing back to 9%. However, it is our expectation that the recovery during the second half of the year will be rapid (see discussion in our Forecast publication), with the unemployment rate ending the year at below 7%.

Change in employment by wage category

The discussion above clearly illustrated the asymmetrical nature of the current double-dip recession. But in order to get a more precise understanding of the scope of this dichotomy, we need to focus more directly on changes in employment by wage category as opposed to changes by type of employment, which, after all, is only a proxy for level of compensation. We did that by using special Statistics Canada tabulations that measure employment growth by wage ranges.

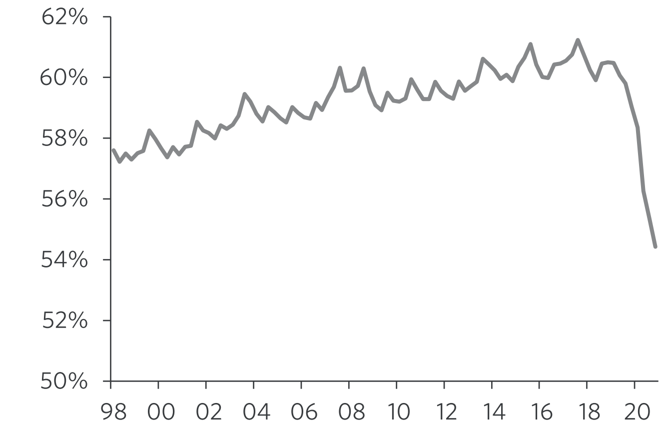
Chart 2 tells the tale — the lower the pay grade, the worse the job market performance is. All the jobs lost in 2020 were among workers that earned below average wages, with the lowest wage quartile seeing the largest decline. That is not very different than the trajectory seen in other recessions such as the 2008/9 financial crisis. What is different however, is that higher-income Canadians have experienced net job gains during the current crisis – an anomaly during a recession. So the surprise here is that, not only did high-wage earners not experience job loss, but in fact they have gained almost 350,000 jobs over the past year. The largest gain was observed among those in the fourth quartile of the wage scale, with year-over-year growth of more than 9% or 260,000 new jobs. In fact, if it were not for the increase in high-wage jobs during the recession, the overall level of employment today would have been almost one million below the pre-recession level.

Chart 3 puts the current swing in historical perspective. Prior to the crisis, the share of below-average wage employment had been rising on a regular basis, reflecting a gradual worsening in the quality of employment in Canada, we discussed often in the past. That ratio has plummeted during the recession, not because the quality of employment has magically improved, but due to the dramatic reduction in the number of low-quality jobs.

Chart 4 provides a glance at the performance by age. Note that young Canadians have experienced employment loss at all wage levels. Another matter of concern is the notable drop in low-wage employment among older workers.

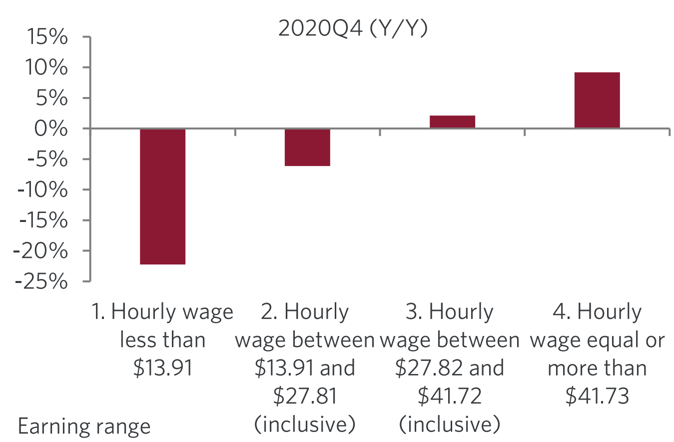
Those observations have some important implications. They imply that the earning gap is widening at an even faster rate than we've assumed so far. And yes, overall personal income in Canada has risen during the crisis, but that hasn't been driven just by government support programs. The increase in employment among high wage jobs has also been an important factor. In fact, the rise in high-wage employment mitigated the decline in headline wage income, as it masked a deeper than perceived drop in wage income among low-wage workers. This in turn suggests that government assistance was appropriately targeted.

Chart 3: Share of low-paying jobs in employment



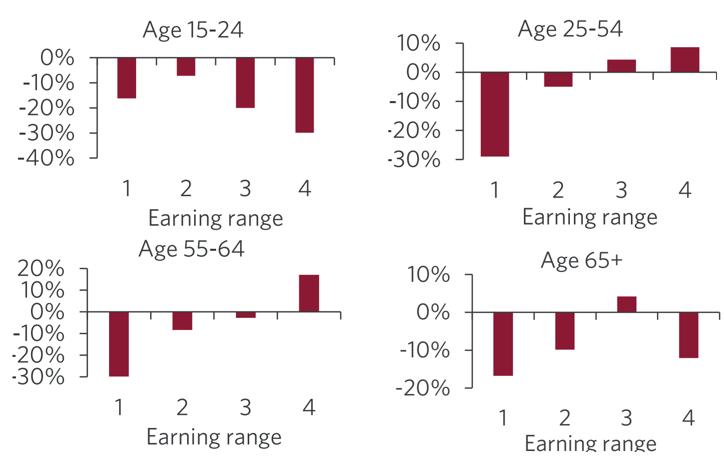
Source: Statistics Canada, CIBC.

Chart 2: Growth in employment by wage range



Source: Statistics Canada, CIBC.

Chart 4: Growth in employment by wage range by age (Y/Y % change)



Source: Statistics Canada, CIBC.

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