In Focus

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On The Quality of Employment in Canada

by Benjamin Tal

Is the quality of employment in Canada in decline? We think so. By looking at the distribution of part-time vs. full-time jobs; self-employment vs. paid-employment; and the compensation of full-time paid-employment jobs in more than 100 industry groups, we observe a slow but steady deterioration.

For the purpose of this analysis, we used a very narrow definition of quality—one that focuses solely on compensation. We also looked at a more direct measure of compensation by using untabulated data from Statistics Canada and reached the same conclusion. The share of low-paying jobs in Canada has been on the rise in the past two decades.

Part-Time Jobs on the Rise

Chart 1 tells the tale. There was an unmistakable jump in the share of part-timers in the Canadian labour market during the recession. That rate rose from 18% to 20% during the recessionary peak. But at the current 19.3%, that share is still elevated. The contributing factor here was the jump in part-time jobs during the year ending October 2016, with part-time jobs accounting for no less than 90% of all jobs created.

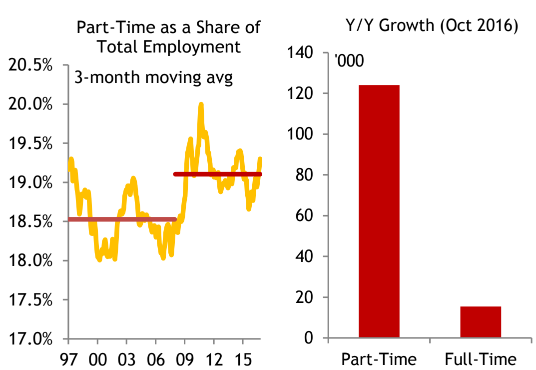
From a full-cycle perspective, the rise in part-time employment probably reflects some demographic forces. As illustrated in Chart 2, the majority of this increase was among workers above the age of 55. However, the fact that half of the increase in part-timers among that age group accrued during the recession suggests that beyond pure demographics, there is an element of fragility here.

Self-Employment Remains Stable

We include self-employment here simply because of the fact that, on average,

Chart 1

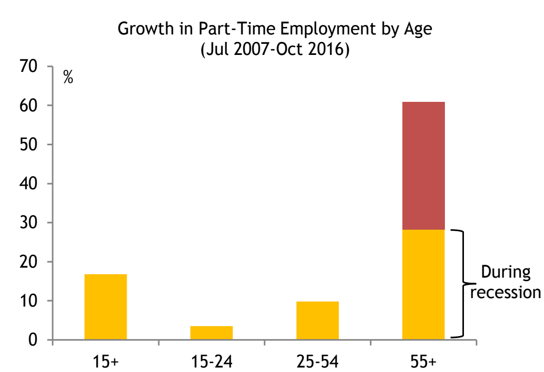
Share of Part-Time Employment Has Risen Since the Recession



Source: Statistics Canada, CIBC

Chart 2

Most of the Increase in Part-Time Jobs Was Among Age 55+



Source: Statistics Canada, CIBC

self-employed people earn less than paid-employees. From this narrow perspective, a higher share of self-employment generally implies lower employment quality. As clearly illustrated in Chart 3, that share has been relatively stable over the past decade with a short-lived increase in "forced" self-employment during the recession. The relative stability of the share of self-employment is a bit of a surprise as many observers expected a surge in technology-driven entrepreneurial activity. In fact, over the past year, paid-employment rose four times faster than self-employment.

Full-Time Paid-Employment

Now, consider a hypothetical situation in which all jobs created in Canada in the past year were full-time paid-employment. That would clearly be a positive development from a quality standpoint. But this improvement in quality can be easily offset if the distribution of full-time jobs in the economy during the year has shifted from high-paying jobs to low-paying jobs. The presence and persistence of wage differentials between industries is a regular phenomenon in a mature economy. This can result, in part, from the normal functioning of a competitive labour market, reflecting such factors as skill differentials as well as contractual agreements between employers and workers.

With few exceptions, most industries have maintained a fairly stable relative compensation position over the years. Primary industries such as logging, mining along with sectors such as transportation and electronics enjoy relatively high levels of compensation. In comparison, jobs in many service industries, as well as in retail and wholesale trade, have traditionally had the lowest level of compensation.

Chart 4 provides information on that trend and the message is clear. The compensation distribution of full-time paid-employment has worsened over the past decade with the number of jobs in lower-paying industries rising faster. Note that the past years have seen a bit of a reversal of that trend, with the growth in the number of jobs in high-paying industries, in fact, outpacing the growth seen among lower-paying industries.

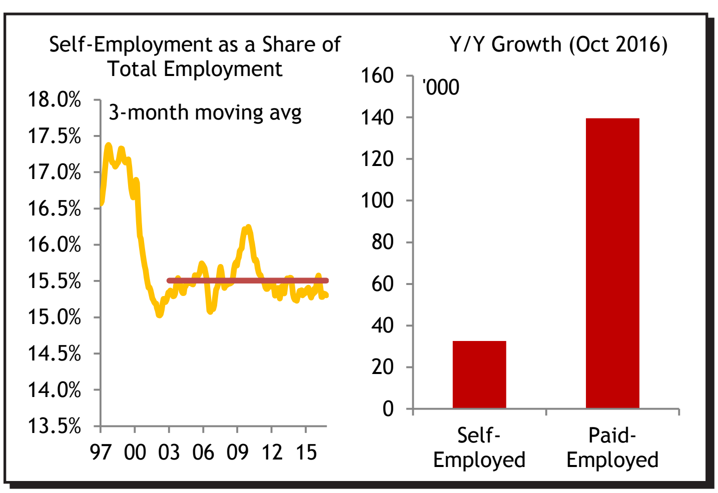
An Alternative and A More Direct Measure Tells the Same Story

The three measures used above are basically proxies for compensation-based job quality. But they are far from perfect. A proxy is a proxy. Regardless of how we fine-tune the data, we might have a situation in which growth in self-employment can come from the higher-end of the pay-scale of that category. In that case, we underestimate overall quality of employment. Alternatively, growth in full-time paid-employment can come from low-paying jobs in high-paying sectors—biasing our measure upward.

In addition, given that our focus is on the long-term trajectory of quality, those measures cannot capture some important demographic forces that might influence aggregate quality measures. For example, the declining share of young Canadians in the labour force (Chart 5) might work to increase the overall quality since young workers, on average, earn less. That is obviously a short-coming of such a measure.

Chart 3

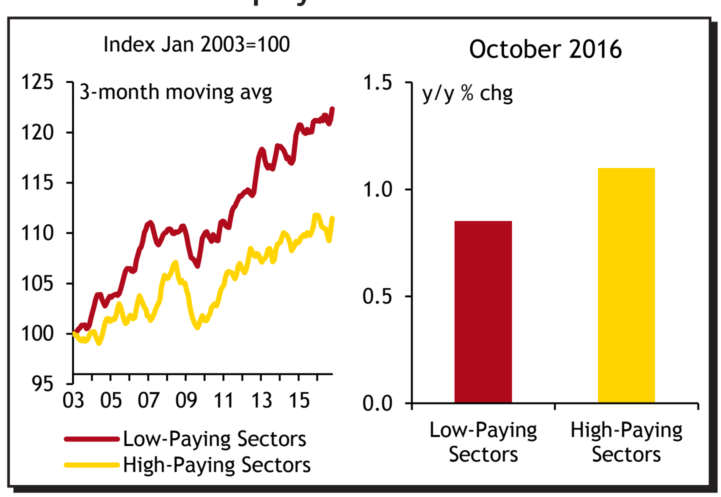
Self-Employment—Stable



Source: Statistics Canada, CIBC

Chart 4

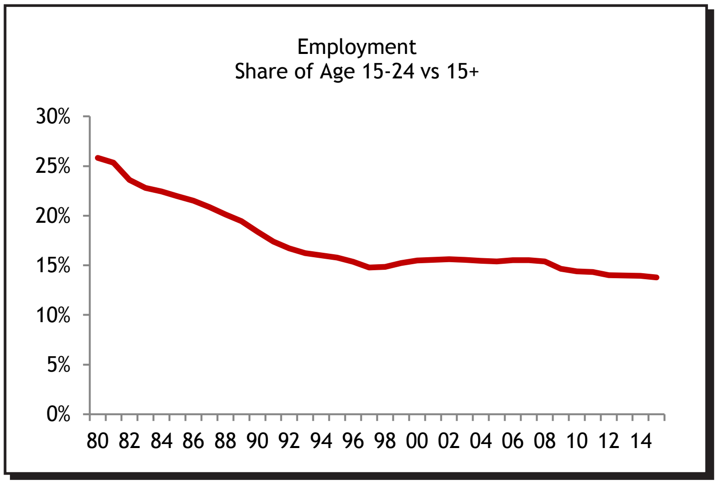
Full-Time Paid-Employees



Source: Statistics Canada, CIBC

Chart 5

Share of Young Canadians in Employment is Falling



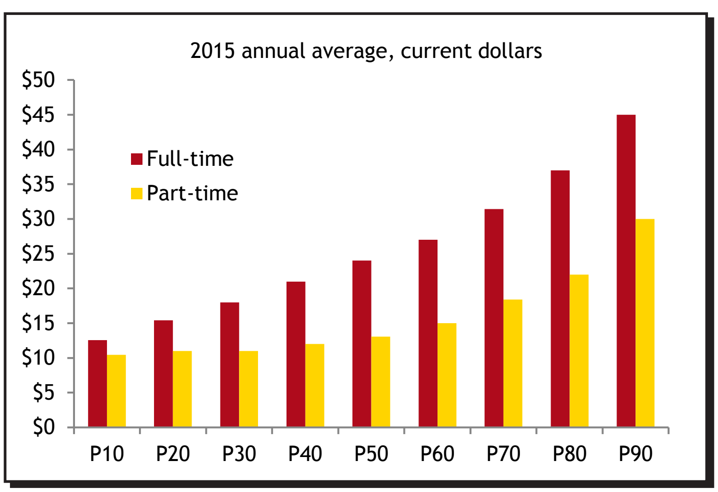
Source: Statistics Canada, CIBC

To overcome those difficulties, we used a direct measure of compensation by utilizing special unpublished Statistics Canada tabulations aimed at measuring employment growth by income brackets. Chart 6 illustrates the pay-spectrum of full-time and part-time workers by percentile.

We then calculated the share of jobs that earn below the average wage in a given year. By using the average of each year as the base, we avoid inflationary biases due to workers migrating from one wage bracket to another. As illustrated in Chart 7, the share of workers who are paid below the average wage has risen over the years to just under 61% in 2015. That trend is consistent with a widening wage gap symptomatic of deteriorating labour market quality.

Chart 6

Average Hourly Earnings by Percentile



Source: Statistics Canada, CIBC

Chart 7

Share of Low-Paying Jobs—Rising

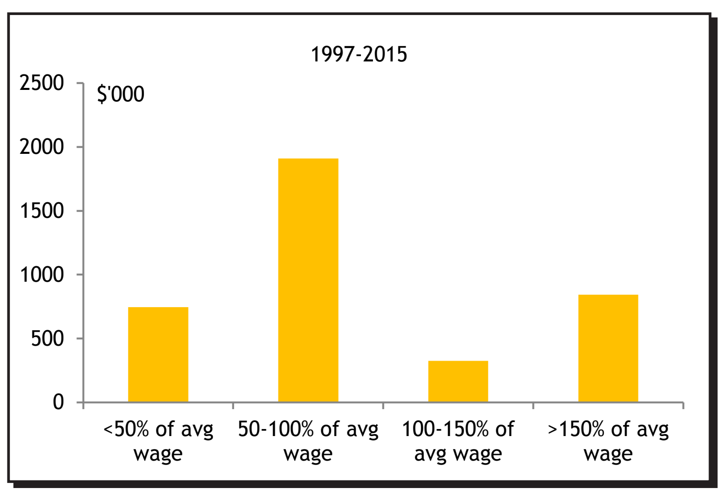
Source: Statistics Canada, CIBC

Chart 8 opens up the hood a bit, and interestingly, we find that the most significant increase in the below average paying jobs segment occurred in the second wage range of between 50% and 100% of average wage in any given year. That group has seen its number rising by close to two million since 1997. No less than 6.7 million workers fall into that wage category.

Now, what about the demographic issue? As illustrated in Chart 5, the declining share of young Canadians in the labour market can bias our direct measure upward. At the same time, the rising share of older Canadians that are less engaged in the labour market can bias the measure downward. Chart 9 overcomes that problem by focusing on the age group between 25 to 54. The story

Chart 8

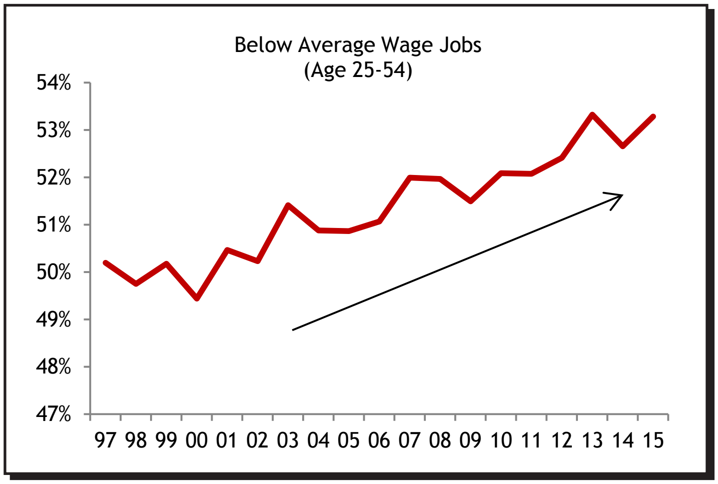
Job Growth by Wage Category



Source: Statistics Canada, CIBC

Chart 9

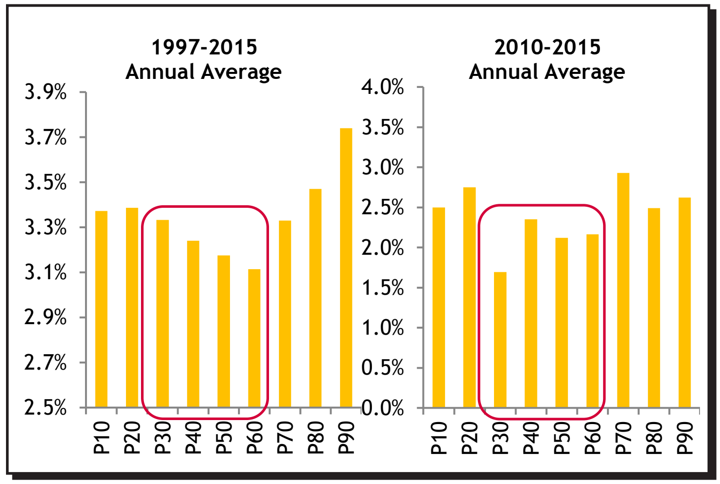
Share of Low-Paying Jobs Among Prime-Age Workers



Source: Statistics Canada, CIBC

Chart 10

Wage Growth by Wage Percentile



Source: Statistics Canada, CIBC

is the same: The share of lower-paying jobs has been on the rise.

So there is a higher concentration of job creation in lower-paying jobs. What about wage growth? A closer look at Chart 10 suggests that the gap is not closing via the wage mechanism. The good news is that those at the lowest end of the wage spectrum are seeing relatively healthy wage gains—not due to bargaining power but mostly due to policy changes regarding minimum wages. But the group closer to the middle of the wage spectrum have seen sub-par growth throughout the entire cycle (Chart 10, left) and more recently (Chart, 10 right).

What are the implications of these findings? It is important to note that those measures are not the "ultimate" reading of job quality. Different measures of quality such as job satisfaction or work environment might lead to different conclusions. Neither does the decline in employment quality over the past two decades mean that we have turned into a nation of "hamburger flippers".

Rather, it suggests that the distribution of employment in Canada is not as favourable as it used to be, looking strictly at compensation. Lower quality employment might help to explain the sluggish growth in personal income in the past two decades and might provide some insights on the ability of workers, in aggregate, to absorb future economic shocks.

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