



## ECONOMICS

# Lower Job Quality Curbing Income Growth

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The disconnect between the Canadian jobs market and the economy in general, and income growth in particular is, in many ways, defining the current cycle. The labour market continues to create jobs at an impressive pace, with the unemployment rate at its lowest since the 1970s. At the same time, real GDP growth, while expected to improve during the year, is not remotely close to where it should be given the headline employment numbers. The long-term correlation between job creation and income growth in Canada is on a downward trajectory (Chart 1).

Clearly, it appears those new jobs do not add much to the nation's overall productive capacity. This disconnect can be explained, at least in part, by the continued weakness of employment quality in Canada. Our index of employment quality fell by 1.4% during the year ending May 2019—building on the downward trajectory seen since the 1990s (Chart 2).

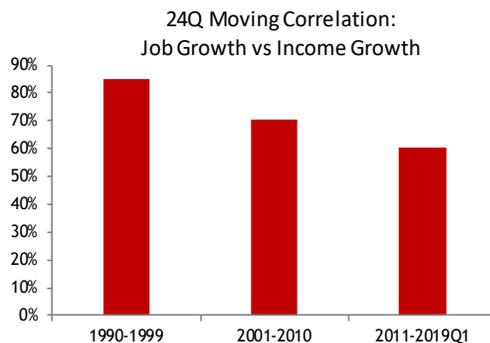
This reality of a lower level of quality also plays a role in explaining the disappointing pace of income growth in Canada. Note, that in the late 1980s, when our measure of employment quality was 15% higher, a one percent increase in employment generated on average, a 4.4% increase in real labour income. Today, it generates less than a 3% increase in real labour income.

### It's Not a Full-Time/Part-Time Story

The index combines information on the distribution of part-time vs. full-time jobs; self-employment vs. paid employment; and the compensation ranking of full-time paid employment jobs in more than 100 industry groups. Our index measures not only the quality of new jobs, but more importantly, the changing dynamics and quality of existing jobs.

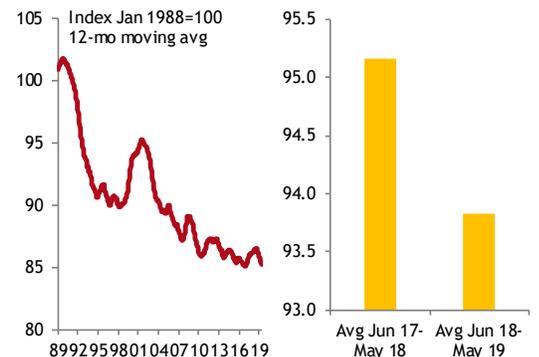
Note, that the recent softening in the index was not due to strong performance in part-

Chart 1  
**Falling Employment-Income Correlation**



Source: Statistics Canada, CIBC

Chart 2  
**CIBC Employment Quality Index**

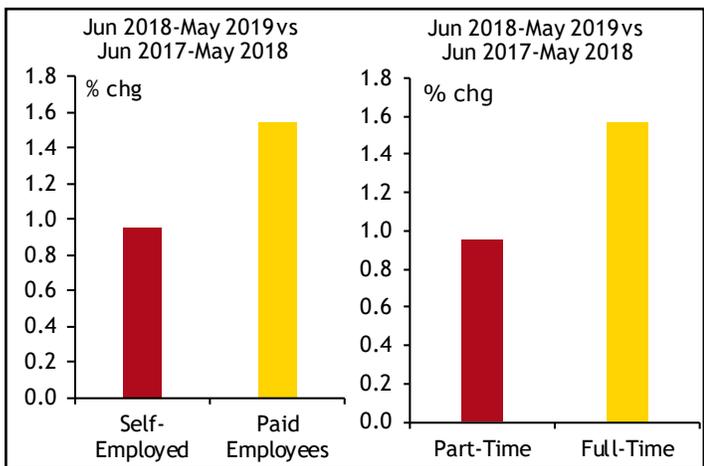


Source: CIBC tabulations based on Statistics Canada's tabulations

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Chart 3

**Full-Time/Paid-Employees Led The Way**



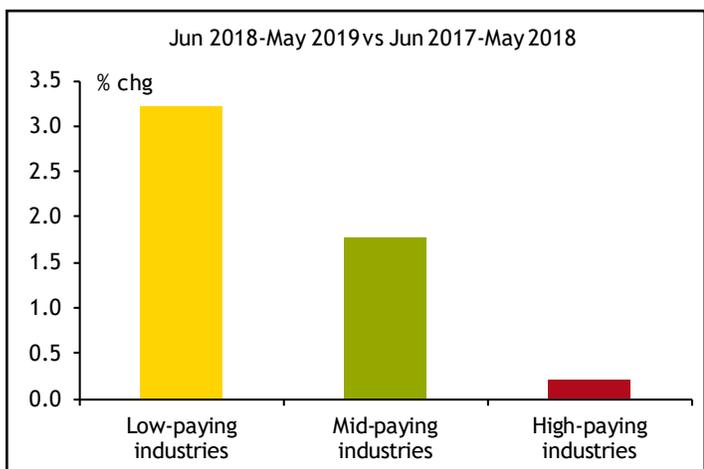
Source: Statistics Canada, CIBC

time or self-employment jobs. The opposite is the case. Over the past year, full-time employment rose much faster than part-time, accounting for 81% of all jobs created. Ditto for paid-employment which rose by no less than 2.5% over the past year—notably faster than the pace seen in self-employment (Chart 3).

This means that the decline in employment quality over the past year is due to the composition of job creation by industry. Looking at the distribution of job creation by compensation over the year ending May 2019 reveals that the number of low-paying, full-time jobs rose very strongly relative to mid-paying jobs, with the weakest performance seen among high-paying industries (Chart 4). The worsening composition of the compensation sub-index reflects strong growth rates in relatively low-paying sectors such as food services, accommodation, personal

Chart 4

**Job Growth**



Source: Statistics Canada, CIBC

Note: Low-paying (below 85% of median wage), Mid-paying (between 85%-115% of median wage), High-paying (over 115% of median wage).

services, administration and personal care as well as non-store retailing.

**Job Growth by Income Bracket—Consistent with Lower Quality Trajectory**

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 the 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 might work to increase the overall quality since young workers, on average, earn less. That is obviously a short-coming of such a measure.

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.

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 5, the share of workers who are

Chart 5

**Share of Low-Paying Jobs—Rising**



Source: Statistics Canada, CIBC

paid below the average wage has risen over the years to just under 61% in 2018. That trend is consistent with a widening wage gap symptomatic of deteriorating labour market quality.

Chart 6 goes even further and examines job growth by different income categories. 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 trend has been consistent over time. It's as true now as it was over the past few decades. That group currently accounts for no less than 51% of total employment.

**Is it Good or Bad?**

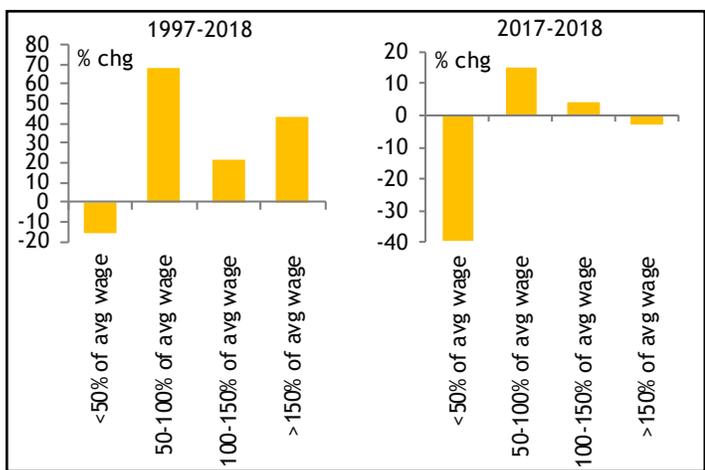
The recent softening in the quality index might suggest that, when it comes to job quality, the labour market might be a victim of its own success. Given the high labour market participation rate and the low unemployment rate, it is possible that the new entrants into the labour market represent a group of people who, in the past, would have probably stayed out of the labour market. In that context, one might claim that the decline in the quality of employment is not such a bad news

story. Another possibility is that Canadian workers simply do not have the necessary skills needed by firms. To the extent that Canadian companies cannot find the right people and have to compromise on less qualified workers, the overall quality of employment suffers.

The inability of the labour market to close the quality gap is also due to a slow increase in the number of high-paying jobs. And it seems that the supply of high-paying jobs is not rising fast enough to meet growing demand, as reflected in the relatively fast pace of wage gains in high-paying sectors (Chart 7). During the year ending May 2019, wages in high-paying industries rose by more than double the rate seen in mid-paying industries (wage growth in low-paying industries was impacted by minimum wage increase and therefore cannot be compared here).

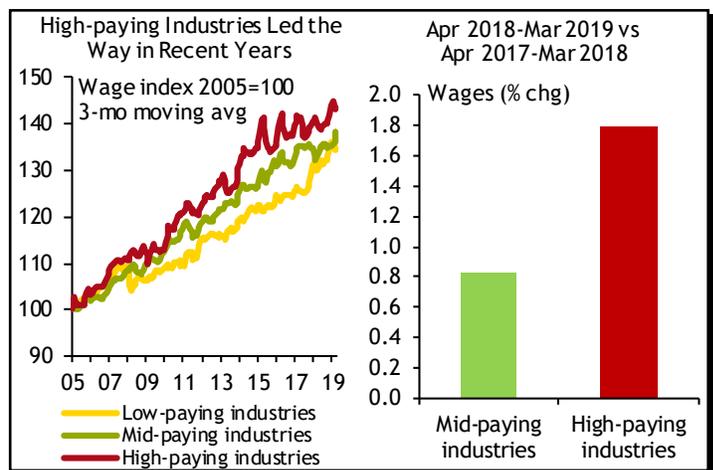
Regardless of how you measure it, by occupation, by industry and more directly by income, the overall quality of employment in Canada is on a decline. Simply put, all other things being equal, lower employment quality means that the labour market must run faster to stay in the same place since we need relatively more workers to generate the same increase in income.

Chart 6  
**Job Growth by Wage Category**



Source: Statistics Canada, CIBC

Chart 7  
**Wage Gains—Led by High-Paying Industries**



Source: Statistics Canada, CIBC

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