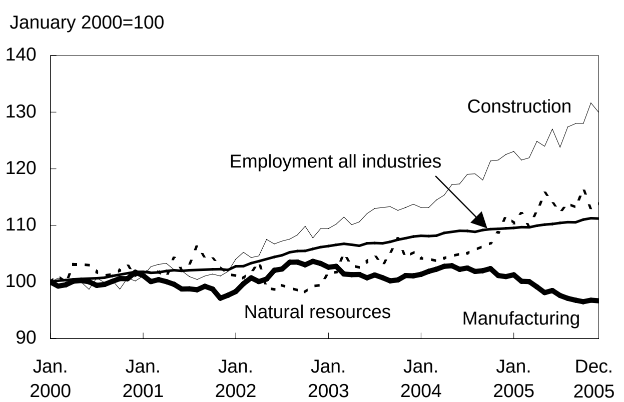
Recent changes in employment by industry

Vincent Ferrao

Over the last three years, the economy has been affected by several key developments. Low interest rates have led to a boom in home construction in many parts of the country, while strong world demand for oil and other natural resources has created new wealth for some, particularly in western Canada. A soaring loonie has created some challenges, making factory products more expensive to the outside world. In response, manufacturers have had to trim payrolls to stay competitive (Chart A).

This article examines the performance of these three key sectors (construction, natural resources, and manufacturing), looking at the impact on labour markets in resource-rich western Canada and the large manufacturing base in Quebec and Ontario.

Chart A Construction and natural resources on a hiring binge in recent years while manufacturing falters.



Source: Labour Force Survey, seasonally adjusted

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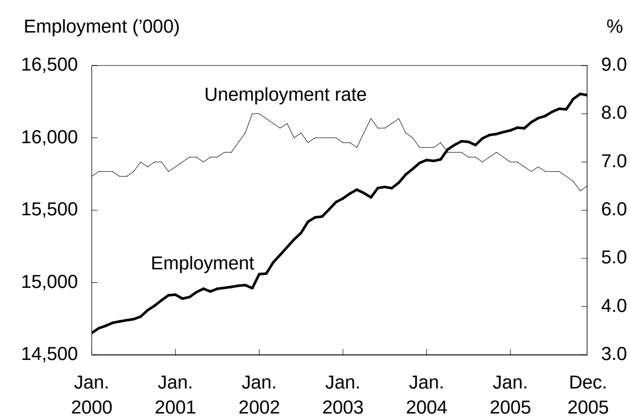
The Canadian labour market in recent years

Aside from 2001, labour market conditions have been strong in the last six years. In 2005, employment grew by 1.6%, slightly more than in the previous year (Chart B). The steady growth in employment, along with a shrinking pool of available workers, has put a marked dent in the unemployment rate, which declined from 8.0% at the end of 2001 to a low of 6.4% near the end of 2005, the lowest in three decades.

During the first three years of this decade, part-time jobs increased strongly. In contrast, the most recent period has seen the momentum shift towards full-time employment. In 2005, almost all of the 255,000 added jobs were full-time, with adults receiving the lion's share of the overall employment increase that year. Youth, however, had seen a notable jump in employment earlier in the decade (Usalcas 2005).

Chart B More jobs have pushed unemployment rate down.



Source: Labour Force Survey, seasonally adjusted

So with unemployment low and full-time employment on the rise, employee wages rose significantly by the end of 2005. After showing more modest gains in the three previous years, average hourly earnings jumped 3.8% at the end of 2005 compared with the same period in 2004, well above the most recent 2.2% year-over-year increase in consumer prices for December.

Shifting industrial growth

In a diversified economy such as Canada's, some sectors may experience job losses while others are adding workers. In the late 1990s, manufacturing as well as professional, scientific and technical services (which has a heavy high-tech presence) provided about 40% of the net job gains (Table 1). For the most part, these two industries have not shown the same strength in this decade. In fact, manufacturing was the major source of job losses in 2005.

At the same time, some other industries have sprung into action. The last three years have seen gains in retail and wholesale trade, propelled by growth in consumer spending. Employment has also been added in health care and social assistance and, more recently, in educational services. Government expenditures for health care and social assistance as well as education have been increasing, reflecting increased demand.

Although trade, health and social assistance, and education have been important sources of employment gains, two other industries have grabbed the headlines in recent years: construction and natural resources. These have had the fastest rates of growth since 2002, more than offsetting the decline in manufacturing.

Manufacturing woes hurt central Canada

During the mid-to-late 1990s, manufacturing was a major source of new jobs. This ended in 2001, when the high-tech meltdown led to major layoffs. More

Table 1 Employment growth by industry

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
						% change					
All industries	**0.8**	**1.0**	**3.0**	**2.4**	**2.9**	**2.0**	**0.3**	**4.0**	**1.7**	**1.3**	**1.6**
Goods	**-0.6**	**1.5**	**3.3**	**1.9**	**3.6**	**0.3**	**-3.0**	**6.2**	**-0.2**	**1.6**	**-0.1**
Agriculture	-5.8	5.1	-2.2	-0.8	-6.0	-11.5	-13.2	14.5	-2.9	-4.3	7.9
Natural resources	0.7	0.2	1.7	-5.3	-3.7	0.4	0.4	-1.9	5.9	6.0	2.2
Utilities	-2.3	-0.3	-8.0	5.5	-2.5	0.9	7.7	3.8	1.9	-5.4	-0.2
Construction	-3.4	-2.6	2.6	5.2	5.6	1.0	1.7	7.4	4.0	7.7	6.1
Manufacturing	1.6	2.7	5.7	2.1	6.1	2.0	-4.0	5.8	-2.1	-0.1	-4.2
Services	**1.3**	**0.8**	**2.8**	**2.5**	**2.7**	**2.6**	**1.5**	**3.2**	**2.4**	**1.3**	**2.1**
Trade	1.8	-0.7	0.5	3.3	3.4	4.5	2.0	2.3	1.9	1.5	3.0
Transportation and warehousing	3.0	1.6	3.6	1.1	6.0	3.5	-3.7	3.5	4.0	-4.2	2.3
Finance, insurance, real estate, leasing	1.5	2.2	-1.3	-0.2	0.3	2.8	0.1	2.1	3.4	5.9	1.1
Professional, scientific and technical	3.0	6.5	9.1	10.9	3.4	6.7	-0.1	3.4	-1.7	4.1	5.4
Business, building and other support	7.4	3.1	6.2	3.0	8.8	4.1	2.6	9.7	4.6	0.1	4.8
Education	-0.5	-2.4	1.5	3.1	4.9	-3.8	3.7	2.9	1.6	2.2	8.7
Health care and social assistance	1.4	-0.9	1.5	4.5	0.4	3.6	2.6	6.1	4.0	0.8	-0.9
Information, culture and recreation	3.2	0.3	7.7	0.8	2.0	9.5	1.3	-1.6	4.5	1.6	1.4
Accommodation and food	1.9	2.9	6.4	1.0	3.2	-0.4	2.4	4.6	0.1	2.0	-0.6
Other	-0.3	1.0	7.1	1.4	-1.3	-4.0	0.7	3.1	1.8	-2.8	-3.0
Public administration	-3.9	0.7	-1.9	-3.6	0.5	0.9	2.6	-0.2	4.1	0.1	0.8

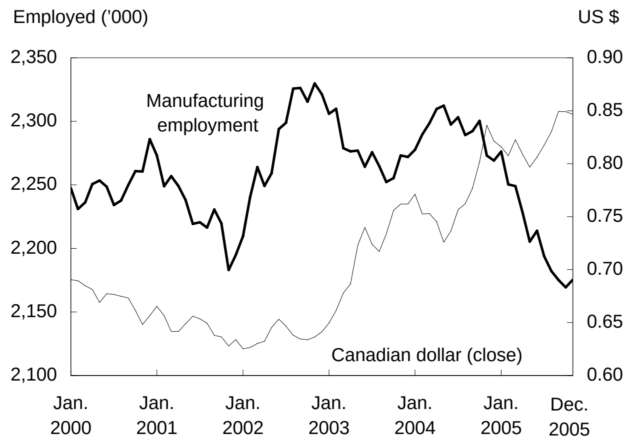
Source: Labour Force Survey, seasonally adjusted December data recently, manufacturing has been challenged by the value of the Canadian dollar (which hit a 14-year high in the last quarter of 2005) as well as shortages of some raw materials (Chart C).

The number of jobs in manufacturing has fallen sharply, down 149,000 (-6.4%) since the end of 2002 (Table 2). The difficulties were more pronounced in 2005. After declining by 2.1% during 2003, employment showed little change in 2004, and then proceeded to drop by 4.2% over 2005.

Overall, the decline in manufacturing employment in the last three years is the most significant period of contraction in the industry since the recession of the early 1990s. However, an examination of the most recent three years and the three years ending in 1992 shows that the current weakness in manufacturing pales in comparison. In the early 1990s, factory jobs were declining at twice the rate they are now.

While the recent decline in manufacturing has been widespread, more jobs were lost in certain parts of the sector than in others. Clothing and textiles, for example, saw pronounced losses. Computer and electronic products manufacturing was also down, having still not recovered from the high-tech meltdown. Other affected areas included electrical equipment and appliances, transportation equipment, and wood and paper products.

Chart C Strong dollar hinders factory jobs.



Sources: Labour Force Survey, seasonally adjusted; Bank of Canada, monthly average

The most recent drop was experienced in most provinces, but especially Quebec and Ontario. Here employment in transportation equipment manufacturing has been weak. Computer and electronic products manufacturing also continues to decline in both provinces, as does production of electrical equipment and appliances. In the end, manufacturing has declined by

Table 2 Employment in selected industries

	December 2005				Change from December 2002			
	Total	Natural resources	Construction	Manufacturing	Total	Natural resources	Construction	Manufacturing
	'000							
Canada	**16,294.7**	**308.7**	**1,052.1**	**2,172.8**	**739.0**	**39.4**	**166.5**	**-148.5**
Newfoundland and Labrador	210.9	15.2	11.9	17.8	1.4	3.8	0.8	3.5
Prince Edward Island	68.6	2.2	5.3	7.1	3.8	-0.4	0.8	1.3
Nova Scotia	441.3	15.3	27.3	40.4	13.8	1.1	3.6	-1.3
New Brunswick	355.3	11.0	19.1	36.5	9.0	0.5	-0.6	0.1
Quebec	3,755.0	40.0	185.3	601.8	124.9	0.6	31.8	-68.4
Ontario	6,433.4	35.6	405.2	1,045.3	288.0	3.1	51.3	-60.5
Manitoba	583.6	6.2	30.0	66.5	10.1	0.6	3.7	-2.4
Saskatchewan	479.7	20.4	27.0	30.1	2.1	4.5	2.5	2.6
Alberta	1,799.8	124.4	161.0	130.1	99.9	29.0	15.6	-18.5
British Columbia	2,167.1	36.4	180.4	193.4	186.1	-4.2	59.8	-3.8

Source: Labour Force Survey, seasonally adjusted

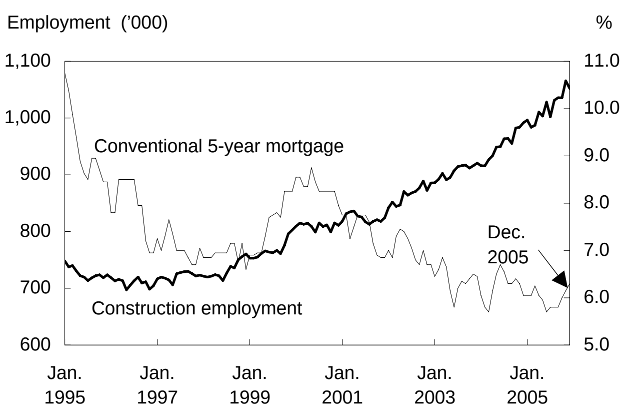
68,000 in Quebec and 61,000 in Ontario in the last three years, accounting for just under 90% of the net loss in manufacturing jobs in Canada over that period.

Job losses have not been limited to the industrial heartland of Quebec and Ontario; most other provinces experienced small but widespread declines. Weakness in manufacturing output, particularly in Quebec and Ontario, has taken its toll on the overall economy of these provinces. In 2004, Ontario's economic growth of 2.7% was slightly below the national average of 2.9%, while Quebec was also below the national average with a 2.3% increase.

Construction jobs abound in all regions

While manufacturing employment has taken a turn for the worse, times have seldom been better for the construction industry, which has been boosted by low interest rates (Chart D). In the last three years alone, construction employment has risen by about 167,000, an increase of 19%. The gains have been particularly strong in British Columbia (50%), Quebec (21%), Ontario (14%), and Alberta (11%). The value of building permits issued and the number of housing starts have also soared across the country. However, the boom in the construction industry has not been limited to housing (Chart E). In fact, the value of non-residential permits (a leading economic indicator) was 20% higher in October 2005 than the average monthly level in 2004.

Chart D Low interest rates have stimulated construction jobs across the country.

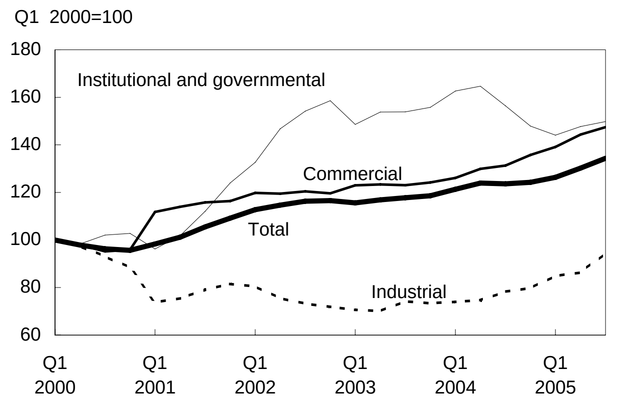


Sources: Labour Force Survey, seasonally adjusted; Bank of Canada, monthly average

Related to the boom in construction is growth in the real estate sector, where employment has increased 29,000 or 15% in the last three years.

The timing of the boom varied by province. Strong employment gains first appeared in Quebec at the start of the decade (2000), with subsequent gains continuing at a more moderate pace. In Ontario, job growth has increased steadily over the past five years.

Chart E Investment in non-residential building construction on an upward trend.



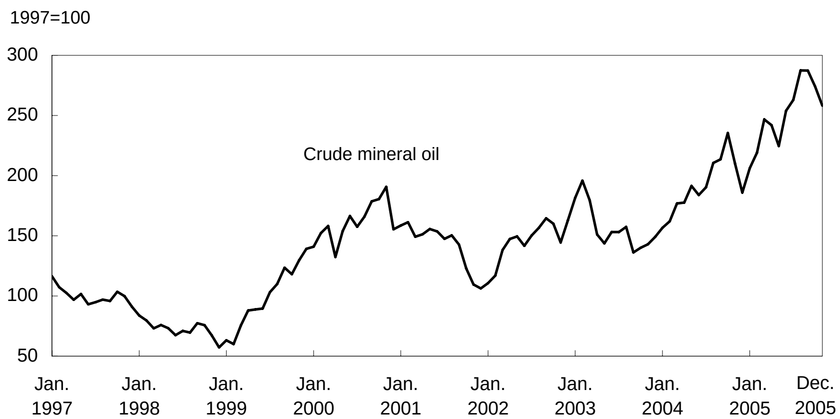
Source: Investment and Capital Stock Division, seasonally adjusted

The boom spread in 2004, especially in Alberta and British Columbia. The latter province showed particularly strong growth, with the industry acting as a pillar of strength for the province's labour market in that year. Over 2005, construction employment in British Columbia continued to grow, although at a more moderate pace. While the number of construction jobs in Alberta seems to have leveled off in 2005, growth was strong in 2004.

Oil and gas takes off in Alberta

Since the end of 2002, employment in natural resources has risen by just under 40,000, an increase of about 15% (Table 2). The growth has been led by Alberta's oil and gas industry. For a variety of reasons, crude oil prices have skyrocketed in recent years, setting new highs throughout 2005 (Chart F). As a result, employment in the Alberta oil patch has jumped by about 30% in the last three years (Chart G). By the end of

Chart F Oil prices have been increasing for more than two years.



Source: Raw Materials Price Index

2005, the region of Athabasca, Grande Prairie, and Peace River had the hottest labour market in the country, with only 2.2% unemployment.

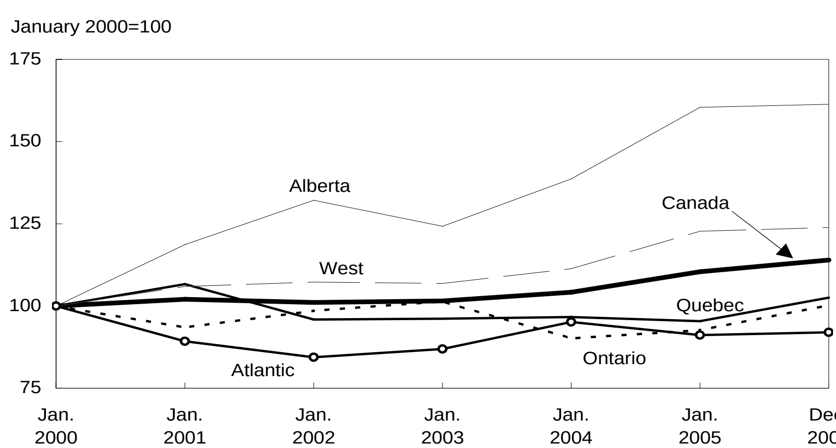
Although the implications for employment were less noticeable in Newfoundland and Labrador, the ramifications for the province's economic growth were very significant. The provincial gross domestic product increased by 6.2% in real terms in 2003, leading the provinces for a second year running, only to edge down 1.4% in 2004, partly because of production problems on the Terra Nova oil platform.

A notable consequence of the jump in crude oil prices was job strength in the oil and gas industry compared with mining. At the end of the 1990s, oil and gas employed fewer people than mining. By 2005, the lead had shifted, with oil and gas employing an average 68,000 workers compared with mining's 60,000. The growth in both industries has had important spin-off effects. The number of workers employed in support activities almost doubled from 45,000 at the end of the 1990s to 83,000 in 2005 (Table 3).

Compared with other industries, the natural resources sector (forestry, fishing, mining, and oil and gas) is rather small, accounting for about 2% of overall employment in 2005. In contrast, construction and manufacturing had much larger shares—6% and 14% respectively. However, for Alberta, employment in natural resources is significant, at about 127,000 in 2005 or 7% of overall employment in the province. This compares with 2000 when 83,000 workers in natural resources represented 5% of Alberta's total workforce. Almost all of the natural resources jobs in Alberta are in oil and gas.

All regions of Alberta have benefited from soaring crude oil prices. However, the boom has been especially important to the Calgary area, where the industry now employs about 42,000 workers compared with 27,000 in 1999. Oil and gas extraction employment in the Lethbridge-Medicine Hat area increased fourfold over the same period, reaching 12,000 in 2005. The region of Athabasca, Grande Prairie, and Peace River saw employment in the industry nearly triple to 16,000.

Chart G The West leads growth in natural resources jobs.



Source: Labour Force Survey, seasonally adjusted

Table 3 Employment in natural resource industries

	1999	2000	2001	2002	2003	2004	2005
				'000			
Total	**264**	**275**	**279**	**270**	**282**	**287**	**306**
Forestry and logging with support activities	80	86	74	74	77	72	70
Fishing, hunting and trapping	30	29	26	26	27	27	26
Mining, oil and gas extraction	154	160	179	170	178	188	211
Oil and gas extraction	44	46	57	59	59	62	68
Mining	65	65	58	56	55	52	60
Support activities	45	49	65	56	65	74	83

Source: Labour Force Survey

Summary

A number of economic shocks have occurred in the last few years, affecting regional labour markets. The Canadian dollar hit a 14-year high relative to the U.S. dollar in 2005. Manufacturers dependent on the U.S. market are continuing to operate at a very strong pace, but to maintain profitability, they have been forced to reduce employment. As the number of manufacturing jobs has fallen, growth in other industries has picked up, most notably construction, as a result of the housing boom, and natural resources, as a result of demand for oil and mineral products.

The price of crude oil, which hovered in the US $50 to $70 a barrel range during much of 2005, implies good prospects for producing provinces. Strong demand is keeping upward pressure on prices.

Employment in the construction sector surged in the wake of low interest rates, and the housing boom spread to most regions of the country.

Finally, the manufacturing sector, important in central Canada, has had to face major challenges as the Canadian dollar has strengthened. Industries such as clothing and textiles in Quebec and motor vehicle and parts manufacturing in Ontario have struggled.

Perspectives

■ Reference

Usalcas, Jeannine. 2005. "Youth and the labour market." *Perspectives on Labour and Income* (Statistics Canada, catalogue no. 75-001-XIE). November 2005 online edition.