

# A note on tracking employment manufacturing

*Claude Robillard*

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**F**ew businesses make decisions about hirings and layoffs on the spur of the moment. But, to some extent, employers are able to anticipate the need for workers as they see the volume of sales or orders picking up, slowing down, or remaining steady. In fact, the combined hiring plans of Canadian manufacturers, as reflected in Statistics Canada's quarterly Business Conditions Survey (BCS), are an indicator of the outlook for employment in that sector. This information about businesses' plans for staffing may, therefore, anticipate the subsequent results of the regular employment estimates.

The BCS contains the following question on anticipated changes in employment in manufacturing firms: "Over the next three months, employment in this establishment will: a) increase, b) change little, c) decrease." The responses to this question are expressed as a "balance of opinion" calculated by subtracting the percentage of firms expecting a decrease from the percentage expecting an increase. The responses are weighted by the number of employees in each establishment, so that the hiring intentions of large firms have a greater effect on the balance than those of small firms. For instance, an establishment with 1,000 workers would have twice the impact of a firm with 500 workers.

A positive "balance of opinion" indicates anticipated growth in manufacturing employment in the current quarter, while a negative balance signals a potential downturn. If the balance is close to zero, very little change in employment is expected.

To what degree is this aggregation of employment expectations tied to economic conditions? And does it actually foreshadow what subsequently happens to employment in manufacturing?

Since 1985, the BCS balance of opinion has tracked employment trends in manufacturing quite closely, rising in periods of economic expansion and falling during times of restraint. For instance, from the second quarter of 1985 to mid-1989, the balance was generally positive and increased overall, reaching a high of +11 in the fourth quarter of 1988 and the first quarter of 1989. Thereafter, the balance fell almost steadily to a low of -25 in the second quarter of 1991. An upturn since then brought the balance into the -

17 to -18 range throughout 1992. These trends were similar to those shown for manufacturing in two other employment series: the Survey of Employment, Payrolls and Hours (SEPH) and the Labour Force Survey (LFS) ([Charts A and B](#)).



## **Charts A and B A change in the trend of the BCS “balance of opinion measure” frequently precedes a turning point in the SEPH and LFS manufacturing employment series.**

*Source: Business Conditions Survey and Survey of Employment, Payrolls and Hours*

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The BCS balance of opinion can also be a forerunner of turning points in the SEPH and LFS series. For example, a drop in the balance of opinion in the second quarter of 1989 was followed by a downturn in the third quarter in the other two series. Similarly, the rise in the balance of opinion in mid-1991 signalled the slowdown in the rate of employment decline in manufacturing shown by SEPH and the levelling off of manufacturing employment in the LFS figures in the first quarter of 1992.

The BCS balance of opinion provides an outlook on employment trends in advance of the two more widely known and used employment series. However, a particular quarter-to-quarter change in the balance of opinion should not be regarded as a prediction of what will subsequently happen to total manufacturing employment in that quarter. And because the balance of opinion is based strictly on employers' opinions about the general direction of staffing in their organization, it cannot be quantified into a number of employees. It is an early indicator of the direction that manufacturing employment may take, but not of what those employment levels actually will be.

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## **Data source**

The Business Conditions Survey (BCS) is carried out by the Industry Division of Statistics Canada every January, April, July, and October. With minor exceptions, it uses the same sample as the monthly Survey of Manufacturing. The BCS is a voluntary survey reaching more than 9,000 establishments. Results are based on approximately 5,000 responses. Because the survey pertains to opinions, no adjustments are made for non-response.

Survey results are generally available the first week after the reference month. As well as employment, seasonally adjusted data on opinions about production prospects, finished product inventories, and new and unfilled orders are available at the Canada level for total manufacturing. Data (not seasonally adjusted) are available for total manufacturing by province and by establishment size, as well as for all characteristics (including production impediments) at the Canada level by major industry group. Data are also available on CANSIM (matrices 2843 to 2845).

For further information, contact Claude Robillard, Monthly Survey of Manufacturing, Industry Division (613) 951-3507 or fax (613) 951-9499.

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## Source

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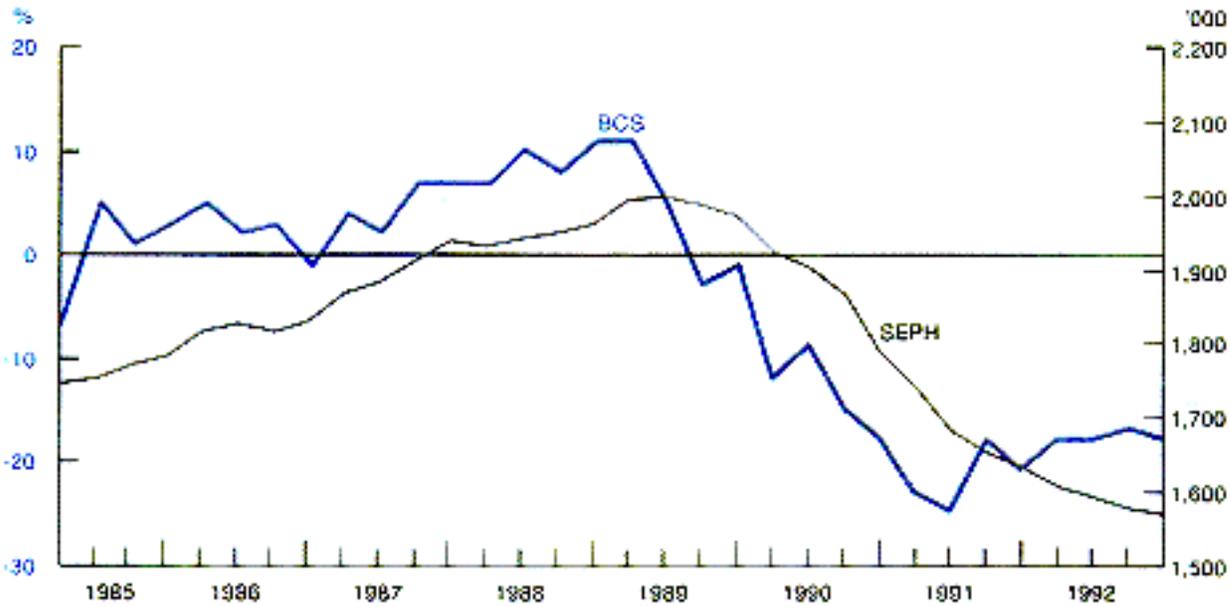
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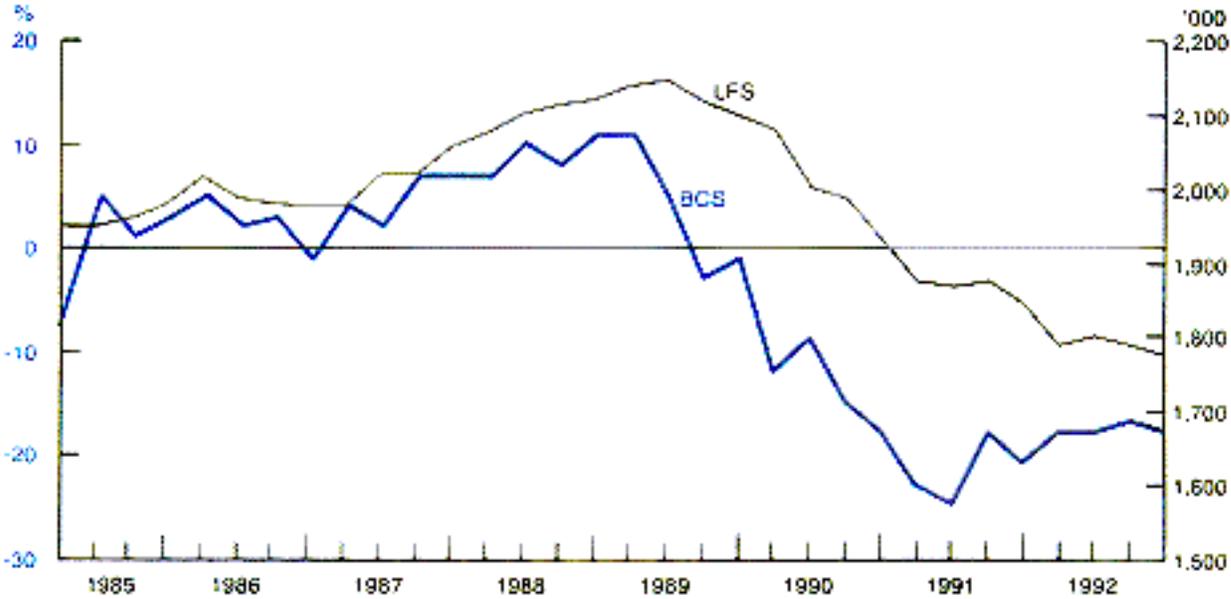
Chart A

A change in the trend of the BCS "balance of opinion measure" frequently precedes a turning point in the SEPH and LFS manufacturing employment series.



Sources: Business Conditions Survey and Survey of Employment, Payrolls and Hours

Chart B



Sources: Business Conditions Survey and Labour Force Survey

Note: The seasonally adjusted BCS "balance of opinion measure" reflects firms' hiring intentions at the beginning of each quarter, whereas the SEPH and LFS data are seasonally adjusted quarterly averages.