The labour market: Year-end review

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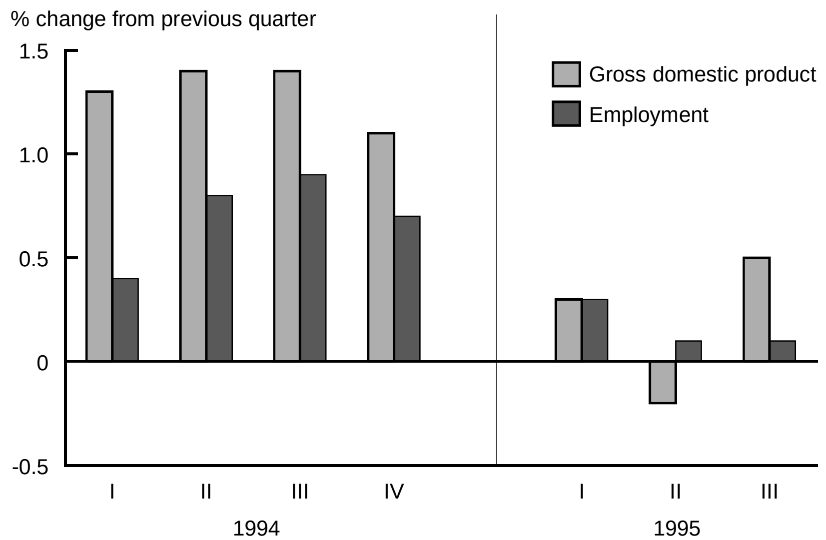
Steady growth in real gross domestic product (GDP) in 1994 had launched the Canadian economy on an upward trend that put an end to the so-called "jobless recovery" period. However, this scenario faded in 1995 (Chart A). As a result, labour market conditions stayed almost at a standstill, with employment rising at a much slower pace than the year before and the overall unemployment rate never falling below 9.2%. What made the economy slow down in 1995 and how did this affect the labour market? This year-end review of the labour market explores these questions.

Drastic shifts in the economic outlook

Stimulated by strong foreign demand,[1] Canadian output growth was sustained throughout 1994. Businesses increased their capital utilization, registered significant operating profits, invested in plant and equipment and enlarged their workforces. Consumers, encouraged by better labour market conditions and average earnings that increased faster than inflation, were less reluctant to spend; personal expenditure rose by 3.0% (annual average), the highest increase since the pre-recessionary years. On the other hand, governments seeking to control soaring deficits started to reduce their total expenditures.

In 1995, these positive influences weakened substantially. In an effort to control an "overheating economy" that could result in an inflationary spiral, the U.S. Federal Reserve slowly raised interest rates in the fall of 1994 and kept them relatively high until spring 1995. The higher rates had a major effect on consumer spending in the United States, our largest trading partner. Consequently, there was a sharp drop in consumer goods shipped across the border,[2] especially motor vehicles. On the other hand, exported industrial goods were less affected by the increase in interest rates as, most probably, orders had been placed before the rise occurred. Therefore, exports of machinery and equipment as well as pulp and paper kept their upward trends until at least September 1995.

Chart A
Poorer economic performance in 1995 slowed employment growth.



Sources: Labour Force Survey, and National Accounts and Environment Division

Canadian interest rates followed suit and only started to ease in April 1995. The fragile resurgence in domestic demand in 1994, hit by higher borrowing costs and a labour market still plagued by high unemployment, started to lose steam early in 1995 and remained weak for most of the year. As inventories started to build up, businesses reduced capital utilization in their factories and slowed their hiring activities. Both corporate operating profits and business investment grew marginally, while governments further reduced expenditures during the first three quarters.

This article is based on information available as of January 5th, 1996. Unless otherwise noted, monthly data have been seasonally adjusted to provide a better picture of underlying trends. Seasonal movements are those caused by regular annual events such as climate, holidays, vacation periods, and cycles related to crops and production. Seasonally adjusted series still contain irregular and longer-term cyclical fluctuations.

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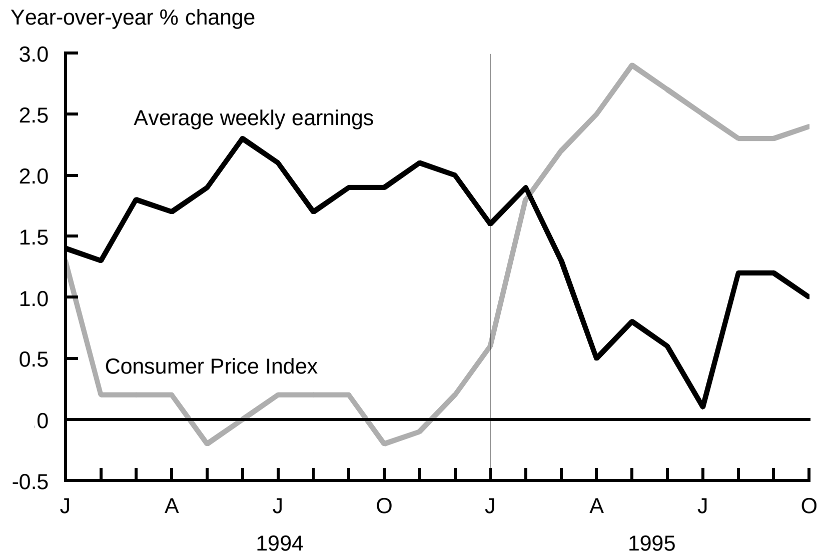
As a result of slow job creation (as indicated by the Help-wanted Index,[3] which has been on a downward trend since April) and public spending cuts affecting several provinces, consumer confidence remained flat during the first two quarters of 1995 and edged up only slightly in the third.[4] For most of the year, average earnings increases remained below inflation (Chart B) and personal expenditure rose by less than 2% over the previous year. Consequently, spending on big ticket items such as houses and automobiles remained very weak. Housing starts dropped significantly in 1995 to an annualized rate of 112,000 new units for the first 10-month period, after recording 154,000 in 1994. In fact, the October annualized rate dropped to 97,000, a level not seen since the recessionary period of 1982. During this 10-month period, the number of new motor vehicles sold by dealers dropped by 5.1%. Department store sales, which had been steadily increasing since early 1994, levelled off in July 1995 and remained relatively flat thereafter.

Chart B

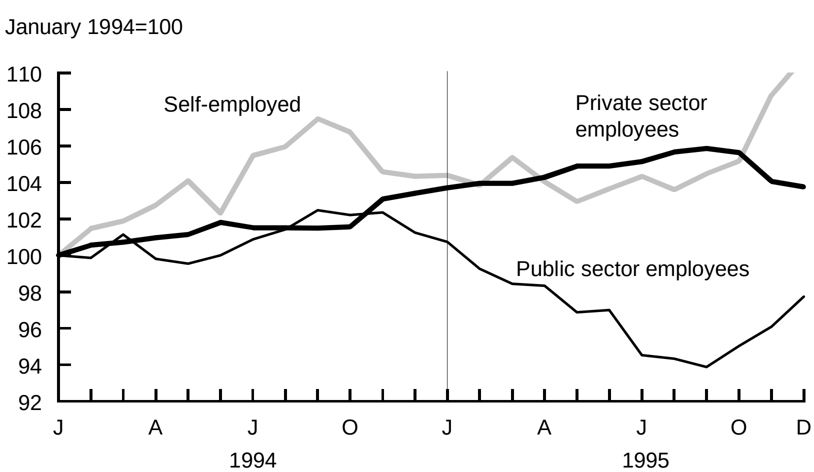
Earnings growth did not keep pace with inflation in 1995.



Sources: Survey of Employment, Payrolls and Hours, and Prices Division

Chart C

Although at a slower pace, employment improved in the private sector in 1995.*



Source: Labour Force Survey

** See Note 5 for definitions.*

Effect on the labour market

Pulled by a strong economic performance, monthly employment gains totalled 382,000 during 1994. The private sector generated the bulk of the growth, particularly in many of the goods-producing industries but also in the service sector. Major gains were registered among the self-employed as contracting-out for professional services flourished with the overall economic growth. On the other hand, employment in the public sector grew only marginally (Chart C).[5]

With the pause in growth in 1995, overall employment increased by only 88,000 between December 1994 and December 1995.[6] Overall, the whole private sector including employees and the self-employed kept its upward trend until at least September, before registering wider variations from October on. Losses were recorded in the public sector, with total employment declining substantially during most of 1995.

No employment growth in the goods sector ...

In sharp contrast to the employment increases of over 200,000 during 1994, losses in some goods sector industries in 1995 more than offset the gains in others, so the year ended with 36,000 fewer workers than in December 1994.

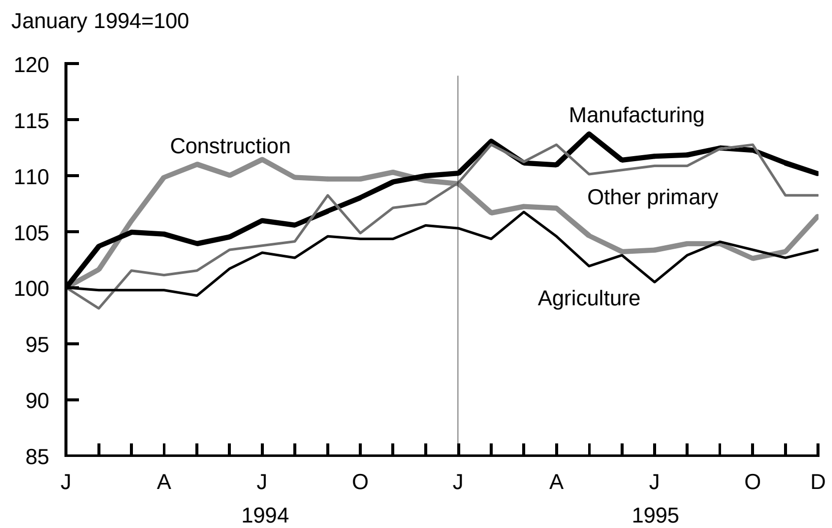
Manufacturing industries, accounting for over half the workers in the goods sector, had gained over 125,000 workers in 1994, but employment fluctuated in 1995. Swings in economic activity resulted in additions of over 50,000 in both February and May, only to be offset by almost equal losses in each of the following months. Further declines in November and December left employment virtually unchanged from December 1994 (Chart D).

The dampening effect of higher interest rates on requests for mortgage loans slowed construction activity in the autumn of 1994, causing fluctuations in employment in the latter part of the year. In 1995, despite the slow ease in mortgage rates that started in February, housing starts continued to drop. This weak activity, coupled with slower investment in non-residential building, resulted in steep slides in employment in February and May, and to a lesser extent in June, leaving employment in construction down 22,000 at year end compared with December 1994.

Employment declines in agriculture in 1995 more than wiped out the 1994 gains, while there was a no-growth situation in forestry and mining in 1995 that contrasted with the previous year's employment

Chart D

In contrast to 1994, employment growth in the goods sector was almost flat in 1995.



Source: Labour Force Survey

gains of 15,000 (unadjusted) or over 6%.

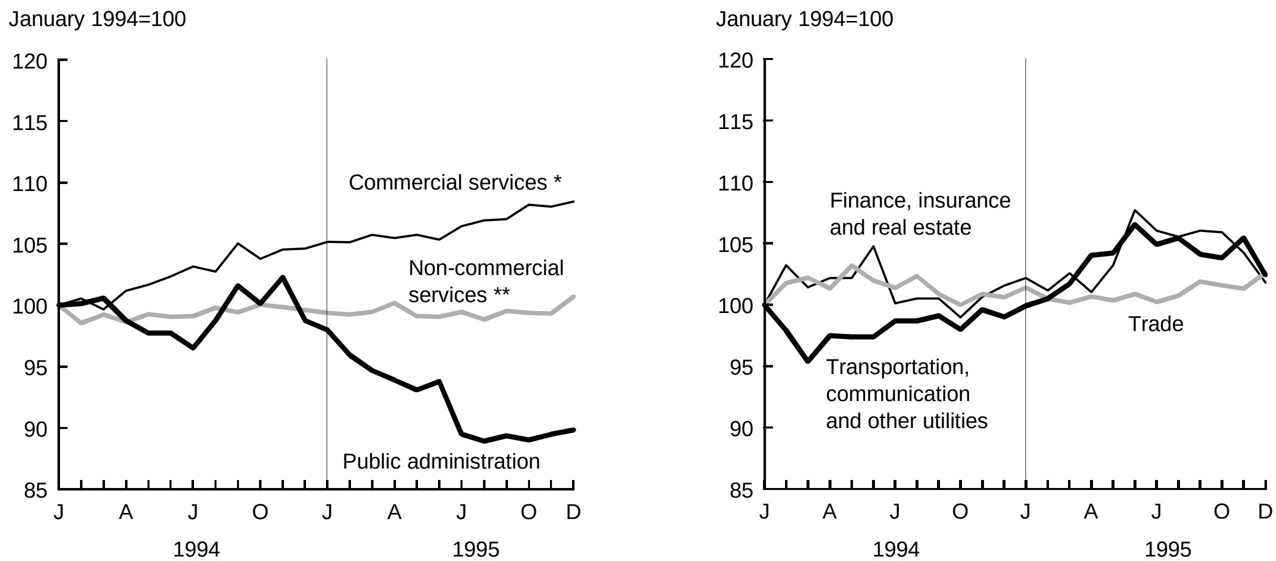
... while service sector gains slowed

The service sector, with nearly 10 million workers, showed employment gains of 177,000 during 1994. But in contrast to the goods sector, there was additional growth of 112,000 workers in the service sector in 1995 (Chart E).

Community, business and personal services,[7] accounting for over half the service sector workforce, continued their upward trend and added 110,000 workers during 1995. Most of this increase was attributable to the commercial component, which includes industries such as amusement and recreation, business services, personal and household services, and accommodation, food and beverage services. Although at a slower pace than the previous year, business services continued to register the largest gains (almost 50,000, unadjusted) within the commercial services. On the other hand, government cuts had an effect on employment in most of the non-commercial services, such as education, health and social services. Employment in these services had levelled off in 1994 and the trend continued in 1995.

As a result of weak consumer demand, which affected retail sales from the summer on, trade experienced variations in employment and ended 1995 with 45,000 more workers. Employment growth in finance, insurance and real estate occurred only in March, May and June, reflecting a short improvement in house sales helped by the easing of mortgage loan rates, partly in Ontario but mainly on the west coast. Transportation, communication and other utilities industries posted employment growth in 1995, with 34,000 more workers by year end. In sharp contrast to 1994, transportation and storage took the bulk of this increase in 1995, mostly because of shipments of

Chart E
Employment in commercial services did relatively well in 1995.



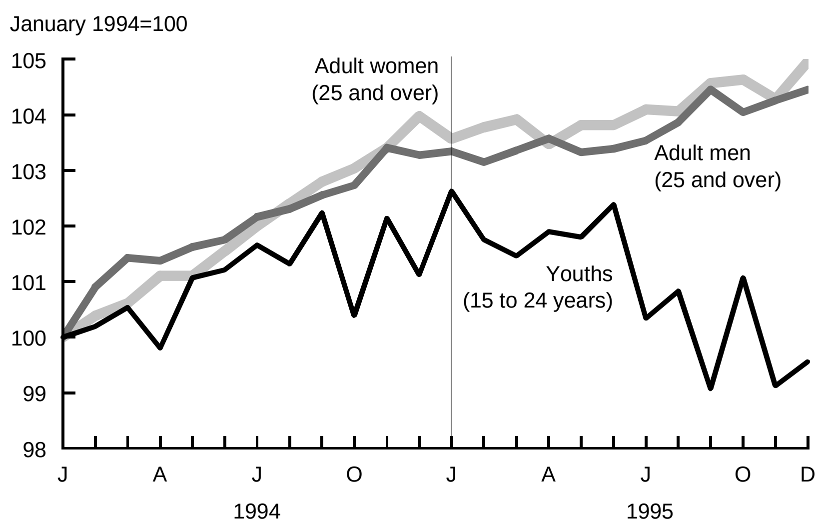
Source: Labour Force Survey
* *Commercial services includes amusement and recreation, business services, personal and household services, accommodation, food and beverage services, membership organizations (except religious), and other services.*
** *Non-commercial services includes education, health and social services, and religious organizations.*

machinery and equipment to the United States and across Canada. There was almost no growth in communications, while employment in other utilities continued its decreasing trend started in 1994. Those most directly affected by government cuts at all levels were public administration employees,[8] whose numbers were reduced by 79,000 during 1995.

Full-time employment growth slowed except among adult men

Both adult and young workers had benefited from the strong employment growth in 1994 but only adults (25 years and over) did in 1995 and then at a much slower pace (Chart F). As well, in contrast to 1994's healthy gains in full-time work, the growth in 1995 was made up largely of part-time employment (Chart G).

Chart F
After modest growth the previous year, youth employment registered a large decline in 1995.



Source: Labour Force Survey

While full-time work accounted for over half (57%) of the 72,000 increase in employment of adult men during 1995, over two-thirds (69%) of the 48,000 rise in adult women's employment was part-time. In the meantime, youth employment took a sharp dip of 32,000 as their full-time employment dropped by 48,000 and part-time rose by 16,000. Losses were more significant among young women, who accounted for more than two-thirds of the total drop in youth employment.

Unemployment declined but ...

Since September 1994, unemployment had remained below 1.5 million and it had fallen to 1.4 million by September 1995, certainly an encouraging signal. But a reduction in the number of people unemployed in the country is good news only if the decline can be attributed to employment gains. Unfortunately, this decrease was only partly attributable to employment growth; most of it resulted from a drop in labour force participation.

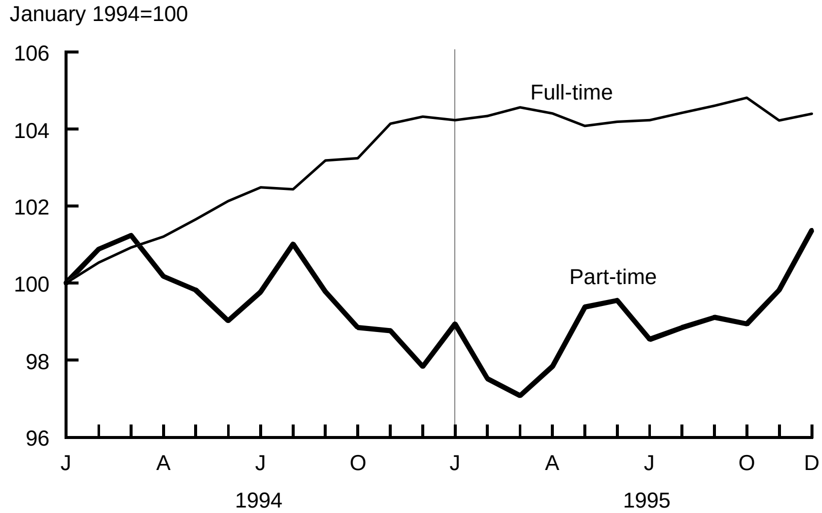
Adults saw their unemployment rate decline slowly during 1995 from 8.7% in January to 8.1% by year end, while the rate for youths climbed from 14.8% to 16.1% over the same period.

... people stayed away from the labour market

In theory, good labour market conditions with strong job creation set the scene for higher labour force participation as more jobless people start to look for work. Those conditions were present in 1994, yet the overall labour force participation rate (the proportion of people aged 15 and over with jobs or looking for work) fell rather than rose. Consequently, it is no surprise that the stagnant conditions of 1995 further diminished people's perceptions about employment opportunities. Thus, the participation rate went down again in 1995, reaching an annual average of 64.8%, its lowest point since 1983. (It had been higher (66.7%) even during the 1991 recession year.)

Men continued their long-term decline begun almost three decades ago. Their participation rate in 1995 averaged 72.5%, a drop of 3.8 percentage points since 1990 (Table 1). Over this five-year period, the most significant change occurred among young men and to a lesser extent among those forming the core of the male workforce, the 25 to 54 year-old group. For those aged 55 and over, early retirement, whether planned or not, partly explains the decrease.

Chart G
In 1995, part-time took over as the key component of employment growth.



Source: Labour Force Survey

Table 1
Annual average labour force participation rates

	1990	1991	1992	1993	1994	1995	% point change 1990-1995
				%			
Men	**76.3**	**75.1**	**74.0**	**73.5**	**73.3**	**72.5**	**-3.8**
15-24 years	71.4	69.1	67.0	65.5	65.2	63.9	-7.5
25-54 years	93.3	92.5	91.6	91.6	91.4	91.0	-2.3
55 and over	37.4	36.0	35.2	34.0	34.0	32.6	-4.8
Women	**58.7**	**58.5**	**58.0**	**57.8**	**57.6**	**57.4**	**-1.3**
15-24 years	67.0	65.5	63.6	61.5	60.6	60.4	-6.6
25-54 years	75.7	76.0	75.6	76.0	75.7	75.9	0.2
55 and over	17.3	16.9	17.0	17.0	17.2	16.5	-0.8

Source: Labour Force Survey

As mentioned in the year-end review of the 1991 labour market (Cross, 1992), women's overall participation rate had dropped slightly for the first time. Since then, it has continued to slide, reaching 57.4% in 1995. After five years of decline, what was seen as a "puzzling" situation – since women's rate had steadily increased from the mid-seventies on (Akyeampong, 1995) – may no longer be a "blip" in the statistics but rather a reversed trend. Young women staying in school longer than before (Sunter, 1994) drove the overall rate down as their older counterparts (25 to 54 years old) kept relatively stable rates.

Table 2
Annual average unemployment rates by province

	1994	1995	% point change
	%		
Canada	**10.4**	**9.5**	**-0.9**
Newfoundland	20.4	18.3	-2.1
Prince Edward Island	17.1	14.7	-2.4
Nova Scotia	13.3	12.1	-1.2
New Brunswick	12.4	11.5	-0.9
Quebec	12.2	11.3	-0.9
Ontario	9.6	8.7	-0.9
Manitoba	9.2	7.5	-1.7
Saskatchewan	7.0	6.9	-0.1
Alberta	8.6	7.8	-0.8
British Columbia	9.4	9.0	-0.4

Source: Labour Force Survey

Across the country

British Columbia and Alberta, benefiting from population growth and strong business investment – which kept consumer demand alive with house and retail sales higher than in the rest of the country – both ended 1995 with higher employment (23,000 and 13,000, respectively) than in December 1994. Saskatchewan recorded a loss of 6,000 while Manitoba had no significant change.

After experiencing strong employment variations in manufacturing (because of lower exports as well as weak domestic demand, particularly for motor vehicles) and large cuts in the public sector, Ontario ended 1995 at almost the same level as December 1994. Quebec, being less reliant on the automobile sector, recorded the largest gain (44,000), mostly in the service-producing industries except public administration. In the Atlantic provinces, New Brunswick's employment declined by 5,000 while Nova Scotia continued its 1994 upward movement with an increase of 12,000. There were also gains in Prince Edward Island and Newfoundland (3,000 and 2,000, respectively).

Annual average unemployment rates declined in all provinces (Table 2). Most of the large metropolitan areas across Canada had registered major declines in unemployment rates in 1994. However, the slower economic growth of 1995 moderated the downward trend, with a few exceptions in the western provinces (Gower, 1996).

International comparisons

Canada was not the only country of the G-7[9] to experience smaller output growth in 1995 than in the previous year. During the first eight months of 1995, there was almost no change in industrial production in the United Kingdom or in the United States and a slight decline in France. Only Germany, Japan and Italy registered upward trends in their industrial production during the same period. In terms of employment, estimates published by the OECD in December 1995 show that Canada and the United States shared the highest annual average growth rate (1.6%, see Note 6). France was next with 1.2% while the United Kingdom and Italy both registered 0.5%, followed by Japan with 0.2% and Germany with a loss of 0.3%.

Summary

As much as 1994 was a year of strong economic growth with major employment gains, higher average earnings and reduced unemployment, 1995 was a year of weak performance. Output growth slowed very early in the year mainly because of reduced exports to the United States but also because domestic demand, which had started the year on an upswing, quickly responded to the slower economic activity with lower consumer spending on durable goods. The increase in employment was less than one-quarter of that recorded during 1994 and mostly in less lucrative part-time work. The unemployment situation hardly moved as more people, especially youths, stayed away from the labour force.

Since this article was prepared, Statistics Canada has made some changes to the Labour Force Survey. These modifications took effect February 9, 1996 with the release of the January 1996 data. Historical series have also been adjusted back to 1976. For more information, see "What's new" in this issue.

Notes

1 The share of real GDP accounted for by exports has been on the increase since the recent recession and now amounts to nearly 40%; therefore, strong variations in that component of GDP have a substantial effect on the Canadian economy.

2 After leading the large gains in real GDP in 1994 with well over $12 billion in each of the last three quarters, total exports increased by only $4.3 billion in the first quarter of 1995 and dropped sharply (-$6.9 billion) in the second quarter. They bounced back in the third quarter with a rise of $5.9 billion mostly thanks to a notable jump in automobile shipments to the United States in August. But that month was an exception and as the U.S. economy slowed down in the fall, exports fell again in October.

3 The Help-wanted Index is compiled from the number of help-wanted ads published in 22 newspapers in 20 major metropolitan areas. The index is an indicator of the intent of employers to hire new workers.

4 The Conference Board's Index of Consumer Attitudes rose marginally in the third quarter of 1995 for the first time in four quarters, although it remained below the 1994 average.

5 The self-employed are working owners of businesses (incorporated or unincorporated), professional practices or farms. On Chart C, the line labelled "self-employed" also includes unpaid family workers (persons who work without pay on a farm or in a business or professional practice owned and operated by another family member living in the same dwelling). Public sector employees are those working for government departments or agencies, crown corporations, or publicly funded schools, hospitals or other institutions. Private sector employees are all other wage and salary earners.

In Chart C, the private sector refers to the lines for self-employed and private sector employees.

6 The annual average growth rate of overall employment in 1994 was 2.1%; it was lower in 1995 (1.6%). However, annual averages tend to mask large monthly variations. For example, annual average employment in 1994 was 277,000 higher than the 1993 annual average. The 1995 annual average exceeded 1994 by 214,000, an increase not much smaller than the previous year. On the other hand, when one looks at the variations in monthly employment levels registered during 1995, the overall increase in employment (between December 1994 and December 1995) was only 88,000, considerably smaller than the increase of 382,000 during 1994 (between December 1993 and December 1994). For this reason, the following analysis on the changes in employment will use monthly changes to better reflect the evolving labour market conditions during 1995.

7 Community, business and personal services are split into commercial and non-commercial services in Chart E.

8 Public administration employees is a sub-group of public sector employees. See note 5 for a definition of the latter.

9 The G-7 countries are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

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