

The labour market: Mid-year review

Ian Macredie

At the mid point of 1996 the question we ask is: will this year resemble 1994, whose employment growth showed what the economy is capable of, or will it look like 1995, a year more typical of trends in the 1990s?

Employment grew steeply and steadily in 1994. Perhaps even more remarkably, almost all of this employment growth was full-time. Job gains were so substantial that they induced the first year-to-year increase in average family income since 1989 – hardly the “jobless recovery” so widely reported. This employment growth also created the first sustained decline in the unemployment rate in the 1990s.

The following year was quite another story. Employment growth in 1995 returned to the modest rates that have come to prevail in the 1990s. Growth over the course of the year (99,000) was only 26% of what it had been the previous year. In addition, the rate of part-time job creation exceeded the rate for full-time jobs. While the unemployment rate continued to drift downwards, it did so more slowly than it had in 1994.

The economic environment

The relationship between changes in aggregate economic growth and changes in employment is not fixed through time. Nevertheless, there is a strong correlation historically. So in putting the first half of this year in the context of employment growth of the two previous years, it would be worthwhile to look at concurrent macro economic developments.

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Many of the trends observed in 1995 seem to have continued into this year. However, the June 1996 Labour Force Survey (LFS) results show unexpected reductions in employment (-56,000), particularly full-time employment, and these were concentrated in Quebec. Combined with a relatively small increase of 36,000 people in the labour force, this resulted in a rise in the unemployment rate to 10.0%, well above the 9.2 to 9.7% range to which it had been confined since 1994.

The analysis in this article takes a cautious approach to the interpreta-

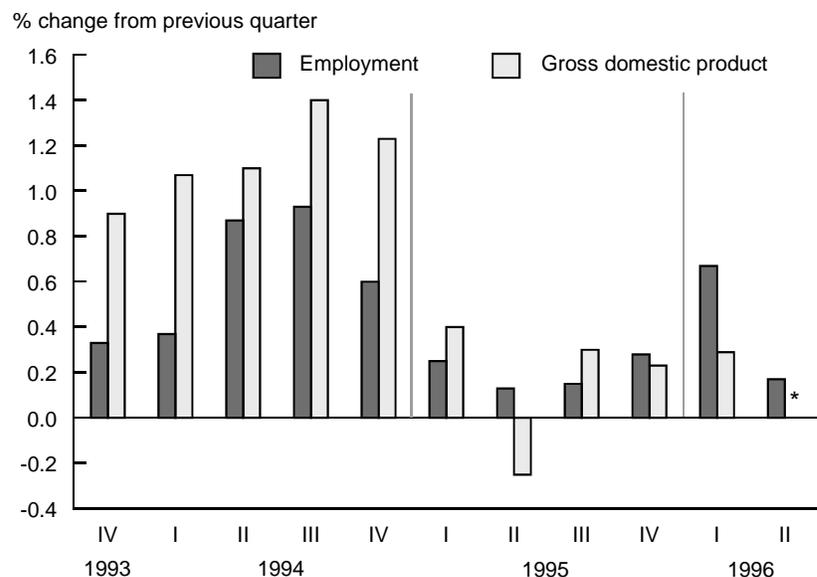
tion of the June results and generally treats the first five months of data as indicative of trends for the first half of the year.

This article is based on LFS data available as of July 5, 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.

Throughout 1994, growth in gross domestic product (GDP), one measure of economic performance, was quite strong, especially in the last two quarters (Chart A). This rate of growth fell off dramatically

in 1995, followed quickly by reductions in employment growth. GDP growth in the first quarter of this year showed a rate similar to those observed in the last half of 1995.

Chart A
GDP growth in early 1996 continued the pace of late 1995.



Sources: Labour Force Survey, and National Accounts and Environment Division
* Second-quarter GDP figures not available.

Exports seem to be playing an ever more important role in employment creation in Canada, especially merchandise exports. The rapid employment growth in 1994 was linked to overall export growth of 15% over the previous year with a 20% increase in merchandise exports. In 1995, growth rates for overall and merchandise exports were around 12% and 14%. May 1996 merchandise exports were only about 6% higher than those of May 1995, which in turn were 17% above those of May 1994. This falling off does not augur well for employment growth in 1996, although current employment levels, at least in the goods sector, should be maintained.

Employment

The industry dimension

The employment growth in 1994 was the product of exceptional gains in the goods sector supported by growth in services at rates established in the previous year and a half. In 1995, goods-producing job growth wilted, its effect on total employment compounded by a slowdown in job creation in services (Chart B). In other words, in both years the two broad sectors conspired to move the total in the same direction, up in 1994 and almost flat in most of 1995.

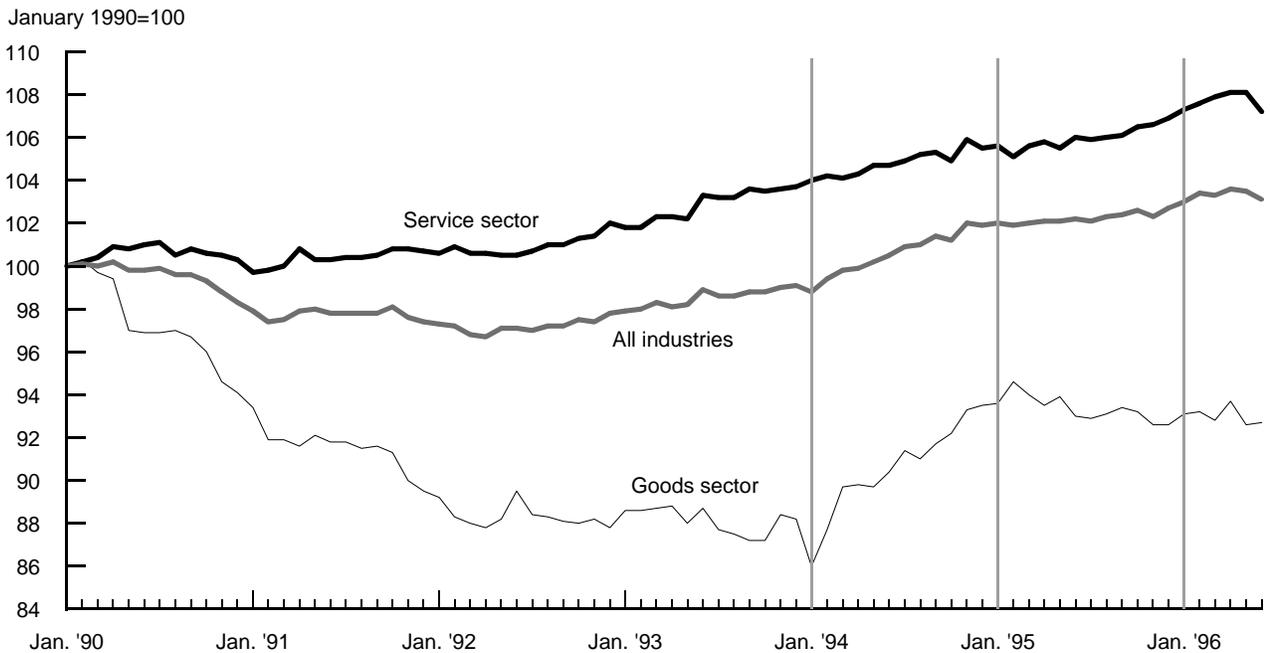
This year, with the exception of June (see box), overall employment growth has been only margin-

ally better than in the first five months of 1995, and all the growth can be attributed to services. The goods sector has shown no meaningful change.

Intermittent job growth in manufacturing

Manufacturing employment showed almost no improvement last year after its substantial post-recession rebound in 1994. So far this year, the estimates of employment for this industry show almost no discernible trend. As has been established in previous labour market reviews (Akyeampong, 1995; Dumas, 1996), there is a strong link between the level and trend in exports and the level and trend in employment in manufacturing.

Chart B
Except for 1994, when growth in the goods sector excelled, the service sector has been the main source of employment growth.



Source: Labour Force Survey

Clearly, unless the balance of 1996 sees export growth on a scale witnessed in 1994, manufacturing is not going to be the engine of employment growth this year without a dramatic increase in domestic demand.

Construction declines

Construction employment has continued a downward trend begun in 1995 following a strong performance in 1994. From December 1995 to June 1996, the month-to-month declines amounted to a 5% reduction.

Since relatively low interest rates have failed to spur construction growth, it is unclear whether further decreases, if they occur, would be of significant benefit to this industry in the balance of 1996.

Service sector shows more predictable growth

For the first five months of 1996, the service sector continued its role as the source of employment growth. The June data stand out as a sudden and dramatic interruption of this pattern. After a series of increases and decreases, the goods-producing estimates showed effectively no change from May. The June service sector estimates were down substantially (-84,000), mainly owing to trade (-26,000), public administration (-25,000) and finance, insurance and real estate (-14,000). However, whether the May-to-June changes represent the beginning of a new trend will depend on the LFS results for at least July and August (see box).

Full- and part-time workers

What set 1994 apart from other recent years was not only the rate of employment growth but also its composition. Almost all growth was in full-time workers. The number of part-time workers actually declined by 2.2%. The following year saw a resumption of the

“traditional” pattern of the 1980s and 1990s, with growth in part-time work exceeding growth in full-time (4.9 versus -0.2%).

In terms of relative growth rates, this year started out looking more like 1994 than 1995. From December 1995 to May 1996, full-time workers increased by 1.1% while part-time workers declined by 0.5%. However, this trend can be sustained only if June’s decline in the number of full-time workers is reversed in the next few months.

Help-wanted Index offers little encouragement

The Help-wanted Index, compiled from the number of help-wanted ads in 22 major metropolitan newspapers, is a measure of companies’ intentions to hire new workers. The index (June 1991=100) increased through 1994 to reach a high of 102 in November, holding this level through December and January 1995. It began to decline in February 1995, reaching 90 in January of 1996 and 87 by April. It has since moved to its current (June) level of 89. To the extent that changes in the Help-wanted Index anticipate future employment growth, the data for the first half of 1996 are not indicative of strong growth in the next few months.

The provincial dimension

The pattern of employment growth in 1994 and 1995 observed at the national level was not reflected in all provinces: some experienced a lacklustre 1994 and others continued to enjoy substantial employment growth throughout 1995. Similarly, in 1996 some provinces’ performances have been at odds with the national trend.

Atlantic Canada is a mixed picture

Newfoundland showed a flat employment trend in both 1994 and 1995 (Chart C). This year is shap-

ing up to look like neither of the others, with a strong downward trend after December 1995 providing an inauspicious beginning.

Prince Edward Island shows a different pattern, but it too bears little resemblance to the national pattern over the past couple of years. Since at least December 1993, employment in that province has shown an upward trend, with variation. The end of 1995 and the first half of 1996 appear to represent the beginning of a new trend of little growth, or possibly decline.

Nova Scotia and New Brunswick showed some similarity to the national pattern in 1994 and 1995. But compared with Newfoundland and Prince Edward Island, they reveal no evidence of a downward trend so far.

Central Canada exhibits increasingly modest growth

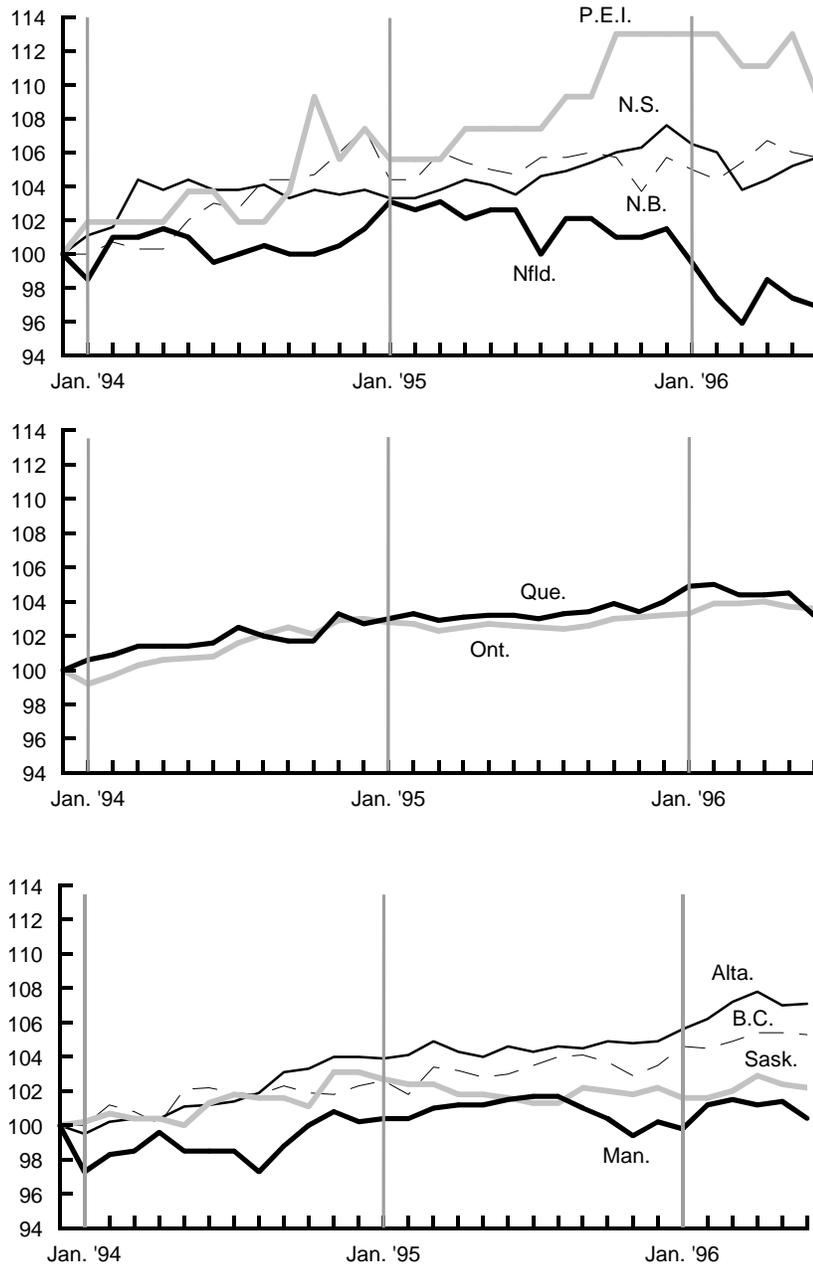
The patterns of change in employment in Ontario and Quebec are similar. Both provinces showed sustained growth in 1994, little change until the autumn of 1995, then resumption of weak growth in late 1995 and into this year. However, the softness of employment in April, May and June (particularly June in Quebec) means that the 1994 growth will not be repeated this year, although the 1995 rates of 0.2% (Ontario) and 1.3% (Quebec) might be seen again.

Western Canada: Alberta and British Columbia distinguish themselves

Over the entire two-and-a-half year period there has been a modest upward trend in employment in Manitoba, a pattern not evident elsewhere. In January of this year, employment stood where it had been in December 1993 and has shown little improvement since then.

Chart C
Job creation in Alberta and British Columbia continues to be impressive.

December 1993=100



Source: Labour Force Survey

In Saskatchewan, as in Canada as a whole, there was growth in 1994, but unlike the country as a whole, no sustained change after that. The first six months of this year suggest that 1996 will be much like 1995.

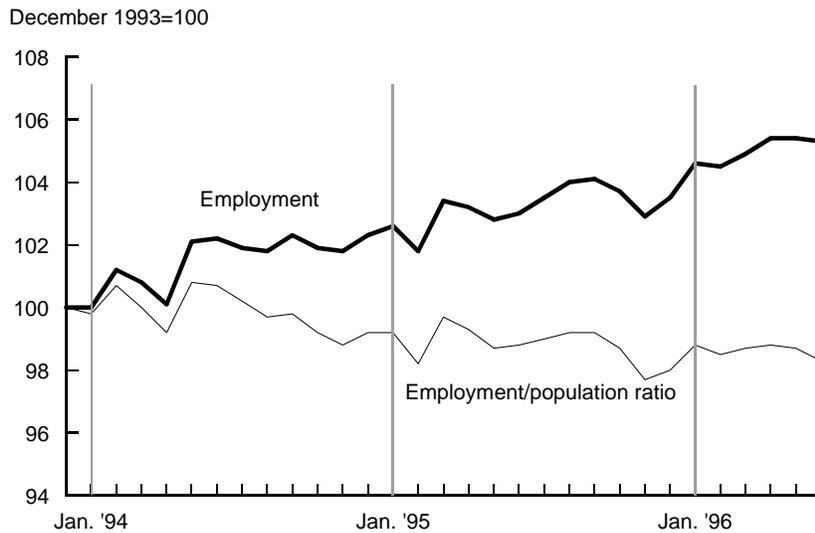
Alberta's and British Columbia's capacity to create jobs continues to be impressive. While 1994 was a year of considerable growth in these provinces as in most others, it was in 1995, and especially so far in 1996, that the two most westerly provinces have shown employment growth that sets them apart. In the first six months of this year, were it not for the combined increase of 31,000 in these two provinces, Canada's overall employment would have declined by 23,000.

The employment/population ratio

The employment/population ratio, or employment rate, expresses the percentage of the working-age population with jobs. As such it measures the extent to which the economy's capacity to generate jobs is keeping pace with changes in the size and composition of the population.

Movements in the employment levels are considerably dampened when employment is expressed as a percentage of the working-age population. This is to be expected, since the population is generally growing. It takes continuous employment growth, therefore, just to keep the employment rate from declining. This can be somewhat starkly illustrated by British Columbia (Chart D) where in-migration has given the province exceptional population growth.¹ Even sustained employment growth has failed to offset population increases; consequently, the employment rate has declined.

Chart D
Despite strong employment growth in British Columbia, the employment/population ratio has fallen.



Source: Labour Force Survey

Employment rates for adult women are returning to their pre-recession peaks. The gap between pre-recession and current rates is largest for youths, but even for men aged 25 to 54 a gap of 5.5 percentage points remained in May (since their February 1988 peak). Closing this gap for these men, even assuming no population growth for the balance of the year, would require an employment increase of 370,000, two-and-a-half times greater than their growth in 1994.

As for youths, there is no evidence so far of a return to the trend set at the beginning of the decade. This year has seen a series of one-month increases and offsetting decreases.

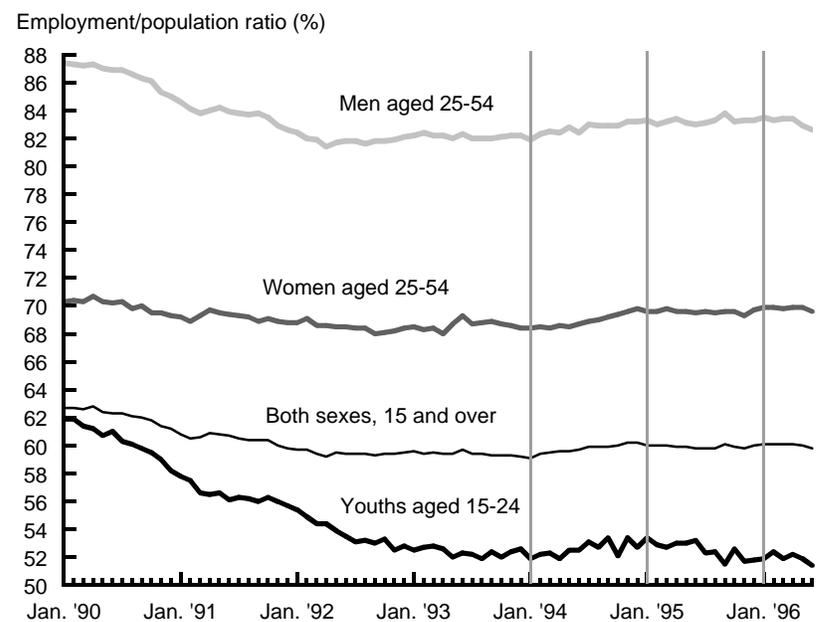
The participation rate

The participation rate shows the percentage of the working-age population engaged in the labour

Keeping in mind the effect of population growth on the employment/population ratio, how did the contrasting years of 1994 and 1995 play out in terms of changes in the employment rate, and how, in comparison, is 1996 evolving?

To some extent, all three of the demographic groups whose data are displayed in Chart E show some evidence of having benefited from the employment growth of 1994. In the case of youths, the evidence is weak, especially considering that the size of this population has barely changed throughout the 1990s. The adult groups show the effects of the continuously growing population, with last year's slow employment growth making no difference to the employment/population ratio. Only for adult women is there evidence that 1996 is shaping up to be a better year than last, but this impression is based primarily on the December 1995-to-January 1996 increase.

Chart E
The employment rate for youths continues to decline.



Source: Labour Force Survey

market, either through employment or the search for employment. Because it is the product of individual, personal decisions, the participation rate is a less economically "sensitive" or "driven" statistic than the employment rate. This rate tends to exhibit trends that last for years and that are less a reflection of the labour market *per se* than of changing social values. The decades-long, uninterrupted growth in the labour force participation rate for women is the best known example of such a trend. Nevertheless, when viewed historically, changes in the participation rate around these longer trends do correlate with changes in labour market conditions. The challenge is to determine whether certain changes are responses to labour market developments or the beginning of new trends.

The patterns in the 1990s in adult participation rates pose just such a challenge. Data for adult

women reveal that after more than two decades of uninterrupted increases, overall adult female participation rates (expressed as annual averages) show no sustained change after 1991. Within specific age groups, the picture changes only moderately. For example, the rate continued to increase for women aged 45 to 54 until 1993 but has levelled out since then.

So far in 1996, there is no strong evidence of continuous increases re-emerging.³ This suggests new trends in women's labour force participation, since one would have expected their rate to increase in response to the employment growth in 1994 and 1995.

The participation rate for adult men continues to decline as it has for many years. This is not news. The declining participation rate of men aged 55 to 64 has been documented repeatedly. What may be

more newsworthy is the fact that this pattern of declining participation rates has extended to all adult age groups (Table).

Whether the declines for relatively young men (aged 25 to 44) constitute a new trend, or whether they will cease in the face of yet further employment growth, remains to be seen. In the meantime, what is called for is some analysis into whether these men are leaving the labour force for brief or sustained periods.

The youth participation rate has been sliding throughout the 1990s with no sign of ending. Just how much of this can be attributed to the severe labour market difficulties that youths have been experiencing is not clear. For some time young people have been staying in school longer, and full-time students have historically been associated with lower labour force participation rates. However, are

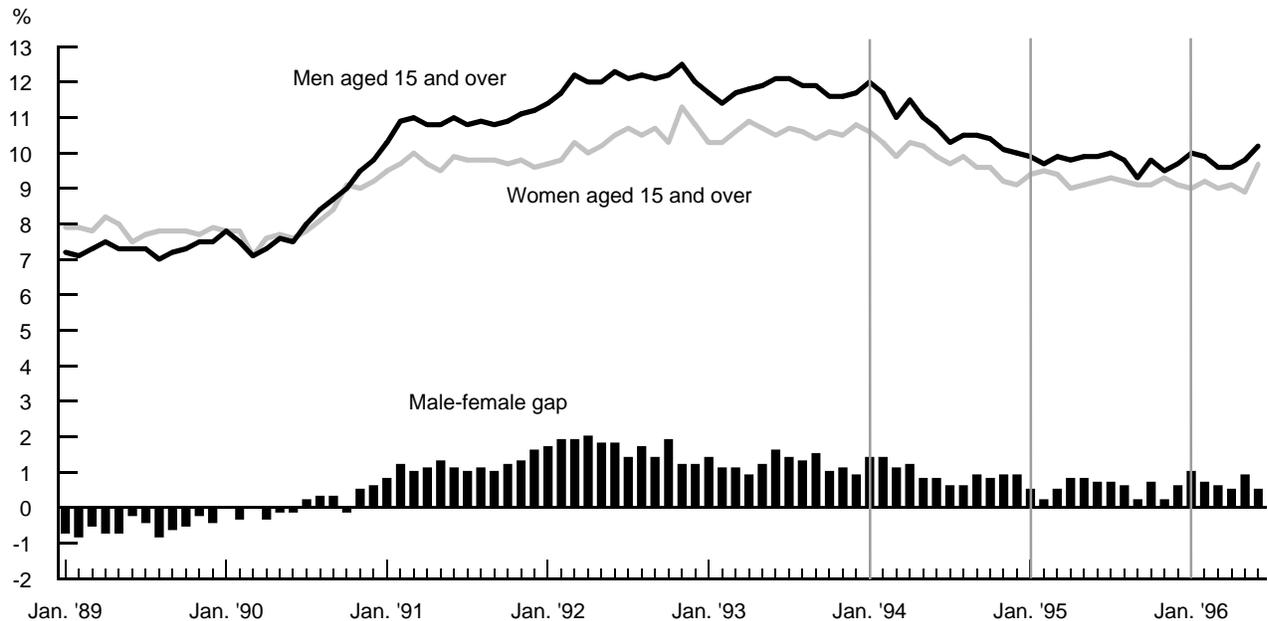
Table
Labour force participation rates by age and sex

	Both sexes				Men				Women			
	25 - 54	25 - 34	35 - 44	45 - 54	25 - 54	25 - 34	35 - 44	45 - 54	25 - 54	25 - 34	35 - 44	45 - 54
	%											
Annual averages												
1989	84.2	85.4	86.0	79.7	93.8	94.1	94.7	91.7	74.7	76.5	77.2	67.6
1990	84.5	85.6	86.3	79.9	93.3	93.7	94.3	91.0	75.7	77.4	78.4	68.7
1991	84.3	85.1	86.1	80.3	92.5	92.6	93.7	90.6	76.0	77.5	78.4	70.0
1992	83.6	84.0	85.2	80.6	91.6	91.6	92.8	90.0	75.6	76.4	77.7	71.1
1993	83.8	84.0	85.8	80.8	91.6	91.7	92.9	89.7	76.0	76.3	78.7	71.9
1994	83.6	83.7	85.5	80.7	91.4	91.2	92.7	89.8	75.7	76.1	78.4	71.5
1995	83.4	83.8	85.2	80.6	91.0	91.1	92.2	89.4	75.9	76.5	78.2	71.9
1996 monthly rates												
January	83.8	84.4	85.7	80.5	91.5	91.8	92.8	89.3	76.1	76.9	78.7	71.5
February	83.8	84.5	85.6	80.5	91.3	91.8	92.3	89.2	76.3	77.1	78.9	71.7
March	83.6	84.7	85.3	80.1	91.1	91.7	92.0	88.9	76.1	77.8	78.5	71.2
April	83.7	84.7	85.2	80.3	91.2	91.8	92.1	89.1	76.2	77.8	78.2	71.5
May	83.5	84.4	85.0	80.5	90.9	91.6	91.7	89.1	76.1	77.4	78.3	71.7
June	83.6	84.7	84.9	80.4	90.9	91.6	91.6	89.1	76.3	77.9	78.1	71.7

Source: Labour Force Survey

Chart F

Since the last recession, men's unemployment rate has exceeded women's, although the gap has narrowed.



Source: Labour Force Survey

they staying in school only because job prospects are poor? To the extent that this argument holds, there is a link between deteriorating labour market conditions for youths (evident, for example, in the declining employment/population ratio) and their low labour force participation rate, even though this link is obscured by changes in the school enrolment rates.

The unemployment rate

Compared with the rapid rise in unemployment rates during the last recession, the movements since the end of 1993 have been relatively gradual.

The beginning of a downward trend occurred with the strong growth in employment in 1994.

With only moderate employment growth in 1995 the unemployment rate continued to drift slowly downward in the first part of that year. In 1996, with the exception of June, this drift has halted altogether and the overall rate has kept to a narrow range centred on 9.5%.

As it did during the most recent recession and subsequent recovery, men's unemployment rate continues to exceed women's. Historically, this reversal in the relative rates has been seen only briefly during recessions such as the one in the early 1980s. The two unemployment rates are now converging (Chart F). Whether this reversal reflects the lingering effects of the recession, or a more permanent shift in the relative labour market experiences of men and women, remains to be seen.

Summary

While the growth rate in the goods sector exceeded that of services in 1994, the latter has been the exclusive source of overall employment growth so far in 1996, as it was in 1995.

The 1980s pattern of a generally more rapid growth in part-time employment seems to have become less stable in the 1990s. In 1994, full-time employment growth vastly exceeded that of part-time employment. There is some evidence that the dominance of full-time work may be repeated in 1996, though not as markedly as in 1994.

The national pattern of employment growth is by no means reflected in the paths followed by individual provinces. Some of the Atlantic provinces are seeing

faltering employment growth in 1996, while Alberta and British Columbia continue to create employment. Ontario shows little sustained growth and Quebec has suffered recent declines.

The movements in the employment rate show that what strength there has been in employment creation, has barely exceeded population growth for some of the major demographic groups. Only adult women have regained the employment rates they experienced at the beginning of the 1990s. These slow movements continue to be evident in 1996.

Throughout the 1990s, the labour force participation rates for the major age/sex groups have continued either to remain stable or to decline. For women this lack of growth has been in contrast with earlier decades. Men between 25 and 44 have been experiencing sustained declines for the first time.

The unemployment rate, at least until June 1996, has shown little movement since mid-1995, staying within the 9.2 to 9.7 range. The June estimate of 10.0% deviates from the trend.

If the changes noted in the June LFS prove to be fleeting, 1996 may unfold the way 1995 did. If the May-June changes prove to be more lasting, 1996 may well end up being an even slower growth year than 1995. □

■ Notes

1 In 1995, British Columbia had net immigration of nearly 24,000 people. The next closest province was Alberta with just over 2,000. In six of the remaining provinces, out migrants exceeded those moving into the province.

2 In this section, adults are defined as 25 to 54 year-olds rather than 25 and over. With an aging population, trends in the proportion of the population that is retired would obscure trends in the employment rate of those who have historically been most likely to work given the job opportunities available.

3 It appears that in the United States, the female participation rate, after pausing from 1989 to 1993, resumed its upward trend in 1994.

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