

The labour market: Mid-year review

Jeffrey Smith

Many analysts have predicted that 1997 would be a good year for the Canadian economy and labour market. While a range of forecasts was offered, optimists called for as many as 350,000 new jobs, GDP growth near 4%, and an unemployment rate below 9% by year's end. Even those less exuberant expected improvements over last year. Is 1997 living up to expectations?

This article reviews the major economic and labour market developments in the first half of 1997. Results are compared with other years in the 1990s, and a few forecasts are reviewed.

The economic environment

Strong signals early in 1997

After relatively slow growth during 1995 and for the first half of 1996, growth in real gross domestic product (GDP) strengthened substantially. Following six quarters of 0.4% or less, the last two quarters of 1996 and the first of 1997 each posted gains of about 0.8% (Chart A). On an annualized basis, this year's first-quarter growth was 3.4%. Stated another way, the first quarter of 1997 represents a 2.8% increase over the first quarter of 1996. While this recent performance does not quite match 1994, it nonetheless suggests that the better-than-3% growth forecasted by some may be plausible (see *Overview of forecasts for 1997*).

The first-quarter gain was associated with increases in merchandise exports (6.3%), personal expenditures on consumer goods and services (1.3%), and business investment in machinery and equipment (5.9%, following 8.1% and 6.9% gains in the

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This article is based mainly on information from the Labour Force Survey (LFS) available as of July 11, 1997. 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 variations.

LFS estimates for January 1997 are the first to be based totally on a new

questionnaire, phased in since September 1996. All its seasonally adjusted series have been revised back to 1976, reflecting changes in methodology. In addition, the LFS has introduced several new variables. Details of these changes can be found in two documents available on the Internet (Statistics Canada; Sunter et al.).

Unless otherwise stated, figures quoted for the gross domestic product (GDP), or any of its components, are expenditure-based, at market prices, expressed in 1986 dollars.

Overview of forecasts for 1997

Around the beginning or end of each year, forecasts concerning the economy and the labour market abound. After a very good 1994, a weak 1995 and 1996, many banks, consultants and other organizations were optimistic about 1997. They called for improved economic and employment growth, continuing low inflation and interest rates, and some relief from stubbornly high unemployment rates. No particular forecasts are singled out here, but a general summary recalls the mood and range of predictions made for the country as a whole.

GDP: Most predictions for 1997 growth were in the 2.6% to 3.8% range, with 3.0% to 3.3% being typical. For the most part, annual GDP growth in the 1990s has been more modest. The 4.1% gain posted in 1994 was the strongest, followed by 1995 (2.3%) and 1993 (2.2%). GDP grew by 1.5% in 1996.

Employment: A range of opinion on employment growth suggested estimates of 1.9% to 2.6%, yielding a level 260,000 to 355,600 higher than last year's 13,676,200 (annual average). Based on the December 1996 figure (13,753,700) rather than the annual average, these growth rates would

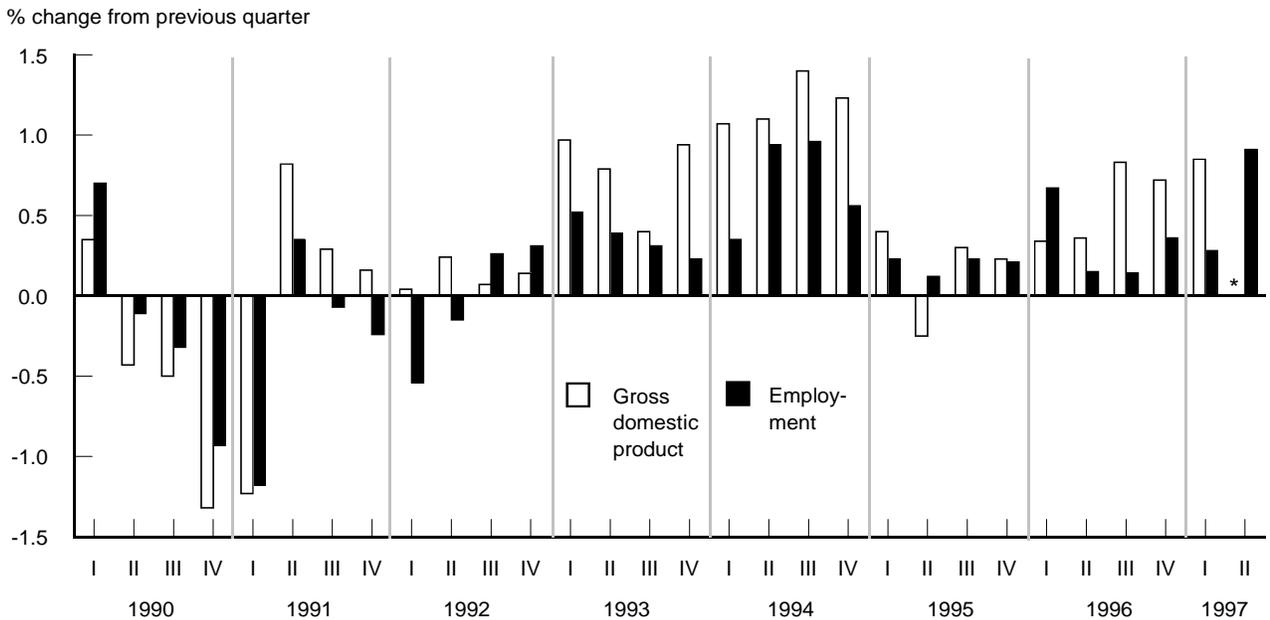
imply an employment gain of 261,300 to 357,600. The mid-point of either range is about 310,000. As with GDP, such growth would be the best since 1994, when employment rose by 276,900 (2.1%) on an annual average basis and about 381,200 (2.9%) on a December-over-December basis.

Unemployment rate: Most commentators were calling for some slight downward movement in the national unemployment rate over the course of the year, to approach 9% by year end (a few even predicted a rate below 9% by December 1997). Typical were average rates in the 9.4%-to-9.6% range, close to that of 1995 (9.5%). The 1996 annual average was 9.7%, which was also the rate recorded for December 1996.

Inflation: The relatively low levels seen recently were expected to continue in 1997. Typically, the 1.5% annual change in the Consumer Price Index (CPI) seen in 1996 was expected to repeat in 1997, with forecasts of 1.4% to 1.6% common.

General: Forecasters also saw continuing low interest rates and some strengthening in consumer spending and exports.

Chart A
Employment growth in the second quarter of 1997 was the best since 1994.



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

previous two quarters). These were the three greatest contributors (in the order given) to the first-quarter change in GDP, essentially mirroring most years in the 1990s.¹

Opinions differ on whether exports or consumers are leading current economic growth.² On the one hand, consumer spending is the largest component of real GDP (59.7% as of the first quarter of 1997) and its gains in the last two quarters (each greater than 1%) are the first consecutive ones of this magnitude for the decade (Chart B). On the other hand, merchandise exports have been posting greater quarterly gains in the 1990s and have increased their share of real GDP by a factor of 1.6 (to 39.7% in the first quarter of 1997).³

Preliminary indications for the second quarter are also strong. On a monthly basis, real GDP at factor cost

rose 0.8% in April. Manufacturers, wholesalers and retailers (all of whom suffered losses in March) accounted for about 60% of the gain in production. Financial and related services and the mining sector also contributed significantly to the advance.

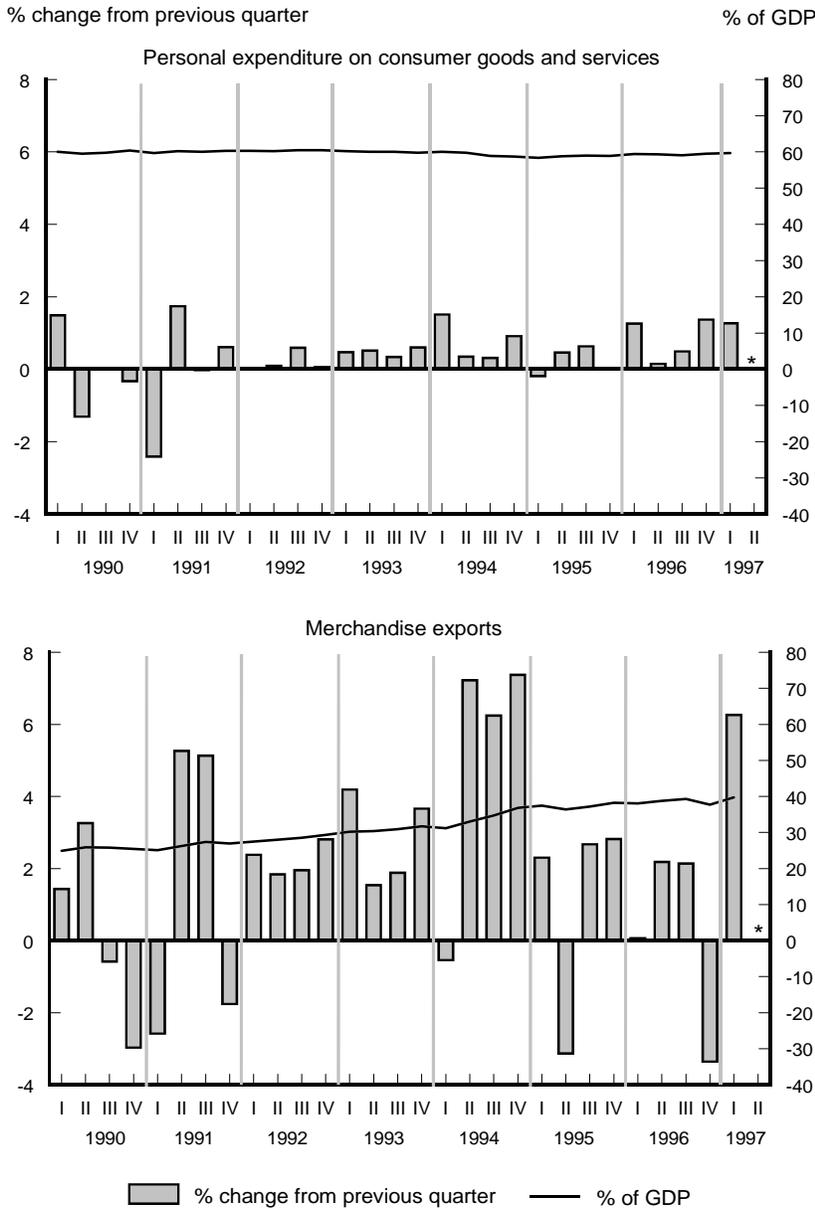
Other economic indicators

Continuing low interest rates and low inflation have no doubt been a factor in the resurgence of spending on consumer goods and services and housing. For most of 1996, the change in the seasonally adjusted monthly Consumer Price Index over the same month in the previous year stayed near 1.5%. It began to rise in November, reaching 2.3% this January and February. Since then, the increases have been tapering off (to 1.7% in June), returning to levels seen for much of the post-recession nineties.⁴

The prime rate averaged 6.06% in 1996, but finished the year at 4.75% (December average). The average for each of the first 6 months of 1997 held steady at 4.75%. For 1996, conventional mortgage rates averaged 6.19% and 7.93% for one and five years, respectively, but were 5.20% and 6.95% in December. Mortgage rates have stayed relatively low this year (June averages were 5.20% and 7.00%). In June, a one-quarter point rise in the bank rate (from 3.25% to 3.50%) failed to trigger a rise in other rates. And in July, the U.S. Federal Reserve Board decided not to raise interest rates. This move should help to keep Canadian rates steady, at least in the short term.

Similarly, part of the export strength over the 1990s can be attributed to the steady weakening of the Canadian dollar against the U.S. dollar. In 1990, the exchange rate

Chart B
Merchandise exports account for an increasing share of GDP.



Source: National Accounts and Environment Division
* Second-quarter figures not available.

averaged 1.167 (Canadian dollars per U.S. dollar). It rose from 1992 to 1995 and has held more or less steady since. The average for the first 6 months of 1997 was 1.372.

Based on early indications, 1997 seems to be unfolding as forecasters predicted. Usually, economic growth is associated with positive results for employment. So, with a good perform-

ance in the first quarter, and with the stage seemingly set for solid second-quarter results,⁵ how has the labour market fared in the first half of the year?

The labour market

Overall employment

By June of this year, employment had grown by 193,400, significantly better than last year's pace (56,400) and slightly greater than the 186,300 gained over all of 1996.⁶ The advance in average employment in the second quarter of this year resembles the quarterly growth rates posted in the middle two quarters of 1994 – so far the leaders in the 1990s (Chart A). The employment change over the first 6 months of 1997 is equivalent to a compound growth rate of 0.23% per month. Over the long term, this is a strong performance (see *Employment growth in historical context*), exceeding the growth in two-thirds of all 6-month periods since January 1976.

So, although the year began very slowly, with the February employment level dipping below that of December 1996, it has so far been relatively strong and stands as one of the better "first halves" of the 1990s for overall employment growth (Chart C). In fact, employment in June was 1.4% above the December 1996 level; only 1994 had a better performance at the midway point. (June 1994 was 1.5% higher than December 1993. The first half of 1994 accounted for 193,800 of the 381,200 employment gain that year.)

The 1980s employment downswing was "deeper but briefer" than the one in the 1990s, but with a stronger recovery/expansion phase. However, January to November 1994 (months 45 through 55 on Chart D), and November 1995 to April 1996 (months 67 through 72) were both good periods. The first half of 1997 has produced another (so far quite steep) employment surge, from February to June (months 82 through 86).

Employment growth in historical context

In order to place this year's employment to date into context, comparisons are made with other years (full or part) in the decade. As well, this review sometimes compares a period (such as December 1996 to June 1997) with all periods of that length since January 1976, using the calculated compound monthly rate of growth (or decline) over the period. For example, compound monthly rates of growth for 6-month periods (n=6), are calculated as

$100((E_{t+n}/E_t)^{(1/n)} - 1)$, where E = employment;
t = Jan. '76, Feb. '76, ... , Dec. '96;

Jan. '76 to Jul. '76: $100((9,798.1 / 9,711.9)^{(1/6)} - 1) = 0.147\%$

Feb. '76 to Aug. '76: $100((9,812.5 / 9,694.2)^{(1/6)} - 1) = 0.202\%$

....

Dec. '96 to Jun. '97: $100((13,947.1 / 13,753.7)^{(1/6)} - 1) = 0.233\%$

Since there are 258 months in the series of seasonally adjusted monthly employment from January 1976 to June 1997, 252 six-month periods can be identified. Such calculations can be done for other period lengths by using values other than n=6 in the formula. Once all calculations are done for the periods chosen, a variety of statistics can be calculated to describe how a particular period, such as the one most recently ended, fits in.

Although the monthly seasonally adjusted LFS data go back to January 1976, the analysis could be restricted to certain subsets of the data. For example, if the period to be assessed falls in an expansionary phase, the set of compound monthly growth rates could be computed only for periods of that length that happen to fall into expansionary phases, and then compared with the period of interest. However, this would

necessitate defining these phases, which could be difficult in itself, and even more complicated if several different comparisons were done. (For instance, different types of employment or different provinces could each require different inclusions and exclusions.) Thus, for simplicity, where this technique is used, the base for comparison is all periods of the length in question dating from January 1976. The table below illustrates some results and their interpretation.

The 6-month column shows that the employment change over the December 1996-to-June 1997 period was positive and equivalent to a 0.23% monthly rate of growth compounded over the 6 months. The next value in the column tells where this period falls in the distribution of all such periods since January 1976. Specifically, it shows a relatively high growth period, since 67% of all 6-month periods had rates below 0.23%. In other words, the observed 0.23% falls at the 67th percentile (the xth percentile is the value in a distribution of values such that x% of the values lie below it). The next eight numbers in the column give selected percentiles and the arithmetic mean, which roughly describe the distribution. (The periods corresponding to the worst and best periods are given for interest.) Finally, the proportion of the periods with zero or negative compound growth rates is shown. For example, for 6-month periods about 16% have experienced decline or no growth (not common, but not rare either).

The 3-month and 12-month columns are interpreted similarly and are shown for comparison. Generally speaking, the longer the period, the narrower the distribution. The 12 months ending in June 1997 were about average in terms of employment growth, but the growth has been gathering momentum (the percentile ranking is increasing as periods become shorter).

Compound monthly growth rates, overall employment, selected statistics

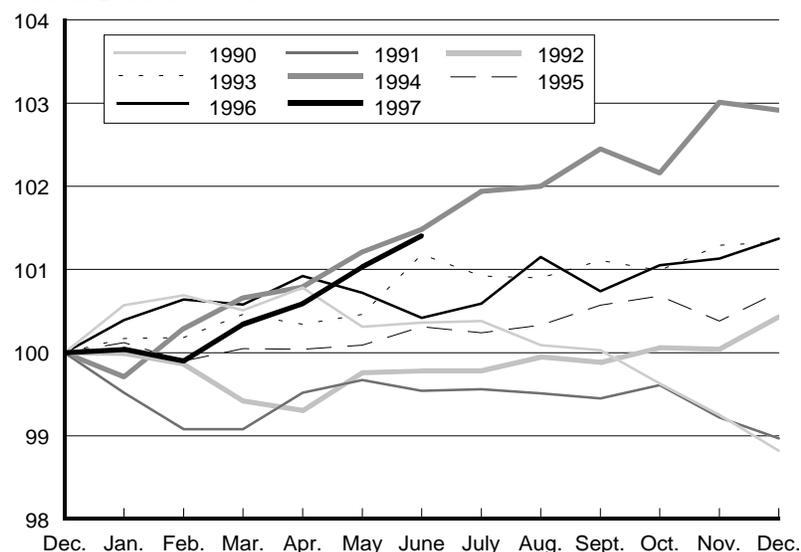
Period length No. since Jan. '76	3-month 255	6-month 252	12-month 246
	%		
Most recent	0.35 (Mar. '97 to June '97)	0.23 (Dec. '96 to June '97)	0.20 (June '96 to June '97)
% ≤ most recent	82.2	66.9	57.5
0th %ile(minimum)	-0.61 (Mar. '82 to June '82)	-0.49 (Mar. '82 to Sept. '82)	-0.39 (Nov. '81 to Nov. '82)
10th %ile	-0.13	-0.10	-0.10
25th %ile	0.04	0.06	0.09
50th %ile(median)	0.15	0.15	0.17
75th %ile	0.29	0.29	0.25
90th %ile	0.41	0.35	0.31
100th %ile(maximum)	0.62 (Jan. '78 to Apr. '78)	0.54 (Jan. '78 to July '78)	0.41 (Jan. '78 to Jan. '79)
Mean	0.14	0.14	0.14
% ≤ 0%	20.0	15.9	17.1

Source: Labour Force Survey

Chart C

This year could eclipse 1994 for best employment growth in the 1990s.

Previous December = 100



Source: Labour Force Survey

These bright spots can be seen more clearly in the movements of the employment rate. Although overall employment has risen by over three-quarters of a million in the 1990s (up 798,600 as of June 1997 over December 1989), the rate of increase has not kept up with population growth. The employment rate declined dramatically in the early 1990s, although moderate employment gains in 1992 and 1993 slowed the decline (Chart E). January 1994 saw the rate hit its low point of the decade at 57.8%. The employment surge that year boosted the rate to its post-recession high of 59% before the latter resumed its downward trend and fell to 58.4% in November 1995. A second employment surge brought the rate back to 58.8% by April 1996. After a slow decline to 58.3% in February 1997, it climbed to 58.9% (June 1997), thanks to renewed employment growth early this year. This 0.6 percentage-point rise matches the January-to-May 1994 increase as the best 4-month rise of the 1990s. It remains to be seen

whether the present upturn will sustain itself, or prove to be another short-lived burst typical of the 1990s.

Goods and services

In the 1990s, employment growth has come primarily from the service sector.⁷ In the decade's two strongest years (1994 and 1996), both goods and services contributed to the growth, with goods accounting for just over half of the total gains those years. In the first 6 months of 1997, employment grew by 127,900 in the service-producing industries (1.3% growth over December 1996). Although employment in the goods sector also gained (65,500 or 1.8% since December 1996), this was the result of the June increase of 73,800. Over the first 5 months of the year, employment in this sector actually fell by 8,300.

Employment in manufacturing rose by 89,100 (4.3%), with much of that (52,400) also coming in June. Both durable and non-durable manufactur-

ing contributed to the rise (durables accounted for about 61%). This growth is not unexpected, given the strength in consumer spending and exports already noted. Construction also posted a gain (22,300 or 3.0%), linked to low interest rates and increased housing starts, especially in Ontario. However, these gains were tempered by declines of 38,700 (-5.1%) in primary industries (mostly agriculture, which dropped 39,700 or 8.6%) and 7,200 (-5.0%) in utilities.

While service sector employment was generally upbeat after its relatively sluggish year in 1996, some industries lost while others gained in the first half of 1997. Big gains were seen in the large community, business and personal services (CBPS) group (129,000 or 2.5%), fuelled largely by business and personal services (up 3.7%, to contribute 103,200 or about four-fifths of the total CBPS gain). Employment was also up in transportation, storage and communication (47,500 or 5.6%). On the other side of the ledger, public administration continued its general downward slide, dropping 23,100 (-2.8%), while employment in finance, insurance and real estate declined by 19,700 (-2.5%). In trade, the remaining major group, employment was little changed over the first half of 1997 (-5,700 or -0.2%). This was the result of offsetting movements in wholesale and retail: wholesale trade employment was up 18,100 (2.8%) while retail was down 23,700 (-1.4%). Employment growth in the former is consistent with its strong sales (in turn, consistent with the advances in exports, imports and manufacturing). While retail sales also posted gains in the first part of the year, restructuring in this sector may account for some of its recent employment weakness.

Self-employment continues to grow

Since December 1996, employment has grown by just 47,800 for paid workers (employees) (0.4%), owing to growth in private paid employment

(up 72,900 or 0.8% since December 1996) and a drop in public employment (-25,200 or -1.2%, almost all of it in June). For private employees, gains in the latter part of the period, especially March (56,000) and June (57,000), outstripped the losses at the start of the year. Meanwhile, self-employment⁸ has grown each month, with gains totalling 145,600 (6.1%) by June.

The strength in self-employment growth is not new. Self-employment grew by almost 6% between December 1989 and July 1990. And since July 1996, 11 consecutive months have seen increases, most of them large (Chart F).⁹ As a result, self-employment has moved from 13.8% of total employment in December 1989, to 18.1% as of June 1997. Over the same period, the share of total employment

represented by private employees dropped from 70.0% to 67.1%, and by public employees, from 16.1% to 14.7%.

For employees, weak growth is familiar. In February 1997, the number of private employees was just 8,400 (0.1%) above that of December 1989. However, in March, April, May and June, growth in private employment more than offset the losses in the first two months of 1997.¹⁰

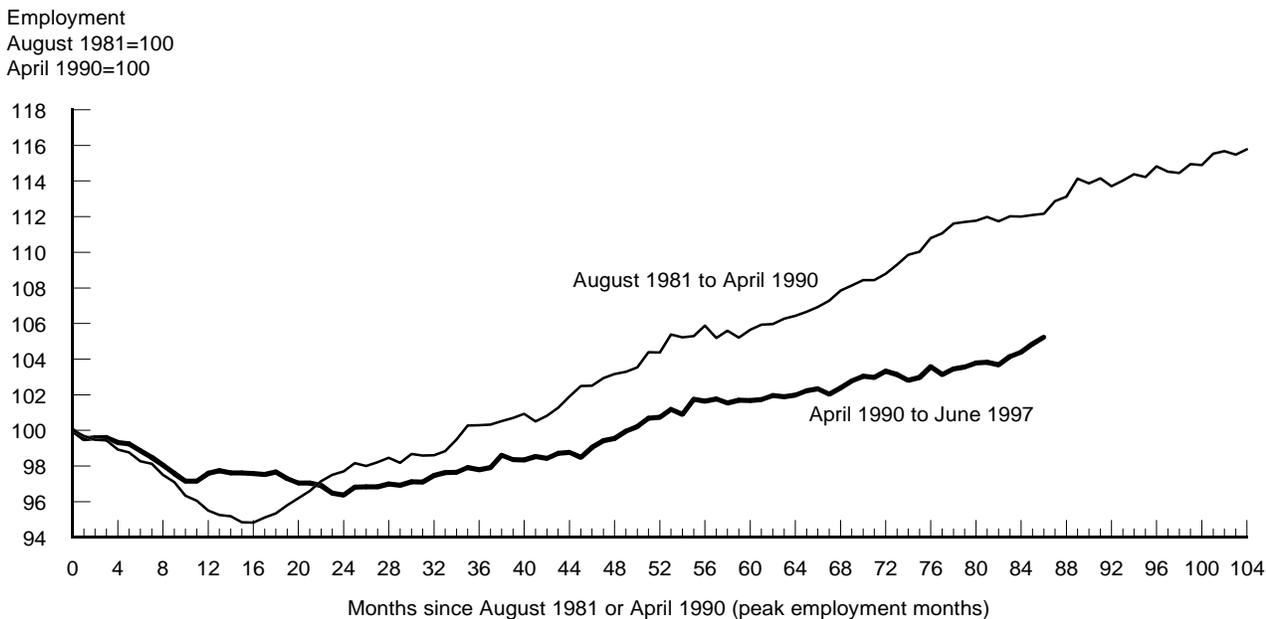
Throughout the nineties, self-employment has increased every year (December-to-December measure). Other than in 1993 and 1994, its gains have exceeded those for employees. From December 1989 to June 1997, self-employment represented 88.3% of the increase in employment. However, since the end of 1995 it has

accounted for a somewhat smaller (though still substantial) proportion of the overall growth: 78.6% in 1996 and 75.3% so far in 1997.

Youths still hurting

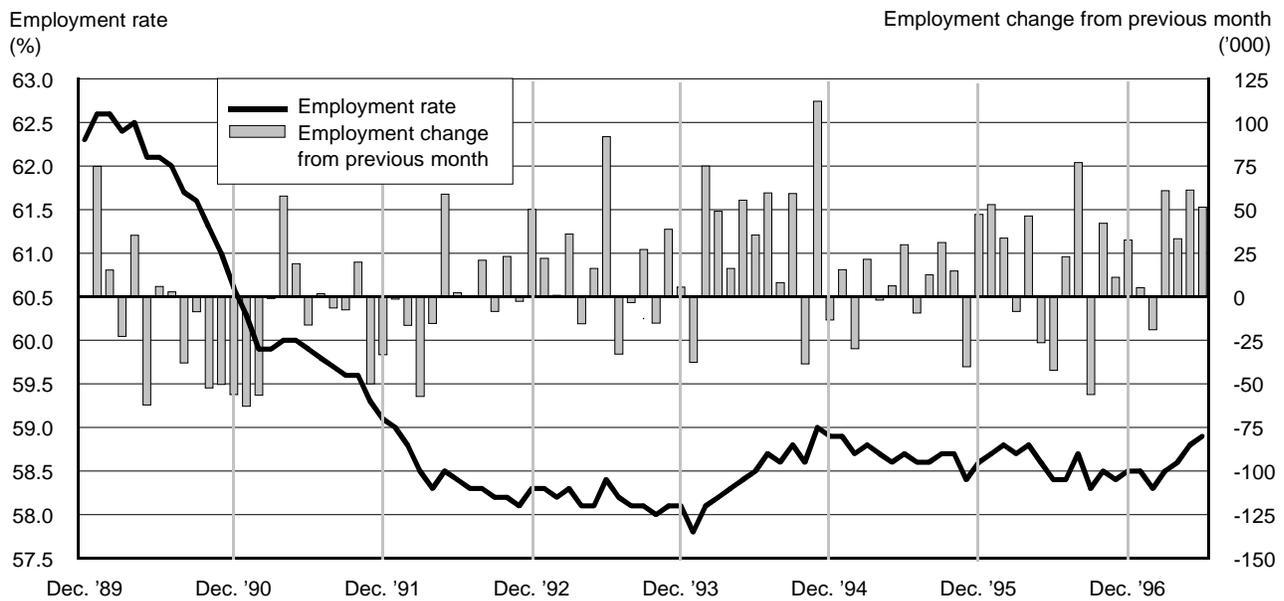
Since the end of the last recession, the beneficiaries of employment growth have been adult men and women. Aside from a little spark around the end of 1994, youths' employment growth has yet to be rekindled. As of this June, 17,900 fewer persons aged 15 to 24 were employed (-0.9%) than had been in December 1996. On the other hand, adult employment rose over the same period by 211,300 (1.8%). Although adult men accounted for two-thirds of this gain (up 141,300 or 2.2%), adult women's gain was also strong (70,000 or 1.3%).

Chart D
Employment growth spurts have been fewer and shorter in the 1990s.



Source: Labour Force Survey

Chart E
Sustained rises in the employment rate have been rare in the nineties.



Source: Labour Force Survey

Growth in full-time employment

Overall, employment growth since December 1996 has been full-time (defined as 30 hours or more per week at one's main or only job). Full-time employment rose by 229,700 (2.1%) while part-time dropped 36,300 (-1.4%). As previous reviews have noted, part-time employment growth has characterized the decade. From 1990 through 1996, part-time employment posted gains in all but one year (1994), while full-time did so in only three of the seven (1993, 1994 and 1996). Over the period, part-time employment rose about 423,000 while full-time gained about 182,000. Consequently, full-time as a percentage of total employment dropped from 83.2% in December 1989 to 80.8% in December 1996. By June 1997, the proportion had risen to 81.4%. If this pattern continues, 1997 will be only the third year of the decade in which full-time growth has dominated.

Adults' employment gains so far have been largely full-time: of men's 141,300 rise, 134,400 (or 95.1%) were full-time; of women's overall 70,000 gain, 84,000 were full-time, offset by a loss of 14,000 in part-time. For adult men, the proportion of employment that is full-time has fallen through the 1990s, from 95.7% (December 1989) to 94.0% in December 1996. With their robust growth so far this year, the slide appears to have been arrested, with the proportion holding at 94.0% in June. For women the picture is similar. After hovering at 76% or a little above throughout the 1990s, the proportion of women's employment that was full-time fell in late 1996 to reach 74.7% in December. In 1997, the decline seems to have halted and even reversed, with the proportion reaching 75.3% in June.

Like adults, youths have seen their full-time proportion fall during the 1990s, but more sharply. From 64.4%

in December 1989, the proportion of youth employment that was full-time fell to 54.5% in December 1996. However, while part-time employment fell 29,200 (-3.2%) in the first half of 1997, full-time rose by 11,300 (1.0%), bringing the proportion back up to 55.6% in June, the highest since March 1995 (when it was 55.9%).

Provincial picture

Ontario and Quebec contributed most to the employment change from December 1996 to June 1997 (Table 1). Quebec, Saskatchewan, New Brunswick and British Columbia provided some notable results. Quebec's showing of 69,900 additional employed is an impressive 2.2% growth, a turnaround from 1996 when employment slipped by 20,100 for the year (December-to-December change). The compound growth rate of 0.36% per month over the first 6 months of 1997 ranks in the 90th percentile for all 6-month periods since 1976. However,

because this strong performance follows a period of decline, it leaves the province's employment just 21,700 (0.7%) ahead of its most recent high in February 1996 (Chart G). Quebec's gains so far have come in the service sector (primarily in community, business and personal services). Goods sector employment has been weak, although declines in agriculture and construction masked a strong showing in manufacturing. Saskatchewan also posted a strong first half, coming in with growth of 2.7% or 12,500. In fact, the compound monthly growth rate of 0.45% puts this 6-month performance in the 93rd percentile for all 6-month periods since January 1976 (that is, only 7% have been better). As in Quebec, gains in service sector employment provided the growth, thanks mainly to community, business and personal services; and finance, insurance and real estate. The goods sector was weak, with gains in manufacturing employment being offset by a drop in agriculture. New

Table 1
December 1996-to-June 1997 employment change

	Change	% change	Compound monthly growth rate	
			%	Percentile
Canada	193,400	1.4	0.23	67th
Newfoundland	700	0.4	0.06	47th
Prince Edward Island	100	0.2	0.03	38th
Nova Scotia	4,500	1.2	0.19	59th
New Brunswick	9,300	3.0	0.50	92nd
Quebec	69,900	2.2	0.36	90th
Ontario	90,900	1.7	0.28	70th
Manitoba	2,100	0.4	0.07	45th
Saskatchewan	12,500	2.7	0.45	93rd
Alberta	15,100	1.1	0.17	46th
British Columbia	-11,600	-0.6	-0.11	10th

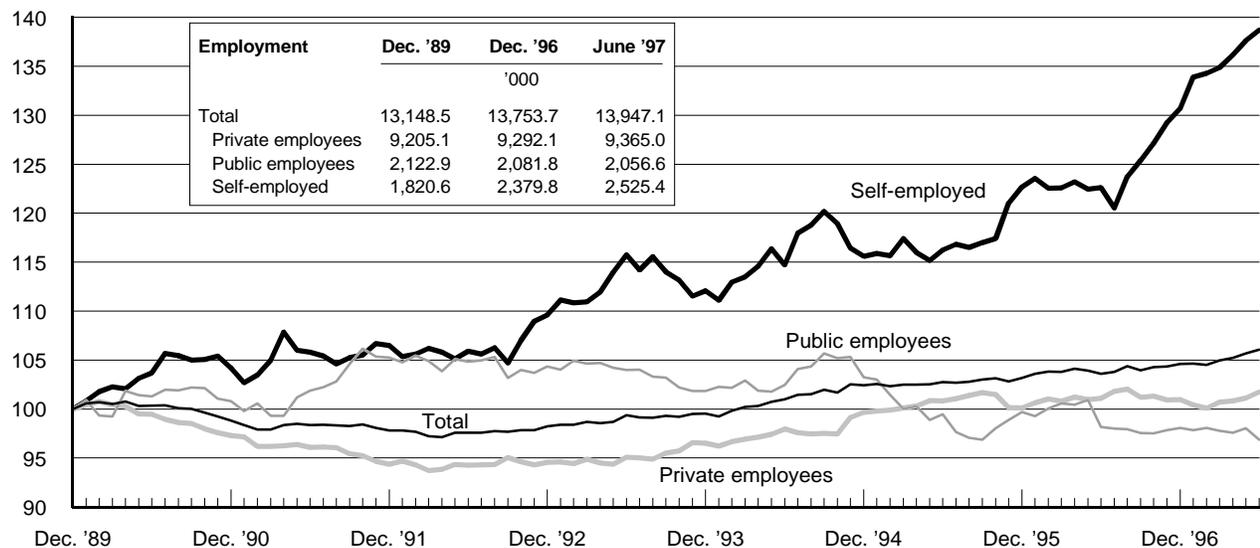
Source: Labour Force Survey

Brunswick experienced fluctuations during the first half of 1997, though overall employment growth was strong. The addition of 9,300 employed since December offset the declines of the second half of 1996, but

still left the province below its December 1994 peak. The employment gains in the first half of 1997 were spread over almost all industry groups, although business and personal services did see noticeable declines.

Chart F
Self-employment continues as the main vehicle for employment growth.

December 1989=100



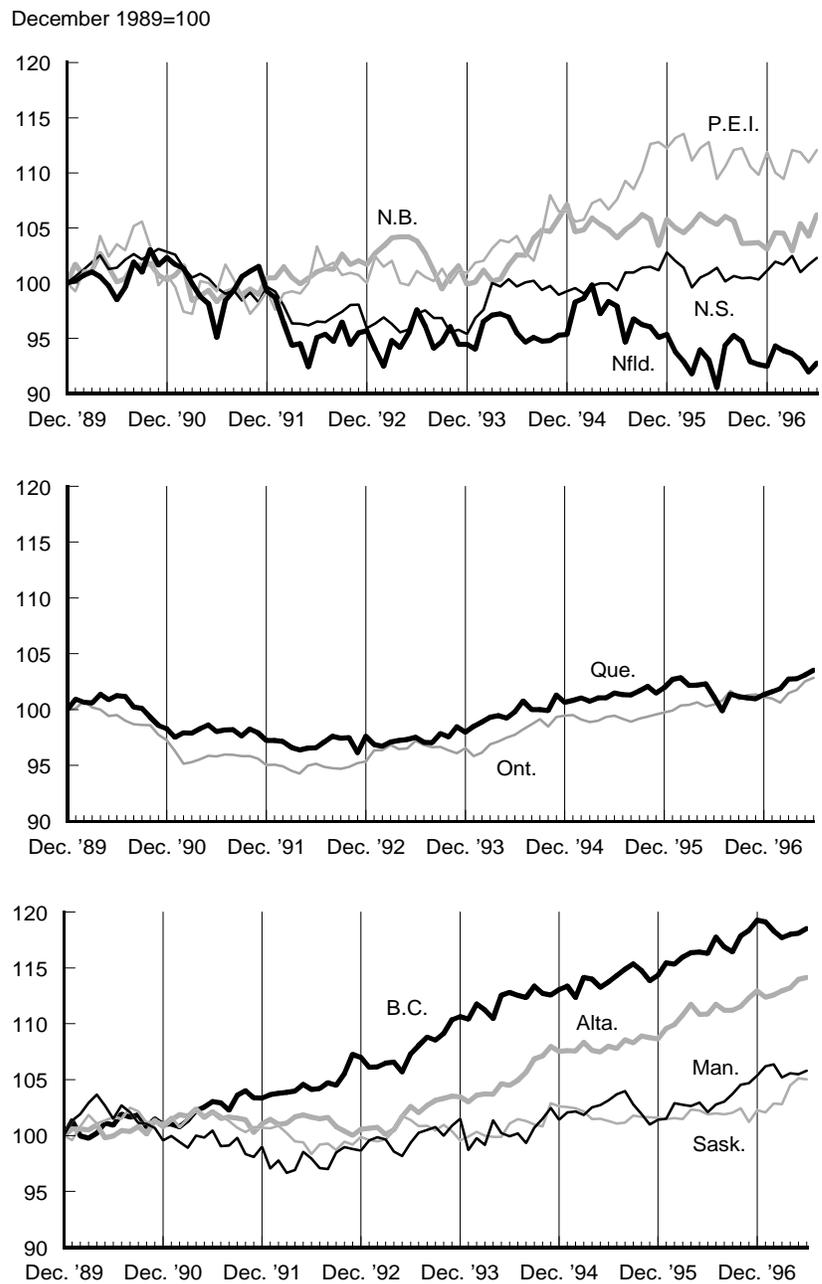
Source: Labour Force Survey

At the other extreme, after a long run as the leading job generator among provinces, British Columbia may have cooled down: a decrease of 11,600 brought employment levels down 0.6% in the first half of the year. The service-producing industries accounted for most of the decline, particularly in trade; finance, insurance and real estate; and public administration. (Community, business and personal services did gain, but not enough to offset the other losses.) While a 6-month net employment decline is not unheard of in British Columbia, the period ending in June 1997 was poor. The compound monthly growth rate of -0.11% corresponds to the 10th percentile for all 6-month periods in the province since 1976. It should be added, though, that this follows the province's peak employment level of the decade in December 1996, and that the losses occurred in the first quarter of the year, with small gains coming in April, May and June. (The compound monthly growth rate for that 3-month period was 0.23%, or the 50th percentile.)

Aside from New Brunswick, the picture in the three other Atlantic provinces was mixed during the first half of the year. In Newfoundland, manufacturing and construction posted gains (possibly a lingering effect of the construction phase of the Hibernia project), which were nearly offset by losses in the service sector. Nova Scotia saw alternating employment gains and losses during the period, leaving employment up 4,500 in June compared with December 1996, still slightly below its post-recession peak (attained in December 1995). As in Newfoundland, manufacturing and construction gained, and the service sector lost ground. Prince Edward Island's unchanged employment level was the result of small, offsetting movements across industries.

Ontario began the year with two months of employment decline, but rebounded strongly to surpass its previous peak of November 1996. In

Chart G
Although 1997 started slowly for some provinces, most gained employment.



Source: Labour Force Survey

fact, the gains of March, April, May and June produced a compound growth rate of 0.55% per month for the 4 months ending in June, putting it in

the top 5% of all 4-month periods since 1976 (95th percentile). Employment gains in the first half came largely in business and personal services;

transportation, storage and communication; and construction.

In Manitoba, employment made small gains and losses across industries, leaving the overall level little changed. After a decline in January, employment in Alberta resumed the growth that has been typical of the last several years. In fact, the compound monthly growth seen from December 1996 to June 1997 places this period just below the median for all 6-month periods in Alberta since 1976. Gains in the first half of the year were concentrated in community, business and personal services; manufacturing; and trade.

Unemployment

Overall

Employment growth in the first 6 months has been strong (193,400), so even with a fairly large increase in the labour force (104,500), the number of unemployed dropped by 88,900 (Table 2). The unemployment rate fell from 9.7% to 9.1%. Until this year, recent upturns in employment have tended to encourage people to join the labour force, keeping unemployment high.¹¹

The Help-wanted index¹² is a measure of employers' intentions to hire new workers. The index rose in June for the 11th consecutive month, to reach 121 (based on June 1996=100), up from 99 in July 1996. The last time the index was that high was in March 1991 (120). The steep rise in late 1996 and early 1997 is consistent with employment gains over the period and, to the extent that positive changes in the index anticipate future hiring, bodes well for the rest of 1997. The recent rise in the index may also partly explain the upward movement in the labour force participation rate since March, since persons who had left the labour market earlier might have returned if they thought more work was available. In fact, after declining steadily from 65.0% in October 1996 to 64.5% in March (the lowest since November 1995), the overall (both sexes

Table 2
Selected labour force indicators

	Dec. '96	June '97	Change	
	'000	'000	'000	%
Population (15 and over)	23,507.4	23,678.0	170.6	0.7
Labour force	15,239.1	15,343.6	104.5	0.7
Employment	13,753.7	13,947.1	193.4	1.4
Unemployment	1,485.4	1,396.5	-88.9	-6.0
	%	%	point	%
Participation rate	64.8	64.8	-	-
Employment rate	58.5	58.9	0.4	0.7
Unemployment rate	9.7	9.1	-0.6	-6.2

Source: Labour Force Survey

aged 15 and over) participation rate rose to reach 64.8% by mid-year, the same as in December 1996. Also, the sustained rise in the index may suggest further increases in the participation rate.

Rising rate for youths

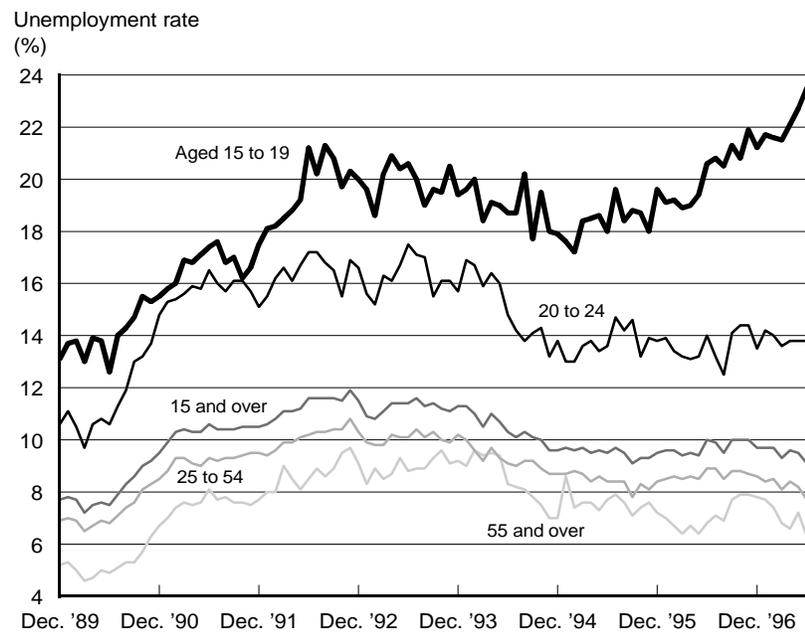
While the overall unemployment rate declined over the first half of the year, not all age groups enjoyed lower rates. By June, workers aged 25 to 54 had shaved 0.9 percentage points off their December 1996 rate, to reach 7.7%, only the second time since 1990 that their rate had dipped below 8% (Chart H). The rate for older adults (55 and over) also trended downward. Their June rate of 6.3% returned them to their early 1996 position. Unemployment rates declined for both adult men and women from December 1996 to June 1997. Altogether, the unemployment rate for adults dropped from 8.5% in December 1996 to 7.5% in June 1997. Throughout the 1990s, adult men's rate has been generally higher than that of adult women, though the two have tended to rise and fall together. The gap was greatest in 1992, but has diminished considerably since then (Macredie, 1996).

Meanwhile, the unemployment rate for youths (15 to 24) continued the upward trend that began in February 1995. Since September 1996, the

rate has been close to 17.0%, although steady increases advanced it to 17.5% by June. Differences emerge if the youths are split into younger (15 to 19) and older groups (20 to 24) (Chart H). The unemployment rate for the older group has held its position for almost three years (around 14%). On the other hand, after having moved more or less in parallel with that of older youths (though at a higher level), the rate for younger youths seemed to take a different course in early 1995. From February 1995 to December 1996, the rate for 15 to 19 year-olds gained 4.0 percentage points to reach 21.2%. By June 1997, the rate hit 23.5%.

As a result of these trends, the ratio of youth-to-adult unemployment rates continued to climb in 1997. It has been between 1.6 and 2.6 since January 1976 (median 1.9). In the nineties, this ratio has been between 1.7 and 2.3 (median 1.8). From May 1996 to February 1997 it was 1.9 or 2.0, but by June had risen to 2.3. The ratio for older youths, which has ranged between 1.5 and 1.9 this decade (median 1.7), crept up to 1.8 this year, essentially because of the falling adult rate. The younger youth-to-adult ratio, however, hit its 1990s high point in June (3.1). Although this is not the highest ever – the range since 1976 has been from 1.6 to 3.4 (median 2.2) – ratios of 3 or more have been rare,

Chart H
The long-awaited decline in unemployment rates may have arrived, except for youths.



Source: Labour Force Survey

even for this young age group. June's is the first of the 1990s; the last one was in January 1982 (3.0).

Provincial unemployment

At the national level, employment growth in the first 6 months of 1997, combined with a reduction in the number of unemployed, resulted in labour force growth that just matched working-age population growth. In other words, the participation rate remained unchanged. (Of all 6-month periods in the 1990s, the participation rate has fallen in two-thirds.) And, given the labour force growth, the decline in unemployment translated into a rather large drop in the unemployment rate.

Aside from Saskatchewan, each province saw its number of unemployed and its unemployment rate lower in June 1997 than in December 1996. In Alberta, Nova Scotia, On-

tario, Quebec and New Brunswick, the situation was similar to the national pattern; that is, the reduction in the number unemployed was more than matched by increased employment (Table 3). However, in the latter three provinces (especially New Brunswick), employment growth was sufficiently strong to promote growth in the labour force that outpaced that in the working-age population (a rising participation rate). Despite the labour force growth in Alberta, its participation rate fell. This was because the province's high rate of growth in the working-age population overshadowed its modest labour force growth. In Nova Scotia, as in Canada overall, labour force growth was just enough to offset growth in the working-age population (the participation rate remained unchanged).

In Newfoundland, Prince Edward Island, and Manitoba, the labour

force shrank, owing to a combination of relatively large declines in the number unemployed, but only modest employment growth. The labour force contraction contributed to the decline in the participation rate in these provinces.

From December 1996 to June 1997, British Columbia saw just a modest drop in unemployment. In addition, it was the only province where employment declined over the period. As a consequence, the unemployment rate dipped only slightly. The shrinking labour force, paired with a quickly growing population, produced a large decline in the participation rate.

Finally, Saskatchewan was the one province with a rise in unemployment over the 6 months. However, its strong employment growth meant a relatively large increase in the labour force, absorbing the additional unemployment and leaving the unemployment rate essentially unchanged. The participation rate rose substantially, since the labour force grew more than five times faster than the working-age population.

Looking ahead

According to the April 1997 quarterly Business Conditions Survey,¹³ some 15% of all manufacturing firms expected to increase employment, while 11% expected to decrease employment, for a positive balance of 4% (74% said "little change"). This result is a bit more encouraging than that of January 1997 (balance of +1%) or April 1996 (-4%). As has been the case since 1991, no firms reported production difficulties due to a shortage of unskilled labour, though in April 1997, 5% did cite a shortage of skilled labour, matching the highest quarterly value of the 1990s. The survey also showed a positive balance of orders received and a smaller proportion of finished product inventories that were "too high" (continuing recent trends). Along the same lines, recent results from the Monthly

Table 3
Changes in selected indicators, December 1996 to June 1997, by province

	Population 15+	Labour force	Employment	Unemployment	Participation rate	Employment rate	Unemployment rate
	'000 (%)				% points		
Canada	170.6 (0.7)	104.5 (0.7)	193.4 (1.4)	-88.9 (-6.0)	-	0.4	-0.6
Newfoundland	-0.9 (-0.2)	-3.6 (-1.5)	0.7 (0.4)	-4.3 (-8.9)	-0.7	0.2	-1.6
Prince Edward Island	0.2 (0.2)	-0.7 (-1.0)	0.1 (0.2)	-0.8 (-7.0)	-0.7	-	-1.0
Nova Scotia	3.0 (0.4)	1.9 (0.4)	4.5 (1.2)	-2.6 (-4.5)	-	0.4	-0.6
New Brunswick	1.8 (0.3)	8.6 (2.4)	9.3 (3.0)	-0.7 (-1.5)	1.3	1.4	-0.5
Quebec	30.0 (0.5)	39.8 (1.1)	69.9 (2.2)	-30.1 (-6.8)	0.3	0.9	-0.9
Ontario	65.8 (0.7)	59.2 (1.0)	90.9 (1.7)	-31.8 (-6.0)	0.2	0.6	-0.6
Manitoba	3.7 (0.4)	-2.0 (-0.3)	2.1 (0.4)	-4.0 (-9.2)	-0.5	-	-0.7
Saskatchewan	3.8 (0.5)	13.6 (2.8)	12.5 (2.7)	1.2 (4.2)	1.5	1.3	0.1
Alberta	27.2 (1.3)	5.5 (0.4)	15.1 (1.1)	-9.5 (-9.9)	-0.7	-0.2	-0.7
British Columbia	36.1 (1.2)	-17.8 (-0.9)	-11.6 (-0.6)	-6.2 (-3.5)	-1.3	-1.1	-0.2

Source: Labour Force Survey

Survey of Manufacturing (through April) indicated rising shipments, soaring levels of unfilled orders, increases in new orders and a falling inventories-to-shipments ratio. Both surveys suggest that, at least in manufacturing (which *directly* accounts for about 16% of total employment and provided 46% of the employment growth in the first 6 months of 1997), growth seen so far this year will likely continue.

The composite index, which paints a broader picture of the economy,¹⁴ rose 0.8% in June, the 21st consecutive monthly increase. While this index generally trends upward, the monthly increases in late 1996 and so far in 1997 have been slightly above average.¹⁵ With 9 of the 10 components advancing in June, the economy seems poised for sustained growth, which could in turn augur well for employment growth over the rest of the year.

Summary

The labour market got off to a slow start in 1997. However, the employment gain in the first 6 months very

nearly matched that of the first half of 1994, which at least for now retains its position as the best year of the 1990s for overall employment growth.

Self-employment continued to post strong gains, although not quite as impressive as those of late 1996. Overall employment growth in 1997 has so far been full-time, making way for the third (and second consecutive) year of the nineties in which this has been the case. The first 6 months also saw the service sector add substantially to its employment, after a relatively modest increase in 1996. Compared with last year, when Ontario and the West gained employment while Quebec and the East lost, employment gains in the first half of 1997 have been more centralized, with Quebec and Ontario providing the bulk of the growth. As was the case in 1996, gains have favoured adults, while losses have most affected the young.

While mid-year results offer no guarantees, barring major reversals this year could meet expectations held by many forecasters. □

Notes

1 In the nineties (except for 1991), merchandise exports have been the largest contributor to the annual percentage change in GDP, usually by a wide margin over the next largest contributor, which has generally been consumer spending. Since 1994, business investment in machinery and equipment has also made a large contribution to GDP growth.

2 See, for example, Bond (1997) and Little and Bourette (1997). The latter article notes that the 1997 first-quarter rise in the Conference Board of Canada's quarterly index of consumer attitudes was the fifth straight quarterly rise, the first time this has happened in 15 years. Although the levels are approaching those seen in 1994, they are still far from those of the late 1980s.

3 Because of the rapid price decline in machinery and equipment (especially computers) in recent years, any spending component with a large portion of these will see its relative importance inflated when measured in 1986 prices. For this reason, trends in share of GDP may be presented in current rather than constant dollars. In the case of consumer spending and merchandise exports, doing so yields results not very different from those

shown. Measured on a current dollar basis, consumer spending's share of nominal GDP was nearly flat over the period shown on Chart B: it rose from 59.5% in the first quarter of 1990 to 60.8% in the first quarter of 1997. For merchandise exports, the share of nominal GDP still rose by a factor of 1.6, from 21.5% in the first quarter of 1990 to 34.2% in the first quarter of 1997.

4 Unadjusted CPI figures show the same pattern: a rise to 2.2% in January and February 1997, falling off to 1.8% in June.

5 Although the economic picture is generally positive, certain trends may indicate lingering weakness. For example, consumer bankruptcies hit a record high in 1996 (79,631 or 3.4 per 1000 Canadians aged 15 and over). So far in 1997, the trend seems to be continuing. The first quarter of 1997 saw 21,141 consumer bankruptcies, versus 19,146 for the same period in 1996 (up 10.4%). In April 1997, a further 8,507 consumers filed for bankruptcy, bringing the 1997 total to 29,648, well above the 25,922 at the same point in 1996. Consumer bankruptcies rose sharply in 1990 and 1991 and have stayed high since. The number of business bankruptcies has fluctuated over the decade, but increased again in 1995 and 1996, reaching 14,229. As of April 1997, 4,517 businesses had filed, down from the 5,259 seen in the first 4 months of 1996. Nevertheless, bankruptcy announcements involving major companies such as Eaton's (February) and Interlink Freight Systems Inc. (July) may influence public perception about the economy. At the time of the announcement, Eaton's had about 6,000 full-time and 9,000 part-time employees, some of whom were expected to lose their jobs. Interlink employed about 2,000 at the time of its filing. The links between economic conditions, bankruptcies and employment are complex and require further study.

Also, household borrowing remains high while growth in personal disposable income is lethargic. This, combined with another fall in the ratio of personal saving to disposable income in the first quarter of 1997 (to about 2%), suggests that consumer spending is being financed by savings and borrowing.

6 As one might expect, on average about half the employment change in a 12-month period occurs in the first 6 months. For all 12-month periods since January 1976, the first 6 months have accounted for about 49% (median) of the total 12-month change. A similar result holds for the 1990s (48%). If only calendar years are considered, the medians are 46% for all years from 1977 to 1996 and 42% for years in the 1990s. Recently, the first half of the calendar year contributed the following proportions of the whole year's employment growth: 88% (1993), 51% (1994), 42% (1995) and 30% (1996).

7 Service-producing industries as a group have gained employment every year this decade (1990 through 1996) for a total of 775,200 (December 1996 minus December 1989). Over the same years, goods-producing industries lost in four out of seven years, for a total decline of 170,000 (Table). Three years have been strong for employment growth in the 1990s. Two of these, 1994 and 1996, are the only ones of note for goods, which contributed just over half of total gains those years. The other year was 1993, which, unlike the other two, relied almost totally on service sector growth. This year could prove to be the fourth big year of the decade, perhaps led by the service sector.

Table (note 7)

**Employment gains/declines
(Dec. minus previous Dec.)**

Year	Total	Goods Services	
		'000	
'90	-154.7	-216.6	62.0
'91	-133.9	-176.9	42.9
'92	55.5	-65.9	121.4
'93	172.3	13.1	159.2
'94	381.2	206.7	174.5
'95	98.5	-35.7	134.2
'96	186.3	105.3	81.0
'97 *	193.4	65.5	127.9
'89 to '96	605.2	-170.0	775.2
'89 to '97 **	798.6	-104.5	903.1

Source: Labour Force Survey

* June 1997 minus Dec. 1996.

** June 1997 minus Dec. 1989.

8 Self-employment includes working owners of incorporated and unincorporated businesses, plus 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).

9 For the 11-month period ending June 1997, self-employment in Canada grew at a compound rate of 1.28% per month, the highest (100th percentile) for any 11-month period measured since January 1976. For all 11-month periods since January 1976, the median compound monthly growth rate for self-employment was 0.27% per month. However, the rate of self-employment growth so far in 1997, while still very high, has not been record-setting. For the 6 months ended June 1997, the compound rate of growth was 0.99% per month (96th percentile for all 6-month periods since January 1976) and for the 3 months ending June 1997, the rate was 0.94% per month (85th percentile).

10 The weakness in private employment growth shows up in the compound monthly growth rates. For example, the compound rate of growth for private employees was -0.01% per month for the 11 months ending June 1997 (22nd percentile for all 11-month periods). The momentum is building, however. Private employment grew at 0.13% per month for the 6-month period ending June 1997 (42nd percentile), and the rate for the 3 months ended June 1997 was 0.34% (72nd percentile, well above the median of 0.16% for 3-month periods).

11 For example, in the 24 months between December 1994 and December 1996, employment grew by 284,800, while the labour force grew by 333,500. The number of unemployed increased and the unemployment rate rose slightly (Table).

12 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 seasonally adjusted and smoothed to ease month-to-month comparisons. With its June release, the index has been reweighted using the 1996 Census estimates, and the series has been revised historically from January 1981.

Table (note 11)

Selected labour force indicators

	Dec. '94	Dec. '96	Change	% change
	'000		'000	%
Population (15 and over)	22,862.4	23,507.4	645.0	2.8
Labour force	14,905.6	15,239.1	333.5	2.2
Employment	13,468.9	13,753.7	284.8	2.1
Unemployment	1,436.7	1,485.4	48.7	3.4
	%		% point	%
Participation rate	65.2	64.8	-0.4	-0.6
Employment rate	58.9	58.5	-0.4	-0.7
Unemployment rate	9.6	9.7	0.1	1.0

Source: *Labour Force Survey*

13 Each January, April, July and October, the quarterly Business Conditions Survey asks manufacturing firms to provide opinions about expected production volume, possible employment changes over the next 3 months, orders, inventories and so on.

14 The composite index (also called the composite leading indicator) is made up of 10 components; the housing index (a composite of housing starts and MLS house sales); business and personal services employment; the TSE 300 stock index; the money supply (M1); the U.S. composite leading indicator; the average work week (hours); new orders for durable goods; the shipments-to-inventory ratio for finished goods; furniture and appliance sales; and other durable goods sales. The com-

posite index is based to 1981=100, and is available as a smoothed (referred to in this review) or unsmoothed series.

15 From March 1952 to June 1997, the median monthly change in the smoothed composite index was 0.45% (mean = 0.35%). In the 1990s (December 1989 to June 1997) the median change was 0.47% (mean = 0.33%). From October 1995 to October 1996 (the initial resumption of the upward trend in the index after its downturn in mid-1995), the median was 0.45% (mean also = 0.45%). Finally, from November 1996 to June 1997, the median change was 0.89% (mean = 0.89%).

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