Job stability

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Over the last few decades, the service sector has continued to lead as a source of jobs in Canada. In fact, from 1976 to 1996, service-producing industries grew from 67% of employment to 75%, mostly in consumer services and business services (Chart A).[1]

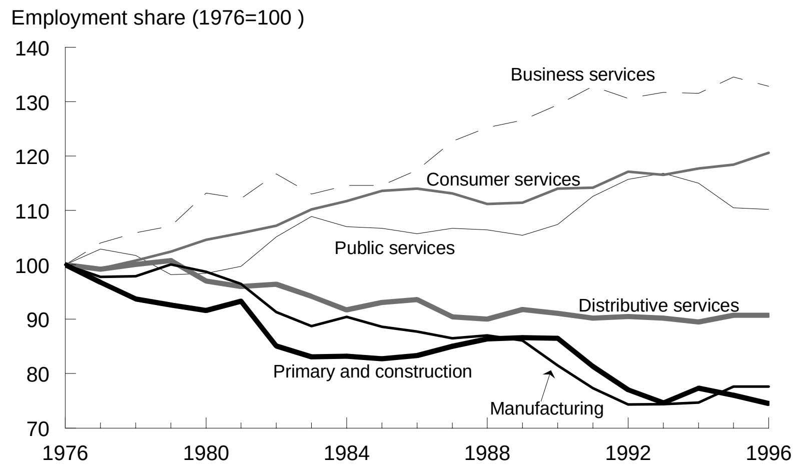
Some observers equate the service sector with less desirable, non-standard jobs (part-time, contingent, short-term, or unstable). Similarly, some believe that traditional long-term, stable employment has declined as the composition of Canadian industry has shifted further away from a manufacturing base.

Empirical work has shown, however, that rising employment in service-producing industries explains only part of the growth in non-standard jobs. According to the Economic Council of Canada (1991), non-standard employment increased throughout the 1970s and 1980s in virtually all segments of the labour market. The same study noted that changes in both goods- and service-producing industries had polarized jobs into those demanding highly skilled workers ("good jobs") and those requiring low-skilled workers ("bad jobs"). And an increased demand for workforce flexibility in all industries has been linked to the gain in temporary employment (Schellenberg and Clark, 1996).

Has overall job stability declined as the economy has shifted toward employment in the service sector? Recent research suggests otherwise: aggregate job stability was as high in the early 1990s as in any comparable economic period during the past 20 years (Picot and Lin, 1997; Heisz, 1996a and 1996b; Green and Riddell, 1996). One recent study found that the permanent layoff rate from 1978 to 1993 was lower in services than in manufacturing (Picot and Lin, 1997).

Adapted from an article in Canadian Economic Observer *(Catalogue no. 11-010-XPB) 11, no. 5 (May 1998): 3.1-3.11. Andrew Heisz and Sylvain Côté are with the Business and Labour Market Analysis Division. They can be reached at (613) 951-3748 or heisand@statcan.ca.*

Chart A
The shift to service employment has been led by consumer and business services.



Source: Labour Force Survey

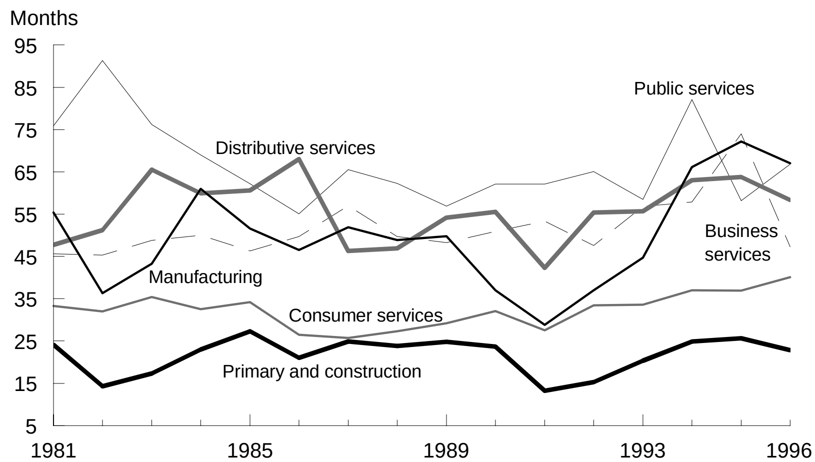
This article uses data from the Labour Force Survey (LFS) and the Longitudinal Worker File (LWF) to answer two questions: Are jobs less stable in the service sector? Has the ongoing shift toward employment in services changed aggregate job stability in Canada? (See *Data sources and definitions*.)

Overview of job stability

Job stability, as measured by average job duration, varies widely, and is neither uniformly higher nor lower in the service-producing industries than in goods-producing industries. From 1981 to 1996, average job duration was highest in public services (67 months), followed by distributive services (56 months), business services (52 months), manufacturing (50 months), consumer services (32 months) and the primary and construction industries (22 months). The relatively short tenure in consumer services may have sparked the concern about job stability in the service sector (Chart B).

Job duration in goods-producing industries tends to vary more with the business cycle. For example, in manufacturing it dropped in 1990 and did not recover to pre-recession levels until 1993. In the primary and construction industries it dropped in 1991 and took two full years to recover. In contrast, job stability in each of the service-producing industries dropped only for a single year before recovering, though the year differed by

Chart B
New jobs in public services have had the longest duration.



Source: Labour Force Survey

industry: 1991 for distributive services and consumer services, 1992 for business services and 1993 for public services.

For most industries, job duration during the 1993-96 recovery[5] was higher than it had been during the recovery of 1983 to 1986: it increased 24% in manufacturing, 21% in business services, 15% in consumer services, and 6% in primary and construction. Job duration in public services and distributive services, already comparatively high, changed little.

Given the shift in employment toward consumer services, where job duration has been relatively low, a downward shift in aggregate job stability might be expected.[6] However, this has not happened (Chart C), in part because of a recent rise in job duration in this industry. Furthermore, aggregate job stability has been enhanced by the shift in employment toward industries with high job duration, such as business services and public services, and away from primary and construction industries.

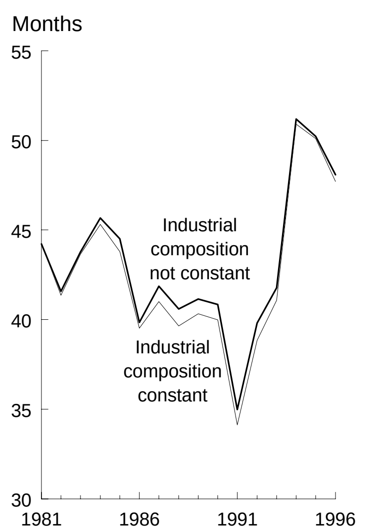
But if job stability is not declining, why is there so much concern? Perhaps workers are responding not to an actual drop in job stability, but to the difficulty of finding a new job when one is lost (Picot and Lin, 1997). Although job duration has risen remarkably since 1991, hiring rates have been on a steady decline since 1987 (Chart D).

The source of employment gains in the recovery period of the 1980s differs from that of the 1990s recovery. An increasing hiring rate spurred growth following the 1981-82 recession, while rising average job duration accounted for the gains following the 1990-92 recession. This suggests that the labour market is shifting from a norm of short job tenure and high turnover to one of longer job tenure and lower turnover. This is happening across all industries.

Why is job duration rising?

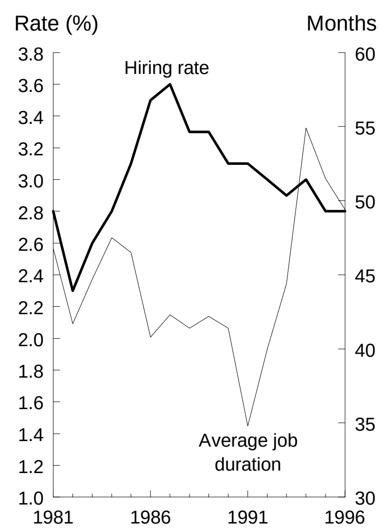
Job duration represents the balance between decisions made by the employee (whether to quit) and decisions made by the employer (whether to continue offering employment). When

Chart C
Industrial composition has little effect on job duration.



Source: Labour Force Survey

Chart D
Following the 1990-92 recession, job duration grew but the hiring rate fell.



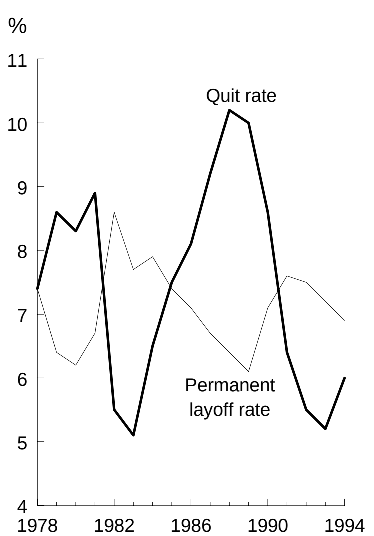
Source: Labour Force Survey

the economy is expanding, employment opportunities are plentiful and workers more prone to quit. At the same time, employers are less likely to lay off workers. Thus, an increase in job stability due to a drop in permanent layoffs tends to signal good economic times, whereas one arising from a decline in quits tends to reflect a lack of opportunity for workers.

During the period 1978 to 1994, the aggregate quit rate varied more than the permanent layoff rate. The quit rate dropped sharply in 1982 and 1983 and again from 1991 to 1993, when opportunities for workers to change jobs were scarce. It rose sharply during the economic recovery of the 1980s, when opportunities improved (Chart E).

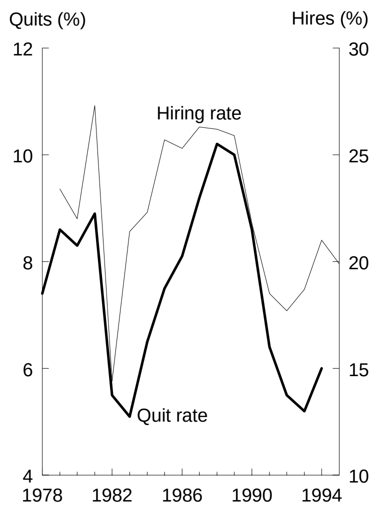
However, quit rates in 1994 (two years after the recession ended) remained at comparatively low levels. From 1983 to 1984 (the first two full years following the 1981-82 recession), the aggregate quit rate rose from 5.1% to 6.5% and continued to rise each year through 1988. In contrast, from 1993 to 1994, it rose from 5.2% to 6.0%. Data for 1995 suggest that this low rate persisted.[7]

Chart E
Lower layoff and quit rates have raised job stability.



Source: Longitudinal Worker File

Chart F
Hiring and quit rates are highly correlated.



Source: Longitudinal Worker File

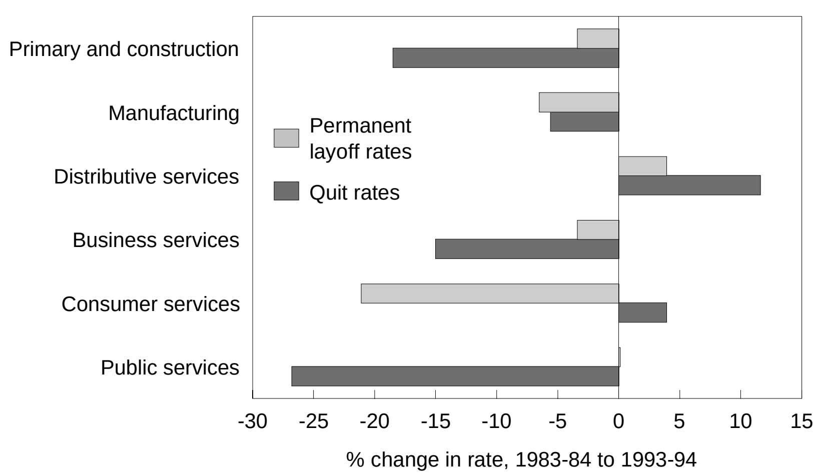
Permanent layoff rates were comparatively low in the more recent recovery. In 1983 and 1984, the aggregate rate stood at 7.7% and 7.9%, respectively. In contrast, in 1993 and 1994 it was 7.2% and 6.9%. So the lower rates for both permanent layoffs and quits have raised job stability.

Among those industries with large increases in job stability – manufacturing, business services and consumer services – different scenarios underlie the gains. For the manufacturing industry, heightened job stability stemmed equally from drops in the rates for both permanent layoffs and quits. In business services, the increase in job stability reflected a considerable fall in the quit rate. The permanent layoff rate declined in this industry as well, but to a lesser degree. In contrast, job stability in consumer services rose because the permanent layoff rate dropped and the quit rate rose only slightly (Chart G).

Why are quit and layoff rates so low?

Understanding the forces that influence job duration raises a further question: why are rates for quits and

Chart G
Both quit and layoff rates increased in distributive services.



Source: Labour Force Survey

Data sources and definitions

This study uses two data sources: the Labour Force Survey (LFS) for the period 1976 through 1996, and the Longitudinal Worker File (LWF), which covers 1978 through 1995. Each source offers a unique perspective on job stability.

The LFS, a monthly household survey, offers the advantages of a current time series and a wide variety of potential variables for all workers.[2] Its data allowed the average complete duration of a new job[3] to be computed for each of the following industry groups: primary and construction, manufacturing, distributive services, business services, consumer services and public services.

The average complete duration of a new job gives the expected amount of time a worker in a new job can expect to remain with that employer.[4] Changes in occupation or location, and periods of temporary layoff with recall were not considered interruptions in a job. If a person had worked for the same employer over different periods of time, job duration was measured starting with the most recent period of work.

The LWF offers a large longitudinal sample of workers (1.8 million); it gives the reason for job separations, but is not as current as the LFS, and excludes some workers. The LWF is constructed from the Record of Employment (completed for each departing employee) and the T4 supplementary files. This means that only persons working in insurable employment are included. Thus, self-employed workers, workers aged 65 or over, workers earning less than the minimum weekly insurable earnings ($113 in 1988), and workers employed less than 15 hours per week are not covered in the LWF. (Recent changes in legislation dropped the limits for employees.)

Quits can occur for job-related reasons, because workers seek more pay, greater opportunities for promotion and training, better working conditions, or other features of the job. They can also occur for personal reasons, as a result of illness, a return to school or a pregnancy. Generally, quits do not entail permanent job loss, except perhaps when firms take advantage of them to downsize or when they occur in anticipation of an eventual layoff.

Layoffs are driven by a different set of events from those associated with quits. Layoffs are often associated with **permanent job loss** as a result of a decline in business activity, firm closures, technological changes, redundancies created by mergers, cost-cutting measures and other reasons related to the economic situation of the firm. On the other hand, layoffs may mean only **temporary job loss**, as they often do in seasonal industries, as a result of temporary declines in business activity or shortages of materials or equipment. Other firm-initiated separations include those from temporary jobs, when the layoff occurs at the end of a specified term or when a particular task is completed.

Hirings represent the other side of the turnover phenomenon. Hirings can fill either new jobs or jobs vacated or freed up by a quit or a retirement. In practice, the distinction between a new job and an existing one is difficult to make. Hirings may also fill permanent or temporary jobs, a distinction that is of special interest, as it can reveal, in connection with data on full- and part-time hiring and contracted-out activities, how firms and industries manage their labour needs. Hiring data can also present a picture of what the labour market looks like to potential job seekers. Hirings represent the job vacancies filled during the year, and thus could be used to establish a "profile" of the labour market, although this profile would not include unfilled vacancies.

permanent layoffs so low? Some possible explanations follow:

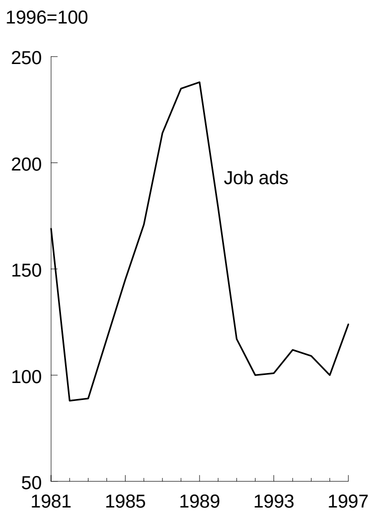
Changing demographics: The shift toward longer job duration could simply reflect changes in the demographic composition of employment. The workforce has changed over the study period: it has shifted toward older workers and highly educated workers. Older workers tend to change jobs less often, perhaps because they have already found a good match. And highly educated workers may have more stable employment because they are able to find better jobs.[8] This being said, demographic change has occurred slowly over the past decades, whereas job stability seems to have risen soon after the 1990-92 recession.

Policy changes: Changes in legislation may also have affected job duration and reduced the need for replacement hiring.[9] Quit rates have declined sharply in the 1990s, owing in part to disincentives imposed on potential quitters (Lin, 1998). Although studies on the effect of the changes have been inconclusive (Jones, 1995), the timing of such changes corresponds to the rise in job stability.

Changing workplace environment: Changes in workplace management may have boosted job stability. For example, new management systems such as "Total Quality Management" and "lean production" – which emphasize high performance and functional flexibility – place a premium on job stability, especially for certain key workers (Marsden, 1996). It is not known, however, how widely these practices have been adopted.

Slower economic growth: The 1993-96 recovery was characterized by slower growth and higher unemployment rates than those of the 1983-86 recovery. Low hiring in the 1990s, therefore, may have been motivated partly by employers' fear of not being able to respond as well as their competitors to another drop in demand. Accordingly, they may have preferred to concentrate effort on their existing workforce, which would lead to longer tenure. This approach results in stagnant labour demand, which is, in turn,

Chart H
Labour demand was weak after the 1990-92 recession.



Source: Help-wanted Index

reflected in the hiring rate. The Help-wanted Index, another indicator of hiring, shows the same pattern (Chart H).

In addition to the change in hiring, lacklustre labour demand may have led to a situation in which workers, perceiving that job opportunities were scarce, or concerned that their skills were insufficient to land a new job, may have been hesitant to leave their jobs. This in turn would raise job duration and reduce the need to hire replacements. Industries like business services and public services, which have undergone considerable restructuring in the 1990s, fit this scenario.

Although increases in job duration may be desirable for many workers, they may also point to changes in the economy that are less benign. For instance, lessening job security or tightened policy regimes may have decreased mobility in the labour market, requiring workers to remain longer in poor job matches.

Summary

Job stability varies widely between the service- and goods-producing industries and within the service sector. For example, jobs are stable in business services, distributive services and manufacturing, but much less so in consumer services and primary and construction industries. Job stability is highest in public services.

Even with the shift toward employment in industries like consumer services, aggregate job stability in Canada remains robust. Rising job stability in that industry, as well as employment gains in business services and public services, underlies this finding.

Job stability in service-producing industries tends to vary less with business cycles, and recovers more quickly from recession than that in goods-producing industries. And, contrary to popular perception, job stability in most industries is as high as or higher than it has been at any time since 1981.

This last finding forces a closer look into the factors that underlie changes in job stability; specifically, changes in permanent layoff rates and quit rates. The recent rise in job stability was caused partly by a drop in the quit rate, especially in business services and public services. But since a *rising* quit rate is characteristic of an improving economy, the recent development is not, therefore, an unqualified sign of recovery. Drops in both permanent layoff and quit rates contributed to the growth in job stability in manufacturing. And a drop in the permanent layoff rate explains the increase for consumer services. □

■ *Notes*

1 Business services comprise finance, insurance and real estate, and services to business management. Consumer services comprise retail trade; amusement and recreation services; personal services; and accommodation, food and miscellaneous services. Public services comprise education; health and social services; religious organizations; and federal, provincial and local administration. Distributive services comprise transportation and storage, communications and other utilities, and wholesale trade. Primary and construction industries comprise agriculture; fishing and trapping; logging and forestry; mines, quarries and oil wells; and general and special trade contractors.

2 This study excluded from the LFS all self-employed workers, students and (during the summer months) returning students. The self-employed were excluded because job tenure for these workers (as defined in the LFS) is conceptually different from that for others. Students were excluded because they are not considered to be fully integrated into the labour force.

3 Job stability among new jobs "is an obvious measure of the difficulty of establishing or re-establishing a fairly long-term match between the worker and the firm, and thus is one important indicator in the debate on job security" (OECD, 1997).

4 This study calculates the statistic as outlined in Heisz (1996b), not as performed by the LFS.

5 In this study, recession periods are from the third quarter of 1981 to the end of 1982, and from the second quarter of 1990 to the third quarter of 1992.

6 The aggregate average duration was computed as follows: aggregate duration equalled the sum of industry specific duration weighted by the share of all hires accounted for by that industry. Industry shares held constant at their 1981 levels generated an aggregate duration statistic that was free of changes due to shifts in industrial composition. If this statistic was higher than the actual aggregate duration, then it could be assumed that the compositional shift among industries was placing downward pressure on job stability.

7 Because many new hires are intended to replace workers who quit, the hiring rate tends to be highly correlated with the quit rate (Chart F). Both the quit rate and the hiring rate rose between 1993 and 1994. However, the hiring rate dropped in 1995, suggesting that the quit rate also remained low that year.

8 Additional analysis has shown that if age, firm size and province are held constant, the probability of permanently separating from a job declined from 10% to 5% between the 1983-86 period and 1993. This suggests that at least some of the observed change was caused by the changing demographic composition of the workforce.

9 Among recent changes to the Employment Insurance (EI) system affecting quitters, the penalty period increased from 1 to 6 weeks, to 7 to 12 weeks, and the benefit rate dropped to 50% in 1990. Since 1993, quitters without a "justifiable reason" (for example, persons fired for misconduct or those who refused to accept other employment) have been ineligible for EI benefits.

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