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■ Self-employment
in the downturn

■ Minimum wage



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P	preliminary
r	revised
X	suppressed to meet the confidentiality requirements of the <i>Statistics Act</i>
E	use with caution
F	too unreliable to be published

Highlights

In this issue

■ Self-employment in the downturn

- During the recent employment downturn, self-employment grew significantly in contrast to widespread losses of paid jobs. In the year that followed the employment peak of October 2008, the number of paid employees declined by nearly half a million (-480,000), while the number of self-employed individuals increased by more than 100,000.
- Self-employment growth was driven by ‘own account’ workers as the increase was largely concentrated among the unincorporated self-employed without paid help.
- While two-thirds of the self-employed at the onset of the downturn were men, women accounted for the majority of the increase (58%) over the period. Increases were also concentrated among older workers, workers living in Quebec, and those who did not have a working spouse. The increase in the number of the self-employed was limited to several industries, namely the finance and real estate sector and the wholesale trade sector.
- Net changes in self-employment over the period concealed a substantial degree of churning. Between October 2008 and October 2009, job tenure data indicate that 285,000 individuals entered self-employment while 170,000 exited.
- Most of the decline in paid employment (82%) took place in the first five months of the downturn—that is, between October 2008 and March 2009. In contrast, the increase in self-employment took place in the subsequent seven months.
- Although the decrease in paid employment predated the increase in self-employment, historical data indicate that the transition rate from paid employment to self-employment is generally low.

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Self-employment in the downturn

Sébastien LaRochelle-Côté

Self-employment tends to increase during recessions (Picot and Heisz 2000). The recent downturn has been no exception. Between October 2008 and October 2009, self-employment rose by 3.9% in Canada in seasonally adjusted figures, while paid employment fell by 1.6% in the public sector and by 4.1% in the private sector (LaRochelle-Côté and Gilmore 2009). This represents an increase of more than 100,000 self-employed individuals over the period, while the number of paid workers decreased by almost half a million.

Prior to the downturn, the economy experienced a period of sustained job creation, fuelled mainly by an increase in the number of paid workers. Between 1999 and 2007, paid employment increased by almost 300,000 or 2.2% per year on average, while self-employment growth averaged 22,800 per year (0.9%). Hence, self-employment levels remained relatively stagnant over the 2000s, whereas it grew constantly almost every year before 1999.¹

While the relative decline in self-employment during the 2000s coincided with a decline in attention paid to self-employment issues, the recent increase in self-employment highlighted the need for up-to-date statistical information on the self-employed. Hence, this article chronicles both the long-term trends in self-employment and its recent resurgence using the Labour Force Survey (LFS). Particular attention is paid to the net change in the job and personal characteristics of the self-employed, the dynamics of entry into and exit and out of self-employment implied by job tenure, and supplemental information on the transition from the loss of a paid job to self-employment from the Survey of Labour and Income Dynamics (SLID) (see *Data sources and definitions*).

Data sources and definitions

This study uses data from the monthly **Labour Force Survey** (LFS). The LFS collects information on the labour market activities of the population 15 years of age and older, excluding residents of collective dwellings, aboriginal settlements, and full-time members of the Canadian Forces. Employed individuals are defined as those who worked at a job or business during the reference week of the survey.

In the LFS, seasonally adjusted information is not available for a number of demographic and job characteristics, which must therefore be examined on a year-over-year basis. Because employment last peaked in October 2008, and because the number of self-employed individuals increased considerably during the 12 months that followed, the period from October 2008 to October 2009 represents an opportunity to study the dynamics of self-employment during the most recent employment downturn. Unless otherwise stated, the results of this paper are based on non-seasonally adjusted data.

For the most part, this article focuses on changes in self-employment levels between October 2008 and October 2009. Changes in self-employment represent the number of individuals who became self-employed over the period, minus the number of workers who ceased to be self-employed. Changes in levels should therefore be interpreted as **net** changes in the total number of self-employed workers. As well, this study also includes some discussion about self-employment dynamics over the period, and uses longitudinal data from the **Survey of Labour and Income Dynamics** (SLID) to gauge the extent to which recently laid-off employees became self-employed in the ensuing months.

This study uses a definition of **self-employment** from previous studies (Wannell and Whitfield 1991, and Kamhi and Leung 2005). It is defined as employed individuals who work for themselves or work without pay for a family business, as opposed to paid workers (who are working for 'others').² While many are working alone, others may be owners of small businesses and may employ paid workers. Self-employed workers therefore include

- owners of incorporated businesses with employees
- owners of unincorporated businesses with employees
- owners of incorporated businesses without employees
- owners of unincorporated businesses without employees
- unpaid family workers.

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The 2009 increase in self-employment occurred against a backdrop of substantial losses in paid employment, which raises the possibility that a substantial portion of those who lost paid jobs turned to self-employment in order to stay active in the labour market. As such, this article juxtaposes the LFS and SLID to assess the extent to which those who lost paid jobs early in the recession might account for the subsequent surge in self-employment. Results indicate that recently laid-off workers are unlikely to account for the majority of those who became self-employed during the recent downturn.

Long-term trends in self-employment

Self-employed workers can be defined as individuals operating a business for their own profit, as opposed to those who work for 'others' (paid employees). A further distinction can be drawn between businesses with or without help. Self-employed workers without paid help are either working alone or with unpaid help from family members. Examples range from consultants (e.g., computer programmers, freelance writers and training consultants) to stand-alone business operators (e.g., small farmers, street vendors and artists) and to any other type of business activity that does not involve paid employees.

In contrast, the self-employed with paid help are typically owners of small or medium-sized businesses such as restaurants, goods rentals, transportation companies, construction, and personal services. Also included could be health specialists in a private practice with employees or private-practice lawyers with staff. Finally, unpaid family workers are individuals working for the business owned by another member of the family without receiving a formal salary, and many of them are found in agriculture.

In 2009, the 2.7 million self-employed workers comprised 16% of the employed labour force. Of these, two-thirds worked without paid help (incorporated or unincorporated). Over the long term, self-employment rose sharply in the early 1980s and steadily through most of the 1990s before falling back to a plateau in the 2000s (Chart A).

Self-employment rose faster during periods of recession in the early 1980s and 1990s and most of these increases in share were retained in subsequent recoveries. Much of the long-term rise is attributable to those without paid help. Although entrepreneurs with paid help contributed to the growth in self-employment in

Chart A Self-employment as a percentage of total employed individuals



Source: Statistics Canada, Labour Force Survey, 1976 to 2009.

the early 1980s, the share of the workforce in this category changed little over the next decade and has tapered off since then.

Self-employment increased amid significant losses in paid employment

Self-employment increased by substantial margins over the course of the recent employment downturn (Table 1). Between October 2008 and October 2009, self-employment increased from 2.66 million to 2.77 million, a net gain of 115,100 (4.3%). This rise in self-

Table 1 Total employed by class of worker

	October 2008	October 2009	Change ¹	
	'000	'000	'000	%
Employed	17,270.7	16,909.4	-361.2	-2.1
Self-employed	2,655.5	2,770.5	115.1	4.3
Paid employees	14,615.2	14,138.9	-476.3	-3.3
Full-time	11,902.3	11,530.7	-371.6	-3.1
Part-time	2,712.9	2,608.2	-104.7	-3.9

1. Changes between October 2008 and October 2009 were all significantly different at the 0.05 level.

Note: Similar trends were found with seasonally adjusted data.

Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

employment occurred against a backdrop of a decline of almost half a million in paid employment (-476,300). Both full-time (-3.1%) and part-time (-3.9%) paid employees were affected by the drop in paid employment.

Although self-employment grew, the number of jobs did not increase in all categories (Table 2). Gains were concentrated among self-employed workers without paid help, particularly among the unincorporated. As a result, the unincorporated self-employed with no paid help represented more than 50% of all self-employed workers in October 2009, up from 48% one year earlier. Other categories did not change significantly.

Characteristics of the increase in self-employment

In October 2008, two-thirds of the self-employed were men compared to 51% of the paid labour force. Over one-half of self-employed workers (55%) were between 35 and 54 years of age while 47% of paid employees were in this age range. Self-employed workers had a similar education profile to paid workers. The distribution of self-employed workers across regions also closely resembled that of paid employees (although they represented a higher share of total employment in Alberta, British Columbia and Sas-

katchewan). Self-employed workers were more likely than paid employees to live with a spouse and particularly to have a spouse who was also self-employed (representing nearly one-quarter of all self-employed workers).

On the other hand, those who joined the ranks of the self-employed between October 2008 and October 2009 were quite different from those who were self-employed at the beginning of the period (Table 3). Over the 12 months, increases in self-employment

Table 2 Total self-employed by class of worker

	October 2008	October 2009	Change	Contribution to overall increase
	'000	'000	'000	%
Self-employed	2,655.5	2,770.5	115.1*	100.0
With paid help	874.1	872.5	-1.6	-1.4
Incorporated	614.7	635.6	20.9	18.2
Unincorporated	259.4	236.9	-22.5	-19.6
Without paid help	1,754.5	1,874.2	119.6*	104.0
Incorporated	485.5	477.2	-8.4	-7.3
Unincorporated	1,269.0	1,397.0	128.0*	111.2
Unpaid family workers	26.8	23.9	-3.0	-2.6

* significantly different from October 2008 at the 0.05 level
Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

Table 3 Self-employed individuals across demographic groups

	October 2008	October 2009	Change
	%		
All	100.0	100.0	115,100
Sex			
Men	65.0	64.1	48,200
Women	35.0	35.9	66,900*
Age			
15 to 24	3.4	3.3	1,200
25 to 34	14.4	13.7	-3,900
35 to 44	26.0	23.5*	-38,600
45 to 54	29.5	29.9	46,500**
55 and over	26.7	29.5*	110,000*
Education level			
At least one university degree	27.6	27.7	34,400
Between high school and university	40.8	40.2	31,300
High school or less	31.6	32.1	49,300**
Region of residence			
Atlantic	5.0	4.9	2,700
Quebec	20.0	21.2	56,300*
Ontario	37.9	37.6	35,400
Manitoba and Saskatchewan	6.7	6.7	7,800
Alberta	13.5	12.9	-1,900
British Columbia ¹	16.9	16.7	14,800
Family status			
Does not have a spouse	26.8	27.6	54,400**
Spouse does not work	10.6	11.5	35,800*
Spouse working - paid employee	38.8	37.7	15,500
Spouse working - self-employed	23.9	23.2	9,400

* significantly different from October 2008 at the 0.05 level; ** at the 0.10 level
1. Includes the Northwest Territories, Yukon and Nunavut as observations from these areas constitute only a tiny fraction of the sample.
Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

were largely concentrated among women (66,900), those at least age 45 (156,500), individuals with a high school education or less (49,300), individuals living in Quebec (56,300), and those who were either living alone or living with a non-working spouse (90,200). Similar results were found when the focus was restricted to self-employed individuals without paid help.³ The increase among older individuals was such that they comprised a significantly larger share of the self-employed workforce in October 2009 (30% as opposed to 27% in October 2008).⁴ Conversely, the share of self-employed workers age 35 to 44 declined by a significant margin (from 26% to 24%).

Before the downturn, self-employed individuals were distributed across a broad spectrum of industries with concentrations in several. For example, in October 2008, a large proportion of the self-employed worked in professional, scientific and technical industries (15%), and in the mining, quarrying, oil and gas, and construction sector (14%). Other sectors with substantial self-employment included the health care sector; agriculture, forestry, fishing and hunting industries; and other services.

Between October 2008 and October 2009, however, much of the 115,100 increase was concentrated in a few particular industries (Table 4). Most notably, finance and real estate industries recorded gains corresponding to 44% of the total increase in self-employment and their share of self-employment increased from 7% to 8%. The majority of the increase in those industries was due to a jump in the number of workers in the real estate sector and, to a lesser degree, securities, commodity contracts, and other financial investment and related activities. The wholesale trade sector also added 33,000 self-employed workers over the period. On the other hand, self-employment levels varied little in other industries.

In October 2008, most of the self-employed were working full time. Of those who were working part time, only a small portion did so for economic reasons (i.e., because of business conditions or because they could not find a full-time job).⁵ Although the number of the self-employed working full time increased by 64,200 over the year, this was not a statistically significant change compared to 2008 levels. However, the number of self-employed individuals

who worked part time for economic reasons (and desired a full-time schedule) rose by a significant margin over the period (22,800) even though they normally constitute a very small portion of all self-employed individuals.

Table 4 Self-employed individuals across job characteristics

	October 2008	October 2009	Change
	%		
Industry	100.0	100.0	115,100
Agriculture, forestry, fishing and hunting	8.8	8.3	-4,400
Mining, quarrying, oil and gas, construction	14.2	13.7	3,400
Manufacturing	3.9	3.5	-8,300
Wholesale trade	7.0	7.9**	33,000*
Retail trade	4.4	4.1	-4,100
Transportation and warehousing	5.4	5.5	10,300
Information, cultural, arts and recreation	4.8	4.9	10,200
Finance and real estate	6.5	8.1*	50,200*
Professional, scientific, technical	15.3	15.1	11,600
Management and support	6.4	6.1	-700
Accommodation and food	3.5	3.6	7,600
Other services	8.7	8.9	15,700
Health care and social assistance	8.8	8.3	-5,400
Education and public administration	2.2	2.0	-4,000
Full- and part-time status			
Full-time	78.8	77.9	64,200
Part-time for economic reasons and wanted full-time	4.8	5.4	22,800*
Part-time for non-economic reasons	16.4	16.7	28,100

* significantly different from October 2008 at the 0.05 level; ** at the 0.10 level
Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

Flows into and out of self-employment

To this point, the analysis has focused on **net** changes in self-employment—the differences from one year to the next. As Lin, Picot and Yates (1999) demonstrate, there are substantial flows into and out of self-employment that are large relative to the stock of self-employment in any given year. The study of entries and exits yields more detailed information about those entering and exiting self-employment in any period.

Entry into and exit out of self-employment have the following relationship with self-employment levels:

Self-employment in October 2009 = Self-employment in October 2008 + (Entrants – Exits)

where ‘entrants’ refers to the number of self-employed individuals who became self-employed between October 2008 and October 2009, and ‘exits’ refers to the number of self-employed who ceased to be self-employed (in their main job) over the same period.⁶ Because the Labour Force Survey does not collect longitudinal information over the entire period for the same individuals, an indirect method must be designed to estimate entry and exit flows.

One strategy is to use job duration to estimate the number of employees who recently became self-employed. For example, entrants can be estimated by counting those who, in October 2009, had been self-employed for 12 months or less. Then exits can be estimated by calculating the difference between self-employment levels in October 2009 and self-employment levels in 2008 plus new entrants:

$$\text{Exits} = \text{Self-employment in October 2009} - (\text{Self-employment in October 2008} + \text{Entrants}).$$

Between October 2008 and October 2009, 284,500 individuals were estimated to have entered self-employment, while 169,500 exited self-employment (Table 5), for a net increase of 115,000. Net changes in self-employment therefore concealed a substantial degree of transition into and out of self-employment.

For the most part, new entrants (or the ‘newly’ self-employed) were predominantly those without paid help (85%) and most were unincorporated (71%). Exits were less concentrated among the self-employed without help (72%) and, relative to the starting size, the greatest exit rate occurred among the unincorporated with paid help. This group also had the lowest entry rate and thus provided the largest opposing force to the overall growth in self-employment. The incorporated self-employed with paid help were the most stable during this period, having both the lowest entry and

exit rates. But since their entry rate was almost four times their exit rate, they more than offset the decline among unincorporated employers.

Transition between loss of paid jobs and self-employment

From October 2008 to October 2009, the major losses in paid jobs and increases in self-employed jobs did not take place at the same time. Most of the losses in paid employment took place in the first five months of the downturn, as nearly 400,000 such jobs disappeared (in seasonally adjusted figures). At the same time, self-employment remained stable. In the seven months that followed (between March and October 2009), the number of self-employed individuals increased by more than 100,000, while the number of paid employees declined by much lower margins (-85,600 in seasonally adjusted figures). Such figures raise the possibility that the increase in self-employment was mostly due to recently laid-off employees having been ‘pushed’ into self-employment.⁷

Table 5 Entry into and exit out of self-employment

	October 2008	October 2009	Entrants ¹	Exits ²
			'000	
Self-employed	2,655.5	2,770.5	284.5	-169.5
With paid help	874.1	872.5	39.0	-40.6
Incorporated	614.7	635.6	28.3	-7.4
Unincorporated	259.4	236.9	10.7	-33.2
Without paid help	1,754.5	1,874.2*	242.1	-122.5
Incorporated	485.5	477.2	41.3	-49.6
Unincorporated	1,269.0	1,397.0*	200.9	-72.9
Unpaid family workers	26.8	23.9	3.4	-6.3
			%	
Self-employed	100.0	100.0	100.0	100.0
With paid help	32.9	31.5	13.7	24.0
Incorporated	23.1	22.9	9.9	4.4
Unincorporated	9.8	8.6*	3.8	19.6
Without paid help	66.1	67.6**	85.1	72.3
Incorporated	18.3	17.2	14.5	29.3
Unincorporated	47.8	50.4*	70.6	43.0
Unpaid family workers	1.0	0.9	1.2	3.7

* significantly different from October 2008 at the 0.05 level; ** at the 0.10 level

1. Self-employed workers with tenure of 12 months or less.

2. Estimated figure (see equation 2).

Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

A closer look indicates that the increase in self-employment did not take place in groups that sustained the most employment losses (with the possible exception of changes across educational attainment). Employment losses between October 2008 and October 2009 were concentrated among youth, men, workers with lower levels of education, and those working in manufacturing and construction industries (LaRochelle-Côté and Gilmore 2009). In contrast, the increase in self-employment was concentrated among women, older workers and those working in finance and real estate industries. Thus the newly self-employed appeared quite different from paid employees who lost their jobs earlier in the recession.

Longitudinal data covering the economic downturn would be required to definitively track the transitions into self-employment, but they are not currently available.⁸ However, an empirical strategy can be designed to examine the plausibility that large numbers of laid-off employees fuelled the growth in self-employment. The strategy is based on the use of tenure variables in the LFS to identify the number of paid employees who have been laid-off because of economic reasons in the first five months of the downturn, and the number of those who became self-employed in the seven months that followed.

Because self-employment growth took place in the seven months before October 2009, our self-employment ‘candidates’ should include paid workers who lost their jobs after October 2008 and were still without a job in March 2009. To obtain a profile of such workers, we identified individuals who had been without a job for five months or less in March 2009, and who had lost their jobs because of economic conditions (e.g., because of business conditions, the company went out of business, or they had been dismissed). According to the LFS, 598,400 individuals met these criteria in March 2009—the hypothetical pool for the transition to self-employment. Similarly, the number who became self-employed in the seven-month period that followed (between April 2009 and October 2009) was estimated using job tenure information from October 2009, and is defined as the number of individuals who were self-employed in their main job for seven months or less. As of October 2009, 184,600 individuals fit that definition.⁹

Since most jobs have elements of skill and knowledge that are industry-specific, those moving into self-employment should be more likely to remain in the industry in which they were previously employed. So if

many of the newly self-employed come from the pool of laid-off employees, then the industry distribution of the former could bear some resemblance to the latter.

The industrial classification of recently laid-off employees does not closely align with that of the newly self-employed (Table 6). For example, laid-off workers were concentrated in manufacturing, and in the mining, quarrying, oil and gas, and construction sector. Together, these two sectors accounted for almost 50% of all jobs lost due to economic conditions between October 2008 and March 2009, but only 16% were newly self-employed in the next seven months. In contrast, nearly one out of every five newly self-employed workers were in the professional, scientific and technical sector. Four other service industries accounted for a combined share of about 40% of the newly self-employed: the wholesale trade sector; the management and support services sector; the health care and social assistance sector; and other services. If laid-off employees were driving the increase in self-employment, many would be changing industries.

On the other hand, the number of laid-off workers in the first five months of the downturn was such that even low percentages translated into high numbers of layoffs in some industries. For example, professional, scientific and technical jobs represented only 5% of all employees laid off between October and March, but because of the large number of layoffs over that period, this translated into 27,700 jobs in that industry alone—not far from the 33,400 increase in the number of self-employed workers seen in this industry in the seven months that followed. Should recently laid-off employees choose to join self-employment in large numbers, layoffs could potentially explain a good deal of the increase in self-employment in some industries.

The extent to which recently laid-off employees switch to self-employment can be verified by computing ‘transition rates’ from another data source, the Survey of Labour and Income Dynamics (SLID). Although SLID does not yet provide information on the recent economic downturn, employment to self-employment transition rates can be calculated for earlier years. For example, paid employees who lost their main jobs for economic reasons between October 2006 and March 2007 can provide a basis for comparison.¹⁰ The share that experienced self-employment as a main job at any point in time between April 2007 and October 2007 can then be calculated. The process is repeated for all years available in SLID (from 1993/1994 to 2006/2007).

Table 6 Laid-off paid employees and newly self-employed

Industry	Laid-off paid employees (October 2008 to March 2009)		Newly self-employed (April 2009 to October 2009)	
	598,400	% 100.0	184,600	% 100.0
Agriculture, forestry, fishing and hunting	15,900	2.7	6,100	3.3
Mining, quarrying, oil and gas, construction	123,000	20.6	26,400	14.3
Manufacturing	168,100	28.1	2,800	1.5
Wholesale trade	60,100	10.0	14,800	8.0
Retail trade	24,900	4.2	4,000	2.2
Transportation and warehousing	32,000	5.3	8,400	4.5
Information, cultural, arts and recreation	15,400	2.6	12,600	6.8
Finance and real estate	13,300	2.2	8,700	4.7
Professional, scientific, technical	27,700	4.6	33,400	18.1
Management and support	33,600	5.6	16,800	9.1
Accommodation and food	37,100	6.2	6,600	3.6
Other services	24,200	4.1	22,100	12.0
Health care and social assistance	12,300	2.1	15,900	8.6
Education and public administration	10,800	1.8	6,000	3.2

Source: Statistics Canada, Labour Force Survey, not seasonally adjusted.

In any given year, most of those who experienced a layoff between October of the previous year and March became re-employed at some point between April and October (from a high of 92% to a low of 73%, for an average re-employment rate of 87%). Of those who became re-employed, a relatively small portion became self-employed. The share of October-to-March paid employees who became self-employed after a layoff varied from a low of 2% in 2005/2006 (a year of low self-employment job creation) to a high of 11% in 1994/1995, when the economy was still dealing with the previous employment downturn. The average transition rate over the period was 5%.

If one were to assume that the re-employment rate for those who were still laid-off in March of 2009

was close to the average for the previous 15 years (87%), it would mean that approximately 520,600 of the 598,400 who were still laid-off in March 2009 found work between April and October 2009. If the transition rate to self-employment were low (as in most years), for instance 5%, then layoffs could have translated into 26,000 new self-employed workers. Conversely, a high transition rate of, say 12% (which would be higher than at any point in time in 14 years of data), would result in more than 78,100 newly self-employed workers, more than one-third of the total. If the rate were somewhere between these two extremes at 8% (which was the transition rate seen in 2006/2007, the most recent year available in SLID), then this would correspond to 41,600 new self-employed workers between April

and October 2009. The implication of these scenarios is that recently laid-off workers could account for a significant minority of the newly self-employed. However, even the highest scenario shows laid-off employees accounting for just over one-third of the newly self-employed.¹¹ This suggests that other factors (potential earnings, access to credit, managerial skills, desire for flexible work hours, other personal characteristics, etc.) might have 'pulled' a significant number of workers into self-employment without the impetus of a layoff.¹² It might also mean that other types of economic factors (e.g., weak labour demand, layoff of a spouse) led more people than usual into self-employment.

Summary

Between October 2008 and October 2009, self-employment increased by more than 115,000, while the number of paid employees declined by nearly half a million. Most of the increase in self-employment was due to self-employed workers without paid help. The spike in self-employment came at the end of a decade in which the self-employment rate changed little.

Not all groups experienced equivalent increases in self-employment. Higher increases were seen among older workers, women, and those living in Quebec. The influx of self-employment was concentrated in a few industries. The finance and real estate sector led the way with an increase of 50,000. Wholesale trade industries also recorded a large increase. One-fifth of the net increase in self-employment was accounted for by those working on a part-time basis for economic reasons but preferring full-time work.

The period was also characterized by substantial flows both into and out of self-employment. Between October 2008 and October 2009, 284,500 individuals joined the ranks of the self-employed, while 169,500 ceased to work as self-employed workers. Net changes in self-employment therefore concealed a substantial degree of entry into and exit out of self-employment.

The decrease in paid employment predated the increase in self-employment. This raises the possibility that a large portion of the newly self-employed could have been paid employees who lost their jobs in the first few months of the downturn. With the exception of workers in the mining, quarrying, oil and gas, and construction industries, the industrial profile of those who became self-employed workers did not closely match the profile of those who were laid-off after the first five months of the downturn. Moreover, longitudinal data for other time periods indicate that a relatively low proportion of paid employees became self-employed workers in the months following the loss of their paid jobs. The implication is that layoffs likely explained some, but not all, of the recent increase in self-employment.

Perspectives

Notes

1. One exception was a sharp increase in self-employment levels between 2006 and 2007 (117,000) within the context of a strong labour market. Before the 2000s, self-employment levels increased almost every year since the LFS began collecting data in the current format in 1976.
2. Respondents in the LFS must describe themselves as self-employed to be identified as such. They must also have worked in a job or for a business at the time of the reference week. This study might therefore exclude individuals with a limited degree of involvement in a business (through a limited partnership, for example), or self-employed individuals who temporarily suspended their business activities.
3. Even though the total increase in self-employment was largely concentrated in Quebec, Alberta accounted for nearly one-quarter of the increase in self-employed workers with no paid help. This is because Alberta also lost a good deal of self-employed workers with paid help over the period. Also worthy of note is the fact that families with one working spouse saw a much smaller increase in the number of self-employed workers with no paid help.
4. Although population aging is increasing the absolute number of the older self-employed, the self-employment rate for older workers hasn't changed much in recent years and remains below its 1999 peak.
5. The distinction between the two types of part-time work (economic versus non-economic reasons) was necessary because part-time work is not necessarily descriptive of a lack of work for the self-employed.
6. This method excludes those who experienced a brief stint of self-employment between October 2008 and October 2009. However, it represents the best possible approximation of entries and exits based on cross-sectional data.
7. Although this is a different labour market than in the 1990s, empirical studies from the early 2000s provide mixed evidence in favour of this hypothesis. For instance, Moore and Mueller (2002) found that 'push' factors (unemployment rate, long unemployment spells, and longer spells between jobs) explained some, but not all, of the surge in self-employment at the end of the 1990s, and that the effect was stronger among men. Schuetze (2000) also found that rising unemployment reduced the opportunity cost of entering self-employment. By and large, the literature suggests that other factors, such as wealth, potential gains or other personal characteristics, also contribute to 'pull' workers into self-employment. See Georgellis et al. (2005) for a complete discussion of push and pull factors associated with self-employment.
8. The Labour Force Survey has a longitudinal component but it is primarily for survey design purposes. Although statistical techniques (such as 'raking') could potentially be used to derive gross flows consistent with stock levels on a month-over-month basis, this study is concerned with labour market transitions over a much longer period of time. Furthermore, following individuals over six months in the LFS could lead to spurious results as estimates might be affected by various sources of discrepancy, known as margin error problems. For a discussion of potential margin error problems in labour survey data, see Frazis et al. (2005).
9. Layoffs may include individuals who were unemployed in October of 2008 but had one job spell or more in the five months that followed. Similarly, 'new' self-employed workers exclude those who experimented with self-employment during the period but were without a job in October 2009 or earlier.
10. More precisely, monthly information in SLID is used to identify all paid employees who lost their jobs because of economic conditions at any point in time between October 2006 and March 2007. Although primarily intended for income statistics, SLID also provides longitudinal information on a number of labour market statistics that are conceptually similar to the LFS, including statistics on labour market participation and class of worker.

11. Some employees could choose to rely on income assistance programs (like employment insurance benefits) and might therefore take longer than a few months to set up a business. However, the transition rates changed very little when examined over a longer time period in SLID. Furthermore, only a fraction of those who are paid employees are self-employed in a second job (less than 2% as of 2008), making it unlikely that recently laid-off paid employees turned to an already existing self-employed business to stay in the labour market. Finally, a sensitivity analysis that was conducted to determine whether the transition rate varied across age groups showed that laid-off workers in different age groups had similar transition rates into self-employment.
12. See Georgellis et al. (2005) for a review of these factors.

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PERSPECTIVES

ON LABOUR AND INCOME

Minimum wage

Minimum-wage legislation exists in every province and territory as part of employment standards legislation. The minimum wage is the lowest pay rate employers can pay employees covered by the legislation. To evaluate the potential impact of an amendment to minimum-wage legislation, it is important to understand who works for minimum wage and what types of

jobs those people hold. In this article, workers who receive less than minimum wage are included in the estimates. The presence of such workers does not necessarily indicate a violation of the current legislation as they may not be covered by the legislation or they may simply be subject to rates below minimum wage (see *Data source and definitions*).

Data source and definitions

The **Labour Force Survey (LFS)** is a monthly household survey of about 54,000 households across Canada. Demographic and labour force information is obtained for all civilian household members 15 years of age and older. Excluded are persons living in institutions, on Indian reserves, or in the territories.

Every province and territory stipulates a minimum wage in its employment legislation. It is an offence for employers to pay eligible employees less than the set rate, regardless of how remuneration is calculated (hourly, daily, weekly, monthly, or on a piecework basis). Likewise, employees are prohibited from accepting pay that is less than the applicable minimum. The minimum-wage rate varies from province to province, and changes can take effect any time of the year.

The self-employed are not covered by minimum wage legislation and as such are not included in the analysis. Unpaid family workers are also excluded.

Other exclusions and special coverage provisions vary and include young workers (Ontario and Newfoundland and Labrador), workers with disabilities (Alberta, Manitoba and Saskatchewan—rarely used), domestic and live-in care workers (New Brunswick, Prince Edward Island, Manitoba and Quebec), farm labour (Alberta, Manitoba, Ontario and Saskatchewan), and home-based workers (for example, teleworkers and pieceworkers in the clothing and textile industry). Other specific minimums cover non-hourly and tip-related wage rates (for example, Ontario has a special

minimum-wage rate for employees who serve alcoholic beverages in licensed establishments). A more complete description of exclusions and special rates is available from Human Resources and Skills Development Canada's minimum-wage database (<http://srv116.services.gc.ca/wid-dimt/mwa/>).

The number of employees working for minimum wage was calculated using the applicable minimum wage for experienced adult workers (also known as the general adult rate) for each province for each month of 2009. The annual average for each province is based on the average of these 12 monthly observations, while the total for Canada corresponds to total provincial averages.

To determine whether an employee worked at or below the general adult-rate wage for each province, hourly earnings were calculated based on the reported wage or salary before taxes and other deductions. Hourly wages and salaries, including tips, commissions and bonuses, were used as reported. The remaining wage rates were converted to an hourly rate for regular weekly work hours. In principle, tips, commissions and bonuses should have been excluded to capture only those whose true base hourly wage was at or below the provincial general adult rate, but the required information is not collected. The result is a slight downward bias in the number of employees working at or below the official general adult rate set by each province. However, none of the exclusions or special minimum-wage rates (such as special minimum-wage rates for tip earners and young workers) were used, which introduces an upward bias.



Table 1 Lowest proportion of minimum-wage workers in Alberta

	Total employees	Minimum wage		General adult minimum wage	Average hourly wage	Unemployment rate	Minimum wage + 10%	
		Total	Incidence					
	'000	'000	%	\$/hour	Date	\$/hour	%	Frequency (%)
Province								
Newfoundland and Labrador	194.2	18.1	9.3	9.00	July 2009	19.59	15.5	15.2
Ontario	5,503.9	447.5	8.1	9.50	March 2009	22.75	9.1	14.1
Nova Scotia	392.1	26.6	6.8	8.60	April 2009	19.00	9.2	12.5
Quebec	3,279.6	200.8	6.1	9.00	May 2009	20.80	8.5	10.2
Canada	14,147.2	817.0	5.8	22.05	8.3	10.3
New Brunswick	323.6	17.1	5.3	8.25	September 2009	18.67	8.9	10.9
Prince Edward Island	59.3	3.1	5.2	8.40	October 2009	17.73	12.0	13.0
Manitoba	523.4	24.2	4.6	9.00	October 2009	19.88	5.2	10.0
Saskatchewan	421.3	16.4	3.9	9.25	May 2009	21.55	4.8	10.2
British Columbia	1,813.3	41.2	2.3	8.00	November 2001	22.22	7.6	4.0
Alberta	1,636.4	22.1	1.3	8.80	April 2009	24.70	6.6	3.5

Source: Statistics Canada, Labour Force Survey, 2009.

In 2009, some 817,000 people were working at or below the provincial minimum wage. This represents 5.8% of all employees in Canada, a slight increase compared with the 5.2% recorded the previous year. The minimum wage ranged from \$8.00 per hour in British Columbia to \$9.50 per hour in Ontario. Newfoundland and Labrador had the highest proportion of employees working at minimum wage (9.3%), while Alberta had the lowest proportion by far (1.3%). Alberta also had the highest average hourly wage, at \$24.70, and one of the lowest unemployment rates (6.6%). Conversely, Newfoundland and Labrador had one of the lowest average hourly wages, at \$19.59, and the highest unemployment rate (15.5%). High unemployment rates and low average hourly wages do not necessarily coincide with a higher incidence of working at minimum wage: Prince Edward Island,

which had the second-highest unemployment rate and the lowest average hourly wage, had the sixth highest incidence of working at minimum wage.

The provincial variation in the incidence of working at minimum wage is related to a number of factors, including the provincial minimum wage level¹ and the distribution of wages within each province. When the concept of minimum wage is expanded to a definition that is closer to that of low earnings (minimum wage plus 10%), certain provinces show similar low earnings even though they have quite different incidences of minimum wage. For example, Quebec and Saskatchewan respectively showed incidences of 6.1% and 3.9% of working at minimum wage, but had exactly the same incidence of low earnings as defined here, at 10.2%.

Table 2 Rate of employees working for minimum wage or less, by province

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	%									
Canada	4.7	4.8	4.8	4.1	4.6	4.3	4.3	5.0	5.2	5.8
Newfoundland and Labrador	8.7	5.7	7.4	8.4	6.5	6.1	7.6	7.4	7.7	9.3
Prince Edward Island	3.7	3.2	4.4	4.0	4.4	5.1	4.7	6.9	5.6	5.2
Nova Scotia	4.9	4.1	4.6	5.9	5.6	5.1	5.9	6.2	6.4	6.8
New Brunswick	6.0	4.2	4.2	4.1	2.5	3.1	4.1	5.6	4.8	5.3
Quebec	5.4	7.0	6.1	5.1	4.4	4.6	4.2	5.4	5.9	6.1
Ontario	4.6	4.1	3.9	3.5	5.3	4.3	4.7	6.3	6.6	8.1
Manitoba	5.1	4.5	4.8	4.5	4.9	4.9	4.8	5.5	5.3	4.6
Saskatchewan	5.9	4.4	4.8	5.0	3.3	3.9	5.4	3.2	3.8	3.9
Alberta	2.0	1.5	1.1	1.1	0.9	1.5	1.7	1.2	1.6	1.3
British Columbia	4.5	6.0	7.7	5.6	6.2	5.6	4.6	3.4	2.7	2.3

Source: Statistics Canada, Labour Force Survey.

All provinces increased their minimum-wage rates in 2009 except British Columbia, whose rate has remained unchanged since November 2001. The number and proportion of minimum-wage workers increased in six provinces: Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, Quebec and Saskatchewan. They decreased in the other four provinces: British Columbia, Manitoba, Prince Edward Island and Alberta.

Overall, the proportion of employees working at minimum wage increased for a third consecutive year in Canada. The increase from 2008 to 2009 (0.6 percentage points) is greater than that recorded from 2007 to 2008.

Chart A Proportion of employees earning minimum wage increased for the third consecutive year

Source: Statistics Canada, Labour Force Survey.

Table 3 Women and young people occupy most minimum-wage jobs

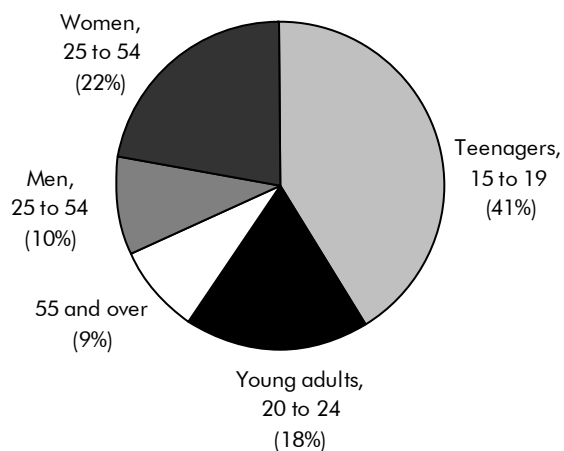
	Total employees '000	Minimum wage	
		Total '000	Incidence %
Both sexes			
15 and over	14,147.2	817.0	5.8
15 to 24	2,344.7	484.5	20.7
15 to 19	885.3	334.9	37.8
20 to 24	1,459.4	149.6	10.3
25 and over	11,802.5	332.5	2.8
25 to 34	3,241.1	93.8	2.9
35 to 44	3,188.4	84.9	2.7
45 to 54	3,393.7	81.6	2.4
55 and over	1,979.3	72.2	3.6
Men			
15 and over	7,030.4	305.6	4.3
15 to 24	1,152.4	198.8	17.2
15 to 19	424.4	141.5	33.3
20 to 24	728.0	57.2	7.9
25 and over	5,878.0	106.9	1.8
25 to 34	1,655.3	33.2	2.0
35 to 44	1,599.4	24.9	1.6
45 to 54	1,641.7	21.3	1.3
55 and over	981.7	27.5	2.8
Women			
15 and over	7,116.8	511.4	7.2
15 to 24	1,192.3	285.8	24.0
15 to 19	460.9	193.4	42.0
20 to 24	731.4	92.4	12.6
25 and over	5,924.4	225.6	3.8
25 to 34	1,585.8	60.7	3.8
35 to 44	1,589.0	59.9	3.8
45 to 54	1,752.0	60.3	3.4
55 and over	997.6	44.7	4.5

Source: Statistics Canada, Labour Force Survey, 2009.

Women are more likely to work for minimum wage than men. In 2009, they represented just over 60% of minimum-wage workers, although they made up one-half of employees. The overrepresentation of women in this category of workers is observable among all age groups, but more significantly for women 25 years of age and over, whose rate was twice as high as that of men the same age.

In 2009, close to 60% of minimum-wage workers were under the age of 25, while this group represented only 17% of all employees. The incidence of working at minimum wage among this age group was almost seven times higher than that of workers 25 and over, at 21% versus 3% respectively. Some 38% of teenagers 15 to 19 years of age worked for minimum wage and made up slightly more than 40% of all minimum-wage workers. The majority of these teenagers attended school on a full-time or part-time basis² (85%). Young adults (20 to 24) made up 18% of minimum-wage workers and, of that number, 44% attended an educational institution on a full-time or part-time basis.

Chart B Persons under 25 and women from 25 to 54 account for 81% of minimum-wage workers



Source: Statistics Canada, Labour Force Survey, 2009.

A significant proportion (32%) of minimum-wage workers were between the ages of 25 and 54, which is slightly higher than in 2008 (29%). Once again, women comprised the majority of these workers. Since people in this age group have for the most part completed their studies, working for minimum wage is less likely to be a transitional stage for them.

In general, the incidence of working for minimum wage decreases significantly with age, with the exception of workers 55 and over, whose rate increases slightly compared to those from 45 to 54.

Those with less than a high school diploma were five times more likely to work for minimum wage (or at a lower wage) than those with at least some postsecondary studies—1 in 6 compared with 1 in 28. In addition, more than one-third of minimum-wage workers did not have a high school diploma (34%) compared with 11% for all employees. This reflects the high rates of minimum-wage work among teenagers from 15 to 19, most of whom had not completed their studies.

Table 4 Education makes a difference

	Total employees	Minimum wage	
		Total	Incidence
	'000	'000	%
Education	14,147.2	817.0	5.8
Less than high school	1,616.2	280.2	17.3
Less than grade 9	285.2	33.5	11.8
Some high school	1,331.0	246.7	18.5
High school graduate	2,847.8	187.9	6.6
At least some postsecondary	9,683.2	348.9	3.6
Some postsecondary	1,213.0	119.7	9.9
Postsecondary certificate or diploma	4,667.2	140.3	3.0
University degree	3,803.0	88.9	2.3

Source: Statistics Canada, Labour Force Survey, 2009.

Table 5 Minimum-wage workers by industry

Industry	Total employees '000	Minimum wage	
		Total '000	Incidence %
Industry	14,147.2	817.0	5.8
Goods-producing	3,022.6	66.1	2.2
Agriculture	118.2	16.9	14.3
Forestry, fishing, mining, oil and gas	272.3	3.8	1.4
Construction and utilities	942.5	10.4	1.1
Manufacturing	1,689.7	35.1	2.1
Service-producing	11,124.6	750.9	6.8
Trade	2,337.9	288.5	12.3
Transportation and warehousing	676.6	18.0	2.7
Finance, insurance, real estate and leasing	901.5	23.6	2.6
Professional, scientific and technical	781.2	12.4	1.6
Management, administrative and other support	492.1	29.4	6.0
Education	1,134.8	28.5	2.5
Health care and social assistance	1,717.8	32.1	1.9
Information, cultural, arts and recreation	645.6	43.2	6.7
Accommodation and food	965.9	217.0	22.5
Public administration	926.5	10.9	1.2
Other services	544.6	47.4	8.7

Source: Statistics Canada, Labour Force Survey, 2009.

Minimum-wage work was concentrated in the service sector (92%), especially in the accommodation and food services sector, which had by far the highest incidence, with more than one in five workers in a minimum-wage job. The trade sector also had a high rate, with one in eight workers in this type of job. These sectors are especially populated with a high concentration of young people and part-time workers who often have less work experience and fewer labour market connections. In general, the jobs in these sectors do not require specialized skills or postsecondary education, and they have low levels of unionization. They also include numerous part-time jobs, associated with a higher proportion of women and young people.

The agriculture sector also had a high proportion of minimum-wage or low-wage workers (one in seven workers). Farm labour is not subject to minimum-wage provisions and workers are seldom unionized. Nevertheless, these workers sometimes receive non-wage benefits, which in part compensate for their low wages (for example, free room and board).

Highly unionized sectors such as construction and utilities, manufacturing and public administration were among those with the lowest percentages of minimum-wage workers in 2009.

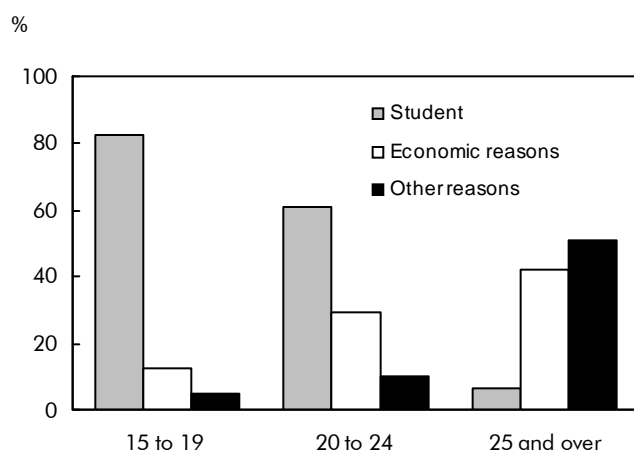
The rate of minimum-wage work was six times higher among part-time workers than full-time workers (19% versus 3%). In fact, almost 60% of minimum-wage workers held part-time jobs, compared with less than 20% for all employees.

Table 6 Part-time employment prominent among minimum-wage workers

	Total employees '000	Minimum wage	
		Total '000	Incidence %
Both sexes	14,147.2	817.0	5.8
Men	7,030.4	305.6	4.3
Women	7,116.8	511.4	7.2
Full-time	11,536.9	334.3	2.9
Men	6,231.1	132.1	2.1
Women	5,305.9	202.2	3.8
Part-time	2,610.2	482.8	18.5
Men	799.3	173.6	21.7
Women	1,810.9	309.2	17.1

Source: Statistics Canada, Labour Force Survey, 2009.

Chart C Most young part-timers earning minimum wage are pursuing their studies



Source: Statistics Canada, Labour Force Survey, 2009.

Teenagers and young adults represented 60% and 17% respectively of all minimum-wage workers in part-time jobs. The vast majority of these young workers (78%) held this type of job while pursuing their studies. Among workers 25 and over, economic conditions³ (lack of full-time jobs or their current economic situation) were mentioned by 42% of them to explain why they held part-time jobs.⁴

Table 7 Minimum-wage jobs are generally short tenure and rarely unionized

	Total employees	Minimum wage	
		Total	Incidence
	'000	'000	%
Job tenure	14,147.2	817.0	5.8
1 to 3 months	952.5	141.9	14.9
4 to 6 months	815.9	99.4	12.2
7 to 12 months	1,219.4	142.0	11.6
13 to 60 months	4,848.7	325.2	6.7
61 months or more	6,310.7	108.5	1.7
Firm size	14,147.2	817.0	5.8
Less than 20 employees	2,704.3	245.9	9.1
20 to 99 employees	2,309.0	128.4	5.6
100 to 500 employees	2,046.1	87.7	4.3
More than 500 employees	7,087.8	355.1	5.0
Union membership	14,147.2	817.0	5.8
Union member or covered by collective agreement	4,447.3	87.0	2.0
Non-member and not covered by collective agreement	9,699.9	730.0	7.5

Source: Statistics Canada, Labour Force Survey, 2009.

Close to one-half of minimum-wage workers have held their jobs for one year or less, compared to less than one-quarter (21%) of all employees. The highest incidence of minimum-wage work was observed among those who had held their jobs for three months or less (15%) and the lowest incidence was among those who had held their jobs for more than five years (2%). With time, higher levels of education and greater experience, workers appear able to leave their minimum-wage jobs or get wage increases that allow them to remain above the current minimum wage.

In 2009, more than four in ten minimum-wage workers were in large firms (more than 500 employees) and three in ten workers were in small firms (less than 20 employees). The incidence of minimum-wage work was nonetheless higher in small firms—close to twice that in large firms.

In fact, only 11% of minimum-wage workers belonged to a union or were covered by a collective agreement, compared with close to one-third for all employees. Only 2% of unionized employees worked for minimum wage versus 8% of non-unionized workers.

Table 8 Most minimum-wage workers live with their parents

	Total employees	Minimum wage	
		Total	Incidence
	'000	'000	%
Member of a couple¹	8,222.1	217.8	2.6
Spouse employed	6,570.5	161.3	2.5
Earning minimum wage or less	133.8	15.3	11.4
Earning more than minimum wage	5,477.4	118.6	2.2
Self-employed	959.3	27.5	2.9
Spouse unemployed	1,619.4	55.5	3.4
Head of household, no spouse	998.0	44.4	4.4
Youngest child less than 18	494.1	19.6	4.0
Youngest child age 18 to 24	147.7	4.4	3.0
No child or child age 25 and over	356.1	20.3	5.7
Son, daughter or other relative living with family²	2,587.8	452.1	17.5
Student, full time	656.6	238.2	36.3
Student, part time	105.9	16.7	15.8
Not a student	1,813.1	207.1	11.4
Single	2,339.4	91.5	3.9
Living alone	1,552.4	45.0	2.9
Student, full or part time	75.8	6.0	7.8
Not a student	1,431.4	35.2	2.5
Living with non-related persons	786.9	46.5	5.9
Student, full or part time	85.4	9.3	10.9
Not a student	697.5	37.0	5.3

1. The sum of persons with a working or non-working spouse does not add up to the total number of persons with spouses since certain spouses may have been outside the target group.

2. The question concerning education status was not asked for persons 65 and over. For this reason, the sum of the totals based on education status for "non-family persons" and "son, daughter or other relative living with the family" is not exactly equal to the total number of persons for those two categories.

Source: Statistics Canada, Labour Force Survey, 2009.

Close to 60% of all minimum-wage workers lived with their parents or with another family member. Of this number, 55% were studying at least part time. Workers living with their parents or with another family member also had the highest rate of minimum-wage work (18%), three times higher than the overall rate. Students in this group have the highest rates with an incidence of minimum-wage work of 36% for full-time students and 16% for part-time students. For many of these workers, this situation allows them to complete their studies and gain job experience.

More than one-quarter of all minimum-wage workers were living with a spouse. However, the incidence of minimum-wage work among this group was quite low (3%) and substantially lower than the rate for all employees. Close to three-quarters of them were living with a working spouse who, in most cases, was earning more than minimum wage (74%).

Notes

1. Certain provinces apply lower minimum-wage rates for certain special categories of workers such as students, workers who earn tips and other exceptions, which also vary from province to province. Ontario minimum-wage legislation thus provides a special minimum-wage rate that applies to students under the age of 18 who work up to 28 hours per week or during school holidays.

2. The estimate of students is based on an average eight-month school year (from January to April and September to December 2009).

3. This category includes persons who sought full-time employment and those who did not seek any.

4. The "Other reasons" category includes persons who provided one of the following reasons to explain working part time: family responsibilities, personal choice or other reasons.

Perspectives

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