



Canadian Employment Quality Index

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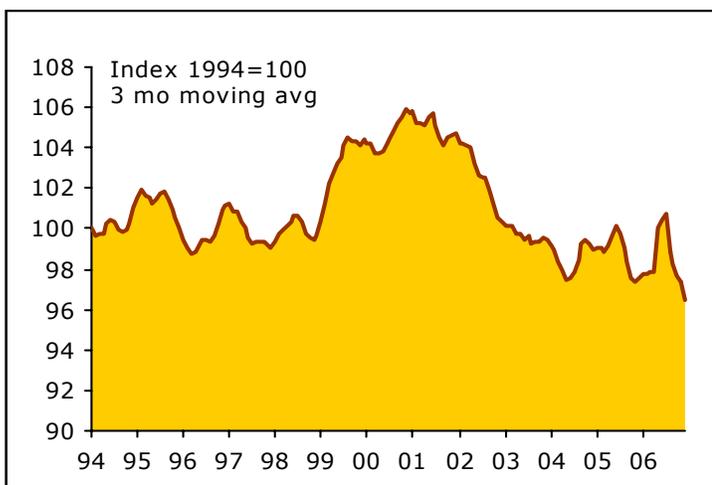
Booming Job Market and Disappointing Economy: Explaining The Disconnect

Benjamin Tal

There appears to be a major disconnect between the job market in Canada and the economy. The job market is creating jobs at an impressive pace, with the unemployment rate at a three-decade low. It seems that nowadays, anybody who want a job can find one. At the same time, real GDP growth continues to disappoint with fourth quarter GDP growth likely to advance by an annual pace of less than one percent. Clearly, those newly employed Canadians do not add much to the nation's overall production capacity.

This disconnect can be explained, at least in part, by the continued weakness of employment quality in Canada. Our index of employment quality is now at its lowest level since the early 1990s — after losing significant ground in the second half of 2006 (Chart 1).

Chart 1
CIBCWM Employment Quality Index



The index combines information on the distribution of part-time vs. full-time jobs; self-employment vs. paid employment; and the compensation ranking of full-time paid employment jobs in more than 100 industry groups. Our index measures not only the quality of new jobs, but more importantly, the changing dynamics and quality of *existing* jobs.

Note that the recent softening in the quality index might suggest that when it comes to job quality, the labour market might be a victim of its own success. Given the high labour market participation rate and the low unemployment rate, it is possible that the new entrants into the labour market represent a group of people who, in the past, would have probably stayed out of the labour market. In this context, one might claim that the decline in the quality of employment is not such a bad news story. Another possibility is that Canadian workers simply do not have the necessary skills needed by firms. We are all aware of reports (mainly from Western Canada) about a shortage of skilled labours. So, to the extent that Canadian companies cannot find the right people and have to compromise on less qualified workers, the overall quality of employment suffers.

The significance of this trend is that one should not equate a strong labour market (number-wise) with a strong growth in economic activity. The missing link here is the type of jobs the economy is generating. And granted, a low quality job is better than no job, but the strong headline employment numbers do not necessarily indicate fast economic growth. The recent

decline in our quality index is consistent with the disappointing productivity numbers in the economy as a whole.

During the past six months, our quality index fell despite the fact that growth in full-time employment accounted for all the growth in employment during that period, with part-time employment, in fact, falling by 0.3% (Chart 2).

However, many of those full-time jobs were self-employed jobs, which rose by 3% in the last six months of the year — that is seven times faster than the growth in paid employment. In fact, self-employment accounted for almost 60% of all new jobs (Chart 3).

What's more, those full-time jobs were mainly in low-paying sectors such as personal services, repair and maintenance, retailing and textile while high-paying sectors such as paper and printing manufacturing, mineral manufacturing and public administration, in fact, lost ground during that period (Chart 4). Note that these changes reflect not only the flow of new jobs, but more importantly, ongoing changes in the composition of existing jobs.

By province, the largest decline in the quality of employment during the last six months of 2006 was in British Columbia, followed by Ontario. Note that even Alberta has seen some decline in its quality of employment, following a very rapid increase during the first half of the year (Chart 5). In absolute terms, however, Alberta still leads the country in overall employment quality ranking, followed by Ontario.

Chart 2
Part-Time vs. Full-Time Jobs

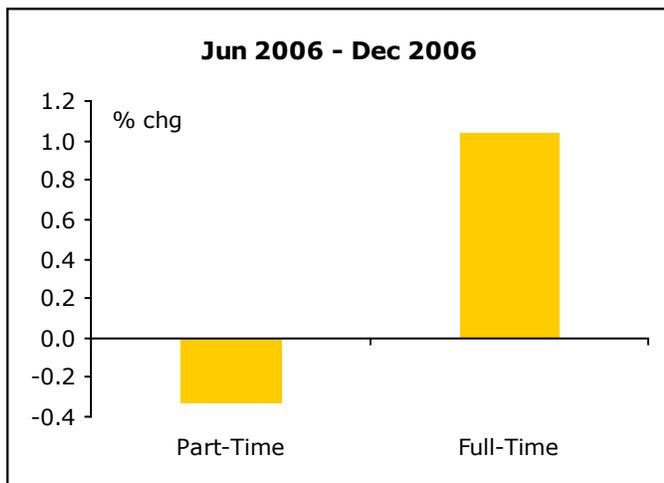


Chart 3
Self-Employed vs. Paid Employees

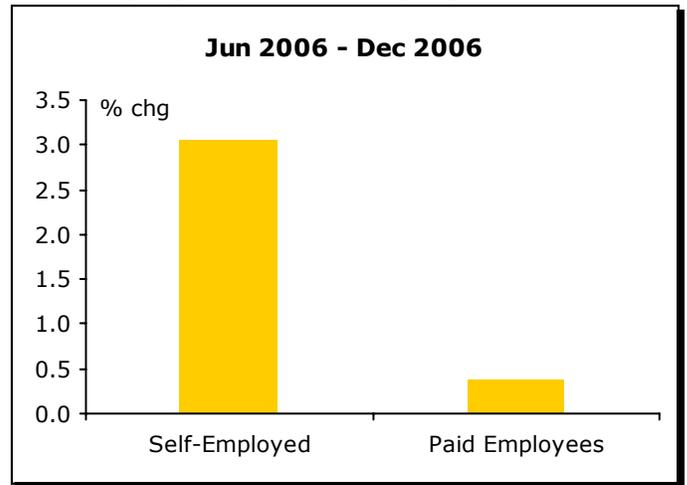


Chart 4
Full-Time Paid Employment

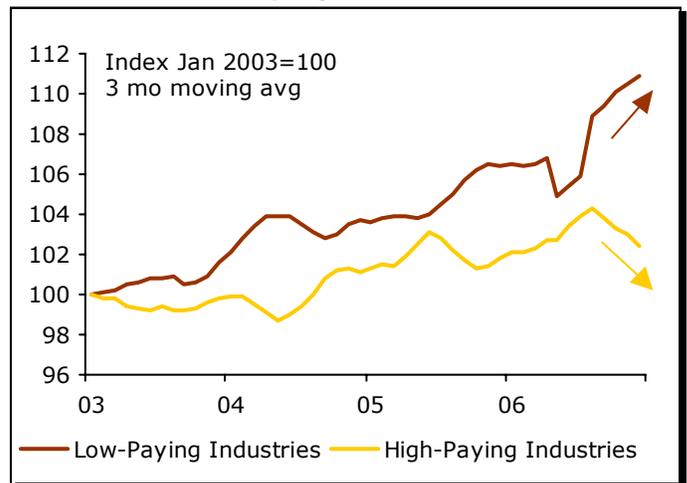
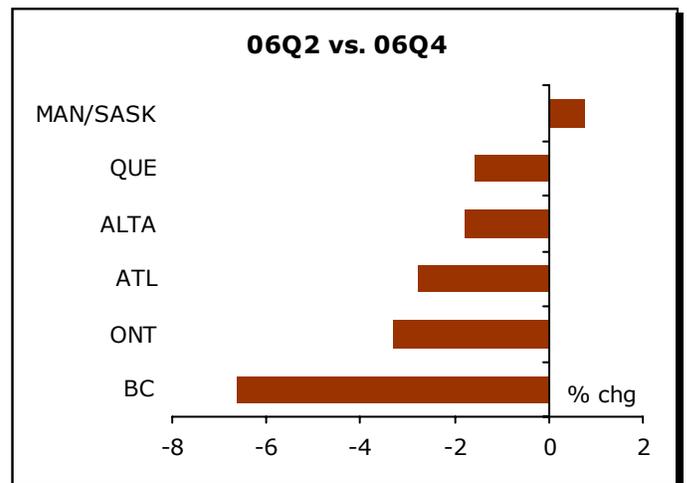
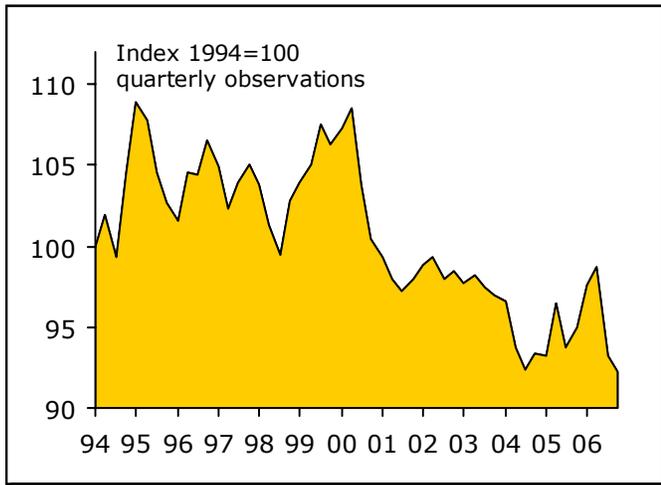


Chart 5
Growth in CIBCWM EQI — By Province

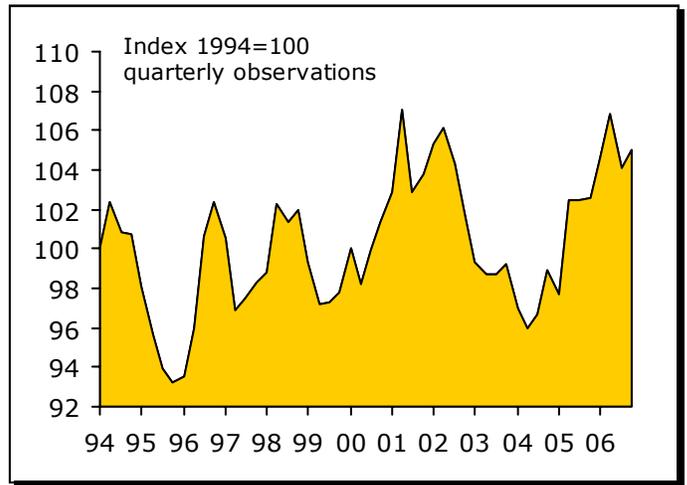


CIBCWM Employment Quality Index by Province

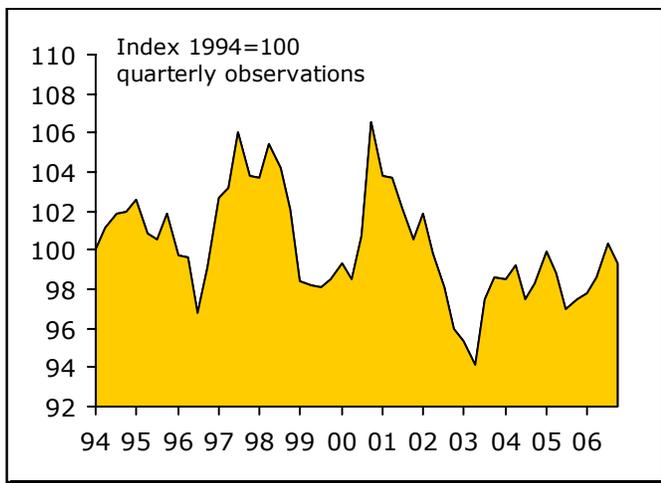
British Columbia



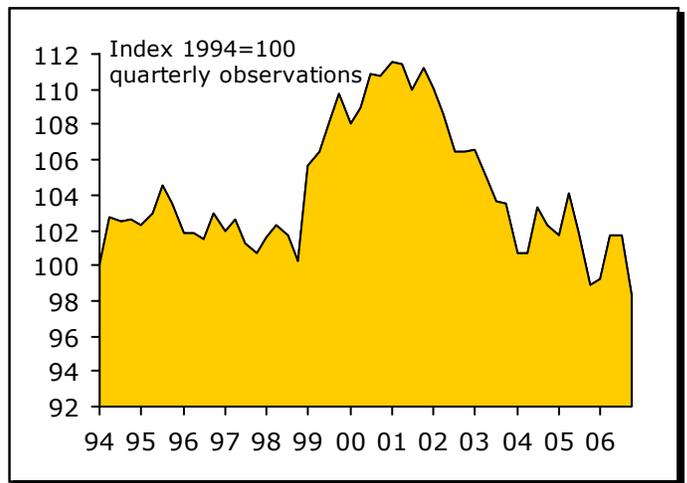
Alberta



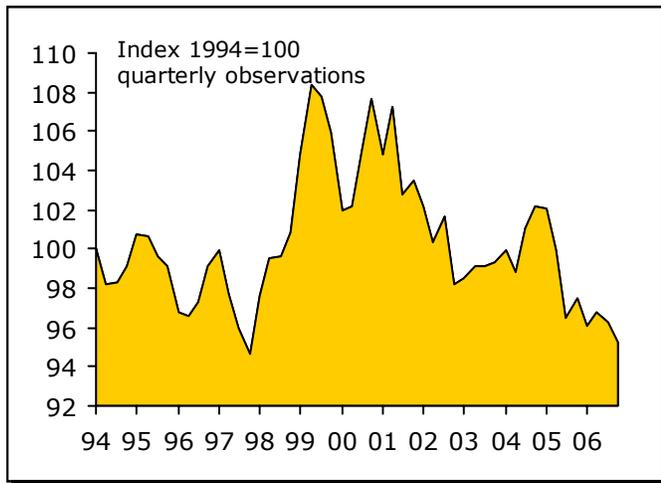
Manitoba/Saskatchewan



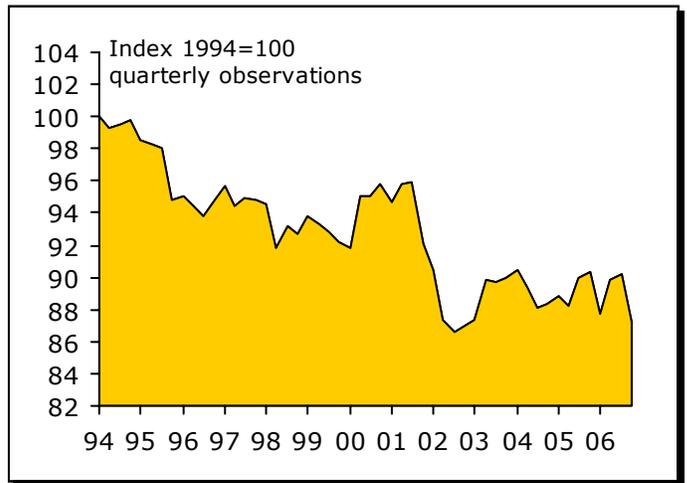
Ontario



Quebec



Atlantic



*Data Sources:**Statistics Canada, published and special tabulations**CIBC World Markets*

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