



Economics & Strategy

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Employment Down, Quality Up

by Benjamin Tal

The Canadian job market is slowing rapidly. Since the beginning of the year the average monthly employment gain has been around 20,000 vs. more than 30,000 in 2007. In fact, in the past three months, monthly job gains have averaged only 7,500. But against this bleak background, the average weekly wage in the Canadian labour market is still rising by a dazzling 4.3% on a year-over-year basis (Chart 1). That is almost double the inflation rate. How can we explain the fact that workers are able to maintain and, in fact, improve their bargaining position in an environment of a weakening labour market? The short answer is that despite the deceleration in the pace of job creation, the quality of employment in Canada is, in fact, improving (Chart 2).

Our employment quality index, which 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, rose by 2.4% since the beginning of the year. Even in the second quarter of the year, when the slowing in the pace of job creation was more evident, the employment quality index improved. And in June, when overall employment in Canada fell by 5,000, the quality index rose by 0.6%.

Note that the experience in Canada is very different than the situation in the US where the quality of employment fell by 2.8% over the past year and by 1.7% over the past six months (Chart 3). It seems that in Canada the loss of manufacturing jobs is being offset by job gains in sectors with equivalent or higher employment quality. However, that's not the case in the US where the jobs now being lost in sectors such as construction/real estate and manufacturing are being replaced by lower paying jobs.

Chart 1 Employment versus Earnings

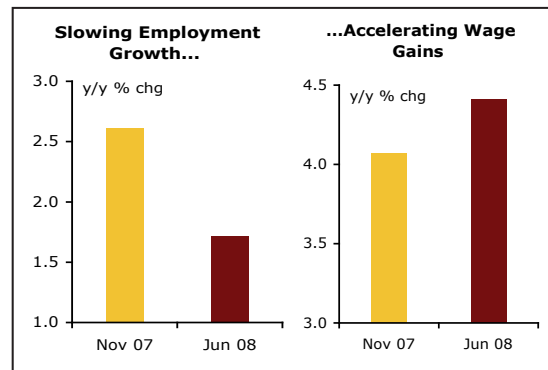
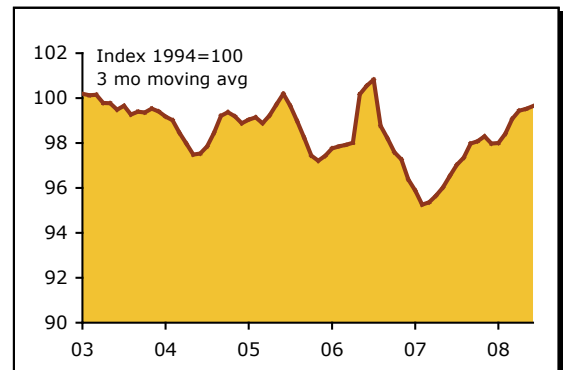


Chart 2 CIBCWM Employment Quality Index



http://research.cibcwm.com/res/Eco/EcoResearch.html

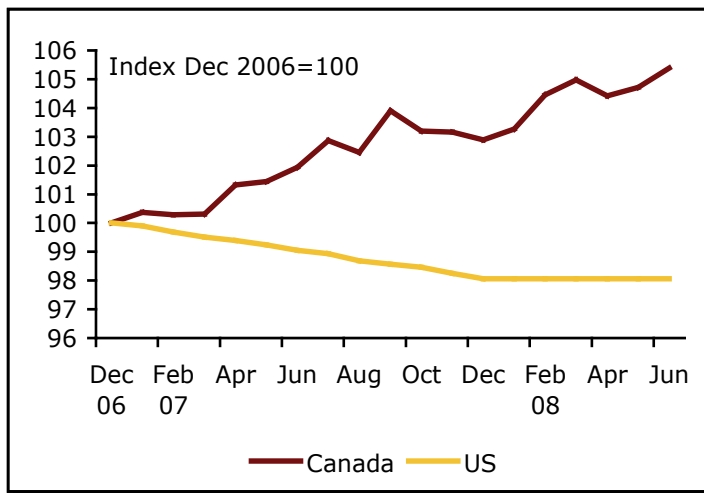
Interestingly, the improvement in the Canadian employment quality index occurred despite the fact that part-time employment rose faster than full-time employment. The number of part-time jobs rose by a strong 4.7% during the past year—significantly above the 1.1% growth in full-time positions (Chart 4). So in this sense, the full/part-time job distribution was a negative to our index.

But this negative was offset by the fact that over the past year, paid employment has been the only source

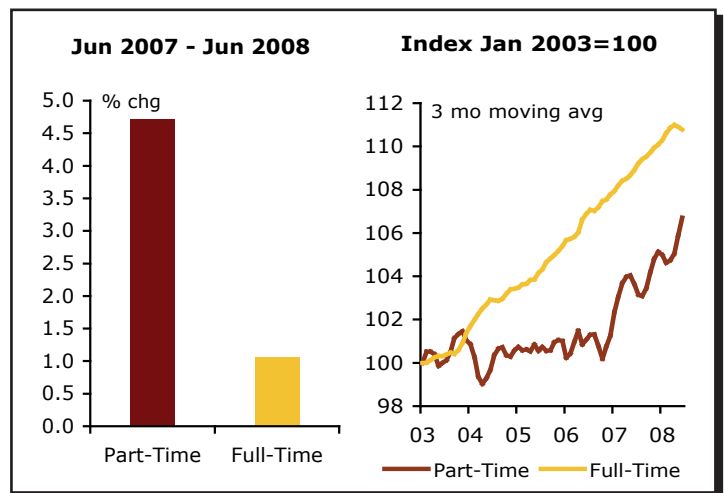
of growth in the labour market with self-employment, in fact, falling by 1.7% (Chart 5). And given that on average, the self-employed earn less than 80% the income of paid employees, this trend is a positive from a quality perspective.

But the main factor behind the surge in our quality measure was a favourable wage distribution of full-time paid employment. And this indicator has improved notably over the past year. The number of full-time paid employees in high-paying sectors such as manufacturing

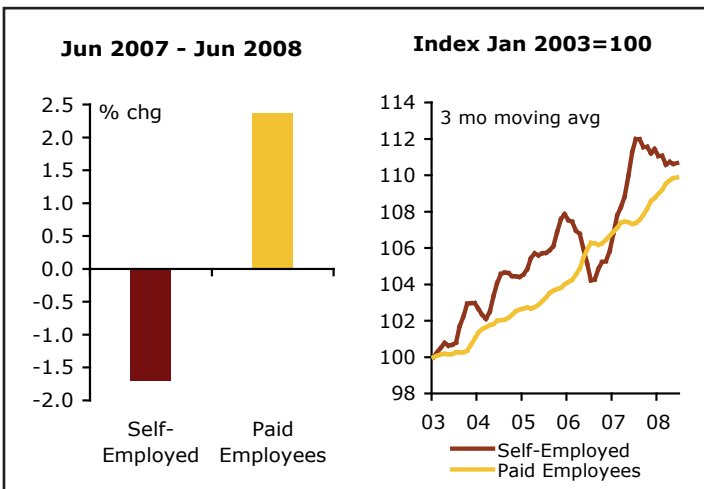
**Chart 3**  
**Employment Quality Index—Canada vs. US**



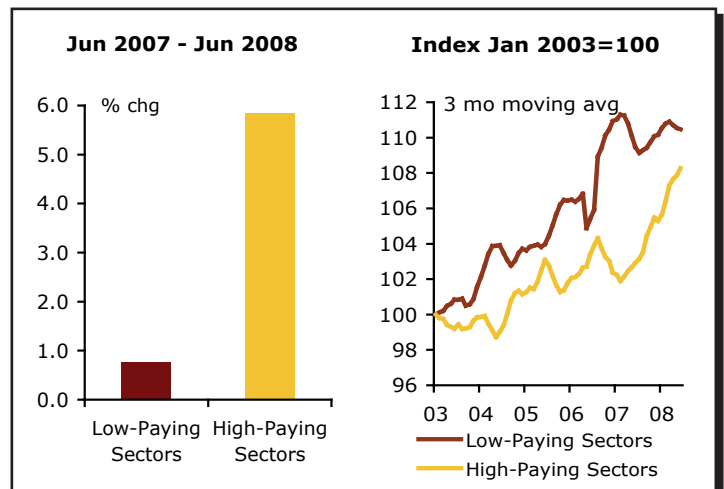
**Chart 4**  
**Part-Time vs. Full-Time Jobs**



**Chart 5**  
**Self-Employed vs. Paid Employees**



**Chart 6**  
**Full-Time Paid Employment**

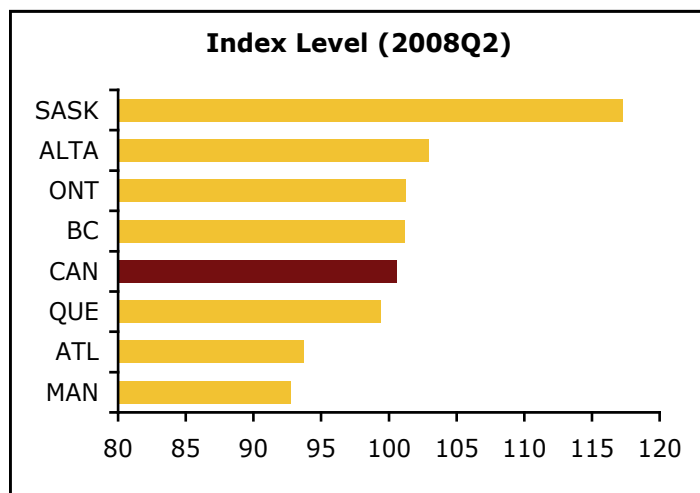


of beverage, tobacco and electronic and printing products as well as mining, farm product distribution and internet services rose by a strong 6% in the past year and by 3.5% during the last six months alone. At the same time, the number of jobs in low-paying sectors such as repair & maintenance and clothing and clothing accessories, rose by less than 1% during the past year and was unchanged in the past six months (Chart 6, Table 1).

By province, with its economy benefiting from the surge in energy and food prices, Saskatchewan took over from Alberta as leader in the level of employment quality in the nation (Chart 7). This improvement was fuelled by strong job gains in agriculture, energy extraction and mining exploration and developments, where earnings run anywhere from 50% to 125% above the industrial average.

After losing some ground in the second half of 2007, overall employment quality in Ontario has improved by 4.7% since the beginning of the year. This appears to be inconsistent with the difficulties facing the manufacturing sector in the province. But a closer look suggests that many of the jobs lost in the sector over the past year were in low-paying industries such as wood, clothing and textile. In other words, not all manufacturing industries are created equal, and the fact that job losses in the sector were dominated by low-paying industries is, in fact, a positive for our quality index.

**Chart 7**  
**Employment Quality Index—By Province**



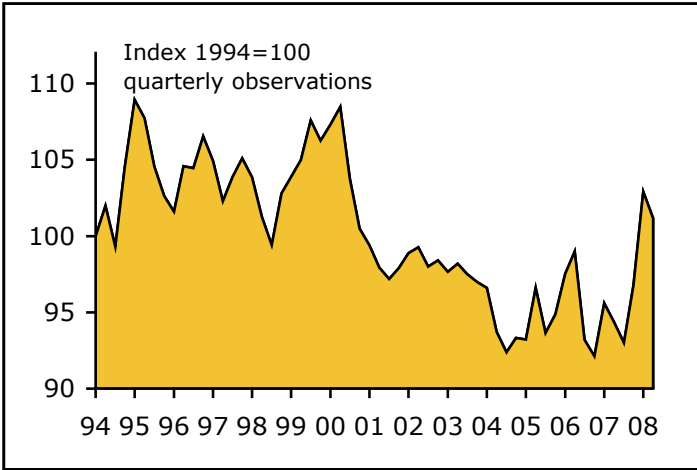
With the index currently at its highest level since December 2006, we expect the level of employment quality in Canada to remain elevated enough to keep wage pressures stronger than implied by the slowing pace of job creation—with the Bank of Canada viewing this trend as another reason to raise rates early next year.

**Table 1**  
**Job Gains in Selected High and Low-Paying Sectors**  
**(Jun 07–Jun 08)**

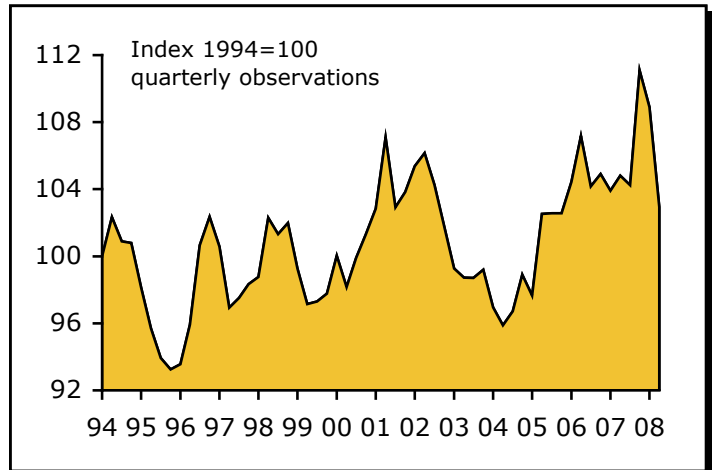
High-Paying Sectors		Low-Paying Sectors	
	% chg		% chg
Beverage and Tobacco Product Mfg	50.0	Repair and Maintenance	15.6
Mining (except Oil and Gas)	41.7	Credit Intermediation and Related Activities	8.0
Farm Product Wholesaler Distr.	31.3	Clothing and Clothing Accessories	7.2
Warehousing and Storage	29.6	Miscellaneous Stores Retailers	6.2
Internet Service Providers, Web Search Portals	26.7	General Merchandise Stores	5.2
Electric Equipment appliance Manufacturing	26.2	Truck Transportation	4.8
Provincial Administration	14.5	Building Material and Garden Dealers	3.8
Heavy and Civil Engineering Construction	13.8	Educational Services	3.2
Printing Manufacturing	12.2	Personal and Laundry Services	2.6
Professional Scientific and Technical Services	12.2	Amusement Gambling and Recreation Ind.	2.5

# CIBCWM Employment Quality Index by Province

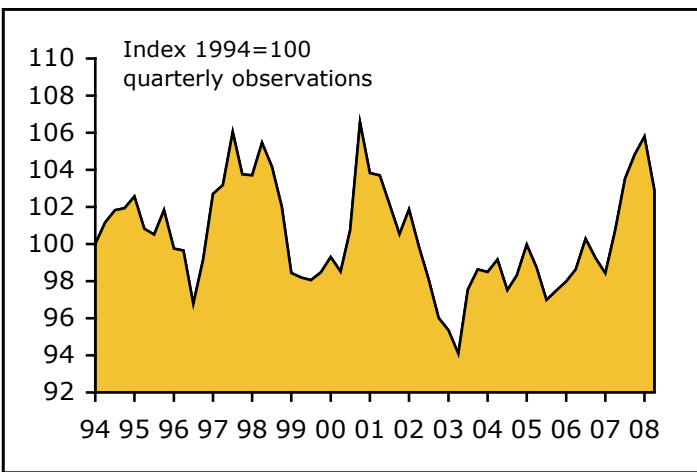
### British Columbia



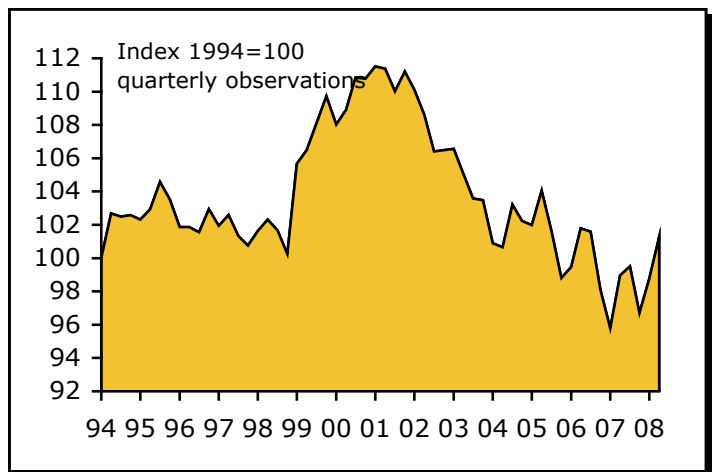
### Alberta



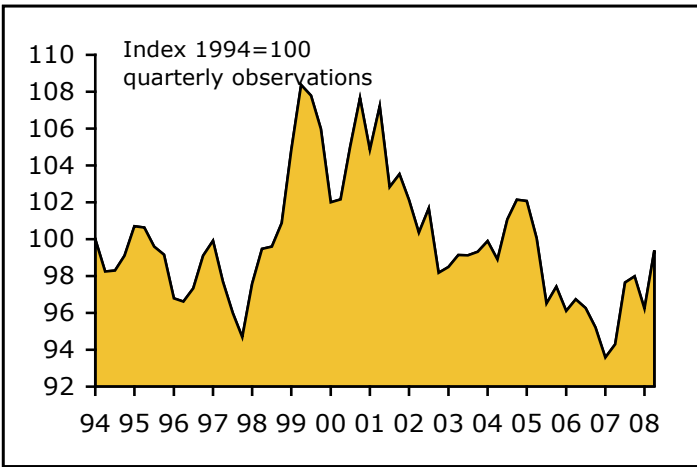
### Manitoba/Saskatchewan



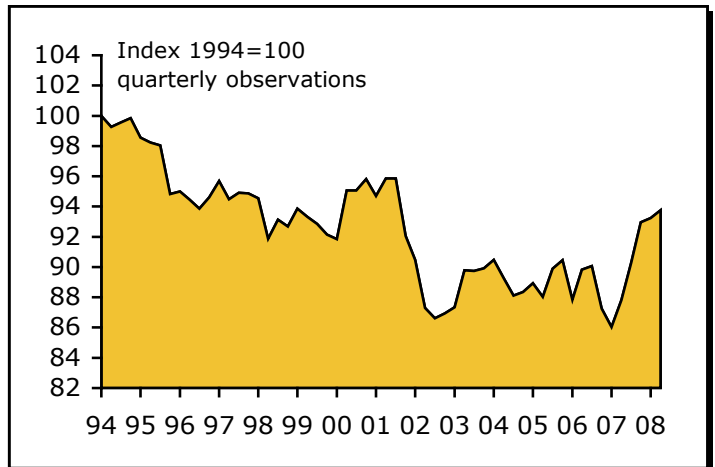
### Ontario



### Quebec



### Atlantic



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