



CANADIAN EMPLOYMENT QUALITY INDEX

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Economics

Job Quality—Not What It Used To Be

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Our measure of employment quality has been relatively stable in recent years, but it is still 14% and 7% below the levels seen in the late 1980s and the early 2000s, respectively. The inability of the Canadian labour market to match the quality levels seen in previous cycles has important implications for the trajectory of personal income growth in Canada, as lower quality employment means that, on average, we have to generate more jobs to maintain the same pace of income growth. The trajectory of our quality index also exposes the growing shortage of skilled labour in Canada. While in the past, the tepid growth in the number of high-paying jobs was more due to demand factors, today the issue is more lack of supply.

Clearly, there are other factors that qualify to be included under the definition of the term “job quality” (such as job satisfaction/ fulfillment). However, we do not include these factors in this analysis, as the focus here is on the direct impact of job quality on consumer behaviour.

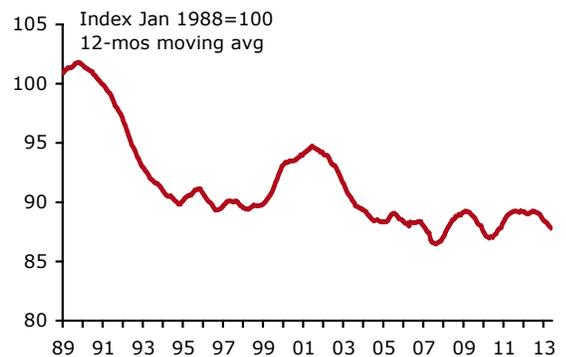
The rationale is that from a pure quality perspective (as defined above), a part-time job is of lower quality than a full-time job. Similarly, we view self-employment jobs to be of lower quality since, on average, a self-employed person earns 20% less than a regular employee. (Note, however, when it comes to subjective measures such as job satisfaction, self-employed jobs appear

Measuring Quality

Any analysis of the labour market performance must include a measure of job quality. The popular use of the part-time vs. full-time distribution as a proxy for employment quality can be misleading. After all, not all full-time jobs are created equal. Some of them are low-paying and unstable jobs.

In order to assess employment quality more accurately, we focus on three measures: part-time vs. full-time employment; paid-employment vs. self-employment; and the relative level of compensation associated with a given full-time paid employment job.

Chart 1
CIBC Employment Quality Index



Source: CIBC calculations based on Statistics Canada's tabulations

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

to be of higher quality). These two groups (part-time and self-employed) account for roughly 30% of total Canadian employment. The rest are full-time paid-employment jobs. Here, we focus on a weighted ratio of employment in “higher paying” and “lower paying” jobs, defined by analysing the median wages for 100 industry categories.

The Big Picture: Quality on a Sliding Path

From a long term perspective, our Employment Quality Index has demonstrated a clear downward trend. As it stands now, our quality index is more than 14% lower than it was in the late 1980s (Chart 1). Most of the decline in the index was during the 1990s, with a short-lived recovery in the days of the high tech bubble. Since 2007, the index has trended within a relatively narrow range, unable to reach levels seen in previous cycles.

All provinces with the exception of resource-rich Alberta and Saskatchewan have seen their level of employment quality falling, with Atlantic Canada and Ontario seeing the largest declines (Chart 2).

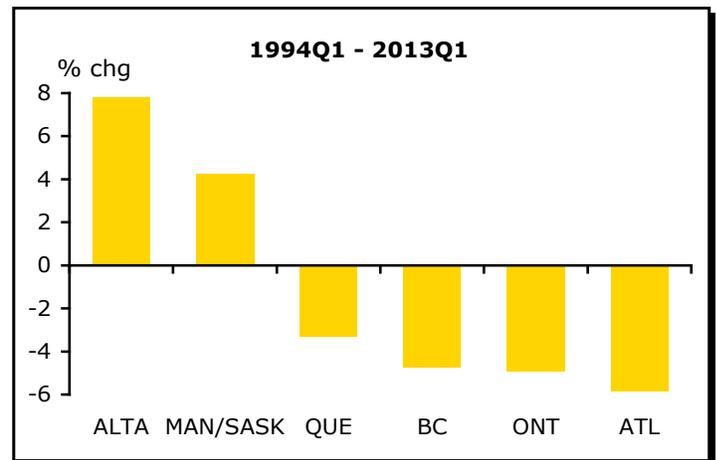
What is Behind That 14% Decline in Employment Quality?

All three components of our index have contributed to the softening in employment quality. The number of part-timers rose by 56% since the late 1980s, notably faster than the 37% seen among full-time employees (Chart 3).

The same goes for self-employed that saw their number rising by 56% — much faster than the pace seen among paid employees (Chart 4). Again, note that in both cases, most of the gap was generated in the 1990s and the early 2000s.

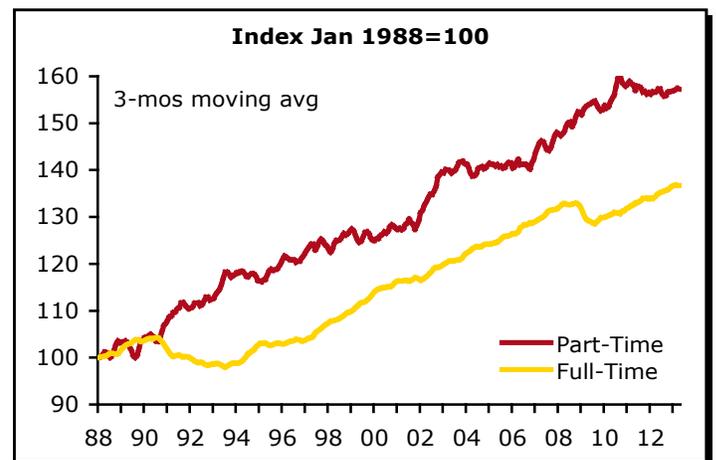
But by far, the most significant contributor here is the faster pace of employment growth in low-to-mid wage industries relative to high-paying industries. As illustrated in Chart 5, the softening in our quality index largely reflects the fact that job creation in high-paying industries was unable to keep up with the growth seen in low- and mid-wage industries. Since the late 1980s, the number of high-paying full-time jobs rose by only 5%, and that is materially lower than the 40% seen for mid- and low-wage industries. Clearly, the 1991 recession and the jobless recovery that followed, as well as the high-tech bust impacted highly-paid workers disproportionately.

Chart 2
Growth in EQI Index by Province



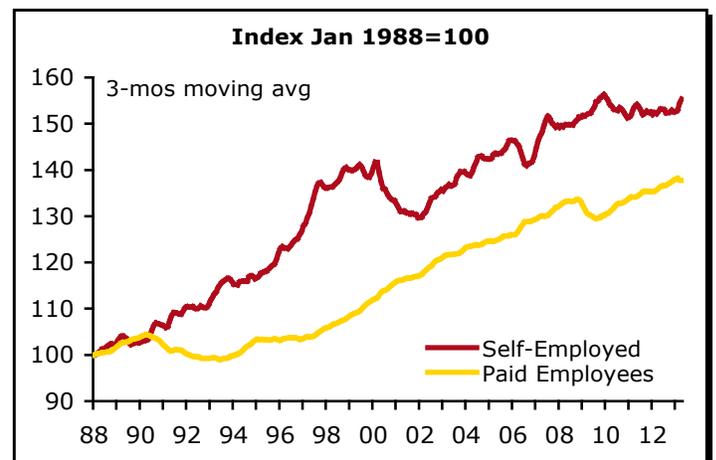
Source: CIBC calculations based on Statistics Canada's tabulations

Chart 3
Part-Time vs. Full-Time Jobs



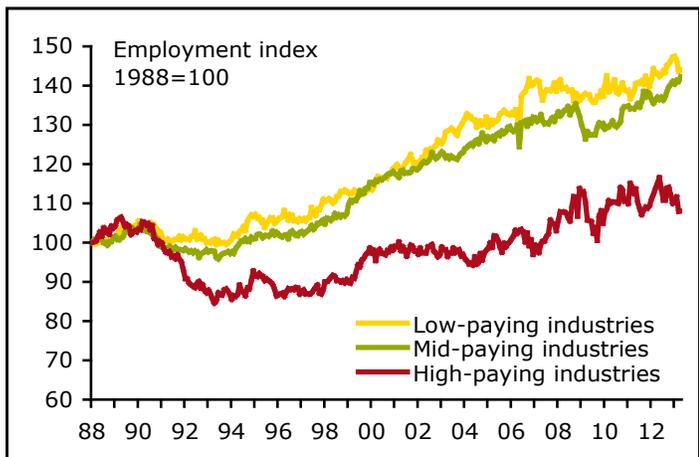
Source: CIBC calculations based on Statistics Canada's tabulations

Chart 4
Paid Employees vs. Self-Employed



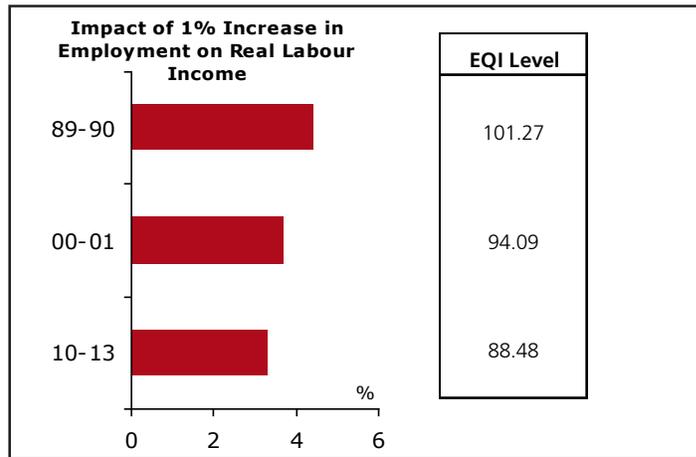
Source: CIBC calculations based on Statistics Canada's tabulations

Chart 5
Slow Growth in Number of Full-Time High-Paying Jobs



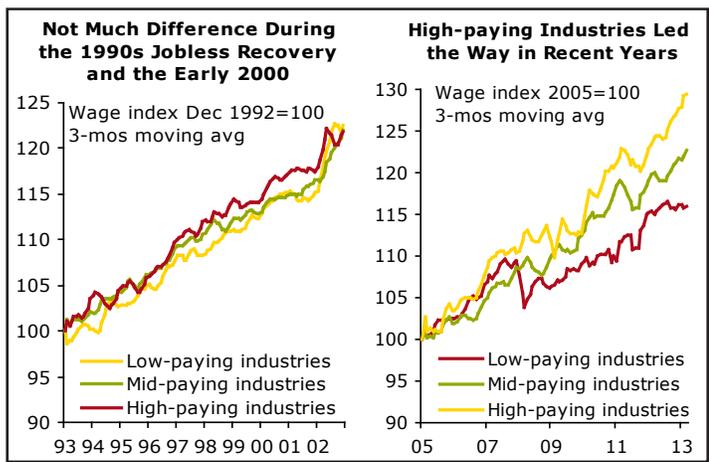
Note: Low-paying (below 85% of median wage), Mid-paying (between 85%-115% of median wage), High-Paying (over 115% of median wage)
 Source: CIBC calculations based on Statistics Canada's tabulations

Chart 7
Employment Generates More Income When Quality is High



Source: CIBC calculations based on Statistics Canada's tabulations

Chart 6
Wage Gains



Source: CIBC calculations based on Statistics Canada's tabulations

In other words, the decline in employment quality was caused, in part, by reduced demand for high-paying jobs. And the wage mechanism reflected this reality. Wage

gains in high-paying sectors during the jobless recovery of the 1990s and in the early 2000s failed to outpace gains seen in low-paying sectors (Chart 6, left).

Fast forward to today, and it appears that the situation is the same but the cause is different. The inability of the labour market to close the quality gap is also due to a slow increase in the number of high-paying-jobs. But this time around it seems that supply of high-paying jobs is not rising fast enough to meet growing demand, as reflected in the relatively fast pace of wage gains in high-paying sectors (Chart 6, right).

This reality of a lower level of quality also plays a role in explaining the disappointing pace of income growth in Canada. Note that in the late 1980s when our measure of employment quality was 14% higher, a one percent increase in employment generated on average a 4.4% increase in real labour income. Today, it generates a less than 3.3% increase in real labour income (Chart 7). Simply put, all other things being equal, lower employment quality means that the labour market has to run faster to stay in the same place since we need relatively more workers to generate the same increase in income.

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