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CANADIAN EMPLOYMENT QUALITY INDEX

March 5, 2015

Employment Quality—Trending Down

by Benjamin Tal

If you want to know where interest rates are heading, you must understand the current dynamics in the labour market. In its communication regarding the timing of its next move, the Fed focuses almost solely on developments in the job market in general, and the pace of wage growth in particular. In Canada, the Bank of Canada continues to warn us that the headline unemployment rate is not as rosy as perceived and, in fact, according to the Bank's new and improved measure of labour market activity, labour slack is still significant.

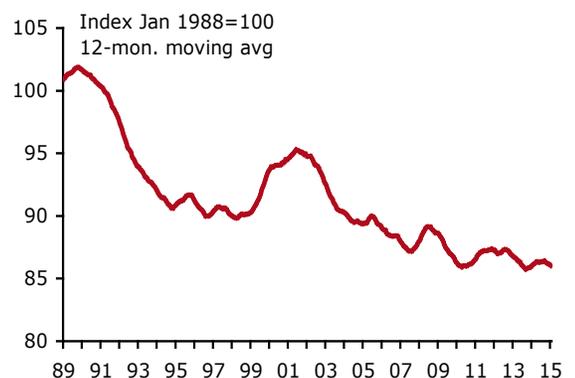
In many ways, the Bank has a point. Our measure of employment quality is now at a record low—suggesting that the composition of employment is sub-optimal. But a closer examination of the trajectories of the index's sub-components suggests that the Bank's prescribed remedy of low and lower interest rates might not cure what ails the labour market.

Chart 1 tells the tale—our measure of employment quality has been on a clear downward trajectory over the past 25 years. While the pace of the declaration has slowed in recent years, the level of quality, as measured by our index, is currently at a record low—15% below the rate seen in the early 1990s and 10% below the level seen in the early 2000s. On a year-over-year basis, the index is down by 1.8%.

Our measure combines information on the distribution of full and part-time jobs, the split between self-employment and paid-employment, and more importantly, the sectoral composition of full-time paid employment.

The first component, the distribution of part-time/full-time employment, is probably the most popular measure of employment quality. And here the trend is clear. Since the late 1980s, the number of part-time jobs has risen much faster than the number of full-time jobs. The damage caused to full-time

Chart 1
CIBC Employment Quality Index



Source: CIBC calculations based on Statistics Canada's tabulations

employment during each recession was, in many ways, permanent. That is, full-time job creation was unable to accelerate fast enough during the recovery to recover lost ground. The good news is that for the past year, the number of full-time jobs rose twice as fast as the number of part-time jobs—a factor that worked to offset some of the recent softening in our index (Chart 2).

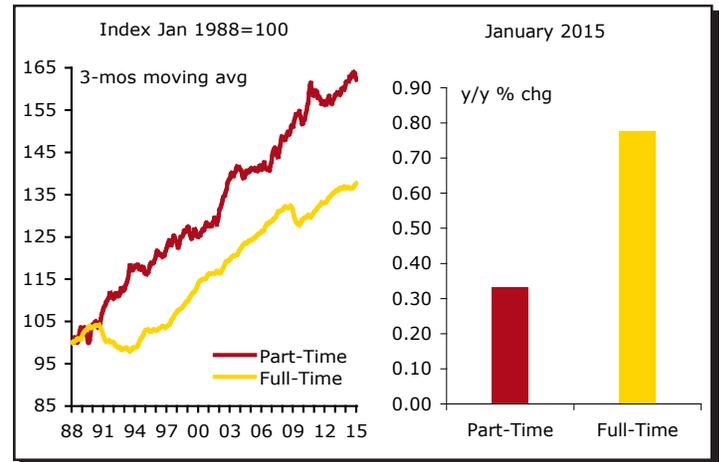
When it comes to job quality, it is important to distinguish between paid-employment and self-employment. For the purpose of our index, self-employment is considered to be of lower quality, simply due to the fact that, on average, it pays less than salaried positions. Clearly self-employment can provide many other benefits—but from our narrow focus of a pure compensation-based quality measure, it is ranked below paid-employment. And here, the long-term trajectory is also very clear with the number of self-employed workers rising faster over the past 25 years. Zooming in on the past year, the divergence is even more evident. During the year ending January 2015, the number of self-employed workers rose four times faster than the number of paid-employees (Chart 3).

While full-time paid-employment jobs are on average of higher quality than part-time and self-employment jobs, not all full-time paid-employment jobs were created equal. Many of them are still of lower quality. Chart 4 looks at the distribution of job creation in this category by compensation. And here we see that the number of low-paying jobs has risen faster than the number of mid-paying jobs, which in turn, has risen faster than the number of high-paying jobs. Those trajectories are largely behind the softening in our measure of employment quality over the past two decades. What about the more recent trajectories? It seems that the trend continues. Over the year ending January 2015, the job creation gap between low and high-paying jobs has widened with the number of low-paying full-time paid positions rising twice as fast as the number of high-paying jobs.

By province, the damage to Alberta is already visible with employment quality in the province falling by 3% during the year ending December 2014. The same goes for Saskatchewan and Manitoba. Ontario has also seen a notable decline in quality during that period but that was offset nationally by a strong gain British Columbia (Chart 5).

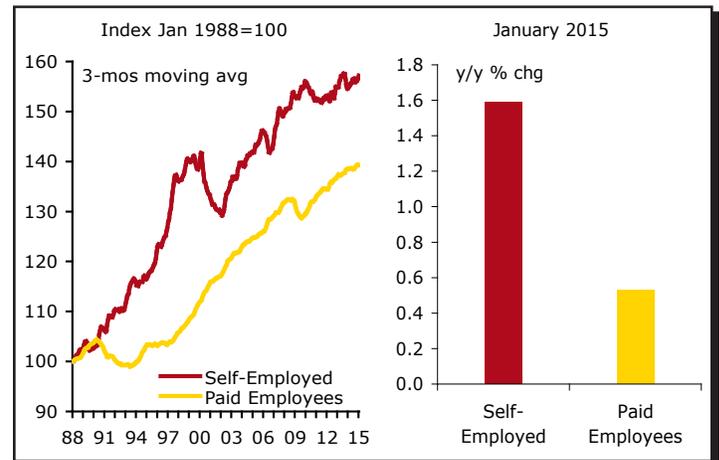
So what does it all mean? The long-term trends of our quality components suggest that the decline in employment quality in Canada is more structural than

Chart 2
Part-Time vs. Full-Time Jobs



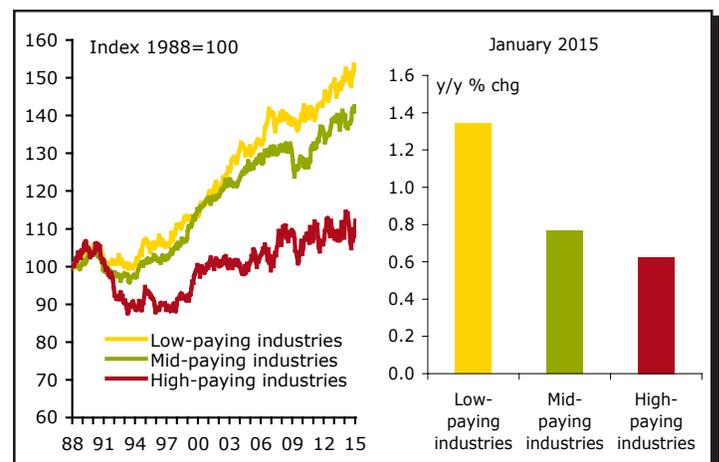
Source: CIBC calculations based on Statistics Canada's tabulations

Chart 3
Paid Employees vs. Self-Employed



Source: CIBC calculations based on Statistics Canada's tabulations

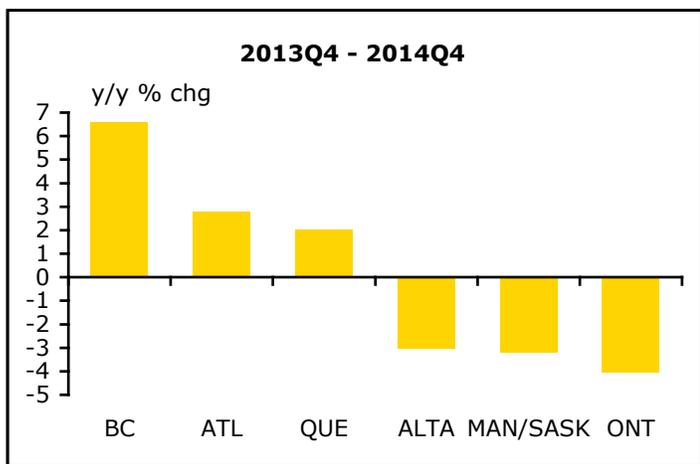
Chart 4
Slow Growth in Number of Full-Time High-Paying Jobs



Note: Low-paying (below 85% of median wage), Mid-paying (between 85%-115% of median wage), High-Paying (over 115% of median wage)

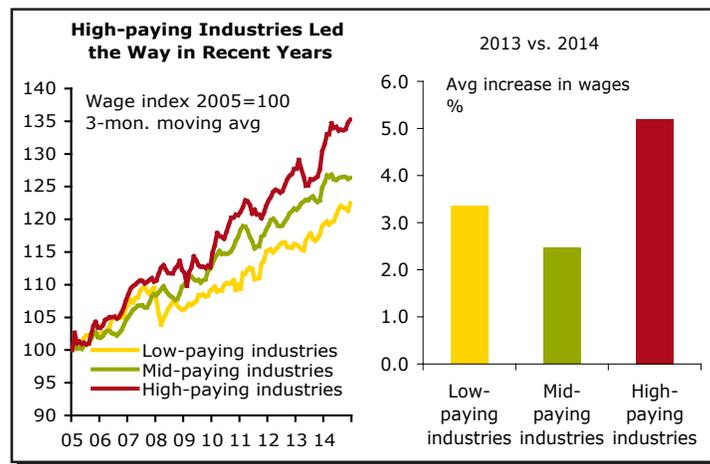
2 Source: CIBC calculations based on Statistics Canada's tabulations

Chart 5
Growth in Quality Index by Province



Source: CIBC calculations based on Statistics Canada's tabulations

Chart 6
Wage Gains



Source: CIBC calculations based on Statistics Canada's tabulations

cyclical. That is, the slow growth in the number of high-paying jobs might reflect a growing labour market mismatch. And the signal that we are getting from the wage mechanism is consistent with that observation. Over the past decade, wages in high-paying sectors rose almost twice as fast as wages in low-paying sectors (Chart 6, left). And recent observations suggest that the trend continued over the past year, with wages in high-

paying sectors rising much faster than low-paying sectors in 2014.

In other words, the fastest growing segment of the labour market is also the one with the weakest bargaining power. That works to weaken the link between labour market performance and aggregate wage gains. Low or lower interest rates will do little to close that gap.

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