The Canadian Labour Market: Devils in the details

Alexandra Ducharme / Noah Nagle

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The Canadian labour market: Devils in the details

Government-mandated shutdowns in response to the Covid-19 pandemic have resulted in an unprecedented deterioration of the labour market. Gen Z people of working age (15 to 24 years old) and women were by far the hardest hit by the pandemic induced recession. To compensate for income losses due to the pandemic, the federal government created the Canada Emergency Response Benefit (CERB). However, the proportion of income that is replaced by the CERB for the average worker greatly varies from one industry to another, possibly creating a disincetive to return to work for employees in some industries. In this report, we analyze divergences in job losses and the potential consequences of the income support provided by Ottawa.

Total employment in June was down 8.3% from a year earlier. The distribution of the losses was highly uneven from industry to industry. In accommodation and food services, June employment was down 30.9% from a year earlier. In the information, culture and recreation industry group, it was down 17.5% (chart).

Canada: An uneven labour-market recovery
12-month change in employment as of June 2020

Divergences among age cohorts

The unevenness of employment recovery across industries has resulted in uneven employment among different population groups. Gen Z people of working age (15 to 24 years old) were by far the hardest hit by the pandemic recession. Their employment at the April low was down 34.9% from a year earlier. By way of comparison, total Canadian employment was down 15.1% at the April low. Such a spread had never been seen in previous recessions (chart). In June, Gen Z employment was still far below that of older Canadians, down 19.9% from a year earlier versus –8.3% for the total working-age population (charts).

Canada: 15- to 24-year-olds most vulnerable to recessions
12-month change in employment, 15- to 24-year-olds vs. total population 15 and older

The jobs lost by Gen Z workers as a share of total jobs lost was more than twice their share of the total labour force (chart). No other age cohort was overrepresented in job losses.

Age cohorts: % of labour force vs. % of jobs lost
Left: 2019 average, monthly data. Right: 12-month employment decline as of June 2020

NBF Economics and Strategy (data via Statistics Canada 14-10-0022-01)
This overrepresentation of Gen Z in job losses can be attributed to the nature of their jobs. No less than 52% of all Gen Z’s jobs are in industries particularly affected by physical distancing measures. Moreover, employment in the two industry groups with the worst 12-month variation in June employment (the information, culture and recreation group and the accommodation and food services group) accounted for 26.6% of total Gen Z employment in 2019 (chart).

**Canada: Gen Z employment where physical distancing is harder**

Employment in close-contact industries as % of total Gen X employment, 2019 monthly average

- Retail trade
- Accommodation and food services
- Information, culture and recreation
- Other

NBF Economics and Strategy (data via Statistics Canada 14-10-0022-01)

**Divergence between men and women**

The 12-month variation of female employment bottomed in April at -16.5% compared to -13.8% for males. In June, female employment was down 10.2% from a year earlier, a loss still well above the 6.6% decline of male employment from a year earlier (chart).

**Canada: Virus impact on employment, by gender**

12-month % change, monthly data, not seasonally adjusted

The story was the same in the five industry groups showing the worst 12-month declines in June: in all of these industry groups, the 12-month loss was worse for women than for men (table).

**Canada: 12-month job losses worse for women**

12-month change in employment in 5 hardest-hit sectors, by gender, June 2020

<table>
<thead>
<tr>
<th>Industry/Sector</th>
<th>Males</th>
<th>Y/Y %</th>
<th>June-20</th>
<th>June-19</th>
<th>Y/Y %</th>
<th>Total</th>
<th>Males</th>
<th>Y/Y %</th>
<th>June-20</th>
<th>June-19</th>
<th>Y/Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation and food services</td>
<td>331</td>
<td>-27.5%</td>
<td>605</td>
<td>609</td>
<td>-1.5%</td>
<td>936</td>
<td>331</td>
<td>-27.5%</td>
<td>605</td>
<td>609</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Information, culture and recreation</td>
<td>353</td>
<td>-8.0%</td>
<td>301</td>
<td>313</td>
<td>-2.8%</td>
<td>654</td>
<td>353</td>
<td>-8.0%</td>
<td>301</td>
<td>313</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Mining, quarrying, and oil and gas extraction</td>
<td>220</td>
<td>-13.1%</td>
<td>46</td>
<td>40</td>
<td>-15.3%</td>
<td>266</td>
<td>220</td>
<td>-13.1%</td>
<td>46</td>
<td>40</td>
<td>-15.3%</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>89</td>
<td>-10.3%</td>
<td>36</td>
<td>44</td>
<td>-15.3%</td>
<td>125</td>
<td>89</td>
<td>-10.3%</td>
<td>36</td>
<td>44</td>
<td>-15.3%</td>
</tr>
<tr>
<td>Total, all industries</td>
<td>362</td>
<td>-13.9%</td>
<td>206</td>
<td>237</td>
<td>-12.6%</td>
<td>539</td>
<td>362</td>
<td>-13.9%</td>
<td>206</td>
<td>237</td>
<td>-12.6%</td>
</tr>
</tbody>
</table>

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**CERB: A blessing and a curse**

To compensate for income losses due to the pandemic, the federal government created the Canada Emergency Response Benefit (CERB), providing $2,000 every four weeks ($500 per week) to laid-off workers and to individuals whose income has fallen to less than $1,000 per four-week benefit period. When this crisis started, it was essential to provide rapid income support to workers laid off because of the pandemic. The program would help keep the economy afloat by bolstering household income and consumption as unemployment reached record highs. The CERB benefit amounts to 49% of Canadian average weekly earnings of $1,028 in 2019 as reported by the Survey of Employment, Payrolls and Hours.

However, the percentage of average earnings replaced varies greatly among industries. In accommodation and food services, average 2019 weekly earnings were less than the CERB ($420 vs. $500 per week). The resulting replacement rate of 119% thus provides an incentive for employees to stay without a job for the duration of the program (chart).
Part-timers: Cashing in on emergency benefits?

For part-timers, the CERB replacement rate is higher. In 2019, 49% of employed Gen Z persons were working part-time, well above the 18.9% for the entire employed population. In June, July and August, when students are out of school, the non-seasonally-adjusted share of Gen Z people working part-time falls to 40%, still well above that of the rest of the working population.

In the employed population as a whole, the part-time share in 2019 was 25.6% for women and only 12.9% for men (table).

Canada: Part-time employment highest among Gen Z

All values in thousands (000’s), 2019 averages, Full-time = 30+ hrs / week

According to the Labour Force Survey, the average weekly earnings of all part-time workers was $350 in 2019, well below the $500 offered by the CERB. In only two industry groups did the average weekly earnings of part-timers exceed the CERB. The highest excesses of the CERB over part-timer earnings were in accommodation and food services, in wholesale and retail trade, and in information, culture and recreation industries (chart).

Moreover, these three industry groups are also those with the highest percentages of part-timers, making them especially susceptible to the CERB work disincentive (table).
economic recovery has certainly supported households and the economy. However, since the support had to be provided rapidly, Ottawa opted for a flat $2,000 payment every four weeks. As the economy reopens, there is a risk that the main income-support measure, as currently designed, will crimp the recovery of employment by encouraging some laid-off workers to remain collecting income support. With the Canadian economy reopening, perhaps it is time to revert to the normal income-security programs, which have proven fair and effective and likely more efficient than CERB.

Our calculations show that Gen Z has a large presence in industries with a high income-replacement percentage such as accommodation and food services (119%) and retail trade (81%). This age cohort is accordingly more prone to the CERB work disincentive. Similarly, the large share of Gen Z and women who were working part-time, with lower average weekly earnings, have an incentive to continue collecting CERB rather than return to work.

Further, an employee could decide to return to work but reduce his or her hours to stay below the $1,000 monthly maximum that a person can earn while still receiving the CERB. Though this would require only a small reduction of hours in the lower-income industries, it is nonetheless another disincentive to fully return to work.

To the extent that CERB is a disincentive to work, it skews the employment numbers used to gauge the adverse effects of this particular recession on different segments of the population. The expiry of this extraordinary income support will enable us to understand these effects better.
Economics and Strategy

Montreal Office
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Mathieu Arseneau
Deputy Chief Economist
mathieu.arseneau@nbc.ca

Paul-André Pinsonnault
Senior Economist
paulandre.pinsonnault@nbc.ca

Marc Pinsonneault
Senior Economist
marc.pinsonneault@nbc.ca

Kyle Dahms
Economist
kyle.dahms@nbc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Toronto Office
416-869-8598

Warren Lovely
Chief Rate Strategist, Economics and Strategy
warren.lovely@nbc.ca

Taylor Schleich
Associate, Rates Strategist, Economics and Strategy
taylor.schleich@nbc.ca

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