OBSERVATION
TD Economics

January 4, 2017

CANADA'S PART-TIME CONUNDRUM

Highlights

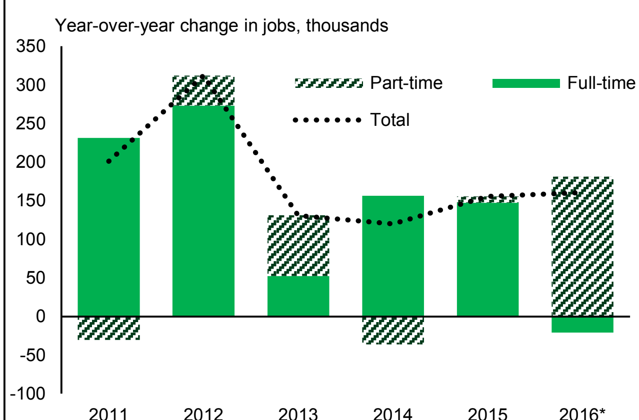
- Last year marked the seventh straight year of solid employment gains in Canada following the recession. But, scratching beneath the surface shows the credit went solely to part-time positions.
- Steep losses in energy-producing provinces are only partially to blame for the decline in full-time positions. Outside of these provinces, part-time job growth vastly outpaced full-time positions.
- One of the few industries to buck the trend was finance and insurance. But, even here caution is warranted. A concentration in British Columbia and Ontario captures the feedback loop from strong housing markets that are set to cool and weigh on full-time job demand going forward.
- The Canadian economy is not out of the woods and will require ongoing support from both fiscal and monetary authorities. We expect a slower pace of job growth over the course of 2017. Although it will not take much for full-time work to make something of a comeback given the low bar set last year, the share of part-timers will remain elevated, implying continued downward pressure on earnings and hours worked.

Kudos to the Canadian job market. In spite of another year riddled with global and domestic uncertainty, the economy continued to add jobs at a solid rate, marking the seventh year of expansion following the recession. We wish we could end the story there, but unfortunately all of these jobs were part-time positions (Chart 1).

There are plenty of ways to reason away this outcome. Some might say that all these part-time jobs came on the heel of strong full-time job growth over the past two years. Others might say that the labour force data is notoriously volatile and the data will likely "self-correct" in 2017. But, what if it's more than that? The degree of unfavourable composition between full-time and part-time in 2016 typically rarely occurs outside of a recession period.

In itself, there's nothing wrong with part-time positions if that's the matched preference of employers and workers. But, there is evidence that the weakness in full-time employment represents the soft underbelly of the job market. Indeed, the number of people in part-time positions due to economic reasons was up 3.3% in November, after declining for the past two years. So, while the unemployment rate does not look particularly elevated relative to its long-run trend, the Canadian economy is showing symptoms similar to the United States earlier in the cycle – one with a non-trivial level of "shadow slack." Until this trend changes, it will translate into lower hours and earnings growth. In essence, the labour market trend in 2016 embodies the growth-challenge confronting Canada.

CHART 1: ALL OF THE JOBS CREATED IN 2016 WERE PART-TIME



*Year-to-date in seasonally adjusted data.
Source: Statistics Canada

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Two horrible, no good, very bad years for energy producers…

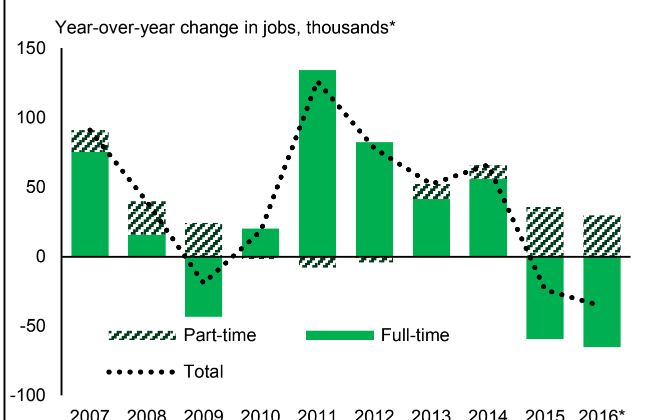
There is little doubt that depressed activity in oil-producing provinces (Alberta, Saskatchewan, Newfoundland and Labrador) played a role in the decline in full-time employment. Following an atrocious 2015, these provinces lost another 65k full-time jobs through November and created just 30k part-time jobs in their stead (Chart 2). This is not only more severe than the 2009 recession, but it is equivalent to more than one percent of total full-time jobs in the country – more than sufficient to bring the national tally into negative territory.

The only positive thing that can be said is that once the depths are plumbed within an industry, it doesn't take much of a shift in demand for the numbers to rebound in 2017. However, as we argue in our Provincial Economic Forecast, investment in the energy sector will pick-up, but not surge over the year. While the prospect of pipeline approval should eventually lead to greater investment in the oil sector, major greenfield investments are still a few years away. In all likelihood, this will mean a slow recovery for full-time job growth in energy-rich provinces.

…but it's not just an energy story

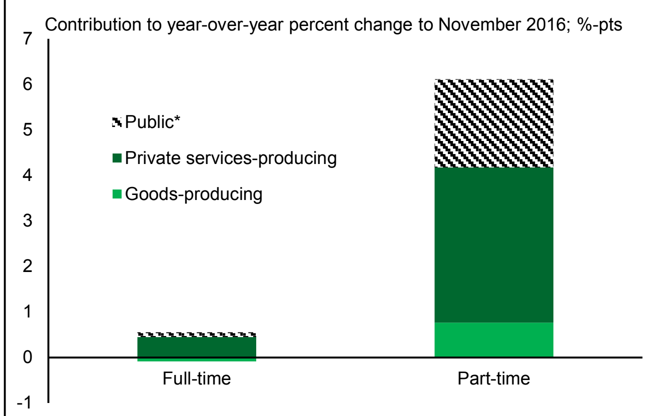
There would be some comfort if the weak full-time employment story was isolated to energy-related declines, but that's just not the case. Outside of energy-producing provinces, full-time jobs are up a measly 0.5% year-on-year to November, while part-time jobs rose a robust 6.1% (Chart 3). The monthly data is inherently volatile, but any way you slice it, the story remains the same. For instance, looking at the three-month moving average, full-time job growth outside of energy-producing provinces rose 0.8%, relative to part-time's robust 4.0% expansion. Even stripping out the public sector, which made a considerable contribution to part-time positions, still leaves full-time private hiring up 0.9% versus part-time at 3.2%.

CHART 2: RECESSION IN ENERGY-PRODUCING PROVINCES WORSE THAN 2009



*Year-to-date in seasonally adjusted data.
Source: Statistics Canada

CHART 3: BROAD-BASED EXPANSION IN PART-TIME EMPLOYMENT*



*Excluding Alberta, Saskatchewan, Newfoundland and Labrador
Source: Statistics Canada

In fact, the move toward part-time work appears relatively broad-based across industries, with just a handful bucking the trend. Of those industries that did side-step the part-time trend, job demand was heavily skewed to the real estate market. We see this as a cautionary tale. Higher interest rates, stretched valuations and tighter regulations foretell an inevitable slowdown within this sector. Demand for those full-time jobs will not only slow, but there is the real possibility of some reversal.

Digging into the details, construction and real estate experienced relatively strong growth in both full-time and part-time positions. Meanwhile, the share of full-time jobs hit an all-time high in November within the finance and insurance industry. Undoubtable this is related to the real estate booms in B.C. and Ontario. Altogether, employment in construction and finance represented a whopping 75% of the new full-time jobs in non-energy producing provinces.[1] In Ontario, finance and construction made up 68% of the full-time positions over the past year. In B.C., these industries explain over 100% of the growth. In other words, in the absence of this sector, there would be an outright decline in full-time jobs in the province. The real estate sector reflects a concentration risk in job demand that marks one key reason why we maintain a cautious outlook on employment growth in 2017 and 2018.

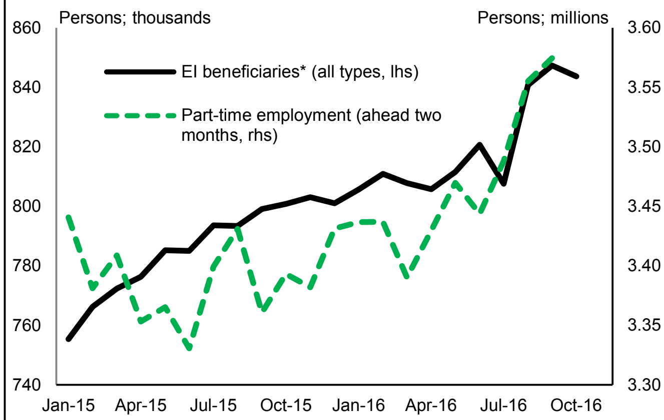


CHART 4: CHANGES TO EI BENEFITS MAY BE SUPPORTING PART-TIME EMPLOYMENT

*Seasonally adjusted using Census X12. Source: Statistics Canada

More than meets the eye: policy influences at work?

It's possible that some of the strength in part-time work may reflect changes to Employment Insurance (EI) that allows people to continue to receive some EI benefits while returning to the workforce. Under the "Working While on Claim" project, a person can keep up to 50% of their EI benefits for every dollar earned in wages, up to 90% of previous weekly earnings.[2] The program's design is intended to top-up income to make it easier for people to accept part-time work instead of waiting a more extended period for a full-time position to come along. It is too early to say for sure how much the program is contributing to the trend, but the rise in part-time employment lines up fairly well with increases in EI beneficiaries over the last several months (Chart 4).

However, we don't want to over-attribute recent part-time shifts to policy, because employers need to have that preference to begin with. More importantly, there is clear evidence that a longer term trend is occurring. The share of full-time work declined precipitously through the recessions of the early 1980s and 1990s, with another step down during the 2009 recession (Chart 5). Today, that share is still below the pre-recession level. Since the mid-1990s, part-time's share of employment has been highly correlated with the overall unemployment rate. This is intuitive – both measures indicate slack in the labour market. Moving the labour market in favour of full-time work would require a tightening in conditions that is unlikely to occur over the next several years. The pre-recession job market saw the unemployment rate fall to a low of just 5.8% in late 2007. In the western provinces, the unemployment rates scraped the low threes. But, this was also an environment of rapidly rising commodity prices that is unlikely to be repeated.

Underpinning this move toward part-time work appears to be changes in the industrial composition of employment. A longer term shift has been underway from goods-production towards services, with the latter generating a greater share of part-time positions. Looking at the data by gender, the long-term decline in the share of full-time work is largely a male phenomenon. This reflects the greater preponderance of male employment in goods-producing industries.

Finally, a central theme to our outlook in recent years has been the demographic shift. Could part of the 2016 pattern reflect this? Certainly the trend to part-time work is more prevalent as people age (Chart 6). As baby boomers move into age groups where they are less likely to work, and if they do, move into part time positions. However, unlike

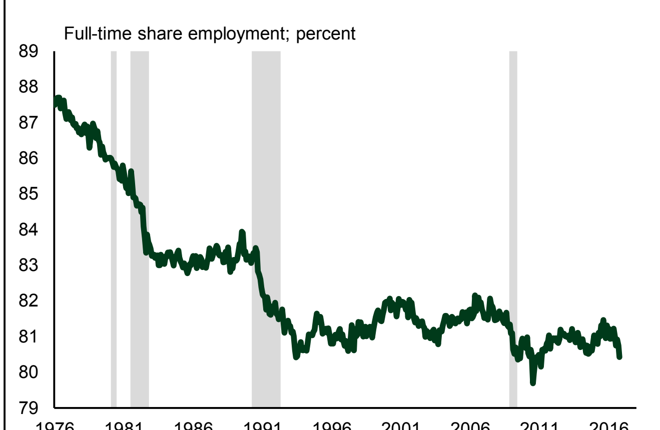


CHART 5: FULL-TIME EMPLOYMENT HAS BEEN LOSING SHARE FOR A LONG TIME

Source: Statistics Canada

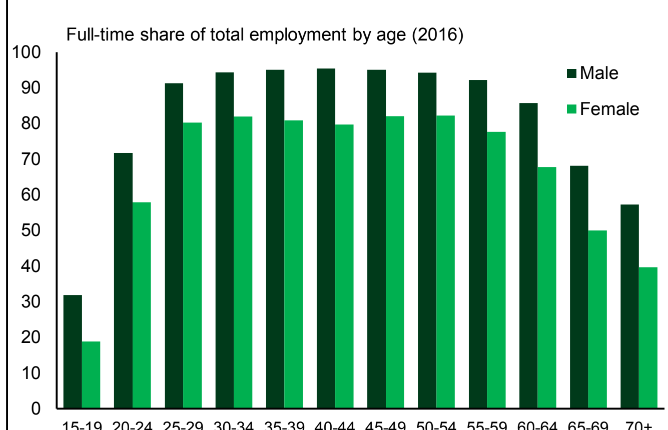


CHART 6: OLDER PEOPLE ARE LESS LIKELY TO WORK FULL-TIME

Source: Statistics Canada

the participation rate, which drops precipitously after 65 years old, the trend toward part-time employment is more gradual. Moreover, the decline in labour force participation among older groups tends to offset some of the aging impact. As a result, the impact of population aging on part-time employment is much less pronounced. Holding age-specific part-time employment rates constant and aging the population (using Statistics Canada's medium population projection), adds just a tenth of a percentage point to the part-time rate over the next five years. Forces beyond demographics are clearly more important in explaining the part-time phenomenon.

Bottom line

The sharp rise in part-time work over the past year suggests that the labour market is not as healthy as the headline numbers suggest. The energy sector was a primary source of weakness in full-time employment demand, but can't take the rap for the rest of the country. The meagre full-time growth elsewhere was concentrated in a handful of industries that are now vulnerable to a downturn. Other factors may also be contributing to the strength in part-time work, including policy changes, longer-term trends in economic composition, and to a lesser extent, population aging.

Reflecting these challenges, we expect to see a slower pace of job growth over the course of 2017, with employment increasing by 0.5% through the year (fourth-quarter to fourth quarter), down from 0.8% in 2016. It would not take much for full-time work to make something of a comeback given the low bar set last year. But, we suspect the share of part-timers will remain elevated relative to the pre-recession era, implying continued downward pressure on earnings and hours worked. All of this suggests that the Canadian economy is still not out of the woods and will require ongoing support from both fiscal and monetary authorities to achieve a faster pace of growth.

ENDNOTES

1 Year-over-year change in three-month average of full-time employment ending in November.

2 https://www.canada.ca/en/employment-social-development/programs/ei-list/ei/working-while-claim.html