

OBSERVATION

TD Economics



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PART-TIME NATION: IS CANADA BECOMING A NATION OF PART-TIME EMPLOYED?

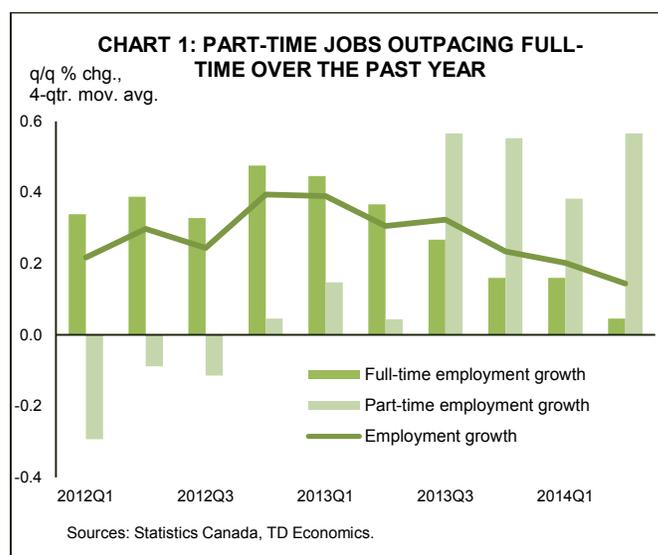
Highlights

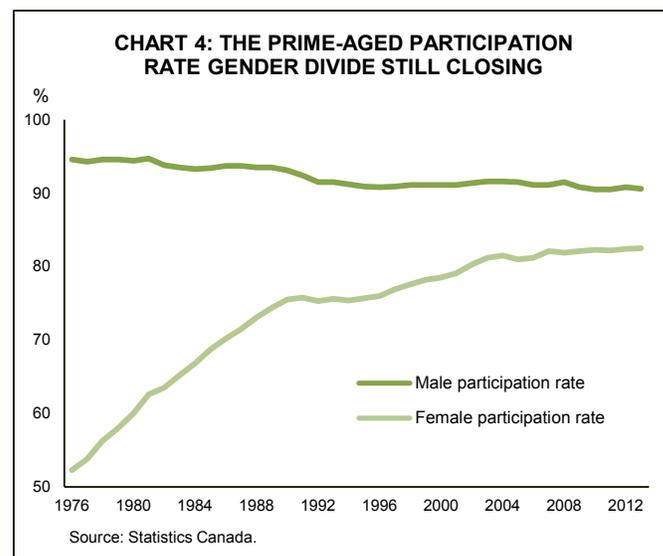
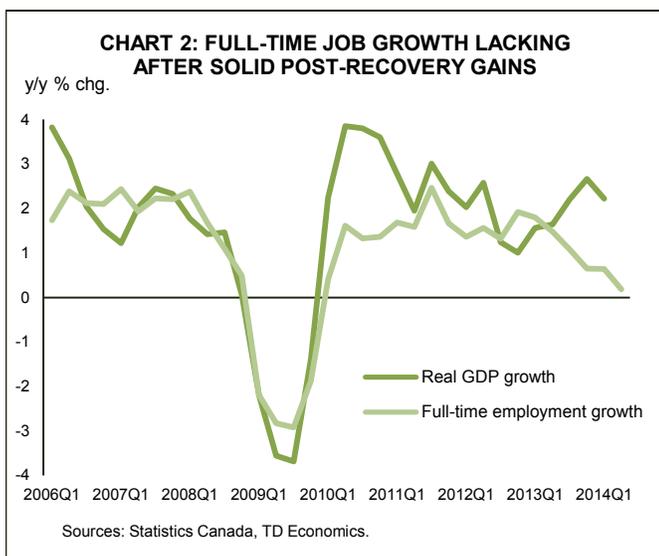
- With the increasing prominence of part-time employment over the past year, some commentators have begun to ask the question: Is Canada becoming a nation of part-time employed?
- We don't believe Canada is becoming a nation of part-timers. Instead, the recent trend increase in part-time employment partly reflects some pullback in full-time hiring after the relative strength observed following the 2008-09 recession.
- Looking ahead to late 2014 and into 2015, prospects for a pickup in economic growth are expected to drive a more balanced distribution in part-time and full-time job creation.
- That said, some of the changes in the role of part-time employment do appear to be related to an aging population and, to a lesser extent, increased female participation in the workforce. As such, while too early to be conclusive, part-time employment may continue to experience a gradual increase in its share of total employment over the next several years.

While last Friday's revisions to the July job numbers were better than the initial print and well above expectations, they didn't change the underlying picture of a job market that has struggled to gain traction this year. Nor did they alter the story of a labour market that has become increasingly tilted toward part-time employment (Chart 1). Indeed, beneath the nearly 42K rebound in jobs, part-time employment jumped by almost 60K positions, offsetting a decline in full-time jobs of just over 18K. In light of these shifts, it is not surprising that many are currently discussing whether Canada is becoming a nation of part-time employed. In this report, we address a number of questions that have been raised related to this theme.

1. What do these hiring trends say about growth in Canada's economy this year?

Employment numbers are notoriously volatile, so one month's figures should be taken with a grain of salt. Looking back to job trends since the start of 2014 reveals that of the modest 95K job gains that have been created since December 2013, about 60%, or 57K, have been part-time positions while 40%, or 38K, have been full-time. So while the year-to-date figures look better than the month-to-month, they still point to a weak labour market performance. Changes in total hours worked, which are a better gauge of overall labour market performance than total jobs, tell a similar story. Even with a solid rebound recorded in hours worked in July, total hours worked have increased only marginally so far

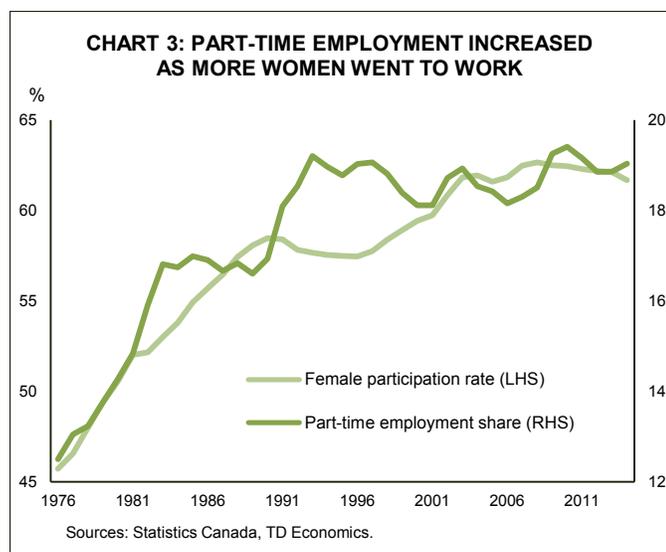




this year. On the plus side, real GDP growth is estimated to have run at around 2% in the first half of this year, leaving improved productivity as the major driver of gains. Still, there are limits to how much productivity can come to the rescue, especially in an economy that has struggled to generate gains on that front historically.

2. Is this trend towards part-time employment just a 2014 story or has it been in place for some time?

The answer to this question depends on the time frame examined. After increasing sharply in the late 1970s and 1980s, the share of part-time to full-time employment has since oscillated around a relatively flat trend line. As what typically happens during recessions, the share of part-time employment rose during the 2008-09 recession as full-time employment was harder hit (Chart 2). Then as full-time jobs



recovered, the part-time share fell back. That said, the gains in full-time jobs in 2012 and in 2013 appeared outsized relative to output growth, suggesting that some of this year's softness represents some pay back. It is important to note that even with this year's softness, full-time employment continues to make up about 80% of total employment.

The recent period of relative stability in the part-time, full-time split can be contrasted with the sharp rise in the share about three decades ago, when female participation in the workforce really started to accelerate. In fact, there is a strong correlation between the change in the female participation rate and the change in the share of part-time employment in total employment (Chart 3). While the disaggregated data only go back to 1997, we know that since then women have consistently made up about 70% of part-time employment.

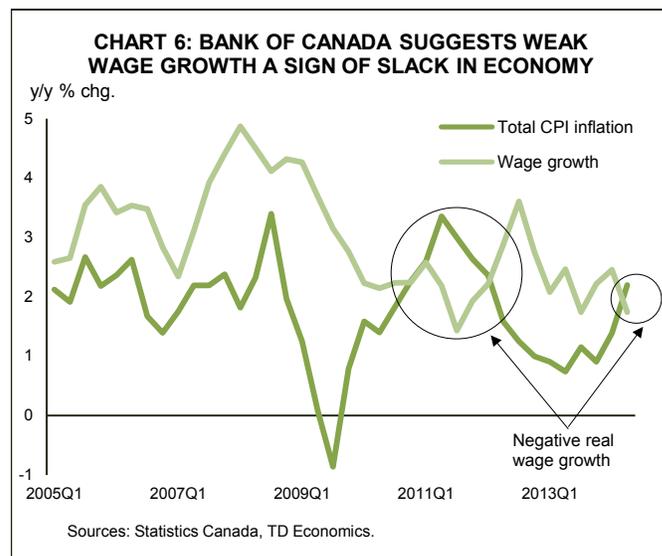
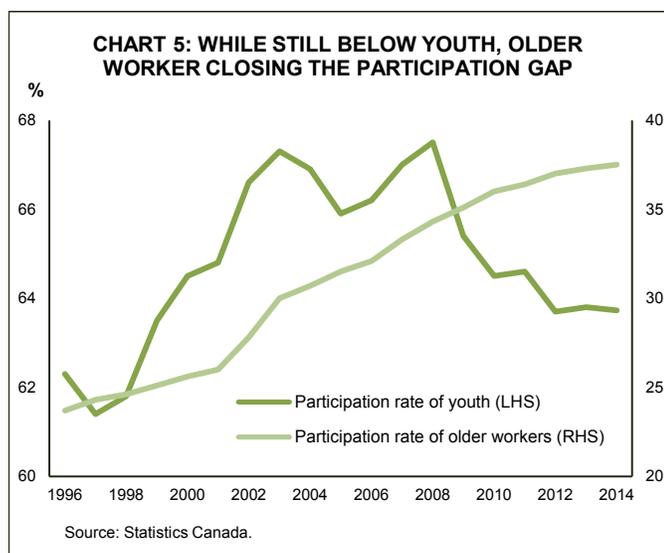
Meanwhile, the gap between the participation rates of prime-aged male and females (those aged 25 to 54) continues to shrink. As women make up the bulk of part-time employed, the part-time share of total employment could continue to head higher over the longer run as a result. Looking more closely at the evolution of the participation rate among prime-aged Canadians, the female participation rate continues to increase, albeit at an increasingly slow pace, averaging 82.5% so far this year (Chart 4). At the same time, the participation rate among males aged 25 to 54 has continued its steady, three-decade decline, reaching 90.6% in 2014, and has yet to recover the ground lost during the recession.

3. What other factors may be contributing to the increase in part-time employment?

There does appear to be an ageing element to the recent evolution of part-time employment. Where things are really changing is among Canadians aged 65 and over, who have come to represent about 8% of part-time employed – roughly double their share a decade ago. Meanwhile, the seniors’ share of the population has increased from 16% to 18% over the same period. The increased desire of older workers to secure part-time jobs may represent several factors, such as choosing to retire later, the need or desire to supplement retirement income, pursuit of a hobby or interest, et cetera.

At the same time that older workers are increasingly working part time, they are also becoming increasingly attached to the labour force. Participation rates of Canadians aged 55 and over has increased steadily from 23.6% in the mid-1990s to 37.5% today, while that of Canadian youth has fallen from a pre-recession peak of 68.1% in September 2008 to 63.8% today (Chart 5). If older workers are working more and increasing their share of part-time work, this represents the biggest reason yet why part-time employment may continue to become more prominent going forward.

Another unrelated but still striking trend is the increase in the level of involuntary part-time employment in recent years, which now includes roughly one million Canadians, up from about 650,000 before the recession. That said, after increasing from 2007 to 2010, the number of involuntary part-timers has since stabilized. As a result, their share of total part-time employment has begun to decline, as more Canadians appear to be choosing to work on a part-time basis for other non-economic reasons. More specifically, just over one-quarter of part-time employed Canadians cite ‘going to

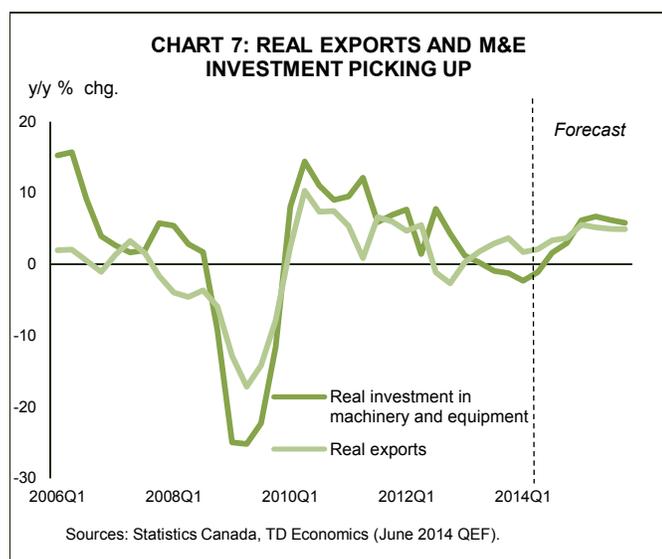


school’ as the reason for choosing to work part-time on a voluntary basis, while a broadly equivalent proportion cite ‘personal preference’.

4. What is happening to wages?

According to the July LFS, average hourly earnings rose 2.1% (y/y) over a year ago, the strongest growth since March but below total CPI inflation in June of 2.4% (Chart 6). That translates into negative real wage growth. Developments in the labour market, and wage growth in particular, are concerning enough that Bank of Canada Governor Stephen Poloz placed greater than usual emphasis on them in the Bank’s July 2014 Monetary Policy Report.

The shift in part-time employment is likely a key factor behind the soft wage trends, as the average level of hourly compensation of Canadians working part-time is lower than for those working full-time. Beyond wages, part-time employees tend to work about half the number of hours of full-time employees. As a result, the average weekly earnings of part-time employees is less than half that of full-time employees. This is true even in the presence of a union or collective agreement. However, in the absence of a union or collective agreement, average weekly earnings of part-time employees amount to roughly a quarter of that earned by full-time employees (in part because in a non-unionized environment, full-time employees tend to work more hours than average). Further to lower wages, part-time employees also tend to earn less compensation in the form of supplementary benefits, although concise statistics on these are lacking.



5. What's going to create more full-time jobs?

Notwithstanding some of the structural trends at play that could lead to a gradual increase in the part-time share over the longer haul, we expect to see both stronger job gains and a more equitable distribution between full-time and part-time positions in the coming months. Recent signals from an array of indicators, including exports, housing, manufacturing and retail, are consistent with an economy picking up steam following a soft start to the year. With the U.S. likely to gain traction, we expect the economy to move away from the household consumption and government spending led growth that brought us out of the recession and toward export and investment led growth (Chart 7). As a result, Canada's economy is expected to post real GDP growth approaching 3% during the second half of 2014 and into 2015, a significant improvement from the first half expansion of about 2%.

In this environment, total employment is likely to strengthen from the average monthly pace of around 11K over the past six months to 15-20K per month through 2015. As growth picks up, employers are likely to become more confident and increase full-time hiring. At the same time, however, it should be noted that export oriented sectors tend to be more capital intensive than other sectors of the economy, meaning they tend to increase real output more by productivity growth than by employment growth. However, these are sectors that also tend to pay higher wages, as their relatively higher productivity means they produce more for each hour worked.

Bottom Line

It is the view of TD Economics that Canada is not becoming a nation of part-time employed. Full-time jobs still make up four fifths of total employment and some of the recent increase in part-time reflects a reversal of solid gains in full-time hiring over the past few years. Given the strength in exports and investment in the second quarter of 2014, we fully expect employment growth to pick up along with output growth going forward.

That said, the narrowing gap between the male and female participation rates, as well as the shift to an ageing population in Canada, may work to increase the prominence of part-time hiring in the labour market in the future, thereby warranting continued observation.

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