Up North, Down South –
Divergence in the Canadian and US labour markets.

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<INTRO from Andrew>

Overview of recent trends

In each of the last six years, Canadian job growth has outperformed that of the United States. At the end of 2000, employment in Canada was 11.6% higher than it was at the start of 1997. During this same period in the United States, employment increased by 7.6%.

Over the next two years something even more remarkable happened. In 2001, the United States went into recession, but Canada did not. Then, there was a stronger recovery in Canada in 2002, and much more job growth. By December 2002, employment in Canada was 563,000 or 3.8% *higher* than it had been two years earlier. In sharp contrast, employment in the US in the 2001 – 2002 period *fell* 1.1 million (-0.9%)

A note on the data:

Estimates of total employment, unemployment and rates of unemployment, participation and employment come from Statistics Canada's Labour Force Survey (LFS), and the US Bureau of Labor Statistics' Current Population Survey (CPS) in the United States.

Although both surveys follow similar questionnaire design and wording, to be closer to American concepts of employment and unemployment, the Canadian data have been adjusted.

Adjustment for employment:

1. Remove 15 year olds. Since 15 year old are out of scope for the US survey, the adjusted Canadian employment series also excludes this group.

Adjustments for unemployment done in the following order:

1. Remove 15 year olds
2. Remove unemployed who only looked for work by using job ads. The US does not count such "passive job searchers" among the unemployed.
3. Remove unemployed people who did not look for work but who had a job to start in the next four weeks. In Canada, these "future starts" are counted as unemployed, even though they have not looked for work. This has not the case in the US since 1994.
4. Remove the unemployed who were unavailable to take a job because of personal or family responsibilities. In Canada, even though this group was unavailable to take a job if one were offered, they are considered among the unemployed. In the US, no such exception is made.
5. Add in full-time students looking for full time work. In Canada this group is not normally included among the unemployed, but empirical research has shown that full-time students looking for full-time work tend to be looking for work at the end of their school term, and are therefore not part of the current labour supply. In the US, they would be counted as unemployed.

In any given month, these adjustments normally shave almost a full percentage point from the Canadian unemployment rate.

The data within this analysis are seasonally adjusted, unless otherwise noted.

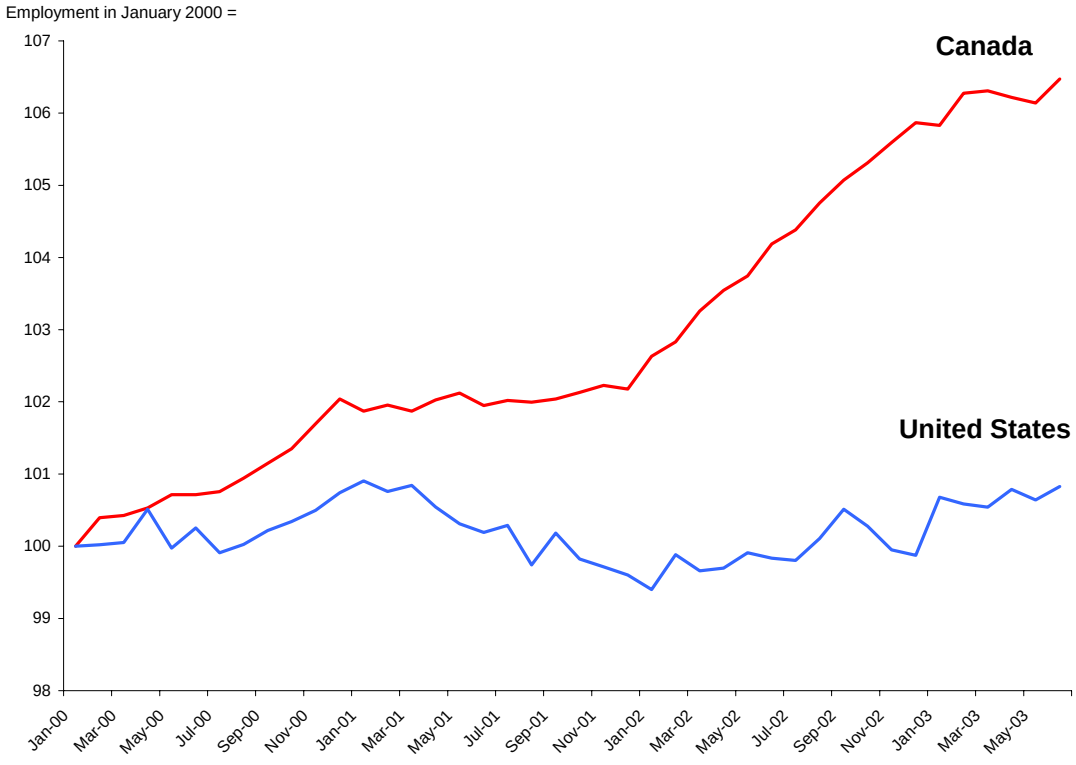
Employment by industry estimates are from the Canadian Survey of Employment, Payroll and Hours (SEPH) and the United States Current Establishment Survey (CES). No adjustments are made for the data from these two employee payroll data sources.

Not only were the labour market *trends* better in Canada, for the first time in about 20 years, the actual *state* of the labour market was better north of the border. In October 2002, the employment rate in Canada surpassed the rate in the US and by mid-2003 was at 63%, 0.8 percentage points higher than in the United States. This marks the largest and most persistent employment rate gap in favour of Canada since the early 1980s.

A gap in the unemployment rate remains, but the rate in Canada is higher only because a much greater proportion of Canadians are now participating in the labour market. In June 2003, adjusted to US concepts, the Canadian unemployment rate was 6.9%, half a point higher than in the US. The participation rate in Canada in June was 67.6%, one point higher than in the US. From 1992 to 2001, participation in the US was higher.

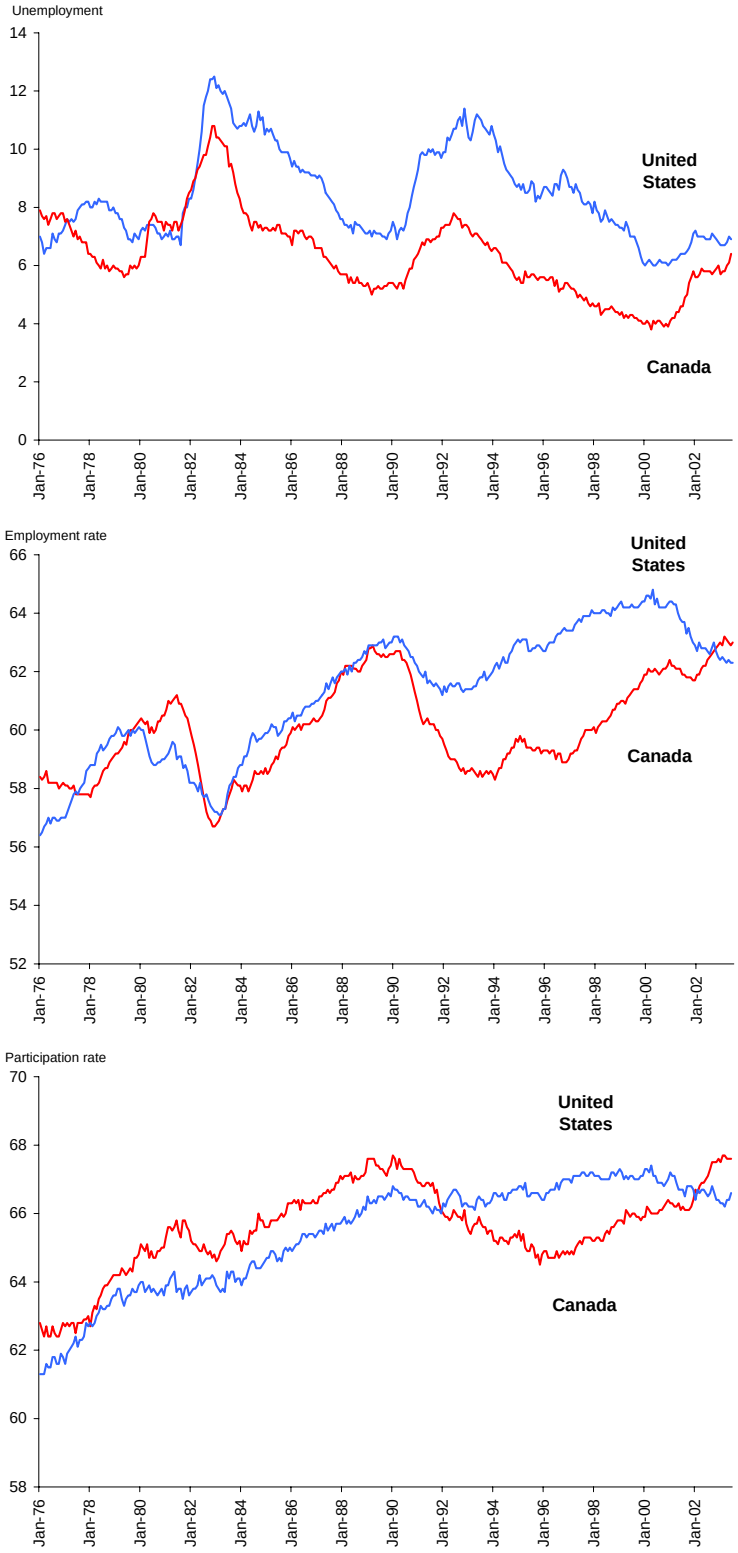
So there has been a significant and surprisingly sudden shift in the relative health of the labour market. What has been behind this change? Who has benefited in the Canada and who has not done as well in the United States?

Chart 1: In recent years, Canadian employment growth much stronger than in US



Sources: Labour Force Survey (Statistics Canada), Current Population Survey (United States Bureau of Labor Statistics)

Chart 2: By the end of 2002, all of the gap in the unemployment rate in Canada and the United States can be accounted for by the high rate of participation in Canada.



Sources: Labour Force Survey (Statistics Canada), Current Population Survey (United States Bureau of Labor Statistics)

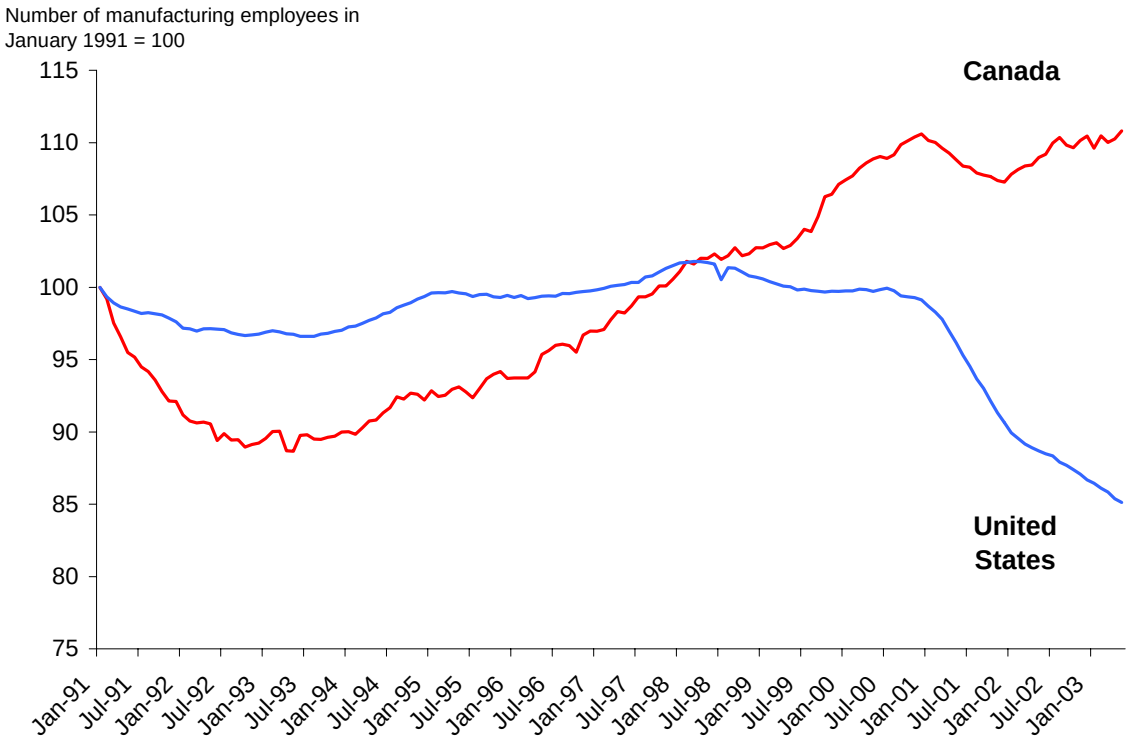
What is going on?

By industry, there was no single source of the divergence in Canadian and US employment trends in 2001 and 2002. Almost all industries in Canada have outperformed their US counterparts.

However, manufacturing stands out as the main source of the divergent trends in employment in recent years in Canada and the United States. In 2001 in the United States, where manufacturing employment growth had been very weak for a number of years, manufacturing employment dove 8.6% (-1.5 million) but in Canada it fell 3.0% (-63,000). The next year, manufacturing employment rebounded in Canada (+60,000 or 3.0%), but continued to fall in the US (-686,000 or –4.4%), albeit at a reduced pace from 2001.

Bottom line: by the end of 2002, the number of factory jobs was similar to where it had been two years earlier (-2,600 or 0.1%), while in the United States, manufacturing employment was 2.1 million (-12.6%) below the December 2000 level.

Chart 3: Manufacturing employment in 2001 fell considerably in the United States, less so in Canada



Sources: Survey of Employment, Payroll and Hours (Canada), Current Establishment Survey (United States)

Over the 2001 and 2002 period, employment fell in all parts of manufacturing in the United States, unlike in Canada. Transportation equipment jobs make up the largest share of manufacturing in the US (11.9%), as it does in Canada (11.7%). In the United States and in Canada transportation equipment manufacturing jobs fell by similar amounts in 2001 (7.4% and 6.3% in the US and Canada respectively), but in 2002, the sector underwent a 4.1% expansion in Canada, while it continued to contract in the US (-3.8%).

In both Canada and the US, the next largest components of the manufacturing sector are food and fabricated metal production. In each of these industries, employment expanded in Canada while in contracted in the US in both 2001 and 2002. By the end of 2002, food employment had increased almost 9% in Canada, while in the US it was down 2.3%. In fabricated metal production, Canadian employment jumped 7.6%, while it tumbled 14% in the US. In 2001 in the US, increased international competition and falling profits caused numerous U.S. steel companies to file for Chapter 11 bankruptcy in 2001, most notably, Bethlehem Steel.

Table 1: Employment change during 2001 and 2002 by industry, Canada and the United States

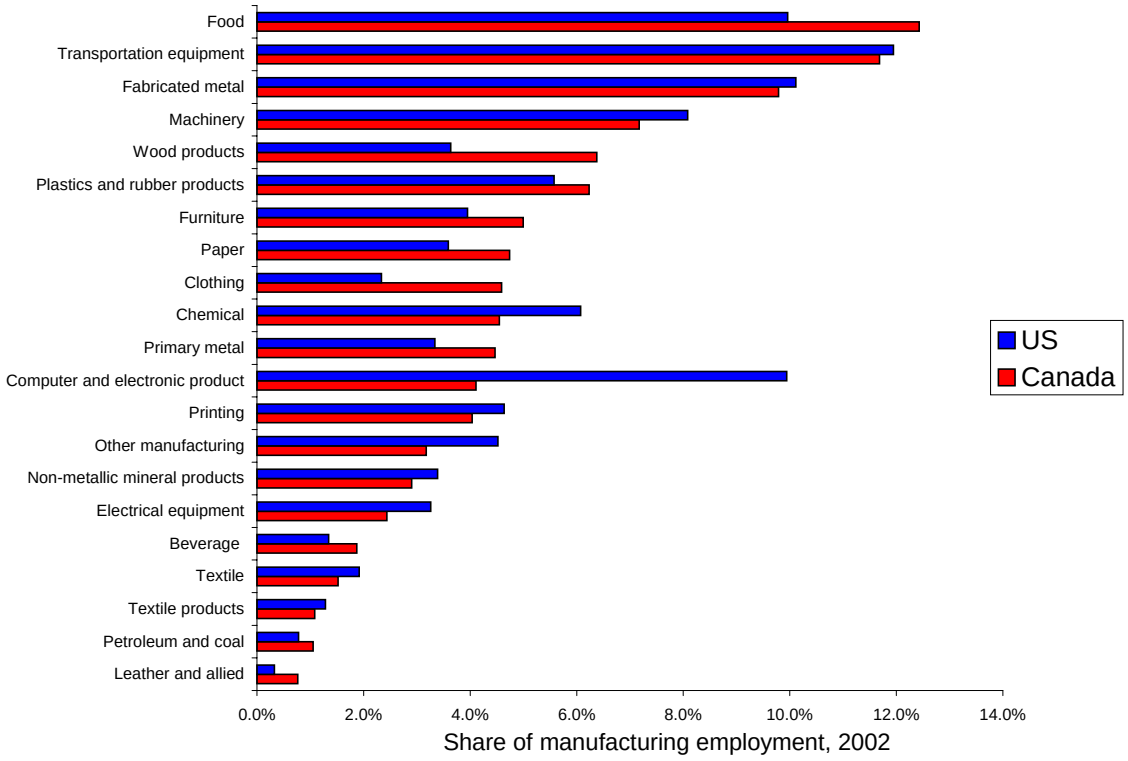
	2001				2002			
	Change in thousands		Percent change		Change in thousands		Percent change	
	Canada	US	Canada	US	Canada	US	Canada	US
Total employees	**98.8**	**-1,784.0**	**0.8%**	**-1.3%**	**492.5**	**-463.0**	**3.9%**	**-0.4%**
Natural resources	-6.0	-5.0	-2.8%	-0.8%	-8.4	-24.0	-4.0%	-4.0%
Utilities	1.1	-2.6	1.0%	-0.4%	2.7	-1.3	2.4%	-0.2%
Construction	50.3	-11.0	9.2%	-0.2%	42.2	-53.0	7.0%	-0.8%
Manufacturing	-62.5	-1,471.0	-3.0%	-8.6%	59.9	-686.0	3.0%	-4.4%
Food	5.7	-15.6	2.4%	-1.0%	15.5	-20.3	6.2%	-1.3%
Beverage	0.7	-2.2	1.9%	-1.0%	2.7	-6.6	7.3%	-3.2%
Textile	0.9	-61.3	3.1%	-16.9%	1.3	-20.7	4.0%	-6.9%
Textile products	0.9	-16.3	4.3%	-7.7%	0.8	-4.6	3.5%	-2.3%
Clothing	-1.7	-91.2	-1.8%	-19.4%	0.3	-44.0	0.3%	-11.7%
Leather and allied	1.4	-11.7	11.1%	-18.5%	1.7	-5.4	11.8%	-10.3%
Wood products	-12.3	-31.4	-8.7%	-5.3%	4.3	-14.2	3.4%	-2.5%
Paper	-10.1	-39.5	-9.2%	-6.6%	-4.9	-18.1	-4.9%	-3.2%
Printing	-3.6	-64.9	-4.1%	-8.1%	-0.2	-45.8	-0.2%	-6.3%
Petroleum and coal	-4.1	-1.8	-16.0%	-1.5%	-0.7	-0.4	-3.2%	-0.3%
Chemical	-4.2	-35.1	-4.3%	-3.6%	1.4	-14.3	1.5%	-1.5%
Plastics and rubber products	1.1	-79.3	0.9%	-8.5%	3.8	-15.6	3.0%	-1.8%
Non-metallic mineral products	0.6	-24.1	1.1%	-4.4%	0.3	-18.4	0.5%	-3.5%
Primary metal	-14.1	-81.5	-13.5%	-13.4%	2.5	-30.2	2.8%	-5.8%
Fabricated metal	6.5	-172.7	3.4%	-9.8%	7.8	-72.9	4.0%	-4.6%
Machinery	2.1	-172.8	1.5%	-11.9%	10.3	-68.0	7.4%	-5.4%
Computer and electronic product	-15.6	-252.4	-15.0%	-13.5%	-7.2	-148.8	-8.2%	-9.4%
Electrical equipment	-7.5	-69.6	-13.4%	-12.0%	3.0	-33.2	6.1%	-6.4%
Transportation equipment	-15.6	-147.3	-6.3%	-7.4%	9.5	-70.3	4.1%	-3.8%
Furniture	3.5	-62	3.7%	-9.2%	6.2	-25.5	6.2%	-4.2%
Other manufacturing	2.2	-37.8	3.5%	-5.2%	2.3	-8.4	3.5%	-1.2%
Trade	11.2	-474.0	0.5%	-2.2%	127.1	-160.4	5.7%	-0.8%
Transportation and warehousing	-2.0	-256.2	-0.3%	-4.8%	4.2	-91.1	0.7%	-1.8%
Information and culture	8.5	-185.0	2.5%	-5.0%	3.2	-171.0	0.9%	-4.9%
Finance, insurance, real estate	3.9	89.0	0.5%	1.1%	29.3	60.0	3.8%	0.8%
Professional, scientific and technical services	-4.7	-120.4	-0.7%	-1.7%	41.9	-78.3	6.6%	-1.2%
Management of companies and enterprises	4.1	-66.3	4.9%	-3.7%	5.0	-47.2	5.8%	-2.7%
Administrative and support	18.0	-574.0	3.5%	-7.1%	50.7	11.4	9.5%	0.2%
Educational services	2.8	497.1	0.3%	4.2%	17.2	253.2	1.8%	2.1%
Health care and social assistance	31.1	505.7	2.5%	3.6%	53.9	341.5	4.2%	2.3%
Arts, entertainment and recreation	6.6	17.8	3.0%	1.0%	10.9	6.1	4.8%	0.3%
Accommodation and food services	18.3	-38.2	2.0%	-0.4%	15.0	81.4	1.6%	0.8%
Other services	17.1	136.0	3.7%	2.6%	13.2	5.0	2.7%	0.1%
Public administration	0.5	183.8	0.1%	1.9%	26.0	94.1	3.6%	1.0%

Sources: Survey of Employment, Payroll and Hours (Statistics Canada), Current Establishment Survey (United States Bureau of Labor Statistics) . Industries defined by North American Industry Classification System.

On top of these three big components of manufacturing, much of the US and Canadian manufacturing employment divergence can be traced to the greater exposure of the US to the high tech sector. While the employment in the production of computers and electronic products fell by a similar 22% in Canada and 21.4% in the US over the 2001/2002 period, at its peak in 2000, this part of manufacturing accounted for only 5.0% of all factory employment in Canada,

compared to a 10.5% share in the US. As a result, the drop in computer and electronic product employment had a bigger impact on the overall trend in manufacturing in the US.

Chart 4: US manufacturing sector more exposed to high tech meltdown



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Who was most affected?

During 2001, employment rates fell in both Canada and the United States. However, given the large drop in employment in the US, the employment rate in that country fell more than it did in Canada (-1.5 percentage points compared to -0.7 points in Canada). While employment rates for older people 55+ increased by similar amounts in both countries, the employment rate declines in the US were greater than they were in Canada for youths and core-age workers 25 to 54 years old.

Then, in 2002, the share of the population in Canada that was employed shot up 1.4 percentage points. Meanwhile, in the US the employment rate continued to fall, albeit at a reduced pace (-0.5 percentage points). During 2002, the employment rate for all age groups had increased in Canada, while they continued to fall for everyone in the US, except older people 55.

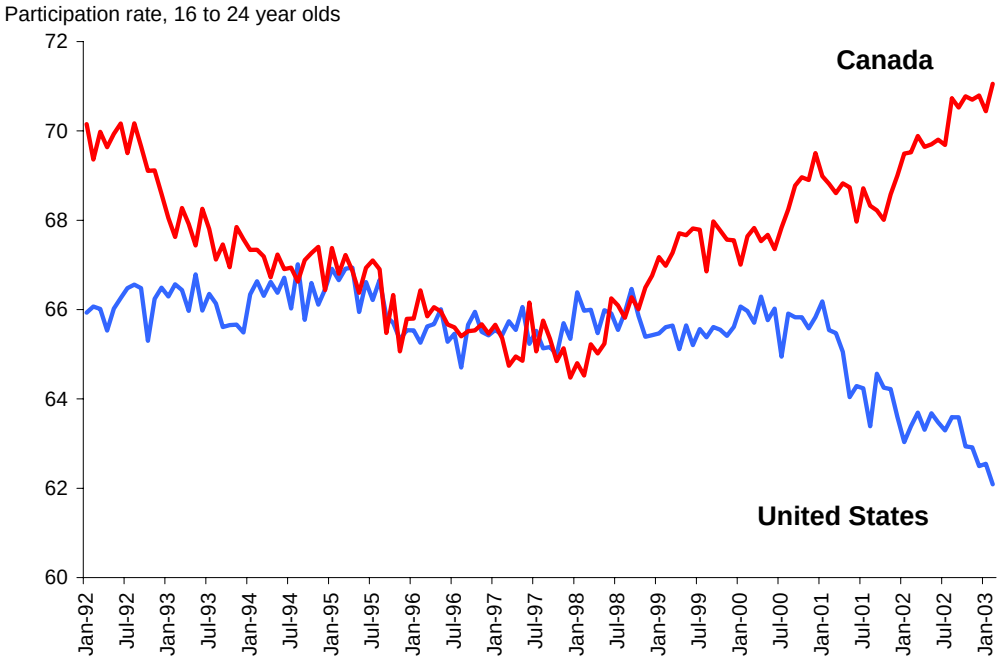
Towards the end of 2002, the employment rates were higher for most major age groups in Canada than the US. The share of youths with a job was 61.8% in Canada in December 2002, almost seven percentage points higher than in the US. The youth labour market in Canada has sharply diverged from that in the US. Short demand in the US, combined with a faster-growing youth population has meant tough competition for youth jobs south of the border.

Table 2: Employment rates, seasonally adjusted by sex and by age group, Decembers 2000, 2001 and 2003, Canada and the United States

	Share of population employed			Percentage point difference between Decembers:	
	Dec-00	Dec-01	Dec-02	2000 to 2001	2001 to 2002
Canada					
16+, both sexes	62.4	61.7	63.0	-0.7	1.4
Men	68.7	67.4	68.6	-1.2	1.2
Women	56.4	56.1	57.6	-0.2	1.5
16-24 years	61.5	60.1	61.8	-1.4	1.7
25-54 years	80.1	79.4	80.8	-0.8	1.4
55 years and over	24.6	25.1	27.2	0.5	2.1
United States					
16+, both sexes	64.4	62.9	62.4	-1.5	-0.5
Men	71.8	70.0	69.1	-1.7	-0.9
Women	57.6	56.3	56.1	-1.3	-0.2
16-24 years	59.8	55.9	55.0	-3.9	-0.9
25-54 years	81.3	79.7	78.9	-1.6	-0.8
55 years and over	31.8	32.6	33.5	0.7	0.9

Sources: Labour Force Survey (Statistics Canada), Current Population Survey (United States Bureau of Labor Statistics)

Chart 5: A huge gap in youth participation rates has emerged in recent years



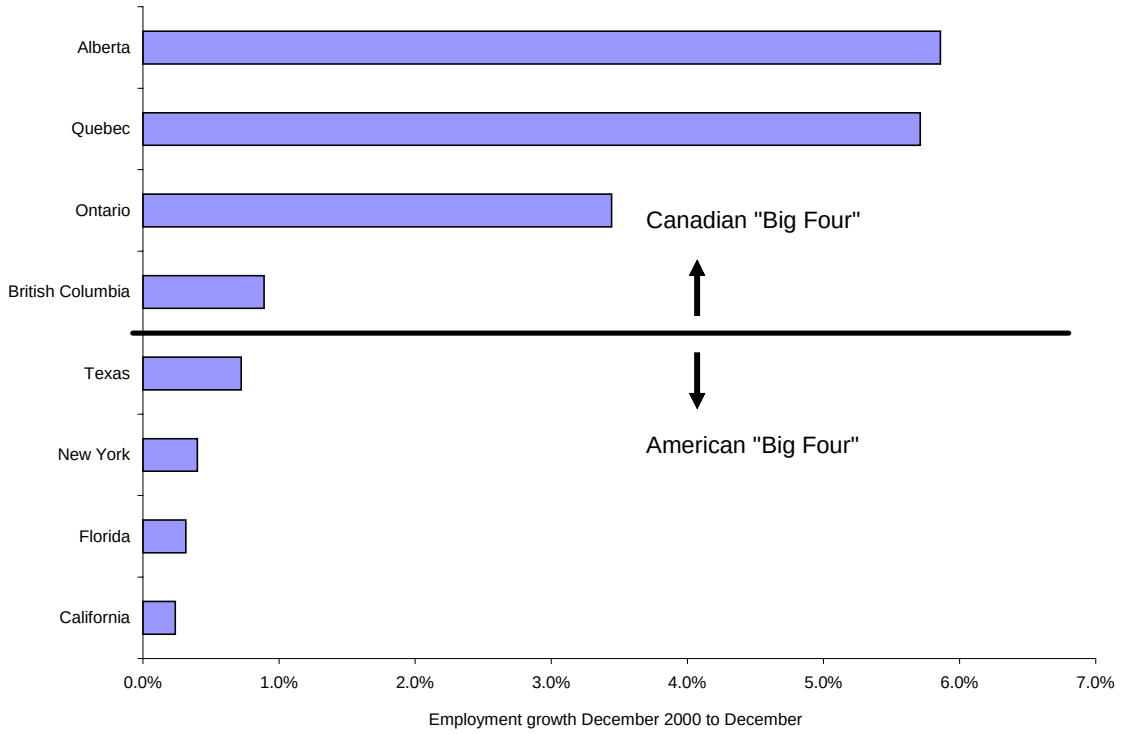
Sources: Labour Force Survey (Statistics Canada), Current Population Survey (United States Bureau of Labor Statistics)

Little growth in Big Four US states, large expansion in Big Four Canadian provinces

Over the 2001/2002 period, employment fell in half of all US states, including a decline of 4.2% in Illinois and a staggering 7.1% in Michigan. In another 11, including the largest four states (New York, California, Florida and Texas) employment increased by less than 1%.

In Canada, only British Columbia had employment growth of less than 1% between 2000 and 2002. Employment growth in Alberta (5.9%), was higher than any other North American jurisdiction in 2001/2002. Ontario and Quebec had employment gains of 3.4% and 5.7%, respectively, between December 2000 and December 2002.

Chart 6: Employment growth in Canadian Big Four greater than US Big Four



Sources: Labour Force Survey (Statistics Canada), Local Area Unemployment Statistics (Bureau of Labor Statistics)

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