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Further Evidence on the Contribution of Services Outsourcing to the Decline in Manufacturing's Employment Share in Canada

In October of 2015, the Centre for the Study of Living Standards released a report entitled “The Evolution of Manufacturing Employment in Canada: The Role of Outsourcing” which examined how outsourcing of work from the manufacturing sector to the services sector contributed to the decline in the employment share of manufacturing in Canada over the past four decades. The evidence was mixed. An examination of the input-output structure of the economy suggested that the effect of services outsourcing was very small while a decomposition of the change in manufacturing's employment share by industry and occupation suggested that the effect may have been substantial. This paper revisits these results using new data products provided by Statistics Canada which address limitations of the previous research. In particular, the earlier work examined an input-output structure based on current dollar data which may have skewed the results due to large price swings, particularly in the oil and gas sector. This paper uses chained dollar estimates to avoid this problem. Similarly, the employment decomposition used highly aggregated occupational data which may have overstated the contribution of outsourcing to manufacturing's declining employment share. We use more detailed occupational data from the Census and National Household Survey. Consistent with earlier results, we conclude that services outsourcing contributed to the decline in manufacturing's employment share, although the effect was likely very small. Above average labour productivity growth in the sector and falling demand were the more important factors.