The Canadian Outlook: Household Income and Employment.
From: The Conference Board of Canada, August 18, 2020



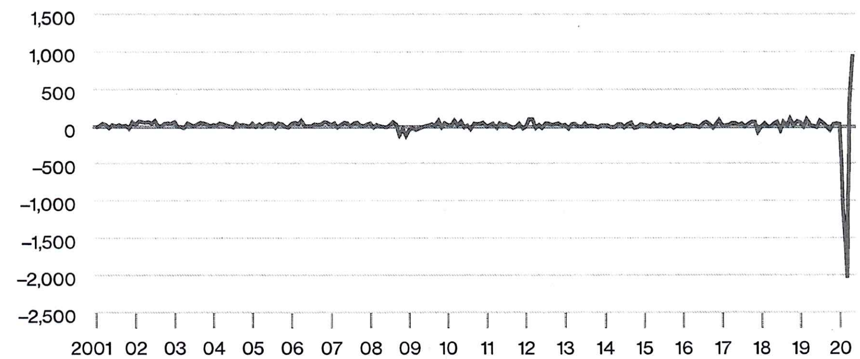
# Household income and employment snapshot

## Forecast risk

**Short term**
Federal programs have helped businesses and households with cash flow.

**Medium term**
Bankruptcies could significantly hamper the labour market's recovery.

## COVID-19 brings unprecedented job losses and gains
(annual growth in interest payments, per cent)




Sources: The Conference Board of Canada; Statistics Canada.

## Key household income and employment indicators

| | 2020 Q1f | 2020 Q2f | 2020 Q3f | 2020 Q4f | 2021 Q1f | 2021 Q2f | 2021 Q3f | 2021 Q4f | 2020f | 2021f |
|---|---|---|---|---|---|---|---|---|---|---|
| Real personal disposable income | 1,190.1 | 1,349.4 | 1,286.9 | 1,216.2 | 1,211.2 | 1,216.0 | 1,223.4 | 1,229.4 | 1,260.7 | 1,220.0 |
| (2012 $ millions) | *0.19* | *13.39* | *-4.63* | *-5.49* | *-0.41* | *0.40* | *0.60* | *0.49* | *7.34* | *-3.22* |
| Total employment (000s) | 18,842 | 16,578 | 17,905 | 18,524 | 18,687 | 18,867 | 19,060 | 19,209 | 17,962 | 18,956 |
| Difference | –282.1 | –2,264.4 | 1,326.7 | 619.3 | 162.7 | 180.5 | 192.3 | 149.5 | –1,087.9 | 993.4 |
| Unemployment rate | 6.31 | 13.42 | 10.48 | 8.47 | 8.34 | 7.80 | 7.00 | 6.48 | 9.67 | 7.41 |
| Difference | 0.61 | 7.12 | –2.94 | –2.02 | –0.12 | –0.54 | –0.80 | –0.52 | 4.00 | –2.26 |
| Labour force participation rate | 64.81 | 61.54 | 64.22 | 64.86 | 65.20 | 65.35 | 65.33 | 65.32 | 63.86 | 65.30 |
| Difference | –0.76 | –3.26 | 2.68 | 0.64 | 0.34 | 0.14 | –0.01 | –0.02 | –1.84 | 1.44 |
| Average weekly wages | 1,028.8 | 1,101.0 | 1,056.2 | 1,039.6 | 1,043.7 | 1,046.0 | 1,048.4 | 1,051.8 | 1,056.4 | 1,047.5 |
| (Industrial Composite) | *2.25* | *7.02* | *-4.06* | *-1.57* | *0.39* | *0.22* | *0.23* | *0.33* | *6.48* | *-0.85* |

Note: Shaded area represents forecast data; *italics indicate percentage change at annualized rate.*
Sources: The Conference Board of Canada; Statistics Canada.

# Labour market hit hard by the pandemic

Canada's labour market has felt the pain from COVID-19 as much as any other area of the economy. The overall employment losses resulting from the pandemic peaked at 3 million in March and April, followed by a partial recovery in May and June. Overall, the unemployment rate peaked at 13.7 per cent in May and total hours worked were down 28 per cent between February and April.

The good news is that, barring a major second wave of the virus, job growth should continue over the next year. The sustained growth will not be shared among all industries to the same degree, as some will see jobs return to pre-pandemic levels faster than others. Goods-producing industries, such as construction and manufacturing, will see job numbers rebound to pre-pandemic levels by the end of the year. Meanwhile, service industries such as accommodations, food services, and culture will recover much more slowly, as consumers will remain cautious until an effective vaccine can be developed, approved, and distributed.

In sum, we expect employment to return to its February 2020 levels by the third quarter of 2021. However, the pace of recovery will be uneven, with strong job growth through the second half of 2020, followed by a longer period of modest growth through 2021.

In addition to monitoring the ongoing recovery in jobs, we are also looking at the fundamental changes coming to Canada's labour market as a result of the pandemic. The first is in how we work. The COVID-19 pandemic has led to a huge jump in the number of people working remotely, and many will continue to do so long after the pandemic has passed. That will reduce frictions in the labour market and potentially lower the unemployment rate. One factor behind this phenomenon will likely be the reduction in time-wasting commutes to work. Lower immigration in the near term will also lower the unemployment rate. However, a drop in the number of new arrivals could also cost the economy, as immigrants have made significant contributions to the labour force over the past decade. At the same time, a rise in e-commerce and changing preferences about travel are likely to lead to weaker long-term employment growth in retail and in travel-related services. Given that workers in these two industries generally earn lower wages, the lasting impact of COVID-19 might be better work conditions and wages (when factoring in commute times) for higher-income earners, and weaker job prospects, as well as reduced earnings, for low-wage workers.

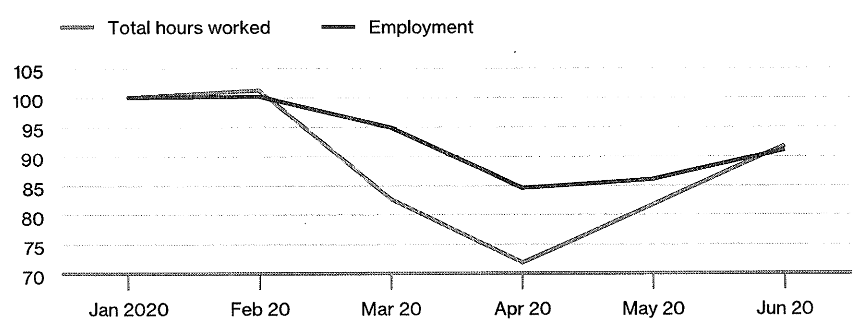
# The pandemic's peak damage point

COVID-19 caused unprecedented pain across the labour market. The country lost more jobs in both March and April than in any other month on record. The unemployment rate rose to a record high in May, while hours worked fell the most ever. Also, the labour force participation rate dropped significantly.

The deepest impact of the COVID-19 pandemic was the combined loss of 3 million jobs in March and April. This loss was even worse than our grim projection in March when, after undertaking a detailed industry-by-industry analysis, we estimated that roughly 2.8 million jobs would be lost in March and April. Our research also concluded that many industries adversely affected were those in the lower-wage sectors of the economy. This means that most of the workers who lost their jobs in March and April were making below-average wages.

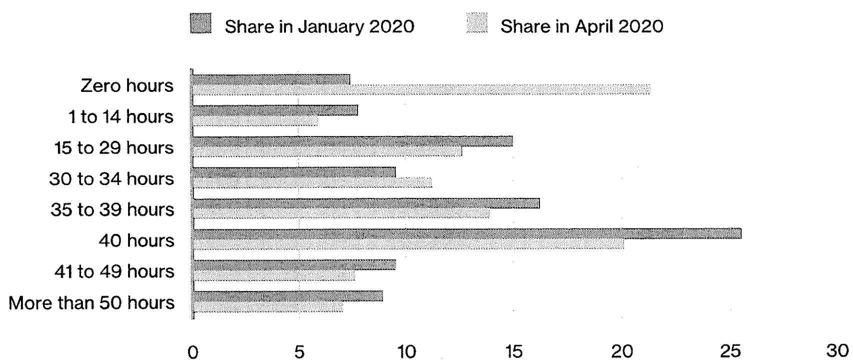
While the job losses were significant, hours worked are an even better view on how hard COVID-19 hit the labour market. Employment fell 16 per cent between February and April, but total hours worked dropped by 28 per cent. (See Chart 1.) And the number of employees working more than one hour per week fell by 4.9 million during this period, which is likely a better indicator of the total number of Canadians who were not working (but may or may not have been technically still employed). Meanwhile, just over 2 million more Canadians reported working zero hours. The discrepancy between the number of jobs lost by those working more than one hour (down 4.9 million) and the number of jobs "gained" by those working zero hours (up 2 million) roughly matches the total employment loss and indicates that federal programs helped maintain the employee–employer relationship. (See Chart 2.)

**Chart 1**
**Hours worked fall faster but recover faster than total employment**
(index, January 2020 = 100)




Sources: The Conference Board of Canada; Statistics Canada.

**Chart 2**
**Surge in number of people working zero hours masks employment decline**
(share of those employed by hours worked, per cent)



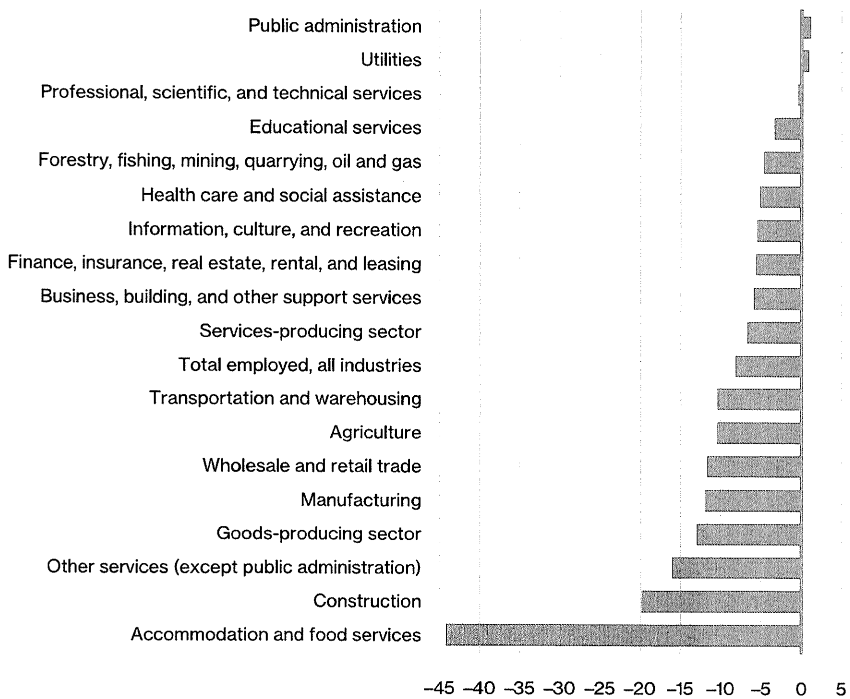

Sources: The Conference Board of Canada; Statistics Canada.

The unemployment rate also masks the depth of the pandemic-induced plunge. While the unemployment rate rose to a shocking 13.7 per cent in May, this reading actually underestimates the unemployment picture. First, the job losses coincided with a large decline in the labour force—meaning that many people who lost their jobs simply were not looking for work and, consequently, were not counted in the labour force survey. When we include discouraged job seekers and those involuntarily working part-time, the rise in unemployment was much steeper.

Another somewhat misleading picture of the pandemic's effect on the labour market has been trends in wage growth over the past few months. Year-over-year growth in average weekly wages surged from 4.2 per cent in February to 13.3 per cent in April. What is interesting about the surge is that it was led largely by part-time workers. Wages for these workers increased overall, not because they were suddenly given raises but because of a big drop in the number of low-paid, part-time jobs in accommodation, food services, and retail—sectors that were hit particularly hard by the pandemic-related shutdown of businesses.

At first glance, it might seem that a rise in wage growth is a positive development. And, under normal circumstances, that would be true. Normally, unchanged employment levels and higher wages mean that incomes have risen significantly. In the case of the COVID-19 impacts, however, the wage growth is a result of a change in job composition—Canada has maintained many high-wage jobs (since these can be done remotely) but has lost many low-wage jobs. (See Chart 3.) If we take "employment multiplied by average weekly wages" as a crude measure of labour income, we see that labour income fell by 8 per cent nationally between February and April. This estimate provides a truer picture of developments in labour markets, as opposed to the distorted picture provided by the aggregate average weekly wage numbers.

**Chart 3**
**Job losses were concentrated in low-wage industries**
(change in employment, April vs. February 2020, per cent)




Sources: The Conference Board of Canada; Statistics Canada.

Many indicators, such as average weekly wages, that suggested a better-than-expected performance turned out upon closer analysis to be misleading. Overall, COVID-19 has brought unprecedented pain to Canada's labour market.

# A long road back to normal

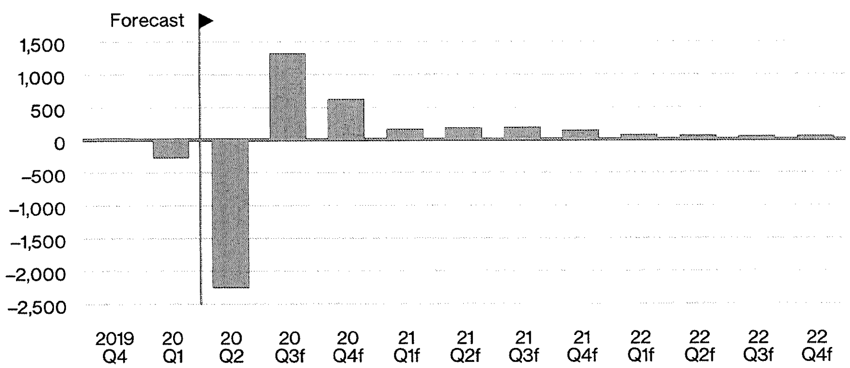
While the pandemic's impact on the labour market was fast and deep, the recovery will be slow and long. Overall, job levels won't return to their pre-pandemic levels until the fourth quarter of 2021—and some industries will take even longer than that to recover.

The labour market will evolve in two phases. In the first phase, which is happening over the summer, jobs that were lost to supply-side effects (i.e., directly related to closures that made it impossible for people to consume the businesses' goods or services) will return, leading to solid job growth over the near term. We expect 1.3 million jobs to return in the third quarter of this year.

In the second phase, jobs that were lost to weaker demand will return—but more slowly. This phase will take longer than the first and will last through much of 2021. Over this period, job growth will remain above average until the middle of 2021 as jobs linked to weaker demand begin to recover, supported by improved confidence about the eventual winding down of the pandemic and the possible development and distribution of an effective vaccine. Industries where this will happen include food services, accommodation, and culture (sectors that often rely on large gatherings, such as concerts, festivals, and sporting events).

On an aggregate basis, we expect the final numbers to show that employment fell by 2.2 million in the second quarter of this year, but will rise by 1.3 million in the third quarter and 620,000 in the fourth quarter. (See Chart 4.) By year's end, many of the jobs that were lost will be regained (though many are likely to be different jobs). In all, employment will drop by 5.7 per cent in 2020 and rise by 5.5 per cent in 2021.

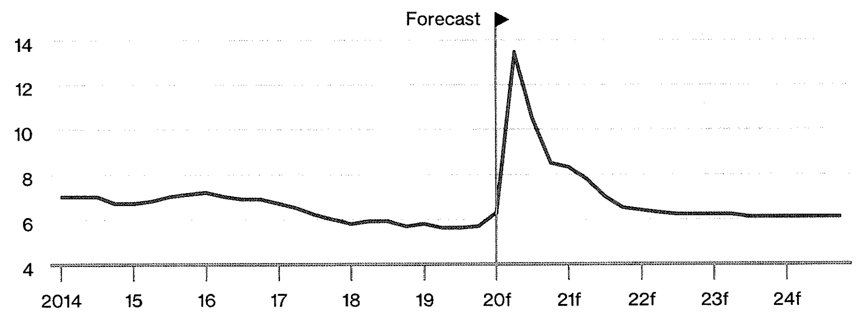
**Chart 4**
**Employment to recover slowly**
(quarterly gains/losses in employment, 000s)




f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

The unemployment rate will fall alongside the increase in employment. We think that the unemployment rate peaked in either May or June and will slowly decline over the second half of the year. In all, the unemployment rate will average 7.4 per cent in 2021. That is well above our estimate of 6.6 per cent in our previous forecast, and it is an indication of how our view of the labour market recovery has become more pessimistic. The unemployment rate will not fall below 6 per cent again between now and 2024. (See Chart 5.)

**Chart 5**
**Unemployment to remain elevated**
(unemployment rate, per cent)




f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

While wage growth surged through the worst months of the pandemic, we expect growth in average wages to slow significantly as lost jobs that paid lower wages, such as those in the accommodation sector, return. The reasons are twofold. First, higher earners who kept their job during the pandemic are unlikely to see a wage increase over the near term as companies work to rebuild their finances. Second, the economy lost many low-wage jobs in the second quarter, and these positions will slowly return through much of this year and into 2021. As this happens, year-over-year wage growth will likely turn negative in the second quarter of 2021. Similar to the situation during the pandemic when average wages rose, the potential for negative wage growth won't be because of any changes to wages. Instead, the difference in the composition of jobs, namely the gradual return to work of low-wage earners, will skew the growth in aggregate average weekly wages in a downward direction.

**Many indicators that suggested a better-than-expected performance turned out to be misleading. Overall, COVID-19 has brought unprecedented pain to Canada's labour market.**