

RESEARCH REPORT

# Meeting the Skills Challenge: Five Key Labour Market Issues Facing Atlantic Canada

October 2012



## About the Atlantic Provinces Economic Council

The Atlantic Provinces Economic Council (APEC) is an independent think-tank dedicated to economic progress in Atlantic Canada. Founded in 1954 as a partnership between the provincial governments and the private sector, its objective is to promote the economic development of the Atlantic region of Canada. It accomplishes this through analysing current and emerging economic trends and policies; by communicating the results of its analysis and consulting with a wide audience; and by advocating the appropriate public and private sector response.

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## Meeting the Skills Challenge: Five Key Labour Market Issues Facing Atlantic Canada

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### Acknowledgements

This report is supported by the Atlantic Canada Opportunities Agency (ACOA) under the Atlantic Policy Research Initiative, which provides a vehicle for the analysis of key socio-economic policy issues in Atlantic Canada. The views expressed in this study do not necessarily reflect the views of ACOA or of the Government of Canada. APEC is responsible for the accuracy, reliability, and currency of the information. The report is based on information available as of 29 June 2012.

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## Table of Contents

Abbreviations .....	ii
Executive Summary .....	iii
1. INTRODUCTION .....	1
2. RECENT TRENDS AND PERFORMANCE .....	3
2.1 Recent trends.....	3
2.2 The urban-rural divide.....	9
2.3 Strengths and weaknesses .....	13
3. KEY ISSUE #1: WEAKENING DEMOGRAPHIC TRENDS .....	15
3.1 Model-based demographic projections .....	15
3.2 Labour force projections for Atlantic Canada .....	18
3.3 The implications of labour force decline .....	22
3.4 Mitigating the reduction in the labour force .....	24
4. KEY ISSUE #2: THE CHANGING DEMAND FOR SKILLS .....	29
4.1 An increased demand for skilled labour.....	29
4.2 Industrial restructuring and its regional implications.....	32
4.3 Is there a skills mismatch? .....	36
5. KEY ISSUE #3: ENSURING FULL UTILIZATION OF THE WORKFORCE .....	39
5.1 Reducing rural unemployment .....	40
5.2 Increasing the participation of under-represented groups.....	46
5.3 Tackling low adult literacy .....	50
5.4 Improving health and safety .....	51
6. KEY ISSUE #4: RESPONSIVENESS TO DEMOGRAPHIC & ECONOMIC CHANGE.....	53
6.1 Individuals .....	53
6.2 Unions .....	57
6.3 Employers .....	59
6.4 Educational and training institutions .....	62
7. KEY ISSUE #5: ADEQUATE LABOUR MARKET INFORMATION AND APPROPRIATE POLICIES.....	63
7.1 The importance of labour market information .....	66
7.2 Reforming employment insurance .....	68
7.3 Changing immigration policy.....	82
7.4 Issues for policymakers.....	90
8. SUMMARY AND AREAS FOR FURTHER RESEARCH.....	93
8.1 Summary.....	94
8.2 Areas for further research .....	97
Glossary .....	99
References.....	101

## Abbreviations

**CIC:** Citizenship and Immigration Canada

**COPS:** Canadian Occupational Projection System

**EI:** Employment Insurance

**HRSDC:** Human Resources and Skills Development Canada

**LMA:** Labour Market Agreement

**LMDA:** Labour Market Development Agreement

**LMI:** Labour market information

## Executive Summary

A skilled labour force is critical to Atlantic Canada's prosperity but the region is facing a number of challenges in this regard. A weakening demographic outlook will reduce the number of available workers and restrain economic growth. Meanwhile a growing demand for skills and ongoing industrial restructuring raises the potential for a skills mismatch in the labour market.

This report assesses the recent performance of Atlantic Canada's labour market and the key labour market issues facing the region. It is intended to help improve the understanding of the region's labour market and assist stakeholders in responding to the issues that have been identified. The report focuses on five key issues: weakening demographic trends; the changing demand for skills; the need to improve workforce utilization; labour market responsiveness to demographic and economic change; and the adequacy of labour market information and policy.

Atlantic Canada's labour market has shown considerable improvement over the last few decades with steady job growth, rising labour force participation, falling unemployment rates and lower use of employment insurance (EI). Although provincial unemployment rates remain higher and participation rates are still lower than in Canada, the region has narrowed the gap in performance. Strong wage growth over the last decade has boosted real incomes.

There is a marked urban-rural divide in Atlantic Canada's labour market. Labour force and employment growth in urban centres is comparable to national growth rates; unemployment rates, participation rates and EI use are also comparable to national rates. However, labour force and employment growth in rural regions is much slower and has actually declined since 2004 in most rural regions. Participation rates are much lower in rural regions while unemployment rates and EI use are much higher than nationally. It is this weaker performance in rural Atlantic labour markets that is behind the weaker performance in provincial and regional labour market indicators relative to Canada.

Projections for the Atlantic provinces from three different demographic and economic models generally point to limited labour force growth over the next decade followed by a decline in the following decade. An aging population will reduce the overall participation rate because older workers have much lower participation rates than those aged 25-55 years. With limited growth in the working age population, this will lead to a decline in the size of the labour force. According to the Conference Board projections reviewed for this report, only Prince Edward Island escapes the decline because its population is assumed to grow at a faster rate, but its labour force barely grows after 2016. The labour

force is projected to peak sometime between 2013 and 2017 in the other three provinces. According to the Conference Board, the declines in the labour force between 2011 and 2031 range from 13% in Newfoundland and Labrador to 6% in Nova Scotia and 3% in New Brunswick, compared with a gain of 2.5% in Prince Edward Island and 16% nationally. The cumulative decline in the region's labour force by 2031 is 73,600 people.

As a consequence of slower population and labour force growth, overall economic growth will be slower in the next two decades than the past two decades. Measures to mitigate the decline in the labour force, such as raising the retirement rate, increasing participation rates and boosting immigration will have some impact, but will generally only soften or delay the inevitable decline due to population aging. Increasing the fertility rate would not have any impact on the size of the labour force for about twenty years and reversing the decline in fertility rates observed since the 1960s would be hard to achieve. The investment and productivity response of firms to this labour force decline is the critical unknown factor that will determine the actual extent of the slowdown in economic and per capita income growth.

The demand for skilled labour has increased relative to that of unskilled labour over the past two decades and this trend is expected to continue. In addition, competitive pressures have contributed to a decline in Atlantic employment in primary industries and manufacturing, largely in rural regions while employment continues to shift to the service sector, further boosting job growth in urban centres. This technological change and industrial restructuring raises the question of whether the Atlantic region is producing individuals with the skills needed for current and future positions. Increased use of immigration and temporary foreign workers despite continuing high unemployment in rural regions points to a possible mismatch in the region's labour market. There is also some evidence of a mismatch in certain occupations between the number of graduates from post-secondary institutions and expected job openings.

In the context of labour force decline, securing full utilization of the Atlantic workforce is increasingly important. Reducing rural unemployment is an obvious source of labour but these potential workers are generally older and have limited formal education. Policy measures to reduce rural unemployment would benefit from more detailed analysis of the labour force dynamics of these individuals, including the role played by seasonal employment and the EI program. There also appears to be a youth unemployment problem in urban centres of Atlantic Canada as individuals aged 15-24 years have much higher unemployment rates than nationally.

Increasing the participation of under-represented groups could expand the size of the Atlantic labour force, although it is unlikely to prevent the overall aging of the workforce. Targeting broad demographic groups (such as women, older workers and the disabled)

may offer greater potential than focusing on smaller demographic groups (such as Aboriginals, immigrants and Francophones). However, reducing labour market barriers for these individuals is still important to improve social inclusion.

Workforce utilization is also affected by low literacy and poor health. With 40-60% of Atlantic adults having inadequate literacy skills, overall productivity is impeded and the scope for re-training for higher skill occupations is severely limited. Health and safety will become increasingly important as the workforce ages; Atlantic workers are generally less healthy and lose more work days to injury and illness.

In light of the increasing demand for skills, continued industrial restructuring and weakening demographics, it is important to understand how well individuals, firms and educational and training institutions are adjusting to changing labour market realities. Atlantic Canadians have responded to the increasing demand for skills over the last two decades by increasing their educational attainment and participation in job-related training. They have also demonstrated significant labour mobility, both within and between provinces. However, little is known about how employers are responding to tighter labour markets other than the fact that wages have been rising. Employers play a key role in funding the majority of job-related training. Employers will need to be more responsive to the needs of employees, especially as they reach out to under-represented groups, but smaller firms may find it more difficult to adjust. High school dropout rates have fallen dramatically over the last two decades in Atlantic Canada, but Atlantic high school students still perform below the Canadian average on standardized tests. Colleges and universities have facilitated increased enrolment in post-secondary education, but need to ensure their program offerings remain relevant to labour market demand.

Labour market information (LMI) is critical to enable individuals, employers, education and training institutions, and governments to make informed choices and to facilitate labour market adjustment. While there have been improvements to LMI, gaps still remain including a lack of data on labour mobility; real wages across jurisdictions; and the demand and supply of workers for major investment projects. Further improvements in LMI need to be carefully considered to ensure they maximise value for money.

The federal government has a wide-ranging influence over labour markets as it operates the EI program, Canadian retirement income programs, the Canada student grants and loans program, the Temporary Foreign Worker Program and Canadian immigration programs. Important changes are being made in several of these programs including: changes to the EI program to reduce disincentives to accepting work and by strengthening and clarifying eligibility requirements; extending the age of eligibility for Old Age Security from 65 to 67 years; coordinating the EI program with the Temporary Foreign Worker Program; and various changes to create a faster and more flexible immigration system that is focused on meeting Canada's labour market needs, including

stronger language assessment. While some of these changes are warranted, additional changes to EI and immigration programs need to be considered.

Provincial governments have taken on increased responsibility for labour markets through the devolution of labour market programming and the development of Provincial Nominee Programs. Labour market strategies are becoming an increasingly important priority for Atlantic governments, with a focus on increasing the size and skills of their labour force and helping match individuals to job opportunities. An increased emphasis on working with employers is also apparent.

Labour markets in Atlantic Canada are undergoing a profound shift from high unemployment to increased concern about a skills mismatch and a shortage of workers. Policymakers need to ensure that their strategies and programs are responsive to changing labour market requirements; consistent and well integrated; and appropriately focused. Governments can also help to facilitate dialogue and collaboration among stakeholders to ensure that Atlantic labour markets work efficiently and are appropriately adjusting to changing realities.



# Chapter 1

## Introduction

A skilled labour force is critical to Atlantic Canada's prosperity. While the number of workers employed has a direct bearing on output and incomes in the region, the quality or skills of the labour force is increasingly important. Specialized skills and expertise are required to produce sophisticated goods and services, to develop more innovative products and services, to improve productivity and to expand into new markets.

*A skilled labour force is critical to Atlantic Canada's prosperity*

Concerns about the adequacy of future labour force growth in Atlantic Canada have intensified in recent years, largely based on demographic projections showing declines in the working age population. All four provincial governments have developed population growth and/or immigration strategies to boost their population and labour force.

*Key concerns relate to the future labour supply ...*

There are also recurrent reports of skill shortages although the number of such reports declined during the recent global recession. Several Atlantic firms are recruiting workers from overseas because they cannot find a sufficient number of appropriately skilled Canadians who are willing to fill the available positions. This anecdotal evidence points to a potential mismatch between the skills required, work location and compensation packages offered and the skills, current location and compensation sought by unemployed or underemployed workers. This mismatch has likely been accentuated by a prolonged shift to a more knowledge-based and technological intensive economy, compounded by the industrial restructuring that is occurring across the region.

*... and a potential mismatch between the supply of and demand for skills*

In light of these trends and issues, this report is designed to provide a high level overview of Atlantic Canada's labour market and assess the key labour market issues facing the region over the next decade. The report focuses on five key issues: weakening demographic trends; the changing demand for skills; improving workforce utilization; labour market responsiveness to demographic and economic change; and the adequacy of labour market information and policy.

The report is intended to help business leaders, policymakers, education and training institutions, and other stakeholders gain a better understanding of the region's labour market and contribute to the development of a common perspective on the key issues so stakeholders can better coordinate their responses to the issues identified.

## Overview

Chapter 2 provides an overview of recent trends in Atlantic Canada's labour market, noting in particular the divergence between urban and rural labour markets.

The next five chapters focus on the five key labour market issues identified by APEC.

Chapter 3 examines the implications of demographic projections for the future supply of labour and what a decline in the labour force will mean for Atlantic Canada's economy. The chapter includes a brief analysis of some possible responses to mitigate the projected decline in the labour force.

Chapter 4 focuses on the changing demand for skills, the impact of industrial restructuring, and whether these shifts are creating a skills mismatch.

Chapter 5 examines to what extent Atlantic Canada's existing and potential labour force is being fully utilized, including a discussion on unemployment and under-represented groups.

Chapter 6 discusses the responsiveness of Atlantic Canada's labour market to economic and demographic change from the perspective of individuals, unions, employers and education and training institutions.

Chapter 7 highlights recent developments in federal and provincial labour market policies and then provides in-depth discussion of three policy areas: the importance of labour market information; reform of employment insurance; and changes to immigration policy.

Chapter 8 provides a brief summary of the main findings and identifies areas for further research.

## Chapter 2

### Recent Trends and Performance

#### Chapter Summary

- **Atlantic Canada's labour market has shown improvement over the last few decades in terms of falling unemployment rates and rising participation rates. On both measures the Atlantic region has closed the gap with the national rate.**
- **Both employment and the supply of labour have grown in Atlantic Canada over the last three decades. However, the pace of growth has slowed and the gap between Atlantic Canada and the faster Canadian pace has widened.**
- **The majority of the job and labour supply growth has been in urban regions of Atlantic Canada. The rate of job creation and labour force growth in some of the region's larger urban centres has been comparable to national rates.**
- **The higher unemployment rate and lower participation rate in Atlantic Canada, relative to Canada, is solely due to weaker performance in rural Atlantic regions.**

This chapter provides a brief summary of Atlantic Canada's labour market over the last few decades in terms of several key indicators. Because there is a large variation in performance between urban centres and rural regions, special attention is paid to performance at the sub-provincial level. The chapter concludes with a brief summary of the region's labour market strengths and weaknesses.

#### 2.1 Recent Trends

Employment in Atlantic Canada has grown at a fairly steady pace over the last few decades, punctuated by declines during the recessions of the early 1980s, the early 1990s, and 2008-2009. However, the overall pace of job growth has been trending downwards. For example, the average annual rate of job growth in Atlantic Canada fell from 1.8% during the 1980s to 1.0% during the 2000s.

*Employment in Atlantic Canada has grown during the last three decades ...*

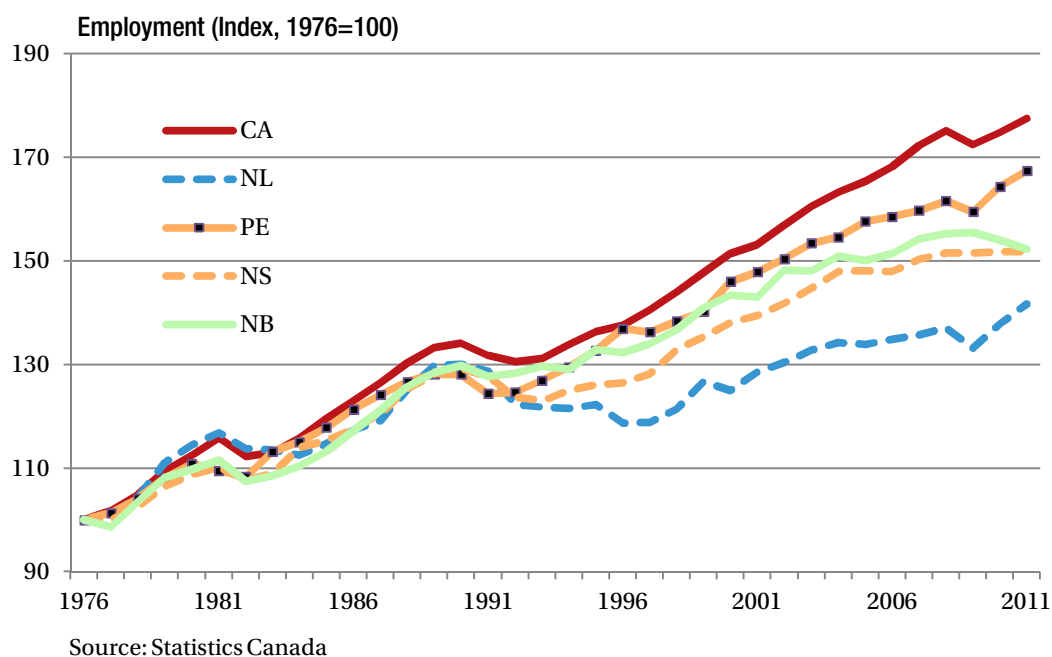
Employment growth in Atlantic Canada has generally been slower than in Canada but the gap in performance seems to be widening. For example, during the 1980s, average annual employment growth in Atlantic Canada was 0.2 percentage points slower than

*... but at a slower pace than in Canada*

Canada, but during the 2000s, Atlantic Canada's employment growth was 0.6 percentage points slower.

Newfoundland and Labrador had the weakest job growth in the Atlantic region over the last three decades. It took more than a decade for employment levels in the province to recover from the recession of the 1990s and the restructuring following the collapse of the cod fishery. However, the province has had the fastest job growth in the Atlantic region during the last two years, boosted by new investment in its mining and energy industries – a trend that is likely to continue for a few more years at least.

**Figure 2.1 Employment Growth in Atlantic Canada has Lagged the National Pace**



Prince Edward Island has had the strongest average employment growth in the region over the last three decades. Expansion of its food processing industry and the development of its aerospace sector during the 1990s were supplemented by growth in federal employment. During the 2000s, manufacturing job losses weighed more heavily on employment growth in the three other Atlantic provinces due to the downsizing of their forest products industries.

**Table 2.1 Slower Job Growth in Atlantic Canada than Nationally**

	Average annual employment growth (%)			
	1980s	1990s	2000s	2010-11
CA	2.0	1.0	1.6	1.5
ATL	1.8	0.5	1.0	0.5
NL	1.6	-0.2	0.5	3.1
PE	1.7	0.9	1.3	2.4
NS	1.9	0.6	1.1	0.1
NB	1.8	0.9	1.0	-1.0

Source: Statistics Canada

Employment growth in Nova Scotia and New Brunswick have followed a fairly similar path, although Nova Scotia experienced much larger job losses during the recession of the early 1990s while employment has fallen in New Brunswick during the last two years.

Unemployment rates in Atlantic Canada have been trending downwards since the early 1990s, aided by steady job growth. Unemployment rates did rise in 2009 during the global recession but declined in 2010 and 2011 (except in New Brunswick due to falling employment). Although unemployment rates in the Atlantic provinces remain higher than Canada, the gap has been shrinking since 2000. For example, the unemployment rate in Atlantic Canada averaged 4 percentage points higher than Canada during the 1980s and 1990s but declined to only 2.5 percentage points higher during 2010-2011.

*Unemployment rates in Atlantic Canada have declined, closing the gap with Canada*

**Table 2.2 Unemployment Rates Have Fallen Since the 1990s**

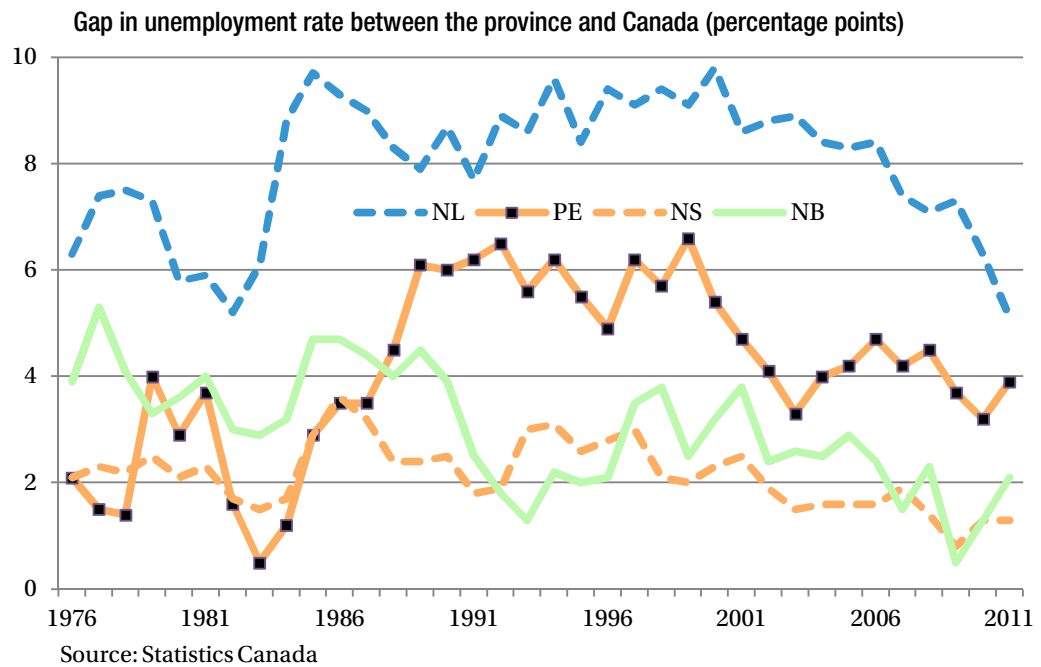
	Average unemployment rate (%)			
	1980s	1990s	2000s	2010-11
CA	9.4	9.6	7.0	7.8
ATL	13.5	13.7	10.5	10.2
NL	17.0	18.5	15.3	13.5
PE	12.4	15.5	11.3	11.3
NS	11.8	12.0	8.7	9.1
NB	13.3	12.1	9.4	9.5

Source: Statistics Canada

The number of people claiming regular employment insurance (EI) benefits has fallen by 43% in Atlantic Canada between 1991 and 2011, slightly less than the 50% drop nationally. The decline reflects both a drop in the unemployment rate and various reforms to the EI program that have reduced coverage.

*The number of Atlantic Canadians claiming EI has also fallen substantially*

**Figure 2.2 The Gap in Unemployment Rates Between the Atlantic Provinces and Canada has Narrowed**

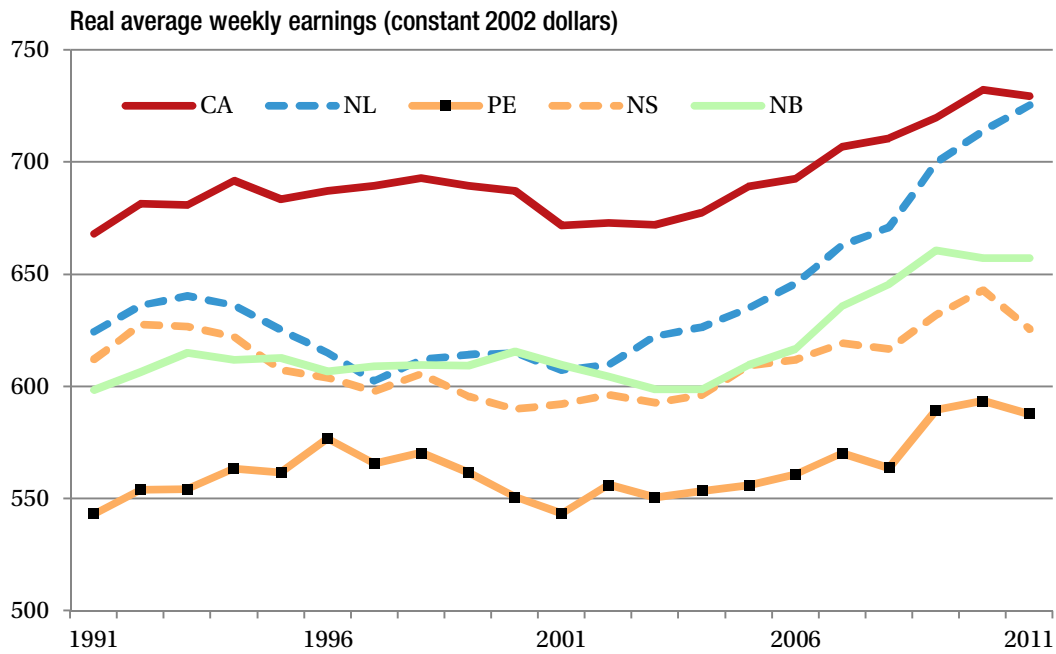


*Wages have risen in real terms since 2000*

With unemployment rates on the decline since 2000, workers have also experienced real wage gains. Real wages stagnated during the 1990s but have increased steadily since 2000, helped by tightening labour markets, increases in the minimum wage and strong public sector wage gains.<sup>1</sup> Wage growth has been particularly rapid in Newfoundland and Labrador. Rising employment and real wages have boosted real labour income following a period of stagnation throughout most of the 1990s.

<sup>1</sup> APEC (2011). *Is the Acceleration in Atlantic Earnings Growth Over? Report Card*, January.

**Figure 2.3 Real Wages Have Increased Since 2000**



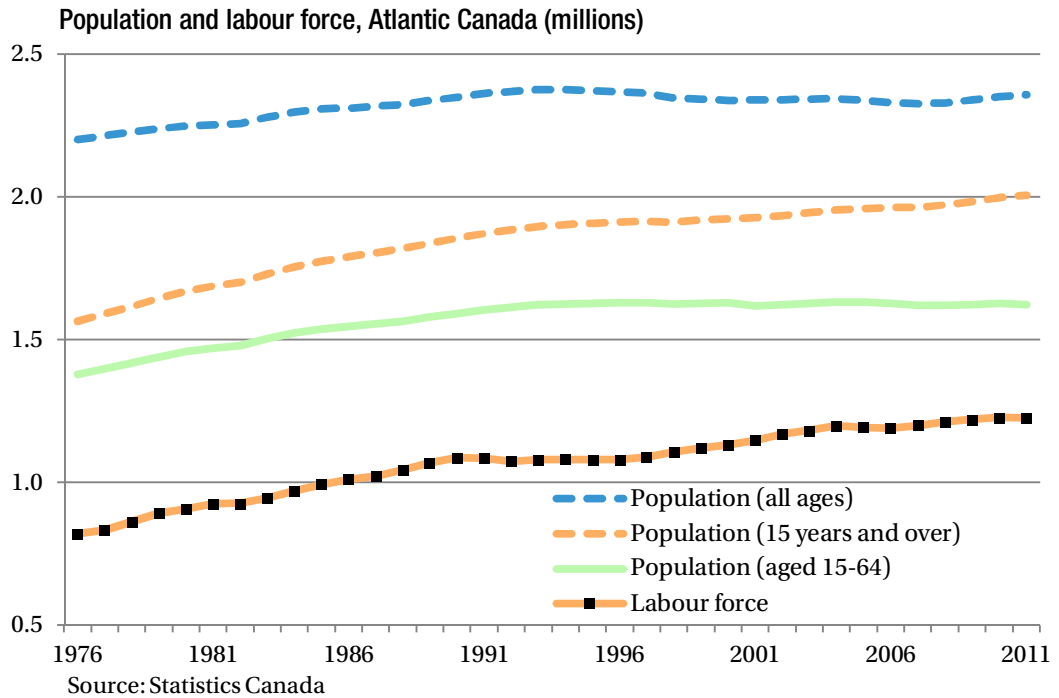
Source: Statistics Canada

On the labour supply side, population growth has stalled in Atlantic Canada as a whole, with declines in Newfoundland and Labrador during the 1990s and 2000s and only modest gains in the Maritime provinces. Weak population growth reflects low fertility rates and outmigration of young people which has contributed to a declining birth rate and an overall aging of the population. The number of people aged 15-64 has similarly plateaued.

A rise in the participation rate has allowed the total size of the labour force to keep growing but the overall growth rate of the labour force has slowed. For example, the labour force in Atlantic Canada expanded during the 2000s at an average annual rate of 0.9%, but this was only half the growth rate experienced during the 1980s. The gap between the growth rate of the labour force in Atlantic Canada and the faster pace in Canada has also widened, from 0.2 percentage points during the 1980s to 0.7 percentage points during the 2000s.

*Higher participation has boosted the labour force despite stagnant population growth*

**Figure 2.4 Population and Labor Force Growth Slows in Atlantic Canada**



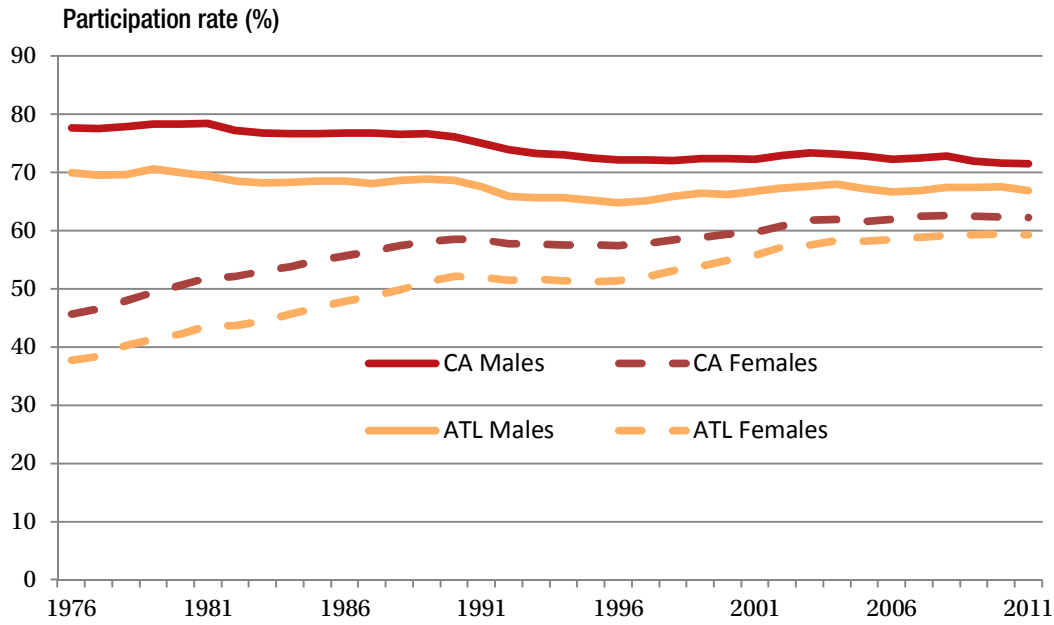
*The rise in Atlantic participation rates is solely due to the increased participation of females*

Almost all of the growth in participation rates in the Atlantic region has been due to growth in the participation of women. Female participation rates have trended steadily upwards over the past four decades, with a brief pause during the first half of the 1990s. However, there has been little change in the aggregate participation rate over the last four years.

While overall participation rates in Atlantic Canada remain slightly lower than nationally, the gap has narrowed over time. For example, the participation rate in Atlantic Canada in 2011 was almost 63%, less than four percentage points lower than Canada, compared with a gap of over eight percentage points in 1978. Prince Edward Island's participation rate has exceeded the national rate since the mid-1990s.



**Figure 2.5 Rising Female Labour Force Participation Has Driven Growth in the Overall Participation Rate in Atlantic Canada**



Source: Statistics Canada

## 2.2 The Urban-Rural Divide

While Atlantic Canada has experienced an overall slowdown in the growth rate of its labour supply, the majority (82%) of the labour force growth over the last two decades has occurred in urban economic regions. Indeed, since 2004, the labour force in almost all of the rural economic regions in Atlantic Canada has declined, while the labour force has continued to grow in urban regions. The growth rate of the labour force in Halifax and Moncton exceeded the national pace between 1987 and 2011, while St. John’s and Halifax have outpaced labour supply growth in Canada since 2004.

*Most of the growth in labour supply in the last two decades has been in urban regions of Atlantic Canada*

**Table 2.3 Labour Force Growth Concentrated in Urban Regions**  
**Change in labour force by economic region**

	Change (000s)		Change (%)	
	1987-2011	2004-2011	1987-2011	2004-2011
<b>Canada</b>	<b>5,173</b>	<b>1,545</b>	<b>38</b>	<b>9</b>
<b>Atlantic Canada</b>	<b>201.4</b>	<b>26.8</b>	<b>20</b>	<b>2</b>
Urban regions (ex PEI)	166.1	52.2	34	9
Rural regions (ex PEI)	15.1	-31.8	3	-6
<b>Newfoundland and Labrador</b>	<b>26.4</b>	<b>4.7</b>	<b>11</b>	<b>2</b>
St. John's (Avalon Peninsula)	34.4	15.5	31	12
West Coast-Northern Peninsula-Labrador	-5.5	-3.1	-10	-6
Notre Dame-Central Bonavista Bay	1	-5.1	2	-10
South Coast-Burin Peninsula	-3.4	-2.7	-17	-14
<b>Prince Edward Island</b>	<b>20.3</b>	<b>6.3</b>	<b>33</b>	<b>8</b>
<b>Nova Scotia</b>	<b>88.5</b>	<b>12.9</b>	<b>22</b>	<b>3</b>
Halifax	69.3	23.2	41	11
North Shore	9.4	-2.4	14	-3
Cape Breton	-5.4	1.1	-8	2
Annapolis Valley	9	-3.9	18	-6
Southern	6.2	-5.1	12	-8
<b>New Brunswick</b>	<b>66.2</b>	<b>2.9</b>	<b>20</b>	<b>1</b>
Moncton	31.6	5.8	39	5
Saint John	14.1	4.9	18	6
Fredericton	16.7	2.8	30	4
Campbellton-Miramichi	0.9	-7	1	-9
Edmundston-Woodstock	2.9	-3.6	8	-8

Source: Statistics Canada

*80% of the job growth in Atlantic Canada since 1987 has occurred in urban regions*

Similarly, 80% of the job growth in Atlantic Canada since 1987 has been concentrated in urban regions, with Halifax, Moncton and St. John's all exceeding the national rate of job creation over this period. Employment has declined in almost all rural regions of Atlantic Canada since 2004, while job creation in the urban regions has continued to grow, matching the national pace.

**Table 2.4 Employment Growth Concentrated in Urban Regions****Change in employment by economic region**

	Change		Average annual growth (%)	
	1987-2011	2004-2011	1988-2011	2004-2011
<b>Canada</b>	<b>4,973</b>	<b>1,384</b>	<b>1.4</b>	<b>1.3</b>
<b>Atlantic Canada</b>	<b>219</b>	<b>32</b>	<b>0.9</b>	<b>0.6</b>
Urban regions (ex PEI)	176	52	1.4	1.4
Rural regions (ex PEI)	25	-25	0.3	-0.5
<b>Newfoundland and Labrador</b>	<b>35</b>	<b>12</b>	<b>0.7</b>	<b>0.8</b>
St. John's (Avalon Peninsula)	38	17	1.5	1.9
West Coast-Northern Peninsula-Labrador	-1	-1	0.0	-0.8
Notre Dame-Central Bonavista Bay	2	-3	0.3	-0.2
South Coast-Burin Peninsula	-4	-2	-0.8	-0.5
<b>Prince Edward Island</b>	<b>19</b>	<b>6</b>	<b>1.3</b>	<b>1.1</b>
<b>Nova Scotia</b>	<b>94</b>	<b>12</b>	<b>1.0</b>	<b>0.6</b>
Halifax	70	22	1.6	1.7
North Shore	11	-2	0.8	-0.3
Cape Breton	-3	1	-0.1	0.3
Annapolis Valley	9	-4	0.8	-0.3
Southern	6	-5	0.6	-1.0
<b>New Brunswick</b>	<b>72</b>	<b>3</b>	<b>1.0</b>	<b>0.4</b>
Moncton	33	5	1.6	0.8
Saint John	17	5	1.0	1.0
Fredericton	17	3	1.3	0.7
Campbellton-Miramichi	3	-4	0.5	-1.3
Edmundston-Woodstock	1	-6	0.1	-0.4

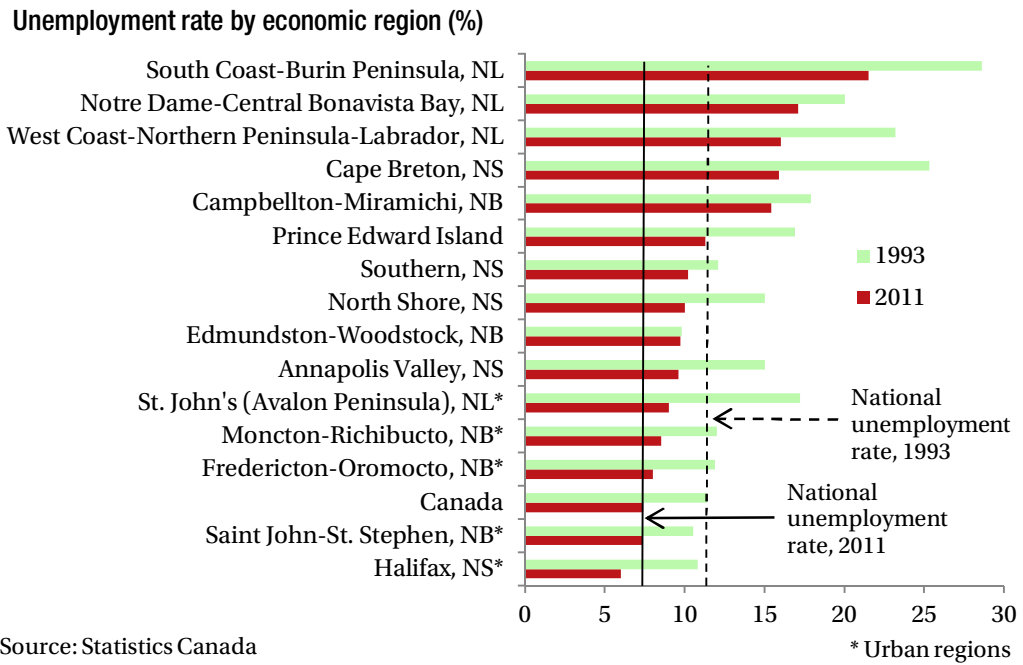
Source: Statistics Canada

This urban-rural divide is also apparent in unemployment rates and has become more marked over time, despite the downward trend in unemployment rates across the region since the early 1990s. Unemployment rates in the region's larger urban centres remain close to the national unemployment rate<sup>2</sup>, while the unemployment rate in the Avalon Peninsula (St. John's) has fallen from 17% in 1993 when it was six percentage points higher than Canada, to 9% in 2011, only 1.6 percentage points higher than Canada. Unemployment rates are particularly high in peripheral rural regions of Atlantic Canada.

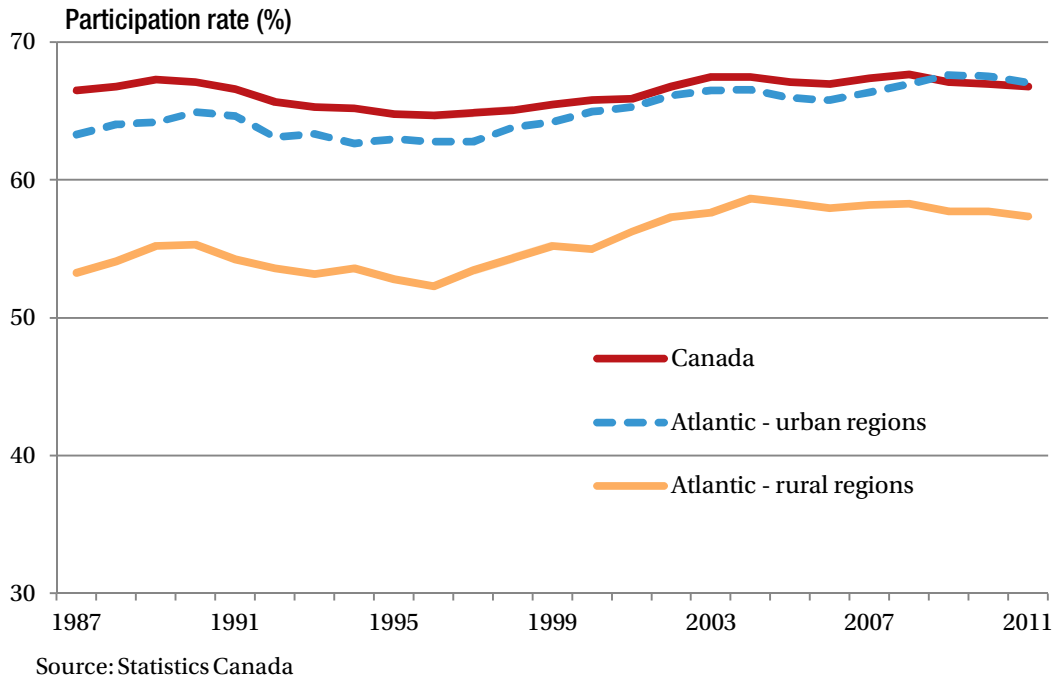
*Unemployment rates in urban regions of Atlantic Canada remain close to the national rate but unemployment rates in rural regions are much higher than nationally*

<sup>2</sup> Generally, within a range of one percentage point of the national rate.

**Figure 2.6 Unemployment Rates Close to the National Rate in All Atlantic Urban Regions**



**Figure 2.7 Participation Rates in Atlantic Urban Regions Now Match the National Rate**



The gap in participation rates between Atlantic Canada and Canada is also completely due to lower participation rates in rural regions (Figure 2.7). The participation rate in urban regions of Atlantic Canada has increased and now matches the national rate, whereas the participation rate in rural regions is more than nine percentage points lower than Canada.

## 2.3 Strengths and Weaknesses

Atlantic Canada's labour market has shown some marked improvement over the last couple of decades. However, areas of weakness remain. Table 2.5 provides a high-level qualitative assessment of the region's labour market strengths and weaknesses, based on the data reviewed for this report. As the region looks forward to the next few decades, some of these outstanding issues will need to be addressed if Atlantic Canada is to continue to adjust to the demographic trends and economic changes it is facing.

**Table 2.5 Strengths and Weaknesses in Atlantic Canada's Labour Market**

<b>Strengths</b>	<b>Weaknesses</b>
Growing urban employment	Employment decline in rural regions
Rising participation rates, especially for women and older workers	Labour force decline in rural regions
Labour force growth in urban regions	Relatively high unemployment rates in rural regions
Urban unemployment rates comparable to Canada	High rates of youth unemployment in urban centres
Urban participation rates comparable to Canada	Relatively low participation rates in rural regions
Relatively strong labour market outcomes for immigrants	High rates of seasonal employment and EI use in rural areas
High and growing levels of educational attainment	Relatively high proportion of adults with inadequate literacy
Rising participation in job-related training	Relatively poor health of the labour force with higher rates of time lost due to sickness and injury
Highly mobile workforce	Projected decline in the labour force
	Net outmigration of young workers

Source: APEC



## Chapter 3

### Key Issue #1: Weakening Demographic Trends

#### Chapter Summary

- **Demographic trends play an important role in economies affecting the size and composition of aggregate demand and the supply of labour. Projections of the future size of the labour force are best considered as part of a long-term demographic and economic model, while recognizing the sensitivity of a model's outcomes to different assumptions.**
- **Labour force projections for the Atlantic provinces point to largely flat labour force growth over the next decade, followed by modest declines thereafter, due to weak population growth and an aging population which causes a large drop in the participation rate.**
- **Growth in GDP and GDP per capita is expected to slow due to the lower participation rate, with the future path of productivity growth the key variable that will determine the magnitude of this slowdown.**
- **A number of potential policy measures to mitigate the size of the decline in the labour force would only have a marginal impact, generally delaying but not preventing the decline in the participation rate due to population aging.**

Demographic trends can play an important role in economies. Rapid population growth boosts the aggregate demand for goods and services and the potential supply of labour while the age structure of the population affects the composition of aggregate demand and the proportion of the population that are of working age. This chapter examines the role that demographic trends will play in Atlantic Canada over the next two decades, focusing on the size of the labour force.

*Demographic trends can play an important role influencing both the demand for goods and services and the supply of labour*

#### 3.1 Model-Based Demographic Projections

Long-term population projections require assumptions concerning fertility (and hence births), life expectancy (and hence deaths) and migration patterns (including international, interprovincial and intra-provincial migration, depending upon the geographic scope of the projection). As fertility rates and life expectancy change only slowly, reasonably accurate projections of population size and age composition can be

made. However, interprovincial flows in Canada can be volatile and respond to economic conditions across the country. A demographic projection model is limited to making assumptions about future migration trends, often based on fixed historical patterns. Population projections can be combined with assumptions on participation rates by age group to project the future size of the labour force.

*Economic and demographic models allow forecasters to examine the implications of specific assumptions on model outcomes*

The advantage of using an economic model in conjunction with a demographic model is that migration patterns can be made to respond to economic conditions over time. Estimates of potential output can be created and the demand for labour can be explicitly modelled allowing employment, wage rates, unemployment rates and migration patterns to be determined (endogenously) within the model. Relationships between variables are explicitly modelled and different (external or exogenous) assumptions that are used as inputs to the model can be used to generate alternative scenarios. However, some variables and relationships are difficult to model; the relationships between variables can change over time; and the large number of external assumptions that are used are not always valid. The results of any particular projection model must therefore be used with caution, although sensitivity analysis can be used to identify how robust the projections are to particular assumptions.

*The fertility rate in Atlantic Canada is well below the rate needed to sustain the population*

The key demographic factors that are influencing recent and future population trends in Atlantic Canada are as follows. The fertility rate (i.e., the number of children born per woman of child-bearing age) required to maintain population at a constant size (known as the replacement rate) is estimated at 2.1 in Canada, allowing for life expectancy and mortality rates. However, fertility rates in Atlantic Canada in 2007 were between 1.45 and 1.63, compared with 1.66 nationally. Even though fertility rates have risen in the last ten years, Statistics Canada's long-term population projections assume fertility rates will remain well below the replacement rate.<sup>3</sup> As a result of this low fertility rate the natural rate of increase of the population (i.e., births minus deaths) has fallen by over 12,400 in Atlantic Canada since 1990 and will likely turn negative within 10 years.

*Over the last 40 years, the median age of Atlantic Canadians has increased by almost 20 years*

The population is also aging. Over the last 40 years, the median age of Atlantic Canadians has increased by almost 20 years. Since 1994 average life expectancy in Atlantic Canada has increased by 2.4 years to 79.7 years, and is expected to increase further over the next two decades. As a result, the share of the population aged 65 and over has almost doubled over the last decade. In addition to these longer-term trends in fertility and mortality, the large cohort of baby boomers, born between 1946 and 1966, is also having a sizeable impact on the age structure of the population. The baby boomers have already started turning 65 and the last of the baby boomers will turn 65 in 2031.

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<sup>3</sup> Demography Division (2010). *Population Projections for Canada, the Provinces and the Territories, 2009 to 2036*. Ottawa: Statistics Canada.



## Sensitivity of Long-Term Projections

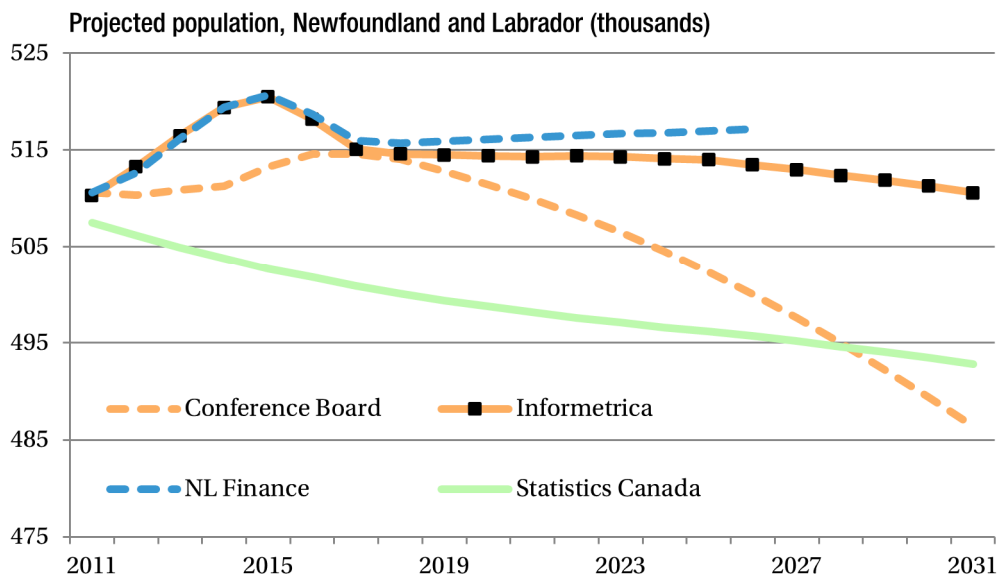
The outcome of long-term population and economic projections depends on the model structure that provides the inter-relationships between variables and the underlying assumptions that feed into these relationships. Volatile variables like inter-provincial migration are difficult to forecast. Differing model assumptions can result in significantly different forecasts as illustrated in Figure 3.1 which shows four population projections for Newfoundland and Labrador.

While all four projections have similar forecasts for international migration, they have differing projections on net interprovincial migration. The Conference Board has net out-migration post-2017 of roughly 700 per year, while the other three projections have net annual in-migration of 1,000 or more on average.

The Conference Board forecasts interprovincial migration based partly on relative unemployment rates, with the latter being influenced by major project investment. Since the Conference Board assumes no major projects in Newfoundland and Labrador post-2017, interprovincial migration turns negative and population declines steadily thereafter.

The Newfoundland and Labrador Department of Finance assumes net in-migration to meet replacement demand to fill retirements. Informetrica has similar assumptions for the first decade, with net in-migration for the second decade similar to Statistics Canada’s medium growth population projection. Statistics Canada’s model is a pure demographic model so it does not capture the anticipated increase in the labour force over the next five years to meet the increased demand for labour during a boom in major project investment in the province.

**Figure 3.1 Population Projections Can be Sensitive to Migration Assumptions**



Source: Conference Board of Canada, Informetrica, Newfoundland and Labrador Department of Finance, Statistics Canada

Differences in economic performance, the geo-political landscape, taxation, climate, and many other factors influence decisions to migrate from one jurisdiction to another. Net out-migration has been a long-term trend in most of Atlantic Canada, except in Prince Edward Island, although people tend to return home during recessions. Strong economic growth in Alberta combined with slower economic growth in the Maritime provinces has led to net interprovincial out-migration of almost 5,100 people per year from Atlantic Canada since 2000. Net-outmigration is strongest for people aged 18 to 24, but is also significant for persons under 18 and persons aged 25 to 44. On the other hand, there is net in-migration for people aged 45 and up. The loss of women in their child-bearing age reduces the birth rate, while the return of older persons increases the median age and the share of persons aged 65 and over. Many provinces have adopted immigration strategies to try and boost their population, with annual immigration to the Atlantic provinces more than doubling since 2001 to reach just over 6,500 people in 2011.

### 3.2 Labour Force Projections for Atlantic Canada

APEC reviewed labour force projections for the Atlantic provinces from the Conference Board, Informetrica and Statistics Canada.<sup>4</sup> For the purposes of this report, APEC chose to present the Conference Board's labour force projections. The Conference Board's projections were generally representative of a benchmark case with Statistics Canada's projections being more conservative and Informetrica's projections being more optimistic (see Table 3.1). Conference Board has the most optimistic population projection for Nova Scotia, but it is the only projection that clearly factors in the impact of the recently awarded shipbuilding contract that was part of the National Shipbuilding Procurement Strategy.<sup>5</sup>

**Table 3.1 Most Forecasts Point to Labour Force Decline in Atlantic Canada**

	Average annual labour force growth, 2012-2031 (%)				
	CA	NL	PE	NS	NB
Informetrica	0.6	-0.5	1.0	-0.3	0.2
Conference Board	0.8	-0.7	0.1	-0.3	-0.1
Statistics Canada	0.7	-1.6	-0.6	-0.7	-0.8

Source: Informetrica, Conference Board, Statistics Canada

<sup>4</sup> The provincial finance departments in Atlantic Canada generally only publish long-term population projections not detailed labour force projections.

<sup>5</sup> Conference Board of Canada, (2012). *Provincial Outlook 2012: Long-Term Economic Forecast*. Ottawa: Conference Board of Canada.

## Conference Board's Long-Term Economic Projections

The provincial economic projections rely on a bottom-up econometric model that contains over 1,400 equations for each province. The provincial model has an endogenous provincial population block in which net interprovincial migration plays a key role in determining overall population growth and labour supply. Interprovincial migration reacts to relative unemployment rates across provinces, especially due to assumptions respecting major projects. Net international migration is exogenous. While mortality rates are assumed to fall over time, fertility rates are held constant. The econometric model contains an input-output model to help measure the impact of changes in economic output by industry by province on migration, prices and incomes based on the level of labour and capital employed. Labour force participation rates and the natural rate of unemployment are key inputs in this model, as they have a bearing on potential output. Ageing is forecast to reduce participation rates. The natural rate of unemployment will fall over time in part because older workers are less likely to change jobs.

**Table 3.2 Summary of Projections for Key Economic Indicators**

Average annual growth unless specified otherwise (%)

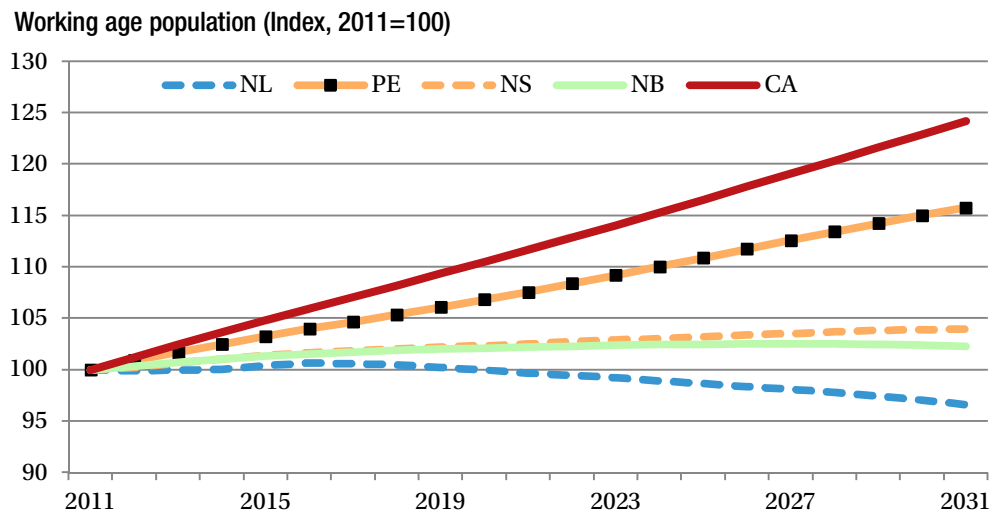
	CA		NL		PE		NS		NB	
	1991	2012	1991	2012	1991	2012	1991	2012	1991	2012
	to	to	to	to	to	to	to	to	to	to
	2010	2031	2010	2031	2010	2031	2010	2031	2010	2031
Real GDP	2.4	2.1	2.4	0.9	2.2	1.6	1.9	1.2	2.1	1.3
Average weekly wages	2.3	2.8	2.5	2.3	2.3	2.3	2.2	2.4	2.2	2.3
Non-residential investment	5.3	4.2	6.2	1.7	4.4	3.1	4.5	2.2	4.9	2.6
Population	1.1	1.1	-0.6	-0.2	0.5	0.7	0.2	0.2	0.1	0.0
Labour force	1.3	0.8	0.2	-0.7	1.1	0.1	0.7	-0.3	0.7	-0.1
Employment	1.3	0.9	0.3	-0.6	1.3	0.0	0.8	0.2	0.9	0.0
Unemployment rate (%)	8.3	5.6	16.7	10.2	13.2	9.5	10.3	6.5	10.6	7.0
Participation rate (%)	66.2	65.3	56.6	57.7	66.8	64.3	61.8	61.4	61.5	62.1
Real GDP/employee	1.1	1.2	2.1	1.5	1.0	1.3	1.0	1.4	1.2	1.3

Source: Statistics Canada, Conference Board

The Conference Board projects that population growth will slow in Atlantic Canada due to low fertility rates. The working age population (i.e., the non-institutionalised civilian population aged 15 years and over) grows at a similar pace to the total population, at 0.1% per year on average throughout the region over the next 20 years. Only Newfoundland and Labrador is expected to experience a decline in its working age population over the next 20 years while Prince Edward Island will experience stronger growth because of an assumed higher rate of immigration.

*Population growth in Atlantic Canada will slow due to low fertility rates*

**Figure 3.2 Working Age Population Shows Little Growth in Three Atlantic Provinces**



Source: Conference Board

*The overall participation rate will decline due to the aging of the population*

Participation rates in Atlantic Canada will fall by 6 to 8 percentage points over the next 20 years, except in New Brunswick where the decline is 3 percentage points, slightly less than the drop of 4 percentage points nationally.<sup>6</sup> For most Atlantic provinces, the decline in participation rates begins after 2015. As participation rates fall sharply after age 50, and are especially low for those aged 65 years and over, the overall participation rate declines as the proportion of the population aged 65 and over increases.<sup>7</sup>

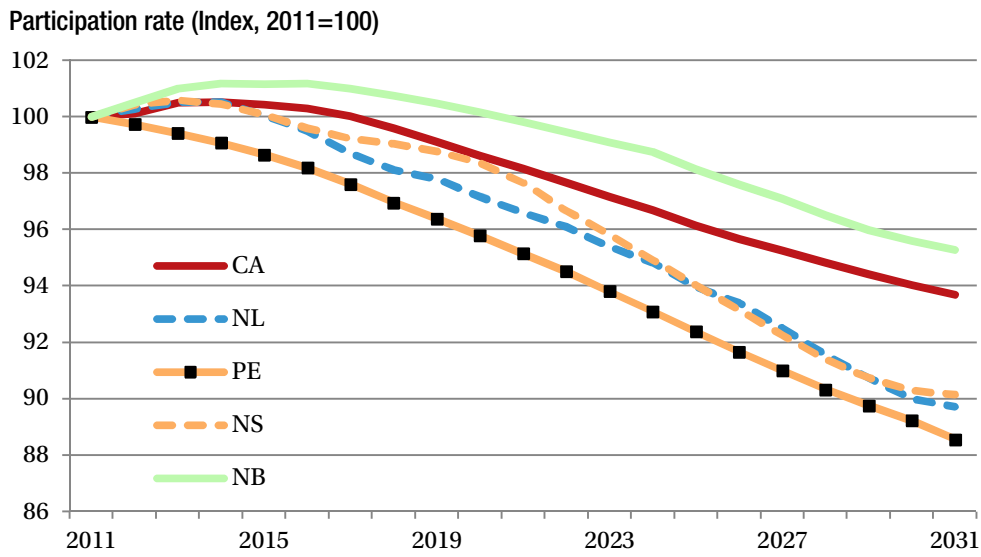
*The labour force in Atlantic Canada will be flat for most of the next decade but will decline in the following decade*

According to the Conference Board projections, labour force growth in the Atlantic provinces will be flat at best over the next decade followed by steady decline in the following decade. This is due to the combination of almost no growth in the working age population and a steady decline in the overall participation rate because of the aging of the population. Only Prince Edward Island escapes the downward trend due to the assumption of stronger population growth, but its labour force barely grows after 2016. The labour force is projected to peak in the other three provinces sometime between 2013 and 2017. The declines in the labour force between 2011 and 2031 range from 13% in Newfoundland and Labrador to 6% in Nova Scotia and 3% in New Brunswick, compared with a gain of 2.5% in Prince Edward Island and 16% nationally. The cumulative decline in the region's labour force is 73,600 people.

<sup>6</sup> This is largely because net out-migration of young people from New Brunswick is more strongly concentrated among young people who have a lower participation rate than the core working age group, leaving the overall participation rate somewhat higher. For Prince Edward Island, in-migration of people aged 65 and over, who have a much lower participation rate, will lead to a sharper drop in the Island's overall participation rate.

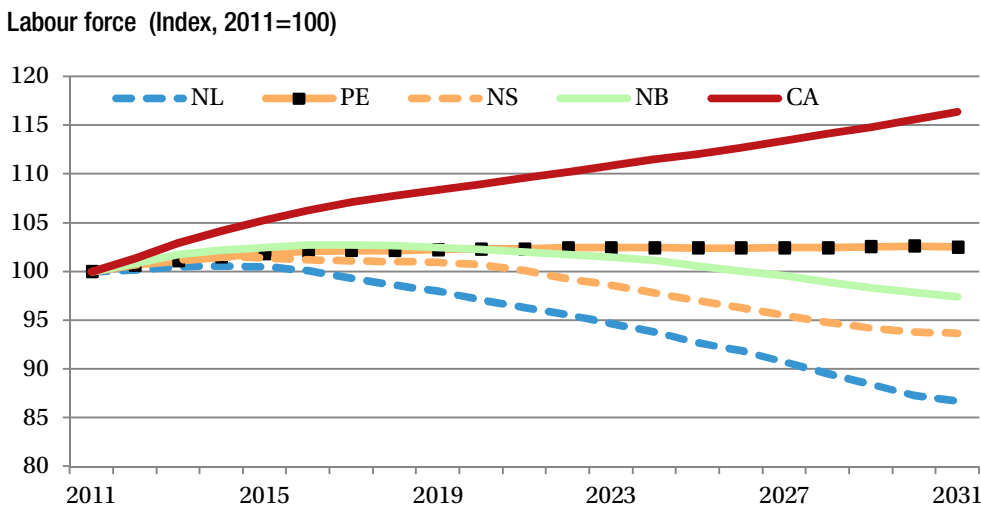
<sup>7</sup> Data on participation rates by age are shown in Chapter 5.

**Figure 3.3 Steady Decline in the Overall Participation Rate After 2015**



Source: Conference Board

**Figure 3.4 Weak Labour Force Growth in Atlantic Canada**



Source: Conference Board

The Conference Board model does not project labour force growth at the sub-provincial level. However, sustained migration of young people to the larger urban centres and the ongoing concentration of immigration in larger cities point to a continuation of the

urban-rural divide described in Chapter 2, resulting in relatively stronger labour force growth in urban centres.<sup>8</sup>

**Table 3.3 Weak Outlook for Labour Force Growth in Atlantic Canada**

	Historical and projected labour force				Average Annual Growth (%)			
	Level (thousands)							
	2001	2011	2021	2031	1992 -2001	2002 -2011	2012 -2021	2022 -2031
Canada	16,105	18,699	20,510	21,775	1.2	1.5	0.9	0.6
Atlantic	1,148	1,225	1,226	1,151	0.6	0.7	0.0	-0.6
NL	243	258	248	224	-0.2	0.6	-0.4	-1.0
PE	72	81	83	83	1.2	1.2	0.2	0.0
NS	460	497	498	466	0.6	0.8	0.0	-0.7
NB	372	389	396	379	1.0	0.5	0.2	-0.5

Source: Statistics Canada, Conference Board

### 3.3 The Implications of Labour Force Decline

*There is no explicit labour “shortage” in the Conference Board model ...*

Although the labour force is projected to decline over the next two decades in Atlantic Canada, in the Conference Board model there is no labour shortage per se where actual labour demand exceeds labour supply – labour demand and labour supply are brought into equilibrium within the model. However, labour markets clearly “tighten.” The unemployment rate falls by 2.8 percentage points over the forecast period in the Atlantic region. Increased capital investment and labour productivity growth moderate the growth in the demand for labour and dampens the increase in wages. Thus a potential “shortage” is reconciled within the model.

*... but economic growth slows due to weaker population growth and slower labour force growth*

But even though there will not be a shortage of workers in a technical sense, the model does forecast sizeable economic impacts due to demographic trends. Economic growth (measured by real GDP) slows due to weaker population growth and labour force growth (due to the aging population) which acts as a constraint on both domestic demand and labour supply. As indicated earlier, the magnitude of this slowdown partly depends on

<sup>8</sup> Economic and demographic projections by urban and rural regions commissioned by APEC a decade ago reached a similar conclusion. APEC (2003). *Urbanization and the Aging Population: What's Ahead for Atlantic Canada?* Halifax: APEC.

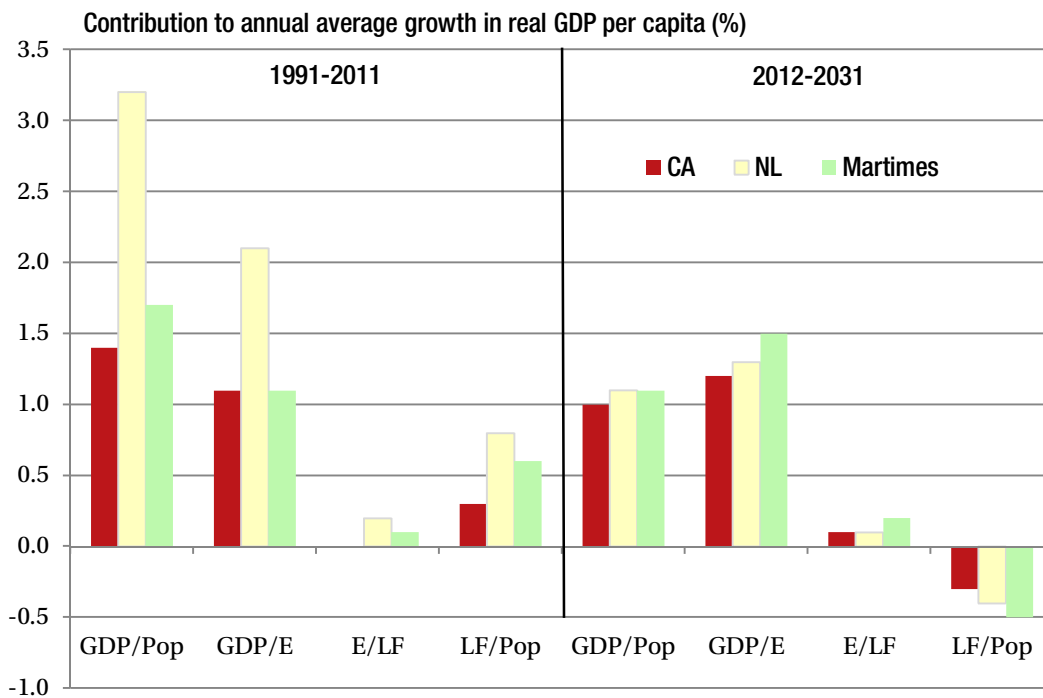
the specific assumptions and estimated relationships incorporated into the Conference Board model – different models and assumptions will produce different results.

The impact of these demographic trends on economic growth is made clearer by considering the following identity, which shows the relationship between real output (GDP), population (Pop), employment (E), and the labour force (LF):<sup>9</sup>

$$\text{GDP/Pop} = (\text{GDP/E}) \times (\text{E/LF}) \times (\text{LF/Pop})$$

Real GDP per capita (GDP/Pop) is a function of labour productivity, measured as real GDP per employee (GDP/E); the employment rate (E/LF), which is one minus the unemployment rate; and the adjusted participation rate (LF/Pop).<sup>10</sup> This identity can be used to examine the contributions of the last three factors to the growth of GDP per capita (Figure 3.5).

**Figure 3.5 Productivity Key to Per Capita Income Growth**



Source: Statistics Canada, Conference Board, APEC

<sup>9</sup> This section replicates part of the analysis in Ragan, Christopher (2012). *Canada's Looming Fiscal Squeeze: Updated*. MacDonald-Laurier Institute.

<sup>10</sup> This section uses the term adjusted participation rate as this measure expresses the labour force as a share of the total population rather than as a share of the working age population (the civilian, non-institutionalized population aged 15 years and over) as used in the rest of this report.

Labour productivity (GDP/E) has been the key driver of rising per capita incomes (GDP/Pop) over the last two decades, accounting for 63% of annual growth in real GDP in Atlantic Canada and 79% nationally. The employment rate (E/LF) makes a negligible contribution due to only a modest secular decline in the unemployment rate. However, rising labour force participation in Atlantic Canada boosted annual average growth in real GDP per capita by more than 0.5 percentage points over the last twenty years.

Looking ahead, and using the Conference Board projections, the rise in the adjusted participation rate is reversed due to the aging population, constraining the annual average growth in real GDP per capita by up to 0.5 percentage points. Although labour productivity growth is assumed to accelerate (except in Newfoundland and Labrador where offshore oil production is assumed to decline), it is not sufficient to prevent a slowdown in the annual growth rate of real GDP per capita from close to 1.5% during the period 1991 to 2011 to about 1% during the next 20 years. This simple analysis points to the importance of future trends in labour productivity as a key determinant of per capita income growth. The slowdown in real GDP growth and the aging population will also have important fiscal implications as slower GDP growth will lead to slower growth in tax revenues while the aging population will put upward pressure on government spending such as health care and seniors' benefits.<sup>11</sup>

### 3.4 Mitigating the Reduction in the Labour Force

The reduction in the labour force due to the aging population will have significant implications for economic growth. Across Atlantic Canada, the Conference Board projects the labour force will decline by almost 74,000 by 2031. Meanwhile, the Canadian labour force is projected to increase by more than 3 million, although this also reflects a slowdown in labour force growth. This section considers some possible responses to mitigate the decline in the labour force. The numbers presented here are designed to illustrate relative orders of magnitude only; to provide precise estimates the Conference Board model (or other projection model) would have to be modified to create different scenarios.

According to a recent analysis by Statistics Canada, Canadians are delaying their retirement.<sup>12</sup> For example, in 2008, a 50-year old Canadian could expect to work 16 more years before retirement, compared to an additional 14 years in 1977. Even with no change in retirement behaviour the average age of retirement is expected to increase by

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<sup>11</sup> Ragan, Christopher (2012).

<sup>12</sup> Carrière, Yves and Galarneau, Diane (2011). Delayed Retirement: A New Trend? *Perspectives on Labour Income*, Vol. 23, No. 4, 10.



1.5 years over the next twenty years due to the overall ageing of the population 50 years and over. Conference Board's long-term projections do assume participation rates increase, particularly for those aged 55 and over. However, their participation rates are more conservative than Statistics Canada's recent trends scenario, suggesting they are not fully capturing a shift towards later retirement. APEC estimates that an increase in the average retirement age by 1.5 years due to the changing age structure could boost Atlantic Canada's labour force by about 14,000 in 2031.<sup>13</sup>

*The average retirement age is likely to increase due to the overall aging of the population*

Governments could also take more explicit measures to encourage Canadians to delay their retirement by raising the age of eligibility for senior's retirement income. For example, Budget 2012 announced that the eligibility for Old Age Security (OAS) will be increased by two years from 65 to 67 years of age, beginning in 2023. APEC estimates that an immediate increase in the retirement age of two years would increase Atlantic Canada's labour force by about 26,000 in 2031. The change in the OAS will have a smaller impact on the size of the labour force because not everyone is eligible to receive OAS, and because the change in the age of eligibility is being phased in. APEC estimates it could increase Atlantic Canada's labour force by about 12,000 in 2031.<sup>14</sup>

Increasing participation rates by 1 percentage point across all age ranges (above the increases already built into the Conference Board model) would increase Atlantic Canada's labour force by an estimated 20,000 in 2031. This would moderate the 5 percentage point decline in the overall participation rate in Atlantic Canada but would not eliminate it. Policies aimed at increasing the labour force participation rate, such as enhancing the working income tax benefit or increasing access to subsidized child care could boost participation rates. Alternatively, governments may target the participation rate of older workers by increasing their incentives to remain in or re-enter the workforce. A recent study looked at two scenarios whereby labour force participation rates for persons age 55 plus would be increased by 5 percentage points and 10 percentage points respectively.<sup>15</sup> Raising participation rates across all age groups by 1 percentage point is equivalent to the latter scenario.

An alternative and often popular response to the decline in the labour force is to increase immigration. Permanently increasing the number of annual immigrants to Atlantic Canada by 25% above 2011 levels for 20 years would require a huge shift in immigration policy. APEC estimates such a policy change would boost the labour force by about

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<sup>13</sup> This estimate is based on the projection of the population aged 60 to 64 and their current participation rate and an increase in the average retirement age from 62.3 years to 63.8 years.

<sup>14</sup> This estimate is based on projections of OAS eligibility from the Office of the Chief Actuary and current differences in labour force participation rates for persons aged 60 to 64 versus 65 to 69. Office of the Chief Actuary (2011). *10<sup>th</sup> Actuarial Report on the Old Age Security Program*. Office of the Superintendent of Financial Institutions Canada.

<sup>15</sup> Ragan, Christopher (2012).

12,000 by 2031.<sup>16</sup> Even so, students leaving the educational system will account for a much larger proportion of new labour force entrants than new immigrants.<sup>17</sup>

Atlantic governments have also tried to encourage individuals to return home to Atlantic Canada, to boost net interprovincial in-migration. Such initiatives would only be successful to the extent that they encouraged younger workers to remain in or return to the region, rather than those in or nearing retirement.<sup>18</sup> Attracting back workers for major investment construction projects that only last a few years may have limited success when provinces such as Alberta have investment projects spanning a decade or longer. Lower average wages, smaller urban labour markets and slower overall growth prospects in the Atlantic region may also deter individuals from moving back.<sup>19</sup>

Table 3.4 below summarizes the potential ballpark estimates of the impact of these various policy measures on the size of the labour force in 2031.<sup>20</sup> Increasing the retirement age by two years generally has the largest impact in Atlantic Canada, but the estimated impact of this change still falls well short of the projected decline in the labour force by 2031. This suggests that a suite of policy measures would be required to offset the reduction in the labour force. But the first three estimates all imply an increase in participation rates such that they cannot necessarily be viewed as independent policies with a cumulative impact as estimated.

*Many policy measures will only dampen or delay the decline in the participation rate and the reduction in the size of the labour force*

More importantly, these measures only soften or delay the impact of population aging on the overall participation rate. Increasing the retirement age by two years will increase the size of the labour force at any particular point in time. But eventually, a larger proportion of workers will move into this older age group, and the overall participation rate will decline. The same comment applies to increasing the participation rates for all age groups – it does not prevent the increasing proportion of the population in older age groups who have lower participation rates. For example, a recent examination of labour force projections by Statistics Canada included three projections for participation rates (including one with constant participation rates and one with increasing age-specific

<sup>16</sup> This estimate is based on the proportion of immigrants aged 15 years and older (about 94% nationally based on the 2006 Census), the participation rates for landed immigrants (about 62% nationally in 2011), and the retention rates of immigrants (about 55-60% in Atlantic Canada). Between 2000 and 2006, retention rates in Atlantic Canada averaged 61% for all landed immigrants, but a recent study of the Provincial Nominee Program had an average retention rate of 56% in Atlantic Canada between 2000 and 2008. Okonny-Myers, Ima (2010). *The Interprovincial Mobility of Immigrants in Canada*. Citizenship and Immigration Canada. p. 7. And Evaluation Division (2011). *Evaluation of the Provincial Nominee Program*. Citizenship and Immigration Canada. p. 54.

<sup>17</sup> Nationally over 80% of new labour force entrants during the next decade are forecast to be school leavers. HRSDC (2008a). *Looking Ahead: A 10-Year Outlook for the Canadian Labour Market (2008-2017)*.

<sup>18</sup> Provinces could introduce graduate tax credits to retain recent graduates, as has been done in New Brunswick and Nova Scotia, but the take-up on these credits is low.

<sup>19</sup> In 2011, average weekly wages in Alberta were 31% higher than a weighted average of average weekly wages in Atlantic Canada.

<sup>20</sup> The effect of the changing age structure on the average retirement age is not a policy measure but is included here for reference. APEC did not estimate the effect of a change in interprovincial migration.

participation rates), but the overall participation rate declines in all three scenarios.<sup>21</sup> Similarly, immigrants also grow older and retire so immigration is not likely to have a large impact on the overall age structure of the population.<sup>22</sup>

**Table 3.4 Individual Policy Changes May Have Limited Impact on the Labour Force**

**Potential change in labour force in 2031 (000s)**

	CA	ATL	NL	PE	NS	NB
Projected change in labour force by 2031	+3,062.1	-73.6	-34.3	+2.0	-31.3	-10.0
Increase in retirement age due to aging population	+236.0	+13.9	+2.9	+1.0	+5.8	+4.2
Raise retirement age by two years	+343.0	+25.9	+6.7	+1.2	+10.5	+7.5
Increase participation rates by one percentage point	+348.0	+20.0	+4.1	+1.4	+8.1	+6.3
Raise immigration level by 25%	+668.0	+12.3	+0.8	+3.9	+4.3	+3.3

Note: The various policy options considered here cannot necessarily be treated as independent, thereby allowing the effects of the different options to be summed. For example, increasing the retirement age by two years implies an increase in participation rates, particularly for older workers. Similarly, the incremental impact of raising the retirement age by two years may be muted if the retirement age is already increasing due to the changing demographic structure of the workforce. Even though the labour force in Canada increases by 3.1 million over the 20 year forecast period, this is 1.4 million less than the increase over the past 20 years.

Source: APEC, Conference Board

As it is the decline in Canada's fertility rate since the 1960s that has really contributed to the current demographic situation,<sup>23</sup> would it be possible to reverse that trend by increasing the fertility rate? There are at least three reasons to be cautious. First, an immediate increase in the fertility rate would have no impact the size of the labour force for about 20 years. Second, it would require an almost doubling of the current fertility rate to reverse the demographic trends of the last few decades.<sup>24</sup> Third, such a policy could be quite expensive to implement for only marginal gains in fertility.<sup>25</sup>

Newfoundland and Labrador has made recent policy changes to increase its fertility rate, providing a \$1,000 lump sum payment to residents of the province who give birth to a baby or have a child placed with them for adoption on or after January 1, 2008, and a

*Increasing fertility rates may be difficult to accomplish and would not have an impact for about 20 years*

<sup>21</sup> Bélanger, Alain; Bastien, Nicolas; Lebel, André; Malenfant, Éric; Martel, Laurent; and Morency, Jean-Dominique (2011, August). Projected trends to 2031 for the Canadian labour force. *Canadian Economic Observer*, vol. 24, no. 8. Ottawa: Statistics Canada. And Lebel, André; Malenfant, Éric; and Martel, Laurent, (2010), *Projections of the Diversity of the Canadian Population, 2006 to 2031*. Ottawa: Statistics Canada.

<sup>22</sup> Denton, Frank; Feaver, Christine and Spencer, Byron (1999). Immigration and Population Aging. *Canadian Business Economics*, vol. 7, no. 1, pp. 39-57.

<sup>23</sup> Ragan, Christopher (2011).

<sup>24</sup> Ragan, Christopher (2011).

<sup>25</sup> Ragan (2011) cites studies that conclude that Quebec's "baby bonus" program that applied from 1989 to 1997 did increase the average fertility rate by 15% but at a cost of more than \$15,000 per child, partly because many families received a payment even though they would have had extra children without the subsidy.

\$100 monthly benefit available to residents of the province for the 12 months after the child's birth (or adoption).<sup>26</sup>

*The investment and productivity response of employers is critical to understanding the impact that the aging population will have on economic growth in Atlantic Canada*

The other obvious “solution” to maintain growth in real GDP per capita in the face of an aging population is increase labour productivity. For example, APEC estimates that capital investment in Atlantic Canada would need to increase by an estimated \$1.4 billion in 2012 to offset the loss in labour force in 2031.<sup>27</sup> This estimate represents 11.3% of private non-residential investment intentions in Atlantic Canada in 2012. But policymakers do not have any tools to directly change productivity. While a number of policy recommendations to improve Canada's productivity performance have been implemented, productivity growth has not increased and Canadian private sector investment in machinery and equipment has not increased in recent years despite lower corporate tax rates.<sup>28</sup> As Atlantic labour markets tighten, will employers offset the impact of the aging population by boosting capital investment and labour productivity, or will the scenario of slower economic growth, envisioned in the Conference Board projection, come to pass?<sup>29</sup>

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<sup>26</sup> While Newfoundland and Labrador has experienced an increase in the number of births over the last three years, the proportionate increase is only marginally higher than the increase in Nova Scotia and New Brunswick and is smaller than the increase in Canada over the same period.

<sup>27</sup> This estimate is based on average depreciation rates and the capital to labour ratio. The changes to the Atlantic Investment Tax Credit (AITC) announced in Budget 2012 will reduce the value of this tax credit and require a larger offsetting increase in capital investment.

<sup>28</sup> Drummond, Don (2011). Confessions of a Serial Productivity Researcher. *International Productivity Monitor*, No. 22, Fall, pp. 3-10. TD Economics.

<sup>29</sup> Slower population growth moderates the growth in domestic demand. For stronger investment to boost GDP growth it would also require faster export growth.

## Chapter 4

### Key Issue #2: The Changing Demand for Skills

#### Chapter Summary

- **The demand for skilled labour has increased relative to that of unskilled labour over the past two decades and this trend is expected to continue.**
- **Competitive pressures and resource challenges have contributed to a decline in Atlantic employment in primary industries and manufacturing, largely in rural regions. Employment continues to shift to the service sector, further boosting job growth in urban centres.**
- **Technological change and industrial restructuring raise the question of whether the Atlantic region is producing individuals with the skills needed for current and future positions. Increased use of immigration and temporary foreign workers despite continuing high unemployment in rural regions points to a possible mismatch in the region's labour market. There is also some evidence of a mismatch between the number of graduates from post-secondary institutions and expected job openings.**

The previous chapter focused on the projected demand and supply of labour at an aggregate level. It is also important to consider the type of jobs available and the skills of the workforce. Do workers have the skills required by the region's businesses to succeed in the global economy? How well are individuals adjusting to a changing demand for labour? And are education and training institutions sufficiently responsive to the changing skill requirements of employers?

#### 4.1 An Increased Demand for Skilled Labour

Economies have become more technology intensive, most notably in terms of increased use of information and communication technologies, affecting a wide range of jobs and industries. This has increased the demand for workers with some skills (e.g., computer skills), and reduced demand for workers with other skills (e.g., typists). The specific skills required for any particular job have changed while the overall demand for workers with higher skills has increased.

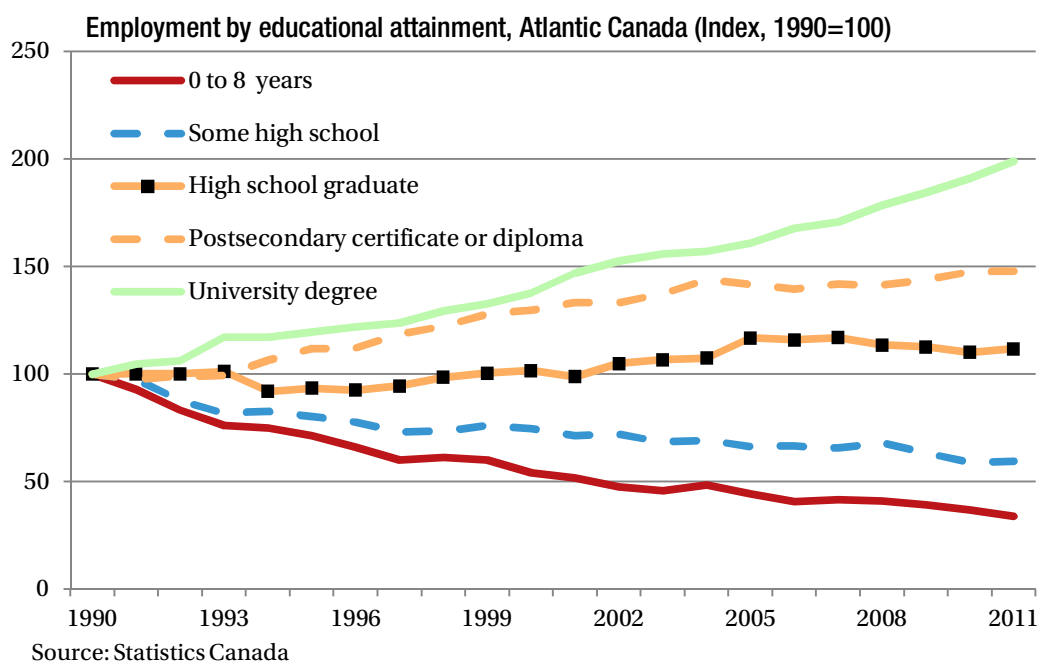
*The demand for skilled labour has increased*

The overall skill level of Atlantic Canada's workforce has certainly increased. For example the number of employed workers in Atlantic Canada with less than a high school

*The supply of skilled labour has also grown in Atlantic Canada*

diploma has declined by more than 130,000 between 1990 and 2011 while the number of employed workers with a postsecondary certificate or degree has increased by 260,000.

**Figure 4.1 Employment Increases for the Highly Skilled But Declines for Workers with Limited Formal Education**



While this trend may partly reflect the increased educational attainment of workers entering the labour force, relative to more limited formal education of those retiring, other research points to an increase in the overall demand for skills. For example, wage premia for Canadians with postsecondary education increased relative to high school graduates between 1985 and 2005, implying that the demand for these workers has increased faster than the supply.<sup>30</sup> However, this does not apply equally to all degrees. Wage premia for graduates in engineering, math and computer science, and business have increased substantially, whereas wage premia for graduates in the humanities have declined.

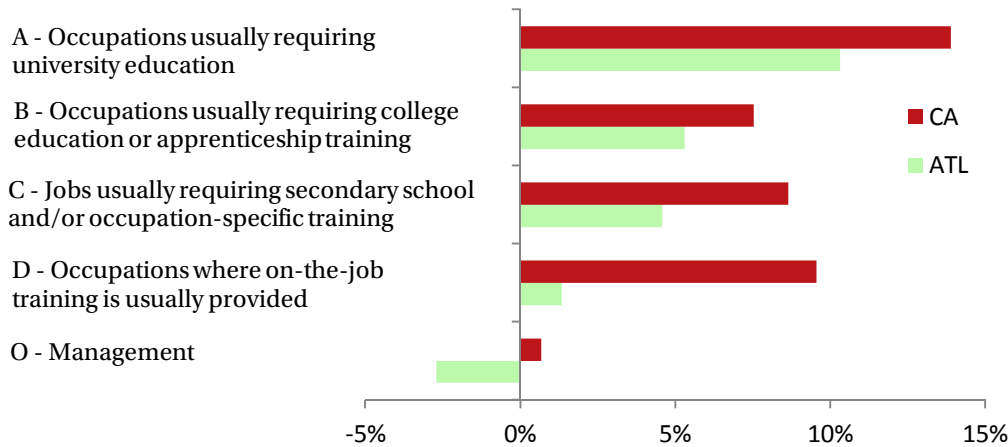
Employment growth in Atlantic Canada between 2000 and 2005 has also been much faster for occupations requiring a university degree, with little growth in employment in occupations where training is provided on the job. This trend is expected to continue. For example, according to projections from the Canadian Occupational Projection System

<sup>30</sup> Vermaeten, Frank (2012, March 28), *Human Capital and Education*. Presentation at the CAFE/OEA Spring Policy Conference, Ottawa.

(COPS) for Nova Scotia, 60% of the job growth between 2010 and 2015 is expected to be for management, professional and technical occupations.<sup>31</sup>

### Figure 4.2 Employment Growth Has Been Strongest in Higher Skill Occupations

Employment growth by skill level, 2000 to 2005 (%)



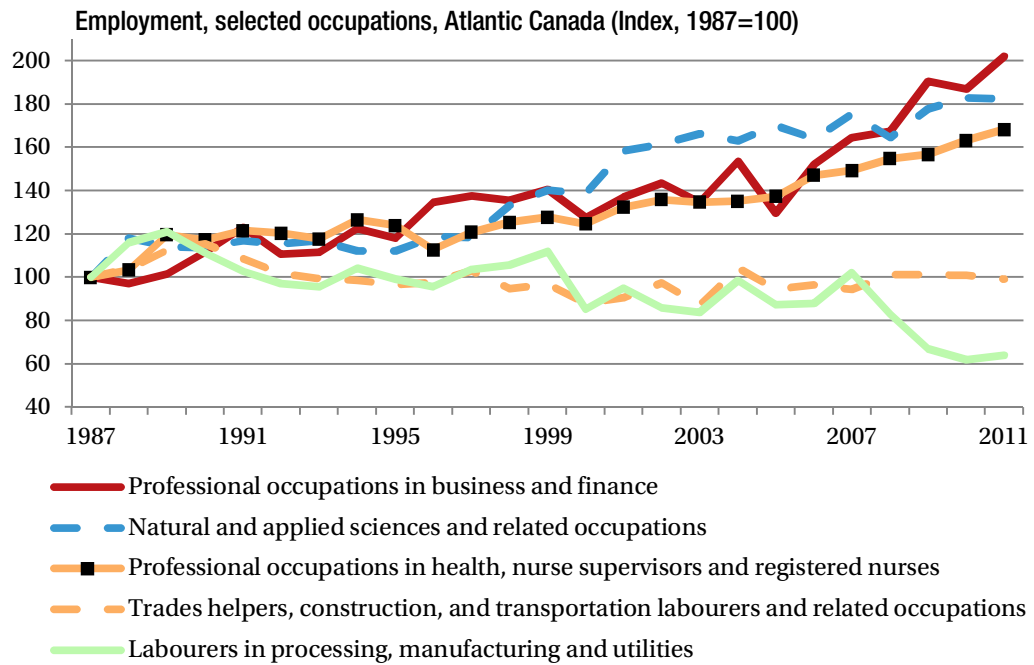
Source: Statistics Canada, Census 2001 and 2006

The demand for skills is therefore changing rapidly, implying very different outcomes for workers with different skill levels and in different occupations. For example, in Atlantic Canada, skilled occupations such as professional occupations in business and finance and science related occupations have seen employment increase by 90-100% over the last 25 years. By contrast, employment for manufacturing labourers has declined while demand for construction labourers has stagnated.

*Employment outcomes for different occupations and skill levels varies substantially*

<sup>31</sup> Nova Scotia Department of Labour and Advanced Education (2010). *Occupational Outlook & Opportunities Analysis, 2010/11 Edition*.

**Figure 4.3 Growth Has Diverged Between High and Low Skilled Occupations**



Source: Statistics Canada

## 4.2 Industrial Restructuring and Its Regional Implications

In addition to a growing demand for skills associated with a shift to a more knowledge intensive economy, Atlantic Canada is experiencing an ongoing restructuring of its economy. Employment in some industries has increased while jobs have been lost in others. But this restructuring is leading to very different outcomes in different regions.

*The Atlantic economy continues to shift towards the service sector*

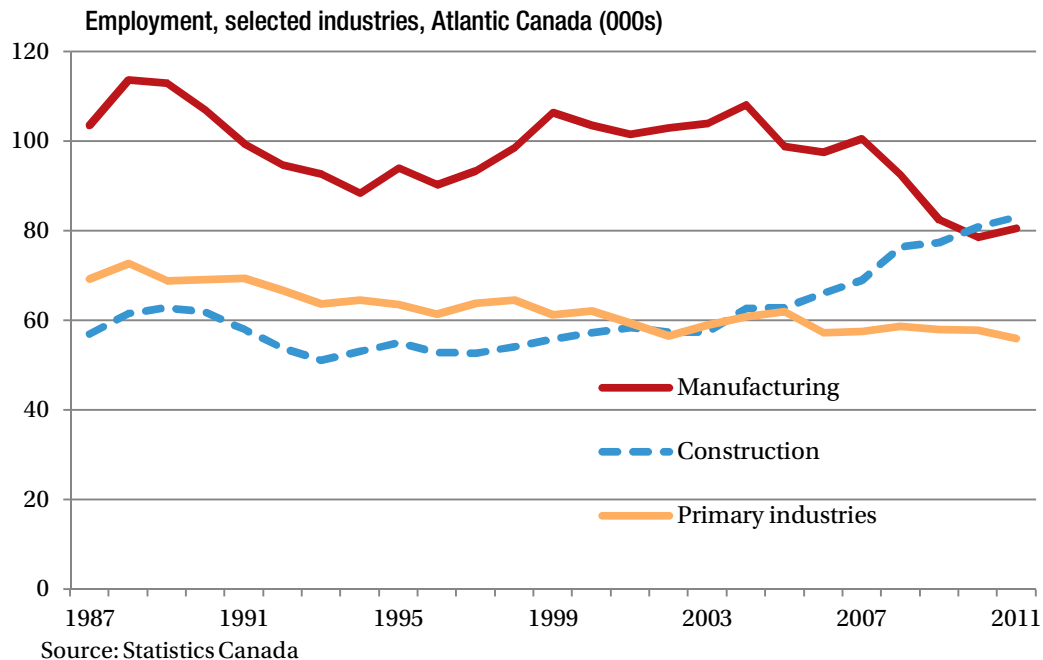
The Canadian and Atlantic economies continue to shift towards employment in service-producing industries. Atlantic Canada added 228,000 jobs in the service sector between 1987 and 2011, while employment in goods-producing industries declined by 4%.

*Manufacturing employment has fallen sharply since 2004*

While overall employment in the goods-producing sector has fallen only marginally over the last 25 years, there have been important changes within this sector. Manufacturing employment in Atlantic Canada was relatively flat for most of the period since 1987 but has fallen sharply since about 2004, reflecting a number of competitive pressures and lower demand in key markets (e.g., US demand for forest products). By contrast, construction employment has increased since the late 1990s, helped by growth in residential construction, major project investment and more recently infrastructure spending. Employment in primary industries (e.g., mining, forestry, fishing) declined throughout the 1990s but has been relatively stable since.



**Figure 4.4 Atlantic Manufacturers Shed Jobs as Construction Expands**



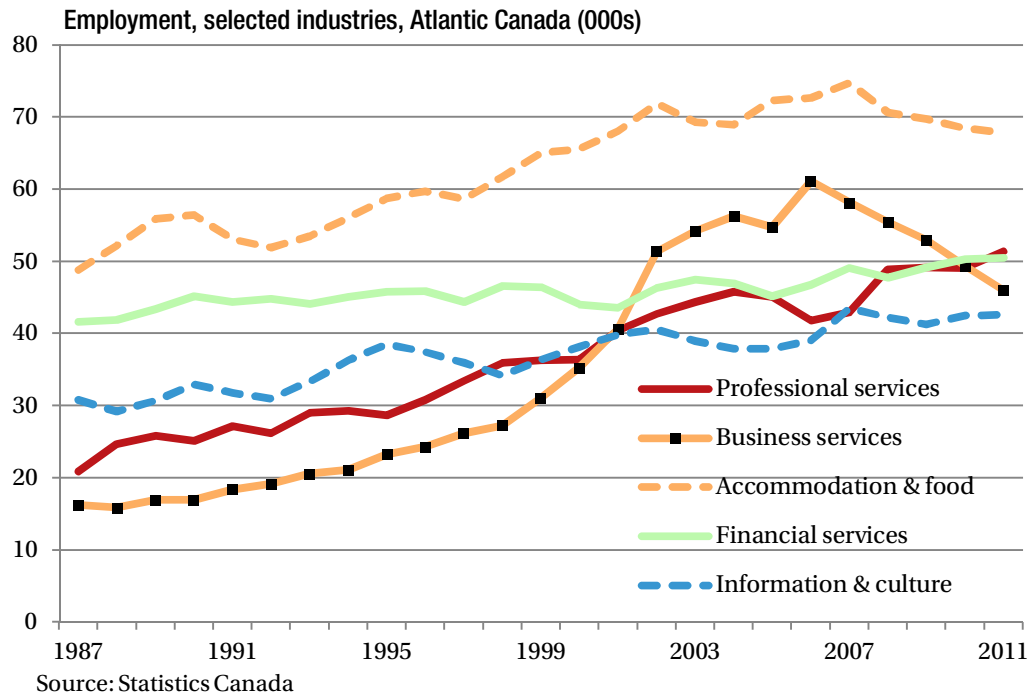
On the services side, the private sector was the main driver of Atlantic job growth during the 1990s and early 2000s, but overall employment has advanced little over the last decade. The professional services industry is one of the few industries to experience steady job growth over the past 25 years. Employment in information and cultural industries expanded until 2007 but has been flat since then. The retail industry, the largest single employer in Atlantic Canada, employing 180,000 people, has experienced no job growth since 2001. Employment in other industries has fallen. For example, Atlantic employment in business services grew rapidly from the mid-1990s to the mid-2000s, led by an expansion in call centre employment, but employment has fallen 25% between 2006 and 2011. Similarly, employment in accommodation and food services has fallen by 9% since 2007 following fifteen years of growth.

Since the early 2000s, the public sector has been the main driver of job growth in Atlantic Canada. Employment in health care in Atlantic Canada has grown steadily throughout the last 25 years, and has been the single largest contributor to job growth since 2004, adding 23,500 positions. Employment in education grew rapidly between 1996 and 2004 but has been relatively flat since. The number of jobs in public administration declined during public sector cutbacks in the 1990s, but grew 18% between 2007 and 2011. However, renewed public sector restraint is likely to curtail any further job growth over the new few years.

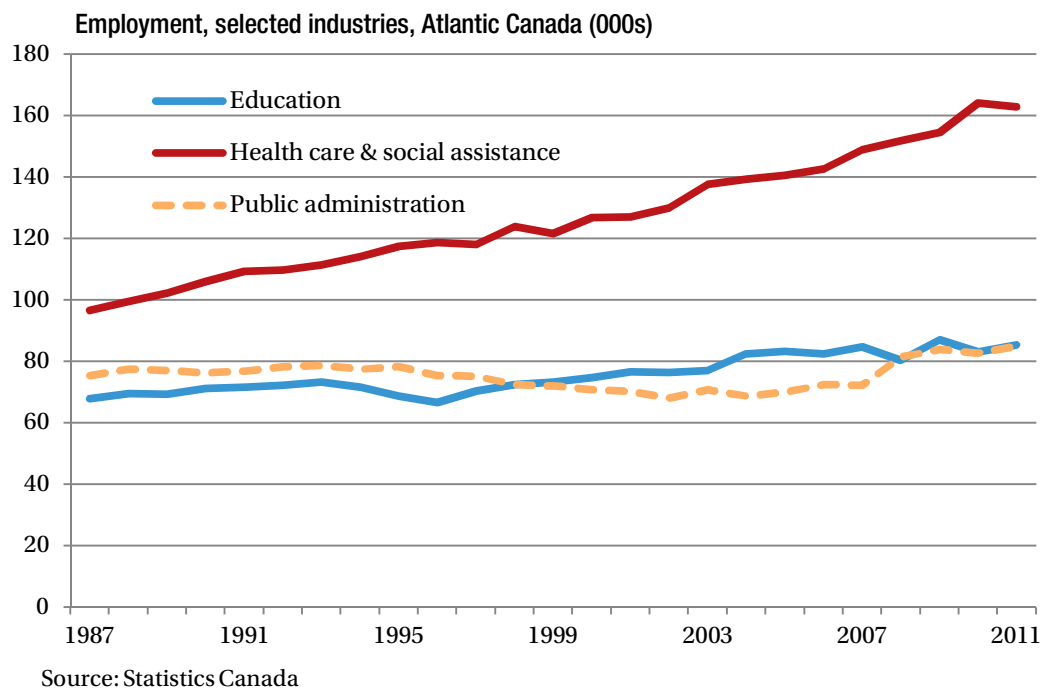
*There has been little overall growth in employment in private sector services in the last decade*

*The public sector has been the main driver of job growth in Atlantic Canada since the early 2000s*

**Figure 4.5 Mixed Fortunes in Private Sector Services Over the Last Decade**



**Figure 4.6 Health Care Remains Leading Source of Atlantic Job Creation**



The ongoing shift in employment from the goods sector to the service sector has favoured employment in urban centres. About 66% of the service sector jobs created in Atlantic Canada between 1987 and 2011 were in urban regions, even though urban markets accounted for only 49% of total employment at the beginning of the period.

*The shift to the service sector has favoured employment growth in urban centres*

#### **Table 4.1 Shifts in Economic Structure Favours Urban Labour Markets**

Change in employment by economic region, Atlantic Canada, 1987-2011

	Change (000s)	Change (%)
<b>All industries</b>		
Urban regions	176	40%
Rural regions	52	10%
<b>Goods-producing industries</b>		
Urban regions	26	6%
Rural regions	-35	-22%
<b>Services-producing industries</b>		
Urban regions	150	43%
Rural regions	78	27%

Note: Rural regions include Prince Edward Island.

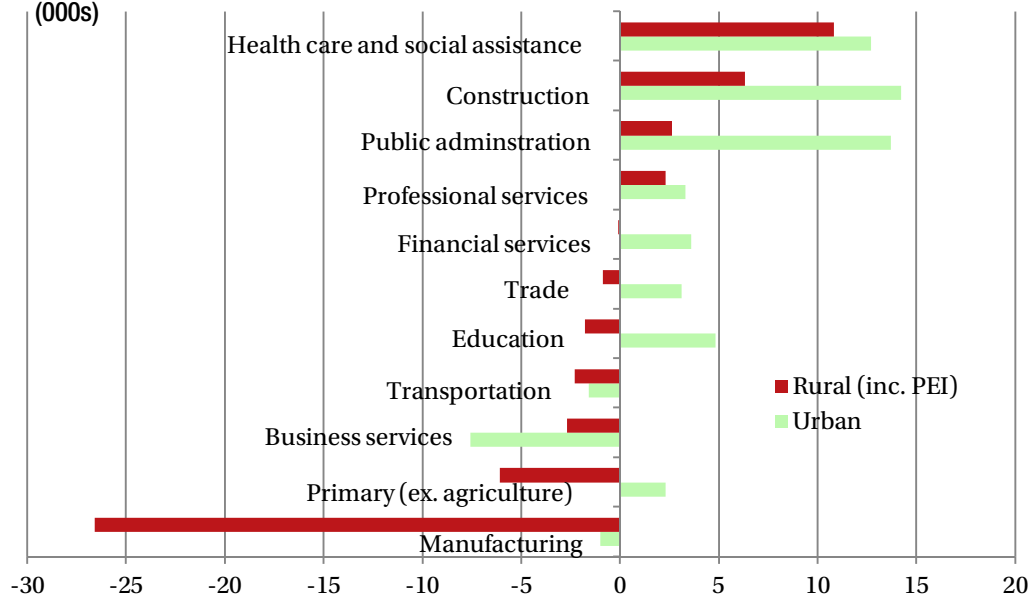
Source: Statistics Canada

The industrial restructuring over the last decade has had even more marked regional implications. For example, rural economic regions in Atlantic Canada lost 27,000 manufacturing jobs between 2004 and 2011, whereas urban regions experienced a decline of only 1,000 (Figure 4.7). Meanwhile job gains in construction, public administration, financial services, retail trade and education have been disproportionately concentrated in urban regions. As a result of these shifts, urban economic regions now account for 55% of total employment in Atlantic Canada.

*Jobs losses in manufacturing have been concentrated in rural regions*

### Figure 4.7 Decline in Manufacturing and Primary Industries Concentrated in Rural Atlantic Regions

Change in employment by economic region, 2004-2011, selected industries, Atlantic Canada, (000s)



Source: Statistics Canada

## 4.3 Is There a Skills Mismatch?

Industrial restructuring is leading to significant shifts in the types of jobs (e.g., health care vs. business services, public administration vs. manufacturing) required in Atlantic Canada and the location of these jobs (e.g. urban centres vs. rural regions). In addition, there is an overall shift towards increased skill requirements across the economy. These shifts create the potential for a mismatch between the supply of skills available in the labour force and the skills required by employers.

*Increased use of international workers along with high unemployment-to-vacancy rates points to evidence of a skills mismatch*

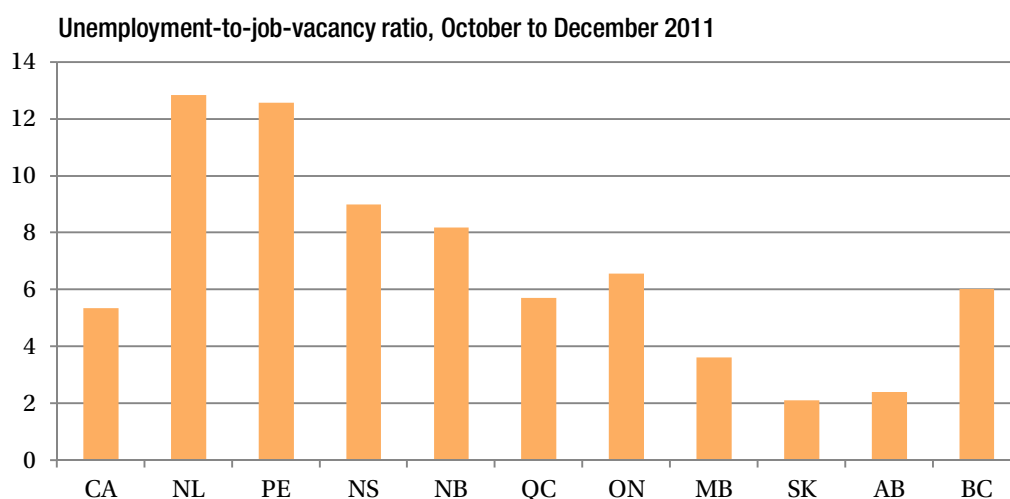
Anecdotal reports from employers point to a mismatch between the available jobs and the skills of applicants, although this may reflect issues relating to skill levels as well as the compensation package offered. More telling is employers increased use of international workers. There were over 9,500 temporary foreign workers in the Atlantic region in 2011, up from only 4,600 in 2007.<sup>32</sup> There has been a particularly large increase in temporary foreign workers in lower skill occupations such as trucking, seafood processing and hospitality. Employers in some of these sectors are finding it difficult to recruit and retain sufficient local workers for these jobs.

<sup>32</sup> Citizenship and Immigration Canada (2011b). *Preliminary tables – Permanent and temporary residents, 2011*. Retrieved April 30, 2011 from <http://www.cic.gc.ca/english/resources/statistics/facts2011-preliminary/04.asp>.

The number of new immigrants to Atlantic Canada doubled since 2001, to over 6,500 immigrants in 2011. Much of this increase has been due to the impact of provincial nominee programs (although not all the nominee streams have been focused on skilled workers).<sup>33</sup>

New data on vacancies reveal that the number of unemployed per job vacancy is much higher in the Atlantic provinces than in the rest of the country. This suggests that those currently unemployed either lack the skills to be hired for the available jobs, or are unwilling to apply for or accept the available jobs, because of the compensation offered, the nature of the work or the location of the job.

**Figure 4.8 Higher Unemployment-to-Job-Vacancy Ratios in the Atlantic Provinces Suggest a Larger Skills Mismatch Problem**



Source: Statistics Canada

While it is challenging to forecast labour demand and supply at a detailed occupational or skill level, a national forecast concluded that over the next five years “excess supply for some occupations will coexist with excess demand for others”.<sup>34</sup> Recent analysis by the Government of Newfoundland and Labrador reached a similar conclusion for that province.<sup>35</sup> Tight labour market conditions are expected in key occupations over the next decade, such as some engineering fields, childcare and homecare support workers, and occupations in the mining and oil industries. However, the analysis also points to weak labour market conditions in some unskilled occupations such as machine operators in food and beverage processing and labourers in processing, manufacturing and utilities.

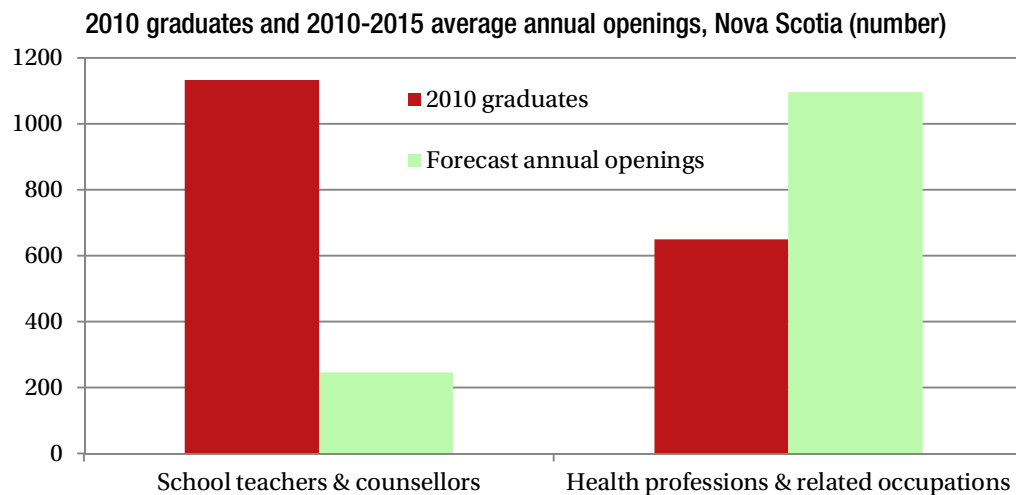
<sup>33</sup> APEC (2008). Nominee Programs Boost Atlantic Immigration. *Report Card*, July.

<sup>34</sup> HRSDC (2008a).

<sup>35</sup> Newfoundland and Labrador Department of Human Resources, Labour and Employment (2011b). *Newfoundland and Labrador Labour Market Outlook 2020*.

Is Atlantic Canada producing an adequate number and the right type of graduates for upcoming vacancies? The answer to this question requires detailed and careful study but a couple of examples illustrate the potential for a mismatch. For example, the number of graduates from education programs in Nova Scotia post-secondary institutions in 2010 was over four times larger than the average annual number of openings for school teachers and counsellors forecast for the period 2010 to 2015 (based on forecasts of attrition and expansion demand from COPS – the Canadian Occupational Projection System). Conversely, the number of graduates from Nova Scotia schools in programs for health professionals and related occupations in 2010 was just over half of the projected number of annual openings forecast by COPS.

**Figure 4.9 Some Sectors Show a Significant Mismatch in Incoming Graduates and Expected Openings**



Source: Statistics Canada, Canadian Occupational Projection System, Maritime Provinces Higher Education Commission

These examples raise important questions about the overall functioning of Atlantic Canada's labour market. Do individuals and training institutions have sufficient information to make informed choices about career options and the relevance of particular programs for tomorrow's labour market? Are there institutional barriers that prevent educational and training institutions from responding quickly enough to changing labour requirements? Do individuals have the basic literacy requirements to retrain for new jobs? Do some older unemployed workers find it uneconomic to move from a rural region where they own their own home (albeit with limited resale value) to take a low-paying service sector job in a large urban city? Are firms sufficiently willing to adjust their business models, compensation packages, and invest in training of new workers to help meet their labour needs? These issues are discussed in more detail in Chapter 6.

## Chapter 5

### Key Issue #3: Ensuring Full Utilization of the Workforce

#### Chapter Summary

- **In the context of labour force decline, securing full utilization of the Atlantic workforce is increasingly important. Reducing rural unemployment is an obvious source of labour but re-employment strategies need to better understand the employment dynamics of these older workers who have limited formal education.**
- **Increasing the participation of under-represented groups could further increase the Atlantic labour force, although it will not prevent the overall aging of the workforce. Targeting broad demographic groups (such as women, older workers and the disabled) may offer greater potential than focusing on smaller groups (such as Aboriginals, immigrants and Francophones).**
- **With 40-60% of Atlantic adults having inadequate literacy skills for today's knowledge-based economy, overall productivity is impeded and the scope for re-training for higher skill occupations is severely limited.**
- **Health and safety will become increasingly important as the workforce ages. Atlantic workers are generally less healthy and lose more work days to injury and illness.**

The analysis of projected demographic trends presented in Chapter 3 points to a decline in the size of Atlantic Canada's labour force over the next two decades. With unemployment rates already trending down, and some Atlantic firms reporting difficulty finding a sufficient number of qualified workers, this points to an overall tightening of the labour market in the region. While firms will respond to these pressures in a variety of ways, one key strategy is to make greater effort to tap into underutilized labour pools or demographic groups that are currently under-represented in the labour force. Governments also want to ensure maximum use of existing labour pools and the federal government has recently been putting increased emphasis on fully utilizing domestic workers before bringing in international workers.

Some industries and employers have already started trying to tap into non-traditional or under-represented labour pools. But if all employers and industries adopt the same

*Employers and governments are looking to increase employment of under-represented groups*

approach, it is important to understand the potential magnitude of this underutilized workforce. This chapter provides some preliminary analysis on the potential size of some of these under-represented groups and briefly discusses some of the issues that need to be addressed to ensure their full utilization. While the focus of this discussion is on efficiency (i.e. full utilization), efforts to reduce barriers to full participation of marginalized groups are still important from an equity perspective.

## 5.1 Reducing Rural Unemployment

The most obvious and immediate source of workers to access are those currently unemployed. The unemployment rate in Atlantic Canada in 2011 was 10%, higher than the national rate of 7.4%. If the overall Atlantic Canadian unemployment rate were reduced to the national average, there would have been an additional 32,000 workers employed in 2011. It is therefore important to understand who these unemployed workers are and why they are unemployed.

Unemployment is often classified into frictional, cyclical and structural unemployment although it is not necessarily easy to apply this framework empirically. In Atlantic Canada, seasonal unemployment must also be considered. Frictional unemployment refers to workers who are unemployed for short periods of time while they are between jobs and is an inevitable feature of a dynamic and decentralized economy. Cyclical unemployment refers to the variation in unemployment due to the business cycle with unemployment rising during periods of recession and widespread job loss and falling during periods of economic expansion. Structural unemployment refers to workers who are unemployed as a result of industrial change in the economy. For example, a plant closure in a one-industry town will likely lead to an increase in structural unemployment because the unemployed plant workers may lack the skills required for jobs in sectors that are growing and the available jobs may be in a different part of the country. Re-training and re-locating for these new jobs takes time and is more challenging than simply moving from one employer to another while doing basically the same job (frictional unemployment). Seasonal unemployment refers to individuals who are laid off from seasonal industries but who can expect to find similar work during the following year. For example, construction activity typically subsides during the winter months while tourism employment increases during the summer.

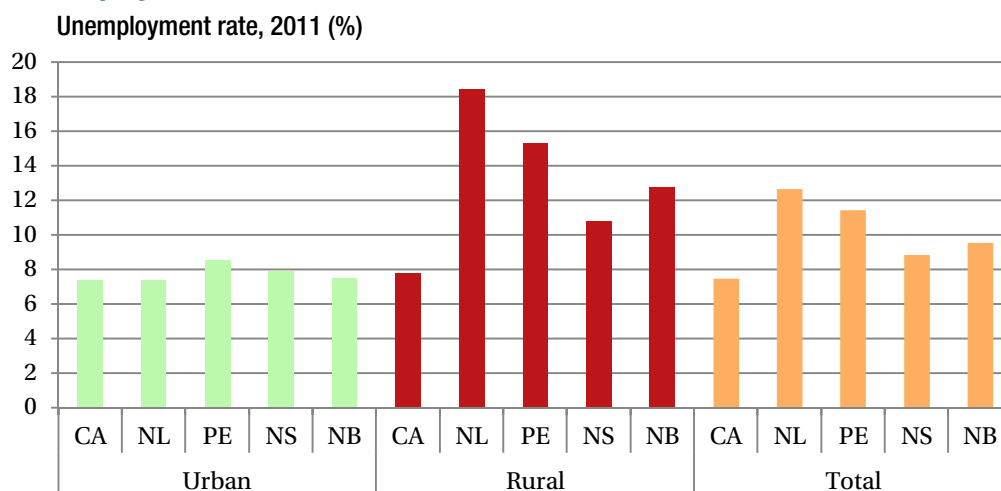
*High unemployment in Atlantic Canada is due to high unemployment in rural areas*

While provincial unemployment rates in all four Atlantic provinces exceed the national rate, this is not true for all regions within each province. Almost all of the gap in unemployment rates can be attributed to higher unemployment rates in rural areas;



urban centres in Atlantic Canada have unemployment rates that are very close to the national average.<sup>36</sup>

**Figure 5.1 Higher Unemployment in Atlantic Canada is Largely Due to Higher Unemployment in Rural Areas**



Source: Statistics Canada

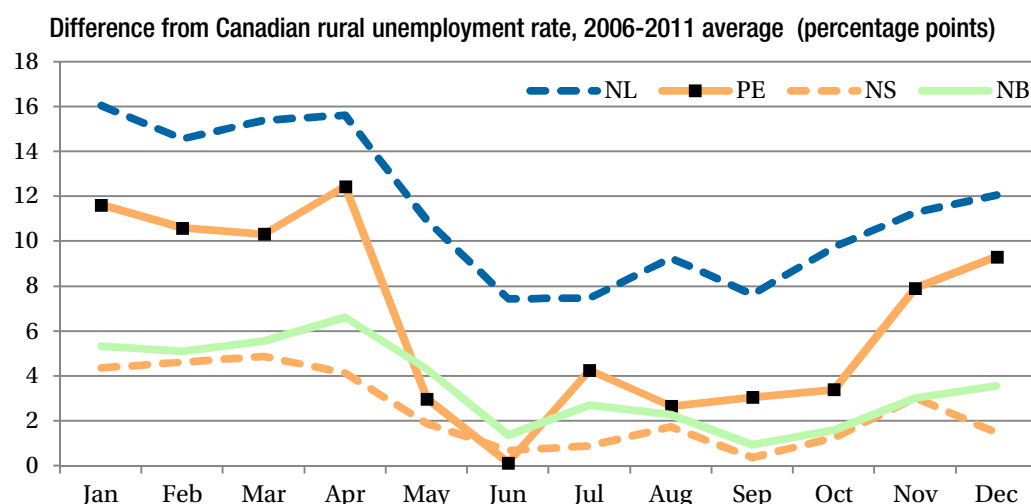
Atlantic unemployment rates are higher on average than nationally due to a much larger seasonal variation in unemployment in rural areas. Employment in Atlantic Canada is much more seasonal than in Canada, largely due to a greater seasonal variation in rural areas.<sup>37</sup> This seasonal variation in labour demand leads to a much larger seasonal variation in unemployment and unemployment rates in rural areas of Atlantic Canada. As a consequence, the difference between the unemployment rate in rural areas of Atlantic Canada and Canada displays a seasonal trend, being larger in the winter months and moderating in the summer (Figure 5.2).

However, it is also the case that unemployment rates in rural areas of Atlantic Canada remain much higher than Canada all year round, not just in the winter months (Table 5.1). This may still be related to differing seasonal patterns of employment and EI use in different industries as about 46% of regular EI claims in Atlantic Canada are classified as seasonal claims. A full understanding of unemployment dynamics and EI use in rural areas requires more detailed data and analysis than available for this report.

<sup>36</sup> This section uses a Statistics Canada measure of urban and rural that differs from the urban and rural economic regions used elsewhere in this report. Here, urban centres are defined as the combination of all census metropolitan areas and census agglomerations; rural areas are defined as all other areas.

<sup>37</sup> APEC (2005). *Seasonality in Atlantic Canada: Trends, Challenges and Policy Issues*. Halifax: APEC. According to the analysis for this report, there is a 12% variation in employment from the winter months to the peak summer months in Atlantic Canada, compared with a 5% variation nationally. But the seasonal variation in employment in urban centres in Atlantic Canada is similar to the national average, with Halifax and St. John's, for example, displaying a 5% seasonal variation in employment. In Atlantic rural regions, seasonal employment is much more prevalent, with seasonal variations in employment in the New Brunswick's Acadian Peninsula and Newfoundland and Labrador's south and north coast of almost 24% and over 30%, respectively.

**Figure 5.2 Differences Between the Atlantic and Canadian Rural Unemployment Rates Display a Seasonal Trend**



**Table 5.1 Seasonal Variation in Unemployment Rates is Much Higher in Atlantic Rural Areas**

Average unemployment rate, 2008-2011 (%)

	Urban			Rural			Total		
	Annual	Summer	Winter	Annual	Summer	Winter	Annual	Summer	Winter
CA	7.4	7.5	7.6	7.9	7.0	9.2	7.5	7.4	7.8
NL	8.8	8.7	9.4	19.7	16.3	23.3	14.0	12.4	15.9
PE	8.6	7.1	9.8	15.1	11.4	19.5	11.4	9.0	14.0
NS	7.8	7.8	8.2	10.9	9.1	13.0	8.7	8.2	9.6
NB	7.0	7.0	7.4	12.3	10.7	14.5	9.0	8.4	10.0

Note: Summer = June to September; Winter = January to April

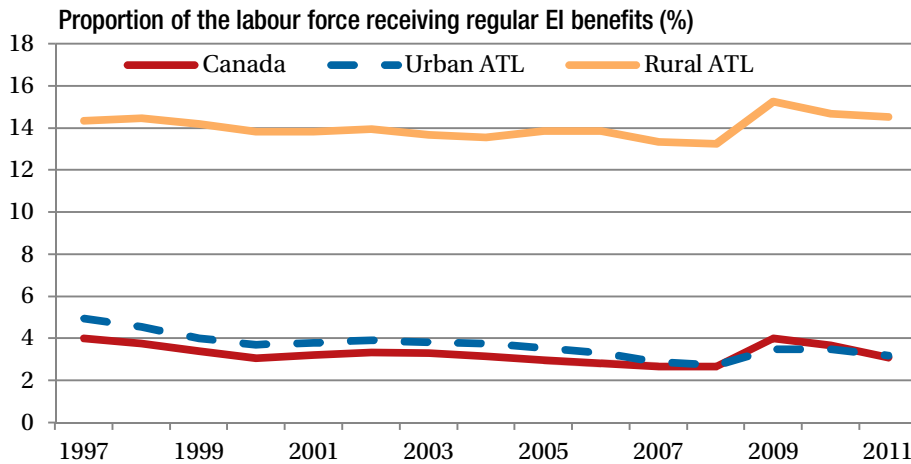
Source: Statistics Canada

*EI use is also much higher in rural areas*

Reflecting the higher unemployment rates in rural areas of Atlantic Canada, the proportion of the labour force receiving regular EI benefits is also higher in rural Atlantic Canada, while the proportions of EI beneficiaries in urban centres of Atlantic Canada is the same as the national rate. There is also a larger seasonal variation in initial EI claims in Atlantic Canada, with 116% more claims in December/January than in April/May, compared with a 79% variation nationally.<sup>38</sup>

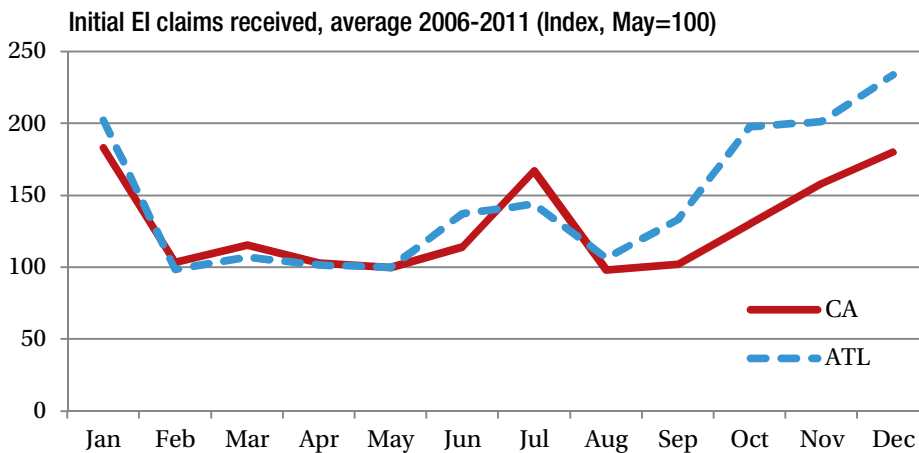
<sup>38</sup> The seasonal pattern in initial EI claims in Atlantic Canada seems to have shifted over the last decade. In the early 2000s, initial claims peaked around October/November. Since 2007, the peak in initial claims has occurred in December and January.

**Figure 5.3 The Proportion of the Labour Force Receiving EI Benefits is Significantly Higher in Rural Atlantic Canada**



Source: Statistics Canada

**Figure 5.4 Seasonal Variation in Initial EI Claims Are More Pronounced In Atlantic Canada**



Source: Statistics Canada

While unemployment rates are higher for workers of all age groups in rural areas of Atlantic Canada, the unemployed in rural areas are much more likely to be older workers. In 2011, for example, 21% of the unemployed in rural Atlantic areas were 55-64 years of age, compared with only 13% nationally. By contrast, 34% of the unemployed in Atlantic urban centres were aged 15-24 years, but only 20% of the unemployed in rural areas were young people. Indeed, there appears to be a youth unemployment problem in urban centres of Atlantic Canada as 15-24 year olds face a higher unemployment rate

*Unemployed rural workers are more likely to be older ...*

than nationally while those aged 25-54 years in Atlantic urban centres have a lower unemployment rate than nationally.<sup>39</sup>

**Table 5.2 Unemployed More Likely to be Older Workers in Rural Areas and Younger Workers in Urban Centres**

**Unemployment rates and shares by age, 2011 (%)**

	CA	ATL Urban	ATL Rural
<b>Unemployment rate</b>			
15-24	14.2	16.3	20.2
25-54	6.2	5.9	12.2
55-64	6.7	6.8	15.0
<b>Share</b>			
15-24	29.3	34.2	19.6
25-54	55.9	50.9	57.5
55-64	13.0	12.8	20.7

Source: Statistics Canada

*... and have low levels of formal education*

The final characteristic of the unemployed that needs to be noted is that they tend to have much lower levels of education in Atlantic Canada, although annual data on unemployment by education for urban and rural areas separately are not readily available.<sup>40</sup> For example, in Atlantic Canada, 49% of the unemployed have a high school education or less, compared with 45% nationally. By contrast, only 9% of unemployed Atlantic Canadians have a university degree, compared with 17% nationally.

**Table 5.3 Unemployed More Likely to Have Lower Levels of Education**

**Share of unemployment by educational attainment, 2011 (%)**

	CA	ATL	NL	PE	NS	NB
Less than high school	23.9	28.3	29.1	29.3	25.3	30.7
High school	31.4	29.7	26.0	34.8	30.1	31.3
Post-secondary certificate or diploma	28.1	32.9	38.5	27.2	32.2	30.2
University degree	16.6	8.9	6.1	7.6	12.3	7.5

Source: Statistics Canada

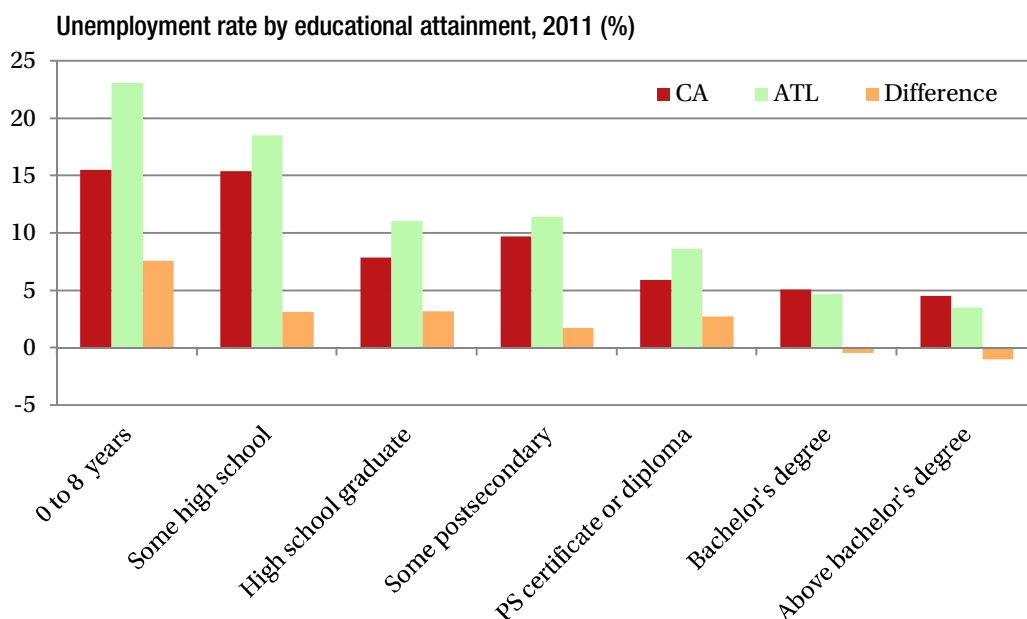
Moreover, while unemployment rates decline as educational attainment increases, Atlantic Canadians with low levels of formal education have much higher unemployment rates than the average Canadian with the same level of education. For example, Atlantic Canadians with eight years of school or less have a 23% unemployment rate, compared to a 16% rate among the same group nationally. By contrast, the unemployment rate for

<sup>39</sup> The gap between the unemployment rate of young people in Atlantic Canada and Canada also grows larger in recessions.

<sup>40</sup> A custom tabulation from Statistics Canada would be required.

Atlantic Canadians with a university degree is 4.7%, slightly lower than the 5.1% unemployment rate nationally.

**Figure 5.5 The Difference in Atlantic and Canadian Unemployment Rates Closes With Increasing Levels of Education**



Source: Statistics Canada

This analysis indicates that rural unemployment reflects a combination of weak labour demand, seasonal employment, and low skill levels, and is concentrated among older workers.<sup>41</sup> Older workers that lack basic literacy skills (see Section 5.3) will find it hard to retrain and may be reluctant to relocate. Similarly, encouraging young people to move from rural Atlantic areas may have limited success due to high youth unemployment rates in Atlantic Canadian cities, particularly if these individuals have limited education. If unemployed Atlantic Canadians are to be fully utilized, there will need to be a strong focus on education and training along with strategies to encourage employment of young people. Such labour market policies and interventions would benefit from a detailed understanding of the long-term labour force dynamics and EI use of unemployed workers.<sup>42</sup>

<sup>41</sup> Low skill levels and educational attainment may reflect a relatively high demand for labour with relatively low skill levels and weak demand for high skill levels in rural areas.

<sup>42</sup> For example, how much of the observed unemployment in rural areas is actually due to seasonal employment and EI use? Do other individuals with limited education face recurrent periods of unemployment due to a lack of skills or inadequate labour demand? As young people are migrating from rural areas to urban centres in Atlantic Canada, what determines whether young people stay in or leave rural areas? Do education and training programs improve the long-term labour market outcomes of unemployed workers? What happens to unemployed workers in terms of the duration of employment and their wages, hours of work and occupation when they find another job?

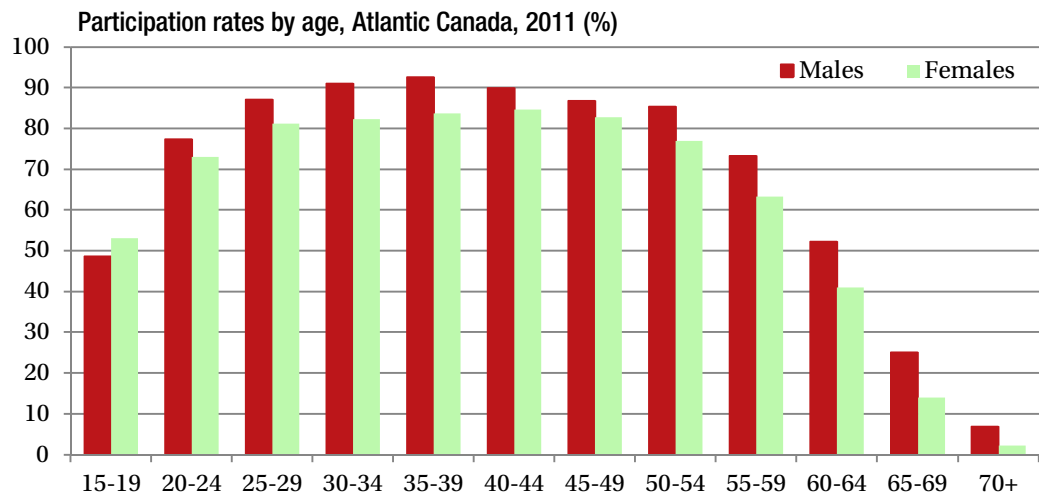
## 5.2 Increasing the Participation of Under-represented Groups

Several provinces and industry groups are targeting under-represented groups in the labour force as a means of augmenting slow labour force growth. These groups include women (at least in some occupations and industries), older workers, the disabled, Aboriginals, immigrants and visible minorities.<sup>43</sup>

*Female participation rates are lower than for males*

Women represent the largest under-represented group in the labour force, mainly due to their lower participation rate relative to men. The overall participation rate for women in Atlantic Canada is about eight percentage points lower than that of men, though their unemployment rates are generally lower as well. Female participation rates are lower for every age group except for 15 to 19 year olds. The gap in participation rates is between ten and eleven percentage points for women aged 55-69 years, but it is only four to five percentage points for those aged 40-49 years, suggesting there is a modest cohort effect that may diminish over time. However, the gap in participation is almost nine percentage points for women aged 30-39, reflecting the age when women are more likely to have young children at home.

**Figure 5.6 Female Participation Rates Are Lower Amongst Almost All Age Groups**



Source: Statistics Canada

If female participation rates in Atlantic Canada were increased to that of males in 2011, there would be an additional 76,300 potential workers. However, about 24% of women work part-time, compared with 11% for Atlantic men, and so the potential increase in

<sup>43</sup> According to the 2006 Census, the employment rate for visible minorities in Atlantic Canada was the same as for the general population so no analysis is reported for this group.

hours worked would likely be much lower. Educational attainment is not a barrier to greater female participation as a slightly higher percentage of females in Atlantic Canada have a post-secondary diploma or university degree compared to Atlantic males. Barriers to greater female participation are more likely to relate to access to affordable childcare and flexible working arrangements as well as cultural barriers.<sup>44</sup> The only caution to note here is that if higher female participation contributes to a drop in fertility rates, this will further undermine one of the key reasons for Atlantic Canada's already weakening demographic outlook.

Older workers, aged 55 to 69, represent the second largest under-represented group in the labour force. Older workers exhibit much lower participation rates (Figure 5.6). For example, Atlantic workers aged 50 to 54 years had a participation rate of 81% in 2011, but this falls to 68% for those aged 55 to 59, drops further to 47% for those aged 60-64 and is only 19% for those aged 65 to 69.<sup>45</sup> Increasing the participation rates of these older workers by 5 percentage points would lead to an increase of 23,400 workers in the Atlantic labour force in 2011. However, older workers also exhibit a stronger preference for part-time work: 17% of Atlantic workers aged 55 to 64 years work part-time, rising to 39% for those aged 65 years and over, compared with only 11% for workers aged 15 to 54 years.

*Older workers have much lower participation rates than those aged 25-49 years*

Developing flexible work practices, valuing the strengths of older workers, and ensuring that older workers can transition into retirement by accessing pension income while still working part-time will be important considerations if the participation of older workers is to be increased.<sup>46</sup> The adequacy of pension income, or lack thereof, is also likely to be a key consideration as to when workers retire. Pension coverage has been declining over the last 15 years and Atlantic Canadians are generally less likely to have a private sector pension, and are less likely to make contributions to a Registered Retirement Savings Plan (RRSP).<sup>47</sup>

According to the Participation and Activity Limitation Survey there were about 230,000 Atlantic Canadians aged 15 to 64 years who had a disability in 2006. However, their labour force participation rate was only 51%, compared with a participation rate of 78% for those without a disability. Increasing the participation rate of the disabled to match the rest of the population would result in an additional 62,700 workers in Atlantic Canada. The unemployment rate of the disabled was 13%, slightly higher than the rate for those without disabilities. While some people with a disability may be limited in the

*The disabled have much lower participation rates than the rest of the population*

<sup>44</sup> Female employment varies significantly by industry and occupation with women less likely to be senior managers in the private sector. APEC (2009a). *A Rising Tide: The Growing Role of Women in the Atlantic Labour Force, Report Card*, March.

<sup>45</sup> Unemployment rates for older workers in Atlantic Canada were generally the same or somewhat lower than the overall unemployment rate.

<sup>46</sup> APEC (2007). *The Growing Importance of Older Workers in Atlantic Canada, Report Card, July*. Halifax: APEC.

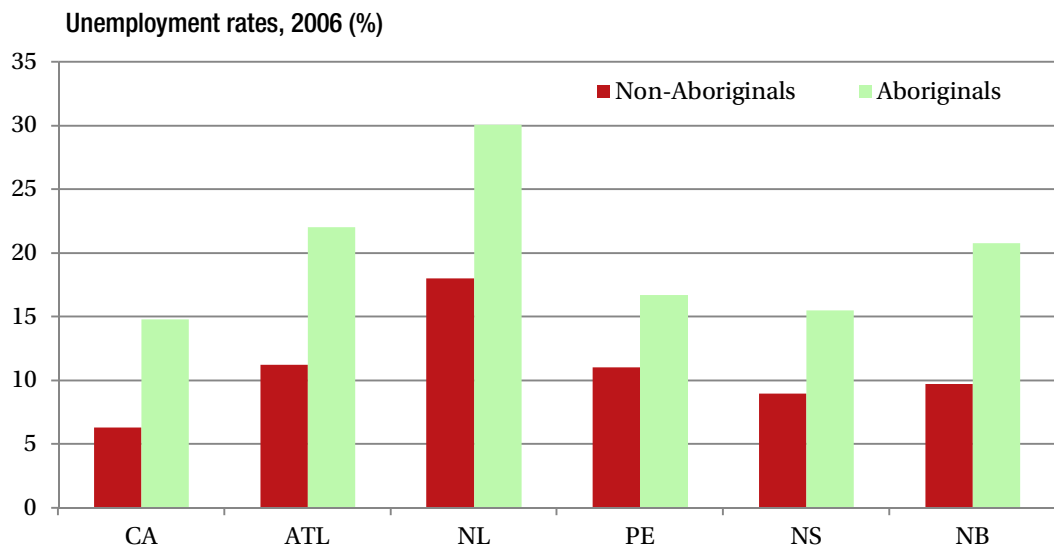
<sup>47</sup> APEC (2009b). *Trends in Seniors' Income and Pension Coverage in Atlantic Canada, Report Card, July*. Halifax: APEC.

amount or kind of work they can do, others can contribute with relatively minor workplace accommodations such as modified hours or duties or structural modifications. Less than one-quarter of employees with disabilities actually need such accommodations and about 70% of these cost less than \$500.<sup>48</sup> New technologies are also improving the scope for the disabled to participate more fully in the labour market.

*Aboriginals have significantly higher unemployment rates than the rest of the population*

Aboriginals are under-represented in the Atlantic Canadian labour market due to significantly higher unemployment rates. According to the 2006 Census, the Aboriginal unemployment rate in Atlantic Canada was 22%, approximately double the rate for non-Aboriginals.<sup>49</sup> If the Aboriginal unemployment rate was reduced to that of non-Aboriginals, this would provide an additional 3,400 workers in Atlantic Canada. There are a number of barriers to increasing Aboriginal employment, including cultural and language barriers, a lack of education and training, and literacy challenges.<sup>50</sup>

**Figure 5.7** Aboriginals Have Much Higher Unemployment Rates



Source: Statistics Canada, Census

The Francophone population is also a target for some labour market strategies. In New Brunswick, Francophones had an employment rate of 56% in 2006, about three percentage points lower than that of Anglophones, due to a slightly lower participation rate and a slightly higher unemployment rate. If the employment rate of native French speakers in New Brunswick were brought up to that of Anglophones, the province could

<sup>48</sup> Cited in Collaborative Partnership Network (20??). *Recruit Ability Success: Employment Solutions for Nova Scotia's Employers*. Retrieved June 21, 2012 from <http://www.cpnnovascotia.ca/>.

<sup>49</sup> Atlantic participation rates were only marginally lower at 49% for Aboriginals, compared with 56% for non-Aboriginals.

<sup>50</sup> Roness, Lori Ann and Collier, Mary (2010). *Assessing the Effectiveness of Labour Force Participation Strategies*. Atlantic Policy Congress of First Nations Chiefs Secretariat. Budget 2012 announced a number of initiatives to expand opportunities for Aboriginal people to fully participated in the economy.



see a gain in employment of 5,600. There are minimal potential gains from increasing participation of Francophones in the other Atlantic provinces.<sup>51</sup>

Atlantic immigrants do quite well in the labour market, in contrast to immigrants nationally.<sup>52</sup> The unemployment rate for Atlantic immigrants in 2011 was 6.9%, noticeably lower than the 10.2% rate for Canadian born. However, recent immigrants (those who landed within the last five years) do face greater challenges and have a slightly higher unemployment rate of 11.2%. The participation rate for Atlantic immigrants was 58.7% in 2011, slightly lower than the 63.3% participation rate for Canadian born. An increase in the participation rate of these immigrants to the Canadian-born rate would result in an additional 2,000 workers in Atlantic Canada in 2011. Recent immigrants are generally well educated but some may still find it a challenge to find work that matches their skills and experience. A lack of official language proficiency is also a barrier to labour market participation for some immigrants.

*Atlantic immigrants do quite well in the labour market*

**Table 5.4 Potential Labour Force Gains Larger for Broader Demographic Groups**  
Estimated gain in employment from labour market interventions, Atlantic Canada, 2011

	Additional employment	% change in employment
Reducing the Atlantic unemployment rate to that of Canada	31,700	2.9
Increasing the participation rate of females to that of males	76,300	7.0
Increasing the participation rate of older workers by 5 percentage points	23,400	2.2
Increasing the participation rate of the disabled to that of people without disabilities*	62,700	6.2
Reducing Aboriginal unemployment rates to that of non-Aboriginals*	3,400	0.3
Increasing the participation rate of immigrants to that of non-immigrants	2,000	0.2
Increasing employment rate of Francophones to that of Anglophones (New Brunswick only)*	5,600	1.6

\* Data for 2006

Source: Statistics Canada

Table 5.4 summarizes these various estimates of the potential to increase the labour force by targeting specific demographic groups. While detailed strategies and cost estimates need to be developed to evaluate the relative benefits and costs of targeting different groups, this analysis suggests that strategies that focus on broader populations such as females, older workers and the disabled have the greatest potential to increase the size of the available workforce. However, as discussed in Chapter 3, workers in all of these categories will age over time; while it may be important to reduce barriers to labour

<sup>51</sup> The participation rates of Francophones is marginally lower than Anglophones in Nova Scotia and Prince Edward Island but their unemployment rates are also lower. An improvement in the participation rates of Francophones in these two provinces to that of Anglophones would provide less than 1,000 extra workers.

<sup>52</sup> Immigrant outcomes in Atlantic Canada are quite different from national statistics. The unemployment rate of Canadian immigrants in 2011 was 8.7%, noticeably higher than the 7.1% unemployment rate for those born in Canada, but for recent immigrants the unemployment rate jumps to 14.2%.

market participation for some of these groups on equity grounds, such strategies are not likely to prevent the overall decline in the participation rate and the size of the labour force in Atlantic Canada.

### 5.3 Tackling Low Adult Literacy

Increasing the labour market participation of under-represented groups will help increase the number of people in the labour force but in the context of increasing skill demands, it is also necessary to consider the overall skill level of the labour force. Several Atlantic provinces have identified low literacy levels as an important concern. Low literacy levels can limit productivity and the potential for skill upgrading.<sup>53</sup>

The most recent Canadian data on adult literacy from the 2003 International Adult Literacy and Skills Survey (IALSS) focuses on four major domains: prose and document literacy, numeracy and problem solving.<sup>54</sup> The competency of participants in the first three categories were graded from levels 1 to 5, with a score of level 3 or higher considered to be the level of competence necessary for coping with the increasing skill demands of the emerging knowledge and information economy; the problem solving domain was graded from levels 1 to 4 but no benchmark for adequate performance was established.

*40-60% of the Atlantic population have inadequate literacy skills for today's knowledge-based economy*

Focusing on the proportion of the population with low literacy levels (below Level 3): between 40% and 53% of Atlantic Canadians have inadequate document literacy skills (i.e., the ability to locate and use information contained in various formats); between 38% and 50% have inadequate prose literacy (the ability to understand and use information from various texts); and between 50% and 61% have inadequate numeracy skills. New Brunswick and Newfoundland and Labrador have much higher proportions of their population than Canada with inadequate literacy.

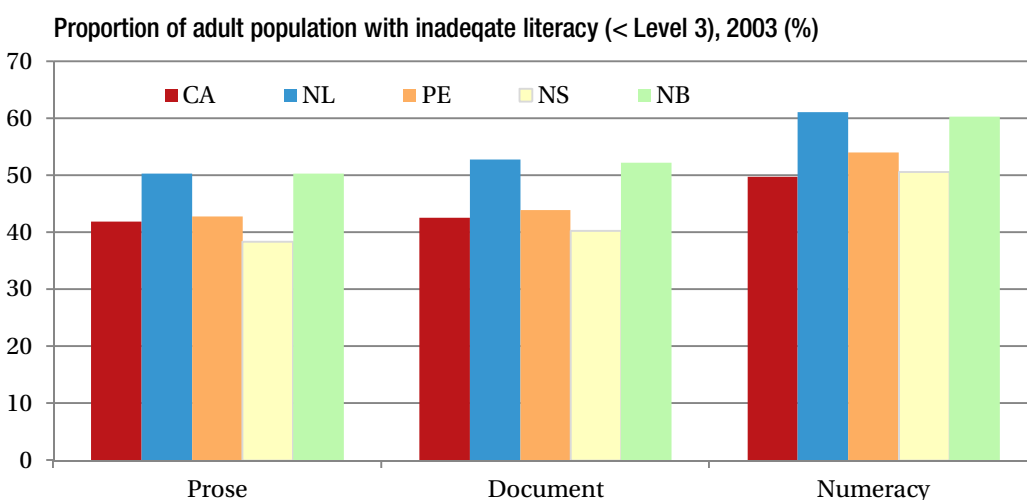
Literacy levels vary by age and other demographic characteristics. Proficiency scores decline significantly after age 55, with evidence to suggest that this decline may be due to an aging effect and a cohort effect. Francophone populations in New Brunswick had a much larger proportion scoring below level 3 in prose literacy. Immigrants are much more likely to have low literacy levels than Canadian-born, especially those with a mother tongue other than English or French. The same is true for Aboriginal participants. These results suggest that each of these groups may have particular trouble adjusting to changing demands in the labour force. It also indicates that strategies to tackle lower

<sup>53</sup> ABC Life Literacy Canada provides a summary of the economic impacts of improved literacy, including higher employment rates, higher earnings and higher productivity: <http://abclifeliteracy.ca/facts-research>

<sup>54</sup> Statistics Canada (2005). *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*. Ottawa: Statistics Canada. Computer literacy is also an increasingly important consideration.

participation rates and low educational attainment will have to first focus on ensuring basic literacy levels are attained.

**Figure 5.8 Between 40% and 60% of Atlantic Canadians Have Inadequate Literacy Levels**



Source: Statistics Canada, IALSS

## 5.4 Improving Health and Safety

Ensuring full utilization of the labour force is not just about the number of people and skill levels, it also includes a consideration of the health and safety of the workforce. Research indicates that the health of the population is an important contributor to productivity while work-related injuries and illnesses lead to time lost and lower productivity.<sup>55</sup> However, as the labour force starts to decline, employees may also come under pressure to work longer hours, impacting their work-life balance and increasing workplace stress.<sup>56</sup>

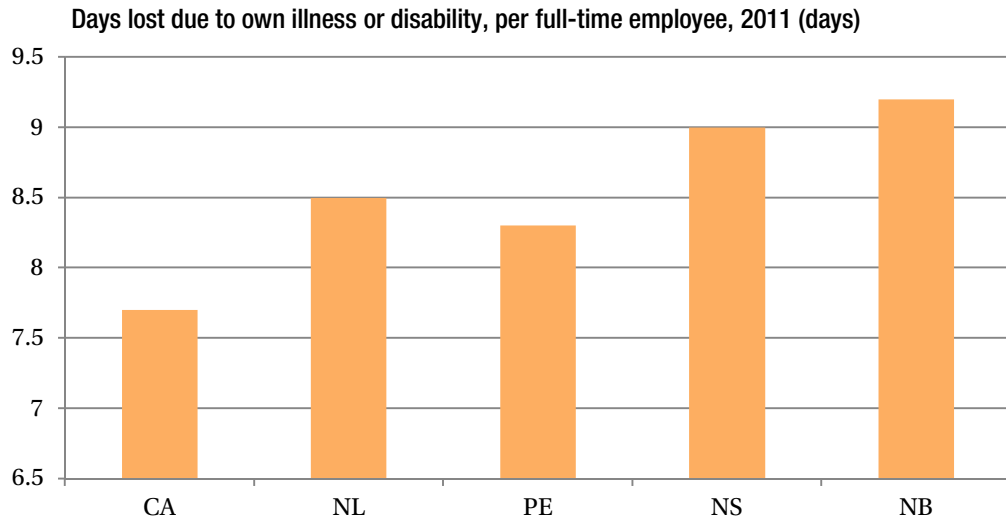
In Atlantic Canada, the average amount of time lost per worker per year as a result of illness and injury is higher than the Canadian average. Nova Scotia and Newfoundland and Labrador have higher rates of workplace injury than nationally. Evidence from the Association of Workers Compensation Boards of Canada and Statistics Canada also show that workplace injury rates increase with age, suggesting that time lost due to illness and injury will likely worsen with the aging workforce.

*Atlantic Canadians have higher rates of time lost than nationally*

<sup>55</sup> Tompa, Emile (2002). The Impact of Health on Productivity: Empirical Evidence and Policy Implications. *The Review of Economic Performance and Social Progress*. McGill-Queen's University Press. Vol. 2, pp. 181-202.

<sup>56</sup> Williams, Cara (2003). Sources of Workplace Stress. *Perspectives on Labour and Income*, vol. 4, no., 6, June. Retrieved May 3, 2012 from <http://www.statcan.gc.ca/pub/75-001-x/00603/6533-eng.html> and Crompton, Susan (2011). What's stressing the stressed? Main sources of stress among workers. *Canadian Social Trends*, no. 98. Retrieved May 3, 2012 from <http://www.statcan.gc.ca/pub/11-008-x/2011002/article/11562-eng.htm>

**Figure 5.9 Atlantic Workers Miss More Days Of Work Per Year Due To Illness And Injury**



Source: Statistics Canada

The Atlantic population is generally less healthy than the Canadian average. According to the Health Utility Index (HUI), a comprehensive health index published by Statistics Canada, Nova Scotia, New Brunswick and Newfoundland and Labrador were the first, third and fourth least healthy provinces in 2010. Between 76% and 79% of the population in these provinces had an HUI score considered to represent good to full functional health, compared to a national rate of 81%. All four Atlantic provinces perform below the national average in terms of fruit and vegetable consumption and have higher rates of inactivity and obesity.

## Chapter 6

# Key Issue #4: Responsiveness to Demographic and Economic Change

### Chapter Summary

- **Atlantic Canadians have responded to increasing skill demand over the last two decades by increasing their educational attainment and participation in job-related training and demonstrating significant labour mobility, both within and between provinces.**
- **Little is known about how employers are responding to tighter labour markets other than the fact that wages have been rising. Employers play a key role in supporting lifelong learning, funding the majority of job-related training. Employers will need to be more responsive to the needs of employees, especially as they reach out to under-represented groups; however, smaller firms may find it more difficult to adjust.**
- **High school dropout rates have fallen dramatically over the last two decades in Atlantic Canada, but Atlantic high school students still perform below the Canadian average on standardized tests. Colleges and universities have facilitated increased enrolment in post-secondary education but need to ensure their program offerings remain relevant to labour market demand.**

In light of the increasing demand for skills, continued industrial restructuring and weakening demographics, it is important to understand how well individuals, firms and educational and training institutions are adjusting to changing labour market realities. While there is clear evidence of adjustment, is it sufficient to meet the challenges identified in this report?

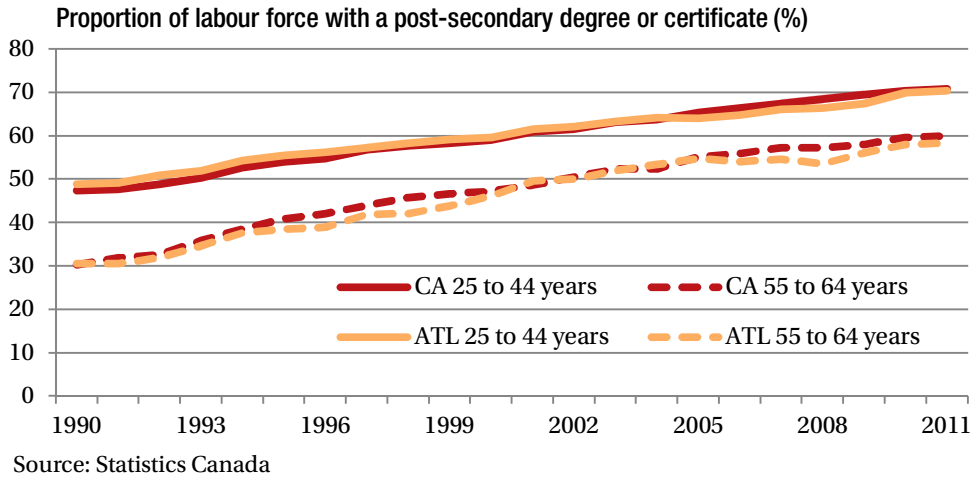
### 6.1 Individuals

The most important way individuals can respond to the increasing demand for skills is to increase their educational attainment and participate in lifelong training. The overall educational attainment of Atlantic Canadians has been steadily increasing over the past two decades. For example, the proportion of the labour force with a university degree or post-secondary certificate has increased from 31% in 1990 to 50% in 2011, while the

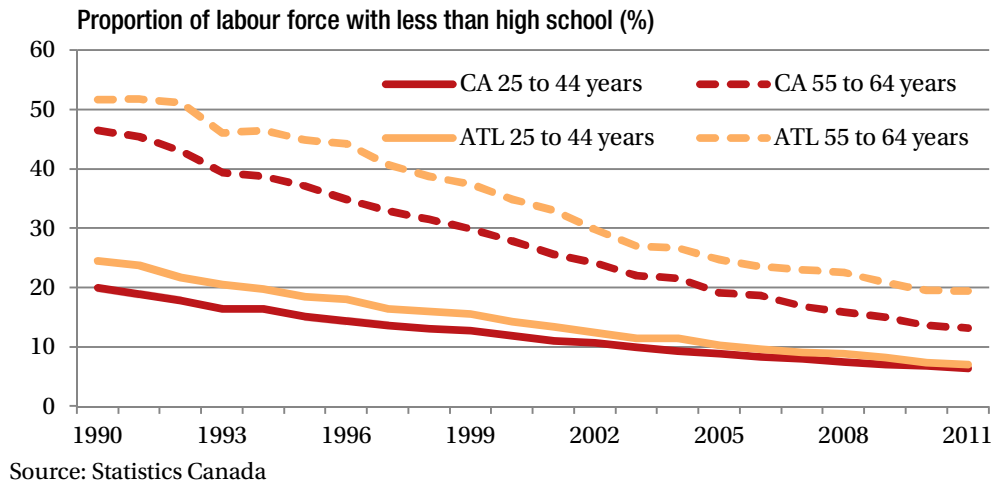
*Atlantic Canadians have increased their overall education levels*

proportion with less than high school fell from 45% to 25%. As younger workers tend to be more highly educated, this shift will continue as older workers leave the labour force. For example, the proportion of Atlantic workers aged 55 to 64 years with less than a high school education declined from over 50% in 1990 to under 20% in 2011.

**Figure 6.1 The Educational Attainment of the Atlantic Labour Force Continues to Increase**



**Figure 6.2 Rapid Drop in the Proportion of Older Workers Without a High School Diploma**



This growth in educational attainment reflects higher enrolment in post-secondary programs. Enrolment rates in universities and other post-secondary institutions (excluding apprenticeship programs) grew from 22% in 1993 to 29% in 2004, but have

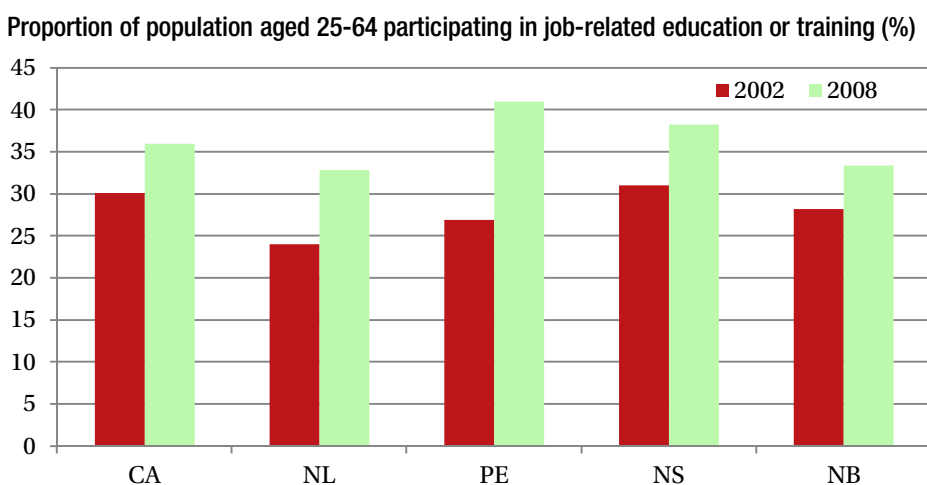
since stagnated.<sup>57</sup> In 2009, the Atlantic enrolment rate was 28%, noticeably higher than the 24% rate nationally.

The enrolment rate in apprenticeship programs in Atlantic Canada has been more volatile, growing from 1.3% in the mid-1990s to 1.8% in 2003.<sup>58</sup> Enrolment rates subsequently declined reaching a low of 1.4% in 2007 before rising again to reach 1.6% in 2009; the national enrolment rate in 2009 was 2.2%. However, while apprenticeship enrolment rates have grown over the last two decades, completion rates have not. Completion rates declined sharply during the 1990s and have only begun to increase again since 2007.

While higher educational attainment provides an important foundation for the skills required in a subsequent career, in an era of technological change and increasing skill requirements, lifelong learning and training takes on added importance. Participation rates among the Atlantic population aged 25-64 in job-related education or training increased significantly from 2002 to 2008.<sup>59</sup> Atlantic participation rates increased by between 5 and 14 percentage points, compared with a national increase of 6 percentage points. However, the average amount of time spent on job-related education and training in 2008 varied from a nationwide low of 38 hours in Nova Scotia to a high of 57 hours in Newfoundland and Labrador; the Canadian average was 50 hours.

*Participation in adult education and training has also increased*

**Figure 6.3 Participation in Job-related Training Has Increased**



Source: Statistics Canada

<sup>57</sup> For post-secondary enrolments (excluding apprenticeship programs), the enrolment rate is defined as the total number of enrolments divided by the population aged 15 to 24 years.

<sup>58</sup> For apprenticeship programs, the enrolment rate is here defined as the number of enrolments divided by the total labour force. This was done because older students make up a much more significant proportion of enrolments in apprenticeship programs than other post-secondary programs.

<sup>59</sup> Knighton, Tamara; Hujaleh, Filsan; Iacampo, Joe and Werkneh, Gugsu (2009). *Lifelong Learning Among Canadians Aged 18 to 64 Years: First Results from the 2008 Access and Support to Education and Training Survey*. Ottawa: Statistics Canada.

There is still progress to be made. As noted in Nova Scotia's recent Workforce Strategy, training tends to be short in duration and is not always given to the workers most in need. According to the Conference Board of Canada, basic training skills accounted for only 2.2% of training investments in 2004. As a result, almost 40% of Nova Scotians today lack the essential skills to work in a knowledge-based economy.<sup>60</sup>

The geographic mobility of labour is also an important response to economic change as job growth is increasingly concentrated in urban areas. Job prospects have declined significantly in some rural areas and communities while resource-based expansions are providing new opportunities for other regions.

*Large numbers of young Atlantic Canadians have moved to other provinces, especially Alberta*

Atlantic Canadians continue to exhibit high rates of labour mobility, with interprovincial out-migration rates of about 2% of the population, almost double the Canadian average over the past two decades. During this time, Atlantic Canada has experienced overall net out-migration, averaging 0.2% of the total population each year. Since 2002 there has been a large increase in out-migration to Alberta.<sup>61</sup> This one province accounted for all of the net out-migration from Atlantic Canada between 2005 and 2008 and again in 2010/2011 as Alberta's economy recovered from the recession. Young people account for most of the net migrants from Atlantic Canada, with an annual average net-out-migration among the 15 to 29 year olds exceeding 5,200 over the last decade; by contrast, there is net in-migration of workers aged 50-64 years, averaging almost 800 workers during the last ten years. The majority of those leaving Atlantic Canada for other provinces are from rural communities (Figure 6.4).

In addition to these permanent migrants, there are a largely unknown number of people who work in other parts of the country while still maintaining their permanent residence in Atlantic Canada.<sup>62</sup> Newfoundland and Labrador has estimated that the province had between 19,500 and 23,500 mobile workers between January 2009 and March 2010, representing 7% to 8% of its labour force.<sup>63</sup> Of that number, between 7,900 and 10,600 worked in Alberta.

*Young people have also moved to larger urban centres in the Atlantic region*

Atlantic workers also move within provincial borders in search of labour market opportunities, often from rural areas and smaller towns to larger urban centres (Figure 6.4). For example, between 1996 and 2011, St. John's gained over 15,000 migrants from within the province of Newfoundland and Labrador, while Halifax gained 11,500 migrants from the rest of Nova Scotia. Again, most of these migrants are young people.

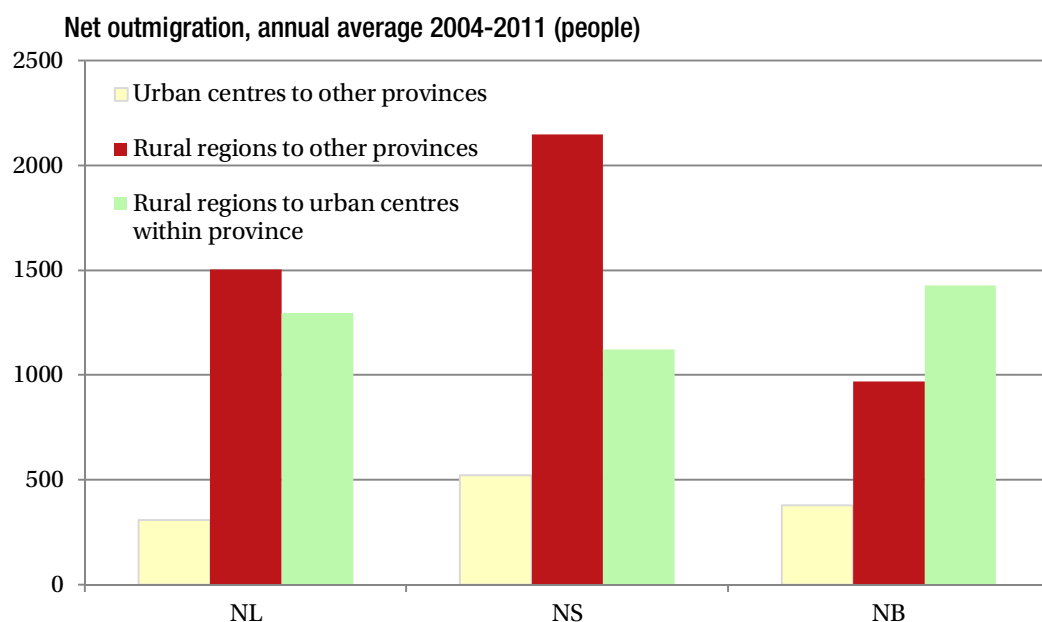
<sup>60</sup> Government of Nova Scotia (2011). *Nova Scotia's Workforce Strategy*.

<sup>61</sup> APEC (2006a). *Alberta's Boom Pulls Atlantic Canadians Westward. Report Card*, December. Halifax: APEC.

<sup>62</sup> Statistics Canada's Labour Force Survey records employment according to the province of residence of the worker, not the province of their workplace.

<sup>63</sup> Newfoundland and Labrador Department of Human Resources, Labour and Employment (2011b). *Newfoundland and Labrador Labour Market Outlook 2020*.



**Figure 6.4 Rural Atlantic Canadians Are Moving to Atlantic Cities and to Alberta**

Source: Statistics Canada

Other trends also pointing to the responsiveness of individuals to changing labour demand, including the rising participation rates of females (discussed in Chapter 2), and more recently the rising participation rates of older workers.<sup>64</sup> Labour mobility can be influenced by many factors, including occupation licensing and related regulations; relative wages, tax rates and cost of living; and pension benefits. Recent shifts from defined benefit pension plans to defined contribution plans may help to improve labour mobility between employers but does so by transferring income risk to workers.<sup>65</sup>

## 6.2 Unions

Unions play an important role in determining the wages and working conditions of their members and in the ability of labour markets to adjust to changing economic realities. A survey of empirical evidence in Canada concluded that unions raise wages by about 15% and reduce wage dispersion among their members by bargaining for pay practices that are less sensitive to individual ability and performance.<sup>66</sup> Other research has also found that skill premiums (i.e. higher wages for high skill jobs) are lower in unionized establishments.<sup>67</sup> This may create a challenge for unions and employers in the face of increasing competition from low-wage labour in other jurisdictions and an increased

<sup>64</sup> APEC (2007).

<sup>65</sup> APEC (2009b).

<sup>66</sup> Kuhn, Peter (1998). Unions and the Economy: What We Know; What We Should Know. *The Canadian Journal of Economics*, Vol. 31, No. 5, pp. 1033-1056.

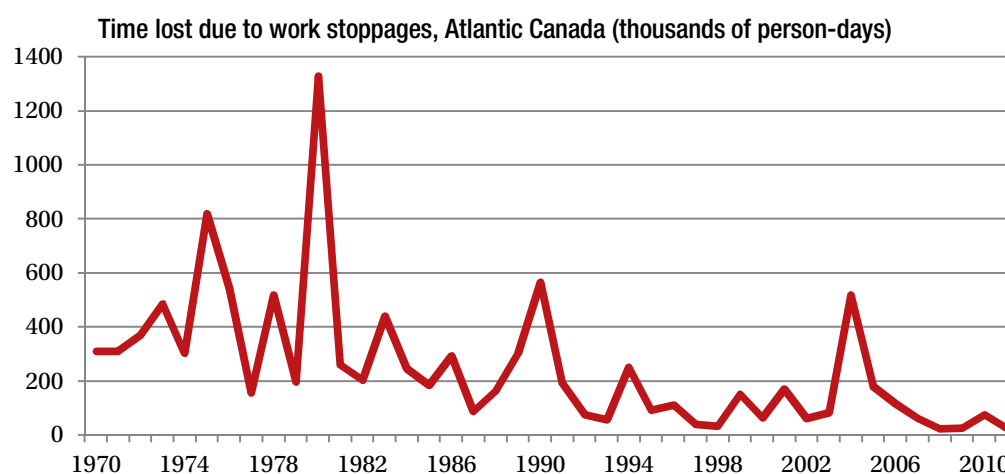
<sup>67</sup> Freeman, Richard B. and Medoff, James L. (1985). *What Do Unions Do?* New York: Basic Books.

demand for skilled workers. However, a recent report, based on data from 51 countries from the late 1980s to early 2000s, suggests that unions now face greater constraints due to increased pressures from a more globalized economy and that this severely limits their scope to compress wage dispersion.<sup>68</sup>

*Unionization rates and time lost due to work stoppages have declined*

Unionization rates have been declining in Atlantic Canada for several decades, particularly in the private sector, and this has contributed to a decline in work stoppages.<sup>69</sup> The amount of time lost in Atlantic Canada due to work stoppages has declined by roughly 90% since the 1970s, and remains at low levels.

**Figure 6.5 Days Lost Due to Stoppages Have Declined Since the 1970s**



Source: Statistics Canada

Union coverage rates have historically been much higher in the public sector. Unionization rates in the public sector in Atlantic Canada increased from 71% in 1997 to 74% in 2011. Tensions have increased in the public sector in recent years as governments have restrained wage growth to help reduce their fiscal deficits. Governments are also looking to trim the size of the public sector and address underfunding in several public sector pension plans.

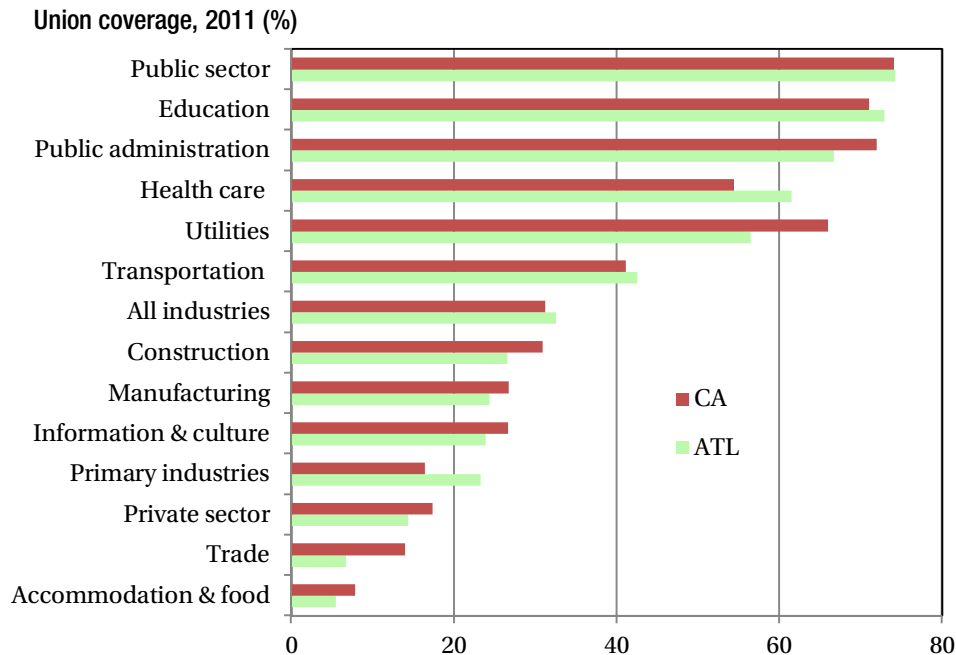
By contrast, unionization rates in the private sector in Atlantic Canada have declined further from 15.7% in 1997 to 14.3% in 2011. However, unions still play an important role in some industries. In construction, for example, unions account for 27% of the Atlantic workforce and play a major role in determining the labour pool for large construction projects. In manufacturing, unions represent 24% of Atlantic workers, down from 34% in

<sup>68</sup> Baccaro, Lucio (2008). *Labour, Globalization and Inequality: Are Trade Unions Still Redistributive?* Geneva: International Institute for Labour Studies

<sup>69</sup> APEC (2006b). *The Waning Influence of Private Sector Unions in Atlantic Canada. Report Card*, June. Halifax: APEC.

1997, partly due to the closure of several large unionized plants, such as in the forest products industry. Unions at two paper mills in Nova Scotia that faced the prospect of permanent closure have recently voted to accept reductions in employment, wages and benefits to help ensure these mills remain in operation. With the demand for skills increasing, unions may be able to play a useful role in ensuring workers have the skills they need.<sup>70</sup>

**Figure 6.6 Union Coverage Remains Much Higher in the Public Sector**



Source: Statistics Canada

### 6.3 Employers

Firms can respond to increasing labour market pressures in a number of ways but there is little empirical evidence on the adjustments that firms are making. A recent survey of the largest 101 firms in Atlantic Canada did provide some insight into corporate strategies. The most common strategy used by these TOP 101 firms to attract labour was to increase wages and benefits. This is consistent with the data reported in Chapter 2 that shows an increase in wages in Atlantic Canada over the last few years. TOP 101 firms are also using more innovative means of reaching out to young people, including increased use of social media and providing internships or sponsorships for students.

*Employers are increasing wages to attract workers*

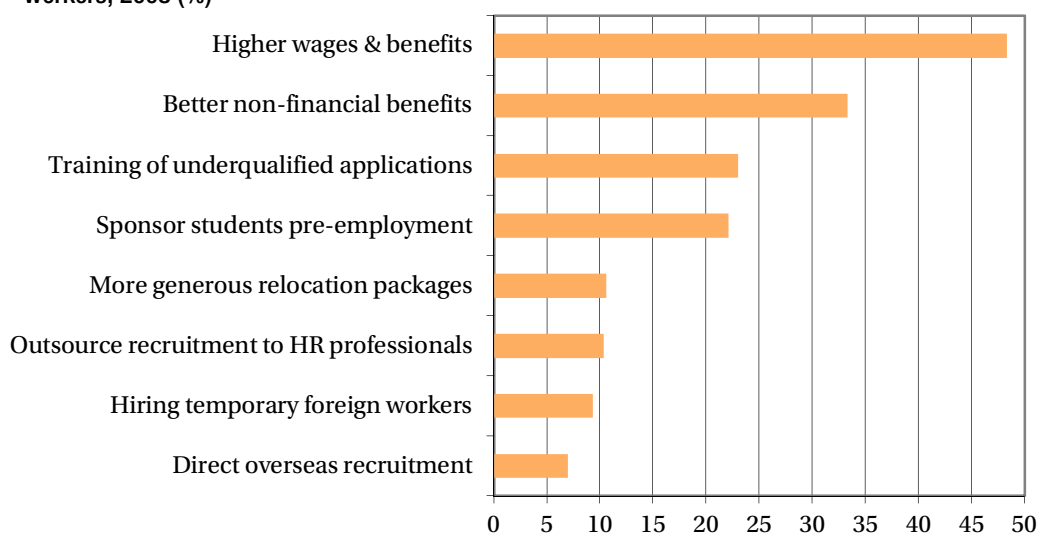
Training under-qualified applicants was also cited by the TOP 101 firms as an important response. Employers play a huge role in training workers, funding about 90% of all job-related training in Canada. According to a recent study, the average return on investment

<sup>70</sup> Baccaro, Lucio (2008).

to firms of 100 employees or more providing training for their workers was estimated to be 8.6%.<sup>71</sup> But are Atlantic firms devoting sufficient resources to training their employees?

### Figure 6.7 Increasing Wages and Benefits is the Most Common Response of Firms to Recruitment Pressures

Proportion of TOP 101 firms citing HR strategies as extremely or very important in attracting new workers, 2008 (%)



Source: APEC, Progress Corp.

Interestingly, hiring temporary foreign workers or recruiting permanent workers from overseas was one of the least important recruitment strategies referenced by the TOP 101 firms. Yet, the Atlantic region is clearly experiencing an increase in immigration and in the use of temporary foreign workers, as noted in Chapter 4.

The nature of work and employment contracts is also changing. Since the 1970s, part-time employment in Canada has increased significantly.<sup>72</sup> That trend has also occurred in Atlantic Canada, with part-time employment increasing from 11% of total employment in 1976 to 17% in 2011, although there has been little change in this share over the last decade. Greater use of part-time employment may provide firms with increased flexibility for firms but it may also mean lower benefits, pay and job security for workers. If firms wish to attract more under-represented workers into the workplace in the future, they will need to be more responsive to the needs of particular demographic groups, providing family friendly policies, flexible work arrangements particularly for women and older workers, and ensuring they have an inclusive and welcoming work environment.

<sup>71</sup> World Bank (2008). The Return to Firm Investments in Human Capital. *Social Protection Discussion Papers*, No. 0822. Washington: World Bank.

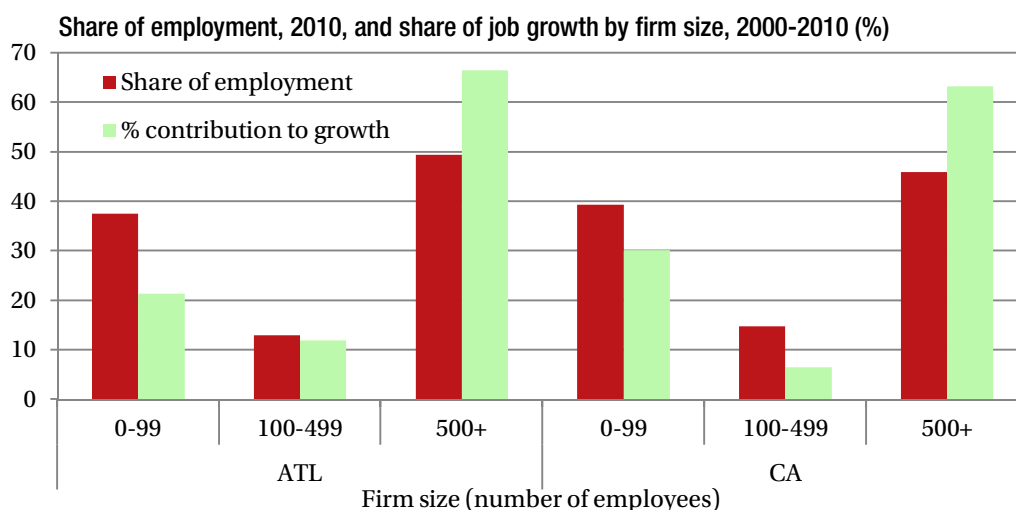
<sup>72</sup> Drummond, Don and Fong, Francis (2010, March 8). The Changing Canadian Workplace. *Special Report*. TD Economics.

Small firms may face particular challenges in terms of responding to changing labour market realities, which may require them to devote increased resources to recruitment, training and labour compensation. Small and medium sized firms tend to have higher long-term vacancy rates.<sup>73</sup> This may be due, in part, to their lack of capacity for a dedicated human resources department but small firms may also have more flexibility to offer tailored packages to individual employees. Small firms face disproportionately large training costs per employee,<sup>74</sup> with employees in small firms less likely to participate in training.<sup>75</sup>

In Atlantic Canada, firms of fewer than 100 employees account for 98% of the total number of firms. In terms of employment, however, these firms only account for 38% of total employment in Atlantic Canada in 2010 (Figure 6.8). And when it comes to job growth in the Atlantic region over the last decade, large employers, employing 500 or more workers, have accounted for two-thirds of job growth, much higher than their share of total employment.<sup>76</sup>

*Larger firms account for most of the job growth over the last decade*

**Figure 6.8 Large Firms Have Accounted for a Disproportionate Share of Job Growth in the Last Decade**



Source: Statistics Canada

<sup>73</sup> The long term vacancy rate is the ratio of job vacancies that have gone unfilled for at least four months to the total number of positions in the firm. Debus, Aneliese; George, Bradley and Petkov, Plamen (2008, March). *Help Wanted: Labour Shortage Troubles Deepen for SMEs in 2007*. Toronto: Canadian Federation of Independent Business.

<sup>74</sup> Kelly, Dan; Azoulay, Audrey; Debus, Aneliese; George, Bradley; Parent, Louis-Martin; Petkov, Plamen; Tilley, Heather (2009). *Canada's Training Ground: SMEs' \$18 Billion Investment in the Nation's Workforce*. Toronto: Canadian Federation of Independent Business.

<sup>75</sup> APEC (2001). *Adult Education in Atlantic Canada. Report Card*, July. Halifax: APEC.

<sup>76</sup> The contribution of larger firms was smaller in Newfoundland and Labrador, with a larger share of growth accounted for by small and medium sized firms.

## 6.4 Education and Training Institutions

Education and training institutions play an important role in advanced economies as the primary source of skilled labour. Graduates from schools and post-secondary program need to have the basic skills required to function in the knowledge economy. The responsiveness of education and training institutions is critical to the ability of Atlantic Canada's labour market to adjust to changing skill requirements.

School children in Atlantic Canada generally perform below the Canadian average in standardized tests. Results from the 2009 Programme for International Student Assessment (PISA) showed that Canadian students performed among the top countries and well above the OECD average in reading, mathematics and science.<sup>77</sup> Students from all four Atlantic provinces generally performed below the Canadian average, although Nova Scotia and Newfoundland and Labrador performed above the OECD average.

*High school dropout rates have declined substantially*

High school dropout rates in the Atlantic provinces have halved over the past two decades, falling from 15-20% in 1990-1993 to 7-9% in 2007-2010; but this still means that there are over 12,000 young Atlantic Canadians who have not completed the minimum education qualification required for today's economy.<sup>78</sup> Students must also graduate from high school with an adequate level of functional literacy in math, science and writing. In 2009, it was reported that between 25% and 35% of high school graduates failed the basic literacy and math tests – geared to a Grade 8 level - administered by Michelin in hiring for its Nova Scotia plants.<sup>79</sup>

Post-secondary institutions have facilitated the increased enrolment and rising educational attainment of Atlantic Canadians. New programs have been introduced to meet new labour force requirements. Atlantic community colleges have seen industry consultation as a key driver of program development, with most programs or schools drawing on input from industry advisory committees. Universities may take a broader perspective on their role as educational institutions but they also need to be responsive to changing labour force needs to continue to support the growth of the region's economy.<sup>80</sup> As discussed in Chapter 4, the supply of graduates in some fields is not necessarily aligned with labour demand.

<sup>77</sup> Knighton, Tamara; Brochu, Pierre and Gluszynski, Tomasz (2010). *Measuring Up: Canadian Results of the OECD PISA Study – The Performance of Canada's Youth in Reading, Mathematics and Science*. Ottawa: Statistics Canada. OECD (2010). *PISA 2009 Results: What Students Know and Can Do – Student Performance in Reading, Mathematics and Science (Volume 1)*. OECD Publishing.

<sup>78</sup> Gilmore, Jason (2010). Trends in Dropout Rates and the Labour Market Outcomes of Young Dropouts. *Education Matters: Insights on Education, Learning and Training in Canada*, November. Retrieved May 3, 2012 from <http://www.statcan.gc.ca/pub/81-004-x/2010004/article/11339-eng.htm>

<sup>79</sup> Chaundy, David (2011). *Atlantic Canada's Changing Competitiveness for International Investment*. Halifax: APEC, p. 66.

<sup>80</sup> Chaundy, David (2011), p. 67.

## Chapter 7

# Key Issue #5: Adequate Labour Market Information and Appropriate Policies

### Chapter Summary

- **The federal government has a wide-ranging influence over labour markets and important changes are being made in several programs including retirement income, employment insurance (EI) and immigration.**
- **Provincial governments have taken on greater responsibility for labour market programming as well as taking a larger role in immigration. Labour market strategies are becoming an increasingly important priority for Atlantic governments.**
- **Labour market information (LMI) is critical to enable individuals, employers, education and training institutions, and governments to make informed choices and to facilitate labour market adjustment. While there have been improvements to LMI, gaps still remain. The costs and benefits of closing these gaps needs to be investigated as better LMI may not make much difference in the face of disincentives or structural barriers to change.**
- **A broad review of the EI program is warranted in light of changing labour market realities. It is not yet clear how proposed new criteria regarding the search for suitable employment will work in practice.**
- **The federal government is planning numerous changes to immigration programs to refocus them on Canada's labour market needs. Some of these changes are warranted but other issues also need to be addressed.**
- **Policymakers need to ensure that their strategies and programs are responsive to changing labour market requirements; consistent and well integrated; and appropriately focused.**

This chapter focuses on several key policy areas that affect labour markets. It begins with a brief overview of federal and provincial labour market responsibilities, highlighting where changes are being made in labour market policy. The discussion then focuses on three main policy areas: the important role that labour market information (LMI) plays both in terms of the efficiency of the labour market and its responsiveness to economic

and demographic change; the role of the employment insurance (EI) program; and immigration policy. The chapter concludes with some general comments on labour market policy.

The federal government has a wide-ranging influence over labour markets as it operates the EI program, Canadian retirement income programs, the Temporary Foreign Worker Program, Canadian immigration programs as well as providing various forms of financial support for students and apprentices. Some important changes are being made in several of these programs, reflecting the government's goals of supporting a flexible, national labour market; increasing participation in the labour force by reducing barriers and disincentives, particularly for under-represented groups; and removing barriers to post-secondary education attainment and skills development.<sup>81</sup> Changes to the EI program and immigration policy are discussed later in this chapter.

*The age of eligibility for Old Age Security is being increased to 67 years of age*

Budget 2012 announced that the age of eligibility for Old Age Security (OAS) and the Guaranteed Income Supplement is being increased from 65 to 67 years of age, starting in 2023, with full implementation by 2029, so anyone currently 54 years of age or older will not be affected. This change, while introduced to ensure fiscal sustainability in the light of an aging population and increased life expectancy, may force some individuals to delay their retirement. It will particularly affect lower-income Canadians and those without government or corporate pensions or with inadequate personal retirement savings. Atlantic Canada receives a relatively large share of OAS payments because of its large share of seniors aged 65 and over. Beginning in 2013, Canadians will also have the option to continue working and defer their OAS pension for up to five years in order to receive a larger OAS pension when they do retire.

*Labour market strategies are becoming increasingly important provincial priorities*

Provincial governments in Atlantic Canada have taken on increased responsibility for labour markets over the last decade through the devolution of responsibility (through bilateral Labour Market Development Agreements and Labour Market Agreements with the federal government) for local labour market programming as well as the development of Provincial Nominee Programs to bring in immigrant workers. The provinces also operate the K-12 education system; provide funding for community colleges and universities; and manage various initiatives to support economic development. Labour market strategies are becoming increasingly important provincial priorities, broadening beyond immigration strategies and repatriation initiatives. An increased emphasis on working with employers is also evident.

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<sup>81</sup> HRSDC (2010). 2010-2011 Estimates. Departmental Performance Report: Human Resources And Skills Development Canada. Ottawa: HRSDC. Retrieved May 3, 2012 from <http://www.tbs-sct.gc.ca/dpr-rmr/2010-2011/inst/csd/csd00-eng.asp>



Nova Scotia is the only Atlantic province to have issued a formal labour market strategy.<sup>82</sup> It focuses on three priorities: supporting learning and skills development in the workplace, including financial incentives to encourage employers to engage in training and workplace education and to increase co-op and internship opportunities; helping connect Nova Scotians with good jobs through improved labour market information and related tools and initiatives, particularly for youth; and growing the workforce through the province's immigration strategy and programs targeted at under-represented groups.

The strategic plan of Newfoundland and Labrador's newly created Department of Advanced Education and Skills identifies the supply of skilled and available workers as a key overarching issue and states that a labour market strategy will be completed within three years.<sup>83</sup> The plan includes a specific goal to increase the number of skilled workers coming to the province through the Provincial Nominee Program by 80% over three years. The province is also continuing to invest in the apprenticeship system and in postsecondary education.<sup>84</sup> The province has been increasing its engagement with employers and launched an online HR toolkit for small business in early 2010.<sup>85</sup> In 2011, the province released a detailed labour market analysis and forecast.<sup>86</sup> The province is also creating a workforce secretariat to coordinate labour market policies and program across government to better connect employment opportunities with people who are ready to do the work.<sup>87</sup>

New Brunswick recently released a new economic development action plan which included a focus on human resources;<sup>88</sup> a full labour force development strategy will be released at a later date. Three specific labour market goals were identified in the action plan to improve the quality of the labour force, the size of the labour force and to better match individuals with opportunities through improved labour market information. To improve the quality of the labour force the province will put more emphasis on literacy training; fund pilot projects to improve access to post-secondary education for under-represented groups; fund more places in community colleges; refocus training programs to boost employment outcomes; and help provide training so firms can participate in large industrial projects. To enhance the size of the labour force the province will increase its emphasis on immigration and interprovincial migration; attract international students to programs in priority sectors; and better leverage the potential of First Nations.

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<sup>82</sup> Government of Nova Scotia (2011). *Nova Scotia's Workforce Strategy*.

<sup>83</sup> Newfoundland and Labrador Department of Human Resources, Labour and Employment (2011c). *Strategic Plan: Fiscal Years 2011-12 to 2013-14*.

<sup>84</sup> Government of Newfoundland and Labrador (2012a, April 24). Budget Speech 2012.

<sup>85</sup> Newfoundland and Labrador Department of Advanced Education and Skills (2012). *The NL HR Manager*. Retrieved May 3, 2012 from <http://www.nlhrmanager.ca/index.php>.

<sup>86</sup> Newfoundland and Labrador Department of Human Resources, Labour and Employment (2011b). *Newfoundland and Labrador Labour Market: Outlook 2020*.

<sup>87</sup> Government of Newfoundland and Labrador (2012b, March 5). Speech from the Throne 2012.

<sup>88</sup> Government of New Brunswick (2012). *Rebuilding New Brunswick: Economic Development Action Plan 2012-2016*. Fredericton: Government of New Brunswick.

Prince Edward Island's 2012 budget highlighted the important role that the private sector will play in creating jobs but noted the role for government to help create a skilled workforce.<sup>89</sup> The budget speech announced investment in a new workplace training program and establishing a taskforce, in partnership with post-secondary institutions, to ensure that Islanders are receiving the skills and knowledge they need to help strengthen the labour force and the economy. The government recently announced a new graduate mentorship program to help match recent graduates with Island companies.<sup>90</sup>

## 7.1 The Importance of Labour Market Information

*Adequate labour market information is important for individuals, employers and governments*

In a decentralized economy where information is neither complete nor costless to acquire, adequate labour market information (LMI) is necessary for individuals, employers and governments to make informed decisions, and to facilitate the matching of workers with jobs both now and in response to economic shocks and changes over time. At an individual level, access to quality LMI helps: students to make crucial decisions relating to their choice of studies and career; laid off workers or other individuals considering a career change to evaluate alternative training and career options; and workers to find a job in their field in a timely manner. LMI helps employers to forecast their labour requirements, assess the size and quality of the potential labour pools, and evaluate the competitiveness of their compensation packages so they can decide whether they need to change their recruitment and retention strategies. For governments, LMI is critical to plan the need for and evaluate the success of labour market interventions and policies. According to the 2009 report from the Advisory Panel on Labour Market Information (APLMI), while nationwide expenditure on LMI amounts to just over \$100 million, the impact of reducing unemployment or increasing wages by as little as a tenth of a percentage point through better labour market matching would raise GDP by as much as \$800 million.<sup>91</sup>

The APLMI report identified several important concerns with the current LMI system in Canada. Several data gaps were identified including data relating to labour market flows, such as job vacancies; data relating to wage comparisons in cities and regions across the country, including adjustments relating to relative purchasing power (i.e. real wages); and in data relating to the labour market performance and needs of groups such as women, youth, older workers, minorities, immigrants, Aboriginals and the disabled. Moreover, issues were raised with regard to the accessibility of LMI, with participants in the consultation process noting the high cost and the perceived lack of user-friendliness

<sup>89</sup> Prince Edward Island (2012, April 18). Budget Address.

<sup>90</sup> Prince Edward Island Department of Innovation and Advanced Learning (2012, April 12). Graduate Mentorship program to provide work experience for recent graduates. [News Release].

<sup>91</sup> Advisory Panel on Labour Market Information (2009). *Working Together to Build a Better Labour Market Information System for Canada.*, p. ii

when accessing Statistics Canada data. Participants also noted dissatisfaction with the “bewildering array” of available LMI and the difficulty of sorting through it, with many organizations noting that they often rely on secondary sources of LMI rather than primary sources like Statistics Canada. At the Atlantic Roundtable discussion, participants also noted their frustrations with the lack of availability of regional and provincial information from some surveys, and data suppression and small sample sizes in the Atlantic provinces in other surveys resulting in higher volatility in the data and reduced data reliability.

Since the release of the APLMI report, some progress has been made to address some of the issues raised. As of February 2012, Statistics Canada has made all data in the CANSIM database available at no cost and has launched a new, more user-friendly interface. Statistics Canada has also begun collecting and releasing data on job vacancies. Data from a new “Workplace Survey”, providing further information on workplace demographics, turnover and job vacancies, will be released in the fall of 2012. The federal government is in the process of redesigning the Working in Canada web site to provide information for new audiences, including job seekers, youth, students, older workers and aboriginal people rather than just newcomers to Canada. The provinces are also taking steps to improve LMI in their own jurisdictions. For example, Newfoundland and Labrador recently released a ten year labour market forecast, including some detailed occupational analysis. Nova Scotia has launched a new one-stop shop website for individuals and employers as part of its workforce strategy. Meanwhile the Canadian Manufacturers and Exporters has spearheaded the creation of a new website to connect skilled workers and employers.<sup>92</sup>

Moving forward, there is still work to be done to improve Canada’s LMI system. For example, there are limited data on the magnitude and nature of long-distance commuting from the Atlantic provinces to Alberta and other jurisdictions. The elimination of the long form Census questionnaire may have weakened the reliability of data on under-represented groups. At the Atlantic level, industry and community colleges try to supplement the myriad of existing data sources on demand and supply of labour for major investment projects with their own information. But there is still a lack of sufficiently detailed, reliable and timely information which makes it difficult to assess training needs and to identify labour market pressures in advance.

In order to address the labour market challenges ahead as best as possible, quality information on labour markets at the provincial, regional, industry and occupational level is needed in all provinces. Efforts must be made to ensure that the available data are properly and adequately interpreted and disseminated in useable formats to those that

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<sup>92</sup> Canadian Manufacturers and Exporters (2012, March 25). New website touts collaborative approach for addressing skilled labour shortages in Canada. Retrieved May 3, 2012 from <http://www.cme-mec.ca/?lid=JCKNC-E742G-1W6JA&comaction=show&cid=VUR62-H1UIY-HCWBF> [News Release].

need it. The current mismatch between the field of study of post-secondary graduates and forecasted job openings for some occupations suggests that either this is not the case or that there are some other barriers that are hindering a better matching of supply and demand. However, providing accurate, reliable and timely LMI is not without cost and some information can quickly become out of date. In an era of fiscal restraint, governments and other data providers will need to evaluate the relative costs and benefits of specific initiatives. Budget 2012 announced \$21 million for targeted investments over two years to “enhance the content and timeliness of the job and labour market information that is provided to Canadians who are searching for employment”.<sup>93</sup> In May 2012 it was announced that EI recipients will receive twice-daily Job Alerts on job postings in their chosen occupation and related occupations, from different regions, along with information on wage rates and demand for selected occupations.<sup>94</sup> By broadening the sources for and the scope of these Job Alerts, the government intends to better connect EI recipients to available jobs.

## 7.2 Reforming Employment Insurance

Canada’s Employment Insurance (EI) program provides temporary financial assistance through regular EI benefits to unemployed Canadians who have lost their job through no fault of their own while they look for work or upgrade their skills. In addition to regular EI benefits, the program provides income benefits to self-employed fishers, employees on a temporarily reduced work week, and special benefits for workers unable to work due to sickness or because of family responsibilities.<sup>95</sup> In addition to providing income benefits, the EI program provides training, job-finding services and related programs to help insured participants prepare for, obtain and maintain employment.<sup>96</sup> The EI program therefore plays an important role as a form of income support, income redistribution, and as an automatic stabilizer for regional and national labour markets.<sup>97</sup>

*The EI program has been an important feature of Canadian labour markets since the 1940s*

The EI program, known as unemployment insurance prior to 1996, has been an important feature of Canadian labour markets since the system was introduced in the early 1940s.<sup>98</sup> When the program began about 42% of the workforce was insured with

<sup>93</sup> Government of Canada (2012). *Jobs, Growth and Long-Term Prosperity: Economic Action Plan 2012*, p. 146.

<sup>94</sup> Government of Canada (2012, May 24). Connecting Canadians with Available Jobs. Retrieved May 24 from <http://news.gc.ca/web/article-eng.do?m=%2Findex&nid=676379> [News Release].

<sup>95</sup> Fishing benefits are paid to self-employed fishers. Work-sharing benefits provide income support to employees eligible for EI benefits who work a temporarily reduced work week. Special benefits are paid to those who are unable to work due to sickness, or who are temporarily not working to care for a newborn child or seriously ill family member.

<sup>96</sup> These active Employment Benefits and Support Measures, provided under Part II of the *Employment Insurance Act*, are delivered mostly by provinces through Labour Market Development Agreements (LMDAs).

<sup>97</sup> Canadian Employment Insurance Commission (2012). *EI Monitoring and Assessment Report 2011*. Retrieved June 11, 2012 from [http://www.hrsdc.gc.ca/eng/employment/ei/reports/eimar\\_2011/index.shtml](http://www.hrsdc.gc.ca/eng/employment/ei/reports/eimar_2011/index.shtml).

<sup>98</sup> For a brief history of EI policy changes see Zhengxi (1998) and for more recent legislative changes see Canadian Employment Insurance Commission (2012), Annex 1. Lin, Zhengxi (1998). *Employment Insurance in Canada: Policy*

seasonal workers and jobs with higher turnover rates among those excluded. Over time the EI system grew in size and scope with coverage extended to include seasonal workers and self-employed fishers. By 1971 about 93% of the paid labour force was insured. The UI Act of 1971 relaxed eligibility requirements, increased benefits to 67% of insurable earnings for single workers, and made the benefit period dependent upon national and regional unemployment rates.

Since the late-1970s, concerns about the cost of the EI system and its possible adverse effects on the labour market have prompted various reforms and changes. For example, higher entrance requirements (i.e. the number of weeks of insurable earnings needed to be eligible for benefits) were introduced for new entrants and re-entrants in 1979 and the benefit rate was reduced to 55% of insurable earnings by 1994. During the 1990s a number of changes were made to tighten eligibility, to encourage labour market attachment and to discourage frequent claims. Beginning in 1997, EI eligibility was changed to one based on hours rather than weeks worked. Budget 2009 made some temporary changes to extend benefit durations, freeze the contribution rate and increase funding for training during the 2009 recession.

To qualify for regular EI benefits, individuals must have been without work and without pay for at least seven consecutive days and must have accumulated a sufficient number of insurable hours in the last 52 weeks before their claim or since the start of their last EI claim, whichever is shorter.<sup>99</sup> The required number of insured hours is based on the unemployment rate in the economic region where the individual resides, such that individuals in higher unemployment regions require fewer hours to qualify (a feature known as the variable entrance requirement). Currently, most individuals require between 420 and 700 insurable hours to qualify for EI regular benefits. However, individuals who recently entered the workforce for the first time or those who are re-entering the workforce after an absence of two or more years require 910 hours of work to qualify, regardless of the unemployment rate in the region where they reside.

The maximum number of weeks of regular benefits payable varies from 14 to 45 weeks, depending on the number of insurable hours used to establish the claim and the unemployment rate in the region where the claimant resides. The higher the regional unemployment rate and the number of insured hours worked by the individual, the higher the entitlement. Qualified claimants must serve a two-week waiting period before receiving EI benefits; this is designed to ensure that benefits are paid to people with significant gaps in employment, and allows time to verify and establish a claim.

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Changes. *Perspectives on Labour and Income*, Summer, pp. 42-47. Retrieved June 11, 2012 from <http://www.statcan.gc.ca/studies-etudes/75-001/archive/e-pdf/3828-eng.pdf>.

<sup>99</sup> This summary of the main features of the EI program for regular benefits is based on Canadian Employment Insurance Commission (2012).

The weekly benefit rate is 55% of the average weekly insurable earnings an individual has accumulated in the 26 weeks before establishing a claim, up to a maximum weekly benefit of \$468 in 2011.<sup>100</sup> The calculation of average weekly insurable earnings, based on total insurable earnings in the past 26 weeks divided by the number of weeks worked, is subject to a "minimum divisor" (which varies from 14 weeks in high unemployment regions to 22 weeks) to encourage workers to accept work beyond the minimum required to qualify for EI in order to avoid a reduced weekly benefit. To encourage acceptance of all available work, weeks with insurable earnings beyond the minimum divisor are excluded from the average earnings calculation if earnings are below \$225.<sup>101</sup> Under the Working While on Claim provision, EI recipients are also allowed to earn up to \$50 per week or 25% of their weekly benefit (whichever is higher) before dollar-for-dollar deductions in EI benefits begin.

A number of EI pilot projects are also in operation. Since 2008 the Working While on Claim provision has been temporarily amended to allow EI recipients to earn up to \$75 per week or 40% of their weekly benefit (whichever is higher). Under the Best 14 Weeks pilot, average earnings for claimants in high unemployment regions, are based on the claimant's 14 weeks of highest earnings during the last 52 weeks (or since the beginning of their last claim). The maximum number of regular weeks of benefits has been temporarily increased by 5 weeks, to a maximum of 45 weeks, in 21 regions with high unemployment rates.

*EI use in Atlantic Canada is higher than nationally high due to greater use in rural areas*

EI is relied on much more heavily in Atlantic Canada than in the rest of Canada with the Atlantic region accounting for about 16-17% of regular claims and benefits but only 9% of the unemployed and 7% of employees in Canada.<sup>102</sup> However, as discussed in Chapter 5, this higher EI usage is due to greater use in rural areas of Atlantic Canada. There were 227,000 new claims for regular EI benefits in Atlantic Canada in 2010/2011, with total regular benefits amounting to \$2 billion.<sup>103</sup>

The EI program "is designed to redistribute some income from high earners to low earners, and from provinces and regions of low unemployment to provinces and regions of high unemployment".<sup>104</sup> Workers in the Atlantic provinces and Quebec receive more in EI benefits than employees and employers in those provinces pay in benefits.<sup>105</sup> Similarly, employees in seasonal industries such as agriculture, fishing, forestry and construction,

<sup>100</sup> The maximum insurable earnings increases in line with the average industrial wage and was \$44,200 in 2011. The Family Supplement provision gives low-income families with children a benefit rate of up to 80% of their average weekly insurable earnings, up to the maximum weekly benefit rate.

<sup>101</sup> This is known as the small weeks provision.

<sup>102</sup> The 22,600 fishing claims in Atlantic Canada in 2010/2011 represented 79% of the national total, with half of these claims in Newfoundland and Labrador. Fishing benefits in Atlantic Canada amounted to \$187 million in 2010/2011.

<sup>103</sup> Total income benefits, including fishing benefits and special benefits, amounted to \$2.7 billion.

<sup>104</sup> Canadian Employment Insurance Commission (2012), Chapter 6.1. Evidence on the redistribution from high earners to low earners is provided in Finnie, Ross and Ian Irvine (2011). The Redistributive Impact of Canada's Employment Insurance Program, 1992-2002. *Canadian Public Policy*, vol. 3, no. 2, June, pp. 201-218.

<sup>105</sup> Canadian Employment Insurance Commission (2012), Annex 3.17.

as well as employees in manufacturing, mining (including oil and gas), business services, and arts and recreation, received more in benefits in 2009 than they and their employers paid in premiums.<sup>106</sup> Employees in some firms within some of these industries are also persistent net beneficiaries of EI while workers for other firms in the same industry are rarely net beneficiaries.<sup>107</sup> Indeed, researchers have found that firm-specific factors are more important determinants of which firms are net beneficiaries of EI than their province or industry.<sup>108</sup>

**Table 7.1 EI Use Is Much Higher in Atlantic Canada**

**Profile of regular EI claims, 2010/2011**

	New claims (000s)	Frequent claims as % of new claims (%)	Seasonal claims as % of new claims (%)	Total benefits (\$ millions)	Average weekly benefit (\$)	Share of new claims (%)	Share of total benefits (%)	Share of employees (%)
NL	68	68	52	687	372	4.8	5.6	1.4
PE	18	66	52	160	361	1.3	1.3	0.4
NS	67	52	47	582	360	4.8	4.7	2.8
NB	75	58	39	631	359	5.3	5.1	2.2
QC	442	42	34	3,433	368	31.6	27.9	23.0
ON	398	24	29	3,796	371	28.5	30.9	38.4
MB	38	28	26	281	359	2.7	2.3	3.8
SK	29	30	23	243	379	2.1	2.0	3.0
AB	97	12	19	951	406	6.9	7.7	11.9
BC	162	20	16	1,479	368	11.6	12.0	12.8
CA	1,397	35	27	12,294	371	100	100	100
ATL	227	60	46	2,059	363	16.3	16.7	6.8

Note: Frequent claimants are individuals who have had three or more active claims in the five years prior to their current claim. Seasonal claimants are individuals who started previous claims at about the same time of the year as their current claim.

Source: Canadian Employment Insurance Commission (*EI Monitoring and Assessment Report 2011*), APEC

Atlantic EI claimants are more likely to be frequent and seasonal claimants and to work while on claim. About 60% of Atlantic claims in 2010/2011 were from frequent users, who had three or more claims in the past five years, compared with 35% nationally. Similarly, about 46% of Atlantic claims were from seasonal claimants, compared with 27%

<sup>106</sup> Canadian Employment Insurance Commission (2012), Annex 3.17. It should also be noted that governments provide financial support, through a variety of means, to a number of industries, including agriculture and aerospace. Central Canada and the Western provinces receive the largest dollar value of these federal business subsidies.

<sup>107</sup> Corak, Miles and Chen, Wen-Hao (2003). *Who Benefits from Unemployment Insurance in Canada: Regions, Industries, or Individual Firms? The Earnings Supplement Project*, SRDC Working Paper Series. Ottawa: Social Research and Demonstration Corporation; and Corak, Miles and Pyper, Wendy (1995a). *Firms, Industries and Cross-subsidies: Patterns in the Distribution of UI Benefits and Taxes*. Ottawa: Human Resources Development Canada.

<sup>108</sup> Corak, Miles and Chen, Wen-Hao (1995). *Firms, Industries, and Unemployment Insurance: An Analysis Using Employer-Employee Data from Canada*. Ottawa: Statistics Canada.

nationally. About 68% of regular EI claimants in Atlantic Canada work while on claim, compared with 56% nationally.

*There is a complex relationship between work patterns and EI use*

There is a complex relationship between employment patterns, such as seasonal work, and use of the EI program. For example, a significant proportion of seasonal workers are frequent EI claimers but some seasonal workers never claim EI or may not accumulate sufficient hours to make a claim. By contrast, a number of workers frequently make EI claims unrelated to seasonal work patterns.<sup>109</sup> Research indicates that a worker's personal characteristics and economic circumstances are key factors explaining their reliance on EI.<sup>110</sup> Seasonal workers relying on EI are more likely to be older, male, less educated and live in regions with the poorest employment opportunities (i.e., Atlantic Canada and Quebec). Seasonal workers who never use EI are more likely to be under 30 years and live in low unemployment regions in Ontario and the West.

The EI program has been subject to extensive analysis, criticism and debate, often in regard to the consequences of the EI program for labour market activity and the extent to which the EI program should function as a pure employment insurance system or as a form of broader income support and redistribution.<sup>111</sup> As already noted, seasonal workers and others at high risk of unemployment were initially excluded from the EI program and there have been repeated calls to refocus the program on strict insurance-based principles.

*Experience rating is frequently recommended to make the EI program more insurance-based*

One frequently suggested means to make the EI program more of an insurance-based program is to introduce experience rating. This could be done by making employers' premiums and/or employees' benefits (or premiums) partly dependent upon use of the EI program.<sup>112</sup> For example, employers' premiums could be set according to their employees' use of EI benefits or the employer's human resource practices (such as whether they provide training to their employees).<sup>113</sup> Alternatively, a worker's EI benefits could be based on their past use of EI.

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<sup>109</sup> For example, one study found that about 30-35% of male EI claimants in the Atlantic provinces were frequent but non-seasonal users. Gray, David and Sweetman, Arthur (2001). *A Typology Analysis of the Users of Canada's Unemployment Insurance System: Incidence and Seasonality Measures* in Saul Schwartz and Abdurrahman Aydemir, eds., *Essays on the Repeat Use of Unemployment Insurance*. Ottawa: Social Research Demonstration Corporation, pp. 15-61.

<sup>110</sup> de Raaf, Shawn; Kapsalis, Costa; and Vincent, Carole (2003). *Seasonal Employment and Reliance on Employment Insurance: Evidence from the SLID*, SRDC Working Paper Series. Ottawa: Social Research and Demonstration Corporation.

<sup>111</sup> Green, Christopher; Lazar, Fred; Corak, Miles; and Gross, Dominique M. (1994). *Unemployment Insurance: How to Make It Work*. Toronto: C. D. Howe Institute.

<sup>112</sup> de Raaf, Shawn; Motte, Anne and Vincent, Carole (2005). *A Literature Review of Experience-Rating Employment Insurance in Canada*. SRDC Working Paper Series, 05-03, May.

<sup>113</sup> de Raaf et al (2005). These authors note that this type of experience rating already exists in the EI program. Under the Premium Reduction Program, EI premiums for employers are reduced if their employees are covered by a short-term disability plan that meets or exceeds certain requirements set by the EI Commission. Over 32,000 employers currently participate in this program. Canadian Employment Insurance Commission (2012).



There is a lack of consensus in the research on the relative merits and costs of introducing experience rating for employers in Canada.<sup>114</sup> While some studies find evidence that experience rating in the US has helped reduce seasonal layoffs, other studies find little impact on the direction or magnitude of subsidies across firms. Under a system of experience rating employers with higher premium rates may pay their workers less and challenge employees' claims for benefits. In a recent review of the literature researchers concluded that there is a need to better understand the relationship between firms and the EI program and that there is a lack of clear evidence that implementing experience rating in Canada "would address the persistent subsidies received by particular firms and workers through the EI program while reducing seasonality of employment and frequent claims for EI benefits".<sup>115</sup>

There was a brief attempt to apply experience rating to claimants during the 1990s, but with limited success. The intensity rule, which reduced the benefit rate of 55% by one percentage point for every 20 weeks of benefits previously paid, up to a maximum reduction of five percentage points, was introduced in 1996. The rule reduced benefits for heavy users of EI by 2-9% and was intended to discourage regular use. The savings in benefits from the intensity rule in Atlantic Canada were estimated at \$52 million in 1999/2000, about 40% of the national total. However, a study found only a limited behavioural response to the intensity rule: there was a minimal reduction in benefit durations and those affected by the intensity rule still used EI more than other comparable claimants.<sup>116</sup> Although the study only examined the first year of operation of the intensity rule, the results suggest that "unemployed workers do not have as much control over their usage of EI as the proponents of the reform thought they had".<sup>117</sup> The proportion of frequent claimants in Atlantic Canada declined only modestly from 61% in 1995/1996 to 57% in 1999/2000 and the intensity rule was abolished in 2001.

While there are some doubts about how effective introducing some form of experience rating into the EI program would be, there are other ways to make the EI program more insurance-based.<sup>118</sup> If such a policy change reduced the number of individuals who work part-year and use EI to supplement their annual income, and increased the number of full-year workers, this would help improve the overall utilization of Atlantic Canada's workforce, which could be particularly important in light of the projected decline in the Atlantic labour force discussed in Chapter 3.<sup>119</sup> However, as articulated in an earlier APEC report, many individuals, firms and communities have become accustomed to a

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<sup>114</sup> APEC (2005) provides a brief summary and discussion in the Atlantic context.

<sup>115</sup> de Raaf et al (2005).

<sup>116</sup> Fortin, Pierre and Audenrode, Marc Van (2000). *The Impact of Worker's Experience Rating on Unemployed Workers*. Ottawa: Human Resources Development Canada.

<sup>117</sup> Fortin, Pierre and Audenrode, Marc Van (2000), p. 27.

<sup>118</sup> For example, when EI coverage was initially extended to seasonal workers it was only for unemployment during the on-season.

<sup>119</sup> APEC (2005) also discussed the potential to improve the competitiveness of the Atlantic economy and the development of higher value, higher knowledge economic activity.

*Adopting a more insurance-based EI system would require comprehensive policy changes*

system of seasonal employment and recurring EI use and such a major policy change would need to be accompanied by comprehensive policy changes which may make EI reform difficult to implement.<sup>120</sup> As discussed in Chapter 6, many young people have moved out of rural Atlantic communities over the past decade, but for those that choose to remain measures to support their completion of high school and their successful transition into full-year employment need to be considered. For older workers other forms of income support would be required as these workers are less mobile and their limited formal education and literacy skills impede their ability to retrain. EI dependent communities would also need assistance to facilitate their economic diversification.

How would firms meet their seasonal labour requirements if their usual workforce did not have access to EI in the off season? While some firms may have capacity to adjust their business model or products to reduce the seasonality in their employment, some industries such as construction, tourism and fishing will always have some degree of seasonality in their employment requirements. Students account for a large proportion of the seasonal workforce in Atlantic Canada but the number of students in Atlantic Canada will decline due to demographic trends.<sup>121</sup> Some seasonal employers might be able to coordinate their employment needs but it is not clear how extensive this would be and whether the skills sets and job locations would be compatible. The only other obvious labour pool would be greater use of temporary foreign workers, as has been done for many years in the agriculture industry, such as through the Seasonal Agricultural Worker Program. But shifting from a local seasonal workforce to a foreign migrant seasonal workforce would have important economic and social implications. For example, foreign seasonal workers are more likely to send their earnings home rather than spending them in the local community.

The recent recession triggered various critiques of the EI program which focused on the degree of EI coverage and the adequacy of EI as a social safety net; the regional variation in eligibility and benefits; the use of the unemployment rate as an indicator of labour market conditions; and the process for setting EI premiums.

The recent recession revived concerns about the adequacy of the EI program as a social safety net for Canadians who lose their jobs. As noted earlier, the benefit rate has been reduced since the early 1970s. In comparison to most OECD countries, EI benefits in Canada are quite low relative to earnings, although they are similar to benefit-to-earnings rates in the US and the UK.<sup>122</sup>

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<sup>120</sup> APEC (2005).

<sup>121</sup> APEC (2005).

<sup>122</sup> This measure is technically known as the “replacement rate” – the ratio of benefits to employment earnings. Osberg, Lars (2009). *Canada’s Declining Social Safety Net: The Case for EI Reform*. Ottawa: Canadian Centre for Policy Alternatives.

Of even greater concern has been the decline in the number of unemployed workers who receive EI benefits.<sup>123</sup> About 46% of unemployed Canadians received regular EI benefits in 2010, down from 83% in 1990 due to the tightening of eligibility during the 1990s as well as changes in the nature of employment and unemployment.<sup>124</sup> However, some commentators have expressed concerns about the cost implications of easing eligibility requirements. Other researchers, by contrast, anticipate little increase in coverage if the number of hours required to access EI were reduced and have therefore advocated for an additional income-tested jobseeker's loan to provide temporary income assistance for those looking for work.<sup>125</sup>

*Concerns have been raised about the adequacy of EI coverage*

There are several reasons why unemployed Canadians do not receive EI benefits, including a lack of EI contributions, insufficient hours worked and invalid job separations. About 35% of the unemployed in 2010 did not contribute to EI during the past year because they were self-employed or they did not work in the past 12 months (including those who were unemployed for more than a year); these non-contributors are not eligible to receive EI benefits.<sup>126</sup> About 18% of unemployed contributors did not have a valid job separation because they quit to go back to school or for other reasons that did not meet the EI program requirements. About 16% of unemployed contributors with a valid job separation were ineligible for benefits because they had not worked enough insurable hours. In total, about 63% of unemployed contributors with a valid job separation received EI benefits in 2010. In addition to some workers not being eligible for EI, about 25% of claimants in 2009/2010 exhausted their EI benefits before they found work, which may have pushed them onto provincially funded welfare programs. According to the 1998 Employment Insurance Coverage Survey, 23% of individuals who were not eligible for EI relied on social assistance as their main source of income.

Canada's EI program recognizes that it is harder to find a job in high unemployment regions and automatically reduces the number of hours required to qualify for benefits and extends the duration of benefits as the unemployment rate in a region increases. Canada is unique among OECD countries in this regard as most programs are national in scope with little local variation.<sup>127</sup> Some researchers continue to praise this feature of the EI program.<sup>128</sup> Many others have called for a standardization of the EI program, with a single national entrance requirement and benefit duration structure, arguing that

*Many analysts have advocated for the EI program to be based on national rather than regional labour market conditions*

<sup>123</sup> For example, Osberg (2009); Jackson, Andrew and Schetagne, Sylvain (2010). Is EI Working for Canada's Unemployed? Alternative Federal Budget 2010 Technical Paper, January; and Mendelson, Michael; Battle, Ken; and Torjman, Sherri (2009). Canada's Shrunken Safety Net: Employment Insurance in the Great Recession. *Caledon Commentary*, April.

<sup>124</sup> Mowat Centre EI Task Force (2011). *Making it Work: Final Recommendations of the Mowat Centre Employment Insurance Task Force*. Toronto: Mowat Centre for Policy Innovation.

<sup>125</sup> Mendelson, Michael and Battle, Ken (2011). *Fixing the hole in EI: Temporary Income Assistance for the Unemployed*. Ottawa: Caledon Institute of Social Policy.

<sup>126</sup> These data are based on Statistics Canada's *Employment Insurance Coverage Survey* as reported by the Canadian Employment Insurance Commission (2012).

<sup>127</sup> Jones, Stephen R. G. (2009). Older Workers in the New Economy: The Role of Wage Insurance and the Rethinking of Employment Insurance. *Canadian Public Policy*, vol. 35, no. 4, pp. 499-511.

<sup>128</sup> Osberg (2009).

differentiation by region cannot be justified in the EI system.<sup>129</sup> Standardization is intended to reduce the redistribution of income between regions and the implicit wage subsidy for seasonal industries which, according to some authors, trap workers in patterns of seasonal labour, creating long-term EI dependence and reducing labour mobility.

However, the impact of the EI program on labour mobility seems to be very limited. As discussed in Chapter 6, workers in the Atlantic region, particularly young workers in rural communities, display considerable mobility, moving both to urban centres within their province, and to other provinces in search of better job opportunities. The research evidence also indicates that EI is not a barrier to mobility.<sup>130</sup> For example, studies cited by the Employment Insurance Monitoring Commission have found that EI generosity does not seem to affect mobility decisions; that EI does not discourage workers from being mobile; that EI recipients are more likely than non-EI recipients to commute longer distances or move further away; and that eliminating the regional differentiation in the EI program would increase the volume of migration by less than 1%.

*The unemployment rate has been criticized as an inadequate indicator of the ease of finding a job*

Even if the principle of regional variation in the EI program is accepted, researchers have criticized the exclusive focus on the unemployment rate as the indicator of regional labour market conditions. For some analysts the current unemployment rate is a poor indicator of the probability of finding a job because it is harder to find a job when employment is falling (and the unemployment rate rising) than when employment is rising. They suggest other macroeconomic indicators should be considered in addition to the unemployment rate such as the change in the employment level, the job vacancy rate, and the rate of employee turnover.<sup>131</sup> By contrast, other researchers view a worker's individual characteristics, such as their skills, education and work experience and how they fit with the labour market, as being more important than macroeconomic indicators in determining an individual's chance of finding employment.<sup>132</sup> But even if the regional unemployment rate is an imperfect measure, some commentators conclude that it would be too complex and cumbersome to use a broad range of indicators, reflecting both personal characteristics and local economic conditions, as determinants of EI eligibility.<sup>133</sup>

<sup>129</sup> For example, Mowat Centre EI Task Force (2011) and Busby, Colin and David Gray (2011). *Mending Canada's Employment Insurance Quilt: The Case for Restoring Equity*. *C. D. Howe Institute Backgrounder*, No. 144, November.

<sup>130</sup> Canadian Employment Insurance Commission (2012), Chapter 5.2.

<sup>131</sup> Bishop, Grant and Burleton, Derek (2009). *Is Canada's Employment Insurance Program Adequate?* *TD Economics Special Report*, April. It should be noted that job vacancy data are currently only available by province and are inversely correlated with unemployment rates at the provincial level, so it is not clear what would be gained by using these data. Job turnover is only an important consideration if it varies substantially by region.

<sup>132</sup> Mendelson et al (2009).

<sup>133</sup> Mowat Centre EI Task Force (2011).

Financing of the EI program has changed over time and the EI premium rate-setting process has been criticized on numerous occasions, both in terms of the level of premiums and a tendency to increase premiums when employment is falling. EI benefits were initially funded by employees, employers and the federal government. The employer rate has been set at 1.4 times the employee rate since 1972 but the federal government has reduced its contribution over time and since 1990 the EI program has been fully funded by employees and employers. Since 1993, EI premiums exceeded program expenditures leading to the creation of a large notional surplus in the EI account, although such funds were included in general revenues and used for other purposes.<sup>134</sup>

Since 2009 the Canada Employment Insurance Financing Board became responsible for setting the premium rate and managing the EI Operating Account which now holds and invests any excess of EI premiums over EI expenditures. The premium rate was to be set to ensure the EI account breaks even on a one-year forward looking basis, including any surplus or deficit from the previous year, and subject to annual maximum change of 15 cents. However, this made rates pro-cyclical, with rates needing to increase at a time when employment is falling and unemployment is rising.<sup>135</sup> In 2009 the government froze the EI premium and limited increases in 2011 and 2012 to 5 cents. Budget 2012 announced that premium rate increases will be limited to no more than 5 cents each year until the EI Operating Account is balanced; the cumulative deficit in the EI Operating Account was \$7.4 billion as of March 31, 2011.<sup>136</sup> EI premium rates will then be set annually at a seven-year break-even rate, with annual changes limited to 5 cents, which should limit the need to raise premiums during future recessions.

*Proposed changes to the rate-setting process should reduce the procyclical nature of EI premiums*

Budget 2012 announced several other changes to the EI system. A new national Working While on Claim pilot project will ensure EI claimants always benefit from accepting work while on EI as they search for permanent employment. While all earnings will now be subject to a clawback, the clawback rate will be reduced from 100% to 50%. Beginning April 2013, EI benefits will also be based on the highest earnings weeks in the previous year to reduce disincentives to accepting work that might reduce benefit levels.

*Several other changes are being made to the EI program*

The budget also announced new guidelines to “strengthen and clarify what is required of claimants who are receiving regular EI benefits and are looking for work”.<sup>137</sup> In May 2012 the federal government announced further details of what constitutes reasonable job search and suitable employment for individuals claiming regular and fishing EI

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<sup>134</sup> Bishop and Burtleon (2009).

<sup>135</sup> The pro-cyclical feature of EI premium rate setting has been a feature of the EI program since the 1970s. See Kerr, Kevin (2009). *Employment Insurance Premiums: In Search of a Genuine Rate-Setting Process*. Ottawa: Library of Parliament.

<sup>136</sup> Canadian Employment Insurance Commission (2012), Chapter 4.

<sup>137</sup> Government of Canada (2012), p. 146.

benefits.<sup>138</sup> The current *Employment Insurance Act* states that individuals may be required to prove that they are making “reasonable and customary efforts to find suitable employment”.<sup>139</sup> Service Canada guidelines further indicate that claimants must keep a written record of employers they contact including the date of contact.<sup>140</sup> Under the proposed changes, EI claimants will be required to undertake reasonable job search activities every day they receive benefits and be able to submit supporting evidence. Reasonable job search activities include searching for vacancies, applying for jobs and attending interviews.

The current *Employment Insurance Act* indicates that claimants must search for and accept suitable employment. Unsuitable employment is currently defined to include lower earnings or less favourable conditions than what they could expect in their usual occupation.<sup>141</sup> Six criteria will now be used to determine suitable employment, which will require claimants to search for and accept work that is potentially outside their usual occupation, with lower wages, and with different hours and work schedule. These criteria, which will now be defined by regulation not legislation, include: working conditions (i.e., the position must not be due to a labour dispute); personal circumstances (such as health problems or family obligations that prevent them from taking particular jobs); hours of work (i.e., all hours of work are deemed suitable); commuting time (i.e., the workplace is within a one hour commute or longer depending on the claimant’s previous commuting history and the community’s average commuting time); and the type of work and wages which will both depend on a claimant’s EI history and the duration of the claim.

*A claimant’s EI history will now determine the scope of their required search for suitable employment while on claim*

Frequent EI claimants, defined as claimants with three or more regular/fishing claims and over 60 weeks of regular/fishing benefits in the past five years, must begin searching for jobs similar to their normal job and accept wages as low as 80% of their previous hourly wage. After seven weeks of benefits they must accept any work they are qualified to perform (with on the job training, if required) and accept wages as low as 70% of their previous hourly wage.

Long-tenured workers, defined as claimants who have paid EI premiums in 7 of the last 10 years and who have collected no more than 35 weeks of regular/fishing benefits in the last five years, must be willing to search for and accept a job within their usual occupation and at a wage as low as 90% of their previous hourly wage. After 18 weeks of

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<sup>138</sup> Government of Canada (2012, May24). Connecting Canadians with Available Jobs. Retrieved May 24 from <http://news.gc.ca/web/article-eng.do?m=%2Findex&nid=676379> [News Release].

<sup>139</sup> Employment Insurance Act (1996), Section 50(8).

<sup>140</sup> Service Canada (2010). *Employment Insurance Regular Benefits*. Retrieved June 5, 2012 from <http://www.servicecanada.gc.ca/eng/sc/ei/benefits/regular.shtml>.

<sup>141</sup> Employment Insurance Act (1996), Section 27(2). Retrieved June 5, 2012 from <http://laws-lois.justice.gc.ca/eng/acts/E-5.6/index.html>.

benefits, they must search for and accept jobs similar to their normal job and accept wages as low as 80% of their previous hourly wage.

Occasional EI claimants, defined as claimants that are not captured in the previous two definitions, must search for and accept work in their usual occupation at wages as low as 90% of their previous hourly wage. After 6 weeks of benefits, they must expand their search to similar jobs with wages as low as 80% of their previous hourly wages. After 18 weeks of benefits, they must search for and accept any work they are qualified to perform and accept wages as low as 70% of their previous earnings.

Based on analysis of layoffs during the recent recession, about 50% of laid off workers could be affected by the requirement to widen their job search after 18 weeks of benefits, although this proportion would be higher in Atlantic Canada.<sup>142</sup> According to a recent Statistics Canada study, about 50% of paid workers laid off during the most recent recession 2008-2011 found a paid job within one to four months (about 17 weeks) of being laid off, a higher re-employment rate than the 42% rate observed during the recession of the early 1980s and early 1990s.<sup>143</sup> However, the re-employment rate is typically lower in the Atlantic provinces: only 43% of paid workers who were laid off in the Atlantic region in the recent recession found a paid job within 4 months, and only 32% found another job within four months during the recession of the early 1980s. Re-employment rates are also lower for individuals with shorter job tenure and for older workers.

In terms of wages, individuals who were laid off during the recent recession but who found a job within four months experienced a drop in hourly wages of less than 3%, on average.<sup>144</sup> However, about one-quarter of re-employed workers experienced a drop in hourly wages of at least 13%.<sup>145</sup> As one-quarter of re-employed workers saw their weekly wages fall by at least 23%, this suggests these workers experienced a decline in both their hourly wages and the number of hours worked. Another study paints a much more pessimistic picture of income loss following a layoff, reporting that less than 15% of layoffs between 2001 and 2006 resulted in a loss of family income of less than 25%, with 33-39% of layoffs leading to a loss in family income of 75% or more.<sup>146</sup>

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<sup>142</sup> More accurate estimates would require analysis of the duration of EI benefits.

<sup>143</sup> Chan, Ping Ching Winnie; Morissette, René; and Frenette, Marc (2011). Workers Laid-off During the Last Three Recessions: Who Were They, and How Did They Fare? *Analytical Studies Brank Research Paper Series*, no. 337, September. Ottawa: Statistics Canada. Retrieved June 11, 2012 from <http://www.statcan.gc.ca/pub/11f0019m/11f0019m2011337-eng.pdf>. Another study by two of the same authors reported that about 85% of workers aged 25-54 who were permanently laid off between 2000 and 2007 found paid work within one year, although re-employment rates declined rapidly for older workers. Morissette, René; Chan, Theresa Qiu; and Chan, Ping Ching Winnie (2011). How Have the Risk of Layoff and Earnings Losses of Laid-off Workers Evolved since the Late 1970s in Canada? *Analytical Studies Brank Research Paper Series*, no. 339, December. Ottawa: Statistics Canada. Retrieved June 11, 2012 <http://www.statcan.gc.ca/pub/11f0019m/11f0019m2011339-eng.pdf>.

<sup>144</sup> Chan et al (2011).

<sup>145</sup> One quarter of workers in the last recession experienced an increase in hourly wages of at least 11%.

<sup>146</sup> HRSDC (2008b). *Use of Employment Insurance by Industrial Sector*. Ottawa: HRSDC.

The proposed measures to improve the availability of labour market information and job vacancies for EI claimants are a positive step if they improve the scope of such information or the efficiency of finding it. Changes to the Working While on Claim provisions and the calculation of benefits are also positive steps to the extent that they reduce disincentives to work. However, the proposed changes to EI eligibility presuppose that unemployment is caused by either a lack of information on job vacancies or by a lack of effective job searching by claimants. While this may be true for some individuals, the proposed measures do not take into account the limited nature of job prospects in some rural communities and the importance of seasonal employment in some communities and industries. For individuals who make frequent EI claim that are not caused by seasonal work patterns, the proposed changes do nothing to reduce the frequency with which they become unemployed.

*It is not yet clear how the new job search criteria will work in practice*

It is not yet clear how the new job search criteria will work in practice and a detailed empirical analysis is beyond the scope of this report.<sup>147</sup> The biggest concerns have been raised about how the changes will affect seasonal workers and industries, particularly in rural communities in Atlantic Canada which have relatively large seasonal variations in employment.<sup>148</sup> Seasonal workers who subsequently claim EI will be required to search for and accept any employment within a one hour commute, regardless of the hours offered, at an hourly wage that could be up to 30% lower than their seasonal job. Depending upon the wage rate and hours worked, this may result in more or less weekly income than what they would receive in EI benefits, although the government indicated that under the new approach “Canadians will always benefit financially from accepting suitable employment”.<sup>149</sup>

Employers in non-seasonal industries may be unwilling to hire someone that could or would return to their usual, higher-paying, seasonal job. If the seasonal worker is not hired, or if there are insufficient jobs available within commuting distance, then the changes will have little material impact except for increasing the job search requirements for seasonal claimants who have limited job prospects anyway.<sup>150</sup> Alternatively, some seasonal workers may feel obliged to leave their seasonal jobs and look for full-year work, either within or outside the Atlantic region, for fear of losing their access to EI benefits in the off-season. Individuals who choose not to accept suitable employment will lose their access to EI benefits, potentially increasing the demands on provincial income assistance programs.

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<sup>147</sup> For example, will Service Canada have sufficient resources to effectively monitor and ensure compliance with the new rules.

<sup>148</sup> APEC (2005).

<sup>149</sup> Government of Canada (2012, May 24).

<sup>150</sup> Some employers may be able to coordinate their seasonal labour requirements to provide close to full-year employment for some workers but how many individuals could benefit from such coordination is unknown.



The proposed EI changes could have important implications for the earnings of some individuals. Based on average hourly wages by industry in 2011, only occasional or frequent claimants in the accommodation and food services industry in Atlantic Canada would have to consider work at the provincial minimum wage of \$10/hour, if they had to accept work at 30% below their previous hourly wage.<sup>151</sup> However, if a worker made two successive EI claims under the new rules, and had to accept work at 30% below their previous wage each time, then workers in industries representing 60% of total employees in the Maritime provinces could be required to accept work at minimum wage.<sup>152</sup> For a worker making a third successive EI claim, and accepting a 30% wage cut each time they lost their job, they would have to consider a job at minimum wage no matter what industry they were initially employed in (assuming they were initially working at the average hourly wage for that industry). Indeed, a worker in such circumstances would initially have to be making \$30/hour or more to avoid not having to look for minimum wage work.<sup>153</sup>

Given the strong relationship between educational attainment and unemployment, as discussed in Chapter 5, a greater focus on education and training seems to be missing from this attempt to connect Canadians with available jobs. Moreover, as less than 50% of the unemployed in 2010 were eligible for EI, broader access to training and re-employment programs need to be considered.<sup>154</sup> Similarly, should unemployed non-EI claimants also have access to the improved Job Alerts? Some analysts have further suggested that job training measures should be moved out of the EI program into general government spending.<sup>155</sup>

*A greater focus on education and training is needed to reduce unemployment*

Labour Market Development Agreements (LMDAs) are funded under the *Employment Insurance Act* to provide active employment measures that help individuals obtain and keep employment; reduce individuals' dependency on government assistance; and encourage individuals to take personal responsibility for getting back to work.<sup>156</sup>

*The provinces operate numerous programs to help individuals secure employment*

Through these bilateral agreements, federal government funding enables provinces to design, deliver and manage skills and employment programs for unemployed Canadians, particularly for those who are eligible for EI benefits. The federal government also provides a smaller amount of funding to provinces through Labour Market

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<sup>151</sup> Workers in agriculture and retail/wholesale trade in Prince Edward Island would also have to consider minimum wage jobs while workers in these industries in the other Atlantic provinces would have to consider wages less than 70 cents above the minimum wage.

<sup>152</sup> Only workers in utilities, professional and financial services, and government (health, education and public administration) would be exempt from looking for work at minimum wage.

<sup>153</sup> This is equivalent to an annual gross income of \$54,600, assuming the individual initially worked 35 hours a week and was paid for 52 weeks a year. The average hourly wage for all industries in 2011 was \$19.23 in Prince Edward Island, \$19.47 in New Brunswick, \$20.21 in Nova Scotia, \$21.64 in Newfoundland and Labrador and \$22.99 nationally.

<sup>154</sup> Some commentators have suggested the need for mobility or re-location allowances within the EI program to help claimants who move to find work.

<sup>155</sup> Bishop and Burleton (2009).

<sup>156</sup> HRSDC (2012b). *Labour Market Development Agreements*. Retrieved May 3, 2012 from [http://www.hrsdc.gc.ca/eng/employment/partnerships/labour\\_market\\_development/index.shtml](http://www.hrsdc.gc.ca/eng/employment/partnerships/labour_market_development/index.shtml)

Agreements (LMAs), which complement the LMDAs, and which focus on programs and services for unemployed persons who are not eligible for EI and for employed persons who do not have a high school diploma or recognized certification, or have low levels of literacy and essential skills.<sup>157</sup> Funding for LMAs has been committed until 2013/2014.

Programs provided under these agreements include skills development and training, including literacy and essential skills training as well as internship and co-op programs; employment assistance to help equip the unemployed with the job search, interview and related skills to secure employment; and wage subsidies to help facilitate re-employment of unemployed individuals. While there is limited analysis on the outcomes of these programs, formal evaluations indicate that many programs do have a positive impact on the incidence of employment and employment earnings of program participants.<sup>158</sup> However, the evaluations also find that: outcomes do not always indicate improvements relative to a comparative group of non-participants; some client groups are not served well (such as youth, under-employed workers and people with multiple employment barriers); programs need to adapt to meet evolving labour market and employers needs for skilled workers; and that the program benefits do not always outweigh the costs.

*A complete review of the EI program would be beneficial*

Some researchers have recommended a full federal and provincial review of Canada's support of the unemployed to better adapt the EI program to the realities of today's economy.<sup>159</sup> In light of the concerns raised by researchers about EI coverage, income support, and access to training, there is substantial merit to this proposal.

### 7.3 Changing Immigration Policy

*Canada's various immigration programs support multiple objectives*

Canada's immigration program is designed to support multiple objectives, as reflected in the three principal classes of immigrants: the economic class, for those who will contribute to the economy as skilled workers, investors or entrepreneurs; the family class, to support the reunification of close family members of Canadian citizens and permanent residents; and refugees, which reflect Canada's humanitarian tradition and

<sup>157</sup> HRSDC (2012a). *Labour Market Agreements*. Retrieved May 3, 2012 from <http://www.hrsdc.gc.ca/eng/employment/partnerships/lma/index.shtml>

<sup>158</sup> See for example HRSDC (2009). *Summative Evaluation of Provincial Benefits and Measures Delivered under the Canada-New Brunswick Labour Market Development Agreement*. Retrieved May 3, 2012 from [http://www.hrsdc.gc.ca/eng/publications\\_resources/evaluation/2009/sp\\_ah\\_903\\_07\\_09e/page00.shtml](http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/2009/sp_ah_903_07_09e/page00.shtml); HRSDC (2011b). *Summative Evaluation of Employment Benefits and Support Measures Delivered Under the Canada-Prince Edward Island Labour Market Development Agreement*. Retrieved May 3, 2012 from [http://www.hrsdc.gc.ca/eng/publications\\_resources/evaluation/2011/sp\\_996\\_05\\_11-eng/page00.shtml](http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/2011/sp_996_05_11-eng/page00.shtml); HRSDC (2011a). *Summative Evaluation of Employment Benefits and Support Measures Delivered Under the Canada-Nova Scotia LMDA*. Retrieved May 3, 2012 from [http://www.hrsdc.gc.ca/eng/publications\\_resources/evaluation/2011/sp\\_1020\\_01\\_12-eng/page00.shtml](http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/2011/sp_1020_01_12-eng/page00.shtml). Newfoundland and Labrador Department of Human Resources, Labour and Employment (2011a). *Canada-Newfoundland and Labrador Labour Market Agreement 2010/2011 Performance Indicators Report*. Retrieved May 3, 2012 from [http://www.aes.gov.nl.ca/publications/lmd/Performance\\_Indicators\\_Report\\_2010\\_2011.pdf](http://www.aes.gov.nl.ca/publications/lmd/Performance_Indicators_Report_2010_2011.pdf).

<sup>159</sup> Mendelson et al (2009).

international obligations. The economic class is the largest category, accounting for 156,000 of the 249,000 immigrants who arrived in Canada in 2011; there were about 56,000 family class immigrants and 28,000 refugees in the same year. The economic class has averaged about 60% of immigrants over the last decade and the federal government has indicated that although it will sustain Canada's commitment to family reunification and refugee projection, the focus going forward will be on economic immigrants and ensuring that the benefits of immigration to Canada are maximized.

Within the economic class, there are several programs through which skilled workers can immigrate to Canada. The largest number of skilled workers come to Canada through the Federal Skilled Worker Program, with about 49,000 principal applicants landing in Canada in 2011.<sup>160</sup> Selection is based on a transparent points system, where education, age, experience, official language proficiency, arranged employment in Canada, and adaptability are assessed. However, a large backlog of applications developed prior to 2008 which has led to long delays in processing times. For example, between 2008 and 2010, it took about 2.5 years to process 80% of federal skilled worker applications from the US and Europe; for applications received prior to 2008, the processing time was over five years.

The Provincial Nominee Program has been developed in collaboration with provincial governments. Under agreements with the federal government, the provinces are allowed to nominate immigrants that meet specific regional needs, although final processing and approval is still undertaken by Citizenship and Immigration Canada. Most provinces have a number of different streams within their Provincial Nominee Programs, such as for skilled workers, international students and for entrepreneurs. Skilled workers are typically assessed on a number of factors such as age, education, work experience, language skills and adaptability. In 2011, over 15,000 principal applicants under the Provincial Nominee Program immigrated to Canada, up from less than 1,000 a decade earlier. Provincial Nominee Programs have played an important role in increasing immigration to communities outside of Toronto, Montreal and Vancouver. These three cities accounted for 76% of all immigrants to Canada in 2002, but this share fell to 60% by 2011.

The Canadian Experience Class is a relatively new immigration program that allows temporary foreign workers or international students who have work experience in Canada to immigrate relatively quickly.<sup>161</sup> Only applicants with Canadian experience in management, professional or technical occupations can apply; they must apply while working in Canada or within one year of leaving their job in Canada; and they must prove

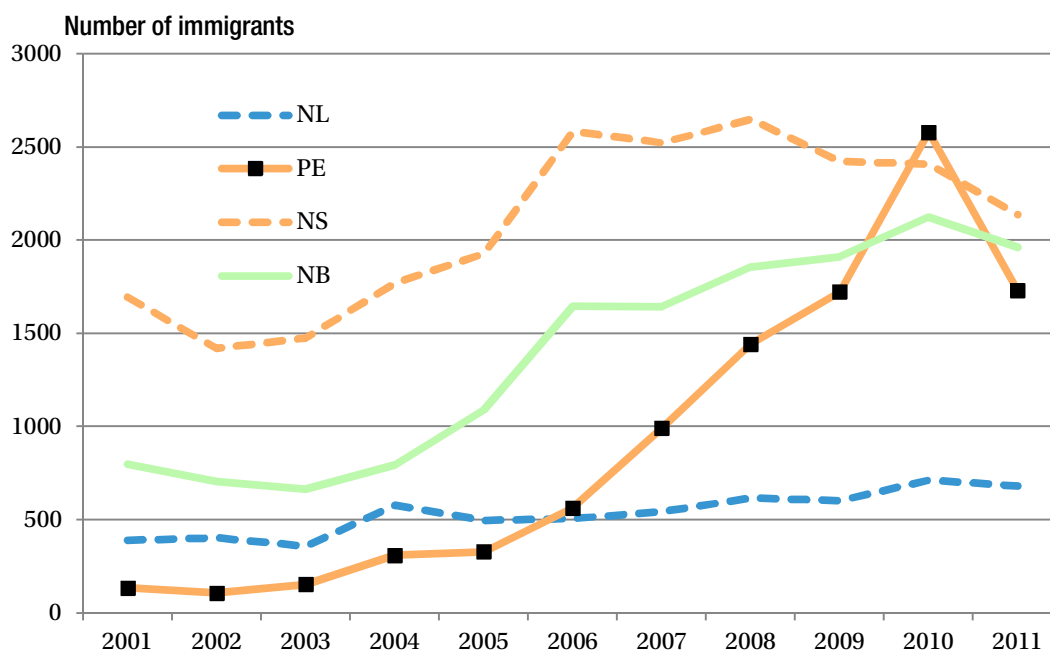
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<sup>160</sup> On average, each skilled worker brings 1.4 individuals (spouses and dependents) with them when they immigrate. These spouses and dependents are also counted as economic class immigrants. There were about 64,000 principal applicants in the economic class in 2011, about 26% of the total number of immigrants.

<sup>161</sup> According to the Citizenship and Immigration Canada website, processing times were 15 months as of June 2012.

their language proficiency in English or French. Almost 4,000 principal applicants landed in Canada in 2011 under this program.

**Figure 7.1 Rapid Increase in Immigration in Some Atlantic Provinces**



Source: Citizenship and Immigration Canada

In addition to these permanent immigration streams, international workers can apply for a temporary work permit through the Temporary Foreign Worker Program. To receive a permit, employers typically have to apply for a Labour Market Opinion to verify that employing the temporary foreign worker will not adversely affect the Canadian labour market; they also have to demonstrate that they have made reasonable effort to fill the position locally. Over 190,000 temporary foreign workers entered Canada during 2011 and there were a total of 300,000 temporary foreign workers in Canada as of December 1, 2011. Regionally, over 6,000 temporary foreign workers arrived in Atlantic Canada during 2011, with over 9,500 working in the region as of December 2011. The number of temporary foreign workers has increased rapidly over the last five years.

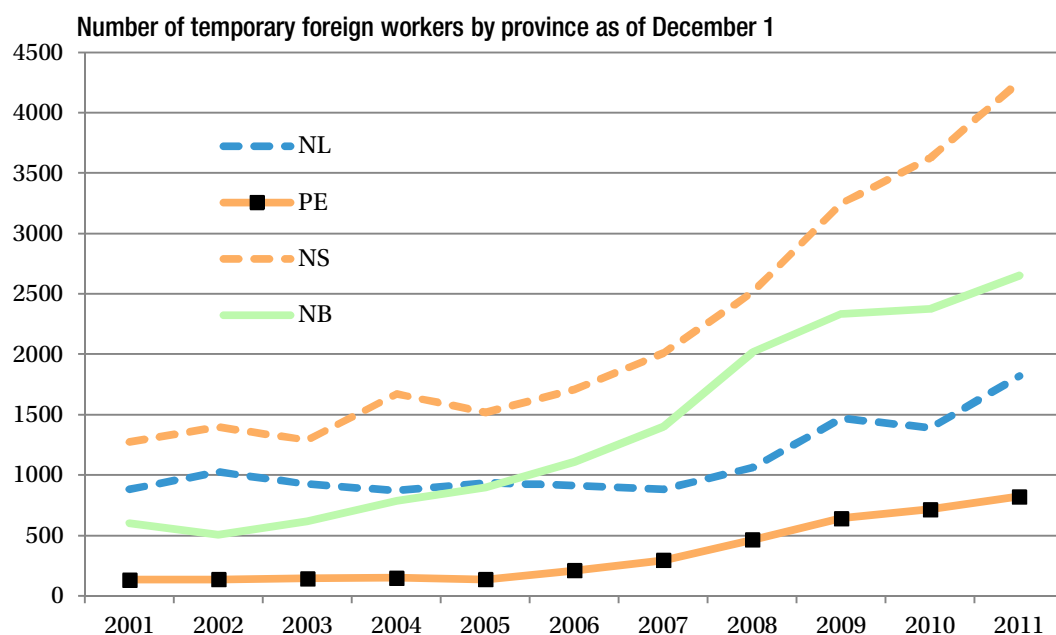
*Canada's immigration programs are being refocused on Canada's labour market needs*

Budget 2012 announced the federal government's intention to build "a fast and flexible economic immigration system whose primary focus is on meeting Canada's labour market needs".<sup>162</sup> While many details of these changes are yet to be announced, the government has clearly indicated the direction it is moving in. Economic outcomes for

<sup>162</sup> Government of Canada (2012). p. 151.

immigrants have been on the decline for several decades and the unemployment rate for recent immigrants is about twice the unemployment rate for native born Canadians.<sup>163</sup> The federal government therefore wants to move from a slow, rigid and passive immigration system, to one which is fast, flexible and proactive and where newcomers are linked to the opportunities that exist. For example, the federal government “will explore with provinces, territories and employers approaches to developing a pool of skilled workers who are ready to begin employment in Canada”.<sup>164</sup>

**Figure 7.2 Large Increase in the Number of Temporary Foreign Workers in Atlantic Canada**



Source: Citizenship and Immigration Canada

Budget 2012 indicated that the government will strengthen the assessment of educational credentials and reform the federal skilled worker point system to put more weight on younger immigrants and applicants with Canadian work experience and better language skills. This direction reflects the findings of a recent evaluation of the Federal Skilled Worker Program.<sup>165</sup> With more economic applicants than can be processed, the

<sup>163</sup> Kenney, Honourable Jason (2012). The government’s vision for an immigration program focused on job creation, economic growth, and prosperity. Speech delivered in Brampton, Ontario, 4 April 2012. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/departement/media/speeches/2012/2012-04-05.asp>.

<sup>164</sup> Government of Canada (2012), p. 152.

<sup>165</sup> Citizenship and Immigration Canada (2010). *Evaluation of the Federal Skilled Worker Program*. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/pdf/research-stats/FSW2010.pdf>.

federal government sees an opportunity to raise selection criteria without having an adverse impact on the number of successful applicants.<sup>166</sup>

The large backlog of applications that has accumulated in the Federal Skilled Worker Program has impeded the responsiveness of Canada's immigration system. Through various means the government has reduced the backlog by more than 50% since 2008 but it still stands at almost 300,000 applicants. To further reduce the backlog, Budget 2012 announced that the government will return applications and refund fees for certain applicants who applied under previous selection criteria prior to February 2008.

Budget 2012 also announced that the government is developing approaches to better coordinate the EI program with the Temporary Foreign Worker Program to help connected unemployed Canadians with available jobs. This reflects the federal government's intent to ensure that "businesses have made all reasonable efforts to recruit from the domestic labour force before accessing the Temporary Foreign Worker Program".<sup>167</sup> However, as businesses are already required to secure a labour market opinion from Service Canada, and to demonstrate that they have advertised and made reasonable efforts to recruit locally,<sup>168</sup> it is not clear what additional steps the government is considering, other than ensuring EI claimants receive notification of such vacancies. For example, will employers have to demonstrate why they have not hired an EI claimant? While improving labour market information is an important objective, will tighter regulations for the Temporary Foreign Worker Program conflict with the stated goal of creating a faster, more flexible immigration system?

*Provincial Nominee Programs have boosted immigration to Atlantic Canada*

All four Atlantic provinces operate Provincial Nominee Programs which have specific streams for skilled workers and have played a key role in boosting immigration to the region.<sup>169</sup> A recent national evaluation found that although the program is working well overall, there is scope for improvement in terms of establishing minimum standards for language ability; clarifying roles and responsibilities; and strengthening the monitoring and evaluation of program outcomes.<sup>170</sup> Retention rates for provincial nominees are much lower in the Atlantic provinces than in Western provinces, and nominees are less likely to report employment earnings.<sup>171</sup> Although details have not been released, Budget 2012 stated that the Provincial Nominee Program will be improved "by focusing on economic immigration streams in order to respond quickly to regional labour market

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<sup>166</sup> Citizenship and Immigration Canada (2011a). *Backgrounder – Stakeholder Consultations on Immigration Levels and Mix*. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/department/media/backgrounders/2011/2011-07-11.asp>

<sup>167</sup> Government of Canada (2012). p. 153.

<sup>168</sup> APEC (2010). *Hiring International Workers in Atlantic Canada: An Employer's Guide*. Halifax: APEC, p. 20.

<sup>169</sup> APEC (2008).

<sup>170</sup> Citizenship and Immigration Canada (2012b). Evaluation of the Provincial Nominee Program. Ottawa: CIC. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/resources/evaluation/pnp/index.asp>.

<sup>171</sup> Citizenship and Immigration Canada (2012b).

demand".<sup>172</sup> As of July 2012, some provincial nominees will have to demonstrate through a third party language assessor that they meet a minimum standard of language proficiency.<sup>173</sup>

The role of international workers in meeting labour market requirements needs to be carefully considered. Making it easier to bring in international workers is important in cases where firms need to recruit the best qualified and experienced workers in the world or where specialized training is not available in Canada. Using temporary foreign workers to meet a short-term peak in labour demand, such as during peak construction for a major investment project, may also be necessary if there are an insufficient number of adequately trained local workers available.<sup>174</sup> However, if immigration policy makes it easier to bring in international workers in low-wage occupations, is this discouraging firms from making necessary adjustments such as raising wages, investing in training, increasing capital investment or moving to a higher-value, higher-skill business model? In such a situation, there is a danger that the use of immigrant workers as a short-term "solution" may reinforce a "low skills equilibrium" that increases the vulnerability of a region to the relocation of business activity to even lower cost locations and limits the ability of firms and the region to use innovation to take advantage of new economic opportunities.<sup>175</sup>

*The role of international workers needs to be carefully considered*

Based upon APEC's research in 2009 for the preparation of an employer's guide to hiring international workers, which included about 50 interviews with employers, immigrants, federal and provincial government officials and settlement agencies, there are some important areas that need to be examined in terms of Canada's immigration policies.<sup>176</sup> Progress is already being made in some of these areas:

*Improvements need to be made to Canada's immigration policies*

- The perceived complexity and associated costs of hiring international workers is an important barrier deterring some firms from recruiting overseas. Governments can help firms navigate the complexity of Canada's immigration

<sup>172</sup> Government of Canada (2012). p. 152.

<sup>173</sup> Kenney, Honourable Jason (2012) "The government's vision for an immigration program focused on job creation, economic growth, and prosperity." Speech delivered in Saskatoon, Saskatchewan, 11 April 2012. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/department/media/speeches/2012/2012-04-11.asp>. But an associated backgrounder indicates that it only applies for applicants in NOC C and D occupations: Citizenship and Immigration Canada (2012a). *Backgrounder – New minimum language requirements for immigrants under the Provincial Nominee Program*. Retrieved May 3, 2012 from <http://www.cic.gc.ca/english/department/media/backgrounders/2012/2012-04-11.asp>.

<sup>174</sup> For some specialized occupations, it may take too many years to train workers. For less skilled occupations, training workers for a project that lasts 2-3 years may not be cost effective from a provincial perspective if there is little prospect that having a larger pool of trained workers will stimulate prolonged economic activity in the province, leading to large increase in unemployment or a mass exodus of trained workers to other jurisdictions at the end of the project. If a large multinational firm is providing the training, they may be able to capture the longer term benefits by relocating the workers to other projects around the world.

<sup>175</sup> Green, Anne E.; de Hoyos, Maria; Jones, Paul; and Owen, David (2009). Rural Development and Labour Supply Challenges in the UK: The Role of Non-UK Migrants. *Regional Studies*, vol. 42, no. 10, pp. 1261-1273.

<sup>176</sup> APEC (2010). Available at: <http://www.apec-econ.ca/hiring-workers-in-atlantic-canada/>

system, for example, by providing easy-to-access portals dedicated to employers on government immigration websites;<sup>177</sup>

*Canada's multiple immigration programs should be reviewed to ensure they are appropriate, consistent and avoid duplication*

- The multiplicity of immigration programs in Canada, with different criteria and application procedures adds to the actual and perceived complexity of hiring international workers. In some cases, it may be possible for an employer to hire an international worker who could apply for work authorization through more than one immigration program. In other cases, a temporary foreign worker already working in Canada may be unable to apply for permanent residency. Canada's multiplicity of immigration programs need to be reviewed to ensure Canada has the right suite of programs and program criteria, and to avoid unnecessary duplication. Indeed, the federal government is moving to ensure provincial nominee programs are not duplicating existing federal immigration streams.<sup>178</sup> Given high rates of secondary migration of provincial nominees from the Atlantic provinces, such a review of immigration programs should also consider the need for greater federal oversight of provincial nominee programs to ensure these programs meet both provincial and national interests (including the potential for minimum standards).<sup>179</sup>
- Such a review of immigration programs needs to consider the role that the Temporary Foreign Worker Program (TFWP) should play as many employers in Atlantic Canada are using the TFWP as the first step to hire international workers often because this is the quickest way to bring in an international worker, who may then subsequently apply for permanent residency. The TFWP was designed as a temporary work visa program. Is its use as the first stage of a two-stage immigration process optimal, especially if it is used this way only because of slow processing times under various immigration programs? Or are there advantages to firms and foreign workers by being able to assess the employment relationship during a temporary work period? If temporary foreign workers are intending to apply for permanent residency, do they need better access to settlement services and who should fund these services?<sup>180</sup>

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<sup>177</sup> Nova Scotia has the most developed site for employers in the Atlantic region, but Newfoundland and Labrador also has a portal for employers, including its own guide to hiring international workers. Citizenship and Immigration Canada has also made some improvements to its website for employers.

<sup>178</sup> The federal immigration minister stated in a recent speech that "we will be working with the provinces to ensure that the folks that they nominate into this important program are people that otherwise don't have access through other immigration programs. We want them to maximize the provincial nominee program, so we're encouraging provinces not to nominate people who could otherwise come in quickly through federal programs." Kenny (2012).

<sup>179</sup> Some immigration streams in the Atlantic provinces have encountered serious problems relating to program design and integrity.

<sup>180</sup> Temporary foreign workers are not currently eligible for CIC-funded settlement services.



- An increasing number of temporary foreign workers are coming to Canada and the Atlantic provinces in occupations that have lower formal skill requirements through the “Pilot Project for Occupations Requiring Lower Levels of Formal Training (NOC C & D)” that was launched in July 2002. These “temporary” foreign workers are filling permanent positions but there is a limit to how long they can stay in Canada on a temporary work visa and they have limited options to apply for permanent residency. As discussed above, the role of low-skilled workers needs to be analysed in more detail. Such an assessment needs to include an examination of economic and social outcomes for these typically low-wage foreign workers.
- Language proficiency is a key predictor of labour market success. In light of this, and given the extent of secondary migration of provincial nominees from Atlantic Canada, the federal government should ensure that official language proficiency is appropriately assessed to common standards across all immigration programs and jurisdictions. The government is moving in this direction. Since June 2010 all new applicants to the Federal Skilled Worker Class and the Canadian Experience Class must submit a third-party assessment of language ability. As noted above, new provincial nominees will have to demonstrate minimum language requirements through a third-party assessment beginning in July 2012, but this change only applies to applicants in lower-skill occupations (NOC C and D).
- Governments should consider giving more attention to the language proficiency and occupation (skills and experience) of a spouse when assessing the adaptability of workers. The key factor emphasized by Atlantic firms that have hired international workers that determines whether a worker stays with a company is the welfare of their spouse and dependents. One employer cited an example that of ten international workers that had left the company, seven had done so because the spouse or family of the worker were not happy. A spouse with limited proficiency in English or French may struggle to establish a social support network or find employment outside the home, especially in Atlantic Canada where established immigrant communities are small or non-existent. Or they may struggle to find suitable employment because their credentials and experience are not recognized.
- Timely processing of applications for work authorization (including Labour Market Opinions for the Temporary Foreign Worker Program) is crucial if international recruitment is to be a useful HR option for businesses. Delays and variable or uncertain processing times were the key complaint of businesses that APEC interviewed as part of its earlier research. There is a large variation in

processing times at federal visa offices such that it may be impractical for firms to recruit from some countries. Governments need to ensure they have the resources required to process applications in a timely manner, especially if firms are going to need to hire more international workers in the future. Developing service delivery standards (e.g., stipulation that an application for a Labour Market Opinion will be processed in 10 business days or an application for permanent residency will be processed within 12 weeks from the date complete information is provided) would be helpful from a business perspective. The federal government continues to take steps towards a more timely immigration system. Budget 2012 announced further measures to reduce the backlog of unprocessed applications in the Federal Skilled Worker Program while Accelerated Labour Market Opinions are now available for some firms hiring temporary foreign workers in higher skilled positions.

- Despite recent evaluations of the Federal Skilled Worker Program and the Provincial Nominee Program, there are a lack of detailed data to evaluate how well these programs are working, particularly within the Atlantic provinces. The federal government should commit to providing annual assessments of labour market outcomes for temporary foreign workers and immigrants, by year of entry, by immigration class and Provincial Nominee Program stream, and by geography (urban and rural), including retention rates.<sup>181</sup>

## 7.4 Issues for Policymakers

*The context for labour market policy has changed significantly*

Labour markets in Atlantic Canada are undergoing a profound shift. Unemployment rates were much higher during the 1980s and early 1990s but have fallen significantly since then. Governments are increasingly concerned about a looming shortage of workers and whether workers have the required skills for new job openings. Federal and provincial strategies are beginning to shift to focus more on ensuring an adequate supply of skilled labour but a broad review of labour market strategies and programs, to ensure they are appropriate for today's (and tomorrow's) labour market issues, would be beneficial. As already discussed, this should include a review of EI and immigration programs. Individual programs also need to be evaluated to ensure that they are meeting their stated goals in a cost-effective manner.

*Labour market policies need to be consistent and well integrated*

Governments need to ensure that their labour market strategies and programs are consistent and well integrated. For example, some Atlantic firms have hired international

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<sup>181</sup> CIC approves all provincial nominees and as part of this process should consider the provincial stream that was used to assess the nominee. It is therefore unacceptable for the federal government not to collect data by provincial nominee stream. The federal and provincial governments need to jointly evaluate these programs; it is not clear that all the various provincial nominee streams are equally valid as labour market programs.

workers simply because there are not enough seats in some programs at (provincially-funded) community colleges. For a firm, hiring a local graduate is cheaper, easier and less risky from a language and credential assessment point of view, although sometimes immigrants are perceived to be of value due to a stronger work ethic. For a provincial government, it may be cheaper in terms of program expenditure to process an extra application for a qualified immigrant under a provincial nominee program (along with any related funding for settlement) than to fund one extra seat at a community college.<sup>182</sup> But does this make sense from a broader policy perspective? A recent evaluation of the Provincial Nominee Program across Canada found that only one jurisdiction had a formal labour market strategy that directly links labour market shortages to immigration and to their Provincial Nominee Program and recommended that provinces develop more effective, evidence-based approaches to identify their need for provincial nominees.<sup>183</sup> An integrated labour market strategy could utilize labour market information, such as data on occupations where there is significant recruitment of international workers, to determine whether there are more appropriate solutions to shortages in certain sectors or occupations. Proposed changes to better link the Temporary Foreign Worker Program with the EI program, to ensure that unemployed Canadians are not missing out on available job opportunities, are partly designed to address this issue.

Federal and provincial groups are paying greater attention to under-represented groups (including Aboriginals, older workers, persons with disabilities, as well as immigrants) to help increase the potential labour pool. These initiatives and programs may be extremely important in terms of equity and social inclusion. However, as the analysis in Chapter 5 indicated, the potential addition to the size of the labour pool for some of these groups may be quite limited.

Governments need to consider how best to accomplish their labour market strategies, particularly in an era of fiscal restraint. While high school dropout rates have fallen to 7-9% in Atlantic Canada, this still means there are over 12,000 young Atlantic Canadians who have not completed the minimum foundational education qualification required in today's economy.<sup>184</sup> Dropout rates are also much higher in smaller communities. Dropouts aged 20 to 24 had an unemployment rate in 2007-2008 of 18% in Canada, double that of high school graduates of the same age. In terms of labour market interventions to ensure a skilled workforce, should more attention be paid to ensuring all

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<sup>182</sup> In 2008/09, the province of Nova Scotia provided funding of \$118.5 million to support 10,505 places at the Nova Scotia Community College (NSCC), implying an average cost per seat of \$11,300. In April 2010 the Nova Scotia government announced a \$2 million investment to fund 250 spaces at the Nova Scotia Community College, implying a marginal cost of \$8,000 per seat. According to a related media report, the Nova Scotia Community College had about 2,500 Nova Scotians on its wait list.

<sup>183</sup> Citizenship and Immigration Canada (2011a), pp. v, vii and 35.

<sup>184</sup> Gilmore, Jason (2010).

young Canadians meet the standards for a high school diploma, and that all high school graduates meet minimum standards for functional literacy?

Finally, there needs to be renewed debate and discussion on the appropriate role and responsibilities of individuals, employers, unions, education and training institutions and governments in terms of labour market activity. If firms cannot find sufficient qualified workers, should governments assume this responsibility, either directly through investing in education and training institutions, or indirectly through facilitating greater use of international workers? Or should employers be expected to adjust their compensation packages, increase their commitment to training or make other adjustments to their business model, such as increasing the level of capital investment? If employers have been reluctant in the past to provide an optimal level of training, for fear workers will leave for a competitor, in an era of tighter labour markets, can higher levels of training provide a firm with a competitive advantage in terms of recruitment and retention by signalling to potential employees that they are a good employer? And if the available labour market information points to a clear excess or shortage of new graduates in a particular field, who is responsible for helping to bring the labour market back into balance – the individuals who are making career choices, the training institutions, or governments who may be providing financial support to individuals and training institutions?

Labour markets are complex and they are changing. Governments need to ensure their strategies and programs are based on good labour market information and analysis. They must clearly understand and define their role. But they can also take steps to facilitate dialogue between other labour market players to ensure that Atlantic labour markets work efficiently and are appropriately adjusting to changing realities.

## Chapter 8

### Summary and Areas for Further Research

#### Chapter Summary

- **Atlantic Canada's labour market has shown improvement over the last few decades. Urban labour markets perform as well as nationally but rural labour markets remain much weaker.**
- **Population aging will lead to labour force decline and slower economic growth during the next two decades. Many strategies to address labour force decline will only partially offset or delay the impact of population aging.**
- **A growing demand for skilled labour, combined with ongoing industrial restructuring, point to the potential for a skills mismatch.**
- **There are several options to improve workforce utilization, including reducing rural unemployment, increasing participation of under-represented groups and boosting low literacy levels.**
- **While individuals have responded to a changing labour market by increasing their educational attainment and moving to cities and provinces with stronger job prospects, it is harder to assess the responsiveness of employers and education institutions.**
- **Adequate labour market information remains critical to the effective functioning of labour markets. Federal strategies are changing to create a more effective system for economic immigrants and to better utilize unemployed workers. Provincial strategies are increasing their focus on improving the size and skills of their labour force and improving job matching.**
- **Policy interventions would benefit from improved understanding of: unemployment and EI dynamics; employers awareness, readiness and responsiveness to changing labour market dynamics; the responsiveness of education and training institutions; and the issues facing and prospects for rural areas.**

This chapter provides a brief summary of the key findings and conclusions from this report. It also identifies areas that would benefit from further research.

## 8.1 Summary

A skilled labour force is critical to Atlantic Canada's prosperity but the region is facing a number of challenges in this regard. A weakening demographic outlook will reduce the number of available workers and restrain economic growth. Meanwhile a growing demand for skills and ongoing industrial restructuring raises the potential for a skills mismatch in the labour market.

This report assesses the recent performance of Atlantic Canada's labour market and the key labour market issues facing the region. It is intended to help improve the understanding of the region's labour market and assist stakeholders in responding to the issues that have been identified. The report focuses on five key issues: weakening demographic trends; the changing demand for skills; the need to improve workforce utilization; labour market responsiveness to demographic and economic change; and the adequacy of labour market information and policy.

Atlantic Canada's labour market has shown considerable improvement over the last few decades with steady job growth, rising labour force participation, falling unemployment rates and lower use of employment insurance (EI). Although provincial unemployment rates remain higher and participation rates are still lower than in Canada, the region has narrowed the gap in performance. Strong wage growth over the last decade has boosted real incomes.

There is a marked urban-rural divide in Atlantic Canada's labour market. Labour force and employment growth in urban centres is comparable to national growth rates; unemployment rates, participation rates and EI use are also comparable to national rates. However, labour force and employment growth in rural regions is much slower and has actually declined since 2004 in most rural regions. Participation rates are much lower in rural regions while unemployment rates and EI use are much higher than nationally. It is this weaker performance in rural Atlantic labour markets that is behind the weaker performance in provincial and regional labour market indicators relative to Canada.

Projections for the Atlantic provinces from three different demographic and economic models generally point to limited labour force growth over the next decade followed by a decline in the following decade. An aging population will reduce the overall participation rate because older workers have much lower participation rates than those aged 25-55 years. With limited growth in the working age population, this will lead to a decline in the size of the labour force. According to the Conference Board projections reviewed for this report, only Prince Edward Island escapes the decline because its population is

assumed to grow at a faster rate, but its labour force barely grows after 2016. The labour force is projected to peak sometime between 2013 and 2017 in the other three provinces. According to the Conference Board, the declines in the labour force between 2011 and 2031 range from 13% in Newfoundland and Labrador to 6% in Nova Scotia and 3% in New Brunswick, compared with a gain of 2.5% in Prince Edward Island and 16% nationally. The cumulative decline in the region's labour force by 2031 is 73,600 people.

As a consequence of slower population and labour force growth, overall economic growth will be slower in the next two decades than the past two decades. Measures to mitigate the decline in the labour force, such as raising the retirement rate, increasing participation rates and boosting immigration will have some impact, but will generally only soften or delay the inevitable decline due to population aging. Increasing the fertility rate would not have any impact on the size of the labour force for about twenty years and reversing the decline in fertility rates observed since the 1960s would be hard to achieve. The investment and productivity response of firms to this labour force decline is the critical unknown factor that will determine the actual extent of the slowdown in economic and per capita income growth.

The demand for skilled labour has increased relative to that of unskilled labour over the past two decades and this trend is expected to continue. In addition, competitive pressures have contributed to a decline in Atlantic employment in primary industries and manufacturing, largely in rural regions while employment continues to shift to the service sector, further boosting job growth in urban centres. This technological change and industrial restructuring raises the question of whether the Atlantic region is producing individuals with the skills needed for current and future positions. Increased use of immigration and temporary foreign workers despite continuing high unemployment in rural regions points to a possible mismatch in the region's labour market. There is also some evidence of a mismatch in certain occupations between the number of graduates from post-secondary institutions and expected job openings.

In the context of labour force decline, securing full utilization of the Atlantic workforce is increasingly important. Reducing rural unemployment is an obvious source of labour but these potential workers are generally older and have limited formal education. Policy measures to reduce rural unemployment would benefit from more detailed analysis of the labour force dynamics of these individuals, including the role played by seasonal employment and the EI program. There also appears to be a youth unemployment problem in urban centres of Atlantic Canada as individuals aged 15-24 years have much higher unemployment rates than nationally.

Increasing the participation of under-represented groups could expand the size of the Atlantic labour force, although it is unlikely to prevent the overall aging of the workforce. Targeting broad demographic groups (such as women, older workers and the disabled)

may offer greater potential than focusing on smaller demographic groups (such as Aboriginals, immigrants and Francophones). However, reducing labour market barriers for these individuals is still important to improve social inclusion.

Workforce utilization is also affected by low literacy and poor health. With 40-60% of Atlantic adults having inadequate literacy skills, overall productivity is impeded and the scope for re-training for higher skill occupations is severely limited. Health and safety will become increasingly important as the workforce ages; Atlantic workers are generally less healthy and lose more work days to injury and illness.

In light of the increasing demand for skills, continued industrial restructuring and weakening demographics, it is important to understand how well individuals, firms and educational and training institutions are adjusting to changing labour market realities. Atlantic Canadians have responded to the increasing demand for skills over the last two decades by increasing their educational attainment and participation in job-related training. They have also demonstrated significant labour mobility, both within and between provinces. However, little is known about how employers are responding to tighter labour markets other than the fact that wages have been rising. Employers play a key role in funding the majority of job-related training. Employers will need to be more responsive to the needs of employees, especially as they reach out to under-represented groups, but smaller firms may find it more difficult to adjust. High school dropout rates have fallen dramatically over the last two decades in Atlantic Canada, but Atlantic high school students still perform below the Canadian average on standardized tests. Colleges and universities have facilitated increased enrolment in post-secondary education, but need to ensure their program offerings remain relevant to labour market demand.

Labour market information (LMI) is critical to enable individuals, employers, education and training institutions, and governments to make informed choices and to facilitate labour market adjustment. While there have been improvements to LMI, gaps still remain including a lack of data on labour mobility; real wages across jurisdictions; and the demand and supply of workers for major investment projects. Further improvements in LMI need to be carefully considered to ensure they maximise value for money.

The federal government has a wide-ranging influence over labour markets as it operates the EI program, Canadian retirement income programs, the Canada student grants and loans program, the Temporary Foreign Worker Program and Canadian immigration programs. Important changes are being made in several of these programs including: changes to the EI program to reduce disincentives to accepting work and by strengthening and clarifying eligibility requirements; extending the age of eligibility for Old Age Security from 65 to 67 years; coordinating the EI program with the Temporary Foreign Worker Program; and various changes to create a faster and more flexible



immigration system that is focused on meeting Canada's labour market needs, including stronger language assessment. While some of these changes are warranted, additional changes to EI and immigration programs need to be considered.

Provincial governments have taken on increased responsibility for labour markets through the devolution of labour market programming and the development of Provincial Nominee Programs. Labour market strategies are becoming an increasingly important priority for Atlantic governments, with a focus on increasing the size and skills of their labour force and helping match individuals to job opportunities. An increased emphasis on working with employers is also apparent.

Labour markets in Atlantic Canada are undergoing a profound shift from high unemployment to increased concern about a skills mismatch and a shortage of workers. Policymakers need to ensure that their strategies and programs are responsive to changing labour market requirements; consistent and well integrated; and appropriately focused. Governments can also help to facilitate dialogue and collaboration among stakeholders to ensure that Atlantic labour markets work efficiently and are appropriately adjusting to changing realities.

## **8.2 Areas for Further Research**

This report has provided a high-level overview of Atlantic Canada's labour market, in the context of the key labour market issues facing the region. However, it has also identified a number of areas where there are gaps in our current knowledge and understanding that impede the development of appropriate and effective policies. This final section summarizes some of the major areas for additional research.

There are limited data on unemployment in rural areas, and even less publicly available data on the use of EI. Strategies to reduce unemployment in rural areas and youth unemployment in urban centres need a better understanding of the labour force dynamics of these unemployed individuals, including their interaction with the EI program and seasonal labour demand.

Rural areas of Atlantic Canada have experienced a decline in employment and labour supply over the last decade and have much weaker labour market performance than Canada and urban centres in the Atlantic region. The labour force projections reviewed for this report are at the provincial level and do not examine the specific outlook for urban centres and rural regions. Yet the size of the available labour force is a key issue for the viability of existing firms in rural communities and is also a major consideration for the provision of public services in these communities. Economic and labour market prospects will also vary according to the size of the community, their proximity to larger centres, and the nature of their current economic base. More detailed understanding of

the current dynamics and future prospects in Atlantic rural regions would help guide the development of appropriate rural strategies and policies.

There is little empirical evidence on the awareness of employers regarding the implications of demographic trends for the labour supply in the region; their current responses to tightening labour markets; and their capacity to make further adjustments. Yet employers fund the majority of job-related training; businesses are increasingly looking to international workers to meet their labour force needs; and the productivity response of firms is critical to future economic growth in the context of an aging population. Smaller firms may find it harder to adjust in terms of higher training and recruitment costs because they lack the benefit of economies of scale and the use of specialized human resource staff. A broader and deeper understanding of corporate HR strategies would help policymakers devise better policies to support appropriate adjustments within the workplace.

Education and training institutions play an important role in advanced economies as the primary source of skilled labour. While there are some data on enrolment and completion rates for high school, apprenticeship programs and post-secondary diplomas and degrees, there is a lack of detailed analysis on how well the number of new graduates in specific fields matches the expecting number of job openings. Such analysis would help indicate to what extent and how quickly the region's labour market is responding to a changing demand for labour. It would also be valuable to assess whether specific programs and institutions are producing graduates with the right mix of skill levels for today's labour market.

More detailed analysis of labour force projections could also be undertaken to explicitly examine the long-term impacts and relative effectiveness of different strategies to mitigate the decline in the labour force in Atlantic Canada. This needs to be done within the context of a demographic and economic model, so that the full impacts of different policies and scenarios can be examined. This analysis would help guide policymakers as they evaluate strategies to boost the size of the region's labour force.

## Glossary

**Adjusted participation rate:** For part of the analysis in Chapter 3 an adjusted participation rate is used, defined as is the number of people in the labour force expressed as a percentage of the total population.

**Economic region:** Statistics Canada divides Canada into 76 sub-provincial economic regions, although Prince Edward Island is classified as its own economic region. There are 15 economic regions in Atlantic Canada. For this report, the economic regions with a large urban centre (Halifax, St. John's, Moncton, Fredericton and Saint John) are referenced as urban regions with the remaining economic regions classified as rural.

**Employment rate:** The employment rate is a measure of the number of employed persons expressed as a percentage of the population 15 years of age or older.

**Labour force:** The labour force is the number of people age 15 years and older in the population who are either employed or unemployed (and looking for work). It does not include those in the military or those who are unwilling or unable to work (e.g. persons in institutions, retirees, students, etc.).

**Participation rate:** The (overall) participation rate is the number of people working or looking for work expressed as a percentage of the working age population.

**Unemployment rate:** The unemployment rate is the number of persons unemployed but looking for work expressed as a percentage of the total labour force.

**Wage premium:** The wage premium is a measure of the additional income an average person in a certain category (e.g., a person with a university degree, or a unionized employee) receives relative to an average person not in that category (e.g., a person with just a high school diploma, or a non-unionized employee).

**Working age population:** For this report, the working age population is the number of persons aged 15 years or older excluding persons living on Indian reserves, full-time members of the regular Armed Forces, and persons living in institutions (for example, inmates of penal institutions and patients in hospitals or nursing homes who have resided in the institution for more than six months).



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