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Where Have All the New Workers Gone? Why Atlantic Canada's Labour Force Has Stopped Growing and What We Can Do About It

Today's release of Statistics Canada's *Labour Force Survey* data for December reveals that Atlantic Canada's labour force averaged about 1.2 million people in 2006 – the second consecutive year of zero growth.¹ While labour force growth in Atlantic Canada has stalled, Canada's labour force continues to expand, advancing by 2.4% since 2004, with Alberta's labour force growing by more than 5% over the same period.

The labour force consists of individuals who are currently working or who are unemployed but available and looking for work.² About 90% of Atlantic Canada's labour force is currently employed. This commentary explains the reasons behind this recent trend, what it means for employers, and what can be done about it.

Why Is It Happening?

There are two main factors behind these weak Atlantic labour force numbers – the region's current economic situation and a longer term demographic trend.

Recessions or periods of weak job growth often lead to a decline in labour force growth as some potential job seekers withdraw from the labour force.³ Although the economy is not in recession, employment in the Atlantic provinces in 2006 averaged only 0.7% higher than in 2004. Reflecting this weak job growth, Atlantic Canada's participation rate – the proportion of the population (aged 15 years and over) that is in the labour force – has declined from 63.1% in 2004 to 62.7% last year.

In addition to limited job prospects in Atlantic Canada, booming demand for labour in Alberta is pulling people out of the Atlantic region to join Alberta's labour force.⁴

¹ There was actually a marginal decline in Atlantic Canada's labour force of 2,900 people (or 0.24%) between 2004 and 2006. Nova Scotia and Newfoundland & Labrador exemplify this trend with labour force declines over this period of 1.0% and 0.5% respectively. New Brunswick's labour force growth has slowed considerably, up only 0.4% between 2004 and 2006. Prince Edward Island's labour force has continued to grow, but at a much slower pace in 2006 than in prior years.

² The labour force is constantly changing as young people graduate from college or university and begin to look for work while older people retire from the labour force. Some people leave the labour force to care for family members while others return to the labour force after several years absence from paid work. People also move to and from other parts of Canada and new immigrants join the region's labour pool.

³ This is referred to as the discouraged worker effect.

⁴ APEC (2006) "Alberta's Boom Pulls Atlantic Canadians Westward" *Report Card*, December.

Alberta has experienced job growth of almost 6.5% since 2004. In response to these more attractive economic opportunities, an estimated 21,000 Atlantic Canadians moved to Alberta in the two years to July 1, 2006.

There is also a longer term demographic trend that is starting to become apparent – a trend which suggests that limited labour force growth in Atlantic Canada could become increasingly common in the future. Atlantic Canada’s population growth has slowed to a crawl and this is limiting the number of people available for work. The number of people aged 15 and older in the Atlantic provinces was growing by 1.3% annually in the ten-year period 1977-86. But over the last decade, annual growth in the working age population has slowed to less than 0.3%.

A decline in birth rates and the outmigration of young adults is reducing the number of young people that will enter Atlantic Canada’s labour force in the future.⁵ Compounding this trend is the large group of baby boomers that are now approaching retirement, thereby increasing the number of older workers that are leaving the labour force.⁶ And although the number of immigrants to the Atlantic provinces has increased in recent years, this has not been sufficient to compensate for outmigration to the rest of Canada.

Demographic projections therefore point to a further slowdown in the growth of the working age population over the next two decades. Projections from one private forecaster suggest that Atlantic Canada’s labour force may shrink to less than 1.1 million people by 2025.⁷

What Does it Mean for Employers?

What do these longer term demographic trends mean for businesses in the Atlantic provinces that are looking to hire new workers? What are the implications of a labour force that is not growing? Consider a realistic example.

A hypothetical Atlantic business, BoomCo Ltd., has just developed a new product and is receiving orders from customers in the United States and Europe. In order to supply these orders and sustain the growth of its business, BoomCo needs to hire 50 new people to work in a variety of positions including manufacturing, marketing, logistics and management.

How will the company be able to fill these positions if there is no overall growth in the available labour force in Atlantic Canada? BoomCo is doing well and can afford to provide an above average wage and benefits package. With a strong reputation for being a good employer and with the company in expansion mode, it manages to fill all 50 positions.

⁵ Over the last decade, the Atlantic provinces have seen a net flow of about 7,000 people aged between 15 and 34 years leave the region each year.

⁶ The number of people in Atlantic Canada that are aged 65 and older is projected to increase by 50% over the next 15 years. While about 86% of Atlantic Canadians aged 25-45 participate in the labour force, only 37% of those aged 60-64 and 11% of those aged 65-69 were active in the labour market in 2006.

⁷ Informetrica Ltd. (2006).

Where did these workers come from? Five of the new hires were experienced workers that were currently unemployed, having been recently laid off from other firms. Five workers were recruited from outside of Atlantic Canada. But the majority of the new positions were filled with people who were previously working for other companies in the Atlantic region.

So what happens to these firms? They now have a collective shortfall of 40 workers. How can they fill these vacancies if the overall labour force is not growing?

These companies can respond in a variety of ways. They may restructure their operations to improve their labour productivity, producing the same level of output with fewer workers. They may outsource part of their production process to companies in other jurisdictions. Some firms may turn away new business because they are unable to fulfill additional orders. Some companies may intensify training for their remaining employees while others may invest in hiring and training unemployed workers.

This example illustrates the kinds of issues that are going to arise and some of the adjustments that will be needed. With a limited number of potential workers available, employers – in both the private and public sectors – will increasingly be competing against each other for talent. Even if a business does not need to increase its overall payroll, it will still need to replace employees that are retiring.⁸

What Can Be Done?

More than ever before, individual businesses will need to focus on competitive human resource practices, including the ability to pay premium wages and benefits. However, compensation packages will have to be tailored to individuals or types of individuals. Young graduates may be more responsive to policies that help them pay off their student loans faster. More flexible work hours may be the key for those looking after young or aging family members. Older workers may be attracted by the option of part-time work.

Employers will also need to examine measures to encourage employment of demographic groups that have not been part of their typical workforce which may include older workers, women and immigrants. While such steps may help individual industries, the overall impact on the size of the labour force is likely to be modest. Sectors that have traditionally been highly seasonal will face pressures to move to providing higher paid, full-year employment as a way to attract new workers.

Measures to encourage retention of older workers in the labour force will help mitigate the slowdown in labour force growth. Policies that allow workers to gradually shift from full-time work to retirement may prolong labour force attachment. This includes allowing workers to reduce their work hours at the same time as they begin drawing a pension.

⁸ A static or declining population will constrain demand for a variety of local services in the Atlantic provinces, such as retail spending, movies and restaurants (even though rising personal incomes may contribute to increased total expenditure on these items). This will weaken labour demand in these sectors and provide some offset for a shrinking pool of potential workers.

All four Atlantic provinces are putting a greater emphasis on immigration. While this may provide some offset to a declining local labour force, increased attention needs to be placed on ensuring that these immigrants can use their skills in Canada. Strict language requirements for economic immigrants, support for language training for other immigrants, better recognition of immigrant credentials and experience, work placements and targeted short-term wage subsidies are all measures that might help. Removing restrictions on employment of foreign students could help them gain valuable Canadian work experience should they seek permanent immigrant status. Easing regulations for hiring temporary foreign workers and ensuring that foreign professionals can easily enter the region on service contracts are areas that will also need closer examination.

Investment in machinery and new technology are ways that firms can reduce their labour supply requirements and increase their labour productivity. This may require changing to a different business model or method of service delivery along with increased training for the remaining workers. Ensuring that firms have access to capital for such investments will be important.

A commitment to on-the-job skills training and lifelong learning will need to be intensified. With workers in short supply, ensuring that existing employees have a high level and a sufficiently broad range of skills will be essential. Would tax credits for training encourage greater skill acquisition among employees and employers? Improving basic literacy levels and ensuring that workers can retrain to move from declining to growing sectors will be a critical challenge.

Focusing on Good Jobs and Improved Competitiveness

Developing a more dynamic Atlantic economy that creates a growing number of high paying jobs is the ultimate solution to the current situation. Stronger job growth will encourage more people to stay in the region and to join Atlantic Canada's labour force.

Without strong job growth, the increased competition for skilled labour associated with a static labour pool and generally rising skill requirements in many occupations will require a serious rethinking of human resource practices and business models in Atlantic Canada. The region can still prosper even if its overall labour force does not grow, as long as its economy shifts towards higher skill and higher paid jobs, resulting in increased labour productivity and per capita incomes.

Atlantic Canada's economy will always require a range of skill types and levels but it is imperative that government policies and business practices facilitate positive adjustments in the region's economy to ensure its future prosperity. With reports of skill shortages increasingly common, a static or shrinking labour pool is going to intensify these pressures in the years ahead. By contrast, as Alberta's economy currently illustrates, a dynamic and rapidly growing economy can help to attract and retain the skilled labour that the region needs.

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