

Jobs—the year in review

This issue:

- Gradual improvement in labour market continued at the end of 2010
- Jobs growth in SW Ontario's cities was faster than the Canadian average in early 2010, but has since stalled

Special feature:

- Infrastructure stimulus spending: likely helped reduce unemployment locally

Labour Market News is published quarterly, providing an economist's view of labour market trends and policy issues.

The Canadian unemployment rate averaged 8% in 2010, just down from 8.3% in 2009. On the positive side, the unemployment rate continues its gradual fall from a peak of 8.7% in mid-2009 (Fig 1).

On the negative side, most recently the decline in unemployment has not been driven by an improvement in the percentage of the population that is employed. While the total number of jobs in Canada is

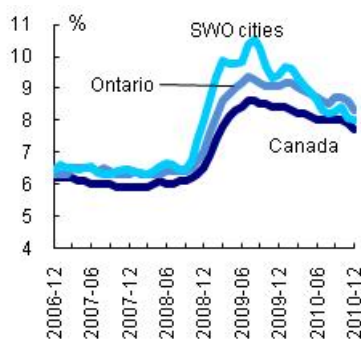


Fig 1. Unemployment rate trends

now higher than before the recession, this growth has only been just enough to keep pace with growth in the working age population. As a result, the employment rate has increased only slightly since bottoming out at 61.4% in mid 2009, to stand at 61.8% in December 2010 (Fig 2).

Ontario and the cities of SW Ontario (Hamilton, Kitchener, London and Windsor) in particular saw their strongest employment growth between mid-2009 and mid-2010. Since then, overall employment rates have declined in these areas. Unemployment rates have still fallen somewhat, but this is due to a big drop in labour force participation. For SW Ontario's cities, the participation rate is now close to the lowest since records began in

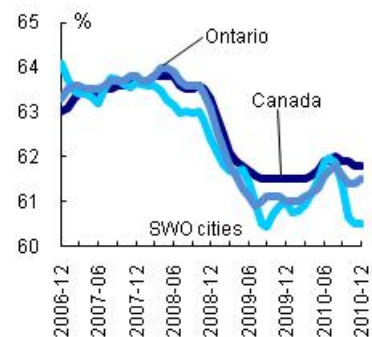


Fig 2. Employment rate trends

1987. Labour force participation rates were lower in December 2010 than in December 2009 in all SW Ontario cities except Kitchener, which was also the only city to see an increase in the employment rate over the same period.

That said, there is considerable volatility in labour force statistics at the municipality level.

Canada's jobs growth strongest in services and construction

Three sectors contributed most to the increase in Canada's employment in 2010 compared with 2009—construction (63500 jobs), professional and technical services (70500 jobs), and health and social assistance (85500 jobs). For SW Ontario, the story was different. Just two sectors accounted for almost the entire gain in employment of around 15000 jobs—business services (7000 jobs) and 'other services' (5000 jobs)(which includes repair, maintenance, personal services, laundry and social and religious organisation).

Manufacturing picked up more quickly in the second half of the year in SW Ontario, though em-

ployment in the sector remains well down over the longer run. In December 2009, manufacturing accounted for 20.6% of jobs in Kitchener, up from 19.8% a year earlier, but down from around 30% a decade ago.

Construction has been slower to rebound in SW Ontario than in Canada. Despite strong growth in the sector in late 2010 in Windsor, Kitchener and Hamilton, construction employment in 2010 was only 1.2% up on 2009; this compares with a 5.5% increase in Canada as a whole.

Jobs in education, which account for just under 1 in 10 jobs in SW

Ontario, have been particularly weak in the region. After a large fall in the middle of 2010, they have barely recovered. That said, education is a sector where Statistics Canada has had measurement difficulties.

Retail and wholesale trade, public administration, and health and social assistance have also seen weak growth in SW Ontario in 2010 compared with 2009.

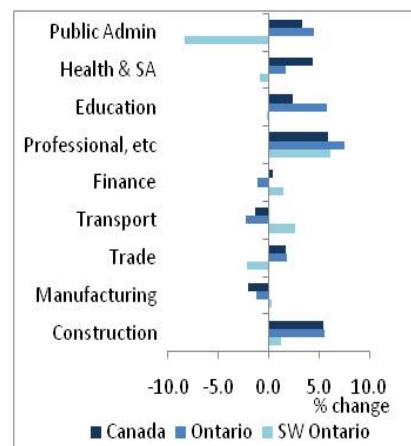


Fig 3. Employment change by industry, 2009 to 2010



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Infrastructure spending and local unemployment

Infrastructure spending played a key role in the response to the recent recession

The recession that hit the US and subsequently Canada in late 2008 caused a massive loss of jobs in the Canadian and American economies. In Canada, the unemployment rate increased from around 6% in early 2008 to peak at 8.7% in August 2009. In response to that recession, governments in the US, Canada, and other countries embarked upon stimulus programs, of which an important component was spending on infrastructure. Canada's Infrastructure Stimulus Fund (ISF) involved expenditure of \$4 billion, with another \$3 billion spent on other infrastructure-related stimulus programs.

Infrastructure has long been thought of as one of the better types of spending to use in the process of implementing a Keynesian-style fiscal stimulus, as well as in programs that boost local labour markets. Evaluating whether such programs have employment benefits is complicated because they tend to be introduced precisely at times or in places where employment is weakest, creating an apparent negative correlation between employment and spending.

There is evidence from Australia that infrastructure spending can boost local employment ...

There are many studies which attempt to account for this negative correlation between spending and employment at the national level in evaluating the effects of fiscal policy on economic activity. The debate on this is far from settled, with some studies finding fiscal stimulus can provide a significant boost to the economy during a recession, while others are more skeptical.

Few studies, however, have attempted to examine whether infrastructure spending can increase *local* employment. Leigh and Neill (2009) examine this question, using data from an Australian road infrastructure program. They deal with the concern that spending could be allocated based on local economic conditions by only looking at the effects on unemployment of spending that was due to political factors. Districts represented at the federal level by members of the ruling Coalition got more money, regardless of economic conditions. Those elector-

ates also had bigger drops in unemployment. Leigh and Neill estimate that \$1 million in additional local roads spending increased the number of local jobs by between 32 and 98 jobs—a cost per job of between \$10,000 and \$31,000.

These estimates of costs per job are quite low relative to other estimates, and suggest, at least in the Australian case, that there are strong local spillover effects. That is, a good proportion of the money spent on road construction was then used to purchase locally provided goods and services, creating local employment. The findings suggest that Canada's ISF and related programs would likely have contributed a boost to labour markets in the communities with funded projects.

... but the PBO is skeptical about Canada's programs

Canada's Parliamentary Budget Officer, Kevin Page, is reported as saying in an interview last December that Canada's infrastructure program "doesn't score well on the employment side." This comment was based on a survey undertaken during the 2010 construction season of organizations (mostly municipalities) which were eligible to receive grants. One third of respondents said that the program had a beneficial effect on local unemployment, while one fifth thought it had had a negative effect.

There is some uncertainty about this finding, however, since the report also finds that individual projects created "a substantial average number of jobs per project at reasonable salaries" (PBO, 2010). This was particularly true for public transit projects, with highway/regional transit identified as a key project type that created well-paid jobs.

The PBO's report is an excellent start at evaluating the economic effects of the Canada's stimulus package on employment, particularly in considering whether different types of spending have different effects. But undertaking a real time measurement of the stimulus program's effects is very challenging. A final analysis of the performance of the ISF and related programs will have to wait until more data are in.

References

- Leigh, A., and C. Neill (2009). "Does Fiscal Policy Reduce Unemployment? Evidence from Pork-Barrel Spending," *ANU Working Paper*
- Parliamentary Budget Office (PBO) (2010). *Infrastructure Stimulus Fund—Survey of Recipients*. PBO, December 1, 2010