# Economic update

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The market is starting to toy with the idea that the Bank of Canada will start hiking in the second half of 2017. In all likelihood, Governor Poloz is not happy with that assessment. He will take the opportunity next week to remind the market that Canada is not doing so great, and that the output gap is still wide.

Also, he will probably use the recent change to mortgage regulations as another reason to communicate that there is no immediate need to raise rates. In addition, when we consider the clear reduction of the competitive position of corporate Canada when Trump implements its corporate tax cut policy, we should expect a very dovish message from Poloz next week.

The employment numbers are out, and while we get good numbers, the quality of employment is not there—we see more part-timers and more full-time workers in low-paying sectors. Last week, we released a research piece discussing the overall quality of employment in Canada.

But there is another interesting dimension here. For a while now, keynote speakers at university and college graduation ceremonies have been reminding students that the labour market awaiting them is the most dynamic one ever. The era of jobs-for-life is over, loyalty to one employer is dead and young Canadians should be prepared to hop from one job to the next during their working careers. Our Finance Minister offers similar advice, suggesting that young Canadians should get used to this new reality.

But is this really the case? It turns out that the widely acknowledged trend is actually fiction. In reality, the tenure of employment in Canada, by any measure, is rising, not falling. Is that a good thing or a bad thing?

The average job tenure in Canada has been on a clear upward trajectory, rising from 98 months to 103 months in the last decade. The share of Canadian workers who have been with the same employer for more than 5 years is currently hovering at a record-high of over 50%. An increase in job tenure can be interpreted as an increase in job stability. That stability, I believe, is a sign of weakness, not strength.

If we look at the average job tenure by wage, we find that the tenure among lower wage occupations rose faster than that among high-paying occupations. The main factor behind that apparent job stability of low–skilled, low-wage occupations is probably fear—the fear of being replaced.

And that fear is justifiable when you glance at the other spectrum of the labour market—where the unemployed reside. The duration of unemployment in Canada rose notably during the recession and stayed high during the recovery. The probability of exiting unemployment after being unemployed for six months is now lower than it was before the recession. The share of those unemployed for more than 27 weeks is currently at a level seen during the recession. All those trends contribute to further reducing the already poor bargaining power of low-skilled workers.

What about high wage workers? Granted that their job tenure is not rising as fast as those of low wage workers, it's still showing an upward trend. Why? We speculate that fear is again a factor here. This time, however, the employer is the one who is fearful. To the extent that specific talent is in short supply, firms will do whatever it takes to prevent their high-skilled labour from leaving. No surprise then that wages among high-wage employees are rising faster than among low-wage employees.

The average job tenure by education level reveals similar results, reflecting a broad-based trend of rising tenure among all levels of education.

The relative stability of the Canadian labour market as reflected by the high and rising job tenure is really a story of a market paralyzed by fear, both by the fear of losing a job, and the fear of losing an employee. Regardless of the source of that fear, the end result is a labour market that is less dynamic than it should be.