Minimum wage hike will likely lead to job cuts, but won't shock Ontario's economy

By Rachelle Younglai
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The steep minimum-wage hike in Ontario will likely lead to job cuts and more automation, but the province's economy will be able to withstand the blow.

In less than two years, employers will be required to pay a minimum hourly rate of $15 instead of the current $11.40, as well as higher payroll taxes.

Although the new Ontario policy is designed to boost paycheques for low-income families, economists predict job losses, affecting some of the very people the provincial government is trying to help.

"It is a very significant change. Obviously, some people will benefit from this," said Douglas Porter, chief economist with Bank of Montreal. "It gives them more buying power but makes them more expensive as employees. Employers will either trim their hours or cut back in terms of the number of employees they have."

Mr. Porter said he is leaning toward trimming his 2018 employment forecasts for Ontario when the sharpest hike is scheduled to occur. The minimum hourly wage is slated to reach $14 in January, an increase of 23 per cent over current levels. By 2019, the minimum wage will be $15.

Most of the low-wage jobs in Ontario are in retail, hotels, restaurants and agriculture. Three-quarters of the workers in the accommodation and food-services industry earned less than $15 an hour last year. About 60 per cent of retail workers had similar earnings.

The lowest-paying jobs are prevalent in industries that depend on a flexible work force, or part-time workers, to run their businesses.

Slightly more than 40 per cent of employees in accommodation and food services work part time and 35 per cent of retail workers have part-time jobs. In comparison, about 20 per cent of employees across all industries in the province work similar hours, according to Statistics Canada data.

One problem with using a higher minimum wage to combat poverty is that it is not targeted at low-income families, some say. Some minimum-wage workers have other forms of revenue. For example, seniors could be receiving a pension, government transfers and investment income.

"It does help some of the working poor," said Craig Alexander, chief economist with the Conference Board of Canada. "But there are workers who are minimum-wage workers that have household incomes that are significantly higher."

However, when a quarter of Ontario's employees gets a pay raise, it will have a knock-on effect.

Ontario is home to the highest percentage of low-wage jobs in the country. Last year, nearly 10 per cent of Ontario workers earned the minimum hourly wage of $11.40 and 25 per cent of employees earned less than $15 an hour.

Regions with more low-income earners will likely have a harder time dealing with the wage increase. A third of the workers in St. Catharines-Niagara and Leamington, earned less than $15 an hour last year, according to Statscan data. In Ottawa-Gatineau, an area heavy in government jobs, a fifth of the region's employees received low paycheques.

"Clearly something has to give," said Derek Burleton, deputy chief economist with

Toronto-Dominion Bank. “There will be pressure to let less productive staff go,” he said.

Mr. Burleton said the wage hike was an “additional downside risk, but not enough to dramatically change our view on Ontario.”

Ontario is one of two provinces that remained resilient amid the energy slump. The province benefited from a real estate boom and the jobless rate sank recently to its lowest level since the turn of the century.

That is not the case in Alberta, which has suffered from mass unemployment and an economic slowdown. Nevertheless, Alberta was the first province to roll out plans to raise the hourly minimum rate to $15 by next year.

When Alberta started increasing wages last year, some restaurants said they would jack up menu prices to mitigate the higher expenses.

But passing costs on to consumers may not be feasible for some restaurants or traditional stores, which have already been squeezed by foreign competition and online retailers.

“Employers will find a way of economizing it,” Mr. Porter said. “I would expect to see a lot of fast-food chains increasing automation where they can.”