

Labour participation and job creation rates tell untold tale of Canadian economy

By Jake Fuss and Milagros Palacios

November 25, 2018 – *The Globe and Mail*

The Trudeau government painted a fairly positive picture of the Canadian economy in Wednesday's economic update, with Finance Minister Bill Morneau touting the country's low unemployment rate. Upon closer examination, however, the outlook for Canada's economy may not be so rosy as serious risks hover on the horizon.

The unemployment rate has long been considered a good measure of overall economic performance – that a low jobless rate signals strong economic performance and high unemployment rates indicates the opposite. But the jobless rate has become a less-reliable gauge as a result of Canada's aging population and falling labour participation rates.

Although the unemployment rate declines when workers become employed, it also falls when workers leave the labour force and stop looking for employment. Consequently, job creation is not the only explanation for a lower unemployment rate.

Since October, 2017, Canada's labour participation rate has decreased to 65.2 per cent from 65.7 per cent. And demographic trends suggest labour force participation will continue to fall. There are, for instance, 2.7 million Canadians aged 15 to 24 in the labour force compared to 3.4 million Canadians aged 55 to 64, which represents a ratio of 0.8 compared to 0.9 just two years ago.

These figures reflect a widening gap between the number of young people entering the work force and the number of people preparing to leave. As the population ages, Canada's labour force will continue to shrink and cause the unemployment rate to be lower than it otherwise would be with stable participation rates.

In contrast, the employment rate – the share of the labour force that is employed – is an alternative measure of labour market performance. According to the latest Labour Force Survey, Canada's employment rate has steadily declined since December, 2017 – from 62 per cent to 61.5 per cent in October, 2018. These numbers don't support the cheery economic outlook of the Trudeau government.

Moreover, the Canadian economy features a meagre job-creation rate despite our "hot" economy. Since October, 2017, total employment (including self-employment) increased a mere 1.1 per cent, with public-sector employment growing faster than the private sector (1.5 per cent versus 1.1 per cent). This is worrying as public-sector employment may be crowding out private-sector employment – the generator of wealth and taxes needed to finance public services.

Finally, investment in Canada, which is critical for future prosperity and job creation, has also declined. From 2013 to 2017, foreign direct investment decreased by 55.1 per cent while Canadians increased investments in foreign countries by 73.7 per cent over that same period. Clearly, both foreign and domestic investors are allocating capital elsewhere.

Wednesday's economic update was a missed opportunity to address Canada's declining competitiveness, particularly with the United States. The Trudeau government failed to reduce personal income tax rates on entrepreneurs, business owners and investors, which is a continuing problem made worse by tax increases introduced by the federal and many provincial governments. The update also did not reduce business tax rates, although it did introduce a narrow, temporary measure

that will make taxes on new investments more competitive with the United States.

And although the government committed to modernize Canada's regulations, the reforms are not expected to take effect for years while the United States has been busy deregulating at a pace not seen since the early 1980s.

Finally, the government again failed to provide a path to a balanced budget. Indeed, the deficit will reach \$18.1-billion this year in part because of an extra \$8-billion in spending initiated since the 2018 spring budget, and the deficit is expected to increase next year.

To help improve the economy, the government should have made Canada a more attractive and competitive place to invest and do business. Spending restraint, coupled with the

elimination – or perhaps paring back – of corporate welfare programs would provide more than enough fiscal room to allow reductions of both personal and business tax rates. For instance, eliminating 60 per cent of corporate welfare (estimated at \$14-billion each year) would have provided the revenue necessary to reduce the business tax rate to 10 per cent from 15 per cent.

Canadians should be skeptical when they hear the federal government say our economy is booming. Unemployment rates present a narrow picture of the Canadian economy, and Wednesday's economic update failed to meaningfully improve our competitiveness.

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