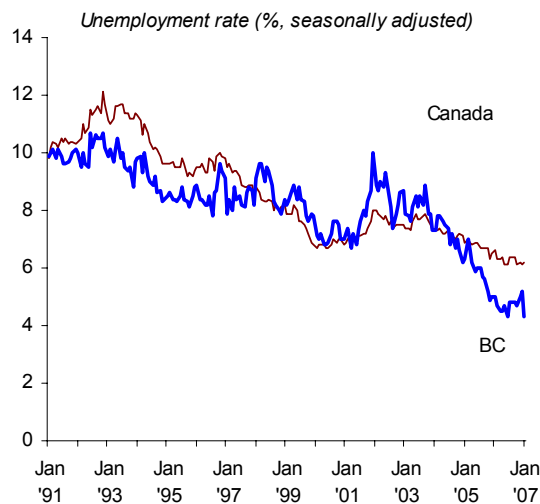


## Business Indicators ♦ March 2007

### To work or not to work: participating in the labour force

**British Columbia's unemployment rate is now at its lowest point since 1976**



Data Source: Statistics Canada

British Columbia's unemployment rate dropped to 4.0% in February, the lowest level recorded during the last thirty years<sup>1</sup>. The rate is now below the national average, re-establishing a relative advantage enjoyed by British Columbians only twice before during the last thirty years—from 1991 to 1997 and during most of the period from 1978 to 1981.

**The unemployment rate is currently at its "natural" level, where the supply of labour is equal to demand**

An unemployment rate of about four percent is viewed by many analysts as the "natural" rate of unemployment. This is the rate at which the demand for labour is essentially equal to the supply of available workers. A certain amount of joblessness in the economy is inevitable, since there will

<sup>1</sup> Comparable provincial unemployment rates are not available prior to 1976

always be some people who are either between jobs, or are temporarily unable to work.

**What does a falling jobless rate mean for BC?**

Continued improvement in the jobless rate is good news for workers, since it means that it is easier to find employment than it used to be. Looking at jobless rates by age group, both young workers (aged 15-24) and those with more experience (aged 25 and higher) have made significant gains. The unemployment rate for young workers dropped to 8.2% in 2006, marking the first time that a single-digit unemployment rate has been recorded for this age group. For more experienced workers, the jobless rate was just 4.1%.

However, with BC's labour market at or near full employment, a continued decline in the unemployment rate could have serious implications for employers, who may find it increasingly difficult to staff vacant positions. At the same time, it is likely that the number of vacant positions will be increasing as a growing number of baby boomers reach retirement age. This problem is not unique to BC. The pending retirement of baby boomers is an issue in all regions of the country, and in other parts of the western world.

Are there enough workers available, or potentially available, to do the jobs needed to keep BC's economy going? BC has traditionally been able to attract migrants from other regions, especially western Canada, but how likely is it that the province will be able to rely on inter-provincial migration to

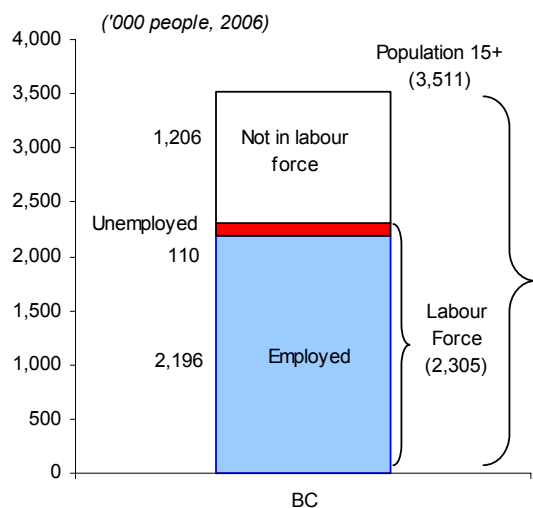
boost the supply of available workers in the future?

These questions have important policy implications. They can be answered, at least in part, by examining how BC's labour market characteristics compare to those in other parts of the country.

### How big is BC's labour force?

The working-age population is defined to include everyone who could, at least potentially, be available for work. This includes anyone aged 15 and over, since in most cases children under the age of 15 are not legally eligible for employment. A total of 3,511,000 British Columbians were in this age group in 2006.

### How British Columbians aged 15 and older stacked up in 2006



(Numbers may not add due to rounding)

Data Source: Statistics Canada

A little less than two-thirds (2,305,000) of the working-age population was actually in the *labour force*—either working or looking for work. Almost all of them (2,196,000) were employed: working for pay in an employee relationship, self-employed, unpaid family workers, or temporarily absent from their job due to illness, labour disputes, vacations, or for other similar reasons. Another 110,000 people were counted as

unemployed, because they were either temporarily between jobs or were actively looking for work.

Finally, 1,206,000 people aged 15 and over did not participate in the labour force in 2006. This includes retirees, stay-at-home parents and other caregivers, students, and those who were physically unable to work, as well as those who chose not to work for other reasons.

By themselves, these indicators give only limited information about how the available supply of labour in one province compares to another. Regional labour force, employment and unemployment counts reflect relative differences in the size of the population and the rate at which it is growing as well as labour market characteristics. Measures such as unemployment, employment, and participation rates, which relate these indicators to the actual or potential supply of available labour are probably more useful indicators.

### How does BC's unemployment rate compare to that in other provinces?

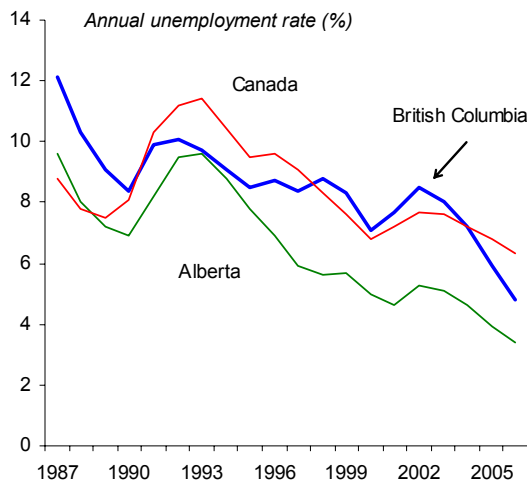
The *unemployment rate* is probably the most widely quoted labour market statistic. It is calculated as the ratio of the number of unemployed people to the total labour force, and can be viewed as a measure of the likelihood that people who participate in the labour force will be without work.

In 2006, the average unemployment rate in BC was 4.8%. The province's jobless rate was below the national average, and was lower than in Ontario, Quebec, and all of Atlantic Canada. Unemployment rates on the east coast remain high, with provinces such as Newfoundland continuing to experience double-digit unemployment despite recent improvements in labour market conditions.

BC does not stack up particularly well compared to other western provinces.

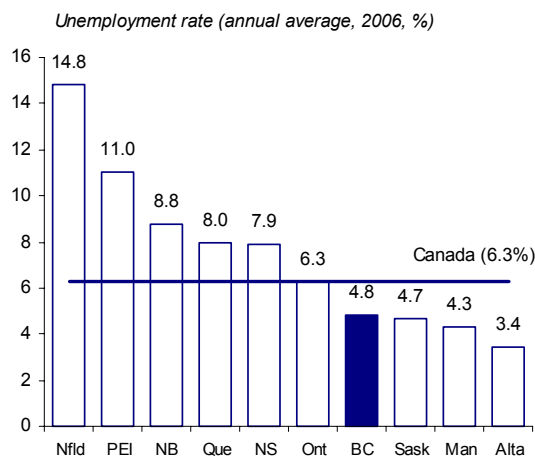
Saskatchewan, Manitoba and Alberta all had lower annual unemployment rates during 2006. This was not an unusual occurrence: during the entire period since 1976, BC's annual jobless rate has never fallen below that in any of the Prairie provinces, although it has temporarily dipped below them for short periods during the year. This gap between unemployment rates in BC and in other parts of the west has persisted throughout ups and downs of the business cycle.

**Although BC's jobless rate is falling, it remains higher than Alberta's**



Data Source: Statistics Canada

**All three Prairie provinces have lower unemployment rates**



Data Source: Statistics Canada

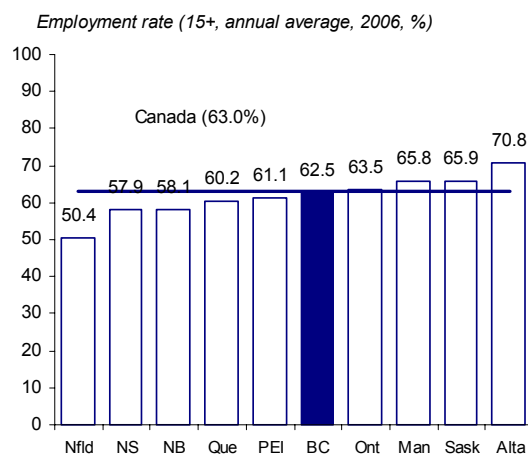
**BC has a relatively low employment rate**

The *employment rate* is calculated as the ratio of total employment to the population of potentially eligible workers (the 3,511,000 people aged 15 or over in 2006). It shows the extent to which the adult population is gainfully employed.

Using the employment rate as a yardstick, BC does not compare favourably to other provinces. The province's employment rate was 62.5% in 2006, just slightly less than the national average of 63.0%. Only Quebec and the Atlantic provinces had lower employment rates than BC. Alberta's rate of 70.8% was nearly eight percentage points higher than the national average.

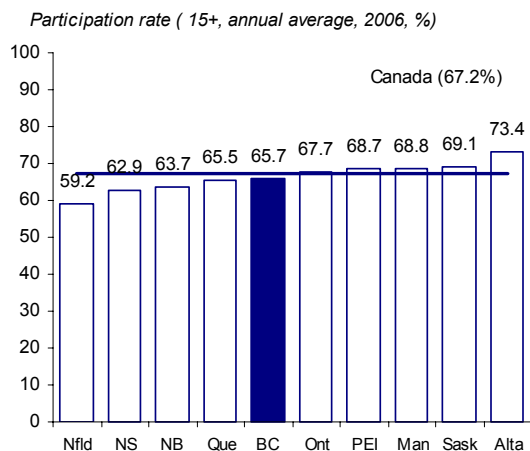
People who do not want, or are not able to work are included in the working-age population. This means that a lower-than-average employment rate is not necessarily an indication of weak labour market conditions in British Columbia. It could simply reflect the fact that a smaller percentage of the working-age population is actually available for work in BC. This is likely the main reason for the province's relatively low employment rate compared to other regions.

**BC's employment rate is below the national average ...**



Data Source: Statistics Canada

## ...as is the labour force participation rate



Data Source: Statistics Canada

### BC's participation rate is below the national average

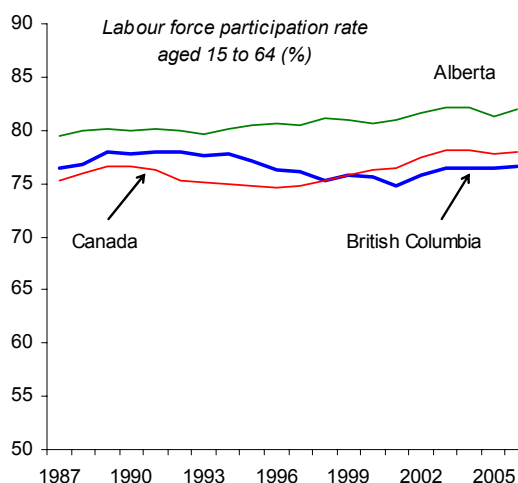
The *participation rate* compares the labour force to the total population aged 15 and over. Because it includes both employed and unemployed people, the participation rate is a good indicator of the extent to which the working-aged population is attached to, or engaged in, the labour market. BC's participation rate averaged 65.7% in 2006, indicating that two out of every three people aged 15 and over were either working or looking for work. British Columbia's labour force participation rate has traditionally been lower than in the other western provinces, and in recent years has fallen below the national average.

### Why do people choose not to participate in the labour force?

There are many reasons why people of working age do not participate in the labour force. Age structure is one factor that can affect participation rates. The official unemployment, employment and participation rates are based on a working-age population definition which includes everybody over the age of 15, no matter how elderly they are. Using this basis for comparison, a province that has a larger concentration of seniors will, by definition, have a lower participation rate.

Data on employment, unemployment and the number of people in the labour force is available by age group. Looking at the population of usual working age (those between the ages of 15 and 64), it is possible to remove the "seniors effect" from the equation. Even when this is done, the province's participation rate still remains well below that in the other western provinces. This suggests that a large senior population is not the reason for the difference between participation rates in BC and in other parts of western Canada. (In fact, seniors account for a bigger share of the working-age population in both Saskatchewan and Manitoba.)

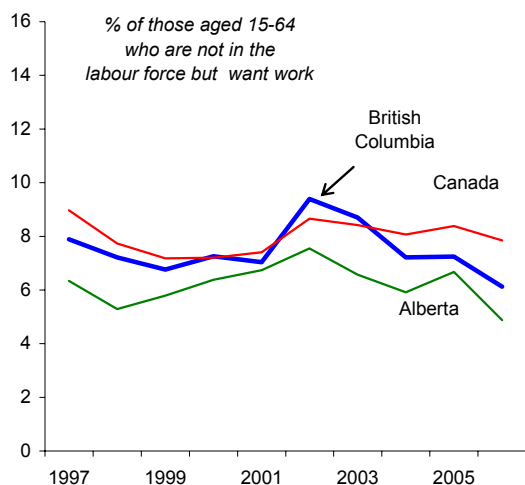
### Even when it is adjusted to exclude those aged 65 and over, BC's participation rate remains lower than average



Data Source: Statistics Canada

Statistics Canada's Labour Force Survey provides some insights into other reasons why people do not participate in the labour force. A relatively small percentage of the people in BC who are not in the labour force want to work but are unable to do so because of personal illness and family responsibilities, or because they are students, awaiting recall or a reply from an employer, have become discouraged or for other reasons.

## About 6% of British Columbians who are not in the work force want to have a job



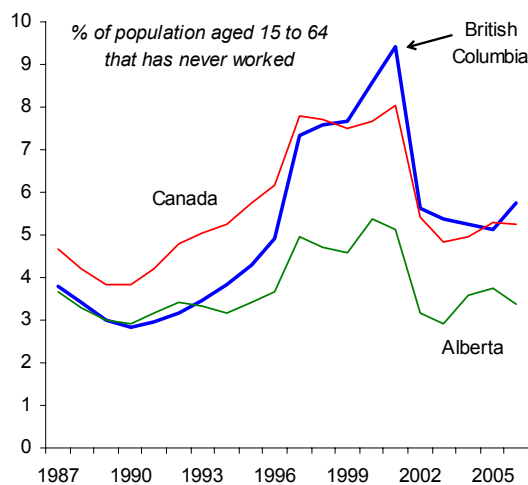
Data Source: Statistics Canada

In 2006, about 6% of those aged 15 to 64 who were not in the workforce wanted to work. This was below the Canadian average (8%) and lower than in both Saskatchewan (9%) and Manitoba (9%), but slightly higher than in Alberta (5%).

This means that the supply of potential new workers in BC is limited, since based on this measure, virtually all of the British Columbians aged 15 to 64 who are not in the work force have chosen, for various reasons, not to seek employment. Some of them may be students who are enrolled in schools or post-secondary institutions. While it is likely that these individuals will eventually be looking for jobs, others who are currently not in the workforce may be less inclined to do so. Family responsibilities, personal preferences, or other factors may mean that joining the labour force is not a likely option for many of them.

At the same time, about 6% of BC's population aged 15 to 64 has never been employed. This is higher than the national average (5%) and considerably higher than in Alberta and other western provinces. This percentage has fluctuated significantly over time and rises during periods when labour market conditions are less robust.

## A similar percentage of British Columbians aged 15 to 64 have never held a job



Data Source: Statistics Canada

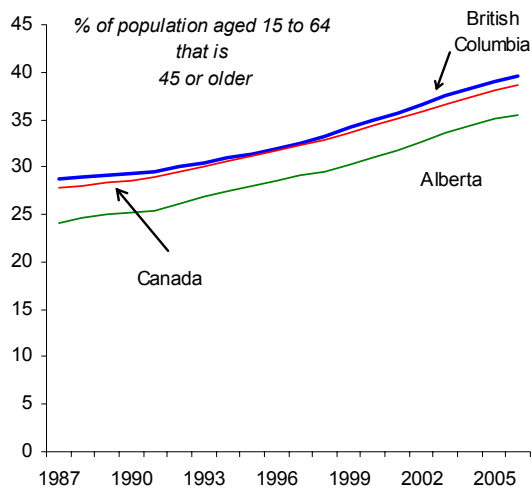
### BC's low participation rate is cause for concern

To summarize, BC has a lower than average employment rate in large part because it has a lower than average participation rate, whether you look at the entire population aged 15 and over, or at the population of usual working age (15 to 64).

BC does not stack up favourably compared to the Prairie provinces, especially Alberta, in this regard. There appears to be a weaker attachment to being in the workforce here than in other parts of western Canada. Only 6% of those aged 15 to 64 who are not currently in the province's work force want to have jobs.

Given that the province is at or nearing full employment, this is cause for some concern since the potential supply of available workers in BC is limited. The pending retirement of large numbers of baby boomers is likely to exacerbate the situation, since British Columbia (like Saskatchewan, Manitoba and Canada as a whole) has an older working age population than does Alberta.

### Four out of ten British Columbians aged 15 to 64 are older workers



Data Source: Statistics Canada

### How do we attract more workers?

Traditionally, migration has been a key method of attracting additional workers to an economy that is facing a labour shortage, and in past economic upturns, this has occurred in BC. The problem for the province now is that British Columbia must compete with Alberta, as well as the other provinces, for workers from other parts of Canada.

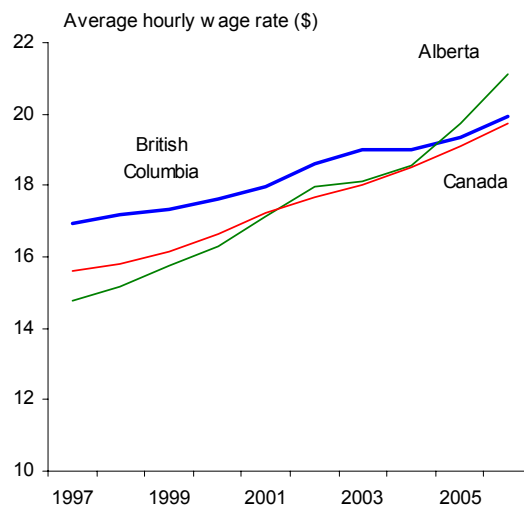
There are a number of factors that may make BC a less desirable destination for migrants than Alberta. Housing costs in the province remain among the highest in Canada, and despite a booming economy in Alberta, the cost of housing there is still not as expensive as in BC's biggest cities. At the same time, average wages in this province are lower than in Alberta. Migrants choosing to come here rather than to Alberta (where employers are even more in need of workers and are providing special incentives such as signing bonuses to attract them), will have to balance housing costs and lower wages in BC against other advantages they may see to living in this province. Furthermore, the potential supply of migrants may be drying up. Unemployment rates have been falling across the country, and with more jobs available in

eastern Canada, it is less likely that workers there will choose to pick up and move away from their family and friends.

Workers from other countries are another source of potential additions to the labour force, but considerations other than the need for labour have to be taken into account when determining the rate of international immigration.

Productivity improvements could help alleviate the effects of a pending labour shortage. If employers in the province can find ways to increase their output without using more labour—by working “harder and smarter”, or making better, or more, use of capital equipment, the potential strain on the economy may be reduced.

### Average hourly wages are lower in BC and have increased at a slower rate



Finally, it should be remembered that the economy is cyclical. At the moment there is, at least potentially, an excess demand for workers in BC and there are indications that factors such as the 2010 Olympics and the pending retirement of baby boomers, will put additional strains on the province's labour market. However, the economy does go through ups and downs, not all of which are determined by internal factors, so today's labour shortage could become a surplus at some point in the future.