

ECONOMIC VIEWPOINT

Canada's Labour Market in a Temporary Tailspin

Canada's current situation is unprecedented. The COVID-19 pandemic has forced a significant number of workers to stay home. Just a few weeks ago, employers were calling for measures to hire workers; now, everything has changed. Currently, it's not known to what extent the work stoppage will turn into temporary layoffs for some and job losses for others. The official statistics on the labour market, which will be released soon, may be difficult to interpret and unable to provide an accurate picture of the current situation. This *Economic Viewpoint* will help to understand how Statistics Canada defines the concepts of employment and unemployment.

The Unemployment Rate: The Impact as of March

In Canada as in each of the provinces, the unemployment rate is calculated using the Labour Force Survey (LFS). The LFS is a household survey that Statistics Canada usually conducts during the week that includes the fifteenth day of the month, with the results released at the beginning of the subsequent month. So, the data for March, which will be released on April 9, will provide a snapshot of the situation that prevailed during the week of March 15.

At that point, Quebec and Ontario had already implemented more restrictive measures affecting non-essential businesses as well as many schools and sports and cultural organizations. Therefore, as of March, the results of the LFS should reflect in part a very different labour market situation based on the measures implemented in the different provinces.

The shifts in employment, the number of people unemployed, and the unemployment rate will still depend on the ability of the LFS to capture the changes based on Statistics Canada's definitions and concepts. The LFS has its strengths and its limitations: the number of unemployed may be underestimated, which, in turn, would cause the hike in the unemployment rate to be underestimated. Still, the LFS remains the official measure of the state of Canada's labour market. Here's what it measures.

Unemployment rate: The number of people considered unemployed by the LFS expressed as a percentage of the population aged 15 years and older who are employed or unemployed (labour force).

Who Is Considered Unemployed?

According to Statistics Canada,¹ the concept of unemployment mostly relates to the search for a job and the availability to take the job. People considered available to work are those who could have worked if they had been offered a suitable job (or, in the case of people temporarily laid off, if they had been recalled to work), or if the reason for which they were not working was temporary, especially due to a personal illness or disability, personal or family obligations, or because they already had a job that was to start soon.

During the week of the survey, the unemployed are the people who are available to work and:

- ▶ Have no job but who searched for one during the previous four weeks.
- ▶ Were laid off temporarily because of the economic situation but who are expected to be recalled to work eventually.
- ▶ Have no job currently but who had one that was to start in less than a month.

Grey Zone: Employed or Unemployed?

As a result, during the current pandemic, employees temporarily laid off and waiting to be recalled eventually should normally be considered unemployed even if they aren't looking for another job while waiting. However, those who were permanently laid off with no possibility of returning to their former employer fall under the unemployed category only if they're looking for a job.

¹ STATISTICS CANADA, *Guide to the Labor Force Survey*, September 7, 2018, 86 p.

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Given that the current situation is far from ideal in terms of offering their services to a new employer, workers permanently laid off are probably not looking for another job already. Therefore, they're excluded from the labour force because they won't be considered employed or unemployed. Lastly, workers who were not at work (whether paid or unpaid) but who continue to have an employment relationship with their employer, e.g., teachers, will fall under the employed category.

It will be difficult to determine the number of temporary versus permanent layoffs. Some situations won't be clear for affected employees and businesses and may even change over time. If the majority of the workers laid off fall under the "temporary" category, with a foreseeable return to work, they should be considered unemployed for statistical purposes. Definitive layoffs fall into a grey area and will be difficult to assess. For example, employees who have not received any indication if they would be recalled by their employer will be considered to be permanently laid off.

Incidentally, not all unemployed people are necessarily counted in Statistics Canada's unemployment figures. Unless the LFS is adjusted to factor in the unusual situation caused by COVID-19, only some of those who lost their jobs will be captured by the survey. The official number of unemployed and, as a result, the unemployment rate, will probably be statistically underestimated. Furthermore, the number of unemployed according to the LFS's figures does not necessarily match the number of people benefiting from the federal employment insurance program (box on page 3). These are two different and completely independent surveys that Statistics Canada conducts.

Moreover, it will be possible to compare the change in Canada's unemployment rate with that of the United States, since the Bureau of Labor Statistics [survey](#) uses concepts similar to those used in Canada. The United States applies the following standard definition of unemployment: all people who are jobless, were actively looking for a job in the last four weeks, and who are available for work. In addition, people temporarily laid off and waiting for an eventual recall are included in the unemployment statistics in the United States just as they are in Canada.

Conclusion

The labour market data to be released for March and the coming months may not accurately reflect the situation. Indeed, questions may arise as to whether the measurement tools used by the official statistical offices will be able to capture the subtle differences between workers who have truly lost their jobs and those who maintain an employment relationship (with full or partial wages, or a government subsidy) but who are temporarily at home waiting to be recalled. This situation is unprecedented and temporary, which makes measuring employment and unemployment that much harder, especially since the length of the confinement period remains unknown.

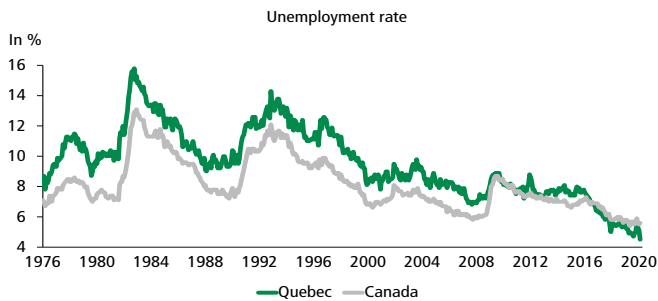
For now, the businesses that have had to halt operations will need to assess how the measures offered by the different levels of government can help them. It remains to be seen how businesses can get up and running again, how much the value chains have been affected, to what extent Canada's trading partners are back on their feet, and how fast the borders can be reopened.

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BOX Employment Insurance Claims

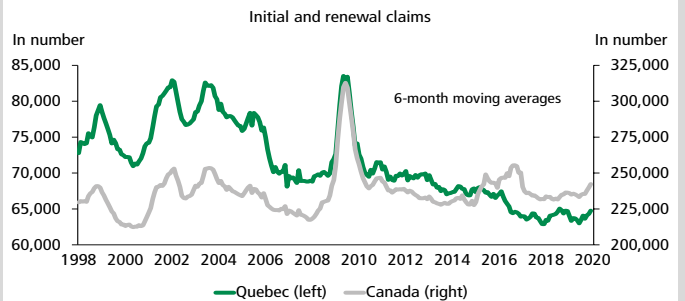
These are counted based on claims received and approved, i.e., people who are entitled to employment insurance benefits. The reference period is the same as that of the LFS, i.e., around the fifteenth of the month. Like the unemployment rate, employment insurance claims almost reached a historic low prior to the COVID-19 crisis (graphs 1 and 2). Benefit claims are expected to jump starting in March, but the official figures will only be released in June because of the time needed to compile them.

GRAPH 1
Jobless rate down sharply in February just before the restrictive measures associated with COVID-19



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
Employment insurance claims at an almost historic low last year



Sources: Statistics Canada and Desjardins, Economic Studies

Still, some numbers recently mentioned in the media suggest that over 2 million claims had been received in Canada since mid-March. These are not insurance claims received and approved, which will be compiled for the official statistics. The changes to government programs should help limit the amount of the employment insurance benefits that will be paid.

The federal government initially announced measures aimed at easing access to employment insurance because of the COVID-19 crisis, then changed its approach. In the end, it opted to help cover up to 75% of employee wages based on specific conditions to maintain the employment relationship and reduce the number of business layoffs.

Another federal program was recently announced, i.e., the Canada Emergency Response Benefit (CERB), which will soon be available for people who stopped working because of COVID-19, who are obliged to stay at home, or who are caring for a loved one. The CERB was set at \$500 per week for a maximum of 16 weeks. People who take advantage of this program cannot receive employment insurance benefits or the wage subsidy paid by the federal government at the same time.

All of these changes may complicate how the statistics on employment insurance claims are interpreted for a certain period of time. Several claims were received prior to the announcement on the wage subsidy through employers and the CERB. This could lead to the statistics on insurance claims being artificially inflated. It remains to be seen how all of this will be handled and what share of employment benefits will, in fact, be paid.