

PERSPECTIVE



Quebec's tightening labour market

Shortage, tightening, hiring difficulties—these are just a few words we can use to describe the problems employers are having to fill job vacancies in Quebec. The media is reporting almost daily on the troubles some employers are having to stay in business or expand their operations. The situation on the labour market is becoming increasingly tense and nothing points to any relief in the near future, if we rely on demographic forecasts. This is not the only factor to take into account however. The parameters framing these labour market outlooks are what exist today. The downstream effect of technological advances applied to the labour market, and to healthcare, could change everything. We also have to keep in mind that economic reversals could temper the current tensions on the labour market. Meanwhile, the difficulties are real and everyone is standing at the ready.

First puzzle: Calling the current situation

There is no consensus on what makes a labour shortage—the concept is difficult to describe. This does not mean that the hiring difficulties employers are experiencing are not real. While there is no official definition of a labour shortage, some guidelines exist. For some, three factors have to be considered: the length, the adverse effects of hiring difficulties, and compensation and working conditions that match what the market is offering. In fact, it is hard to talk about a labour shortage when employers offer new recruits wages that are less than industry averages. Taking these criteria into account, a number of labour market observers confirm that true labour shortages are generally rare, localized and short lived.

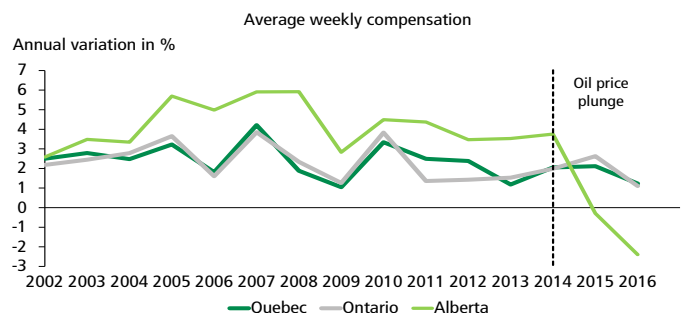
The absence of a skilled or unskilled labour force does not necessarily stem from the same source. According to the studies done by the Centre interuniversitaire de recherche en analyse des organisations (CIRANO)¹ in the early 2000s, each is a different concept. For unskilled workers, the “reservation wage is often higher than the wage offered.” Generally speaking, the reservation wage is defined as the lowest wage at which a worker would be willing to accept a particular type of job.

Other parameters can also be used to analyze the labour market situation. Taking only one into account does not provide enough clues to reach a verdict, however. Here are a few benchmarks that are useful to the analysis. When the unemployment rate in

a given profession or trade is low, wages often rise significantly and employers slash their requirements vis-à-vis experience levels for vacant positions, or when immigration services are seeking workers in specific fields. These are among the signals raised most often.

A glimpse at the annual changes in compensation shows the differences between Quebec, Ontario and Alberta since the early 2000s (graph 1). The situation was clearly more of a concern in Alberta where rising energy prices literally propelled oil and gas drilling and mining, which triggered an urgent demand for workers. Compensation increased faster than in Ontario and Quebec between 2003 and 2013. In contrast, the decline in oil prices as of 2014 plunged the labour market into a

GRAPH 1
Compensation rose faster in Alberta, where the scarcity of labour is more intense



Sources: Statistics Canada and Desjardins, Economic Studies

¹ Claude MONTMARQUETTE and Laure THOMAS, *La pénurie de travailleurs qualifiés*, CIRANO, February 2005, 29 p.

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surplus situation. The average weekly wage in Alberta actually fell in 2015 and 2016.

On the other side of the spectrum, some analysts and academics believe the verdict of a “shortage” is more closely tied to verbal inflation than to the reality of the current environment. Help wanted signs posted in front of businesses are usually meant to build a bank of applicants rather than to attract immediate hires. We also have to acknowledge the willingness of companies to set up shop in Quebec (especially for high tech²) because of the quality and availability of the workforce. According to those who dispute the use of the term “shortage,” we have to bear in mind that some positions have always been difficult to fill, at least in the short term, and that the situation is not widespread. Add to this the fact that plant machinery is only used some of the time, and restructuring the work would be an avenue worth exploring. All of these arguments can be used to temper the judgment that Quebec is suffering from a labour shortage.

The researchers at Emploi-Québec have been looking into this for some time now. Labour shortages can occur even when the unemployment rate is high. This can take place in certain areas of activity where advanced training is required and when departing professionals cannot immediately be replaced. This can also be seen in jobs where the turnover is high. The fact that turnovers are high in unskilled jobs is perhaps more of a symptom of the working conditions that are the bigger obstacle than a true shortage.

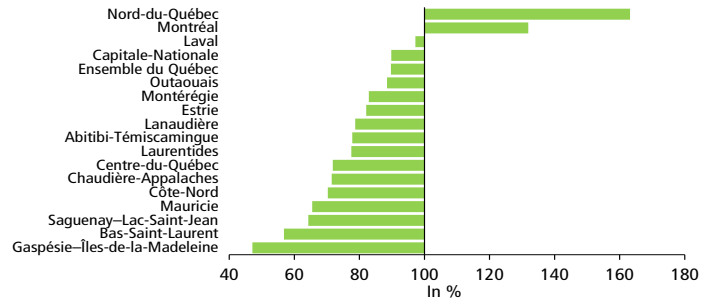
What the numbers say

The Institut de la statistique du Québec (ISQ) studies Quebec under every angle, including its labour market. The Institut has looked into the renewal of the labour pool using the “replacement index”—a ratio that compares the number of people aged 20 to 29 to those aged 55 to 64, all multiplied by 100. It is almost like comparing entries and exits from the labour market. When this index is above 100, more people have reached the age to enter the workforce rather than to leave it. Conversely, a reading below 100 exposes Quebec to a shortage of successors for retiring workers.

In 10 years, from 2006 to 2016, the reading for Quebec as a whole fell to below 100 (from 109.1% to 89.7%). Between 2006 and 2016, 4 out of 17 regions fell below their replacement threshold. In 2016, only 2 out of Quebec’s 17 regions had a replacement ratio above 100: the Nord-du-Québec and the administrative region of Montreal (graph 2). Hearing about the

² For example, all of these announcements were made in 2017: IBM Innovation Centre, inaugurated in October 2017 in Montreal, could welcome up to 500 employees by 2020; DeepMind (artificial intelligence (AI)) will create an international research lab in Greater Montreal; Thales Group picked Montreal for its global AI hub; Facebook is launching an AI lab in Montreal; ABB will set up its North American centre of excellence in electric mobility in Montreal.

GRAPH 2
Replacement index, based on administrative regions – 2016

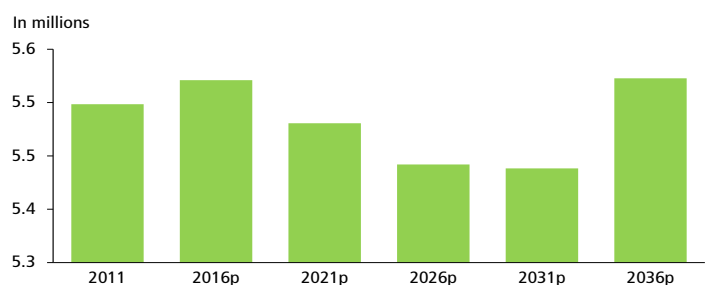


Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

hiring difficulties happening across Quebec is therefore not surprising.

Relying solely on demographic projections, the situation is not about to turn itself around. Based on the Institut’s projections, the workforce for workers aged 15 to 64 years is expected to keep shrinking in Quebec for some time. The number of people in this age group has been shrinking since 2014 and will continue to do so until 2030 (graph 3). In short, the situation could worsen if we do not rethink how we assess the labour market, the length of a person’s working life, foreign recruitment or work processes.

GRAPH 3
Quebec: According to ISQ, the population aged 15 to 64 is expected to keep declining for many more years



ISQ: Institut de la statistique du Québec; p: ISQ projections based on the benchmark study conducted in 2014.

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

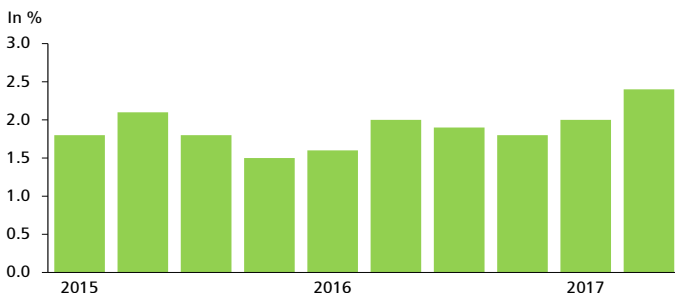
What those who survey the labour market say

Many organizations take the pulse of the labour market in Canada and Quebec. Among these, we tapped the Bank of Canada, Statistics Canada, the Canadian Federation of Independent Business (CFIB) and Emploi-Québec. These organizations each have their own objectives, and each has developed different measuring tools to gauge the labour market situation. The comparability of the different tools used becomes risky. This does not mean that some consensus cannot be achieved, however.

The Bank of Canada surveys businesses on a quarterly basis. The most [recent publication of the survey results](#) shows that across Canada, “Reports of more intense shortages are prevalent across all regions and sectors... Yet, the number of firms judging that such shortages are limiting their ability to meet demand is unchanged and remains modest overall.” For companies that were already grappling with these difficulties, the situation is more critical than it was. At the same time, the concerns are somewhat tempered since the Bank of Canada stated that in Canada as a whole, “difficulties in meeting demand and reports of binding labour shortages are not yet widespread.”

At Statistics Canada, the Job Vacancy and Wage Survey (JVWS), published since the first quarter in 2015, surveys the labour market.³ As such, from April to June 2017, Quebec had an average of 83,860 job vacancies. This is an increase of 25% over the same period in 2016 (or an additional 16,780 jobs). Meanwhile, the job vacancy rate reached 2.4% in the second quarter of 2017—the highest level since the survey results were published (graph 4). This was 2.0% one year earlier at the same time. According to Statistics Canada, the job vacancy rate refers to “the share of jobs that are unfilled out of all available payroll jobs.” In Canada, the rate posted in the second quarter of 2017 was higher than in Quebec: it reached 2.9%, suggesting that the labour market situation is more intense in other provinces than in Quebec, especially in Ontario (3.0%), British Columbia (4.0%) and Alberta (2.6%). The rate is up for each previously mentioned case, compared with the rate in the second quarter of 2016.

GRAPH 4
Quebec: the job vacancy rate has soared to 2.4 %, the highest rate since 2015



Sources: Statistics Canada and Desjardins, Economic Studies

The CFIB surveys its members monthly. Entrepreneurs referred to a “shortage of skilled labour” as the top constraint in terms of sales or output increases in Quebec (35% of respondents) and in Ontario (38% of respondents). Since this is a 12-month moving average, this cannot be attributed to seasonal differences alone.

³The Job Vacancy and Wage Survey, based on a sample size of 100,000 businesses in Canada, participation is mandatory.

Emploi-Québec uses its Enquête sur le recrutement, l’emploi et les besoins de formation dans les établissements au Québec (EREFQ) to study the issue of “difficult to fill positions.” The most recent results are for the survey conducted in 2015,⁴ however. When we calculate the ratio of difficult to fill positions compared to the total number of employees, the result for 2015 is 0.4%. We note that the calculation basis and the concepts used are not the same those used at Statistics Canada, meaning that the end results are not easily compared, especially in terms of percentages.

The survey in Quebec helped identify the main professions that experienced hiring difficulties in 2014 (table 1 on page 4). The situation was particularly thorny in the hairdressing industry where the ratio of difficult to fill positions exceeded 50%. This was a conundrum in the retail trade sector, especially for sales supervisory positions (48%). It was also a problem for pharmacists (25%), machinists and machining and tooling inspectors (23%), automotive service technicians, truck and bus mechanics and mechanical repairers (22%) as well as butchers, meat cutters and fishmongers in the wholesale and retail trade (21%).

Many reasons were put forward to explain the hiring difficulties. Among these, Emploi-Québec pointed to a lack of applicants, cited by 33% of respondents, the scarcity of labour in the desired field (28%) and the absence of the required professional skills (24%). Add to this a lack of experience vs. that required (17%), in line with working conditions that did not appeal to applicants. Other causes were mentioned, but with reduced frequency (less than 10%): the personal skills sought, distance, fierce competition on the market, not enough graduates, etc.

One of the more interesting aspects of the EREFQ survey looks at the ramifications of the situation. Of the companies that had trouble hiring in 2015, 62% of them believe that their output suffered as a result. The following impacts were noted: 46% of them reported declines in service or decreased production output, 15% extended delivery timeframes, 9% reviewed their allocation of tasks, 8% turned down one or several contracts and 6% postponed an expansion project, to name just a few repercussions.

What actions were taken to rectify this labour shortage? An estimated 37% of businesses increased their overtime, 31% made changes to their work structure, 13% rolled up their sleeves to recruit or hire workers and 10% resorted to subcontracting. To attract workers, 30% of companies implemented hiring measures, 12% raised the salaries for their vacant positions and 7% improved or added flexibility to their work schedules.

⁴In 2015, the EREFQ was conducted based on 31,438 interviews in Quebec, and targets companies with five or more employees.

TABLE 1
Main professions facing recruiting challenges in 2014 by skill level

	NO. OF EMPLOYEES HIRED	NO. OF DIFFICULT TO FILL POSITIONS	PROPORTION OF DIFFICULT TO FILL POSITIONS VS. NEW HIRES
Overall	357,911	19,451	5%
Professional			
Programmers and developers, interactive media	1,521	221	15%
Accountants and auditors	1,508	146	10%
Pharmacists	562	140	25%
Technical			
Chefs	13,683	902	7%
Barbers and hairdressers	593	344	58%
Automotive service technicians, truck mechanics and mechanical repairers	1,524	335	22%
Sales supervisors - retail trade	592	286	48%
Machinists and machining and tooling inspectors	1,200	273	23%
Welders and related machine operators	2,192	236	11%
Construction millwrights and industrial mechanics	1,340	215	16%
Butchers, meat cutters and fishmongers - wholesale and retail	990	212	21%
Intermediate			
Salespeople - retail trade	25,551	742	3%
Food and beverage servers	12,672	182	1%
Sales and account representatives - wholesale trade (non-technical)	1,579	164	10%
Receptionists	2,604	128	5%
Elementary			
Counter staff, kitchen help and other supporting staff	19,312	456	2%
Store shelf stockers, in-store order clerks	13,207	177	1%

Note: The professions included in the table are those with the highest number of jobs stated by employers overall, per skill level. This includes the two highest at the Elementary level, the four highest at the Professional and Intermediate levels and the eight highest at the Technical level. These results exclude professions where the outcomes were not statistically relevant (high margin of error and $n < 30$).

Source: Emploi-Québec

Regardless of the method used, the labour market remains tense. Some professions are more in demand, which does nothing to lessen the fact that recruiting in several other spheres, many of which were not mentioned in this report, can be tough.

Looking beyond the horizon

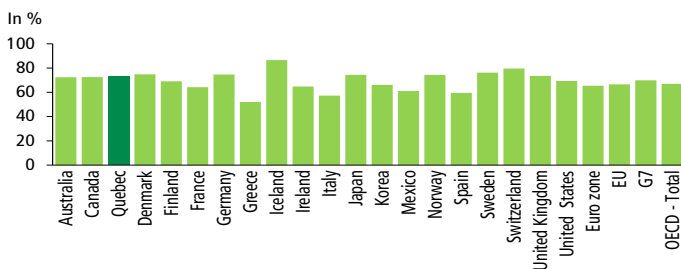
What does the future hold? The demographic projections of the Institut de la statistique du Québec already offer a glimpse: this channel will not offer a 100% solution to the tense labour market. As far as demand for workers is concerned, every two years Emploi-Québec does a prospecting exercise that helps pinpoint future manpower needs. In the latest edition of this study, the experts estimated that 721,700 jobs would be available between 2015 and 2019. Demand for workers can be broken down as follows: 168,400 workers for new jobs and 553,300 workers to fill the ranks of retiring employees.

The team at Emploi-Québec has also forecast job needs straight through to 2024. Between 2015 and 2024, 1,372,200 jobs will need to be filled. Of these, 240,400 (or 17.5%) would be new jobs while 1,131,800 (82.5%) would be to replace retiring employees. These types of numbers suggest that the hiring outlooks are looking good, and not just for young graduates. Immigrants and those who wish to stay on the job longer could benefit from several job offers. They will indeed be courted.

However, the problems with recruitment will not be settled anytime soon, especially with the drop in the number of workers aged between 15 and 64. We could think about increasing participation in the labour market. We already know that the employment rate for Quebecers aged 15 to 64 has grown in recent years. At 73.3% in 2016, the rate even bested the Canadian rate of 72.6%. The big question is this: can this rate

go even higher? If we look at what is taking place in other Organisation for Economic Co-operation and Development countries, Quebec ranks in the top third but it is no undisputed champion (graph 5). Countries like Iceland (86.5%), Switzerland (79.6%) and Sweden (76.2%) have shown that increasing the rate of employment can be achieved. Efforts must first be made to increase the employability of those who are not part of the workforce, then we must strive to extend a person's working life.

GRAPH 5
Employment rate for the 15 to 64 age group: Quebec tops the average in Canada, the OECD and the G7



OECD: Organisation for Economic Co-operation and Development
 EU: European Union
 Sources: Organisation for Economic Co-operation and Development, Statistics Canada and Desjardins, Economic Studies

Measures to mitigate the current hiring blitz

There is no shortage of ideas. Before we think about automation, which is increasingly becoming part of the employment landscape, some believe that ramping up the use of the equipment already in place in plants would go a long way toward solving some of the problems.

Overhauling work processes is another avenue worth exploring. Enhanced in-house training would make for more versatile employees and help them spot problems earlier. In the same vein, greater task flexibility would make it possible for older employees to remain in the workforce. Such flexibility would prevent job monotony and keep current workers motivated. Several analysts and researchers have been advocating for improved working conditions, from compensation to flexible work schedules, better job benefits, and better working environments with places where employees can rest.

Foreign recruitment is clearly one of the solutions that is most often raised. This measure would also mean implementing measures to integrate new workers. To this end, the Advisory Council on the Economy and Innovation submitted a report at the end of September stating that, [translation] "Quebec must make efforts to keep the greatest number of its citizens engaged in a rapidly changing labour market; it must improve how immigrants are integrated in its labour market, retain more

of the international students attracted to our university hubs and the unique Québécois experience; and it must have the necessary flexibility to better acknowledge credentials that were acquired abroad."⁵ This issue has been the subject of discussion for a long time now. In October of this year, the Quebec government, along with 46 professional associations and educational and healthcare institutions agreed to band together and work toward creating a single access point to facilitate the immigration process for prospective immigrants. This is not the first time the issue of recognizing credentials has been pondered. Will this new initiative make the difference?

Europe has been grappling with challenges that easily compare to our own, and findings continue to hammer that "training systems need to be better and more swiftly realigned to labour market needs." This rapprochement between educational institutions and the labour market is nothing new in Quebec, but can the ties be tightened a notch? The European Commission's DG for Employment, Social Affairs and Inclusion also wishes for improvements to be made to the systems that collect labour market data on a national scale. On this score, Quebec and Canada have the information they need. Government websites are flush with information on the most in-demand jobs per region and the job outlooks are well defined. Recruitment agencies are busy posting available job offers and have many means at their disposal to contact applicants. In short, just about everyone is on their toes.

What if?

The parameters framing these labour market outlooks are what exist today. The downstream effect of technological advances applied to the labour market, and to healthcare, could change everything. Will artificial intelligence deliver on its promises? If so, this could relieve some of the labour market pressures in some areas of activity, but to what extent remains unknown. The job situation at the moment is still a concern. While everyone fails to agree on how critical the hiring difficulties have become, most agree that Quebec's labour market is still not subject to a widespread scarcity or a "shortage."

We will have to see if the signals get louder (decline in the unemployment rate, increased compensation, more targeted foreign recruitment, foregoing projects due to a lack of workers, substantial rise in the employment rate) and see if the shrinkage continues. The downtrend in the unemployment rate should continue. The pressure of demographic aging will compress this further, making recruitment even more difficult if the labour market remains as dynamic as it has been in recent years. Wage growth will have to be watched closely. Signals already point to average wage increases in 2018 that could top the inflation rate. This is a risk for the competitiveness of Quebec's companies.

⁵ *Agir ensemble - Pour un Québec innovant, inclusif et prospère*, Advisory Council on the Economy and Innovation, September 25, 2017, p. 21

We also have to keep in mind that economic events could ease some of the current tensions on the labour market (a fast-rising Canadian dollar could hinder exports, the failure of the North American Free Trade Agreement renegotiations, widespread decline in global or continental economic strength, etc.) Quebec's economy is open and exposed to the setbacks of its trading partners. The past does not dictate the future, despite what that old expression says. This is why we must keep a close eye on the labour market's fundamentals in the next few quarters.

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