Entrepreneurs first

economic LETTER

OCTOBER 2014

THE BABY BOOMERS ARE RETIRING: SHOULD WE EXPECT LABOUR SHORTAGES?

In the years ahead, the retirement of the baby boomers, which in fact has already started, will generate significant changes in Canada's labour market. Some analysts anticipate that this demographic event will cause labour shortages in the medium to long term. What should we expect?

The baby boomers were born between 1946 and 1965. They currently represent 33% of the "working-age population," that is, those between the ages of 15 and 64. By 2030, they will no longer belong to that group, as they will all be aged 65 or older.[1] The retirement of this generation will have the effect of holding back growth in the labour pool. According to Statistics Canada's latest demographic projections, the working-age population will keep growing in the years to come, but at a much slower rate than in the past. As shown by the graph below, growth will be close to zero between 2020 and 2030, and will settle at around 0.5% after that.

Population of individuals aged 15 to 64
(annual change from 1972 to 2063)

Source: Statistics Canada, projected population, scenario M1

1 This does not mean that all the baby boomers will be retired. Even though the 15-to-64-year-old group is the reference group for working-age people, many people beyond age 64 are still on the labour market: the participation rate of those aged 65 or older was 13% in 2013.

Canada

- GDP stays flat
- Employment rebounds
- The trade balance deteriorates
- Housing starts remain stable

United States

- The unemployment rate falls below 6.0%
- The real estate market appears to be more balanced
- Consumer confidence retains upward trend

Interest rates

No increase in sight for the key interest rate before the second half of 2015

Oil price

Canadian dollar

SME confidence

Credit conditions

Key indicators

BDC's Monthly Economic Letter is prepared by the Economic Analysis team from Marketing and Public Affairs and is based on a variety of public sources of economic data. The information in this letter is drawn from data released prior to October 11. Reliance on and use of this information is the reader's responsibility.

The effect that slower growth in the working-age population will have on the labour pool will be mitigated by a longer period of labour force participation by workers, a phenomenon that can already be seen. The participation rate of people aged 55 or older rose from 26% in 2000 to 37% in 2013. There are many reasons why people are staying in the labour market longer, including the fact that they are enjoying longer periods of good health and that work demands less physical effort than in the past. But the main reason, in most cases, is still an insufficiency of savings, especially since the return on savings is low, and needs have increased due to longer life expectancies.

The extension of labour force participation will lessen the impact of demographic changes on the labour force, but will not change the trend. Consequently, some analysts anticipate that the labour pool will not be large enough to support economic growth, which will inevitably lead to labour shortages, especially in those sectors that require qualified workers. It could in fact become difficult to fill jobs that become vacant following the retirement of workers with particular skills. At least, that is the fear of many employers, who are already lamenting labour shortages in their sectors. The data compiled by the Canadian Federation of Independent Business, for example, show that the job vacancy rate, although it is lower than it was before the recession, has risen since 2010.[2]

But for the economy as a whole, the labour market data do not seem to corroborate the existence of labour shortages. In fact, the unemployment rate is still higher than it was before the recession. However, these data could disguise the fact that employers do not consider young graduates entering the labour market as appropriate replacements for the experienced workers who are taking retirement. In many sectors, while the unemployment rates of adult workers (aged 25 and up) have fallen to record lows, those of young workers (aged 15 to 24) exceed 10%, which would tend to support this theory.[3]

Other commentators believe that fears of generalized labour shortages are unfounded. The slower growth in the labour force in the years to come will have the effect of reducing the potential for economic growth, which will lead to declining demand for labour. Moreover, the proportion of newcomers joining the labour market who hold a post-secondary diploma will match the proportion of new jobs requiring such a diploma, so there will not necessarily be any shortages of qualified labour.[4] That said, even if there is no shortage overall, there could be shortages in specific industries or regions.

In fact, the demographic changes that are underway could even bring the Canadian economy to full employment in the years to come. In that case, real salaries would increase, which would encourage businesses to invest more in improving their productivity.[5]

Clearly, economists' views are varied when it comes to forecasting the impact demographic changes will have on the labour market. In fact, there are already a number of entrepreneurs reporting labour shortages. Given that this situation could be exacerbated by slowing labour force growth, entrepreneurs have every interest in implementing preventative measures. For instance, they should start investing in machinery and equipment that will reduce their need for labour, develop incentives that will help induce more experienced workers stay on the job longer, and invest in training their younger employees. In any event, each of these measures is proven to enhance firm profitability. ■

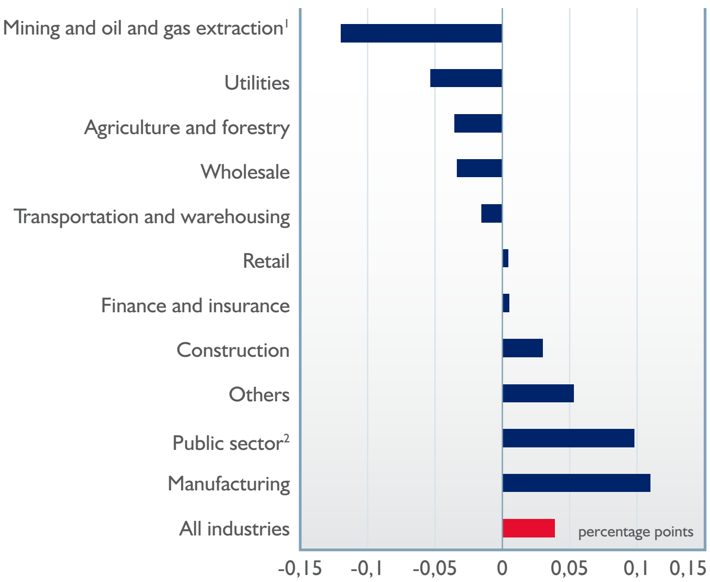
2 Mallet, Ted, "Help Wanted: 312,000 private sector jobs remain unfilled across Canada in Q1," Canadian Federation of Independent Business, July 2014.
3 Cross, Philip, "Do Labour Shortages Exist in Canada? Reconciling the Views of Employers and Economists," Fraser Institute, 2014, page 18.
4 Haliwell, Cliff, "No Shortage of Opportunity: Policy Ideas to Strengthen Canada's Labour Market in the Coming Decade," Institute for Research on Public Policy, Study no. 42, page 42.
5 Ibid, pages 38-39.

The data on GDP in July and on the trade balance in August are a little disappointing, but they do not compromise expected third-quarter growth—especially since the jobs numbers, which shot up in September, provide grounds for optimism.

GDP stays flat

After increases of 0.5% in May and 0.3% in June, real GDP stayed flat in July. Higher output in manufacturing, the public sector, construction and professional services was counterbalanced by contractions in mining, oil and gas extraction, utilities, agriculture and wholesale trade (graph). Keep in mind that according to the Consensus Economics, which compiles the forecasts of some 20 Canadian financial institutions, the real GDP growth expected for 2014 is 2.3%.

Main industrial sectors'contribution to the percent change in real GDP in July 2014



1. Includes quarrying
2. Education, health and public administration

Source: Statistics Canada

Employment rebounds

After a decline of 11,000 jobs in August, employment increased by 74,100 jobs in September, consisting of 69,300 full-time jobs and 4,800 part-time jobs. The unemployment rate dipped by 0.2%, to 6.8%, its lowest level since December 2008. In the past 12 months, growth in part-time jobs has been stronger than that of full-time jobs (2.3% versus 0.5%). Among those aged 55 or older, in particular, part-time employment has expanded considerably, by 5.1% (table). For a few years now, workers in that age group have been staying in the labour force for longer, and approximately one quarter of them hold part-time jobs.

Annual growth in full-time and part-time employment in September 2014, by age group

Age group	Full time	Part time
Age 15 and over	**0.5**	**2.3**
Age 15 to 24	0.8	1.6
Age 25 to 54	0.0	1.4
Age 55 and over	2.5	5.1

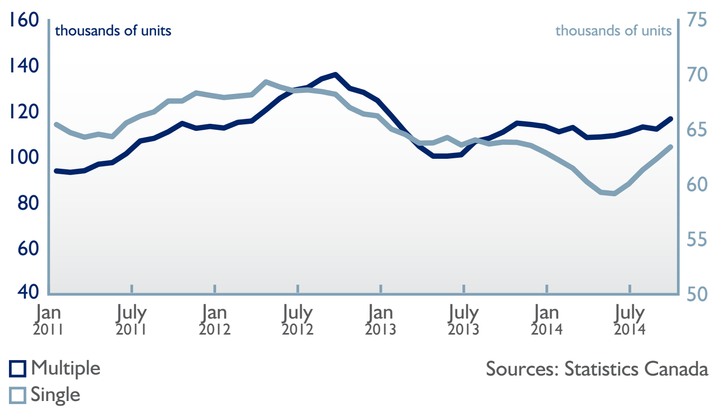
The trade balance deteriorates

A 2.5% drop in exports in August, combined with a 3.9% increase in imports, swung the balance of trade from a surplus of $2.2 billion in July to a deficit of $610 million in August. The surge in imports is mainly attributable to metal products, non-metallic mineral products and energy products, and is divided between greater volumes (2.4%) and higher prices (1.5%). The decline in exports is generalized (9 sectors out of 11), but the largest contribution comes from automotive vehicles and parts, and energy products. Volumes of exports were down by 1.7% and prices, by 0.7%. The monthly data on international merchandise trade fluctuate considerably. Despite the August pullback, the trend in exports, measured by their six-month moving average, is still positive.

Housing starts remain stable

The number of housing starts was relatively stable in September compared with the previous month. In the urban centres, starts of single-family homes fell by 2.9%, while starts of multiple-unit projects rose by 2.4%. Over the past six months, the trend in starts of multiple-unit homes (the six-month moving average) has been fairly stable, while that of single-family homes has gone up (graph). According to the Canada Mortgage and Housing Corporation, the high number of condos that are now under construction should result in a downwards trend in starts of condo properties in the months ahead. ■

Housing start trends in urban centers, by type of dwelling
(six-month moving average)



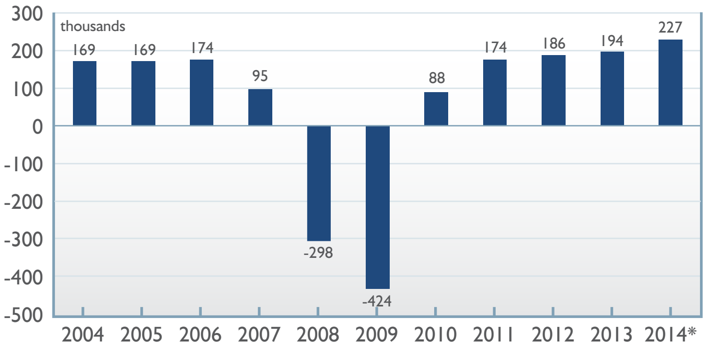
Sources: Statistics Canada

The most recent indicators show that the U.S. economy is really picking up speed at a more sustained pace. However, the contraction in real GDP recorded in the first quarter has compromised the growth expected for the current year, and forecasters anticipate real GDP growth only slightly above 2% this year. However, growth should accelerate in 2015, to 3%.

The unemployment rate falls below 6.0%

Non-farm employment expanded by 248,000 jobs in September, and the gains of the two previous months have been revised upwards (+69,000 jobs). Since the beginning of the year, an average of 227,000 jobs have been created per month, which is an excellent number from a historical perspective (graph). In September, the unemployment rate dipped by two-tenths of a percentage point, to 5.9%. This is the first time since July 2008 that the unemployment rate has been below the 6.0% threshold. However, the participation rate is lower now than it was then (62.7% versus 66.1%), reminding us that despite this clear improvement in the labour market, things are not quite back to normal.

Average monthly change in non-farm payrolls



* Monthly average from January to September 2014

Source: U.S. Bureau of Labor Statistics

The real estate market appears to be more balanced

In August, the number of housing starts fell by 2.4% in the single-family dwelling segment, and by 31.5% in the multiple-unit segment. Despite these declines, the total housing start trend, measured by the six-month moving average, remained stable. Meanwhile, sales of existing homes pulled back by 1.8% in August after four straight months of growth. Over a 12-month horizon, sales were down by 5.3%, but the median price of homes was up by 4.8%. Overall, the real estate market appears to be more balanced. The number of months it would take to sell off the inventory of homes at the current rate of sales was 5.5 in August, which is close to what it was before the housing bubble (graph).

Estimate of the supply in the real estate market

(number of months to sale off the inventory of homes at the current rate of sales)

Source: Global Insight (U.S. National Association of Realtors)

Consumer confidence retains upward trend

The Conference Board's consumer confidence index lost ground, sliding from 93.4 in August to 86.0 in September. Despite this month-over-month decline, the index's trend is clearly upwards (graph). American consumers are gaining more confidence in the economy, which should stimulate consumption. ■

Consumer Confidence Index

☐ Monthly data
☐ 6-month moving average

Source: Global Insight (U.S. Conference Board)

INTEREST RATES

Back

No increase in sight for the key interest rate before the second half of 2015

The Bank of Canada's key lending rate has been sitting at 1.0% for four years now, and it will probably stay there for several more months. The great majority of forecasters do not foresee any rate hike before the end of the second quarter of 2015.

The Bank of Canada will announce its next decision on October 22 and will release its Monetary Policy Report at the same time. That publication will present the Bank's latest economic projections and the annual update of its estimates of the potential of the Canadian economy. ■

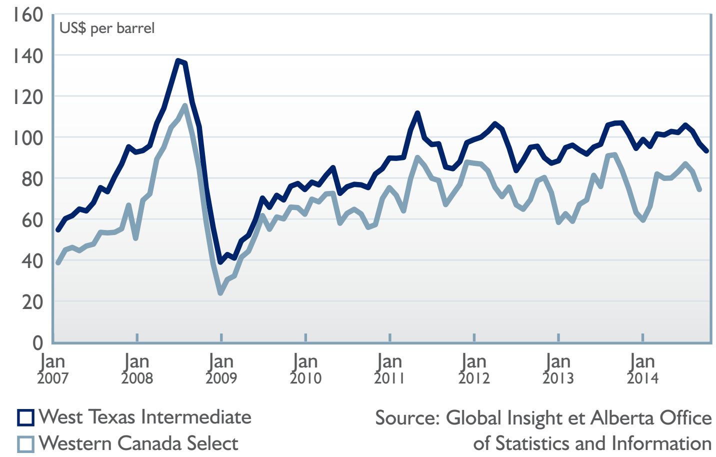
OIL PRICE

Back

The price of crude oil falls further

The price of crude oil headed down again in September. This slump is mainly due to flagging demand and an abundant supply. The sluggishness of the European economy and the slower economic growth in China are stoking fears of a decline in global demand for oil, while rising outputs of shale oil in the United States are expanding the supply. The appreciation of the U.S. dollar, which makes this resource more expensive for investors using other currencies, is another factor pushing demand down. The greenback has appreciated considerably against many other currencies in recent months. The ongoing conflicts in Iraq, Syria and Ukraine have not had any major impact on importers' oil supplies, but they have certainly helped to limit the decline in price. ■

Price of crude oil
(January 2007 to September 2014)



Source: Global Insight et Alberta Office of Statistics and Information

CANADIAN DOLLAR

Back

The loonie keeps losing ground

In September, the Canadian dollar depreciated against the U.S. currency for the second month in a row. The decline in the price of oil is partly responsible for this depreciation. Furthermore, economic outlooks are clearly improving in the United States, and the Federal Reserve has started to tighten its monetary policy, while there is no indication that the Bank of Canada will change its policy any time soon. These divergences in the two countries' monetary policies contributed to the loonie's depreciation against the greenback. ■

Canada/United States exchange rate
(January 2007 to September 2014)

Source: Bank of Canada

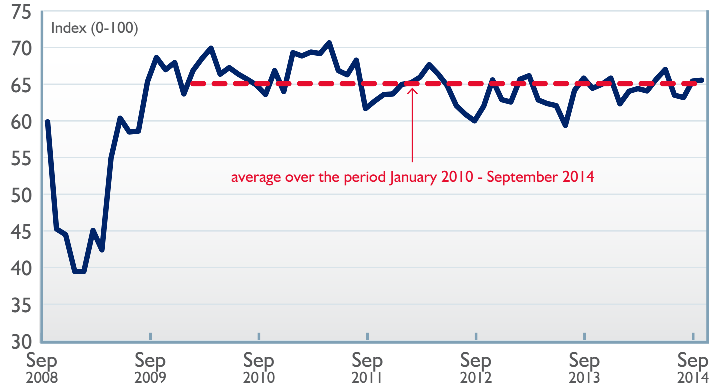
SME CONFIDENCE

Back

Continuing confidence among SME owners

The Business Barometer Index compiled by the Canadian Federation of Independent Business (CFIB) came in at 65.6 in September, practically the same as it was in August (65.5). Over the past 12 months, the index has remained quite stable, oscillating around 65.0, which matches the monthly average of the index since the end of the recession (graph). The SME owners in the western provinces continue to show higher levels of confidence than those in the eastern provinces, with the exception of those in Newfoundland and Labrador, who are the most optimistic in the country. Overall, the barometer results of recent months convey a message of moderate economic growth, according to the CFIB.

Business Barometer
(September 2008 to September 2014)



Source: Canadian Federation of Independent Business

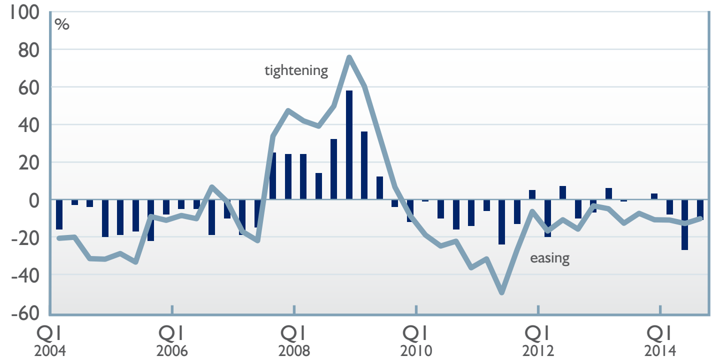
BUSINESS CREDIT CONDITIONS

Back

Credit conditions are still favourable

According to surveys of senior loan officers at financial institutions and Canadian businesses, conducted by the Bank of Canada, business credit conditions eased further in the third quarter (graph). Competition between lending institutions and that which is exerted through the capital market are once again the source of this relaxation of credit conditions. At the same time, after two straight months of decline, the amount of credit granted to businesses by the chartered banks rose by 1.5% in August compared with the previous month, largely winning back the ground that had been lost.

Business credit conditions
(2004 Q1 to 2014 Q3, balance of opinions)



Source: Bank of Canada

KEY INDICATORS—CANADA

Back

Key indicators—Canada

	Historical[1]				2014[2]				Latest		Forecast	
	2010	2011	2012	2013	Q1	Q2	Q3	Q4			2014	2015
Real GDP (% growth)	3.4	2.5	1.7	2.0	0.9	3.1			Jul	0.0	2.3	2.5
Machinery and Equipment Expenditures (% growth)	10.6	8.6	5.2	-0.2	-6.6	1.5					-0.2	5.1
Pre-Tax Corporate Profits (% growth)	61.6	16.6	-8.2	-0.3	47.8	1.9					9.6	5.9
Industrial Production (% growth)	6.0	3.9	0.9	1.9	4.5	4.2			Jul	-0.3	3.8	2.6
Industrial Product Prices (% growth)	1.5	6.9	1.1	0.4	12.6	0.6			Aug	0.2	2.6	1.7
Non-Residential Construction (% growth)	17.3	12.9	6.9	2.2	-0.7	0.6						
Housing Starts (' 000 units)	192	194	215	188	175	197	199		Sep	197	188	180
Personal Expenditures (% growth)	3.5	2.3	1.9	2.4	1.7	3.8					2.5	2.3
Consumer Price (% growth)	1.8	2.9	1.5	1.0	2.8	3.7			Aug	0.0	2.0	1.9
Employment (% growth)	1.4	1.5	1.2	1.3	0.4	0.3	1.4		Sep	0.4		
Unemployment Rate (%)	8.0	7.4	7.3	7.1	7.0	7.0	6.9		Sep	6.8	7.0	6.7
SMEs Confidence Index (CFIB)	66.7	66.4	63.9	63.9	64.2	65.4	64.7		Sep	65.6		
Manufacturers Confidence Index (CFIB)	68.5	67.3	66.7	63.8	64.9	64.6	69.0		Sep	67.2		

1. Annual growth rate
2. Quarterly growth. at annual rate
3. Month-over-month growth

Sources: Statistics Canada, Consensus Economics and Canadian Federation of Independent Business.